

Media release

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Leading Index falls further below trend

The six month annualised growth rate in the Westpac-Melbourne Institute Leading Index, which indicates the likely pace of economic activity relative to trend three to nine months into the future, slipped from -0.16% in August -0.21% in September.

Westpac's Chief Economist, Bill Evans, commented, "The growth rate remains negative pointing to below trend momentum and a sharp turnaround from strong positive, above trend reads at the start of the year.

"While the Index only gives us a glimpse of the likely momentum in the first few months of 2018 it is consistent with our view of the likely growth environment next year. Westpac is currently forecasting growth of 2.5% in 2018.

"Constraints on growth next year are likely to centre on a lack lustre consumer who struggles under the weight of weak wages growth; high energy prices and excessive leverage.

Conditions in housing markets, particularly in the eastern states, are likely to soften while the residential construction boom will turn down.

“We are also less euphoric about growth prospects for our major trading partners than seems to be the current consensus. We expect China’s growth rate to slow from 6.7% to 6.2% as the authorities step up policies to slow its long running credit boom.

“The Leading Index growth rate has slowed from 0.93% above trend in April to 0.21% below trend in September, a deterioration of 1.14ppts. The slowdown has been driven by multiple components including: commodity prices (–0.96ppts); the S&P/ASX200 (–0.42ppts); the yield spread (–0.19ppts); and US industrial production (–0.15ppts).

“These negatives have been partially offset by positive reads for: aggregate monthly hours worked (+0.25ppts); dwelling approvals (+0.15ppts); the Westpac-MI Unemployment Expectations index (+0.10ppts) and the Westpac-MI CSI expectations index (+0.07ppts).

“The Reserve Bank Board next meets on November 7. The Board is certain to keep rates on hold. In fact Westpac does not expect rates to rise at all over the course of next year despite market pricing and general commentary.

“In the minutes for its October meeting the Reserve Bank Board signalled that policy will respond to domestic economic developments. Decisions by other central banks to raise rates will not be the decisive factors. We assess that the Bank, with a much more optimistic outlook for the economy than Westpac, expects to be increasing rates. However the developments in the economy which we anticipate are likely to lead the Bank to revise its view and keep rates on hold”, said Bill Evans.

Issued by: Westpac Banking Corporation

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