

22 February 2023

Leading Index stuck in negative territory

- The growth rate in the Leading Index held at a weak **-1.04%**.
- This points to below trend growth through most of 2023.
- The growth rate has now been negative for six consecutive months.
- The Index is indicating that the economy's growth rate will remain below trend through most of 2023 – consistent with Westpac's forecast.
- Global factors, monetary policy and, recently, hours worked have weighed heavily on the Index.

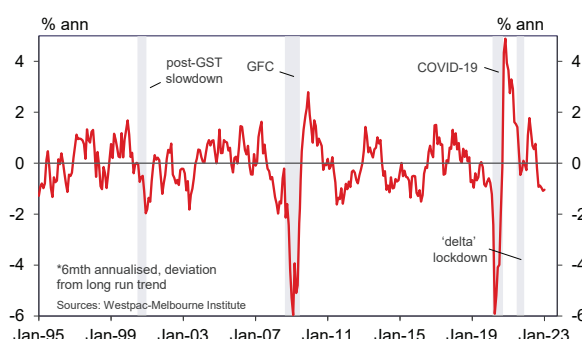
The six-month annualised growth rate in the Westpac-Melbourne Institute Leading Index, which indicates the likely pace of economic activity relative to trend three to nine months into the future, was **-1.04%** in January, largely unchanged on the **-1.09%** read in December.

This marks the sixth consecutive month that the growth rate has been negative. The Index continues to point to below-trend growth over the next 3-9 months. Westpac concurs with that view, with growth in the Australian economy expected to slow to stalling speed by the second half of 2023.

The Leading Index growth rate has seen a sharp deterioration over the last six months, going from running 0.76% above trend in July to 1.04% below trend in January. Five of the eight index components have contributed to the 1.81ppt swing: a slowing in total hours worked (accounting for -0.95ppts of the deterioration); a sharp 7.8% pull-back in commodity prices, measured in AUD terms (-0.54ppts); a slowdown in US industrial production (-0.36ppts); a sharp narrowing in the yield spread as central banks have moved to rapidly tighten monetary policy (-0.22ppts); and a notable softening in consumer expectations for the labour market (-0.2ppts).

These drags have been slightly offset by a tentative stabilisation in consumer expectations, albeit at weak levels (effectively adding 0.26ppts since July), a firming in the S&P/ASX200 (+0.16ppts) and what looks to be a temporary bounce in dwelling approvals (+0.04ppts).

Westpac-MI Leading Index



The Reserve Bank Board next meets on March 7.

Based on the Minutes from the February Board meeting and various other communications from the Bank over the last two weeks it is quite clear that the Board will decide to raise the cash rate by a further 0.25% at the March meeting to 3.6%.

Since October last year Westpac has held the consistent view that the cash rate will peak at 3.85% in this cycle. These recent communications imply upside risks to that forecast.

Bill Evans, Chief Economist

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