

19 April 2023

Leading Index confirms lacklustre growth

- **Leading Index growth rate remains in negative territory at -0.75%.**
- **Eighth consecutive negative print.**
- **Index consistent with below-trend growth throughout 2023.**
- **Households at the centre of slowdown with further drags from construction and global factors.**

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, lifted slightly to -0.75% in March from -0.79% in February.

The growth rate in the Leading Index has registered its eighth consecutive negative print, pointing to an extended period of below-trend growth in the Australian economy.

The Index for March is now consistent with below-trend growth extending throughout the remainder of this year. Westpac is forecasting growth of only 1% in 2023. The IMF recently revised down its growth forecast for Australia in 2023, from 1.9% to 1.6%, while the Reserve Bank is also forecasting growth of 1.6% in 2023.

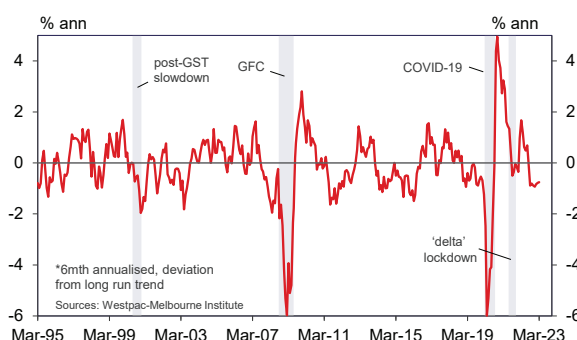
While the Leading Index does not yet provide a guide for 2024, Westpac is forecasting ongoing lacklustre growth of 1.5% with the household sector again accounting for most of the weakness, weighed down by pressure on real disposable incomes.

Note that over the same period population growth is expected to hit 2%, reflecting a surge in immigration. These forecasts indicate that output per capita is expected to contract in 2023.

While we see the household sector at the centre of this, slowdown the components of the Index are also highlighting the drag from dwelling construction and the slowdown in the world economy.”

The Leading Index growth rate has shown little change over the last six months, improving only slightly from -0.89% in September last year to -0.75% in March. Readings have been consistently below trend throughout the period. That said, there have been notable shifts in component contributions. The six months has seen markedly weaker contributions from dwelling approvals (taking an additional -0.28ppts off the index growth rate), and sharp falls both in commodity prices (measured in

Westpac-MI Leading Index



AUD terms, -0.26ppts) and US industrial production (-0.14ppts). These shifts have been largely offset by an improved performance in equity markets, the ASX200 adding 0.49ppts to the growth rate despite a sell-off over the last few months, and a slightly better tone from the Westpac-MI CSI expectations index which posted a solid bounce following the RBA decision to pause rate hikes in April (+0.23ppts). Other components have been largely unchanged, the yield spread continuing to exert a significant drag as RBA hikes drive short term rates higher, and the contribution from labour market components about flat.

The Reserve Bank Board next meets on May 2. Westpac continues to forecast a further increase in the cash rate at the meeting of 0.25% to a peak of 3.85%.

The minutes from the April meeting, which saw an expected pause in rate hikes, emphasise that the Board retains a clear tightening bias. They reveal some additional concerns around the inflation outlook, including from: a lift in demand emanating from the sharp rise in immigration; pressures in the housing market; and risks associated with rising wage growth, particularly in the public sector.

The minutes also set out a clear ‘checklist’ of data the Board is monitoring most closely. Updates since the April meeting has been upbeat, but the most important data release will be the March quarter inflation report due next week, on April 26.

Bill Evans, Chief Economist

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