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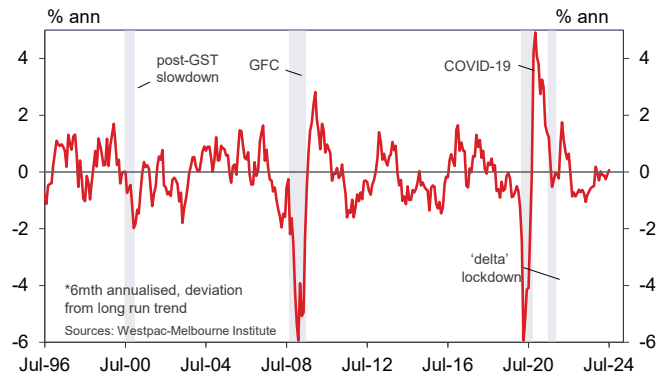
WESTPAC-MI LEADING INDEX BULLETIN

Latest insights into economic momentum

Key points

- The six-month annualised growth rate in the Westpac-Melbourne Institute Leading Index nudges back up to +0.06%.
- Positive signal unlikely to sustain given sharp falls in commodity prices.
- Detail shows the economy is encountering significant cross-currents.
- Economic activity improving but to remain below trend in to early 2025.

Westpac-MI Leading Index



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Leading Index ticks into positive



Matthew Hassan
Head of Australian Macro-Forecasting

Despite the positive monthly read, the broader picture still looks to be one of stabilisation rather than recovery. The last nine months has seen the Index growth rate hover in the -0.3 to $+0.2\%$ range, a clear improvement on the twelve months prior which saw much weaker reads in the -0.5 to -1% range.

However, outright positives have proven hard to sustain. This is likely to be the case with the July result as well. Sharp falls in commodity prices in recent weeks suggest momentum is likely to weaken again in the August month. Meanwhile, other potential positives appear to be further off, the RBA all but ruling out the prospect of rate cuts this year. All up, growth momentum looks likely to remain bogged down for some time yet.

Westpac's growth forecasts are broadly consistent with the Leading Index signals. GDP growth is expected to come in at an annualised pace of just 0.8% over the first half of 2024, a result that was foreshadowed by the weak Index reads in 2023. Growth is forecast to lift a little through the second half of 2024 and into early 2025 but remain lacklustre overall at a 2.2% annual pace (about flat in per capita terms).

The Leading Index growth rate is still showing a clear improvement since the start of the year, rising from -0.29% in January to $+0.06\%$. The main positives through this period have been a recovery in monthly hours worked (add 0.61 ppts to the growth rate) and a lift in US industrial production (adding a further 0.27 ppts).

These have been partially offset by a significant weakening in commodity prices (taking 0.41 ppts off growth) and a slight weakening in consumer expectations, both in general and more specifically around the outlook for unemployment (taking a further 0.16 ppts off growth on a combined basis).

As the detail shows, the Australian economy is experiencing a mix of cross-currents with some residual momentum in the labour market domestically and an improving picture around global growth offset by a downturn in commodity prices (that in turn reflects deteriorating demand conditions in China), and a more uncertain path forward for interest rates.

The Westpac-Melbourne Institute Leading Index of Economic Activity is designed to assist in identifying turning points in the economy. The index combines variables that reflect different aspects of the economy into a single index that generally produces a more reliable cyclical indicator than any single component taken individually. The Leading Index of Economic Activity provides advance information on the state of the economy and gives early warnings of cyclical turning points.

The Reserve Bank Board next meets on September 23–24. The RBA Governor made it clear following the last meeting in August that the Board was still not confident about the inflation outlook, retaining the position that it was not ruling anything in or out but adding that it was unlikely that the cash rate would be reduced in the short term.

While the June quarter national accounts (due to be released on September 4) should clarify some questions about the strength of demand, and ease some of the Bank's concerns about productivity growth as well, the messaging indicates that inflation updates will continue to be key for the Bank's policy assessments. As such, there is little prospect of a shift either way in September with the next quarterly CPI update not due until October 30.



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