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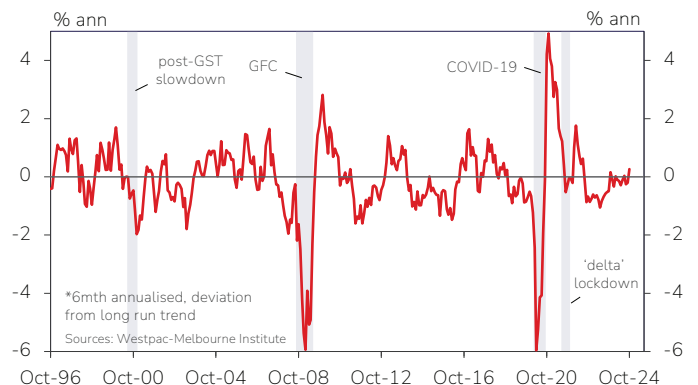
# WESTPAC-MI LEADING INDEX BULLETIN

Latest insights into economic momentum

## Key points

- Leading Index has moved into positive territory, from  $-0.20\%$  in September to  $+0.26\%$  in October.
- This provides a tentative signal that growth momentum is set to improve from its current nadir.
- Improvements mostly centred on components related to consumer sentiment and commodity prices.

### Westpac-MI Leading Index



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# Leading Index moves into positive territory



**Ryan Wells**  
Economist Westpac Group

**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, moved into positive territory in the latest month, lifting from –0.20% in September to +0.26% in October.**

For most of the past year, the Leading Index has been stuck in slight negative territory, hovering within a range of –0.3% to flat. October’s reading of +0.26% represents a breakaway from this sluggish state, marking both the first clear ‘above-trend’ result since November 2023 (+0.16%), but also the strongest monthly print since July 2022 (+0.63%), when the burst of economic activity following the complete reopening from COVID-19 was fully underway.

The Leading Index growth rate’s sudden lift into positive territory provides a more constructive signal on the economy’s future momentum. That is broadly consistent with Westpac’s view that the pace of economic growth, having hit a nadir of 1.0%yr in the middle of the year, is set to pick up pace, reaching 1.5%yr by year-end and 2.4%yr by the end of 2025. While this represents barely trend pace, it is still an improvement and is directionally consistent with the steer from the Leading Index.

Whether the Leading Index is instead truly signalling a transition to above-trend growth depends critically on whether the improvement across the index constituents proves sustainable. The last month has seen the realisation of significant event risk – particularly around the US election. The reverberations from these events are still being digested. For that reason, the latest reading is best interpreted as pointing to a tentative normalisation in economic growth from its current subdued pace, given the backdrop of consistent sluggish readings.

The two most significant positive contributors to October’s print were ‘growth expectations’ and ‘unemployment expectations’, adding 0.17ppt and 0.10ppt to the headline growth rate, respectively. Both of these constituents, in some way, capture the significant turnaround in consumer sentiment over recent months, driven by an easing in rate rise fears and growing confidence in the economic outlook. Together, these two index constituents have improved from a collective contribution of –0.10ppt just two months ago to +0.27ppt currently, capturing virtually all current momentum. That said, there are some signs that the consumer sentiment recovery may be shakier than what the headline figures suggest (see here for more detail), especially if hopes of near-term rates relief are dashed. These uncertainties warrant close monitoring.

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.

There were also some eye-catching moves across other constituents. Most notably, the negative contribution from commodity prices has eased from –0.29ppt in September to –0.16ppt in October, reflecting the market reaction to China’s recently announced stimulus measures. Recent market movements suggest that the impetus from this could wane. Elsewhere, the firming uptrend in dwelling approvals continues to offer support (+0.10ppt), alongside a small positive contribution from hours worked as labour market outcomes remain solid (+0.02ppt). Externally, the drag from the yield spread eased over the month, from –0.06ppt to –0.01ppt, while US industrial production remains a small negative (–0.03ppt).

The Reserve Bank Board next meets on December 9–10. We continue to expect no change in the cash rate target at that meeting. This is supported by labour market data received over the last week which indicates that, while the labour market remains tighter than average, it is easing at a gradual pace and wage pressures are moderating accordingly. Inflation continues to decline; the question facing the Board as we move into the new year is how close to target inflation needs to be before moving off the peak level of policy restrictiveness.

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# Corporate Directory

## Westpac Economics / Australia

Sydney  
Level 19, 275 Kent Street  
Sydney NSW 2000  
Australia

E: [economics@westpac.com.au](mailto:economics@westpac.com.au)

Luci Ellis  
Chief Economist Westpac Group  
E: [luci.ellis@westpac.com.au](mailto:luci.ellis@westpac.com.au)

Matthew Hassan  
Head of Australian Macro-Forecasting  
E: [mhassan@westpac.com.au](mailto:mhassan@westpac.com.au)

Elliot Clarke  
Head of International Economics  
E: [eclarke@westpac.com.au](mailto:eclarke@westpac.com.au)

Justin Smirk  
Senior Economist  
E: [jsmirk@westpac.com.au](mailto:jsmirk@westpac.com.au)

Pat Bustamante  
Senior Economist  
E: [pat.bustamante@westpac.com.au](mailto:pat.bustamante@westpac.com.au)

Mantas Vanagas  
Senior Economist  
E: [mantas.vanagas@westpac.com.au](mailto:mantas.vanagas@westpac.com.au)

Ryan Wells  
Economist  
E: [ryan.wells@westpac.com.au](mailto:ryan.wells@westpac.com.au)

Illiana Jain  
Economist  
E: [illiana.jain@westpac.com.au](mailto:illiana.jain@westpac.com.au)

Jameson Coombs  
Economist  
E: [jameson.coombs@westpac.com.au](mailto:jameson.coombs@westpac.com.au)

Neha Sharma  
Economist  
E: [neha.sharma1@westpac.com.au](mailto:neha.sharma1@westpac.com.au)

## Westpac Economics / New Zealand

Auckland  
Takutai on the Square  
Level 8, 16 Takutai Square  
Auckland, New Zealand

E: [economics@westpac.co.nz](mailto:economics@westpac.co.nz)

Kelly Eckhold  
Chief Economist NZ  
E: [kelly.eckhold@westpac.co.nz](mailto:kelly.eckhold@westpac.co.nz)

Michael Gordon  
Senior Economist  
E: [michael.gordon@westpac.co.nz](mailto:michael.gordon@westpac.co.nz)

Darren Gibbs  
Senior Economist  
E: [darren.gibbs@westpac.co.nz](mailto:darren.gibbs@westpac.co.nz)

Satish Ranchhod  
Senior Economist  
E: [satish.ranchhod@westpac.co.nz](mailto:satish.ranchhod@westpac.co.nz)

Paul Clark  
Industry Economist  
E: [paul.clarke@westpac.co.nz](mailto:paul.clarke@westpac.co.nz)

## Westpac Economics / Fiji

Suva  
1 Thomson Street  
Suva, Fiji

Shamal Chand  
Senior Economist  
E: [shamal.chand@westpac.com.au](mailto:shamal.chand@westpac.com.au)



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