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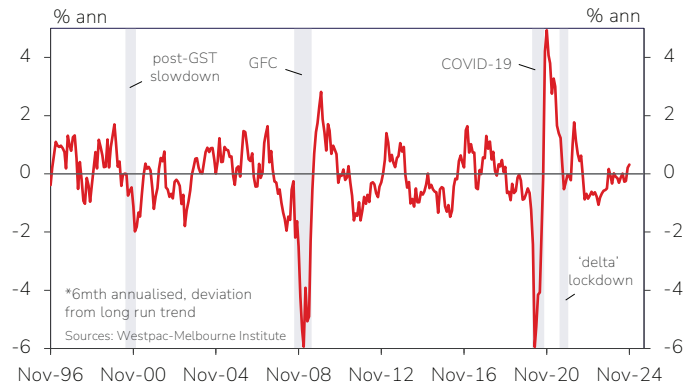
# WESTPAC-MI LEADING INDEX BULLETIN

Latest insights into economic momentum

## Key points

- Leading Index growth rate lifts to 0.32%, holding in slight positive territory.
- Three quarters of components now giving positive growth signals.
- External headwinds may intensify in 2025, especially around commodities.

### Westpac-MI Leading Index



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# Leading Index points to slow recovery in growth



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**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, stayed in positive territory in the November, lifting slightly to 0.32% from 0.22% in October.**

October–November marks the first back-to-back positive reads on the Index growth rate in nearly two and a half years. While the growth signal is not particularly strong, it is broadly consistent with Westpac’s view that activity will lift slowly over the next few quarters. GDP growth is forecast to rise from the anaemic 0.8%yr pace currently to 2.2%yr by the end of 2025. Note that this is still slightly below trend, with the current slightly-above-trend momentum evident in the Leading Index expected to encounter a few more headwinds as we enter the new year.

The Leading Index growth has shown a clear lift over the last six months, rising 0.63ppts from –0.31% in May to +0.32% currently. Seven of the eight Index components have contributed to the improvement. The biggest positive contributions have come from: improving consumer sentiment around both the wider outlook and expectations for unemployment (combined, adding +0.21ppts); a lift in dwelling approvals (+0.17ppts); and a widening yield gap (+0.14ppts). Other components have seen relatively small shifts over the six months.

Six of the eight Index components are now contributing positively to growth. Notably, the most positive signals are coming from ‘domestic’ components – covering the consumer, housing and labour market – and ‘financial market’ components. The latter includes a notable positive coming from equity markets with the S&P/ASX200 surging 3.4% in November alone.

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.

In contrast, ‘international’ components – US industrial production and commodity prices – are a small offsetting drag on momentum. This headwind may intensify in 2025, particularly with respect to Australia’s commodity prices. Westpac expects prices to decline 9% over the course of 2025, compounded in Australian dollar terms by a modest firming in the currency.

The Reserve Bank Board next meets on February 17–18. Recent communications indicate that the Board is becoming more confident about returning inflation to the 2–3% target band. However, the economy is expected to see a lift in activity that is already being foreshadowed by a lift in the Leading Index growth rate. With the degree of slack in labour markets uncertain, and ongoing questions about productivity growth, the Board is likely to require further evidence of the desired slowing in inflation before it is prepared to relax policy. On balance, Westpac expects the Board to leave interest rates unchanged at its February meeting, with an easing expected to commence in May.



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