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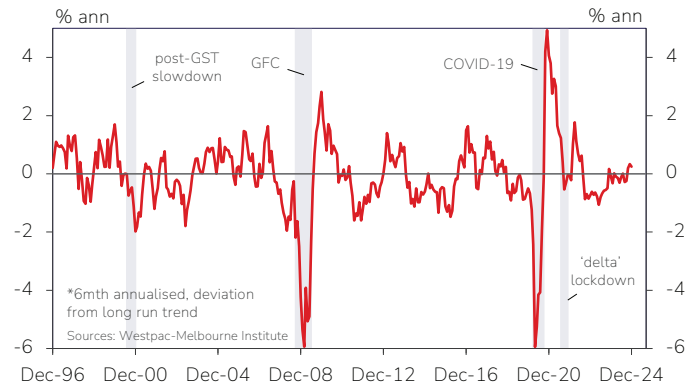
WESTPAC-MI LEADING INDEX BULLETIN

Latest insights into economic momentum

Key points

- Leading Index growth rate dips back to 0.25% but still slightly positive.
- Growth set to improve in 2025 but remain lacklustre.
- Modest lifts in commodities, consumer, equities and dwelling approvals.

Westpac-MI Leading Index



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Leading Index shows more modest momentum



Matthew Hassan
Head of Australian Macro-Forecasting

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 December, albeit easing a touch to 0.25% from 0.33% in November.

While the growth signal is still not particularly strong, it has shown a clear improvement on the persistently negative, below-trend reads recorded over the previous two years.

The latest Index growth rate points to a lift in momentum over the first half of 2025. Westpac expects GDP growth to show a gradual improvement over the course of 2025, reaching 2.2%yr by year-end, a material improvement on the dismal 0.8%yr pace seen over the year to September 2024 but still a lacklustre result” commented Westpac Economics’ Head of Australian Macro-forecasting, Matt Hassan.

The Leading Index growth has lifted 0.37ppts since mid-2024, from -0.12% in June to +0.25% currently. Component-wise, the shift has been driven by: stabilising commodity prices, measured in AUD terms (adding 0.23ppts to the Index growth rate); less pessimistic expectations amongst Australian consumers (adding a further 8ppts); a rally in equity markets that lifted the S&P/ASX200 just over 5% over the second half of the year (adding 0.05ppts); and a recovery in dwelling approvals from cyclical lows (also adding +0.05ppts).

All of these component gains have been relatively modest to date. There are also doubts over the extent to which they will be sustained into 2025. Commodity prices and financial markets face significant risks around global trade and geopolitics. Meanwhile locally, the consumer and housing sectors face ongoing uncertainty about the timing and scale of a prospective interest rate easing. All up, the more positive growth signal still looks fairly tentative.

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 February 17–18. The Board is becoming more confident about achieving a sustained return to inflation in the 2–3% target band. A further moderation in inflation is expected to eventually clear the way for less restrictive interest rate settings. However, Westpac expects the Board to keep the official cash rate on hold in February with an easing more likely to commence in May.

The improved Leading Index momentum adds to some of the more mixed signals around growth in recent months. Of particular importance for the RBA are signs that the labour market ‘rebalancing’ needed to ensure a sustained return to low inflation stalled in the second half of 2024 with conditions still relatively tight. A further slowdown in underlying measures of inflation could still see the Bank ease in February or April but we suspect the RBA will need to be more comfortable about some of these risks before it is prepared to begin easing.



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