

# Media release

27 May 2009

Strict Embargo 10:30am

## **Leading Index hints at stabilisation**

The annualised growth rate of the Westpac–Melbourne Institute Leading Index, which indicates the likely pace of economic activity three to nine months into the future, was –5.1% in March well below its long term trend of 2.8%. The annualised growth rate of Coincident Index was 0.7%; also well below its long term trend of 3.3%.

Westpac's Senior Economist, Matthew Hassan, commented, "While the Index continues to point to recessionary conditions in Australia there has been a slight improvement in March. The annualised growth rate rose from –6.0% in February to –5.1% in March. This is the first substantive rise since April last year. That said, clearly the Index is coming from an extremely weak starting point – the February read was the weakest read we've seen in the Index since August 1982."

Mr Hassan said "The slight improvement in the Index is consistent with indicators suggesting the pace of contraction in the global economy has also eased in recent months."

"However, recovery still looks to be a long way off. The Index remains deep in recession territory, implying a likely further contraction in activity through the middle of 2009. Even if we see similar improvements in the months ahead it will take 3 or 4 months for the Index to return to levels consistent with positive growth, implying that a recovery in the real economy is unlikely before the December quarter at the earliest."

“In spite of the improvement in March, the annualised growth rate of the Leading Index has still fallen sharply over the last five months, from  $-0.4\%$  in October to  $-5.1\%$  in March. The major components driving the 4.7ppt drop have been: commodity prices ( $-2.5\text{ppts}$ ); US industrial production ( $-2.0\text{ppts}$ ); overtime worked ( $-0.4\text{ppts}$ ); productivity ( $-0.4\text{ ppts}$ ); and corporate profits ( $-0.2\text{ppts}$ ). Notably however there were positive contributions from shares ( $+0.6\text{ppts}$ ) and dwelling approvals ( $+0.2\text{ppts}$ ).

“The level of the Leading Index rose by 0.7 points ( $+0.3\%$ ) in March. Two of the four monthly components rose in March. The all ordinaries index rose 7.1%, the strongest monthly gain since June 2000 and the first positive result since August last year. Equities have risen a further 5.8% since March. Dwelling approvals also rose in March, climbing 3.5%. Against this, US industrial production recorded another hefty 1.5% fall in March while the real money supply was down 0.1%.

“The level of the Coincident Index rose by 0.2 points (0.1%). A strong 2% rebound in real retail trade more than offset negatives from a 0.3% fall in employment and further rise in the unemployment rate from 5.2% to 5.7% in March. The weakening labour market has been the main contributor to the slowdown in the annualised growth rate from 1.8% in October to 0.7% in March. A surprise bounce in jobs will see this negative ease in April though the labour market is expected to see a renewed deterioration over the rest of 2009. Notably, the growth rate in the Coincident Index has remained positive overall – previous recessions have seen substantial contractions in the Coincident Index.

“The Reserve Bank Board next meets on June 2. We expect the Bank to again hold rates steady. However, we assess that contracting economic activity, deteriorating labour market conditions and a more constrained fiscal policy position will prompt further easing over the course of the next twelve months. The Bank is expected to

resume cutting rates in August with a further 1% reduction in the cash rate by end 2009." Mr Hassan said.

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