

Media release

17 June 2009

Strict Embargo 11:00am

Leading Index past the worst

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 –3.5% in April well below its long term trend of 2.8%. The annualised growth rate of the Coincident Index was –0.5%, also well below its long term trend of 3.0%.

Westpac's Chief Economist, Bill Evans, commented, "While still deep in negative territory this growth rate represents a significant improvement from the –5.1% that was reported for March. In turn that was a modest improvement on the –6.1% registered for February which now appears to have been the low point in the growth cycle of the Leading Index. However, bear in mind that the February read was the lowest since 1982. Its current pace is still consistent with the Australian economy contracting in the June and September quarters but if this rate of improvement in the growth rate continues we can look to positive growth in the first half of 2010.

"That profile is broadly consistent with Westpac's own forecasts with the economy contracting by 0.6% in the June quarter and contracting at an annualised pace of around 1.5% in the second half of 2009 before recovering to a growth pace of 1% in 2010.

“The major contributors to the improvement in the growth rate of the Leading Index in April were share prices (0.4 ppt); overtime worked (0.7ppt); dwelling approvals (0.2ppt); US industrial production (0.2 ppts) and corporate profits (0.2ppt). Those improvements were slightly offset by a larger deduction (0.2ppt) from materials prices.

“The level of the Leading Index increased by 1.7 points (0.7%). Three of the four monthly components rose in April. The all ordinaries index rose by 5.6%; dwelling approvals were up 5.1%; and the real money supply rose 0.8%. US industrial production continued to decline, falling by 0.5% although the rate of decline is moderating.

“The level of the Coincident Index rose by 1.2 points (0.5%). However the growth rate of the Coincident Index which has been revised down since last month has now recorded its fourth consecutive month of negative growth, consistent with the negative growth signals from the Leading Index in the second half of 2008. An important driver of the contraction in the growth rate of the Coincident Index has been the steady rise in the unemployment rate which bottomed out at 3.9% in February 2008. It had reached 5.5% in April and has subsequently increased to 5.7% in May.

“The Reserve Bank Board next meets on July 7. The Board Minutes which were released yesterday indicate that while the Bank maintains a clear easing bias it is in no hurry to act on that bias. We have recently seen a run of data, including today's Leading Index, to suggest that the economy, while likely to contract in the near term, can be expected to be entering a period of modest growth from the end of the year. However rising unemployment; higher fixed interest rates; and likely economic disappointment offshore will continue to make the case for more rate cuts in Australia.”
Mr Evans said.

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