

Media release

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Leading Index surges

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 5.8% in September well above its long term trend of 3.1%. The annualised growth rate of the Coincident Index was 0.4%, below its long term trend of 2.8%.

Westpac's Chief Economist, Bill Evans, commented, "This read represents an extraordinary pace of recovery in the growth rate of the Leading Index. Growth has accelerated from –5.4% in May to 5.8% in September. That is the fastest turnaround in the growth rate of the Leading Index since the economy bounced out of recession in the mid 1970's".

"The sharp recovery in the Leading Index's growth rate supports our view that the Australian economy is moving onto a stronger growth trajectory in 2010. We expect growth to pick up from 1.75% in 2009 to 4% in 2010. That compares with the Reserve Bank's more conservative forecast of 3.25% in 2010 and a similar forecast from the Australian government.

"The components of the Index that explain the sharp movement in the growth rate of the Leading Index from its lowpoint in May of –5.4% to the September print of 5.8%

are: US industrial production (3.2 ppt's); materials prices (2.9 ppt's); productivity (2.2 ppt's); share price Index (1.9 ppt's); dwelling approvals (1.1 ppt's); real corporate profits (1.1 ppt's) and domestic labour market conditions (0.8 ppt's). These gains were partly offset by a contracting effect from the real money supply – partly reflecting credit conditions.

“The level of the Index rose by 2.2 points (or 0.9%). Three of the four monthly components of the leading index increased in September. The all ordinaries Index (up 5.9%); dwelling approvals (up 2.7%) and US industrial production (up by 0.7%) all supported the Index. A decline in the real money supply of 0.4% partly offset this solid increase in the level of the Index.

“The Reserve Bank Board meets again on December 1. The Board's Minutes from the November meeting where the Bank raised rates on a second consecutive occasion by 0.25% hinted that the Bank may be prepared to pause at this meeting. Our view is that the data flow since the last Board meeting has been sufficiently strong to indicate that another 0.25% hike is likely. With no meeting in January and the Bank committed to gradual increases a modest 0.25% increase appears to be the most likely outcome”.
Mr Evans said.

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