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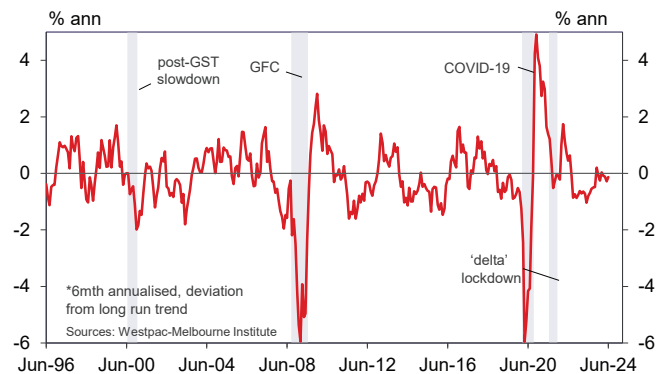
WESTPAC-MI LEADING INDEX BULLETIN

Latest insights into economic momentum

Key points

- 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, rose from **-0.28%** in May to **-0.13%** in June.
- Leading Index growth rate nudges back up to **-0.13%**.
- Lower commodity prices partially offset by stabilising hours worked.
- Economic activity improving but to remain below trend in to early 2025.

Westpac-MI Leading Index



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Leading Index remains subdued



Matthew Hassan
Head of Australian Macro-Forecasting

Despite a marginally improved read in June, the Leading Index growth rate remains subdued, pointing to lacklustre growth momentum continuing through the second half of 2024 and into early 2025. While the signal has improved compared with the weak reads seen in 2023, the picture is still one of stabilisation rather than recovery with the Index showing no real direction over the first half of 2024.

Westpac's growth forecasts are broadly consistent with the Leading Index signals. GDP growth is expected to come in at an annualised pace of just 0.8% over the first half of 2024, a result that was foreshadowed by the weak Index reads in 2023.

Growth is forecast to lift a little through the second half of 2024 and into early 2025 but remain lacklustre overall at a 2.2% annual pace (about flat in per capita terms).

The Leading Index growth rate has slipped back a little over the first half of 2024, moving from -0.05% in December to the current -0.13%. The main component moves over this period have been a significant weakening in commodity prices and a stabilisation in monthly hours worked - the former taking 0.31ppts off the Index growth rate and the latter adding 0.22ppts.

The net effect, a 0.09ppt drag, accounts for basically all of the shift in the Index growth rate since December.

The Reserve Bank Board next meets on August 5-6. We expect it to again leave the official cash rate unchanged. The latest Leading Index read suggests slow growth is continuing to bring demand into line with supply, helping to lower inflation. However, the speed of this process remains unclear. The June quarter CPI update, due on July 31, will be a critical update on the inflation trajectory ahead of the RBA's next meeting.

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.



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