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Leading Index points to more weak growth ahead

- **Leading Index growth rate drops to -0.23%.**
- **Momentum likely to remain weak throughout 2024.**
- **Pull-back in commodity prices drives latest slowing.**
- **Most other components remain soft.**

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, fell to -0.23% in March from -0.03% in February.

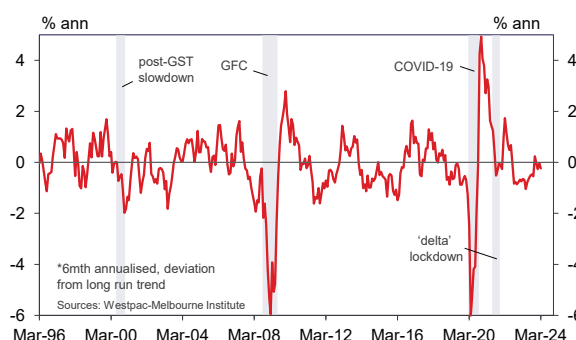
The latest Leading Index update points to Australia's sub-trend growth performance continuing throughout 2024. Despite some improvement over the last six months, and a brief one-month lift into positive late last year, the Index growth rate has been stuck firmly below zero in early 2024. While not overly concerning – reads are a long way from the negatives seen when the economy is tipping into a recession – the persistently soft results suggest growth will remain weak over the remainder of the year.

Westpac expects Australia's GDP growth to remain subdued at 1.6% in 2024, in line with the soft 1.5% outcome in 2023. That is well below Australia's 'trend' growth of around 2.5%yr.

The Leading Index growth rate has lifted from -0.47% in September to -0.23% currently. The 0.24ppt improvement has been driven by three of the eight components: the S&P/ASX200 (adding 0.24ppts); commodity prices, measured in AUD terms (adding 0.18ppts); and consumer unemployment expectations (adding 0.07ppts). Notably, the support coming from commodities is showing signs of turning, prices declining 5.1% in the March month, having risen 8.4% over the previous seven months.

These positive improvements over the last six months since September have been partially offset by bigger drags from other components including: the yield spread (taking -0.22ppts off growth); US industrial production (-0.07ppts); and dwelling approvals (-0.08ppts). With the exception of commodity prices, most components are showing little or no direction.

Westpac-MI Leading Index



The Reserve Bank Board next meets on May 6-7. We expect it to again leave the official cash rate unchanged. The weak signal from the latest Leading Index update will give the Board some comfort that slow growth and the associated rebalancing of supply and demand will continue to work towards a further easing in price pressures. The Board should also be encouraged by the March quarter CPI update, due April 24, which is expected to show annual inflation dropping to 3.5%. That will go some way towards shoring up confidence that inflation will track back to the 2-3% target range over a reasonable timeframe. However, whether it gives the Board enough confidence to move to a more firmly 'on hold' stance will depend on the detail of the price updates and the wider assessment of risks.

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