Leading Index prints record rebound in growth

This is the first positive, above trend, growth rate since November 2018. It is also the strongest seen since the early 1980s. That said, it mainly reflects the severity of the preceding contraction which saw the index growth rate drop to an extreme low of −5.5% in April. Indeed, the level of the Index has still not fully recouped the sharp decline seen during COVID lockdowns earlier in the year.

This and previous developments in the Index are consistent with Westpac’s view that growth in the Australian economy will be significantly above trend in both the September and December quarters (around an 8% annualised pace). We note that recently other forecasters, including the Reserve Bank, have moved to adopt a similar view.

That momentum will slow in 2021 as the sharp initial improvement in activity due to the easing of domestic restrictions ends. The challenge to growth momentum will emerge from the June quarter as JobKeeper supports are removed, temporary loan repayment deferrals continue to roll off and other temporary measures to cushion the impact of the COVID shock have been removed.

But, as has been the case throughout this economic cycle, developments on the health front will continue to dominate. Notably, recent reports indicating earlier than expected progress around vaccines suggest these could provide a significant and welcome boost that offsets the expected ‘soft patch’ in the June/September quarters of 2021.

The Leading Index growth rate has risen an extraordinary 8.63ppts since May, easily the biggest turnaround in the history of the measure, eclipsing the 6.48ppt turnaround coming out of the GFC in 2009 and a 7.22ppt rebound in the mid-1970s. Two components have driven the bulk of the gain − US industrial production (+5.47ppts); and aggregate monthly hours worked (+2.69ppts). Both are cycling out of major disruptions from COVID-related lockdowns six months ago (note that the headline measure is a six-month annualised growth rate, so this impact is now falling into the base of the calculation). Other components have seen more mixed developments over the same period: the S&P/ASX 200 adding +0.75ppts and a rally in the Westpac-MI CSI expectations index adding +0.34ppts, but the yield spread, commodity prices (measured in AUD terms) and dwelling approvals all detracting marginally (−0.62ppts on a combined basis). The contribution from the Westpac-MI Unemployment Expectations index is broadly unchanged.

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