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Leading Index slips a little; although still robust

- 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 from 4.94% in November to 4.18% in December.

While we may have seen the peak in the growth rate of the Index it is still signalling healthy above trend growth for the Australian economy in the first half of 2021.

This is consistent with Westpac's view that the economy will grow by 4% in 2021. With activity rebounding strongly in the second half of 2020 we expect the economy to be operating at around its pre-COVID level by the June quarter. This will be an exceptional result, comparing very favourably with other developed economies.

Over the six months between June and September the growth rate lifted extremely sharply, swinging from -4.16% to +4.18%.

Almost all components of the Index contributed to this improvement, the sole exception being a smaller positive contribution from the yield curve which took 0.20ppts off the headline growth rate.

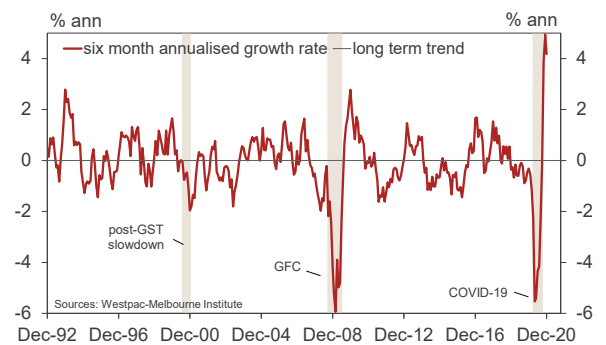
The main drivers of the turnaround were US industrial production (2.8ppts); hours worked (1.86ppts); Consumer Sentiment (expectations components, 0.89ppts); the ASX (0.87ppts); Westpac MI Unemployment Expectations Index (0.86ppts); dwelling approvals (0.77ppts); and commodity prices (RBA Index, 0.49ppts).

The Reserve Bank Board next meets on February 2. The Board is almost certain to maintain its current policy stance.

Markets will be watching for any indication about the \$100 billion Quantitative Easing program which is currently scheduled to expire in late May. Westpac is forecasting that the program will be extended with a second \$100 billion tranche although the announcement of the extension is likely to be delayed until the Board meeting in April.

Bill Evans, Chief Economist

Westpac-MI Leading Index





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