BULLETIN

27 January 2022

Leading Index currently "marking time" amid uncertainty

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 -0.19% in November to -0.15% in December.

The Index growth rate remains in slight negative territory in December consistent with the high degree of uncertainty around the near-term outlook as the strong reopening forces we saw in the December quarter are impacted by the current spectacular spread of Omicron.

In that regard we have lifted our growth forecast for the December quarter 2021 from 2.2% to 2.6%, partly reflecting the compound boost of over 12% to retail sales in October/November.

In contrast, our own high frequency credit and debit card data for the first few weeks of January is pointing to a marked fall in consumer spending over that period which can be attributed to the Omicron shock.

With confidence related spill overs to business investment and inventories in January we have marked down our forecast growth rate in the March quarter from a robust 2.3% to zero.

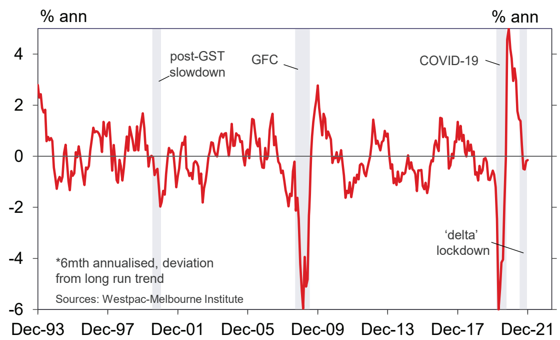
Later quarters have been boosted to reflect the delayed catch up although, overall, forecast growth in 2022 has been lowered from 6.4% to 5.5%.

We will be cross checking this view with developments in the Leading Index as we move through 2022.

The Index growth rate has fallen 1.4ppts over the second half of the year from +1.4% in July to –0.15% at year end. Four components account for the slowdown: commodity prices (in AUD terms, –0.6ppts); aggregate hours worked (–0.5ppts) dwelling approvals (–0.2ppts); and the S&P/ASX200 (–0.2ppts). The four remaining components – the yield spread, the Westpac-Melbourne Institute Unemployment Expectations Index, the Westpac-Melbourne Institute Consumer Expectations Index and US industrial production – have had a neutral impact on a combined basis.

The Reserve Bank Board next meets on February 1.

Westpac-MI Leading Index



Westpac expects that the Board will decide to cease its purchases of government bonds, bringing an end to the $350 billion program.

That will be justified on the recent evidence of success in achieving the Bank's inflation and employment goals while it will also be guided by the moves by the FOMC to sharply scale back its own programs.

The Bank will also release a revised set of economic forecasts which we expect will be a first step towards making the case for an interest rate increase which Westpac expects in August this year.

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