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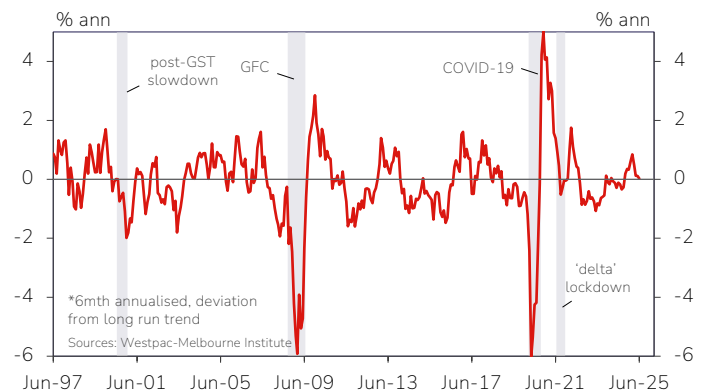
# WESTPAC-MI LEADING INDEX BULLETIN

Latest insights into economic momentum

## Key points

- Leading Index growth rate drops to 0.03% in June.
- Main drag coming from commodity prices, sentiment and hours worked.
- Detail suggests some near-term fragility if recent supports from financial markets, interest rate expectations and US growth fall away.

### Westpac-MI Leading Index



# Leading Index continues to show stalling momentum



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**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, slowed to 0.03% in June from 0.11% in May.**

The recovery that was gaining traction through the second half of 2024 has stalled in the first half of 2025. While the latest Leading Index growth rate is not weak, the current ‘around trend’ read is a clear step-down from the modestly above-trend growth momentum evident at the start of the year.

The Leading Index signal suggests activity will remain soft through the second half of the year. Westpac expects the Australian economy to grow by just 1.7% over calendar 2025, a small improvement on the 1.3% gain in 2024 but still a disappointing result. It will mean annual growth has averaged just 1.5% since 2022, a cumulative decline in per capita terms and well below Australia’s twenty-year average of 2.0%.

The Leading Index growth rate has deteriorated over the last six months, slipping from +0.33% in December to +0.03% currently. Five of the eight components have contributed to the slowdown.

The biggest drag has come from weakening in commodity prices, which have taken 0.24ppts off the Index growth rate since December. Note that this component is measured in AUD terms with weakness since the start of the year reflecting both a decline in USD prices for Australia’s commodities (–5.3%) and a firming Australian dollar (+2.6% vs the USD).

The first half of the year has also seen some added drag from a softening in total hours worked and the Westpac–Melbourne Institute Consumer Expectations Index. Combined, these two components have taken another 0.28pts off growth.

Other components have been more mixed. Dwelling approvals and the Westpac–Melbourne Institute Consumer Unemployment Expectations Index have been on the soft side. However, financial markets have become more supportive: the sharemarket recovery now seeing the contribution from the S&P/ASX200 unchanged since December; and the interest rate easing cycle driving a widening in the yield gap that has seen this component add 0.21ppts to growth overall. Notably, firming US industrial production has also been a slight positive, adding 0.11ppts to the Index growth rate since the turn of the year.

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.

Welcome as these positives are, they point to some near-term fragility. The Leading Index growth rate could easily slip into negative again if we were to see a weakening in US growth, another sell-off in financial markets or diminished prospects for interest rate cuts.

The Reserve Bank Monetary Policy Board next meets on August 11–12. The latest Leading Index update provides more evidence that growth remains sluggish at best. Despite this, the Board decided to leave rates unchanged at its July meeting due to lingering doubts about the path of inflation. Westpac expects next week’s June quarter CPI update to address these fears. There are, as always, risks, but a benign inflation result should clear the way for a 25bp cut at the Board’s August meeting. Beyond that, we expect the Board to continue to pursue a gradual easing cycle with another 25bp cut in November and two more 25bp moves in the first half of 2026.



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