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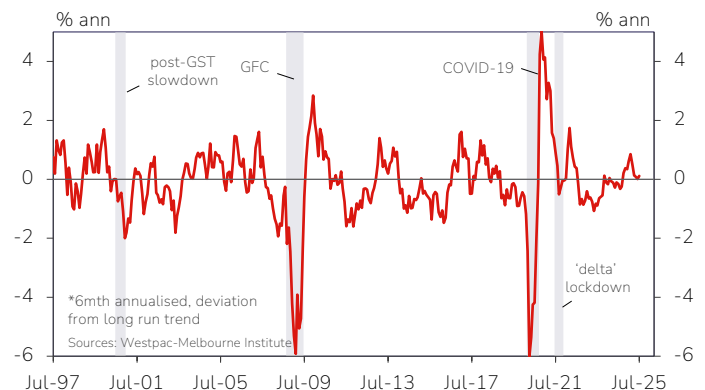
WESTPAC-MI LEADING INDEX BULLETIN

Latest insights into economic momentum

Key points

- Leading Index growth rate ticks up to 0.12% in July.
- 'Slow motion' recovery continues to underwhelm.
- Main headwind coming from commodity price falls and higher AUD.
- Softer tone from labour market but other components lacking direction.

Westpac-MI Leading Index



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Leading Index remains subdued



Matthew Hassan
Head of Australian Macro-Forecasting

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, ticked up to 0.12% in July from 0.01% in June.

Even with this small improvement, the Leading Index still points to sluggish growth momentum in the second half of 2025 and early 2026. The recovery that started to take shape in last year continues to proceed slowly. Westpac expects the Australian economy to grow by just 1.7% this year, a marginal improvement on the 1.3% gain in 2024. Growth is only expected to return to a trend pace of 2.2% by the end of 2026.

The 'slow motion' recovery reflects both the mildness of the preceding downturn and the shape of the interest rate easing cycle, which is coming through more gradually and is expected to result in a smaller cumulative decline than in previous cycles.

The Leading Index continues to show a loss of traction over the last six months. Having started the year at a healthy 0.61%, the growth rate has dropped nearly half a percentage point to 0.12% in July, only a touch above trend. Six of the eight components have contributed to the slowdown.

The biggest drag has come from the weakening in commodity prices. A flat second half of 2024 has given way to material price declines in 2025, taking 0.25ppts off the headline Index growth rate. Note that this component is measured in AUD terms with the weakness due to both declining USD prices for Australia's commodities and a firming in the Australian dollar.

The first half of the year has also seen some loss of momentum around domestic labour markets. A decline in total hours worked and softening in the Westpac–Melbourne Institute Consumer Expectations Index have taken another 0.22ppts off the index growth rate since January.

Other components have been lacking direction. Dwelling approvals and the Westpac–Melbourne Institute Consumer Unemployment Expectations Index both posted solid improvements in the latest month but have been on the soft side for most of the 2025.

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.

Financial markets have also been mixed, with the S&P/ASX200 recovering from tariff-related disruptions but still only posting a small net gain for the year to date (albeit with signs that momentum is building). The yield gap – the difference between long and short term interest rates – has become a little more positive as RBA rate cuts have flowed through, but even with some added support from rising US industrial production this has only added an extra 0.13ppts to the overall Index growth rate since January.

The Reserve Bank Monetary Policy Board next meets on September 29–30. The latest Leading Index update confirms that growth momentum remains sluggish and that further interest rate easing will likely be required to ensure the recovery regains traction. However, the RBA may not feel a need to rush. The full effects of its interest rate moves have yet to be felt and while there are some signs the labour market is softening a little, these are fairly tentative with the unemployment rate still low by historical standards. We expect the Board to take things meeting by meeting and respond to the flow of data as it comes in. On balance, we expect this to see the RBA Monetary Policy Board keep the cash rate steady at its September meeting ahead of a further 25bp rate cut in November,



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