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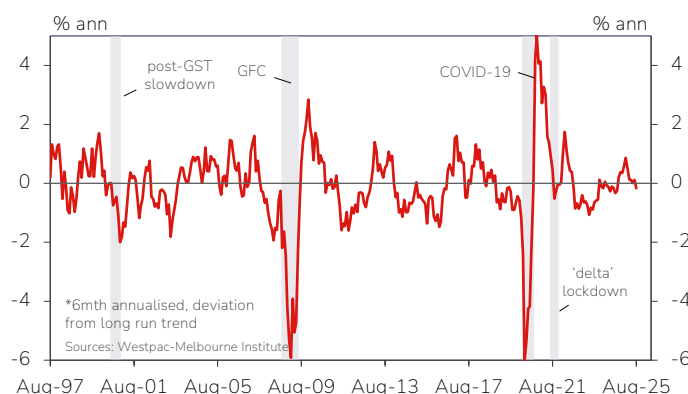
WESTPAC-MI LEADING INDEX BULLETIN

Latest insights into economic momentum

Key points

- Leading Index growth rate declines to -0.16% in August.
- First below-trend reading since late 2024.
- Recovery still intact but momentum is proving hard to sustain.
- Nearly all components have contributed to moderation over last six months.

Westpac-MI Leading Index



Leading Index slips back below trend



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, dropped back to –0.16% in August from +0.11% in July.

The Leading Index is pointing to a loss of momentum heading into year-end. The August update is the first negative, below-trend Index growth rate since September last year. While the weakness is not overly concerning it marks a clear softening from the above-trend momentum that was evident earlier in the year. The pattern is broadly consistent with the economy slowing again after a relatively firm performance in the June quarter. Westpac expects the Australian economy to grow by 1.9% this year, an improvement on the 1.3% gain in 2024 but still slightly below trend. Growth is expected to return to a trend pace in 2026.

Australia's economic recovery continues to be a stop-start affair. The June quarter national accounts, released earlier this month, showed the economy growing by 0.6%qtr, 1.8%yr, led by surprisingly firm consumer spending. However, one-off factors boosted demand in the quarter, including the timing of public holidays and a bigger than usual spend at End of Financial Year sales. Our Westpac Card Tracker, which monitors credit and debit card activity and has data up to early September, suggests consumer spending growth has cooled again since mid-year. The latest Leading Index update also points to moderating momentum across the wider economy.

The Leading Index growth rate has now slowed materially, from a peak of 0.86% in February to the –0.16% read in August, a turnaround of just over 1ppt. Whereas earlier signs of slowing centred on weakening commodity prices, the shift has become more evenly spread with all but one of the eight Index components contributing to the softening.

Most of the slowdown over the past six months has been across four main components: 1) the Westpac–Melbourne Institute Consumer Unemployment Expectations Index (contributing –0.34ppts to the weakening); 2) commodity prices, measured in AUD terms (–0.25ppts); 3) the Westpac–Melbourne Institute Consumer Expectations Index (–0.22ppts); and 4) dwelling approvals (–0.19ppts). These shifts have been accompanied by smaller negative contributions from the yield spread, US industrial production and total hours worked, taking another 0.18ppts off the Index growth rate on a combined basis.

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.

The only improved contribution since February has come from the share market where a 10% rally in the S&P/ASX200 has added 0.16ppts to the headline Index growth rate.

The Reserve Bank Monetary Policy Board next meets on September 29–30. With the Board taking a cautious approach to policy easing and recent updates suggesting both inflation and consumer demand have been a little firmer than expected, it will almost certainly opt to wait for more information, leaving the cash rate unchanged at 3.6%. Beyond September, Westpac expects the dataflow to gradually confirm that temporary one-off factors have been at play with underlying trends still consistent with benign inflation and slow growth in demand. Indeed, the latest Leading Index update is already pointing to sluggish growth momentum across the wider economy. While the Board is likely to take things meeting by meeting, there should be enough of this evidence for it to deliver a further 25bp cut in November meeting, with two more 25bp cuts expected in 2026.



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