15 October 2025

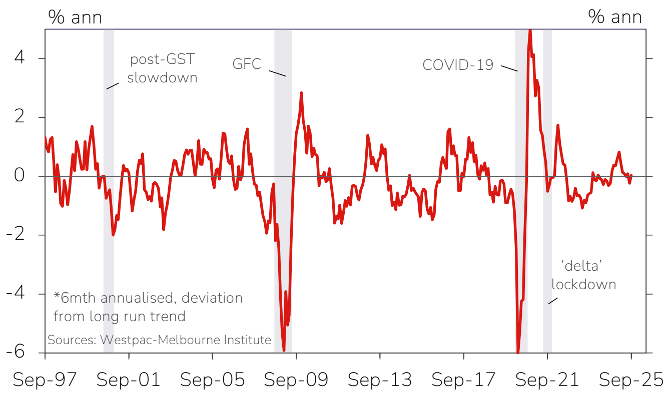
WESTPAC-MI LEADING INDEX BULLETIN

Latest insights into economic momentum

Key points

- Leading Index growth rate lifts back to +0.04% in September.
- Momentum remains subdued compared to start of the year.
- Mixed signals from components with a lack of direction overall.

Westpac-MI Leading Index



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Leading Index nudges back up to just over 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, nudged back up to +0.04% in September from –0.16% in August.

The Leading Index continues to show a moderation in momentum compared to the start of the year but with the pulse still pointing to around-trend growth in early 2026. After peaking at 0.83% in February, the Leading Index growth rate slowed back to around zero in June with reads bumping around that level since then. Recall that a zero reading points to activity growing at a trend pace. Westpac expects the Australian economy to grow by around 2% this calendar year with growth lifting to a trend pace in 2026.

Six of the eight components have contributed to the slowdown over the last six months. The Leading Index growth rate has moderated by 0.44ppts over this period, from +0.48% in March to +0.04% in September. The biggest drags have come from a pull-back in dwelling approvals (taking –0.24ppts off the overall Index growth rate) and softening commodity prices, measured in AUD terms (taking off a further –0.21ppts). Both of these specific drags may dissipate a little near term. On dwelling approvals, the recent pull-back is likely temporary with low interest rates, a wider housing market upturn and a variety of Federal and state government measures likely to drive a renewed lift at some stage. On commodity prices, the drag is coming from sharp declines in the first half of the year with prices having posted modest gains since then (led by big rises in gold).

Other components have been mixed over the last six months, the net impact essentially unchanged. Reduced support from the yield spread and slightly bigger drags from Consumer Sentiment-related components have taken 0.39ppts off the growth rate since March on a combined basis. This has been counterbalanced by an ongoing rally in global sharemarkets, the 12.8% surge in the S&P/ASX200 since March adding 0.32ppts to the headline Index growth rate.

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 Reserve Bank Monetary Policy Board next meets on November 3–4. With inflation within the target range and monetary policy still a little on the restrictive side, the next rate move can reasonably be expected to be down. Whether that comes in November rests heavily on the September quarter CPI update and, to a lesser extent, monthly updates on labour markets and the consumer. The latest Leading Index read shows momentum has faded since the start of the year. Without further interest rate support, we think it is at risk of drifting below trend again. While the RBA seems to be alert to this risk, it may be reluctant to act while the data flow remains uncertain.

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