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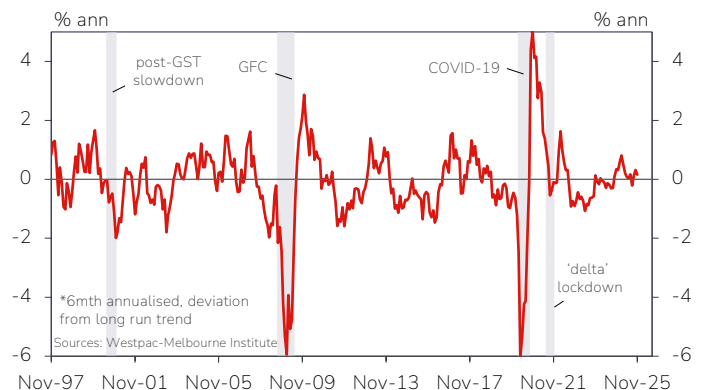
WESTPAC-MI LEADING INDEX BULLETIN

Latest insights into economic momentum

Key points

- Leading Index growth rate pared back to +0.16% in November.
- Share market sell-off and volatile consumer expectations were drivers.
- Momentum remains positive but subdued.

Westpac-MI Leading Index



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Leading Index momentum stalls



Ryan Wells
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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, slipped back to +0.16% in November from +0.32% in October.

The Leading Index has pared back from a brief stint in slightly above-trend territory, largely reflecting the recent sell-off in share markets and a cooling in consumer expectations. While the Index remains in positive territory, it is fairly subdued and indicative of some stalling in momentum. Westpac expects that activity will only pick up slightly from here, from 2.1%yr currently to 2.4%yr over 2026, which Westpac views as being roughly around trend.

The Leading Index growth rate has nonetheless lifted touch over the past six months, up 0.07ppts from +0.09% in May to +0.16% in November. Some of the earlier softness had related to the heightened uncertainty at that time, associated with US President Trump's so-called 'reciprocal' tariffs, which has now eased.

Five of the eight index components have contributed to this small gain since May. This includes commodity prices measured in AUD terms (adding +0.16ppts), which have shifted from acting as a material drag to a modest positive. Dwelling approvals have also contributed notably (adding +0.11ppts), although more volatile reads over the second half of the year may see this component remain choppy.

After recording surprisingly sharp improvements in November, both the Westpac–MI Consumer Expectations and Westpac–MI Unemployment Expectations Index have broadly retreated back to earlier levels. On a combined basis, these components have added +0.08ppts to the Leading Index growth rate over the past six months. The positive contribution from the S&P/ASX200 has also shrunk considerably following the sell-off in share markets over November (adding +0.04ppts).

The main drags have come from a decline in hours worked (detracting –0.13ppts), reflecting the gradual softening in the labour market to date, alongside a smaller contribution from US industrial production (detracting –0.09ppts) and reduced support from the yield spread (detracting –0.09ppts). Over recent weeks, the yield spread between longer-term bonds and short-term bills has continued to widen as expectations for monetary policy have turned more hawkish.

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 (MPB) next meets on February 2–3. Risks to inflation have tilted to the upside recently, and although the RBA has recognised that some of this reflects temporary factors, it has clearly taken some signal from it. While Westpac anticipates inflation to moderate in 2026, the MPB's more hawkish view has pushed back the timing of any further policy easing into 2027. There are risks to both sides of our view. If inflation were to continue surprising materially to the upside, the possibility of a rate hike would lift. But if the labour market were to weaken by more than expected, earlier rate cuts could be brought back on the table.



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