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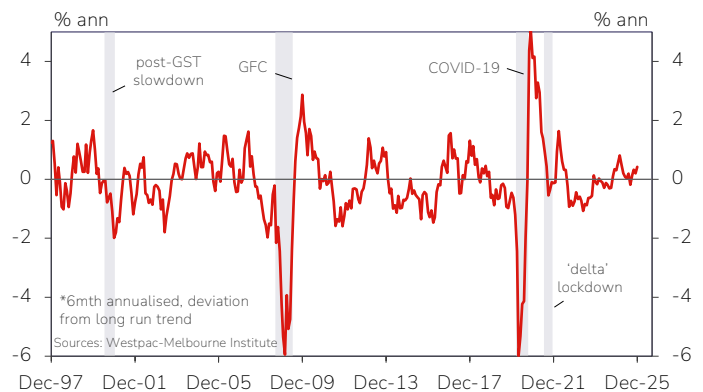
WESTPAC-MI LEADING INDEX BULLETIN

Latest insights into economic momentum

Key points

- Leading Index growth rate nudges up to 0.42%.
- Momentum remains a touch above trend.
- Recent uptick led by commodities and improved homebuilding outlook.
- 'Strong' reads still a long way off.

Westpac-MI Leading Index



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Leading Index slightly more positive



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 up to +0.42% in December from +0.20% in November.

The latest update is broadly consistent with 2025's recovery carrying into 2026. However, the momentum is still not all that convincing with the Index growth rate only modestly above trend, having stalled through the middle of last year. An outright strong growth pulse, associated with Leading Index growth rate reads of over 1%, still looks to be a long way off. Westpac expects the Australian economy to grow by 2.4% this year, a result that we would see as being roughly around trend.

The Leading Index detail shows recent small gains in the growth rate have been narrowly based.

Net-net, the Leading Index growth rate has risen 0.38ppts since mid-2025, from about flat in June (+0.04%) to a modest positive currently (+0.42%). Two drivers account for bulk of the gain: rising commodity prices (measured in AUD terms), which account for 0.29ppts of the lift; and a renewed upturn in dwelling approvals, which added a further 0.15ppts. Australia's commodity price basket rose 5.4% over the second half of last year, led by gold and copper, but further gains may be hard to sustain given the unsettled global backdrop and an appreciating AUD. Meanwhile, the more positive signal around prospects for homebuilding pre-dates the sharp shift in interest rate expectations since late last year.

Other components have been broadly neutral over the same period with a slight improvement in labour-market-related components offset by slightly softer signals from consumer expectations, the S&P/ASX200, yield spread and US industrial production.

The Reserve Bank Monetary Policy Board (MPB) next meets on February 2–3. The latest Leading Index result suggests the genuine cyclical upswing that formed in 2025 is carrying into the new year. However, it is unclear how much this contributed to last year's lift in inflation and, in turn, whether this lift will persist. Important updates on inflation and labour markets should provide more clues over the next two weeks. On balance we think these will allow the MPB to keep the cash rate on hold at this February meeting and throughout the remainder of 2026. However, the MPB is clearly sensitive to inflation risks and has prepared the ground for possible rate increases, should they be needed.

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.



Corporate Directory

Westpac Economics / Australia

Sydney
Level 19, 275 Kent Street
Sydney NSW 2000
Australia

E: economics@westpac.com.au

Luci Ellis
Chief Economist Westpac Group
E: luci.ellis@westpac.com.au

Matthew Hassan
Head of Australian Macro-Forecasting
E: mhassan@westpac.com.au

Elliot Clarke
Head of International Economics
E: eclarke@westpac.com.au

Sian Fenner
Head of Business and Industry Economics
E: sian.fenner@westpac.com.au

Justin Smirk
Senior Economist
E: jsmirk@westpac.com.au

Pat Bustamante
Senior Economist
E: pat.bustamante@westpac.com.au

Mantas Vanagas
Senior Economist
E: mantas.vanagas@westpac.com.au

Ryan Wells
Economist
E: ryan.wells@westpac.com.au

Illiana Jain
Economist
E: illiana.jain@westpac.com.au

Neha Sharma
Economist
E: neha.sharma1@westpac.com.au

Luka Belobrajdic
Economist
E: luka.belobrajdic@westpac.com.au

Westpac Economics / New Zealand

Auckland
Takutai on the Square
Level 8, 16 Takutai Square
Auckland, New Zealand

E: economics@westpac.co.nz

Kelly Eckhold
Chief Economist NZ
E: kelly.eckhold@westpac.co.nz

Michael Gordon
Senior Economist
E: michael.gordon@westpac.co.nz

Darren Gibbs
Senior Economist
E: darren.gibbs@westpac.co.nz

Satish Ranchhod
Senior Economist
E: satish.ranchhod@westpac.co.nz

Paul Clark
Industry Economist
E: paul.clarke@westpac.co.nz

Westpac Economics / Fiji

Suva
1 Thomson Street
Suva, Fiji

Shamal Chand
Senior Economist
E: shamal.chand@westpac.com.au



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