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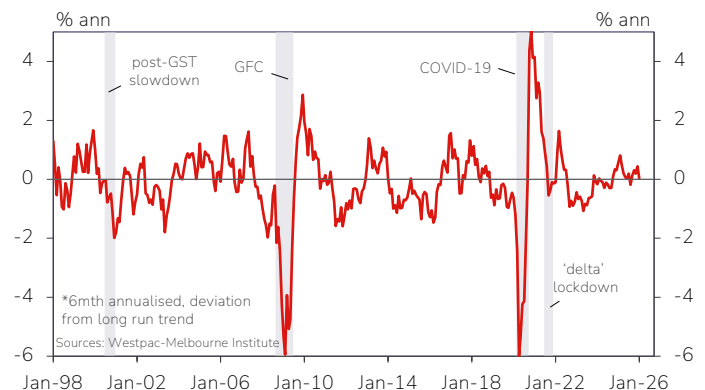
WESTPAC-MI LEADING INDEX BULLETIN

Latest insights into economic momentum

Key points

- Leading Index growth rate slows to just +0.02% in January.
- Momentum moves from slightly above to back in line with trend.
- Cooling led by consumer and housing, cushioned by commodity price rise.
- More drags from interest rate and AUD rise in coming months.

Westpac-MI Leading Index



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Leading Index stalls



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, slowed to +0.02% in January from +0.44% in December.

The latest update suggests the slightly-above-trend momentum through the second half of 2025 has faded in early 2026. As discussed previously, that momentum was not all that convincing in the first place with mostly lukewarm reads on the Leading Index growth rate and a notable stalling mid-year. With growth stalling again and a further rise in interest rates to come, 2026 is already shaping up as another 'on again, off again' year for the local economy. That said, Westpac expects GDP growth to hold at 2.5% this year, a pace that is close to our assessment of trend and broadly consistent with the latest signal from the Leading Index.

The Leading Index detail shows the latest weakening has centred on the consumer and housing sectors domestically with some offset coming from a lift in commodity prices.

Compared to six months ago, the Leading Index growth rate has moderated 0.17ppts, from +0.19% in July to a near-flat +0.02% in January. Two of the eight Index components have led the moderation: the Westpac-MI Consumer Expectations Index (taking 0.16ppts off the Index growth rate); and dwelling approvals (taking another 0.23ppts off). The latter mostly reflects a choppy monthly profile rather than a trend weakening. However, the softer signals from consumer sentiment-based measures are likely to persist, the main driver here being a turnaround in interest rate expectations. With the RBA's February rate hike only just starting to impact and a further increase expected, some more softening is likely in the consumer sentiment, unemployment expectations and yield spread components.

Meanwhile, the positive support coming from commodity prices may also be passing. This index component added 0.36ppts to the index growth rate over the last six months. Note that there is an exchange rate effect here as well with commodity prices measured in AUD terms – the last six months has seen a 13% rise in USD terms dampened by a 4% rise in the AUD/USD cross rate with prices posting a more muted 9% gain in AUD terms. The currency rise accelerated sharply in late January and early February. If sustained, this is likely to have even more of a dampening effect on index reads in the next few months.

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 March 16–17. While an immediate follow-up cash rate hike is possible, we think the Board is more likely to take a cautious approach to tightening, holding off until more data is available before making its next move. The latest Leading Index update suggests the shifting interest rate environment is already starting to weigh on growth momentum. However, the RBA's main focus will be on inflation. Here, the next quarterly CPI update, due April 29, is the critical release. With this expected to show inflation still uncomfortably high, another 25bp rate hike looks likely to come at the MPB's May 4–5 meeting.



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



 westpaciq.com.au

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