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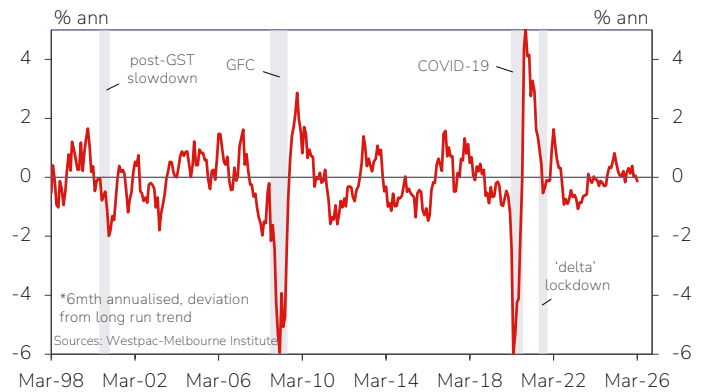
# WESTPAC-MI LEADING INDEX BULLETIN

Latest insights into economic momentum

## Key points

- Leading Index growth rate declines to  $-0.13\%$  in March.
- First below-trend pace since August last year.
- Interest rates and global energy shock clearly impacting.

Westpac-MI Leading Index



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# Leading Index momentum dips back below trend



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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, declined to  $-0.13\%$  in March from  $+0.05\%$  in February.**

The Australian economy has lost momentum over the first few months of the year with more weakness likely to emerge in the months ahead. The March Index already points to a period of below-trend growth over the remainder of 2026. While the growth pulse is not overly weak, it is the first below-trend read since August last year and, prior to that, since the extended period of weakness during the ‘cost-of-living’ crisis of 2022–2024.

The Leading Index growth rate has now swung from  $+0.31\%$  in October last year to  $-0.15\%$  currently, a 0.44ppt deterioration. The detail shows clear drags from the shifting interest rate backdrop and the global energy shock associated with the conflict in the Middle East.

Component-wise, the biggest negative shifts have come from: the Westpac–Melbourne Institute Consumer Expectations Index (a 20% drop over the last six months effectively taking 0.27ppts off the headline growth rate); a sharp sell-off in the Australian sharemarket in the March month ( $-0.24$ ppts); and a flattening yield spread as short-term interest rates have moved higher ( $-0.15$ ppts). Some of these declines may not be sustained though, with a notable recovery in sharemarket in the first three weeks of April. If it sustains, the move will be reflected in next month’s index.

Roughly speaking, about 60% of the drag on the six month growth rate coming from these three components looks to be due to the conflict in the Middle East. All of sharemarket fall and about half of the sentiment decline since October has occurred after the conflict began. Most of the yield gap shift however can be attributed to monetary policy developments prior to the war.

Other components have provided partial offsets. Most notably, higher commodity prices (up 11.9% in Australian dollar terms over the last six months) have added 0.09ppts to the Index growth rate over the same period. Dwelling approvals have added a further 0.11ppts although this is likely being exaggerated by a very choppy monthly profile (approvals jumped 30% in February after dropping 20% through December–January). The contribution from the remaining three components has seen no net change since October.

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 May 4–5. The latest Leading Index update confirms that higher interest rates and the spike in fuel prices associated with the conflict in the Middle East are starting to weigh on growth momentum, albeit fairly mildly. However, the MPB’s main concerns are likely to be around inflation with underlying measures already above the RBA’s 2–3% target range and set to move higher as the effects of energy price rises come through. On balance we expect the risk of this feeding into a lift in inflation expectations will over-ride the downside risks to growth. As such, we expect the MPB to raise the cash rate by another 25bps in May with further moves likely in subsequent months.



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