

22 May 2026

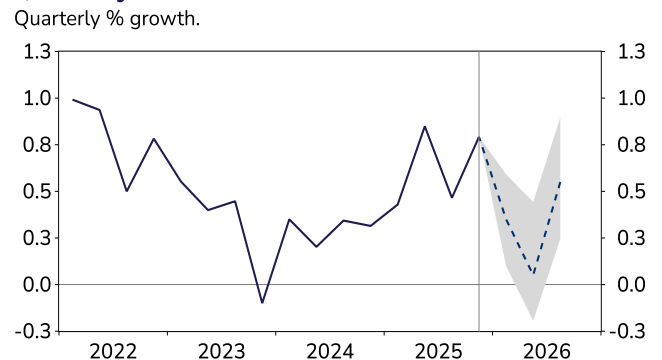
WESTPAC NOWCAST Q1 2026: FINAL ESTIMATE

Upswing is over, growth is stalling, downside risks are building

Key points

- Westpac-Now points to GDP growth of around 0.4%qtr in Q1 2026 (range: 0.3–0.55%qtr), well below the Westpac-Now second estimate of 0.6%qtr and the 0.8%qtr outcome recorded in Q4 2025.
- The Westpac Monthly Activity Index has now fallen over the three consecutive months to the end of April 2026. The Index has recorded its sharpest quarterly decline since May 2023 (or in almost three years).
- The drop has been large enough to take the Index back to levels last seen in the first quarter of 2025, when the RBA began cutting the cash rate. This suggests Australia’s cyclical upswing has come to an end. Growth looks to have lapsed back to the sluggish gains seen over late 2024 and early 2025.
- Our framework points to growth stalling to just 0.1%qtr in Q2 2026, with a ‘negative quarter’ well within standard confidence intervals. The longer the Middle East conflict persists, alongside other sources of uncertainty, the greater the risk of a contraction in Q2.

Quarterly GDP Growth*



Source: ABS, Macrobond, Westpac Economics
*Dotted line shows Westpac-Now central estimates. Quarter ahead (or Q1 2026) relies on the actual Westpac monthly activity index to April 2026. Beyond the quarter ahead, estimates rely on projections of the Westpac monthly activity index generated using internal model dynamics. Confidence intervals reflect empirical out of sample forecasting errors.

- The RBA may view this as a ‘necessary evil’ to bring demand and supply back into balance. However, a sharper-than-expected slowdown worsens the trade-offs for inflation control, especially in light of the upside risks to inflation from the rapid pass-through of energy prices that is already evident. Westpac-Now’s central projection has year-ended growth slowing to 1.6%yr in Q2 2026, below the RBA’s expectation of 1.9%yr.

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Sudden Stall: Growth Slows, Negative Quarter in Sight



Pat Bustamante
Senior Economist

In November 2025, we introduced Westpac-Now ([Westpac Nowcast \(Westpac-Now\): The Upswing Accelerates | Westpac IQ](#)), a real-time measure of current activity in the Australian economy. Westpac-Now draws on more than 60 high frequency economic and financial variables, using advanced statistical techniques to provide a timely pulse check on economic momentum. It is the first Australian model to incorporate internal banking data, enhancing its predictive power.

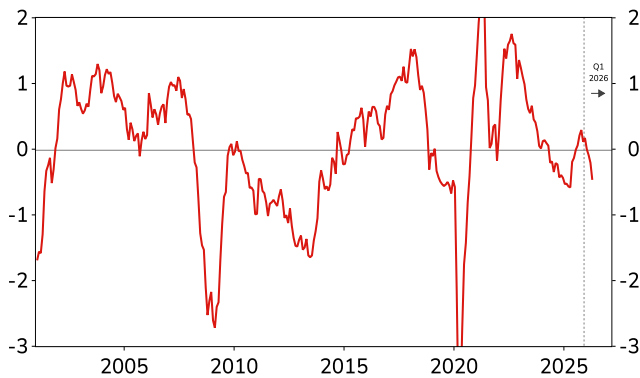
This note provides the final estimate of GDP growth for the March quarter 2026, using domestic and international data released up to and including the April Labour Force Survey (released 21 May 2026). Future updates will be published monthly (see Appendix A for the release schedule).

Westpac Monthly Activity Index: Broad-Based Softening Pushes Activity Lower

The Westpac Monthly Activity Index has now fallen over the three consecutive months to the end of April 2026. The Index has recorded its sharpest three-month decline since May 2023 – nearly three years ago.

Westpac Monthly Activity Index

Index. Axis truncated for covid.

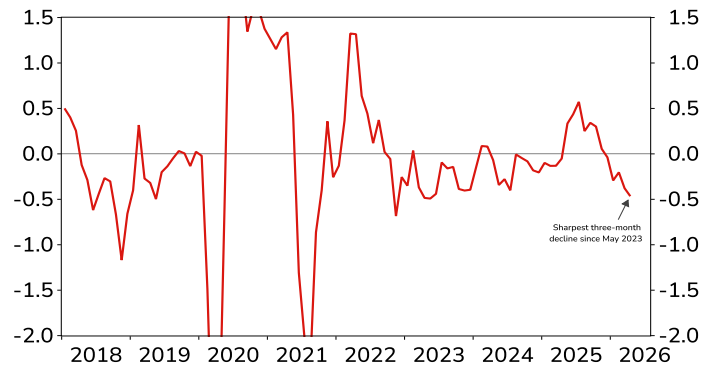


It is becoming increasingly clear that higher interest rates, elevated inflation, and the conflict in the Middle East are combining to weigh on confidence and activity across the Australian economy. The index is now back to levels last seen in Q1 2025, when the RBA was cutting rates as inflation eased.

The initial decline in the Index was driven by sharp falls in both consumer and business confidence. This month's data suggests the weakness is broadening. Labour market indicators (including job ads), business conditions and confidence, and the external sector are now corroborating the earlier deterioration in sentiment.

Westpac Monthly Activity Index

Rolling quarterly change in the Index. Axis truncated for covid.

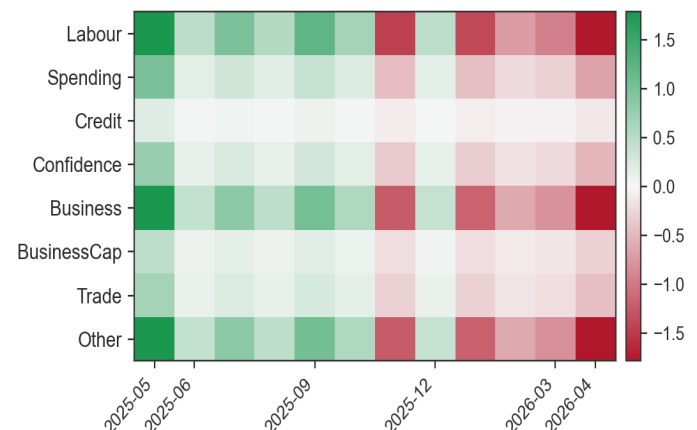


In other words, what began as a confidence shock is now feeding through to a wider range of high-frequency indicators, driving a more pronounced fall in our monthly activity index.

This is clearly illustrated in our heatmap, which shows that a broader set of indicators is now weighing on activity – particularly within the labour market.

Our indicator heatmap decomposes changes in the Monthly Activity Index into group-level contributions, allowing us to assess which components drove the decline over 2026. For ease of interpretation, indicators are grouped into broad categories (see Appendix for the full set). For example, the labour market category includes both official ABS Labour Force Survey outcomes and more timely, survey-based measures of labour demand and job advertisements.

The Common Activity Factor Heatmap by Groups



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Westpac-Now: Growth to Stall, Negative Quarter in Sight

Recall that Westpac-Now is a refined indicator that combines our Monthly Activity Index with advanced econometric techniques to generate estimates of GDP growth. As previously noted, the fit is not expected to be exact. Measured GDP includes components that are not well captured by high-frequency activity indicators, such as imputed rents for owner-occupiers, public and business inventories, and depreciation.

To bridge monthly and quarterly data, we employ a MIDAS framework, allowing us to combine mixed-frequency inputs and incorporate partial information for the current quarter when producing GDP forecasts.

Based on current model estimates, Westpac-Now final estimate for Q1 2026 points to GDP growth of 0.4%qtr (range: 0.3–0.55%qtr), well below the second estimate of 0.6%qtr and the 0.8%qtr outcome recorded in Q4 2025.

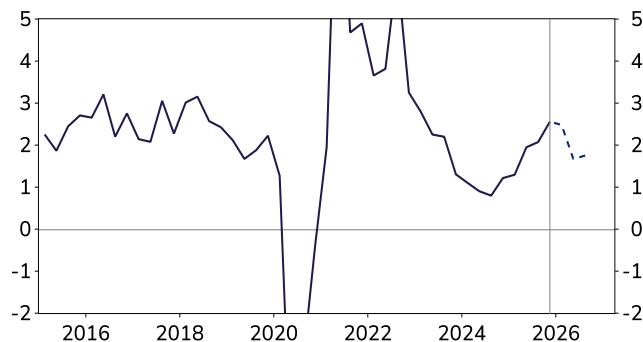
Looking ahead, model dynamics, together with the April reading for the Monthly Activity Index (the first month of Q2), suggest growth will hit a wall, slowing to just 0.1%qtr in Q2, with a 'negative quarter' well within standard confidence intervals. In our view, the longer the Middle East conflict persists, alongside other sources of uncertainty, the greater the risk of a contraction in Q2 2026.

While the RBA may view this as a 'necessary evil' to bring demand and supply back into balance, a sharper-than-expected slowdown would worsen the trade-offs for inflation control. A 0.4%qtr outcome followed by a flat Q2 would see year-ended growth slow to 1.6%yr to Q2, below the RBA's expectation of 1.9%yr.

Beyond Q2, the framework suggests growth could recover to around 0.5%qtr. However, these projections remain tentative, given their reliance on projected inputs rather than realised data. In addition, heightened uncertainty, particularly around the Middle East conflict, means the risks around these forward estimates are larger than usual.

Westpac-Now Estimates and Projections*

Year-ended % growth. Axis truncated for covid.



Source: ABS, Macrobond, Westpac Economics

*Dotted line show Westpac-Now central estimates. Quarter ahead (or Q1 2026) relies on actual Westpac-MAI to April 2026. Beyond the quarter ahead, estimates rely on projections of the Westpac-MAI generated using internal model dynamics.

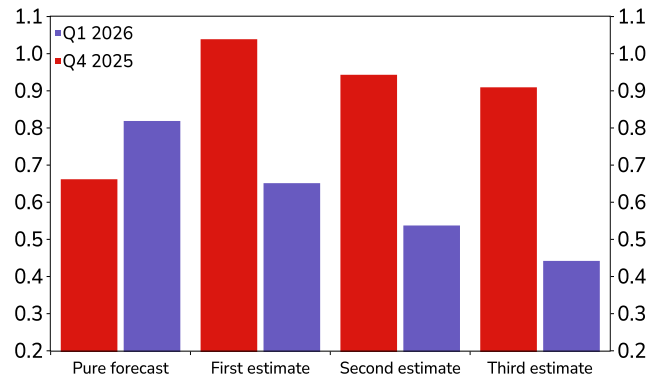
March Quarter Data Signal a Moderation in Growth

Data released through the March quarter point to a clear moderation in growth from the previous quarter. As these releases are incorporated, our nowcast estimates Q1 growth at 0.4%qtr. This compares with a 0.8%qtr 'pure forecast' estimate based only on data available up to December 2025.

The pattern of softer estimates as in-quarter data are added marks a notable shift from Q4 2025. In that quarter, the nowcast remained above the 'pure forecast' as additional data were incorporated, pointing to upside momentum. By contrast, the Q1 2026 profile suggests incoming data have consistently surprised to the downside, pulling growth estimates lower as the quarter progressed.

Evolution of Westpac-Now

Within quarter changes to Westpac-Now, quarterly % change



Source: ABS, Macrobond, Westpac Economics

Note that there is greater than usual uncertainty around the monthly activity estimate amid heightened inflationary pressures. Faster price growth can cause nominal indicators, such as consumer spending, to rise strongly even though 'real' inflation adjusted spending may be soft. The inclusion of 'real' indicators, such as employment and banking transaction volumes, helps manage some of this uncertainty but it remains higher than usual given above average inflationary pressures.

Bottom line

Growth has stalled more abruptly than expected, with momentum now clearly reversing. Westpac-Now points to a weak 0.4%qtr in Q1 2026 and a near-stagnant Q2, with a contraction well within range. The sharp pullback in activity, now back to early 2025 levels, signals that the cyclical upswing has fully unwound. As weakness broadens from confidence into labour market and hard activity indicators, the risk is that this slowdown becomes more entrenched, shifting risks to the downside and away from inflation.

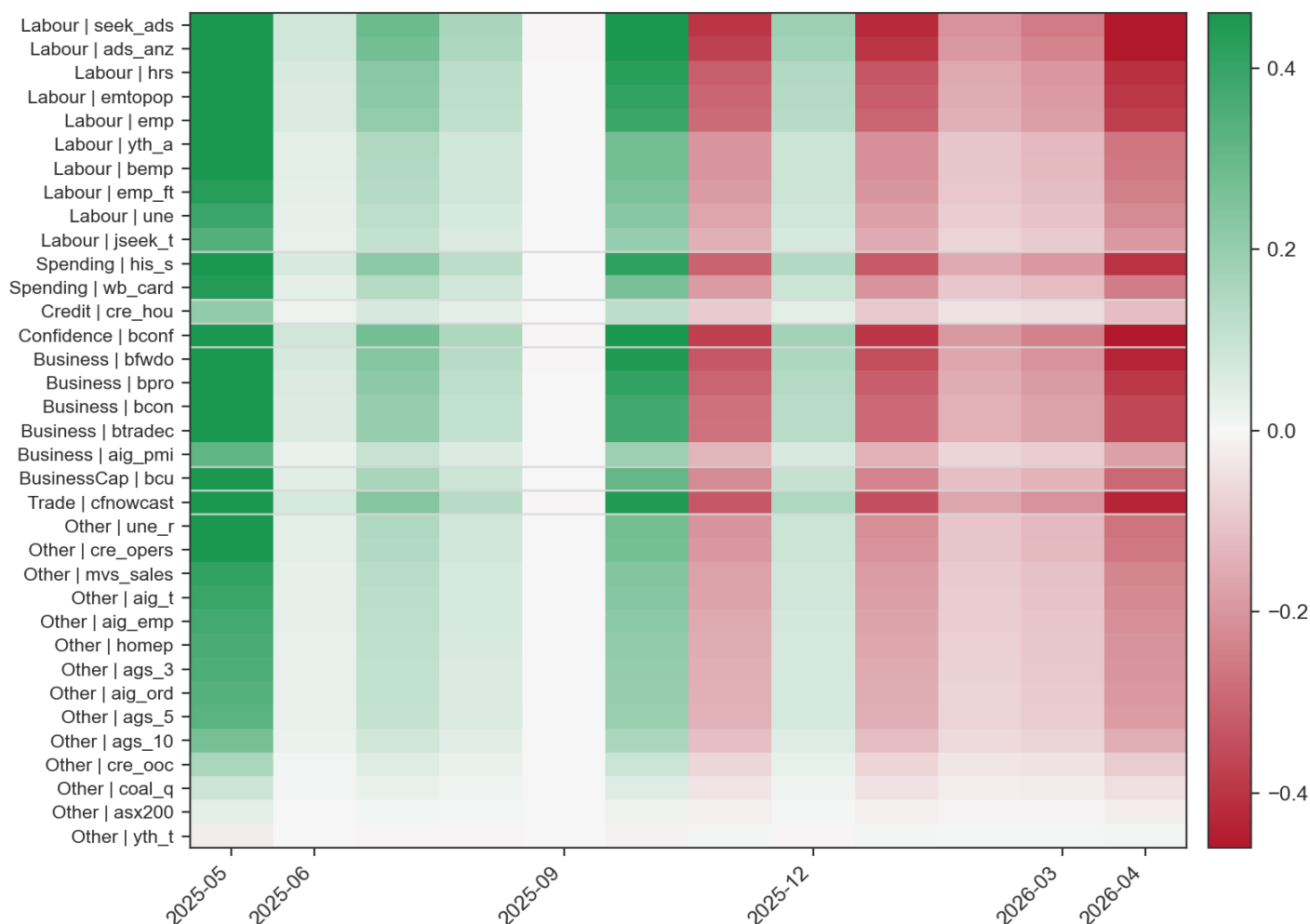
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Appendix A: Westpac-Now Release Schedule (2026)

Going forward, Westpac Now will be published on the Friday following each ABS Labour Force Survey (LFS) release, at 11:30am AEDT/AEST (Canberra time). Each release incorporates the latest labour market data alongside other high frequency indicators and provides an updated nowcast for quarterly GDP growth. As the quarter progresses, each update should be interpreted as a progressively more complete estimate of that quarter's economic performance.

Release date (Friday)	LFS reference month	Quarter focus	Interpretation
19 June 2026	May 2026	Q2 2026 – first estimate	Initial assessment of Q2 momentum
17 July 2026	June 2026	Q2 2026 – second estimate	Refined Q2 signal as activity data accumulate
21 August 2026	July 2026	Q2 2026 – final estimate	Near complete read on Q2 activity
18 September 2026	August 2026	Q3 2026 – first estimate	Initial assessment of Q3 momentum
16 October 2026	September 2026	Q3 2026 – second estimate	Refined Q3 signal as activity data accumulate
20 November 2026	October 2026	Q3 2026 – final estimate	Near complete read on Q3 activity
18 December 2026	November 2026	Q4 2026 – first estimate	Initial assessment of Q4 momentum

Appendix B: The common activity factor heatmap by indicators



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