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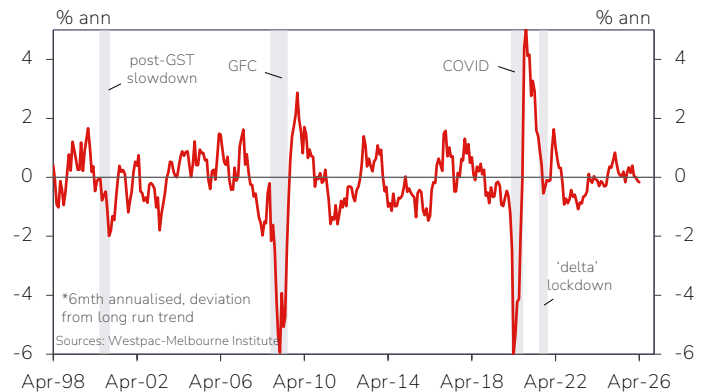
WESTPAC-MI LEADING INDEX BULLETIN

Latest insights into economic momentum

Key points

- Leading Index growth rate weakens to -0.17% .
- First back-to-back below-trend reads since late 2024.
- Sentiment, financial market indicators weak, 'real economy' indicators firm.
- Full impact of interest rate and fuel price shocks still emerging.

Westpac-MI Leading Index



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Leading Index showing clearer loss of momentum



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, declined to –0.17% in April from –0.11% in March.

The Australian economy is showing clearer signs of a loss of momentum. The April Index read points to a return to below-trend growth that is likely to carry through the second half of 2026 and into early 2027. While the pulse is still not overly weak, the soft signal is becoming more persistent with this marking the first back-to-back below trend read since late 2024.

The last six months has now seen the Leading Index growth rate swing from +0.15% in November to –0.17% currently, a 0.32ppt deterioration. Almost all of this has come from a sharp weakening in consumer sentiment. After hitting a four-year high late last year, the Westpac–Melbourne Institute Consumer Expectations Index has since slumped 20%. This one component has gone from adding slightly to the Index growth rate to a 0.28ppt drag, the reversal accounting for 0.31ppts of the shift in the headline growth rate.

Net moves in other components have almost entirely offset each other over that same period. The detail shows bigger drags from financial market components have been offset by more positive signals from ‘real economy’ indicators. A narrowing yield spread, softer sharemarket and mixed performance for commodity prices (measured in AUD terms) have pared back the Index growth rates by similar amounts, taking 0.24ppts off the headline growth rate on a combined basis. Across the ‘real economy’ components, solid growth in total hours worked and gains in US industrial production have more than offset a softer tone around dwelling approvals, the three components adding 0.26ppts to the overall growth rate on a combined basis.

While the momentum shift is becoming clearer, the growth pulse is still not particularly weak. At –0.17%, the Leading Index growth rate is negative but only signalling a marginally below-trend rate of expansion. The Index growth rate dropped below –1% during the 2022–24 downturn with cycle lows typically below –1.5%. It’s likely to take some time yet before the full negative impacts from the spike in fuel costs and higher interest rates become apparent. Westpac expects the associated growth slowdown to be material but not quite as large as the major shocks and cycles that have impacted the economy in the past.

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 next meets on June 15–16. Having raised rates at its previous three meetings, the Board is likely to pause in mid-June to assess the impact of the energy price shock and the significant monetary tightening. The latest Leading Index update suggests growth momentum is slowing but, so far, not overly weak. However, the more pressing concerns are around inflation with the impact from higher energy costs coming at a time that underlying inflation is already running above the RBA’s 2–3% target. This means the Board is likely to have little time to catch its breath with further rate hikes expected in subsequent meetings.



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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