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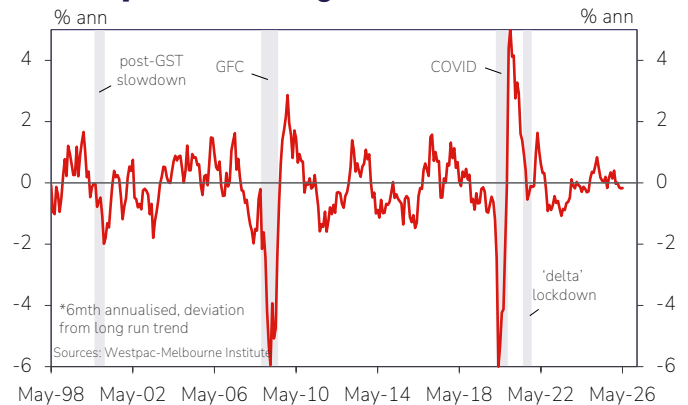
WESTPAC-MI LEADING INDEX BULLETIN

Latest insights into economic momentum

Key points

- Leading Index growth rate remains weak at -0.17% .
- Sluggish momentum carrying into the second half of 2026.
- Most components contributing to the weaker tone since late last year.

Westpac-MI Leading Index



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Leading Index points to sluggish, below-trend growth



Matthew Hassan
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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, ticked up slightly to -0.17% in May from -0.18% in April.

The Australian economy is showing clearer signs of a loss of momentum. The March quarter national accounts revealed a clear softening in activity with demand near flat outside of a pick-up in data centre related investment. The May Leading Index shows this sluggish, below-trend growth momentum is likely to continue through the second half of 2026 and into early 2027. While the growth pulse is still not overly weak, it's likely to take some time yet before the full negative impacts from higher interest rates and the spike in fuel costs become apparent.

The last six months have seen the Leading Index growth rate swing from a solid positive $+0.40\%$ in December to a decidedly sluggish -0.18% . The deterioration has been fairly broad-based with five of the eight components contributing to the slowdown.

The main weakness has come from: a narrowing yield gap, mainly stemming from the RBA's cash rate rises (accounting for -0.25 pts of the slowdown); and a slump in the forward-looking components of consumer sentiment, the Westpac–Melbourne Institute Consumer Expectations Index down nearly 15% (taking a further -0.18 pts off the headline growth rate). This has combined with a flattening out in monthly dwelling approvals (-0.14 pts); stalling commodity prices in AUD terms (-0.12 pts); and a softening in consumer expectations for the labour market, the Westpac–Melbourne Institute Unemployment Expectations Index down 10% (taking another -0.12 pts off headline growth). The contribution from the S&P/ASX200 has remained broadly unchanged at flat, reflecting the decided mixed performance of the Australian sharemarket since the start of the year.

This combined drag of 0.81pts has been partially offset by a lift in US industrial production (adding $+0.15$ pts) and some firming in total hours worked ($+0.09$ pts).

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 August 10–11. The Board opted to pause at its mid-June meeting in order to assess the impact of previous rate increases and the energy price shock. However, the Governor clearly warned that inflation risks were still tilted to the upside and the Board was prepared to raise rates again if required. The latest Leading Index update suggests growth momentum remains sluggish. However, the Bank's more pressing concerns are clearly still around inflation. We expect CPI updates in coming months to be uncomfortably high for the RBA with further rate hikes in subsequent meetings as a result.



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