24 July 2026

WESTPAC NOWCAST Q2 2026: SECOND ESTIMATE

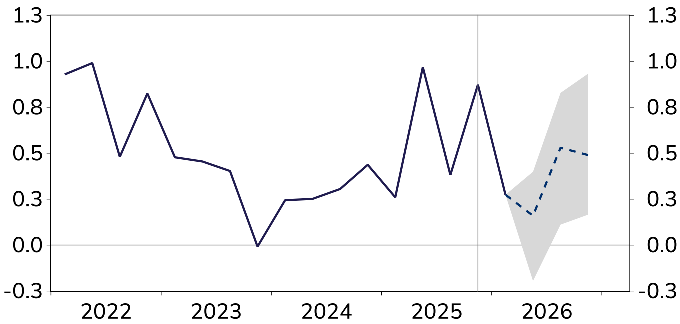
Growth sluggish, further downside risks receding

Key points

- Westpac-Now continues to point to GDP growth of around 0.2%qtr in Q2 2026 (range: -0.19%qtr to 0.39%qtr), broadly in line with the sluggish 0.3%qtr outcome in Q1 2026.
- The second estimate is largely unchanged from the first estimate released on June 26.
- Based on historical patterns, the probability of a negative quarter in Q2 2026 now sits at around 30%, up slightly from 27% in estimate one. For Q3 2026, the estimated probability of a negative quarter is only around 10% (unchanged from estimate one). Our framework suggests the economy will grow closer to ‘trend’ in Q3.
- The Index remains at levels last seen in Q1 2025, suggesting growth has slipped back to the sluggish pace experienced in late 2024 and early 2025.
- However, after falling sharply since November 2025, the Westpac Monthly Activity Index is showing tentative signs of stabilising, recording only a modest decline in May and moving sideways in June.
- This suggests the economy is weathering the combined impact of external shocks and monetary policy tightening relatively well with few signs of a deeper or more protracted downturn. This in turn suggests the RBA can continue to focus on inflation risks rather than downside risks to activity, supporting our view of rate hikes in August and potentially September 2026.

Quarterly GDP Growth*

Quarterly % growth.



Source: ABS, Macrobond, Westpac Economics
*Dotted line shows Westpac-Now central estimates. Quarter ahead (or Q2 2026) relies on the actual Westpac monthly activity index to June 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.

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Conditions stabilise as downside risks recede

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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.

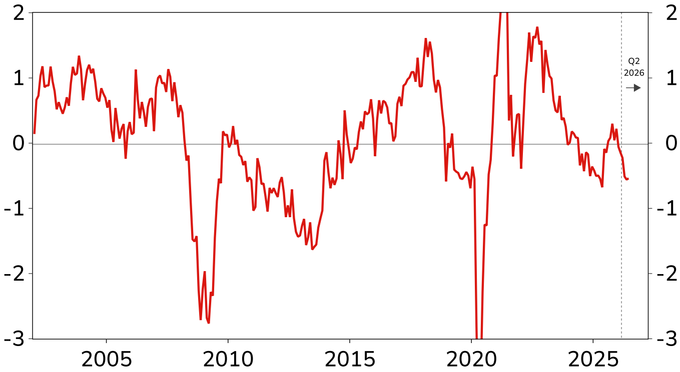
This note provides the final estimate of GDP growth for the June quarter 2026, using domestic and international data released up to and including the June Labour Force Survey (released 23 July 2026). Future updates will be published monthly (see Appendix A for the release schedule).

Westpac Monthly Activity Index: stabilisation after a sharp fall

After falling sharply since November 2025, the Westpac Monthly Activity Index is showing signs of stabilising, recording only a modest decline in May and moving sideways in June. Much of the recent weakness was concentrated in April, with subsequent readings suggesting conditions have begun to level out.

Westpac Monthly Activity Index

Index. Axis truncated for covid.



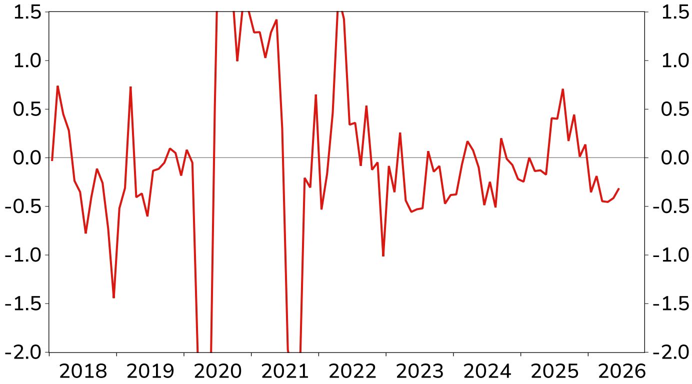
Source: ABS, Macrobond, Westpac Economics

On a rolling three-month basis, the pace of decline has also slowed. This suggests the economy remains stuck in a slow and sluggish growth environment, rather than conditions continuing to deteriorate and increasing the risk of a sharper downturn.

Looking back, the sharp decline in the Index over late 2025 and early 2026 was driven by a broad-based weakening in key indices, particularly across consumer and business confidence, spending and labour market indicators. More recent data suggest conditions have stabilised rather than deteriorated further. Labour market indicators, business conditions and confidence, household spending, and external sector measures continue to reflect earlier weakness, but the pace of deterioration has eased.

Westpac Monthly Activity Index

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



Source: SEEK Australia, ANZ-Indeed, Macrobond, Westpac Economics

This is evident in our heatmap, where the intensity of negative readings has moderated in recent months. While many indicators remain soft, the broad-based slowdown appears to have stabilised, with fewer categories showing a worsening in momentum and several beginning to level out.

Our indicator heatmap decomposes changes in the Monthly Activity Index into group-level contributions, allowing us to assess which components have driven the slowdown in activity. For ease of interpretation, indicators are grouped into broad categories (see Appendix for further details). 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.

Westpac-Now: Growth to remain sluggish, with further downside risks abating

Recall that Westpac-Now is a refined indicator that combines our Monthly Activity Index with advanced econometric techniques to estimate 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, housing related ownership transfer costs, public and business inventories, and depreciation.

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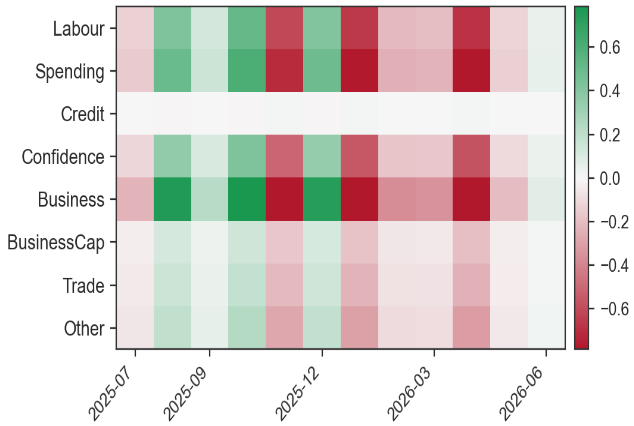
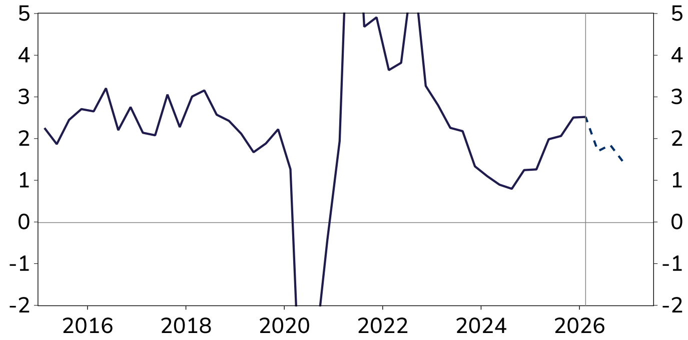
The Common Activity Factor Heatmap by Groups



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 Q2 2026) relies on actual Westpac-MAI to June 2026. Beyond the quarter ahead, estimates rely on projections of the Westpac-MAI generated using internal model dynamics.

To bridge monthly and quarterly data, we use 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's second estimate for Q2 2026 points to GDP growth of 0.2%qtr (with a 70% confidence interval of -0.19%qtr to 0.39%qtr), broadly in line with the sluggish 0.3%qtr outcome in Q1 2026. This represents a material step down from the 0.9%qtr pace recorded in Q4 2025 and suggests Australia's cyclical upturn has come to an end, with growth slipping back to the slow, sub-par pace seen in late 2024 and early 2025.

Based on historical patterns and forecasting errors, the probability of a negative quarter in Q2 2026 sits at around 30% – in other words, roughly a one-in-three chance of contraction. This is higher than the estimated 10% probability of a negative quarter in Q3 2026; our framework suggests the economy is likely to be growing closer to normal or trend in Q3. This suggests that the probability of two consecutive negative quarters is very low. Simulations imply around a 5-7% probability of two consecutive quarters of negative GDP growth over the remainder of 2026.

Looking ahead, model dynamics suggest growth will pick up towards trend, at around 0.6%qtr in Q3 and Q4 2026. However, these projections remain much more tentative, given their reliance on projected inputs rather than realised data. In addition, heightened uncertainty, particularly around the lingering impacts of the Middle East conflict, means risks around these forward estimates are larger than usual.

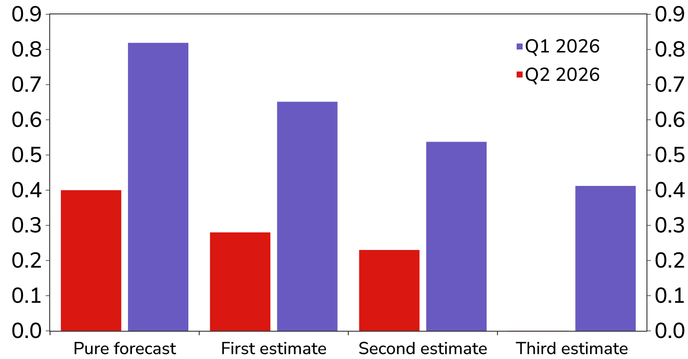
June Quarter data: Stabilisation after the sharp April fall

Data released through the June quarter point to a clear moderation in growth relative to the previous quarter, with our nowcast estimating Q2 growth at 0.2%qtr, down from a 0.4%qtr 'pure forecast' based solely on data available up to March 2026.

However, conditions have stabilised since then, with growth estimates holding broadly steady at around 0.2%qtr. This stands in contrast to Q1 2026, when a steady stream of downside surprises saw growth estimates revised lower throughout the quarter.

Evolution of Westpac-Now

Within-quarter changes to Westpac-Now, quarterly % change



Source: ABS, Macrobond, Westpac Economics

Note that monthly activity estimates are more uncertain than normal when inflation is shifting. Faster price growth can cause nominal indicators, such as consumer spending, to rise more strongly even though 'real', inflation-adjusted spending may be softening (and vice versa). The inclusion of 'real' indicators, such as employment and banking transaction volumes, helps mitigate some – but not all – of this uncertainty.

Bottom line

Growth remains sluggish although it appears to be stabilising at a slow pace rather than weakening further. Westpac-Now points to GDP growth of around 0.2%qtr in Q2 2026, broadly in line with the soft 0.3%qtr outcome recorded in Q1 2026.

While downside risks remain, particularly given ongoing uncertainty surrounding the conflict in the Middle East, the recent stabilisation in activity suggests the economy is weathering the combined impact of external shocks and monetary policy tightening relatively well. This should allow the RBA to remain focused on inflation and the task of returning inflation to target.

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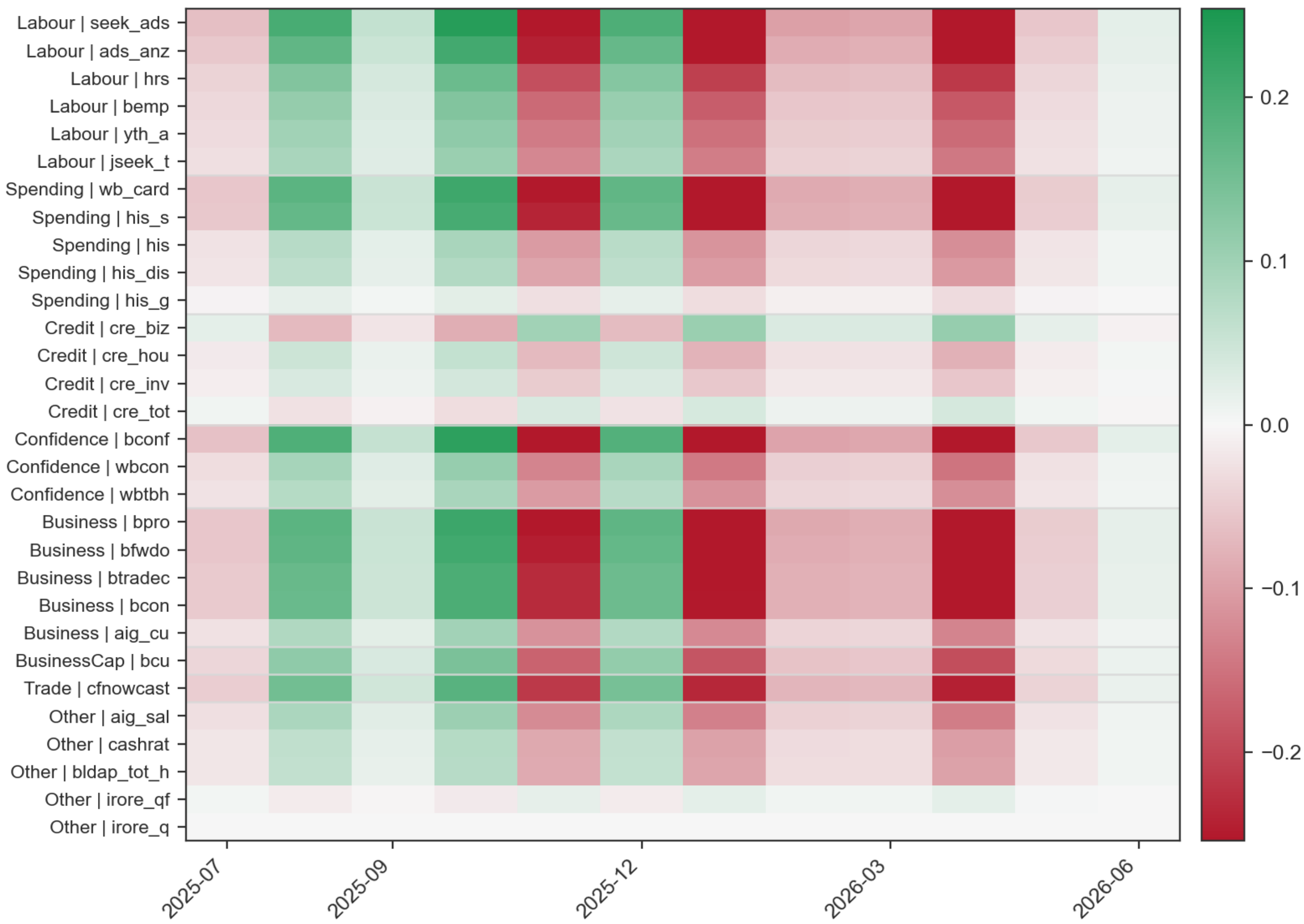
Appendix A: Westpac-Now Release Schedule (2026)

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
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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