21 August 2026

WESTPAC NOWCAST Q2 2026: FINAL ESTIMATE

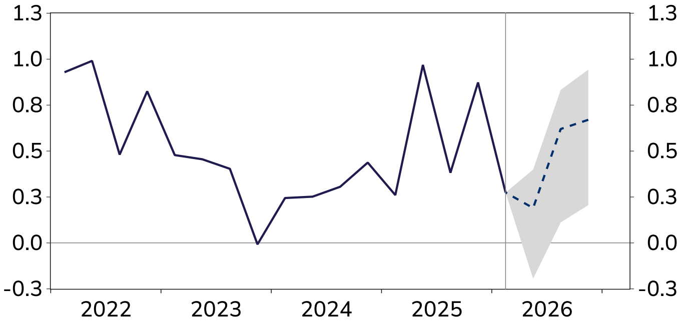
Resilience in the slow lane

Key points

- Westpac-Now points to GDP growth of around 0.2%qtr in Q2 2026 (range: –0.19%qtr to 0.37%qtr). This final estimate is largely unchanged from the second estimate released on 24 July.
- Based on historical patterns, the probability of a negative quarter in Q2 2026 remains around 30%. The estimated probability of a negative quarter in Q3 2026 has edged down to 9% from 11% in the second estimate, suggesting conditions are beginning to stabilise.
- Our Monthly Activity Index remains at levels last seen in early 2025, consistent with an economy that remains stuck in the slow lane and growing at the sluggish pace experienced in late 2024 and early 2025.
- Despite this, after declining sharply since November 2025, the Index has shown signs of stabilising and improved in July. The economy is proving resilient. Rather than deteriorating further, activity appears to be weathering the impacts of the Middle East conflict and higher interest rates better than initially feared. Consistent with this, the estimated probability of a technical recession in 2026 has fallen to 3.5%, down from 6.0% in the second estimate.
- The RBA is likely to be comfortable with this combination of subdued growth and economic resilience. To the extent that slower growth reflects softer demand, it will be seen as helping ease pressures on supply and inflation. Conversely, the apparent resilience means the RBA can continue to focus on reducing inflation without being overly concerned about a 'hard landing' for growth.

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.

Resilience amid subdued growth

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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 July Labour Force Survey (released 20 August 2026). Future updates will be published monthly (see Appendix A for the release schedule).

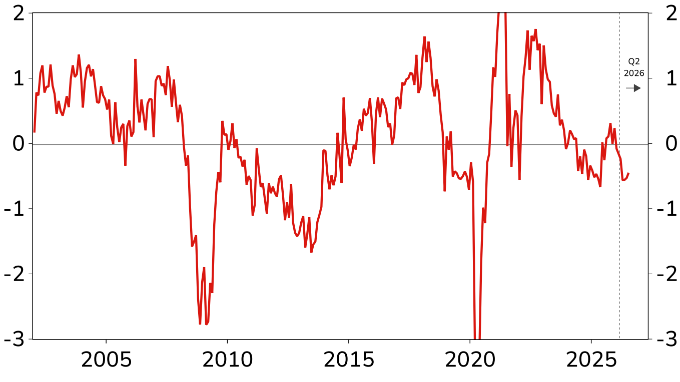
Westpac Monthly Activity Index: Activity stabilises after a sharp slowdown

After falling sharply since October 2025, the Westpac Monthly Activity Index is showing signs of stabilising, recording only a modest decline in May and improving slightly over June and July. Much of the recent weakness was concentrated in April, with subsequent readings suggesting conditions have begun to firm, albeit from subdued levels of activity.

On a rolling three-month basis, the Index has improved slightly over the past three months. 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.

Westpac Monthly Activity Index

Index. Axis truncated for covid.



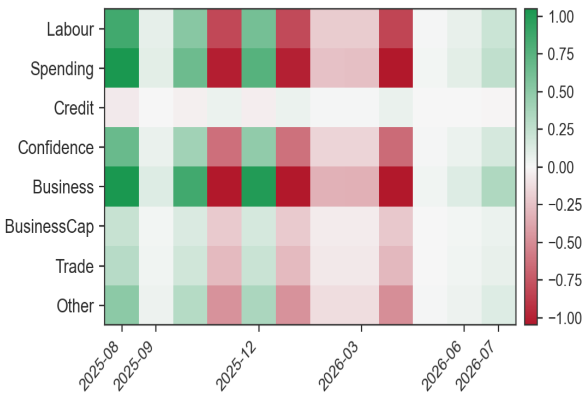
Source: ABS, Macrobond, Westpac Economics

Looking back, the sharp decline in the Index during late 2025 and early 2026 was driven by a broad-based weakening across key indicators, particularly consumer and business confidence, spending, and labour market measures. More recent data suggest conditions have stabilised and are beginning to improve rather than deteriorating further. Business conditions, household spending, and confidence measures are all showing signs of improvement.

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. Fewer categories are showing deteriorating momentum, while an increasing number are beginning to level out or improve, pointing to an economy that is proving more resilient than feared.

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 the Appendix for further details). For example, the labour market category includes both official ABS Labour Force Survey outcomes and timelier survey-based measures of labour demand and job advertisements.

The Common Activity Factor Heatmap by Groups



Westpac-Now: Growth stalls but downside risks recede

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.

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 final estimate for Q2 2026 points to GDP growth of 0.2%qtr (with a 70% confidence interval of -0.19%qtr to 0.37%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 upswing has run its course, with growth slipping back to the subdued pace seen in late 2024 and early 2025.

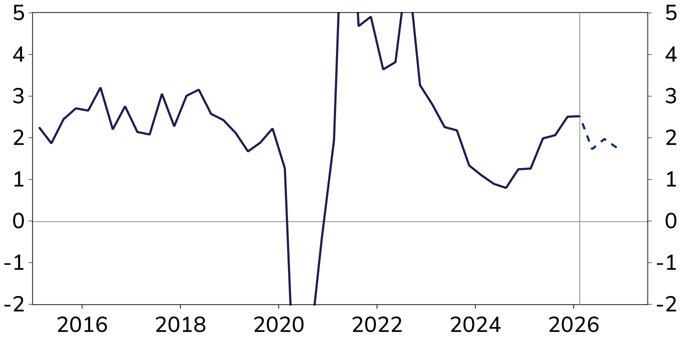
Based on historical patterns and forecasting errors, the probability of a negative quarter in Q2 2026 continues to sit at around 30% – in other words, roughly a one-in-three chance of contraction. This is higher than the estimated 9% probability of negative quarters in Q3 and Q4 2026, with our framework suggesting the economy is likely to be growing closer to normal or trend in Q3.

Putting this together, the probability of two consecutive negative quarters is very low. Simulations imply around a 3.5% probability of two consecutive quarters of negative GDP growth over the remainder of 2026, down from 6.0% in the second estimate, reflecting firming and, indeed, improving activity.

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.

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.

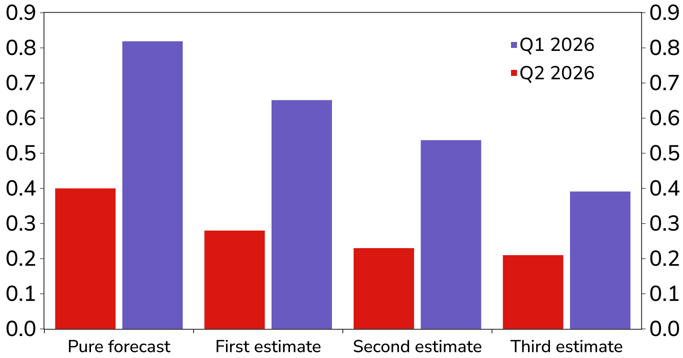
June Quarter data: Stabilisation emerging after a weak April

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 contrasts with Q1 2026, when a steady stream of downside surprises saw growth estimates revised lower throughout the quarter. In Q2, the initial slowdown appears to have been concentrated in April, with subsequent data pointing to stabilisation rather than further deterioration.

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.

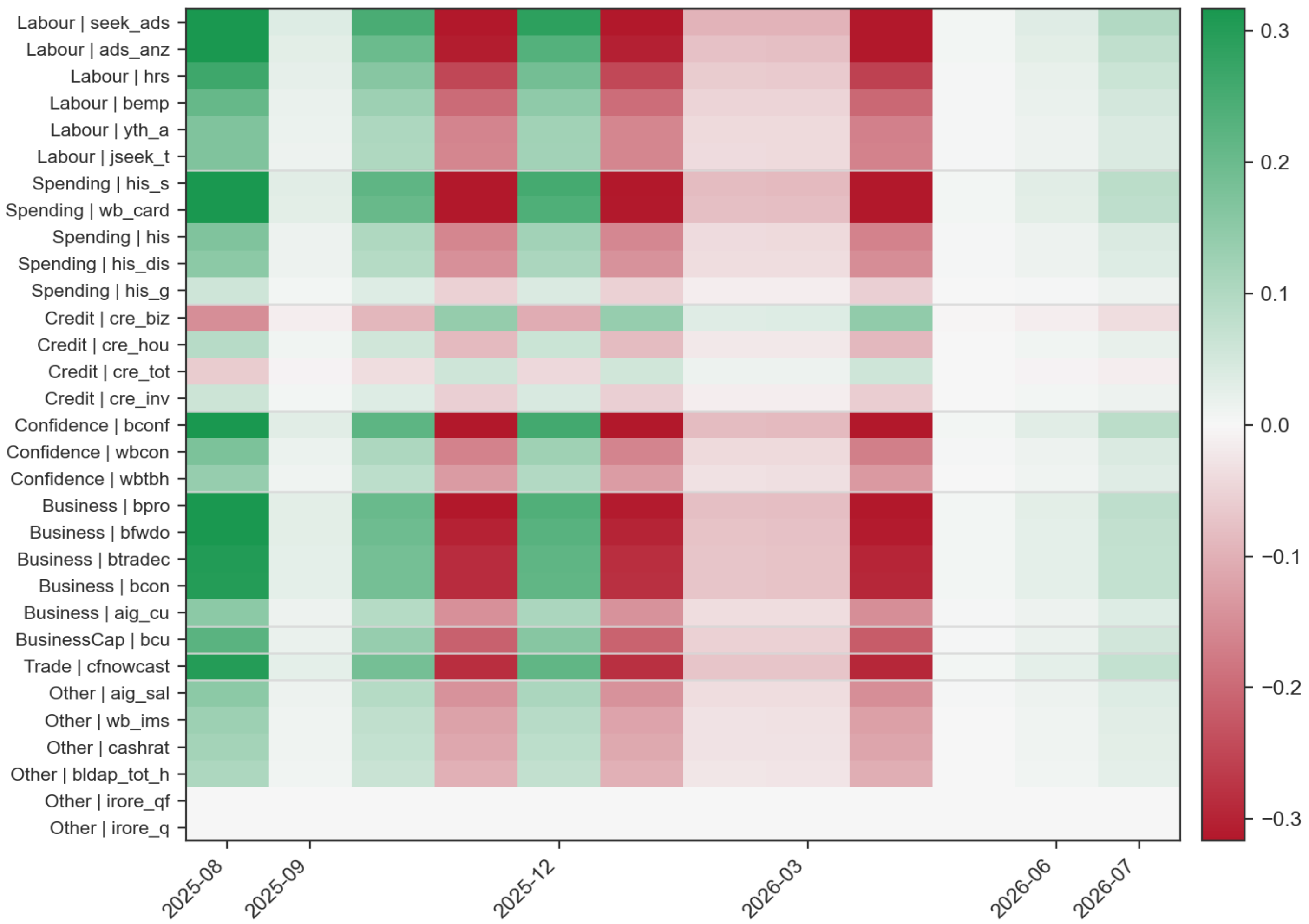
While downside risks remain, particularly given ongoing uncertainty surrounding the conflict in the Middle East, the recent stabilisation in activity suggests the economy is weathering the combined impact of external shocks and monetary policy tightening better than anticipated. This resilience is reflected in lower estimated recession risks and a modest improvement in activity through July. For the RBA, a backdrop of subdued but stable growth should reinforce confidence that inflation can continue to ease without a hard landing for the economy.

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
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



Past performance is not a reliable indicator of future performance. The forecasts given above are predictive in character. Whilst every effort has been taken to ensure that the assumptions on which the forecasts are based are reasonable, the forecasts may be affected by incorrect assumptions or by known or unknown risks and uncertainties. The results ultimately achieved may differ substantially from these forecasts.

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