25 September 2026

WESTPAC NOWCAST Q3 2026: FIRST ESTIMATE

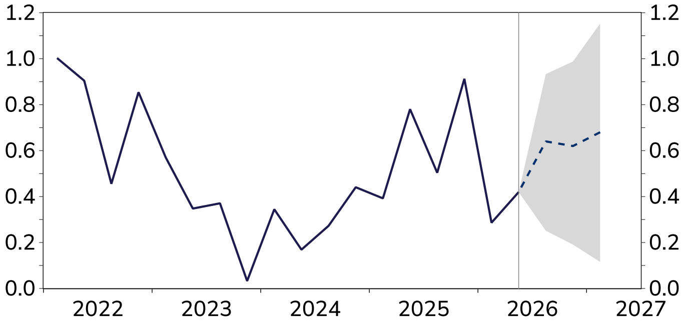
Growth picks up despite headwinds

Key points

- Westpac-Now points to GDP growth of around 0.6%qtr in Q3 2026 (with a 70% confidence interval of 0.29%qtr to 0.91%qtr) and 2.3%yr. This is a step up from the 0.4%qtr and 2.1%yr recorded in Q2 2026 (see here) and implies that economic momentum has strengthened.
- Our Monthly Activity Index has stabilised after declining sharply since November 2025 and is now showing signs of improvement in July. This provides further evidence the economy is proving more resilient than initially feared. Rather than deteriorating further, activity appears to be weathering the impacts of the Middle East conflict and higher interest rates relatively well.
- The RBA is unlikely to be comfortable with this combination of improving conditions and firmer economic momentum. Growth at 2.3%yr would be close to our estimate of 'trend', but it is above the RBA's estimate at a time when the Bank is trying to engineer a period of below-trend growth to ensure inflation returns to target.
- Overall, the results are consistent with our view that the economy is being supported by powerful business investment tailwinds, centred on data centres and renewable energy (see here). This investment surge is largely unrelated to the domestic business cycle or interest rates and is increasingly offsetting weakness elsewhere in the economy.

GDP Growth*

Quarterly % growth.



Source: ABS, Macrobond, Westpac Economics

*Dotted line shows Westpac-Now central estimates. Quarter ahead (or Q3 2026) relies on the actual Westpac monthly activity index to July 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.

Economic momentum building

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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.

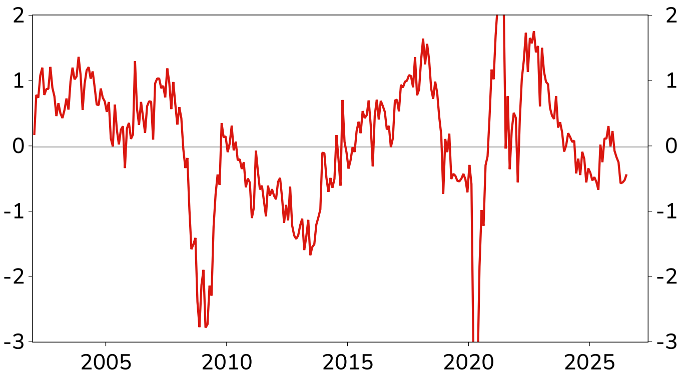
This note provides the first estimate of GDP growth for the September quarter 2026, using domestic and international data released up to and including the August Labour Force Survey (released 24 September 2026). Future updates will be published monthly (see Appendix A for the release schedule).

Westpac Monthly Activity Index: Activity improves as momentum builds

After weakening sharply through late 2025 and early 2026, the Westpac Monthly Activity Index is beginning to recover. While activity levels remain subdued, recent readings suggest the economy has moved beyond the period of broad-based deterioration seen earlier in the year. On a rolling three-month basis, the Index has continued to improve, consistent with improving momentum.

Westpac Monthly Activity Index

Index. Axis truncated for covid.



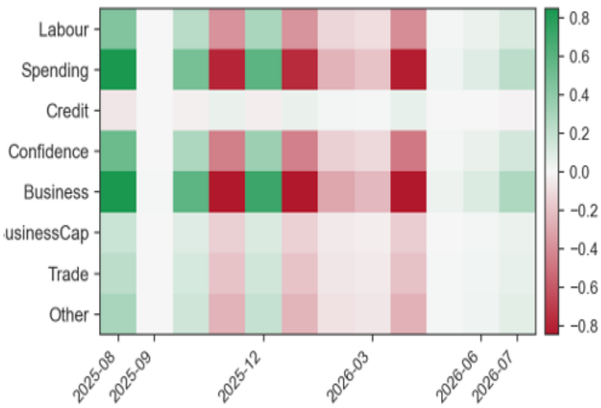
Source: ABS, Macrobond, Westpac Economics

The weakness through late 2025 and early 2026 reflected a broad-based deterioration across confidence, spending, business activity and labour market indicators as households and businesses adjusted to a renewed inflation challenge followed by interest rates moving higher once again. More recent data suggest these conditions have begun to stabilise and, in some cases, improve. Business and consumer confidence, household spending, and labour market indicators have generally proven more resilient than expected given the headwinds facing the economy.

This improvement is evident in our heatmap, where the intensity and breadth of negative readings have moderated noticeably. While pockets of softness remain, particularly in interest-sensitive areas of the economy, fewer indicators are showing deteriorating momentum and a growing number are now contributing positively to activity. Business-related indicators remain among the strongest contributors, consistent with the substantial support currently being provided by investment in data centres, renewable energy and related infrastructure.

Our indicator heatmap decomposes changes in the Monthly Activity Index into group-level contributions, allowing us to assess which components are driving movements 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: Resilient growth amid rising headwinds

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.

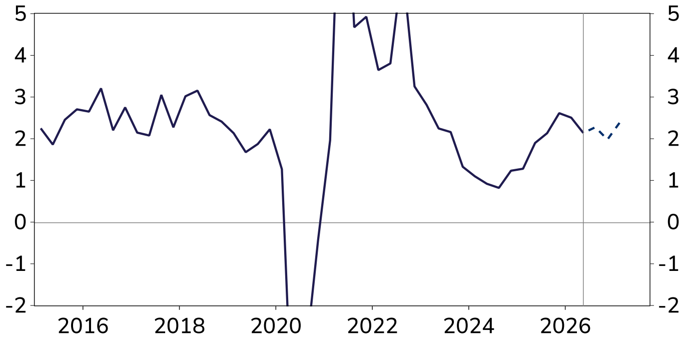
Based on current model estimates, Westpac-Now's final estimate for Q2 2026 points to GDP growth of 0.6%qtr (with a 70% confidence interval of 0.29%qtr to 0.91%qtr) and 2.3%yr, representing a step up from the 0.4%qtr and 2.1%yr outcomes recorded in Q2 2026. This suggests that economic momentum has strengthened, with the economy continuing to show resilience.

The key question going forward is whether higher interest rates, elevated energy prices and heightened geopolitical uncertainty in the Middle East will begin to weigh more heavily on demand, offsetting the substantial support currently being provided by business investment. Our forecasts suggest that growth will moderate, particularly following the RBA Board's September rate hike, with activity slowing rather than stalling.

Looking ahead, model dynamics suggest growth will pick up towards trend, at around 0.6%qtr in Q4 2026 and Q1 2027. 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 Q3 2026) relies on actual Westpac-MAI to July 2026. Beyond the quarter ahead, estimates rely on projections of the Westpac-MAI generated using internal model dynamics.

September Quarter data: Momentum improving

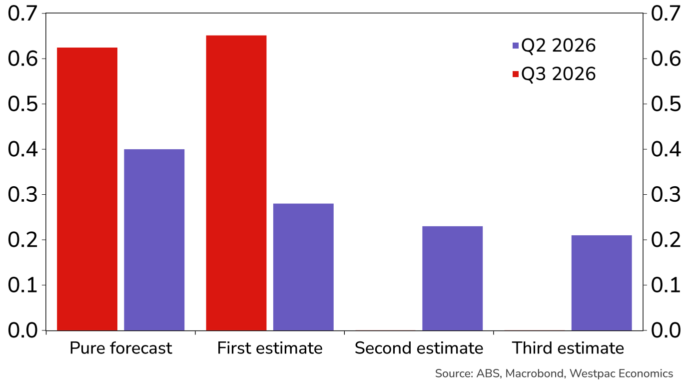
Data released in the first month of the September quarter indicates that the economy has picked up momentum relative to the previous quarter, with our nowcast estimating Q3 growth at 0.6%qtr, in line with the 0.6%qtr "pure forecast" based solely on data available up to June 2026.

This is similar to what occurred in Q2 2026. Following the large downside surprise in April 2026, which coincided with sharp falls in consumer and business confidence, growth estimates stabilised over the remainder of the quarter. The weakness in Q2 was concentrated in April, with subsequent data pointing to stabilisation rather than further deterioration.

Early Q3 data point to a similar pattern, with activity showing signs of resilience despite headwinds.

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:

Westpac-Now points to GDP growth of around 0.6%qtr in Q3 2026 (2.3%yr), indicating that the economy remains more resilient than previously feared. Strong business investment, particularly in data centres and renewable energy, continues to provide an important offset to soft demand in interest-sensitive sectors of the economy, including the housing market.

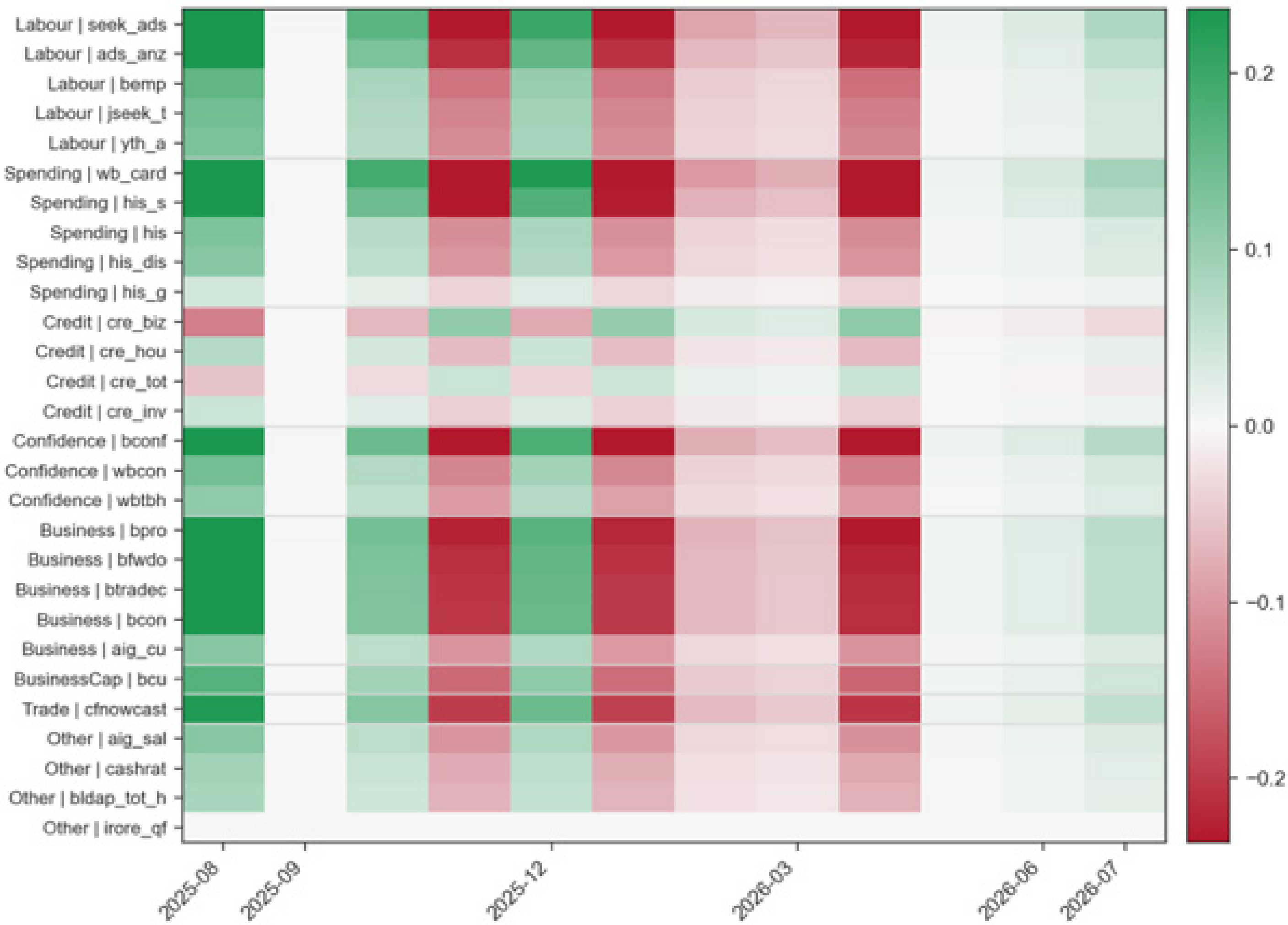
Looking ahead, higher interest rates, elevated energy prices and ongoing geopolitical uncertainty are expected to weigh on activity, particularly following the RBA's September rate hike. However, our central case remains one of slower growth rather than a material downturn.

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
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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