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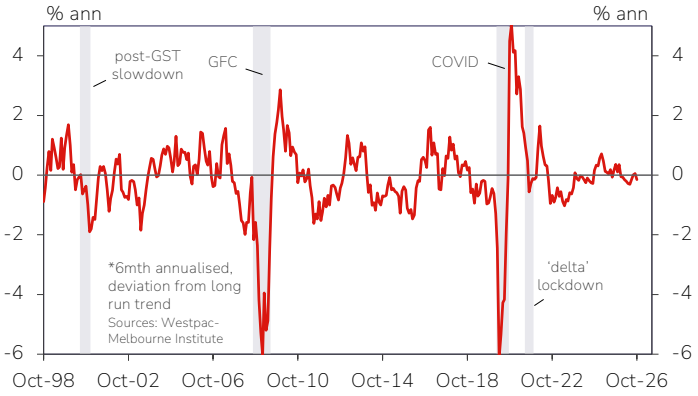
WESTPAC-MI LEADING INDEX BULLETIN

Latest insights into economic momentum

Key points

- Index growth rate declines to –0.14% in October from +0.06% in September.
- After two steadier months, the growth rate has dropped back below trend pointing to a loss of momentum in the first half of 2027.
- Monetary policy tightening and labour market conditions becoming a more prominent drag on momentum.

Westpac-MI Leading Index



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Leading Index moves back below trend



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 –0.14% in October from +0.06% in September.

The Leading Index weakened again in October after steadier results through August-September. At –0.14% the latest six month growth rate is back in negative, below-trend territory, broadly similar to the soft reads around the start of the year. The shift points to a return to below-trend growth momentum in the first half of 2027. Westpac expects annual GDP growth to slow back to 1.4% for calendar 2026, with a further moderation to a sluggish 1%yr pace in 2027.

The Leading Index growth rate is still a touch firmer than six months ago, the current pace of –0.14% comparing to a –0.2% back in April, when the War in Iran was first impacting.

The component detail shows mixed moves over the intervening period. Four components have started to exert a bigger drag: total hours worked taking –0.2ppts off the headline growth rate; with a further 0.15ppt drag coming from the combined effect of softer commodity prices (measured in AUD terms); a narrowing yield spread (mainly reflecting the RBA tightening pushing up short term rates); and rising job loss fears captured by the Westpac-Melbourne Institute Unemployment Expectations Index. This has been more than offset by a reduced (but still negative) drag from the Westpac-Melbourne Institute Consumer Expectations Index (adding +0.25ppts); and firmer reads on local equity markets and dwelling approvals (adding +0.17ppts on a combined basis.

Overall, the component mix shows labour market conditions and tightening monetary policy have become more prominent drags on momentum. While the Leading Index signal is not overly weak the decline is clearly worth monitoring with the detail suggesting there may be more weakening to come.

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.

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