Media release

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Leading Index suggests momentum a touch below trend

- **Leading Index growth rate lifts to –0.09% in August from –0.17% in July.**
- **Momentum remains soft but has improved since mid-year.**
- **Mixed component detail suggests some of the improvement may not sustain.**

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, lifted to –0.09% in August from –0.17% in July.

"The Leading Index shows momentum has continued to improve and is only a touch below trend heading into late 2026 and early 2027. The June quarter national accounts showed the Australian economy holding up better than expected in the face of a global energy shock and higher interest rates. Growth appears to be stabilising at a slow pace rather than stalling with households resilient and notable support coming from a strong ramp-up in data centre investment. While a further rise in interest rates will take some of the gloss off near term, Westpac now expects annual growth to slow 1.5% by year-end, upgraded from our previous forecast of 1% and broadly consistent with the improved signal from the Leading Index.

"The growth pulse is still clearly on the soft side. The Leading Index growth rate has been below trend since the start of the year, averaging –0.17%. This compares to the slightly above trend reads recorded through most of 2025, which posted an average read of +0.26%. However, the current below trend run is noticeably milder than the weakness seen during the protracted cost-of-living crisis that ran through most of 2022 to 2024. The average Leading Index growth read during this period was –0.46% with lows closer to –1%.

"The Leading Index growth rate is now roughly back where it was six months ago, down only slightly from the –0.07% pace back in February. That said, the detail points to significant shifts in the growth mix and some fragility to the improved signal. Component-wise the six months has seen slightly bigger drags coming from labour markets, financial markets, commodity prices and consumer sentiment, which have taken 0.42ppts off the Index growth rate since February on a combined basis. This has been balanced by a more positive signal from dwelling approvals (adding +0.32ppts) and a firming in US industrial production (+0.08ppts).

"The mix does raise some questions about the extent to which the recent improvement in momentum will be sustained. Rising fuel prices and concerns about further interest rate increases look to be weighing on consumer sentiment again with signs that the downturn in established housing markets is also impacting. These effects could intensify near term and may spread beyond the consumer to other index components."

"The Reserve Bank Monetary Policy Board next meets on September 28–29. While the latest Leading Index update still shows the growth momentum is below trend, the soft rather than weak pace suggests the economy's relatively resilient performance in the June quarter is likely to extend through the second half of the year and early part of 2027. This performance is adding to the Board's unease that high inflation remains 'sticky' and may track a slower path back to the 2-3% target. We expect the RBA to raise rates again but, on balance, hold off until another comprehensive quarterly inflation update is released on October 28. That means the September meeting is likely to be a 'very hawkish hold'" Mr Hassan commented.

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