ECONOMIC OVERVIEW

Shaking it off.

August 2026

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A NOTE FROM KELLY

Shaking it off.

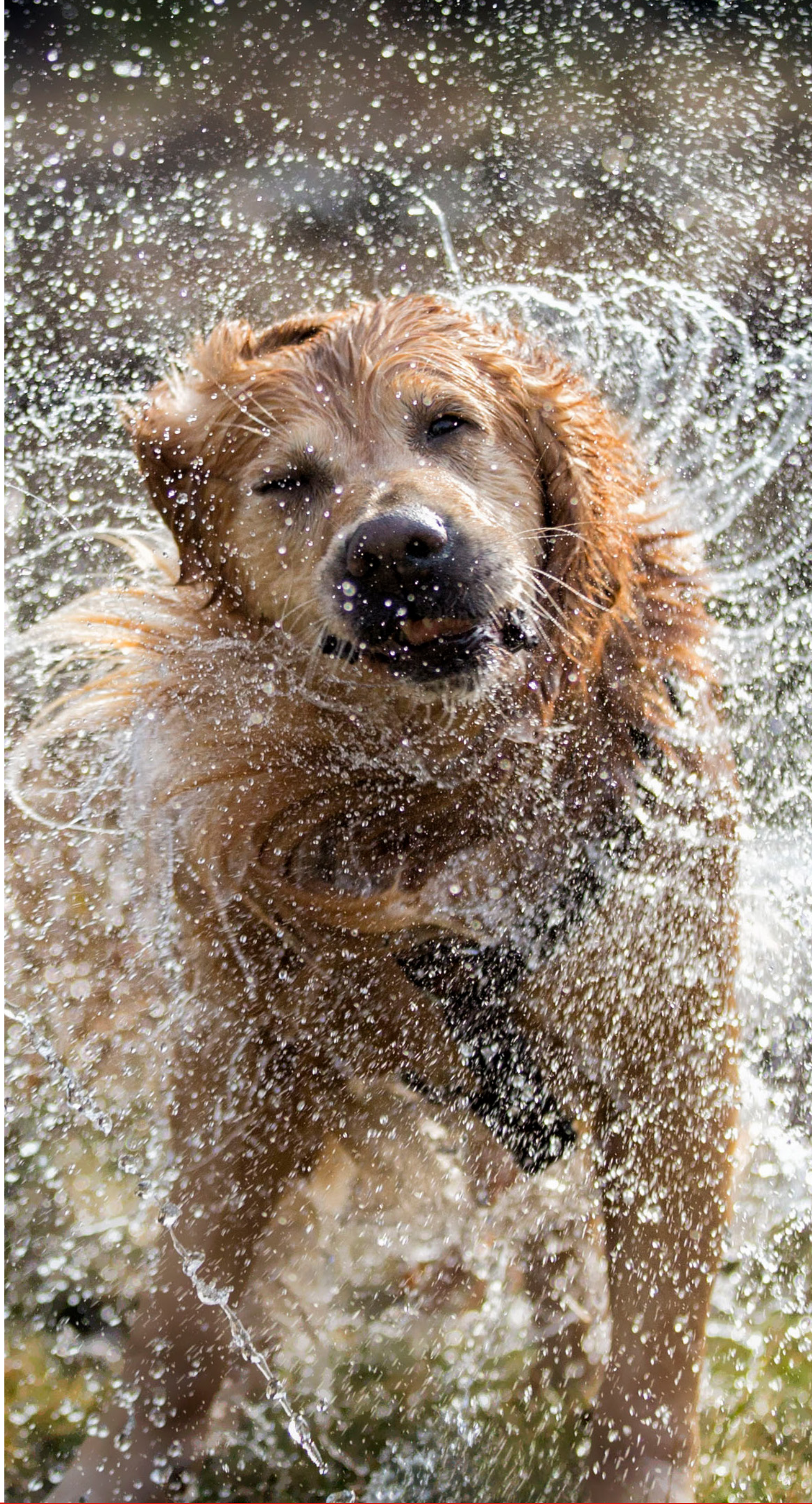
The economy appears to have weathered the disruptions stemming from the Iran war reasonably well, but has not come through wholly unscathed. Economic activity was likely flat in the June quarter and the unemployment rate rose to a new cyclical high of 5.6%, indicating significant excess capacity.

Looking forward, we see signs the economy is shaking off these uncertainties, with growth appearing to have resumed in the current quarter. The impact of low interest rates is becoming evident in some areas such as the construction sector. The external sector has remained a solid contributor to growth, supported by excellent commodity export prices. The global economy seems to have also navigated the Iran war well, as it did with last year's tariff shock, lending support to our external sector.

Inflation has lifted significantly and looks set to remain well above 3% over 2026, and core inflation is in the upper part of the RBNZ's 1-3% target range. So far, we are not seeing signs that the large spike in headline inflation has translated into even stronger core inflation trends.

The RBNZ has started to lift interest rates towards 3% in reaction to the firmer inflation outlook. It will continue to raise rates over the balance of this year and will likely need to lift the OCR towards 4% over 2027. Core inflation is unlikely to decline to 2% without additional monetary policy action.

Risks associated with the Iran war remain as no diplomatic resolution has been reached. Similarly, the General Election looks likely to be close. A change in the makeup of the government, and thus policy direction, could have implications for particular sectors of the economy. For now though, we remain of the view the economy can shake off the worries and deliver better outcomes ahead.



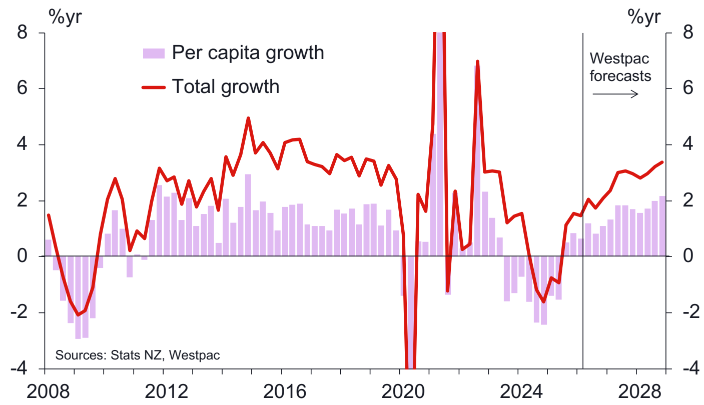
OVERVIEW

> "Economic conditions are expected to gradually improve over the coming year, but the makeup of activity is set to remain uneven."

Middle East war adding to inflation and interest rate pressures.

- The economy's momentum has taken a knock recently, with growth estimated to have stalled in the June quarter. The Middle East conflict has pushed consumer prices higher and household spending has slowed. There has been related weakness in business confidence and pressure on margins.
- Economic conditions are expected to gradually improve over the coming months, with the recovery continuing over 2027. However, the makeup of activity is set to remain uneven. Continued strength in commodity export earnings and growth in tourism exports are helping to offset softness in domestically-focused parts of the economy. Those conditions are boosting incomes and spending in many regions, especially in the South Island.
- We're forecasting economic activity to grow by 2.1% over 2026 and 3% in 2027. The unemployment rate is expected to gradually ease from 5.6% currently to 4.9% by the end of next year.
- Inflation rose to 4.1% in the year to June. While much of the recent rise in consumer prices has been due to higher fuel costs, underlying inflation pressures have remained firm for an extended period.
- The RBNZ lifted the Official Cash Rate (OCR) by 25bps in July and signalled that further hikes are likely over the coming months. We expect two more 25bp hikes this year, with further increases likely in 2027. The pace of those increases will be dependent on the strength of economic conditions.

Total and per capita GDP growth



Key economic forecasts*

	2024	2025	2026f	2027f
GDP growth (% year)	-1.6	1.5	2.1	3.0
Inflation (% year end)	2.2	3.1	3.7	1.7
Unemployment rate (%)	5.1	5.4	5.4	4.9
House prices (% year end)	-1.0	-0.1	0.2	2.0
Official Cash Rate (%)	4.25	2.25	3.00	4.00

* Growth rates are December quarters compared to same quarter previous year.

GLOBAL AND IRAN CONFLICT ASSUMPTIONS

"The path of the Iran conflict is uncertain. We assume tensions gradually ease, leading to lower energy prices over time, supporting trading partner growth of near 3%."

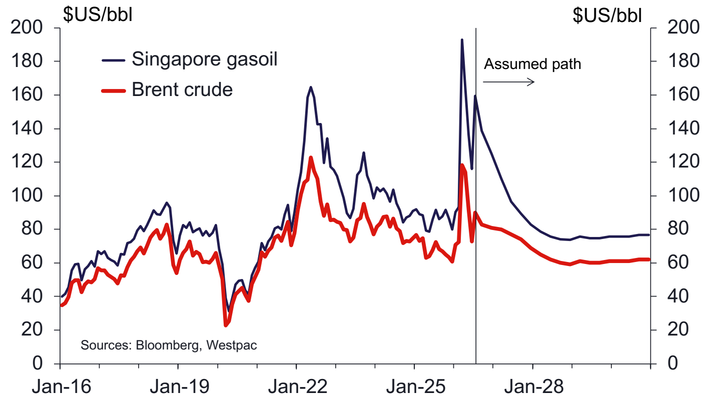
Energy prices assumed to remain elevated for some time.

- The future path of the Middle East conflict remains very uncertain. We assume the eventual emergence of an enduring deal that allows transit through the Strait of Hormuz, but with energy prices – especially refined fuel prices – remaining above pre-conflict levels for some time. Brent crude is assumed to decline to $US81/bbl by the end of 2026 and $US69/bbl by the end of 2027.

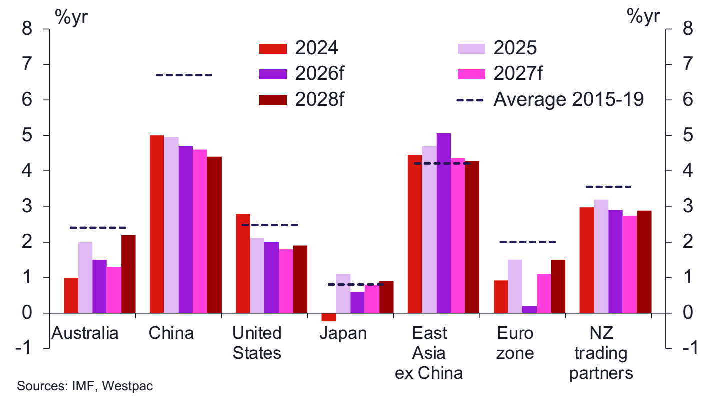
Trading partner growth remains supported by AI-related investment.

- Our **global growth forecasts** have changed little in recent months. Following growth of 3.2% last year, we expect trading partner growth of 2.9% in 2026, 2.7% in 2027 and 2.9% in 2028 – a little below the pre-pandemic trend.
- Growth remains strong in much of Asia, benefitting from the ongoing global upswing in investment related to artificial intelligence. Ongoing weakness in the housing market continues to weigh on domestic demand in China, but growth remains supported by strong export demand. Growth in the US and Europe is expected to track slightly below its pre-pandemic trend, while mildly restrictive policy settings will weigh on growth in Australia in the near term.
- We forecast that central bank policy rates will be stable in the US, UK and Australia over the coming year, while modest policy tightening is forecast in the euro area and Japan. As inflation pressures ease, the RBA is expected to begin unwinding this year's rate hikes from around August next year.

Oil price assumptions



Trading partner growth



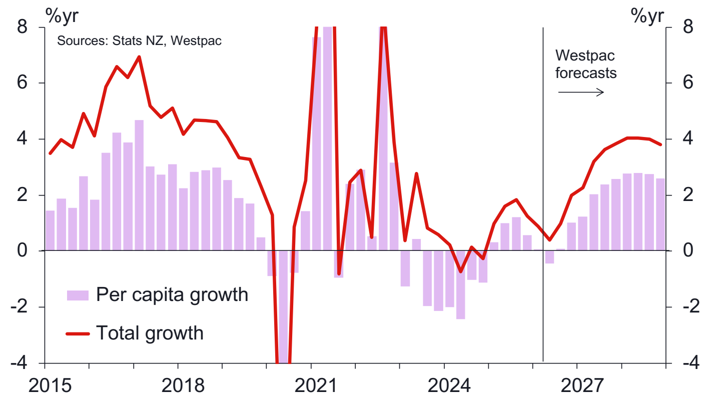
HOUSEHOLDS

> "Spending is expected to remain strongest in regions with strong rural backbones and exposure to tourism."

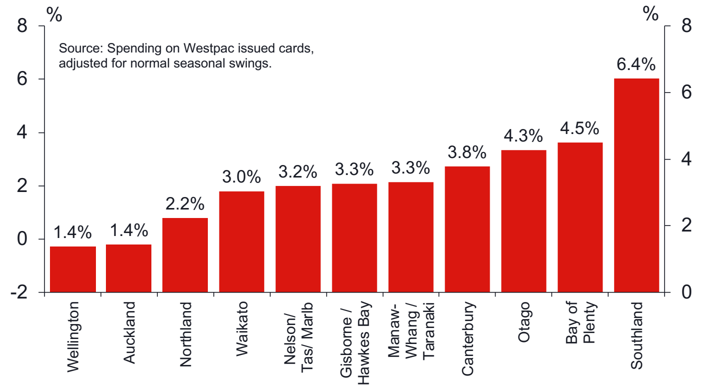
The price of petrol vs. the price of milk.

- Household spending turned down through the middle part of the year and is expected to remain soft in the near term.
- Recent months have seen large increases in the cost of essentials like petrol (+28%yr) and electricity (+12%yr). Those cost increases have constrained discretionary spending.
- Adding to the pressure on households' finances has been softness in the jobs market, with the unemployment rate rising to an 11-year high of 5.6% in the June quarter. There have also been related falls in consumer confidence.
- Mortgage rates have been pushing higher in anticipation of the RBNZ's tightening cycle, which kicked off in July. However, while borrowing costs have started to rise, interest rates remain at stimulatory levels.
- Spending is expected to pick up as we head into the new year, supported by continued firmness in commodity export earnings, a recovery in economic growth and the labour market, and a gradual easing in inflation.
- Spending is expected to remain strongest in regions with strong rural backbones or exposure to tourism, with continued strength in commodity export earnings and a low exchange rate supporting incomes and confidence.

Household spending growth



Per person spending growth since start of 2026



SPECIAL TOPIC: HOUSEHOLD FINANCES

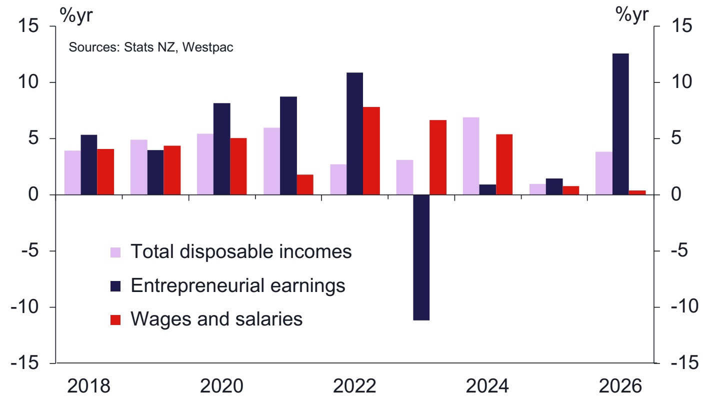
> "A soft property market has meant that household wealth levels have been effectively flat for four years."

Progress on household finances remains gradual and uneven.

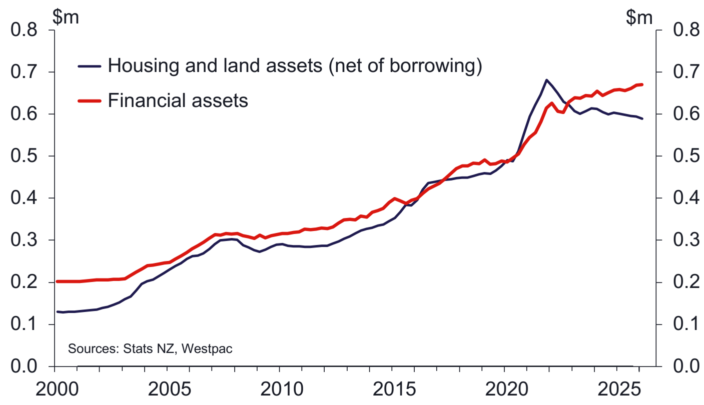
- Part of the reason for the recent softness in household spending has been the pressures on household finances.
- On average, households' disposable incomes rose 3.8% in the year to March.[1] However, earnings growth has been very uneven across the economy with entrepreneurial earnings up 13% over the past year. That includes stronger earnings in the agricultural sector, and has been reflected in firmer economic confidence and spending in many rural regions.
- In contrast, earnings from wages and salaries have been increasing much more gradually, with average household earnings up just 0.4% in the year to March – well below the rate of inflation.
- It's a similarly mixed picture in terms of household wealth. The value of the average household's financial assets rose 1.9% over the past year. However, the value of housing and land assets was down 1.9% over the same period. With real estate assets accounting for close to half of households' wealth, the continuing soft property market has meant that overall household wealth levels have been effectively flat for four years.
- We expect that house price growth will remain limited for some time. And with housing accounting for a significant share of many households' assets, softness in house prices is likely to be a drag on confidence and spending.

1 All figures are on a 'per-household' basis.

Household disposable income growth



Value of household assets (average per household)



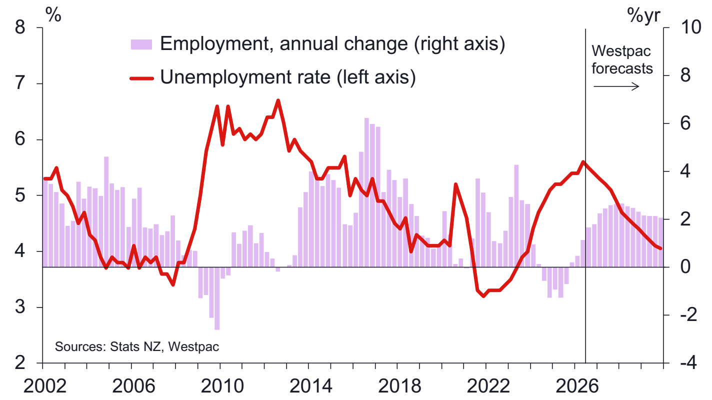
LABOUR MARKET

> "Firms that held on to workers during the downturn have not been in a hurry to resume hiring, even as activity has started to pick up."

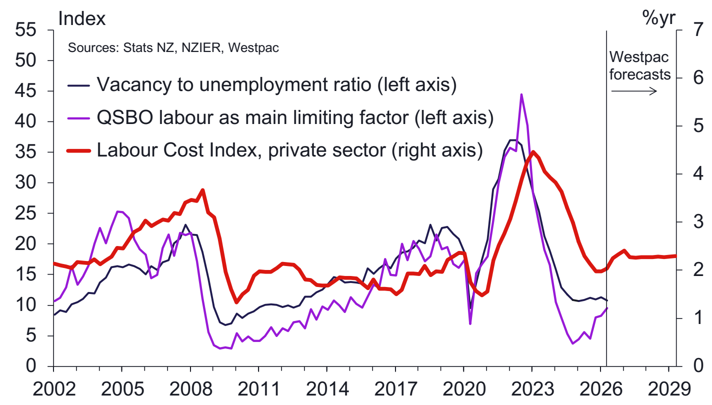
Unemployment peaking, but improvement to be slow at first.

- The labour market appears to have held its ground through the Middle East oil shock. Employment has been gradually rising again after a decline through 2024-25, and job advertisements have been trending higher.
- Thus far, jobs growth has been below the rate of growth in the labour force, resulting in a steady rise in the unemployment rate to an 11-year high of 5.6%. We see this as the likely peak in the cycle, with a gradual improvement from the second half of this year as the economic recovery gains momentum.
- We continue to characterise this as a "low-fire, low-hire" labour market. Firms have looked to hold on to workers to the extent that they can, which likely dampened the peak in the unemployment rate during the downturn. But the flipside is that they have been slow to return to hiring even as activity has picked up again.
- Wage pressures are subdued, and annual growth in the Labour Cost Index has settled at around 2%. There is substantial slack in the labour market overall, though there are indications of skill shortages re-emerging in some pockets. We expect a modest lift in wage growth in the year ahead, driven largely by pressure for cost-of-living adjustments.

Employment growth and unemployment rate



Wage growth and labour market tightness



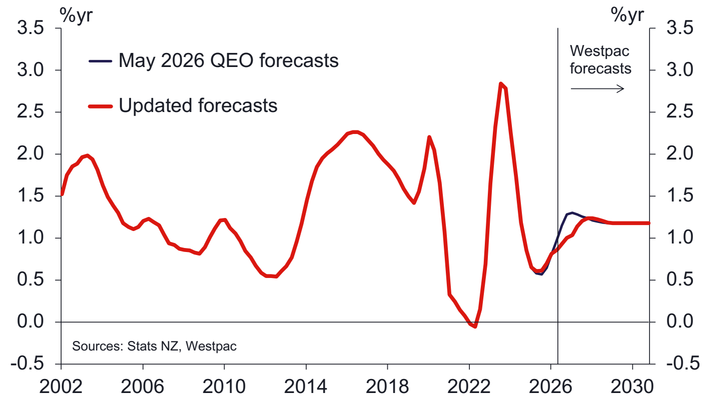
POPULATION AND MIGRATION

> “Net migration is gradually picking up from last year’s lows, and is expected to benefit from a relative softening in labour market conditions in Australia.”

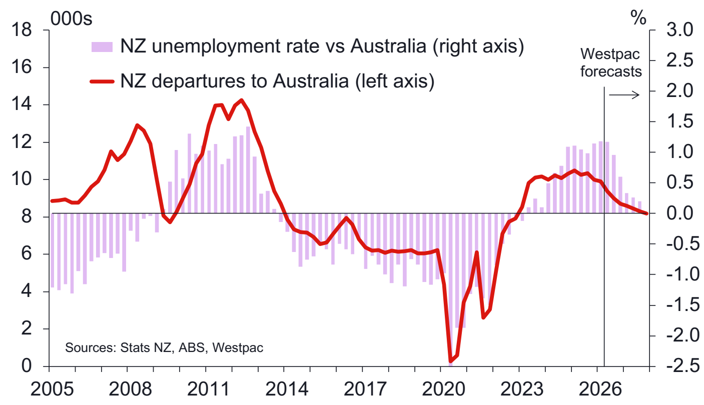
Net migration trends gradually turning more positive.

- Population growth, largely driven by migration trends, has been picking up from last year’s lows but remains subdued. We have revised down our growth forecast for this year from 1.3% to 1.0%, with our 2027 growth forecast unchanged at 1.2%.
- We have reduced our net migration forecast from around 50k to around 30k for this year. Foreign arrivals are gradually picking up but have been revised down from what was initially reported, and our previous forecast for 2026 now looks out of reach. Uptake of the Parent Boost Visa appears to have been more modest and less front-loaded than expected.
- Departures of New Zealanders have eased off their highs but remain well above pre-Covid levels. We see this as largely cyclical – in particular reflecting the ongoing strength in the Australian jobs market in recent years, compared to the softness in local hiring.
- Our forecast remains for a slowdown in departures as relative job market conditions shift in favour of New Zealand. Higher interest rates in Australia are expected to slow employment growth and lift the unemployment rate to around 5% by early next year (albeit still low compared to history).

Annual population growth



Migration by New Zealanders to Australia



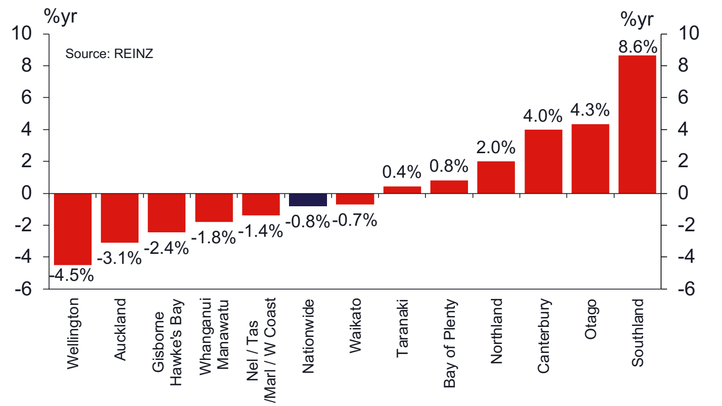
HOUSING

> "The housing market remains moribund and is subject to two-sided risks depending on how housing taxation policies evolve versus improved affordability metrics."

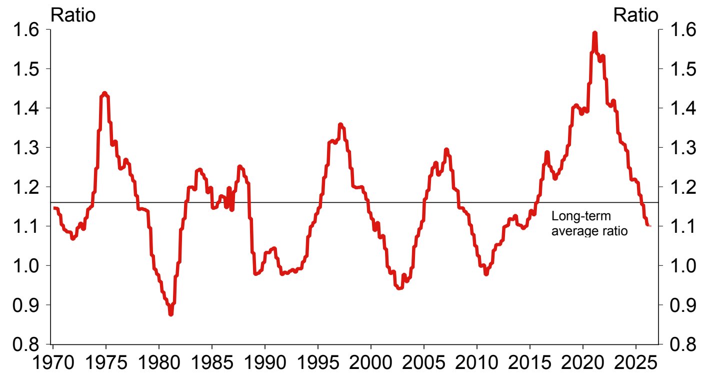
The housing market is moving resolutely sideways nationally.

- Housing market activity and prices have cooled notably in recent months as uncertainty related to the Iran war, a weaker labour market and rising interest rates have all weighed on demand. We expect prices will remain flat over 2026 and rise by just 2% in 2027.
- The supply of housing remains robust with a growing pipeline of planned work. Developers have taken advantage of more permissive regulatory settings to supply smaller more affordable housing in popular areas. Increased supply and improved affordability have supported a lift in the number of first home buyer numbers.
- There is considerable divergence in housing trends regionally. Regions that are benefiting from strong agricultural returns and tourism have seen stronger income and population growth, along with stronger housing markets.
- We see two-sided risks to the housing market looking forward. On one hand, the housing market has been flat for a protracted period which has improved affordability metrics. New Zealand real house prices have fallen considerably in recent years and now sit below their long run average relative to Australia. Some rebalancing of Australasian house price trends could occur.
- Housing values could come under downward pressure from proposed increased taxes of land or housing depending on the outcome of the General Election. The size and speed of impact is uncertain at this point.

Annual house price growth by region



Real New Zealand vs Australian house prices



Sources: Macrobond, BIS, Cotality Australia, REINZ, Westpac

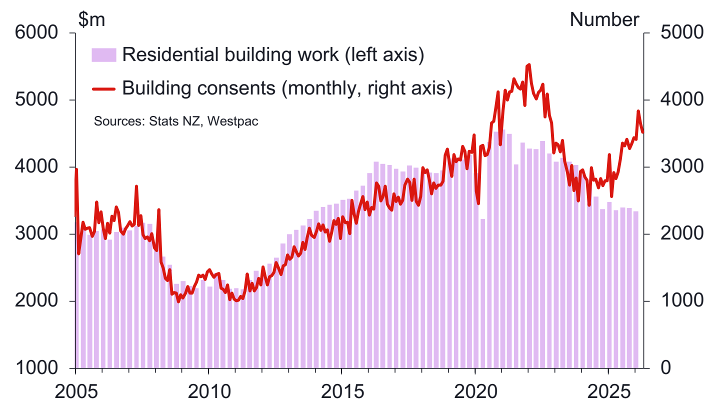
CONSTRUCTION

> "After tracking sideways for more than a year, signs of a pickup in New Zealand's homebuilding sector have emerged."

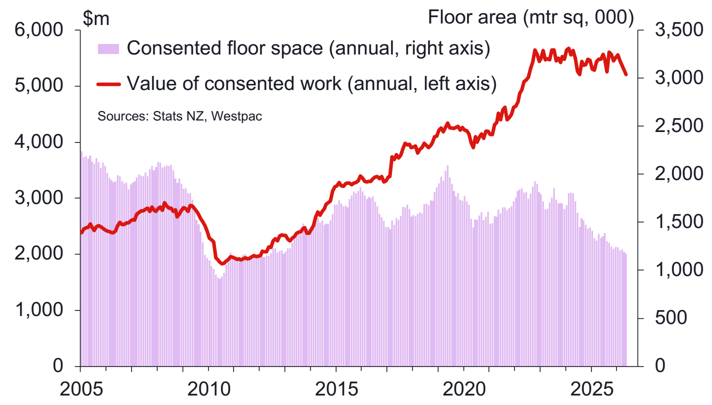
Is a turn in the homebuilding cycle approaching?

- After tracking sideways for the past 18 months, residential construction activity is expected to pick up through the back part of this year. There is a large pipeline of work planned, with over 40,000 new homes consented in the year to June. Much of that planned work relates to medium-density developments in Auckland and Canterbury.
- While we are seeing more encouraging signs, the residential construction sector continues to face a number of headwinds that are likely to constrain the rise in building activity. House price growth has been weak, with only limited gains expected over the coming year. At the same time, materials and financing costs have been rising. In addition, there has been a significant increase in New Zealand's housing stock in recent years, despite low population growth.
- Non-residential building activity has trended down over the past two years, and a turnaround is unlikely in the near term. Occupier demand for new space remains limited and the amount of planned work has been tracking sideways. Trends remain mixed across segments with softness in the number of retail and office developments, but greater resilience in the industrial segment.

Residential building and consents



Commercial building consents (annual)



BUSINESS INVESTMENT

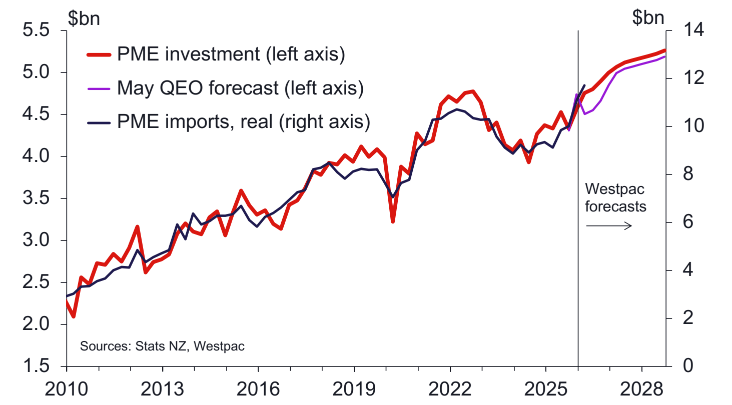
> "Capital imports have continued to rise in recent months, suggesting that firms have been willing to continue to invest through the Middle East conflict."

Looking through the war uncertainty.

- Business confidence has rebounded from the initial shock of the Middle East conflict as fuel prices have eased from their peaks. Hiring and investment intentions have likewise returned to pre-conflict levels, although the latest surveys largely precede the resumption of hostilities in July.
- Our May QEO forecasts assumed a mid-year slowdown in investment spending due to increased uncertainty in the wake of the Middle East conflict, with a catch-up phase over 2027 as uncertainty eased and the replacement cycle kicked in. However, imports of capital equipment have remained resilient and have risen strongly in recent months, so we have since removed that assumption. Our forecasts of the level of investment over the longer term are largely unchanged.
- Firms' willingness to invest is likely to remain mixed across sectors in the near term, with the most optimism seen in sectors with strong cashflow such as agriculture. The current extent of investment in AI in New Zealand is unclear, although computing equipment was noted as a strong driver of investment growth in the March quarter.
- Government policy after the general election is a modest risk factor for our investment forecasts, particularly the uncertain future of the 'Investment Boost' accelerated depreciation scheme that was introduced in last year's Budget.

Business sentiment

Plant and machinery investment



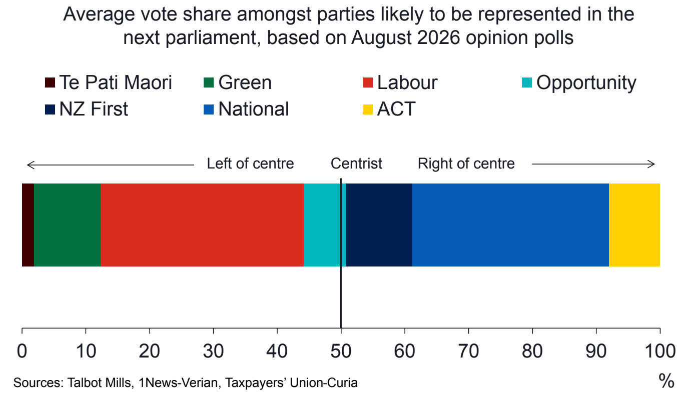
SPECIAL TOPIC: THE ELECTION

"Any change in policy direction after the General Election will have implications for individual sectors, but likely less impact on the performance of the economy as a whole."

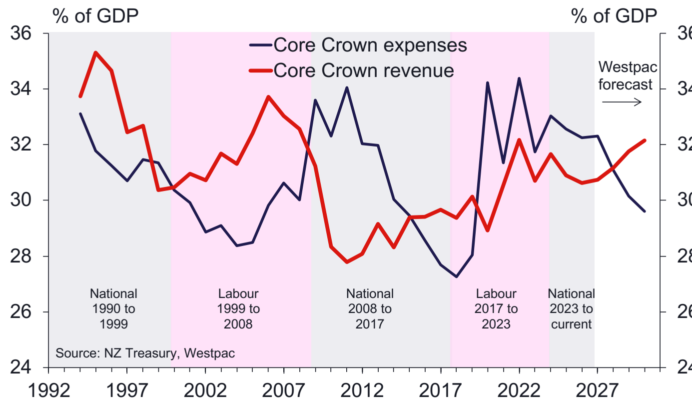
Our forecasts assume no material change in government policy.

- As always, our forecasts assume a government policy 'status quo', i.e. that there are no changes over the forecast horizon – either by the current or a future government – that would have a material impact on the outlook.
- Polls suggest that the 2026 General Election on 7 November will be a tight contest. Indeed, recent polls suggest that the Opportunity Party may act as 'kingmaker' and so determine the makeup of the next government.
- A change in government from the 'centre-right' to the 'centre-left' may not lead to large changes in the overall economic outlook, but could impact the outlook for particular sectors. For example, as noted earlier, policies that have been announced by the Labour, Green and Opportunity parties – if implemented – would impact our view of future developments in the housing market.
- A centre-left government would deliver both higher operational spending and higher tax revenue and a higher minimum wage than the current government. This would impact the mix of spending in the economy, but again not necessarily have a large impact on the economy in aggregate.
- Indications are that a centre-left government would also be more open to using the government's balance sheet to fund higher capex spending, leading to higher debt issuance than under the current administration. This could have implications for New Zealand's credit rating.

Polling



Core Crown Expenses and Revenue, % of GDP



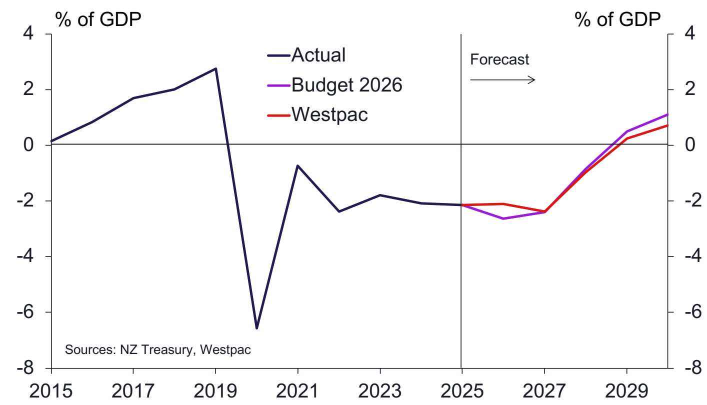
FISCAL

> "Under the threat of a credit rating downgrade, Budget 2026's "tax rich" outlook combined with spending restraint led to an improved fiscal bottom line."

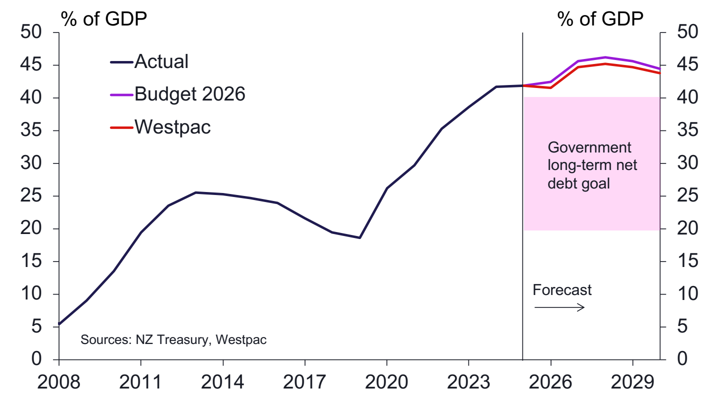
Credit rating threats sharpen focus on addressing structural deficit.

- Moody's and Fitch have put NZ's sovereign credit rating on negative outlook this year, reflecting doubts about the Government's commitment to eliminating the structural fiscal deficit. Under that threat, in Budget 2026 the Government allowed a stronger tax take to flow through to the bottom line. As a result, it brought forward its forecast of the first OBEGALx surplus to 2028/29.
- We forecast slightly higher spending than depicted in the Budget. In part this reflects the impact of our relatively higher forecast for inflation and interest rates, which raises our estimates of welfare and debt financing costs. We assume discretionary spending tracks in line with Budget forecasts this year, but then slightly higher in subsequent years. However, given our outlook for nominal GDP, we also expect tax revenue to track ahead of Budget forecasts.
- Data for the first 11 months of the 2025/26 fiscal year indicate an OBEGALx deficit of around 2.1% of GDP – lower than expected in the Budget and very similar to the outcome over the previous two years. Looking forward, our forecasts show OBEGALx returning to a modest surplus of around 0.2% of GDP in 2028/29, growing to around 0.7% of GDP in 2029/30. If Budget 2027 confirms this track, that should be sufficient to stave off a ratings downgrade.
- Net core Crown debt is forecast to peak at 45% of GDP in 2027/28 and then slowly track down towards the Government's target of less than 40% of GDP.

Operating balance (OBEGALx), % of GDP



Net core Crown debt, % of GDP



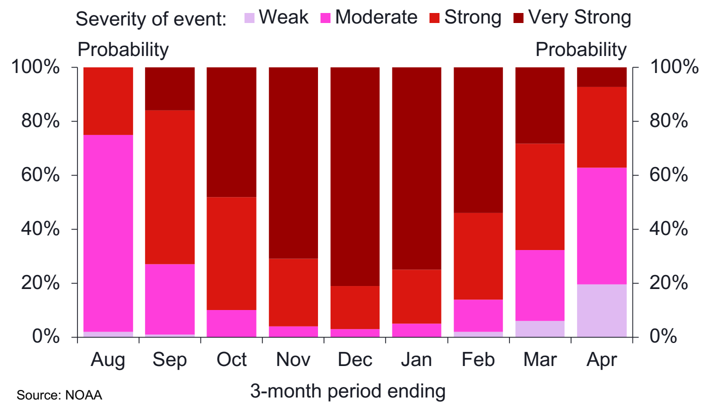
EL NIÑO

> "El Niño events tend to dampen economic growth through impacts on agricultural production."

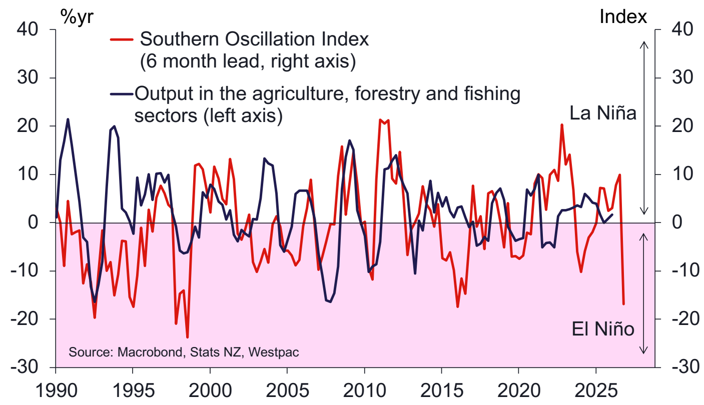
An El Niño event may hit agricultural production, but lift export prices.

- Climate forecasts indicate an increasing likelihood of a severe El Niño developing through the 2026/27 summer, raising the risk of dry conditions across northern and eastern New Zealand.
- Fortunately, New Zealand agriculture enters this period in a relatively good position, with close to normal soil moisture and adequate feed supplies. Many farmers are also financially better off than they were a couple of years ago.
- Poor pasture growth could reduce dairy production through earlier cow dry-offs. If other dairy-exporting regions are similarly affected, tighter global supply could support dairy prices and farmgate returns.
- For sheep and beef farmers, weaker pasture growth may initially increase slaughter rates and push prices lower. Later, herd and flock rebuilding could tighten supply, providing some support for beef and lamb prices.
- Kiwifruit, apples and viticulture are generally more resilient, but prolonged drought, heat stress and water restrictions could reduce yields. Lower production may be partly offset by firmer export prices if global demand remains strong.
- Given the uncertainty surrounding El Niño, we have assumed no material impact on commodity prices over the coming year.

El Niño – Probability of severity



Southern Oscillation Index vs GDP: Agri, forestry, fishing



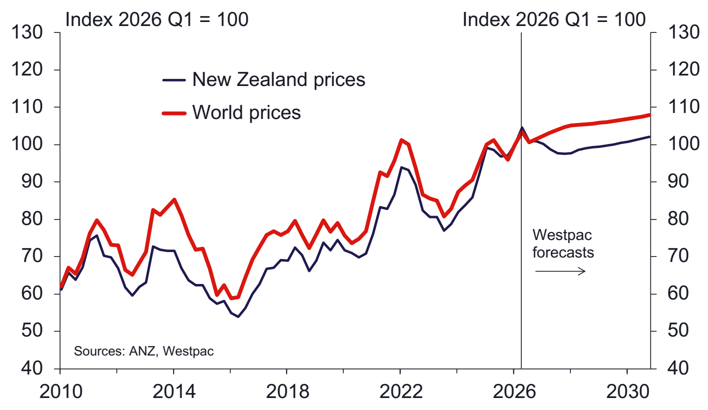
AGRICULTURE

> "Global supply and demand fundamentals will keep agricultural export prices well supported."

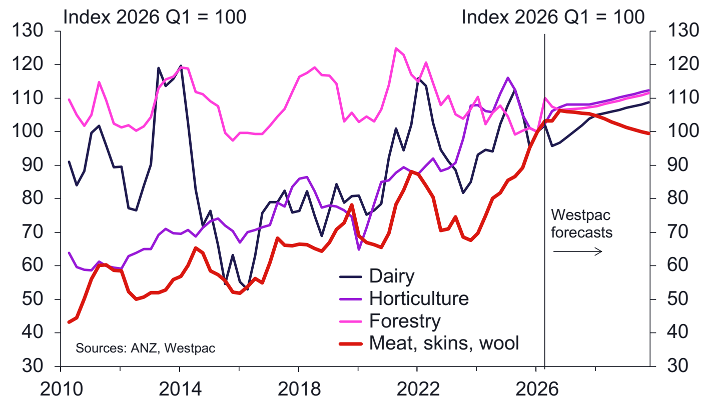
Agricultural export prices to remain favourable.

- The Middle East conflict is increasing volatility in energy and related prices. A resulting increase in farm input costs could potentially erode some of the revenue gains being made from still-elevated commodity prices.
- Our forecast for the 2026/27 farmgate milk price remains at $9.50/kg, noting that the range of uncertainty is wide at this early stage of the season. Global milk production remains ample but is slowing from its highs. More recently, prices have been supported by emerging concerns that a severe El Niño event could curtail global production in the Southern Hemisphere summer.
- Meanwhile, global beef and lamb prices should remain well supported over the coming year, reflecting strong demand and constrained supply. Beef prices will continue to be underpinned by lower production in the US and Brazil. Recent softness has been driven by a temporary drop in demand following a surge in imports earlier in the year. Meanwhile, lamb prices face some headwinds from rising Australian supply and slower demand in key markets.
- Strong demand for premium kiwifruit and apple varieties is set to keep prices and grower returns at elevated levels, despite higher input costs, soft market conditions in China and aforementioned geopolitical headwinds.
- Forestry prices should improve moderately, supported by tighter supply and recovering demand, but China's still-weak property market will cap the upside.

Commodity prices – World and NZ dollar denominated



Commodity prices by category



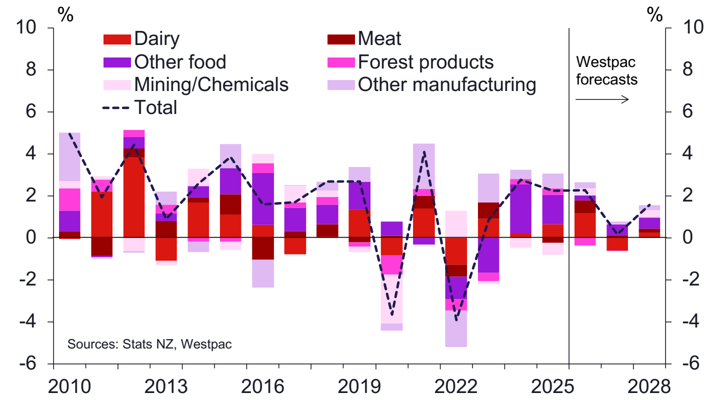
EXPORTS AND THE BALANCE OF PAYMENTS

"The export sector remains a bright spot. But a rebound in imports – in part due to higher energy prices – means that the current account deficit will widen in the near term."

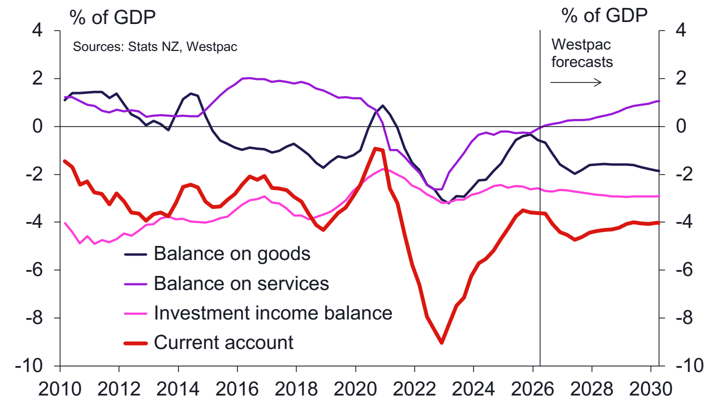
The export sector remains a bright spot.

- Merchandise export volumes are on track to post growth of over 2% this year, supported by favourable climatic and pricing conditions in the primary sector, reasonable trading partner growth and a competitive exchange rate. The latter is likely to become less supportive as New Zealand interest rates rise, contributing to a slowdown in export growth over the next year or so.
- Higher prices for airfares and security concerns in the Middle East are likely to dampen growth in tourist arrivals over the remainder of this year. But given previous momentum – including a notable strengthening in arrivals from China – and strong growth seen in other service-based exports, the volume of services exported is likely to grow by around 8% this year. We expect services exports will continue to grow strongly over coming years, unhindered by the land and environmental constraints faced by the primary sector.
- Higher fuel prices and a recovery in domestic demand, especially import-intensive capex, means that the value of imported goods and services is likely to rise by more than 11% this year, outpacing a near 9% lift in export receipts.
- The overall current account deficit is likely to widen to around 4.5% of GDP over the next year from 3.6% of GDP at present. As fuel prices return to pre-conflict levels and the services balance moves back into surplus, the current account deficit is likely to settle near 4% of GDP from 2028 onwards.

Goods exports – contributions to growth



Current account balance, % of GDP



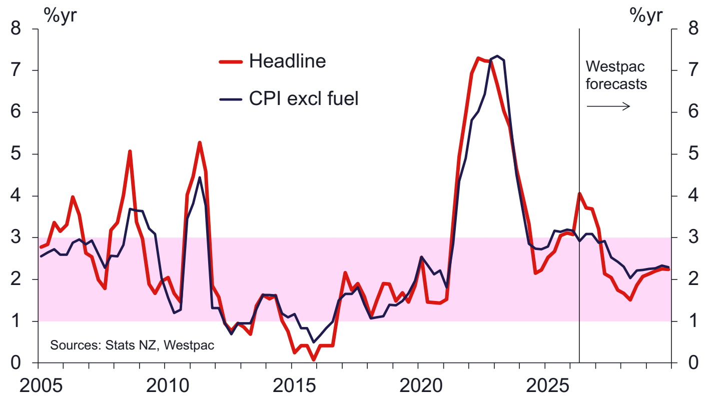
INFLATION

> "Core inflation has remained firm for an extended period and will take some time to fall even if headline inflation falls with global energy prices."

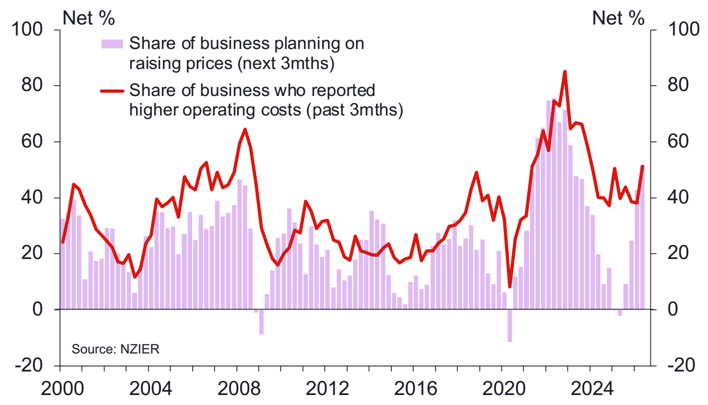
Oil price swings on top of a firm core.

- Inflation rose to 4.1%yr in the June quarter. That was up from 3.1% at the start of the year and the highest rate in three years.
- Boosting inflation in the June quarter was the 20% increase in petrol prices in the wake of the Middle East war. However, even excluding prices for vehicle fuel and other volatile items like food, core inflation has lingered above the 2% midpoint of the RBNZ's target range for the past five years.
- Large increases in administered prices like council rates have been adding to consumer prices, and that's expected to continue over the coming year.
- Inflation in sectors that are more sensitive to demand has been more moderate, but not low. That's despite the downturn in economic growth and the labour market. While soft demand has limited the rise in inflation, there's been ongoing pressure on businesses' operating costs and margins.
- Headline inflation is set to remain above the 3% upper end of the RBNZ's target band until mid-2027, before briefly dropping below 2% as the spike in fuel costs drops out of the annual calculations.
- Smoothing through the fuel-related swings in consumer prices, core inflation is expected to ease back only gradually towards 2% over the coming years in response to the RBNZ's tightening of policy.

Headline and core inflation



Business cost pressures and pricing intentions



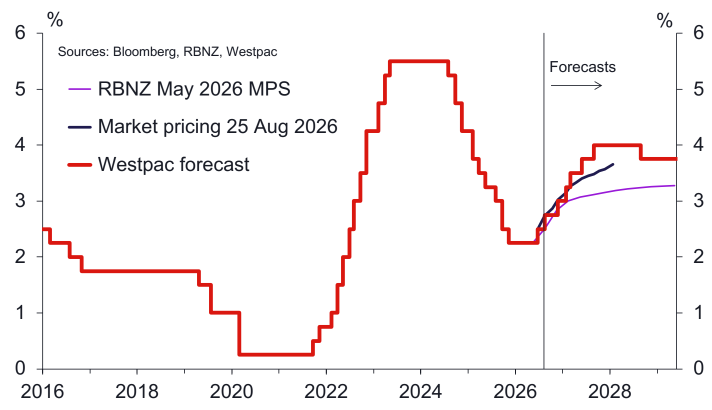
MONETARY POLICY

> "The MPC seems resolved to return the OCR to around 3% by end 2026. Beyond then the data will decide, but the RBNZ often ends up moving by more than they say."

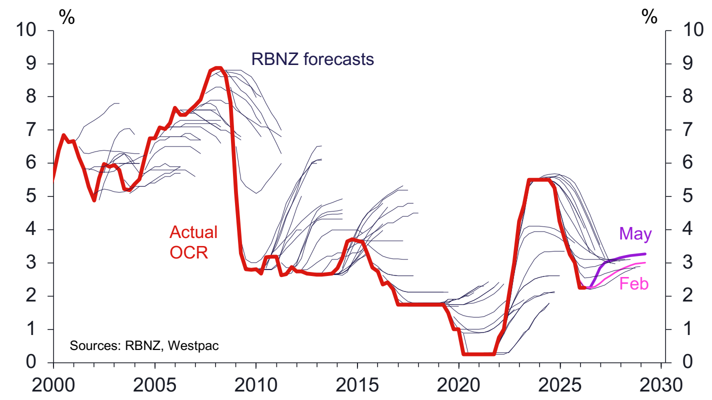
On a path to neutral... and then beyond.

- Inflation is substantially higher than the RBNZ expected at the start of this year, causing it to significantly bring forward the tightening cycle. The RBNZ looks set to return the OCR to what it sees as a neutral 3-3.25% level by year-end.
- Core inflation remains entrenched in the top quarter of the RBNZ's target range and will require some effort to return to 2%. Inflation expectations are elevated and there is uncertainty about the path of headline inflation given an uncertain outlook for global energy prices. The negative output gap provides room for manoeuvre but it has not delivered 2% core inflation in recent years.
- We continue to assume a 3.75% neutral OCR and so see a need to move further than the RBNZ currently forecasts to return conditions to neutral levels. The OCR is forecast to spend a year in modestly restrictive territory at 4% from September 2026, ensuring core inflation moves closer to the target midpoint.
- The RBNZ has started to lift its medium-term OCR forecasts as tightening has begun. This is commonly observed in past tightening cycles as the neutral OCR and the estimated medium-term level of the OCR tends to move in the same direction as the policy rate as the cycle unfolds.
- The pace of growth and stickiness of core inflation will determine how quickly the OCR is increased in 2027. We assume a steady cadence for now.

Official Cash Rate forecasts



History of the RBNZ's OCR forecasts



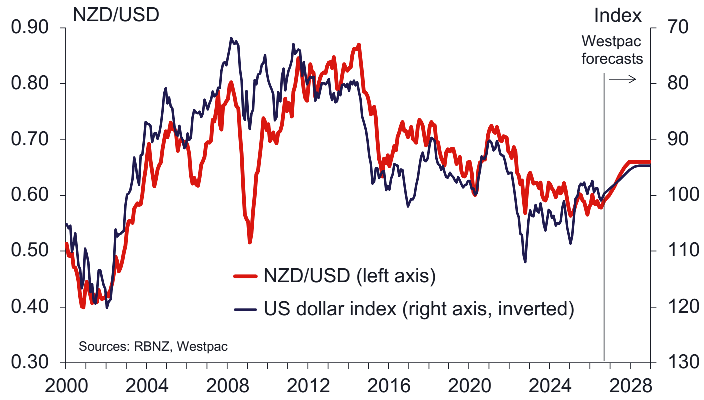
FOREIGN EXCHANGE

> "The NZ dollar is likely to appreciate as monetary policy settings in New Zealand move closer to those seen in the US and Australia."

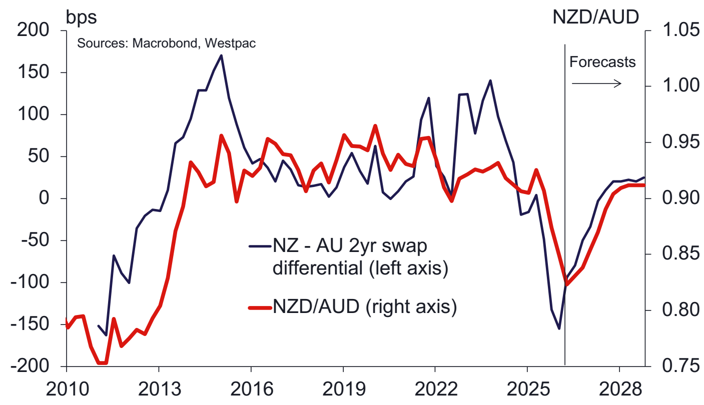
The NZ dollar appears to have found a floor.

- The NZ dollar has risen from the post-GFC lows reached in late June, making gains against each of the major currencies but especially the US dollar. These gains have occurred as the RBNZ has raised the OCR and signalled the likelihood of further policy tightening at coming meetings.
- In nominal trade-weighted terms, the NZ dollar is currently around 6% lower than the average level over the past 20 years, suggesting that it is providing some support to the tradables sector. However, measures suggest that the NZ dollar is closer to average levels after allowing for differing inflation rates across countries.
- The performance of the US dollar tends to dominate movements in NZD/USD. While it has weakened over the last year or so, we consider that the US dollar remains overvalued and we expect it to weaken further over the next couple of years. We expect NZD/USD to end this year around 0.60. If the OCR rises to 4% as forecast, we expect NZD/USD to reach 0.66 by the end of 2027.
- NZD/AUD fell to a 15-year low in May, but has risen more recently. The fall in this interest rate-sensitive cross occurred as the expected path of RBNZ and RBA policy diverged. Looking ahead, with the RBNZ forecast to continue raising rates in 2027 and the RBA now expected to begin an easing cycle, the NZD/AUD is likely to continue tracking higher over the next year or so.

NZD/USD and US dollar index

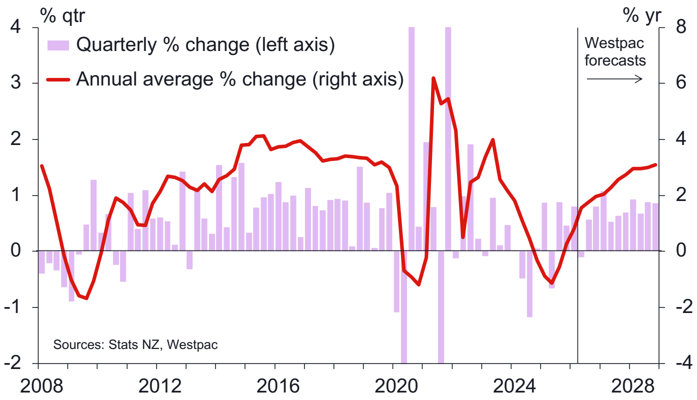


NZD/AUD and 2-yr swap differential

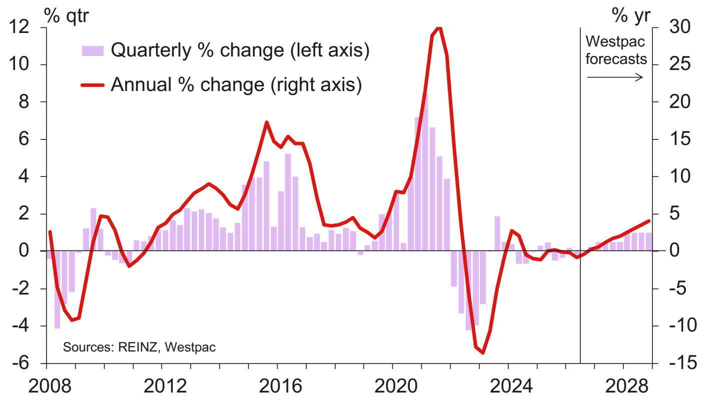


THE ECONOMY IN EIGHT CHARTS

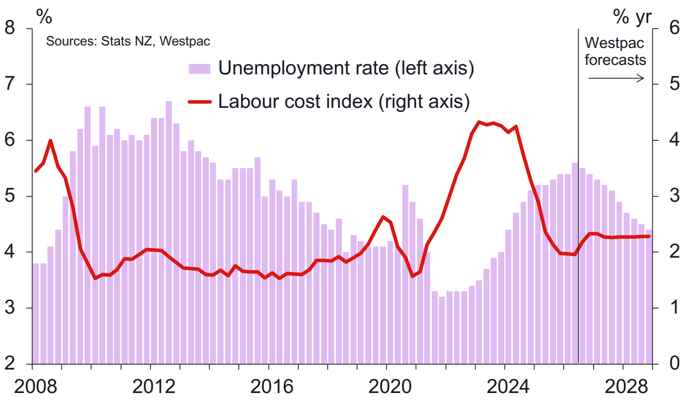
GDP growth



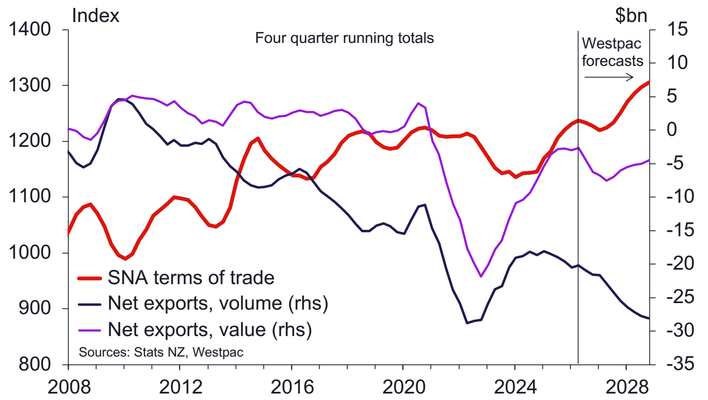
House prices



Unemployment and wage growth

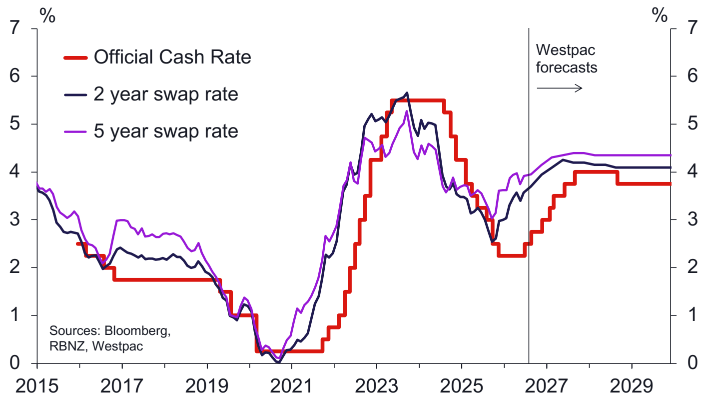


Terms of trade and net exports

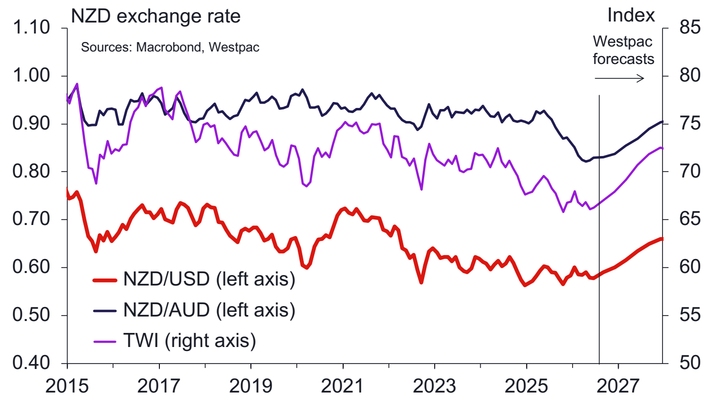


THE ECONOMY IN EIGHT CHARTS CONT.

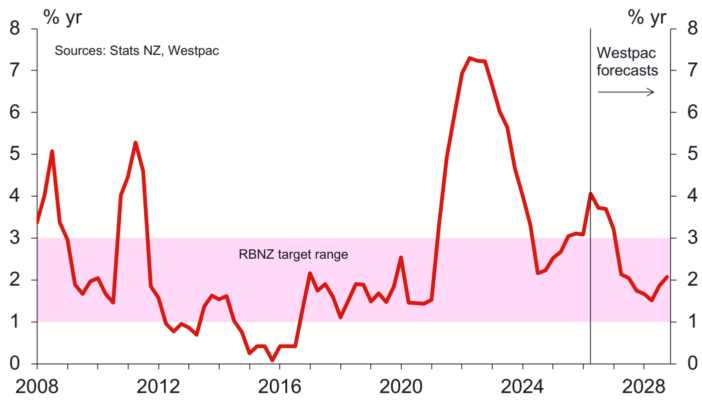
Official Cash Rate, 2-year and 5-year swap rates



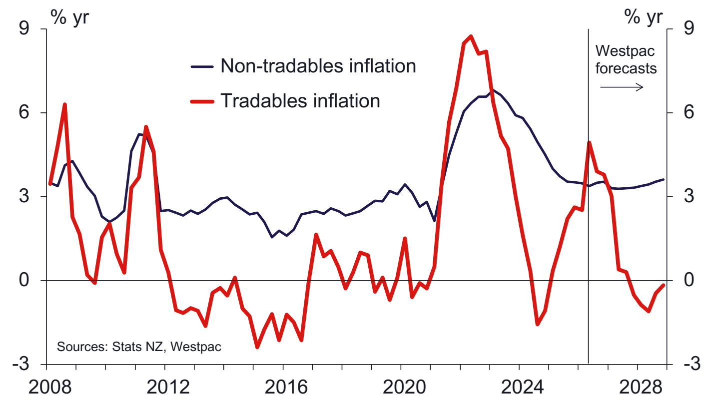
Exchange rates



Consumer price inflation



Inflation components



ECONOMIC AND FINANCIAL FORECASTS

New Zealand forecasts

Economic indicators	Quarterly % change				Annual % change			
	Mar-26	Jun-26	Sep-26	Dec-26	2024	2025	2026	2027
GDP	0.8	-0.1	0.6	0.8	-1.6	1.5	2.1	3.0
GDP (annual average)	-	-	-	-	-0.3	0.3	2.0	2.7
Consumer price index	0.9	1.5	0.7	0.6	2.2	3.1	3.7	1.7
Employment change	0.2	0.5	0.5	0.7	-1.3	0.2	1.8	2.6
Unemployment rate	5.4	5.6	5.5	5.4	5.1	5.4	5.4	4.9
Labour cost index (all sectors)	0.5	0.6	0.6	0.6	3.3	2.0	2.3	2.3
Current account balance (% of GDP)	-3.6	-3.6	-4.1	-4.4	-4.7	-3.6	-4.4	-4.4
Terms of trade	-1.6	0.6	-1.4	-0.1	8.9	3.4	-2.4	6.7
House price index	0.2	-0.2	0.0	0.3	-1.0	-0.1	0.2	2.0
Financial forecasts	**End of quarter**				**End of year**			
	Mar-26	Jun-26	Sep-26	Dec-26	2024	2025	2026	2027
90 day bank bill	2.51	2.63	3.00	3.40	4.45	2.52	3.40	4.20
2 year swap	3.12	3.47	3.70	3.95	3.64	2.71	3.95	4.20
5 year swap	3.71	3.88	3.95	4.15	3.73	3.27	4.15	4.40
10 year bond	4.54	4.61	4.65	4.65	4.50	4.27	4.65	5.05
TWI	67.2	66.5	67.0	67.9	69.5	66.4	67.9	72.5
NZD/USD	0.59	0.58	0.59	0.60	0.59	0.57	0.60	0.66
NZD/AUD	0.85	0.82	0.83	0.84	0.91	0.87	0.84	0.90
NZD/EUR	0.50	0.50	0.51	0.51	0.55	0.49	0.51	0.55
NZD/GBP	0.44	0.44	0.44	0.44	0.46	0.43	0.44	0.47

ECONOMIC AND FINANCIAL FORECASTS CONT.

New Zealand forecasts

Fiscal indicators	June years						
	2024	2025	2026	2027	2028	2029	2030
Core Crown tax revenue ($bn)	133	134	138	146	157	168	178
- % of GDP	30.7	31.7	30.9	30.6	30.7	31.2	31.7
Core Crown spending ($bn)	139	142	146	155	161	167	174
- % of GDP	31.7	33.0	32.6	32.3	32.3	31.1	30.2
OBEGALx (i.e., excluding ACC) ($bn)	-8.8	-9.3	-9.6	-11.4	-4.9	1.3	4.0
- % of GDP	-2.1	-2.1	-2.1	-2.4	-1.0	0.2	0.7
Net core Crown debt ($bn)	175	182	189	214	231	241	248
- % of GDP	41.7	41.9	41.5	44.7	45.2	44.7	43.7

International economic forecasts

Real GDP (calendar years)	Annual average % change					
	2023	2024	2025	2026f	2027f	2028f
Australia	2.1	1.0	2.0	1.7	1.3	2.2
China	5.4	5.0	5.0	4.7	4.6	4.4
United States	2.9	2.8	2.1	2.0	1.8	1.9
Japan	0.7	-0.2	1.1	0.6	0.8	0.9
East Asia ex China	3.4	4.5	4.7	5.1	4.4	4.3
India	7.2	7.1	7.6	6.7	6.7	6.6
Euro zone	0.5	0.9	1.3	0.8	1.2	1.5
United Kingdom	0.3	1.0	1.3	1.2	1.1	1.5
NZ trading partners	**3.0**	**3.0**	**3.2**	**3.0**	**2.7**	**2.9**
World	**3.3**	**3.4**	**3.4**	**3.3**	**3.3**	**3.3**

ECONOMIC AND FINANCIAL FORECASTS CONT.

Interest rates and exchange rates

	CPI	Interest rates				Exchange rates							
	Annual %	OCR	90-day bill	2 year swap	5 year swap	USD Index	NZ TWI	NZD/USD	NZD/AUD	NZD/GBP	NZD/EUR	NZD/CNY	NZD/JPY
Jun-26	4.1	2.25	2.63	3.47	3.88	99.3	66.5	0.58	0.82	0.44	0.50	3.98	93.1
Sep-26	3.7	2.75	3.00	3.70	3.95	99.7	67.0	0.59	0.83	0.44	0.51	3.98	95.6
Dec-26	3.7	3.00	3.40	3.95	4.15	98.9	67.9	0.60	0.84	0.44	0.51	4.05	96.0
Mar-27	3.2	3.50	3.75	4.10	4.30	98.2	69.1	0.62	0.85	0.45	0.52	4.12	97.8
Jun-27	2.1	3.75	4.00	4.25	4.35	97.3	70.7	0.64	0.87	0.46	0.53	4.19	100.3
Sep-27	2.0	4.00	4.20	4.20	4.40	96.4	71.8	0.65	0.89	0.47	0.54	4.23	101.4
Dec-27	1.7	4.00	4.20	4.20	4.40	95.5	72.5	0.66	0.90	0.47	0.55	4.26	101.6
Mar-28	1.7	4.00	4.20	4.15	4.35	94.9	72.2	0.66	0.91	0.47	0.54	4.22	100.3
Jun-28	1.5	4.00	4.15	4.15	4.35	94.7	71.9	0.66	0.91	0.47	0.54	4.19	99.0
Sep-28	1.9	3.75	3.95	4.10	4.35	94.7	71.8	0.66	0.91	0.47	0.54	4.19	97.7
Dec-28	2.1	3.75	3.95	4.10	4.35	94.7	71.6	0.66	0.91	0.47	0.55	4.16	96.4
Mar-29	2.1	3.75	3.95	4.10	4.35	94.4	71.6	0.66	0.92	0.47	0.55	4.16	95.0

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