WEEKLY ECONOMIC COMMENTARY

2 Mar 2026 | **Westpac Economics Team** | **westpac.co.nz/economics** | economics@westpac.co.nz

The houseless recovery?

- We've encountered some scepticism about whether the New Zealand economy can grow without a meaningful lift-off in house prices.
- In part, the response is that we are already. Retail spending has consistently risen over the last five quarters, at a time when house prices were effectively flat.
- But it's not certain that this can be maintained in the face of what are some still-subdued house price expectations for the year ahead.
- The recent economic literature points to a solution. There is growing support for the idea that what we observe as a "housing wealth effect" is actually more of an "income expectations effect", driving both spending and house prices higher.
- That's not to rule out a housing wealth channel altogether. But its role may be in amplifying the economic cycle, rather than driving it. We think that we've tempered our forecasts accordingly.

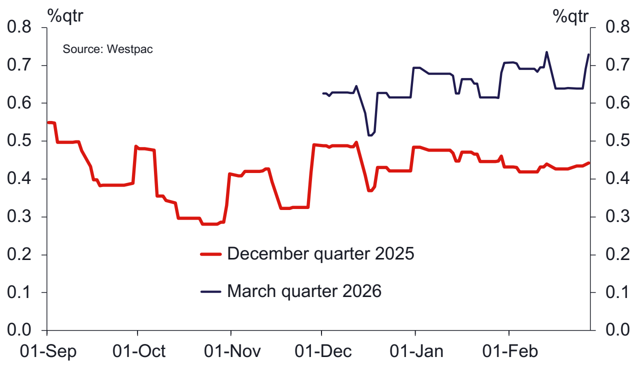
In presenting **our latest quarterly Economic Overview**, the most common piece of feedback has been a degree of scepticism about our view that the New Zealand economy can recover without a meaningful lift-off in house prices. This scepticism is understandable, as it would be something of a break from history. But there is a plausible mechanism for how this could happen, and indeed the evidence suggests that we're already on that path, though it's still early days.

What the sceptics have in mind is the "housing wealth effect", where people tend to be more willing to spend when the value of their houses is rising. That doesn't necessarily mean that they are using the house as an ATM (and these days, loan-to-value restrictions may limit their ability to do so). Rather, they're more inclined to spend

Key views

	Last 3 months	Next 3 months	Next year
Global economy	→	→	→
NZ economy	↑	↗	↗
Inflation	→	↘	↘
2 year swap	→	→	↗
10 year swap	→	→	↗
NZD/USD	↗	→	↗
NZD/AUD	↘	→	↗

Westpac GDP nowcasts



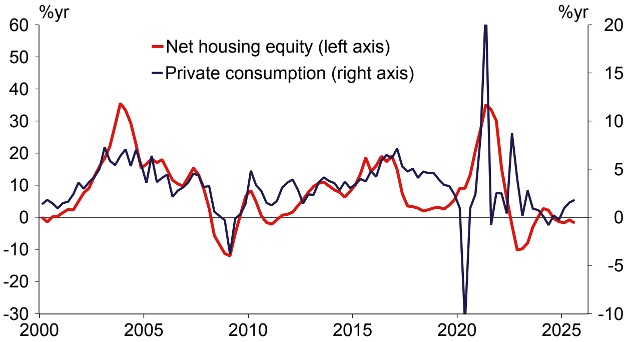
Key data and event outlook

Date	Event
17 Mar 26	NZ Selected price indexes, February
17 Mar 26	RBA Monetary Policy Decision
18 Mar 26	FOMC meeting (19 Mar NZT)
19 Mar 26	NZ GDP, December quarter
8 April 26	RBNZ OCR Review
17 Apr 26	NZ Selected price indexes, March
21 Apr 26	NZ QSBO Business Survey, March quarter
21 Apr 26	NZ CPI, December quarter
29 Apr 26	FOMC meeting (30 Apr NZT)
5 May 26	RBA Monetary Policy Decision

out of their incomes if they believe that the house is doing the saving for them.

We've noted in the past that there has historically been a strong relationship between housing wealth and household spending in New Zealand, and arguably stronger here than in other developed economies. But the relationship doesn't hold all of the time, and especially not in more recent years, as Covid and the subsequent policy responses have led to significant volatility in both house prices and consumption.

Annual growth in consumption vs housing wealth

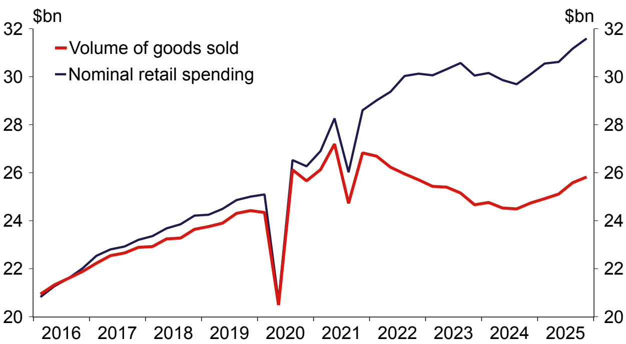


Sources: Macrobond, Stats NZ, Westpac

The housing wealth effect is considered to be an important channel of transmission for monetary policy: lowering interest rates drives up house prices, which leads to more household spending, which boosts activity and employment, which ultimately leads to higher inflation (and vice versa). So, the lack of a house price response over the last couple of years, through what appears to be a now-completed easing cycle, is quite unusual.

That doesn't mean that monetary policy hasn't been getting traction though. This week we saw that retail sales volumes rose by 0.9% in the December quarter, ahead of the 0.6% increase that we expected. After having consistently fallen through 2022-24, real retail spending has now risen for five straight quarters. Retail spending in dollar terms has actually risen quite strongly since the Covid shock, but the post-Covid inflation surge means that people have been getting much less bang for their buck.

Retail spending



Sources: Macrobond, Stats NZ, Westpac

Incidentally, the quarterly retail trade survey has also consistently outstripped the monthly card spending figures over those last five quarters. The implication would be that debit and credit cards have been falling as a share of retail spending, and it's not at all clear why that would be case. Nor is it clear that it's even true. In **our latest Retail Pulse** we reported that spending on Westpac-issued cards was up about 6% on a year ago in January, and other banks who report their card spending figures had similar results. Yet the figures published by Stats NZ were down slightly on a year ago.

It may be that certain payment methods are not being fully captured, such as buy-now-pay-later or prepay cards. The mix of spending by sector provides some support for this: the card share of spending has been steady for supermarkets, while it has been falling rapidly for several years in areas such as clothing and fuel. So, while we value the timeliness of the monthly card spending figures, we may need to put an asterisk against it in terms of coverage.

While the lift in spending to date has been encouraging, can we really be confident that it will carry on without the backing of the housing wealth effect? We're forecasting just a 4% rise in house prices over 2026, and even that would put us at the higher end of market forecasts. The RBNZ assumed that house prices would be flat for 2026 in its February *Monetary Policy Statement*.

The more recent economics literature offers a solution. There is growing support for the idea that what we call the housing wealth effect is actually an income-expectations effect. When people expect a rise in their future incomes, they tend to both spend more and to bid house prices higher. The magnitude of the effect on house prices will depend on how responsive the supply side is – historically New Zealand's housing supply has been fairly unresponsive, but there are signs that this is improving.

The challenge for us is that we can't directly observe people's income expectations – so in the past we've used house prices as a proxy. That has generally served us well for the purposes of forecasting household spending, without necessarily requiring a causal relationship. That proxy may not serve us as well in the future, if the efforts to improve the responsiveness of the housing supply bear fruit.

All of this is not to say that housing wealth effects don't exist. But their impact may be in amplifying the economic cycle, rather than being an essential driver of it. We feel that our household spending forecasts have been suitably tempered to match our view on house prices – spending growth of 3-4% over the year ahead is quite achievable in the early stages of a recovery, when the economy still has substantial spare capacity to be used up.

US-Iran conflict.

The dramatic events of the weekend in the Middle East will bear close monitoring. US and Israeli forces have attacked Iran as part of a maximalist strategy to promote regime change. Iran has responded aggressively with missile and drone attacks around the region. This is a marked step away from the more calculated and targeted responses in previous episodes. It's likely that we will see interruption to global energy trade for a while, with President Trump indicating a willingness to continue to attack for a few days yet. Insurers are indicating either withdrawal of cover or significantly increased costs.

The direct impact on New Zealand will be dominated by the impact on oil prices, which had already been rising in recent weeks. While this will add to inflation in the near term, it's likely the RBNZ will not be perturbed and will instead focus on the medium-term growth implications. This underscores the 'on hold' strategy of the February Monetary Policy Statement.

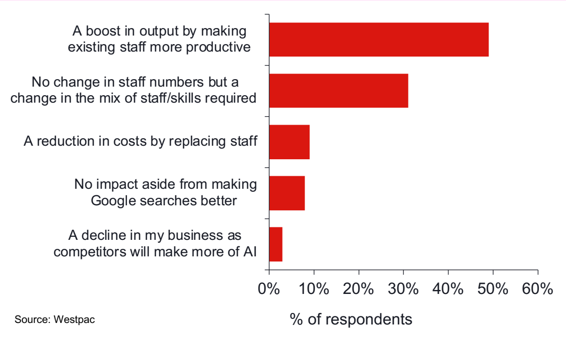
It's likely there will be wider impacts on global financial conditions through equity, credit and FX markets. But we think it unwise to extrapolate too much from any short-term movements given that the size and durability of the impact is far from clear.

Michael Gordon, Senior Economist

Chart of the week.

Artificial Intelligence has been a hot topic of discussion. Views vary widely, between AI causing a substantial productivity boost that frees humans from the most banal and repetitive tasks to dark scenarios where AI systems take all of the jobs and suck the global economy into a singularity where a favoured few capture all the gains and everyone else starves. Westpac's global **Chief Economist Luci Ellis wrote a note** last week pushing back on the dark narratives which is well worth a read (or summarising using your LLM of choice). We have recently been presenting our Economic Overview to clients and have taken the opportunity to ask them how they think AI will impact their businesses. What we see is that customers have a constructive and positive view. Most see the potential for improved productivity without displacing the workforce – even though the mix of talent will likely change. We see that as a very realistic view.

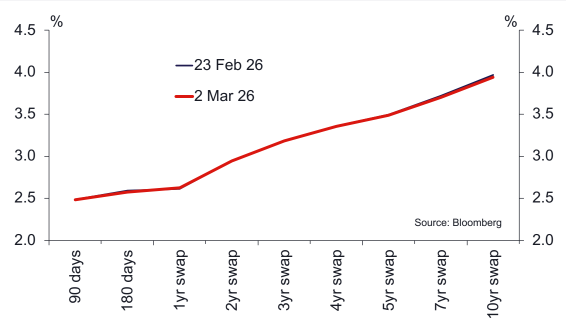
Which statement best reflects how you think AI will impact your business or workplace in 2026?



Fixed versus floating for mortgages.

The RBNZ's cautious signal about the extent of future OCR hikes has helped to take some pressure off longer-term wholesale interest rates, at least for now. Ultimately though, once the tightening cycle does get under way we expect to see a series of rate hikes to return the OCR to more neutral levels. Fixed-term mortgage rates between two and five years now lie slightly either side of 5%. Fixing for one of these longer periods appears attractive as it would insulate borrowers from a trend higher in the OCR over the next couple of years.

NZ interest rates



Global wrap

US.

Last week the US introduced 10% tariffs on its trading partners, replacing the 'reciprocal' IEEPA tariffs which the Supreme Court has ruled were unconstitutional. Legislation allows the new tariffs to remain in place for 150 days, but they may be extended after that time (though the required political agreement could be hard to secure). President Trump has indicated that he will impose higher tariffs on countries that back out of previously established trade deals (on that front, the EU has signalled it will holdoff ratifying its trade deal, while India is deferring scheduled trade talks).

On the data front, January's PPI was hotter than expected (+0.5mth/+2.9% yr) highlighting ongoing supply chain pressures. Activity indicators were mixed. Durable goods orders were down 1.4% in December, though private sector orders were up. Regional business sector indicators continued to highlight mixed conditions, with falls in the Philadelphia and Richmond Fed surveys, but increases in the Chicago and Dallas reports. In the household sector, the Conference Board's measure of consumer confidence nudged higher in February, supported by an improved labour market outlook. This week's calendar includes the ISM manufacturing survey (Tuesday), the Beige Book (Wednesday) and non-farm payrolls (Friday).

Asia-Pacific.

Australia's monthly CPI showed that consumer prices rose 3.8% over the past year, while trimmed mean inflation rose to 3.4% from 3.3% previously. Both results were stronger than forecast, and markets have pulled forward their expectations for a follow-up interest rate hike from the RBA (we continue to forecast another hike at the RBA's May policy meeting). While the monthly CPI does point to strong inflation pressures, RBA Head of Economic Analysis Plumb noted in a speech last week that it will take time to understand the properties of the new monthly inflation data. As a result, at this stage the RBA continues to focus more on the quarterly result for assessing inflation pressures. Following the January inflation data, RBA Governor Bullock highlighted that patience was needed in relation to inflation and that the outlook for policy wasn't very clear. She noted that the labour market was a 'little bit tight' and that inflation was a 'bit elevated,' but the RBA didn't think inflation was taking off again. The highlight of this week's calendar will be Wednesday's December quarter GDP report. We'll also get the latest PMI reports for China and other parts of Asia.

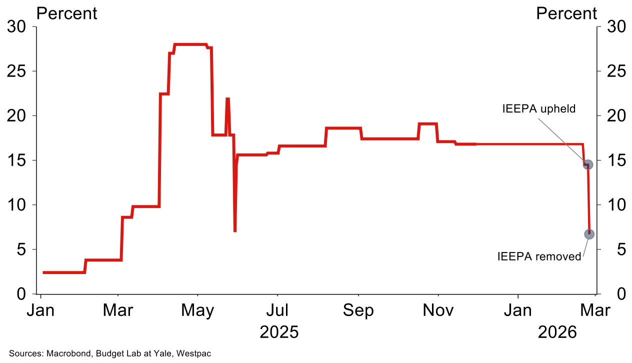
Trading partner real GDP (calendar years)

	Annual average % change			
	2024	2025	2026	2027
Australia	1.0	2.0	2.6	2.3
China	5.0	5.0	4.6	4.5
United States	2.8	2.3	2.7	1.8
Japan	0.1	1.2	0.9	0.9
East Asia ex China	4.3	4.6	4.1	4.1
India	6.5	7.2	6.8	6.5
Euro Zone	0.8	1.5	1.3	1.5
United Kingdom	1.1	1.4	1.0	1.5
NZ trading partners	2.9	3.2	3.1	2.9
World	3.3	3.4	3.4	3.3

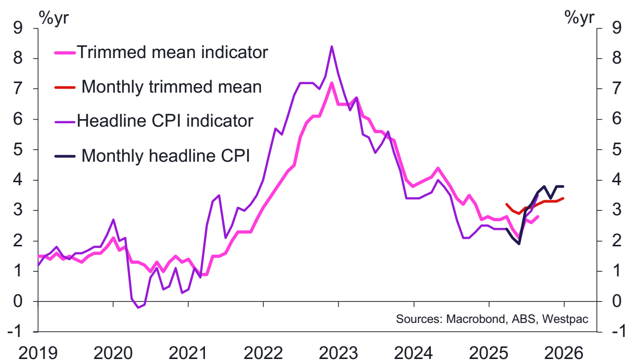
Australian & US interest rate outlook

	27 Feb	Mar-26	Dec-26	Dec-27
Australia				
Cash	3.85	3.85	4.10	3.85
90 Day BBSW	3.99	4.05	4.15	3.80
3 Year Swap	4.23	4.25	4.00	3.60
3 Year Bond	4.22	4.25	4.00	3.60
10 Year Bond	4.65	4.75	4.80	4.60
10 Year Spread to US (bps)	65	55	40	0
US				
Fed Funds	3.625	3.625	3.375	3.375
US 10 Year Bond	4.00	4.20	4.40	4.60

US tariff policy



Australian monthly CPI inflation



Financial markets wrap

Exchange rates.

Events in the Middle East will likely dominate markets this week, and possibly beyond, depending on the duration of the war initiated on Saturday with the US/Israel attack on Iran.

The initial reaction from NZD/USD has been to fall around 0.5c to 0.5952 at this morning's open. The recent support level at 0.5930 looks vulnerable, and there's potential to test 0.5900 (a 50% retracement of the Nov-Jan rally) this week

NZ economic data this week is second-tier, mostly partial indicators of Q4 GDP. In the US, though, there's monthly payrolls on Friday to watch.

Multi-month, we retain our bullish outlook targeting 0.62, conditional on the US-Iran war being short-lived. Our bullish rationale has been based on an expectation the economy continues to recover and local interest rates gradually rise. In addition, the US dollar's safe-haven identity has likely been tarnished given events over the past year, and there is potential for further Fed easing.

NZD/AUD on Friday extended its 9-month long trend decline to 0.8404 – a 13-year low. The trend has been justified by relative economic performance and NZ-AU yield spreads (also at a 13-year low). That said, it was looking technically stretched last week and in need of at least a minor correction higher. The US-Iran war could be the catalyst for that, with potential for 0.8550 this week.

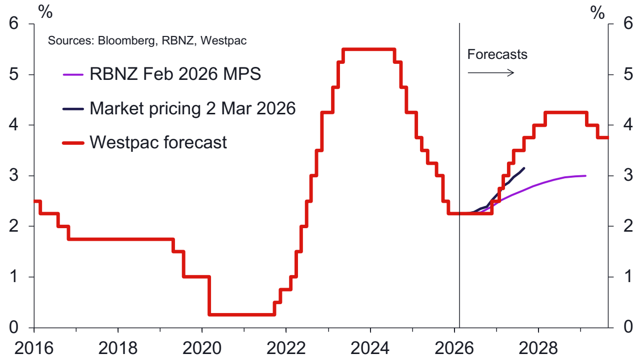
Interest rates.

The NZ 2yr swap rate rose to a cycle high of 3.17% in early February, and then corrected lower to 2.90% after the RBNZ warned markets against excessively pricing the next tightening cycle. The 2.90% level seems fair, based on our economic and OCR outlooks, but given there will likely be a long period until the first OCR hike (we forecast December), we wouldn't rule out slightly lower levels during the months ahead. That possibility would be strengthened if the US-Iran war extends.

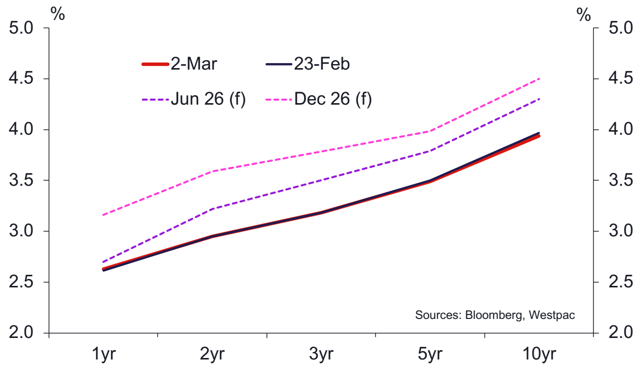
The OIS market prices a 0% chance of a rate hike at the next meeting on 8 April, and no material chance of one until at least October. It is confident, though, of one by the December 2026 meeting which is over 100% priced.

The yield curve has flattened from the peak in late December, driven by higher short maturity yields and relatively stable long maturity yields. A likely fall in offshore bond yields this week due to US-Iran will weigh on longer maturity NZ yields and should flatten the NZ curve further. Longer term, we continue to expect significant flattening as we approach the RBNZ's tightening cycle.

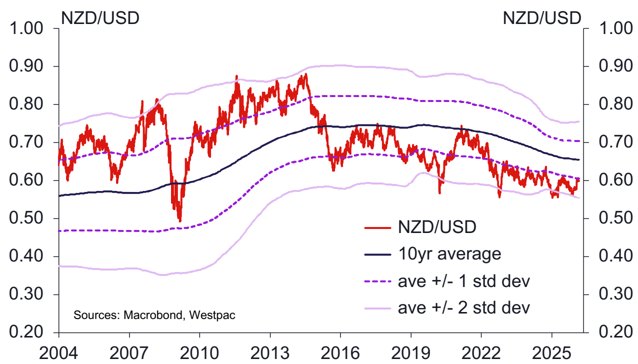
Official Cash Rate forecasts



Swap rates



NZD/USD vs rolling 10yr average



FX recent developments

	Historical data				F'cast
	Spot	3mth range	5yr range	5yr avg	Dec-26
USD	0.595	0.572-0.605	0.553-0.729	0.625	0.63
AUD	0.845	0.841-0.876	0.841-0.971	0.917	0.88
EUR	0.506	0.491-0.511	0.484-0.637	0.566	0.52
GBP	0.443	0.427-0.444	0.426-0.531	0.485	0.45
JPY	92.9	89.0-94.4	74.7-98.6	85.7	91.4

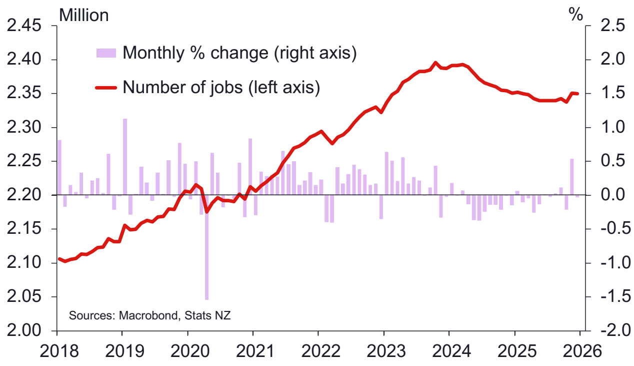
The week ahead

Jan Monthly Employment Indicator

Mar 2, Last: 0.0%, Westpac f/c: +0.2%

The MEI was flat in December after a 0.5% jump in November (but a 0.2% fall in October). Allowing for the volatility that sometimes occurs in these figures over year-end – mostly relating to the education sector – there does appear to be a modest upward trend emerging in the jobs figures. However, this series typically gets revised down from its initial release, so at this stage we'd describe it as stabilising rather than rising. The weekly snapshots provided by Stats NZ suggest a broadly flat result for January, though we expect the initial print to be more like +0.2%.

Monthly Employment Indicator filled jobs

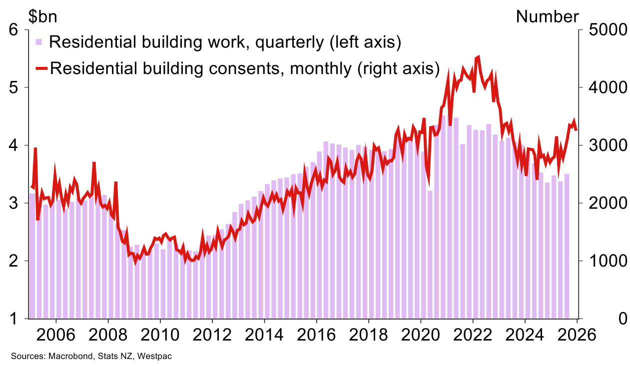


Jan Building Consents

Mar 3, last -4.9%, Westpac f/c: Flat

Despite a modest easing in December, residential consent numbers have been trending higher in recent months, with last year's fall in borrowing costs supporting new development activity. We're forecasting that consents will remain at firm levels in January. That would see the total number of homes consented over the past 12 months rising to a fresh two year high. On the non-residential front, commercial consents have been tracking sideways with businesses still cautious about significant capital expenditure at this stage.

Residential building and consent numbers

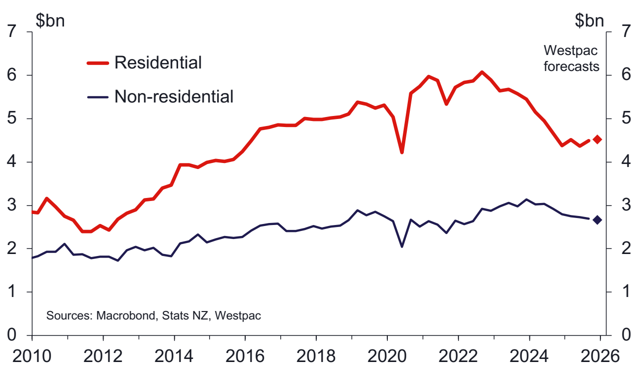


Q4 Building Work Put in Place

Mar 5, Last: +1.5%, Westpac f/c: -0.3%

Total building activity rose 1.5% over the September quarter, with a 2.8% lift in residential building work offsetting a sharper than expected 1.3% fall in non-residential building work completed. We're forecasting overall building activity will be close to flat in the December quarter. Residential building work has started to turn higher, but that recovery remains gradual at this stage. At the same time, non-residential investment has continued to trend down following earlier softness in economic conditions.

Real building work put in place

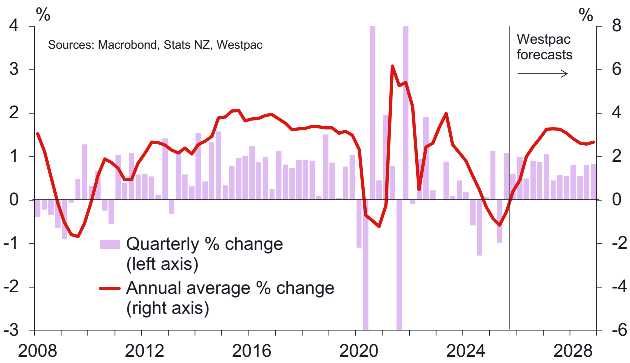


Economic and financial forecasts

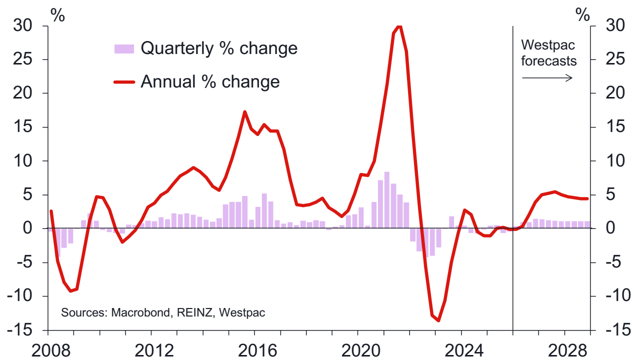
Economic indicators	Quarterly % change				Annual % change			
	Sep-25	Dec-25	Mar-26	Jun-26	2024	2025	2026	2027
GDP (production)	1.1	0.6	1.0	0.5	-1.6	1.8	3.3	2.7
Consumer price index	1.0	0.6	0.5	0.5	2.2	3.1	2.3	2.5
Employment change	0.0	0.5	0.3	0.7	-1.3	0.2	2.6	2.2
Unemployment rate	5.3	5.4	5.3	5.1	5.1	5.4	4.7	4.4
Labour cost index (all sectors)	0.4	0.4	0.5	0.6	3.3	2.0	2.4	2.2
Current account balance (% of GDP)	-3.5	-3.4	-3.2	-3.1	-4.7	-3.4	-2.9	-3.3
Terms of trade	-0.5	-3.0	1.9	2.9	8.9	0.2	5.9	1.1
House price index	-0.6	-0.4	0.4	1.0	-1.0	-0.1	4.0	5.0

Financial forecasts	End of quarter				End of year			
	Sep-25	Dec-25	Mar-26	Jun-26	2024	2025	2026	2027
OCR	3.00	2.25	2.25	2.25	4.25	2.25	2.50	4.00
90 day bank bill	3.10	2.52	2.35	2.35	4.45	2.52	2.75	4.15
2 year swap	2.99	2.71	3.25	3.50	3.64	2.71	4.00	4.30
5 year swap	3.40	3.27	3.80	4.00	3.73	3.27	4.20	4.35
10 year bond	4.42	4.27	4.70	4.75	4.50	4.27	4.85	5.00
TWI	68.4	66.4	66.8	67.3	69.5	66.4	69.6	73.3
NZD/USD	0.59	0.57	0.59	0.60	0.59	0.57	0.63	0.68
NZD/AUD	0.91	0.87	0.84	0.85	0.91	0.87	0.88	0.92
NZD/EUR	0.51	0.49	0.50	0.50	0.55	0.49	0.52	0.56
NZD/GBP	0.44	0.43	0.43	0.43	0.46	0.43	0.45	0.48

GDP growth

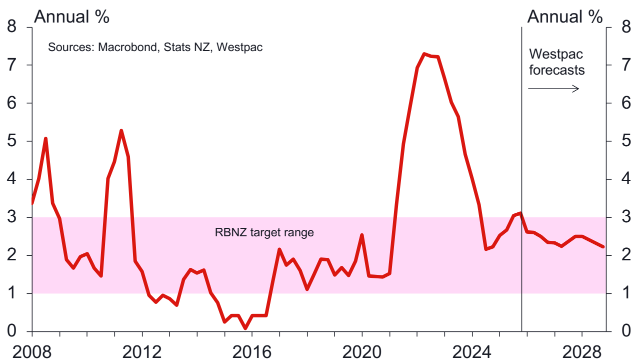


House prices



Unemployment and wage growth

Consumer price inflation



Data calendar

		Last	Market median	Westpac forecast	Risk/Comment
Mon 02					
NZ	Jan Employment Indicator, %mth	0	–	0.2	Job market is stabilising rather than growing at this stage.
Aus	Feb CoreLogic Home Value Index, %mth	0.7	–	0.7	Divergent theme persists between smaller and larger capitals.
	Feb MI Inflation Gauge, %ann	3.6	–	–	Continues to move higher.
	Q4 Company Profits, %qtr	0	2	1.8	Mining and non-mining to contribute to profit growth in Q4.
	Q4 Inventories, %qtr	–0.9	–0.1	0	Expect total inventories to contribute 0.1ppts to growth.
	RBA Speak	–	–	–	RBA's Hunter speaking in the Norges Bank conference.
US	Feb ISM Manufacturing PMI, index	52.6	51.8	51.8	Manufacturing sentiment turned positive in Janaury.
Tue 03					
NZ	Jan Building Permits, %mth	-4.6	–	0	Annual total continuing to climb.
Aus	RBA Speak	–	–	–	RBA's Bullock speaking at the AFR Business Summit.
	Q4 Current Account Balance, $bn	–16.6	–16.5	–18.0	Lower trade surplus & higher primary incom deficit expected.
	Q4 Net exports contribution, ppt	–0.1	–0.3	0	Higher exports and imports expected to offset each other.
	Jan Dwelling Approvals, %mth	–14.9	5	4.5	Will partly recover last month's sharp fall.
Jpn	Jan Jobless Rate, %	2.6	2.6	–	Expected to hold steady for its sixth consecutive month.
Eur	Feb HICP, %yr	1.7	1.7	–	Focus on core prices, energy prices driving headline down.
US	Fed Speak	–	–	–	Williams and Kashkari.
Wed 04					
NZ	Q4 Terms Of Trade, index	-2.1	–0.3	-0.9	Lower dairy prices (since reversed) will be a drag on Q4.
	Feb ANZ Commodity Prices, %mth	2	–	5	Sharp rebound in dairy prices; meat and wool also up.
Aus	Q4 GDP, %qtr	0.4	0.6	0.8	Handover from public to private demand appears complete.
Chn	Feb Manufacturing PMI, index	49.3	49.1	–	Official PMIs consistent with ongoing contraction...
	Feb Non-Manufacturing PMI, index	49.4	49.8	–	...in both manufacturing and services sectors...
	Feb RatingDog China PMI Composite, index	51.6	–	–	...while the private sectors PMIs signal stronger momentum.
Eur	Jan Unemployment Rate, %	6.2	–	–	At historical lows.
US	Fed Speak	–	–	–	RBA's Hunter speaking in the Norges Bank conference.
	Feb ADP Employment Change, 000s	22	42	–	Insights into the official payroll change.
	Feb ISM Services PMI, index	53.8	53.2	–	Improvement late in 2025 persisting in 2026.
Thu 05					
NZ	Q4 Volume of Building Work, %qtr	1.5	1.9	-0.3	Residential work has found a base, commercial still soft.
Aus	Jan Trade Balance, $bn	3.4	3.8	4.2	Major commodities set to drive exports higher.
	Jan Household Spending Indicator, %mth	–0.4	0.4	0.2	A modest lift following the first fall in 1.5 years.
Eur	Jan Retail Sales, %mth	–0.5	0.2	–	January data after a bigger than expected drop in Dec.
US	Mar Fed Beige Book	–	–	–	Anecdotal economic information from key business contacts.
	Jan Import Price Index, %mth	0.1	–	–	Details might give some more colour on tariff impacts.
	Q4 Productivity, %ann	4.9	1.6	–	Slower Q4 GDP growth will see productivity slowing too.
	Initial Jobless Claims	212	–	–	Remain low and stable.
Fri 06					
Eur	Q4 GDP, %qtr	0.3	0.3	–	Final estiamte.
US	Feb Nonfarm Payrolls, 000s	130	60	85	Found a base in late-2025 and ...
	Feb Unemployment Rate, %mth	4.3	4.3	4.3	...is inconsistent with a marked deterioration in conditions...
	Feb Average Hourly Earnings, %	0.4	0.3	–	... and helping to keep wage growth robust.

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