WEEKLY ECONOMIC COMMENTARY

3 Aug 2026 | **Westpac Economics Team** | **westpac.co.nz/economics** | economics@westpac.co.nz

Holding the line, but momentum is hard to find.

The indications are that the New Zealand economy has held its ground through this year's oil shock, though it has struggled to build on the momentum that was growing through late 2025 and early 2026. The agricultural sector remains a leading light for the economy, though with an eye to the risks stemming from supply-side disruptions and the weather.

This Wednesday's labour market surveys are expected to show that the economy continues to operate with a substantial amount of spare capacity. The final input to our forecast was last week's Monthly Employment Indicator (MEI), which showed a 0.1% increase in filled jobs in June. This measure tends to be overstated on the first release, so we'd put this down as more of a flat outcome (the 0.3% increase in May was revised down to 0.2%).

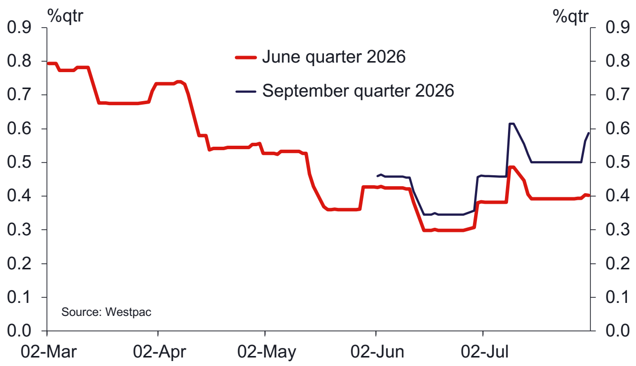
The MEI is drawn from income tax data, so it provides a fairly comprehensive record of the number of jobs. While there are some conceptual differences between this and the quarterly HLFS (most importantly the distinction between jobs and workers), any major differences between the two will most likely reflect sampling error in the household survey.

The MEI points to around a 0.1% rise in employment over the June quarter. That's not enough to keep up with the growth in the working-age population (an already-reported 0.3% rise for the quarter), which suggests that we'll see some combination of higher unemployment and lower participation. We expect the unemployment rate to tick up to 5.4%, matching the cycle high that was reached at the end of last year. For more details see our **June quarter labour market preview**.

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	↘	→	↗

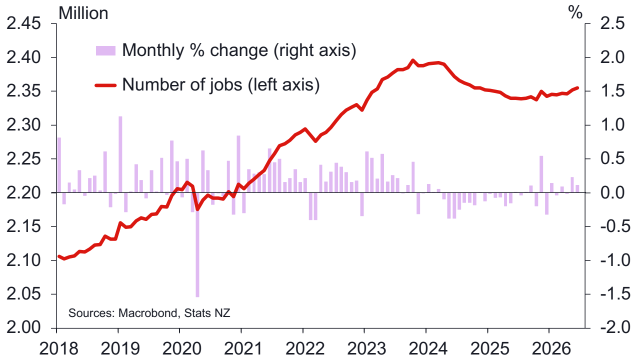
Westpac GDP nowcasts



Key data and event outlook

Date	Event
5 Aug 26	Labour market surveys, June quarter
11 Aug 26	RBA Monetary Policy Decision
17 Aug 26	NZ Selected price indexes, July
2 Sep 26	RBNZ OCR Review & Monetary Policy Statement
16 Sep 26	FOMC meeting (17 Sep NZT)
17 Sep 26	NZ GDP, June quarter
18 Sep 26	NZ Selected price indexes, August
29 Sep 26	NZ Govt Pre-election Economic & Fiscal Update
29 Sep 26	RBA Monetary Policy Decision
6 Oct 26	NZIER QSBO Survey, September quarter

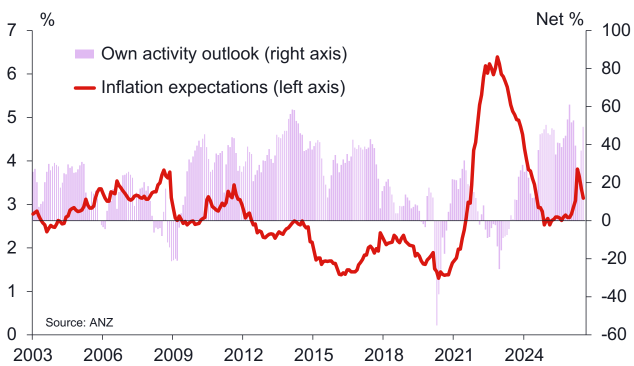
Monthly Employment Indicator filled jobs



The other notable data release last week was ANZ's business outlook survey. There was a solid lift in business confidence in July, almost returning to its pre-conflict levels. (There were similar results in their consumer confidence survey.) However, the speed at which things have been evolving in the Middle East means that even relatively frequent indicators may struggle to remain timely. Later responses during the month were less optimistic than earlier ones, as the resumption of hostilities in early July saw world oil prices surge higher again (though unusually, local prices at the pump barely moved over the month).

Inflation expectations and pricing intentions fell in July (again more so in the early part of the month). For the RBNZ, they can perhaps take comfort in signs that businesses are viewing the oil price shock symmetrically, rather than using recent movements as an opportunity to ratchet up their own prices. On the other hand, inflation perceptions were already elevated before the Iran conflict and have been so for some time – something that was underscored by last week's inflation figures, with measures of core inflation remaining in the upper half of the RBNZ's target range. The case for removing some of last year's policy stimulus remains intact, but we think the RBNZ can continue at a gradual data-dependent pace.

Business activity outlook and inflation expectations



Making hay while the sun shines.

Last week we released our latest **Agri Bites report**, highlighting that New Zealand's agricultural sector is well positioned for the year ahead, with favourable commodity prices across most categories. While geopolitical and climate risks have increased uncertainty, global supply constraints and resilient demand are expected to keep farmgate and export returns elevated over the coming year.

The principal near-term risk is the Middle East conflict, which has increased volatility in energy, freight and fertiliser markets. Although supply chains remain operational, higher fuel and input costs could raise farm expenses and reduce some of the benefit of strong commodity prices. Fertiliser markets remain exposed to sanctions, trade restrictions and shipping disruptions, although stronger urea supply has helped to contain price increases.

Climate conditions are another source of uncertainty. Forecasts point to an increasing likelihood of a strong El Niño developing through summer 2026/27, raising the risk of dry conditions across northern and eastern New Zealand. While current soil moisture and feed levels are favourable, prolonged dryness could reduce production across the dairy, livestock and horticulture sectors.

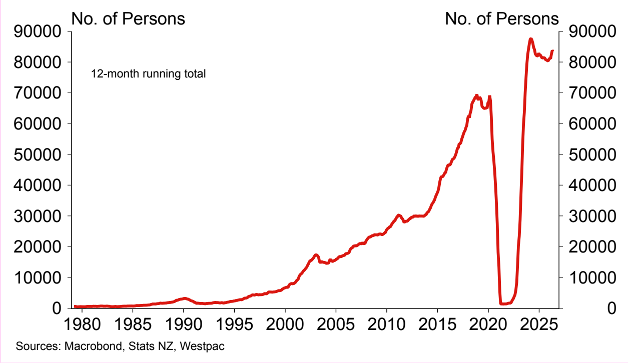
The prognosis for commodity prices is mixed and extends to the impact that the predicted "super El Niño" event could have on agricultural output worldwide. In the case of dairy, New Zealand is a major supplier, and past droughts have often led to a significant rise in world prices (making them strongly revenue-positive for those regions not affected by drought). For sheep and beef, however, drought tends to mean early destocking and a glut of supply that pushes prices down in the near term.

Michael Gordon, Senior Economist
Paul Clark, Industry Economist

Chart of the week.

Tourist arrivals from India have doubled over the past decade despite the lack of a direct air link between the two countries and the disruption caused by the pandemic. The recently signed NZ-India Free Trade Agreement (FTA) is likely to deepen the links between the two countries, contributing to a further increase in holiday, education and business travel to New Zealand over time. At present, New Zealand accounts for just 0.2% of the estimated 33 million trips taken overseas by Indian nationals each year and makes up just 2% of visitor arrivals into New Zealand. As a result, the potential for growth is enormous, even more so given that India's increasing prosperity will lead to more Indian nationals travelling abroad over time. A further doubling of arrivals into New Zealand over the next decade seems easily achievable, adding at least $200m of spending to the NZ economy at current prices.

Visitor arrivals from India

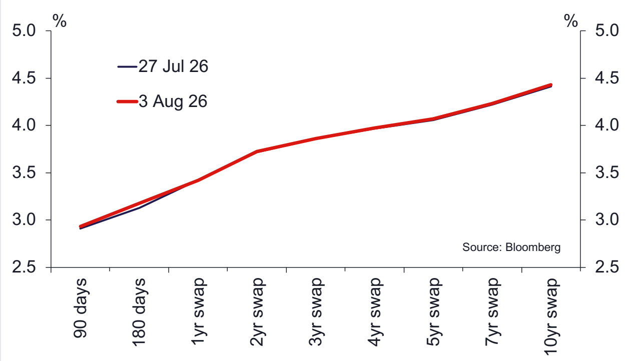


Fixed versus floating for mortgages.

The RBNZ lifted the OCR to 2.5% at its July meeting and signalled the likelihood of further rate hikes over the coming months (dependent on the strength of economic data). We're expecting 25bp hikes at the RBNZ's September and December meetings, with the OCR expected to continue rising next year.

Fixed-term mortgage rates between two and five years now lie above 5%, but fixing for one of these longer periods still 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

Middle East.

The US-Iran conflict has remained highly volatile. After rising above US$100/bbl a week earlier, Brent crude prices initially fell sharply last week after Washington paused its air campaign to allow for renewed diplomacy. However, renewed hostilities and continued threats to regional energy infrastructure saw prices close out the week near $90/bbl.

North America.

The FOMC left the federal funds rate unchanged at last week's meeting. However, three members dissented in favour of an immediate 25bp hike. In his press conference, Chair Kevin Warsh noted that bond yields had risen significantly since the June meeting, suggesting financial conditions had tightened even without a policy rate increase. He also asserted that there is "no soft inflation target" and that the Fed remains fully committed to returning inflation to 2%. However, short-maturity bond yields fell after the meeting, while long-term bond yields rose, suggesting some scepticism in markets about the Fed's commitment. On the data front, core inflation eased modestly to 3.3%yr in June. This week attention will turn to the labour market, with the July employment report released on Friday. The ISM manufacturing and services surveys will also be of interest.

Europe.

As widely expected, the BoE left its policy rate at 3.75% last week. However, three of the nine MPC members voted for an immediate rate hike (up from two at the prior meeting). The Bank indicated that risks to the inflation outlook were tilted to the upside and that policy tightening could still be necessary if the Middle East conflict were to generate second round inflation.

Asia-Pacific.

Australia's CPI report proved softer than expected, with headline inflation easing and the quarterly trimmed mean rising a less than expected 0.8%qtr. As a result, we have changed our call and no longer expect the RBA to lift its policy rate again this cycle. That said, further tightening cannot be ruled out if inflation data disappoints later this year, and the RBA is likely to maintain that optionality in the language that will be used at this month's meeting. Looking further ahead, they expect the RBA will begin unwinding this year's rate hikes in August next year. In China, the official PMIs disappointed in July, with the composite PMI falling to 49.3 – the lowest reading since December 2022. In Japan, the BoJ left its policy rate at 1% as expected but noted upside risks to inflation.

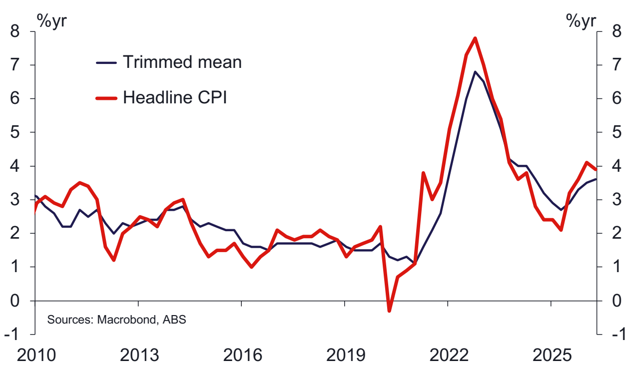
Trading partner real GDP (calendar years)

	Annual average % change			
	2025	**2026**	**2027**	**2028**
Australia	2.0	1.5	1.3	2.2
China	5.0	4.7	4.6	4.4
United States	2.1	2.0	1.8	1.9
Japan	1.1	0.6	0.8	0.9
East Asia ex China	4.7	4.8	4.2	4.2
India	7.6	6.7	6.7	6.6
Euro Zone	1.5	0.2	1.1	1.5
United Kingdom	1.4	1.1	1.1	1.5
NZ trading partners	3.2	2.8	2.7	2.9
World	3.4	3.2	3.3	3.3

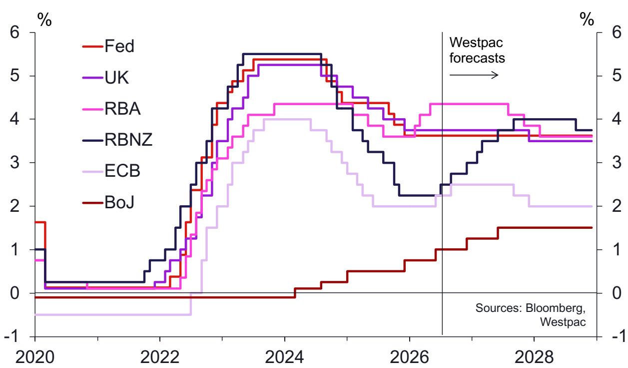
Australian & US interest rate outlook

	31 Jul	Dec-26	Dec-27	Dec-28
Australia				
Cash	4.35	4.35	3.85	3.60
90 Day BBSW	4.50	4.45	3.75	3.70
3 Year Swap	4.48	4.45	4.10	3.90
3 Year Bond	4.49	4.45	4.10	3.90
10 Year Bond	4.95	4.85	4.65	4.65
10 Year Spread to US (bps)	28	25	0	-20
US				
Fed Funds	3.625	3.625	3.625	3.625
US 10 Year Bond	4.66	4.60	4.65	4.85

Oil prices



Global central bank policy rates



Financial markets wrap

Foreign exchange.

NZD/USD enjoyed a solid 2c rise in July, and opens this week at a fresh two-month high of 0.5903. We see potential for further gains during the month ahead, possibly as high as 0.6000.

The main background driver is the interest rate spread between NZ and the US. This has been rising since late June, largely due to the RBNZ's tightening cycle which started in July, and partly due to the Fed's relative reluctance to hike. A more recent driver has been intervention in USD/JPY, which has caused broader selling of the USD. The war continues to fluctuate in intensity, and has the potential to push the USD in either direction.

Key events to watch this week are the NZ Q2 employment data (Wednesday) and the US payrolls data (Friday).

For the quarter ahead, we retain a neutral bias, pending an enduring resolution of the Iran war. A positive outcome could lift the NZD above 0.6000, while a full-scale war could cause a decline to 0.5600.

NZD/AUD's rebound, helped by the RBNZ's July hike, has persisted, and threatens to break above 0.8400 towards 0.8500 during the month ahead. Recent AU inflation data was not as high as feared, and the RBA's tightening cycle may have concluded.

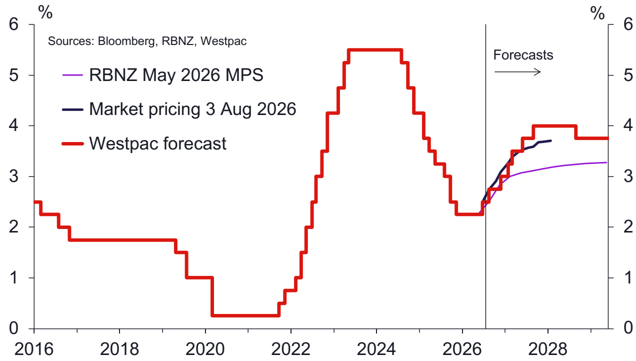
Interest rates.

The 2yr swap rate continues to consolidate around 3.70% after making a cycle high of 3.81% last week. A 3.60%-3.80% range for the month ahead is plausible, but we expect to see it higher in three months' time. The major local risk events during the month ahead will be the Q2 labour data (Wednesday) and the RBNZ MPS (2 Sep).

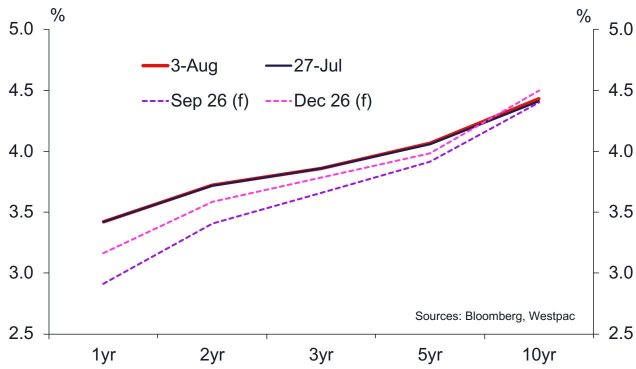
OIS pricing is stuck at a 95% chance of a hike in September, and around a 65% chance of a another in October, with a total of 2.4 more hikes by December. Markets indicate an OCR of either 3.50% or 3.75% in a year's time. We're forecasting hikes in September and December, and an OCR of 3.75% in a year's time (eventually 4.0%).

The yield curve's flattening trend since the peak in late December remains stalled awaiting fresh local catalysts, the 2-10yr swap at 71bp (vs 67bp cycle low). We expect the RBNZ's tightening cycle to bear-flatten the curve further during the year ahead.

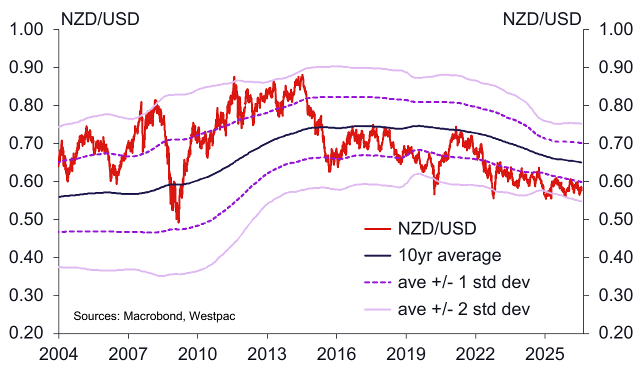
Official Cash Rate forecasts



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	0.587	0.563-0.596	0.553-0.720	0.614	0.60
AUD	0.835	0.816-0.837	0.816-0.971	0.908	0.84
EUR	0.510	0.495-0.513	0.484-0.637	0.558	0.51
GBP	0.436	0.425-0.442	0.425-0.531	0.478	0.44
JPY	94.3	91.1-95.3	74.7-98.6	87.0	96.0

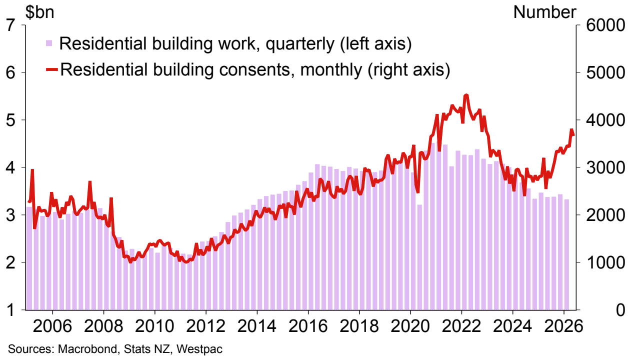
The week ahead

Jun Building Consents

Aug 3, Last: -4.0%, Westpac f/c: -5.0%

Dwelling consent numbers slipped back in May, following a step higher in the previous month. We're expecting another modest easing in June, as large swings in the volatile medium density categories normalise. However, stepping back from the month-to-month swings, the annual total is continuing to rise. In fact, we expect it will lift above 40,000 for the first time since 2023. But while that points to a firming in homebuilding activity through the back half of the year, there are questions about whether that momentum will be sustained. Build costs have been rising, as have interest rates. At the same time, the market for existing housing remains soft. In the non-residential space, we expect the overall value of planned work will remain steady.

Residential building and consent numbers

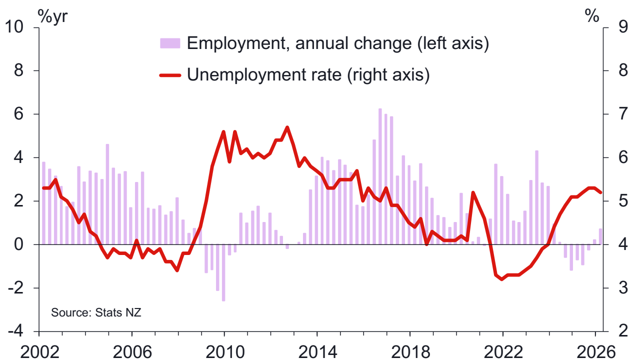


Q2 Labour Market Surveys

Aug 5,
Unemployment Rate, Last: 5.3%, Westpac f/c: 5.4%
LCI Private Sector, Last: 0.5%, Westpac f/c: 0.6%

We expect the unemployment rate to tick up to 5.4% for the June quarter, following a slight fall to 5.3% in the March quarter that was unexpected and not really reflective of the otherwise soft details. Jobs growth has held its ground through the Middle East conflict, but not enough to keep pace with population growth, which points to some combination of higher unemployment and lower participation. Wage growth is likely to remain subdued, given the existing slack in the labour market. Our picks are in line with the RBNZ's May Monetary Policy Statement forecasts.

Employment growth and unemployment rate

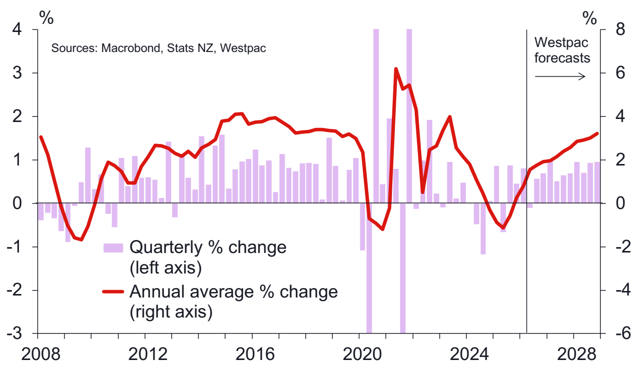


Economic and financial forecasts

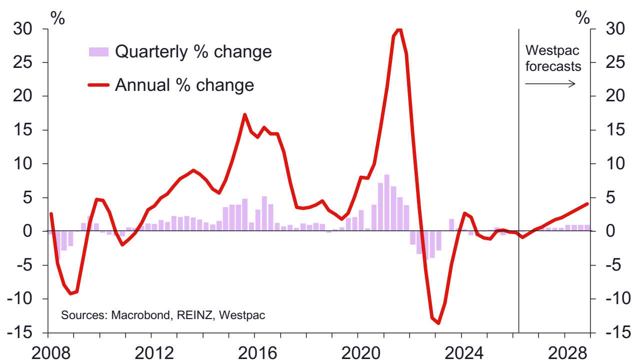
Economic indicators	Quarterly % change				Annual % change			
	Mar-26	Jun-26	Sep-26	Dec-26	2024	2025	2026	2027
GDP (production)	0.8	-0.1	0.6	0.7	-1.6	1.5	2.0	2.9
Consumer price index	0.9	1.5	0.7	0.4	2.2	3.1	3.5	1.9
Employment change	0.1	0.1	0.3	0.6	-1.3	0.2	1.2	2.5
Unemployment rate	5.3	5.4	5.4	5.3	5.1	5.4	5.3	4.9
Labour cost index (all sectors)	0.5	0.6	0.7	0.6	3.3	2.0	2.4	2.4
Current account balance (% of GDP)	-3.6	-3.7	-3.9	-3.9	-4.7	-3.6	-3.9	-3.9
Terms of trade	-1.6	1.4	0.9	-0.1	8.9	3.4	0.6	3.9
House price index	0.1	-0.1	0.0	0.2	-1.0	-0.1	0.3	2.0

Financial forecasts	End of quarter				End of year			
	Mar-26	Jun-26	Sep-26	Dec-26	2024	2025	2026	2027
OCR	2.25	2.25	2.75	3.00	4.25	2.25	3.00	4.00
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	67.6	69.5	66.4	67.6	72.2
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

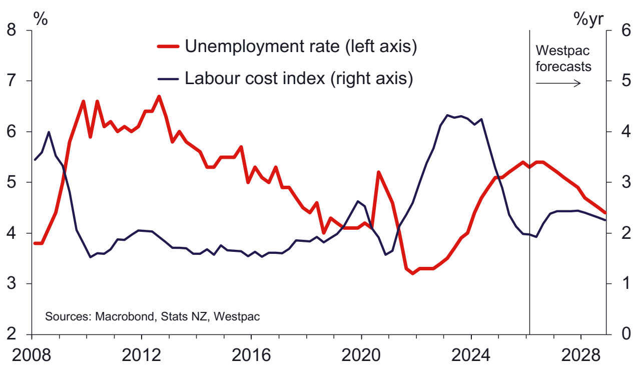
GDP growth



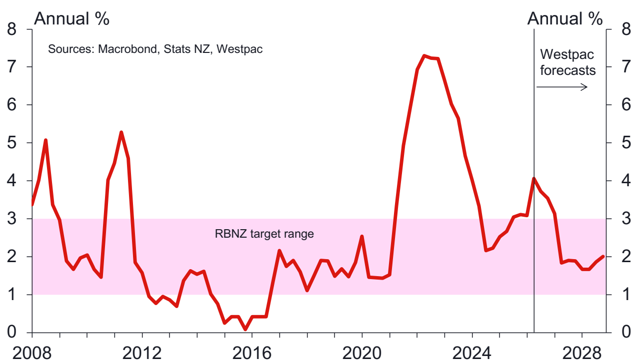
House prices



Unemployment and wage growth



Consumer price inflation



Data calendar

		Last	Market median	Westpac forecast	Risk/Comment
Mon 03					
NZ	Jun Building Permits, %mth	–4.0	–	–	Annual consents to reach 40,000 for the first time since 2023.
Aus	Jul MI Inflation Gauge, %ann	3.9	–	–	Provides a very general gauge on inflation pressures.
	NSW Bank Holiday	–	–	–	ASX open, bond markets closed.
Chn	Jul RatingDog Manufacturing PMI, index	51.7	52	–	Export-oriented manufacturers faring well as trade booms.
US	Jul ISM Manufacturing, index	53.3	54	–	Regional surveys point to continued expansion.
	Jun Construction Spending, %mth	0.1	0.2	–	High rates weigh broadly; data centres buck the wider trend.
World	Jun S&P Global Manufacturing PMI, index	–	–	–	Final estimate for Japan, Eurozone, UK and US.
Tue 04					
Aus	Jul ANZ–Indeed Job Ads, %mth	–0.2	–	–	Suggests labour demand is broadly steady.
	Jun Household Spending Indicator, %mth	1.3	0.1	0.1	Spending indicator points to softer pace through Q2
US	Jun Trade Balance, US$bn	–77.6	–73.0	–	Another round of tariff-related volatility incoming.
	Jun Factory Orders, %mth	–1.3	0.4	–	Outside of noisy transport orders, strength is broadly based...
	Jun Durable Goods Orders, %mth	0.3	–	–	... across metal, machinery, computer and electronic goods.
	Jun JOLTS Job Openings, 000s	7594	7250	–	Falling participation rate leaving more vacancies unfilled.
Wed 05					
NZ	Q2 Employment, %qtr	0.2	0.1	–	Jobs market holding up in the face of the oil price shock...
	Q2 Unemployment Rate, %	5.3	5.4	–	...but not enough to prevent a further rise in unemployment.
	Q2 LCI Wage Inflation (Pvte, Ord. Time), %qtr	0.5	0.6	–	Wage pressures remain muted given existing slack.
	Jul ANZ Commodity Prices, %mth	–1.0	–	–	Falls in dairy, beef, wool, aluminium prices.
Chn	Jul RatingDog Services PMI, index	54.1	53.7	–	Points to a much rosier picture than official PMIs suggest.
Eur	Jun PPI, %ann	5.9	–	–	Higher energy costs clearly manifesting in upstream prices.
US	Jul ADP Employment Change, 000s	98	75	–	Broadly consistent with revised trend in payrolls data.
	Jul ISM Services, index	54	54.3	–	Activity buoyant amid healthy orders, employment recovery.
World	Jun S&P Global Services PMI, index	–	–	–	Final estimate for Japan, Eurozone, UK and US.
Thu 06					
Aus	Jun Goods Trade Balance , $bn	–3.0	–1.0	–1.8	Remain in deficit, despite the expected improvement
Eur	Jun Retail Sales, %mth	0.2	0.1	–	Consumer in good standing to weather headwinds.
US	Q2 Productivity, %ann	0.3	0.7	–	Holding to a solid trend.
	Wkly Initial Jobless Claims, 000s	197	–	–	Remains at a relatively low level.
	Jun Wholesale Inventories, %mth	0.3	–	–	Final estimate.
Fri 07					
Jpn	Jun Household Spending, %ann	–0.4	1	–	Points to downside risks around the consumer.
Chn	Jul Foreign Reserves, US$bn	3416.3	–	–	Authorities have ample liquidity.
	Jul Trade Balance, US$bn	125.62	113.7	–	Trade a saving grace as domestic demand struggles to refire.
US	Jul Nonfarm Payrolls, 000s	57	88	75	Payrolls data has been incredibly noisy over recent months...
	Jul Unemployment Rate, %	4.2	4.2	4.3	... the household survey points to downside risks...
	Jul Average Hourly Earnings, %mth	0.3	0.3	–	... with falling participation the only thing keeping U/E stable.
	Jun Consumer Credit, $bn	–0.182	–	–	Slower consumper spending gives leeway to pay down debt.
	Jul NY Fed 1-Yr Inflation Expectations, %ann	3.67	–	–	May remain elevated as gasoline prices start to lift again.
	Fedspeak	–	–	–	Barkin.

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