



WEEKLY ECONOMIC COMMENTARY



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RBNZ's Breman says core inflation stable

The domestic focus during last week remained on gathering up-to-date information on how the New Zealand economy is being impacted by the ongoing Middle East conflict and assessing the RBNZ's likely response.

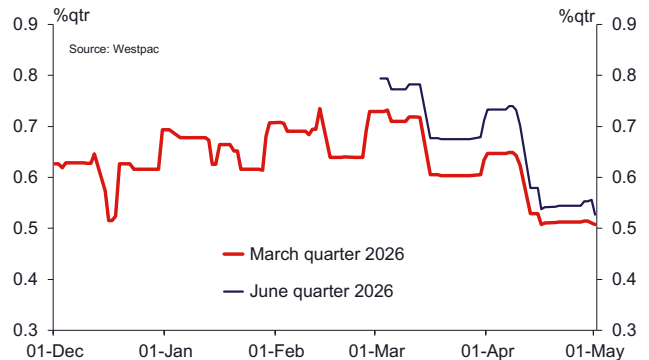
Early in the week, RBNZ Governor Breman participated in an event in Hamilton as part of her regional engagement programme. While there were no formal speech notes, the RBNZ issued a press statement outlining the points that she planned to make during a panel discussion, while audio from the session was also made available. In our view, Breman's comments were consistent with those made at the 8 April OCR review. Specifically, Breman stated that "...the Reserve Bank remains focused on balancing inflation control with supporting economic recovery." And she reiterated that "...monetary policy can and should ensure that a temporary increase in inflation does not turn into enduring inflationary pressures."

Perhaps the main news was Breman's reflection on the previous week's Q1 CPI report. She noted that annual inflation of 3.1% was slightly higher than expected at the time of the April OCR Review. But importantly, she added that "...measures of core inflation, which look through this volatility, have remained stable within the target band." She also emphasised that the Bank was focused on the prospect of second-round inflation effects, specifically transmitted through the labour market, rather than the first-round impact of higher fuel prices. These comments suggest that the RBNZ will take the time necessary to fully understand the nature and implications of the conflict before deciding how it should respond. Breman's comments were the initial catalyst for the repricing of prospects of a rate hike at the RBNZ's 27 May meeting, which the market now views as around 25% (down from 60% at the beginning of the week). Confidence reports

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



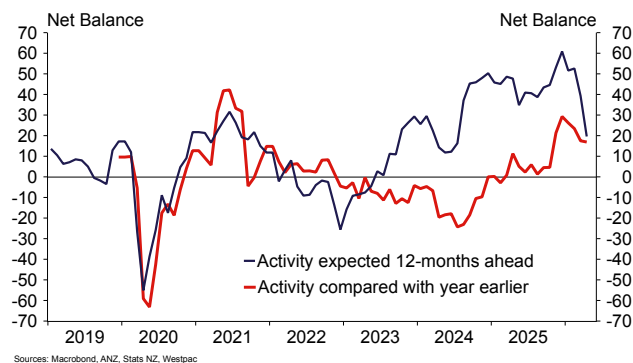
Key data and event outlook

Date	Event
5 May 26	RBA Monetary Policy Decision
6 May 26	Labour market surveys, March quarter
6 May 26	RBNZ Financial Stability Report
12 May 26	Govt accounts for 9 months to March
15 May 26	NZ Selected price indexes, April
27 May 26	RBNZ OCR Review & Monetary Policy Statement
28 May 26	NZ Government Budget
4 Jun 26	Govt accounts for 10 months to April
16 Jun 26	NZ Selected price indexes, May
16 Jun 26	RBA Monetary Policy Decision

released later in the week – discussed below – have contributed to that repricing. For the record, Westpac continues to forecast a first lift in the OCR in September.

Staying with the RBNZ, it was announced last week that the Minister of Finance and the Bank’s Monetary Policy Committee (MPC) have **agreed changes to the MPC Charter**. These changes will provide more transparency and accountability to MPC decision-making. They also are a subset of **the reforms we recommended** in a note published last year before the new Governor took up her role. While the new Charter continues to encourage the formation of a consensus decision, it requires that the votes of individual members be attributed when a vote takes place. As well as attributing votes, material differences of view or judgement within the Committee will also be attributed in the published Record of Meeting, even when no vote is taken. This will make it easier for MPC members to publicly express differing views on the economic outlook and monetary policy strategy (indeed, it makes clear that members are encouraged to communicate those views externally). The new Charter will be in place for the RBNZ’s 27 May meeting so will help elucidate any differences in view amongst the MPC. These reforms are a welcome step in the right direction in our view. Although just how effective the changes will be is still to be assessed in light of just how frequent votes are and the threshold applied when determining if an alternative view is specifically recorded.

Activity past year vs expected year ahead

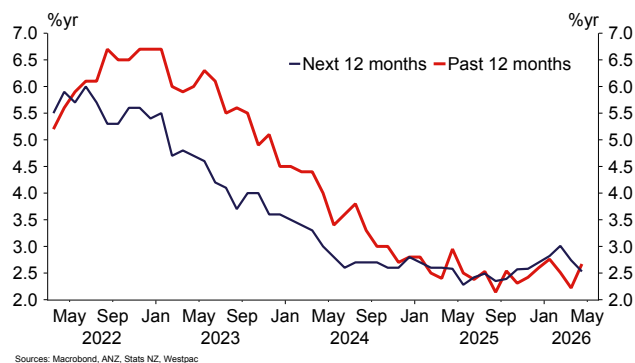


On the data front, the focus last week was the ANZ’s Business Outlook Survey for April. Overall, the broad theme of the survey was much as should have been expected based on the late responses to last month’s survey and the results of last week’s QSBO business survey. Headline business confidence has taken a significant knock, with net optimism declining to -10.6 from 32.5 in April – the first negative reading since 2023. Encouragingly, firms remain more optimistic about their own situation, although the proportion of firms expecting their own trading activity to increase over the next year has halved to 19.6. A similar proportion continue to report an increase in activity levels over the past year, suggesting that demand is holding up for many firms. Uncertainty is curbing firms’ willingness to invest

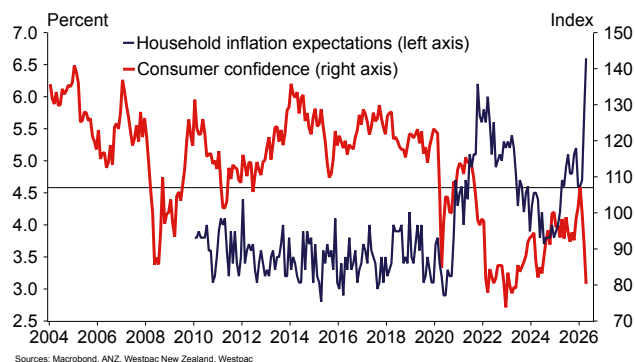
in expanding their businesses, however, with net hiring intentions turning modestly negative in April and net investment intentions sliding to barely positive levels. Overall, this survey portrays the picture we expected to see a few weeks ago when we significantly downgraded our view on growth through mid-2026.

Predictably, firms’ year-ahead inflation expectation increased to 3.81% from 3.08% previously, even as the net proportion of firms reporting an intention to raise prices fell modestly from March. Firms reported a sharply higher expected increase in their costs over the next three months, whereas expected price increases were little changed from last month’s survey. This points to significant pressure on firms’ profit margins. Perhaps as a response, firms forecast for year-ahead wage growth fell to just 2.5% - now close to last year’s low. The latter is likely to be viewed somewhat encouragingly by the RBNZ given its concern that high near-term headline CPI inflation rate could morph into second-round inflation by driving a wage-price spiral (albeit the current slack in the economy).

ANZ wage measures



Consumer confidence and inflation expectations



Turning to the rest of last week’s data, the ANZ’s consumer confidence index slumped a further 12% to a three-year low of 80.3 in April. This reading is in line with the responses that had been collected in the final week of the March survey, suggesting that confidence may have been broadly stable over the past month. The net proportion of households thinking it’s a good time to buy a major household item (the best retail indicator) fell

11ppts to -25, which is the lowest level since September 2024. This appears consistent with some recent anecdotes from the retail sector. Household's two-year ahead inflation jumped 0.9ppts to 6.6%, thus exceeding the levels reached even during the Covid spike.

The final piece of data last week was the building consents report for March. The number of dwelling consents fell a modest 1.3% during the month but were still 8.2% higher than a year earlier. Given that most of the consents issued in March were likely filed in February, it will be another month or two before any impact from the Middle East conflict becomes evident in the building consents figures.

One piece of good news was the Government's announcement that it had reached an agreement with one of the largest fuel companies to supply 90m litres of diesel – equivalent to nine days of regular demand – to fill the additional storage space that will become available towards the end of June. This will increase the average level of diesel in the country at any given time by about a third, adding a small but welcome degree of resilience.

This week the focus domestically will be on the March quarter labour market surveys. While these surveys will give no insight about the emerging impact of the Middle East conflict, they will still provide important information on the degree of spare capacity and labour cost pressure prior to the oil price shock.

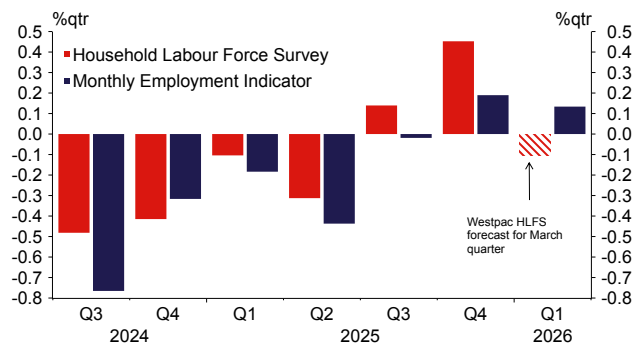
expect a modest decline in participation to be recorded in the March quarter.

Turning to labour costs, given the usual lags, spare capacity in the labour market will likely continue to have restrained wage growth in the March quarter. We expect a 0.5%q/q rise in the Labour Cost Index (LCI) for the March quarter, leaving annual growth at around 2%. Our forecast for private sector wage growth is slightly more subdued at 0.4%q/q. The public sector tends to see larger pay increases in March quarters – we've pencilled in a 0.8%q/q rise, though this would still see annual growth slow from 2.2% to 2.0%.

Our picks are a little softer than the RBNZ's February Monetary Policy Statement forecasts, which assumed faster jobs growth and a decline in the unemployment rate by this point. At the margin, a result in line with our forecasts would strengthen the case for caution before lifting the OCR. But the bigger issue for the RBNZ will be what has happened since the MPS: the Middle East oil shock will hinder the economic recovery, potentially leading to delays in hiring, layoffs and business failures. The RBNZ will need to balance what this might mean for medium-term inflation against the risk that high near-term inflation could nonetheless raise medium-term inflation expectations.

Darren Gibbs, Senior Economist

NZ employment measures



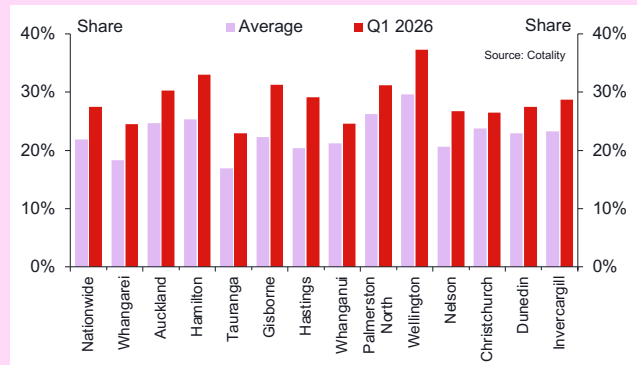
Sources: Macrobond, Stats NZ, Westpac

As my colleague Michael Gordon wrote in his preview, we expect that **the unemployment rate likely remained stable at 5.4%** during the March quarter. While the tax-based Monthly Employment Indicator (MEI) points to a modest lift in employment in the quarter – broadly in line with growth in the working age population – we expect the Household Labour Force Survey (HLFS) of measure of employment will post a 0.1%q/q decline. This simply reflects our sense that the 0.5%q/q increase in the HLFS measure in the December quarter was likely overstated, with the MEI failing to validate the HLFS's indication of a sharp rise in employment among the under-25s during that quarter. With the labour force participation rate in the December quarter likely similarly overstated, we

Chart of the week.

First home buyers accounted for 27.5% of property purchases in the March quarter. That’s just shy of the record high of 28.2% that we saw at the end of last year, with the proportion of sales to first-time buyers elevated right across the country. As we discuss in our upcoming Cotality-Westpac First Home buyer report (out this Friday), the housing market is now looking a lot more accessible for those looking to get into their first home. Even with the recent rise in mortgage rates, borrowing costs are much lower than they were in recent years. In addition, LVR lending restrictions have eased. And there’s also large numbers of properties for sale.

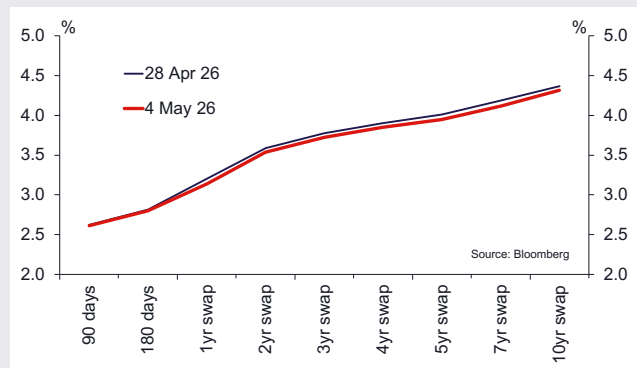
First home buyers’ share of purchases



Fixed versus floating for mortgages.

Recent weeks have seen a broadening in inflation pressures in the wake of the Middle East conflict and the RBNZ has revised its near-term inflation outlook sharply higher. In response to those developments, the RBNZ’s latest policy statement noted related concerns about the longer-term inflation outlook. We’ve pulled forward our expectations for OCR hikes, which are now expected to begin in September (previously, we expected the first hike in December). 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 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

North America.

As expected, the FOMC left the funds rate on hold at its April meeting. More notable was the split among the committee members. Miran again voted for a rate cut. However, Hammack, Kashkari and Logan (all of whom voted for a hold) did not agree with the inclusion of an easing bias in the statement, reflecting concerns about the inflation outlook. On this front, March saw a firming in inflation, with the headline PCE deflator rising to 3.5%/yr (vs 2.8% prev.) with core at 3.2% (vs 3.0% prev.). We've also seen resilience in spending (up 0.9% in March), with income growth also firmer than expected. Across in Canada, the BoC also remained on hold. The Governing Council noted that they are looking through the oil-related rise in inflation currently in train but will not let higher energy prices translate through to persistent higher inflation. The BoC also noted that it stands ready to respond as needed. Looking to the week ahead, the highlight will be Friday's US non-farm payrolls report.

Europe.

The ECB held its deposit rate at 2%, emphasising a data dependent, meeting by meeting approach. Policymakers flagged intensifying upside risks to inflation due to higher fuel prices, along with downside risks for growth. While the on-hold decision was unanimous, Lagarde noted that there was a lengthy discussion about a rate hike. She also noted that there would be more information to make an informed decision at the time of the June meeting. Across the Channel, the BoE left the Bank Rate at 3.75% in an 8-1 vote, with one member (Pill) favouring a hike. The MPC highlighted heightened uncertainty, rising inflation and risks of second round effects, but judged a hold was appropriate given signs of softening activity.

Asia-Pacific.

Australian inflation accelerated to 4.1%/yr in March on the back of a 33% surge in fuel prices, with trimmed mean inflation also coming in at an above target level of 3.5%/yr. Notably, March's data pre-dates much of the fuel-related price increases that have emerged in recent weeks. Given the firm outlook for inflation, we continue to expect a 25bps rise in the cash rate at tomorrow's RBA policy meeting, with two further hikes expected in June and August. In Japan, the BoJ held its policy rate at 0.75% in a 6-3 vote (three members voted for a hike). Updated forecasts for growth in FY26 were revised sharply lower to 0.5% (from 1.5%) with core inflation now expected to remain above 2% through to FY28. Further hikes were signalled, but the timing was left open.

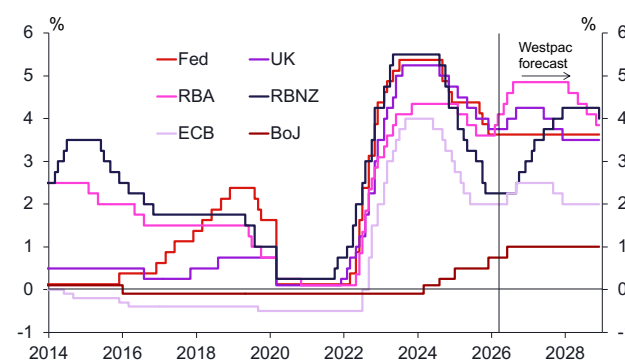
Trading partner real GDP (calendar years)

	Annual average % change			
	2024	2025	2026	2027
Australia	1.0	2.0	1.8	1.2
China	5.0	5.0	4.7	4.6
United States	2.8	2.1	1.5	1.6
Japan	-0.2	1.2	0.6	0.8
East Asia ex China	4.5	4.7	4.2	4.2
India	7.1	7.6	6.5	6.7
Euro Zone	0.9	1.5	0.8	1.3
United Kingdom	1.1	1.4	0.7	1.2
NZ trading partners	3.0	3.2	2.7	2.7
World	3.4	3.4	3.1	3.2

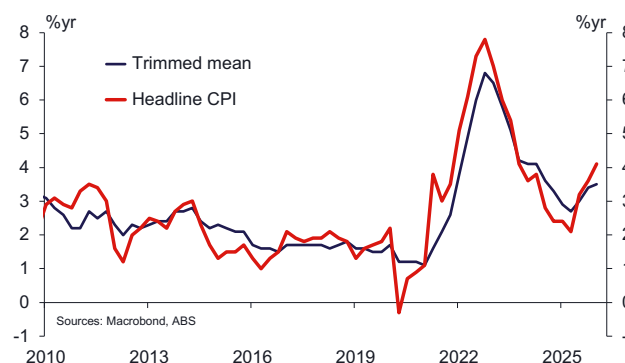
Australian & US interest rate outlook

	1 May	Jun-26	Dec-26	Dec-27
Australia				
Cash	4.10	4.60	4.85	4.85
90 Day BBSW	4.37	4.80	4.90	4.80
3 Year Swap	4.71	4.80	4.70	4.40
3 Year Bond	4.72	4.80	4.70	4.40
10 Year Bond	5.02	5.00	5.05	4.95
10 Year Spread to US (bps)	63	65	60	30
US				
Fed Funds	3.625	3.625	3.625	3.625
US 10 Year Bond	4.39	4.35	4.45	4.65

Global central bank policy rates



Australian CPI inflation



Financial markets wrap

Foreign exchange.

NZD/USD remains subject to Iran war developments, which has occasionally and fleetingly hinted at resolution. That has kept NZD/USD within a 0.5815-0.5930 range during the past four weeks and allows for a break in either direction depending on the war's trajectory.

Data wise, the local highlight for markets will be the Q1 labour data on Wednesday, our expectation being a stable unemployment rate at 5.4%. In addition, RBNZ MPC external member Gai speaks today. In the US, Friday's monthly payrolls data will be important.

For the quarter ahead, we retain a neutral bias pending resolution of the war. An escalation would likely cause a break below 0.5700, towards 0.5500, while a resolution would likely ignite a rally towards the 0.6000-0.6100 area.

NZD/AUD's trend decline remains intact, after making a 13-year low at 0.8174 in late April. The recent catalysts have been mostly from NZ, such as the weak business and consumer sentiment surveys, and RBNZ Governor Breman's speech which was less hawkish than markets had expected. Multi-month, we retain a bearish bias, based on relative economic performance and the trend decline in NZ-AU yield spreads which should continue to support the AUD. In addition, Australia is likely to be more resilient to a prolonged war and oil shock than is NZ.

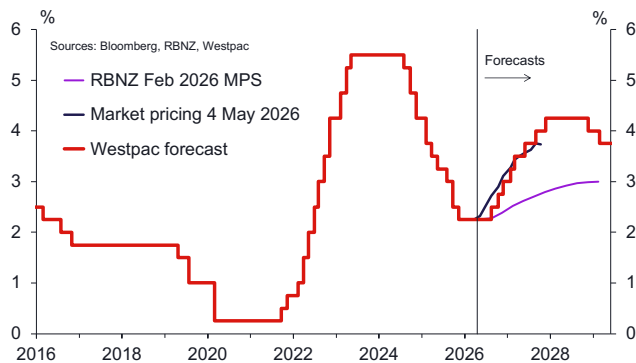
Interest rates.

The NZ 2yr swap rate broke above the 3.35%-3.55% range last week, reaching 3.63%, before retracing to the 3.54% following weak business and consumer sentiment surveys, and RBNZ Governor Breman's speech which was less hawkish than markets had expected. Near term, opportunistic receivers will likely enter around 2.55% - 2.60%, capping yields for the weeks ahead. Multi-month, though, we see risks remaining upwardly skewed, since war-related inflationary pressures are likely to persist for some time and this will keep market pricing for OCR hikes at later meetings elevated.

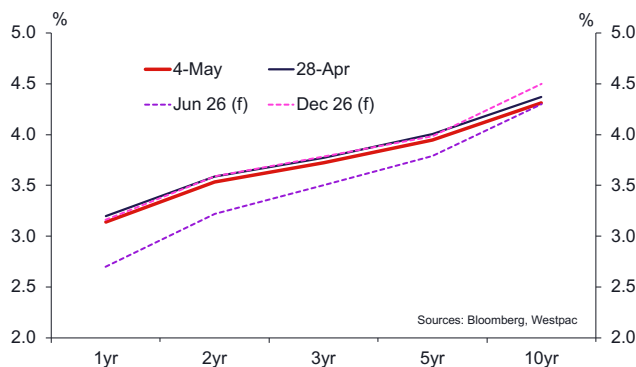
OIS pricing for near meetings fell last week, mainly due to the events noted above. There is now a 30% chance of a May OCR hike (was 55%), and a 100% chance by July (was over 100%). But further out, there remain almost four hikes in total priced by year end, which is slightly more aggressive than our own forecast for hikes in September, October and December (and beyond).

The yield curve's flattening trend since the peak in late December remains intact, the 2-10yr swap at 78bp vs December's cycle peak at 120bp. We expect further flattening during the year ahead as we approach the RBNZ's tightening cycle, the 2-10yr swap with potential to reach 50bp.

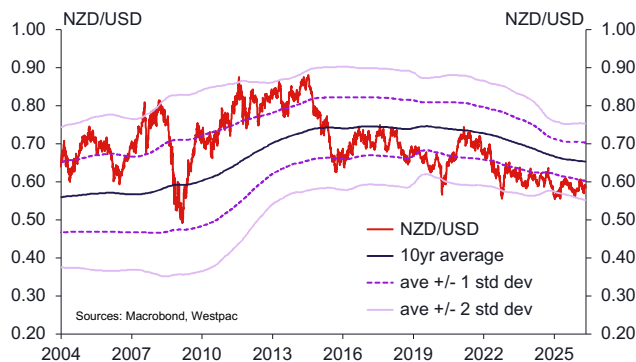
Official Cash Rate forecasts



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	0.590	0.569-0.605	0.553-0.728	0.620	0.62
AUD	0.818	0.818-0.865	0.818-0.971	0.914	0.85
EUR	0.502	0.493-0.511	0.484-0.637	0.563	0.52
GBP	0.434	0.430-0.444	0.426-0.531	0.482	0.45
JPY	92.5	91.0-94.4	74.7-98.6	86.2	95.5

The week ahead

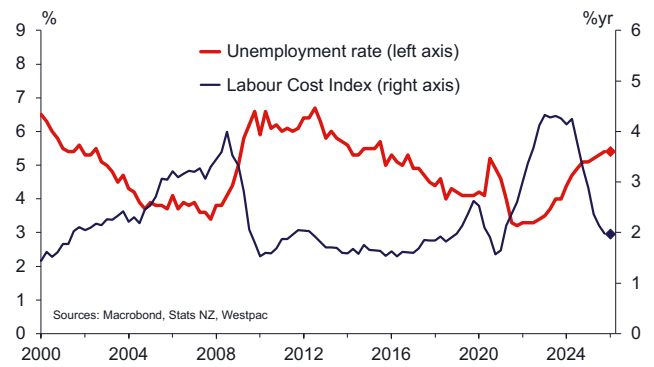
Q1 Labour Market Surveys (%)

May 6, Unemployment Rate, Last: 5.4, Westpac f/c: 5.4

May 6, LCI Private Sector, Last: 0.5, Westpac f/c: 0.4

We expect the unemployment rate to hold steady at 5.4% for the March quarter. High-frequency indicators have pointed to a modest lift in jobs in recent months, though not outpacing the growth in the working-age population. We do expect to see a small downward correction in the HLF5 employment measure, after an overstated 0.5% rise in the December quarter, but this doesn't alter the general picture – we recommend focusing on the unemployment rate, as this is less vulnerable to sampling errors. Given the existing slack in the labour market, wage growth is likely to have remained subdued.

Labour market surveys

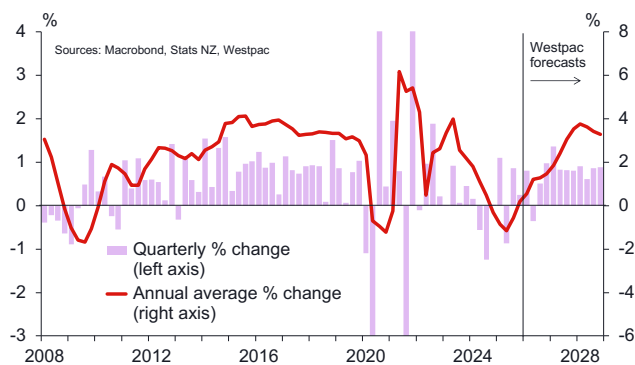


Economic and financial forecasts

Economic indicators	Quarterly % change				Annual % change			
	Sep-25	Dec-25	Mar-26	Jun-26	2024	2025	2026	2027
GDP (production)	0.9	0.2	0.8	-0.4	-1.6	1.3	1.9	3.9
Consumer price index	1.0	0.6	0.9	1.9	2.2	3.1	4.1	1.7
Employment change	0.0	0.5	-0.1	0.1	-1.3	0.2	1.1	3.1
Unemployment rate	5.3	5.4	5.4	5.6	5.1	5.4	5.4	4.6
Labour cost index (all sectors)	0.4	0.4	0.5	0.6	3.3	2.0	2.3	2.2
Current account balance (% of GDP)	-3.5	-3.7	-3.9	-4.1	-4.7	-3.7	-4.1	-3.7
Terms of trade	-0.5	0.3	-3.0	-0.1	8.9	3.5	1.2	5.0
House price index	-0.6	-0.3	0.4	-0.3	-1.0	-0.1	-0.9	2.0

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	3.00	4.25
90 day bank bill	3.10	2.52	2.51	2.50	4.45	2.52	3.40	4.45
2 year swap	2.99	2.71	3.12	3.75	3.64	2.71	4.30	4.35
5 year swap	3.40	3.27	3.71	4.10	3.73	3.27	4.35	4.45
10 year bond	4.42	4.27	4.54	4.85	4.50	4.27	5.00	5.10
TWI	68.4	66.4	67.2	66.5	69.5	66.4	69.1	72.7
NZD/USD	0.59	0.57	0.59	0.59	0.59	0.57	0.62	0.67
NZD/AUD	0.91	0.87	0.85	0.82	0.91	0.87	0.85	0.91
NZD/EUR	0.51	0.49	0.50	0.50	0.55	0.49	0.52	0.55
NZD/GBP	0.44	0.43	0.44	0.44	0.46	0.43	0.45	0.48

GDP growth



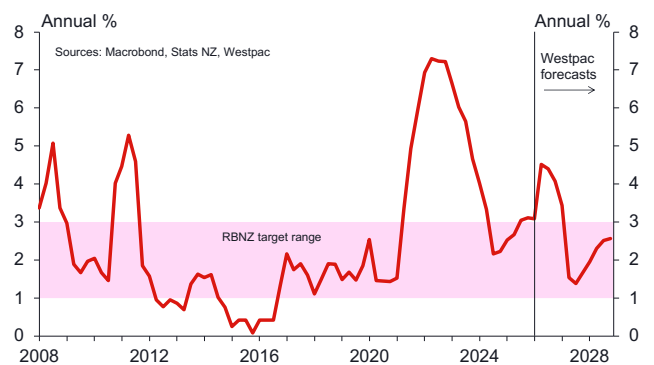
House prices



Unemployment and wage growth



Consumer price inflation



Data calendar

		Last	Market median	Westpac forecast	Risk/Comment
Mon 04					
Aus	Apr MI Inflation Gauge, %ann	4.3	-	-	Provides a general indication of inflation trends.
	Apr ANZ-Indeed Job Ads, %mth	-3.1	-	-	Closely watched for early signs of easing labour demand.
	Mar Dwelling Approvals, %mth	29.7	-10.0	-5.0	Likely to move lower as the rise in unit approvals unwinds.
Eur	Apr S&P Global Manufacturing PMI, index	52.2	52.2	-	Final estimate.
	May Sentix Investor Confidence, index	-19.2	-21.0	-	Investors are growing very anxious over Europe's outlook.
US	Mar Factory Orders, %mth	0	0.4	-	Conflict may put some investment plans on the back burner.
	Fedspeak	-	-	-	Williams.
Tue 05					
NZ	Apr ANZ Commodity Prices, %mth	4.1	-	-1.0	Dairy and meat prices eased over the month.
Aus	Mar Household Spending Indicator, %mth	0.3	1.5	2	Expect a large jump led by a sharp rise in fuel prices.
	RBA Policy Decision	4.1	4.35	4.35	Inflation's high starting point and signs of swift pass-through...
	RBA Statement of Monetary Policy	-	-	-	... of fuel costs will compel the RBA to respond in May.
US	Mar Trade Balance, US\$bn	-57.3	-59.7	-	Volatile as companies adapt to tariffs.
	Apr ISM Services, index	54	53.7	-	Services activity currently robust, but outlook is cloudy ...
	Apr S&P Global Services PMI, index	51.3	-	-	... S&P Global pointing to more downside risks than ISM.
	Mar New Home Sales, %mth	-17.6	-	-	Sales volumes 43% below peak and near 2022 lows.
	Mar JOLTS Job Openings, 000s	6882	6803	-	Lower openings-to-unemployed points to slackening.
Wed 06					
NZ	RBNZ Financial Stability Report	-	-	-	Six-monthly review of financial conditions.
	Q1 Unemployment Rate, %	5.4	5.4	5.4	Signs that the labour market was stabilising in Q1...
	Q1 Employment, %qtr	0.5	0.3	-0.1	...though we expect a downward correction in employment.
	Q1 LCI Wage Inflation (Pvte, Ordinary Time), %qtr	0.4	0.4	0.4	Wage pressures to remain muted at this stage.
Chn	Apr RatingDog Services PMI, index	52.1	52	-	Materially stronger than official gauges.
Eur	Mar PPI, %ann	-3.0	1.5	-	Producers have some capacity to absorb upstream pressures.
US	Apr ADP Employment Change, 000s	62	70	-	Noisy and imperfect guide to official payrolls data.
	Fedspeak	-	-	-	Musalem, Goolsbee.
World	Apr S&P Global Services PMI, index	-	-	-	Final estimate for Europe and UK.
Thu 07					
Aus	Mar Goods Trade Balance, \$bn	5.7	4.4	3.9	Shipments of the 'big 3' commodities may appear lower.
Eur	Mar Retail Sales, %mth	-0.2	-0.2	-	Risk around real incomes may crimp discretionary spending.
US	Mar Construction Spending, %mth	-0.3	-	-	Healthy existing inventory of new homes as sales collapse.
	Apr NY Fed 1-Yr Inflation Expectations, %ann	3.42	-	-	Expectations still well contained at this stage.
	Mar Consumer Credit, \$bn	9.5	12.5	-	On a firmer trend compared to this time last year.
	Initial Jobless Claims	189	-	-	Still at a very low level versus history.
	Fedspeak	-	-	-	Hammack, Williams.
Fri 08					
Jpn	Apr S&P Global Services PMI, index	51.2	-	-	Final estimate.
US	Apr Nonfarm Payrolls, 000s	178	60	90	March's rebound does little to offset earlier stagnation.
	Apr Unemployment Rate, %	4.3	4.3	4.3	Closer to 5% on a constant-participation basis, implying ...
	Apr Average Hourly Earnings, %mth	0.2	0.3	-	... a marked turn in job creation and building downside risks.
	May Uni. Of Michigan Sentiment, index	49.8	49.3	-	Pointing to a weaker consumer through to mid-year.
	Fedspeak	-	-	-	Goolsbee.

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