



WEEKLY ECONOMIC COMMENTARY



5 Oct 2026 | Westpac Economics Team | westpac.co.nz/economics | economics@westpac.co.nz

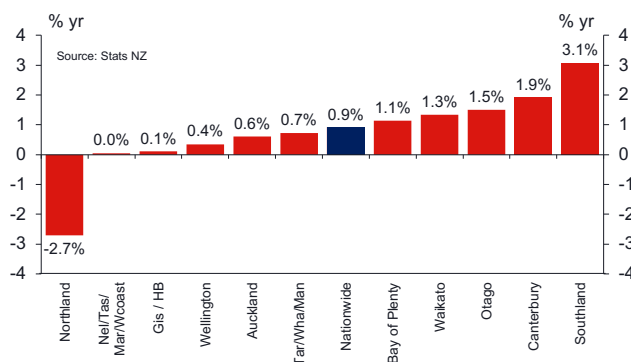
Resilient activity and simmering inflation

While bumpy and uneven, New Zealand's economic recovery has continued over the past few months, with activity showing resilience in the face of continued global headwinds. Under the surface, however, inflation pressures are bubbling away, with much of that pressure centred on parts of the economy that aren't sensitive to interest rates.

Economic activity getting back on firmer footing.

Looking first at recent activity data, the economy has been finding its feet again after taking a knock in the wake of the Middle East war. That has been seen most clearly in the jobs market, with the number of filled jobs rising by 0.9% in the year to August. While not shooting the lights out, that is still a noticeable improvement from the early part of the year, when filled job numbers were falling.

Filled jobs growth by region

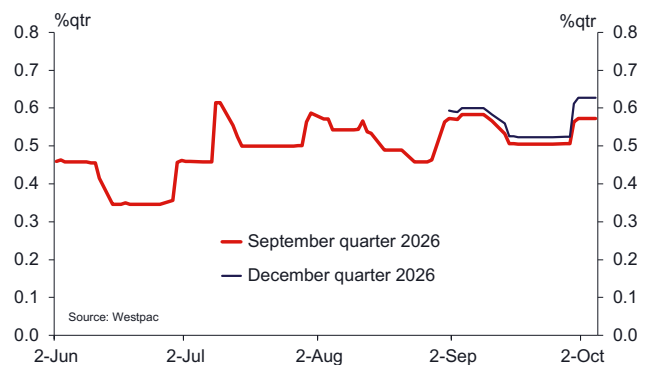


Under the surface, it's still a very mixed picture. Agriculture remains the main engine of growth, with the strength in commodity export earnings helping to boost

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
6 Oct 26	NZIER QSBO Survey, September quarter
16 Oct 26	NZ Selected price indexes, September
21 Oct 26	NZ CPI, September quarter
28 Oct 26	RBNZ OCR Review
28 Oct 26	FOMC meeting (29 Oct NZT)
3 Nov 26	RBA Monetary Policy Decision
5 Nov 26	Labour market surveys, September quarter
8 Nov 26	NZ General Election
11 Nov 26	RBNZ Financial Stability Report
17 Nov 26	NZ Selected price indexes, October

incomes, confidence and spending in regions with strong rural backbones. That's supported firm job growth in regions like Canterbury (where filled job numbers are up 1.9% over the past year), Otago (+1.5%) and Southland (+3.1%). In contrast, jobs growth remains much more moderate in Auckland (up 0.6%) and Wellington (up just 0.4%). That town-and-country split is likely to remain a feature of the economic landscape for some time yet.

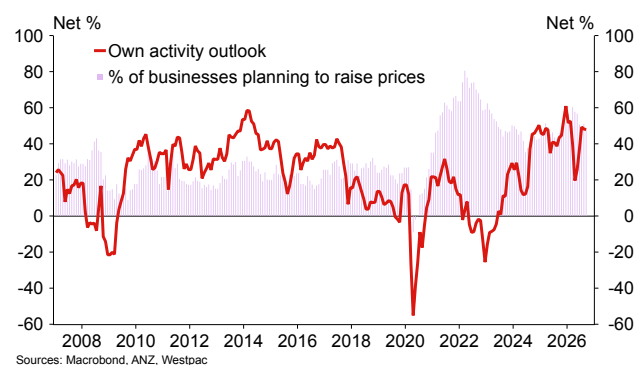
Looking ahead, businesses expect trading conditions to remain resilient through the final months of the year. That was reflected in September's Business Outlook survey. While the survey's gauges of expected business activity and general business confidence eased over the past month, they remain at firm levels, consistent with continued moderate growth through the latter part of the year. That resilience has also been evident in the household sector, with consumer confidence largely steady through September.

The resilience in household and business sentiment is notable, as fuel prices have taken a big step higher over the past month. The average price of 91 unleaded has risen by nearly 50 c/litre – albeit late in the month and likely not fully reflected in surveyed confidence – taking it back to the levels seen during the early stages of the Middle East conflict. Those higher fuel prices have taken a bite out of household disposable incomes, with spending on fuel up about 25% compared with this time last year, even though the volume of fuel sold is down around 9%.

But even with the lift in fuel prices, we haven't seen the same degree of pessimism as earlier in the year, when fuel prices first spiked. Notably, those higher fuel prices haven't spilled over into a broader lift in output price pressures either, at least at this stage. Inflation expectations were steady in September's household and business surveys. Similarly, the number of firms planning to raise prices fell back despite a lift in wage and cost expectations. However, while that stability in pricing gauges is welcome, measures of inflation pressure remain elevated.

Taken together, recent data reinforce indications that the economy is shaking off the impacts of the Iran war.

Business confidence and pricing intentions



Persistent inflation drivers and the RBNZ.

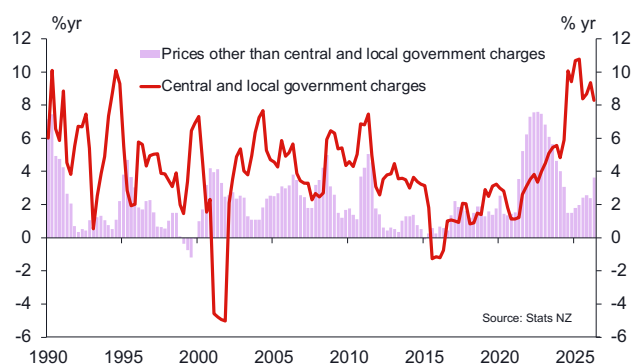
Turning to inflation, the spike in oil prices earlier this year saw annual inflation climb to 4.1% in the year to June. With local fuel costs rising again in recent weeks, we continue to expect inflation to remain above 3% until at least mid-2027.

However, even before the recent rise in fuel costs, inflation had been running hot for an extended period. Excluding the rise in food and fuel prices, inflation in the year to June was 2.9%, and it's been running close to or above 3% for five years now.

As we discuss in **our recent report**, much of the strength in inflation over the past year has been related to administered costs, such as local council rates, or to sectors that are less exposed to competitive pressures, such as electricity and insurance. Those increases have persisted for an extended period, and we expect further sizeable increases in many of these costs.

This ongoing firmness is a key reason why we expect domestic (non-tradables) inflation to be higher than the RBNZ expects over the longer term. It's also part of the reason why we expect the RBNZ will ultimately need to raise the OCR by more than it assumed in its September policy statement. We are forecasting a 25bp rate rise at the RBNZ's December meeting and expect the OCR to peak at 4% next year.

Sources of inflation



This is a tough environment for the RBNZ. With ongoing increases in administered prices boosting core inflation at a time when energy prices are driving headline inflation well above the target range, it's hard for the RBNZ to look through them. The RBNZ had little headroom to absorb upside inflation surprises, even before the recent spike in oil prices.

But getting inflation back to target in the face of an oil price spike and high administered prices will not be easy and involves some tough trade-offs. Administered prices tend to be less responsive to changes in economic conditions. As a result, interest rate hikes are likely to have a bigger impact on parts of the economy that are not the main drivers of inflation. Tighter policy will also

weigh on the labour market and near-term growth, while increasing households' debt-servicing costs.

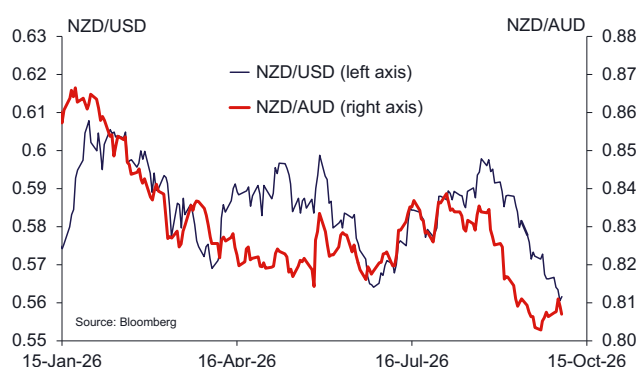
This is an uncomfortable but necessary trade-off. Looking through, or not responding to, these sorts of large and persistent cost increases would still leave households facing significant increases in overall living costs. In the long run, it would be more damaging for households and the economy if generalised inflation were to become embedded in price setting behaviour.

The Kiwi has lost its wings.

Adding to near-term inflation risks has been the drop in the NZ dollar. On a trade-weighted basis, the Kiwi has fallen around 4% since the start of September, and it's begun the December quarter around 4% below the level the RBNZ assumed in its September policy statement.

The slide in the Kiwi is mainly due to the strength of the US dollar. The NZD/USD has fallen nearly 4.7% since the start of September and begins the week at 0.5616. Moves against other currencies have been more modest. For example, NZD/AUD is down 2% over the same period.

New Zealand dollar cross rates



Technically, NZD/USD seems oversold. In the short term, trends in the US dollar will dominate. Any turnaround in the USD would likely see NZD/USD trade back towards the top of the 0.5580–0.5680 range that is governing the pair for the time being.

NZD/AUD will continue to be driven by changing views on interest rate differentials between the RBNZ and RBA. Last week, NZD/AUD corrected higher from around 0.8070 to as high as 0.8110 as RBA cash rate expectations were repriced following the RBA Board meeting and Australian CPI. In the short term, the bias for NZD/AUD could be lower, given our view that the RBNZ will pause at its late-October meeting and that the market is underpricing the risk of an RBA rate hike in November.

This week's QSBO (out on Tuesday) will be the key event risk, with the inflation and growth gauges closely watched for signs that might prompt the RBNZ to pause or hike. Markets had previously priced in a high chance of a hike at the RBNZ's October meeting, but in recent days appear

to be reassessing that view. Pricing for a 25bp hike in New Zealand could be pared back towards a 50:50 call. The 0.8030–0.8150 range is likely to contain the pair in the immediate period ahead. Our medium-term view is for NZD/AUD to rise as the RBNZ increases the OCR to 4% by the second half of 2027. We'll update our views on the NZD and other currencies in our next *Market Outlook*, out Wednesday 14 October.

Fiscal update.

The big uncertainty on the domestic horizon is, of course, November's general election, and at this stage polling looks tight. Neither the established left nor right bloc has a clear majority.

Ahead of the election, the Treasury has released its **Pre-election Economic and Fiscal Update (PREFU)**,

updating the Budget 2026 (BEFU) fiscal forecasts to reflect the latest economic and fiscal information and a revised economic outlook. This allows the public to assess the state of the Government's finances. It also provides other parties with a baseline against which to calibrate their spending and taxation policies.

The PREFU revealed a stronger starting point for the Government's finances than had been expected in the Budget.

- A deficit of \$8.6bn is estimated for 2025/26, down from the Budget estimate of \$11.9bn.
- Similarly, the forecast deficit for 2026/27 has been revised down significantly to \$6.8bn from \$11.4bn.
- Thereafter, the OBEGALx deficit is expected to continue declining gradually, moving to a surplus of \$4bn in 2028/29. This broadly follows the Budget profile, but is stronger across the forecast period.
- Net core Crown debt is forecast to peak at 43.9% of GDP in 2027/28, below the 46.1% peak forecast in the BEFU. It's then forecast to decline to 39.5% of GDP by the end of the forecast period in 2030/31, in line with the Government's goal of reducing debt below 40% of GDP over the medium term.

Given the improved outlook, NZDM announced a \$4bn reduction in the 2026/27 bond programme to \$30bn and a \$15bn reduction in the forecast programme across the whole period through to 2029/30.

The medium-term forecasts in the PREFU should be treated with caution. The economic forecasts underpinning the PREFU were finalised on 21 August, when both oil prices and, especially, bond yields were materially lower than they are today. Had the forecasts been finalised more recently, the fiscal projections presented in the PREFU would have been weaker, at least in the near term. Indeed, the Treasury is upfront in acknowledging that, while the risks are two-sided, the balance is skewed to the downside.

Aside from the obvious uncertainty surrounding the economic outlook because of unpredictable developments in the Middle East, the approaching General Election, and the possibility of a change in the

composition of the Government, means the assumptions underpinning the PREFU forecasts could quickly become invalidated.

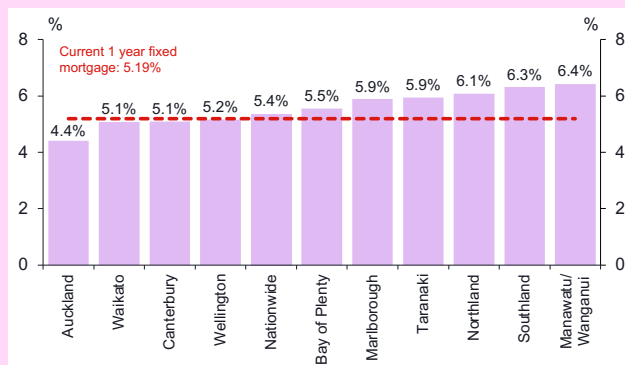
Satish Ranchhod, Senior Economist

Chart of the week.

Housing rents have fallen in many parts of the country over the past year, and for many investors that's squeezing rental yields. Across the country, rents are averaging \$590 a week, while the lower-quartile house price is currently \$572,000. At that price, a rental property would deliver an indicative gross yield of just 5.4% – and that assumes it was rented for the full 52 weeks. For comparison, the one-year fixed mortgage rate is 5.19%.

The picture is mixed across the country. Yields are particularly low in Auckland, where the bulk of investors are located and where we saw large capital gains in previous decades. Based on the current average rent, a house purchased at Auckland's lower-quartile price would deliver a gross yield of just 4.4%. Returns are a little better in Wellington, Waikato and Canterbury at 5.1%, but those yields are still slightly below current mortgage rates. In contrast, many regional centres are delivering better returns, with Northland, Whanganui-Manawatu and Southland all recording rental yields of more than 6%.

New Zealand indicative rental housing yields

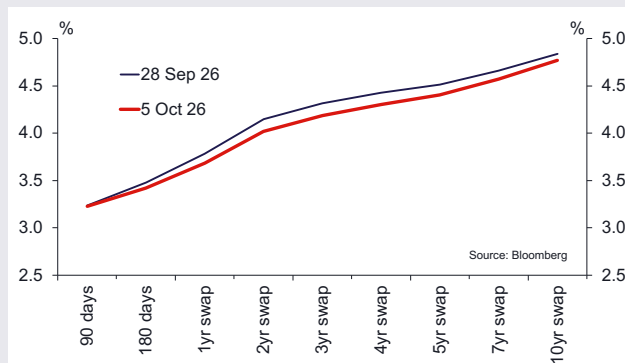


Fixed versus floating for mortgages.

The RBNZ lifted the OCR to 2.75% at its September policy meeting. While the RBNZ has signalled the likelihood of further rate hikes over the coming months, they also signalled that they want to see how the economy is shaping up in the wake of ongoing global headwinds and the 50bps of rate hikes since July. We continue to expect the RBNZ will pause in October before delivering another 25bp hike in December.

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.

Brent crude (1st future) rose above \$108/bbl early last week after President Trump rejected an Iranian proposal to formally open the Strait of Hormuz. Prices later fell on reports of increased Saudi shipments through the Strait and via the East-West pipeline. After the futures roll, Brent crude reopened at \$98/bbl, only to rise again on reports that the US was sending more military assets to the Middle East and that Trump had told advisors that he expected to begin bombing Iran again in late November. Brent crude closed the week at \$102.61/bbl.

North America.

US bond yields made new two-decade highs last week. However, the front end of the US bond curve was well anchored by inflation news and Fed commentary. The core PCE deflator rose a less than expected 0.2% mth in August, with downward revisions to previous data leaving annual inflation steady at 3.0% vs an expected level of 3.3%. Earlier, pricing for an October hike fell after the NY Fed's Williams had said that while a further policy tightening may be necessary by year-end, he saw no need to act with urgency (Vice Chair Jefferson later echoed this sentiment). At the end of the week, non-farm payrolls rose a less than expected 29k in September, the unemployment rate edged up to 4.2% and growth in average earnings slowed to 3.0%. The coming week's diary is quieter, with the highlights likely to be today's services ISM, Wednesday's FOMC minutes and Friday's preliminary University of Michigan survey for October.

Europe.

In the euro area the flash CPI rose a greater than expected 0.6% mth in September, lifting annual inflation to 3.8%. The core CPI edged up to 2.5% yr as expected.

Asia-Pacific.

As widely expected, the RBA lifted its cash rate by 25bps to 4.60% last week and indicated that it will increase the cash rate target further if needed (Westpac expects a further 25bp hike at the November meeting). However, pricing for a November rate hike has declined to around 20%, responding to comments made by Governor Bullock at a subsequent press conference and a softer-than-expected CPI report. The coming week will bring the release of the Westpac consumer confidence report for September. In China the official PMIs pointed to some improvement in conditions in September with both the manufacturing and services index nudging up to just above 50. The RatingDog PMIs, more focused on private sector SMEs, also firmed slightly during the month.

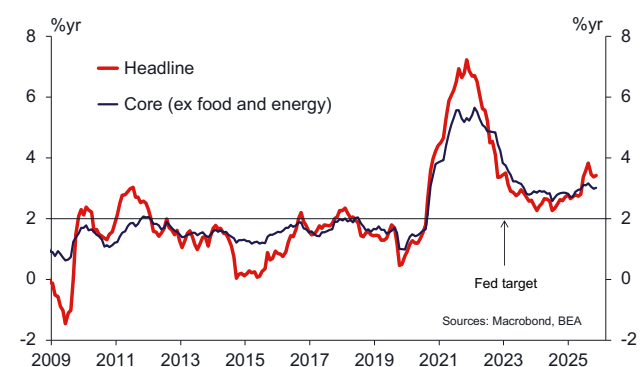
Trading partner real GDP (calendar years)

	Annual average % change			
	2025	2026	2027	2028
Australia	2.0	2.1	1.7	2.2
China	5.0	4.7	4.6	4.4
United States	2.1	2.1	1.8	1.9
Japan	1.1	0.7	0.8	0.9
East Asia ex China	4.7	5.2	4.3	4.2
India	7.6	7.1	7.0	6.6
Euro Zone	1.3	0.9	1.2	1.5
United Kingdom	1.3	1.2	1.0	1.5
NZ trading partners	3.2	3.1	2.8	2.9
World	3.4	3.3	3.3	3.3

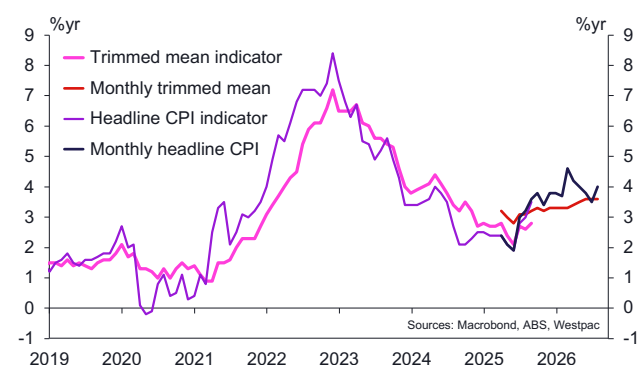
Australian & US interest rate outlook

	2 Oct	Dec-26	Dec-27	Dec-28
Australia				
Cash	4.60	4.85	4.35	3.85
90 Day BBSW	4.76	4.95	4.30	3.95
3 Year Swap	4.92	4.90	4.55	4.25
3 Year Bond	4.89	4.90	4.55	4.25
10 Year Bond	5.34	5.20	4.85	4.80
10 Year Spread to US (bps)	10	40	15	-10
US				
Fed Funds	3.875	4.125	4.125	3.625
US 10 Year Bond	5.24	4.80	4.70	4.90

US PCE deflator



Australian monthly CPI inflation



Financial markets wrap

Foreign exchange.

NZD/USD fell 6.7% between late August and last Friday, reaching 0.5586 – lowest since November 2025. The main driver for that move was a rise in the US dollar, in turn driven by rising expectations of Fed rate hikes (in response to elevated US inflation). Additional factors were the RBNZ's guidance in September which was less hawkish than expected, and mixed NZ economic data.

From here, for the week ahead, we see a case for consolidation in NZD/USD. The large decline has left it technically oversold, and there's historical support at around 0.5585. Data wise, the global calendars are mostly second-tier, although locally we'll be closely watching the quarterly NZIER business survey (released tomorrow).

Looking further ahead to year end, an NZD/USD recovery to 0.5800 by year-end is plausible. That scenario could entail mounting evidence of an increase in the pace of NZ's economic recovery, or a pullback in the US dollar as Fed hiking expectations are pared or the de-dollarisation theme resurfaces.

NZD/AUD's downtrend since 2020 accelerated in 2025, taking it to 0.8006 in late September – lowest since 2013. The decline was mostly a result of Australia's economic outperformance vs NZ's. However, the move left the cross in a technically oversold state and in need of consolidation (which has occurred over the past two weeks). For the week ahead, a 0.8000-0.8140 range is expected. Further ahead, by year end, if NZ's economic recovery looks more compelling, then a rebound to the 0.8300 area is plausible.

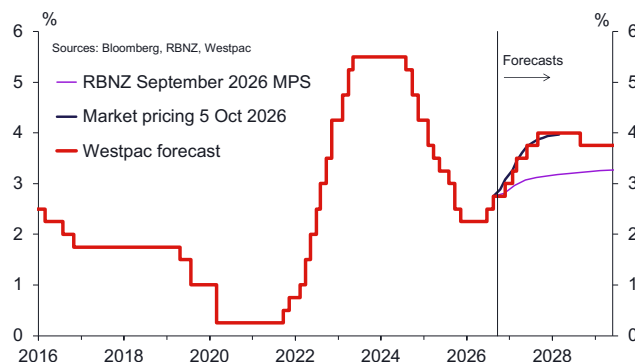
Interest rates.

The 2yr swap rate extended its year-old uptrend last week, to 4.15% - highest since August 2024. September's gains were driven mostly by gains in other countries' bond yields, elevated inflation a concern in many major economies. A period of consolidation in the 2yr swap is now warranted, a 3.75% to 4.15%. range expected during the month ahead.

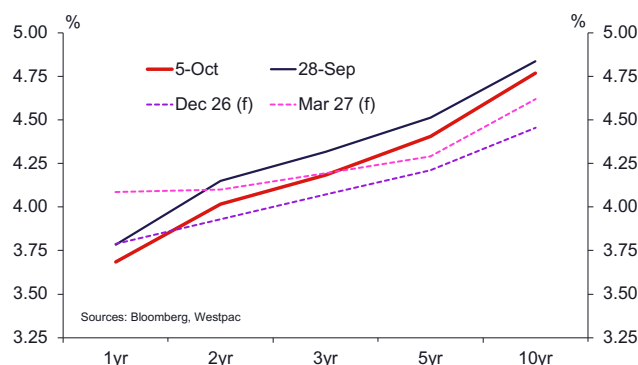
This week's major risk event will be the NZIER business survey, released tomorrow, which will provide the latest reading on the state of the NZ economy and potentially shift market pricing for the RBNZ's 28 October meeting (currently a 55% chance of a hike).

Further ahead, absent international surprises and assuming our expectation that the nascent NZ economic recovery continues, fresh highs in swap rates are possible by year end. However, a plethora of international risks (wars, oil prices, central bank actions, fiscal risks, and risk sentiment) adds caution to the view.

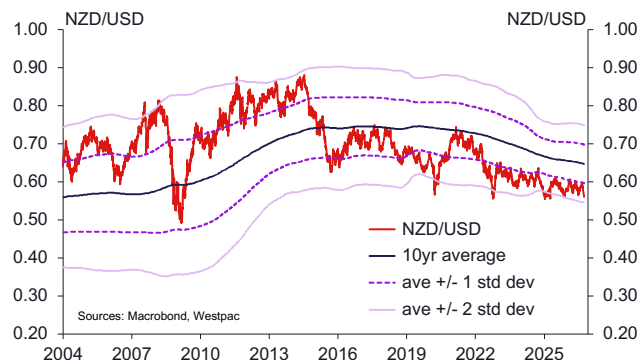
Official Cash Rate forecasts



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	0.562	0.559-0.597	0.553-0.720	0.610	0.59
AUD	0.808	0.802-0.837	0.802-0.967	0.904	0.82
EUR	0.499	0.497-0.513	0.484-0.637	0.555	0.50
GBP	0.424	0.424-0.438	0.424-0.531	0.476	0.43
JPY	88.7	88.4-95.3	75.5-98.6	87.5	90.7

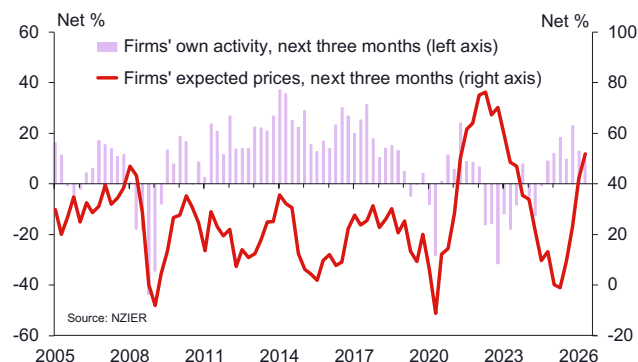
The week ahead

Q3 NZIER Survey of Business Opinion

Oct 6, General business confidence last: 12.3

Business conditions picked up modestly in the June quarter as concerns about the war in the Middle East eased. However, cost and pricing gauges remained firm. The September quarter survey will be closely watched ahead of the RBNZ's 28 October meeting. Recent weeks have shown signs that activity is firming. However, fuel prices have also risen sharply, and we (along with the RBNZ) will be watching for signs of a broader lift in inflation pressures. The timing of survey responses within the sample period will also warrant scrutiny, given that oil prices rose late in the quarter.

NZIER Quarterly Survey of Business Opinion

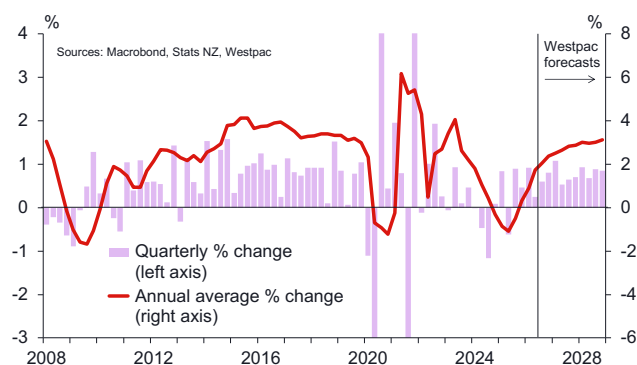


Economic and financial forecasts

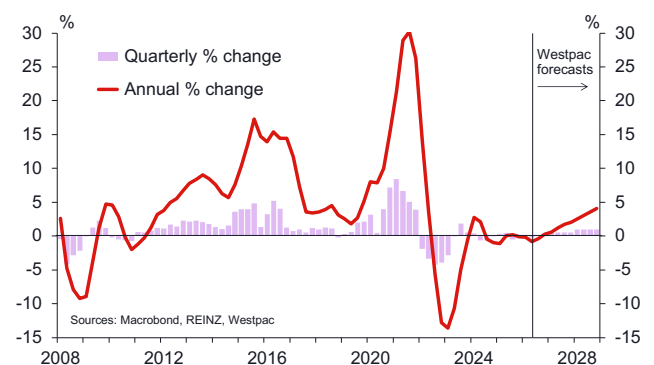
Economic indicators	Quarterly % change				Annual % change			
	Jun-26	Sep-26	Dec-26	Mar-27	2025	2026	2027	2028
GDP (production)	0.2	0.6	0.8	1.1	1.6	2.6	3.0	3.4
Consumer price index	1.5	0.7	0.6	0.4	3.1	3.7	1.7	2.1
Employment change	0.5	0.5	0.7	0.7	0.2	1.8	2.6	2.3
Unemployment rate	5.6	5.5	5.4	5.3	5.4	5.4	4.9	4.4
Labour cost index (all sectors)	0.6	0.6	0.6	0.5	2.0	2.3	2.3	2.3
Current account balance (% of GDP)	-3.2	-3.9	-4.1	-4.0	-3.0	-4.1	-3.8	-3.8
Terms of trade	-4.5	-0.1	2.2	2.4	3.3	-3.8	5.7	1.7
House price index	-0.2	0.0	0.2	0.5	-0.1	0.2	2.0	4.1

Financial forecasts	End of quarter				End of year			
	Jun-26	Sep-26	Dec-26	Mar-27	2025	2026	2027	2028
OCR	2.25	2.75	3.00	3.50	2.25	3.00	4.00	3.75
90 day bank bill	2.63	2.99	3.40	3.75	2.52	3.40	4.20	3.95
2 year swap	3.47	3.72	3.95	4.10	2.71	3.95	4.20	4.10
5 year swap	3.88	4.07	4.20	4.30	3.27	4.20	4.40	4.35
10 year bond	4.61	4.75	4.75	4.90	4.27	4.75	5.05	5.05
TWI	66.5	66.1	65.7	67.4	66.4	65.7	71.1	70.5
NZD/USD	0.58	0.58	0.59	0.61	0.57	0.59	0.65	0.65
NZD/AUD	0.82	0.82	0.82	0.84	0.87	0.82	0.89	0.90
NZD/EUR	0.50	0.51	0.50	0.51	0.49	0.50	0.54	0.54
NZD/GBP	0.44	0.43	0.43	0.44	0.43	0.43	0.47	0.46

GDP growth



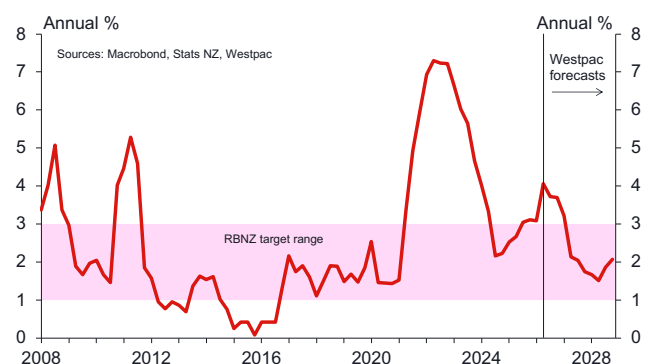
House prices



Unemployment and wage growth



Consumer price inflation



Data calendar

		Last	Market Westpac median forecast	Risk/Comment
Mon 05				
NZ	Sep ANZ Commodity Prices, %mth	-0.4	-	- Agriculture product prices at or near record levels
Aus	Sep MI Inflation Gauge, %ann	4.8	-	- Lead indicator for CPI inflation shows price pressure rising.
	Labour Day Public Holiday	-	-	- NSW, ACT, SA, Qld (King's Birthday). Markets open.
Eur	Oct Sentix Investor Confidence, index	5.1	-	- Sitting at the highest level since February 2022.
	Aug PPI, %ann	5.8	-	- Recent strength driven by energy inputs, ex-energy at 3.1%/yr.
US	Sep ISM Services, index	55.4	55.2	- Regional surveys suggest a milder expansion than last month.
Wrld	Sep S&P Global Services PMI, index	-	-	- Final estimate for Japan, UK, Eurozone and the US.
Tue 06				
NZ	Q3 NZIER Survey of Business Opinion, index	12.3	-	- Watching for resilience in activity, but upside risks for prices.
Aus	Oct Westpac-MI Cons. Sentiment, index	84.4	-	- Consumers react to rate rise and softer inflation print.
	Sep ANZ-Indeed Job Ads, %mth	2.5	-	- Has been trending higher since end-2025.
Eur	Aug Retail Sales, %mth	-0.6	-	- Consumers pulling away from non-food related spending.
US	Aug Trade Balance, US\$bn	-88.6	-89.8	- Trade deficit widening amid surging AI-related imports.
Wed 07				
NZ	Sep GlobalDairyTrade auction, %	-1.1	-	- WMP and SMP prices up on previous GDT Pulse auction.
Chn	Sep Foreign Reserves, US\$bn	3438.33	-	- Weaker dollar and growing trade surplus drives reserves up.
US	FOMC Meeting Minutes	-	-	- Focus will be on assessments on the stance of policy.
	Aug Consumer Credit, \$bn	18.062	15	- Some consumers may be leaning on credit to fund spending.
Thur 08				
Aus	Oct MI Inflation Expectations, %ann	4.9	-	- Higher fuel prices seeing near-term expectations lift.
Jpn	Aug Current Account Balance, ¥bn	2988.9	3194.6	- Rise driven by higher inbound tourism and dividend inflows.
US	Initial Jobless Claims	197	-	- Has been easing in recent weeks.
	Aug Wholesale Inventories, %mth	0.7	-	- Final estimate.
	Fedspeak	-	-	- Fed's Musalem speaks at Bloomberg event.
Fri 09				
Jpn	Aug Household Spending, %ann	-3.6	-3.6	- Discretionary spending falters in the face of higher prices.
Chn	Sep M2 Money Supply, %ann	7.5	-	- Credit demand slows as households and firms hold-off.
US	Oct Uni. Of Michigan Sentiment, index	48.1	48	- Consumers' outlook on the economy souring.

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