WEEKLY ECONOMIC COMMENTARY

6 Jul 2026 | **Westpac Economics Team** | **westpac.co.nz/economics** | economics@westpac.co.nz

Keep calm and focus on the data

We expect **the Reserve Bank of New Zealand (RBNZ) will leave the Official Cash Rate (OCR) unchanged** at 2.25% at its 8 July policy meeting, while maintaining a data-dependent tightening bias. The Monetary Policy Committee (MPC) is likely to emphasise that future policy adjustments will depend on evidence of second-round inflation pressures, sustained wage growth, and rising medium- to long-term inflation expectations. In addition, signs that the economic recovery is gaining traction and that the output gap is narrowing will also be important considerations in determining when policy tightening becomes appropriate.

The RBNZ's communications are expected to retain language indicating that OCR increases are likely at upcoming meetings. However, this guidance will increasingly be framed as conditional, rather than indicative of a predetermined path. This shift is important, as it reflects the MPC's intention to re-anchor expectations around the flow of data, particularly after markets became overly focused on the prospect of a July rate hike following the May Monetary Policy Statement (MPS).

While it is notable that three MPC members voted in favour of a rate hike in May, developments over the past six weeks have significantly altered the economic backdrop. In particular, the easing of tensions in the Middle East and the associated sharp decline in oil prices have materially reduced inflation risks. As a result, it is entirely plausible that a formal vote on raising the OCR may not be required at the July meeting.

If a vote does take place, we expect only a small minority to support an immediate increase. It is unlikely that members who favoured holding rates in May will shift towards tightening at this stage. In addition, those who previously supported a hike may instead prefer

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
8 Jul 26	RBNZ OCR Review
14 Jul 26	NZIER QSBO Survey, June quarter
17 Jul 26	NZ Selected price indexes, June
21 Jul 26	NZ CPI, June quarter
29 Jul 26	FOMC meeting (30 Jul NZT)
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)

to wait for the upcoming flow of key economic data before revisiting the case for higher interest rates at the September meeting.

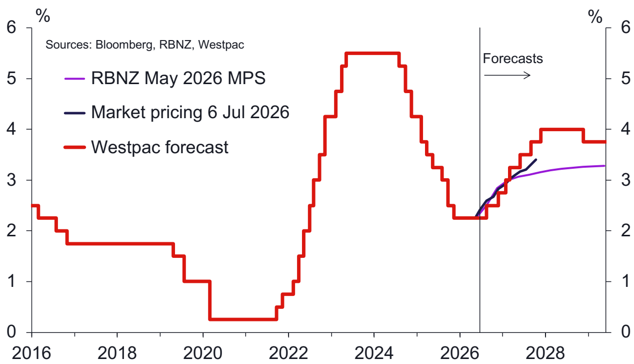
A key objective for the RBNZ's communications at this meeting will be to redirect market attention towards upcoming data releases as the key determinants of future OCR decisions. The MPC is likely to use this opportunity to correct the perception that a July hike was effectively "pre-committed." Instead, the Bank will reaffirm that its forward guidance is conditional and responsive to evolving economic conditions.

Looking further ahead, we expect the RBNZ to continue signalling a path towards eventual policy normalisation, but with a recalibrated timeline. Prior to the war in the Middle East, the MPC's baseline view, as articulated in their February Statement, was for a single OCR increase no earlier than the end of 2026. Given that inflation remains above previous forecasts, the Bank may now indicate that the first increase could occur as early as September. However, this will likely be presented as a possibility rather than a certainty, with a clear emphasis on the need for supporting evidence.

The trajectory of tightening beyond the initial move is also expected to be gradual, particularly if second-round inflation pressures remain contained. And on that front, this week's business confidence survey showed that the number of businesses who are planning on raising prices has been dropping back again as oil prices have eased. This week's consumer confidence survey similarly showed that inflation expectations have dropped back to pre-Iran war levels. Evidence on persistent second round pricing pressures from oil prices now looks very thin indeed.

While consecutive rate increases from September cannot be ruled out, this scenario is unlikely to be presented as the central case. A slower pace of tightening would be more consistent with the gradual recovery in activity and less-worrying inflation outlook. Indeed, if incoming data point to weaker growth or if the detail of the June quarter inflation report (out on 21 July) is softer than expected, the start of the tightening cycle could be pushed back to December.

Official Cash Rate forecasts



In terms of financial markets pricing, we anticipate some moderation in expectations for policy tightening over the remainder of 2026. Pricing is likely to converge towards one to two 25 basis point increases by year-end, with further adjustments contingent on the evolving data flow.

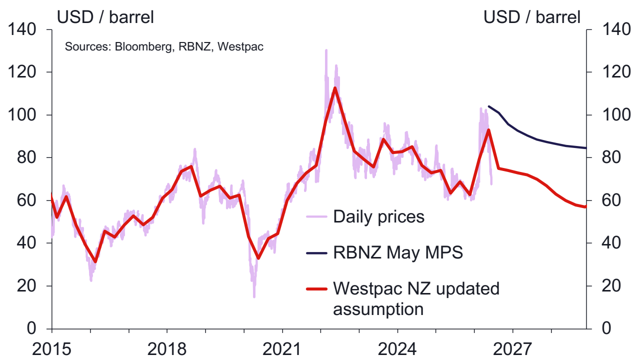
Arguments in favour of a July hike.

Arguments in favour of an immediate rate hike have centred largely on interpretations of the May MPS as signalling a July move. However, we think that is a misinterpretation of what the RBNZ's projections intended to signal. While the RBNZ's May Statement did indicate that the OCR was expected to rise over the coming months, that was not a precommitment. The projected path for the OCR is always dependent on the evolution of economic conditions. Indeed, the Governor's remarks at the time deliberately emphasised uncertainty, noting that rate increases would depend on factors such as oil prices, the strength of growth, and evidence of persistent inflation pressures. Similarly, comments from Assistant Governor Silk have reinforced the message that all policy options remain on the table heading into the July review.

Other arguments for tightening include the recent depreciation of the New Zealand dollar, driven in part by widening interest rate differentials with other economies. While a weaker currency does add to inflation pressures, its persistence remains uncertain. Moreover, currency depreciation also supports the tradable sector and contributes to a rebalancing of the economy. As such, exchange rate movements alone are unlikely to justify an immediate policy response.

On the growth side, the easing of tensions in the Middle East is expected to provide some support to activity in the second half of 2026. Lower energy prices have improved the terms of trade and have already underpinned modest gains in business and consumer confidence. However, these improvements are unlikely to fully restore the more optimistic growth outlook presented in the February MPS. Survey evidence continues to point to weak momentum, with backward-looking indicators suggesting that the recovery remains in its early stages.

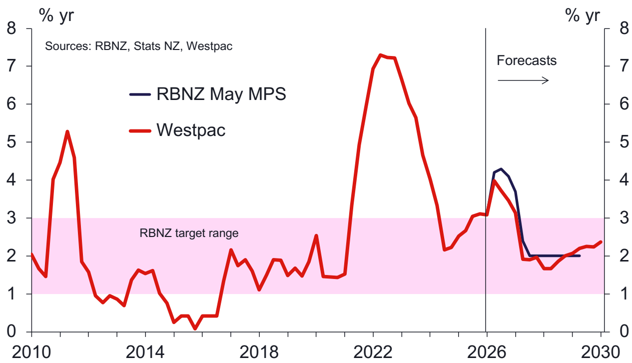
Dubai oil prices



Arguments in favour of no change.

In contrast, **the case for holding the OCR steady** is supported by several factors. Most notably, the sharp decline in oil prices (down around $40 /barrel since May) has significantly altered the inflation outlook. Oil prices are now well below the levels assumed in the RBNZ's May projections, and forecasts for inflation have been revised lower. We now expect CPI inflation will peak at 4% in the June quarter before slowing to 3.5% by the end of this year. That would be well below the 4.1% rate the RBNZ assumed for year-end inflation in its May MPS projections.

Consumer price inflation



Furthermore, with lower oil prices and near-term inflation, the risk of higher fuel costs passing through to a broader uplift in inflation pressures is also lower. That risk was a key concern highlighted by MPC members who voted for a hike in May. Measures of shorter-term inflation expectations have eased as energy prices have declined. Similarly, the labour market remains relatively soft, limiting the risk of wage-driven inflation.

Crucially, a substantial amount of new data will become available between the July and September meetings. This includes the June quarter CPI, business surveys, labour market indicators, and key measures of inflation expectations. With the sharp decline in energy prices significantly reducing the merit of pre-emptive action, we suspect even more hawkish MPC members will now be content to see what this data reveals.

Economic activity also appears to have been subdued in the June quarter, with most indicators pointing to little or no growth. This suggests that the output gap may have widened, reinforcing the case for patience.

Globally, expectations for further interest rate increases have also moderated, with many central banks adopting a more cautious stance. This international backdrop supports a more measured approach by the RBNZ.

Scenarios.

The most likely outcome remains a balanced approach that retains a tightening bias while underscoring data dependence. However, more hawkish and dovish possibilities exist including:

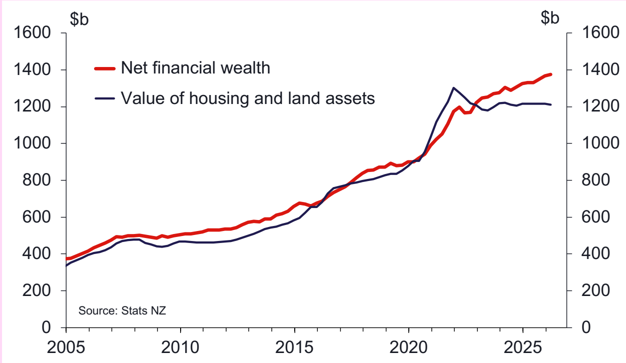
- A hawkish scenario where the OCR is increased and language suggesting the RBNZs views haven't shifted much. In such circumstances, markets would assume at least 3, possibly 4 hikes in aggregate for 2026. We see this as implausible and assign a 10% probability to it.
- A dovish scenario that seriously questions a hike before December. The forward guidance could be omitted noting that inflation risks seem much less prominent relative to the still large level of excess capacity. The press statement could note that evidence of strong core inflation and broadening second-round inflation pressures would need to be seen to justify a lift in the OCR, and that such evidence is lacking at this stage. This is more plausible and we attach a 30% probability to this scenario.

Westpac Economics Team

Chart of the week.

New Zealand households have seen their financial position continue to improve over the past few months. Household savings rose by $2b in the March quarter. That saw the savings rate rise to 3.3% of disposable income, the highest it's been since the pandemic lockdowns. We've also seen household wealth levels rise by 1.5% over the past year. But underneath that rise has been a shift in the makeup of household wealth. The value of households' financial assets has continued to rise and is up 3.3% over the past year. That's offset softness in the value of housing and land assets, which have essentially shown no growth since late 2023. We expect that house prices will continue to track broadly sideways, with the RBNZ likely to hike the OCR over the coming year and mortgage rates already starting to push higher in recent months.

Household wealth

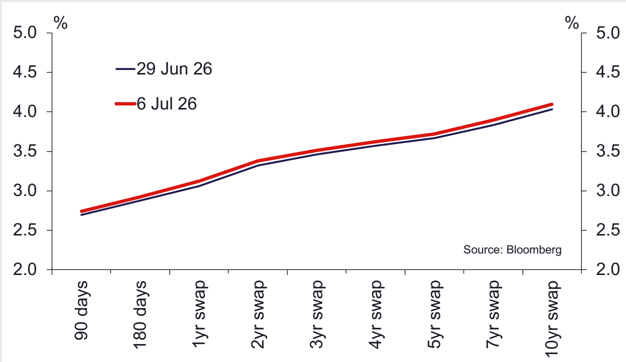


Fixed versus floating for mortgages.

The RBNZ's May Monetary Policy Statement indicated that the Official Cash Rate is likely to be hiked several times through the latter part of the year. Financial markets pricing for rate hikes has been wound back since the signing of a ceasefire in the Middle East. Even so, markets are pricing in a high likelihood of a rate hike in July. 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

North America.

In the US, employment rose a less than expected 57k in June. However, the unemployment rate nudged down to 4.2% thanks to a large fall in labour force participation. In other news, the ISM manufacturing index nudged down to 53.3 in June, with the prices paid index easing in line with the decline in oil prices. The Conference Board's survey pointed to broadly stable consumer confidence in June following a downward revision to the May reading. Speaking at the ECB's Sintra conference, Fed Chair Warsh said expectations for inflation had moderated over the past four weeks because of the decline in oil prices. The coming week is relatively quiet on the data front, with the ISM services index and the release of the minutes of the June FOMC meeting the main diary entries of note. North of the border, the BoC's Business Outlook survey and the June employment report will feed into expectations for the tone of next week's BoC policy meeting.

Europe.

In the euro area, speaking at the Bank's Sintra conference, ECB President Lagarde expressed no regret at the decision to tighten policy last month. Lagarde reaffirmed that the decision was robust to a range of scenarios and said that in the absence of such tightening inflation would likely have remained above 2% in both 2027 and 2028. Echoing recent comments from the Fed's Warsh, Lagarde also played down the future role of "forward guidance" in an uncertain world. Instead replaced by "framework guidance" - making clear not what the bank will do, but rather how it will decide. Meanwhile, headline inflation in the euro area fell more than expected in June, with the core inflation rate falling 0.2ppts to 2.4%yr. The economic diary is sparsely populated in Europe this week.

Asia-Pacific.

In Australia, the minutes from last month's RBA policy meeting, together with other communications by senior staff, continued to express concern about the inflation outlook. On balance, our Australian team continue to see high inflation and an unacceptably slow return to target as drawing additional interest rate rises from the RBA – but depending on how the inflation data, geopolitics and key judgements land, that balance could be a close-run thing. In China, the official PMIs inched higher in June, with the manufacturing index rising 0.3pts to 50.3 and the non-manufacturing index rising 0.1ptts to 50.2. Meanwhile, the BoJ's Tankan survey unexpectedly strengthened in the June quarter, with the large manufacturers index rising to a more than 8-year high. This week will see the release of June inflation reports in China.

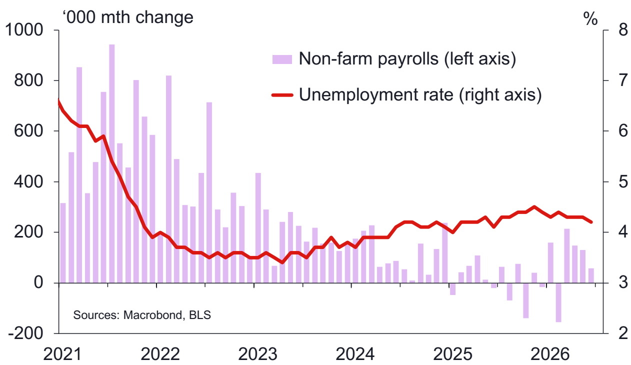
Trading partner real GDP (calendar years)

	Annual average % change			
	2025	**2026**	**2027**	**2028**
Australia	2.0	1.7	1.3	2.3
China	5.0	4.7	4.6	4.4
United States	2.1	2.1	1.8	1.9
Japan	1.1	0.6	0.8	0.9
East Asia ex China	4.7	4.5	4.2	4.1
India	7.6	6.5	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	3.1	3.3	3.3

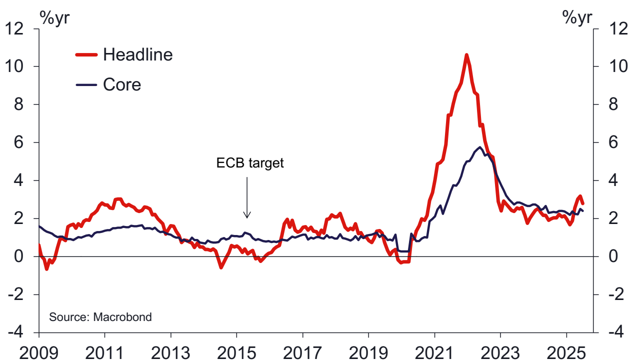
Australian & US interest rate outlook

	3 Jul	Dec-26	Dec-27	Dec-28
Australia				
Cash	4.35	4.85	4.85	3.85
90 Day BBSW	4.46	4.90	4.80	3.95
3 Year Swap	4.39	4.65	4.30	3.90
3 Year Bond	4.41	4.65	4.30	3.90
10 Year Bond	4.80	4.90	4.85	4.95
10 Year Spread to US (bps)	32	40	20	10
US				
Fed Funds	3.625	3.625	3.625	3.625
US 10 Year Bond	4.48	4.50	4.65	4.85

US nonfarm payrolls and unemployment rate



Euro area inflation



Financial markets wrap

Foreign exchange.

Following a four cent fall in June, NZD/USD has consolidated above 0.5625. Further consolidation is expected during the week ahead, between 0.5650 and 0.5750, but with potential for either boundary to be tested given heightened event risk from the RBNZ.

The RBNZ MPR on Wednesday will be a tense affair for markets. Analysts are divided over a hike or a hold, while OIS pricing indicates an 80% chance of a hike. That suggests a reaction is likely, whatever the outcome.

Setting that event aside, the broader influence remains the US dollar. It rose sharply in May and June, mainly due to solid economic performance which increased the chance of a Fed rate hike before December. But last week that narrative was questioned by a disappointing jobs report, causing the USD to weaken slightly and muddying the near-term outlook.

For the quarter ahead, we retain a neutral bias, pending an enduring resolution of the Iran war (beyond the 60-day ceasefire). A positive outcome could boost the NZD towards the 0.5900 area, while a breakdown could cause a decline to 0.5500.

NZD/AUD's year-old trend decline stalled in May and June in the mid-0.81s but remains vulnerable to breaking below 0.8138 and making a fresh 13-year low. NZ-AU yield spreads remain extremely negative and are likely to remain so until the RBNZ starts its hiking cycle.

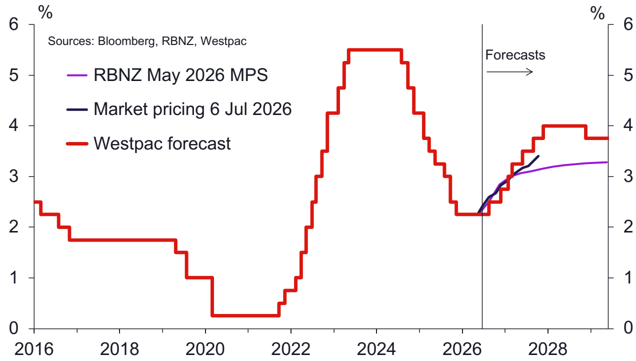
Interest rates.

The NZ 2yr swap rate has been rangebound over the past three weeks, between 3.25% and 3.40%, awaiting the outcome of the 8 July RBNZ MPR.

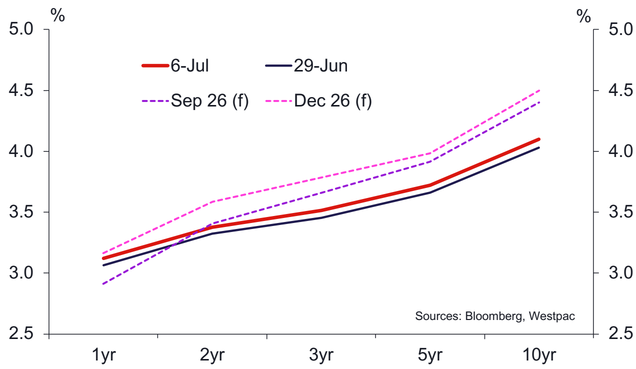
If the RBNZ remains on hold as we expect, then markets will be disappointed, since OIS pricing currently implies an 80% chance. But if it hikes, and the guidance is hawkish, there is scope for an upward reaction. Westpac forecasts hikes in September and December.

The yield curve's flattening trend since the peak in late December remains stalled, with the 70bp area a major obstacle near term. We do expect further flattening during the year ahead, but it will require an improvement in economic data and proximity to the start of the RBNZ's tightening cycle.

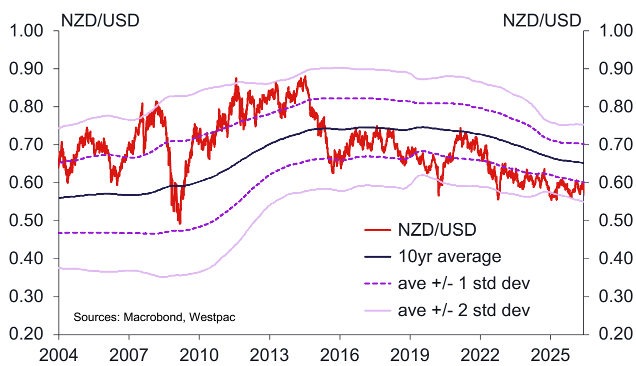
Official Cash Rate forecasts



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	0.571	0.563-0.596	0.553-0.720	0.616	0.60
AUD	0.823	0.816-0.831	0.816-0.971	0.910	0.82
EUR	0.499	0.493-0.511	0.484-0.637	0.560	0.51
GBP	0.427	0.426-0.442	0.426-0.531	0.479	0.44
JPY	92.0	91.0-94.8	74.7-98.6	86.7	93.6

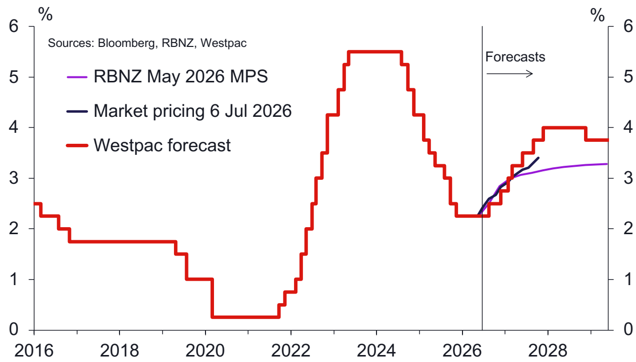
The week ahead

RBNZ Monetary Policy Review

Jul 8, Last: 2.25%, Westpac: 2.25%, Market: 2.50%

We expect the RBNZ to leave the OCR at 2.25% at its 8 July Review. Much has changed over the past six weeks, most notably oil prices have fallen much more rapidly than expected. The related moderation in inflation pressure gives the RBNZ more time to wait-and-watch how the economy is tracking, especially with a large amount of important economic data to be released after the July review. Forward guidance should remain consistent with a lift in the OCR this year. However, the message is expected to be more data dependent than came across at the May Statement. While three MPC members had voted for a rate hike in May, we think the “on hold” decision may well be reached by consensus.

Official Cash Rate forecasts

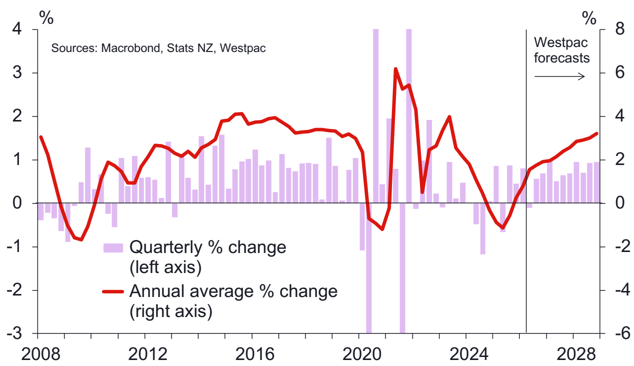


Economic and financial forecasts

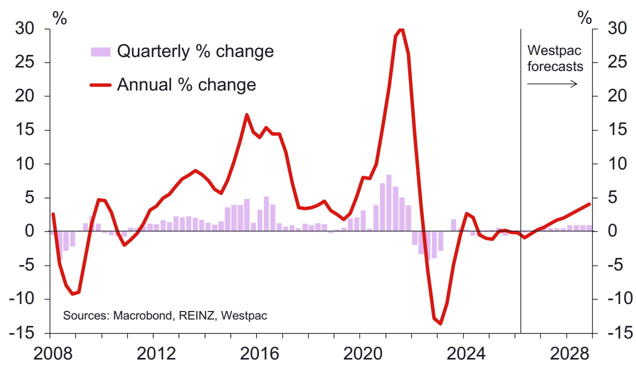
Economic indicators	Quarterly % change				Annual % change			
	Mar-26	Jun-26	Sep-26	Dec-26	2024	2025	2026	2027
GDP (production)	0.8	-0.1	0.6	0.7	-1.6	1.5	2.0	2.9
Consumer price index	0.9	1.4	0.7	0.4	2.2	3.1	3.5	2.0
Employment change	0.1	0.1	0.3	0.6	-1.3	0.2	1.2	2.5
Unemployment rate	5.3	5.4	5.4	5.3	5.1	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	0.1	-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	2.50	2.75	4.25	2.25	2.75	4.00
90 day bank bill	2.51	2.63	2.75	3.15	4.45	2.52	3.15	4.20
2 year swap	3.12	3.47	3.55	3.85	3.64	2.71	3.85	4.20
5 year swap	3.71	3.88	3.80	4.15	3.73	3.27	4.15	4.40
10 year bond	4.54	4.61	4.40	4.55	4.50	4.27	4.55	5.05
TWI	67.2	66.5	66.6	67.2	69.5	66.4	67.2	71.8
NZD/USD	0.59	0.58	0.59	0.60	0.59	0.57	0.60	0.66
NZD/AUD	0.85	0.82	0.82	0.82	0.91	0.87	0.82	0.89
NZD/EUR	0.50	0.50	0.50	0.51	0.55	0.49	0.51	0.54
NZD/GBP	0.44	0.44	0.44	0.44	0.46	0.43	0.44	0.47

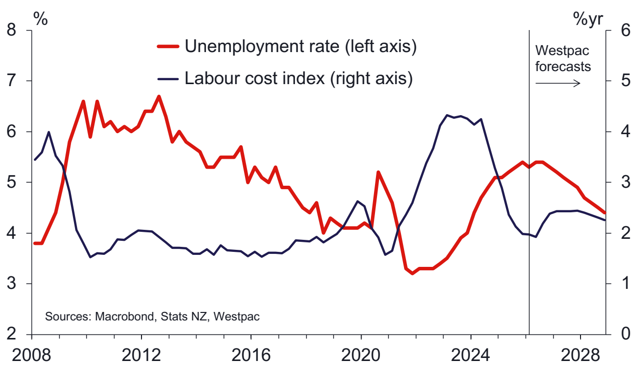
GDP growth



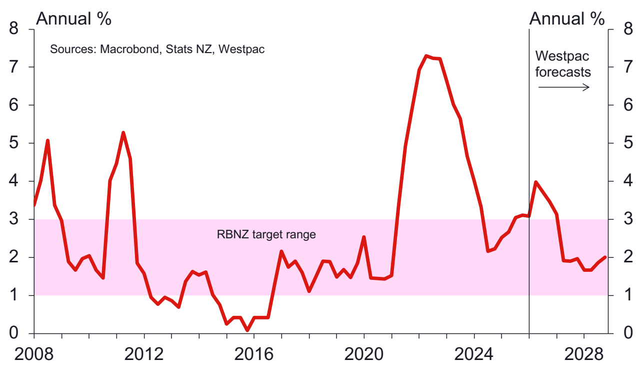
House prices



Unemployment and wage growth



Consumer price inflation



Data calendar

		Last	Market median	Westpac forecast	Risk/Comment
Mon 06					
NZ	Jun ANZ Commodity Prices, %mth	0.7	–	–	Favourable supply and demand conditions supporting prices.
Aus	Jun MI Inflation Gauge, %ann	4.4	–	–	Provides a general gauge of inflation pressures.
	Jun ANZ–Indeed Job Ads, %mth	1.8	–	–	Indicative of broadly stable labour demand.
Eur	Jul Sentix Investor Confidence, index	–13.4	–	–	Better news on US-Iran should support a recovery.
	May PPI, %ann	4.9	–	–	Upstream price pressures mounting across Europe ...
	May Retail Sales, %mth	–0.4	0.3	–	... and consumers are starting to feel the pinch.
US	Jun S&P Global Services PMI, index	51.3	51.3	–	Final estimate.
	Jun ISM Services PMI, index	54.5	54.1	–	Activity burgeoning, employment rising, prices surging.
Tue 07					
Jpn	May Household Spending, %ann	–0.5	–2.3	–	Still in decline despite solid real wage gains.
US	May Trade Balance, US$bn	–55.9	–78.7	–	US upped oil exports materially in recent months.
Wed 08					
NZ	RBNZ Policy Decision	2.25	2.5	2.25	RBNZ to hold the OCR but signal data-dependent rate rises.
Aus	RBA Assist' Governor (Economic)	–	–	–	Hunter speaking at 11:00am AEST.
Jpn	May Current Account Balance, ¥bn	3908	4120	–	Surplus strengthening underneath usual seasonal noise.
US	May Wholesale Inventories, %mth	0.3	0.3	–	Final estimate.
	Jun FOMC Minutes	–	–	–	Will provide more colour on the Committee's deliberations.
	May Consumer Credit, $bn	20.7	17.5	–	Credit flowing against a backdrop of income pressures.
Thu 09					
NZ	Jun Manufacturing PMI, index	49.9	–	–	Business conditions starting to firm as oil prices have dropped.
Chn	Jun CPI, %ann	1.2	1.1	–	Consumer inflation benign despite pressure from Middle East ...
	Jun PPI, %ann	3.9	4.1	–	... aiding much-needed discretionary spending capacity.
	Jun New YTD Loans, CNYbn	9110	11110	–	Credit growth softer than last year as domestic demand ...
	Jun M2 Money Supply, %ann	8.6	8.4	–	... struggles to gain momentum note data due 9–15 July.
US	Initial Jobless Claims	215	218	–	Still at low levels versus history.
	Jun Existing Home Sales, %mth	3.2	0.9	–	Elevated mortgage rates keep sales volumes range-bound.
Fri 10					
NZ	Matariki Public Holiday	–	–	–	Public holiday, markets closed.

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