



WEEKLY ECONOMIC COMMENTARY



7 Apr 2026 | Westpac Economics Team | westpac.co.nz/economics | economics@westpac.co.nz

Not hawkish. Not dovish. Balanced.

The RBNZ meets this week for its April Monetary Policy Review (Wednesday 8 April, NZ 2pm). As discussed in our preview, in the absence of major developments in the Middle East over the coming days, **the RBNZ is set to leave the Official Cash Rate (OCR) at 2.25%**. However, rather than the immediate OCR decision, the key focus will be on how the RBNZ is balancing the significant challenges stemming from the conflict in the Middle East and what that implies for the longer-term policy outlook.

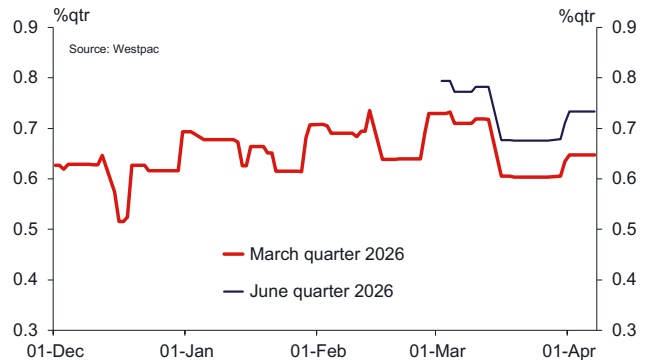
Since the RBNZ last met in February, the risks around the economic outlook have changed significantly. Economic growth in the final quarter of last year has already come in below the RBNZ's forecast. More significantly, disruptions stemming from the war in the Middle East mean that growth over 2026 is now also likely to fall well short of the RBNZ's previous forecast. We expect the economy to grow just 1.9% in the year to December, well below the February MPS forecast for growth of 2.8%. We also expect a higher track for the unemployment rate.

At the same time, inflation is set to run much hotter than the RBNZ had expected over 2026. **We're forecasting that inflation will peak around 4.1%** around the middle of this year before softening a little to 3.8% by year's end – well above the RBNZ's previous year-end forecast for 2.4%. Our stronger inflation outlook is mainly due to the direct impact of higher oil prices (i.e. higher prices for petrol and diesel). However, even if global oil prices were to drop back now, inflation is still set to linger above the RBNZ's forecast over the remainder of this year, as disruptions to supply chains and other related increases in costs of production will take time to dissipate.

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	↘	→	↗

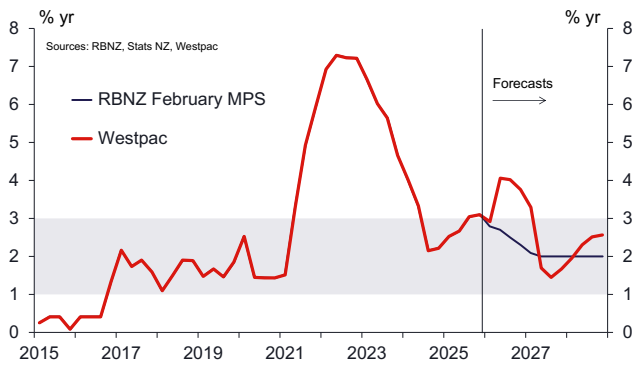
Westpac GDP nowcasts



Key data and event outlook

Date	Event
8 Apr 26	RBNZ OCR Review
17 Apr 26	NZ Selected price indexes, March
21 Apr 26	NZ QSBO Business Survey, March quarter
21 Apr 26	NZ CPI, December quarter
29 Apr 26	FOMC meeting (30 Apr NZT)
5 May 26	RBA Monetary Policy Decision
6 May 26	Labour market surveys, March quarter
15 May 26	NZ Selected price indexes, April
27 May 26	RBNZ OCR Review & Monetary Policy Statement
28 May 26	NZ Government Budget

Inflation forecasts



RBNZ Governor Breman has already outlined how she is thinking about those challenges in a recent speech.

That speech described an orthodox (and sensible) approach to monetary policy in the face of a supply shock, of which the current oil price is a typical example. The Governor noted that the RBNZ would not react to the immediate fuel-related lift in inflation. The RBNZ can't offset a rise in oil prices that has already occurred with higher interest rates now, but doing so would compound the downward pressure on growth. Furthermore, with interest rates taking around 12 to 18 months to have their maximum impact, hiking rates now would potentially result in an even deeper fall in inflation at the same time as the eventual falls in oil prices will naturally pull it lower.

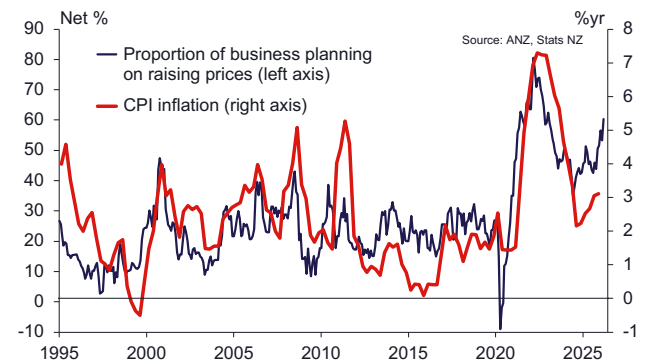
Instead, the focus for the RBNZ will be the longer-term outlook for inflation. And this is where things start to get murky. The key issue for the RBNZ is whether the current sharp rise in prices will have lingering effects, resulting in higher inflation even when oil prices eventually ease. That could occur if businesses come to expect continued large increases in operating costs and raise their prices accordingly. There's also the risk that we see demands for higher-than-normal cost-of-living increases as workers try to recoup the current loss of spending power. Both of those risks are very plausible given that we've recently been through an extended period of high inflation and related pressure on businesses' operating costs. And if those risks do materialise, the current uplift in inflation could end up being much more protracted.

It will take some time before we know whether those longer-term inflation risks (sometimes referred to as 'second round' impacts of an oil price shock) are manifesting. The starting point for the economy is important on this front and provides some cause for optimism. Soft activity in recent years has left the New Zealand economy with a high level of spare capacity, including a higher-than-average unemployment rate. That will limit the ability to push through larger increases in output prices or wages (though that does also imply related pressure on margins and households' purchasing power).

We are already seeing reports of businesses raising their prices due to the direct impact of increases in fuel prices

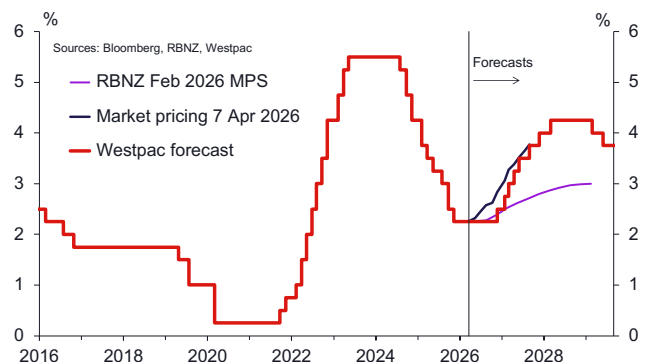
on their operating costs (e.g. higher airfares and fuel surcharges within the land transport industry). Perhaps of more concern for the RBNZ, the latest ANZ Business Outlook Survey (which was conducted following the outbreak of the war) showed a sharp rise in inflation expectations, along with increases in the number of businesses who said they are planning to increase their prices. That said, given the outlook for inflation, it would be surprising if surveyed inflation expectations did not rise in the near-term. Some comfort might be taken from firms' expectations for wage growth. These remained muted in the survey, suggesting that firms are not expecting current cost increases to feed a wage-price spiral.

Business pricing intentions vs consumer prices



The RBNZ's discussion of how it's balancing the impact on growth and near-term inflation will be crucial for how markets react this week. Markets have been very focused on the rise in inflation pressures and related hawkish comments from other central banks. That's seen financial markets also pulling forward expectations for rate hikes here: at the time of writing, market pricing was consistent with an 60% chance of an OCR hike in July, and just over two hikes are priced in before the end of the year.

Official Cash Rate forecasts



In its communications on 8 April, the RBNZ will balance a desire to avoid a further tightening of financial conditions with the desire to not sound complacent about the medium-term inflation risks that come with an energy price shock. Reinforcement of the approach communicated in Governor Breman's speech guidance should continue to lean against the market's current

pricing for earlier rate hikes, especially as liquidity issues in the domestic market continue to ease. We continue to forecast just one 25bp hike this year, but also that significant tightening will occur in 2027 once the activity implications of the energy shock begin to dissipate.

The RBNZ’s guidance about what to expect at future meetings will also likely echo the Governor’s speech. In crafting this guidance, the MPC will aim to reassure markets that it will not overreact to the shock, which could cause markets to further tighten financial conditions. At the same time, the RBNZ will need to ensure it sounds credible to households and businesses about its willingness to tighten policy if inflation expectations and pricing behaviour evolve in a manner inconsistent with achieving the inflation target over the medium term. While monetary policy should look through a temporary spike in energy prices, the MPC will need to be vigilant – and be seen to be vigilant – against the risk that inflation becomes persistent.

As we discuss in [our latest Hawks, doves, and kiwis](#) note, there are clearly risks on both sides for the OCR. Governor Breman’s recent speech did draw on feedback from other MPC members, but there could still be a range of views among the Committee. Furthermore, this is a fast-changing situation. And with inflation pressures continuing to build over the past few days, even more dovish or balanced members of the MPC could start to change their assessments of risks. With that in mind, the Record of Meeting accompanying this week’s interest rate review will be monitored closely to see where the members of the Committee see the risk. Key areas where the views of the Committee could diverge include the likely duration of the conflict, the impact on the economy, the likelihood of second-round effects driving persistent inflation over the medium term, and the appropriate course for monetary policy over time. Such discussions might provide some insight into how the consensus view of the MPC might evolve as more is learnt about the evolution of the conflict and its economic impacts.

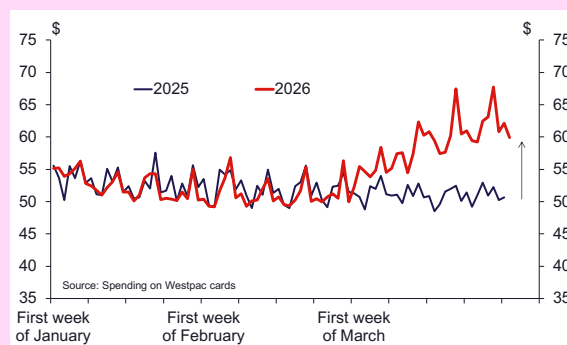
As part of her efforts to improve central bank transparency, Governor Breman has introduced a full press conference at interim reviews, and this will be the first review under that new framework. Historically, the RBNZ has not released updated forecasts at review meetings, and instead released them at the more complete quarterly updates. However, given the large changes in the economic landscape in recent weeks, the RBNZ is likely to discuss the risks around their previous forecasts. And we wouldn’t rule out the chance that they could release some initial forecasts of key variables, like GDP, inflation and the OCR.

Satish Ranchhod, Senior Economist

Chart of the week.

We’re spending a lot more on fuel, but getting less in the tank. Data on Westpac cards shows that per-person spending on fuel is up 21% compared to the same time last year. However, the actual amount of fuel we’re getting each time we top up the tank is down 16%. Over the past month, the average price of 91 unleaded around the country has risen by \$1.04/ltr, an increase of 40%. Over the same period, diesel prices have effectively doubled, rising by \$1.90/ltr. Those cost increases are squeezing households’ disposable incomes. Many of us are driving less. We’re also hearing about people cutting back their spending in other areas, like takeaways and dining out. However, cost pressures aren’t limited to fuel prices. Higher transport costs and other related disruptions are adding to the upward pressure on prices for a range of goods and services. That’s going to push inflation sharply higher over the next few months, and the related pressure on households’ budgets is going to be a drag on spending.

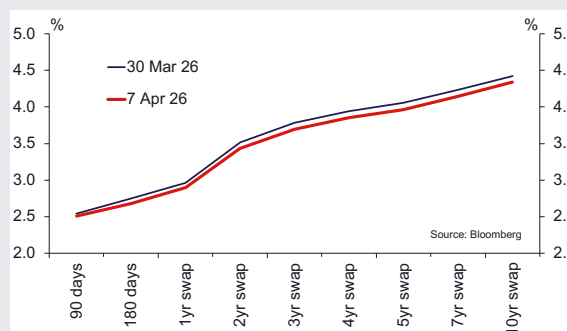
Average fuel spend per transaction



Fixed versus floating for mortgages.

The RBNZ’s cautious signal about the extent of future OCR hikes has helped to take some pressure off longer-term wholesale interest rates, at least for now. Ultimately though, once the tightening cycle does get under way we expect to see a series of rate hikes to return the OCR to more neutral levels. Fixed-term mortgage rates between two and five years now lie 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.

Markets have continued to be buffeted by competing headlines. Ceasefire prospects remain uncertain: a Pakistan-backed, US-Iran mediated proposal for an immediate or 45-day ceasefire appears to be under discussion, but Tehran has rejected deadlines and linked any truce to sanctions relief and firm guarantees, while Washington continues to warn of further strikes if talks fail. After reaching a high of \$199/bbl last week, the price of Singapore gasoil – a key benchmark for diesel – currently sits at \$171bbl.

US/Europe.

Non-farm payrolls rebounded 178k in March after a revised 133k decline in February, while the unemployment rate nudged down to 4.3%. Meanwhile, consumer spending continued to grow in February and the Conference Board reported little change in consumer confidence in March despite the Middle East conflict. In the US, the coming week will see the focus turn to inflation, with both the March CPI and February PCE deflator due in the back end of the week. The minutes from last month's FOMC meeting will also be released. In the euro area, core inflation unexpectedly eased to 2.3%/y in March, but rising energy prices saw headline inflation lift to 2.5%/y from 1.9%/y previously.

Australia.

Given the ongoing conflict in the Middle East, our Australian team has taken another look at its economic forecasts. They now expect annual headline inflation to peak at 5.4% this year, while trimmed mean inflation is likely to peak around 4% – well above the RBA's target band. As a result, they now expect the RBA to hike the policy rate a further 75bps across the May, June and August meetings to a peak of 4.85%. Given the supply shock and the impact of tight monetary policy on demand, GDP growth is forecast to trough at 1% and the unemployment rate to peak at 5%. This is forecast to clear the way for a series of rate cuts in 2028. The remainder of this week will bring data on household spending and job advertising.

Asia.

In Japan, the BoJ's Tankan survey continued to point to solid business sentiment, adding to the likelihood that the BoJ will take another step towards policy rate normalisation later this month. In China, both the manufacturing and non-manufacturing PMIs crept back above 50 in March after falling below in February. The coming week will bring the release of March inflation data in China.

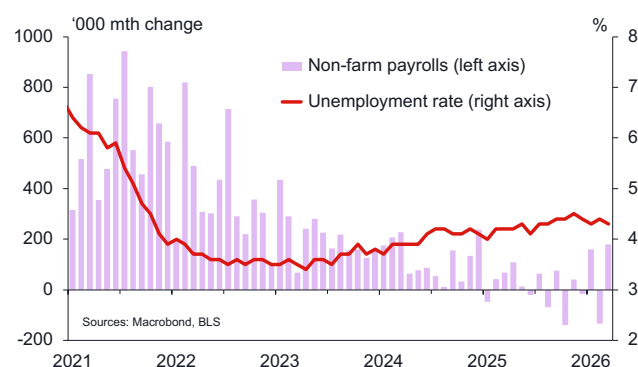
Trading partner real GDP (calendar years)

	Annual average % change			
	2024	2025	2026	2027
Australia	1.0	2.6	1.4	2.0
China	5.0	5.0	4.6	4.5
United States	2.8	2.2	2.5	1.8
Japan	0.1	1.2	0.6	0.8
East Asia ex China	4.3	4.6	4.2	4.1
India	6.5	7.2	6.4	6.5
Euro Zone	0.9	1.5	1.0	1.4
United Kingdom	1.1	1.3	0.8	1.3
NZ trading partners	2.9	3.3	2.8	2.8
World	3.3	3.4	3.2	3.2

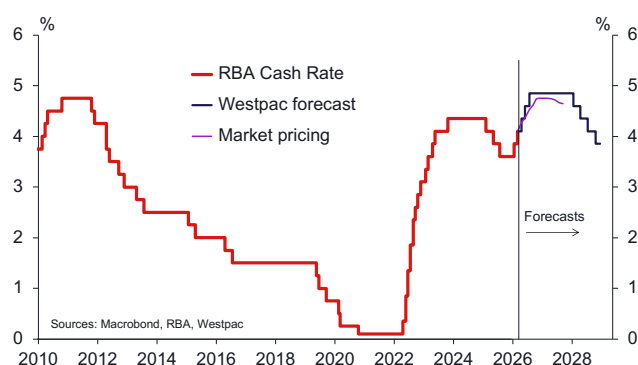
Australian & US interest rate outlook

	2 Apr	Jun-26	Dec-26	Dec-27
Australia				
Cash	4.10	4.60	4.85	4.85
90 Day BBSW	4.30	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	5.03	5.05	5.05	4.95
10 Year Spread to US (bps)	66	65	60	30
US				
Fed Funds	3.625	3.625	3.625	3.625
US 10 Year Bond	4.38	4.40	4.45	4.65

US nonfarm payrolls and unemployment rate



RBA Cash Rate



Financial markets wrap

Foreign exchange.

The NZD remains under downward pressure amid continuation of the Iran war. Last week it found support at around 0.5700, although it does look vulnerable to a break.

The key event for the NZD this week will be the RBNZ MPR. An on-hold decision is universally expected, but markets will react to the tone of the commentary, both in the media statement plus meeting minutes, as well as in the press conference (this will be the first time an MPR will have a press conference attached). We see little chance of either a dovish or hawkish signal, but markets could still latch onto minor nuances.

For the quarter ahead, we retain a neutral bias until resolution of the Iran war. An escalation could cause a break below 0.5700, towards 0.5500, while a resolution could ignite a rally towards 0.5900.

NZD/AUD is poised to retest the 13-year low of 0.8230 formed in March. We retain a bearish bias, based on relative economic performance and NZ-AU yield spreads which should continue to support the AUD. In particular, Australia's terms of trade is more resilient to an oil shock than is NZ's.

Interest rates.

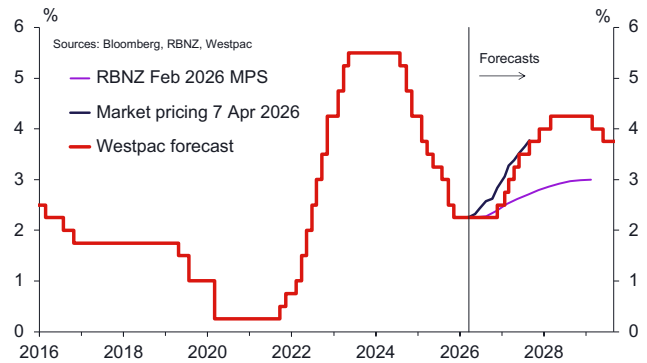
The NZ 2yr swap rate has stabilised in the 3.40s, after surging by around 60bp in March in response to the Iran war. Short maturity NZ rates had reached levels well above where we would expect to see them based on our outlook for the RBNZ OCR, and some retracement has occurred. War headlines and oil prices will continue to be the main drivers near term.

The OIS market currently prices a 70% chance of an OCR hike by July and two hikes in total by year end – still arguably too much.

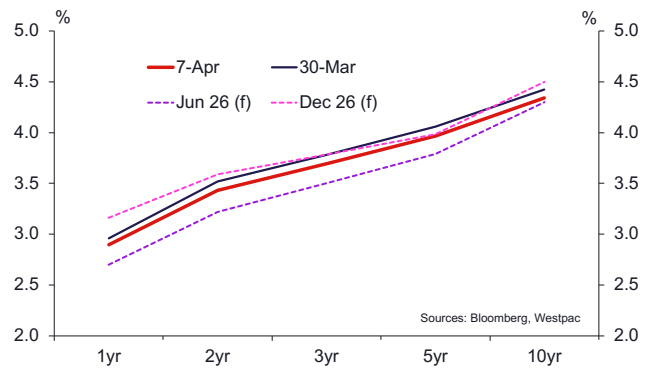
The RBNZ MPR on Wednesday should deliver a balanced assessment of the oil crisis, emphasising it's too early to know what the lasting effects on growth and inflation will be, and that a long period on hold is likely. Markets are likely to search the statement, minutes, and press conference for clues to the timing of the next tightening cycle.

The yield curve has flattened from the peak in late December, driven mostly by higher short maturity yields, initially in expectation the RBNZ will start hiking rates by year end, and more recently in response to the Iran war. The difference between 2yr and 10yr swap rates is currently 91bp, vs the December peak at 120bp. War risks aside, we expect further flattening during the year ahead as we approach the RBNZ's tightening cycle.

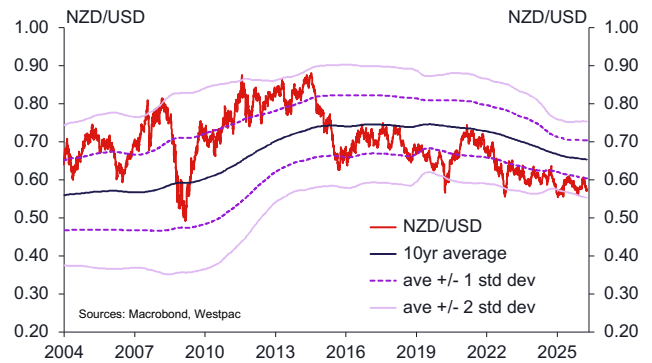
Official Cash Rate forecasts



Swap rates



NZD/USD vs rolling 10yr average



FX recent developments

	Historical data				F'cast
	Spot	3mth range	5yr range	5yr avg	Dec-26
USD	0.572	0.572-0.605	0.553-0.728	0.622	0.62
AUD	0.826	0.824-0.865	0.824-0.971	0.915	0.85
EUR	0.495	0.491-0.511	0.484-0.637	0.564	0.52
GBP	0.432	0.427-0.444	0.426-0.531	0.483	0.45
JPY	91.2	90.2-94.4	74.7-98.6	86.0	95.5

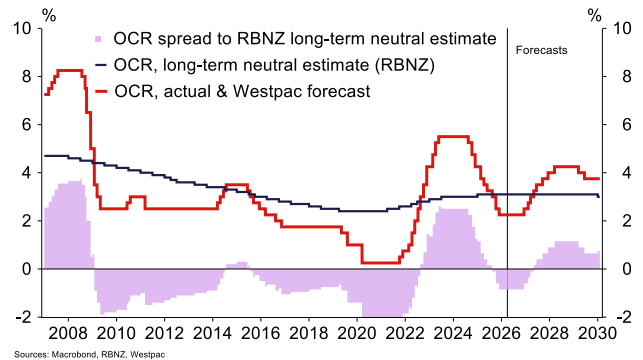
The week ahead

RBNZ Monetary Policy Review

Apr 8, Official Cash Rate – last: 2.25%, Westpac: 2.25%, Market: 2.25%

We expect the RBNZ to hold the OCR at 2.25% at its April review. We expect the RBNZ to emphasise that it will not react to the first-round impact of higher energy prices on near-term inflation, but that it will respond should there be evidence of second round effects that might create persistent inflation. The Bank is not scheduled to present revised economic projections at this meeting. However, it is possible that the RBNZ will provide some guidance of the likely magnitude of the upward revision to near-term inflation and downward revision to GDP.

RBNZ OCR and long-run neutral estimates



Economic and financial forecasts

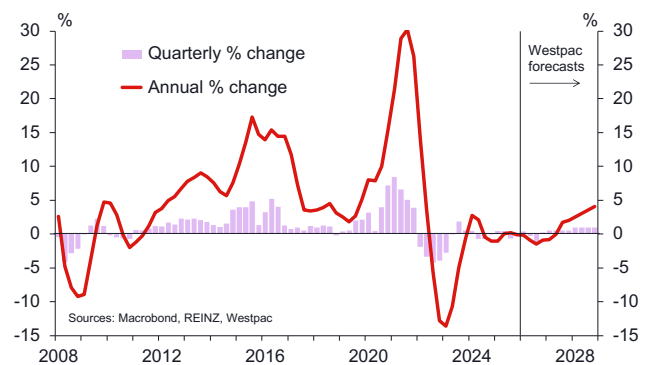
Economic indicators	Quarterly % change				Annual % change			
	Sep-25	Dec-25	Mar-26	Jun-26	2024	2025	2026	2027
GDP (production)	0.9	0.2	0.8	-0.4	-1.6	1.3	1.9	3.9
Consumer price index	1.0	0.6	0.8	1.6	2.2	3.1	3.8	1.7
Employment change	0.0	0.5	0.2	0.0	-1.3	0.2	1.2	3.1
Unemployment rate	5.3	5.4	5.4	5.6	5.1	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	-3.7	-3.8	-4.7	-3.7	-3.5	-3.4
Terms of trade	-0.5	0.3	-0.3	-0.5	8.9	3.5	4.4	3.4
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	2.50	4.00
90 day bank bill	3.10	2.52	2.45	2.45	4.45	2.52	2.90	4.25
2 year swap	2.99	2.71	3.30	3.60	3.64	2.71	4.10	4.40
5 year swap	3.40	3.27	3.90	4.10	3.73	3.27	4.30	4.45
10 year bond	4.42	4.27	4.75	4.80	4.50	4.27	4.95	5.10
TWI	68.4	66.4	66.9	66.5	69.5	66.4	68.9	72.5
NZD/USD	0.59	0.57	0.59	0.59	0.59	0.57	0.62	0.67
NZD/AUD	0.91	0.87	0.82	0.82	0.91	0.87	0.85	0.91
NZD/EUR	0.51	0.49	0.51	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

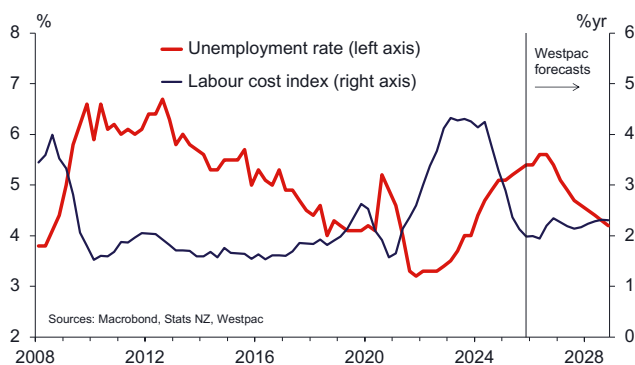
GDP growth



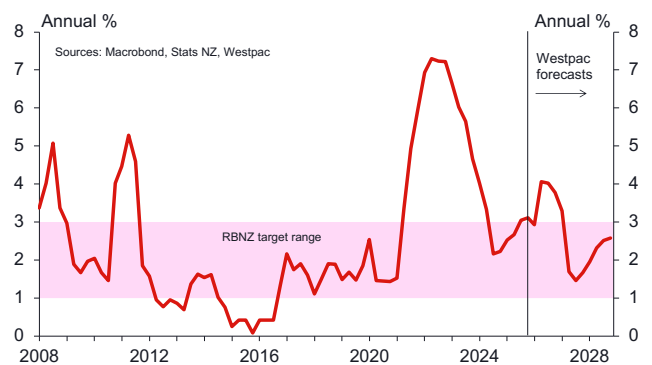
House prices



Unemployment and wage growth



Consumer price inflation



Data calendar

		Last	Market median	Westpac forecast	Risk/Comment
Mon 06					
US	Mar ISM Services PMI, index	56.1	54.9	-	Confidence shock could arrest the upturn in services activity.
World	Easter Monday	-	-	-	Markets closed.
Tue 07					
NZ	Mar ANZ Commodity Prices, %mth	4.2	-	-	Overall index up due to dairy prices, others mixed.
Aus	Mar MI Inflation Gauge, %ann	3.6	-	-	Will kick materially higher given the fuel price shock.
	Mar ANZ-Indeed Job Ads, %mth	3.2	-	-	Labour demand is stabilising, but outlook is cloudy.
	Feb Household Spending Indicator, %mth	0.3	0.2	-0.2	Card activity suggests momentum is pulling back in early-26.
Jpn	Feb Household Spending, %mth	-1.0	-1.3	-	Households on fragile footing, even before Middle East.
Eur	Apr Sentix Investor Confidence, index	-3.1	-5.2	-	Global inflation and growth risks don't bode well for confidence.
US	Feb Durable Goods Orders, %mth	0	-	-	Businesses may delay investment plans amid uncertainty.
	Mar NY Fed 1-Yr Inflation Expectations, %ann	3	-	-	Surge in fuel prices will have a salient impact on expectations.
	Feb Consumer Credit, \$bn	8.1	-	-	On a firmer trend compared to this time last year.
	Fedspeak	-	-	-	Goolsbee.
World	Mar S&P Global Services PMI	-	-	-	Final estimates for Eurozone and UK.
Wed 08					
NZ	RBNZ Policy Decision	2.25	2.25	2.25	Key focus will be the discussion of longer term risks.
Eur	Feb PPI, %ann	-2.2	-	-	Producer price deflation may reverse over coming months.
	Feb Retail Sales, %mth	-0.1	0.2	-	Choppy over recent months, but annual growth is lifting.
US	FOMC Meeting Minutes	-	-	-	Deliberations around conflict risks will be a key focus.
Thu 09					
US	Feb Personal Income, %mth	0.4	-	-	Income growth continues to outpace inflation, allowing ...
	Feb Personal Spending, %mth	0.4	-	-	... real consumption to maintain stable growth, but the war ...
	Feb PCE Deflator, %mth	0.3	-	-	... poses a material risk to both these trends near-term.
	Initial Jobless Claims	-	-	-	Still at a low level versus history.
	Q4 GDP, %ann'd	0.7	-	-	Final estimate closely watched given downward revisions.
Fri 10					
NZ	Mar Manufacturing PMI, index	55	-	-	Watching for signs of easing as global pressures mount.
Chn	Mar CPI, %ann	1.3	1.1	-	Temporary boost from Lunar New Year spend will abate ...
	Mar PPI, %ann	-0.9	0.6	-	... overcapacity and subdued demand back in spotlight.
US	Mar CPI, %mth	0.3	-	-	Authorities will be focused on second-round effects.
	Feb Factory Orders, %mth	0.1	-	-	Conflict may put some investment plans on the back burner.
	Apr Uni. Of Michigan Sentiment, index	53.3	-	-	Flailing sentiment puts consumer spending at risk.

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