WEEKLY ECONOMIC COMMENTARY

07 Sep 2026 | **Westpac Economics Team** | **westpac.co.nz/economics** | economics@westpac.co.nz

RBNZ to pause in October, but hike in time for Christmas

As expected, the RBNZ hiked the Official Cash Rate by 25bps at last week's meeting. The accompanying minutes and projections signalled a further OCR rise later this year. However, rather than committing to a series of consecutive hikes, data permitting, it appears that the RBNZ wants 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.

Appropriately balanced.

The RBNZ hiked the Official Cash Rate 25bps at its September policy meeting, taking it to 2.75%. The decision was reached by consensus, with no vote required. The hike was widely expected and had been signalled by the RBNZ at the time of the previous meeting in July.

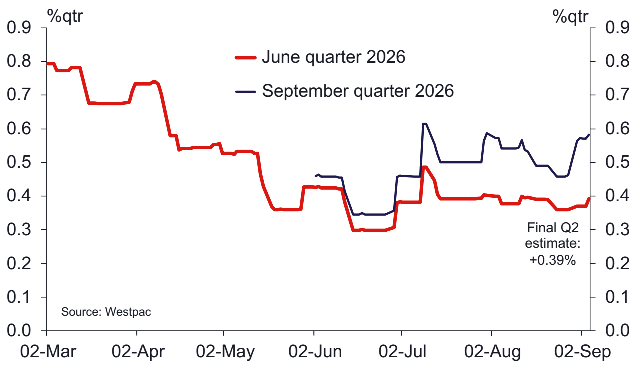
The key question is where the OCR is headed over the coming months, with two interest rate meetings still to come before the end of the year. And these won't be simple decisions for the RBNZ.

Inflation is elevated, printing at 4.1% in the year to June. And like the RBNZ, we expect that it will remain above the 3% upper bound of the target range at least until the middle of next year. Much of the current strength in inflation is due to the spike in oil prices earlier this year. However, the underlying inflation picture is also problematic. Stripping out volatile items like fuel, the various measures of core inflation have been running near the top of the RBNZ's target band for several years now. And with fuel and other production costs rising, underlying inflation pressures a likely to continue running hot for a while.

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

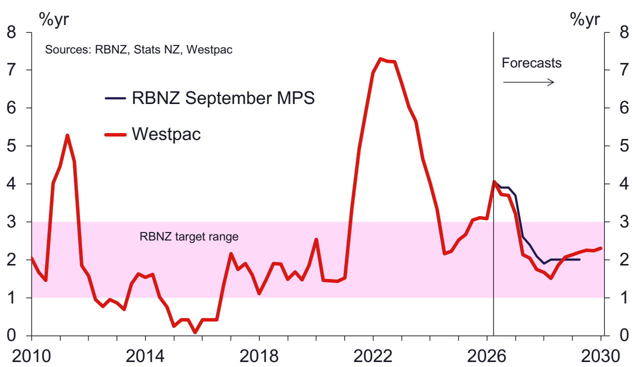
Date	Event
16 Sep 26	FOMC meeting (17 Sep NZT)
17 Sep 26	NZ GDP, June quarter
18 Sep 26	NZ Selected price indexes, August
29 Sep 26	NZ Govt Pre-election Economic & Fiscal Update
29 Sep 26	RBA Monetary Policy Decision
6 Oct 26	NZIER QSBO Survey, September quarter
16 Oct 26	NZ Selected price indexes, September
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

In fact, the RBNZ has revised its forecast for domestic (non-tradable) inflation higher due to concerns that increases in fuel and other costs will add to local price pressures. That also means that the RBNZ now expects inflation will take slightly longer to return to 2%. Even with this upgraded inflation outlook, the majority of MPC members (including Governor Breman) still see upside risk to the RBNZ's inflation forecast.

However, it's worth noting that much of that strength in inflation is due to factors that the RBNZ can't easily offset with interest rate hikes. To illustrate this, the RBNZ's policy statement included a special topic focused on the conduct of monetary policy in the face of supply shocks, like oil price spikes. Returning inflation back to 2% quickly in such circumstances can require very large changes in the OCR and generate significant swings in output and employment. That sort of volatility could be damaging for the economy and labour market, especially as the impact of rate hikes is likely to fall on sectors of the economy that are not the source of inflation.

Instead, the RBNZ has highlighted that a more gradual approach to returning inflation to target is the more appropriate course. Consistent with that, RBNZ Chief Economist Conway noted in an interview after the MPS that *"if we can get inflation down while supporting growth that's better than getting inflation down by derailing recovery."*

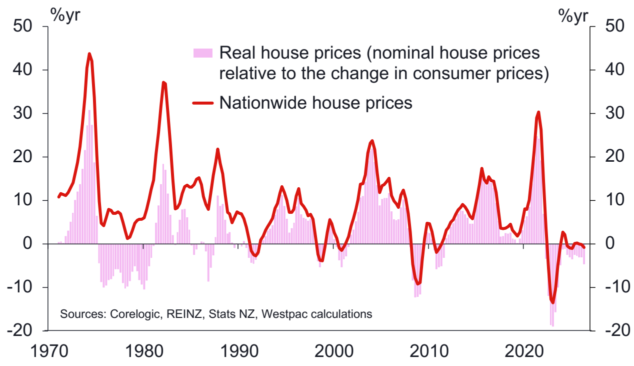
Consumer price inflation



Adding to those concerns, all members of the MPC agreed that there were significant downside risks for activity, along with related risks for the labour market. That's despite a downward revision to the RBNZ's forecast for employment growth and an upward revision to the forecast for the unemployment rate.

A particular area of uncertainty is the outlook for household spending, which is a key driver of domestic economic activity. Spending growth has been soft for some time, weighed down by weakness in the jobs market and increases in living costs. And there are big uncertainties about how strong spending will be in the face of ongoing softness in the housing market – housing assets account for around half of New Zealand households' wealth and average prices across the country have shown no growth for three years now. Like ourselves, the RBNZ expects house price growth will remain subdued for some time.

New Zealand house price growth 1970s to today



October pause, December hike.

Balancing out the above concerns, the MPC judged that *"the OCR may need to increase further."* However, they went on to note that *"the future OCR path is not pre-determined"* and highlighted that future decisions will be dependent on the strength of data. Media comments from the RBNZ highlight that members of the MPC want to see how the economy is tracking following the 50bps of hikes since July.

We continue to expect that the RBNZ will pause in October and deliver a hike at its December meeting. The October policy meeting is also very close to the General Election on 7 November, though the RBNZ has noted that this is not a factor that influences their decisions.

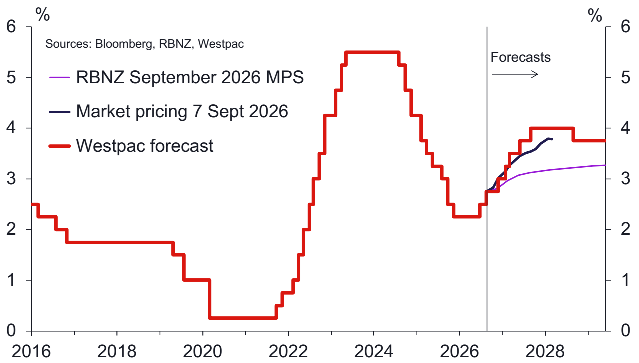
The RBNZ now forecasts an average OCR in the December quarter of 2.81% (down just slightly from 2.84% in the May MPS). That forecast is exactly consistent with an unchanged OCR at the 28 October meeting followed by a 25bps rate hike at the 9 December meeting (in contrast, a 25bp hike at the October meeting, followed by a pause in December, would have yielded a forecast average of 2.93%). Assistant Governor Silk commented in a media interview that *"Whether it's October or whether it's December is still open, but the way the track is situated it's more likely the latter rather than the former."*

The Record of Meeting noted that *"Future policy will depend on the Committee's judgement of the balance of risks to medium-term inflation. This approach allows the Committee to observe and assess the effects of reduced monetary stimulus."* We think that this language also suggests an expectation that there will be a pause before the next hike is delivered.

The MPC is likely to continue debating between further hikes and holding rates unchanged for the foreseeable future. A hike in October remains a possibility should data suggest a combination of persistent inflation pressures and a strengthening economy. Data on Q2 GDP (17

September) and the QSBO Business Confidence survey (6 October) will be important in informing the MPC's judgement on the progression of the economy. The Q3 CPI later in October will be key information on the strength of persistent inflation pressures.

Official Cash Rate forecasts



Longer term outlook.

The RBNZ's interest rate projections for 2027 and 2028 are essentially unchanged from May. The OCR is projected to rise gradually over the coming years to a peak of 3.28% at the end of 2029.

For now, the MPC's strategy remains one of removing stimulus as opposed to moving to a restrictive stance. We think discussions about moving the OCR beyond neutral levels will come in 2027 and will be informed by trends in core inflation and the strength of the economy between now and then.

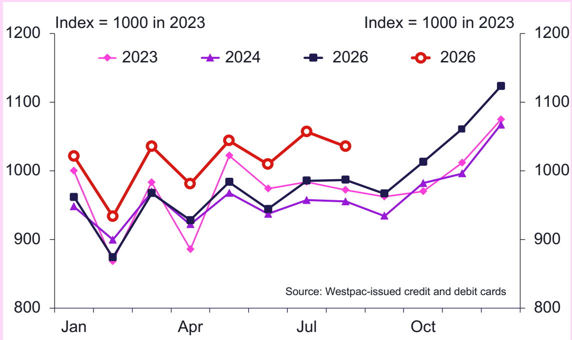
We continue to expect further increases in the OCR to 4% by September 2027 (dependent on the strength of data, as always.

Satish Ranchhod, Senior Economist

Chart of the week.

Spending on Westpac-issued credit and debit cards fell 1.3% in August. That was in part related to a dropoff in entertainment spending which had surged the previous month, coinciding with both the FIFA World Cup and the massive PowerBall draw. Looking through those month-to-month swings, the longer-term trend in spending is looking firm, with spending up 5% on this time last year. And that's not just due to increased spending on essentials; discretionary spending is up 9% over the past year, including increased spending in the hospitality sector. But while the overall trend in spending is firm, it's still a mixed picture across the nation, with spending in regions with strong rural backbones outpacing that in Auckland and Wellington.

Spending on Westpac credit and debit cards (per person)

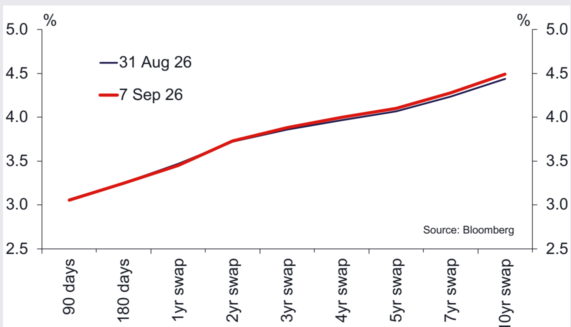


Fixed versus floating for mortgages.

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.

Oil prices moved higher at the beginning of last week following renewed hostilities between the US and Iran, with Brent crude closing the week above $95/bbl. Oil may reopen higher again today after hostilities continued over the weekend, with the US Navy striking three Iranian tankers. In addition, Iran said it would declare a restricted zone outside the Strait of Hormuz.

North America.

Following Fed Chair Warsh's hawkish commentary at Jackson Hole, expectations for a September rate hike were initially watered down after Governor Waller indicated he was inclined to support leaving policy if August inflation data comes in "reasonable". However, rate hike expectations moved higher again on Friday after non-farm payrolls grew a much greater than expected 162k in August (although the unemployment rate was steady at 4.1%, as expected). In other news, the ISM surveys indicated robust conditions in August, with the services index rising to a six-month high of 55.4. Looking ahead, following today's Labor Day holiday, the focus this week will turn back to inflation, with the PPI released on Thursday and the CPI released on Friday (both for August). The market expects a 0.2% lift in the core CPI, nudging annual inflation down to 2.4%. The inflation expectations data in the University of Michigan's preliminary report for September will also be of interest on Friday. The Fed is now in communications blackout ahead of the 17 September meeting.

Europe.

Preliminary euro area data for August revealed a lift in headline inflation to 3.3%yr from 2.9%yr in July, meeting expectations. However, the core CPI inflation rate unexpectedly nudged down to 2.4%yr. This week the focus will be on the ECB's Governing Council meeting on Thursday. A 25bp rate hike is almost fully priced, so the most interest will centre on any signals given about the likely path of policy at future meetings. Ahead of next week's BoE meeting, monthly activity data features in the UK.

Middle East.

Australia's economy grew 0.4%qtr in Q2, beating expectations, with annual growth of 2.1%yr also a touch firmer than the RBA's expectations. This week will bring an update on job advertising trends, as well as both consumer and business confidence readings. In China, following another round of soft official PMI readings, the coming week will bring both trade and inflation readings for August.

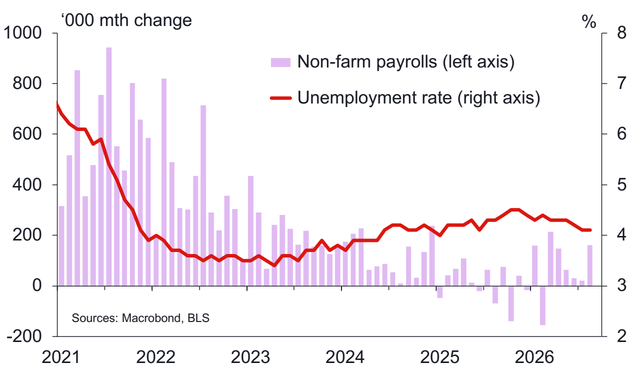
Trading partner real GDP (calendar years)

	Annual average % change			
	2025	2026	2027	2028
Australia	2.0	1.7	1.3	2.2
China	5.0	4.7	4.6	4.4
United States	2.1	2.0	1.8	1.9
Japan	1.1	0.6	0.8	0.9
East Asia ex China	4.7	5.1	4.4	4.3
India	7.6	6.7	6.7	6.6
Euro Zone	1.3	0.8	1.2	1.5
United Kingdom	1.3	1.2	1.1	1.5
NZ trading partners	3.2	3.0	2.7	2.9
World	3.4	3.3	3.3	3.3

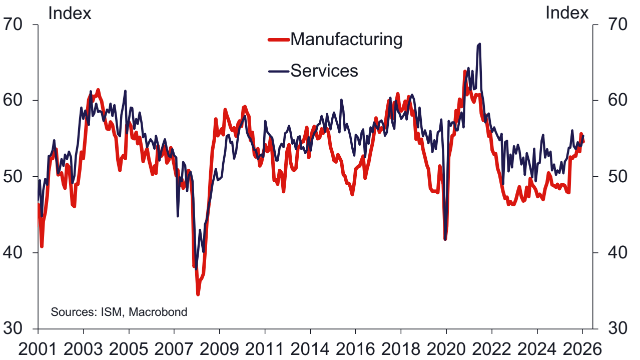
Australian & US interest rate outlook

	4 Sep	Dec-26	Dec-27	Dec-28
Australia				
Cash	4.35	4.35	3.85	3.60
90 Day BBSW	4.59	4.46	3.76	3.70
3 Year Swap	4.74	4.45	4.10	3.90
3 Year Bond	4.75	4.45	4.10	3.90
10 Year Bond	5.17	4.85	4.65	4.65
10 Year Spread to US (bps)	41	25	0	-20
US				
Fed Funds	3.625	3.625	3.625	3.625
US 10 Year Bond	4.76	4.60	4.65	4.85

US nonfarm payrolls and unemployment rate



US ISM surveys



Financial markets wrap

Foreign exchange.

The week-ahead bias remains bearish, the RBNZ's 'dovish' hike last week (see interest rate section below) likely to resonate a little longer. Support at 0.5800 (50% retracement of the July-August rally) has held, though, and a period of consolidation between there and 0.5910 is expected during the week ahead, absent event surprises.

There's little in the local event calendar to ruffle the NZD (the next major data release will be GDP on 17 September), but internationally, the US dollar will be vulnerable to a surprise from the US CPI inflation data on Friday. This data could decide whether the Fed hikes or holds at its next meeting on 16 September. By year end, if we start to see evidence of an increase in the pace of NZ economic recovery, then higher swap rates should result, in turn supporting the NZD. A year-end target of 0.6000 remains plausible.

NZD/AUD's recovery since May has been extinguished by a combination of stronger AU economic data, which has caused markets to upgrade the chances of an RBA rate hike in September or November, and last week's dovish RBNZ hike, which has caused markets to downgrade the pace and extent of OCR hikes. The 0.8100 support level is vulnerable near term. By year end, though, if NZ's economic recovery looks more compelling, then a rebound to 0.8300-0.8400 is plausible.

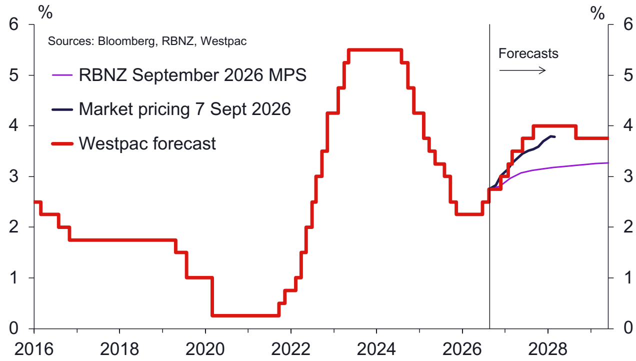
Interest rates.

The 2yr swap rate has remained inside its two-month-old range of 3.60%-3.80%, despite the pullback resulting from the RBNZ's dovish hike last week. The outcome was market dovish because the 25bp hike to 2.75% was already fully priced by the market, and the RBNZ's OCR projection arithmetically implied a hold in October and a hike in December – markets had earlier priced a 70% chance of a hike in October. That said, the RBNZ's OCR projection is not a preset path, but conditional on the economy evolving as the RBNZ has forecast.

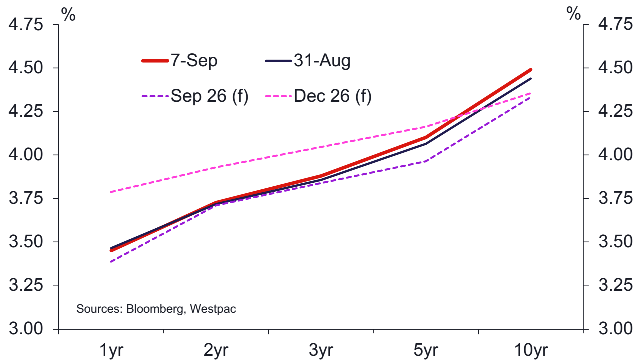
There are major data releases ahead of the 28 October meeting, including GDP, CPI inflation, and the quarterly business survey, which will be influential in the next RBNZ decision. Currently, OIS pricing implies a 30% chance of a hike in October, a 100% chance by December, and a peak OCR around 3.50%.

The yield curve's flattening trend since the peak in late December has been interrupted by a combination of soft NZ data, higher long-maturity global bond yields, and the RBNZ's dovish surprise in September. The 2-10yr swap curve has steepened over the past month from 70bp to 80bp. By year end, though, we expect the flattening trend to resume due to the RBNZ's tightening cycle, taking the 2-10yr curve to around 60bp.

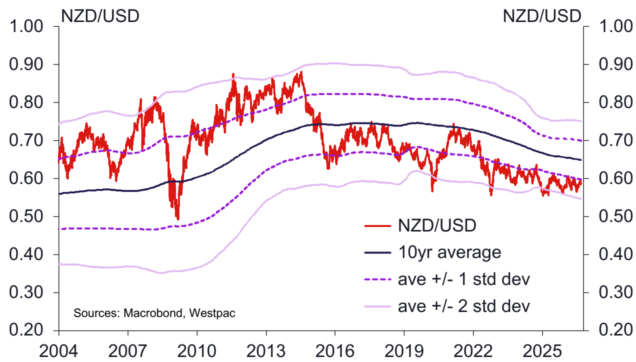
Official Cash Rate forecasts



Swap rates



NZD/USD vs rolling 10yr average



FX recent developments

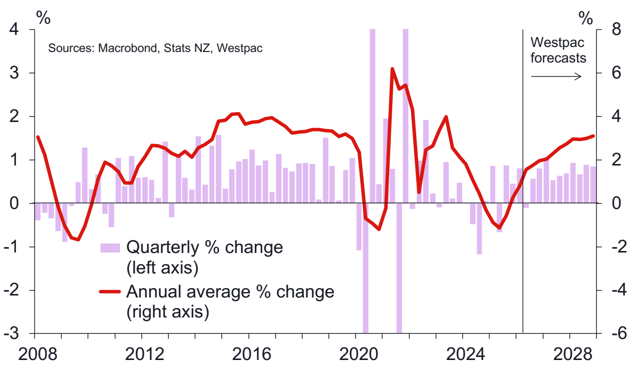
	Historical data				F'cast
	Spot	3mth range	5yr range	5yr avg	Dec-26
USD	0.588	0.563-0.597	0.553-0.720	0.612	0.60
AUD	0.817	0.817-0.837	0.816-0.971	0.906	0.84
EUR	0.506	0.495-0.513	0.484-0.637	0.557	0.51
GBP	0.435	0.425-0.438	0.425-0.531	0.477	0.44
JPY	91.7	91.1-95.3	75.5-98.6	87.3	96.0

Economic and financial forecasts

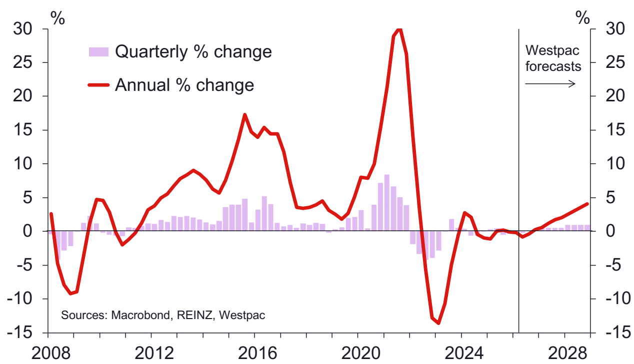
Economic indicators	Quarterly % change				Annual % change			
	Mar-26	Jun-26	Sep-26	Dec-26	2024	2025	2026	2027
GDP (production)	0.8	-0.1	0.6	0.7	-1.6	1.5	2.0	2.9
Consumer price index	0.9	1.5	0.7	0.4	2.2	3.1	3.5	1.9
Employment change	0.2	0.5	0.5	0.7	-1.3	0.2	1.8	2.6
Unemployment rate	5.4	5.6	5.5	5.4	5.1	5.4	5.4	4.9
Labour cost index (all sectors)	0.5	0.6	0.7	0.6	3.3	2.0	2.4	2.4
Current account balance (% of GDP)	-3.6	-3.7	-3.9	-3.9	-4.7	-3.6	-3.9	-3.9
Terms of trade	-1.6	1.4	0.9	-0.1	8.9	3.4	0.6	3.9
House price index	0.1	-0.1	0.0	0.2	-1.0	-0.1	0.3	2.0

Financial forecasts	End of quarter				End of year			
	Mar-26	Jun-26	Sep-26	Dec-26	2024	2025	2026	2027
OCR	2.25	2.25	2.75	3.00	4.25	2.25	3.00	4.00
90 day bank bill	2.51	2.63	3.00	3.40	4.45	2.52	3.40	4.20
2 year swap	3.12	3.47	3.70	3.95	3.64	2.71	3.95	4.20
5 year swap	3.71	3.88	3.95	4.15	3.73	3.27	4.15	4.40
10 year bond	4.54	4.61	4.65	4.65	4.50	4.27	4.65	5.05
TWI	67.2	66.5	67.0	67.9	69.5	66.4	67.9	72.5
NZD/USD	0.59	0.58	0.59	0.60	0.59	0.57	0.60	0.66
NZD/AUD	0.85	0.82	0.83	0.84	0.91	0.87	0.84	0.90
NZD/EUR	0.50	0.50	0.51	0.51	0.55	0.49	0.51	0.55
NZD/GBP	0.44	0.44	0.44	0.44	0.46	0.43	0.44	0.47

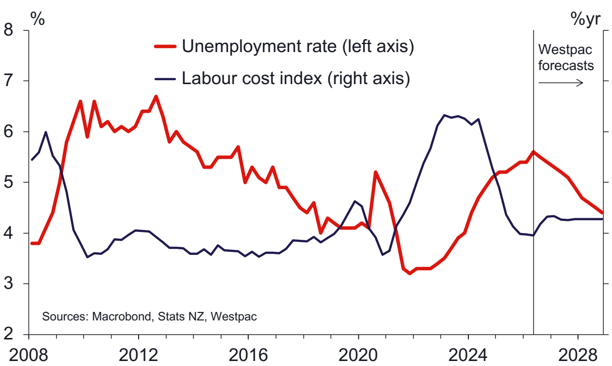
GDP growth



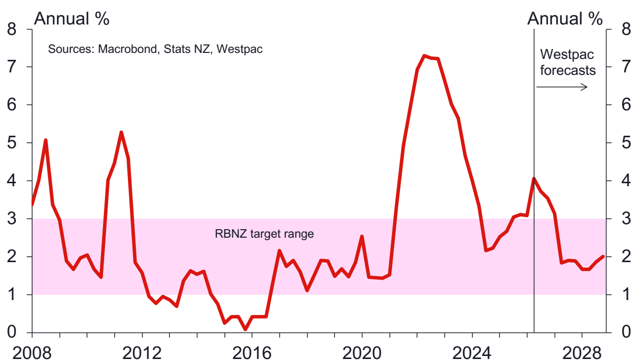
House prices



Unemployment and wage growth



Consumer price inflation



Data calendar

		Last	Market median	Westpac forecast	Risk/Comment
Mon 07					
Aus	Aug ANZ-Indeed Job Ads, %mth	0.8	–	–	Job ads relatively stable, but slack is slowly building.
Chn	Aug Foreign Reserves, US$bn	3418.8	3430.0	–	Level of reserves not a concern for authorities.
Eur	Sep Sentix Investor Confidence, index	0.9	–	–	Investors are less concerned about Europe's outlook.
	Q2 GDP, %qtr	0.4	–	–	Final estimate.
US	Labor Day	–	–	–	Markets closed.
Tue 08					
NZ	Q2 Business Financial Data, NZ$bn	–	–	–	Final inputs for June quarter GDP.
Aus	Sep Westpac-MI Consumer Sentiment, index	88.9	–	–	Consumers are less pessimistic with the RBA on hold.
	Aug Aug NAB Business Conditions, index	4	–	–	Pessimism persists as firms face sluggish conditions.
	RBA Assist' Governor (Economic)	–	–	–	Hunter fireside chat at AFR Property Summit
	RBA Deputy Governor	–	–	–	Hauser interview on ABC, 7:30pm AEST.
Jpn	Q2 GDP, %qtr	0.3	0.4	–	Final estimate.
	Jul Current Account Balance, ¥bn	–92.3	2820.8	–	Swing to deficit as dividends paid to foreign investors.
Kor	Q2 GDP, %qtr	0.6	0.6	–	Growth momentum solid owing to strong exports.
Chn	Aug Trade Balance, US$bn	112.5	119.7	–	Gains from trade immense, but not flowing to households.
US	Aug NFIB Small Business Optimism, index	99.8	99.2	–	Pessimism abating, but margin pressures still linger.
	Aug NY Fed 1-Yr Inflation Expectations, %ann	3.63	–	–	Stabilising at an elevated but not-so-alarming level.
	Jul Consumer Credit, $bn	14.2	11.3	–	Credit still flowing freely to consumers.
Wed 09					
Chn	Aug PPI, %mth	3.5	3.7	–	Lift in producer prices are relatively contained ...
	Aug CPI, %mth	0.5	0.9	–	... with no material pass-through to consumers.
	Aug New YTD Loans, CNYbn	10380	10860	–	Stimulus is required to meet year-end targets ...
	Aug M2 Money Supply, %ann	7.7	7.7	–	... note data is due 9-15 September.
Thur 10					
Aus	Sep MI Inflation Expectations, %ann	4.9	–	–	Elevated as fuel excise relief rolls off.
Eur	Sep ECB Policy Decision (Deposit Rate), %	2.25	2.50	–	Another rate hike likely to ward off upside inflation risks.
US	Initial Jobless Claims	206	205	–	Still at a relatively low level.
	Aug PPI, %mth	0.0	0.4	–	Energy price shock fading, but not out of the woods yet.
	Aug Existing Home Sales, %mth	–1.7	–1.6	–	Remains near its lows amid elevated mortgage rates.
	Jul Wholesale Inventories, %mth	1.3	–	–	Final estimate.
Fri 11					
NZ	Aug Manufacturing PMI, index	54.3	–	–	Manufacturing has been relatively resilient this year.
UK	Jul Monthly GDP, %mth	0.3	–	–	Growth to moderate as inflation, interest rates impact.
US	Aug CPI, %mth	0.1	0.4	0.3	Underlying inflation points to downside risks to policy.
	Sep Uni. Of Michigan Sentiment, index	51.7	51.0	–	Consumers are still deeply pessimistic.

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