



WEEKLY ECONOMIC COMMENTARY



8 Jun 2026 | Westpac Economics Team | westpac.co.nz/economics | economics@westpac.co.nz

New Zealand's economy is slouching, not stalling.

New Zealand's economy has continued to slouch along over the past couple of months. The rise in oil prices has dented household and business confidence, and that is weighing on spending. We're also seeing continued softness in the labour market. However, at the same time, there's been ongoing firmness in some of our key export sectors, including dairy. That combination is leaving us with a soggy outlook for overall growth. We expect the economy will grow by just 1.5% this year – similar to the sub-par rate seen over the past year, but far from catastrophic.

Household caution.

Looking first at the household sector, spending growth has shifted down several gears in recent months. Spending on Westpac-issued cards was up just 0.7% in the three months to May. That's a sharp slowdown from the start of this year when we were seeing quarterly gains of 2% to 3%.

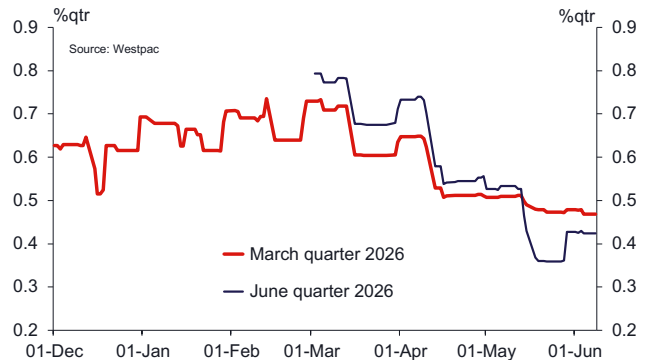
Under the surface, the impacts of Middle East conflict are clear to see. With a sharp rise in oil prices, spending on fuel is up around 19% (and while we're spending more, chances are you're getting less in the tank each time you top up). Spending on travel has also dropped back by around 10% as higher fares and increased uncertainty about the global backdrop have prompted many of us to put out holiday plans on hold.

Spending in other areas has also taken a knock in recent months. However, rather than keeping their cards in their wallets, New Zealanders have become more cautious about their spending. For instance, when it comes to the weekly grocery shop, many of us are now spending more on 'basics' and less on nice to haves. Similarly, excluding

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

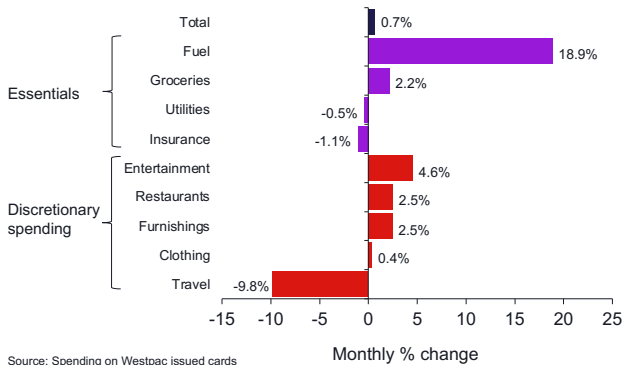


Key data and event outlook

Date	Event
16 Jun 26	NZ Selected price indexes, May
16 Jun 26	RBA Monetary Policy Decision
17 Jun 26	FOMC meeting (18 Jun NZT)
18 Jun 26	NZ GDP, March quarter
2 Jul 26	Govt accounts for 11 months to May
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 Jun 26	FOMC meeting (30 Jul NZT)

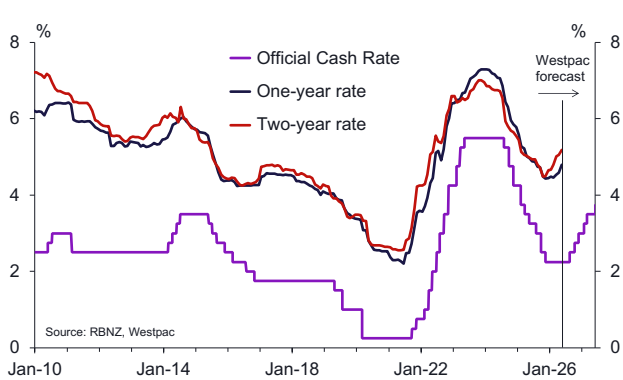
travel, spending on discretionary items has continued to rise, but at a more gradual pace. And there's been notable resilience in spending on takeaways and in restaurants.

Spending – Three months to May vs previous three months (per person)



Looking to the back part of the year, we think spending growth is going to remain modest. A key reason for that is the changing interest rate environment. Over the past year, many borrowers have been rolling off the high fixed-term mortgage rates that were on offer in recent years and on to much lower ones. That process will continue for a few more months. However, compared to last year, the average drop in interest costs as borrowers re-fix their mortgage is now much smaller. Carded mortgage rates have been moving higher in recent months as inflation pressures have mounted and expectations for interest rate hikes from the RBNZ have been pulled forward.

Mortgage rates and the Official Cash Rate



Businesses squeezed.

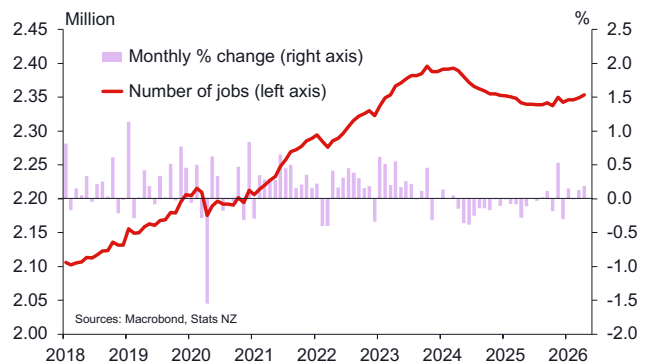
It's a similarly soggy picture in the business sector. After falling sharply when the conflict in the Middle East, business confidence has picked up again, but only modestly. Notably, gauges of forward orders and expected trading activity remain at subdued levels, consistent with soft economic growth through the middle part of the year.

Businesses are also continuing to report pressure on fuel, materials and other operating costs. However, in many cases, softness in demand means it's difficult to

pass this through to output prices. Some operators have introduced temporary fuel-related cost adjustments. But in many cases, cost increases are resulting in renewed pressure on margins.

With ongoing nervousness about the global backdrop and soft trading conditions onshore, business have scaled back plans for capital spending. They're also reluctant to take on new staff. Filled job levels are up just 0.5% on this time last year, with several of the businesses we've spoken recently to noting that they're in a 'no hire, no fire' phase. And with unemployment already at above-average levels, that limited demand for staff means that wage growth is also likely to remain subdued this year despite cost-of-living pressures.

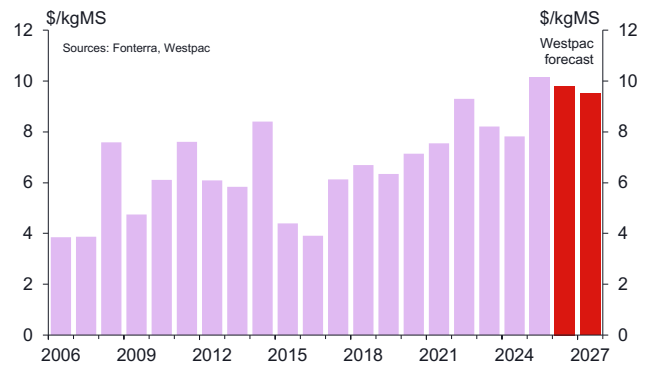
Monthly Employment Indicator filled jobs



Export sector resilience.

Although the economy is grappling with significant challenges, it is a mixed picture across sectors. Notably, we're continuing to see firmer conditions in export sectors with merchandise export volumes up 1.6% in the year to March, and it looks like that strength has continued into the middle part of the year.

Farmgate milk price



Much of the strength in export earnings has been related to firm demand for **dairy exports**, and last month we revised up our forecast payout for the 2026/27 season to \$9.50/kg (up \$0.30/kg on our previous forecast). That would be the third year in a row of very strong

payouts. And it's not just the dairy sector that is seeing good returns. Robust global demand is also supporting prices for meat and horticulture products. The resulting strength in export earnings has been flowing through to increased spending on and off the farm. That's providing a sizeable boost to sentiment and spending in regions with strong rural backbones, including Canterbury, Otago and Southland.

One concern for our exporters is a potential lift in tariffs on exports to the US. Last week, Washington proposed a 12.5% tariff on 54 nations including NZ, Australia and China, along with a 10% tariff on six other nations. That was in response to suggestions that we have failed to enforce prohibitions on goods produced with forced labour – a suggestion that was strongly rejected by the New Zealand Government. If confirmed, the proposed tariff would replace the current 10% tariff that has been in place since the 15% “Liberation Day” tariff was ruled unconstitutional. There would still be some exemptions for products like beef.

Tourism has also been a strong performer for the economy, with arrivals from key markets like Australia, the US and China. However, the sector is likely to face some headwinds over the coming year, with rising fuel and travel costs, as well as nervousness about geopolitical tensions. That's likely to weigh on visitor arrivals over the coming months, with operators already reporting the cancellation of some bookings.

The resilience in export markets, particularly for commodities, is providing a welcome respite, helping offset the dampening impacts of the Middle East conflict on domestic activity. As a result, we expect the New Zealand economy will continue to muddle along this year, with economic growth remaining below average and unemployment expected to peak at 5.6%. Under the surface, the economy is set to remain very two-speed, with the south continuing to outperform.

Mixed activity, but firmness in inflation.

Against this mixed backdrop, many clients have asked us about how persistent inflation will be and how aggressive the RBNZ needs to be.

Coming into the current oil shock, inflation was already above target, with consumer prices rising 3.1% in the year to March. And while soft demand might be limiting the rise in consumer prices, we're still looking at a significant and widespread increase in operating costs. As a result, inflation excluding fuel costs is likely to linger at firm levels for some time.

A further concern is that the current lift in operating costs comes after several years where we've seen large increases in operating costs and pressures on margins. With another spike in operating costs now in train, there is a real risk that business start to bake in larger cost

increases when they adjust their prices. That could extend the recent uplift in inflation even when oil prices eventually drop back.

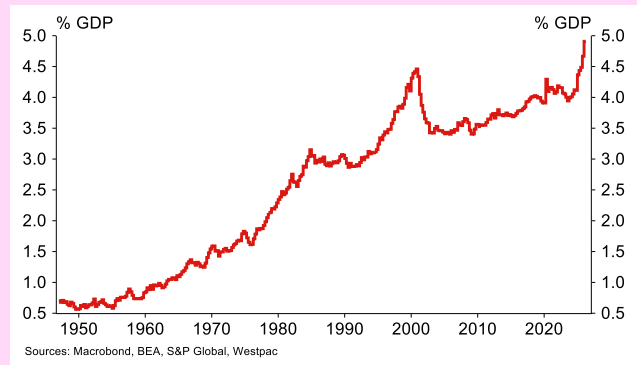
Given those concerns, we expect the RBNZ will hike the Official Cash Rate three times by the end of this year. We've pencilled in the first hike for September, but there is a risk of an earlier start in July depending on the evolution of economic data.

Satish Ranchhod, Senior Economist

Chart of the week.

A key offset to the negative impact of the Iran conflict impact on global energy costs has been the rise in global equity markets as the AI investment cycle continues unabated. US GDP statistics released last month showed that firms are investing very rapidly into IT equipment as they incorporate AI into their production processes. The rise in IT investment rivals that seen during the 70s and 80s as computers became more widely available and in the 1990's telecoms and dot.com booms. The CEO of NVIDIA noted at the release of their profits results that demand for NVIDIA chips has gone "parabolic" – something that is reflected in global statistics on computer chip demand. These trends are helping support the New Zealand economic outlook as the supply chain for AI equipment extends throughout our Asian trading partners. In addition, as equity and credit markets have remained strong in the face of the Iran Geopolitical shock, then a key channel that would have amplified the impact of the energy shock on the globe has been dampened in this case.

US Investment in IT equipment, % GDP

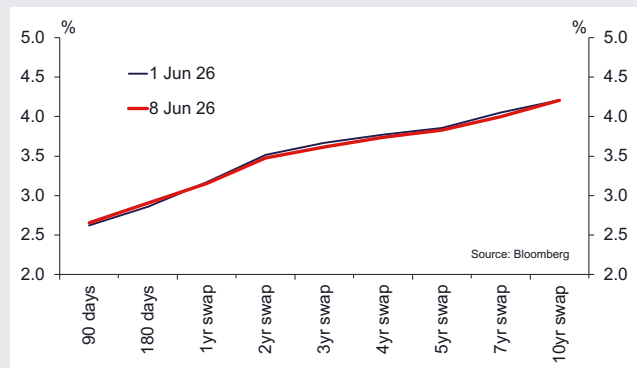


Fixed versus floating for mortgages.

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. We're expecting 25bp hikes at the RBNZ's September, October and December meetings, with the OCR expected to continue rising next year. With the May decision so finely balanced, there is a high chance that the first hike will come at the July meeting, and interest rate markets are priced accordingly.

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.

A ceasefire agreement remained elusive this week, but both sides continue to signal an intent to resolve their differences, and hostilities have been limited to small skirmishes and ‘defensive’ actions. The market remains hopeful, with Brent oil trading in a US\$93-98/bbl range versus the recent peak of US\$110, despite the ongoing depletion of global inventories.

Asia-Pacific.

Australian GDP rose by 0.3% in the March quarter, in line with our expectations. Business investment rose strongly, led by data centre construction, though much of this was imported. Spending by the public sector was little changed as infrastructure projects drew closer to completion and energy bill rebates rolled off, and household spending growth across discretionary categories was sluggish. The impact of 2026’s interest rate hikes and the uncertainty created by the proposed Federal tax changes saw the Cotality house price index dip another 0.1% in May after a 0.2% fall in April. Weakness was concentrated in Sydney and Melbourne, but gains across the smaller capitals are also expected to moderate in the months ahead.

North America.

The US employment reports for May were substantially stronger than expected, suggesting that the labour market is shaking off the weakness seen earlier this year. Non-farm payrolls rose 172k, on top of an upwardly revised 179k increase in April. This is well ahead of ‘breakeven’ jobs growth, which is now estimated to be close to zero given the sharp slowdown in population growth over the last year. The unemployment rate held steady at 4.3%, down from its late-2025 peak of 4.5%. The May CPI on Wednesday night is expected to see headline inflation pop above 4%, with core inflation ticking up from 2.8% to 2.9%. The Bank of Canada is expected to leave its policy rate on hold, with core inflation and GDP growth printing quite soft in recent weeks.

Europe.

The ECB is widely expected to raise its policy rate by 25bps this week, its first move since a cut in June 2025. The preliminary May CPI figures showed annual inflation picking up from 3.0% to 3.2%, with core inflation measures more in line with the ECB’s ‘severe’ scenario projections. President Lagarde signalled an openness to interest rate hikes at the previous meeting, and a number of Governing Council members have adopted a more hawkish tone in recent weeks.

Trading partner real GDP (calendar years)

	Annual average % change			
	2024	2025	2026	2027
Australia	1.0	2.0	1.8	1.2
China	5.0	5.0	4.7	4.6
United States	2.8	2.1	2.0	1.8
Japan	-0.2	1.2	0.6	0.8
East Asia ex China	4.5	4.7	4.3	4.2
India	7.1	7.6	6.5	6.7
Euro Zone	0.9	1.5	0.7	1.1
United Kingdom	1.1	1.4	0.8	1.1
NZ trading partners	3.0	3.2	2.8	2.7
World	3.4	3.4	3.2	3.3

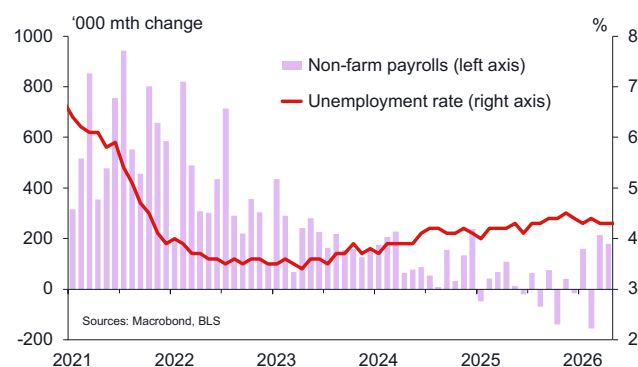
Australian & US interest rate outlook

	5 Jun	Jun-26	Dec-26	Dec-27
Australia				
Cash	4.35	4.35	4.85	4.85
90 Day BBSW	4.49	4.55	4.90	4.80
3 Year Swap	4.56	4.75	4.70	4.40
3 Year Bond	4.56	4.75	4.70	4.40
10 Year Bond	4.92	5.00	5.05	4.95
10 Year Spread to US (bps)	45	65	60	30
US				
Fed Funds	3.625	3.625	3.625	3.625
US 10 Year Bond	4.47	4.35	4.45	4.65

Australian GDP growth



US nonfarm payrolls and unemployment rate



Financial markets wrap

Foreign exchange.

NZD/USD reversed sharply last week from a recent high of 0.5994, and has potential to extend lower towards 0.5700 this week.

The US-Iran war briefly intensified last week, causing a risk-averse response in global markets. In addition, on Friday, US employment data was much stronger than expected, causing an increase in Fed tightening expectations, and in turn, the US dollar.

This week, the main data events which could shift NZD/USD are from the US: CPI inflation on Thursday and inflation expectations on Friday. The ECB decision, where a hike is expected, could have an indirect influence.

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

The NZD/AUD's rebound following the RBNZ MPS was short-lived. Consolidation between 0.8200 and 0.8300 is warranted this week, but further downside below 0.8140 is possible during the next month or two. A sustained recovery in the cross is most likely a story for next year. NZ-AU yield spreads have only tentatively risen, needing to witness a more compelling NZ economic recovery. For now, Australia's economy is more resilient to a prolonged war and oil shock.

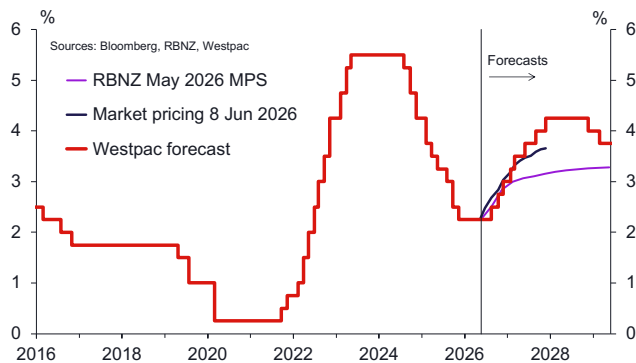
Interest rates.

The NZ 2yr swap rate is expected to remain capped at 3.70% (the May high) during the month ahead, with a floor at around 3.40%. While the RBNZ MPS in May did deliver a hawkish surprise for markets, offshore yields have been volatile amid the US-Iran war.

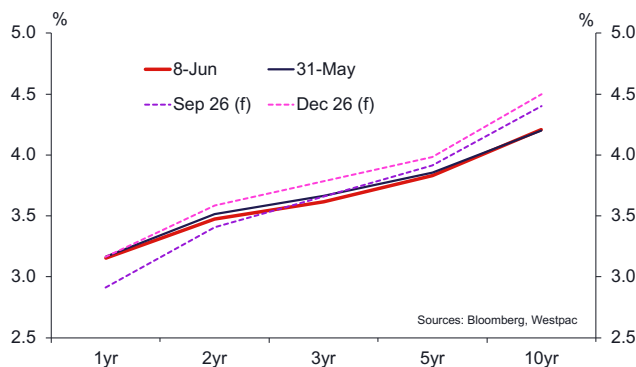
In addition, much is already priced in for the next RBNZ meeting on 8 July – OIS pricing implies a 90% chance of an OCR hike, with three hikes in total priced by year end. Our forecast is for hikes in September, October and December this year.

The yield curve's flattening trend since the peak in late December remains intact, the 2-10yr swap recently making a cycle low of 69bp, down from the cycle high of 120bp in December. We expect further flattening during the year ahead approaching the RBNZ's tightening cycle, the 2-10yr swap potentially to 50bp.

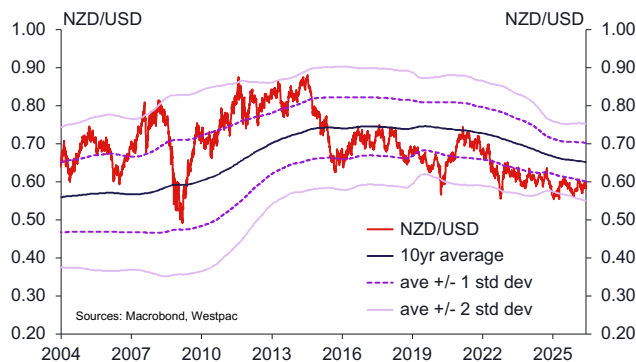
Official Cash Rate forecasts



Swap rates



NZD/USD vs rolling 10yr average



FX recent developments

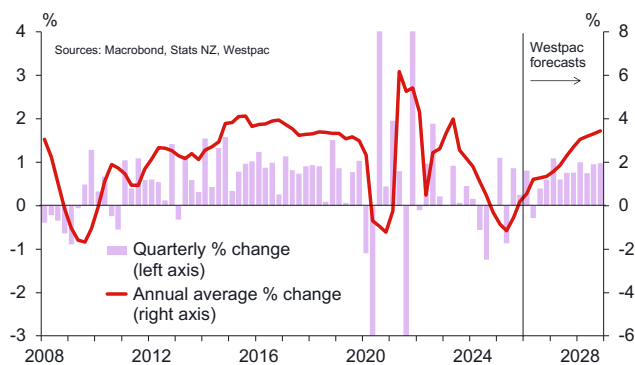
	Historical data				F'cast
	Spot	3mth range	5yr range	5yr avg	Dec-26
USD	0.586	0.569-0.596	0.553-0.722	0.618	0.62
AUD	0.823	0.816-0.841	0.816-0.971	0.912	0.85
EUR	0.504	0.493-0.511	0.484-0.637	0.561	0.52
GBP	0.436	0.430-0.442	0.426-0.531	0.481	0.45
JPY	93.7	91.0-94.8	74.7-98.6	86.5	95.5

Economic and financial forecasts

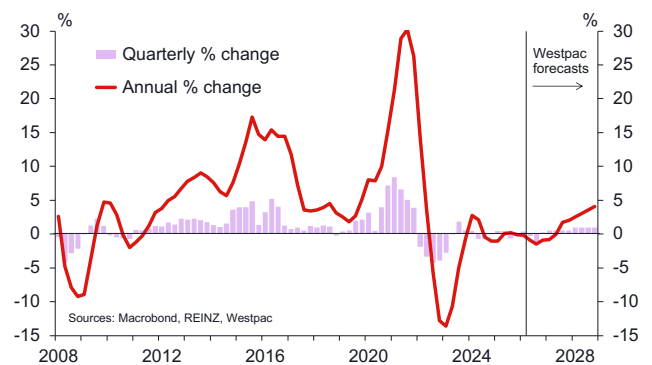
Economic indicators	Quarterly % change				Annual % change			
	Dec-25	Mar-26	Jun-26	Sep-26	2024	2025	2026	2027
GDP (production)	0.2	0.8	-0.3	0.4	-1.6	1.3	1.5	3.2
Consumer price index	0.6	0.9	1.8	1.2	2.2	3.1	4.4	1.6
Employment change	0.5	0.1	0.1	0.1	-1.3	0.2	0.6	2.9
Unemployment rate	5.4	5.3	5.4	5.5	5.1	5.4	5.6	4.9
Labour cost index (all sectors)	0.4	0.5	0.6	0.7	3.3	2.0	2.5	2.3
Current account balance (% of GDP)	-3.7	-3.8	-4.0	-4.1	-4.7	-3.7	-4.1	-4.2
Terms of trade	0.3	-1.9	0.6	2.6	8.9	3.5	1.0	3.3
House price index	-0.4	0.4	-0.3	-1.3	-1.0	-0.1	-0.9	2.0

Financial forecasts	End of quarter				End of year			
	Dec-25	Mar-26	Jun-26	Sep-26	2024	2025	2026	2027
OCR	2.25	2.25	2.25	2.50	4.25	2.25	3.00	4.25
90 day bank bill	2.52	2.51	2.50	2.95	4.45	2.52	3.40	4.45
2 year swap	2.71	3.12	3.75	4.05	3.64	2.71	4.30	4.35
5 year swap	3.27	3.71	4.10	4.30	3.73	3.27	4.35	4.45
10 year bond	4.27	4.54	4.85	4.95	4.50	4.27	5.00	5.10
TWI	66.4	67.2	66.5	66.2	69.5	66.4	69.1	72.7
NZD/USD	0.57	0.59	0.59	0.59	0.59	0.57	0.62	0.67
NZD/AUD	0.87	0.85	0.82	0.82	0.91	0.87	0.85	0.91
NZD/EUR	0.49	0.50	0.50	0.50	0.55	0.49	0.52	0.55
NZD/GBP	0.43	0.44	0.44	0.43	0.46	0.43	0.45	0.48

GDP growth



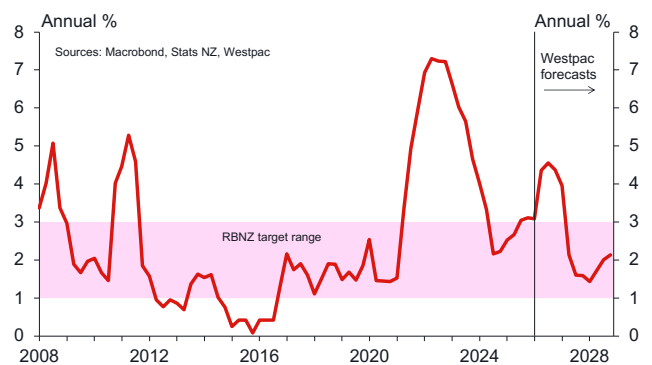
House prices



Unemployment and wage growth



Consumer price inflation



Data calendar

		Last	Market median	Westpac forecast	Risk/Comment
Mon 08					
Aus	King's Birthday	-	-	-	Markets closed.
Jpn	Q1 GDP, %qtr	0.5	-	-	Final estimate.
	Apr Current Account Balance, ¥bn	4681.5	3136.7	-	Rose to the highest level on record in March.
Eur	Jun Sentix Investor Confidence, index	-16.4	-	-	Confidence improving although unlikely to recoup recent losses.
Tue 09					
Aus	Jun Westpac-MI Cons. Sentiment, index	83	-	-	Holding at deeply pessimistic levels.
	May NAB Business Conditions, index	3	-	-	Will conditions start to follow confidence lower?
NZ	Q1 Business Financial Data, \$bn	-	-	-	Final inputs for March quarter GDP.
Kor	Q1 GDP, %qtr	1.7	1.7	-	Supported by semiconductor exports and facilities investment.
Chn	May Trade Balance, US\$bn	84.8	86.2	-	Demand for AI hardware likely masking softness elsewhere.
Ger	Apr Industrial Production, %mth	-0.7	-	-	Has seen a slowdown in recent months.
US	May NFIB Small Business Optimism, index	95.9	96	-	Struggling to regain recent losses.
	Apr Trade Balance, US\$bn	-60.3	-55.5	-	Expected to narrow helped by oil and petroleum product exports.
	May Existing Home Sales, %mth	0.2	0.9	-	Likely to see some improvement.
	Apr Wholesale Inventories, %mth	0.5	-	-	Final estimate.
Wed 10					
Chn	May CPI, %ann	1.2	1.4	-	Softening travel demand post early-May to drag on the headline.
	May PPI, %ann	2.8	3.8	-	Energy shock and demand for AI hardware pushing prices up.
US	May CPI, %mth	0.6	0.5	-	Higher gasoline prices to drive headline inflation.
Can	Jun BoC Policy Decision, %	2.25	2.25	-	A weaker labour market and inflation to keep the BoC on hold.
Thu 11					
Aus	Jun MI Inflation Expectations, %ann	5.6	-	-	Saw some easing in May.
Eur	Jun ECB Policy Decision (Deposit Rate), %	2	2.25	2.25	Rising core inflation and hawkish rhetoric suggest a hike is likely.
US	Initial Jobless Claims	225	-	-	Has been trending upwards.
	May PPI, %mth	1.4	0.7	-	Pressure building from material and transportation costs.
Fri 12					
NZ	May Manufacturing PMI, index	50.5	-	-	Softened in April, likely in response to the Iran conflict.
	Apr Net Migration, no.	3370	-	-	Balance turning more positive as outflows of Kiwis slow.
Jpn	Apr Industrial Production, %mth	0.8	-	-	Final estimate.
UK	Apr Monthly GDP, %mth	0.3	-	-	Surprised materially to the upside in March.
US	Jun Uni. Of Michigan Sentiment, index	44.8	46	-	Expected to bounce back from a historic low.

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