



WEEKLY ECONOMIC COMMENTARY



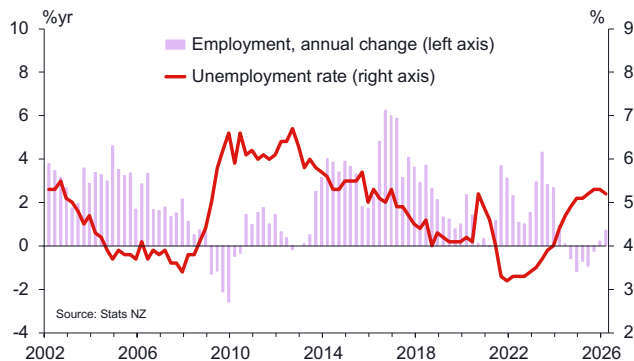
11 May 2026 | Westpac Economics Team | westpac.co.nz/economics | economics@westpac.co.nz

All right so far

The March quarter labour market surveys continued to refrain that we're probably going to be hearing for a few more months: the New Zealand economy was starting to find its footing again prior to the Iran conflict. Whether subsequent events prove to be a delay to the recovery process, or something more serious, remains to be seen. But it's important to note that New Zealand was coming into this shock with different inflation dynamics to our Australian cousins, with activity only just starting to gain momentum and a significant degree of slack in the labour market.

The Household Labour Force Survey (HLFS) showed the unemployment rate ticking down from 5.4% to 5.3% in the March quarter, its first decline after four straight years of increases. This was better than the flat result that we and the market were expecting, but it was in line with the RBNZ's (now somewhat dated) February Monetary Policy Statement forecasts.

Employment growth and unemployment rate

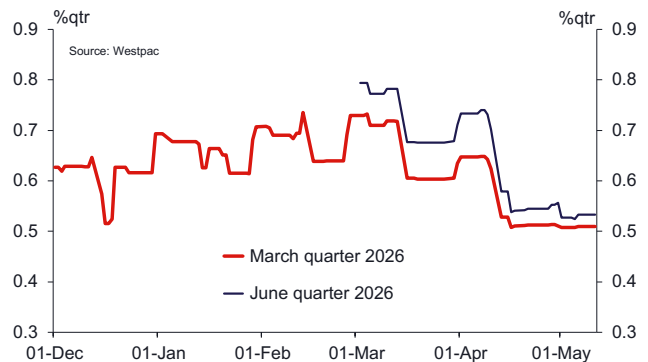


The number of people employed rose by 0.2% over the March quarter, following a 0.5% rise in the previous quarter. This was broadly in line with the Monthly Employment Indicator (MEI), a more comprehensive

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
12 May 26	Govt accounts for 9 months to March
15 May 26	NZ Selected price indexes, April
27 May 26	RBNZ OCR Review & Monetary Policy Statement
28 May 26	NZ Government Budget
4 Jun 26	Govt accounts for 10 months to April
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

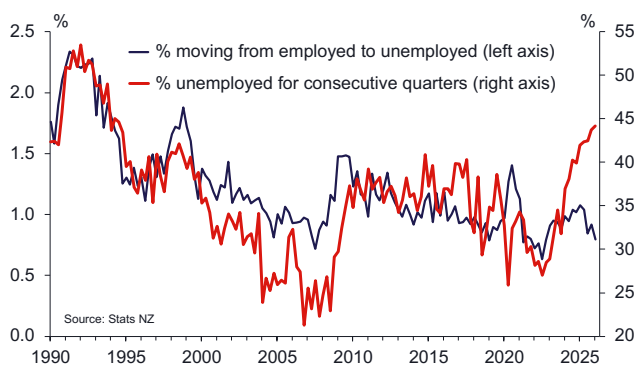
measure that is based on income tax data but does have some definitional differences. The level of employment is now up 0.4% on a year ago – though that’s still behind the rate of growth in the working-age population, which was up 1.1% despite the subdued migration trends over the last year.

The evidence of a lift in activity was consistent across a range of measures. The HLFs found a 0.8% rise in total hours worked, on top of a 1.2% rise in the December quarter. ‘Usual’ hours rose by a more modest 0.4%, indicating that employers are continuing to try to get more out of their existing workers before resorting to hiring again. Meanwhile the business-focused Quarterly Employment Survey (QES) reported a 0.7% rise in full-time equivalent workers and 0.6% gains in filled jobs and paid hours. All of these are supportive of our forecast of a 0.8% rise in March quarter GDP (which we expect will also be boosted by seasonal distortions).

Beneath these generally positive results, there are some clear indications of the unevenness of economic conditions to date. One is that the unemployment rate has broadly levelled out in the South Island over the last two years, while steadily rising in the North Island. The strong returns to the agricultural sector are likely to have been a factor in this divergence, although not the only one.

Another is the quarterly flows between labour force status, which starkly demonstrate the “no-fire, no-hire” jobs market. The rate of job losses, which never rose particularly high during the downturn, has now fallen back to levels that in the past would’ve been consistent with a tight labour market. But for those who do find themselves out of work, it's harder to get back in than it has been for decades.

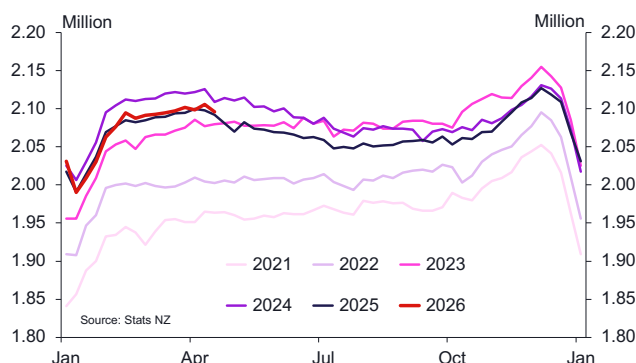
Labour force transition rates



Given the rapid escalation of the conflict in the Middle East, any economic data relating to the March quarter is inevitably going to come across as dated. (The March month was too early to expect to see a labour market response, as this tends to lag the economic cycle.) We’ll be keeping an eye on higher-frequency data for any signs of emerging stress, such as the weekly filled jobs snapshots provided by Stats NZ. The timeliest of these

measures, which goes up to the week ended 12 April, suggests that things are holding in so far, with the number of jobs continuing to track slightly above year-ago levels.

Weekly filled jobs (20-day lag)



Wage pressures – which are even more of a lagging indicator – remained subdued in the March quarter. The Labour Cost Index (LCI) rose by 0.5% for the quarter, leaving annual growth unchanged at 2.0%. The distribution of pay increases continues to converge on the 2-3% range, compared to the larger increases that had become more common in previous years.

This is unsurprising given the degree of spare capacity in the labour market that has accumulated over the last few years: an unemployment rate of 5.3% is some way above the ‘neutral’ or non-inflationary rate, which we would put in the range of 4-4.5%. This is a crucial difference between now and the post-Covid inflationary surge, where an extremely tight labour market created the conditions for a feedback loop between wage and price inflation.

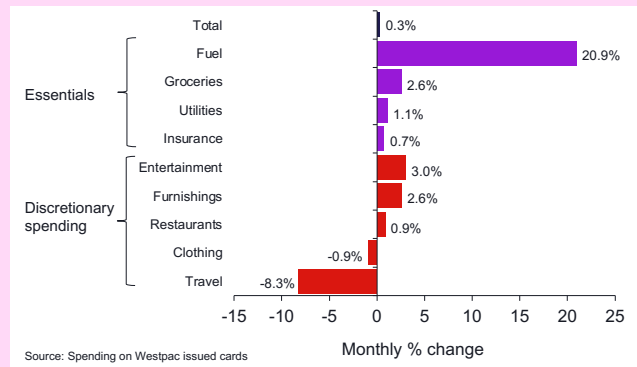
We’ll be updating our labour market forecasts, along with our views on the broader economic situation, when we release our quarterly Economic Overview on Wednesday.

Michael Gordon, Senior Economist

Chart of the week.

Since oil prices spiked in March, retail spending has effectively stalled. Comparing spending in March and April combined to the preceding two months, spending on Westpac-issued debit and credit cards was up just 0.3%. Under the surface, spending on fuel has risen 21% since the start of the conflict (even though we're actually getting less in the tank when we top up). On top of that, there's been a 3% rise in grocery spending, and retailers have reported that shoppers have been switching to more budget-friendly options and away from nice-to-haves. Spending on utilities is also up following recent increases in electricity charges. While it's a mixed picture across discretionary spending categories, many operators have told us that spending has taken a knock as households have been confronted by rising costs for essentials. Notably, spending on travel has fallen sharply, with lower spending on airfares and with travel agents.

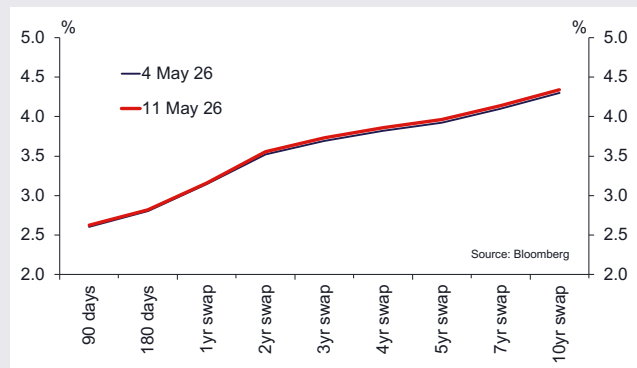
Spending in March and April vs previous two months (per person)



Fixed versus floating for mortgages.

Recent weeks have seen a broadening in inflation pressures in the wake of the Middle East conflict and the RBNZ has revised its near-term inflation outlook sharply higher. In response to those developments, the RBNZ's latest policy statement noted related concerns about the longer-term inflation outlook. We've pulled forward our expectations for OCR hikes, which are now expected to begin in September (previously, we expected the first hike in December). 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.

Crude oil and related product prices moved lower last week – notwithstanding some military skirmishes between the US and Iran – as President Trump mooted progress towards an agreement that would reopen passage through the Strait of Hormuz. This morning President Trump has labelled Iran’s response to the latest US peace plan as “totally unacceptable”. This is likely to see oil open firmer today. In [our latest Market Outlook](#), released on Friday, we updated our baseline assumption regarding oil flows through the Strait of Hormuz. We now assume only limited flows through the end of June, followed by a gradual recovery over the following 12 months. Given this assumption, we assume that Brent crude will end this year at \$US83/bbl, before declining to \$US64/bbl by the end of next year.

North America.

Data wise, the focus in the US last week was on the labour market. Non-farm payrolls rose a larger than expected 115k in April, while the unemployment rate was steady at 4.3%. In other news, the University of Michigan’s consumer sentiment index fell to a record low in May even as inflation expectations eased slightly. Looking at the week ahead, attention will turn to inflation. On Tuesday, higher energy prices are expected to cause headline annual CPI inflation to rise sharply to 3.7% in April from 3.3% in March, whereas core inflation is expected to edge up to 2.7% from 2.6% previously. Producer price data on Wednesday are likely to exhibit a similar trend. Later in the week retail spending and factory data for April will reveal how the economy is being impacted by higher oil prices.

Asia-Pacific.

As largely expected, the RBA raised its cash rate to 4.35% last week. The Bank characterised this move as a further response to the inflation pressures prevailing even before the Iran war. Looking ahead Westpac continues to anticipate a further 50bps of tightening this year. But given the tone of the Governor’s commentary at the post-meeting press conference, we now expect the RBA to pause at the June meeting. The coming week will bring an update on business confidence, while Wednesday’s Wage Price Index will cast light on underlying inflation pressures. **The Federal Budget is expected to reveal an improved position** on Tuesday evening. In China, exports grew a stronger than expected 14.1%yr in April, while surging energy prices contributed to a 25%yr lift in imports. The April inflation reports are due this week while a meeting between President Trump and President Xi in Beijing is also of note.

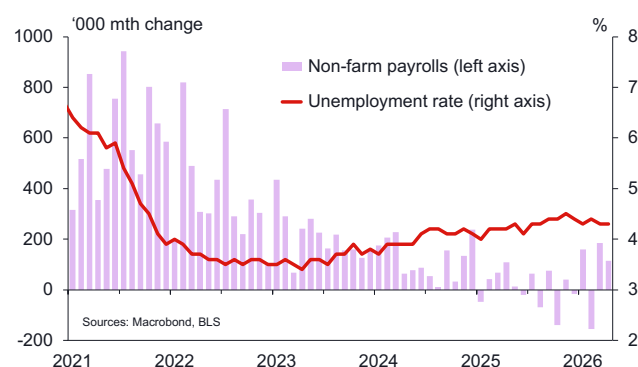
Trading partner real GDP (calendar years)

	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

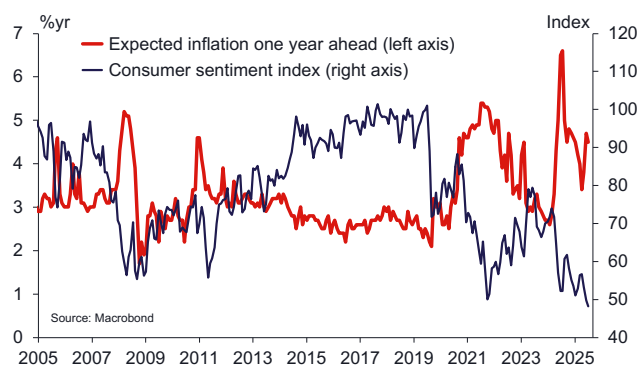
Australian & US interest rate outlook

	8 May	Jun-26	Dec-26	Dec-27
Australia				
Cash	4.35	4.35	4.85	4.85
90 Day BBSW	4.44	4.55	4.90	4.80
3 Year Swap	4.64	4.75	4.70	4.40
3 Year Bond	4.63	4.75	4.70	4.40
10 Year Bond	4.96	5.00	5.05	4.95
10 Year Spread to US (bps)	57	65	60	30
US				
Fed Funds	3.625	3.625	3.625	3.625
US 10 Year Bond	4.39	4.35	4.45	4.65

US nonfarm payrolls and unemployment rate



US Consumer sentiment & inflation expectations



Financial markets wrap

Foreign exchange.

Optimism the US-Iran war will eventually be resolved boosted risk sentiment last week, lifting NZD/USD above its month-old range. It now looks supported at 0.5930 (the previous range high), and could rise further to around 0.6050 during the weeks ahead.

Data wise, the local calendar is low key, although the RBNZ's inflation expectations survey and partial CPI indicators will be worth watching, as well as any comments from RBNZ Governor Breman at the IMF conference. In the US, CPI inflation data will be important.

For the quarter ahead, we retain a neutral bias, with a positive risk skew, pending resolution of the 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.

NZD/AUD's trend decline stalled last week, after making a fresh 13-year low at 0.8171. An upward correction towards 0.84 is possible during the month ahead, since it's technically oversold and yield spreads could rise slightly (the RBA's hiking cycle is maturing, while the RBNZ's has yet to start). Further ahead, though, for H2 we retain a bearish bias, based on expected relative economic performance which should continue to favour the AUD. Australia is likely more resilient than NZ to a prolonged war and oil shock.

Interest rates.

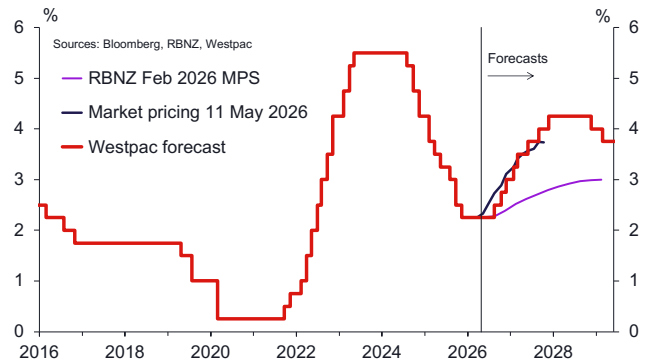
The NZ 2yr swap rate remains rangebound, between 3.40% and 3.60%, awaiting fresh signals from the RBNZ regarding the looming hiking cycle. Global yield volatility due to the war will also remain influential.

Multi-month, though, the risks to yields remain positively skewed, with war-related inflationary pressures likely to persist for some time, keeping market pricing for OCR hikes in 2027 elevated.

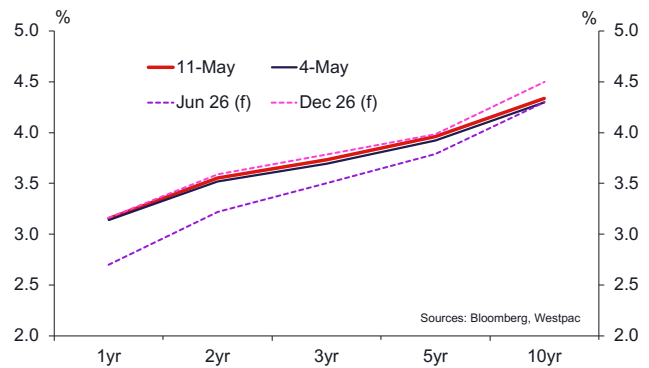
OIS pricing for 2026 RBNZ meetings has been stable over the past week, with a 30% chance of a May hike, and a 100% chance by July. There are slightly more than three hikes in total priced by year end, not markedly dissimilar to our forecast of hikes in September, October and December.

The yield curve's flattening trend since the peak in late December remains intact, the 2-10yr swap at 78bp vs December's cycle peak at 120bp. We expect further flattening during the year ahead as we approach the RBNZ's tightening cycle, the 2-10yr swap with potential to reach 50bp.

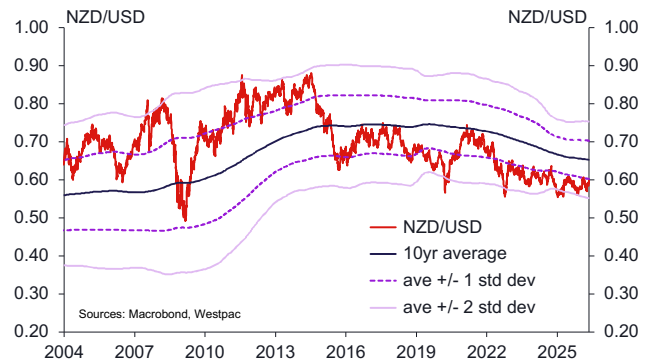
Official Cash Rate forecasts



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	0.594	0.569-0.605	0.553-0.728	0.620	0.62
AUD	0.820	0.818-0.857	0.818-0.971	0.913	0.85
EUR	0.506	0.493-0.511	0.484-0.637	0.562	0.52
GBP	0.438	0.430-0.444	0.426-0.531	0.482	0.45
JPY	93.0	91.0-94.4	74.7-98.6	86.3	95.5

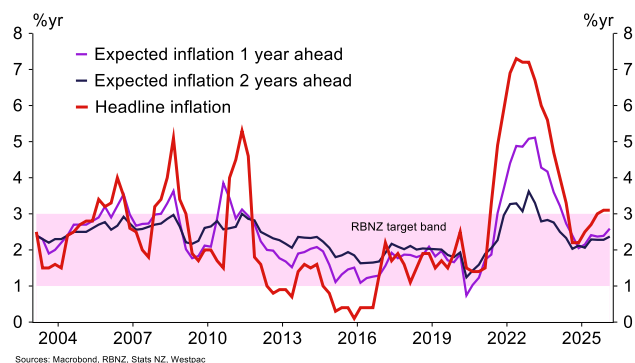
The week ahead

Q2 RBNZ Survey of Inflation Expectations

May 13, Two years ahead last: 2.37%

This is one of several surveys the RBNZ will be watching to see if the current uplift in inflation is contributing to a more enduring uplift in pricing pressures. The survey's measures of inflation expectations, including the closely watched two-year ahead measure, had already picked up even before the recent uplift in oil prices. With signs of increasingly widespread cost pressures emerging in recent weeks, the risks are tilted towards another step higher in the latest survey. Other recent surveys of expected inflation and pricing intentions have already taken a step higher.

RBNZ Survey of Expectations

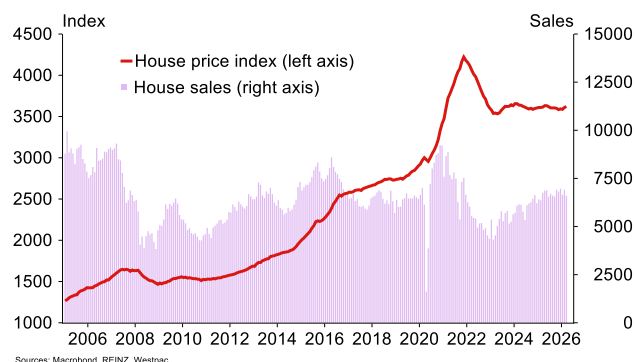


Apr REINZ House Sales and Prices

May 14, Sales last: -0.1%, Prices last: +0.2%

March proved to be a slightly perkier month for the housing market, with house prices picking up for a second straight month. However, the trend in sales has remained largely sideways, and there are indications of a softening in activity in April (even after accounting for the public holidays during the month). Aside from the uncertainty engendered by the Iran conflict, mortgage rates have been lifting off their lows for several months now. We're forecasting a 1% fall in prices over 2026.

REINZ house prices and sales

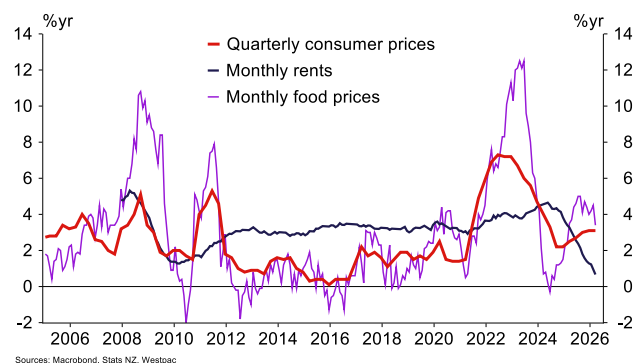


Apr Monthly Selected Prices

May 15

Petrol prices are expected to be up 16%. However, the bigger focus will be on any downstream impacts that are emerging. At this stage, such impacts will most likely be seen in transport related costs, such as airfares. Other related cost increases are likely to become more evident over the next few months. We also expect another firm 2% rise in electricity prices. While such cost increases will be the focus, there could be some softness in areas like holiday accommodation. Housing rents (the single biggest component of the CPI) are also likely to remain soft – we're expecting another flat result (in contrast to the usual seasonal lift). Food prices are expected to be up 0.5%, with the rise in the minimum wage likely to boost hospitality prices modestly.

Selected consumer prices

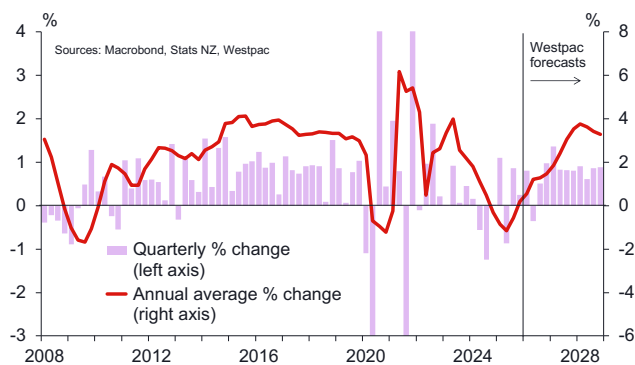


Economic and financial forecasts

Economic indicators	Quarterly % change				Annual % change			
	Dec-25	Mar-26	Jun-26	Sep-26	2024	2025	2026	2027
GDP (production)	0.2	0.8	-0.4	0.5	-1.6	1.3	1.9	3.9
Consumer price index	0.6	0.9	1.9	1.0	2.2	3.1	4.1	1.7
Employment change	0.5	-0.1	0.1	0.3	-1.3	0.2	1.1	3.1
Unemployment rate	5.4	5.3	5.6	5.6	5.1	5.4	5.4	4.6
Labour cost index (all sectors)	0.4	0.5	0.6	0.7	3.3	2.0	2.3	2.2
Current account balance (% of GDP)	-3.7	-3.9	-4.1	-3.8	-4.7	-3.7	-4.1	-3.7
Terms of trade	0.3	-3.0	-0.1	3.0	8.9	3.5	1.2	5.0
House price index	-0.3	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

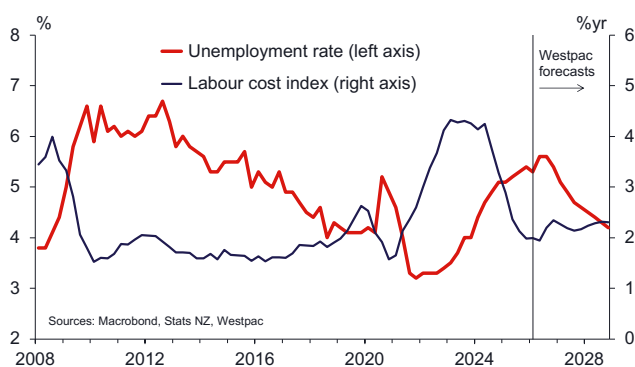
GDP growth



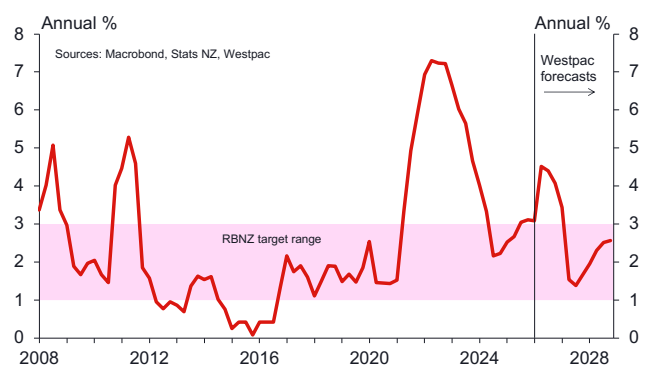
House prices



Unemployment and wage growth



Consumer price inflation



Data calendar

		Last	Market median	Westpac forecast	Risk/Comment
Mon 11					
Chn	Apr CPI, %ann	1	0.9	-	Energy costs providing a boost to inflation ...
	Apr PPI, %ann	0.5	1.8	-	... but spare upstream capacity remains.
US	Apr Existing Home Sales, %mth	-3.6	2.4	-	Low turnover in established market reflects rate pressures.
Tue 12					
Aus	Apr NAB Business Conditions, index	6	-	-	Conditions stable despite a collapse in confidence.
	2026/27 Federal Budget	-	-	-	Commodity price windfalls will support the bottom-line.
Jpn	Mar Household Spending, %ann	-1.8	-1.3	-	Households on fragile footing, even before Middle East.
Eur	May ZEW Survey Of Expectations, index	-20.4	-	-	Views on economic growth have deteriorated materially.
US	Apr NFIB Small Business Optimism, index	95.8	96	-	Small businesses showing concern, but not outright stress yet.
	Apr CPI, %mth	0.9	0.6	0.8	Energy buoys headline, capacity constraints keep core elevated.
	Fedspeak	-	-	-	Goolsbee.
Wed 13					
NZ	Q2 RBNZ Inflation Expectations, %ann	2.4	-	-	RBNZ will be watching for signs of lift at longer horizons.
Aus	Q1 Wage Price Index, %qtr	0.8	0.8	0.8	Individual bargained wages have been moderating.
	Q1 Housing Finance Approvals, %qtr	9.5	0.1	7	Investors and FHB schemes to boost lending activity.
Jpn	Mar Current Account Balance, ¥bn	3932.7	3884.9	-	Yen appreciation and financial market volatility at play.
Eur	Q1 GDP, %qtr	0.1	0.1	-	Second estimate will provide more detail around drivers.
	Mar Industrial Production, %mth	0.4	-	-	Slipping back into contraction as cost pressures lift.
US	Apr PPI, %mth	0.5	0.5	-	Clear evidence of upstream price pressures coming through.
	Fedspeak	-	-	-	Kashkari.
Thu 14					
NZ	Apr REINZ House Prices, %yr	0.2	-	-	Sale prices have ticked up in recent months...
	REINZ House Sales	-0.1	-	-	...but rising mortgage rates likely to weigh on turnover.
	Mar Net Migration, no.	3970	-	-	Balance turning more positive as departures slow.
Aus	May MI Inflation Expectations, %ann	5.9	-	-	Will the fuel excise cut re-anchor near-term expectations?
UK	Q1 GDP, %ann	0.1	-	-	Growth jump may prove fleeting as war impacts emerge.
US	Apr Import Price Index, %mth	0.8	1	-	Surge centred squarely on petroleum imports.
	Initial Jobless Claims	200	-	-	Still at a very low level versus history.
	Apr Retail Sales, %mth	1.7	0.5	-	Another step-down in consumer momentum likely in Q2.
	Mar Business Inventories, %mth	0.4	0.3	-	Inventory-to-sales falling as inventory rebuild persists.
	Fedspeak	-	-	-	Hammack.
Fri 15					
NZ	Apr Manufacturing PMI, index	53.2	-	-	Solid in March but Iran conflict may weigh more heavily now.
	Apr Selected Price Indices - Food, %mth	-0.6	-	0.5	Modest boost from minimum wages in the hospitality sector.
	Apr Selected Price Indices - Rents, %mth	0	-	0	Rental growth weak in the face of ample supply.
US	Apr Industrial Production, %mth	-0.5	0.2	-	Regional surveys point to a solid month of factory output ...
	May Fed Empire State Manufacturing, index	11	8	-	... but uncertainty over the outlook is starting to weigh.

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