



WEEKLY ECONOMIC COMMENTARY



12 Oct 2026 | Westpac Economics Team | westpac.co.nz/economics | economics@westpac.co.nz

Fuel, housing and the bumpy road ahead.

Higher fuel costs, a weaker exchange rate, and a softer housing market have prompted a refresh of **our near-term forecasts**. Inflation looks set to finish 2026 above 4%, while growth could lose a little momentum into year-end. Even so, we continue to expect the RBNZ to pause in October before lifting the OCR to 3% in December.

New Zealand's recovery is still moving forward, but the road has become rougher. Since our last forecast update in August, global oil and refined-fuel prices have climbed sharply, the New Zealand dollar has fallen, and longer-term interest rates have moved higher. At home, the housing market has remained weaker than we anticipated. None of those developments on their own are enough to derail the recovery. Together, however, they point to a tougher finish to 2026 for households and businesses. We have therefore revisited our near-term inflation, housing and growth forecasts. The broad story remains one of continued economic expansion and gradually improving labour demand, but with a more pronounced inflation spike and slightly less momentum in consumer spending. Our OCR call is unchanged: a pause at the October review, followed by a 25 basis point increase to 3% at the December *Monetary Policy Statement*.

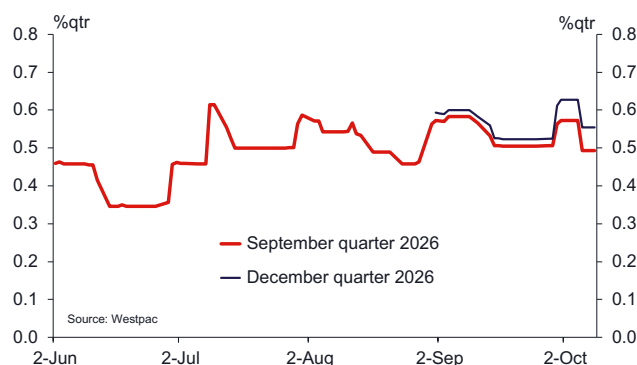
A temporary inflation reprieve.

We continue to think that consumer prices rose 0.7% in the September quarter. That would see annual inflation dropping back from 4.1% in June to 3.7% in September, broadly consistent with the monthly price updates published so far. The final monthly release for the quarter is due on 16 October and will help firm up that estimate. But any easing in the annual rate is likely to prove short-

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

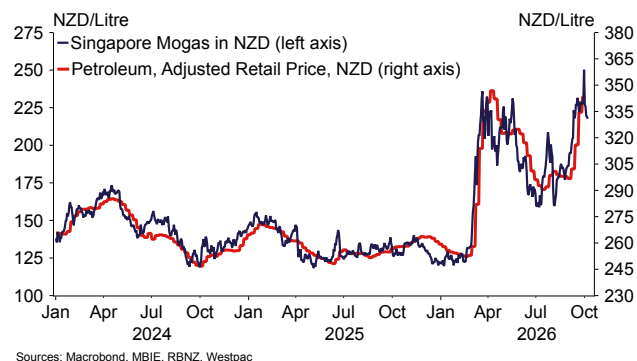


Key data and event outlook

Date	Event
16 Oct 26	NZ Selected price indexes, September
22 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
5 Nov 26	Labour market surveys, September quarter
7 Nov 26	NZ General Election
17 Nov 26	RBNZ Financial Stability Report
17 Nov 26	NZ Selected price indexes, October
8 Dec 26	RBA Monetary Policy Decision

lived. We now expect prices to rise 1.1% in the December quarter, lifting annual inflation to a three-year high of 4.2% by year-end. That is half a percentage point above our previous projection and above the RBNZ's September forecast of 3.9%.

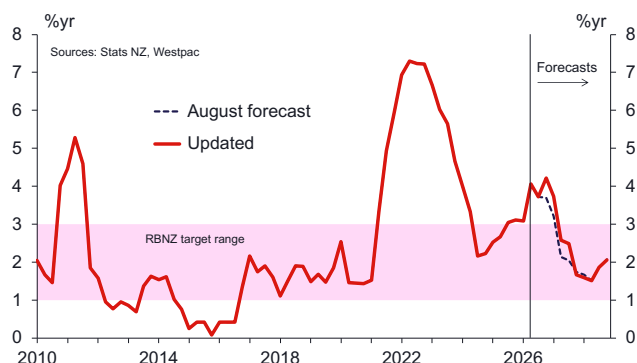
Global and NZ fuel prices



The reason for this upward revision to the inflation outlook is easy to see at the petrol pump. Higher global fuel prices have been amplified by the more than 4% fall in the New Zealand dollar since the start of September. Local petrol prices have risen by around 50 cents a litre over the past month, with the nationwide average price of 91 unleaded reaching a record \$3.60 a litre last week. RBNZ Governor Breman acknowledged a couple of weeks ago that higher oil prices have tilted the risks around the near-term inflation outlook to the upside. Importantly, however, the RBNZ remains focused on the medium-term inflation outlook rather than trying to offset every movement in volatile fuel prices.

For now, we have left our quarterly inflation forecasts for 2027 unchanged. Even so, the higher starting point at the end of this year means annual inflation is likely to remain firm through much of 2027. Our updated profile has inflation at 3.7% in March 2027, 2.6% in June, 2.5% in September and 1.7% in December. That is broadly similar to the RBNZ's path through the first three quarters, although our forecast falls more quickly late in the year. We will take a fuller look at the 2027 inflation and growth outlook this week alongside the monthly Market Outlook.

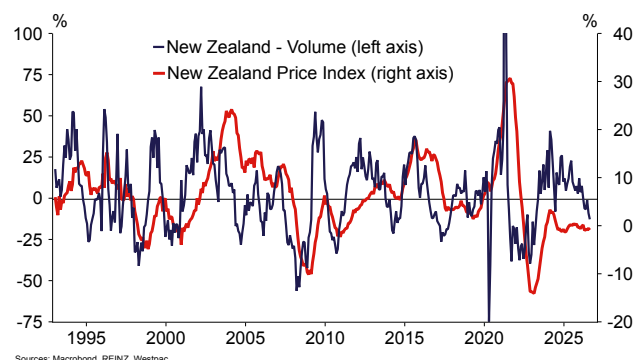
Consumer price inflation forecasts



Housing fails to find its feet.

The housing market has also delivered a disappointment. We had expected prices to stabilise through the second half of 2026, but sales volumes have continued to weaken, and the median time required to sell a property has lengthened to 48 days. Average prices have kept edging lower, despite firmer conditions in parts of the South Island with greater exposure to the strong export economy. The latest indicators do not suggest that a decisive turn is close. We have therefore revised our forecast for national house price growth in 2026 from a 0.6% rise to a 1.4% decline. That incorporates quarterly falls of 0.5% in September and 0.8% in December.

REINZ Annual house price changes vs sales volumes



The headwinds are familiar: the labour market remains soft, mortgage rates are higher and the number of homes available for sales has increased. Those forces are likely to keep the market subdued for some time, with risks tilted towards another weak year in 2027. Potential changes to the taxation of capital gains on investor housing following the 2026 General Election may add another drag.

Regional outcomes will continue to differ. Tourism- and agriculture-focused areas should benefit from stronger income and employment growth, supported by robust commodity export prices. We have lifted our **2026/27 Fonterra Milk Price forecast** to \$9.75/kg and set an opening forecast of \$9.50/kg for 2027/28. In contrast, homeowners in the major North Island cities may have to wait longer for the wealth boost that comes with rising property values. Data released last week shows that **household wealth continues to be dragged down** by declining housing values.

A little less momentum.

The weaker housing backdrop matters for the wider economy. When petrol absorbs more of the household budget and home values are drifting lower, consumers tend to become more cautious. That combination is likely to crimp discretionary spending in the run-up to Christmas and could take some steam out of the construction recovery. That's even though our own **card**

spending data for September showed resilience in consumer spending. Recent business and consumer confidence surveys have nevertheless remained resilient despite the rise in energy prices and long-term interest rates. Our short-term growth forecasts therefore remain broadly intact, but we have trimmed our December quarter consumer spending projection and now expect GDP growth of 2.5% over 2026. That is still a solid result, although the balance of risks has shifted to the downside.

There are several moving parts to watch. Sustained high fuel prices would squeeze household purchasing power more than we have allowed for. The sharp lift in long-term interest rates may also weigh on activity through 2027, even if shorter-term borrowing costs evolve as expected. The election result introduces two-sided risks that are difficult to quantify before the shape and timing of policy changes are known. Against that, strong agricultural incomes and signs of improving employment growth should provide a buffer. We have not changed our 2026 labour market forecasts. Hiring appears to be strengthening gradually, but it will take time before that improvement translates into a noticeable fall in the unemployment rate.

The RBNZ should still pause before Christmas.

Despite the higher near-term inflation track, we are not changing our OCR forecast. Since the July Monetary Policy Review, our view has been that the RBNZ would slow the pace of increases as the OCR approached the Bank's estimate of a neutral 3%. The September meeting clearly signalled a pause in October and one further rise in December. We continue to regard that as the most likely path. The latest developments raise headline inflation but, so far, there is little evidence that inflation expectations are moving higher or that the fuel shock is generating broader, persistent price pressure. At the same time, growth risks warrant some caution.

A pause in October would give the Monetary Policy Committee time to assess the cumulative effect of the increases already delivered and to refine its strategy for 2027. Financial conditions have also tightened from an unexpected source: longer-term interest rates have risen markedly over the past six weeks. That increase has at least offset the easing impulse from the lower exchange rate, even though the weaker currency is adding to imported inflation in the near term. We still think the RBNZ is likely to have more work to do in 2027, but there is plenty of data to come before that judgement needs to be made.

For now, the best description of the outlook is resilient but less comfortable. Export incomes remain strong, activity is expanding and the labour market is beginning to improve. But households face an awkward combination of record petrol prices, soft home values and higher

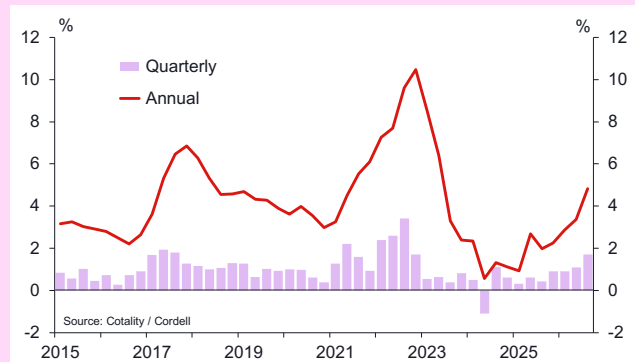
borrowing costs. That mix points to a bumpy end to the year: inflation will be hotter, spending growth a little cooler and the recovery more uneven across regions. The RBNZ can afford to wait in October, but if the economy develops broadly as we expect, a further hike to 3% in December will still be needed.

Kelly Eckhold, Senior Economist

Chart of the week.

There has been a sharp rise in residential building costs in recent months, with the Cordell Construction Cost Index increasing by 1.7% in the September quarter. That was the largest quarterly increase in four years and leaves residential building costs 4.8% higher than a year ago. Cotality notes that part of this increase reflects a pickup in residential building activity, with the number of planned new dwellings rising by more than 20% over the past year. However, transport and material costs have also increased sharply in the wake of the conflict in the Middle East. With fuel costs continuing to rise over the past few weeks, there is a clear risk of further sizeable increases in construction costs over the coming months.

Residential construction costs

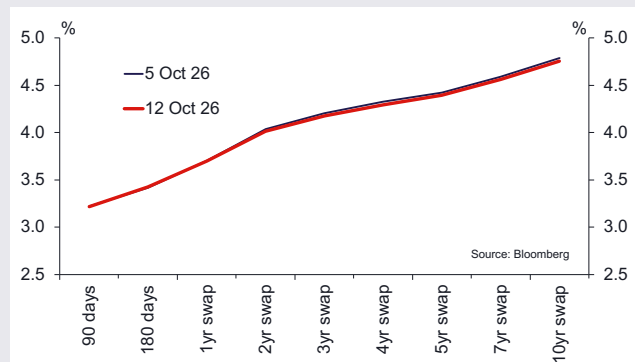


Fixed versus floating for mortgages.

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.

Brent crude (1st future) rose midweek on reports that US President Trump was seeking advice on options for an attack on Iran ahead of the midterm elections and in response to sporadic attacks by Iran and Houthi militants. While Trump later appeared to rule out a pre-election strike following “productive discussions” with Iran, prices closed the week slightly higher at just under \$105/bbl.

North America.

US bond markets remain volatile last week but yields eventually closed slightly lower. The economic data flow was light. The services ISM edged down 54.9 in September, while the University of Michigan reported that households’ assessment of current conditions had fallen to a record low as inflation expectations edged higher. The initial focus this week will be on inflation, with the CPI out on Wednesday and the PPI on Thursday. Higher fuel prices are expected to drive a 0.6%*mt* increase in the headline CPI in September, lifting annual inflation to 3.6%*yr*. Markets expect a moderate 0.2% lift in the core CPI, nudging annual inflation up to 2.5%*yr*. The focus late in the week will turn to the release of key retail spending and factory reports. There are several Fed speeches scheduled through the week, and the Beige Book will be released on Wednesday.

Europe.

The focus in Europe last week was mainly on developments in the bond market, especially in France where yields have recently risen to a two-decade high, sparking fears of wider financial contagion and political unrest. During a quiet week for data, the Sentix investor confidence index fell in October and euro area retail sales were little changed in August. The data calendar remains sparse over the coming week. In the UK, the focus will be on Thursday’s batch of key activity indicators for August.

Asia-Pacific.

In Australia, the Westpac-MI consumer sentiment index fell 4.7% to 80.4 in October – amongst the worst reads in the more than 50-year history of the survey, with confidence dipping after the RBA’s latest rate hike was announced. The coming week will bring an update on business sector sentiment and the minutes from last month’s RBA meeting. However, most interest will centre on the September Labour Force report. Westpac expects a 20k lift in employment and a steady unemployment rate of 4.6%. Elsewhere in the region, this week will bring the release of September inflation and trade data in China.

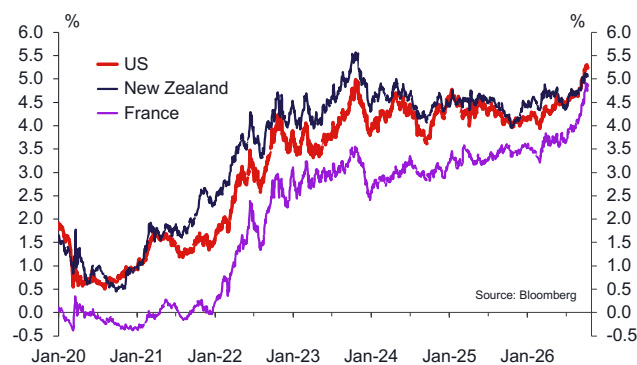
Trading partner real GDP (calendar years)

	Annual average % change			
	2025	2026	2027	2028
Australia	2.0	2.1	1.7	2.2
China	5.0	4.7	4.6	4.4
United States	2.1	2.1	1.8	1.9
Japan	1.1	0.7	0.8	0.9
East Asia ex China	4.7	5.2	4.3	4.2
India	7.6	7.1	7.0	6.6
Euro Zone	1.3	0.9	1.2	1.5
United Kingdom	1.3	1.2	1.0	1.5
NZ trading partners	3.2	3.1	2.8	2.9
World	3.4	3.3	3.3	3.3

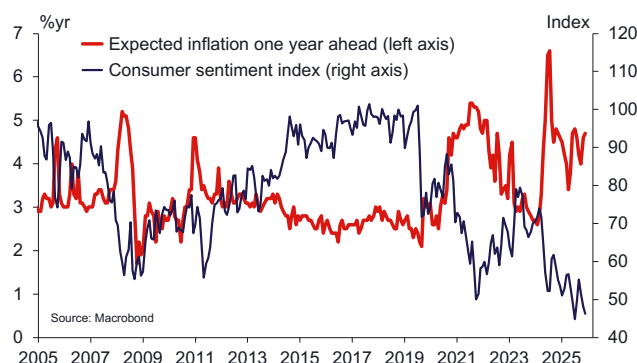
Australian & US interest rate outlook

	9 Oct	Dec-26	Dec-27	Dec-28
Australia				
Cash	4.60	4.85	4.35	3.85
90 Day BBSW	4.77	4.95	4.30	3.95
3 Year Swap	4.92	4.90	4.55	4.25
3 Year Bond	4.90	4.90	4.55	4.25
10 Year Bond	5.35	5.20	4.85	4.80
10 Year Spread to US (bps)	12	40	15	-10
US				
Fed Funds	3.875	4.125	4.125	3.625
US 10 Year Bond	5.23	4.80	4.70	4.90

10-year bond yields



US Consumer sentiment & inflation expectations



Financial markets wrap

Foreign exchange.

NZD/USD spent last week consolidating around 0.5600, following a 6.7% fall from late August. From here, we wouldn't rule out further downside but it would likely be limited, since it's technically stretched and the 0.5580 area has historically provided support. If it did break below that, we'd target 0.5490 - the decade low.

The main event markets will be watching during the week ahead will be the US CPI data on Thursday, which will either endorse or reduce market pricing for a Fed hike by December, in turn shifting the US dollar. In NZ, the data is second-tier, but worth watching will be retail sales and partial CPI prices on Friday.

Looking further ahead to year end, an NZD/USD recovery to 0.5800 is plausible. Fundamental scenarios supporting this include mounting evidence of NZ's economic recovery, a pullback in the US dollar as Fed hiking expectations are pared, and the return of the de-dollarisation theme.

NZD/AUD has spent the past few weeks consolidating in a 0.8005-0.8135 range, having fallen to a 13-year low in September. That range could be disturbed this week, given two major AU events - the RBA minutes on Tuesday and the monthly labour data on Thursday. Any surprises from these will affect NZ-AU yield spreads, and in turn NZD/AUD. Longer term, if NZ's economic recovery starts to look more compelling over the next few months, a rebound to the 0.8300 area is plausible.

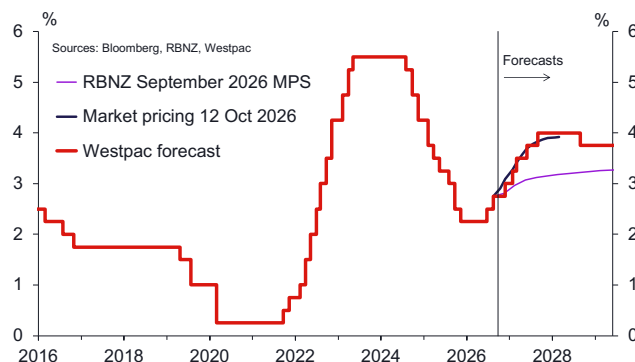
Interest rates.

The 2yr swap rate spent last week consolidating earlier gains, having reached a cycle high of 4.15% in late September. The gains were mostly caused by increases in other countries' interest rates, in turn driven by elevated inflation concerns as well as fiscal concerns. A further period of consolidation is warranted, and we expect the 2yr to be confined to a 3.75% to 4.15% range during the month ahead.

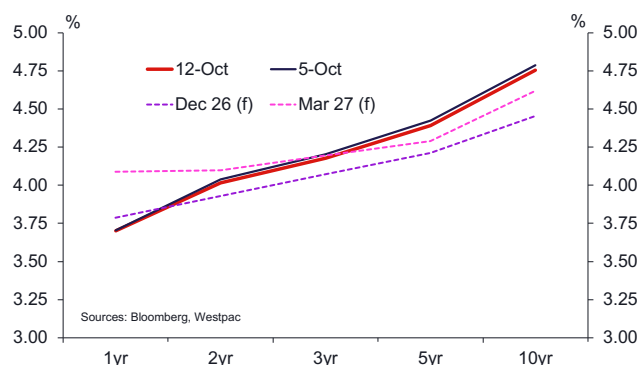
Market pricing for the next RBNZ meeting on 28 October remains stuck at around a 60% chance. The NZ Q3 CPI data on the 22nd will be key to increasing or decreasing that chance. Historically, whenever pricing has been greater than 70%, the RBNZ has hiked.

Looking further ahead, absent international surprises and assuming our expectation that the nascent NZ economic recovery continues, fresh highs in swap rates are possible by year end. However, a plethora of international risks (wars, oil prices, central bank actions, fiscal risks, and risk sentiment) adds caution to the view.

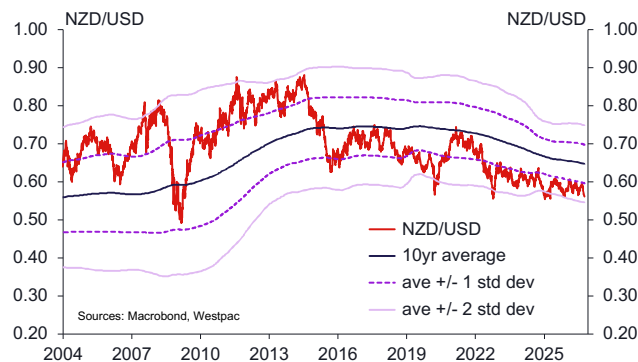
Official Cash Rate forecasts



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	0.562	0.559-0.597	0.553-0.720	0.609	0.59
AUD	0.805	0.802-0.837	0.802-0.967	0.903	0.82
EUR	0.502	0.497-0.513	0.484-0.637	0.555	0.50
GBP	0.424	0.423-0.438	0.423-0.531	0.475	0.43
JPY	88.8	88.3-95.3	75.5-98.6	87.5	90.7

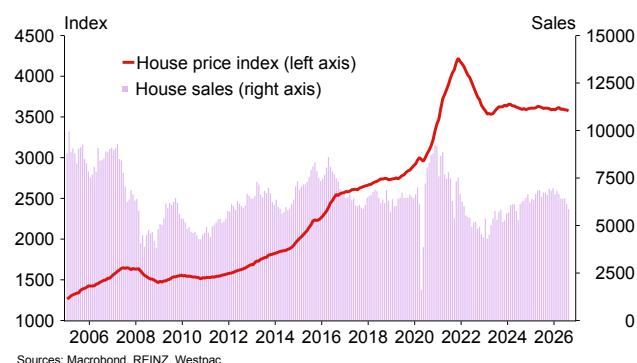
The week ahead

Sep REINZ House Sales and Prices

Oct 14, Sales Last: -13.0%, Prices Last: -0.9%

The housing market has remained soft in recent months, with sales falling to a two-year low and prices edging lower. Mortgage rates have risen as the RBNZ has initiated a new tightening cycle, and a growing supply of unsold homes on the market means that buyers are under no pressure to bid prices higher. Conditions remain stronger in the south, with prices up on last year in Canterbury, Otago and Southland, while Auckland and Wellington are the weakest markets.

REINZ house prices and sales

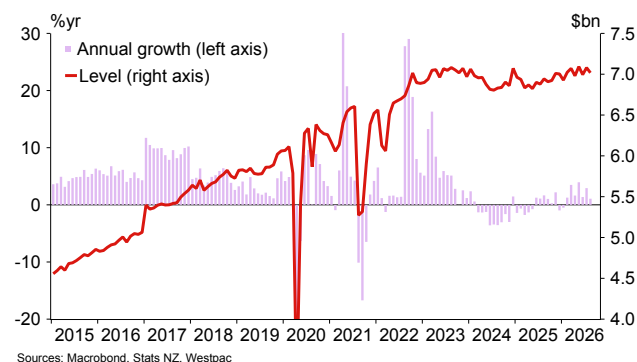


Sep Retail Card Spending

Oct 16, Last: -0.9%, Westpac f/c: +0.8%

We're forecasting a 0.8% rise in retail spending in September, reversing the 0.9% fall seen in the previous month. In part, the forecast rise in spending is due to the sharp increases in petrol prices in recent weeks. Those higher fuel costs are weighing on spending in other categories like hospitality. Nevertheless, we still expect a 0.5% rise in core (ex-fuel) spending. Stats NZ's monthly retail spending figures have been very choppy for the past two years, and we're likely to see a bounce following last month's unexpected falls in categories like furnishings.

Monthly retail card spending

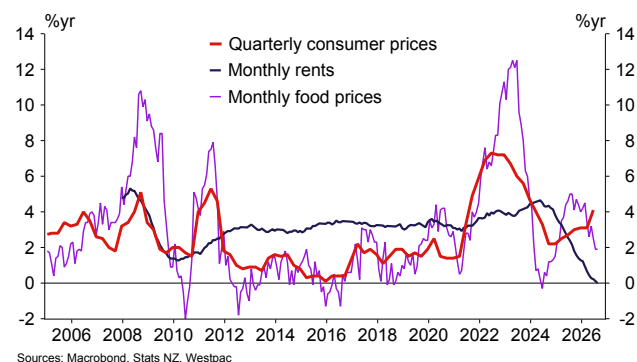


Sep Selected Consumer Prices

Oct 16

This will be the last monthly update ahead of the full quarterly CPI release on 22 October. We're currently forecasting a 0.7% quarterly rise in the CPI (+3.7%yr) and will be watching the detail of the Selected Prices update to pin down that forecast. In terms of the big categories, we're forecasting a roughly 6% rise in petrol costs, along with a 0.7% rise in food prices. That's balanced against continued softness in housing rents (which are the single largest component of the CPI). The key sources of risk for our forecast are the volatile travel categories, most of which recorded sizeable drops last month that we expect to partially reverse in September.

Selected consumer prices

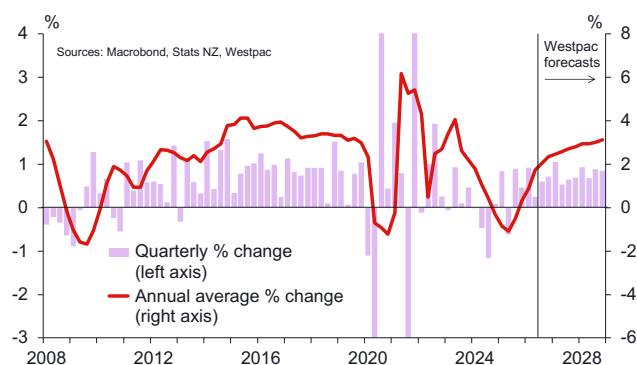


Economic and financial forecasts

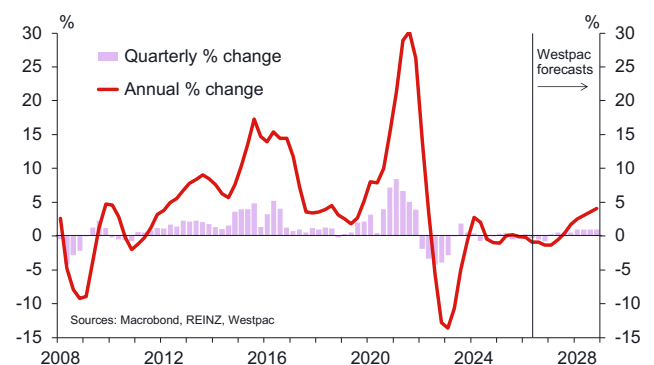
Economic indicators	Quarterly % change				Annual % change			
	Jun-26	Sep-26	Dec-26	Mar-27	2025	2026	2027	2028
GDP (production)	0.2	0.6	0.7	1.1	1.6	2.5	3.0	3.4
Consumer price index	1.5	0.7	1.1	0.4	3.1	4.2	1.7	2.1
Employment change	0.5	0.6	0.6	0.6	0.2	1.9	2.5	2.3
Unemployment rate	5.6	5.5	5.4	5.3	5.4	5.4	4.9	4.4
Labour cost index (all sectors)	0.6	0.6	0.6	0.5	2.0	2.3	2.3	2.3
Current account balance (% of GDP)	-3.2	-3.9	-4.1	-4.0	-3.0	-4.1	-3.8	-3.8
Terms of trade	-4.5	-0.6	1.8	2.7	3.3	-4.6	5.7	1.5
House price index	-0.3	-0.5	-0.8	0.3	-0.1	-1.4	1.8	4.1

Financial forecasts	End of quarter				End of year			
	Jun-26	Sep-26	Dec-26	Mar-27	2025	2026	2027	2028
OCR	2.25	2.75	3.00	3.50	2.25	3.00	4.00	3.75
90 day bank bill	2.63	2.99	3.40	3.75	2.52	3.40	4.20	3.95
2 year swap	3.47	3.72	3.95	4.10	2.71	3.95	4.20	4.10
5 year swap	3.88	4.07	4.20	4.30	3.27	4.20	4.40	4.35
10 year bond	4.61	4.75	4.75	4.90	4.27	4.75	5.05	5.05
TWI	66.5	66.1	65.7	67.4	66.4	65.7	71.1	70.5
NZD/USD	0.58	0.58	0.59	0.61	0.57	0.59	0.65	0.65
NZD/AUD	0.82	0.82	0.82	0.84	0.87	0.82	0.89	0.90
NZD/EUR	0.50	0.51	0.50	0.51	0.49	0.50	0.54	0.54
NZD/GBP	0.44	0.43	0.43	0.44	0.43	0.43	0.47	0.46

GDP growth



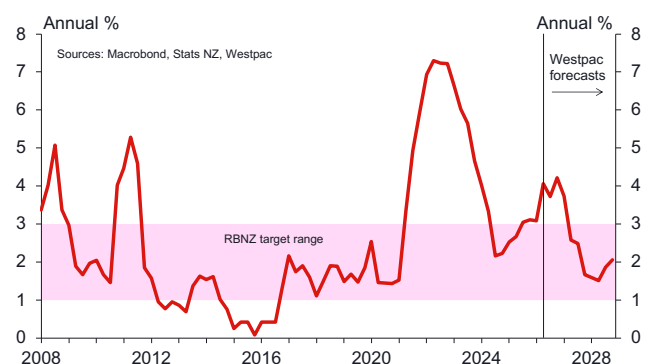
House prices



Unemployment and wage growth



Consumer price inflation



Data calendar

		Last	Market median	Westpac forecast	Risk/Comment
Mon 12					
US	Columbus Day	–	–	–	Stock markets open, bond markets closed.
	Fedspeak	–	–	–	Hammack.
Tue 13					
Aus	Sep RBA Minutes	–	–	–	Markets will look for guidance on the policy outlook.
	Sep NAB Business Conditions, index	–1	–	–	Conditions have eased to their weakest level since the pandemic.
US	Sep NFIB Small Business Optimism, index	98.7	98	–	Confidence has recovered since onset of Middle East conflict.
	Sep Existing Home Sales, %mth	–2.0	–0.8	–	Housing demand remains constrained by affordability.
	Fedspeak	–	–	–	Waller, Barkin, Collins.
Wed 14					
NZ	Sep REINZ House Prices, %yr	–0.9	–	–	Buyer enthusiasm dampened by rising mortgage rates...
	Sep REINZ House Sales, %yr	–13.0	–	–	...and an ample supply of homes on the market.
	Aug Net Migration, no.	3010.0	–	–	Balance has turned more positive as NZer departures slow.
Aus	Sep Westpac-MI Leading Index, %ann'd	–0.09	–	–	Consistent with soft, rather than weak growth.
Chn	Sep PPI, %ann	3.8	4.4	–	China's inflation pick-up appears increasingly supply-led ...
	Sep CPI, %ann	0.8	1	–	... while consumer inflation remains subdued.
	Sep Trade Balance, US\$bn	119.1	117.3	–	The AI boom continues to buoy Chinese exports.
US	Sep CPI, %mth	0.4	0.6	–	Iran war, tariffs and data centre buildout are adding pressure.
	Oct Federal Reserve's Beige Book	–	–	–	Update on economic conditions across the regions.
	Fedspeak	–	–	–	Bowman, Barkin.
Thu 15					
Aus	Sep Employment Change, 000s	39.5	20	20	Labour demand absorbing much of the additional supply ...
	Sep Unemployment Rate, %	4.6	4.6	4.6	... but not enough to prevent unemployment from drifting up.
Jpn	Aug Core Machinery Orders, %mth	–3.7	2.9	–	Business investment momentum remains uneven.
	Aug Industrial Production, %mth	–1.7	–	–	Final estimate.
Eur	Aug Industrial Production, %mth	–0.1	0.1	–	Manufacturing activity continues to struggle.
UK	Aug Monthly GDP, %mth	0.4	–	–	July's rise showed surprising resilience.
US	Sep Retail Sales, %mth	1.2	0.3	–	Focus is on the underlying health of the consumer.
	Oct Philly Fed Manufacturing, index	37.8	26.4	–	Sentiment bounced notably; Philly leads the regions.
	Initial Jobless Claims	197	–	–	Claims remain low and stable.
	Sep PPI, %mth	0.4	0.5	–	Pipeline inflation pressures remain contained.
	Aug Business Inventories, %mth	0.8	0.4	–	Inventory accumulation picked up in July.
	Fedspeak	–	–	–	Hammack.
Fri 16					
NZ	Sep Manufacturing PMI, index	53.1	–	–	A relatively strong performing sector in recent months.
	Sep Selected Price Indices – Food, %mth	0.3	–	0.7	Seasonal increases in meat and beverage prices.
	Sep Selected Price Indices – Rents, %mth	0	–	0	Ample supply continuing to limit rental growth.
	Sep Retail Card Spending, %mth	–0.9	–	0.8	Expected to bounce following last month's unexpected fall.
Eur	Aug Trade Balance, €bn	5	–	–	Exporters continue to diversify beyond the US.
	Sep CPI, %ann	3.8	3.8	–	Final estimate.
UK	BoE Governor Bailey	–	–	–	Fireside chat with Institute of International Finance.
US	FOMC Chair Warsh	–	–	–	Fireside chat at IMF Annual Meetings, 2:30pm AEST.
	Sep Import Price Index, %mth	0.7	0.6	–	AI hardware and commodity price volatility are driving the rise.
	Sep Industrial Production, %mth	0	0.4	–	Manufacturing output growth remains patchy.

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