



WEEKLY ECONOMIC COMMENTARY



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A promising start

It's a big week ahead in terms of economic news. Locally, we'll have updates on the housing market, household spending and consumer confidence. We'll also get the latest update on inflation on Tuesday. But the main event will be the March quarter GDP figures on Thursday. As discussed below, we expect they will show that the economy was getting on firmer footing in the early part of this year.

Much of that positive momentum has been dented by the conflict in the Middle East and the related increase in oil prices. However, the past week we've seen some of those headwinds easing back. Oil prices fell to a three-month low last week – Brent crude falling around \$87/bbl – after President Trump said he had agreed a deal with Iran that would see the Strait of Hormuz reopened immediately. That deal would extend the ceasefire for 60 days, during which time further talks would take place to address the thorny issue of Iran's uranium stockpile.

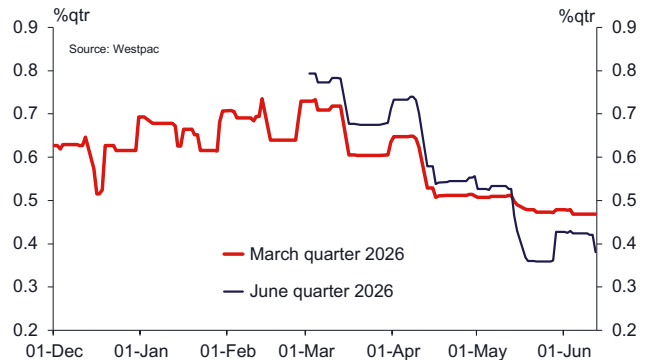
While an easing in global tensions is welcome news, the devil remains in the detail and hence uncertainty is likely to remain elevated. The Memorandum of Understanding under discussion provides a couple of months breathing space for the crunchy issues of Iran's nuclear program and sanctions removal to be discussed. These are not likely to be easy to quickly resolve. Key will be the extent to which oil tanker traffic resumes given mine-clearing operations will take some time and confidence needs to be built among shipping companies, crew and insurance companies. Global oil inventories have declined to low levels given the prolonged Hormuz closure. It will take some time for these stocks to be rebuilt and are likely to fall further before new supplies begin to arrive from the Gulf.

Locally, we should see a further fall in fuel prices should the deal stick. We currently estimate that 91 petrol in the

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)

\$2.80-\$2.90 range is feasible in coming weeks all else equal. This should help boost consumer and business confidence and reduce inflation forecasts a bit. But it will be the medium-term fortunes of the ceasefire and subsequent negotiations that will determine how much sentiment and the economy ultimately recovers.

In the meantime, we see the US President declaring to “Let the oil flow!” which is possibly the most encouraging news in some time.

March quarter GDP to show a firm activity in the early part of the year.

While there weren’t many new developments last week, we did get the last batch of data needed to finalise our forecast of this Thursday’s GDP release. In recent months there’s been a steady stream of data suggesting that the New Zealand economy was regaining some momentum in the early part of this year, but this is the first time we’ll get the complete picture.

As we detailed in our preview, we’re now expecting a 1% rise for the March quarter, up from our earlier pick of 0.8%. Agriculture, retailing and tourism were the known points of strength; what last week’s data also revealed was a strong lift in manufacturing output, wholesale trade and professional services. Construction remains the biggest weak spot, with a pickup in building consents over the last year not yet translating into a higher level of activity.

This seemingly positive result comes with two caveats though. The first is that seasonal distortions mean the reported result will overstate the underlying pace of growth. We showed in **our analysis last year** how the methods used to calculate GDP result in a ‘balancing item’ that in recent years has been both unusually large and strongly seasonal. This currently has its greatest impact on March quarters, contributing around 0.4ppts to the reported growth rate.

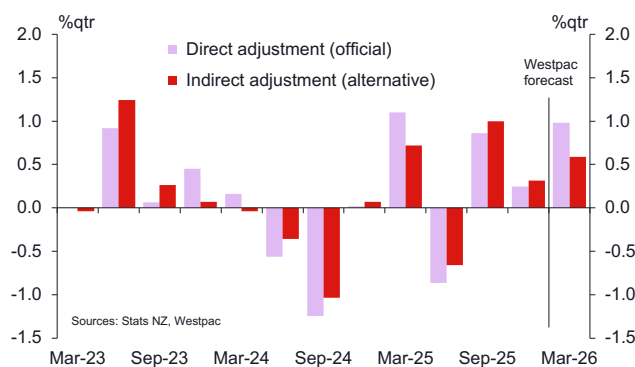
The balancing item itself is not a problem – it’s an inevitable product of the ‘chain-linking’ method used to update the sectoral weights of GDP over time, and it exists in other countries’ figures as well. But it’s usually less intrusive – for instance, in Australia it generally accounts for no more than plus or minus 0.2ppts of quarterly growth, and more significantly, it doesn’t have a predictable pattern.

Stats NZ produced a recent article exploring this issue further, and in particular the options of direct seasonal adjustment (add the sectors, then adjust the total) versus indirect adjustment (adjust, then add). Direct adjustment is the method currently used for New Zealand’s GDP data; we’ve proposed that switching to indirect adjustment would reduce the influence of the balancing item and make the figures easier to interpret.

Stats NZ notes that international standards allow for either method, and neither of them is superior to the other in every circumstance. Indirect adjustment will reduce the volatility of quarterly GDP at some times, but could increase it at other times. There are also differences in how well each method can deal with major shocks, especially the Covid lockdown and border closure where the effects on activity were both very large and spread unevenly across sectors.

Our view is that interpretability, rather than volatility, should be the deciding factor here. Sectoral activity data is inherently volatile, whether that’s due to genuine variation in the economy or just sampling error. The balancing item provides an additional source of volatility, which may add to the existing volatility at times, and dampen it at other times. But in both cases a large balancing item makes the GDP figures harder to interpret, because a significant share of the growth in the economy can’t be attributed to any sector. In that respect, we still favour indirect adjustment as it reduces the influence of the balancing item.

Quarterly GDP with seasonal adjustments



Under indirect adjustment, our forecast would work out as a 0.6% rise in GDP for the March quarter, up from a 0.3% rise in the December quarter. While not raging away, it’s an encouraging sign that the economy was heading in the right direction – at least up until the Iran conflict. The hostilities kicked off at the end of February, but March is probably too early to expect this to have had an impact on activity here. So it’s the indicators for the June quarter that we need to watch, and there certainly have been some signs of a loss of momentum.

While the GDP report suffers from being dated, it’s really the only major data release ahead of the RBNZ’s policy review on 8 July. Given the Committee’s extremely close decision in May, could these figures be enough to tip the balance of voting?

We suspect not. The RBNZ’s forecast in its May policy statement was in line with our pick of a 1% rise for the quarter, so it would probably take a large surprise in either direction to change any of their minds. That said, given that interest rate markets are already 90%

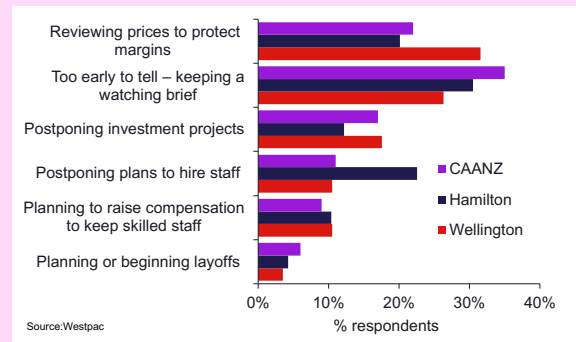
priced for an OCR hike in July, the risks around the GDP release may be skewed to the downside – a weaker than expected result could cast some doubt on whether the RBNZ would move that soon, rather than waiting for the flood of inflation-related data that will come between the July and September reviews.

Michael Gordon, Senior Economist

Chart of the week.

In the last few weeks, we have been on the road presenting our newest Economic Overview to clients. While doing this we took the opportunity to ask the groups what actions they were taking in response to the Iran conflict and the associated increase in energy prices. Clients generally had a cautious view around when oil and fuel prices will fall, with most thinking it would be 2027 before significant improvements occurred. Recent events should have pleasantly surprised clients – assuming the better signs of progress stick! Our chart of the week shows the actions clients are taking thus far. What we see is that most clients are still in wait-and-see mode given the significant uncertainties. Probably the most prominent action being taken is to review pricing given the significant increase in costs. There is also some sign of scaling back on investment plans. Encouragingly we do not see strong signs of layoffs which suggests that at this stage firms are happy to ride the shock out.

What main actions are you taking in response to the Iran war?

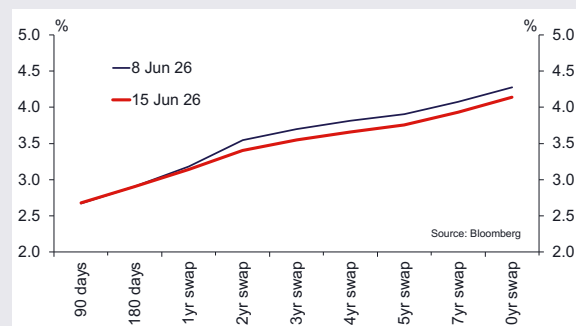


Fixed versus floating for mortgages.

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

North America.

In the US, the headline CPI rose 0.5%*mth* in May, lifting annual inflation to 4.2%. However, core prices rose a tame 0.2%*mth*, so that annual inflation nudged only slightly higher to 2.9%. In Canada, the BoC left its policy rate at 2.25%. The Bank noted ongoing spare capacity in the economy and that there had been limited evidence of broad-based pass-through of higher energy prices to other consumer prices. The focus this week will be on the Fed's policy meeting – the first under new Chair, Kevin Warsh. While the Fed's policy rate is extremely unlikely to change this week, market participants will parse the updated Summary of Economic Projections to see whether policymakers agree with the market's assessment that some policy tightening is now more likely than not before year end. The release of the May retail sales report is also of note this week.

Europe.

The ECB lifted its policy rate by 25bps to 2.25%, in a decision that was described as unanimous and robust to a range of inflation scenarios. President Lagarde said that future decisions would be taken on a meeting-by-meeting basis. Inflation reports will be the focus in Europe this week, along with the BoE's policy meeting on Thursday.

Asia-Pacific.

In Australia, the Westpac-MI measure of consumer confidence gave back most of its modest May gain in June, leaving the index close to its 2023 lows. The NAB business confidence index firmed in May but remained in negative territory and well below pre-conflict levels. The focus this week will be on tomorrow's RBA Board meeting. As with the Fed, with no change in the policy rate expected, interest will centre on any guidance the Bank offers regarding potential actions at future meetings. In China, core CPI inflation eased to 1.1%*yr* in May. This week the focus will be on tomorrow's key domestic activity indicators for May, especially after the surprisingly weak readings seen in April. In Japan, tomorrow the BoJ is widely expected to lift its policy rate by 25bps to 1.0% – a level last seen in 1995.

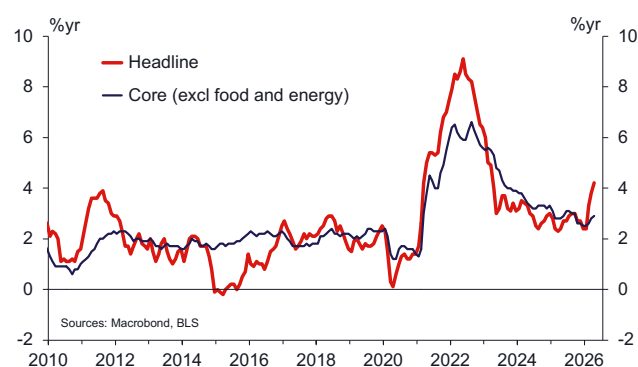
Trading partner real GDP (calendar years)

	Annual average % change			
	2025	2026	2027	2028
Australia	2.0	1.7	1.3	2.3
China	5.0	4.7	4.6	4.4
United States	2.1	2.1	1.8	1.9
Japan	1.1	0.6	0.8	0.9
East Asia ex China	4.7	4.5	4.2	4.1
India	7.6	6.5	6.7	6.6
Euro Zone	1.5	0.2	1.1	1.5
United Kingdom	1.4	1.1	1.1	1.5
NZ trading partners	3.2	2.8	2.7	2.9
World	3.4	3.1	3.3	3.3

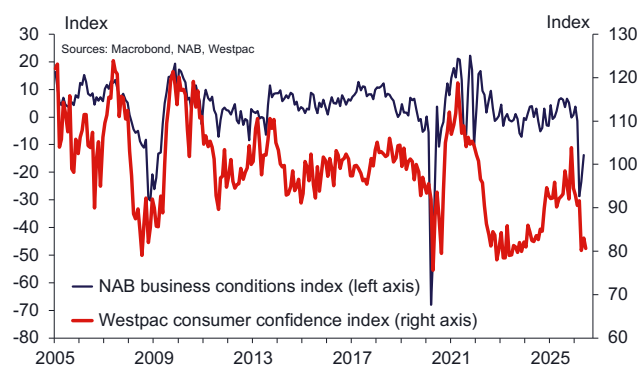
Australian & US interest rate outlook

	12 Jun	Dec-26	Dec-27	Dec-28
Australia				
Cash	4.35	4.85	4.85	3.85
90 Day BBSW	4.47	4.90	4.80	3.95
3 Year Swap	4.43	4.65	4.30	3.90
3 Year Bond	4.44	4.65	4.30	3.90
10 Year Bond	4.82	4.90	4.85	4.95
10 Year Spread to US (bps)	35	40	20	10
US				
Fed Funds	3.625	3.625	3.625	3.625
US 10 Year Bond	4.47	4.50	4.65	4.85

US CPI inflation



Australian consumer & business confidence



Financial markets wrap

Foreign exchange.

NZD/USD fell to 0.5769 last week before rebounding to 0.5862 (currently) following news of a US-Iran peace agreement. If parties sign the agreement this Friday, as is scheduled, then NZD/USD should remain supported in the 0.5800 area, with a chance of breaking above 0.5900.

However, it is not the only major risk event this week. NZ Q1 GDP data will be important, as will the Federal Reserve's rate decision. The latter will almost certainly remain on hold, but the US dollar will be sensitive to nuances in new chair Warsh's debut appearance.

For the quarter ahead, we retain a neutral bias, pending resolution of the Iran war. A positive resolution could ignite a rally towards the 0.6000 area, while a breakdown could cause a decline to 0.5700.

NZD/AUD is consolidating in the 0.82s, with a hint of upside potential for the month ahead. A key event this week will be the RBA decision, where an on-hold decision is widely expected. Markets will be sensitive to guidance regarding additional rate hikes, with OIS pricing suggesting only a 50% chance of another.

Interest rates.

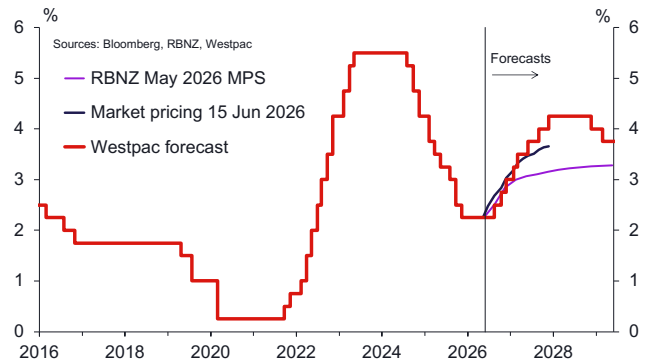
The NZ 2yr swap rate is at the bottom of its two-month range, at 3.40%, with potential to nudge slightly lower during the month ahead.

The past week saw it follow the decline in offshore rates, which in turn had responded to news of a US-Iran peace agreement in development. Should an agreement be signed on Friday, offshore rates will likely fall slightly further. Also with potential to move offshore rates will be major central bank decisions this week in the US, Australia, Japan, UK, and Switzerland.

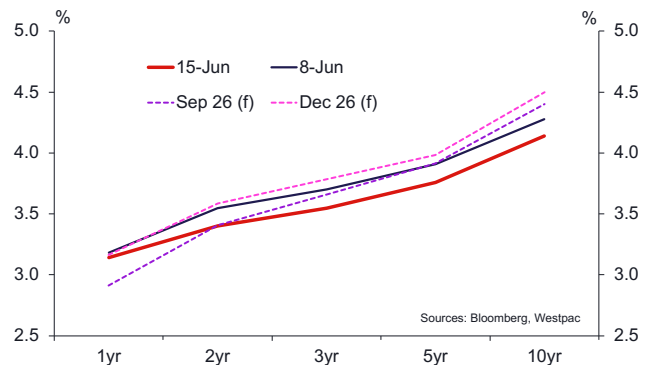
In addition, much is already priced in for the next RBNZ meeting on 8 July – OIS pricing implies an 85% chance of an OCR hike, with almost three hikes in total priced by year end. We expect three hikes this year, but starting in September.

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 in early June, 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.

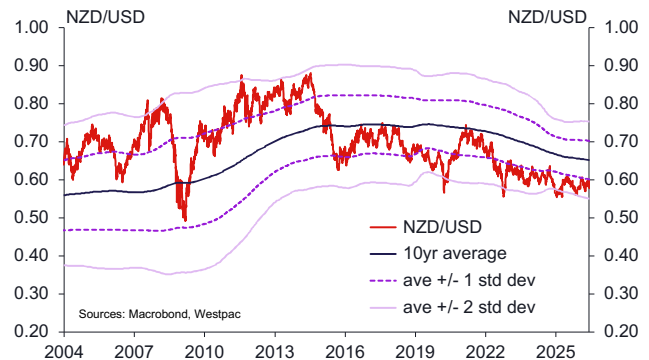
Official Cash Rate forecasts



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	0.582	0.569-0.596	0.553-0.720	0.617	0.60
AUD	0.827	0.816-0.837	0.816-0.971	0.911	0.82
EUR	0.503	0.493-0.511	0.484-0.637	0.561	0.51
GBP	0.434	0.430-0.442	0.426-0.531	0.480	0.44
JPY	93.2	91.0-94.8	74.7-98.6	86.6	93.6

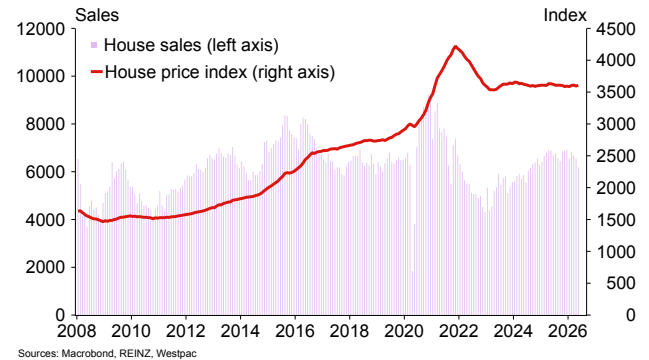
The week ahead

May REINZ House Sales and Prices

Jun 15, Sales last: -7.9%, Prices last: -0.9%

The housing market softened again in April, with sales falling about 3% in seasonally adjusted terms and prices dipping lower. While there were signs of the market emerging from hibernation earlier in the year as the economy started to gain momentum, the Iran conflict has removed much of that support. Sharply weaker consumer confidence, weaker employment prospects, and the potential for OCR hikes to come sooner and faster, imply a much weaker outlook for the housing market. We expect a 1% fall in prices over 2026, with the weakness most apparent through the middle part of the year.

REINZ house prices and sales

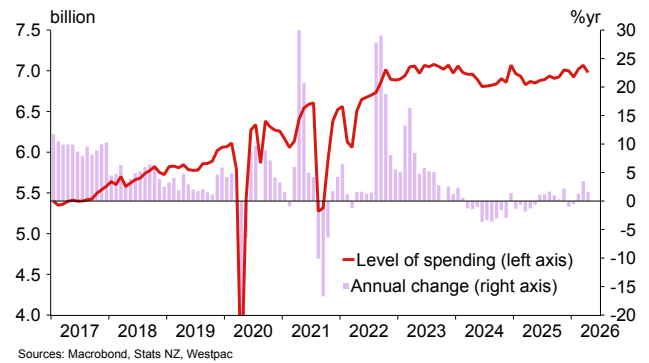


May Retail Card Spending

Jun 15, Last: -1.3%, Westpac f/c: +0.4%

Retail spending fell sharply in April. While some of that drop may have been due to swings related to public holidays, high fuel costs will also have been a drag on discretionary spending. With an easing in fuel costs more recently, we expect a modest bounce in spending in May. However, smoothing through such month-to-month swings, the recent trend in retail spending is looking flat in the face of ongoing cost of living pressures.

Monthly retail card spending

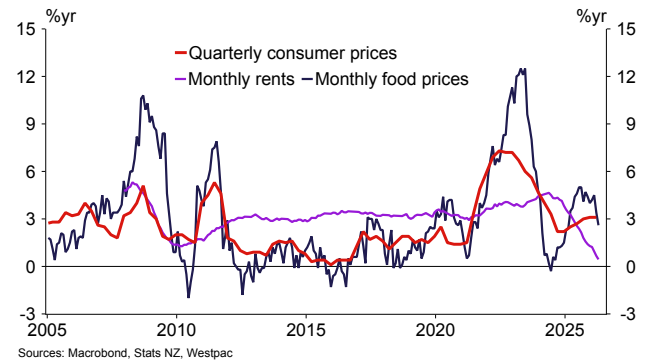


May Selected Consumer Prices

Jun 16

The Selected Prices provides a monthly update on around half of the CPI basket and will be closely watched ahead of the RBNZ's line-call July OCR meeting. The previous month's release was a bit softer than expected, with much of the surprise centred on volatile categories, like food and fuel. Since that time fuel prices have eased, though they remain elevated. We will be watching for signs that higher production costs are pushing up output prices more generally. However, any such increases are likely to be more pronounced in the second half of the year. In the meantime, soft demand is likely to be a brake on price rises.

Selected consumer prices



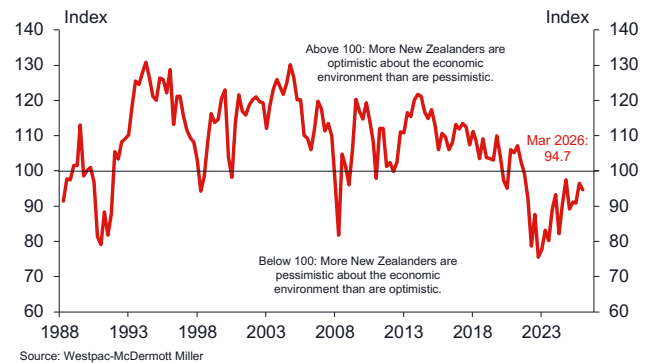
The week ahead

Q2 Westpac-McDermott Miller Consumer Confidence

Jun 17, Last: 94.7

Consumer confidence dropped back in the March quarter, but only modestly. Our previous survey was conducted in the first two weeks of March – the same time as the war in the Middle East broke out. Against that backdrop, households had become more nervous about the economic outlook. Our latest survey was in the field in the first two weeks of June. Recent weeks have seen the global backdrop remaining rocky, while concerns about domestic inflation and activity have mounted.

Consumer Confidence Index

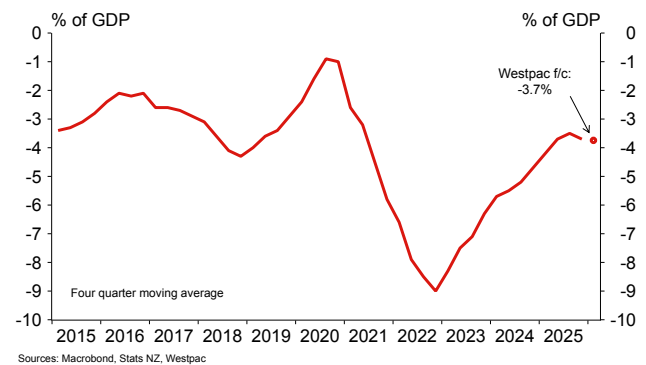


Q1 Current Account Balance

Jun 17, Last: -3.7%, Westpac f/c: -3.7%, Market f/c: -3.7%

We expect that the current account deficit – measured on a 12-month annual basis – remained steady at 3.7% of GDP in the March quarter. The merchandise trade deficit is likely to have widened by a couple of tenths due to strong growth in imports. However, the services deficit is likely to have continued to narrow, in large part due to strong growth in tourist arrivals and thus spending. This will likely represent the low point for the current account deficit, with sharply higher fuel prices driving the trade deficit wider from the June quarter.

Annual current account balance

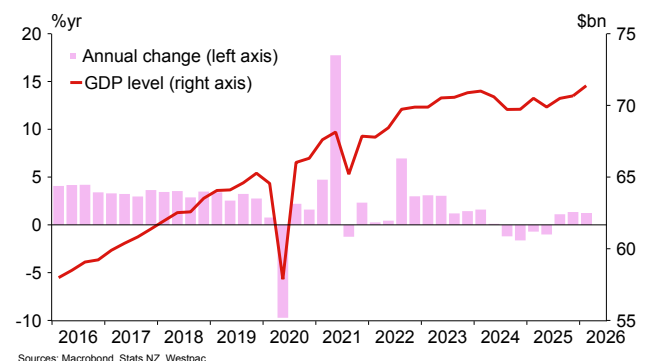


Q1 GDP

Jun 18, Last: 0.2%, Westpac f/c: 1.0%, Market f/c: 0.9%

We expect a 1% rise in GDP for the March quarter. Seasonal distortions in the way that GDP is calculated mean the reported result will be overstated by around 0.4ppts, but the underlying details still point to an economy that was regaining momentum in late 2025 and early 2026, prior to the Iran conflict. While this is one of the few major data releases ahead of the RBNZ's July policy review, we think it's unlikely that it will tip the balance of the committee one way or another, given their apparent focus on forward-looking indicators of inflation pressures.

GDP

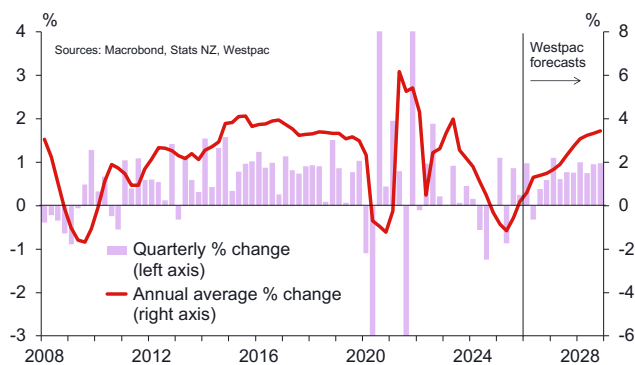


Economic and financial forecasts

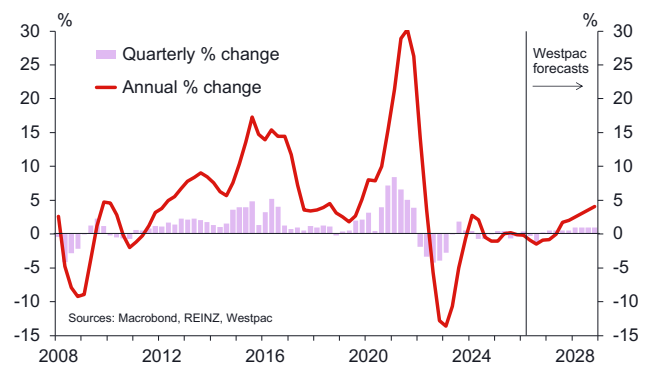
Economic indicators	Quarterly % change				Annual % change			
	Dec-25	Mar-26	Jun-26	Sep-26	2024	2025	2026	2027
GDP (production)	0.2	1.0	-0.3	0.4	-1.6	1.3	1.6	3.3
Consumer price index	0.6	0.9	1.8	1.2	2.2	3.1	4.4	1.6
Employment change	0.5	0.1	0.1	0.1	-1.3	0.2	0.6	2.9
Unemployment rate	5.4	5.3	5.4	5.5	5.1	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	-3.7	-3.9	-4.3	-4.7	-3.7	-4.4	-4.6
Terms of trade	0.3	3.5	-3.1	-1.0	8.9	3.5	-1.8	4.7
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	3.55	3.85	3.64	2.71	4.15	4.35
5 year swap	3.27	3.71	3.90	4.10	3.73	3.27	4.25	4.45
10 year bond	4.27	4.54	4.60	4.65	4.50	4.27	4.80	5.10
TWI	66.4	67.2	66.7	66.6	69.5	66.4	67.2	71.8
NZD/USD	0.57	0.59	0.59	0.59	0.59	0.57	0.60	0.66
NZD/AUD	0.87	0.85	0.82	0.82	0.91	0.87	0.82	0.89
NZD/EUR	0.49	0.50	0.51	0.50	0.55	0.49	0.51	0.54
NZD/GBP	0.43	0.44	0.44	0.44	0.46	0.43	0.44	0.47

GDP growth



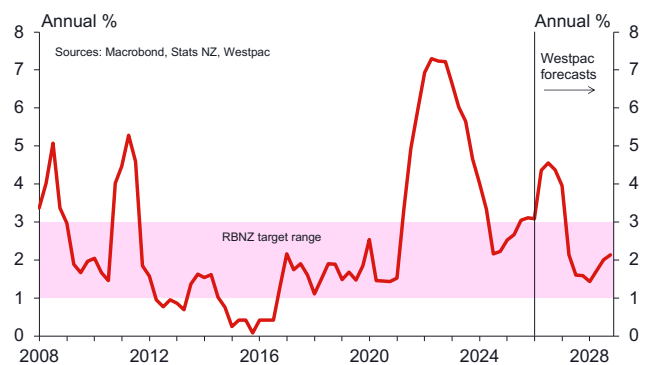
House prices



Unemployment and wage growth



Consumer price inflation



Data calendar

		Last	Market median	Westpac forecast	Risk/Comment
Mon 15					
NZ	May REINZ House Prices, %yr	-0.9	-	-	Iran conflict has undermined household confidence and...
	May REINZ House Sales, %yr	-7.9	-	-	...raised the prospect of earlier and faster OCR hikes.
	May Performance Services Index, index	48.9	-	-	Businesses have reported soft trading conditions.
	May Retail Card Spending, %mth	-1.3	-	0.4	Modest bounce as fuel costs have eased.
Eur	Apr Industrial Production, %mth	0.2	0.3	-	Will likely come under pressure from rising costs ...
	Apr Trade Balance, €bn	3.5	-	-	... as tariffs and FX moves narrow the trade surplus.
US	Jun Fed Empire State Manufacturing, index	19.6	12.5	-	Energy costs to likely weigh on manufacturing conditions...
	May Industrial Production, %mth	0.7	0.2	-	... with survey data hinting to a soft read on output.
	Jun NAHB Housing Market, index	37	36	-	Homebuilder confidence largely stagnant in 2026.
Tue 16					
NZ	May Selected Price Indices - Food, %mth	0	-	0.6	Boosted by seasonal lift in fresh vegetable prices.
	May Selected Price Indices - Rents, %mth	0.0	-	0.0	Rents subdued with large numbers of homes available.
Aus	Jun RBA Policy Decision, %	4.35	4.35	4.35	Pause and assess in June, but further rate hikes still likely.
Jpn	Jun BoJ Policy Decision, %	0.75	1.00	1.00	Sustained domestic inflation driving the BoJ's decision to hike.
Chn	May Retail Sales, ytd %yr	1.9	-	-	The domestic economy is likely to continue to struggle
	May Fixed Asset Investment, ytd %yr	-1.6	-2.3	-	... as the weakness in investment sets to deepen ...
	May Industrial Production, ytd %yr	5.6	-	-	... with only external demand to support production.
Eur	Jun ZEW Survey Of Expectations, index	-9.1	-	-	Sentiment looks to have bottomed out but remains fragile.
US	May Import Price Index, %mth	1.9	-	-	April saw the strongest monthly rise since March 2022.
	May Housing Starts, %mth	-2.8	-2.2	-	Despite declines, broader trend looks firm for now ...
	May Building Permits, %mth	4.4	-0.2	-	... but the pipeline for activity looks to be slowing.
Wed 17					
NZ	Q2 Westpac-MM Consumer Conf., index	94.7	-	-	Surveyed in the first two weeks of June.
	Q1 Current Account Balance, % of GDP	-3.7	-3.7	-3.7	Deficit steady in Q1; fuel import costs to lift deficit in Q2.
Aus	May Westpac-MI Leading Index, %ann'd	-0.17	-	-	Showing clearer loss of momentum.
Jpn	Apr Core Machinery Orders, %mth	-9.4	0.9	-	Recent months have been volatile owing to manufacturing.
Eur	May HICP inflation, %ann	3.2	3.2	-	Final estimate.
UK	May CPI, %ann	2.8	-	-	Signs of pass-through did not come in April.
US	May Retail Sales, %mth	0.5	0.5	-	To remain solid, partly bolstered by fuel prices.
	May Pending Home Sales, %mth	1.4	-	-	Gradually picking up despite affordability pressures.
	FOMC Policy Decision	3.625	3.625	3.625	The first FOMC meeting with Kevin Warsh as Chair.
Thu 18					
NZ	Q1 GDP, %qtr	0.2	0.8	1.0	Seasonally overstated, but the underlying picture is solid.
UK	Apr ILO Unemployment Rate, %	5	-	-	Has been volatile recently; easing likely to continue.
	Jun BoE Policy Decision, %	3.75	3.75	-	On hold for now before likley policy tightening in H2 2026.
US	Initial Jobless Claims	229	-	-	Picking up since mid-May on a 4 week moving average basis.
	May Leading Index, pts	0.1	-	-	Consumers continue to hold a pessimistic view on outlook.
Fri 19					
NZ	May Trade Balance, \$m	1920	-	420	Surplus to shrink as higher fuel prices drive imports higher.
Jpn	May CPI, %ann	1.4	1.5	-	Inflation risks building despite softer Tokyo CPI read.
UK	Jun GfK Consumer Sentiment, index	-23	-	-	Sentiment has plunged to a 2.5 year low ...
	May Retail Sales, %mth	-1.3	-	-	... with fewer purchases of fuel seeing spending volumes.

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