



WEEKLY ECONOMIC COMMENTARY



16 Feb 2026 | Westpac Economics Team | westpac.co.nz/economics | economics@westpac.co.nz

Picking up speed

Our latest **Economic Overview**, entitled “Picking up speed”, strikes a cautiously optimistic tone for our inaugural set of forecasts for 2026. An early key driver of the improved sentiment regarding the economy was the release of strong September quarter 2025 GDP data. This has continued with the release of stronger indicators over the December to February period. It looks like the economic momentum seen in Q3 has extended through the last quarter of 2025 and into early 2026. We see increased signs that economic activity has broadened beyond the external sector to encompass the construction and services sectors.

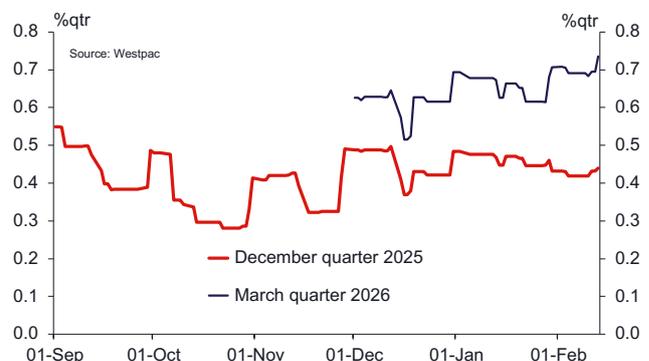
Last week **we reported increased levels of consumer spending** (spending on Westpac issued cards rose 6% per annum on a per capita basis in January). We also saw ongoing strength in the BusinessNZ manufacturing index for January and an increased volume of concrete poured in the December quarter (consistent with the pickup in building consents seen in recent months). Data increasingly points to a broadening participation in the economic recovery beyond the primary sector, which continues to perform strongly as solid global growth underpins high export returns. The tourism and broader export services sector has also been contributing positively reflecting strength in global demand and the still supportive (i.e. weak) exchange rate. Tourist arrivals grew further in December, with arrivals of visiting New Zealanders, Australians and Americans sitting above pre-covid levels. We also saw a notable uplift in Chinese arrivals thanks to increased airline capacity on those Chinese routes. In aggregate, tourist arrivals in 2025 were 5.9% higher than the previous year and at 90% of pre-Covid levels.

Recognising this momentum, our revised view features a stronger outlook for growth in 2026. We now expect GDP to grow 3.3%, building on the 1.8% lift in activity that

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

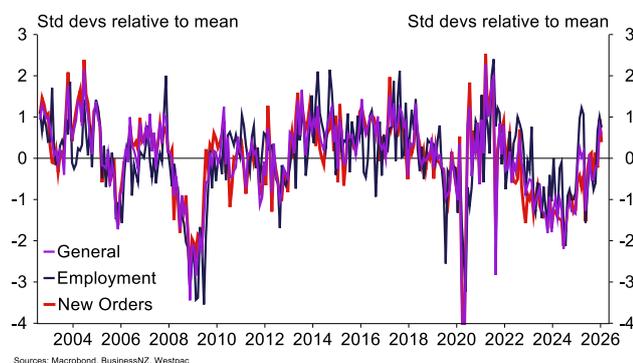


Key data and event outlook

Date	Event
17 Feb 26	NZ Selected price indexes, January
18 Feb 26	RBNZ OCR Review & Monetary Policy Statement
17 Mar 26	NZ Selected price indexes, February
17 Mar 26	RBA Monetary Policy Decision
18 Mar 26	FOMC meeting (19 Mar NZT)
19 Mar 26	NZ GDP, December quarter
8 April 26	RBNZ OCR Review
17 Apr 26	NZ Selected price indexes, March
21 Apr 26	NZ QSBO Business Survey, March quarter
21 Apr 26	NZ CPI, December quarter

we now estimate occurred in 2025. Both these numbers compare favourably with New Zealand’s weak potential growth rate which may have been as low as 1.5% last year given historically low migrant inflows. Potential growth might lift to around 2% in 2026 as population growth picks up a bit and as firms squeeze a bit more out of what was likely an underemployed workforce in 2024 and 2025. This implies that the negative output gap will not be as large through this year as thought back in November and is set to close by early 2027. The unemployment rate is accordingly expected to fall through 2026 and end the year at 4.7% and end 2027 at 4.4%. We saw a hint of a pickup in population growth in the December international migration data. The monthly inflow of migrants was the highest since April 2024, while the annual net long-term migrant inflow of around 14000 has shown a noticeable uptick since the August 2025 nadir.

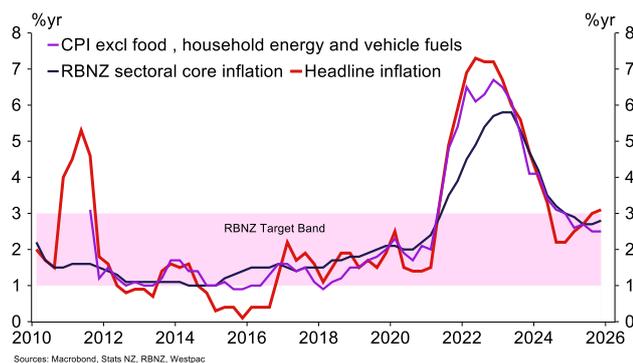
BusinessNZ PMI (Normalised)



Inflation continues to be a fly in households’ (and the RBNZ’s) ointment. Inflation ended 2025 at 3.1% y/y – outside the RBNZ’s 1-3% target range and above the level the RBNZ forecast back in November. Core inflation measures remain near the top quarter of the RBNZ’s target range.

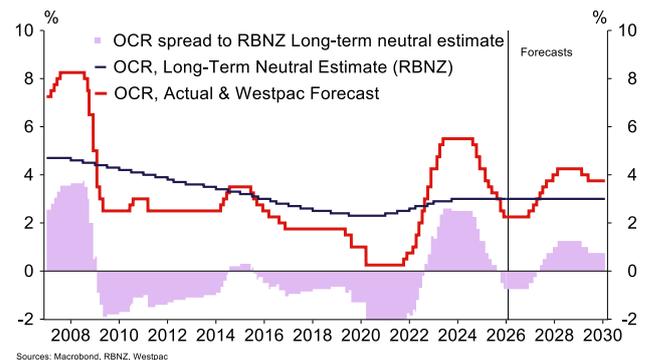
Inflation should fall back a bit over 2026 as last year’s large increases in food and fuel prices moderate. But with excess capacity dwindling and inflation remaining in the top half of the target range, the RBNZ will only have a finite level of patience for maintaining a stimulatory 2.25% OCR.

Headline and core inflation



Our view is that the RBNZ will take some time to assess before launching the next tightening cycle. While the outlook for 2026 looks promising, growth is not yet “in the bag”. Significant excess capacity remains in the economy and headline inflation is likely to fall towards 2% over coming quarters. Hence the RBNZ still has a bit of room to manoeuvre to make sure that output doesn’t sag in the middle of the year, as has been the custom over the last couple of years.

RBNZ OCR and long-run neutral estimates



We think the RBNZ will finally gain sufficient confidence to start lifting the OCR in December – with some risks of an earlier start should things go well. Once confident, we think the RBNZ will move quickly to firstly move the OCR into the 3-3.5% range their indicators suggest is neutral, and then on to 4.25% in early 2028 to forestall what would otherwise be a return of inflation towards 3%. We continue to believe the neutral OCR is more like 3.75% and that interest rates will need to move modestly above that neutral estimate for a period to keep inflation close to 2% over the coming years.

Risks are two-sided around this view. The economy could push on more quickly than we currently forecast. This could occur if the Q3 2025 quarterly outcome were repeated in subsequent quarters as those final cuts in the OCR in the second half of 2025 hit the economy’s bloodstream. Interest rate rises would become more urgent in that case. But on the other side of the coin, a malaise could befall the economy mid-year as the election comes into view. The uncertainty created by the close nature of the political polls and the quite divergent policy options on offer could cause some businesses, consumers and housing market investors to delay decisions they may otherwise have made. And of course there’s plenty of geopolitical risk out there. Should these risks materialise then that 2.25% OCR might age quite well. Let’s see.

This week, the highlight will be the first RBNZ Monetary Policy Statement under Governor Anna Breman. In our preview we noted that **we expect the OCR to remain at 2.25%** but that the RBNZ is likely to bring forward their projected first OCR hike to December, which implies only a small increase in their December quarter average

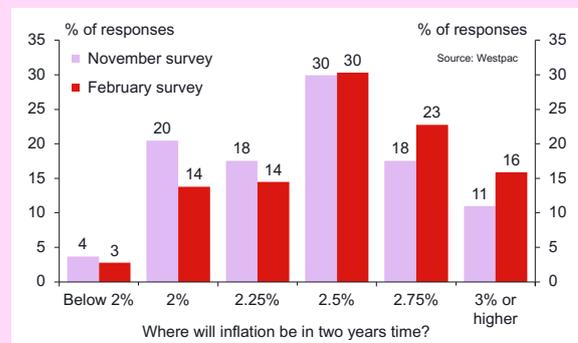
OCR forecast. We expect the RBNZ to acknowledge the stronger economy and more supportive global backdrop and note that inflation is too high. We think that ongoing excess capacity, tighter financial conditions, and declining food and fuel price inflation will see the RBNZ's inflation forecasts head "towards 2%" negating the need to quickly return the OCR to more neutral levels. But the improved growth outlook will likely see the RBNZ revising up their June 2027 OCR forecast by 40-50bp to around 2.85-3% from the 2.45% projected back in November. Overall, though, we don't think the RBNZ will be trying to scare the horses into pushing for an earlier start to tightening than markets have already priced. Hence the RBNZ is more likely to opt for more dovish messaging than more hawkish messaging.

Kelly Eckhold, Chief Economist

Chart of the week.

We'll be releasing our latest Westpac Pulse client survey later today, summarising financial market participants views on monetary policy and inflation. One of the notable results in the survey has been a step higher in expectations for inflation. 83% of clients now expect inflation will remain above 2% in two years' time, up from 76% at the time of our previous survey. Notably, 30% of clients now expect inflation will be 2.75% in two years' time, and a further 21% expect it will be 3% or higher. Both of those proportions are up noticeably from our last survey. Just 14% of clients expect that inflation in two years' time will be 2% or lower, down from 20% at the time of our previous survey. That uptick in inflation expectations has also been seen in other surveys, including the RBNZ's own measures. Coming atop of firming domestic demand, this reinforces our expectations that the RBNZ will pull forward their forecast for interest rate hikes at this week's MPS (as discussed in the main article).

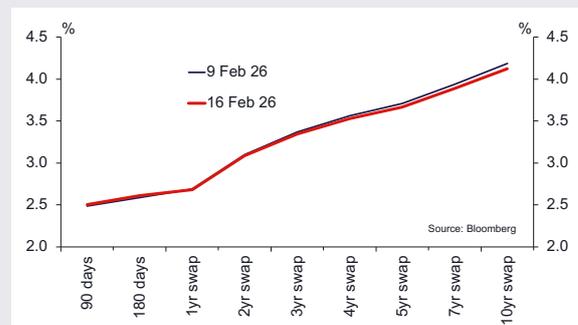
Inflation expectations creeping higher



Fixed versus floating for mortgages.

The RBNZ seems to have pretty much closed the door on further OCR cuts and suggests the hurdle for further reductions from here is high. Longer term mortgage rates have started to lift as markets look forward to the return of the OCR to more neutral levels in due course. 3-5 year fixed-rate mortgage rates are now just above 5% for those borrowers with at least a 20% deposit, while 1-2 year rates are in the 4.5-4.75% range. Fixing for longer periods of two to five years appears attractive as these will insulate borrowers from a lift in the OCR in the next couple of years.

NZ interest rates



Global wrap

North America.

Last week's busy US calendar included the employment report for January. Despite a large fall in job openings to a 5-year low, non-farm payrolls grew a larger-than-expected 130k and the unemployment rate fell 0.1ppts to 4.3%. Growth in average earnings remained steady at 3.7%/y. In other news, core CPI inflation nudged down to 2.5%/y in January. Retail sales were disappointingly flat in December following a small downward revision to growth in November and existing home sales slumped more than 8% in January (winter storms contributing to the soft result). The US interest rate curve ended the week lower. Westpac expects one final Fed rate cut in June this year. Turning to the week ahead, following today's Presidents' Day holiday, the focus will be Friday's advance GDP report for Q4, with the market expecting annualised growth of 3.0%. Friday will also see the release of consumer spending and core PCE deflator estimates for December, together with preliminary PMI data for January. The minutes from last month's FOMC meeting will be released on Wednesday and there are a small number of Fed speeches during the week.

Europe.

The first release of GDP data for Q4 revealed a softer than expected 0.1%q/q lift in activity in the UK, nudging annual growth down to 1.0%/y. In the euro area, Q4 GDP growth was confirmed at 0.3%q/q. This week's UK diary will provide an update on the labour market and inflation. In addition, preliminary PMI reports for January will be released on Friday in both the UK and the euro area.

Asia-Pacific.

In Australia, last week's NAB business survey pointed to a sluggish start to 2026. The headline business conditions index fell from +9 to +7 in January, paring back December gains to match its long-run average. The Westpac-MI consumer sentiment survey provided a gloomy read in February, with the headline index slipping a further 2.6% into pessimistic territory to 90.5. This coming week the focus will be on the labour market; specifically, Wednesday's Wage Price Index for Q4 and Thursday's January Labour Force survey. Regarding the latter, Westpac expects a solid 40k lift in employment, but also that the unemployment rate will edge up to 4.2%. In China, inflation remained low in January, with the headline index rising just 0.2%/y and core inflation easing to 0.8%/y. Today Japan will release preliminary GDP data for Q4, with strong growth in business spending expected to contribute to a 0.4%q/q lift in activity following a 0.6%q/q contraction in Q3. Japanese inflation data for January will be released on Friday.

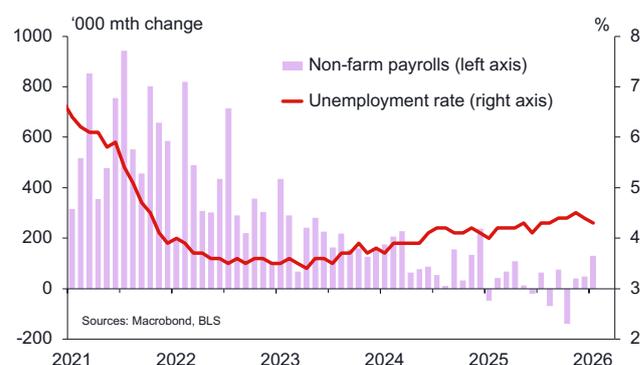
Trading partner real GDP (calendar years)

	Annual average % change			
	2024	2025	2026	2027
Australia	1.0	2.0	2.6	2.3
China	5.0	5.0	4.6	4.5
United States	2.8	2.3	2.7	1.8
Japan	0.1	1.2	0.9	0.9
East Asia ex China	4.3	4.6	4.1	4.1
India	6.5	7.2	6.8	6.5
Euro Zone	0.8	1.5	1.3	1.5
United Kingdom	1.1	1.4	1.0	1.5
NZ trading partners	2.9	3.2	3.1	2.9
World	3.3	3.4	3.4	3.3

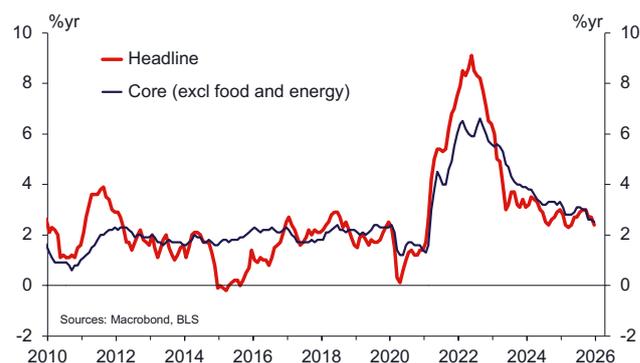
Australian & US interest rate outlook

	13 Feb	Mar-26	Dec-26	Dec-27
Australia				
Cash	3.85	3.85	4.10	3.85
90 Day BBSW	3.96	4.05	4.15	3.80
3 Year Swap	4.25	4.25	4.00	3.60
3 Year Bond	4.25	4.25	4.00	3.60
10 Year Bond	4.75	4.75	4.80	4.60
10 Year Spread to US (bps)	63	55	40	0
US				
Fed Funds	3.625	3.625	3.375	3.375
US 10 Year Bond	4.10	4.20	4.40	4.60

US nonfarm payrolls and unemployment rate



US CPI inflation



Financial markets wrap

Foreign exchange.

NZD/USD continues to consolidate in a 0.5928 to 0.6093 range, which has prevailed since peaking on 29 January. Further consolidation this week is expected, barring surprises from key NZ and US events.

Multi-month, we remain bullish, and target 0.62. NZ economic data is expected to trend positively during the year ahead as the economy recovers, and local interest rates are expected to gradually rise. In addition, the US dollar's safe-haven identity has likely been tarnished given events over the past year, and there is potential for further Fed easing.

The key event for the NZD/USD market this week will be the RBNZ MPS. Although an on-hold decision is almost assured, the RBNZ is likely to signal a tightening cycle for year-end. In the US, GDP and PCE inflation data will be important.

NZD/AUD last week extended its 9-month long trend decline, reaching 0.8470 – a 13-year low. The move has been justified by relative economic performance and NZ-AU yield spreads (also at a 13-year low) and could continue slightly further. However, NZ's economy is expected to improve relatively, and much is already priced in, warning of a possible reversal during the month ahead.

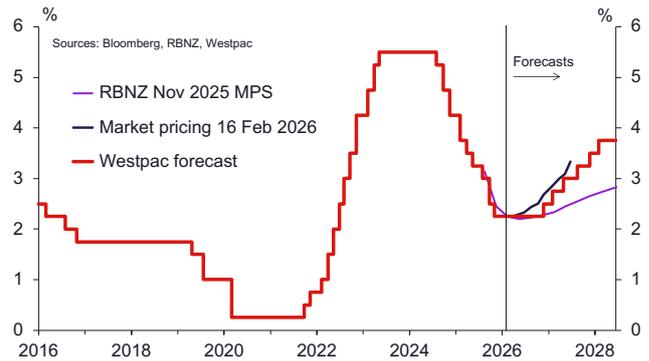
Interest rates.

The NZ 2yr swap rate rose to a cycle high of 3.17% in early February, and then corrected lower to 3.07% in sympathy with a moderate decline in US rates. While the uptrend is expected to continue during the months ahead, this week there are two-sided event risks from the RBNZ MPS. Particularly important will be the shift in the RBNZ's OCR projection. For example, an upward shift which is smaller than that expected by the market will result in a fall in swap rates.

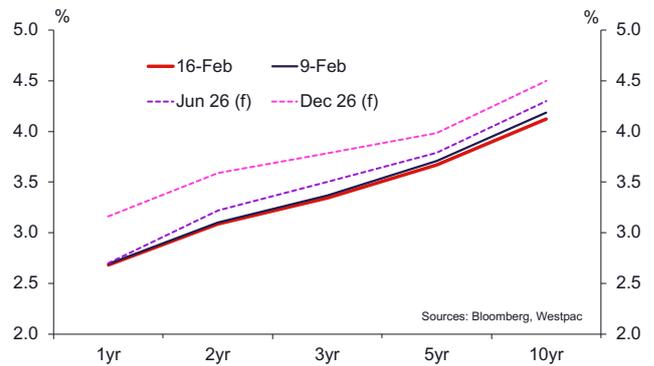
The OIS market continues to price 0% chance of a rate change at Wednesday's meeting, but has a 75% chance of a hike by September 2026, and around a 100% chance of a second hike by December.

The yield curve has flattened from the peak formed in late December, driven by higher short maturity yields and relatively stable long maturity yields. We expect further flattening during the year ahead as markets become more confident about the extent of the next RBNZ hiking cycle.

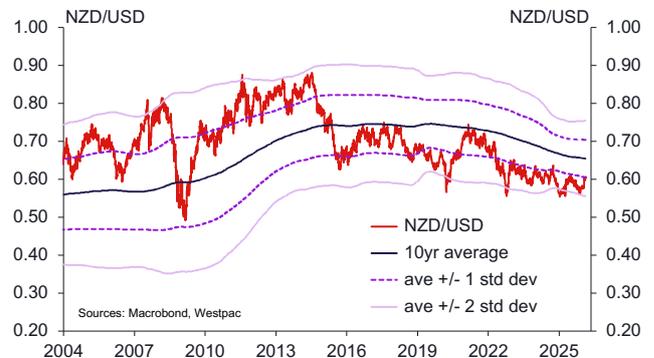
Official Cash Rate forecasts



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	0.603	0.559-0.605	0.553-0.743	0.626	0.64
AUD	0.853	0.848-0.876	0.848-0.971	0.918	0.89
EUR	0.508	0.484-0.511	0.484-0.637	0.567	0.53
GBP	0.442	0.427-0.444	0.426-0.531	0.485	0.46
JPY	92.1	87.5-94.4	74.7-98.6	85.6	92.8

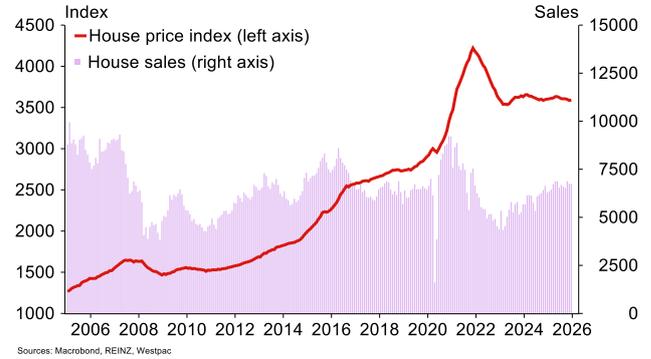
The week ahead

Jan REINZ House Sales and Prices

Feb 16, Sales last: +8.1%/yr, Prices last: -0.4%/yr

New Zealand's housing market continues to tread water, although December results were an improvement after the signs of renewed weakness in November. Both sales and prices remained effectively flat over 2025, though with mixed conditions across the country, with the more rural regions running hotter than the main centres. Lower mortgage rates have spurred increased interest among buyers, particularly investors, but the still-high number of properties for sale has muted any upward pressure on house prices. We're forecasting just a 4% rise in prices over 2026.

REINZ house prices and sales

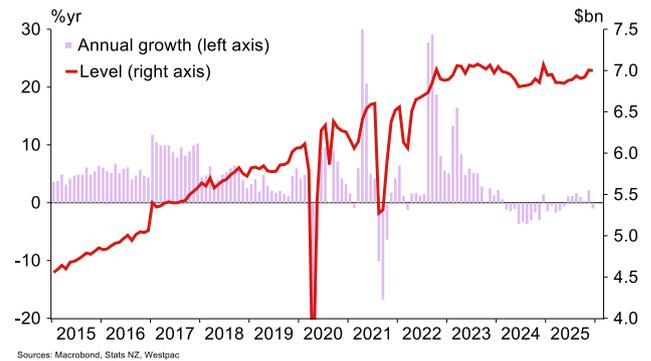


Jan Retail Card Spending

Feb 16, last: -0.1%, Westpac f/c: +0.3%

Retail spending fell 0.1% in December. However, that followed a solid 1.2% rise in November and left spending at firm levels. We're forecasting a 0.3% rise in January. Discretionary spending has been gradually trending higher in recent months, supported by continued firmness in commodity export earnings and the ongoing easing in households' borrowing costs. We've also seen consumer confidence pushing higher in recent months. Those factors are likely to boost spending over the coming year, though the recovery is likely to remain gradual in the near term due to softness in the labour market.

Monthly retail card spending

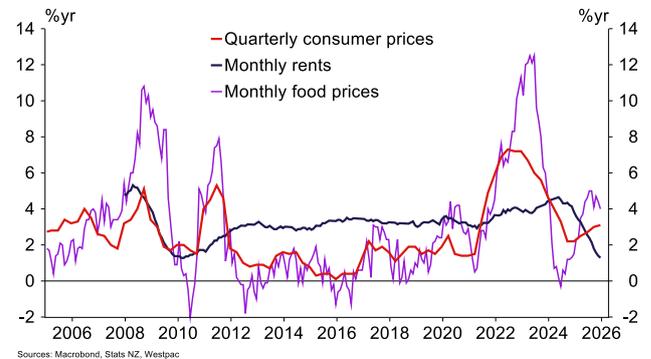


Jan Selected Monthly Prices

Feb 17

Stats NZ's Selected Prices provides monthly updates on around half of the quarterly CPI. Looking at some of the big groups, we're expecting a 1.2% rise in food prices in January, related to seasonal increases in the prices for fresh produce and meat. On the other hand, we estimate that fuel prices fell by around 1% over the month, and we're expecting a muted 0.2% rise in housing rents. Those outcomes would be consistent with our forecast for a gradual easing in overall inflation. We'll also be keeping a close eye on the volatile travel group and energy prices, both of which have been important drivers of recent inflation outturns.

Selected consumer prices



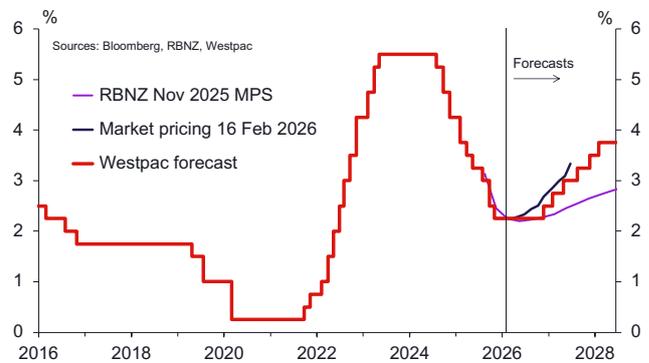
The week ahead

RBNZ Feb Monetary Policy Statement

Feb 18, OCR, Last: 2.25%, Westpac: 2.25%

We expect the **RBNZ will leave the OCR on hold at 2.25%** at its February policy meeting. However, the accompanying interest rate projections are likely to be pulled forward, signalling the chance of OCR hikes beginning December of this year (in contrast, the RBNZ's previous forecasts didn't show rate hikes until 2027). The RBNZ will acknowledge the stronger economy and note that inflation is too high. However, ongoing excess capacity, tighter financial conditions, and moderating food and fuel price inflation will see the RBNZ's inflation forecasts head "towards 2%", negating the need to quickly return the OCR to more neutral levels.

Official Cash Rate forecasts



Economic and financial forecasts

Economic indicators	Quarterly % change				Annual % change			
	Sep-25	Dec-25	Mar-26	Jun-26	2024	2025	2026	2027
GDP (production)	1.1	0.6	1.0	0.5	-1.6	1.8	3.3	2.7
Consumer price index	1.0	0.6	0.5	0.5	2.2	3.1	2.3	2.5
Employment change	0.0	0.5	0.3	0.7	-1.3	0.2	2.6	2.2
Unemployment rate	5.3	5.4	5.3	5.1	5.1	5.4	4.7	4.4
Labour cost index (all sectors)	0.4	0.4	0.5	0.6	3.3	2.0	2.4	2.2
Current account balance (% of GDP)	-3.5	-3.4	-3.2	-3.1	-4.7	-3.4	-2.9	-3.3
Terms of trade	-0.5	-3.0	1.9	2.9	8.9	0.2	5.9	1.1
House price index	-0.6	-0.4	0.4	1.0	-1.0	-0.1	4.0	5.0

Financial forecasts	End of quarter				End of year			
	Sep-25	Dec-25	Mar-26	Jun-26	2024	2025	2026	2027
OCR	3.00	2.25	2.25	2.25	4.25	2.25	2.50	4.00
90 day bank bill	3.10	2.52	2.35	2.35	4.45	2.52	2.70	4.20
2 year swap	2.99	2.71	3.25	3.50	3.64	2.71	4.00	4.30
5 year swap	3.40	3.27	3.80	3.95	3.73	3.27	4.15	4.35
10 year bond	4.42	4.27	4.70	4.75	4.50	4.27	4.85	5.00
TWI	68.4	66.4	67.9	68.4	69.5	66.4	70.7	73.3
NZD/USD	0.59	0.57	0.60	0.61	0.59	0.57	0.64	0.68
NZD/AUD	0.91	0.87	0.86	0.86	0.91	0.87	0.89	0.92
NZD/EUR	0.51	0.49	0.50	0.51	0.55	0.49	0.53	0.56
NZD/GBP	0.44	0.43	0.44	0.44	0.46	0.43	0.46	0.48

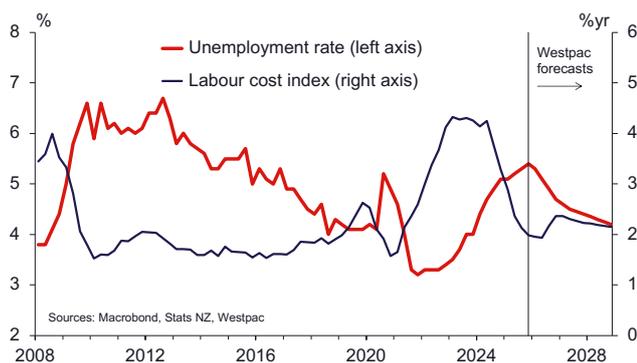
GDP growth



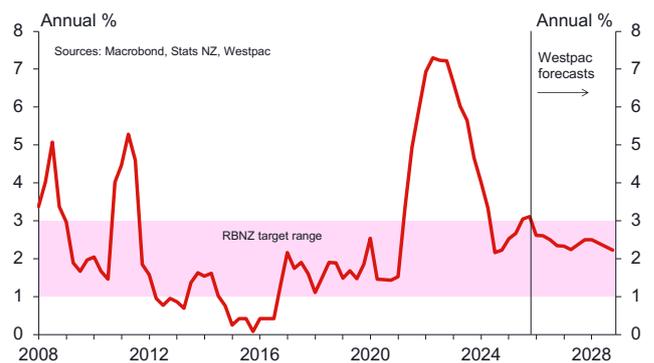
House prices



Unemployment and wage growth



Consumer price inflation



Data calendar

		Last	Market median	Westpac forecast	Risk/Comment
Mon 16					
NZ	Jan BusinessNZ PSI, index	51.5	-	-	Above 50 for the first time in nearly two years.
	Jan Retail Card Spending, %mth	-0.1	-	-	Discretionary spending has been picking up.
	Jan REINZ House Prices, %yr	-0.4	-	-	Prices remain muted despite lower mortgage rates...
	Jan REINZ House Sales, %yr	8.1	-	-	...with an ample supply of homes available for sale.
Jpn	Q4 GDP, %qtr	-0.6	0.4	-	Business investment supporting a return to growth.
Eur	Dec Industrial Production, %mth	0.7	-	-	Capital goods driving recent gains, consumer durables softer.
US	Presidents' Day	-	-	-	Markets closed.
Asia	Lunar New Year	-	-	-	New Year on Tuesday 17th. Holidays throughout week.
Tue 17					
NZ	Jan Selected Price Indices - Food, %mth	-0.3	-	1.2	Seasonal increases in the price for meat and fresh produce.
	Jan Selected Price Indices - Rents, %mth	0.1	-	0.2	Rental growth remains muted reflect abundant supply.
Aus	Feb RBA Minutes	-	-	-	Further insights on the Monetary Policy Board's deliberations.
Eur	Feb ZEW Survey Of Expectations, index	40.8	-	-	Indicator has gained more than 20pts over the past 3 months.
UK	Dec ILO Unemployment Rate, %	5.1	5.2	-	Accuracy issues remain as indicator heads towards 5 year high.
US	Feb Empire State Manuf. Survey, index	7.7	8.7	-	Conditions expected to make further headway into positive.
Wed 18					
NZ	Feb RBNZ Policy Decision, %	2.25	2.25	2.25	Will acknowledge higher inflation and improving activity.
Aus	Jan Westpac-MI Leading Index, %ann'd	0.42	-	-	The January reading likely to be softer.
	Q4 Wage Price Index, %qtr	0.8	0.8	0.8	Public sector wages to outpace private sector wages again.
UK	Jan CPI, %ann	3.4	3.1	-	Annual re-weighting adds greater uncertainty to the data.
US	Dec Durable Goods Orders, %mth	5.3	-1.7	-	Partial pull back following November's surge.
	Dec Housing Starts, %mth	-4.6	6.3	-	Labour and lot shortages remain a challenge ...
	Dec Building Permits, %mth	-0.3	0.6	-	... permits look to be coming out of a period of weakness.
	Jan Industrial Production, %mth	0.4	0.4	-	Survey indicators point to firmer output in the month.
	Jan FOMC Minutes	-	-	-	Additional details on the Committee's discussions.
Thu 19					
Aus	Jan Employment Change, 000s	65.2	20	40	Volatile but solid finish to year reflects strength in economy ...
	Jan Unemployment Rate, %	4.1	4.2	4.2	... data to be closely scrutinised as the RBA fine-tunes policy.
Jpn	Dec Core Machinery Orders, %mth	-11.0	5	-	Considered a leading indicator of capital spending in 6-9mths.
Eur	Feb EC Consumer Confidence, index	-12.4	-	-	Only seeing very gradual improvements.
US	Dec Wholesale Inventories, %mth	0.2	-	-	Inventory to sales ratio in a narrow 1.28-1.30 band.
	Jan Pending Home Sales, %mth	-9.3	2.5	-	December saw the largest plunge since the pandemic.
	Feb Philly Fed Manuf. Outlook, index	12.6	7.7	-	One of the more volatile regional manufacturing indices.
	Dec Trade Balance, \$bn	-56.8	-55.5	-	Consumer and AI related goods supporting imports.
	Wkly Initial Jobless Claims, 000s	227	-	-	4 week moving average starting to trend higher.
Fri 20					
NZ	Jan Trade Balance, \$mn	52	-	-860	A seasonal drop in exports from elevated December level.
Jpn	Jan CPI, %ann	2.1	1.5	-	Food disinflation has taken the headline print to near 4yr low.
UK	Jan Retail Sales, %mth	0.4	-	-	Consumer demand remains patchy.
US	Q4 GDP, %ann'd	4.4	2.8	3.5	Shutdown unlikely to have materially disrupted activity.
	Dec Personal Income, %mth	0.3	0.3	-	Incomes expected to grow at the 2025 average pace ..
	Dec Personal Spending, %mth	0.5	0.4	-	... meanwhile spending is set to moderate slightly ...
	Dec PCE Deflator, %mth	0.2	0.3	-	... as consumers feel the pinch of higher prices.
	Feb Uni. Of Michigan Sentiment, index	57.3	56.9	-	Final estimate.
World	Feb S&P Global PMIs, index	-	-	-	First estimate for Japan, Eurozone, UK and US.

Contact

Westpac Economics Team | westpac.co.nz/economics | economics@westpac.co.nz



Connect with us

Kelly Eckhold, Chief Economist | +64 9 348 9382 | +64 21 786 758 | kelly.eckhold@westpac.co.nz

Satish Ranchhod, Senior Economist | +64 9 336 5668 | +64 21 710 852 | satish.ranchhod@westpac.co.nz

Darren Gibbs, Senior Economist | +64 9 367 3368 | +64 21 794 292 | darren.gibbs@westpac.co.nz

Michael Gordon, Senior Economist | +64 9 336 5670 | +64 21 749 506 | michael.gordon@westpac.co.nz

Paul Clark, Industry Economist | +64 9 336 5656 | +64 21 713 704 | paul.clark@westpac.co.nz

Imre Speizer, Market Strategist | +64 9 336 9929 | +64 21 769 968 | imre.speizer@westpac.co.nz

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