WEEKLY ECONOMIC COMMENTARY

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

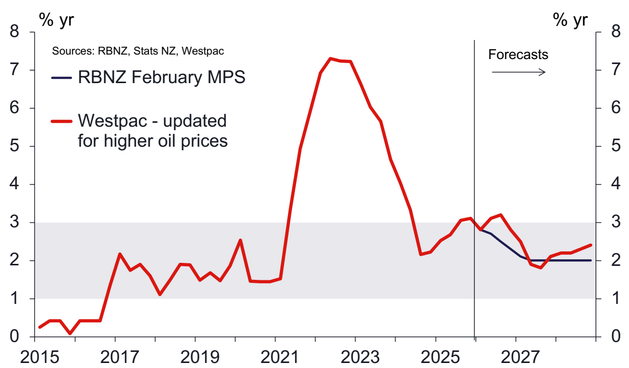
RBNZ to stand pat as inflation pushes higher

The reverberations of the war in the Middle East are being felt around the globe. This event will have an incalculable human cost. There will also be economic costs which will be felt here in New Zealand. Most notably, we are already seeing a sharp rise in inflation pressures, and that will add to headwinds for economic activity. But despite that rise in inflation, we expect the RBNZ will remain on hold for some time yet.

Inflation to rise over 3% in mid-2026.

We have revised up our forecast for inflation over the coming year. We now expect that inflation will rise to 3.2% in mid-2026, easing only modestly to 2.8% in the December quarter. That's up substantially from our previous end-of-year forecast of 2.3% which we had expected prior to the conflict.

Consumer price inflation forecasts

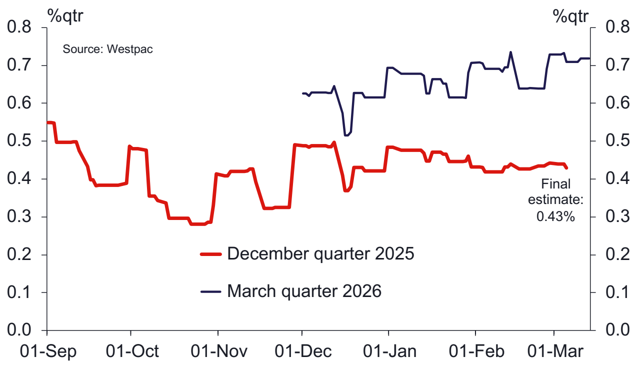


The war in the Middle East has seen a sharp rise in oil prices and an even sharper rise in refining spreads. That's flowed through to higher prices at the pump, with nationwide prices for 91 unleaded petrol up an average of

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 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
29 Apr 26	FOMC meeting (30 Apr NZT)
5 May 26	RBA Monetary Policy Decision

53c/ltr compared to the levels we saw prior to the conflict – a rise of 22%. The rise in the price of diesel has been even sharper.

Those higher fuel prices will add to the pressure on households' finances and add to operating costs for a range of businesses. We've already seen airlines announcing fuel related increases in fares. The coming months are also likely to see higher operating costs for a range of other goods and services due to higher transport costs and related expenses like insurance. Notably, those cost increases have come through much sooner than we had anticipated (as a result, the forecasts in this report are also up slightly than the update we released last week).

We can't say with any certainty how long the conflict will last. Even so, inflation over 2026 looks set to remain above the levels the RBNZ assumed in its last published projections from February.

However, when the conflict eventually comes to a close, oil prices are likely to retrace their recent gains, and the related increases in operating costs are also likely to reverse. That eventual fall in oil prices will pull overall inflation down to levels that are lower than we previously assumed (a pattern that is often seen in the wake of oil price spikes). In our updated projections, inflation is expected to briefly dip below 2% in late-2027, before rising back up to around 2.3% further ahead.

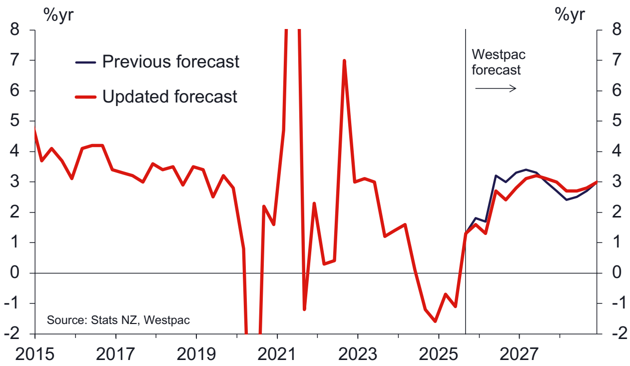
Forecast GDP growth revised down.

Ahead of the conflict, the New Zealand economy was showing signs of growing momentum, underpinned by continued strength in commodity export prices and sharp falls in borrowing costs over the past year. In fact, the New Zealand economy looks to have grown by around 1.6% over 2025. That would mark the first year of per-capita gains since 2022. This point has perhaps been lost amid the volatility in the reported data: four of the last five quarters of GDP have seen moves of 1% or more in both directions, due to a mix of seasonal distortions, shifts in the timing of activity between quarters, and just plain noisy data. For those same reasons, December quarter GDP (to be released on 19 March) is likely to appear more subdued compared to the 1.1% bounce in the September quarter – **we're forecasting a 0.4% rise**. However, we consider this to be a relatively clean estimate of the economy's underlying momentum in the quarter.

That positive momentum had carried through into the early part of 2026, with a pickup in a number of higher frequency indicators, including business surveys like the PMIs, traffic counts, job advertisements, and spending on Westpac-issued cards.

However, the escalating conflict in the Middle East is likely to derail some of that momentum. Based on what's already occurred, we could reasonably expect some setback to economic growth due to higher energy and transport costs, disruptions to trade and tourism, and a hit to business and consumer confidence. Reflecting those headwinds, we've revised down our forecast of GDP growth over 2026 from 3.3% to 2.8%. We also expect that unemployment will now take longer to fall.

GDP growth forecasts



RBNZ to remain on hold.

Oil prices have pushed the outlook for inflation higher across the globe, leading to a rise in term interest rates across major markets. Locally, financial market pricing for OCR hikes has also been pulled forward (see Official Cash Rate forecasts chart on page 5). At the time of writing, markets are more than fully priced for a 25bp rate hike by September and a follow-up hike by the end of this year.

However, we think this will likely prove a misreading of the RBNZ's approach to monetary policy. Higher interest rates now would not prevent the oil related rise in inflation already in train. But hiking interest rates sooner would likely compound any downturn in activity stemming from the increase in inflation, potentially exacerbating the downturn in inflation once the shock passes and oil prices recede.

As a result, even with a substantial lift in the inflation outlook, we expect the RBNZ will be hesitant to hike rates sooner than previously anticipated. Instead, we continue to expect the RBNZ will remain on hold until December. In a severe event that materially dampens global and domestic growth – especially one in which fuel supply is rationed – the RBNZ could even consider rate cuts.

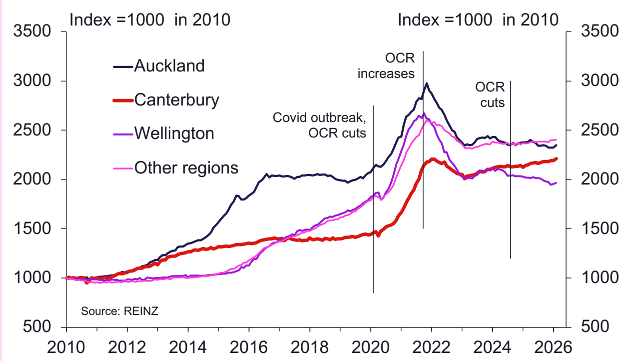
The RBNZ will not be complacent, however. It will closely monitor whether the lift in inflation currently in train results in higher medium-term inflation expectations – short-term survey measures will surely rise – and changes in wage and price setting behaviour that might suggest a prolonged uplift in inflation. But that's less of a risk given our starting point. Unlike some economies, New Zealand already has substantial spare capacity and higher than normal levels of unemployment. That limits the scope for price increases to feed off each other.

Satish Ranchhod, Senior Economist

Chart of the week.

February saw a firming in New Zealand's housing market, with sales up 2.8% over the month and prices up 0.6% (adjusting for normal seasonal variations). However, we also saw the average number of days to sell rising to 47.6 from 46.5 over the month. Taking a longer-term perspective, New Zealand's housing market is continuing to tread water, with both sales and prices effectively flat over the past year. That's despite lower interest rates. We expect house price growth will remain modest this year, with a large number of homes available for sale and population growth currently low. Looking under the surface, regions in the lower part of the South Island have seen price growth picking up, while Auckland and Wellington continue to record price declines.

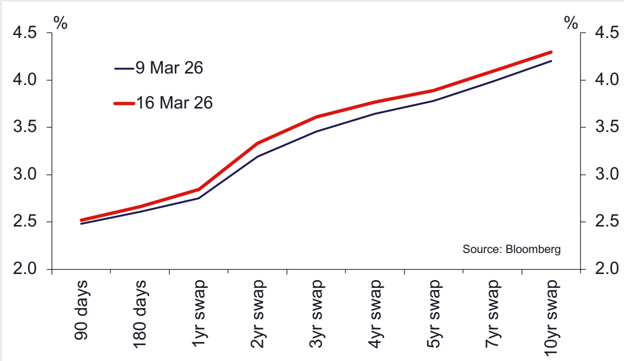
New Zealand house prices



Fixed versus floating for mortgages.

The RBNZ's cautious signal about the extent of future OCR hikes has helped to take some pressure off longer-term wholesale interest rates, at least for now. Ultimately though, 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 slightly either side of 5%. Fixing for one of these longer periods 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.

Most of the volatility in markets over the past week was associated with the ebb and flow of sentiment regarding the Iran war. Crude oil peaked at $US120/bbl on Monday as markets digested the escalation of hostilities. Nerves settled somewhat on Tuesday with oil falling back to $US90/bbl, especially after President Trump indicated that the US was "well advanced" in achieving its military objectives. While the IEA announced a 400m barrel release of emergency oil stocks, providing a temporary buffer to the 15m barrels a day of oil being lost to the market, many commentators viewed this increasing the likelihood that hostilities continue for longer. Oil returned to $100/bbl on Thursday as Iran continued to attack oil-related assets in the region. Over the weekend, Trump urged other countries to join a naval coalition that would help safeguard passage through the Strait of Hormuz.

US.

As with the recent payrolls report, last week's usually important US inflation news played second fiddle to news from the Middle East. In any case, the CPI provided no surprises with the core rising an as expected 0.2%m/m and 2.5%y/y. In other news, Q4 GDP growth was revised down to just 0.7%AR and consumer sentiment slipped in March, but job openings rebounded in January. The focus this week will be on the FOMC meeting. We expect no change in the policy rate. The FOMC's updated forecasts will likely continue to foreshadow that a majority of participants see scope for some further policy easing at subsequent meetings, but with considerable divergence of views due to elevated uncertainty about the outlook.

Asia-Pacific.

China's headline CPI inflation jumped 1.1ppts to 1.3%y/y in February. While higher than expected much of the increase was due to the timing of the LNY holiday. Meanwhile, trade data for the January-February period revealed a huge 22%y/y lift in exports, generating a record trade surplus of $US214bn for the period. Domestic activity data for this period will be released today. In Australia, consumer sentiment edged up in March, albeit with responses deteriorating over the course of the survey week. The NAB business conditions index was steady at +7 in February, leaving it close to its historic average. This week, Westpac expects the RBA to lift its policy rate by 25bps, while Governor Bullock's press conference will be assessed for consistency with the further 25bp hike expected at the May meeting. Thursday's February Labour Force survey is also of note this week.

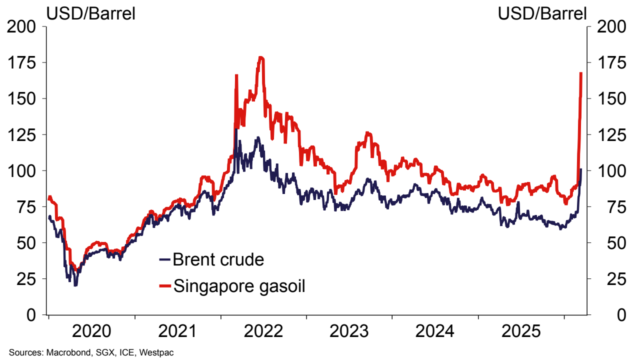
Trading partner real GDP (calendar years)

	Annual average % change			
	2024	**2025**	**2026**	**2027**
Australia	1.0	2.0	2.2	2.3
China	5.0	5.0	4.6	4.5
United States	2.8	2.2	2.5	1.8
Japan	0.1	1.2	0.6	0.8
East Asia ex China	4.3	4.6	4.2	4.1
India	6.5	7.2	6.4	6.5
Euro Zone	0.9	1.5	1.0	1.4
United Kingdom	1.1	1.3	0.8	1.3
NZ trading partners	2.9	3.2	3.0	2.8
World	3.3	3.4	3.2	3.2

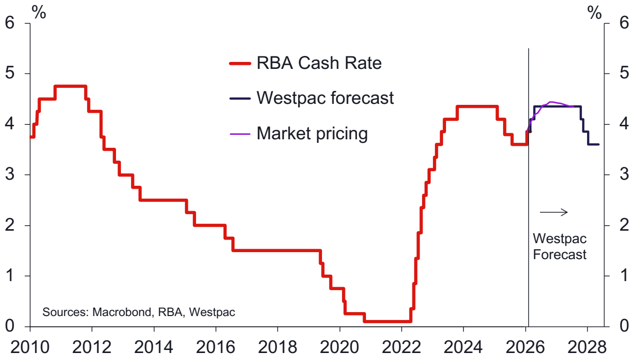
Australian & US interest rate outlook

	13 Mar	Mar-26	Dec-26	Dec-27
Australia				
Cash	3.85	4.10	4.35	3.85
90 Day BBSW	4.18	4.30	4.40	3.80
3 Year Swap	4.54	4.45	4.40	3.95
3 Year Bond	4.55	4.45	4.40	3.95
10 Year Bond	4.94	4.95	4.85	4.70
10 Year Spread to US (bps)	68	75	45	10
US				
Fed Funds	3.625	3.625	3.375	3.375
US 10 Year Bond	4.26	4.20	4.40	4.60

Crude oil and Singapore gasoil



RBA Cash Rate



Financial markets wrap

Foreign exchange.

The NZD remains under downward pressure due to the Iran war. For the week ahead, we target 0.5710 – the next technical support level – assuming there is no de-escalation in the war. Fundamentally, NZD downside is justified, since an extended war would pose negative risks to the NZ economic recovery, as well as higher inflation (which the RBNZ would likely look through).

Markets will also keep an eye on NZ GDP data this week, to gauge the baseline growth rate pre-war. The US Federal Reserve is expected to remain on hold, but markets will be interested in its assessment of risks from the war. For the quarter ahead, we maintain a bullish outlook, albeit softened. The 0.61 area could be revisited if the Iran war is short-lived, because the NZ economy is in recovery mode and the RBNZ is expected to hike the OCR by year end. The main risk to this view is that the war is extended beyond a month or two, in which case NZD/USD would likely continue to decline below 0.57.

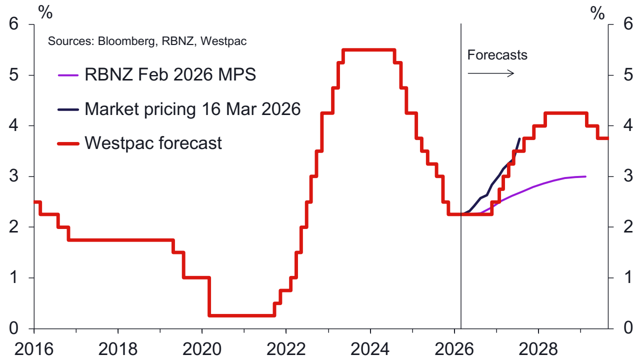
NZD/AUD's downtrend remains intact, with the possibility of further downside below 0.8250 (the 13-year low formed on Friday). We do caution, though, that it is technical stretched, warning of at least a minor upward correction near term. The year-old downtrend has been justified by relative economic performance and NZ-AU yield spreads. Interestingly, the impact of the Iran war on the cross has been negative, Australia's economy seen as more resilient to the fallout. This week, the RBA is expected to deliver a follow up to the February rate hike.

Interest rates.

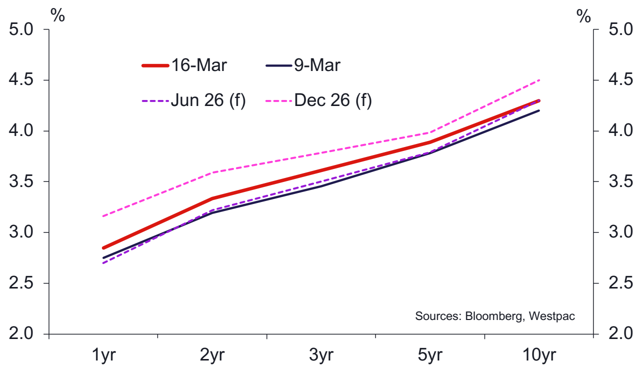
The NZ 2yr swap rate has surged by 43bp to 3.38% since the Iran war started (currently at 3.33%). This is largely due to the rise in interest rates offshore, a response to the likely inflation impact of higher oil prices, as well as expectations that some central banks may be forced to hike their policy rates. We believe the RBNZ, in contrast, will look through the inflationary impact, but markets, at present, disagree. The OIS market now prices a 70% chance of an OCR hike by July and over 100% by September. We expect markets to eventually reverse this pricing, but probably not until some de-escalation is seen. RBNZ commentary will also be important, and we note that Governor Breman speaks on 24 March.

The yield curve has flattened from the peak in late December, driven mostly by higher short maturity yields in expectation the RBNZ will start hiking rates by year end. That flattening trend has extended since the Iran war started. The difference between 2yr and 10yr swap rates is now 96bp, vs the December peak at 120bp. We expect further flattening during the year ahead as we approach the RBNZ's tightening cycle.

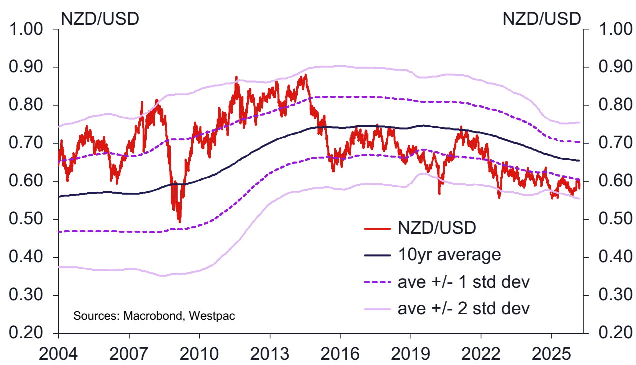
Official Cash Rate forecasts



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	0.579	0.573-0.605	0.553-0.728	0.624	0.62
AUD	0.828	0.826-0.873	0.826-0.971	0.916	0.85
EUR	0.506	0.491-0.511	0.484-0.637	0.565	0.52
GBP	0.437	0.427-0.444	0.426-0.531	0.484	0.45
JPY	92.4	89.3-94.4	74.7-98.6	85.8	95.5

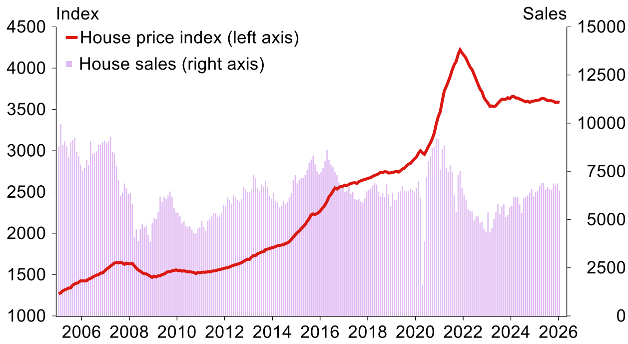
The week ahead

Feb REINZ House Sales and Prices

Mar 16 (TBC), Sales last: -5.4%yr, Prices last: -0.7%yr

New Zealand's housing market remained soft at the start of this year, with prices and sales edging down. Low mortgage rates are supporting demand, but the ample supply of homes on the market, low population growth and falling rents mean that there is a lack of pressure on house prices. The move higher in fixed-term mortgage rates since the RBNZ's November policy review has likely weighed on investor sentiment as well.

REINZ house prices and sales



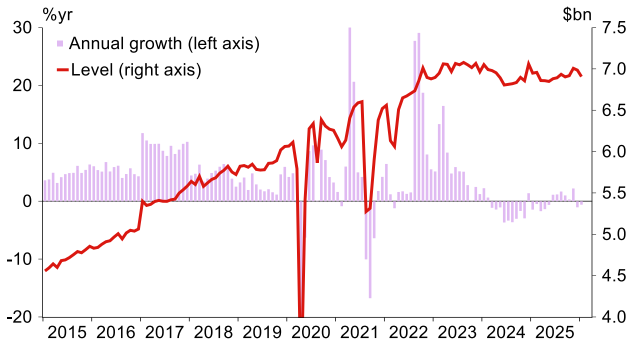
Sources: Macrobond, REINZ, Westpac

Feb Retail Card Spending

Mar 16, Last: -0.1%, Westpac f/c: +0.3%

Retail spending fell 1.1% in January with the fall spread across categories. Some of that decline likely reflected payback after strong spending late last year. We're forecasting a 0.3% rise in February. 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. Fuel prices also eased in February which will have helped to support spending in other categories. Note, the monthly retail spending survey has tended to understate the strength in spending over the past year, particularly in interest rate sensitive sectors like furnishings.

Monthly retail card spending



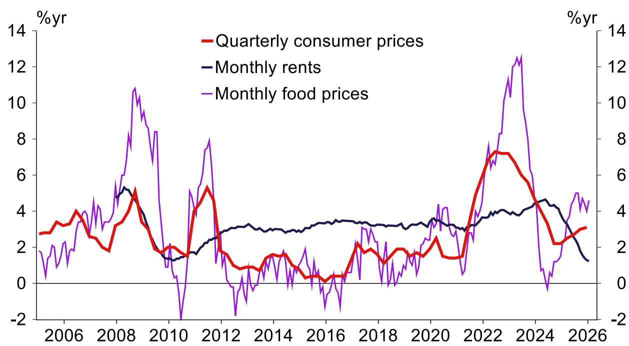
Sources: Macrobond, Stats NZ, Westpac

Feb Selected Consumer Prices

Mar 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 0.6% fall in food prices, related to seasonal falls in the prices for fresh produce, as well as some reversal of last month's large rise in meat prices. For housing rents, we're expecting another flat result. That would be a very weak outcome for this time of year, with ample supply offsetting the normal lift in demand. Lastly, fuel prices are expected to be down 3.2% over the month. Note, this month's survey pre-dates the outbreak of war in the Middle East and related lift in oil prices.

Selected consumer prices



Sources: Macrobond, Stats NZ, Westpac

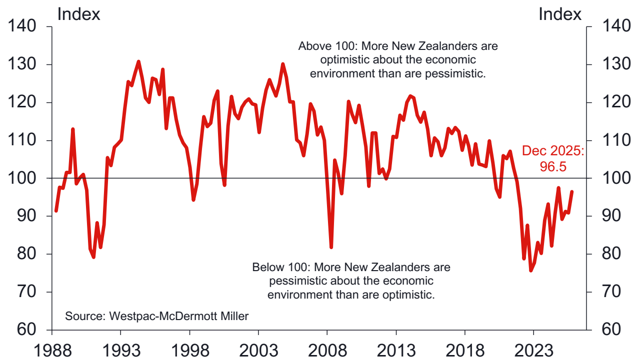
The week ahead

Q1 Westpac-McDermott Miller Consumer Confidence Index

Mar 18, Last: 96.5

The latter part of 2025 saw consumer confidence trending higher, supported by sharp falls in interest rates and firmness in export earnings. Those factors remain key supports for economic conditions in the early part of the year. However, our latest survey also comes against a backdrop of significant uncertainty and large increases in fuel costs, with surveying conducted in the first two weeks of March.

Consumer Confidence Index

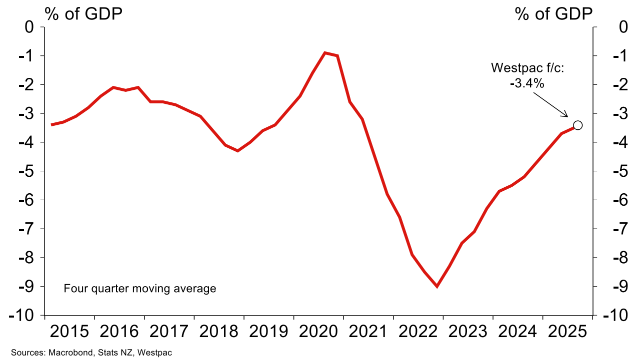


Q4 Current Account Balance (% of GDP)

Mar 18, Last: -3.5%, Westpac f/c: -3.4%

The current account deficit has narrowed sharply over the past two years, thanks mostly to a recovery in the tourism sector, an upswing in the terms of trade and weak import demand. Indicators of merchandise and services trade suggest that the improvement has slowed in the December quarter, with the 12-month running current account deficit likely to have narrowed only fractionally to 3.4% of GDP (assuming no material revisions). Moreover, looking ahead, prospects for further improvement in the near term have dimmed. This reflects the impact of the Middle East conflict on fuel prices, which will weigh on the terms of trade given New Zealand's import dependency.

Annual current account balance

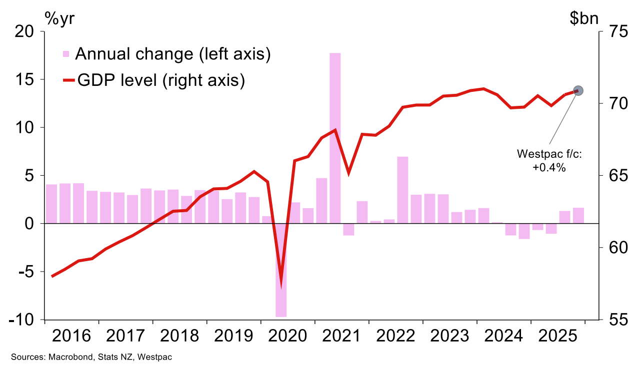


Q4 GDP

Mar 19, Last: 1.1%, Westpac f/c: 0.4%

We expect a 0.4% rise in GDP for the December quarter, with modest but widespread gains across industries. This quarter should be a relatively 'clean' read on the economy's momentum, compared to the volatility in previous quarters which have been variously affected by distorted seasonal patterns, timing shifts and just plain noisy data. Even so, it's a dated release at the best of times, and the recent developments in the Middle East present a fresh headwind to the economy's burgeoning recovery.

GDP

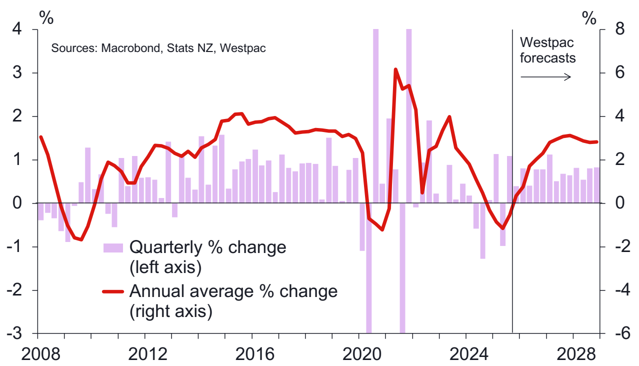


Economic and financial forecasts

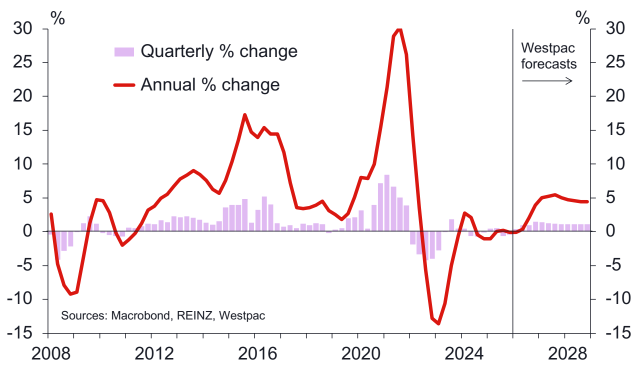
Economic indicators	Quarterly % change				Annual % change			
	Sep-25	Dec-25	Mar-26	Jun-26	2024	2025	2026	2027
GDP (production)	1.1	0.4	0.8	0.4	-1.6	1.6	2.8	3.0
Consumer price index	1.0	0.6	0.6	0.9	2.2	3.1	2.8	2.1
Employment change	0.0	0.5	0.2	0.4	-1.3	0.2	1.9	2.5
Unemployment rate	5.3	5.4	5.4	5.3	5.1	5.4	5.0	4.5
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	-3.4	-3.5	-4.7	-3.4	-3.8	-3.4
Terms of trade	-0.5	0.9	-0.2	1.5	8.9	4.2	3.8	3.6
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	2.45	2.45	4.45	2.52	2.90	4.25
2 year swap	2.99	2.71	3.30	3.60	3.64	2.71	4.10	4.40
5 year swap	3.40	3.27	3.90	4.10	3.73	3.27	4.30	4.45
10 year bond	4.42	4.27	4.75	4.80	4.50	4.27	4.95	5.10
TWI	68.4	66.4	66.9	66.5	69.5	66.4	68.9	72.5
NZD/USD	0.59	0.57	0.59	0.59	0.59	0.57	0.62	0.67
NZD/AUD	0.91	0.87	0.82	0.82	0.91	0.87	0.85	0.91
NZD/EUR	0.51	0.49	0.51	0.50	0.55	0.49	0.52	0.55
NZD/GBP	0.44	0.43	0.44	0.44	0.46	0.43	0.45	0.48

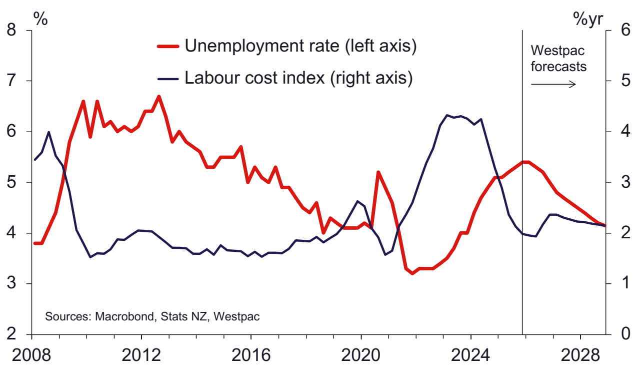
GDP growth



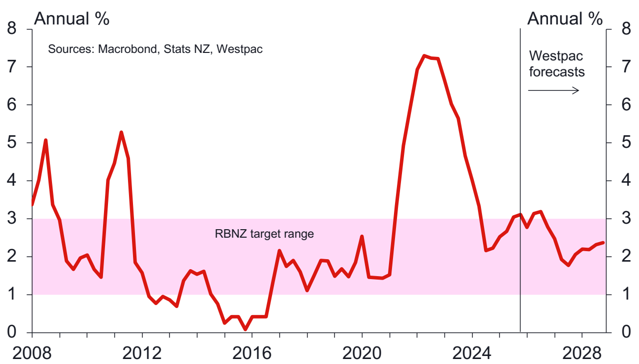
House prices



Unemployment and wage growth



Consumer price inflation



Data calendar

		Last	Market median	Westpac forecast	Risk/Comment
Mon 16					
NZ	Feb REINZ House Prices, %yr	–0.7	–	–	Prices remain muted despite low mortgage rates…
	Feb REINZ House Sales, %yr	–5.4	–	–	…with an ample supply of homes available for sale.
	Feb BusinessNZ PSI, index	50.9	–	–	Has been softer than the manufacturing PMI lately.
	Feb Retail Card Spending, %mth	–1.1	–	0.3	Core spending climbing, supported by lower interest rates.
Chn	Feb Retail Sales, ytd %yr	3.7	2.5	–	In line with recent trends, the latest monthly indicators will…
	Feb Fixed Asset Investment, ytd %yr	–3.8	–4.2	–	…probably indicate that consumer spending and business…
	Feb Industrial Production, ytd %yr	5.9	5	–	…investment remain weak, while IP growth remains firm.
US	Mar Empire State Manuf. Survey, index	7.1	3.9	–	The energy price shock is likely to impact US manufacturers.
	Feb Industrial Production, %mth	0.7	0.1	–	Started the year strongly.
	Mar NAHB Housing Market Sentiment, index	36	37	–	Higher outlook for interest rates might impact sentiment.
Tue 17					
NZ	Feb Selected Price Indices – Food, %mth	2.5	–	–0.6	Seasonal drop in produce prices, easing in meat prices.
	Feb Selected Price Indices – Rents, %mth	Flat	–	Flat	Ample supply is offsetting the seasonal lift in demand.
Aus	Mar RBA Policy Decision, %	3.85	4.1	4.1	The board maintains its pessimistic view on supply capacity.
Eur	Mar ZEW Survey Of Expectations, index	39.4	–	–	Recent optimism is likely to be hit by higher energy prices.
US	Feb Pending Home Sales, %mth	–0.8	–1.0	–	Remain subdued.
Wed 18					
NZ	Q1 Westpac–MM Consumer Conf., index	96.5	–	–	Surveying occurred after the outbreak of war and surge in oil.
	Q4 Current Account Balance, % of GDP	–3.5	–3.4	–3.4	Period of rapid deficit narrowing is coming to an end.
Aus	Feb Westpac–MI Leading Index, %ann'd	0.44	–	–	Softer commodity prices and tighter monetary policy will drag.
Eur	Feb HICP Inflation, %ann	1.9	1.9	–	Final estimate set to confirm the preliminary reading.
US	Feb PPI, %mth	0.5	0.3	–	Producer prices before the energy price shock.
	Jan Factory Orders, %mth	–0.7	–	–	Durable good orders in focus
	Mar FOMC Policy Decision, %	3.625	3.625	3.625	Inflation persists while labour market expectations weaken.
Can	Mar BoC Policy Decision, %	2.25	2.25	–	Interest rates remain on hold.
Thu 19					
NZ	Q4 GDP, %qtr	1.1	0.4	0.4	A modest read but with no major distortions this quarter.
Aus	RBA Financial Stability Review	–	–	–	Half-yearly assessment of Australia's financial system.
	Feb Employment Change, 000s	17.8	20	20	Jobs growth has appeared to have moved past its trough…
	Feb Unemployment Rate, %	4.1	4.1	4.1	…while a steady participation rate will hold unemployment.
	RBA Financial Stability Review	–	–	–	Half-yearly review of financial system and risks to stability.
Jpn	Mar BoJ Policy Decision, %	0.75	0.75	–	Preparing the ground for hikes later in the year?
Eur	Mar ECB Policy Decision (Deposit Rate), %	2	2	–	Assessment of the energy price shock in focus.
UK	Jan ILO Unemployment Rate, %	5.2	–	–	Easing labour market conditions in the UK.
	Mar BoE Policy Decision, %	3.75	3.75	–	Further Bank Rate cuts delayed.
US	Mar Philly Fed Manuf. Outlook, index	16.3	–	–	The energy price shock is likely to impact US manufacturers.
	Initial Jobless Claims	–	–	–	Remain broadly stable above 200k.
	Jan New Home Sales, %mth	–1.7	–2.7	–	Picked up in the last couple of months of 2025.
Fri 20					
NZ	Feb Trade Balance , NZ$mn	–519	–	610	Seasonal rise in exports meets seasonal lull in imports.
Eur	Jan Trade Balance, €bn	11.6	–	–	Normalising after volatile 2025.

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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