WEEKLY ECONOMIC COMMENTARY

17 Aug 2026 | **Westpac Economics Team** | **westpac.co.nz/economics** | economics@westpac.co.nz

Political drama and mixed data

While much of the focus remains on developments offshore, over the past week market participants have also had to digest both further domestic political drama and the release of several local economic indicators.

Beginning with political developments, the National Party is continuing to poll well below its 2023 General Election result, suggesting that several of the party's MPs are at risk of losing their seats at the next General Election on 7 November. So perhaps unsurprisingly, media speculation about a possible change in the party's leadership – citing sources within the party – resurfaced last weekend. This led Prime Minister Christopher Luxon to call an impromptu caucus meeting on Wednesday, calling MPs back to Wellington despite parliament being in recess.

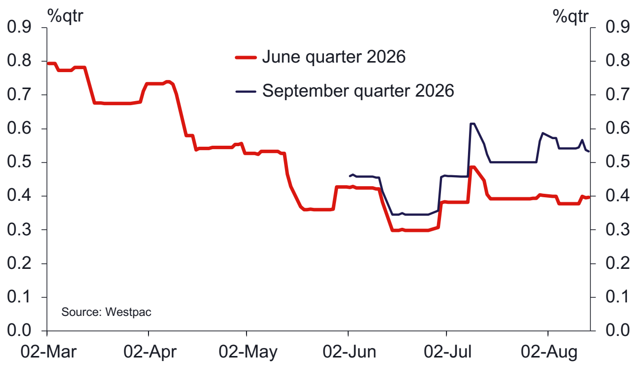
Following a three-hour meeting, Luxon held a very short press conference at which he confirmed that he had survived a no confidence motion. This follows him surviving an earlier confidence motion back in April (on that occasion, initiated by Luxon himself following widespread media reporting of dissatisfaction within the party caucus). Later in the day it emerged that one minister, Chris Penk, had challenged Luxon for the leadership. Penk has since been sacked from the Cabinet and has announced that he will no longer be standing for re-election.

With the next General Election now less than 90 days away, polling continues to show a tight race. Crucially, another well-respected poll released this week (the 1News-Verian poll) suggests that the Opportunity Party will – for the first time – achieve the 5% vote threshold that will allow it to enter parliament. Moreover, the same polling suggested that it could well be the "kingmaker" after the election. Given that the National Party has indicated an unwillingness to work with it, the Opportunity Party's rise increases the likelihood of a change of government.

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



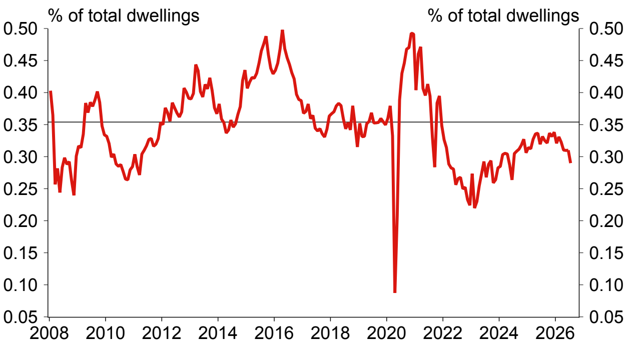
Key data and event outlook

Date	Event
17 Aug 26	NZ Selected price indexes, July
2 Sep 26	RBNZ OCR Review & Monetary Policy Statement
16 Sep 26	FOMC meeting (17 Sep NZT)
17 Sep 26	NZ GDP, June quarter
18 Sep 26	NZ Selected price indexes, August
29 Sep 26	NZ Govt Pre-election Economic & Fiscal Update
29 Sep 26	RBA Monetary Policy Decision
6 Oct 26	NZIER QSBO Survey, September quarter
16 Oct 26	NZ Selected price indexes, September
21 Oct 26	NZ CPI, September quarter

It will be interesting to see how last week's developments impact polling over coming weeks, with political infighting usually punished by potential voters. It is worth noting that measures of headline business confidence have historically been weaker when a left-of-centre government is in power, so it would not be surprising to see a slip in business sentiment over the next month or so (even more so given the ongoing Middle East conflict).

Turning to last week's economic data, news from the housing market remained soft in July. House sales fell 4.6% – their fifth straight monthly decline. Sales are now at their lowest level in two years. The median time to sell extended to around 47 days, thus remaining much longer than the historic average. Meanwhile, the REINZ house price index was unchanged for the month and was down 0.4% on a year ago. Conditions remain stronger in the south, with prices up on a year ago in Canterbury, Otago and Southland. However, Auckland prices were down 1.7% on a year ago, while Wellington was down 4.4%. Fixed-term mortgage rates have continued to rise since the start of this year, in anticipation of the next RBNZ tightening cycle (which is now in motion). This will continue to weigh on the housing market, leaning against any improvement in incomes as the economy gets back on its feet.

Monthly house sales

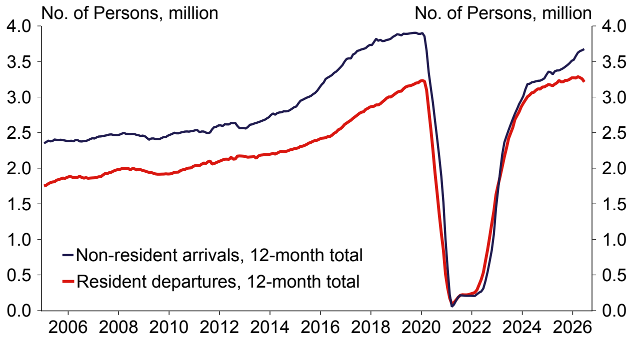


Sources: Macrobond, REINZ, Stats NZ, Westpac

The subdued activity being seen in the housing market is also a reflection of slow population growth. The estimated net migrant inflow in the year to June was just 17,600 – little more than half the average pace experienced over the past two decades. The net inflow has increased marginally over the past year, mostly due to a 5% decline in migrant departures. Looking ahead, given the expected cyclical improvement in the New Zealand economy over the next 12 months, and the expected weakening of the Australian labour market, a further reduction in migrant outflows should contribute to a gradual strengthening in population growth, providing some support to the housing market in time.

In other news, short-term foreign visitor arrivals were down fractionally in June but still 8% higher than a year earlier. Annual growth in total arrivals hides some quite divergent performance across New Zealand's major source markets, however. Arrivals from Australia – the largest market – were up 16%yr and are now well above pre-pandemic levels, doubtless helped by the significant fall in the NZD/AUD cross over the past year. The recent strong performance of the Chinese market also continued, with arrivals up 33%yr (now around 88% of pre-pandemic levels). By contrast, arrivals from the US and Canada were down around 8%yr. Less surprisingly, arrivals from Germany and the UK were down over 9%yr, likely reflecting both the undesirably of transiting via the key Middle East hubs as well as the large increase in long-haul airfares. Meanwhile, the Middle East conflict also appears to be impacting the travel habits of New Zealanders, with outbound travel falling for a third consecutive month in June to sit slightly below its year-earlier level.

Tourism flows



Sources: Macrobond, Stats NZ, Westpac

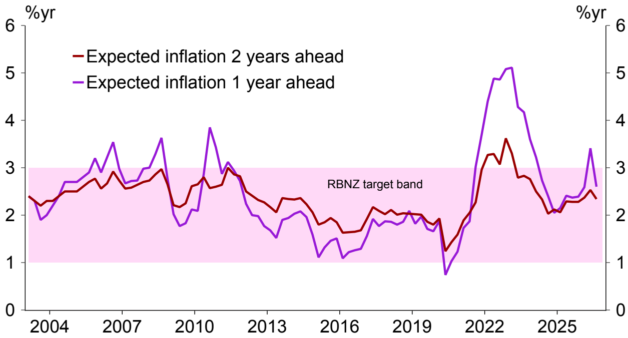
The Business NZ manufacturing index fell 5.8pts to 54.3 in July – roughly halfway between its sharply contrasting May and June readings. The sharpest decline was seen in the new orders index, which fell 10.8pts to 53.3 – just above its May reading. By contrast, the production index remained quite resilient, falling just 1.9pts to 57.3. We think that the manufacturing sector is continuing to benefit from strong conditions in the primary food sector and the beginnings of an upturn in the construction sector. Indeed, further signs of the latter were evident in concrete production data for the June quarter. At the nationwide level, production increased 3.7% during the quarter to be 12.4% higher than a year earlier. In common with many other macroeconomic statistics, the South Island regions stood out as relatively strong, with growth of 25%yr in Canterbury and 20%yr in Otago/Southland.

Concrete poured vs real building work

Sources: Macrobond, Stats NZ, Westpac

Turning to inflation, the RBNZ's September survey of professional forecasters and selected businesspeople pointed to a welcome decline in expectations over the next couple of years. Expectations for inflation one year ahead fell to 2.60%, down sharply from 3.41% last quarter. Similarly, the closely watched measure of inflation in two years' time fell to 2.34%, down from 2.53% previously. We did see a small rise in expectations for longer term inflation (five and ten years ahead), but those increases are well within the normal quarter-to-quarter volatility we typically see. Meanwhile, in a similar vein, the RBNZ's household survey reported that the median one-year ahead inflation expectation had declined by 0.5pts to 4.5%, while the two-year ahead expectation fell 0.6pts to 3.4%. At the margin these results might ease the RBNZ's concerns about the potential for second-round inflation impacts.

RBNZ Survey of Expectations



Finally, after trending sideways for most of this year, Westpac's indicator suggests that spending levels took a step higher in July, with per-person spending on Westpac issued credit and debit cards rising 2% over the month. Helping to support July's lift in spending were falls in fuel prices, with the savings there supporting a near 3% lift in spending on groceries. We also saw sizeable increases in some categories of discretionary spending – spending in restaurants was up 5% and spending on other entertainment was up 2%. That lift coincided with the FIFA World Cup. Stats NZ will release its more comprehensive measure of electronic card spending over the coming week.

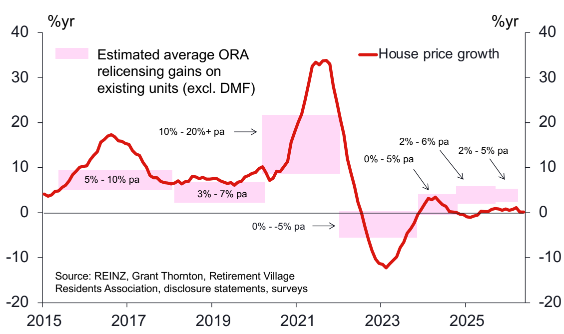
Darren Gibbs, Senior Economist

Chart of the week.

Our recent report on aged residential care highlights the pivotal role that village-linked providers play in delivering aged care services integrated within their retirement village operations. For providers integration not only provides a pipeline of potential future care residents but also access to a source of capital. For retirement village residents it provides some assurance that their future care needs will be catered for.

The village-linked model is built around the Occupation Right Agreement (ORA). Under this agreement residents pay an upfront capital sum for the right to occupy a unit in a retirement village. The value of an ORA is influenced by local housing market conditions, as many residents fund their move into retirement village living through the sale of their home. When residents leave or pass away, operators typically retain a Deferred Management Fee (DMF), usually around 25% to 30% of the original ORA value, with the balance repaid to the resident or their estate.

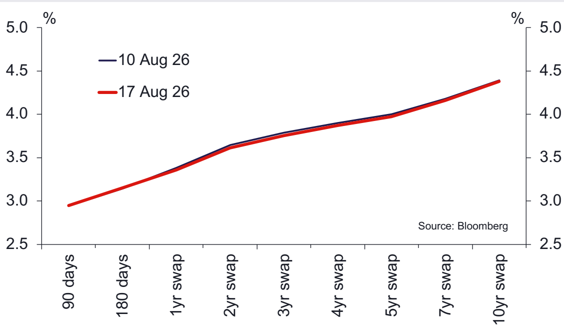
House prices and ORA relicensing gains



Fixed versus floating for mortgages.

The RBNZ lifted the OCR to 2.5% at its July meeting and signalled the likelihood of further rate hikes over the coming months (dependent on the strength of economic data). We're expecting 25bp hikes at the RBNZ's September and December meetings, with the OCR expected to continue rising next year. 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

World.

In our latest **monthly Market Outlook**, released last week, we have upgraded our world growth forecasts for 2026, most notably for the euro zone, East Asia (excl China) and Australia. Recent data suggests that the pass-through from higher energy prices is proving to be less persistent than initially feared, allowing policymakers to refocus on domestic inflation and growth dynamics. But central banks generally remain cautious, with most reluctant to move away from mildly restrictive policy while also emphasising a willingness to respond to upside inflation surprises.

Asia-Pacific.

The RBA decided unanimously to keep the cash rate unchanged for a second consecutive meeting. The accompanying statement highlighted that the Board is prepared to increase the cash rate from here if upside risks to inflation materialise. Headline and trimmed mean inflation have both come in lower than the RBA expected in May, and the labour market and housing market are both softer than it anticipated. However, the labour market is still seen as tight and inflation risks as skewed to the upside, so we expect the RBA's communications to maintain a hawkish tone even as they remain on hold through late 2026 and early 2027. The July labour force report (Thursday) is expected to show the unemployment rate steady at 4.4%, and a partial unwind of the sharp lift in participation in June. Other notable releases this week are the Westpac-MI consumer sentiment index (Tuesday) and the Q2 wage price index (Wednesday).

North America.

US inflation data proved benign again in July, with headline prices rising 0.1% and 0.2% excluding food and energy. While annual headline inflation is still well above the Fed's 2% target (3.4%yr in July), core inflation has moderated all the way back to 2.5%yr, and recent monthly outcomes suggest further progress is in train. Since December 2025 core goods prices have essentially been flat, while services inflation has been dominated by an outsized contribution from shelter. July retail spending was considerably softer than the market expected, with total sales falling 0.6% and same-store sales down 0.4%. The University of Michigan consumer sentiment survey fell 4 points to 51 in August, with year-ahead inflation expectations ticking up slightly to 4.3%.

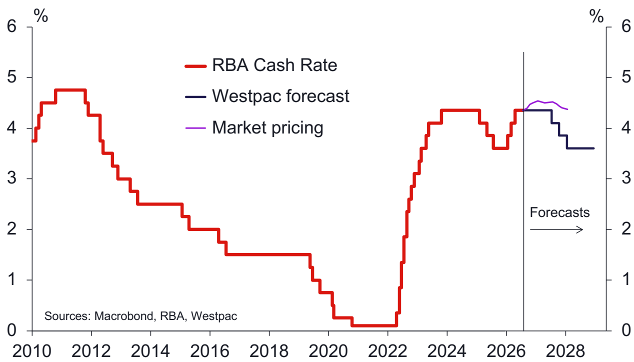
Trading partner real GDP (calendar years)

	Annual average % change			
	2025	**2026**	**2027**	**2028**
Australia	2.0	1.7	1.3	2.2
China	5.0	4.7	4.6	4.4
United States	2.1	2.0	1.8	1.9
Japan	1.1	0.6	0.8	0.9
East Asia ex China	4.7	5.1	4.4	4.3
India	7.6	6.7	6.7	6.6
Euro Zone	1.5	0.8	1.2	1.5
United Kingdom	1.4	1.2	1.1	1.5
NZ trading partners	3.2	3.0	2.7	2.9
World	3.4	3.3	3.3	3.3

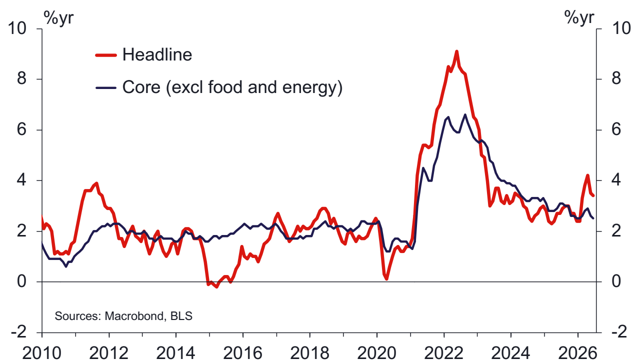
Australian & US interest rate outlook

	14 Aug	**Dec-26**	**Dec-27**	**Dec-28**
Australia				
Cash	4.35	4.35	3.85	3.60
90 Day BBSW	4.51	4.46	3.76	3.70
3 Year Swap	4.49	4.45	4.10	3.90
3 Year Bond	4.49	4.45	4.10	3.90
10 Year Bond	4.98	4.85	4.65	4.65
10 Year Spread to US (bps)	35	25	0	-20
US				
Fed Funds	3.625	3.625	3.625	3.625
US 10 Year Bond	4.64	4.60	4.65	4.85

RBA Cash Rate



US CPI inflation



Financial markets wrap

Foreign exchange.

NZD/USD was volatile last week, threatening the low 0.58s amid continuing Middle East tensions, rising oil prices, and contained NZ inflation expectations data, but rebounding on Friday towards 0.5900, helped by disappointing US retail sales data.

The week starts with a slightly bullish tone. A clear break above 0.5900 would then target around 0.6000. Such a break would probably require global risk sentiment to improve, particularly regarding the Middle East. Economic data will likely take a back seat, with the US calendar of second-tier importance and the NZ calendar third tier.

Looking further ahead to year end, NZ-US yield spreads have preserved most of July's OCR hike-related gains and are expected to extend higher during the quarter ahead given RBNZ vs Fed expectations. That should lend support to NZD/USD.

That said, for the quarter ahead, we retain a neutral bias, pending an enduring resolution of the Iran war. A positive outcome could lift the NZD above the 0.6000 area, while a full-scale war could cause a decline to 0.5600.

NZD/AUD's rebound in July was helped by the RBNZ's OCR hike, but it was unable to clear 0.8400 and will require fresh catalysts to do so. Australian labour data this week (employment, wage inflation) could ruffle the market.

Interest rates.

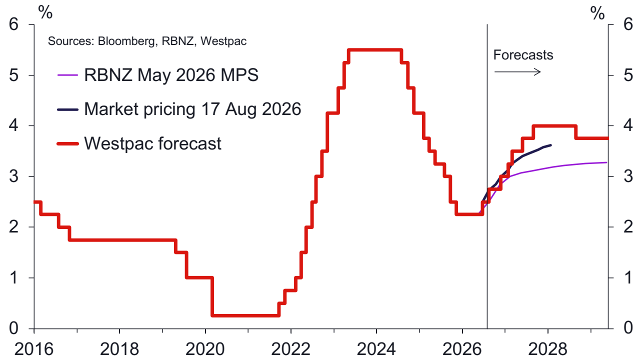
The 2yr swap rate is testing the bottom of the month-old range of 3.60%-3.75%, after making a cycle high of 3.81% in July. A break below would target the 3.45%-3.55% area multi-week.

The main drivers for the multi-week yield decline have been global yields, compounded by recent NZ data indicating the economy remains in low growth mode (unemployment, house prices, inflation expectations). The next major NZ event will be the RBNZ MPS on 2 Sep.

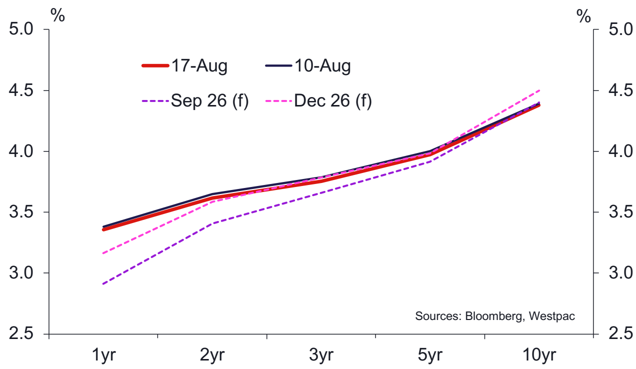
OIS pricing remains stuck at a 90%-95% chance of a hike in September, while the chances of another in October have been trimmed to 45%. A total of two hikes is priced by year-end, matching our forecast.

The yield curve's flattening trend since the peak in late December is likely to remain stalled ahead of fresh RBNZ guidance. The 2-10yr swap is at 76bp (vs 67bp cycle low and 120bp cycle high), and could steepen slightly further during the next few weeks if markets price more out of the October meeting. Much longer term, though, we expect the RBNZ's tightening cycle to bear-flatten this curve further during the year ahead, to around 50bp.

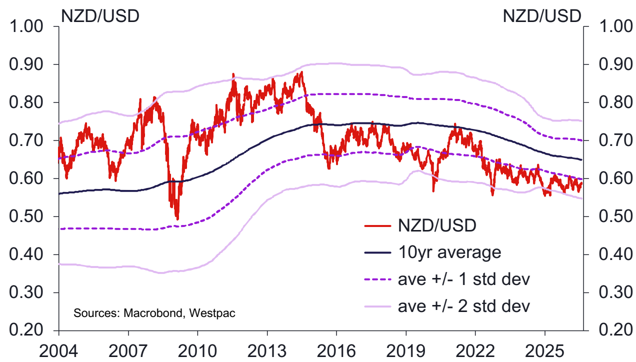
Official Cash Rate forecasts



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	0.589	0.563-0.595	0.553-0.720	0.613	0.60
AUD	0.831	0.816-0.837	0.816-0.971	0.908	0.84
EUR	0.509	0.495-0.513	0.484-0.637	0.558	0.51
GBP	0.435	0.425-0.442	0.425-0.531	0.478	0.44
JPY	93.8	91.1-95.3	74.7-98.6	87.1	96.0

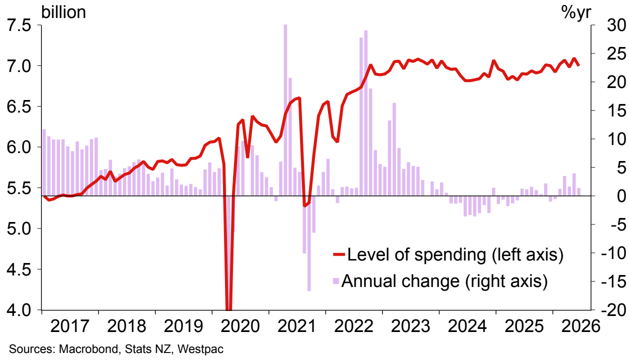
The week ahead

Jul Retail Card Spending (%mth)

Aug 17, Last: -1.4, Westpac f/c: 0.3

Retail spending fell 1.4% in June, reversing the step higher that we saw in May. June's fall in spending was in part due to the fall in fuel prices, with spending on fuel down 1.7%. However, while lower fuel prices did put money back into households' pockets, spending was also down in most other areas. We're expecting moderate growth of 0.4% in July. That's in part due to the continued easing in petrol prices. Core (ex-fuel) spending is likely to record a larger 0.7% gain, including a pick-up in hospitality spending which was boosted by FIFA World Cup celebrations.

Monthly retail card spending



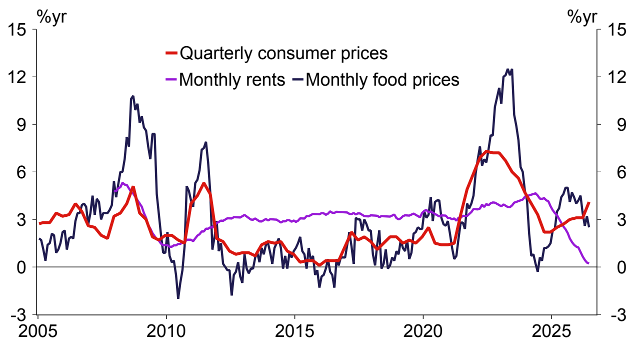
Sources: Macrobond, Stats NZ, Westpac

Jul Selected Consumer Prices (%mth)

Aug 17

Stats NZ's monthly Selected Prices update provides information on around 50% of the full CPI basket, including some of the more volatile components. Looking at some of the big groups, we expect the July update will show a 5% fall in fuel prices. We also expect further softness in housing rents, which have essentially shown no growth for a year. On the upside, we expect a 1% rise in food prices related to the seasonal rise in the price of fresh fruit. Overall, this month's release is expected to leave us with a picture of headline inflation tracking close to 4% and core at firm levels. The key areas of uncertainty are the travel categories, which have been volatile in the wake of the war in the Middle East.

Selected consumer prices



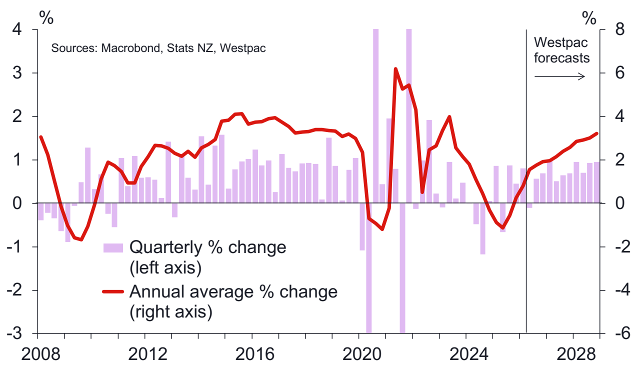
Sources: Macrobond, Stats NZ, Westpac

Economic and financial forecasts

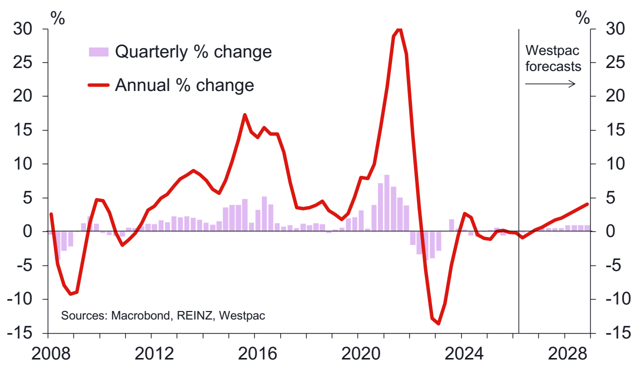
Economic indicators	Quarterly % change				Annual % change			
	Mar-26	Jun-26	Sep-26	Dec-26	2024	2025	2026	2027
GDP (production)	0.8	-0.1	0.6	0.7	-1.6	1.5	2.0	2.9
Consumer price index	0.9	1.5	0.7	0.4	2.2	3.1	3.5	1.9
Employment change	0.2	0.5	0.5	0.7	-1.3	0.2	1.8	2.6
Unemployment rate	5.4	5.6	5.5	5.4	5.1	5.4	5.4	4.9
Labour cost index (all sectors)	0.5	0.6	0.7	0.6	3.3	2.0	2.4	2.4
Current account balance (% of GDP)	-3.6	-3.7	-3.9	-3.9	-4.7	-3.6	-3.9	-3.9
Terms of trade	-1.6	1.4	0.9	-0.1	8.9	3.4	0.6	3.9
House price index	0.1	-0.1	0.0	0.2	-1.0	-0.1	0.3	2.0

Financial forecasts	End of quarter				End of year			
	Mar-26	Jun-26	Sep-26	Dec-26	2024	2025	2026	2027
OCR	2.25	2.25	2.75	3.00	4.25	2.25	3.00	4.00
90 day bank bill	2.51	2.63	3.00	3.40	4.45	2.52	3.40	4.20
2 year swap	3.12	3.47	3.70	3.95	3.64	2.71	3.95	4.20
5 year swap	3.71	3.88	3.95	4.15	3.73	3.27	4.15	4.40
10 year bond	4.54	4.61	4.65	4.65	4.50	4.27	4.65	5.05
TWI	67.2	66.5	67.0	67.9	69.5	66.4	67.9	72.5
NZD/USD	0.59	0.58	0.59	0.60	0.59	0.57	0.60	0.66
NZD/AUD	0.85	0.82	0.83	0.84	0.91	0.87	0.84	0.90
NZD/EUR	0.50	0.50	0.51	0.51	0.55	0.49	0.51	0.55
NZD/GBP	0.44	0.44	0.44	0.44	0.46	0.43	0.44	0.47

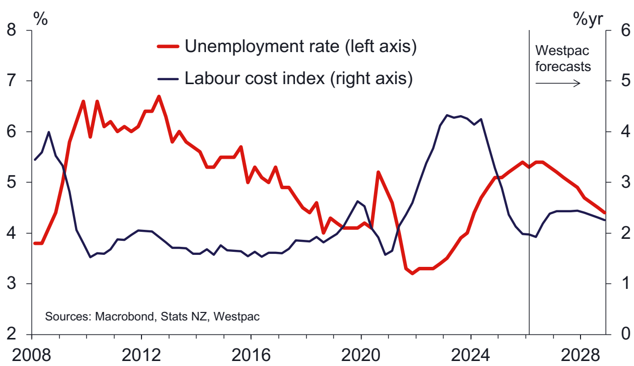
GDP growth



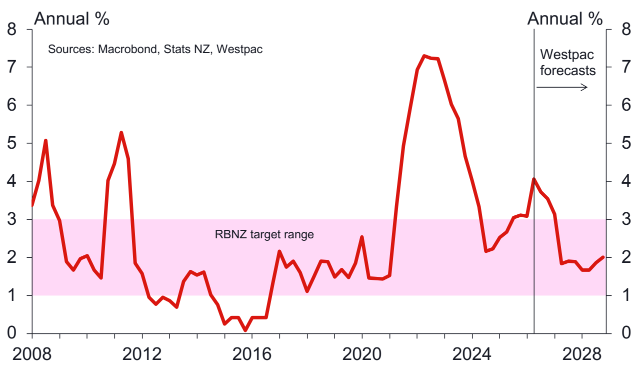
House prices



Unemployment and wage growth



Consumer price inflation



Data calendar

		Last	Market median	Westpac forecast	Risk/Comment
Mon 17					
NZ	Jul Performance Services Index, index	50.6	–	–	Services have underperformed so far this year.
	Jul Selected Price Indices – Food, %mth	0.6	–	1.1	Seasonal lift in prices for fresh fruit.
	Jul Selected Price Indices – Rents, %mth	0.1	–	0	No sign that softness is dissipating.
	Jul Retail Card Spending, %mth	–1.4	–	–	Core spending picking up as fuel prices edged back.
Jpn	Q2 GDP, %qtr	0.5	0.5	–	Firmer domestic demand to support growth.
	Jun Industrial Production, %mth	1.3	–	–	Final estimate.
Chn	Jul Retail Sales, ytd %yr	1.3	1.4	–	Activity indicators will likely show an economy that...
	Jul Industrial Production, ytd %yr	5.4	5.3	–	...continues to lose momentum as policymakers fail to offer...
	Jul Fixed Asset Investment, ytd %yr	–5.7	–6.2	–	...new stimulus, putting 2026 growth target at risk.
US	Aug Fed Empire State Manuf., index	15.6	10	–	A bumpy up trend since early–2025 remains intact.
	Aug NAHB Housing Market, index	34	33	–	Homebuilder sentiment expected to reach a 2026 low.
Tue 18					
Aus	Aug Westpac–MI Cons. Sentiment, index	83.9	–	–	Steady rates, higher fuel, housing downturn, all in play.
	RBA Speak	–	–	–	RBA's Jones–Fireside Chat.
Eur	Aug ZEW Survey Of Expectations, index	23.4	–	–	Sitting at a five month high as reform spur hope for growth.
UK	Jun ILO Unemployment Rate, %	4.9	4.7	–	Stabilising after coming off early–2026 peak.
US	Jul Import Price Index, %mth	0.3	0.1	–	Prices for consumer goods firmed partly offset by energy costs.
	Jul Housing Starts, %mth	19	–5.7	–	Partial unwind expected following June boost...
	Jul Building Permits, %mth	–2.6	–0.2	–	...while permits expected to record third consecutive decline.
	Jul Industrial Production, %mth	0.1	0.3	–	Rising production sees capacity pressures increase.
Wed 19					
NZ	Q2 PPI, %qtr	0.8	–	–	Will reflect higher fuel prices.
Aus	Q2 WPI, %qtr	0.8	0.8	0.8	Higher than expected FWC decision to lift wages.
	RBA Speak	–	–	–	RBA's Hauser Fireside Chat.
Jpn	Jun Core Machinery Orders, %mth	–12.4	7.8	–	To partly reverse following last month's contraction.
UK	Jul CPI, %ann	2.6	3	–	Services to moderate as energy pressures persist.
US	FOMC Meeting Minutes	–	–	–	Minutes for the July Committee meeting.
Thur 20					
Aus	Aug MI Inflation Expectations, %ann	4.7	–	–	Could see an increase given the end of the fuel excise cut.
	Jul Employment Change, 000s	76.3	13.5	15	Watch employment-to-population to dampen noise...
	Jul Unemployment Rate, %	4.4	4.4	4.4	...as participation rate ticks lower keep the UR steady.
US	Aug Philly Fed Manufacturing, index	41.4	25	–	At a near five year high.
	Initial Jobless Claims	209	210	–	Down trend resumes after early–May–to–mid–June up trend.
	Jul Leading Index, pts	–0.2	0.1	–	Consumers are the key headwind to economic growth.
Fri 21					
NZ	Jul Trade Balance , $m	23	–	–	Exports likely to decline from exceptional June level.
Jpn	Jul CPI, %ann	1.6	2	–	Price pressures broaden beyond food and energy costs.
	Aug S&P Global Manufacturing PMI, index	54.5	–	–	Activity buoyed by steepest rise in new orders in four years...
	Aug S&P Global Services PMI, index	51.2	–	–	...while cost and capacity pressures remain at odds in services.
Eur	Aug S&P Global Manufacturing PMI, index	51.9	51.6	–	Production sees fastest rise since post–Covid related surge...
	Aug S&P Global Services PMI, index	51.7	51.5	–	...with services activity rebounding into expansion.
UK	Aug GfK Consumer Sentiment, index	–17	–18	–	Yet to recover from Middle East led deterioration.
	Jul Retail Sales, %mth	1	–	–	World Cup overrides sour sentiment to lift spending.
	Aug S&P Global Manufacturing PMI, index	51.9	51.8	–	Input price inflation eased considerably...
	Aug S&P Global Services PMI, index	52.1	51.8	–	...as services activity returned to expansion in July.
US	Aug S&P Global Manufacturing PMI, index	53.9	53.7	–	Rising at a milder pace due to supply chain disruptions...
	Aug S&P Global Services PMI, index	54.6	53.9	–	...while outlook for services improves bolstering job creations.

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