



WEEKLY ECONOMIC COMMENTARY



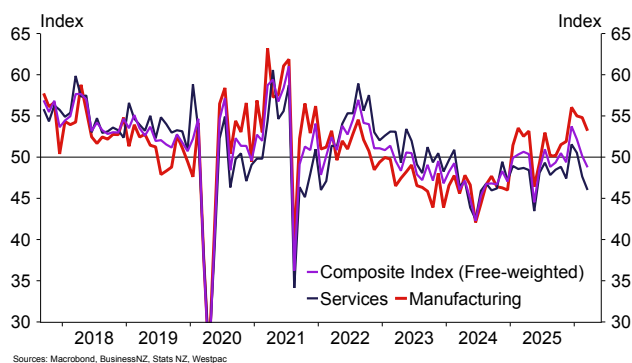
20 Apr 2026 | Westpac Economics Team | westpac.co.nz/economics | economics@westpac.co.nz

Oil shock begins to surface in data

The past week has delivered some further insight on the early impact of the Middle East conflict on the New Zealand economy. Unsurprisingly, that data points to some marked changes in spending patterns and clear upward pressure on prices for energy products. Even greater impacts are certain to be evident over coming months as the shock transmits through the economy.

On Monday, BusinessNZ reported that its Performance of Services Index had declined 1.6pts in March to a 10-month low of 46.0. All five subindexes fell below 50, with the activity/sales index falling to 44.6 and the new orders/business index falling to 45.7. The employment index also fell to the lowest level since October 2024. Separately, MBIE reported a modest decline in job ads in March. However, for now, the level of advertising remains more than 10% higher than a year earlier, and we are also yet to see any sign of labour shedding in the weekly filled jobs data collected from tax records. Meanwhile, more than two-thirds of the comments submitted by respondents to the BusinessNZ survey were said to be negative, with many – especially in industries dealing with discretionary spending – unsurprisingly citing the impacts of the Middle East crisis.

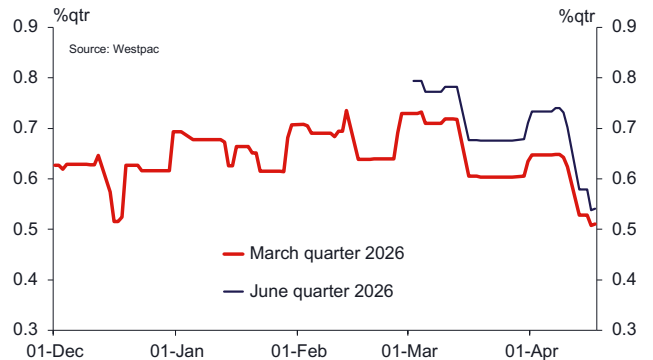
Business NZ PMIs



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



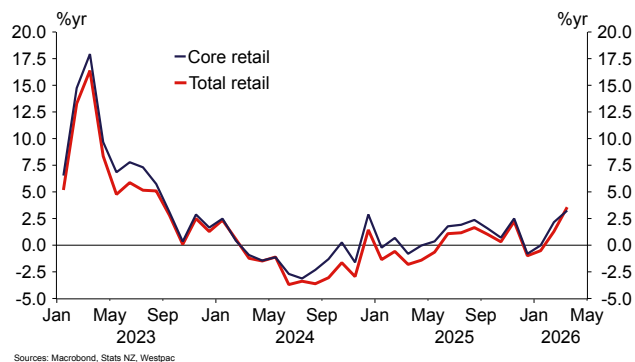
Key data and event outlook

Date	Event
21 Apr 26	NZ QSBO Business Survey, March quarter
21 Apr 26	NZ CPI, March quarter
29 Apr 26	FOMC meeting (30 Apr NZT)
5 May 26	RBA Monetary Policy Decision
6 May 26	Labour market surveys, March quarter
15 May 26	NZ Selected price indexes, April
27 May 26	RBNZ OCR Review & Monetary Policy Statement
28 May 26	NZ Government Budget
16 Jun 26	NZ Selected price indexes, May
18 Jun 26	NZ GDP, March quarter

Later in the week **news from the retail sector** provided no major surprises. Consumer spending, as measured by electronic card payments, increased 0.7%*m/m* in March. Unsurprisingly, with petrol prices surging almost 19% during the month, spending on fuel increased over 17%. By contrast, core spending – which excludes spending on fuel and vehicles – fell a modest 0.1%*m/m*. Within the core measure, while spending on consumables (groceries) and durables grew, this was more than offset by a decline in spending on apparel and hospitality. These data were broadly in line with the trends that were evident in **Westpac’s own card spending data**, which we had published earlier in the week.

Given the outcome for March, retail spending over the March quarter grew 1.0%. This was the strongest quarter since the December 2024 quarter, consistent with our view that the economy’s forward momentum had improved at the start of this year. But looking ahead, high fuel prices will continue to siphon money out of households’ pockets. At the same time, they will add to costs of production for a variety of other goods and services and will continue to significantly undermine consumer confidence. Overtime, these costs will also weigh on the strong growth in tourist arrivals that has helped retailers to weather a time of relatively subdued domestic spending. We continue to anticipate that consumer spending volumes will decline slightly in the current quarter, even as the value of spending is sustained by higher prices.

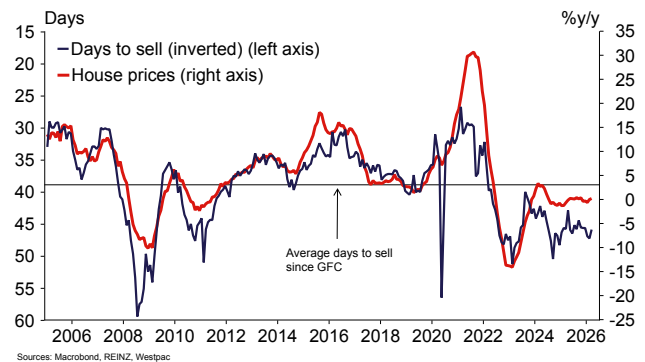
Electronic card spending in retail stores



News from the housing market also provided no major surprises. Sales were down around 4% in March, reversing a 5% rise in February, and have been effectively moving sideways over the last year. The average time to sell shortened compared to February but has also remained within a narrow range and remains longer than usual. The REINZ house price index ticked up slightly in March following a 0.6% rise in February. Prices have now largely reversed the declines that we saw over the second half of 2025 and were up 0.2% from a year earlier. Conditions vary across the country, with prices trending higher in the South Island while the North Island has been more stagnant. Of course, the Middle East conflict has

cast a fresh shadow of uncertainty over the economic outlook. It was unlikely that we would see an impact on the housing market as early as March, but in the months ahead we’ll be watching for signs of a softening that would support our current forecast of a 1% fall in prices over this year. Anecdotal evidence suggests greater caution amongst buyers in recent weeks.

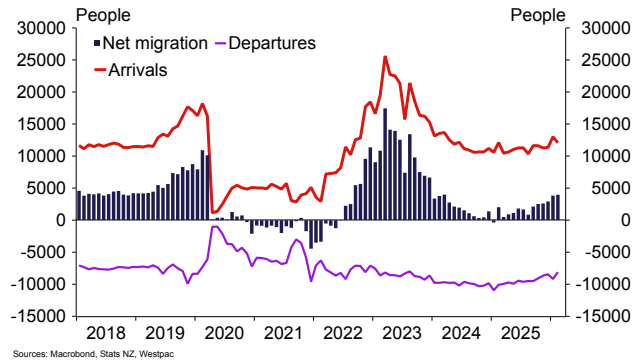
House prices and days to sell



Another sector that is likely to be challenged by the Middle East conflict is the tourism industry. Increased prices for flights and sharply lower consumer confidence are likely to be weighing on forward bookings, especially from long-haul countries, and this should become evident as the year progresses. However, the recent trend has been very favourable, with arrivals in February increasing for an eighth consecutive month. A notable feature of the latest data was a further improvement in arrivals from China, which until recently had continued to track far below pre-pandemic levels. Thanks to the timing of the Lunar New Year, arrivals from China was more than triple that seen in February last year. But taking the January/February period as one to remove the impact of the floating holiday timing, arrivals were still up more than 50% and just 5% below the level seen in 2019. Helpfully, this comes at a time when there appears to be some slowing in arrivals from some other markets, notably the US and South Korea.

The inflow of longer-term arrivals – new residents and those on working, educational and other visas – has also shown some signs of lifting of late. Keeping in mind that more recent observations are subject to revision, the number of migrant arrivals in February was estimated to be around 2,000 greater than the low point seen in August last year whilst the number of departures was around 3,000 less than last January’s highpoint. The net inflow of 3,600 was the largest since March 2024 and the inflow for the year to February – just over 25,000 – was over 7,000 more than the preceding year. At least in part the strengthening trend is further evidence of the improved economic conditions that were developing in New Zealand prior to the Middle East conflict. Changes to visa policy have liked also contributed to the pickup in inflows.

Monthly migration flows, seasonally adjusted

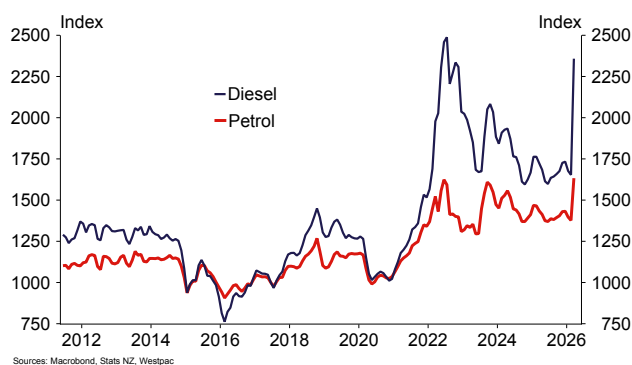


Finally, the release of the Selected Prices Indexes for March has allowed us to finalise **our forecast for next week's March quarter CPI** report. As expected, the price of petrol increased 19% in March and the price of diesel surged 42%. However, food and some other travel-related prices such as airfares came in slightly weaker than expected. As a result, we have revised down our forecast for the CPI to 0.7%, which would see annual inflation ease back to 2.8% from 3.1% in the December quarter. Higher prices for food and petrol should make the most significant quarterly contributions, although tradable prices overall are expected to rise just 0.2% over the quarter and 2.1% over the year. Non-tradables prices are forecast to increase 0.8% over the quarter, lowering annual non-tradable inflation to 3.3%.

Importantly, while oil and food prices have boosted inflation, these aren't the only areas where we've seen firmness in prices. Despite dropping back over the past year, key measures of core inflation are set to linger in the upper part of the RBNZ's target band. (Note: core inflation measures smooth through the quarter-to-quarter swings in inflation and track the underlying trend in prices). In terms of specifics, we expect the March quarter prices update will show:

- CPI ex-fuel inflation: +2.9% yr (vs +3.2% previously)
- CPI ex-fuel and food: +2.5% yr (vs +2.9% previously)
- 10% trimmed mean: +2.8% (vs +2.9% previously)

Selected Price Indexes, Transport



The strength of core inflation will be a key consideration for the RBNZ when assessing how quickly they need to adjust policy over the coming year. If core inflation is looking contained, the RBNZ will have more head room to look through the oil related lift in prices now in train. But if those underlying pressures are already looking uncomfortable, that would increase the chance of earlier OCR hikes.

Our forecast for annual inflation is a little lower than the updated 3.0% forecast released by the RBNZ at its 8 April Monetary Policy Review. Assuming the CPI prints close to our expectations, the RBNZ will only take modest comfort given what lies ahead. The impact of the oil shock will become more evident when the June quarter CPI is released in July, and perhaps earlier in the monthly Selected Prices Indexes that will be released prior to the CPI. We currently estimate that annual CPI inflation will rise to 4.3% in the June quarter, although much will depend on how petrol prices evolve over coming weeks.

Iran update.

Late last week, oil prices fell sharply – with Brent futures hitting a 5-week low of \$90/bbl – after Iran's Foreign Minister indicated that Iran had agreed to open the Strait of Hormuz during the remainder of the ceasefire. Unfortunately, after the market close on Friday, the Strait has again closed with Iranian military leaders quickly disavowing the agreement citing the US refusal to cease its own blockade of ships that call at Iran's ports. As a result, it is likely that oil prices will retrace much of their decline when energy markets reopen today. The NZ dollar has reopened lower this morning reflecting the "risk off" nature of the weekend's developments.

Reports indicate that a US negotiating team is scheduled to travel to Islamabad today, with Pakistan preparing to host a second round of US–Iran talks aimed at extending the ceasefire (which at present ends on Wednesday) and so preventing renewed fighting. However, Iranian media and officials have sent mixed signals on participation, citing "excessive" US demands, so it remains to be seen whether these talks will take place (and whether those on Iran's side even have sway over the military). Meanwhile, US officials have continued to stress that engagement remains conditional on progress in opening the Strait of Hormuz and eliminating Iran's capability to build a nuclear weapon. The US President has resumed threats against Iranian infrastructure, and the US Navy attacked an Iranian tanker attempting to run the US blockade. The Iranians attacked tanker traffic during the weekend, and Israel reportedly attacked Hezbollah positions in Lebanon raising questions on the durability of that ceasefire.

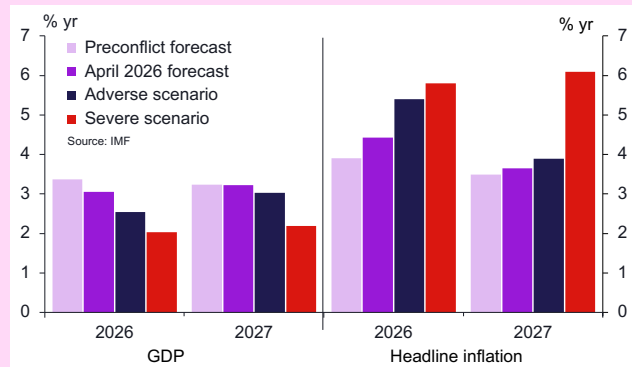
Darren Gibbs, Senior Economist

Chart of the week.

Oil and refined fuels supplies have now been constrained for some 51 days and events over the weekend seemed to confirm that little progress is being made in reopening the Strait. Significant gaps remain between the key combatants: the US, Israel and Iran. The formal ceasefire announced a couple of weeks ago formally ends this week and it's not clear further negotiations will restart quickly. Hence the prospect of a prolonged closure looks likely.

The IMF presented their new global economic forecasts last week. These illustrated the uncertainties at play. The main forecast was relabelled as a "reference forecast" as it was based on very sanguine assumptions that say the war does not escalate materially beyond current theatres, does not draw in additional major regional producers, and begins to de-escalate sufficiently for disruptions to fade by mid 2026. These assumptions were likely made some weeks ago, when hopes were higher for a faster resolution given the significant lag times required for the production of the IMF's World Economic Outlook. The outcome was for the "Reference Forecast" to imply modest downward adjustments to global growth (and the underlying New Zealand forecasts were hardly impacted). However, the IMF moved away from this scenario immediately and focused more on the adverse scenarios. The worse of these (not likely base case) is for global inflation of 6% and global growth around 2% in 2026 and 2027. This is a very weak scenario that hits developing nations hardest and energy importers such as New Zealand very hard also. The IMF has never relabelled its baseline economic forecasts in this way before (not even in the 2008/09 period).

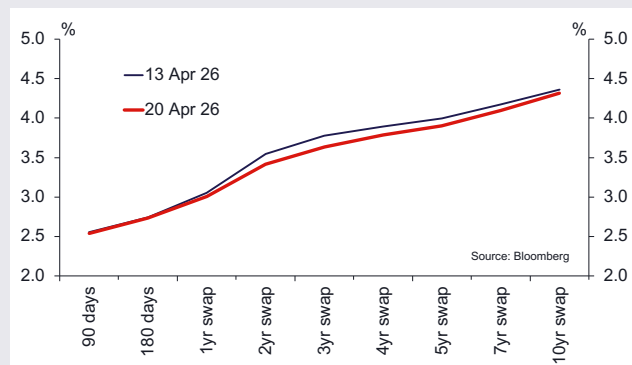
IMF global growth and inflation forecasts



Fixed versus floating for mortgages.

Recent weeks have seen a broadening in inflation pressures in the wake of the Middle East conflict and the RBNZ has revised its near-term inflation outlook sharply higher. In response to those developments, the RBNZ's latest policy statement noted related concerns about the longer-term inflation outlook. We've pulled forward our expectations for OCR hikes, which are now expected to begin in September (previously, we expected the first hike in December). 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 above 5%, but fixing for one of these longer periods still appears attractive as it would insulate borrowers from a trend higher in the OCR over the next couple of years.

NZ interest rates



Global wrap

Middle East.

Hopes that the conflict would continue towards de-escalation were ultimately dashed over the weekend. Despite an abrupt end to the first round of in-person talks between the US and Iran, President Trump did not resume his previous threats, and comments made by both sides implied that negotiations were ongoing. On Friday Iran announced that the Strait of Hormuz was open, which saw crude oil and refined product prices fall back to levels last seen in early March. However, it doesn't appear that any tankers successfully made the crossing, and shortly afterward Iran closed the Strait again, with the US' continued blockade of Iranian ships proving to be a sticking point. The initial two-week ceasefire ends on Wednesday, though it's possible that this could be extended to allow more time for negotiations.

US.

The Fed Beige Book for April showed little change from the previous (pre-Iran war) report, with overall economic activity rising "at a slight to modest pace". The data calendar was otherwise light last week, and remains so for the week ahead. FOMC members who spoke last week all showed confidence in the underlying health of the US economy, but also concern over the potential for a lasting imbalance between growth and inflation.

Australia.

The Westpac-MI Consumer Sentiment Index posted its largest fall since Covid, down 12.5% in April to a deeply pessimistic reading of 80.1. The impact from the surge in fuel prices was acute, leading to a more pronounced deterioration in the sub-indexes tracking current conditions. The NAB business survey for March also fell 29pts to Covid-era levels, alongside a notable lift in purchase cost pressures, up 1.7ppts to a quarterly pace of 3.0%. The labour market remained in good health in March, with jobs up 18k and the unemployment rate holding steady at 4.3%, but it will likely take more time for the effects of the Iran war and the recent RBA rate hikes to have an impact on this front.

Asia.

China's economy showed some resilience last week, with annual GDP growth picking up from 4.5% in Q4 to 5.0% in Q1. However, external demand and investment's support for GDP masks the still-troubled state of consumer demand. Policymakers have been clear in their intent to provide additional support to households but are yet to take action, and house prices continue to decline, weighing on wealth and sentiment.

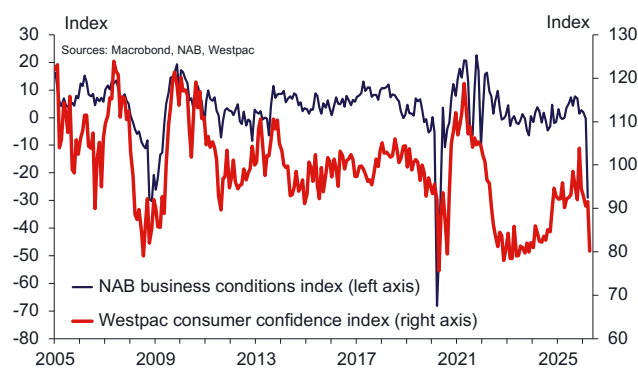
Trading partner real GDP (calendar years)

	Annual average % change			
	2024	2025	2026	2027
Australia	1.0	2.0	1.8	1.2
China	5.0	5.0	4.7	4.6
United States	2.8	2.1	1.5	1.6
Japan	-0.2	1.2	0.6	0.8
East Asia ex China	4.5	4.7	4.2	4.2
India	7.1	7.6	6.5	6.7
Euro Zone	0.9	1.5	0.8	1.3
United Kingdom	1.1	1.4	0.7	1.2
NZ trading partners	3.0	3.2	2.7	2.7
World	3.4	3.4	3.1	3.2

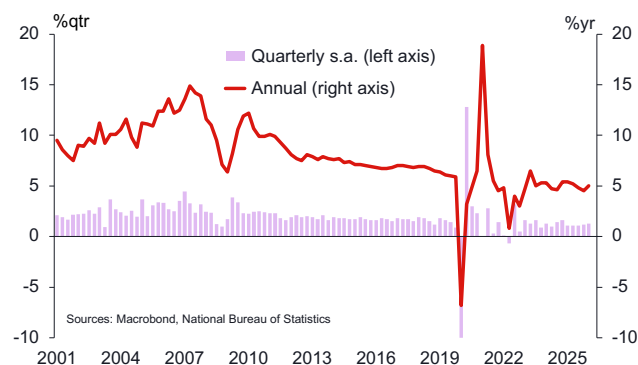
Australian & US interest rate outlook

	17 Apr	Jun-26	Dec-26	Dec-27
Australia				
Cash	4.10	4.60	4.85	4.85
90 Day BBSW	4.32	4.80	4.90	4.80
3 Year Swap	4.63	4.80	4.70	4.40
3 Year Bond	4.65	4.80	4.70	4.40
10 Year Bond	5.00	5.05	5.05	4.95
10 Year Spread to US (bps)	69	65	60	30
US				
Fed Funds	3.625	3.625	3.625	3.625
US 10 Year Bond	4.31	4.35	4.45	4.65

Australian consumer & business confidence



China GDP growth



Financial markets wrap

Foreign exchange.

NZD/USD has been both boosted and depressed by war headlines during the past week. The latest iteration – a re-closure of the Hormuz Strait – has weighed on risk-sensitive currencies this morning, and further weakness in NZD/USD is likely this week. The 0.5800 area could be tested.

While war developments will remain the dominant driver of markets this week, there are two important local events worth watching: NZ CPI data for Q1, and the NZIER business opinion survey. These will inform the starting point for the price pressures yet to come, and how businesses have fared since the war started.

For the quarter ahead, we retain a neutral bias pending resolution of the war. An escalation would likely cause a break below 0.5700, towards 0.5500, while a positive resolution would likely ignite a rally towards 0.6000.

NZD/AUD continues to probe the downside, having made a 13-year low at 0.8192 earlier this month. Multi-month, we retain a bearish bias, based on relative economic performance and NZ-AU yield spreads which should continue to support the AUD. In particular, Australia is more resilient to a war and oil shock than is New Zealand.

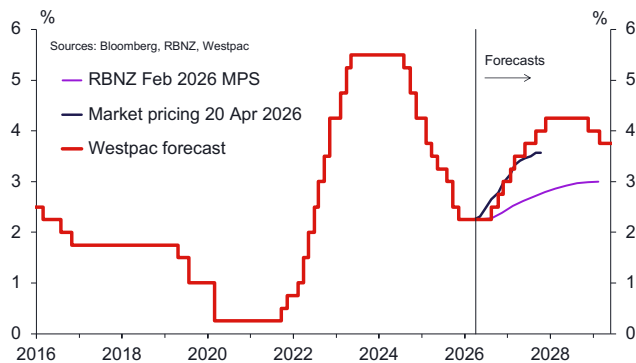
Interest rates.

The NZ 2yr swap rate continues to consolidate between around 3.35% and 3.55%, following March’s war-related surge to a 17-month high of 3.68%. Risks remain skewed towards a retest of the 3.60% area during the quarter ahead, with war-related inflationary pressures likely to keep market pricing for OCR hikes elevated. Near term, opportunistic receivers will likely cap yields.

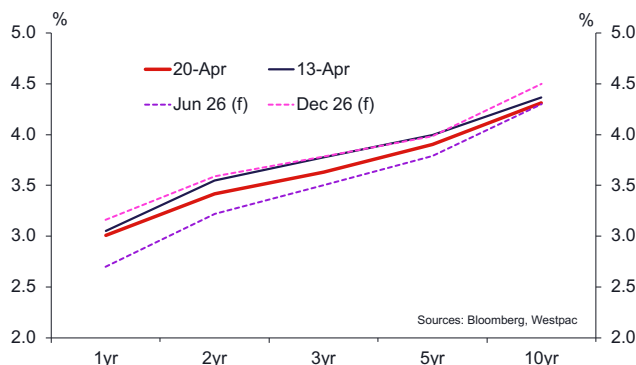
The OIS market is little changed from a week ago, pricing a 90% chance of an OCR hike by July and around three hikes in total by year end. That is only slightly less hawkish than our forecast of hikes in September, October and December (and beyond).

The yield curve’s flattening trend since the peak in late December has stalled amid war-generated volatility. The difference between 2yr and 10yr swap rates is currently 90bp, vs the December peak at 120bp and last week’s low of 82bp. We expect further flattening during the year ahead as we approach the RBNZ’s tightening cycle, potentially to around 50bp.

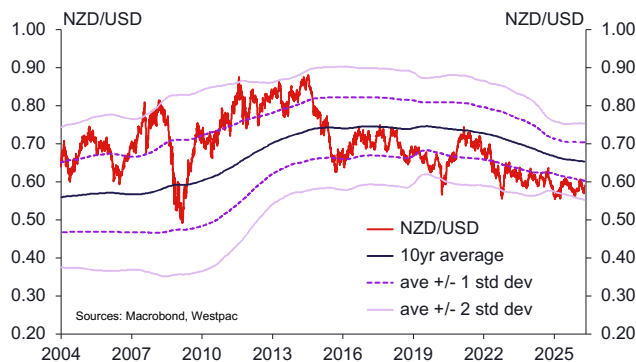
Official Cash Rate forecasts



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	0.586	0.569-0.605	0.553-0.728	0.621	0.62
AUD	0.822	0.821-0.865	0.821-0.971	0.915	0.85
EUR	0.499	0.493-0.511	0.484-0.637	0.563	0.52
GBP	0.434	0.429-0.444	0.426-0.531	0.483	0.45
JPY	93.0	90.7-94.4	74.7-98.6	86.1	95.5

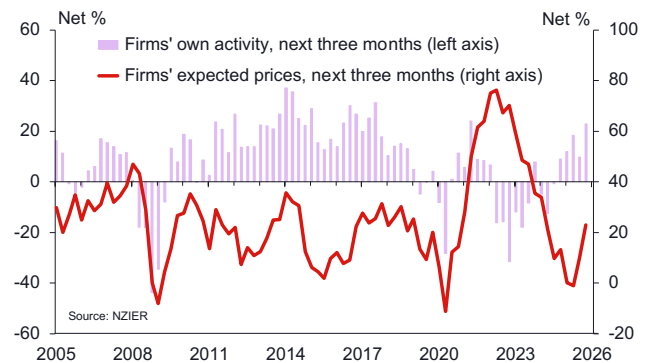
The week ahead

Q1 NZIER Survey of Business Opinion

Apr 21, General business confidence last: 39.5

The December quarter QSBO showed a more upbeat attitude among businesses than we've seen for some time, with both actual and expected activity picking up, and demand for workers responding accordingly. The March quarter survey will be a different matter though, coming in the wake of the Iran war, and later responses are likely to be significantly more downbeat than earlier ones. The pricing measures of the survey will show the hit from the surge in fuel costs, but more important will be firms' willingness to pass this on into their own prices. This particular measure seems to have been instrumental in kicking off both tightening and easing phases by the RBNZ in recent years.

NZIER Quarterly Survey of Business Opinion

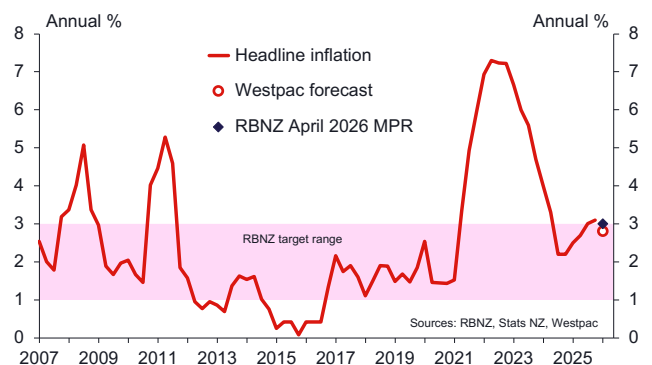


Q1 Consumer Prices Index

Apr 21, Quarterly last: 0.6%, Westpac f/c: 0.7%
Annual last: 3.1%, Westpac f/c: 2.8%, RBNZ f/c: 3.0%

We estimate that New Zealand consumer prices rose by 0.7% in the March quarter, underpinned by higher prices for food and petrol. The annual inflation rate is expected to dip from 3.1% to 2.8%, slightly below the RBNZ's forecast of 3.0% (updated at its April Monetary Policy Review). Under the surface, core inflation is expected to remain at firm levels. While the annual inflation rate is set to soften a little in March, this will be just a temporary reprieve. Inflation is set to rise sharply through the middle part of the year in response to the recent rise in oil prices and related increases in other costs. We expect inflation will rise to around 4.3% mid-year.

Annual headline inflation

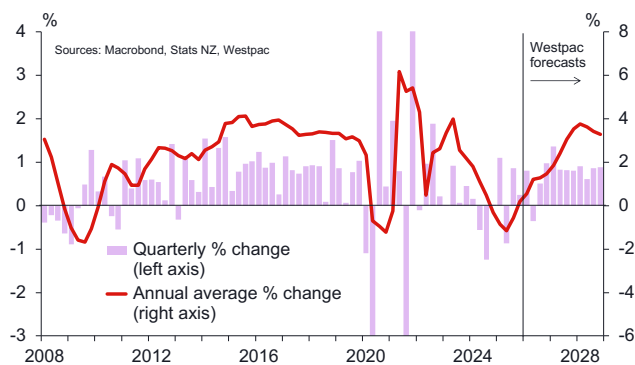


Economic and financial forecasts

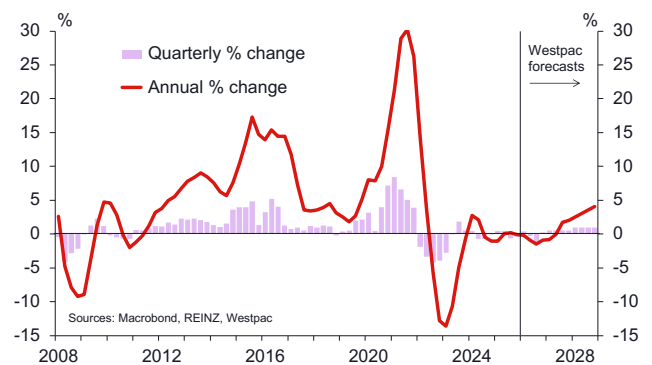
Economic indicators	Quarterly % change				Annual % change			
	Sep-25	Dec-25	Mar-26	Jun-26	2024	2025	2026	2027
GDP (production)	0.9	0.2	0.8	-0.4	-1.6	1.3	1.9	3.9
Consumer price index	1.0	0.6	0.7	1.9	2.2	3.1	3.9	1.7
Employment change	0.0	0.5	0.2	0.0	-1.3	0.2	1.2	3.1
Unemployment rate	5.3	5.4	5.4	5.6	5.1	5.4	5.4	4.6
Labour cost index (all sectors)	0.4	0.4	0.5	0.6	3.3	2.0	2.3	2.2
Current account balance (% of GDP)	-3.5	-3.7	-3.9	-4.1	-4.7	-3.7	-4.1	-3.7
Terms of trade	-0.5	0.3	-3.0	-0.1	8.9	3.5	2.9	4.3
House price index	-0.6	-0.3	0.4	-0.3	-1.0	-0.1	-0.9	2.0

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	3.00	4.25
90 day bank bill	3.10	2.52	2.51	2.50	4.45	2.52	3.40	4.45
2 year swap	2.99	2.71	3.12	3.75	3.64	2.71	4.30	4.35
5 year swap	3.40	3.27	3.71	4.10	3.73	3.27	4.35	4.45
10 year bond	4.42	4.27	4.54	4.85	4.50	4.27	5.00	5.10
TWI	68.4	66.4	67.2	66.5	69.5	66.4	69.1	72.7
NZD/USD	0.59	0.57	0.59	0.59	0.59	0.57	0.62	0.67
NZD/AUD	0.91	0.87	0.85	0.82	0.91	0.87	0.85	0.91
NZD/EUR	0.51	0.49	0.50	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



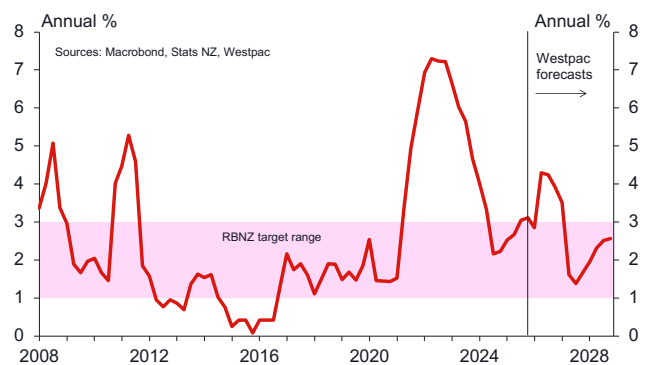
House prices



Unemployment and wage growth



Consumer price inflation



Data calendar

		Last	Market median	Westpac forecast	Risk/Comment
Mon 20					
NZ	Mar Trade Balance, \$mn	-257	-	388	Higher fuel prices will likely weigh in April.
Tue 21					
NZ	Q1 NZIER Survey of Business Opinion, index	39.5	-	-	Early indicator of business activity, pricing pressures.
	Q1 CPI, %qtr	0.6	0.8	0.7	Boost from food and fuel prices.
	Q1 CPI, %ann	3.1	2.9	2.8	Temporary easing, set to rise sharply mid-year.
Eur	Apr ZEW Survey Of Expectations, index	-8.5	-	-	Middle East undoubtedly weighing on investor confidence.
UK	Feb ILO Unemployment Rate, %	5.2	5.2	-	Labour market already weakening before Middle East shock.
US	Mar Retail Sales, %mth	0.6	1.3	-	Evaporating confidence keeps consumer on weaker footing.
	Feb Business Inventories, %mth	-0.1	0.3	-	Inventory restocking slowing amid shaky consumer outlook.
	Mar Pending Home Sales, %mth	1.8	0.8	-	Early guide to established home sales, which is low and stable.
Wed 22					
Aus	Mar Westpac-MI Leading Index, %ann'd	0.08	-	-	Interest rate hikes and Middle East impacts soon to be felt.
Eur	Apr Consumer Confidence, index	-16.3	-17.3	-	Sunk to a two-and-a-half year low on Middle East crisis.
	ECB President Lagarde	-	-	-	Speaking on global challenges at LSE.
UK	Mar CPI, %ann	3	3.3	-	Set to pop materially higher on oil; focus on core.
Thu 23					
Jpn	Apr S&P Global Manufacturing PMI, index	51.6	-	-	Expanding at a slower rate, uncertainty starting to weigh ...
	Apr S&P Global Services PMI, index	53.4	-	-	... services activity is otherwise robust, providing some offset.
Eur	Apr S&P Global Manufacturing PMI, index	51.6	50.1	-	Uptrend in manufacturing at risk of being arrested ...
	Apr S&P Global Services PMI, index	50.2	49.5	-	... health of consumer will be key for services.
UK	Apr S&P Global Manufacturing PMI, index	51	49.8	-	UK on more uneven footing, with mfg growth modest ...
	Apr S&P Global Services PMI, index	50.5	50	-	... and services activity slowing toward break-even.
US	Mar Chicago Fed Activity, index	-0.11	-	-	Likely to suggest below-trend growth for time being.
	Initial Jobless Claims	207	210	-	Still quite low, not indicative of widespread firing.
	Apr S&P Global Manufacturing PMI, index	52.3	52.8	-	Industry on a solid footing, similar to the ISM, but ...
	Apr S&P Global Services PMI, index	49.8	50	-	... a weaker consumer does not bode well for services.
	Apr Kansas City Fed Manufacturing, index	11	-	-	Performing relatively well compared to other regions.
Fri 24					
Jpn	Mar CPI, %ann	1.3	1.4	-	Ueda strikes a cautious tone, monitor data before reacting.
Ger	Apr IFO Business Climate Survey, index	86.4	86.6	-	Will souring expectations bleed into current situation view?
UK	Apr GfK Consumer Sentiment, index	-21	-25	-	Confidence weakening but not unravelling frantically.
	Mar Retail Sales, %mth	-0.4	-0.3	-	Watch core sales (ex fuel) for early signs of pressure.
US	Apr Uni. Of Michigan Sentiment, index	47.6	48.3	-	Final estimate will provide full read on US-Iran reaction.

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