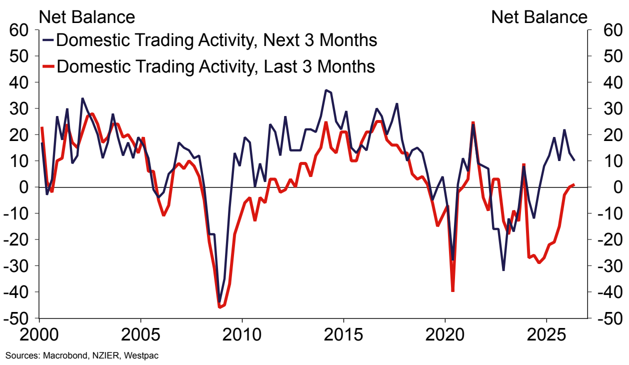
WEEKLY ECONOMIC COMMENTARY

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

Soggy activity data ahead of key CPI report

Following this month's RBNZ meeting, which resulted in the first OCR hike in three years, the market has turned its attention to the prospect of a follow-up rate hike at the next meeting on 2 September. The past week has provided numerous economic reports and a key RBNZ speech for the market to digest, covering topics such as business sentiment, consumer spending, housing, the labour market, tourism and inflation.

QSBO activity measures

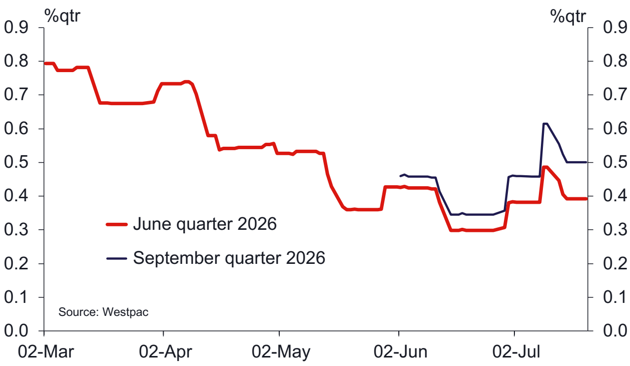


Early last week, the QSBO – New Zealand's premier business survey – pointed to a modest lift in business sentiment in the June quarter. The survey period ran from 10 June to 7 July. The average response over that period meant that the headline confidence index rose 11pts to +12. Early responses were a net 5% negative, while the second major batch of responses – mostly arriving after the signing of the Memorandum of Understanding by the US and Iran – were a net 20% positive. Given the renewed hostilities in the Middle East this month, the earlier responses may be more representative of where sentiment would stand if the survey was re-run today. Firms' expectations of their own activity, which tend to

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

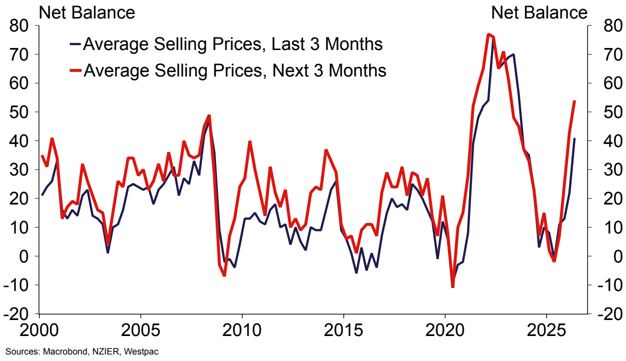


Key data and event outlook

Date	Event
21 Jul 26	NZ CPI, June quarter
29 Jul 26	FOMC meeting (30 Jul NZT)
5 Aug 26	Labour market surveys, June quarter
11 Aug 26	RBA Monetary Policy Decision
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

have a closer correspondence with GDP growth, were little changed for the quarter. Other activity indicators were mixed. Investment and hiring intentions were less negative than in the March quarter, but profitability was expected to worsen further.

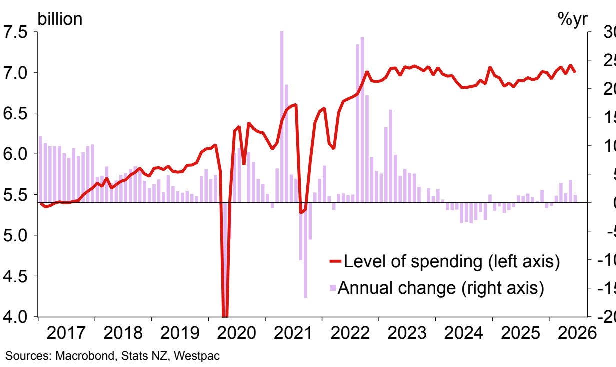
QSBO pricing measures



Meanwhile, the rise in fuel prices since March was clearly reflected in the QSBO's pricing measures. A net 41% of firms reported raising their prices in the June quarter, up from 22% last quarter and the highest reading since September 2023. In the next three months, a net 54% of firms indicated an intention to raise their prices – the highest since March 2023.

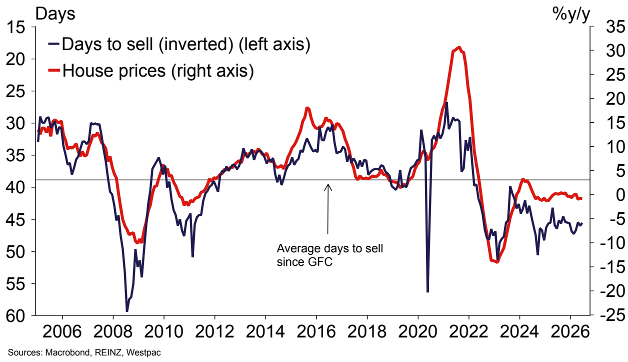
News from the retail sector was more downbeat than expected in June, with the value of retail spending processed through the electronic payments system declining 1.4%, reversing the step higher seen in May. Of note was a 4% decline in spending on household durables, while spending on apparel and hospitality both fell 2%. The only category that saw a rise in June was spending on groceries. Given the June result, total spending over the June quarter increased just 0.4%, driven entirely by a 7.3% lift in spending on fuel. Core retail spending fell 0.1%, marking the first decline since the March quarter last year.

Electronic card spending at retail stores



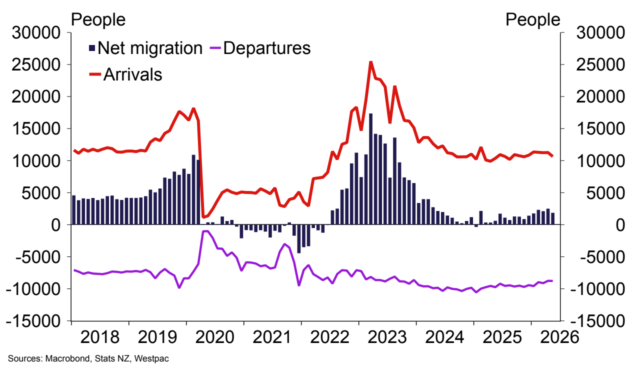
The housing market data also struck a soggy note in June, with house sales edging lower and so added to a cumulative 9% decline since the start of the year. The median time to sell was little changed and so remained well above the historic average. Reflecting buyers' lack of urgency, the REINZ house price index fell by 0.3% for the month and was down 0.8% on a year ago. National average prices have moved sideways for the last three years, though with some marked distinctions across regions. Wellington and Auckland have seen the largest price declines over the last year, while regions with stronger links to agriculture and tourism, such as Canterbury and Otago, have seen prices continue to set new highs.

House prices and days to sell



Fixed-term mortgage rates have risen since the start of this year, in anticipation of the next RBNZ tightening cycle (which is now in motion). Looking ahead, we expect that higher interest rates will continue to weigh on the housing market, leaning against any improvement in incomes as the economy gets back on its feet. Meanwhile, demand for housing remains constrained by relatively weak population growth. New Zealand saw a net inflow of just 1,860 migrants in May, with a downward revision to earlier months reducing the annual inflow to less than 19,000. Given historically weak natural growth in the population due to a declining fertility rate, annual population growth is running at less than 1%.

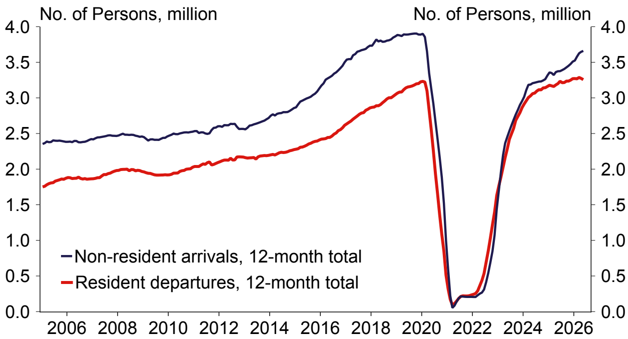
Net migrant arrivals



In some better news, MBIE's measure of job advertising picked up in June, perhaps helped by – at the time – a recovery in business confidence amidst easing tensions in the Middle East. The level of advertising remains low by historical standards but is now 13% higher than a year earlier. Not surprisingly, the strongest lift in job vacancies was seen in the primary sector, reflecting buoyant prices for almost all of New Zealand's key exported commodities. This is also reflected in the regional breakdown, with the major urban area of Auckland yet to see any lift in vacancies from the cycle low point.

Less positively, tourist data for May suggests some impact from the Middle East conflict with non-resident arrivals declining 2.4% to be 3.6% below their recent February peak. Even so, arrivals were around 7% higher than a year earlier reflecting the strong growth seen since around the middle of last year. Much of that growth owes to arrivals from Australia – New Zealand's largest market – and Asia, including a significant uplift in arrivals from China (the latter up more than 30% from a year earlier). By contrast, arrivals from major North American and European markets were lower than a year earlier. Looking ahead, we continue to expect a soft patch in tourism arrivals over the second half of this year due to the impact of high airfares and Middle East uncertainty on long haul forward bookings.

Tourism flows



Sources: Macrobond, Stats NZ, Westpac

Moving on, Friday's Selected Prices data for the June month – covering around 47% of the CPI – provided a modest upside surprise. Fuel prices – especially diesel – were lower, as expected. Food prices posted their expected seasonal increase while rental inflation remained very subdued. Electricity prices rose by less than expected, but the very volatile international accommodation component rose a much stronger-than-expected 9% during the month. Given this information, we have nudged up our earlier forecast and now think that **this week's June quarter CPI report** will reveal a 1.5% lift in the headline index, raising annual inflation to 4.1% from 3.1% at present. We view the risks around this forecast as balanced. Our estimate of annual inflation is 0.2ppt above the updated estimated provided by the RBNZ at the July Monetary Policy Review.

Finally, last week the RBNZ's Chief Economist, Paul Conway, gave a speech on pricing behaviour. He emphasised that the key monetary policy challenge facing policymakers is to prevent the oil shock from becoming embedded in expectations and business pricing behaviour. In that regard, he noted several findings from recent research – some of which is ongoing at the Bank – which in his view raise the risk of inflation persistence:

- Businesses and households pay much more attention to inflation when it is above the 1-3% target range, making expectations more sensitive to current inflation outcomes.
- Household inflation expectations have risen and become more dispersed since the Middle East conflict, indicating greater uncertainty about future inflation.
- Firms now change prices more frequently than in the past due to lower repricing costs and digital technology.
- Businesses are more willing to pass through cost increases than they are to reverse price rises when costs fall, creating a greater risk that temporary shocks become lasting inflation.
- These effects appear particularly strong in the services sector, where inflation tends to be more persistent.

Conway noted that the RBNZ may need to respond more forcefully to re-anchor expectations if businesses and households begin to expect inflation to remain elevated. Balanced against this, he argued – correctly in our view – that the current situation differs markedly from the inflationary episodes of the 1970s and from the post-pandemic inflation surge. In particular, the New Zealand economy currently has spare capacity, which should make it harder for firms to raise prices aggressively and should help inflation return to target over time. Medium-term inflation expectations also remain relatively well anchored.

Nonetheless, the market interpreted the speech as "hawkish", especially when set against the dovish comments that Conway had previously made in recent months. Combined with developments in the Middle East and elsewhere, the speech has consolidated the market's confidence that the RBNZ will deliver a further lift in the OCR at the 2 September meeting, with a 25bp hike now around 90% priced.

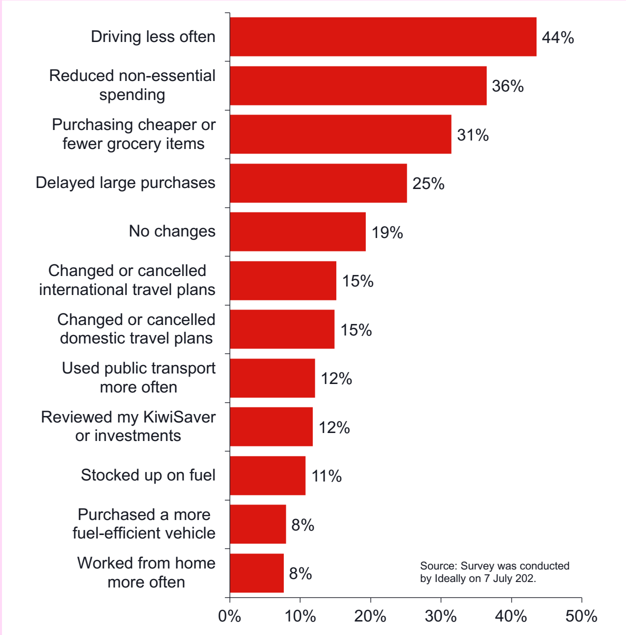
Darren Gibbs, Senior Economist

Chart of the week.

Conditions in New Zealand's retail sector are still tough, with spending down 1.4% in June. Despite recent falls, fuel prices are still well above the levels we saw prior to the Middle East war, and consumer confidence remains down on the levels we saw at the start of the year.

Consistent with those trends, our own talks with households highlight an increased level of caution when it comes to spending. 36% of the households we've spoken to recently told us they've wound back their discretionary spending, and around 15% have delayed or cancelled travel plans. Even when it comes to spending on essentials like groceries, around 30% said they've changed how they shop, purchasing fewer or cheaper items. With continued cost of living pressures, a soft labour market and ongoing economic uncertainty, we expect spending levels are likely to rise only gradually through the back part of the year.

What changes have households made as a result of the Middle East conflict?

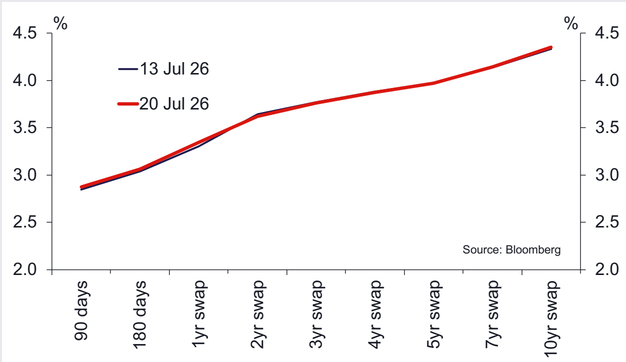


Fixed versus floating for mortgages.

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

Middle East.

Hostilities between the US and Iran have resumed with fresh military strikes and the US announcing a blockade of Iranian ports. President Trump has formally notified Congress that "military action" restarted on 7 July in response to Iranian attacks on commercial vessels. That allows for military operations up to for 60 days (unless an extension is agreed). Global oil prices rose more than 10% over the past week.

US.

US CPI printed on the low side of expectations in June, with overall prices down 0.4% over the month (+3.5%yr). The result was pulled down by the sharp fall in fuel prices. However, the flat core inflation result was also softer than expected. Those soft inflation pressures saw expectations for Fed rate hikes being wound back. Even so, Fed Chair Warsh's testimony to Congress had a hawkish tone. While Warsh didn't explicitly signal a rate hike, he noted that the Fed will be independent in its policymaking and that it's committed to getting inflation back down after having missed its target for more than five years. On the activity front, the Michigan Consumer Confidence Index took a sizeable step higher as inflation concerns eased. There was also a modest 0.2% increase in June retail sales, with lower petrol prices supporting discretionary spending. In the business sector, recent regional business surveys and the Fed's Beige Book pointed to moderate increases in activity. This week's US data calendar includes a number of business surveys.

In Canada, the BoC left its benchmark interest rate on hold at 2.25% as expected. While inflation has picked up, higher fuel costs don't appear to be spilling over into other prices and the BoC expects inflation to drop back again next year. However, Gov Macklem did note that rate hikes were still on the table if high oil prices result in more persistent inflation pressures.

Asia Pacific.

In Australia, both household and business confidence picked up in June as inflation pressures eased. Even so, confidence remains below the levels we saw prior to the Middle East conflict. The highlight of this week's calendar will be the June labour market data, out Thursday.

In China, GDP growth was softer than expected in the year to June, slowing to 4.3%yr (from 4.5%yr previously). Industrial production continues to be a key driver of growth, and retail trade was also stronger than expected. However, domestic demand more generally remains subdued, with a slowdown in fixed asset investment.

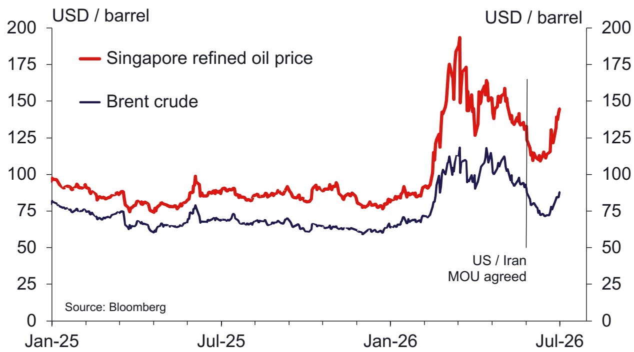
Trading partner real GDP (calendar years)

	Annual average % change			
	2025	**2026**	**2027**	**2028**
Australia	2.0	1.5	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	4.8	4.2	4.2
India	7.6	6.7	6.7	6.6
Euro Zone	1.5	0.2	1.1	1.5
United Kingdom	1.4	1.1	1.1	1.5
NZ trading partners	3.2	2.8	2.7	2.9
World	3.4	3.2	3.3	3.3

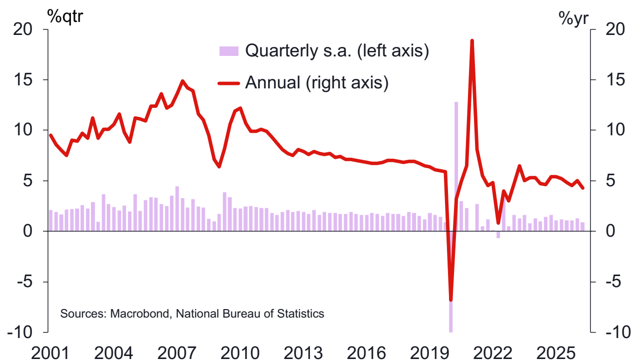
Australian & US interest rate outlook

	17 Jul	Dec-26	Dec-27	Dec-28
Australia				
Cash	4.35	4.85	4.35	3.85
90 Day BBSW	4.47	4.90	4.30	3.95
3 Year Swap	4.48	4.60	4.20	3.90
3 Year Bond	4.50	4.60	4.20	3.90
10 Year Bond	4.90	4.90	4.85	4.85
10 Year Spread to US (bps)	36	40	20	0
US				
Fed Funds	3.625	3.625	3.625	3.625
US 10 Year Bond	4.55	4.50	4.65	4.85

Oil prices



China GDP growth



Financial markets wrap

Foreign exchange.

NZD/USD last week extended the rise which started in late June and accelerated following the RBNZ's OCR hike. It reached 0.5863 (was 0.5626 on 26 June), before US-Iran war escalation capped the rise.

From here, risks are skewed towards further upside for the week ahead, a test of 0.5900 possible.

The main local event which could surprise markets is the Q2 CPI data on Tuesday. The median expectation is for a gain of 1.4%q/q, 4.0%y/y (Q1 was 3.1%y/y). There's little of note in the US calendar, but war developments will be important.

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 0.5900 area, while a full-scale war could cause a decline to 0.5600.

NZD/AUD continues to correct its year-old trend decline, catalysed mostly by the RBNZ OCR hike. As long as it remains above 0.8345, we'd target 0.8550 for the month ahead. NZ-AU yield spreads are expected to rise further. This week's Australian jobs data will provide event risk.

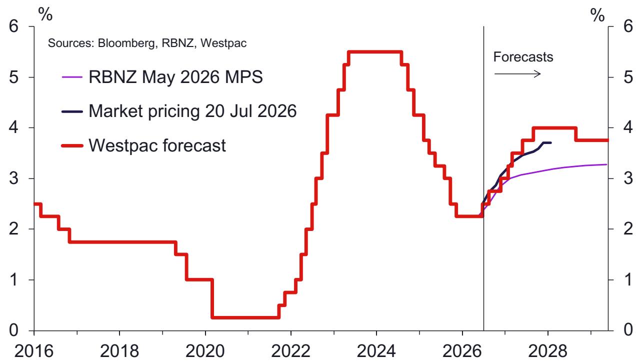
Interest rates.

The NZ 2yr swap rate is up over 35bp since mid-June, the 25bp RBNZ OCR hike on 8 July sparking an acceleration. The move stalled last week as speculators judged it had run far enough for now. During the week ahead, ranging is likely, between 3.50% and 3.70%, barring a surprise from NZ Q2 CPI data on Tuesday. During the month ahead, risks are skewed to the upside.

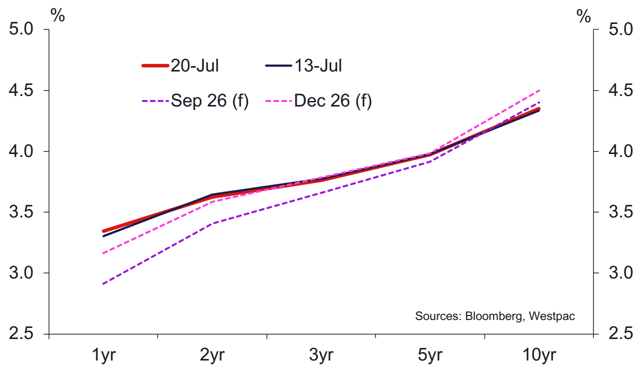
OIS pricing implies a 90% chance of a second hike in September, around a 50% of a third in October, but over a 100% chance of a third in December. Markets indicate an OCR of around 3.50% in a year's time. Westpac forecasts 25bp hikes in September and December, and an OCR of 3.75% in a year's time.

The yield curve's flattening trend since the peak in late December remains intact, albeit stalled as speculators cap short-maturity swap rates for now. We expect further flattening during the year ahead, given the RBNZ's tightening cycle is now in motion. Data outcomes will become more important, since they will inform the duration and magnitude of the cycle.

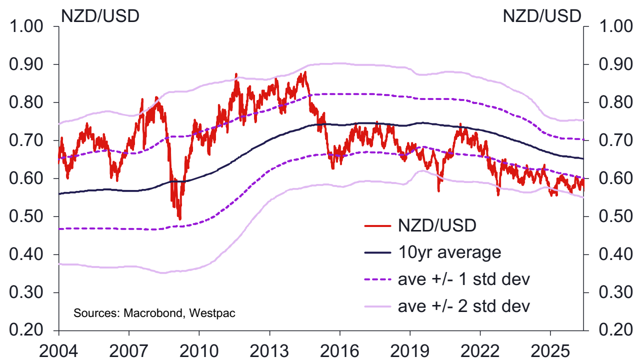
Official Cash Rate forecasts



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	0.584	0.563-0.596	0.553-0.720	0.615	0.60
AUD	0.836	0.816-0.836	0.816-0.971	0.909	0.84
EUR	0.510	0.495-0.511	0.484-0.637	0.559	0.51
GBP	0.433	0.425-0.442	0.425-0.531	0.479	0.44
JPY	94.8	91.1-94.8	74.7-98.6	86.8	96.0

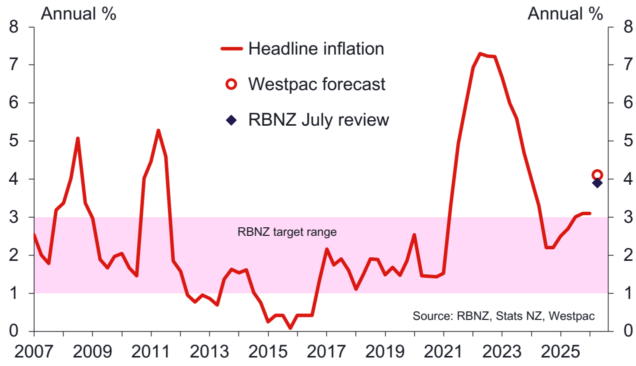
The week ahead

Q2 Consumer Prices Index

Jul 21, Quarterly Last: 0.9%, Westpac f/c: 1.5%
Annual Last: 3.1%, Westpac f/c: 4.1%, RBNZ f/c: 3.9%

With the war in the Middle East pushing oil prices sharply higher, consumer price inflation is set to rise to a two-year high. We estimate that New Zealand consumer prices rose by 1.5% in the **June quarter**. The annual inflation rate is expected to rise to 4.1% (up from 3.1% previously). That's slightly higher than the 3.9% the RBNZ assumed in their recent July update, however much of the surprise is likely related to volatile items like holiday accommodation. More importantly, core inflation has been softening but remains above the RBNZ's 2% target midpoint. That's despite the downturn in economic growth and softness in the labour market.

Annual headline inflation

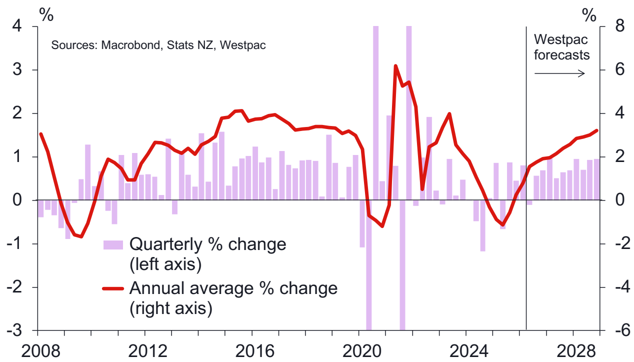


Economic and financial forecasts

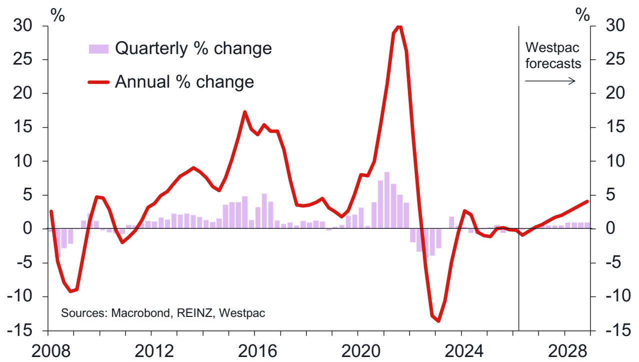
Economic indicators	Quarterly % change				Annual % change			
	Mar-26	Jun-26	Sep-26	Dec-26	2024	2025	2026	2027
GDP (production)	0.8	-0.1	0.6	0.7	-1.6	1.5	2.0	2.9
Consumer price index	0.9	1.5	0.7	0.4	2.2	3.1	3.5	1.9
Employment change	0.1	0.1	0.3	0.6	-1.3	0.2	1.2	2.5
Unemployment rate	5.3	5.4	5.4	5.3	5.1	5.4	5.3	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	3.85	4.15	3.73	3.27	4.15	4.40
10 year bond	4.54	4.61	4.55	4.65	4.50	4.27	4.65	5.05
TWI	67.2	66.5	67.0	67.6	69.5	66.4	67.6	72.2
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

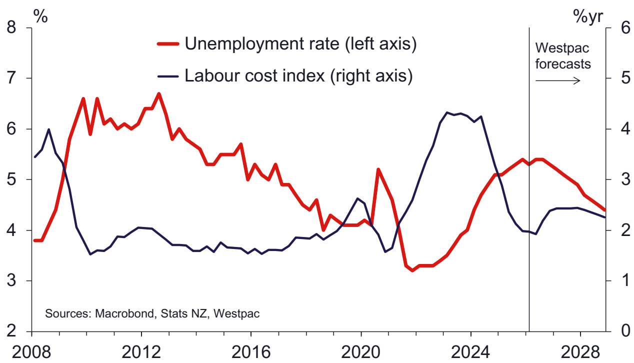
GDP growth



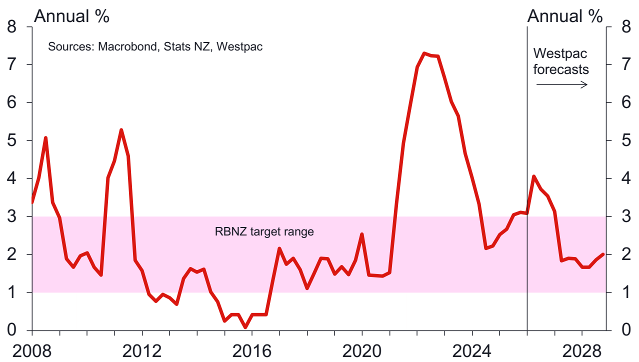
House prices



Unemployment and wage growth



Consumer price inflation



Data calendar

		Last	Market median	Westpac forecast	Risk/Comment
Mon 20					
NZ	Jun Trade Balance , $mn	800	–	–	A seasonal fall in exports & high fuel costs eliminate surplus.
US	Jun Leading Index, pts	0.1	–0.1	–	Consumer the soft spot for activity gauge.
Tue 21					
NZ	Q2 CPI, %qtr	0.9	1.5	1.5	Boost from fuel and energy prices.
	Q2 CPI, %ann	3.1	4.0	4.1	Headline elevated, core inflation firm despite soft activity.
Eur	Jul ZEW Survey Of Expectations, index	9.5	–	–	Confidence recovery to be tested by growth concerns.
	Q2 ECB Bank Lending Survey	–	–	–	Standards tightening amid lower tolerance for perceived risk.
UK	Jun Public Sector Borrowing, £bn	23.3	–	–	Fiscal balances remain under scrutiny.
	May ILO Unemployment Rate, %	4.9	–	–	Labour market tightening looks to have stabilised.
Wed 22					
Aus	Jun Westpac–MI Leading Index, %ann'd	–0.17	–	–	Consistent with sluggish, below-trend momentum.
UK	Jun CPI, %ann	2.8	–	–	Domestically-driven inflation pressures appears sticky.
Thu 23					
Aus	Jun Employment Change, 000s	40.3	15	15	Forward-looking indicators point to sluggish employment ...
	Jun Unemployment Rate, %	4.4	4.4	4.4	... rising underemployment suggests slack is emerging.
Kor	Q2 GDP, %qtr	1.8	0.4	–	Growth outlook challenged by external demand risks.
Eur	Jul ECB Policy Decision (Deposit Rate), %	2.25	2.25	2.25	Markets focused on guidance beyond this meeting.
	Jul Consumer Confidence, index	–17.7	–17.4	–	Yet to recover from Middle East driven decline.
US	Initial Jobless Claims	208	214	–	Layoffs remain low.
	Jun Chicago Fed Activity, index	–0.1	–	–	Broad activity measure may point to softer momentum.
	Jul Kansas City Fed Manufacturing, index	11	–	–	Activity on uptrend despite persisting price pressures.
Fri 24					
Jpn	Jun CPI, %ann	1.5	1.7	–	Weak yen a risk for higher import inflation.
	Jul S&P Global Manufacturing PMI, index	54.8	–	–	New orders has the sharpest rise since January 2022 ...
	Jul S&P Global Services PMI, index	52.2	–	–	... with input cost inflation seeing a marked rise.
Eur	Jul S&P Global Manufacturing PMI, index	51.4	51.7	–	Manufacturing is losing some of its steam across Europe...
	Jul S&P Global Services PMI, index	49.4	49.8	–	... but services activity has risen to a three-month high.
UK	Jul GfK Consumer Sentiment, index	–23	–	–	Confidence recovery remains fragile ...
	Jun Retail Sales, %mth	1.2	–	–	... posing another headwind for household spending.
	Jul S&P Global Manufacturing PMI, index	52.5	–	–	Strategic stockpiling driving a rise in manufacturing output ...
	Jul S&P Global Services PMI, index	48.8	–	–	... meanwhile services sees sharpest decline in 3.5 years.
US	Jul S&P Global Manufacturing PMI, index	53.9	54.4	–	Signs of pressures emerging in manufacturing employment ...
	Jul S&P Global Services PMI, index	51.2	–	–	... as services continues a steady recovery.
	Jun New Home Sales, %mth	–7.3	4.6	–	Higher borrowing costs still weigh on housing.

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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