



WEEKLY ECONOMIC COMMENTARY



21 Sep 2026 | Westpac Economics Team | westpac.co.nz/economics | economics@westpac.co.nz

Economy bags modest growth in Q2, patchy start to Q3

The main domestic focus in New Zealand last week was the release of the June quarter national accounts. Whilst clearly dated, the accounts do provide more complete insight into how the economy was travelling over the outset of the Middle East conflict when oil prices were at their highest levels and uncertainty seemed large. They also help inform views about where the economy was sitting relative to estimates of New Zealand's non-inflationary productive capacity.

As it turns out, the preferred production-based measure of GDP grew 0.2% during the quarter, in line with our more recent expectations (revised higher after the final partial indicators were released). However, growth was firmer than the flat forecast that the RBNZ had made in the September MPS (a forecast made prior to the release of those partial indicators). Combined with modest upward revisions to the previous quarter – mostly due to stronger construction activity – the level of GDP in the June quarter was about 0.5% higher than RBNZ estimated. Typically, a portion of this difference will flow through to the RBNZ's estimate of the output gap, which was thought to be -1.5% of GDP as of the September MPS. So, looking through the quarterly volatility, it may be the case that the output gap has been slowly closing over the last year (GDP growth of 2.6% over the year to June exceeds the RBNZ's most recent estimate of potential growth of 1.6%).

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	↗	→	↗

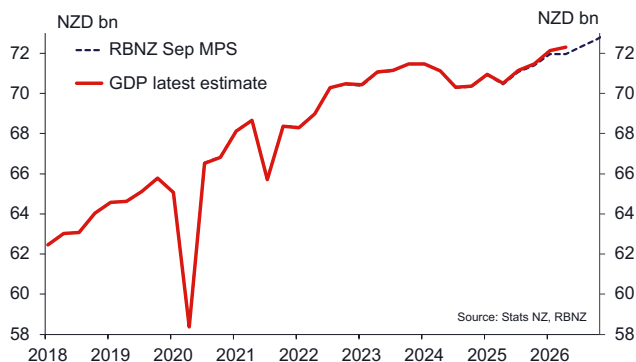
Westpac GDP nowcasts



Key data and event outlook

Date	Event
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
28 Oct 26	RBNZ OCR Review
28 Oct 26	FOMC meeting (29 Oct NZT)
3 Nov 26	RBA Monetary Policy Decision
5 Nov 26	Labour market surveys, September quarter
8 Nov 26	NZ General Election
11 Nov 26	RBNZ Financial Stability Report

GDP running slightly ahead of RBNZ estimates



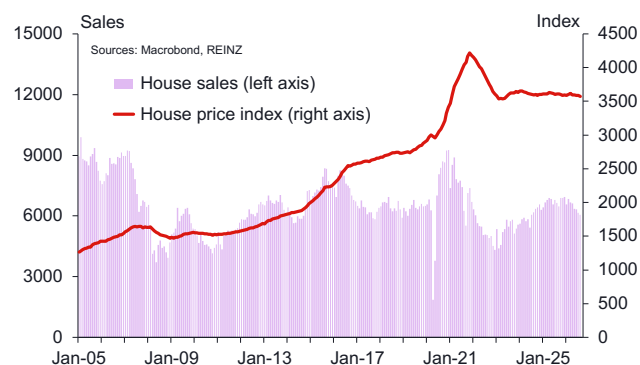
In the detail, market-based activity was perhaps a touch weaker than we had expected, but this was offset by some government-influenced components (notably healthcare and public administration) that were firmer. The expenditure-based measure of GDP reported no growth in private consumption during the quarter, with almost all the growth in GDP explained by strong growth in exports – partly due to a rundown in inventories – and an increase in residential construction and business investment. Our post-release **First Impressions** and **chart pack** provides more detail on this release.

For the RBNZ, we think that these results may help to assuage some MPC members' concerns about downside risks to growth. But our view remains that the committee will have more of an eye to the evidence on inflation pressures, such as the NZIER business survey on 6 October and the CPI on 22 October, as well as the rapidly shifting picture for oil prices, to determine their next move. Financial conditions have also tightened noticeably in the last week or two as interest rates have increased. These increases are being reflected in higher mortgage rates. That might act as an offset to the stronger activity data, in the minds of at least some MPC members.

In other news, balance of payments data for the June quarter, incorporating annual benchmark revisions, materially lowered the size of the current account deficit over the past year. New estimates point to higher returns earned on New Zealanders' investments abroad and lower returns paid on foreigners' investments in New Zealand. As a result, the current account deficit is now estimated at 3.0% of GDP in the year to March, down from 3.6% of GDP previously. Moving off that revised base, the current account deficit widened to 3.2% of GDP in the year to June. The incremental increase was in line with our expectations. Further widening can be expected in coming quarters as the full impact of higher costs for imported energy and related products feeds into these figures. Even so, credit ratings agencies should remain very comfortable with a deficit that is now only about a third as wide as the peak seen in 2022. The path taken by fiscal policy over coming years is likely to be more consequential for the rating.

Turning to more contemporary news, housing market activity continued to soften nationally in August with sales falling around 2% during the month – the sixth consecutive monthly decline – and now 13% lower than a year earlier. The median selling time remains close to where it has been for a while at 48 days – noticeably above the historical average. A rise in mortgage interest rates and ongoing economic uncertainty is probably contributing to the sluggishness in sales. In addition, while migrant inflows seem to have picked up a little in August, the annual total of just 20,000 remains low by recent historical standards and so is contributing less to housing demand than in normal times.

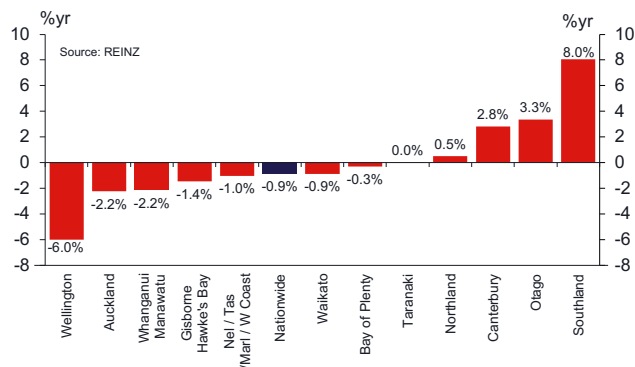
REINZ house prices and sales



The lack of urgency amongst buyers was also reflected in selling prices. The REINZ residential price index fell a further 0.3% in August and so was down 0.9% on a year earlier. The good news is that housing valuation metrics are improving for New Zealanders who are not currently long property. With inflation running at around 4%, this means that real house prices have declined by around 5% over the past year and relative to average labour incomes house prices are now back at levels last seen in 2016.

Weakness is concentrated in the main metropolitan centres in the North Island, especially in Wellington where they have fallen almost 6% over the past year. As we have noted these are areas where income growth has not been as well supported by tourism and agriculture sector returns. By contrast, prices are higher in most South Island centres, especially in the deep south where buoyant rural commodity prices are boosting incomes and the average house price is far below the nationwide average. Chief Economist Kelly Eckhold has spent the last week visiting clients in Otago and Southland – it's certainly the case that the very positive tone evident in the data is also there on the ground. Houses are selling like hotcakes in Southland where prices are up almost 8% y/y!

NZ house price growth (year to August)



In a similar vein, retail spending fell 0.9% in August, reversing the step higher that we saw in July. As was the case in June quarter, there remains a clear lack of positive momentum in household spending. Looking at the August spending result in more detail, there was a pickup in fuel spending over the month as prices at the pump moved back above \$3/litre. However, spending was down in all other categories. For now, a lack of real wage growth due to rising living costs, combined with falling house prices, appears to be offsetting the income flows that are being generated by the strong performance of the primary sector. Consumer confidence also remains below long run average levels. This quarter the **Westpac-McDermott Miller consumer confidence index** improved 9pts to 89.5, partially reversing the decline seen in the June quarter.

As noted earlier, trade remains a notable bright spot. Merchandise exports increased over 15%yr in August, led by a 23%yr rise in exports of meat. The import side of the ledger suggests a continuation of the strong capex spending seen in Q2 (plant and machinery imports rose 21%yr in August) while vehicle imports increased more than 40%yr. The latter may partly reflect the growth in the rental fleet that is needed to support a tourism sector that continues to perform well despite the Middle East conflict. In July visitor arrivals were over 8% higher than a year earlier, with Australian arrivals rising 7% and Chinese arrivals up more than 24% (the latter rising above its pre-pandemic level for the first time in July).

As far as the data flow is concerned, the Selected Prices Report for August closed out the week and while a little softer than we had expected, mainly reflected weakness in volatile travel and holiday accommodation prices. Food prices were also slightly on the weaker side, whereas the flat result for rents was expected given the recent soft trend. As we note in **our full report**, while these results might have signalled some modest downside risk to our existing forecast that the CPI will report a 0.7% lift in consumer prices in the September quarter (3.7% yr) – the risks are balanced by the continued creep higher in fuel prices over recent days, with more likely in coming days considering current global product prices. For reference, the RBNZ forecast a 0.8% increase in the CPI for the September quarter (3.9% yr).

Global oil prices vs local pump prices



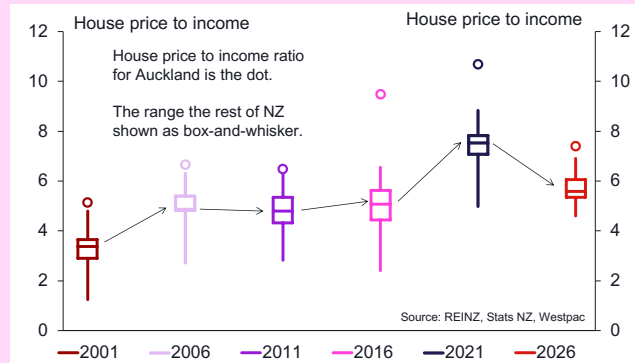
Finally, last week **we published a note** discussing the Labour Party's proposal to restore the RBNZ's dual mandate i.e., require monetary policy to achieve price stability while supporting maximum sustainable employment. Reinstating the dual mandate would necessitate amendments to the Reserve Bank of New Zealand Act 2021 and the issuance of a new Remit by the Minister of Finance. The legislative process could be completed relatively quickly, with the National Party-led Government demonstrating in 2023 that significant mandate changes can be enacted within weeks. For demand-driven economic cycles, we think that a dual mandate would likely have little impact on OCR decisions, as inflation and employment objectives generally move in the same direction. The main difference would emerge during supply shocks, such as that occurring at present, where inflation rises even as economic activity and employment are weakened, forcing policymakers to balance competing objectives. We believe a restored dual mandate could result in a slightly slower return of inflation to target or a slower rise in or slightly lower peak OCR and slightly greater tolerance of temporary inflation overshoots when labour market conditions are weak. That said, a change in government might also bring other macro changes that alter the outlook.

Darren Gibbs, Senior Economist

Chart of the week.

With an extended period of flat to falling prices, houses in New Zealand have become more affordable in recent years. Relative to household incomes, the average house now costs around 6.1 times the average income. That's down from 8.3 times the average income in 2021 and is the lowest it's been since 2015. Together with increased housing supply, that improvement in affordability has helped more New Zealanders get into their first home. However, as shown in the house price-to-income chart to the side, there are stark differences in affordability across the country. In Auckland the average home now costs around 7.4 times the average income. In contrast, the average home in other parts of the country costs around 5.7 times the average income. Unsurprisingly, it takes longer to get into your first home in Auckland than in other areas.

House price to income ratios – regional split across New Zealand

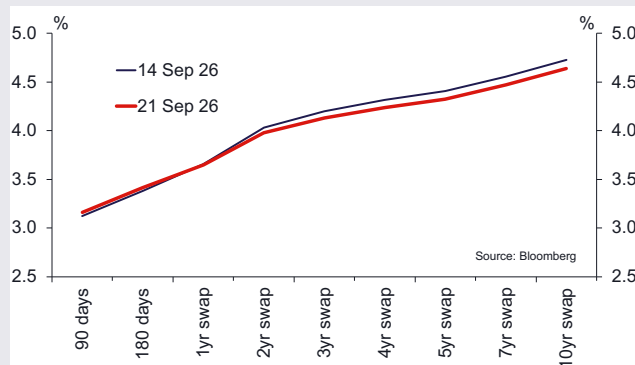


Fixed versus floating for mortgages.

The RBNZ lifted the OCR to 2.75% at its September policy meeting. While the RBNZ has signalled the likelihood of further rate hikes over the coming months, they also signalled that they want to see how the economy is shaping up in the wake of ongoing global headwinds and the 50bps of rate hikes since July. We continue to expect the RBNZ will pause in October before delivering another 25bp hike in December.

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.

There was some easing in oil supply concerns over the past week, with Saudi Arabia moving to restore the damaged East-West pipeline. Even so, ongoing military tensions have left oil prices at elevated levels. Brent crude starts the week around US\$103/bbl.

US.

The FOMC raised the funds rate by 25bps at its September meeting in a unanimous decision. The accompanying dot plot showed that 16 FOMC members expect at least one more hike this year, with four expecting two hikes. Eight members favoured a further hike in 2027. Reinforcing the hawkish tone were comments from Warsh, whose views are not recorded in the dot plot, which highlighted concerns over inflation. On the data front, retail sales were stronger than expected, rising 1.2% in August, while industrial production was flat and weaker than expected. This week's calendar includes several Fed speakers and updates on business activity.

UK.

The Bank of England held the Bank Rate at 3.75% in a 6-3 decision. While inflation is above target at 3.1%yr, the BOE has noted that this is almost entirely due to energy prices, with "little evidence of significant knock-on effects on prices and wages". Nevertheless, the MPC is conscious that the longer the Middle East conflict continues, the greater the chance of secondary inflation effects that would require tighter policy.

Asia Pacific.

We have shifted our forecast for the next RBA rate hike to September from November, with the risk of a follow-up hike. Governor Bullock's recent testimony noted that inflation was likely to remain elevated for some time and that upside risks appeared to be materialising. Materialisation of those upside risks was the conditionality set in August for further rate hikes. This week's calendar includes further commentary from Governor Bullock and other RBA board members on Tuesday, along with the August labour market update on Thursday. In Japan the BOJ raised its benchmark rate to 1.25% in a 7-2 split vote and signalled the possibility of further hikes. Governor Ueda noted that the BOJ should move pre-emptively to avoid being forced into a situation where rapid hikes are needed. In China, August activity data reinforced a picture of slowing momentum. Retail sales growth slowed to a weaker-than-expected +0.4%yr, while business spending on fixed assets fell 7.2%yr. Although industrial production growth rose to 5.2%yr, conditions remained soft outside the tech sector.

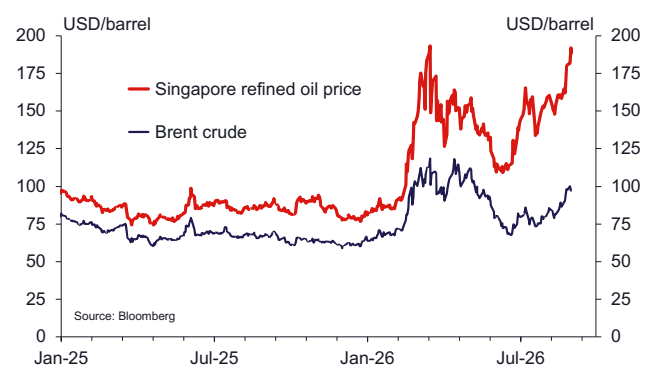
Trading partner real GDP (calendar years)

	Annual average % change			
	2025	2026	2027	2028
Australia	2.0	2.1	1.7	2.2
China	5.0	4.7	4.6	4.4
United States	2.1	2.1	1.8	1.9
Japan	1.1	0.7	0.8	0.9
East Asia ex China	4.7	5.2	4.3	4.2
India	7.6	7.1	7.0	6.6
Euro Zone	1.3	0.9	1.2	1.5
United Kingdom	1.3	1.2	1.0	1.5
NZ trading partners	3.2	3.1	2.8	2.9
World	3.4	3.3	3.3	3.3

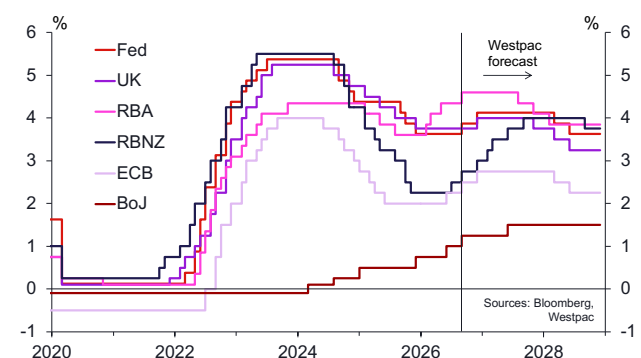
Australian & US interest rate outlook

	18 Sep	Dec-26	Dec-27	Dec-28
Australia				
Cash	4.35	4.60	4.10	3.85
90 Day BBSW	4.69	4.70	4.05	3.95
3 Year Swap	4.94	4.65	4.30	4.10
3 Year Bond	4.94	4.65	4.30	4.10
10 Year Bond	5.27	5.20	4.85	4.80
10 Year Spread to US (bps)	33	40	15	-10
US				
Fed Funds	3.875	4.125	4.125	3.625
US 10 Year Bond	4.94	4.80	4.70	4.90

Oil prices



Global central bank policy rates



Financial markets wrap

Foreign exchange.

The NZ dollar fell through below 0.5800 last week, trading to a low of 0.5703 after the Fed hiked by 25bps and published forecasts pointing to further hikes over the coming months. Post Fed, the NZ dollar has stabilised, closing last week at 0.5723, with the Q2 GDP supporting the market's pricing of further RBNZ policy tightening this year.

There is very little on either the domestic or international data front this week, leaving developments in geopolitics and the oil market as the most likely driver of the NZD. For the month ahead, we retain a bearish bias, targeting sub-0.5700, with technical targets at 0.5680 and 0.5625 (June low). Domestic factors have been mixed. US factors have also weighed on NZD/USD, particularly the Fed outlook. Further ahead, though, if NZ economic momentum improves as we expect during the quarter ahead, we see a case for a NZD/USD recovery to 0.5900 by year end.

NZD/AUD declined to a fresh 13-year low of 0.8014 last week, before recovering slightly to 0.8040. The speed of decline has left it "stretched" and in need of consolidation. Further, by year end, if NZ's economic recovery looks more compelling, then a rebound to the 0.8300-0.8400 area is plausible.

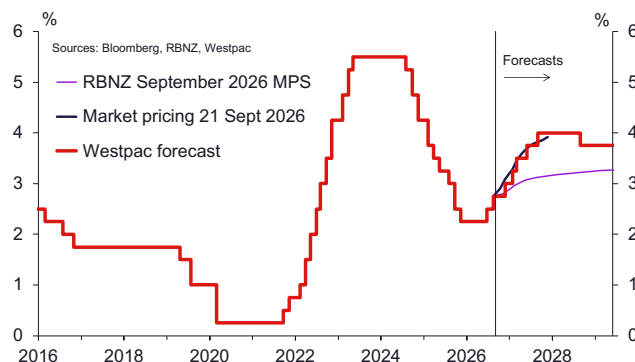
Interest rates.

Some semblances of calm returned to the Kiwi swaps market last week as global markets were comforted by the Fed's rate hike. After reaching a high of 4.06%, the 2yr swap rate settled back to 3.98%. Into year end, we expect a 3.80%-4.10% range, absent international surprises. We expect the economic recovery to continue, which should result in higher swap rates over time.

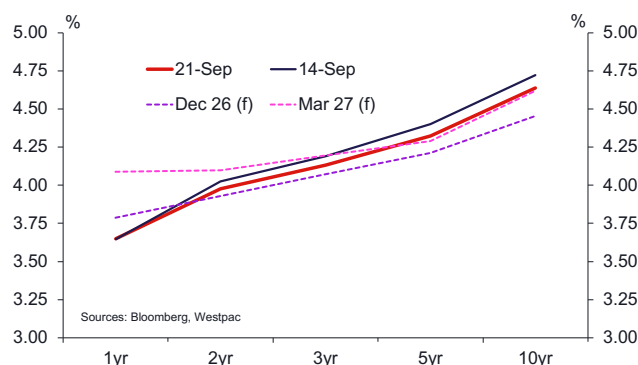
The near-term (conditional) path of the OCR, based on the RBNZ's OCR projection, is a hold in October and a hike in December. The evolution of NZ data over the next few months (including CPI and business surveys) will be important in determining whether this path eventuates. OIS pricing implies a 60% chance of a hike in October, over a 100% chance by December, and a peak OCR of around 3.75%.

The yield curve's flattening trend has resumed, helped by the rise in short-maturity interest rates offshore. The 2-10yr swap curve, which had steepened over the past month from 70bp to 80bp, is currently at 66bp. By year end, we expect the flattening trend to extend due to the RBNZ's tightening cycle, taking the 2-10yr curve to around 60bp.

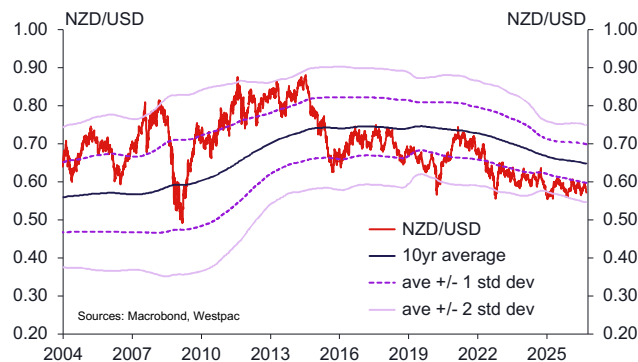
Official Cash Rate forecasts



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	0.572	0.563-0.597	0.553-0.720	0.611	0.59
AUD	0.804	0.803-0.837	0.803-0.970	0.905	0.82
EUR	0.498	0.495-0.513	0.484-0.637	0.556	0.50
GBP	0.428	0.425-0.438	0.425-0.531	0.476	0.43
JPY	89.4	89.1-95.3	75.5-98.6	87.4	90.7

The week ahead

Q3 Westpac-McDermott Miller Employment Confidence.

Sep 22, Last: 83.1

Our Employment Confidence Index fell sharply in the June quarter with the drop in confidence widespread. That fall came against the backdrop of the deepening conflict in the Middle East, with high fuel prices adding to concerns about the economic outlook and the jobs market. Our latest survey was conducted in the first two weeks of September. While tensions in the Middle East have persisted, we have seen an easing in fuel costs since our last survey, along with signs that activity is firming again and continued strength in export earnings. That leaves us with a mixed outlook for labour market conditions.

Employment Confidence Index

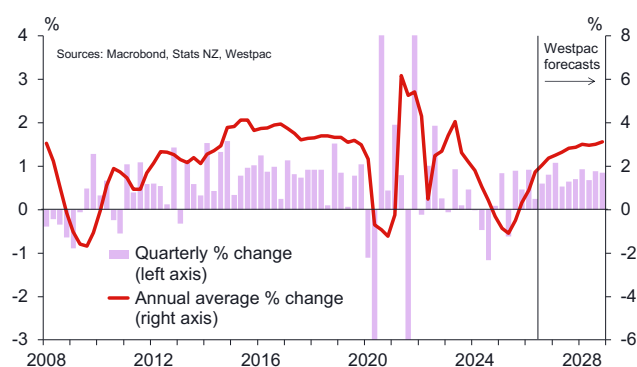


Economic and financial forecasts

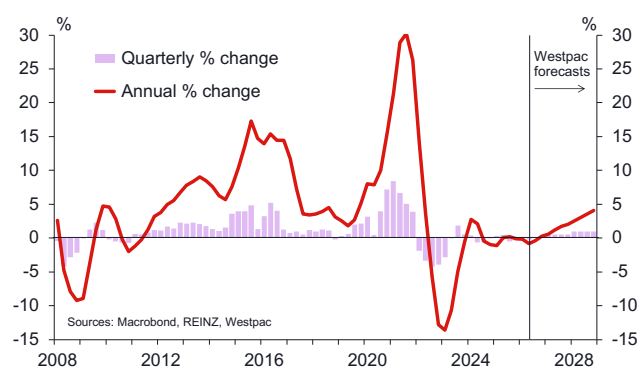
Economic indicators	Quarterly % change				Annual % change			
	Jun-26	Sep-26	Dec-26	Mar-27	2025	2026	2027	2028
GDP (production)	0.2	0.6	0.8	1.1	1.6	2.6	3.0	3.4
Consumer price index	1.5	0.7	0.6	0.4	3.1	3.7	1.7	2.1
Employment change	0.5	0.5	0.7	0.7	0.2	1.8	2.6	2.3
Unemployment rate	5.6	5.5	5.4	5.3	5.4	5.4	4.9	4.4
Labour cost index (all sectors)	0.6	0.6	0.6	0.5	2.0	2.3	2.3	2.3
Current account balance (% of GDP)	-3.2	-3.9	-4.1	-4.0	-3.0	-4.1	-3.8	-3.8
Terms of trade	-4.5	-0.1	2.2	2.4	3.3	-3.8	5.7	1.7
House price index	-0.2	0.0	0.2	0.5	-0.1	0.2	2.0	4.1

Financial forecasts	End of quarter				End of year			
	Jun-26	Sep-26	Dec-26	Mar-27	2025	2026	2027	2028
OCR	2.25	2.75	3.00	3.50	2.25	3.00	4.00	3.75
90 day bank bill	2.63	3.00	3.40	3.75	2.52	3.40	4.20	3.95
2 year swap	3.47	3.70	3.95	4.10	2.71	3.95	4.20	4.10
5 year swap	3.88	3.95	4.20	4.30	3.27	4.20	4.40	4.35
10 year bond	4.61	4.65	4.75	4.90	4.27	4.75	5.05	5.05
TWI	66.5	65.8	65.7	67.4	66.4	65.7	71.1	70.5
NZD/USD	0.58	0.58	0.59	0.61	0.57	0.59	0.65	0.65
NZD/AUD	0.82	0.82	0.82	0.84	0.87	0.82	0.89	0.90
NZD/EUR	0.50	0.50	0.50	0.51	0.49	0.50	0.54	0.54
NZD/GBP	0.44	0.43	0.43	0.44	0.43	0.43	0.47	0.46

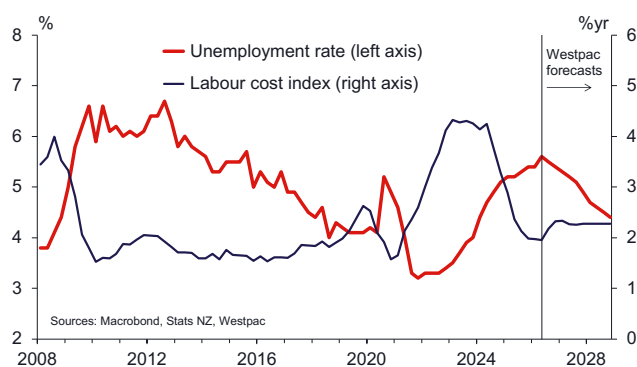
GDP growth



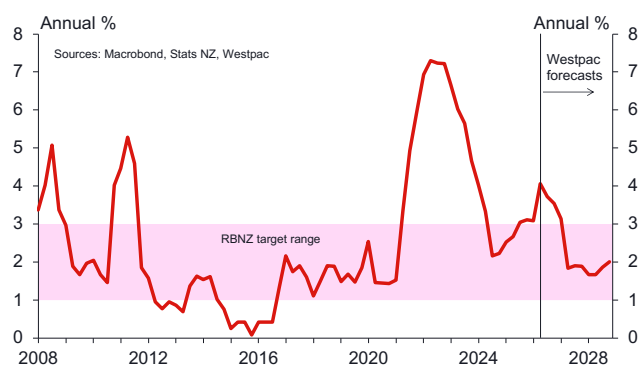
House prices



Unemployment and wage growth



Consumer price inflation



Data calendar

		Last	Market median	Westpac forecast	Risk/Comment
Mon 21					
UK	Sep Rightmove House Prices, %mth	-2.0	-	-	Housing demand still constrained by affordability.
US	Aug Chicago Fed Activity, index	-0.08	-0.06	-	Activity indicators point to below trend growth.
	Fedspeak	-	-	-	Goolsbee.
Tue 22					
NZ	Q3 Westpac-MM Employment Confidence	83.1	-	-	Surveyed between 1-12 September.
Aus	RBA Assist' Governor (Economic)	-	-	-	Hunter interview at 5:00am AEST.
	RBA Governor Bullock	-	-	-	Fireside Chat at 1:10pm AEST.
	RBA MPB Member	-	-	-	Speech by Iain Ross, 5:30pm AEST.
Eur	Sep Consumer Confidence, index	-15.5	-	-	Spending-sentiment disconnect also apparent in Europe.
UK	Aug Public Sector Borrowing, £bn	1.8	-	-	Fiscal pressures remain in focus.
US	Sep Richmond Fed Manufacturing, index	4	-	-	Factory conditions remain uneven.
	Fedspeak	-	-	-	Williams.
Wed 23					
Eur	Sep S&P Global Manufacturing PMI, index	52.7	52.3	-	Output growth accelerated to a 4.5yr high in August...
	Sep S&P Global Services PMI, index	51.6	51.1	-	...with solid resilience in services activity also.
UK	Sep S&P Global Manufacturing PMI, index	51.7	-	-	Job creation reaches a two-year among those surveyed...
	Sep S&P Global Services PMI, index	52.5	-	-	...as services expansion gathers momentum.
US	Sep S&P Global Manufacturing PMI, index	53.9	53.6	-	Output and orders growth are stagnating...
	Sep S&P Global Services PMI, index	56.5	56.0	-	...meanwhile services sector continues to outperform.
Thur 24					
Aus	Aug Employment Change, 000s	-15.8	20.0	30.0	Headwinds build with emp growth to slow in H2 ...
	Aug Unemployment Rate, %	4.5	4.5	4.5	... as the unemployment rate gradually tracks higher.
Jpn	Sep S&P Global Manufacturing PMI, index	54.9	-	-	Manufacturing activity remains expansionary though at ...
	Sep S&P Global Services PMI, index	52.5	-	-	... risk as global demand curbs.
Ger	Sep IFO Business Climate Survey, index	88.8	89	-	Business confidence has continued to improve.
US	Initial Jobless Claims	196	-	-	Labour market resilience will be tested.
	Aug New Home Sales, %mth	-10.5	1.3	-	Caution among homebuyers as headwinds increase.
	Sep Kansas City Fed Manufacturing, index	10	-	-	Factory activity remains patchy.
	Fedspeak	-	-	-	Williams, Hammack, Paulson.
Fri 25					
Eur	Aug M3 Money Supply, %ann	3.4	-	-	Broad based tightening in credit conditions apparent.
UK	Sep GfK Consumer Confidence, index	-14	-16	-	Has recovered from post Middle East conflict slump.
US	Aug Durable Goods Orders, %mth	1.1	-0.3	-	Business investment momentum remains firm.
	Sep Uni. Of Michigan Sentiment, index	47.8	47.8	-	Final estimate.
	Fedspeak	-	-	-	Williams, Hammack.

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