



WEEKLY ECONOMIC COMMENTARY



23 Feb 2026 | Westpac Economics Team | westpac.co.nz/economics | economics@westpac.co.nz

Reflecting on a dovish RBNZ

The RBNZ’s February policy update – the first under the watch of new RBNZ Governor Breman – was a mix of optimism and pessimism. The medium-term growth outlook wasn’t boosted much despite low interest rates and stronger recent data. In addition, pessimism about the housing market and its impact on consumer spending is prominent in the RBNZ’s concerns. The implications are a higher bar for an early start to OCR increases and a bias towards a weaker exchange rate.

Last week saw Governor Breman’s inaugural outing at the release of the **February Monetary Policy Statement (MPS)**. The general tone of the message was notably more dovish than market expectations, even though the RBNZ still sees a December initial hike as likely (but not certain). But the subtext was a bit pessimistic, indicating a high bar for an early rate rise. This implies the balance of risk has tilted away from an interest rate rise ahead of the General Election on 7 November. This also likely embeds a weak tone for the NZD for a while.

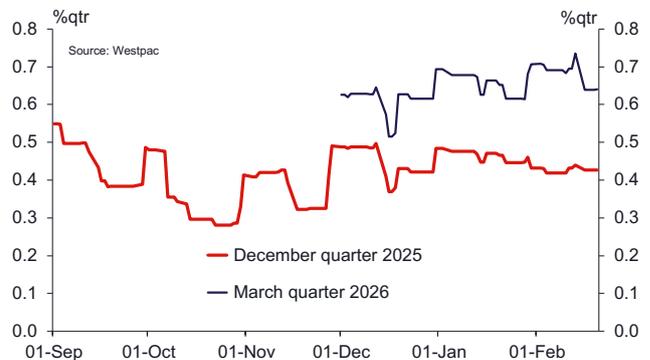
In many respects, last week’s MPS was according to expectations. We had anticipated a cautiously optimistic view from the RBNZ on the economic recovery that culminated in a signalled first shift in the OCR towards the neutral zone right at the end of 2026. We didn’t expect the RBNZ to signal any chance of further easing in the interim and we didn’t expect the RBNZ to talk about a pre-election tightening. The RBNZ’s messaging – which was notably much clearer than has sometimes been the case in the past – met those expectations.

However, there were aspects of the RBNZ’s story that remain less optimistic – indeed, in our view, pessimistic given the current low level of interest rates. At a high level the RBNZ presented picture of a solid recovery through the next couple of years. Growth is expected to be around 2.8% over each of 2026 and 2027, which is solidly above-trend growth and sufficient to eat up excess capacity

Key views

	Last 3 months	Next 3 months	Next year
Global economy	→	→	→
NZ economy	↑	↗	↗
Inflation	→	↘	↘
2 year swap	↗	→	↗
10 year swap	↗	→	↗
NZD/USD	↗	→	↗
NZD/AUD	↘	→	↗

Westpac GDP nowcasts



Key data and event outlook

Date	Event
17 Mar 26	NZ Selected price indexes, February
17 Mar 26	RBA Monetary Policy Decision
18 Mar 26	FOMC meeting (19 Mar NZT)
19 Mar 26	NZ GDP, December quarter
8 April 26	RBNZ OCR Review
17 Apr 26	NZ Selected price indexes, March
21 Apr 26	NZ QSBO Business Survey, March quarter
21 Apr 26	NZ CPI, December quarter
29 Apr 26	FOMC meeting (30 Apr NZT)
5 May 26	RBA Monetary Policy Decision

eventually. However, the pessimistic overlay is that these forecasts were not any stronger than presented late last year before we saw a run of stronger economic indicators, including September quarter GDP itself.

The stronger growth indications we saw late last year are reflected in the RBNZ's forecast of solid growth in the first half of 2026 (which was revised up marginally). But the RBNZ has scaled back its forecasts for growth in the second half of 2026 (from 1.5% to 1.2% over H2 2026). This means that although the output gap initially closes a bit more quickly in early 2026, progress then stalls and excess capacity isn't eaten up until the end of 2028. It also means the path to lower unemployment is much slower than previously expected, so that the unemployment rate ends 2026 at a still elevated 5.0%.

This less optimistic view of the future, even given low interest rates, means inflation pressures are not seen as pressing and the urgency to raise interest rates is not great. This is why Governor Breman emphasised that market pricing of more than one OCR increase in 2026 was too aggressive. Indeed, she noted that in the MPC's eyes, while a rate rise at the end of the year looks likely, it is hardly a done deal.

The key issue weighing on the MPC's mind is the role that house prices will play in shaping the economic recovery. And this is an area where again the RBNZ took a very pessimistic view. House prices have been flat in recent months. But the RBNZ took the view that recent momentum can be extrapolated into the whole of 2026 with just a marginal improvement in 2027. And that softness in house prices is expected to be a drag on households spending. In a year where economic growth is forecast to run at an above-trend 2.8%, house prices are forecast to be flat in 2026. This is a remarkable assumption remembering that in late 2025 the RBNZ thought house prices would rise around 3.8% in 2026 – even though back then the short-term economic outlook seemed less positive.

If the RBNZ's scenario comes to pass it will be notable as it's usually the case that an improving growth path prompted by low interest rates, reduces unemployment and lifts household incomes, increasing the demand for housing and house prices. Considering the trends post the Global Financial Crisis, a year of 2.8% GDP growth would usually see house prices rise at least somewhat. Or looking at it the other way around, zero house price growth would normally reflect a much slower economy and growth closer to 1.5% y/y. If we saw another year of GDP growth as weak as 1.5% then it's likely the output gap won't close and unemployment rate won't fall (indeed it could rise).

Such a scenario would ask hard questions of New Zealand's growth potential and the level of the "neutral" interest rate. We don't think that this would be consistent with neutral rates sitting in the 3-4% range

(which covers the range of RBNZ and private forecasters assumptions) as it would be more likely that even a 2.25% interest rate isn't really that stimulatory.

All of this is of course assuming no exogenous shock drives another weak growth outcome in 2026. No such shock is currently forecast – and indeed the RBNZ expects global growth over 2026 will be similar to 2025. The Governor did present a laundry list of downside risks coming from global issues. But none of these are impacting on the New Zealand economic recovery right now. And we don't think they are weighing much on the policy outlook at the minute.

These pessimistic scenarios also ask hard questions of where the exchange rate is heading. As we have noted many times, foreign exchange is a relative game, and right now other countries are moving ahead of New Zealand. We shouldn't see a very strong exchange rate at all if these more pessimistic scenarios come to pass. The situation seems particularly pressing versus the currently strong Australian dollar where interest rate expectations are firming. We have revised down our view of the NZD/AUD exchange rate for the next six months given the RBNZ's dovish views, to reflect the sense that that balance of risks for New Zealand interest rates have tilted away from a pre-election start to the tightening cycle. Ultimately, we remain optimistic the recovery will be stronger than the RBNZ fears. But this is not going to be settled until the second half of 2026 when the RBNZ and our forecasts start to significantly diverge. Significant downside risks for the NZD versus the Australian dollar exist if the NZ economy doesn't perform in 2026. A move below 80 cents shouldn't be ruled out – it's not like we haven't been there before.

In the meantime, the RBNZ's focus on housing and the implications for household consumption growth will place a premium on house price data and consumer spending indicators. As noted, **last week's data on house prices** confirm still flat prices and unchanged momentum. Last week's **electronic card spending data** was weaker than expected – but the data appears a lot weaker than card spending data produced by the banks, **including our own indicator**. Hence, we wonder if the Stats NZ data is somehow missing something as retail trends and the payments marketplace is shifting. This week's Retail Trade Survey for the December quarter will be interesting in that regard.

Recent data also confirmed that the dairy industry remains in a strong position. The GlobalDairyTrade auction was again strong, and prices have retraced all the weakness since late September last year when concerns about strong global supply started to assert themselves. Fonterra has responded by lifting the midpoint of its 2025/26 milk price forecast to \$9.50/kg, which is close to our forecast of \$9.40. Demand appears to remain strong in line with the message of global growth projections.

Stats NZ's latest monthly update on selected

consumer prices was broadly in line with our expectation for a gradual easing in overall inflation this year. However, the underlying detail of the January update did deliver some surprises. On the upside, we saw another large increase in food prices (+2.5% mth / +4.6% yr) with strong gains in the prices for fresh produce, meat and groceries. Recall that increases in food prices were a key factor that pushed overall inflation above 3% over 2025, and these prices have been hotter than expected in the early part of 2026. However, balanced against that firmness has been ongoing softness in housing rents, with average rents flat in January. That's a particularly weak result given that the summer months are normally the peak season for rents. With low population growth and big increases in housing supply, we expect rental growth will remain soft over the remainder of the year. And with housing rents one of the largest components of the CPI, that will helpfully dampen overall inflation over the coming year. Putting that altogether, we continue to expect that annual inflation will ease back from the current elevated level of 3.1% over the course of this year. However, we still expect that inflation will remain above 2% for some time, with core inflation set to remain in the upper part of the RBNZ's comfort zone.

Tariff update.

Over the weekend the long-awaited Supreme Court judgement on the legality of the US administration's reciprocal tariffs was passed down. We have consistently noted that those tariffs (as opposed to those related to specific sectors) looked to be on shaky legal ground and were ripe for cancellation by the Court. This is exactly what has happened which is great news for New Zealand exporters. The administration can't now use tariffs in as flexible a way as has been the case. Rather the administration will need to appeal to national security and balance of payments concerns to sustain tariffs on a product by product or country by country basis.

The President immediately responded by imposing a global "Section 122" tariff of 15% on imports not covered by trade agreements such as the USMCA or existing sectoral tariffs. This means that in the short term not much changes for New Zealand exporters as they were subject to a 15% tariff. But the outlook is nonetheless brighter as these new global tariffs have a legislative sunset date of 150 days. The Administration will need to appeal to national security and balance of payments concerns to sustain tariffs on most New Zealand exports. This is unlikely given the nature of our exports and the insignificant size of our balance of payments surplus with the US. Even our trade surplus with the US is a small and cyclical element of the entire US trade deficit. But importantly that surplus is balanced by a trade deficit in services exports. And the relevant law relates to the

entire balance of payments and not trade alone (if it's even relevant at all in a floating exchange rate regime).

Uncertainty remains, but now it's the good kind where the downside is capped for New Zealand exporters while prospects of much better terms are becoming more tangible in a few months or so.

Kelly Eckhold, Chief Economist

Chart of the week.

Housing rents rose by just 1.2% over the past year. That's the slowest pace of increase since 2007, the furthest back we have records. In some regions, like Wellington, there have been outright falls in asking rents. That softness has been particularly notable given that summer is usually the peak period for new rentals. Underlying that downshift in rents has been a reshaping of the demand and supply balance in the rental market. The combination of a sharp fall in population growth at the same time as we've had relatively high levels of home building has alleviated much of the underbuilding of homes that we saw over the past decade. We think that rental growth is likely to remain muted this year. On the supply side, home building activity is showing signs of picking up again, with dwelling consent numbers rising to a two-year high. At the same time, while population growth looks like it's found a base, it's expected to climb only gradually, especially given the continued softness in the labour market.

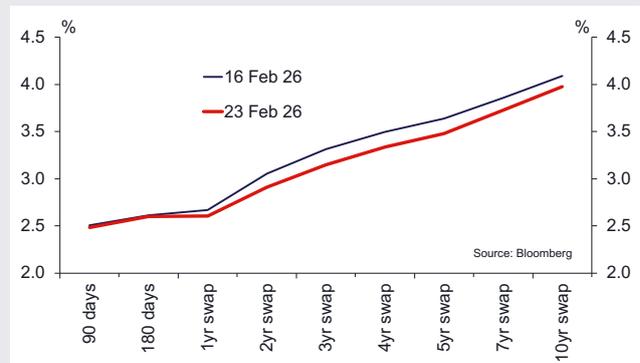
Housing rent inflation continuing to slow



Fixed versus floating for mortgages.

The RBNZ's cautious signal about the extent of future OCR hikes has helped to take some pressure off longer-term wholesale interest rates, at least for now. Ultimately though, once the tightening cycle does get under way we expect to see a series of rate hikes to return the OCR to more neutral levels. Fixed-term mortgage rates between two and five years now lie slightly either side of 5%. Fixing for one of these longer periods appears attractive as it would insulate borrowers from a trend higher in the OCR over the next couple of years.

NZ interest rates



Global wrap

North America.

Last week's highlight in the US was the advance GDP report for Q4. This revealed slower than expected growth of 1.4% annualised, with final sales rising just 1.1%. In other news, the composite PMI fell to a 10-month low in February. Meanwhile, the core PCE deflator lifted to 3.0%/y in December. The minutes from last month's FOMC meeting had a somewhat hawkish tilt, with "several" participants seeing two-sided risks and arguing that policy tightening would be appropriate if inflation remains above target. As discussed in this week's main article, the Supreme Court struck down President Trump's Liberation Day tariffs on Friday, but they have since been largely reinstated – at least for 150 days – through alternative legislation. This coming week's US diary is quiet but includes the Conference Board's consumer survey (Tuesday) and the producer price indexes (Friday). There are several Fed speeches planned, including Governor Waller and Chicago Fed President Goolsbee speaking on the economic outlook.

Europe.

The preliminary composite PMIs firmed modestly in both the UK and the euro area in February (to 53.9 and 51.9 respectively). However, the UK's labour market softened in December with the unemployment rising to 5.2%, the highest level since early 2021. Meanwhile, core inflation in the UK moderated to 3.1%/y in January but was still slightly firmer than expected. This week will see the release of further consumer and business survey data in the euro area and the UK, together with preliminary inflation data in Germany.

Asia-Pacific.

Australian employment grew 18K in January leaving the unemployment rate steady at 4.1% (0.5ppts below the RBA's assessment of the NAIUR). In other news, the Wage Price Index increased 0.8%/q/q in Q4, the same as in Q3. This appears consistent with the RBA's expectations and represents a slightly slower pace than seen during the first half of 2025. The minutes from this month's RBA Board meeting argued that the economic outlook had "materially shifted", and that financial conditions were "currently not restrictive enough". Little guidance was offered about the policy outlook, with the minutes stating that "It was not possible to have a high degree of confidence about any particular path for the cash rate". The January CPI report will be the focus in Australia this week. Japan's GDP grew a much weaker than expected 0.1%/q/q in Q4 following a 0.7%/q/q contraction in Q3. Chinese markets will reopen tomorrow, but there are no significant data releases over the coming week.

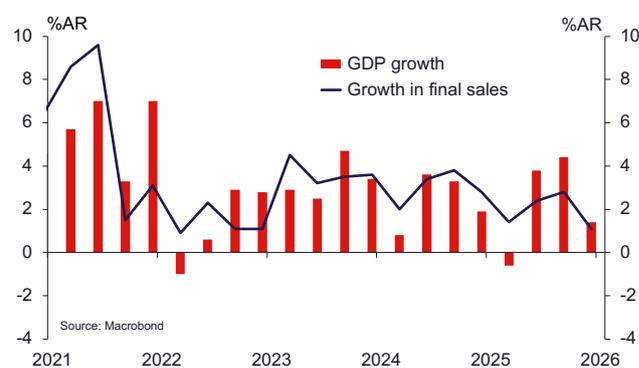
Trading partner real GDP (calendar years)

	Annual average % change			
	2024	2025	2026	2027
Australia	1.0	2.0	2.6	2.3
China	5.0	5.0	4.6	4.5
United States	2.8	2.3	2.7	1.8
Japan	0.1	1.2	0.9	0.9
East Asia ex China	4.3	4.6	4.1	4.1
India	6.5	7.2	6.8	6.5
Euro Zone	0.8	1.5	1.3	1.5
United Kingdom	1.1	1.4	1.0	1.5
NZ trading partners	2.9	3.2	3.1	2.9
World	3.3	3.4	3.4	3.3

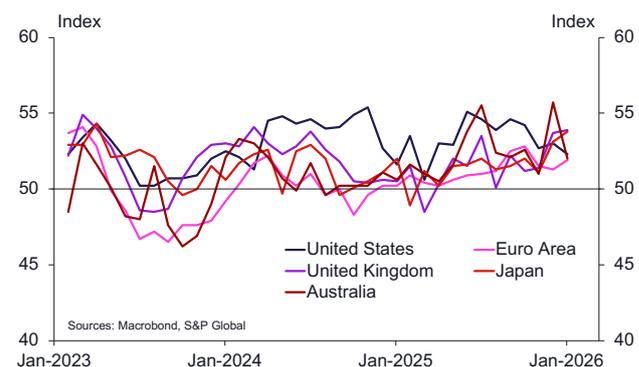
Australian & US interest rate outlook

	20 Feb	Mar-26	Dec-26	Dec-27
Australia				
Cash	3.85	3.85	4.10	3.85
90 Day BBSW	3.99	4.05	4.15	3.80
3 Year Swap	4.27	4.25	4.00	3.60
3 Year Bond	4.28	4.25	4.00	3.60
10 Year Bond	4.73	4.75	4.80	4.60
10 Year Spread to US (bps)	66	55	40	0
US				
Fed Funds	3.625	3.625	3.375	3.375
US 10 Year Bond	4.07	4.20	4.40	4.60

US GDP growth



S&P Global composite PMI readings



Financial markets wrap

Foreign exchange.

NZD/USD continues to consolidate in the 0.5928 to 0.6093 range which has prevailed since peaking on 29 January. Further consolidation this week is expected.

Economic data this week is second-tier for both NZ and the US. Still worth watching will be NZ retail sales and the monthly business and consumer sentiment surveys, while the US has PPI inflation data. Probably more important for markets will be developments in US import tariffs (the Supreme Court has ruled that the use of “IEEPA” legislation was illegal, and fresh 15% global tariffs have since been promised by President Trump under alternative legislation). Also important will be developments in the US-Iran relationship given the military buildup.

Multi-month, we remain bullish, and target 0.62. New Zealand economic data is expected to trend positively during the year ahead as the economy recovers, and local interest rates are expected to gradually rise. In addition, the US dollar’s safe-haven identity has likely been tarnished given events over the past year, and there is potential for further Fed easing.

NZD/AUD last week extended its 9-month long trend decline, reaching 0.8432 – a 13-year low. The move has been justified by relative economic performance and NZ-AU yield spreads (also at a 13-year low) and could continue slightly further. However, the contrasting economic performances have been largely priced in, and New Zealand’s economy is expected to improve, warning of a possible reversal during the months ahead.

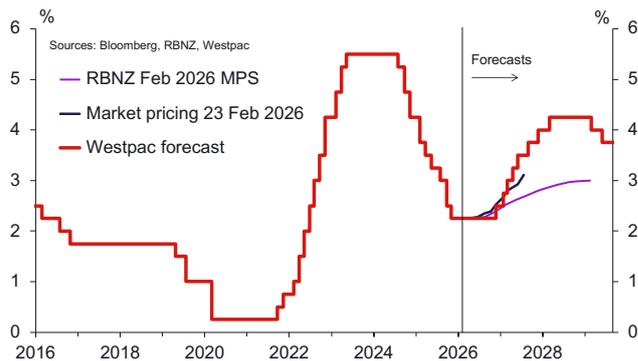
Interest rates.

After the NZ 2yr swap rate rose to a cycle high of 3.17% in early February, it has since corrected lower to 2.90%, partly in sympathy with lower US rates, and partly due to the RBNZ MPS last week. The latter was less hawkish than markets had expected, emphasising a long period on hold will be required to aid the economic recovery. There is scope for the 2yr to fall further to the 2.80% area during the month ahead.

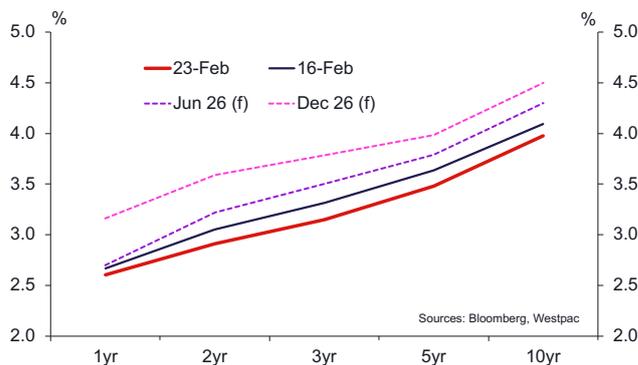
The OIS market prices a 0% chance of a rate change at the next meeting on 8 April and is not confident of an increase in the OCR until the December 2026 meeting which is around 100% priced.

The yield curve flattening since the peak in late December, driven by higher short maturity yields and relatively stable long maturity yields, may stall during the next few months. But we expect further flattening during the year ahead if evidence of New Zealand’s economic recovery continues to unfold and markets become more confident about the extent of the next RBNZ hiking 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	0.597	0.559-0.605	0.553-0.743	0.625	0.63
AUD	0.844	0.844-0.876	0.844-0.971	0.918	0.88
EUR	0.507	0.484-0.511	0.484-0.637	0.566	0.52
GBP	0.443	0.427-0.444	0.426-0.531	0.485	0.45
JPY	92.6	87.8-94.4	74.7-98.6	85.6	91.4

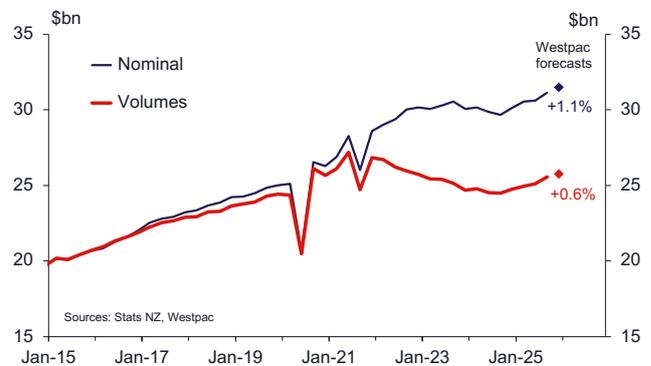
The week ahead

Q4 Retail Trade Survey

Feb 23, volumes – last: +1.9%, Westpac f/c: +0.6%

Since late 2024, nominal retail sales have been rising by around 1.2% per quarter, including a solid rise in the volume of goods sold. That corresponds to the period over which interest rates have been dropping, with increased spending in interest rates sensitive areas like durables and hospitality. With borrowers continuing to roll on to lower rates, we're forecasting another 1.3% rise in nominal spending. However, with a lift in inflation over the quarter, the volume of goods sold is only expected to be up 0.6%. Notably, quarterly retail sales have been growing much faster than the monthly spending updates have suggested for a year now. We think this will be the case again this quarter.

NZ retail spending

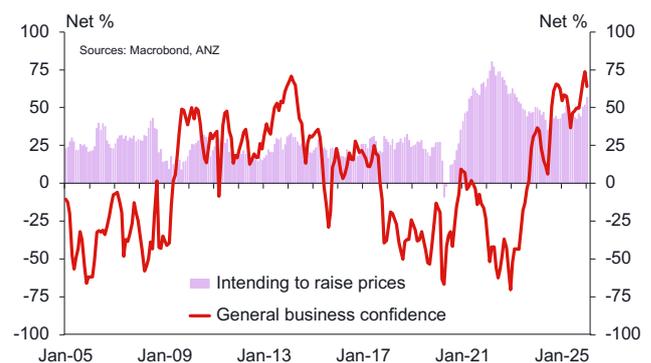


Feb ANZ Business Confidence

Feb 26, Last: 64.1

Business confidence dropped back a bit in the January survey, after a strong run-up over the second half of 2025. Importantly, these still-high levels of confidence are now being backed by results, with more businesses reporting higher levels of activity and employment than a year ago. Less encouragingly for the RBNZ, firms' pricing intentions have also broken higher in recent months, as they look for an opportunity to reclaim their margins from the significant cost pressures that they've faced for several years.

Business confidence and pricing intentions



Economic and financial forecasts

Economic indicators	Quarterly % change				Annual % change			
	Sep-25	Dec-25	Mar-26	Jun-26	2024	2025	2026	2027
GDP (production)	1.1	0.6	1.0	0.5	-1.6	1.8	3.3	2.7
Consumer price index	1.0	0.6	0.5	0.5	2.2	3.1	2.3	2.5
Employment change	0.0	0.5	0.3	0.7	-1.3	0.2	2.6	2.2
Unemployment rate	5.3	5.4	5.3	5.1	5.1	5.4	4.7	4.4
Labour cost index (all sectors)	0.4	0.4	0.5	0.6	3.3	2.0	2.4	2.2
Current account balance (% of GDP)	-3.5	-3.4	-3.2	-3.1	-4.7	-3.4	-2.9	-3.3
Terms of trade	-0.5	-3.0	1.9	2.9	8.9	0.2	5.9	1.1
House price index	-0.6	-0.4	0.4	1.0	-1.0	-0.1	4.0	5.0

Financial forecasts	End of quarter				End of year			
	Sep-25	Dec-25	Mar-26	Jun-26	2024	2025	2026	2027
OCR	3.00	2.25	2.25	2.25	4.25	2.25	2.50	4.00
90 day bank bill	3.10	2.52	2.35	2.35	4.45	2.52	2.75	4.15
2 year swap	2.99	2.71	3.25	3.50	3.64	2.71	4.00	4.35
5 year swap	3.40	3.27	3.80	4.00	3.73	3.27	4.20	4.40
10 year bond	4.42	4.27	4.70	4.75	4.50	4.27	4.85	5.00
TWI	68.4	66.4	66.8	67.3	69.5	66.4	69.6	73.3
NZD/USD	0.59	0.57	0.59	0.60	0.59	0.57	0.63	0.68
NZD/AUD	0.91	0.87	0.84	0.85	0.91	0.87	0.88	0.92
NZD/EUR	0.51	0.49	0.50	0.50	0.55	0.49	0.52	0.56
NZD/GBP	0.44	0.43	0.43	0.43	0.46	0.43	0.45	0.48

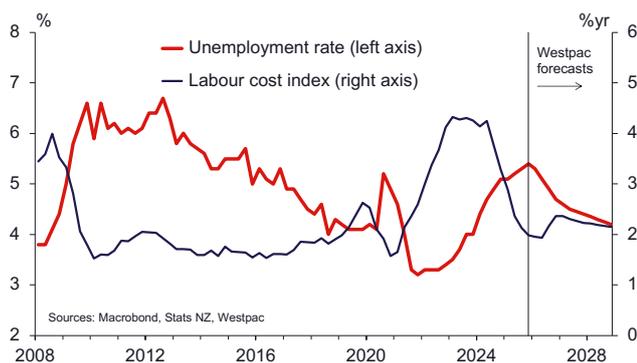
GDP growth



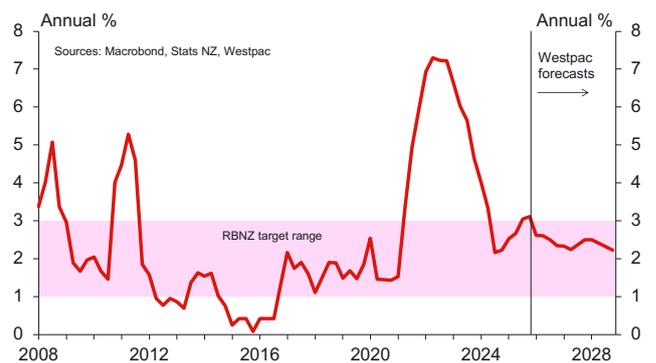
House prices



Unemployment and wage growth



Consumer price inflation



Data calendar

		Last	Market median	Westpac forecast	Risk/Comment
Mon 23					
NZ	Q4 Real Retail Sales, %qtr	1.9	0.6	0.6	Uptrend in core spending to continue.
Ger	Feb IFO Business Climate Survey, index	87.6	88.2	-	Marginal improvement expected.
US	Jan Chicago Fed Activity, index	-0.04	-	-	Tentative sign that growth is moving closer to trend.
	Dec Factory Orders, %mth	2.7	1	-	Trending positively since mid-year, good sign for investment.
	Feb Dallas Fed Manufacturing, index	-1.2	-	-	Conditions are looking less subdued across Texas.
	Fedspeak	-	-	-	Waller.
Tue 24					
Aus	RBA Head of Economic Analysis	-	-	-	Plumb speaking in Sydney.
US	Dec FHFA House Price Index, %mth	0.6	-	-	Recovering steadily against the backdrop of rate cuts.
	Feb Richmond Fed Manufacturing, index	-6	-	-	Volatile and broadly weak across the South Atlantic states.
	Feb Conf. Board Consumer Conf., index	84.5	88	-	Jan collapse may be a head-fake given solid spending.
	Fedspeak	-	-	-	Goolsbee, Collins, Bostic, Waller, Cook.
Wed 25					
Aus	RBA Governor Bullock	-	-	-	Fireside chat in Melbourne.
	Jan Headline CPI, %ann	3.8	3.7	3.6	Food, health and electricity are adding upside pressure...
	Jan Trimmed Mean CPI, %ann	3.3	3.3	3.3	... partially offset by garments, communications and holidays.
	Q4 Construction Work Done, %qtr	-0.7	1.3	1.3	Further strength in residential construction expected.
Eur	Jan CPI, %ann	1.7	1.7	-	Final estimate to provide full component detail.
US	Fedspeak	-	-	-	Barkin & Collins, Musalem.
Thu 26					
NZ	Feb ANZ Business Confidence, index	64.1	-	-	Confidence dipped in Jan but still high; pricing intentions up.
Aus	Q4 Private New Capital Expenditure, %qtr	6.4	0	-0.5	Last quarter's spike in data centre equipment to unwind.
Eur	Jan M3 Money Supply, %ann	2.8	2.9	-	Stabilising as banks see credit conditions as broadly 'neutral'.
	Feb Economic Confidence, index	99.4	99.6	-	Recovering business sentiment supports a gradual uptrend.
US	Initial Jobless Claims	206	-	-	Not indicative of widespread job losses.
	Feb Kansas City Fed Manufacturing, index	0	-	-	Positive momentum evaporated at the turn of the year.
Fri 27					
NZ	Feb ANZ Consumer Confidence, index	107.2	-	-	Picked up in recent months, highest since Aug 2021.
Aus	Jan Private Sector Credit, %mth	0.8	0.7	0.7	Near-term impact of a higher rate profile uncertain.
Jpn	Feb Tokyo CPI, %ann	1.5	1.4	-	Room for probably only one more rate hike this year.
	Jan Industrial Production, %mth	-0.1	5.3	-	Still positive despite global disruptions.
UK	Feb Gfk Consumer Sentiment, index	-16	-	-	Rate cuts to provide more support in 2026.
US	Jan PPI, %mth	0.5	0.3	-	Little evidence of tariff pass-through at this stage.
	Feb Chicago PMI, index	54	52.5	-	First positive read in two years likely noise.
	Dec Construction Spending, %mth	-	0.3	-	Release of delayed data; last read pointed to weak trend.

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