



WEEKLY ECONOMIC COMMENTARY



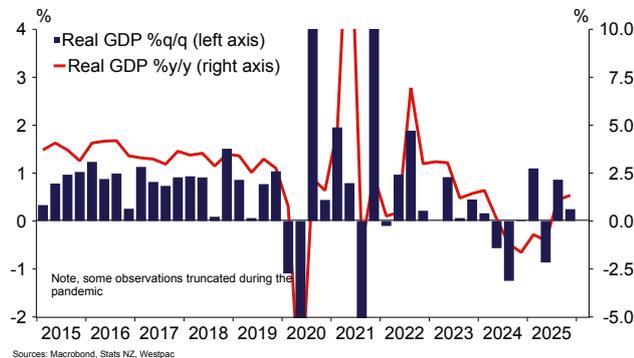
23 Mar 2026 | Westpac Economics Team | westpac.co.nz/economics | economics@westpac.co.nz

Focus turns to the RBNZ after data dump

The past week has seen a heavy data flow in New Zealand. In normal times, this data would have been of intense market interest, but developments in the Middle East are understandably the focus for domestic market participants at present. That doesn't mean that these reports are unimportant as they provide some insight as to how the economy was travelling prior to the conflict. Momentum – or lack thereof – may play a role in determining how the economy navigates the oil price shock. It will certainly influence how the RBNZ reacts to these developments.

Q4 GDP disappoints; other data mixed this week.

GDP growth

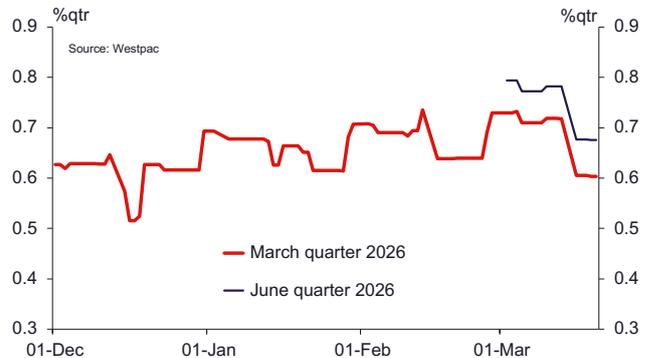


The most dated report was last week's release of the national accounts for the December 2025 quarter. The production-based measure of GDP grew just 0.2%q/q – below our recently downwardly-revised estimate of 0.4%q/q. And with growth in the September quarter revised down by 0.2%pts to 0.9%q/q, annual growth was a lower-than-expected 1.3% (up still up from 1.1%

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



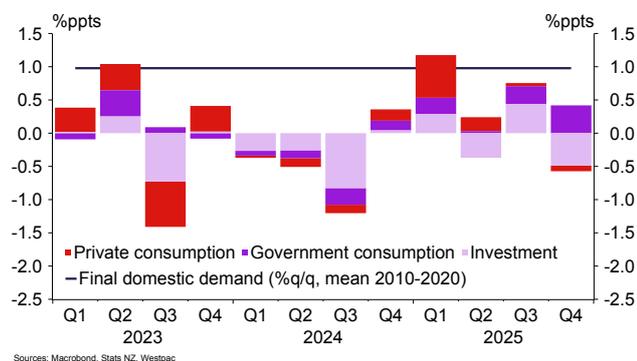
Key data and event outlook

Date	Event
24 Mar 26	RBNZ Governor speech on Iran war released (9am)
8 Apr 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
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

in the September quarter). The level of activity in the December quarter was 0.4ppts lower than the RBNZ had estimated in the February Monetary Policy Statement.

The expenditure measure of GDP was also soft, up just 0.1%/q/q. Household consumption fell by 0.1%/q/q following a disappointingly flat September quarter, though this likely partly reflects ongoing issues with distinguishing between spending by households and spending by a growing level of overseas tourists. Business investment fell 3.1%/q/q, led by lower spending on non-residential buildings, plant and machinery and transport equipment. Government spending and inventory accumulation made a positive contribution to growth.

Contributions to growth in final domestic demand

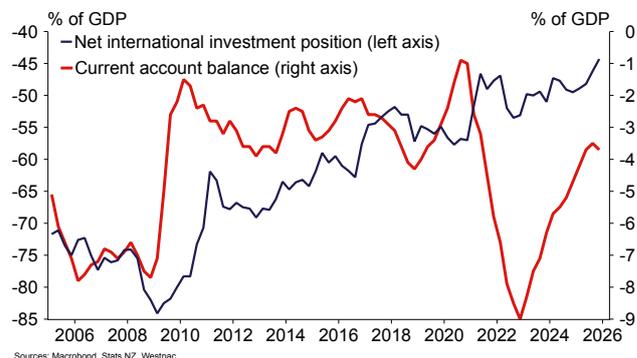


So, what do these figures mean for the RBNZ? At one level, they may ultimately prove to be of little more than historical interest, given the pall cast over the global economy in recent weeks by the Middle East conflict. But the RBNZ will likely conclude that while the New Zealand economy was regathering some momentum coming into this latest shock, it was still barely at a pace that would have halted the rise in unemployment or added to domestic inflation pressures. And mechanically, the RBNZ may modestly revise up its estimate of the size of the negative output gap that prevailed at the end of last year. Certainly, these figures make it even more likely that the RBNZ follows the textbook approach and attempts to look through the current oil price shock, while being mindful of the risks to inflation expectations should the period of high headline inflation be prolonged.

Turning to the external sector, a current account deficit of 3.7% of GDP was reported for 2025, down from 4.7% of GDP in 2024. The deficit was slightly wider than expected, with the investment income deficit widening in the December quarter (both due to weaker portfolio income credits and larger direct income debits). And given current developments in the Middle East, the deficit is likely to widen slightly due to the increase cost of imported fuel. However, at current levels, the current account deficit has ceased to be a major talking point, including for the credit ratings agencies. Rather, as evidenced by Fitch Ratings decision on Friday to assign a negative outlook to New Zealand's AA+ foreign issuer

rating, the focus is on the lack of progress in achieving fiscal consolidation.

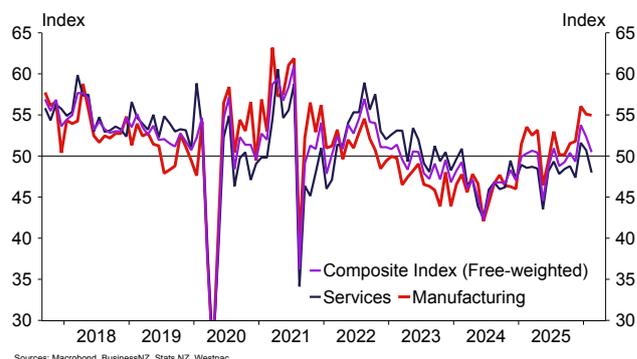
Current account balance and net international investment position



Of more contemporary interest, following a disappointing January reading, Stats NZ reported a welcome 1.4%/m/m rebound in consumer spending in February. The largest driver was a lift in grocery sales. We also saw a rise in discretionary spending areas, with sales of furnishings and other household durables up 1.3%/m/m, while spending in bars and restaurants increased 2.4%/m/m (spending by an increasing number of foreign tourists likely contributed to this growth).

Less positively, the Business NZ Performance of Services Index pointed to continued malaise across the broader services sector in February, with the headline index falling to a four-month low of 48.0. And somewhat disappointingly, MBIE's measure of job advertising was unchanged in February. Over coming months, we will be looking to see whether uncertainty created by the Middle East conflict interrupts the gradual uptrend in job advertising that has been evident since around the middle of last year.

Business NZ PMI indexes

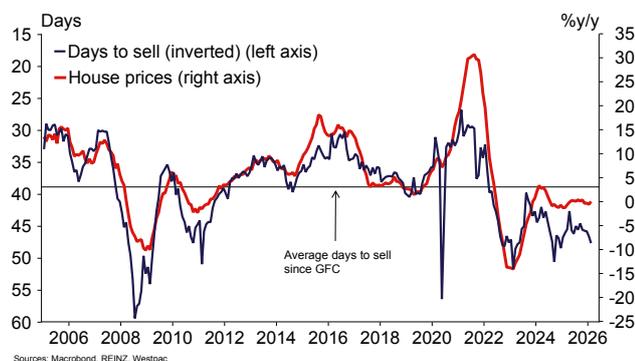


Given the pressures that higher fuel prices will impose on household budgets, there are questions about whether the strength in consumer spending will be sustained, at least in the near term. Last week's Westpac-McDermott Miller consumer confidence survey reported only a modest decline in sentiment over the past three months. However, our survey was in the field from early March and

likely will not have fully captured the impact of the sharp increase in fuel prices that many respondents will have experienced in recent days. We will be interested to see whether there is a larger impact when the ANZ releases its monthly consumer confidence index at the end of this week.

The news from the housing market was a mixed bag. The number of house sales grew 1.5%/m/m in February. While initial counts tend to slightly understate sales completed late in the month, this followed a 4.5%/m/m decline in January and left sales at a similar level to a year earlier. House prices rose a seasonally-adjusted 0.6%/m/m – the largest increase in more than two years but median days to sell lengthened to a 14-month high of 48 days. Given the month-to-month volatility, we are hesitant to read much into a single month of data, but at least the growth in house prices is a step in the direction of our forecast for moderate house price growth this year.

Days to sell and house price index



Finally, last week’s partial CPI data for February left us comfortable with our forecast that annual CPI inflation will drop back to 2.8% in the March quarter – a move back inside the 1-3% target band that now seems certain to be short-lived given the conflict-induced surge in fuel prices. Of note was a 0.1%/m/m fall in average housing rents – the first monthly decline in the 20-year history of the data. As with the soft trend in house prices, the weakness in rents reflects low population growth and the large numbers of properties available. Other CPI components were a mixed bag, with domestic airfares down but international airfares rising. Clearly both are now subject to significant upward pressure given the huge spike in the price of aviation fuel.

RBNZ Governor to provide key update this week.

With the data out of the way, attention will now turn to how the RBNZ is interpreting recent economic data and developments in the Middle East. In advance of the next formal policy review on 8 April, Governor Anna Breman will have the opportunity to guide the market when she delivers a speech to a local business audience tomorrow (24 March). While Breman had initially planned to focus

on the steps being taken to modernise the payments system, considering recent developments the speech will now discuss the ongoing conflict in the Middle East, and the potential impacts of this evolving situation on the New Zealand economy. The speech will be published on the RBNZ website at 9am ahead of two other external engagement events that day (including one with external economists and analysts).

While the RBNZ’s advisory states that this speech will not pre-empt the MPC’s April Monetary Policy Review decision, at the very minimum, we expect that the Governor will lay out the framework the Bank will use to analyse the impact of the war on the New Zealand economy i.e., the main channels of influence and the short-term inflation and activity trade-offs that the MPC may need to consider when setting monetary policy. We think that there is a better than even chance that the Breman will go further and give a preliminary assessment of how the shock is impacting the MPC’s assessment of the policy outlook.

If she does, we think that her comments will lean against the market’s current pricing of close to three 25bps OCR hikes this year (which compares starkly with the RBNZ’s February MPS indication of just a chance of a single 25bp hike). We expect Breman to acknowledge that headline inflation will be higher this year than forecast in February. And as any good central banker should, we expect that she will indicate that the RBNZ will be vigilant in looking for signs of any second-round impacts that might cause higher-than-target inflation to persist well into next year. However, crucially, we also expect Breman will argue that the New Zealand economy is operating with a large degree of spare capacity – including in the labour market – and that this “negative output gap” makes it less likely that a temporary oil price shock will lead to persistent inflation. And she may indicate an expectation that this negative output gap will remain for longer than the Bank estimated in February, given that higher oil prices and the current tightening of financial conditions will weigh on both trading partner and domestic economic growth.

Finally, we note that the RBNZ has announced this week that from the 8 April review onwards, all OCR decisions will now be followed by a press conference (rather than just those that follow the release of a Monetary Policy Statement). This is a welcome development to boost transparency – one that we had recommended in a paper last year – and is especially timely in the current fast-moving environment.

Darren Gibbs, Senior Economist

Table of the week.

The past few weeks have seen global oil prices surge, with the price of Brent crude up nearly 50% since the start of the Middle East war. We've also seen a significant increase in refining margins, causing the price of Singapore refined gas to rise even more – from around US\$92/barrel in late February to around US\$173 /barrel now. That lift in refining spreads has contributed to the sharp lift in the price of imported fuel products in New Zealand. Combined with an easing in the NZ dollar, those developments have seen the average price of 91 unleaded around the country rising by around 87 c/ltr since the start of the conflict to \$3.31 ltr at the time of writing. Similarly, diesel prices have risen by an even greater \$1.34 ltr. The table below shows what different combinations of refined gasoline prices and the New Zealand dollar imply for prices at the pump for 91 unleaded. Current conditions are consistent with pump prices rising by another 10 to 15 c/ltr. However, it takes time for pump prices to adjust to changes in global conditions as retailers work through existing inventories.

NZ petrol price determinants

Price of 91 unleaded petrol (c/tr) implied by the global cost of Singapore refined gas and the NZ dollar.

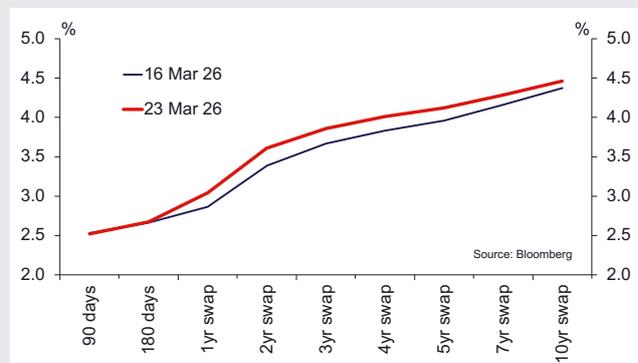
		NZD/USD						
		0.55	0.56	0.57	0.58	0.59	0.60	0.61
Singapore refined gas (USD/barrel)	120	303	301	298	296	294	292	289
	130	314	312	309	307	304	302	300
	140	326	323	320	318	315	313	310
	150	337	334	331	328	326	323	320
	160	348	345	342	339	336	333	330
	170	359	355	352	349	346	343	340
	180	370	366	363	360	356	353	350
	190	380	377	373	370	366	363	360
	200	391	387	383	380	377	373	370
	210	402	398	394	390	386	383	380

Source: Westpac

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

US.

The FOMC left the funds rate unchanged in March, with just one member (Miran) voting for a cut. There were only limited changes to the accompanying statement, though uncertainties stemming from the Iran conflict were noted. The FOMC revised up its near-term forecast for inflation as well as its forecast for growth. The dot-plot continues to point to just one cut in 2026 and none in 2027. On the data front, business sector updates were generally positive, with modest gains in both factory orders and industrial production, though there was softness in some regional Fed surveys. This week's calendar includes a range of updates on business sector conditions and consumer confidence.

Asia-Pacific.

The RBA delivered the expected 25bp rate hike last week in a 5-4 vote, with the difference in opinion related to timing, rather than the direction of rates. The Board assessed that inflation is "already too high" and capacity pressures slightly greater than previously assessed. The conflict in the Middle East is also adding to near-term price pressures and uncertainty. We expect another 25bp hike in May. Following the RBA meeting, the February labour market report revealed stronger than expected employment growth. However, a lift in participation saw the unemployment rate rising to 4.3% (from 4.1%). Across in China, activity gauges were firmer than expected in February, with retail spending growth rising to 2.8%yr and industrial production growth accelerating to 6.3%. Even so, economic conditions have remained sluggish. The highlight of this week's calendar will be Australia's February CPI report (Wednesday).

Europe.

The BOE MPC voted unanimously to keep the bank rate at 3.75%. Previously some members had voted for rate cuts. However, the ongoing conflict in the Middle East will push inflation higher and the MPC is watching for second-round effects. The minutes noted that the policy stance has shifted from considering rate cuts towards the possibility of hikes, with concerns about higher inflation outweighing downside risks to growth. The market has priced more than two hikes before year end. Across the Channel, the ECB also voted unanimously to keep interest rates unchanged. The policy statement highlighted that the outlook has become considerably more uncertain due to the Middle East conflict and the inflation forecasts were revised materially higher. Even so the ECB yet maintained a balanced tone, noting that "monetary policy is well positioned to navigate this uncertainty".

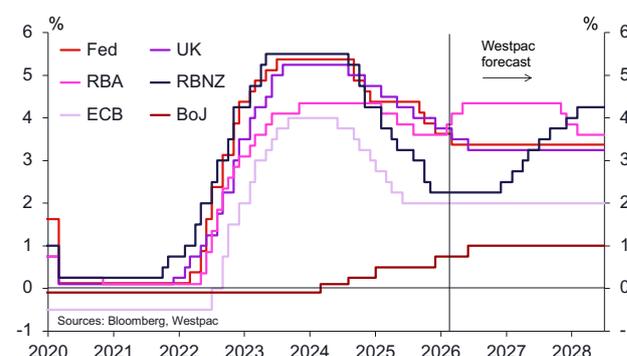
Trading partner real GDP (calendar years)

	Annual average % change			
	2024	2025	2026	2027
Australia	1.0	2.0	2.2	2.3
China	5.0	5.0	4.6	4.5
United States	2.8	2.2	2.5	1.8
Japan	0.1	1.2	0.6	0.8
East Asia ex China	4.3	4.6	4.2	4.1
India	6.5	7.2	6.4	6.5
Euro Zone	0.9	1.5	1.0	1.4
United Kingdom	1.1	1.3	0.8	1.3
NZ trading partners	2.9	3.2	3.0	2.8
World	3.3	3.4	3.2	3.2

Australian & US interest rate outlook

	20 Mar	Mar-26	Dec-26	Dec-27
Australia				
Cash	4.10	4.10	4.35	3.85
90 Day BBSW	4.29	4.30	4.40	3.80
3 Year Swap	4.75	4.45	4.40	3.95
3 Year Bond	4.74	4.45	4.40	3.95
10 Year Bond	5.01	4.95	4.85	4.70
10 Year Spread to US (bps)	76	75	45	10
US				
Fed Funds	3.625	3.625	3.375	3.375
US 10 Year Bond	4.25	4.20	4.40	4.60

Global central bank policy rates



Australian labour market



Financial markets wrap

Foreign exchange.

The NZD remains under downward pressure amid the continuation of the Iran war. The 0.5800 area provided support during the past week, and that remains the case for the week ahead, but it does remain vulnerable. Should it break, we'd be targeting 0.5710 near term.

This week's key NZ events will be the speech from RBNZ Governor Breman on Tuesday, where she will discuss the impact of the war, and a speech by RBNZ Chief Economist Conway on Wednesday. There's also monthly ANZ consumer confidence, which could reflect early reactions to the war. In the US, the consumer confidence survey will also be of interest (it also shows inflation expectations).

For the quarter ahead, we maintain a cautious and mild bullish outlook. The 0.61 area could be revisited if the Iran war de-escalates within the next few weeks, because the NZ economy is in early recovery mode and the RBNZ is expected to hike the OCR by year end. The main risk is that the war continues for several months or longer, in which case NZD/USD would likely fall below 0.57.

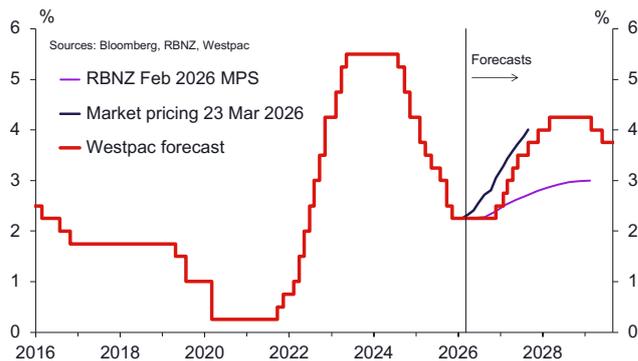
NZD/AUD's downtrend has stalled after making a 13-year low of 0.8230. It is technically stretched, warning of at least a minor upward correction near term. But longer term, there is potential for further downside, as relative economic performance and NZ-AU yield spreads support the AUD. This week's key AU event will be the release of February AU CPI data on Wednesday.

Interest rates.

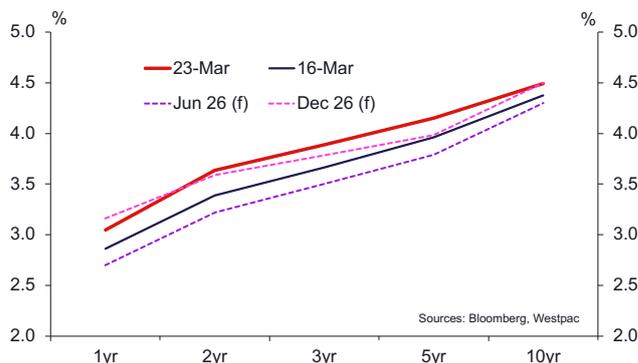
The NZ 2yr swap rate has surged by 60bp to 3.54% since the Iran war started. This is due to the rise in market interest rates offshore, a response to the expected inflation impact of higher oil prices, as well as expectations that some central banks may be forced to hike their policy rates. We believe the RBNZ, in contrast, will look through the inflationary impact of the war, but markets, at present, disagree. The OIS market now prices a 100% chance of an OCR hike by July and three hikes in total by year end. Pre-war, July was seen as only a 15% chance. We expect markets to eventually reverse this pricing, but probably not until some de-escalation is seen. RBNZ commentary on the topic will also be important, and we note that Governor Breman speaks on Tuesday.

The yield curve has flattened from the peak in late December, driven mostly by higher short maturity yields in expectation the RBNZ will start hiking rates by year end. That flattening trend has extended since the Iran war started. The difference between 2yr and 10yr swap rates is now 86bp, vs the December peak at 120bp. We expect further flattening during the year ahead as we approach the RBNZ's tightening 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	0.582	0.573-0.605	0.553-0.728	0.623	0.62
AUD	0.831	0.824-0.873	0.824-0.971	0.916	0.85
EUR	0.504	0.491-0.511	0.484-0.637	0.565	0.52
GBP	0.437	0.427-0.444	0.426-0.531	0.484	0.45
JPY	92.8	90.0-94.4	74.7-98.6	85.9	95.5

The week ahead

Q1 Westpac-McDermott Miller Employment Confidence

Mar 25: Last: 93.8

Employment confidence improved modestly in December last year, although a perceived lack of job opportunities and low job security remained key concerns for New Zealanders. There have been signs in recent months of a stabilisation in job numbers and a modest lift in hiring, although the unemployment rate rose further to 5.4% in the December quarter. Note that as with the Consumer Confidence Index, this survey was conducted on 1-12 March, during the early stages of the US-Iran conflict.

Employment Confidence Index



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	2.8	3.0
Consumer price index	1.0	0.6	0.6	0.9	2.2	3.1	2.8	2.1
Employment change	0.0	0.5	0.2	0.4	-1.3	0.2	1.9	2.5
Unemployment rate	5.3	5.4	5.4	5.3	5.1	5.4	5.0	4.5
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	-3.7	-3.7	-3.9	-4.7	-3.7	-4.0	-3.4
Terms of trade	-0.5	0.3	-0.3	-0.6	8.9	3.5	4.1	3.6
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	2.45	2.45	4.45	2.52	2.90	4.25
2 year swap	2.99	2.71	3.30	3.60	3.64	2.71	4.10	4.40
5 year swap	3.40	3.27	3.90	4.10	3.73	3.27	4.30	4.45
10 year bond	4.42	4.27	4.75	4.80	4.50	4.27	4.95	5.10
TWI	68.4	66.4	66.9	66.5	69.5	66.4	68.9	72.5
NZD/USD	0.59	0.57	0.59	0.59	0.59	0.57	0.62	0.67
NZD/AUD	0.91	0.87	0.82	0.82	0.91	0.87	0.85	0.91
NZD/EUR	0.51	0.49	0.51	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

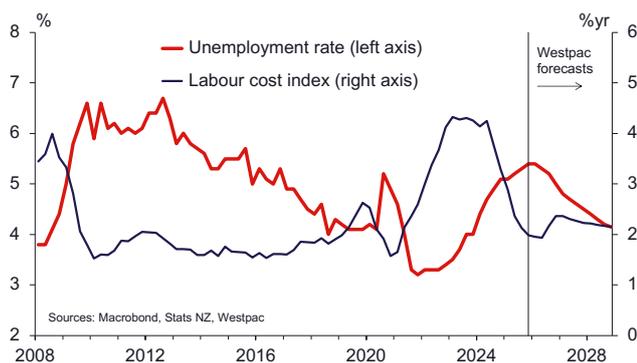
GDP growth



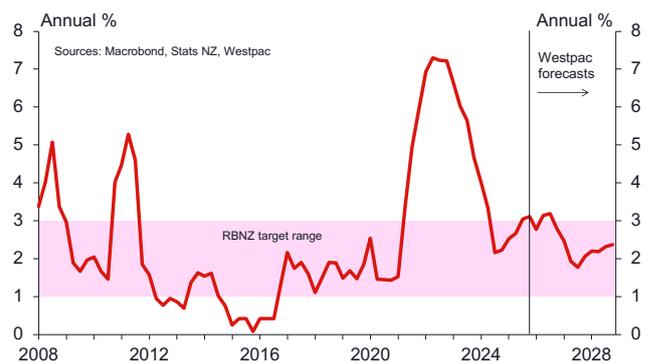
House prices



Unemployment and wage growth



Consumer price inflation



Data calendar

		Last	Market median	Westpac forecast	Risk/Comment
Mon 23					
Eur	Mar Consumer Confidence, index	-12.2	-	-	Slightly above the five-year average, but gains are hard-going.
US	Feb Chicago Fed Activity Index, index	0.18	-	-	Suggests the economy is expanding above historical trend.
	Jan Construction Spending, %mth	0.3	-	-	Outlook cloudy amid high inventories and weak confidence.
Tue 24					
NZ	RBNZ Gov Breman speech	-	-	-	Speech on potential impacts of Middle East conflict on NZ.
Aus	Q1 Westpac-ACCI Business Survey, index	55.1	-	-	Conditions in local manufacturing improved late last year.
Jpn	Feb CPI, %ann	1.5	-	-	Energy subsidies bringing headline inflation lower.
	Mar S&P Global Manufacturing PMI, index	53	-	-	Conditions are decisively expansionary across industry and ...
	Mar S&P Global Services PMI, index	53.8	-	-	... services, but Middle-East shock likely to hit confidence.
Eur	Mar HCOB Manufacturing PMI, index	50.8	49.8	-	Recovery forming a broader-based in manufacturing ...
	Mar HCOB Services PMI, index	51.9	50.4	-	... services activity, while still positive, has cooled recently.
UK	Mar S&P Global Manufacturing PMI, index	51.7	-	-	Solid start to the year for manufacturing could prove fleeting ...
	Mar S&P Global Services PMI, index	53.9	53	-	... given risks offshore; services is nonetheless supportive.
US	Mar S&P Global Manufacturing PMI, index	51.6	-	-	Suggests US manufacturing has largely been unperturbed ...
	Mar S&P Global Services PMI, index	51.7	-	-	... while services expands modestly, unlike the ISM's 'boom'.
	Mar Richmond Fed Manufacturing, index	-10	-	-	Highly volatile and pointing to clear downside risks.
Wed 25					
NZ	Q1 Westpac MM Empl. confidence, index	93.8	-	-	Surveying occurred after the outbreak of war and surge in oil.
Aus	Feb CPI, %ann	3.8	3.8	3.8	Falling fuel & holidays offsetting rising education and housing.
Ger	Mar IFO Business Climate Survey, index	88.6	87	-	Expectations lifted last year, but current assessments still weak.
UK	Feb CPI, %ann	3	3.1	-	UK inflation before the energy price shock.
US	Mar Import Price Index, %mth	0.2	-	-	Pre-tariff prices for imported goods appear broadly stable.
Thu 26					
Aus	RBA Speak	-	-	-	Assistant Governor Chris Kent speaks in Sydney.
US	Initial Jobless Claims	205	-	-	Still at a low level versus history.
	Mar Kansas City Fed Manufacturing, index	5	-	-	Manufacturing in the mid-west is gradually improving.
Fri 27					
NZ	Mar ANZ Consumer Confidence, index	-	-	-	Likely to fall in response to growing cost of living pressures.
Chn	Feb Industrial Profits, ytd %yr	0.6	-	-	Turning positive on anti-involution and high-tech focus.
	Q4 Current Account Balance, US\$bn	242.1	-	-	Final estimate.
UK	Mar GfK Consumer Sentiment, index	-19	-	-	Confidence is above-average but sensitive to inflation risks.
	Feb Retail Sales, %mth	1.8	-	-	Consumers showing clearer signs of life.
US	Mar Uni. of Michigan Sentiment, index	55.5	-	-	Final estimate will include weaker readings since Iran war.
	Fedspeak	-	-	-	Jefferson, Daly and Paulson.

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