WEEKLY ECONOMIC COMMENTARY

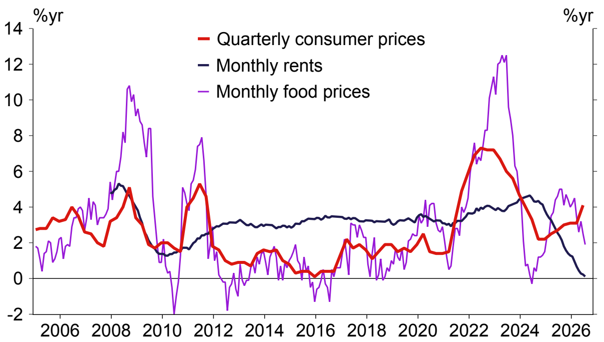
24 Aug 2026 | **Westpac Economics Team** | **westpac.co.nz/economics** | economics@westpac.co.nz

Counting down the days

Last week saw a handful of data releases, with no decisive signals for the RBNZ as it approaches its 2 September *Monetary Policy Statement*. Market pricing is firmly in favour of another OCR hike next month, but there is much more uncertainty around what the RBNZ will signal for the remaining meetings this year. We'll be discussing these issues and more in our latest *Economic Overview*, released on Wednesday. We also got some more detail on the Labour and National party fiscal plans.

The monthly selected prices release, which covers almost half of the quarterly CPI basket, was softer than expected in July. Of particular note was a muted 0.1% rise in food prices for the month, with annual growth slowing to an 18-month low of 1.9%. Meat prices saw their largest monthly fall since 2020, and there were also price declines for wine and some dairy products.

NZ selected consumer prices



Sources: Macrobond, Stats NZ, Westpac

Outside of food, petrol prices were down 6% over the month, with diesel down 12%. However, the renewed hostilities in the Middle East since July mean that prices at the pump have been higher again over August. There were large increases in domestic and international airfares, both of which experience large seasonal swings,

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
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
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

and are likely to ease back next month. However, with global oil prices still elevated, this is one area where we could see ongoing strength.

July also saw another 0.1% fall in housing rents, continuing the weak trend seen over the past year. With weak population growth and ample supply, housing rents are likely to remain subdued for some time. Rents make up just over 10% of the CPI, so they are having a significant dampening effect on overall inflation at the moment.

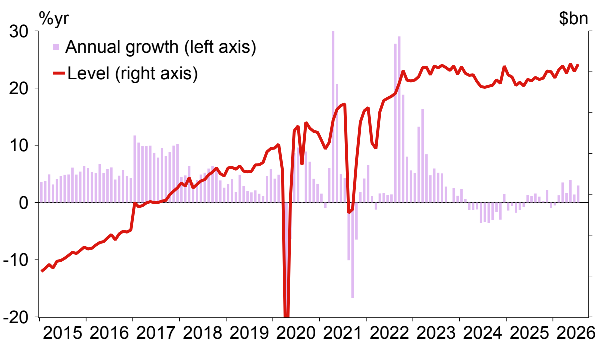
Altogether, the July results signal some downside risk to our existing forecast of a 0.7% rise in consumer prices in the September quarter (which would see annual inflation slow down from 4.1% to 3.7%). However, we're still left with a picture of inflation that's likely to be well above the RBNZ's target range for the remainder of this year, including firm levels of core inflation.

The June quarter producer price index demonstrated a range of cost pressures, with input prices rising 2.9% and output prices up 1.6%. Higher fuel prices were an obvious driver, showing through in a range of industries such as wholesaling, transport and construction. As the June quarter CPI has already shown, though, many firms have limited ability to pass on these cost increases.

Turning to the activity data, June quarter retail sales were close to expectations, with the volume of goods sold down 0.5%. That was the first decline since 2024, with spending dented by the sharp rise in fuel and other living cost. However, under the surface we're seeing signs of resilience in spending appetites, with core spending (excl. fuel and vehicles) up 0.7%.

Moving into the second half of the year, card spending at retail stores rose by 1.3% in July, following and equal-sized fall in June. Indeed, these figures have been volatile for several months even after seasonal adjustment – there may have been some changes in the timing of spending that are difficult to account for. Looking through this, spending is up modestly on a year ago, but price increases – especially for fuel – will have accounted for a large part of this.

NZ retail card spending



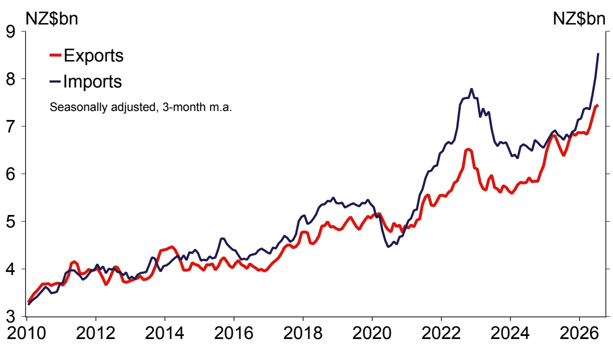
Sources: Macrobond, Stats NZ, Westpac

The services PSI was little changed at 50.6 in July, holding just above the zero-growth mark. So far this year the services survey has been more subdued compared to the manufacturing survey, which recorded a solid 54.3 in July after spiking to 60.1 in June. That may reflect their relative exposures to the global market, with strong demand and a favourable exchange rate boosting export-oriented sectors and regions.

The second GlobalDairyTrade auction for August saw a 2.3% rise in dairy prices, led by strong gains in whole milk and skim milk powders. These results had been well signalled by the futures market, which has seen a strong run-up in prices in recent weeks. Longer-dated contracts – covering the New Zealand summer – have risen particularly strongly, suggesting that the market is eyeing the risk that a severe El Niño event could restrict milk production this season. With New Zealand accounting for a large share of internationally-traded dairy products, past droughts have tended to squeeze global prices higher, sometimes resulting in a net boost to industry-wide earnings.

The final release last week was the goods trade data for July, which fell further into deficit in seasonally adjusted terms. Exports remained strong, supported by higher commodity prices. But the country's import bill has surged in the last few months, mostly reflecting the jump in fuel prices. The July figures also included a particularly large diesel shipment, for the purpose of lifting our onshore fuel reserves in response to the Middle East conflict. Outside of fuel, the ongoing growth in imports of capital equipment suggests that firms have remained willing to invest through the war uncertainty.

Merchandise trade



Sources: Macrobond, Stats NZ, Westpac

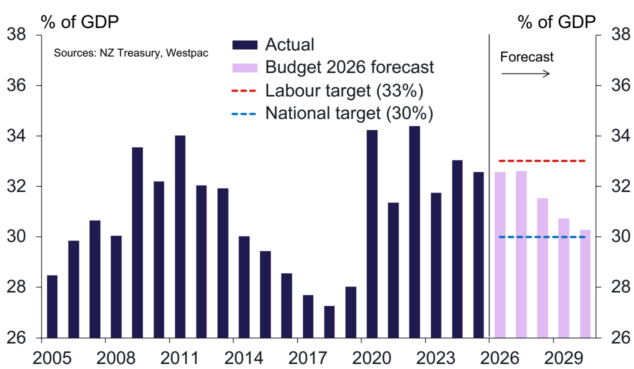
The general election is just 72 days away, and over the weekend the two major political parties outlined their fiscal plans. National is prioritising a return to surplus in 2028/29 (based on the OBEGALx measure of the operating balance, which excludes revenue and expenses related to ACC). They aim to reduce net core Crown debt to below 40% of GDP over time. To support those aims without new taxes, National would 'right-size' government spending, with core Crown expenditure declining towards 30% of GDP.

In contrast, the Labour Party's fiscal plan promises to restore the OBEGAL to surplus in 2029/30 (using the traditional measure of the operating balance) and reduce net government debt to below 20% over time. Core Crown spending is targeted at around 33% of GDP after their proposed capital gains tax is implemented in 2028 (Labour is proposing increased spending in areas like health, with much of that funded by ring-fenced earnings from a proposed capital gains tax).

The key differences between the plans are the different spending targets (33% versus 30%) and how much revenue will be required to achieve OBEGAL surplus in 2029/30. It will take some time for Labour's capital gains tax to generate much revenue, implying a need for more borrowing in the short term. The risk to National's approach also implies more debt in coming years as it's possible the economy doesn't generate sufficient revenue to bring about budget balance. In both cases, the ratings agencies will want to be happy that future surpluses are likely enough to be comfortable.

This also highlights a point that we have long highlighted. Political parties on either side of the aisle will face a challenging trade-off in relation to the provision of core services (such as health, aged care, education and police) when compared to the level of debt and taxes. These pressures will significantly intensify in the 2030s with the ageing population.

Core Crown spending, % of GDP



An additional policy proposal from Labour has been the reinstatement of a dual mandate for the Reserve Bank to include a focus on maximum sustainable employment. There is a question about what this would mean for the conduct of monetary policy. At most times, the answer is 'not much'. Most of the shocks that hit the economy are demand shocks, when factors affecting inflation and the labour market push monetary policy in the same direction (for instance, weaker demand and employment is usually associated with lower inflation).

However, when the economy faced with supply shocks, like the current oil price spike, the labour market and inflation in move opposite directions. An employment mandate might allow more flexibility to let inflation run further from target for longer, with a more gradual adjustment in monetary policy. This flexibility is more likely to be used if core inflation pressures are seen as more likely than not to return to target over the medium term. The MPC's confidence around the persistence in inflation will determine the extent to which the employment mandate will matter much in practice.

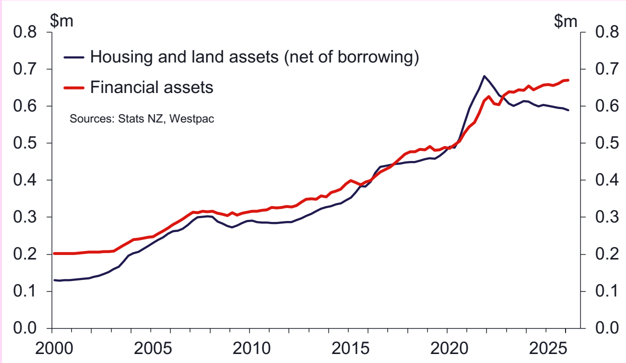
It's also important to remember that accommodating temporary inflation shocks can end up being damaging for the economy longer term if it becomes embedded in businesses price setting behaviour and wage expectations. In the long run, there's no trade-off between inflation and employment.

Michael Gordon, Senior Economist

Chart of the week.

While the value of the average household's financial assets rose 1.9% over the past year, the value of housing and land assets was down 1.9% over the same period. Real estate assets account for close to half of households' wealth, and the ongoing softness in the property market has meant that overall household wealth levels have been effectively flat for four years. At the same time, households have faced mounting pressure on other fronts, with inflation rising to a three year high of 4.1% and unemployment at an eleven year high of 5.6%. That pressure on households' finances has been a drag on spending appetites, though conditions are mixed across the economy – regions with large agricultural sectors are seeing stronger growth in incomes, which is boosting confidence and spending. We'll take a closer look at how spending and economic conditions more broadly are shaping up in our upcoming *Economic Overview*, out on Wednesday.

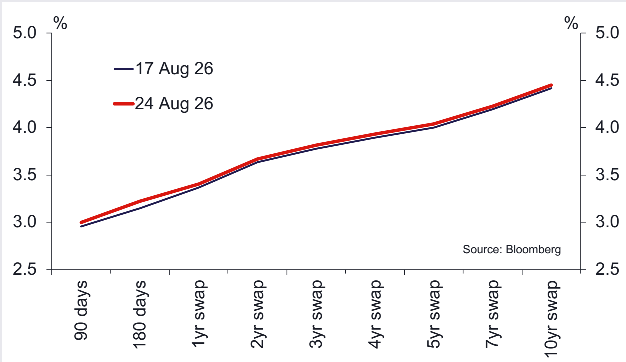
Value of household assets (average per household)



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.

Oil prices continued to grind higher last week, with prices for Brent crude up to around US$93/bbl and refined fuel prices rising back up to around US$160/bbl. In an effort to force Iran into fresh negotiations, President Trump is threatening tough economic sanctions against Iran and countries it does business with. The details of those measures are expected to be announced early this week. However, such measures could complicate relations with China, which is the biggest buyer of Iranian oil.

North America.

The minutes of the FOMC's July meeting highlighted concerns about the upside risks for inflation. Consistent with that, three members favoured an immediate increase of 25 basis points and many noted that policy tightening would likely be necessary if inflation did not decline. Nevertheless, most members voted to keep the funds rate unchanged and thought that upcoming information "could provide more clarity and correspondingly reduce uncertainty about the inflation outlook." In the business sector, manufacturing indicators were robust, with industrial production up 0.2% in July and both the Empire and Philadelphia Fed surveys posting solid gains. In contrast, services sector conditions have cooled. On the trade front, negotiations between the US and Canada have broken down, with the US imposing 50% tariffs on around 5% of Canadian imports. Canada has signalled it will impose retaliatory tariffs. This week's calendar includes updates on household spending and the PCE deflator (Wednesday) and consumer confidence (Friday), along with updates on business conditions. Fed Chair Warsh will be speaking at Jackson Hole on Friday.

Asia-Pacific.

Australia's labour market was softer than expected in July with employment falling 16k and hours worked down. While the participation rate also fell, we still saw the unemployment rate rising to 4.5% (from 4.4% previously). The past month did see consumer confidence rise by 6%, with that increase driven by those with mortgages after the RBA left the cash rate on hold. Even so, confidence remains low with households noting ongoing concern about their finances. This week we'll get the latest RBA minutes on Tuesday and July CPI data on Wednesday. Chinese activity continued to cool in July. In the business sector, industrial production growth slowed to 4.5% yr and fixed asset investment fell 6.7%ytd. Below the surface, firmness in the tech sector and demand for AI-related exports is masking softness in other areas. That softness has seen the jobless rate rising to 5.2%, while retail sales slowed to a weaker-than-expected 0.6% yr.

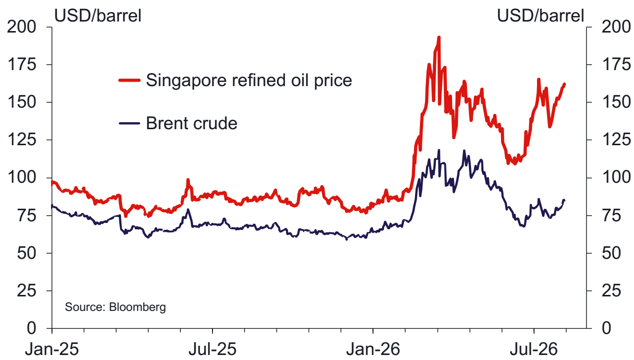
Trading partner real GDP (calendar years)

	Annual average % change			
	2025	**2026**	**2027**	**2028**
Australia	2.0	1.7	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	5.1	4.4	4.3
India	7.6	6.7	6.7	6.6
Euro Zone	1.3	0.8	1.2	1.5
United Kingdom	1.3	1.2	1.1	1.5
NZ trading partners	3.2	3.0	2.7	2.9
World	3.4	3.3	3.3	3.3

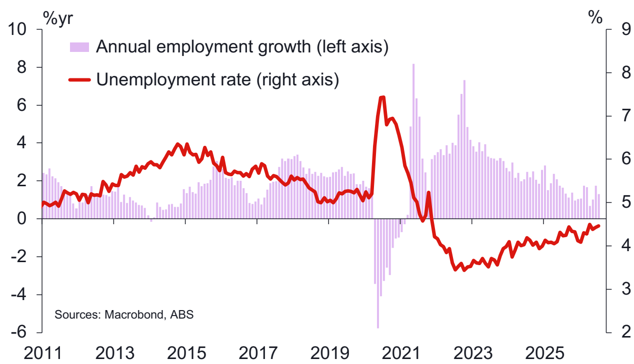
Australian & US interest rate outlook

	21 Aug	**Dec-26**	**Dec-27**	**Dec-28**
Australia				
Cash	4.35	4.35	3.85	3.60
90 Day BBSW	4.49	4.46	3.76	3.70
3 Year Swap	4.56	4.45	4.10	3.90
3 Year Bond	4.57	4.45	4.10	3.90
10 Year Bond	5.06	4.85	4.65	4.65
10 Year Spread to US (bps)	34	25	0	-20
US				
Fed Funds	3.625	3.625	3.625	3.625
US 10 Year Bond	4.70	4.60	4.65	4.85

Oil prices



Australian labour market



Financial markets wrap

Foreign exchange.

Last week's slightly bullish tone on the NZ dollar intensified, causing a clear break above 0.5900 resistance and targeting 0.6000 this week.

Much of the recent rally can be explained by the fall in the US dollar. The US Treasury announced intervention in the bond market in order to stem the rise in bond yields, but markets have interpreted this as targeting the symptoms rather than the cause (large fiscal deficits), hurting the credibility of the USD as a result.

This week's key events for the NZD/USD will be US data on GDP, PCE inflation, and inflation expectations, and the Jackson Hole central bankers' symposium where Fed Chair Warsh will speak.

Looking further ahead to year end, NZ-US yield spreads have preserved most of July's OCR hike-related gains and are expected to extend higher during the quarter ahead given RBNZ vs Fed expectations. That should lend support to NZD/USD. Offsetting that will be any adverse developments in the Middle East.

NZD/AUD's recovery since May persists, but 0.8400 is a major obstacle which will require fresh catalysts to clear. AU events of note this week will be the RBA minutes (today) and July CPI data (tomorrow). By year end we expect the cross to be above 0.8400, driven mostly by the RBNZ's tightening cycle.

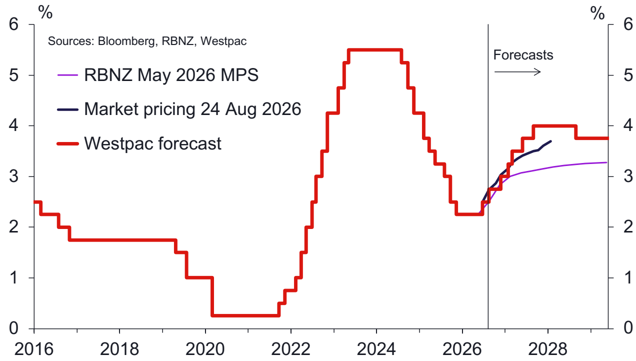
Interest rates.

The 2yr swap rate tested the bottom of the month-old range of 3.60%-3.75% last week, but it held, as speculative payers emerged and global yields rose. Barring a major surprise, we expect that range to hold this week too. There's little NZ event risk ahead of the RBNZ MPS on 2 September, today's Q2 retail sales data the only release of note.

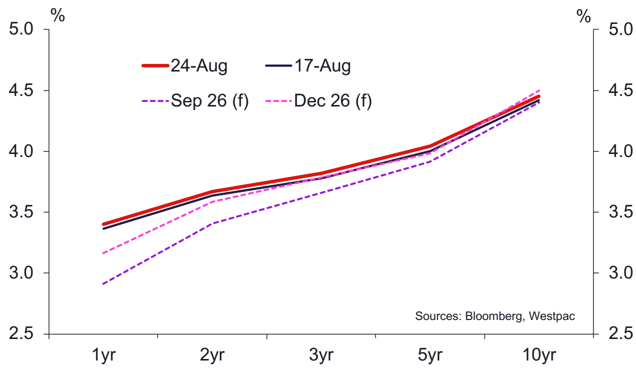
OIS pricing remains at a 90-95% chance of a hike in September, while the chances of another in October remain at around 50%. In total two hikes are priced by year-end, matching our forecasts, with a market-implied terminal rate of 3.5% (Westpac at 4.0%).

The yield curve's flattening trend since the peak in late December was interrupted this month by a combination of soft NZ data and higher long-maturity yields offshore. The 2-10yr swap rose to 80bp (vs 67bp cycle low and 120bp cycle high), and remains vulnerable to steepening slightly further during the week ahead. Over a longer horizon, though, we expect the RBNZ's tightening cycle to flatten the 2-10yr curve further during the year ahead, to around 50bp.

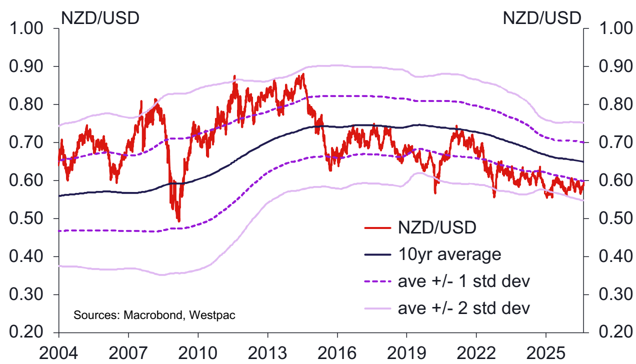
Official Cash Rate forecasts



Swap rates



NZD/USD vs rolling 10yr average



FX recent developments

	Historical data				F'cast
	Spot	3mth range	5yr range	5yr avg	Dec-26
USD	0.597	0.563-0.596	0.553-0.720	0.613	0.60
AUD	0.836	0.816-0.837	0.816-0.971	0.907	0.84
EUR	0.510	0.495-0.513	0.484-0.637	0.557	0.51
GBP	0.437	0.425-0.442	0.425-0.531	0.477	0.44
JPY	94.9	91.1-95.3	75.1-98.6	87.2	96.0

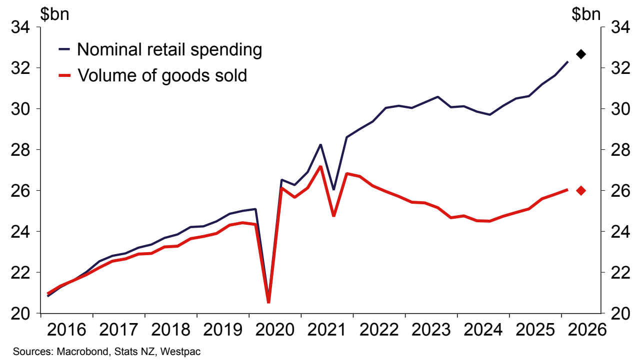
The week ahead

Q2 Retail Trade Survey

Aug 24, Volumes last: 0.9%, Westpac f/c: -0.2%

In the early part of this year, we were seeing signs that spending appetites were lifting, with retail sales posting several quarters of solid growth. However, that momentum has taken a knock recently due to the large increase in fuel prices and related uncertainty about the economy outlook. We're forecasting a 1.1% rise in nominal spending over the June quarter. However, with a large rise in prices, volumes are expected to be down 0.2%. Core spending is expected likely to be firmer, with a moderate 0.6% rise forecast.

Retail sales

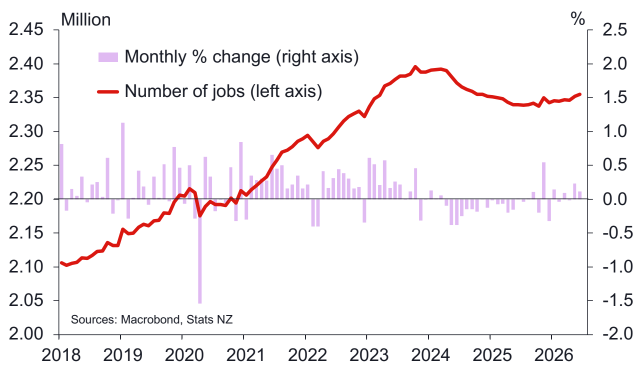


Jul Monthly Employment Indicator

Aug 28, Last: 0.1%, Westpac f/c: 0.3%

The MEI has continued to tick higher in recent months, showing that the jobs market has held its ground through the Iran conflict and the consequent surge in fuel prices. The weekly snapshots provided by Stats NZ have been running ahead of year-ago levels and suggest another solid result for July – we've pencilled in a 0.3% rise on the initial release, although this measure tends to get revised down a bit in later releases.

Monthly Employment Indicator filled jobs

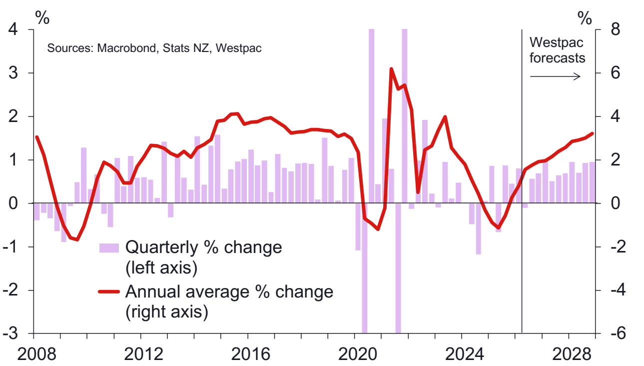


Economic and financial forecasts

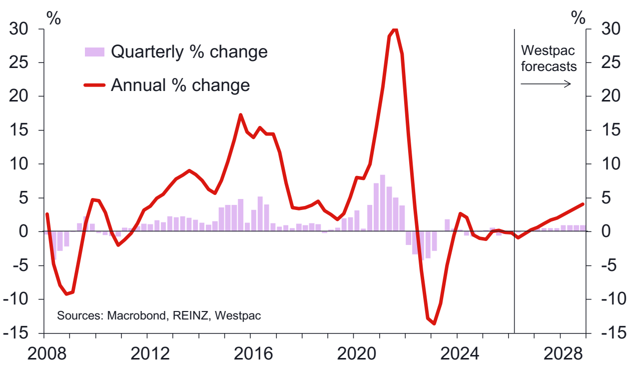
Economic indicators	Quarterly % change				Annual % change			
	Mar-26	Jun-26	Sep-26	Dec-26	2024	2025	2026	2027
GDP (production)	0.8	-0.1	0.6	0.7	-1.6	1.5	2.0	2.9
Consumer price index	0.9	1.5	0.7	0.4	2.2	3.1	3.5	1.9
Employment change	0.2	0.5	0.5	0.7	-1.3	0.2	1.8	2.6
Unemployment rate	5.4	5.6	5.5	5.4	5.1	5.4	5.4	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	3.95	4.15	3.73	3.27	4.15	4.40
10 year bond	4.54	4.61	4.65	4.65	4.50	4.27	4.65	5.05
TWI	67.2	66.5	67.0	67.9	69.5	66.4	67.9	72.5
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

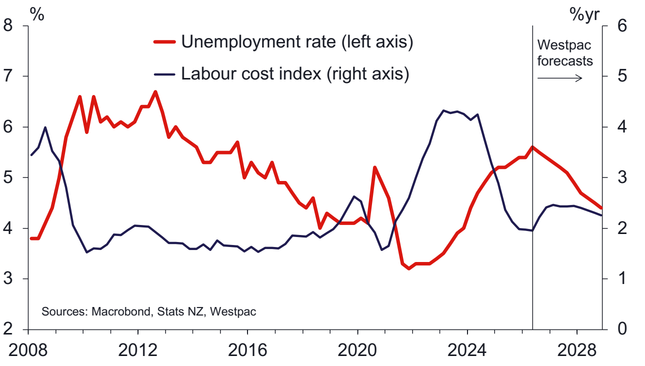
GDP growth



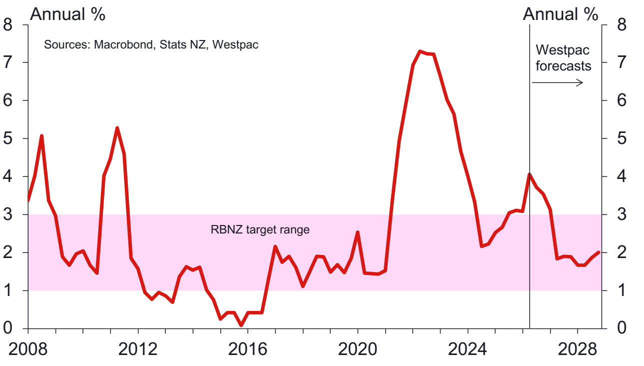
House prices



Unemployment and wage growth



Consumer price inflation



Data calendar

		Last	Market median	Westpac forecast	Risk/Comment
Mon 24					
NZ	Q2 Real Retail Sales, %qtr	0.9	0	–0.2	High fuel prices weighing on spending.
US	Jul Chicago Fed Activity Index, index	–0.02	–	–	Indicates underlying growth momentum relative to trend.
Tue 25					
Aus	RBA Minutes	–	–	–	Discussion of inflationary pressures in focus.
	RBA Speak	–	–	–	Speech by David Jacobs, Head of Domestic Markets.
Ger	Aug IFO Business Climate Survey, index	86.6	–	–	Will test whether confidence is stabilising
US	Jun FHFA House Price Index, %mth	0.3	0.2	–	High interest rates dampening house price growth,
	Jun S&P/CS Home Price Index, %mth	0.15	0.1	–	Has been around zero lately.
	Jul Building Permits, %mth	5	–	–	Final estimate, ample supply keeping new construction low.
	Jul New Home Sales, '000	628	620	–	Slow housing market activity.
	Aug Richmond Fed Manufact. Survey, index	5	7	–	Manufacturing sentiment recovered in recent months.
	Aug Conf. Board Consumer Conf., index	90.8	90.2	–	Weakened notably over the last twelve months.
Wed 26					
Aus	Jul Westpac–MI Leading Index, %ann'd	–0.4	–	–	Mixed monthly data may see an improvement on net in July.
	Jul Monthly CPI, %ann	3.8	3.3	3.3	Holiday travel and autofuels will support the headline.
	Q2 Construction Work Done, %qtr	3.4	0.5	–1.0	First partials of the Q2 GDP growth.
US	Jul Personal Income, %mth	0.2	0.2	–	Income growth continues to support spending
	Jul Personal Spending, %mth	0.4	0	–	Can strong Q2 growth be maintained in Q3?
	Jul PCE Deflator, %mth	–0.1	0.1	–	Inflation pressures are easing gradually…
	Jul Core PCE Deflator, %mth	0.1	0.2	–	…but core inflation may prove sticky.
	Q2 GDP, %ann'd	1.5	1.5	–	Second est., slower Q2 growth despite higher consumption.
	Jul Durable Goods Orders, %mth	0.5	0.5	–	AI investment driving underlying demand.
Thur 27					
Aus	Q2 Private New Capital Expenditure, %qtr	6.5	0	0	Data-centre investment in focus after a surge in Q1.
	Jul Household Spending Indicator, %mth	0.8	0.3	–0.5	Vehicle sales to detract from the headline after a strong June.
Chn	Jul Industrial Profits, %ann	15.1	–	–	Weak domestic demand challenging profit growth.
Eur	Jul M3 Money Supply, %ann	3.3	–	–	Focus on credit conditions after the ECB interest rate hike.
US	Jul Wholesale Inventories, %mth	0.2	–	–	Inventory adjustment cycle still unfolding.
	Jul Advance Goods Trade balance, $bn	–101.4	–99.5	–	Goods trade deficit increased recently.
	Initial Jobless Claims	206	208	–	Consistent with broadly balanced supply and demand.
	Aug Kansas City Fed Manuf. Activity, index	9	–	–	Manufacturing sentiment recovered in recent months.
Fri 28					
NZ	Jul Employment Indicator, %mth	0.1	–	0.3	Jobs have held their ground through the Iran conflict.
Jpn	Aug Tokyo CPI, %ann	2	1.9	–	Inflation pressures remain firm.
	Jul Jobless Rate, %	2.5	2.5	–	Labour market conditions remain tight.
Eur	Aug EC Economic Confidence Index, index	96.9	–	–	Good indicator of how GDP growth impulse is evolving in Q3.
	Aug EC Consumer Confidence Survey, index	–15.9	–16.0	–	Recovering after the energy price shock.
US	Aug Chicago PMI, index	57.6	59	–	Increased a lot this year despite higher economic uncertainty.
	Aug Uni. Of Michigan Sentiment, index	51	51	–	Confidence remains very low by historical norms.
	Fedspeak	–	–	–	Chair Kevin Warsh's speech at Jackson Hole

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