WEEKLY ECONOMIC COMMENTARY

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

Inflation back at a two-year high, upside risks building

Inflation in New Zealand has risen to a two-year high, boosted by large increases in fuel and electricity costs. Under the surface, the various measures of core inflation have remained contained thus far, but they've lingered above 2% for an extended period despite signs pointing to spare capacity in the economy. More recently, fuel prices have been charging higher again as tensions in the Middle East have flared, and business surveys point to the risk of a broadening in price pressures. Against that backdrop, the risks for inflation are firmly to the upside and the RBNZ is set to continue hiking the OCR through the latter part of the year.

Gassed up.

New Zealand consumer prices rose 1.5% in the June quarter. That saw the annual inflation rate rising to 4.1%, up from 3.1% in the year to March and the highest level in two years.

The rise in inflation was in line with our expectations. However, it was above the RBNZ's updated July forecast which anticipated 3.9% annual inflation.

The June quarter rise in inflation was predominantly due to increases in fuel costs in the wake of the Middle East war, with petrol prices up 20% over the June quarter and diesel prices up nearly 50%.

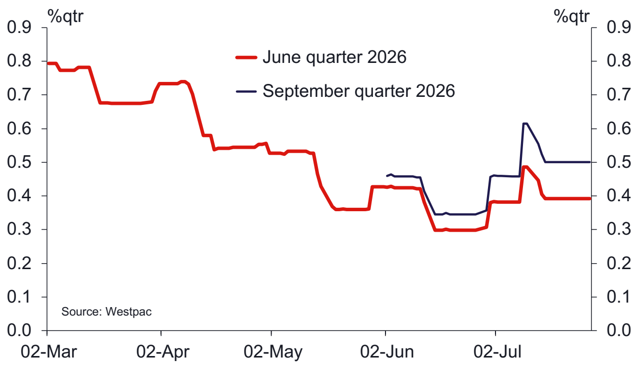
There have also been continued large increases in electricity charges, which rose 4% over the June quarter, leaving them up 12% over the past year. That was slightly lower than the 12.5% rise in the year to March. But before that, the last time we saw increases this large was 1989.

The key concern for the RBNZ is that those large increases in energy costs could spill over into a broader lift in consumer prices, with many businesses reporting

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

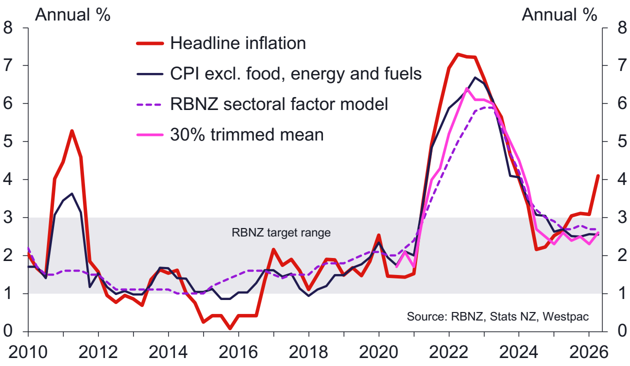


Key data and event outlook

Date	Event
29 Jul 26	FOMC meeting (30 Jul NZT)
5 Aug 26	Labour market surveys, June quarter
11 Aug 26	RBA Monetary Policy Decision
17 Aug 26	NZ Selected price indexes, July
2 Sep 26	RBNZ OCR Review & Monetary Policy Statement
16 Sep 26	FOMC meeting (17 Sep NZT)
17 Sep 26	NZ GDP, June quarter
18 Sep 26	NZ Selected price indexes, August
29 Sep 26	NZ Govt Pre-election Economic & Fiscal Update
29 Sep 26	RBA Monetary Policy Decision
6 Oct 26	NZIER QSBO Survey, September quarter

sizeable increases in their operating costs over the past few months. The June quarter did see a sizeable 1.6% rise in the cost of a newly built home following very muted gains over the past year. Construction firms have reported increases in building costs in recent months, with at least some of that stemming from the increases in global oil prices. These increases have flowed through to higher transport costs, as well as higher costs for materials like PVC piping.

Headline and core inflation



Core inflation contained, but not 'low'.

However, while increases in fuel prices and related operating costs are flowing through to higher output prices in some specific sectors, at this stage we haven't observed evidence of widespread 'second round' impacts that would point to a more generalised increase in inflation. Most measures of core inflation (including those that exclude the direct impacts of higher fuel costs) remained contained within the RBNZ's target band in June, and several edged back slightly.

While the lack of a pickup in underlying inflation in the June quarter was welcome news for the RBNZ, core inflation is not 'low'. The various measures of core inflation have lingered above the 2% midpoint of the RBNZ's target range for an extended period, and some are still close to 3%. That's despite a sharp slowdown in economic growth and softness in the labour market.

Looking under the surface at the big inflation groups, prices in the domestically oriented non-tradables group rose 3.4% in the year to June. That was a slightly smaller rise than the 3.5% increase seen in the year to March, but still firm.

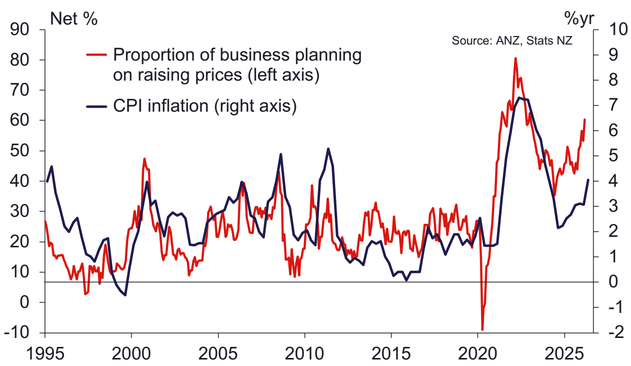
Non-tradables inflation has trended down over the past couple of years as economic growth and the labour market have softened. We've also seen housing rent inflation (which is the largest single component of the CPI) slowing to its lowest level in more than two decades in response to increases in housing supply and low population growth.

However, the easing in domestic inflation looks like it has flattened off in recent quarters. We're continuing to see large increases in central and local government charges, which were up 8.3% over the past year. We're also seeing inflation in more market-oriented and labour-intensive areas holding at above average levels despite softness in the jobs market.

On the imported front, tradables prices were up 4.9% over the past year. That's up sharply from the 2.5% rise in the year to March.

Higher fuel costs have been a significant driver of the rise in imported inflation. In addition, the lower New Zealand dollar is also playing an important role, with the NZD trade-weighted exchange rate down almost 4% over the past year. Excluding food and fuel costs, tradables prices were up 1.9% over the past year – the largest rise since 2023. Furthermore, given significant increases in operating costs in the wake of the Middle East war, imported inflation pressures are set to remain firm over the coming months.

Business pricing intentions vs consumer prices



With upside risks mounting, inflation is set to outstrip the RBNZ's forecast.

The outlook for inflation through the second half of the year hinges on what happens to oil prices. We've been forecasting that inflation would slow modestly to a still-hot rate of 3.5% by the end of this year. However, with oil prices rising sharply as tensions have again flared up in the Middle East, the risks for inflation are firmly to the upside.

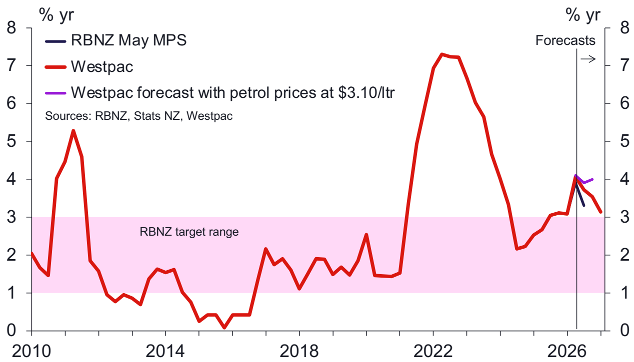
Local petrol prices rose close to 10c/ltr over the past week, taking the nationwide average back to $3/ltr at the time of writing. And if the recent rise in global oil prices is sustained, we could see local pump prices for 91 unleaded rising back up to around $3.20 to $3.30/ltr. Even if we saw a more modest rise back up to $3.10/ltr, overall inflation would remain around 4% through the back part of the year.

Those higher oil prices would also mean that there is a greater risk of related increases in other prices. While softness in demand has limited increases in consumer prices thus far, business surveys were already pointing to pressures on operating costs and margins before the latest rise in oil prices. The longer oil prices remain high, the more likely it is that rising production costs will flow through to higher prices for consumers.

In its July update, which was prepared soon after the signing of the Memorandum of Understanding (MOU) between the US and Iran, the RBNZ assumed that inflation would slow to 3.3% by the September quarter. With June quarter inflation coming in ahead of their forecasts and oil prices even higher than they were before the MOU was signed, at this stage it seems increasingly likely that inflation will run well ahead of the RBNZ's expectations over the latter part of the year.

Against this increasingly worrying outlook for inflation, we expect that the RBNZ will deliver further increases in the OCR through the back part of the year. We're forecasting 25bp hikes at both the RBNZ's September and December policy meetings. However, with energy costs bubbling away and growing risk of passthrough to other prices, an additional rate hike in October can't be ruled out. Of course, much will depend on how the economy responds to the policy tightening already underway and to the renewed global uncertainty.

Inflation forecasts



Satish Ranchod, Senior Economist

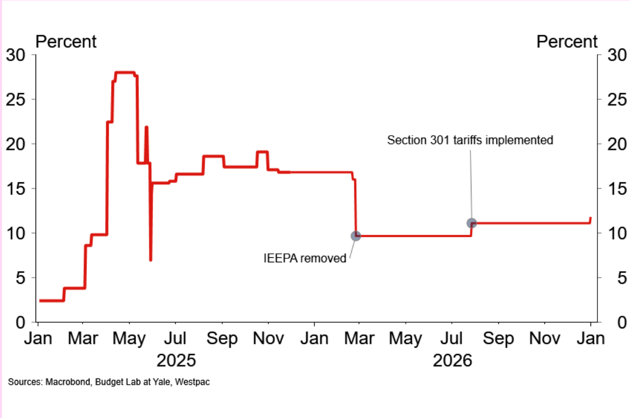
Chart of the week.

Late last week it was confirmed that the US authorities would be replacing their interim tariff regime set at 10% on many New Zealand exports to the US with a new 12.5% tariff. These new tariffs are based on Section 301 of the Trade Act 1974 which allows the authorities to implement tariffs for unfair, unreasonable, or restricted trade practices. In this case, the US authorities are alleging that some 60-80 countries including New Zealand have used forced labour in their supply chains that service exporters to the US. The scope of tariffs remains unchanged – hence existing carveouts for beef and kiwifruit remain in place and cover around 33% of New Zealand's goods exports to the US.

US tariff policy remains in a state of flux. The legal basis of these new tariffs, while better founded than the previous IEEPA tariffs, remain dubious and are already subject to legal challenge. The US administration is engaged in other tariff battles, including a threat to impose 50% tariffs on many Canadian exports, also using Section 301.

For New Zealand, the overall situation remains little changed. The tariff increase is modest and does not have broader coverage compared to the status quo. Also, recent research from the IMF showed that the cost of US tariffs has totally fallen on US consumers and businesses. The major impact seems to have been on the redirection of some higher-cost imports from the US to other markets. Fortunately, in New Zealand's case there is an unwillingness of US consumers to downgrade the quality of their burgers – hence they are paying more for those. Although certainly other industries such as wine will be having a tougher time.

US Average Effective tariff rate (pre-substitution)

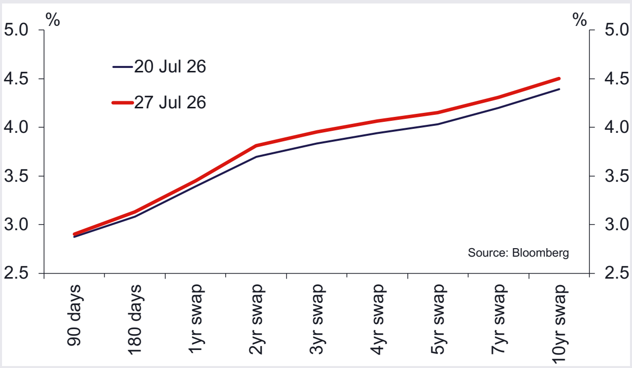


Fixed versus floating for mortgages.

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.

Tensions in the region continued to ratchet up, with President Trump stating he was close to deciding on a "massive attack" against Iran and threatening "major military punishment" for the Houthis and Iran if the Houthis attack any other ships in the Middle East after they targeted two Saudi ships a day earlier. Despite this, the US has paused its strikes on Iran for the last two nights. There are indications that fresh negotiations are under way, but munitions shortages have also been noted as a potential issue. Brent crude oil peaked at US$102/bbl last week but has since pulled back below $100.

Asia Pacific.

Australian employment surprised materially to the upside in June, rising by 76k. The gain was matched by a sizeable lift in labour force participation, leaving the unemployment rate steady at 4.4%. The ABS noted that there was a large group of individuals outside the labour force with a job lined up in May, and that they began work in June. Unlike previous readings which implied a sudden loss of momentum, employment growth now looks to have been steady over the first half of the year, albeit with significant month-to-month volatility. The highlight this week will be the June quarter CPI (Wednesday). We expect a 0.7% rise in prices for the quarter (4.1% annual), with the trimmed mean rising 0.9% (3.5% annual). While the Q2 report is likely too early to capture any meaningful second-round effects from the Middle East conflict, we think there will be sufficient evidence to keep the RBA on track to hike rates again next month.

North America.

The FOMC statement on Thursday morning is likely to focus on short- and medium-term inflation risks while keeping the policy rate unchanged. If oil prices remain elevated, there is a material chance of a tightening at the September meeting as market pricing suggests. June quarter GDP (Friday) is likely to look similar to the March quarter, with household consumption stalling and housing investment declining, while business investment has surged. Market expectations are for 2.1% (annualised) growth.

Europe.

The ECB left rates unchanged last week, while emphasising the full inflationary impact of higher energy prices are yet to be felt and that risks remain skewed to the upside. While June inflation surprised to the downside and the ECB, as yet, has seen no evidence of secondary effects from the energy price spike, heightened uncertainty and the skew of risks favour another hike in September.

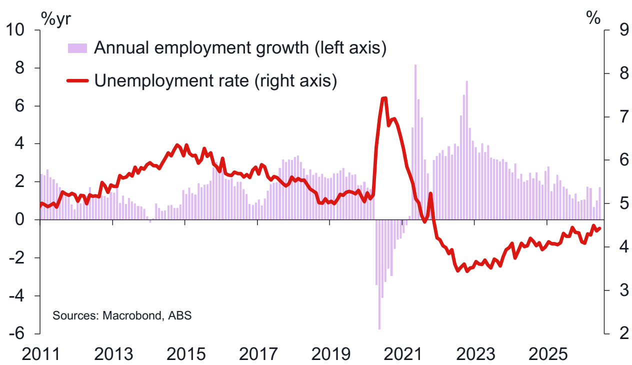
Trading partner real GDP (calendar years)

	Annual average % change			
	2025	**2026**	**2027**	**2028**
Australia	2.0	1.5	1.3	2.2
China	5.0	4.7	4.6	4.4
United States	2.1	2.0	1.8	1.9
Japan	1.1	0.6	0.8	0.9
East Asia ex China	4.7	4.8	4.2	4.2
India	7.6	6.7	6.7	6.6
Euro Zone	1.5	0.2	1.1	1.5
United Kingdom	1.4	1.1	1.1	1.5
NZ trading partners	3.2	2.8	2.7	2.9
World	3.4	3.2	3.3	3.3

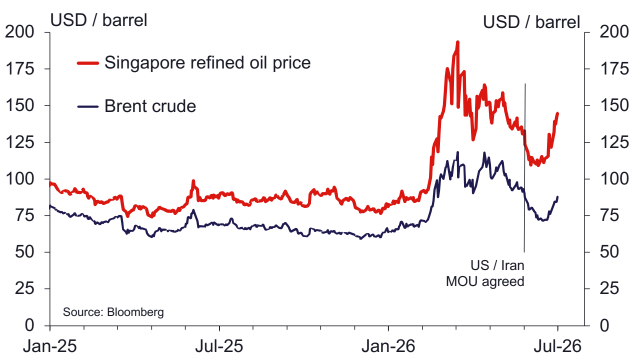
Australian & US interest rate outlook

	Jul-26	**Dec-26**	**Dec-27**	**Dec-28**
Australia				
Cash	4.35	4.85	4.35	3.85
90 Day BBSW	4.54	4.90	4.30	3.95
3 Year Swap	4.70	4.60	4.20	3.90
3 Year Bond	4.72	4.60	4.20	3.90
10 Year Bond	5.08	4.90	4.85	4.85
10 Year Spread to US (bps)	37	40	20	0
US				
Fed Funds	3.625	3.625	3.625	3.625
US 10 Year Bond	4.71	4.50	4.65	4.85

Australian labour market



Oil prices



Financial markets wrap

Foreign exchange.

NZD/USD last week fell around a cent to a low of 0.5760 as the US-Iran war re-escalated. As we write, it's around 0.5800 among tentative signs of ongoing diplomatic efforts.

Further weakness towards 0.5700 is possible this week if the war intensifies, while a de-escalation would lift it back above 0.5850.

War headlines aside, the main economic event which could surprise markets is the US FOMC meeting on Wednesday (Thursday morning NZT). Markets have priced a non-trivial 40% chance of a rate hike, so a reaction in the US dollar is almost assured. NZ data is low key, although the monthly business and consumer sentiment surveys will be of interest.

For the quarter ahead, we retain a neutral bias, pending an enduring resolution of the Iran war. A positive outcome could lift the NZD above the 0.5900 area, while a full-scale war could cause a decline to 0.5600.

NZD/AUD's rebound, which accelerated after the RBNZ OCR hike earlier this month, has fizzled out amid continuing strong economic data from Australia, as well as some war effect (AUD has outperformed the NZD during escalatory periods). We expect a range of 0.8200-0.8350 this week. Important AU events to watch are RBA Governor Bullock's speech (Tue) and AU CPI data (Wed).

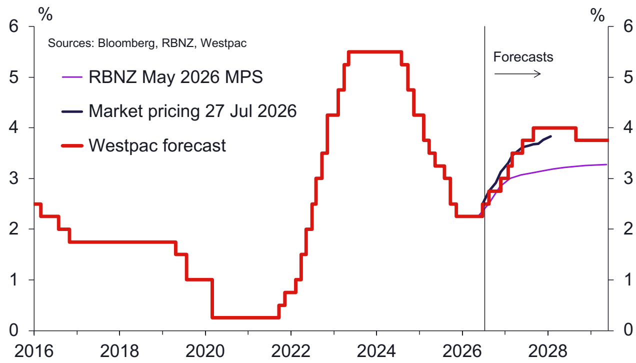
Interest rates.

The 2yr swap rate has extended its rise since mid-June, up a total of 56bp. A portion of that move was catalysed by the 25bp RBNZ OCR hike on 8 July, but the war-driven rise in global yields accounts for most of it. The 2yr at 3.81% is at a cycle high that was last seen in November 2024. From here, further adverse war news or a Fed hike this week would push rates higher towards 3.95%, while a de-escalation could see a pullback to the 3.60%-3.70% area.

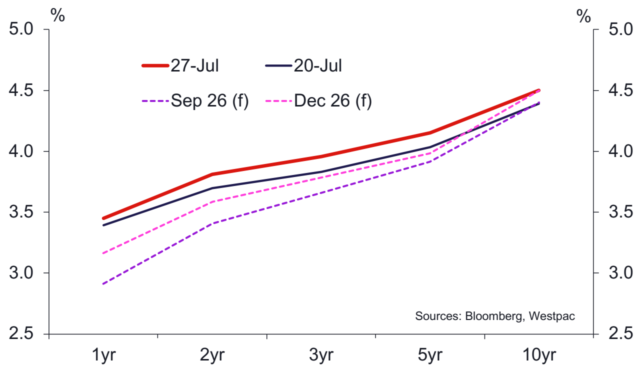
OIS pricing implies a 100% chance of a hike in September, around a 70% chance of a another in October (despite proximity to the general election), and a total of 2.5 more hikes by December. Markets indicate an OCR of either 3.50% or 3.75% in a year's time. We expect hikes in September and December, and an OCR of 3.75% in a year's time (eventually 4.0%).

The yield curve's flattening trend since the peak in late December is attempting resumption, albeit driven more by offshore factors than OCR expectations. We expect the latter factor to dominate during the year ahead as the RBNZ's tightening cycle progresses and flattens the curve further.

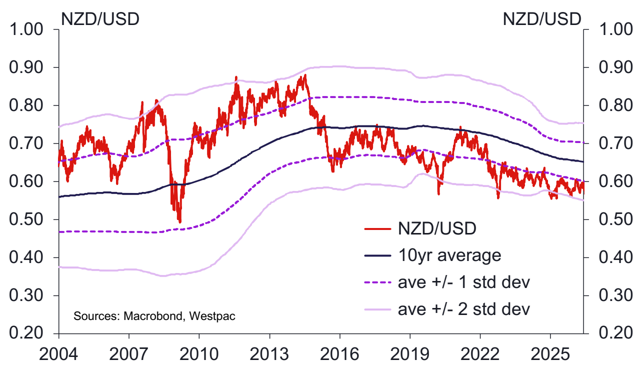
Official Cash Rate forecasts



Swap rates



NZD/USD vs rolling 10yr average



FX recent developments

	Historical data				F'cast
	Spot	3mth range	5yr range	5yr avg	Dec-26
USD	0.584	0.563-0.596	0.553-0.720	0.615	0.60
AUD	0.836	0.816-0.836	0.816-0.971	0.909	0.84
EUR	0.510	0.495-0.511	0.484-0.637	0.559	0.51
GBP	0.433	0.425-0.442	0.425-0.531	0.479	0.44
JPY	94.8	91.1-94.8	74.7-98.6	86.8	96.0

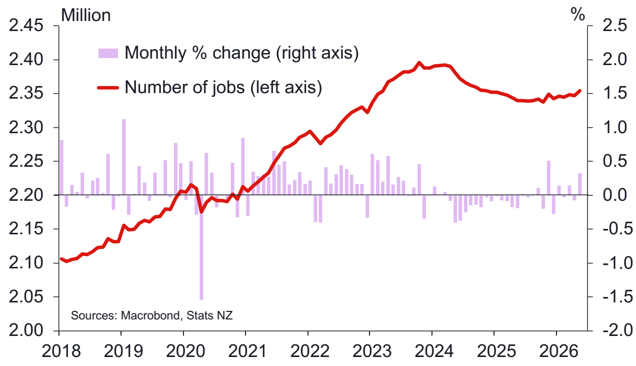
The week ahead

Jun Monthly Employment Indicator.

Jul 28, Last: 0.3%, Westpac f/c: 0.2%

The MEI has been showing a modest uptick in employment since late 2025, adding to the evidence that the New Zealand economy was regaining momentum prior to the Iran conflict. The weekly snapshots provided by Stats NZ suggest that the labour market has held its ground during the conflict, with the number of filled jobs continuing to track slightly above year-ago levels. Given that the MEI tends to be overstated on the first release, we expect to see a 0.2% rise for June initially, which is then likely to be revised closer to flat. The May increase is also likely to be revised lower.

Monthly Employment Indicator filled jobs

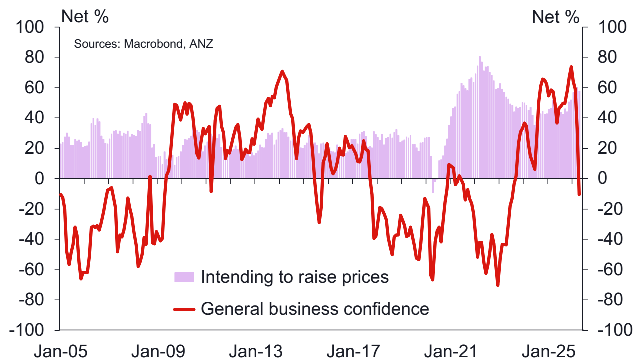


Jul ANZ Business Confidence.

Jul 30, Last: 36.6

Business confidence rose strongly in June, reflecting the US-Iran peace deal and the decline in oil prices at the time. The resumption in hostilities means that the headline measures of confidence are likely to head lower again for the July survey (though noting that fuel prices at the pump had not yet lifted during the survey period). The various inflation gauges will be of particular interest, given the RBNZ's concerns about the possibility of second-round price pressures. Firm's pricing intentions eased in the June survey but have remained elevated for several years.

Business confidence and pricing intentions

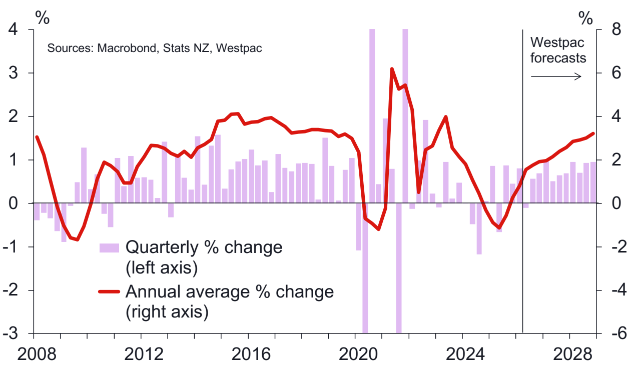


Economic and financial forecasts

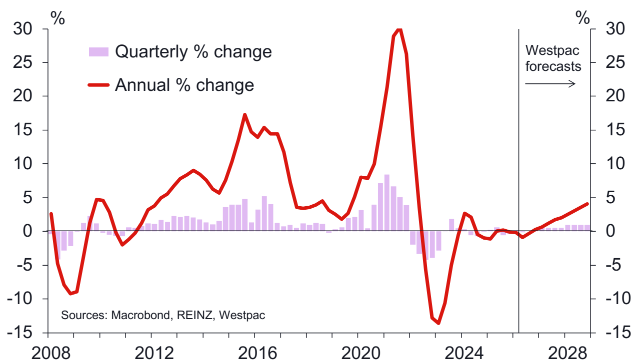
Economic indicators	Quarterly % change				Annual % change			
	Mar-26	Jun-26	Sep-26	Dec-26	2024	2025	2026	2027
GDP (production)	0.8	-0.1	0.6	0.7	-1.6	1.5	2.0	2.9
Consumer price index	0.9	1.5	0.7	0.4	2.2	3.1	3.5	1.9
Employment change	0.1	0.1	0.3	0.6	-1.3	0.2	1.2	2.5
Unemployment rate	5.3	5.4	5.4	5.3	5.1	5.4	5.3	4.9
Labour cost index (all sectors)	0.5	0.6	0.7	0.6	3.3	2.0	2.4	2.4
Current account balance (% of GDP)	-3.6	-3.7	-3.9	-3.9	-4.7	-3.6	-3.9	-3.9
Terms of trade	-1.6	1.4	0.9	-0.1	8.9	3.4	0.6	3.9
House price index	0.1	-0.1	0.0	0.2	-1.0	-0.1	0.3	2.0

Financial forecasts	End of quarter				End of year			
	Mar-26	Jun-26	Sep-26	Dec-26	2024	2025	2026	2027
OCR	2.25	2.25	2.75	3.00	4.25	2.25	3.00	4.00
90 day bank bill	2.51	2.63	3.00	3.40	4.45	2.52	3.40	4.20
2 year swap	3.12	3.47	3.70	3.95	3.64	2.71	3.95	4.20
5 year swap	3.71	3.88	3.85	4.15	3.73	3.27	4.15	4.40
10 year bond	4.54	4.61	4.55	4.65	4.50	4.27	4.65	5.05
TWI	67.2	66.5	67.0	67.6	69.5	66.4	67.6	72.2
NZD/USD	0.59	0.58	0.59	0.60	0.59	0.57	0.60	0.66
NZD/AUD	0.85	0.82	0.83	0.84	0.91	0.87	0.84	0.90
NZD/EUR	0.50	0.50	0.51	0.51	0.55	0.49	0.51	0.55
NZD/GBP	0.44	0.44	0.44	0.44	0.46	0.43	0.44	0.47

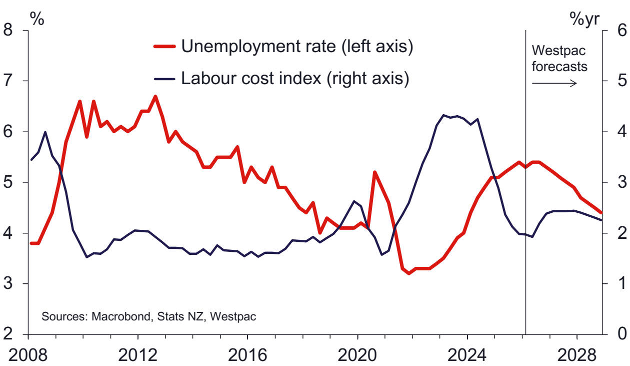
GDP growth



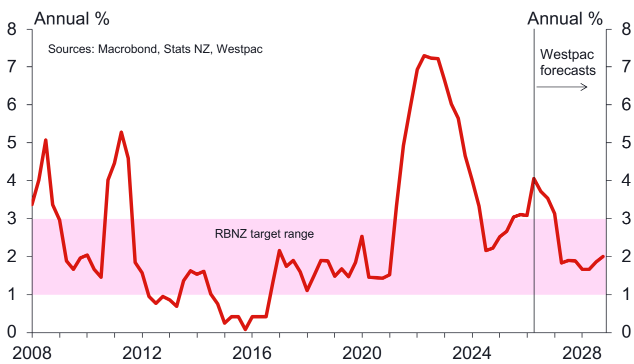
House prices



Unemployment and wage growth



Consumer price inflation



Data calendar

		Last	Market median	Westpac forecast	Risk/Comment
Mon 27					
Chn	Jun Industrial Profits, %ann	21.1	–	–	Profit growth still faces demand-side headwinds.
Ger	Jul IFO Business Climate Survey, index	85.6	86.0	–	Recovering after the energy price shock.
US	Jun Durable Goods Orders, %mth	–4.5	1.5	–	Business investment trends in focus.
	Jul Dallas Fed Manufacturing Survey, index	0.00	–	–	Manufacturing activity continues to face headwinds
Tue 28					
NZ	Jun Employment Indicator, %mth	0.3	–	0.2	Jobs have held their ground through the Iran conflict.
Aus	RBA Governor Bullock	–	–	–	Annual Anika Foundation speech, 1:05pm AEST.
US	Jun Advance Goods Trade Balance, $bn	–105.9	–100.0	–	Deteriorated sharply in May.
	May S&P/CS Home Price Index, %mth	–0.04	–	–	US house price growth is turning negative.
	Jul Richmond Fed Manufact Survey, index	4	–	–	Sentiment turned positive in recent months.
	Jul Conf. Board Consumer Confidence	91.2	92.3	–	Consumers remain downbeat.
Wed 29					
Aus	Jun Monthly CPI, %ann	4.0	4.0	4.2	The signing of the MoU in June helped to soften the rise...
	Jun Monthly Trimmed Mean CPI, %ann	3.6	3.7	3.7	...but upside risks will remain front of mind for the RBA.
	Q2 Quarterly CPI, %qtr	1.4	0.7	0.7	Fuel excise cut will limit upside pressures to headline CPI ...
	Q2 Quarterly Trimmed Mean CPI, %qtr	0.8	0.9	0.9	... but underlying pressures will firm.
US	Jul FOMC Policy Decision, %	3.625	3.625	3.625	Fed on hold, assessment of inflation in focus.
Thu 30					
NZ	Jul ANZ Business Confidence, index	36.6	–	–	Resumption of Iran conflict will weigh on confidence.
Aus	RBA Assistant Governor (Economic)	–	–	–	Hunter fireside chat at Barrenjoey Forum, 8:40am AEST.
	Jun Dwelling Approvals, %mth	–1.1	–0.5	–2.0	May begin to see interest rate rises have an effect.
	Q2 Export Price Index, %qtr	0.5	0.7	0.5	Commodity prices the main driver.
	Q2 Import Price Index, %qtr	0.1	–0.2	2.3	Inflationary impulse, mainly due to higher energy prices.
Eur	Jul Economic Confidence, index	95	–	–	Likely to signal that recovery gathers pace.
	Q2 GDP, %qtr	0.0	0.2	–	Low growth, but contraction is likely to be avoided.
	Jun Unemployment Rate, %	6.2	6.2	–	Stable labour market conditions persist.
UK	Jul BoE Policy Decision, %	3.75	3.75	3.75	Weak labour market offsets the energy price impulse.
US	Jun Personal Income, %mth	0.7	0.3	–	Household incomes continue to support spending.
	Jun Personal Spending, %mth	0.7	0.4	–	Consumers remain key to growth momentum.
	Jun PCE Deflator, %mth	0.4	–0.1	–	Inflation progress remains under scrutiny.
	Q2 GDP, %ann'd	2.1	2.3	1.8	Consumers facing growing headwinds
	Wkly Initial Jobless Claims, 000s	187	205	–	Have been broadly stable for a while.
Fri 31					
NZ	Jul ANZ Consumer Confidence, index	91.3	–	–	Living costs incl. fuel remain major concern for households.
Aus	Q2 PPI, %qtr	0.4	–	–	Input costs on the rise.
	Jun Private Sector Credit, %mth	0.7	0.6	0.6	Evidence of slower housing credit following int rate increases.
Jpn	Jul Tokyo CPI, %ann	1.7	1.8	–	Leading indicator for the national prices.
	Jun Jobless Rate, %	2.5	2.5	–	Low and stable.
	Jun Industrial Production, %mth	0.1	1	–	Has been moving broadly sideways for a while.
	Jul BoJ Policy Decision, %	1.00	1.00	–	Policy on hold after the June hike,
Chn	Jul NBS Manufacturing PMI, index	50.3	50.1	–	Manufacturing activity appears to be broadly stable.
	Jul NBS Non–Manufacturing PMI, index	50.2	50	–	Domestic demand for services in focus.
Eur	Jul HICP Inflation, %ann	2.8	2.9	–	Looking for signs of broadening inflationary impulse.
US	Q2 Employment Cost Index, %mth	0.9	0.8	–	Stable inflationary pressures in the US labour market.
	Jul Chicago PMI, index	56.7	–	–	Manufacturing momentum remains uneven.
	Jul Uni. Of Michigan Sentiment, index	54.4	54.2	–	Final estimate, sentiment remains near historical lows.

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