



WEEKLY ECONOMIC COMMENTARY



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

Along for the ride

There was plenty of action in the markets last week, as global interest rates moved higher and New Zealand was taken along for the ride. In the US, strong economic data and resurgent oil prices have led the market to believe that the central bank will need to get on with the job and hike its policy rate further in the months ahead. Longer-term US interest rates have continued to lift sharply, driving both a rise in our own interest rates and a fall in the New Zealand dollar, with the trade-weighted index already 4% below what the RBNZ assumed in its September Monetary Policy Statement.

While the September MPS worked to dampen market expectations about the pace of future rate hikes, offshore developments have seen market pricing for the OCR bounce back and exceed previous levels. Interest rate markets are currently pricing around a 75% chance of a hike at the 28 October policy review, with a high chance of another hike on top of this at the 9 December review. We'd question whether the RBNZ's thinking has really shifted to that degree in the last few weeks though.

Notably, the RBNZ provided some unscheduled comments on the monetary policy outlook last Tuesday, in what was otherwise a very light week for local news. In connection with a visit to Dunedin by Governor Breman and other RBNZ leaders, there was a media release that included the following:

"If higher oil prices persist, they are expected to result in somewhat higher near-term inflation than we assumed in the September Statement... As always, we will assess incoming data and global developments ahead of our next decision in October and remain focused on the outlook for inflation over the medium term."

Both of these statements are fairly benign and factual in themselves. What's more notable is that the RBNZ felt the need to make a public comment at all, since the occasion

Key views

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

Westpac GDP nowcasts



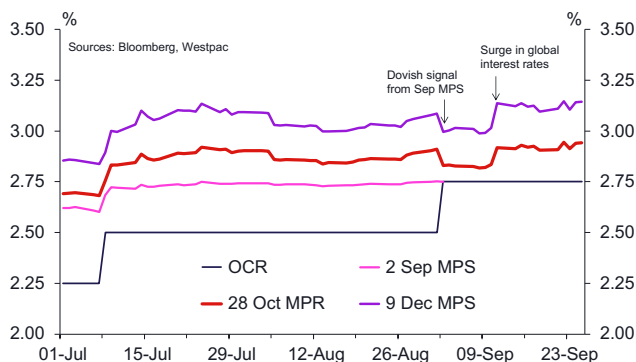
Key data and event outlook

Date	Event
29 Sep 26	NZ Govt Pre-election Economic & Fiscal Update
29 Sep 26	RBA Monetary Policy Decision
6 Oct 26	NZIER QSBO Survey, September quarter
16 Oct 26	NZ Selected price indexes, September
21 Oct 26	NZ CPI, September quarter
28 Oct 26	RBNZ OCR Review
28 Oct 26	FOMC meeting (29 Oct NZT)
3 Nov 26	RBA Monetary Policy Decision
5 Nov 26	Labour market surveys, September quarter
8 Nov 26	NZ General Election

didn't require one. (The Governor's presentation at a business lunch was originally billed as being based on material from the September MPS, with no new insights.)

If the intention was to guide market expectations for the October meeting lower, it wasn't entirely successful. Indeed, the market initially fixated on the first part of the statement – higher near-term inflation – and pushed pricing for an October hike even higher on the day. While this was unwound the following day, market pricing for OCR hikes remains higher than it was at the start of last week.

Market pricing for the OCR at policy review dates

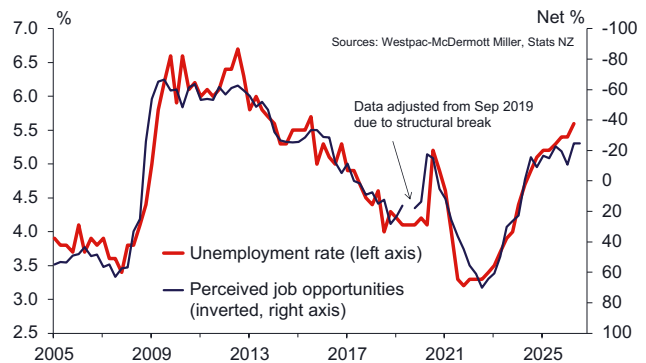


As it currently stands, that leaves the RBNZ with the prospect of having to rattle the market if it follows through with the October pause that it was signalling in the September MPS. However, it's possible that the local and offshore economic data, together with geopolitical developments, could shift market pricing in the meantime. Domestically, the NZIER's quarterly survey of business opinion (6 Oct) and the September quarter CPI (22 Oct) will be especially important in that regard.

The only data release last week was our Employment Confidence Index, produced in conjunction with McDermott Miller. Compared to our consumer confidence survey, there was a relatively weak bounce in employment confidence in the September quarter. The index rose by 3.2 points to 86.3, leaving it at the second-lowest level on record for this survey going back to 2004.

Perceptions of current job opportunities were unchanged at a net -60%. This is the component of the survey that seems to have the most predictive power for near-term labour market conditions and is broadly consistent with the unemployment rate holding at its current 11-year high of 5.6%. Hiring has remained soft to an unusual degree for this stage of the economic cycle, and those who are out of the workforce have been finding it increasingly difficult to get in.

Current job opportunities vs unemployment rate



It's clear that there is still substantial slack in the labour market and little upward pressure on wages, which would push back somewhat against the market's view that the RBNZ will need to pick up the pace and deliver two more OCR hikes before Christmas. The RBNZ doesn't need to have employment formally in its mandate for it to be attentive to the signals coming from the labour market.

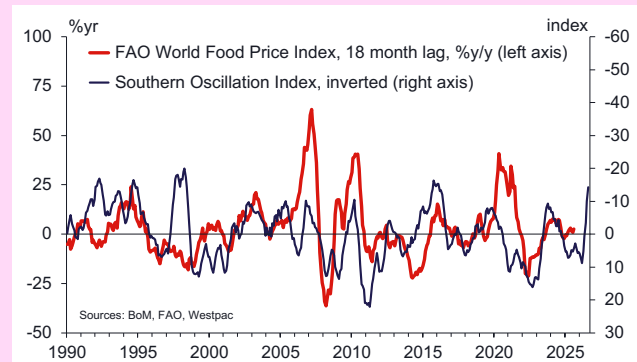
The data flow picks up again this week, with monthly releases for employment, building activity, and business and consumer confidence. (See 'the week ahead' for more details.) The other release of note is the Pre-Election Fiscal and Economic Update (PREFU) on Tuesday. This 'book opening' exercise is designed to create a level playing field, allowing parties outside the current Government and the public more generally to judge to the state of the public finances in the leadup to the General Election on 7 November. In the case of the opposition parties, it will also allow them to calibrate the spending and taxation policies on which they will campaign. [See our preview](#) for the details on what we expect from this release.

Michael Gordon, Senior Economist

Chart of the week.

Climatologists are warning that the risk of New Zealand experiencing a severe El Niño is increasing, with the current weather system being nicknamed ‘Godzilla’. That is a particular concern for farmers in the North Island. As we discuss in [our recent report](#), the initial effects in New Zealand would likely include higher prices for dairy products (due to lower production), but lower prices for beef and lamb (due to earlier slaughter). However, El Niño would not just affect farmers in New Zealand. Growing conditions worldwide could also be affected. And with lags associated with production and growing cycles, that could push global food prices higher, though not across the board. Historically El Niño events have led to reduced harvests in the likes of Australia (wheat), India (rice) and Indonesia (coffee, cocoa, palm oil), but better growing conditions in the likes of Argentina (soybeans) and the US (fruits and various other foods).

Southern Oscillation Index and global food prices

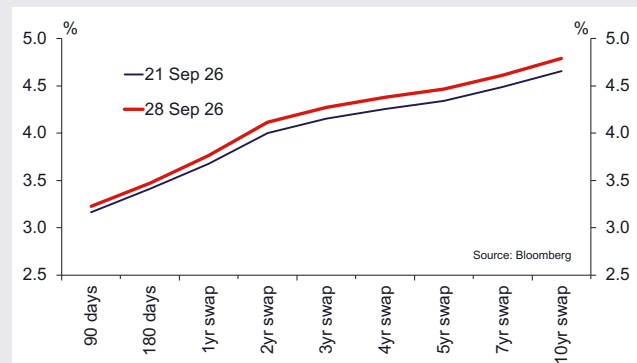


Fixed versus floating for mortgages.

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

Fixed-term mortgage rates between two and five years now lie above 5%, but fixing for one of these longer periods still appears attractive as it would insulate borrowers from a trend higher in the OCR over the next couple of years.

NZ interest rates



Global wrap

Middle East and oil.

Oil prices eased early in the week in response to Saudi Arabia's efforts to restart flows through the East-West pipeline. President Trump also said he would seek a deal with Iran to end the war in the Middle East. However, prices turned higher again later in the week after comments from Iran struck a defiant tone, with officials noting that they would not reopen the Strait of Hormuz while facing military pressure from the US. That pressure was compounded by the possibility of a 90-day ban on US diesel exports. Brent oil starts the week at US\$104/bbl.

US.

Expectations for Fed rate hikes received a boost over the past week after the manufacturing and services PMIs surprised to the upside in September. The firmness in those data compounded oil-related inflation concerns. In addition, Fed members Goolsbee, Barkin, and Musalem all made hawkish comments. Together, these factors contributed to a sharp rise in Treasury yields, with five- and ten-year yields moving above 5% for the first time in 20 years. There is a heavy data calendar this week, including updates on personal income, spending, and the PCE deflator (Wednesday), the ISM (Thursday) and non-farm payrolls (Friday).

Europe.

While the EU PMI was unchanged in September, the details highlighted firm underlying momentum, with increases in output and orders. We also saw a lift in the services sector gauge. Similarly, in the UK, while both the PMI and PSI cooled in September, the underlying details pointed to resilience in the face of the fuel-price spike. BoE Governor Bailey has warned that it will become harder to keep rates on hold the longer high oil prices persist.

Asia-Pacific.

Comments from RBA Governor Bullock reinforced expectations for a rate hike at this week's policy meeting. The Governor noted that the labour market was "a bit tight" and indicated that a softer labour market would help moderate pressures on inflation and wages. We expect the RBA to deliver a 25bp hike at Tuesday's policy meeting. Following the Governor's comments, Australian employment data for August surprised to the upside, rising by 39.5k. Once again, however, new labour demand was more than offset by supply, as the participation rate increased by 0.2ppts to 67.1%. As a result, the unemployment rate increased from 4.5% to 4.6%. There are several Australian data releases this week, with Wednesday's monthly CPI update for August the highlight.

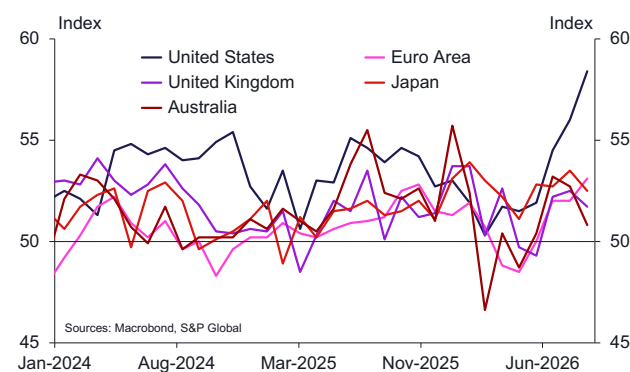
Trading partner real GDP (calendar years)

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

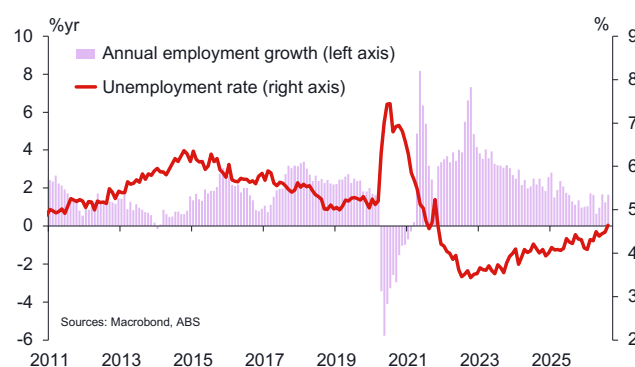
Australian & US interest rate outlook

	25 Sep	Dec-26	Dec-27	Dec-28
Australia				
Cash	4.35	4.60	4.10	3.85
90 Day BBSW	4.76	4.70	4.05	3.95
3 Year Swap	5.03	4.65	4.30	4.10
3 Year Bond	5.03	4.65	4.30	4.10
10 Year Bond	5.38	5.20	4.85	4.80
10 Year Spread to US (bps)	21	40	15	-10
US				
Fed Funds	3.875	4.125	4.125	3.625
US 10 Year Bond	5.17	4.80	4.70	4.90

S&P Global composite PMI readings



Australian labour market



Financial markets wrap

Foreign exchange.

Further US dollar strength on the back of solid data and hawkish Fed commentary saw the NZ dollar trade down to a low of 0.5650 last week before closing at 0.5664. The week-ahead bias remains bearish, with US jobs data likely to remain solid while NZ confidence data may weaken in response to this month's rebound in energy prices.

For the month ahead, we retain a bearish bias, with the June low of 0.5625 the next technical target. Domestic factors have been mixed, with the RBNZ indicating a restrained hiking path and economic activity indicators mixed. US factors have also weighed on NZD/USD, particularly the Fed outlook. Further ahead, if NZ's economic momentum improves despite higher oil prices as we expect during the quarter ahead, we see a case for the NZD/USD to recover to 0.5900 by year end.

NZD/AUD fell to a 13-year low of 0.8006 last week but has since recovered to 0.8064. The speed of the earlier decline had left it "stretched" and in need of consolidation. If NZ's economic recovery looks more compelling, a rebound to the 0.8300-0.8400 area by year end is plausible.

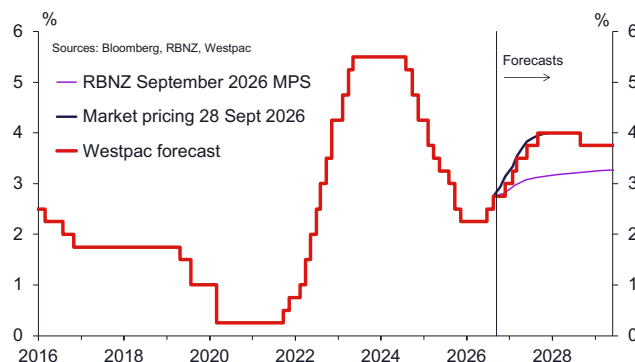
Interest rates.

NZ swap rates were carried higher last week by the sharp selloff in US markets. The 2yr swap closed at 4.11% – the highest since August 2024 – up from 3.99% a week earlier. Meanwhile, the 10yr swap rose 15bps to 4.79% – the highest since April 2024. We expect the economic recovery to continue, which should result in higher swap rates during the next few quarters. That said, should worries in the oil market suddenly recede, swap rates would likely fall from current levels in the near term.

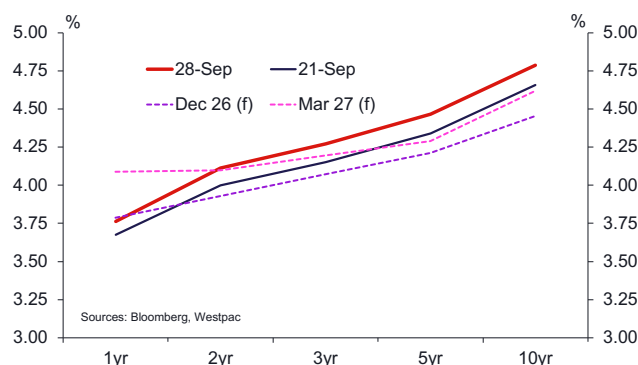
The near-term (conditional) path of the OCR, implied by the RBNZ's September MPS OCR forecast, is a hold in October and a hike in December. The evolution of NZ and global economic and financial developments will be important in determining whether this path eventuates. The next major domestic data releases are Q3 CPI inflation and the Q3 QSBO business survey. Ahead of these releases, the ANZ's confidence surveys will be of interest this week. Currently, OIS pricing implies around a 70% chance of a hike in October, over a 100% chance by December, and a peak OCR of close to 4%.

The yield curve's flattening trend since the peak in late December has resumed, helped by the rise in short-maturity interest rates offshore. The 2-10yr swap curve, which had steepened over the past month from 70bp to 80bp, is currently at 67bp. By year end, we expect the flattening trend to extend due to the RBNZ's tightening cycle, taking the 2-10yr curve to around 60bp.

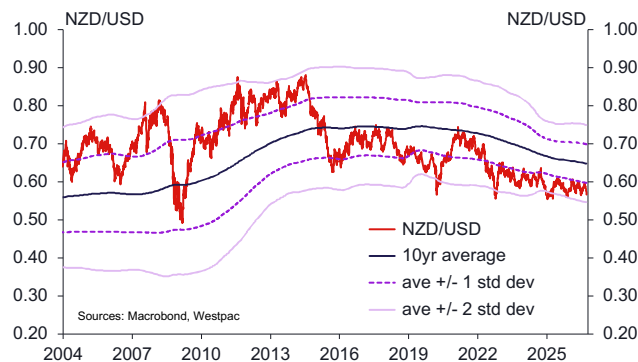
Official Cash Rate forecasts



Swap rates



NZD/USD vs rolling 10yr average



FX recent developments

	Historical data				F'cast
	Spot	3mth range	5yr range	5yr avg	Dec-26
USD	0.567	0.563-0.597	0.553-0.720	0.610	0.59
AUD	0.807	0.802-0.837	0.802-0.967	0.904	0.82
EUR	0.498	0.495-0.513	0.484-0.637	0.555	0.50
GBP	0.428	0.425-0.438	0.425-0.531	0.476	0.43
JPY	89.1	89.1-95.3	75.5-98.6	87.5	90.7

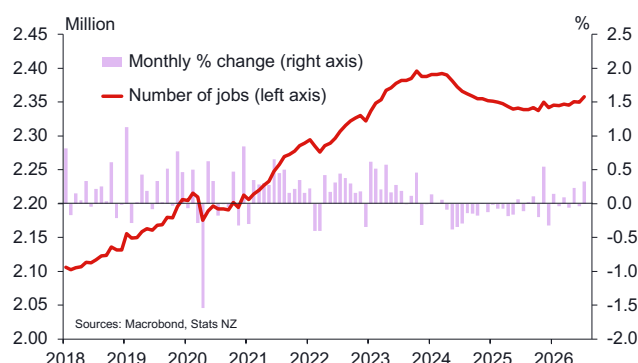
The week ahead

Aug Monthly Employment Indicator

Sep 28, Last: 0.3%, 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 August – we’ve pencilled in a 0.3% increase, following a similar rise in July. However, the history of this indicator suggests that both months are likely to be revised down a bit from their initial release.

Monthly Employment Indicator filled jobs

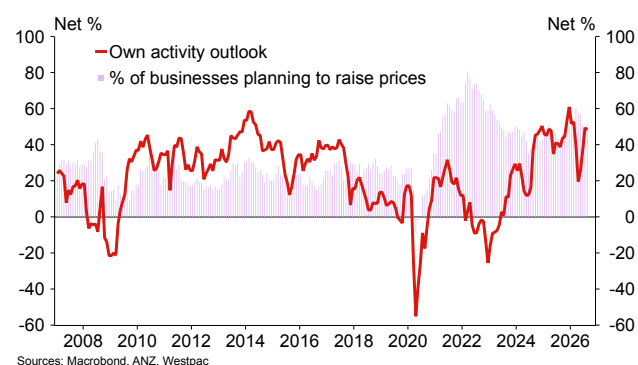


Sep ANZ Business Confidence

Sep 30, Last: 53.7

Business confidence was steady in August, after having rebounded to around pre-conflict levels in the previous month. The renewed pressure on global oil prices is likely to challenge that confidence in the coming months, although we likely won’t see the full impact in the September survey as the largest gains in fuel prices at the pump occurred in the later part of the month. The pricing measures of the survey will be of particular interest to the RBNZ ahead of the 28 October OCR review, particularly given their concerns about the possibility of firms using fuel prices as cover to increase their own margins.

Business confidence and pricing intentions

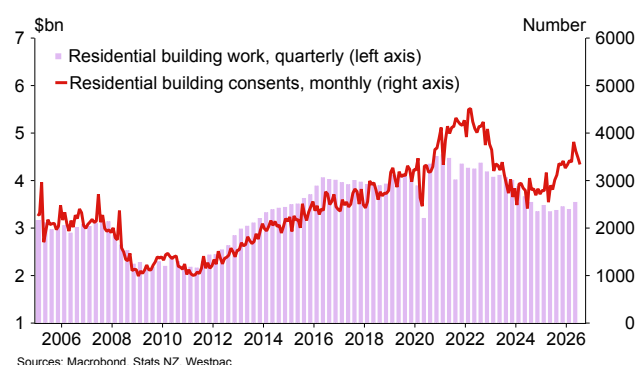


Aug Building Consents

Oct 1, Last: -4.3%, Westpac f/c: Flat

While residential building consent numbers remain firm, they have been flattening off. Consents fell 4.3% in July, the third decline in a row. We expect that consents will be flat in August but with the risk tilted towards a small dip. Stepping back and looking at the longer-term trend, annual consent issuance is at a three-year high and we expect it will nudge higher again this month. However, there are questions about how long that momentum will be sustained given the softness in the housing market. We suspect the peak is getting close. In the non-residential space, we’ve seen softness in the number of retail and office developments, but greater resilience in the industrial segment.

Residential building and consent numbers

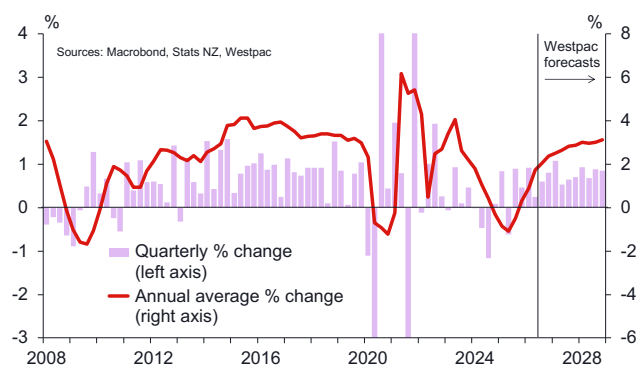


Economic and financial forecasts

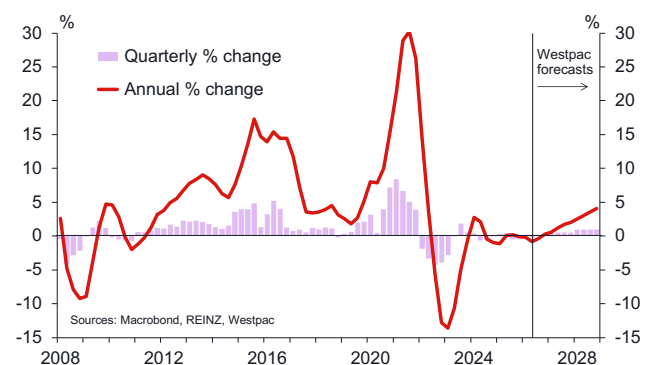
Economic indicators	Quarterly % change				Annual % change			
	Jun-26	Sep-26	Dec-26	Mar-27	2025	2026	2027	2028
GDP (production)	0.2	0.6	0.8	1.1	1.6	2.6	3.0	3.4
Consumer price index	1.5	0.7	0.6	0.4	3.1	3.7	1.7	2.1
Employment change	0.5	0.5	0.7	0.7	0.2	1.8	2.6	2.3
Unemployment rate	5.6	5.5	5.4	5.3	5.4	5.4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

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

GDP growth



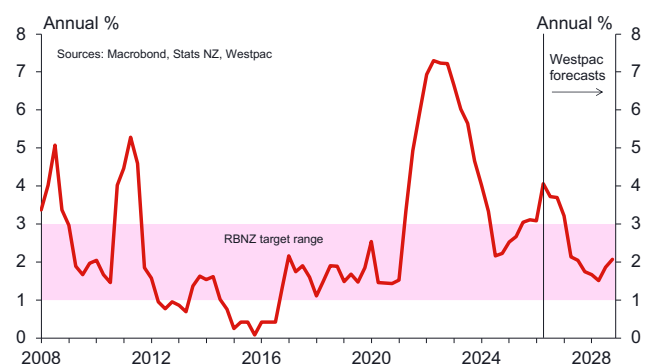
House prices



Unemployment and wage growth



Consumer price inflation



Data calendar

		Last	Market median	Westpac forecast	Risk/Comment
Mon 28					
NZ	Aug Employment Indicator, %mth	0.3	–	0.3	Both Jul and Aug likely to be revised down from initial prints.
Chn	Aug Industrial Profits, %ann	11.2	–	–	Profit growth solid but slowing amid elevated oil prices.
US	Sep Dallas Fed Manufacturing, index	11.6	7.3	–	Jump into expansion welcome, persistence will be key.
Tue 29					
Aus	Aug Household Spending Indicator, %mth	1.1	0.3	–0.5	Higher fuel prices are squeezing discretionary spending.
	Sep RBA Policy Decision, %	4.35	4.6	4.6	Rate hike expected, with a split vote the likely outcome.
NZ	Pre-Election Economic & Fiscal Update	–	–	–	Required update of forecasts ahead of the 7 Nov election.
Eur	Sep EC Economic Confidence, index	98.4	98.8	–	Confidence recovery taking hold, both business and consumer.
US	Jul S&P/CS Home Price Index, %mth	0.24	0.2	–	Price growth moving past trough, but constrained by rates.
	Aug JOLTS Job Openings, 000s	7271	7225	–	More-or-less stable job openings points to balance.
	Sep Conf. Board Consumer Conf., index	89.4	90	–	Continues to bump around deeply pessimistic lows.
	Fedspeak	–	–	–	Goolsbee, Williams.
Wed 30					
Aus	Aug Monthly CPI, %ann	3.5	4.1	4	The risk remains to the upside.
	Aug Private Sector Credit, %mth	0.6	0.5	0.5	Housing and business credit growth trends diverge.
	Aug Dwelling Approvals, %mth	–3.6	–1.0	–5.0	Elevated interest rates are likely to continue to weigh.
NZ	Sep ANZ Business Confidence, index	53.7	–	–	Rising fuel prices could dent confidence again.
Jpn	Aug Industrial Production, %mth	–0.2	1.4	–	Likely lifted in August supported by car manufacturing and AI.
Chn	Sep NBS Manufacturing PMI, index	49.8	50.1	–	Official gauges point to a more benign picture for activity ...
	Sep NBS Non-Manufacturing PMI, index	49	49.3	–	... downtrend in services reflective of cautious consumers ...
	Sep RatingDog Manufacturing PMI, index	51.5	51.6	–	... unofficial RatingDog gauges paint a more positive picture ...
	Sep RatingDog Services PMI, index	51.4	51.1	–	... which may reflect their more export-oriented nature.
US	Aug PCE Deflator, %mth	0.2	0.4	–	Persistent inflation pressures continue to chip away ...
	Aug Personal Income, %mth	0.4	0.5	–	... nominal gains in household incomes, putting pressure ...
	Aug Personal Spending, %mth	0.2	0.9	–	... on real spending volumes, which are closer to flat.
	Q2 GDP, %ann'd	1.5	1.50	–	Final estimate.
	Fedspeak	–	–	–	Barkin, Cook, Goolsbee, Kashkari.
Thu 01					
Aus	Sep Cotality Home Value Index, %mth	–0.9	–	–0.9	Declines likely to have accelerated in Brisbane, Perth, Adelaide.
	RBA Financial Stability Review	–	–	–	Half-yearly update on risks in the financial system.
	Q3 Job Vacancies, %qtr	–2.1	–	3.5	Partial indicators point to a bounce-back in vacancies.
	Aug Goods Trade Balance, \$bn	1.9	2.2	2.3	A bounce-back in coal and iron ore export volumes to support.
NZ	Aug Building Permits, %mth	–4.3	–	Flat	Annual total elevated, but are we approaching a peak?
Jpn	Q3 Tankan Large Manufacturers, index	22	25	–	Another solid improvement anticipated, but details will be key.
Eur	Aug Unemployment Rate, %	6.4	6.400	–	Broadly stable near its record low level.
US	Initial Jobless Claims	197	–	–	Will remain low, even after bouncing back post-holidays.
	Sep ISM Manufacturing, index	54.6	55	–	Robust expansion across vast range of sub-industries.
	Aug Construction Spending, %mth	–0.5	0.1	–	High mortgage rates a clear drag; data centres an exception.
	Fedspeak	–	–	–	Barkin, Collins, Schmid, Cook, Williams, Logan.
World	Sep S&P Global Manufacturing PMI, index	–	–	–	Final estimate for Japan, Europe, UK and US.
Fri 02					
NZ	Sep ANZ Consumer Confidence, index	98	–	–	Picking up recently, but vulnerable to resurgent fuel prices.
Jpn	Sep Tokyo CPI, %ann	1.9	2.5	–	Expected to foreshadow a lift in nationwide inflation pressures.
	Aug Jobless Rate, %	2.4	2.4	–	Still indicative of a fairly tight labour market.
Eur	Sep CPI, %ann	3.2	3.5	–	Subdued core inflation gives little need for excessive tightening.
US	Sep Nonfarm Payrolls, 000s	162	100	80	Likely to hold around recent trends ...
	Sep Unemployment Rate, %	4.1	4.1	4.2	... while a rise in participation may see unemployment gain.
	Sep Average Hourly Earnings, %mth	0.3	0.3	–	To hold at a stable level.
	Aug Factory Orders, %mth	0.9	–0.1	–	Choppy but broadly indicative of firmer investment.

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