



WEEKLY ECONOMIC COMMENTARY



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Inflation up, growth down, OCR on hold?

As the war has drawn on and evidence of disruption to the NZ economy has accumulated, we have had another cut at estimating the impact on the economic outlook. The hit to growth and employment looks significant and inflation is set to move well above the top of the RBNZ's target range. The RBNZ noted an intention to try and look through the direct impacts of the shock. But there is significant uncertainty around the outlook so we should be humble around what we know now about how things will develop over the year ahead.

The Iran war is expected to significantly crimp the previously expected recovery.

The Iran war has not moderated in the last couple of weeks and in some sense the pressure on the New Zealand economy has intensified as early hopes of a fast resolution and quick return to global economic normality have waned. We can't say with any certainty when the conflict will end. But we now think it will be at least another month until we see tangible signs of an end to the war with the possibility of more normal service to the global oil markets returning.

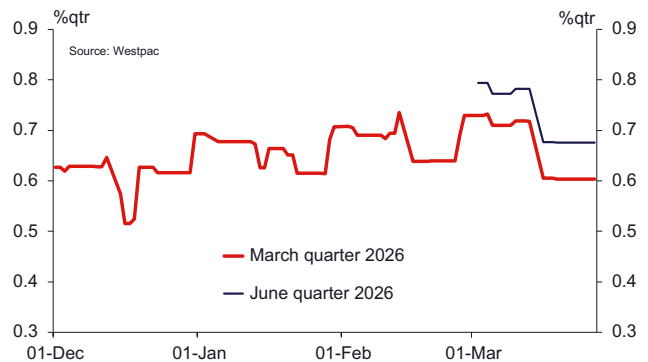
Crude oil prices have remained volatile but refined fuels markets have continued to tighten as the flow of crude oil around the world has now been constrained for more than three weeks. Damage to infrastructure in the Persian Gulf has accumulated which means that even if the war ended tomorrow, the path to normality will take some time. As refined fuels spreads are wider and capacity at the Asian refineries where we and our trading partners access fuel has declined, pressure has built on the economic outlook.

We continue to assume that the Iran war eases in around a month and that crude oil and refined fuels prices will

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
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
28 May 26	NZ Government Budget

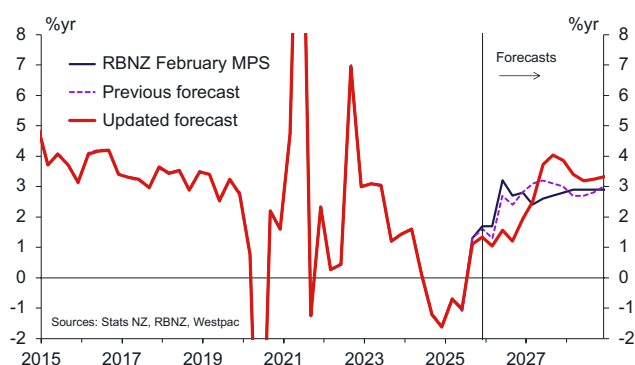
gradually ease over the rest of 2026. Crude oil prices are expected to drop back to around pre-war levels by the start of 2027. However, refined fuels prices remain elevated compared to levels seen a few months ago as we expect some element of a war risk premium to remain, and damage to infrastructure may take time to repair. That means inflation in New Zealand will likely linger at elevated levels for much of this year.

We think that the Iran war will have damaged confidence in the household and business sectors and will be prompting changes in spending and investment plans, given people have no real idea on when conditions will improve. We saw an early read on this with the monthly consumer confidence survey for March released last Friday. This showed that consumer confidence dropped sharply over the month and currently likely sits some distance below the average level of confidence reported for the month overall.

We've pulled down our forecast for GDP growth over 2026 to 1.9% (from 2.8% previously). In the very near term, we've pencilled in a 0.4% fall in June quarter GDP. That's mainly due to an expected drop in household spending in response to increases in living costs and related falls in consumer confidence. Those headwinds will not be significantly offset by the Government's support package targeting lower-income households.

We also expect weakness in investment spending over the coming year, with some businesses likely to delay major capital spending in response to the increased uncertainty about the outlook for economic growth and the near-term downturn in demand that may be experienced in some industries. We will learn more about this when the NZIER QSBO is available on 21 April.

GDP growth forecasts



The most direct impact of the shock on exports will be felt in the tourism sector, with the recent strong growth in international arrivals likely to be reversed for a period due to a combination of flight disruptions, much higher airfares and perhaps consumer reluctance to travel long distances. The economic impact will be partly mitigated by fewer New Zealanders choosing to holiday abroad. At this stage we have made no major changes to our forecasts for the volume of merchandise trade. As is

usually the case in New Zealand, weaker global growth is likely to manifest mostly through lower prices rather than lower volumes.

Growth is expected to pick up again next year as the eventual fall in oil prices boosts households' disposable incomes. However, the recovery in investment spending is expected to be more gradual, with businesses likely to remain cautious about major capital expenditure until they are confident that the recovery is entrenched.

We anticipate that the shock will put paid to the recovery in the labour market we had expected over 2026. We now expect unemployment will rise from 5.4% currently to 5.6% in the middle of this year, before easing back gradually. With a softer outlook for economic growth, businesses are likely to remain cautious about taking on new staff, and some firms may shed workers.

With weakness in activity and the jobs market, the overall level of wage inflation is expected to remain moderate in the near term (though some workers with specialised skills may be able to negotiate larger pay increases in response to the rise in living costs). Longer term, as the economy recovers, we are likely to see demands for larger cost-of-living adjustments to wages as workers try to claw back the loss in their purchasing power.

Another sector that won't likely see an improvement over 2026 now is the housing market. The hit to the household sector coming from the increase in fuel costs combined with the weaker labour market is likely to be a kick in the guts of a housing market that was already just treading water. We now expect house prices to fall around 1% over 2026 as buyers step back from the market. Further ahead, we expect a return to more moderate rates of house price growth.

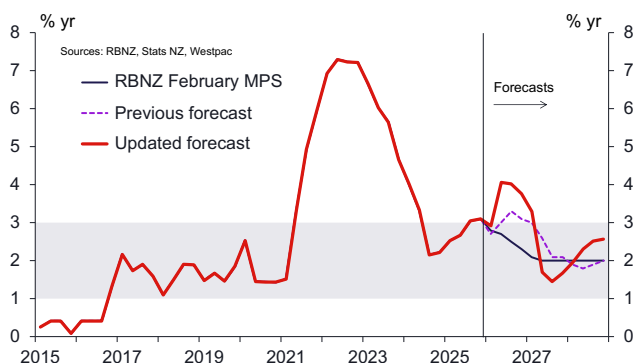
Our revised economic outlook also has implications for the Government's fiscal position. As growth is expected to be weaker then so also will be government revenue. Spending is also likely to be higher than expected as unemployment rises. The Government's fuel package announced last week will have just a modest impact given the Government indicates that the roughly \$370m cost implied will fit within current operating allowances. The bottom line is that the OBEGALx deficit in 2026/27 is now likely to be around \$4bn larger than we had forecast previously. A surplus might still be achievable in 2029/30, but the cumulative deficit over the forecast period would be around \$7-8bn higher than forecast previously, with net core Crown debt peaking at around 46% of GDP. Treasury's forecasts are likely to be more pessimistic than our own with implications for the forecast bond programme.

There are consequential implications for the inflation outlook. We now expect that inflation will peak at 4.1% in mid-2026, and that it will remain above 3% through the first quarter of 2027. That is up sharply from our previous forecasts, which assumed a peak in inflation of around

3.2%. And importantly, inflation is set to remain well above the levels the RBNZ had previously assumed for all of 2026. Higher refined fuel costs are the key driver here. There are direct impacts on petrol and diesel costs, but also indirect impacts through a broad range of goods and services.

When oil prices do eventually drop back, inflation is expected to fall to levels that are lower than we previously assumed (a pattern that is often seen in the wake of oil price spikes). In our updated projections, inflation is expected to briefly dip below 2% in late 2027, before rising back up to around 2.3% further ahead.

Inflation forecasts



The extent of the current uplift in inflation signals upside risk for inflation expectations and business price setting behaviour. In the near term, any uplift in output prices will be moderated by the softness in activity. However, when activity recovers, we expect some firms will attempt to rebuild margins, while workers are likely to ask for larger wage increases to offset the erosion of their purchasing power.

This leaves the question of how the RBNZ will respond to the significant change in circumstances. The RBNZ is exquisitely skewed between a much higher inflation outlook and the likelihood and increasing excess capacity amid weak growth.

Governor Breman released a speech last week discussing the framework the RBNZ expects to follow. Breman's emphasis was that policy would be focused on medium-term inflation pressures, and that for now there's little evidence these have lifted by enough to justify near-term OCR hikes. Breman indicated that rate hikes will only be brought forward should there be an accumulation of evidence suggesting that the oil shock is generating second-round pressures on wages and prices, leading to higher inflation over the medium term. Those second-round effects – which are more likely to occur if the conflict is prolonged – are unlikely to be evident for some time.

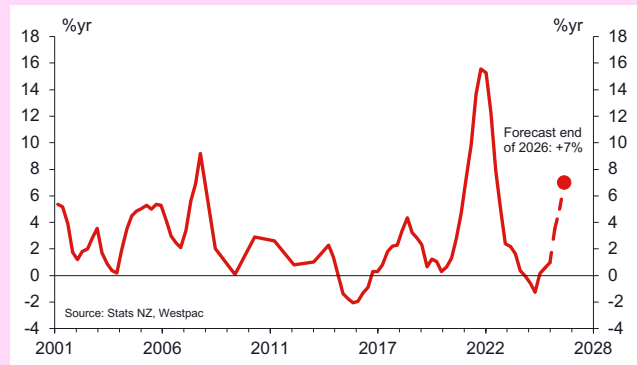
A key uncertainty for the outlook is the duration of the conflict, along with the related disruptions to energy costs and financial markets. We've assumed that tensions persist for at least another month. However, there's a chance that they are much more protracted, and that the economic consequences are much more pronounced than assumed in our central forecast. As an example, if the conflict were to last for six months, the resulting disruptions to energy markets, transportation networks and the likely downward pressure on the NZD could push inflation to 7% later this year. Those cost-of-living pressures, along with the related disruptions to economic activity and falls in both business and consumer confidence would drag down economic growth. In such circumstances, we could see growth slowing to just 0.6% this year, with unemployment rising to 6.1%.

Kelly Eckhold, Chief Economist

Chart of the week.

The sharp rise in fuel prices signals upwards pressure on farm operating costs, which we expect will rise by around 7% this year. Local diesel prices are up around \$1.60/litre since the start of the conflict, and that's likely to flow through to higher for transport and other on-farm expenses. We estimate that about 15% of farm costs are exposed to these pressures through on farm energy use and freight. On top of those increases are higher fertiliser costs, including a 50% increase in urea prices. In the short term, many farmers may struggle to pass these higher costs on, especially where prices are locked in under existing contracts, putting pressure on margins. Long-term, we expect them to feed through into higher farm gate prices. We will be covering this off in our next Agribites, which will be published this Tuesday.

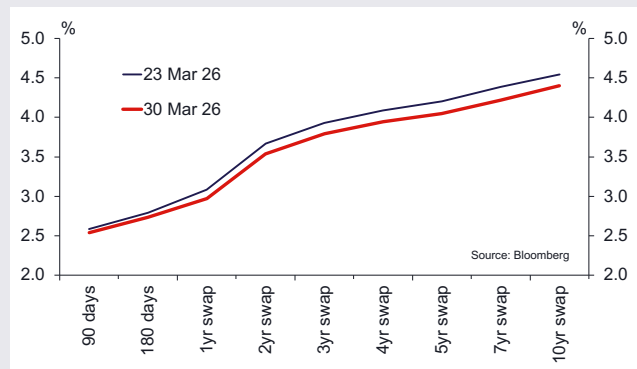
Farm input expenses



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 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.

Sentiment regarding the Middle East conflict has fluctuated over the past week as market participants debated the likelihood that the US and Iran might agree at least a temporary cessation of hostilities. Brent crude ended the week little changed at \$112/bbl, but with refinery margins continuing to rise the price of Singapore gasoil closed at a new high of \$189/bbl – about double the pre-crisis level. Fighting has continued over the weekend, while reports suggest that the US is preparing for a multi-week ground operation, perhaps aimed at coastal targets that might make it possible to reopen the Strait of Hormuz.

US.

A relatively quiet week for US data featured a modest decline in the composite PMI (down 0.5pts to 51.4 in March) and confirmation that consumer sentiment had soured amidst the sharp rise in energy prices. The coming week is much busier, with news on retail spending and the ISM manufacturing survey preceding the closely watched March employment report at the end of the week.

Europe.

The early impacts of the Iran war were evident in the latest round of survey data. In the euro area, consumer sentiment fell in March to levels last seen in late 2023, while the composite PMI fell 1.4pts to 50.5 – a 10-month low. National surveys also pointed to weaker consumer and business confidence in Germany, France and Italy. The UK's composite PMI fell an even steeper 2.7pts to a 6-month low of 51.0, while consumer sentiment fell to an 11-month low. The coming week will bring preliminary March inflation data in the euro area and revised Q4 GDP data in the UK.

Asia-Pacific.

Australia's composite PMI slumped 5.4pts to 47.0 in March – the weakest reading since December 2023 – led by a sharp reduction in the services sector. News regarding inflation, at least prior to the oil shock, was more encouraging with the trimmed mean rising a lower-than-expected 0.2% m/m in February. The coming week will bring the release of the minutes from this month's RBA meeting, today with credit, trade and building sector reports. Japan's composite PMI fell 1.4pts to 52.5 in March. This week, further insight on the near-term economic outlook and prospects for further BoJ policy action will come from Wednesday's Tankan survey. A day earlier, official and private sector PMI reports in China will be of interest to gauge the early impact of the Iran war on that economy.

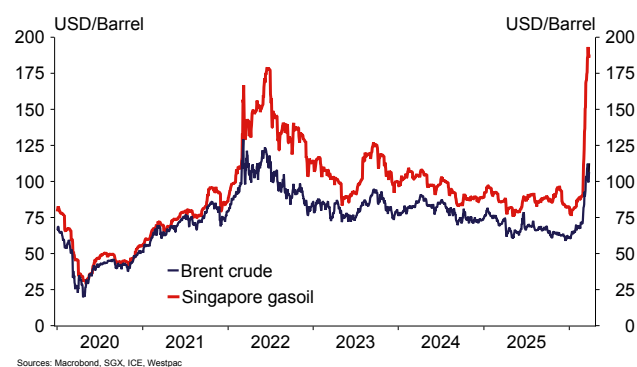
Trading partner real GDP (calendar years)

	Annual average % change			
	2024	2025	2026	2027
Australia	1.0	2.6	1.4	2.0
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	3.3	2.8	2.8
World	3.3	3.4	3.2	3.2

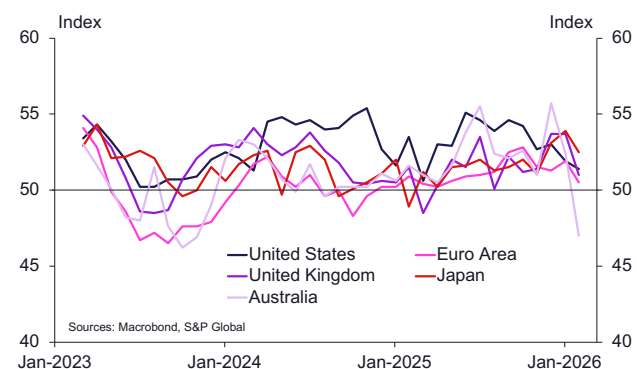
Australian & US interest rate outlook

	27 Mar	Jun-26	Dec-26	Dec-27
Australia				
Cash	4.10	4.35	4.35	3.85
90 Day BBSW	4.30	4.40	4.40	3.80
3 Year Swap	4.80	4.60	4.40	3.95
3 Year Bond	4.82	4.62	4.42	3.97
10 Year Bond	5.11	4.95	4.85	4.70
10 Year Spread to US (bps)	70	65	45	10
US				
Fed Funds	3.625	3.375	3.375	3.375
US 10 Year Bond	4.42	4.30	4.40	4.60

Fuel price indicators



S&P Global composite PMI readings



Financial markets wrap

Foreign exchange.

The NZD remains under downward pressure amid continuation of the Iran war. For the week ahead, we target a test of 0.5710 minor support. For the quarter ahead, with the Iran war now a month old with no evidence of de-escalation, we shift to a neutral bias (from mildly bullish). Should nearby support at 0.5710 give way, we'd target the 0.5500-0.5600 area for the quarter ahead.

The RBNZ is unlikely to adopt a hawkish bias while the fledgling NZ economic recovery is at risk. In an extremely adverse war-related scenario, the 0.5500 major support area could be breached, for the first time since the GFC.

This week's economic events will remain of secondary importance, but there will be items of interest, particularly sentiment surveys which will capture initial reactions to the war. NZ will see the monthly ANZ business confidence survey, while in the US, March payrolls, ISM manufacturing, and the S&P PMIs will be of interest.

NZD/AUD's downtrend has stalled after making a 13-year low of 0.8230. That is unsurprising, given it was technically stretched and in need of at least a minor upward correction near term. The 0.8500-0.8600 area could be seen during the month ahead. But longer term, we remain bearish, since relative economic performance and NZ-AU yield spreads should continue to support the AUD.

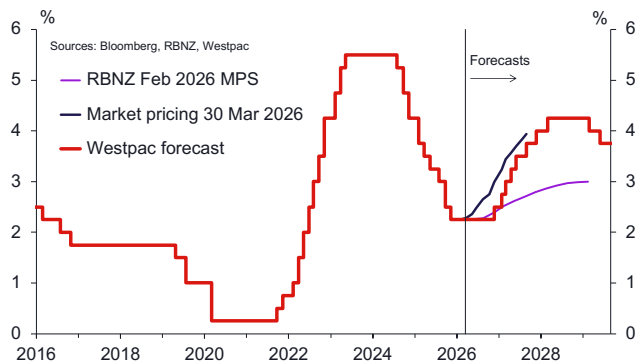
Interest rates.

The NZ 2yr swap rate has surged by around 60bp in March, responding to the overseas rates, the Iran war, and large-scale repositioning. This has left short maturity NZ rates at elevated levels, well above where we would expect to see them based on our outlook for the OCR. We expect an eventual retracement towards fundamentals-based levels, but the timing of this is highly uncertain, largely dependent on developments in the Iran war.

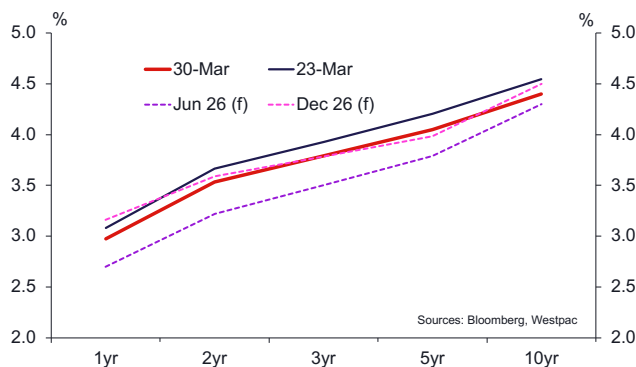
The OIS market currently prices a 95% chance of an OCR hike by July and three hikes in total by year end. However, there were tentative signs of repricing in the US rates markets on Friday, and these could ripple into NZ rates. In addition, we expect the RBNZ MPR on 8 April to deliver a dovish signal relative to market pricing.

The yield curve has flattened from the peak in late December, driven mostly by higher short maturity yields, initially in expectation the RBNZ will start hiking rates by year end, and more recently as short-maturity rates rose in response to the war. The difference between 2yr and 10yr swap rates is now 86bp, vs the December peak at 120bp, although some re-steepening could occur if the market reprices short-maturity rates as discussed above. Much longer term, we expect further flattening during the year ahead as we approach the RBNZ's tightening cycle.

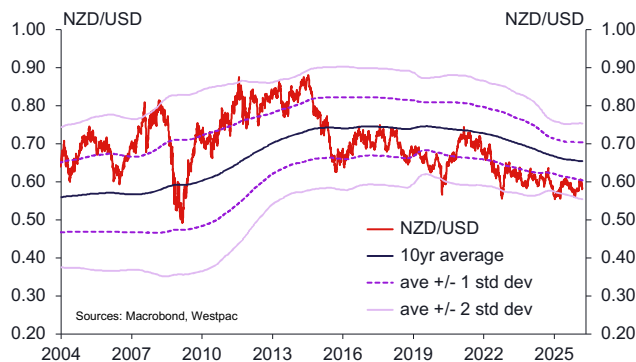
Official Cash Rate forecasts



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	0.575	0.573-0.605	0.553-0.728	0.623	0.62
AUD	0.837	0.824-0.871	0.824-0.971	0.916	0.85
EUR	0.500	0.491-0.511	0.484-0.637	0.564	0.52
GBP	0.433	0.427-0.444	0.426-0.531	0.483	0.45
JPY	92.1	90.2-94.4	74.7-98.6	85.9	95.5

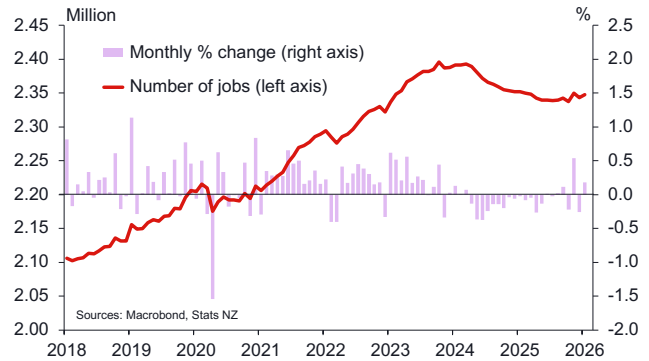
The week ahead

Feb Monthly Employment Indicator

Mar 30, Last: +0.2%, Westpac f/c: +0.6%

The MEI is likely to add to the evidence that the New Zealand economy was regaining momentum prior to the Iran conflict. The weekly snapshots provided by Stats NZ are now running slightly higher than a year earlier, having been down year-on-year since mid-2024. For the February month, we expect an initial print of around +0.6%, although both that and the 0.2% rise in January are likely to be revised down a little in subsequent releases.

Monthly Employment Indicator filled jobs

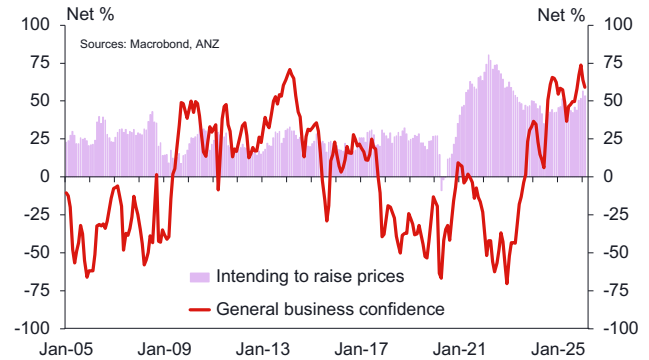


Mar ANZ Business Confidence

Mar 31, Last: 59.2

ANZ's monthly survey is likely to show a sharp deterioration in business sentiment since the start of the Iran conflict – and as with their consumer confidence survey, it will have worsened over the course of the month, with the headline result only capturing the average. The surge in fuel prices will no doubt send inflation expectations and pricing intentions higher as well; the big question for the RBNZ will be around the potential for ongoing rounds of price increases, given that businesses' own customers are also facing a significant hit to their purchasing power.

Business confidence and pricing intentions

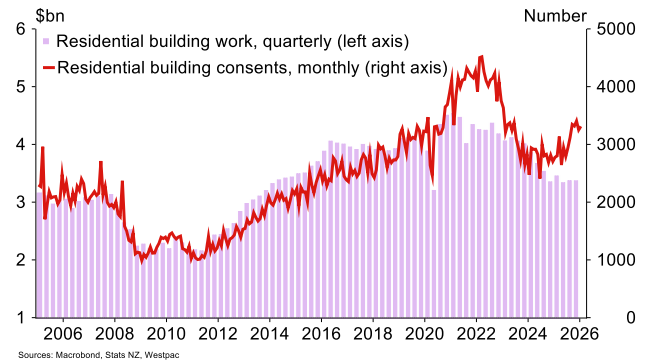


Feb Building Consents

Apr 1, Last: +1.9%, Westpac f/c: +5.0%

Following a modest 2% rise in January, we're forecasting a 5% rise in dwelling consent numbers in February. That's in part due to an expected bounce in multi-unit consents after softness in January. More notably, if we smooth through the monthly swings, the total number of homes consented over the past 12 months has been trending higher and looks set to reach its highest level since 2023. But while this is encouraging, the lift in consents does pre-date the Middle East conflict and related increases in uncertainty around the economic outlook. We expect those factors will weigh on new construction over the year ahead.

Residential building and consent numbers

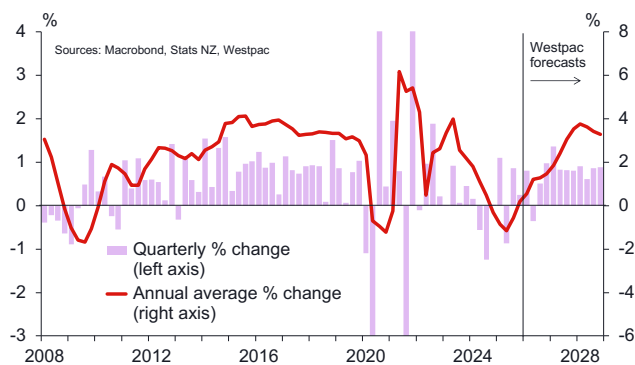


Economic and financial forecasts

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	1.9	3.9
Consumer price index	1.0	0.6	0.8	1.6	2.2	3.1	3.8	1.7
Employment change	0.0	0.5	0.2	0.0	-1.3	0.2	1.2	3.1
Unemployment rate	5.3	5.4	5.4	5.6	5.1	5.4	5.4	4.6
Labour cost index (all sectors)	0.4	0.4	0.5	0.6	3.3	2.0	2.3	2.2
Current account balance (% of GDP)	-3.5	-3.7	-3.7	-3.8	-4.7	-3.7	-3.5	-3.4
Terms of trade	-0.5	0.3	-0.3	-0.5	8.9	3.5	4.4	3.4
House price index	-0.6	-0.3	0.4	-0.3	-1.0	-0.1	-0.9	2.0

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



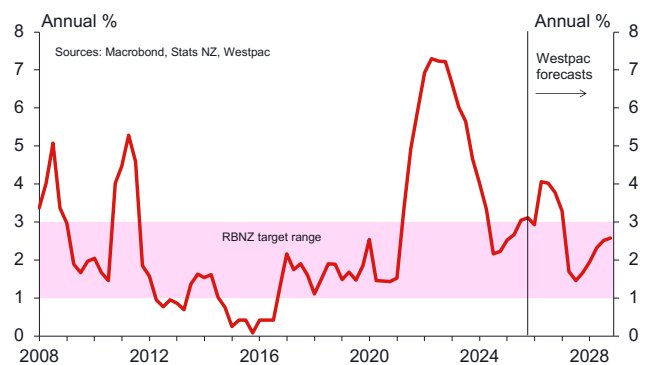
House prices



Unemployment and wage growth



Consumer price inflation



Data calendar

		Last	Market median	Westpac forecast	Risk/Comment
Mon 30					
NZ	Feb Monthly Employment Indicator, %mth	0.2	-	0.6	Signs of picking up prior to the Iran conflict.
Eur	Mar Economic Confidence Indicator, index	98.3	-	-	Economic sentiment set to drop on weak consumer confidence.
US	Mar Dallas Fed Manufacturing survey, index	0.2	-	-	Volatile, but pointing to a tentative improvement in 2026.
	Fedspeak	-	-	-	Williams.
Tue 31					
NZ	Mar ANZ Business Confidence, index	59.2	-	-	An immediate response to the Iran conflict and fuel prices.
Aus	Mar RBA Minutes	-	-	-	Will provide more colour around the 5-4 split vote to hike.
	Feb Private Sector Credit, %mth	0.5	0.6	0.6	With house prices firm credit growth should see support.
Jpn	Mar Tokyo CPI, %ann	1.6	1.6	-	Core inflation decelerating but still sustainable.
	Feb Jobless Rate, %	2.7	2.7	-	Labour market is softening marginally.
	Feb Industrial Production, %mth	4.3	-2.0	-	Very strong start to the year for factory output.
Chn	Mar NBS Manufacturing PMI, index	49	50.2	-	Factory activity softened as expected...
	Mar NBS Non-Manufacturing PMI, index	49.5	50	-	... post-LNY data will provide a clearer read.
Eur	Mar HICP Inflation, %ann	1.9	2.7	-	ECB now forecasting inflation above target in 2026.
UK	Q4 GDP, %qtr	0.1	-	-	Final estimate.
US	Jan S&P/CS Home Price Index, %mth	0.5	-	-	Stabilising but on fragile footing as confidence falters.
	Mar Chicago PMI, index	57.7	-	-	Middle East conflict brings apparent exuberance into question.
	Mar Conf. Board Consumer Conf., index	91.2	88	-	Confidence revisiting pandemic- and tariff-era lows.
	Feb JOLTS Job Openings, 000s	6946	-	-	Labour market is not a source of inflationary pressure.
	Fedspeak	-	-	-	Goolsbee.
Wed 01					
NZ	Feb Building Permits, %mth	1.9	-	5	Consent issuance to continue trending higher.
Aus	Feb Dwelling Approvals, %mth	-7.2	6	5	Volatile high-rise approvals to come off an 18-month low.
Jpn	Q1 Tankan Large Manufacturers, index	15	16	-	How will manufacturers react to offshore risks?
Chn	Mar RatingDog Manufacturing PMI, index	52.1	52.5	-	Suggests export-facing businesses are faring better.
Eur	Feb Unemployment Rate, %	6.1	6.1	-	Continues to surprise and hit new record lows.
US	Mar ADP Employment Change, 000s	63	40	-	Been on the firmer side of official payrolls figures of late.
	Feb Retail Sales, %mth	-0.2	0.4	-	Momentum decelerating but consistent with growth at trend.
	Mar ISM Manufacturing, index	52.4	52.3	-	Echoing the positive signals from regional surveys recently.
	Fedspeak	-	-	-	Musalem.
World	Mar S&P Global Manufacturing PMI, index	-	-	-	Final estimate for Japan, Europe, UK and US.
Thu 02					
Aus	Feb Goods Trade Balance, \$bn	2.6	2.9	1.5	Adverse weather disruptions to major commodity exports.
	Q2 Job Vacancies, %qtr	-0.2	-	3	Monthly indicators point to a bounce in Q1.
US	Feb Trade Balance, US\$bn	-54.5	-66.0	-	Volatile as companies adapt to tariffs.
	Initial Jobless Claims	-	-	-	Still at a low level versus history.
Fri 03					
Chn	Mar RatingDog Services PMI, index	56.7	53.7	-	Suggests Lunar New Year holiday spend was firm.
US	Mar Nonfarm Payrolls, 000s	-92	51	70	Jobs growth revised lower, strikes also temporarily weighing.
	Mar Unemployment Rate, %	4.4	4.4	4.4	Constrained labour supply keeps unemployment low...
	Mar Average Hourly Earnings, %mth	0.4	0.3	-	... and wages growth fairly robust.
	Mar ISM Services, index	56.1	-	-	Shaky confidence puts services activity boom at risk.
World	Mar S&P Global Services PMI, index	-	-	-	Final estimate for Japan, US.

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