WEEKLY ECONOMIC COMMENTARY

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

Shaking it off

Our new Economic Overview depicts a recovering economy after a pause at the height of the Iran war. Growth is expected to strengthen and broaden beyond the external sector that has thus far carried the economy forward. High and persistent inflation means the RBNZ is now on a tightening path. Higher domestic interest rates should support a gradual appreciation in the New Zealand dollar.

Westpac's August 2026 Economic Overview carries a broadly constructive message about the New Zealand economy. The disruption caused by the Iran conflict has left its mark, lifting fuel costs, slowing spending and resulting in a temporary pause in growth through the middle of the year. However, we believe the economy is beginning to shake off those disruptions. Activity is recovering, export incomes remain strong, and the effects of earlier monetary easing are still working their way through the economy. At the same time, inflation has proven more persistent than expected, meaning interest rates are now moving higher and will continue to do so over the next 18 months.

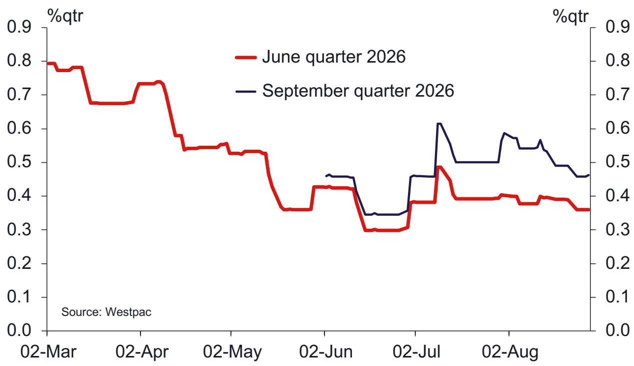
Our central view is that New Zealand remains in recovery mode, albeit with a more uneven profile than many would have expected six months ago. We estimate that GDP was essentially flat in the June quarter as the Middle East conflict pushed up prices and weighed on confidence and spending. Nevertheless, there are signs that growth has already resumed in the current quarter. Economic growth is forecast to reach 2.1% in 2026 before accelerating to 3.0% in 2027. The unemployment rate is expected to remain elevated in the near term but gradually decline from 5.6% currently to 4.9% by the end of next year.

The composition of growth is important. Domestic demand remains patchy, particularly for households facing higher living costs and a softer labour market. In contrast, the export sector continues to outperform.

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

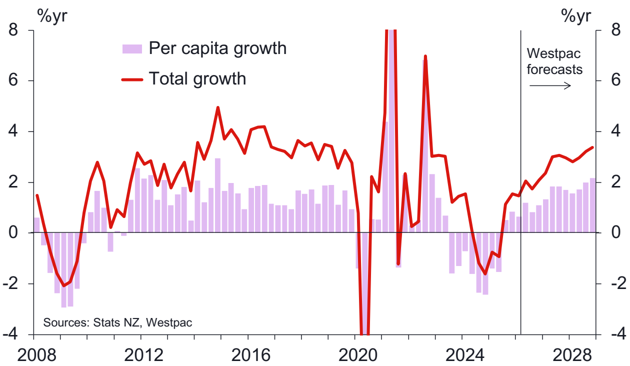


Key data and event outlook

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

Strong commodity export prices and tourism earnings are supporting incomes, especially in regions with significant exposure to the rural economy and tourism. This divergence between export-led and domestic-led activity is likely to remain a defining feature of the economy over the coming year. Nevertheless, we do expect the recovery to gradually broaden, with a stronger labour market supporting consumer spending and the services sector contributing more to growth as 2027 nears and through the next year.

Total and per capita GDP growth

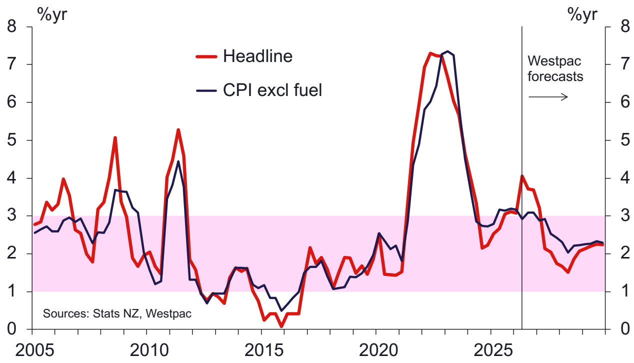


While the growth story is encouraging, inflation remains a key macroeconomic challenge. Annual inflation has risen to 4.1%, largely reflecting the surge in fuel prices following the Iran conflict. However, the more important point for the RBNZ is that underlying inflation pressures remain stubbornly firm. Core inflation has spent an extended period above the midpoint of the RBNZ's 1-3% target range, with domestic pricing pressures remaining firm despite weak growth and higher unemployment.

A key reason for the continued strength in domestic inflation has been increases in administered prices, such as those in the electricity and local authority sectors. Costs in these areas have continued to make an outsized contribution to inflation, albeit with some signs that these pressures might diminish over coming years. Related to this, our Chart of the Week later in this report discusses the Government's planned cap on local council rate increases.

Although headline inflation is expected to decline as fuel price effects wash out, core inflation is unlikely to move sustainably back towards 2% without further policy tightening. That assessment is central to both our interest rate and exchange rate outlooks.

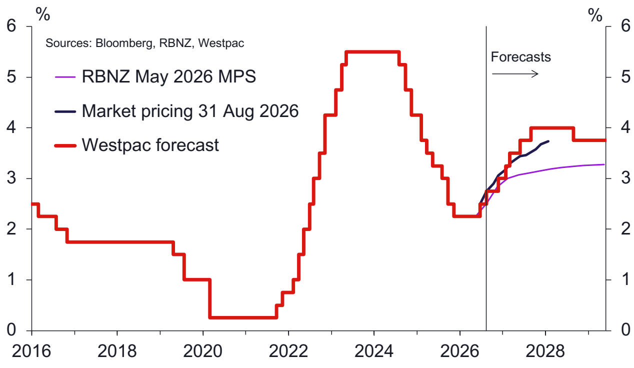
Headline and core inflation



The RBNZ began its tightening cycle with a 25bp OCR increase in July and has signalled that additional hikes are likely. We expect another two 25bp increases before the end of this year, taking the OCR to 3%. The first of these is expected to occur next week. We doubt the RBNZ will be dissuaded by recent drops in global energy and fuel costs to move away from their signal of an end-2026 OCR of 3%. Beyond that, we anticipate further tightening through 2027, ultimately taking the OCR to around 4%. The RBNZ is unlikely to endorse any such OCR profile in the Monetary Policy Statement next week, but rather leave their options open and adjustable to the data as it falls in coming months.

Our view is that although borrowing costs have already started rising, monetary policy is not yet restrictive by historical standards and would not be restrictive even at a 3% OCR. The move towards 4% through 2027 is the point at which policy begins to exert a more meaningful restraining influence on demand and would ensure core inflation moves back down from the top quarter of the 1-3% of the target range to the 2% level the RBNZ claims to target. The higher OCR will maintain upward pressure on wholesale interest rates and bond yields – which are also being supported by higher global long-term interest rates.

Official Cash Rate forecasts



A stronger New Zealand dollar now seems more likely than it has for a while. With the OCR at cyclically low levels, weak growth and high levels of war-related uncertainty, the NZD has struggled to outperform in the last year. With the more constructive economic outlook and higher interest rates, a stronger NZD may be in prospect. The NZD should rise versus a still-overvalued US dollar that should weaken over the next couple of years. Our forecast is for NZD/USD to finish 2026 around 0.60 and rise to approximately 0.66 by the end of 2027.

The interest rate story is particularly important when considering prospects for the relative performance of New Zealand and Australian dollars. NZD/AUD fell to a 15-year low in May as the expected paths for RBNZ and RBA policy diverged, but it has since risen. As the RBNZ continues raising rates in 2027 and the RBA's tightening cycle matures, yield differentials should become more supportive of the New Zealand dollar.

For exporters, a stronger currency will eventually act as a modest headwind. Nevertheless, strong commodity prices, resilient global growth and improving domestic confidence should continue to provide support. For importers and inflation-sensitive sectors, a firmer currency would help reduce imported inflation and assist the RBNZ in bringing inflation back towards target.

So, to summarise, the August Economic Overview's key message is that New Zealand's recovery remains intact despite a difficult mid-year period. Export earnings, tourism and the lagged effects of earlier monetary easing are supporting growth and should drive a stronger expansion through 2027. Persistent inflation means the RBNZ is on a tightening path that could ultimately take the OCR to around 4%. That outlook points to higher domestic interest rates, narrowing rate differentials relative to Australia and other advanced economies, and a gradual appreciation of the New Zealand dollar over the medium term.

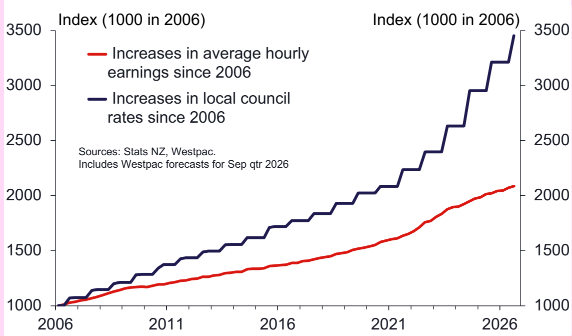
Kelly Eckhold, Chief Economist.

Chart of the week.

Over the past decade, council rates have risen by around 88%, compared with a roughly 50% increase in average hourly earnings. That's added to concern about housing affordability, particularly for households on fixed or lower incomes. In response, the Government has proposed limiting council rates increases to 2% to 4% per capita each year. In our paper looking at this proposal we noted that rates caps could help limit some of the pressure that households are facing. But this would not remove the underlying challenge: councils still need to fund significant spending on infrastructure investment and day-to-day services. That could mean trade-offs in the level of services provided, delays to some projects, or a greater reliance on user-pays charges.

A cap on rates increases could also signal challenges for councils' longer term fiscal positions. S&P Global have noted that "Unless the cap is matched over time with cuts to spending growth, we believe this will be credit negative for the sector."

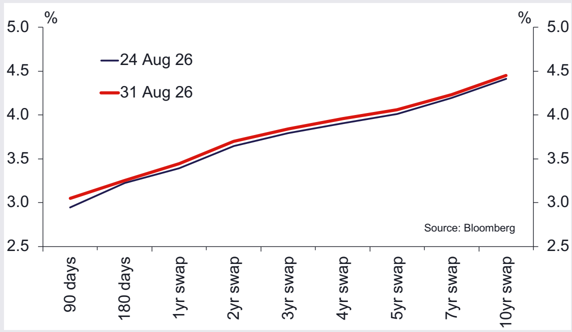
Increases in wages vs increases in council rates



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.

The US-Iran conflict remains in stalemate, with negotiations stalled and fresh US sanctions on Iran prompting threats of retaliation. Reports that Oman and Iran were in talks to agree a "temporary joint maritime corridor" through the Strait of Hormuz saw crude oil prices drift lower early last week. However, some of that decline was surrendered late in the week, and the US and Iran have exchanged fire today.

North America.

Speaking at the Jackson Hole symposium, Fed Chair Warsh noted that inflation had been elevated for 65 months and that "We must be confident that underlying inflation is moving to our objective, clearly and at sufficient speed. Otherwise, we have work to do." The hawkish tone of Warsh's remarks saw pricing for a September rate hike lift to 58% from 36% prior. On the data front, Q2 GDP growth was unrevised at an annualised 1.5% and the Conference Board's survey pointed to a decline in forward optimism. Meanwhile, the Fed's favoured measure of inflation – the core PCE deflator – rose 0.2% in July, leaving annual inflation steady at an above-target 3.3%. This week attention will turn to the labour market, with the July JOLTS report out on Tuesday, and the August non-farm payrolls report out on Friday. The latter will be of particular interest given the unexpected 23k decline in jobs reported in July. The ISM surveys will cast broader light on the economy.

Europe.

In the eurozone, minutes from the ECB's July meeting confirmed the market's strong expectation that the bank will lift its policy rate at its September meeting. Specifically, it was noted that another rate hike would likely be necessary unless the inflation outlook improved significantly. On that score, this week will bring the release of preliminary euro area inflation data for August.

Asia Pacific.

Australia's monthly CPI report for July proved firmer than expected, with the closely watched trimmed mean measure stable at an elevated 3.6%. While the risk of a November rate hike has increased, Westpac still expects the RBA to remain on hold this year. The focus in Australia this week will be on Wednesday's Q2 GDP report. In advance of the final partial indicators, our colleagues expect growth of just 0.2%qtr. Elsewhere in Asia, today's Chinese official PMI readings for August will be of interest following soft readings in July.

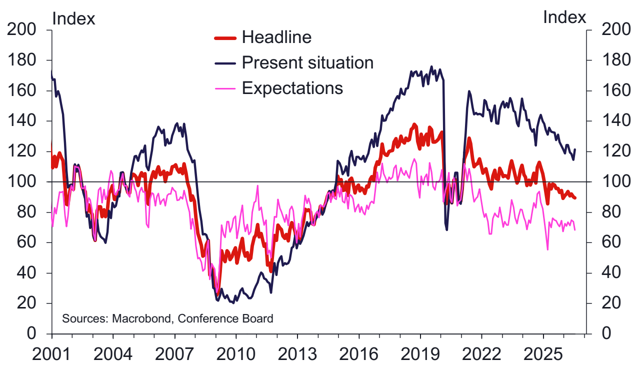
Trading partner real GDP (calendar years)

	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

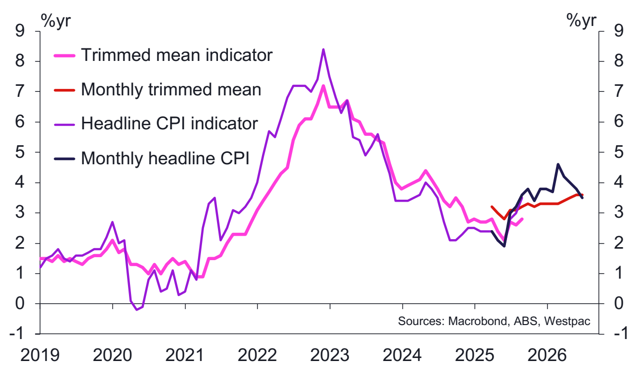
Australian & US interest rate outlook

	28 Aug	Dec-26	Dec-27	Dec-28
Australia				
Cash	4.35	4.35	3.85	3.60
90 Day BBSW	4.55	4.46	3.76	3.70
3 Year Swap	4.65	4.45	4.10	3.90
3 Year Bond	4.68	4.45	4.10	3.90
10 Year Bond	5.12	4.85	4.65	4.65
10 Year Spread to US (bps)	44	25	0	-20
US				
Fed Funds	3.625	3.625	3.625	3.625
US 10 Year Bond	4.68	4.60	4.65	4.85

US Conference Board consumer confidence index



Australian monthly CPI inflation



Financial markets wrap

Foreign exchange.

The downward reversal in NZD/USD last week was mostly a result of Fed Chair Warsh's hawkish speech on Friday, where he said more work (i.e. rate hikes) was needed to lower inflation. That pushed the US higher and all G10 exchange rates lower. NZD/USD has managed to remain inside its 0.5900-0.6000 range, but only just. Events this week could decide whether its breaks lower or not.

Markets will be closely watching the RBNZ MPS on Wednesday, which will almost surely hike by 25bp, but the degree of hawkishness in its guidance will be of most interest. US payrolls data on Friday will also be influential.

Looking further ahead to year end, NZ-US yield spreads have pared some of July's OCR hike-related gains, but are expected to rise further during the quarter ahead given the RBNZ's more assertive hiking intentions. That should see NZD/USD in the 0.59-0.61 area by then. Negative risks to this view include adverse war developments, high US inflation persisting, and NZ economic growth disappointing. Absent surprises, we retain a moderately NZD/USD bullish view.

NZD/AUD's recovery since May was dented last week by stronger AU inflation data, which led to markets reassessing the chances of an RBA rate hike in September or November. A pullback in the cross to 0.8200 is plausible during the next week or two. But by year end, expect the cross to be above 0.8400, driven mostly by the RBNZ's probably larger tightening cycle.

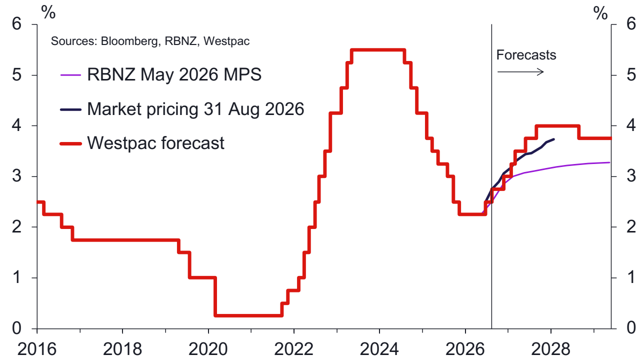
Interest rates.

The 2yr swap rate remained inside its month-old range of 3.60%-3.75% last week, with slight upward momentum, driven mostly by offshore events and bond yields. This week, the main catalyst for any movement will probably be the RBNZ MPS on Wednesday.

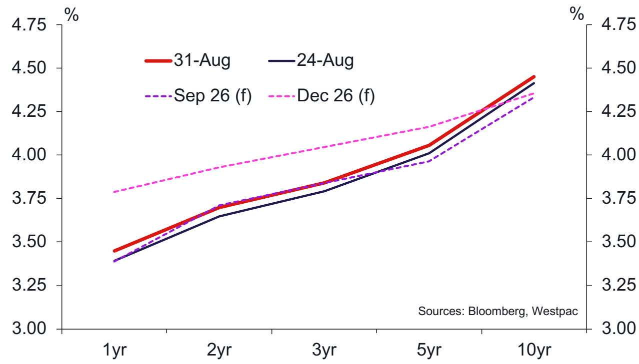
A hike is almost assured (OIS pricing has implied a 95% chance of a hike for some time), but the path beyond that will be of most interest. October is priced at around 60%, with a 3.0% OCR priced by year end (matching our forecast). Further out, though, the RBNZ projects a 3.25% peak, while markets are at 3.50%, and Westpac is at 4.00%. The RBNZ's guidance and updated OCR projections will be watched intently by markets.

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 global bond yields. The 2-10yr swap rose to 80bp (vs 67bp cycle low and 120bp cycle high) and is 75bp currently. By year end, we expect the RBNZ's tightening cycle to flatten the 2-10yr curve further during the year ahead, to around 50bp.

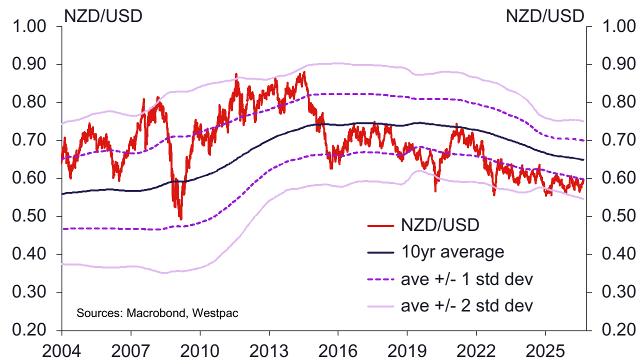
Official Cash Rate forecasts



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	0.596	0.563-0.597	0.553-0.720	0.612	0.60
AUD	0.828	0.817-0.837	0.816-0.971	0.907	0.84
EUR	0.512	0.495-0.513	0.484-0.637	0.557	0.51
GBP	0.438	0.425-0.442	0.425-0.531	0.477	0.44
JPY	95.0	91.1-95.3	75.5-98.6	87.3	96.0

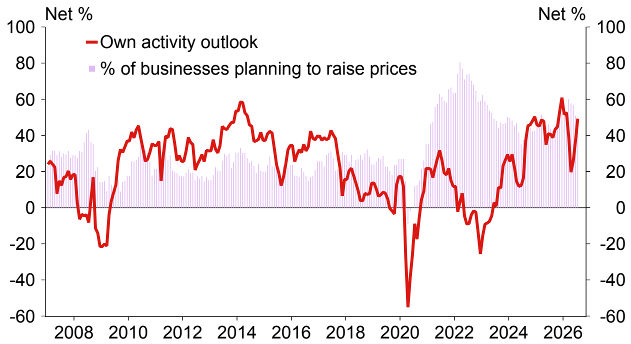
The week ahead

Aug ANZ Business Confidence.

Aug 31, Last: 56.1

Business confidence rebounded strongly in July, reaching just below its pre-conflict levels, while the pricing measures in the survey generally softened. However, responses were more concentrated in the early part of the month, before resumed hostilities sent fuel prices higher again, so we may see some backpedalling in the August results. Nonetheless, the economy appears to be shaking off the initial effects of the oil price shock, underscoring the case for removing some of the policy stimulus that was put in place last year.

Business confidence



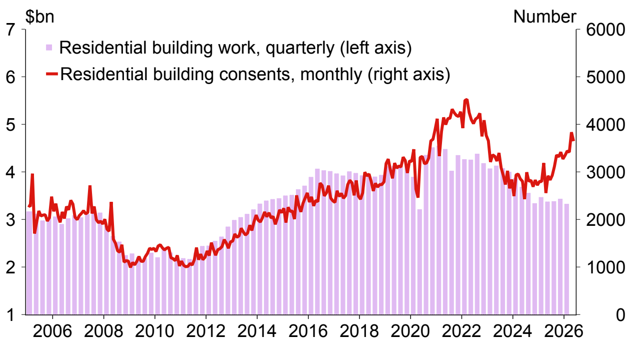
Sources: Macrobond, ANZ, Westpac

Jul Building Consents.

Sep 2, Last: -3.6%, Westpac f/c: +2%

Residential building consent numbers slipped back again in June, dropping 4% over the month. We're forecasting a modest 2% rise this month. Smoothing through the normal month-to-month swings, the longer-term trend in consent issuance has remained positive. June saw the number of new dwellings consented over the past 12 months rising above 40,000 for the first time since 2023. We expect that trend higher will continue this month. However, there are questions about whether that momentum will be sustained given the softness in the housing market and rising financing costs. In the non-residential space, we've seen softness in the number of retail and office developments, but greater resilience in the industrial segment.

Consents and building



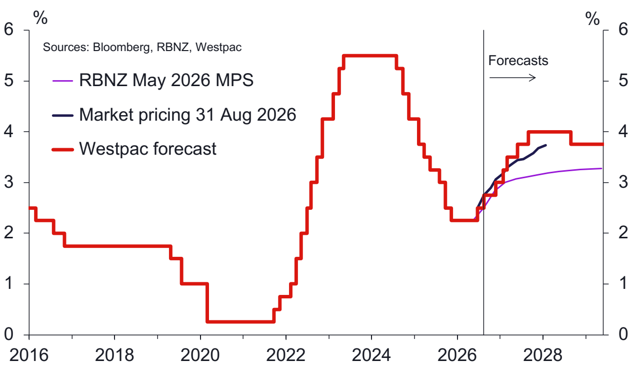
Sources: Macrobond, Stats NZ, Westpac

RBNZ Sep Monetary Policy Statement.

Sep 2, Last: 2.50%, Westpac f/c: 2.75%, Market f/c: 2.75%

With the RBNZ kicking off a new tightening cycle in July, we expect it to follow up with another 25bp increase at its September meeting. The RBNZ's projections will likely continue to imply a 3% OCR by year-end, though we expect the committee to be equivocal about whether the next hike could come in October or December. The economy has evolved largely as expected since the RBNZ's May forecasts, and core inflation remains on the high side of the target range.

RBNZ OCR and long-run neutral estimates

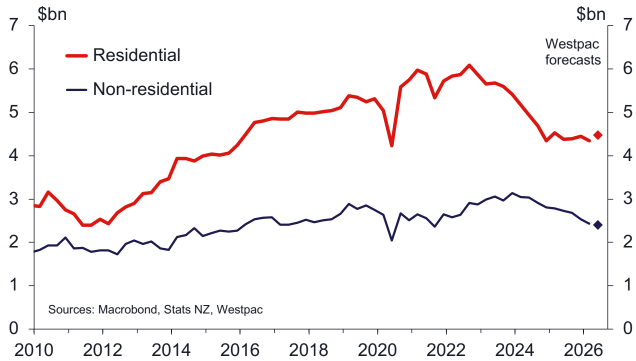


Q2 Building Work Put in Place.

Sep 4, Last: -3.5%, Westpac f/c: +1.8%

We're expecting a 1.8% rise in building activity in the June quarter. That's mainly due to an expected 3% increase in residential work. That follows an unexpected decline last quarter and would leave home building activity at subdued levels. At the same time, non-residential building activity continues to decline, with occupiers and developers cautious about major capital outlays. We're forecasting a 1% drop in non-residential work this quarter.

Real building work put in place

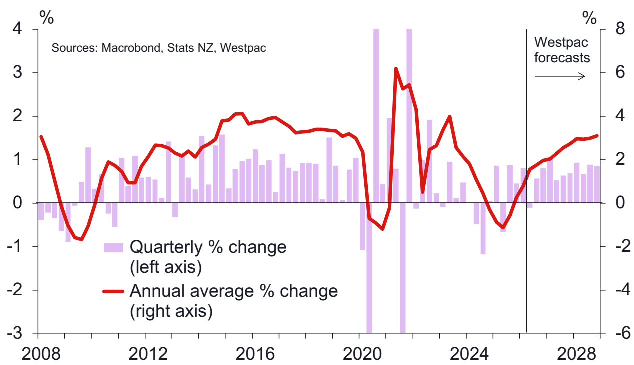


Economic and financial forecasts

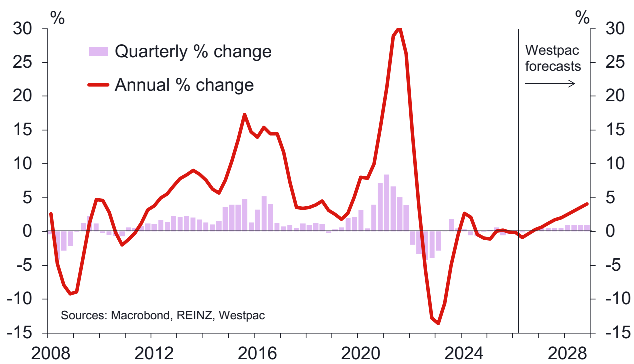
Economic indicators	Quarterly % change				Annual % change			
	Mar-26	Jun-26	Sep-26	Dec-26	2024	2025	2026	2027
GDP (production)	0.8	-0.1	0.6	0.8	-1.6	1.5	2.1	3.0
Consumer price index	0.9	1.5	0.7	0.6	2.2	3.1	3.7	1.7
Employment change	0.2	0.5	0.5	0.7	-1.3	0.2	1.8	2.6
Unemployment rate	5.4	5.6	5.5	5.4	5.1	5.4	5.4	4.9
Labour cost index (all sectors)	0.5	0.6	0.6	0.6	3.3	2.0	2.3	2.3
Current account balance (% of GDP)	-3.6	-3.6	-4.1	-4.4	-4.7	-3.6	-4.4	-4.4
Terms of trade	-1.6	0.6	-1.4	-0.1	8.9	3.4	-2.4	6.7
House price index	0.2	-0.2	0.0	0.3	-1.0	-0.1	0.2	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

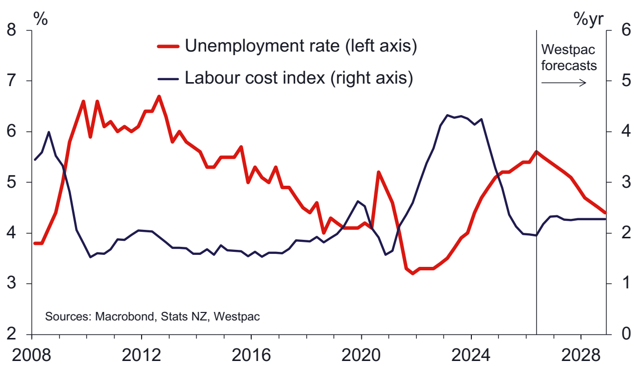
GDP growth



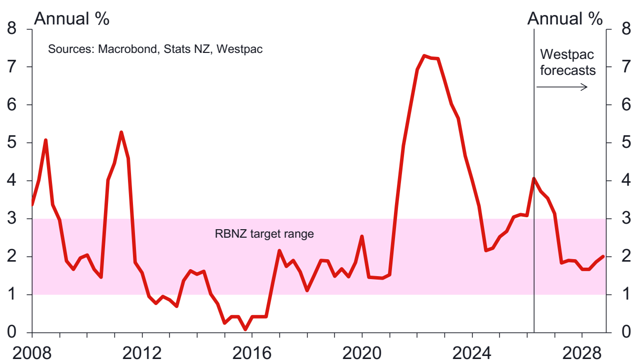
House prices



Unemployment and wage growth



Consumer price inflation



Data calendar

		Last	Market median	Westpac forecast	Risk/Comment
Mon 31					
NZ	Aug ANZ Business Confidence, index	56.1	–	–	Strong lift in July, but was at the low point for fuel prices.
Aus	Aug MI Inflation Gauge, %ann	4.0	–	–	Inflation expectations have drifted higher.
	Jul Private Sector Credit, %mth	0.8	0.7	0.6	Moderation on the cards, focus on housing credit growth.
	Q2 Inventories, %qtr	0.5	0.5	0.6	Higher inventories of consumer goods offset by mining.
Jpn	Jul Industrial Production, %mth	1.9	–0.7	–	Industrial momentum has improved recently.
Chn	Aug NBS Manufacturing PMI, index	49.2	49.6	–	Unexpected contraction in July highlights ongoing challenges.
	Aug NBS Non–Manufacturing PMI, index	49.0	49.8	–	The most recent result was the weakest since 2022.
US	Aug Dallas Fed Manufacturing survey, index	1.3	1.6	–	Tentative signs of improvement emerging.
Tue 01					
Aus	Q2 Current Account Balance, $bn	–27.1	–30.0	–31.0	Continues to deteriorate due worsening goods balance.
	Jul Dwelling Approvals, %mth	7.2	–5.0	–5.0	A pull-back in units and more interest-rate softening effect.
Jpn	Aug S&P Global Manufacturing PMI, index	55.1	–	–	Last read at a record high.
Chn	Aug RatingDog Manufacturing PMI, index	50.9	51.5	–	Holding up better than official statistics.
Eur	Aug S&P Global Manufacturing PMI, index	52.8	52.8	–	Continues to recover post the conflict induced downturn.
	Aug HICP inflation, %ann	2.9	3.2	–	Upside risks from higher energy prices remain in focus.
	Jul Unemployment Rate, %	6.3	–	–	Has been at historical lows for a while.
US	Aug S&P Global Manufacturing PMI, index	53.2	–	–	Tariff uncertainty has clouded the growth impulse.
	Aug ISM Manufacturing, index	55.6	55.2	–	Markets look for signs of stabilisation.
	Jul JOLTS Job Openings, 000s	7359	7380	–	Labour demand showing signs of easing.
Wed 02					
NZ	Jul Building Permits, %mth	–3.6	–	2.0	Residential consents continuing to trend higher.
	RBNZ Policy Decision	2.50	2.75	2.75	Signalling of the pace of future hikes will be of interest.
Aus	Q2 GDP, %qtr	0.3	0.4	0.2	The economy has proven more resilient than feared.
US	Aug ADP Employment Change, 000s	44	48	–	Labour demand is easing gradually.
	Jul Factory Orders, %mth	–0.3	0.6	–	Business demand remains uneven.
	Jul Durable Goods Orders, %mth	1.1	0.5	–	Investment intentions appear cautious.
Can	BoC Policy Decision	2.25	2.25	–	Fully expected to remain on hold.
Thur 03					
NZ	Q2 Terms Of Trade, index	–2.0	–	–	A sharp lift in oil prices to dominate firmer export prices.
	Aug ANZ Commodity Prices, %mth	–3.9	–	–	Some rebound in dairy prices; meat prices softer.
	RBNZ Gov Bremen speaking	-	-	-	Speaking at FMA annual function
Aus	Jul Goods Trade Balance, $bn	1.9	1.3	1.0	Vehicle, fuel and ADP equipment imports in focus.
Chn	Aug RatingDog Services PMI, index	50.4	50.5	–	Holding up better than official statistics.
Eur	Aug S&P Global Services PMI, index	51.7	51.7	–	Activity has returned to growth post conflict related slowdown.
	Jul PPI, %ann	4.6	–	–	Underlying inflationary pressures continue to ease.
US	Jul Trade Balance, US$bn	–73.3	–74.5	–	Trade flows remain impacted by tariffs.
	Q2 Productivity, %ann	1.4	1.4	–	Productivity gains remain under scrutiny.
	Initial Jobless Claims	203	205	–	Remain low and stable.
	Aug ISM Services PMI, index	54.1	54.3	–	Service sector momentum remains solid.
Fri 04					
NZ	Aug Volume of Building Work, %qtr	–3.5	1.0	1.8	Bounce in res work, non-res activity continuing to drop back.
Jpn	Jul Household Spending, %ann	–3.3	–1.7	–	Continues to track lower despite real wage gains.
Eur	Jul Retail Sales, %mth	–0.3	–	–	Consumers remain cautious spenders.
US	Aug Nonfarm Payrolls, 000s	-23	55	70	July's payroll decline surprised expectations …
	Aug Average Hourly Earnings, %mth	0.1	0.3	–	… while wage growth remained subdued …
	Aug Unemployment Rate, %	4.1	4.1	–	… and lower participation limited the rise in unemployment.

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