



WEEKLY ECONOMIC COMMENTARY



19 Oct 2026 | **Westpac Economics Team** | westpac.co.nz/economics | economics@westpac.co.nz

Downward revisions to 2027 outlook

We have updated our New Zealand economic outlook for the next year, in particular reflecting the latest developments in the energy market and key financial variables (long-term interest rates and the exchange rate).

Having already marked down of our forecast for GDP growth in 2026 to 2.5%yr, last week we reduced our forecast of growth in 2027 by 0.3ppts to 2.7%yr. This downward revision reflects a less positive assessment of the outlooks for consumption and investment (including residential investment) considering the more elevated path assumed for energy prices and a higher near-term track for long-term interest rates (as discussed in our **Market Outlook** published last week).

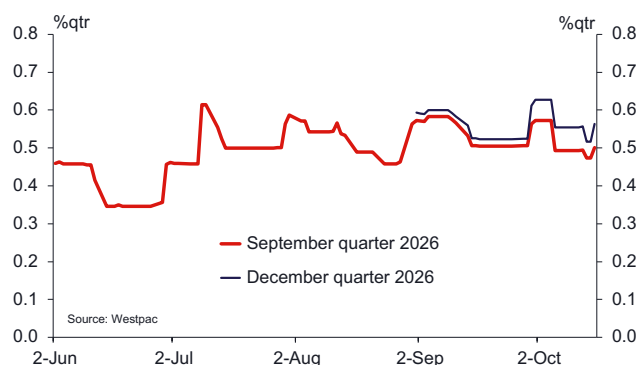
A partial offset to weaker growth in domestic demand is provided by a slightly more positive outlook for exports (particularly exports of manufactured goods and tourism inflows) because of a downward revision to our expectations for the NZ dollar. We now expect NZD/USD to end this year around current levels at 0.56 – 3c lower than expected previously – before appreciating to around 0.64 over the course of 2027 as interest rate differentials with the US gradually close and as the USD appreciates. We think that the low value of the NZ dollar – in trade-weighted terms now at a 17-year low – helps to explain the recent strong performance in the previously moribund manufacturing sector, as well as tourist inflows from key markets such as Australia.

Last week we raised our forecast for CPI inflation at year end to 4.3%yr, largely on account of recent developments in global energy prices (although the weak NZ dollar has compounded the effect). We've now slightly revised up our forecast for inflation for the first half of 2027. But

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

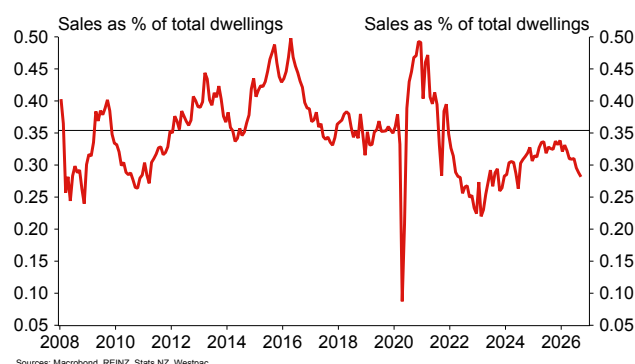
Date	Event
22 Oct 26	NZ CPI, September quarter
28 Oct 26	RBNZ OCR Review
28 Oct 26	FOMC meeting (29 Oct NZT)
3 Nov 26	RBA Monetary Policy Decision
4 Nov 26	Labour market surveys, September quarter
7 Nov 26	NZ General Election
17 Nov 26	RBNZ Financial Stability Report
17 Nov 26	NZ Selected price indexes, October
8 Dec 26	RBA Monetary Policy Decision
9 Dec 26	RBNZ OCR Review & Monetary Policy Statement

because energy prices are assumed to decline in 2027 from what is now a higher starting level, our 2027 year-end forecast for inflation has nudged down 0.1ppts to 1.6%yr. Needless to say, forecasts of headline inflation, in particular, are subject to significant revision given the uncertain outlook for the Middle East conflict and uncertainty about how that will be reflected in global energy prices.

Ahead of this week's important Q3 CPI report – which could prove decisive – we have made no changes to our forecast for the RBNZ's policy settings. So, for now we continue to think that despite the higher near-term inflation outlook the RBNZ will stick with the strategy communicated in the September Monetary Policy Statement, i.e. that at the 28 October meeting it will pause to assess the impact of this year's 50bps of policy tightening, before considering a further upward adjustment in December.

Turning to the latest data, the news from the housing market remained decidedly downbeat. House sales fell a further 4% in September – the seventh consecutive month of decline – to be 12% lower than a year earlier. With the stock of listings at an 11-year high, the median selling time remains elevated. And so unsurprisingly, house prices fell for a fourth consecutive month and are now down 1.6%yr. Prices remain especially soft in the North Island, with prices down more than 3%yr in Auckland and more than 4%yr in Wellington. Given upward pressures on mortgage rates, broader strength in the economy – including a stronger labour market – will likely be required to reverse this trend. On that score, MBIE's measure of online job advertisements was little changed in September, continuing the flat trend since the beginning of this year.

Monthly house sales



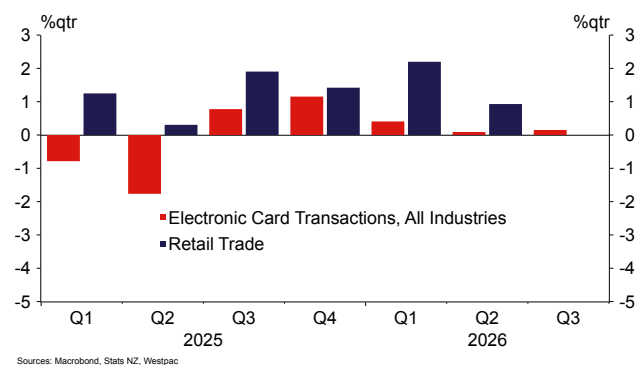
In other news, retail spending, as measured by electronic card payments, decreased 0.4%*m/m* in September following an unrevised 0.9% decline in August. This was a weaker result than we had expected based on the recent sawtooth pattern and our own internal data. We should treat these data with some suspicion given that for quite a while now the Stats NZ series seems not to have reflected the spending seen through banks' own card spending

networks, perhaps suggesting changes in the payments arena may be leaving the official sector data behind.

Unsurprisingly, with petrol prices rebounding late in the month, spending on fuel increased 2.9%*mth*. However, core spending, which excludes spending on fuel and vehicles, fell 0.7%*m/m*. While spending on consumables (groceries) increased modestly in September, this was at the expense of spending on 'nice to haves'. Spending on hospitality suffered a further 2.3%*mth* fall following a 1.9%*mth* decline in August, and spending on apparel replicated the 2.0%*mth* decline reported in August. Spending on durable goods also fell slightly in September (-0.4%*mth*).

Despite the weak outcome for the August and September months, retail spending over the September quarter still eked out a minor 0.1% gain, while core spending increased 0.4%. Given higher prices, at face value this points to a weak quarter for volumes (this week's CPI report will cast more light on pricing behaviour during the quarter). It is worth noting that total retail spending, as will be depicted in the official quarterly retail sales survey released next month, could point to somewhat stronger growth. Purchases of big-ticket items that often are bought on credit – such as cars, furniture and appliances – are underrepresented in the electronic card spending survey.

Electronic card transactions vs retail trade survey

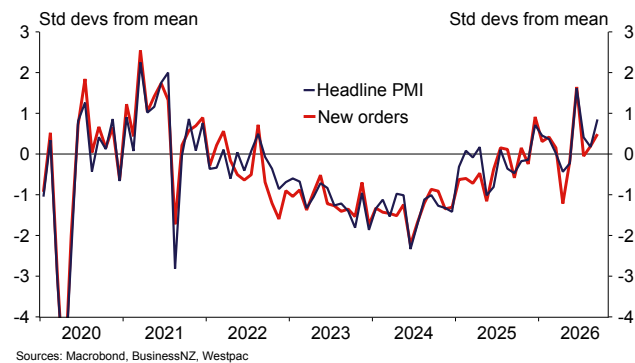


Given subdued domestic demand, local hospitality businesses have relied on foreign visitors to drive growth in spending. And the good news is that visitor arrivals increased to a new post-Covid high in August to be up 8%yr. Arrivals of Chinese citizens have grown by almost a third to sit near pre-Covid levels in recent months, while arrivals of US citizens grew 17%yr. However, the Middle East conflict has impacted long-haul arrivals from Europe (UK arrivals are down 8%yr). Meanwhile, inflows of migrants remain at modest levels, totalling around 20,000 in the year to August – about half what might be expected on average over the cycle.

News from the manufacturing sector remained positive in September, with the BusinessNZ Manufacturing PMI rising to a 3-month high of 56.5 in September. Improvement was seen across all subcomponents of the index, with

the new orders index rising 1.8pts to 57.0. We think that the recovery in manufacturing this year owes much to the weakness of the NZ dollar – especially against the Australian dollar – and activity associated with a strong domestic primary sector and an emerging recovery in domestic residential construction activity.

BusinessNZ manufacturing index



Last but certainly not least, ahead of this week's all-important Q3 CPI, the Selected Prices report for September was firmer than expected. That was mainly due to larger than expected increases in airfares and holiday accommodation costs, which offset softer than expected food prices.

Accounting for the September prices data, we've left our **forecast for Q3 inflation** at 0.7%. That would see the annual inflation rate dropping back to 3.7%, down from 4.1% in the year to June. Underlying that move has been a moderation in fuel prices after they rocketed higher in the wake of the Middle East war. That's balanced against increases in council rates, building costs and food prices.

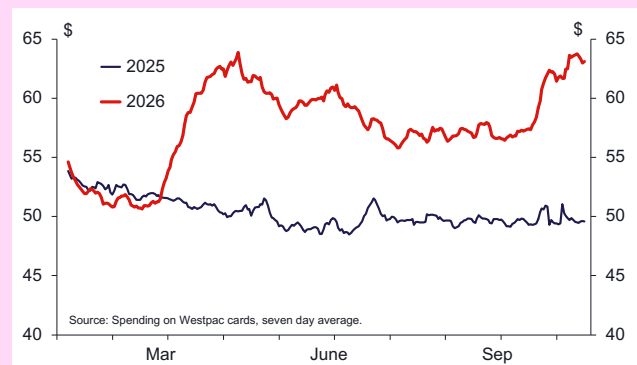
Our forecast is lower than the RBNZ's September MPS forecast for a 0.8% rise (+3.9%yr). However, with some large swings in volatile items like fuel, the RBNZ will likely focus on measures of core inflation. Core inflation was already at firm levels in the June quarter, with key measures sitting in the upper part of the RBNZ's target band. We expect that they will take another step higher in September, to sit around 3%. Upside surprises in core inflation would be an important development for the RBNZ ahead of the October OCR review, as this could suggest that the lower NZD and higher oil prices are boosting underlying price pressures by more and sooner than they may have expected.

Darren Gibbs, Senior Economist

Chart of the week.

Fuel prices have rocketed higher over the past month, with the nationwide average price for 91 unleaded rising to \$3.61/litre (before discounts). That's higher than we saw in the early stages of the Middle East war. That sharp rise in fuel costs is draining money from households' wallets, with spending on fuel up 27% compared to this time last year. In response to those higher prices, New Zealanders are driving less and filling up less often. That has seen the implied volume of fuel sold drop by around 12% compared to this time last year. Higher fuel prices have prompted other changes also. Daily spending on public transport is up about 18% since the end of February. Households have also told us that they've been more cautious about their discretionary spending since fuel prices have risen. Even when it comes to spending on essentials like groceries, many households have said they're now purchasing fewer or cheaper items. The increase in fuel prices is expected to see inflation rise to over 4% by the end of this year, due to higher prices at the pump for households and increases in operating costs for businesses.

Average fuel spend per transaction

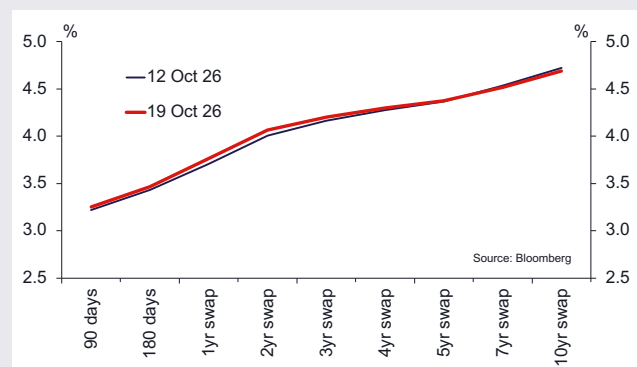


Fixed versus floating for mortgages.

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.

Brent crude oil futures rose from \$105 to \$110, their highest since May, amid ongoing conflict in the Middle East. The Iran-backed Houthis launched further strikes on Saudi Arabia and Yemen, while Iranian attacks on commercial shipping in the Strait of Hormuz have increased. US President Trump mused about using the 'mother of all bombs', believed to be the US's most powerful non-nuclear weapon, against Iran.

North America.

US headline CPI rose 0.6% in September, taking the annual rate up to 3.7%. Energy prices were a key contributor, while core inflation was a touch above consensus at 0.3% (2.6%yr). The subsequent release of the PPI pointed to continued upstream price pressures, with the headline and core measures up 6.3%yr and 5.0%yr respectively. The latest Fed Beige Book provided colour on these developments, with firms across multiple districts citing tariffs, insurance and commodity prices as ongoing sources of cost pressure. FOMC members throughout the week emphasised patience in assessing the trend, and market pricing has eased back to around a 30% chance of a hike at their 28 October review, but a December hike is fully priced in. This week's data calendar includes updates on the housing market and business sector.

Asia-Pacific.

Australian employment surprised to the downside in September, falling by 39k. This was partly offset by a 0.2ppt decline in labour force participation from August's near-record high, leaving the unemployment rate little changed at 4.7%. Residual seasonality may be throwing around the monthly employment figures, but the broader picture is that the labour market is continuing to ease, with jobs growth running below working-age population growth. The minutes of the RBA's September meeting were firmly on the hawkish side, with the discussion focused on materialising upside risks to inflation. We still expect a 25bp rate hike at the next meeting in November, but with growing downside risks to activity, markets are now pricing less than half a chance of a hike before year-end.

China's trade surplus reached US\$133.5bn in September, slightly below the January 2025 record high of US\$137.9bn. The surplus for the year to date is almost three times what it was in 2019, prior to the Covid pandemic. The incredible strength of Chinese exports will be highlighted in the September quarter GDP figures out later today, in contrast to the weak state of the consumer and domestically-focused businesses.

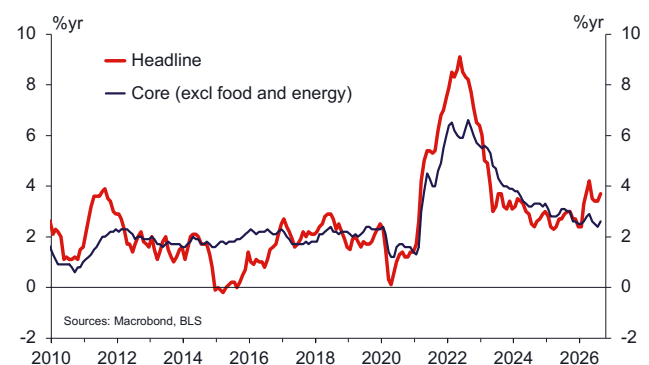
Trading partner real GDP (calendar years)

	Annual average % change			
	2025	2026	2027	2028
Australia	2.0	2.1	1.5	2.1
China	5.0	4.7	4.6	4.4
United States	2.1	2.3	1.9	1.9
Japan	1.1	0.7	0.8	0.9
East Asia ex China	4.7	5.4	4.4	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	3.2	2.8	2.9
World	3.4	3.4	3.3	3.3

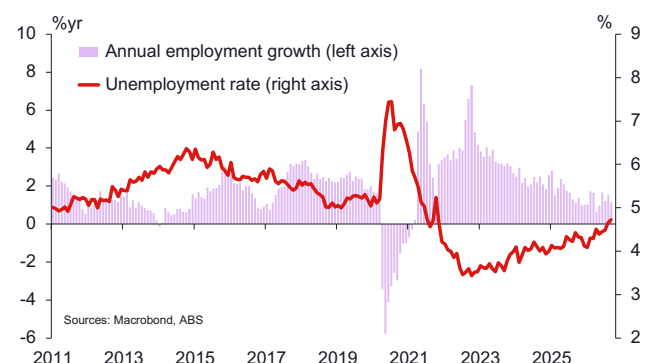
Australian & US interest rate outlook

	16 Oct	Dec-26	Dec-27	Dec-28
Australia				
Cash	4.60	4.85	4.35	3.85
90 Day BBSW	4.76	4.95	4.30	3.95
3 Year Swap	4.86	4.90	4.55	4.25
3 Year Bond	4.85	4.90	4.55	4.25
10 Year Bond	5.23	5.20	5.05	5.00
10 Year Spread to US (bps)	14	15	10	-15
US				
Fed Funds	3.875	4.125	4.125	3.625
US 10 Year Bond	5.09	5.05	4.95	5.15

US CPI inflation



Australian labour market



Financial markets wrap

Foreign exchange.

NZD/USD fell to an 18-month low of 0.5565 last week, when the US dollar jumped in response to hotter than expected US CPI data. But the fall was not sustained, and was followed two days later by a break above the two-week old range, to 0.5675. That was also caused by the US dollar, in this case weakening as expectations of a Fed hike in October receded further, with negative sentiment towards US AI equities also contributing. From here, as long as the 0.5630 support level (previously the range high) holds, we envisage a 0.5630-0.5700 range for the week ahead, barring event surprises.

The main local event for markets will be the NZ Q3 CPI data on Thursday. Markets expect a 0.8%q/q and 3.8%/y outturn, with any surprise to that likely to spill over into market pricing for the RBNZ's OCR decision on 28 October. The US calendar is low key.

Looking further ahead to year end, a NZD/USD recovery to 0.5800 is plausible. Fundamental scenarios supporting this include mounting evidence of NZ's economic recovery, a pullback in the US dollar as Fed hiking expectations are pared, and the return of the de-dollarisation theme.

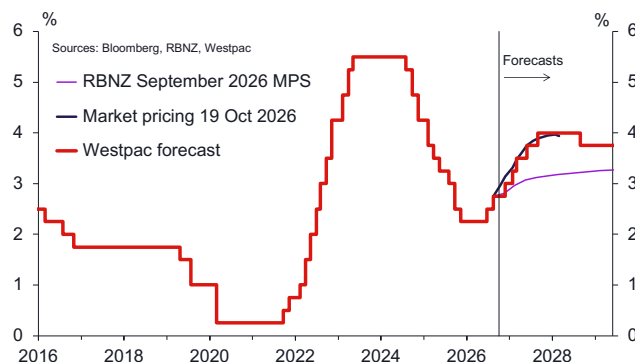
NZD/AUD last week initially fell to a fresh 13-year low of 0.8004, before softer AU labour data caused a sharp reversal, taking the cross to 0.8150. The AU event calendar this week is low key, but if NZ CPI delivers an upside surprise, then further gains in the cross can be expected this week. Longer term, if NZ's economic recovery starts to look more compelling over the next few months, a rebound to the 0.8300 area is plausible.

Interest rates.

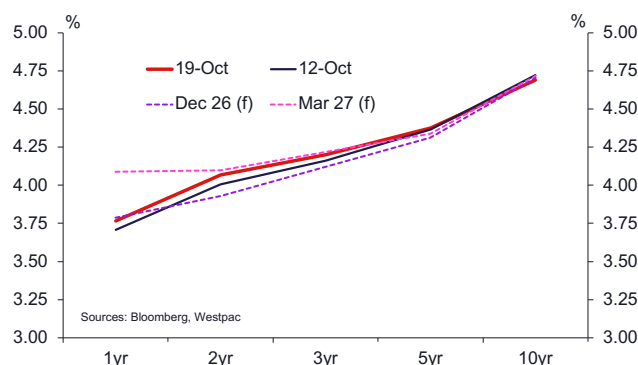
The 2yr swap rate rose late last week, following comments from RBNZ Chief Economist Conway. He said either a hike or a hold is possible on 28 October, which gave markets confidence to price more into that meeting. The 2yr jumped from 3.98% to 4.08%. From here, we see potential for slightly higher, but likely capped by 4.15% - the September high. NZ CPI data on Thursday could be decisive. Market pricing for that meeting has jumped sharply from last week, now at an 83% chance of a hike, vs 60% a week ago. Historically, whenever pricing has been greater than 70%, the RBNZ has hiked.

Looking further ahead, absent international surprises and given our expectation that the nascent NZ economic recovery continues, fresh highs in swap rates are possible by year end. However, a plethora of international risks (wars, oil prices, central bank actions, fiscal risks, and risk sentiment) adds caution to the view.

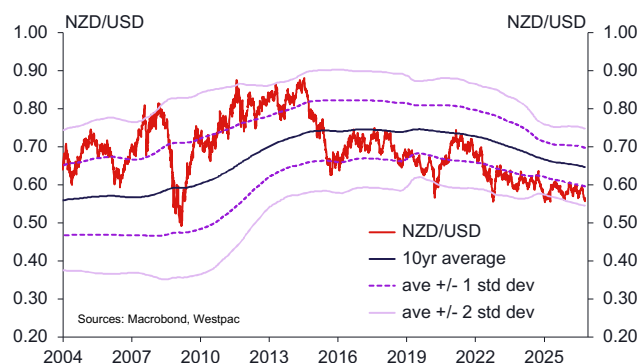
Official Cash Rate forecasts



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	0.566	0.558-0.597	0.553-0.720	0.609	0.56
AUD	0.812	0.802-0.837	0.802-0.967	0.903	0.79
EUR	0.505	0.497-0.513	0.484-0.637	0.554	0.49
GBP	0.425	0.422-0.438	0.422-0.531	0.475	0.42
JPY	89.4	88.3-95.3	75.5-98.6	87.6	88.0

The week ahead

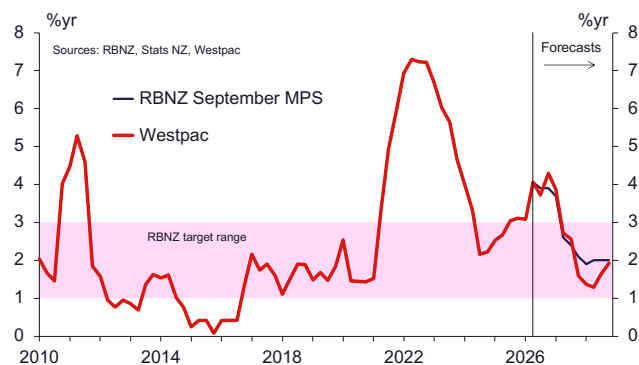
Q3 Consumer Prices Index

Oct 22, Quarterly last: 1.5%, Westpac f/c: 0.7%

Annual last: 4.1%, Westpac f/c: 3.7%, RBNZ f/c: 3.9%

We estimate that New Zealand consumer prices rose by 0.7% in the September quarter, with a moderation in fuel costs balanced against increases in council rates, building costs and food prices. The annual inflation rate is expected to drop back to 3.7% (down from 4.1% in the year to June). Measures of core inflation are expected to remain firm, with some closely watched measures expected to rise to the top of the RBNZ's target band. Our forecast is a little below the RBNZ's last published forecast for 3.9% annual inflation. [Read our full CPI preview.](#)

Consumer price inflation

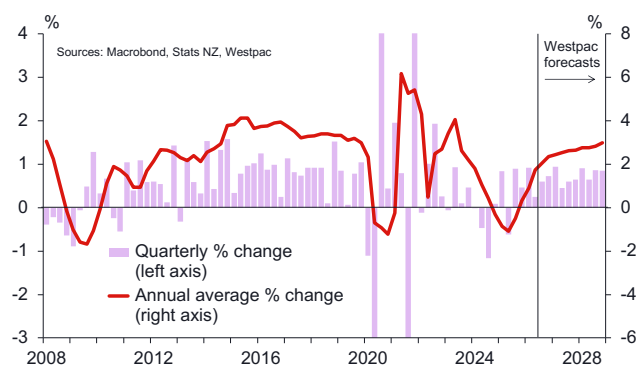


Economic and financial forecasts

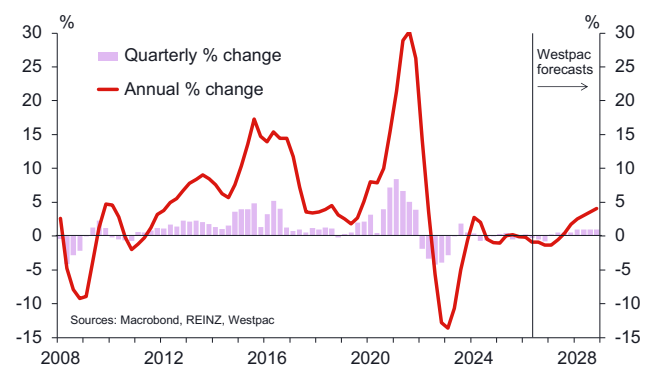
Economic indicators	Quarterly % change				Annual % change			
	Jun-26	Sep-26	Dec-26	Mar-27	2025	2026	2027	2028
GDP (production)	0.2	0.6	0.7	0.9	1.6	2.5	2.7	3.3
Consumer price index	1.5	0.7	1.2	0.5	3.1	4.3	1.6	1.9
Employment change	0.5	0.6	0.5	0.6	0.2	1.8	2.5	2.4
Unemployment rate	5.6	5.5	5.5	5.4	5.4	5.5	5.0	4.4
Labour cost index (all sectors)	0.6	0.6	0.6	0.5	2.0	2.3	2.3	2.4
Current account balance (% of GDP)	-3.2	-3.8	-4.3	-4.5	-3.0	-4.3	-4.6	-4.1
Terms of trade	-4.5	-0.6	-3.2	4.0	3.3	-9.3	8.1	2.9
House price index	-0.3	-0.5	-0.8	0.2	-0.1	-1.4	1.8	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	2.99	3.40	3.75	2.52	3.40	4.20	3.95
2 year swap	3.47	3.72	3.95	4.10	2.71	3.95	4.20	4.10
5 year swap	3.88	4.07	4.30	4.35	3.27	4.30	4.40	4.35
10 year bond	4.61	4.75	5.00	5.00	4.27	5.00	5.05	5.05
TWI	66.5	66.1	63.4	64.7	66.4	63.4	69.4	70.4
NZD/USD	0.58	0.58	0.56	0.58	0.57	0.56	0.64	0.65
NZD/AUD	0.82	0.82	0.79	0.81	0.87	0.79	0.87	0.90
NZD/EUR	0.50	0.51	0.49	0.50	0.49	0.49	0.52	0.54
NZD/GBP	0.44	0.43	0.42	0.43	0.43	0.42	0.46	0.46

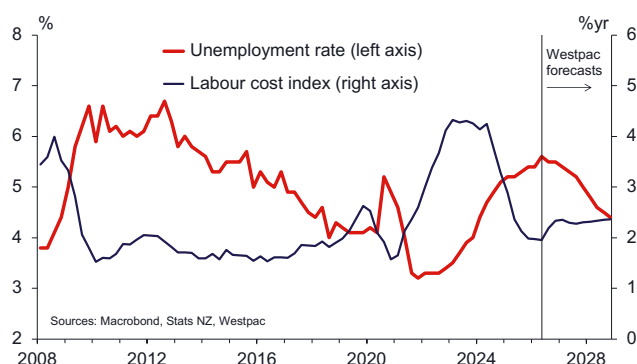
GDP growth



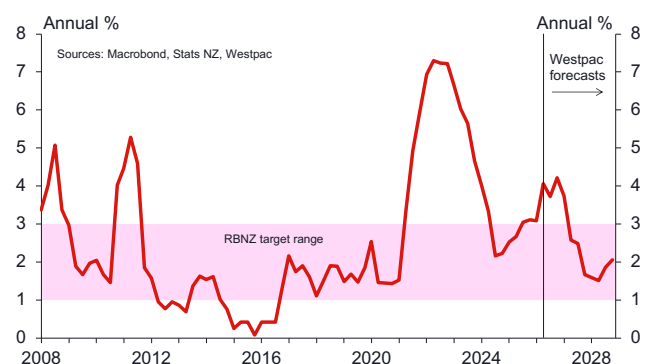
House prices



Unemployment and wage growth



Consumer price inflation



Data calendar

		Last	Market median	Westpac forecast	Risk/Comment
Mon 19					
NZ	Sep Performance Services Index, index	51.2	–	–	Improving, but has underperformed the manufacturing sector.
	Sep Trade Balance, \$m	–1349	–	–1955	Off-season export lull; import volumes and prices rising.
Aus	RBA Speak	–	–	–	Fireside chat with RBA's Kent.
Chn	Q3 GDP, %ann	4.3	4.4	4.3	Growth remains below authorities' ambitions ...
	Sep Retail Sales, ytd %yr	1.1	–	–	... as household demand remains the missing ingredient ...
	Sep Industrial Production, ytd %yr	5.3	–	–	... though export demand is supporting output ...
	Sep Fixed Asset Investment, ytd %yr	–7.2	–7.3	–	... while confidence weighs on investment.
UK	Oct Rightmove House Prices, %mth	0.7	–	–	Housing demand remains rate sensitive.
US	Oct NAHB Housing Market, index	32	31	–	Builders remain cautious on affordability pressures.
Tue 20					
Eur	Oct ZEW Survey Of Expectations, index	25.8	–	–	Confidence will test Europe's resilience narrative.
UK	Aug ILO Unemployment Rate, %	4.9	5	–	Labour market conditions have eased gradually.
US	Sep Housing Starts, %mth	–2.6	2.3	–	Housing affordability continues to constrain demand...
	Sep Building Permits, %mth	–2.1	–1.7	–	... with new supply yet to keep pace...
	Sep Pending Home Sales, %mth	0.3	0	–	... leaving turnover under pressure.
Wed 21					
Aus	RBA Speak	–	–	–	Appearance by RBA's Hauser.
UK	Sep CPI, %ann	3.1	3.3	–	Inflation pressures are stoking expectations for a BoE hike.
	Sep Public Sector Borrowing, £bn	18.3	–	–	Fiscal pressures remain in focus.
Thur 22					
NZ	Q3 CPI, %qtr	1.5	0.8	0.7	Fuel prices eased from earlier highs, lowering overall inflation.
	Q3 CPI, %ann	4.1	3.9	3.7	Headline inflation to ease in Q3, core measures firm around 3%.
Kor	Bank Of Korea Policy Decision	3	3	–	Tech is creating excess capacity in the economy.
Eur	Oct Consumer Confidence, index	–16.5	–	–	Household demand has yet to show clear downside risks.
US	Initial Jobless Claims	199	200	–	Labour market resilience remains a key support ...
	Sep Leading Index, pts	–0.1	–0.2	–	... though growth momentum is moderating.
	Oct Kansas City Fed Manufacturing, index	14	–	–	Manufacturing conditions remain uneven
Fri 23					
Aus	FY26 2025–26 National Accounts, %ann avg	1.4	–	–	Will provide new 'benchmark' estimates.
Jpn	Sep CPI, %ann	1.9	2.1	–	Inflation has re-accelerated in recent months.
	Oct S&P Global Manufacturing PMI, index	54.1	–	–	Factory activity continues to lack conviction ...
	Oct S&P Global Services PMI, index	51.3	–	–	... while services provide the main support.
Eur	Oct S&P Global Manufacturing PMI, index	52.9	–	–	Activity continues to show surprising resilience ...
	Oct S&P Global Services PMI, index	53	–	–	... despite ongoing energy market uncertainty.
UK	Oct GfK Consumer Sentiment, index	–13	–	–	Confidence has struggled to sustain improvement.
	Sep Retail Sales, %mth	0.5	–	–	Spending has yet to materially weaken.
	Oct S&P Global Manufacturing PMI, index	51.9	–	–	Activity remains constrained by higher energy costs ...
	Oct S&P Global Services PMI, index	52.1	–	–	... though consumers have proven more resilient.
US	Oct S&P Global Manufacturing PMI, index	55.9	55.5	–	Tech infrastructure investment continues to offset weakness.
	Oct S&P Global Services PMI, index	58.8	57.9	–	Consumption growth is slowing into 2027.
	Oct Uni. Of Michigan Sentiment, index	46.3	46.3	–	Final estimate.

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