



WEEKLY ECONOMIC COMMENTARY



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

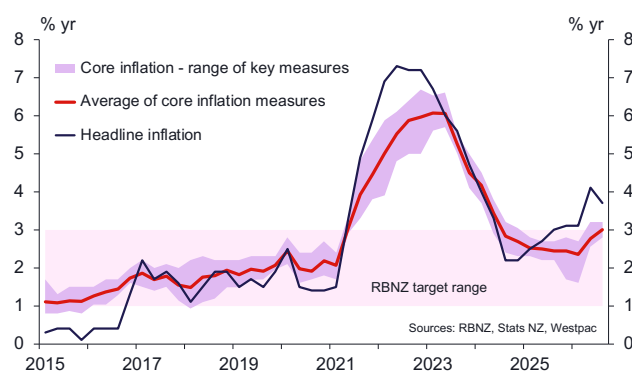
RBNZ now expected to hike in October

We now expect the RBNZ will deliver a 25bp hike at its policy review on 28 October. While September quarter inflation was slightly below the RBNZ's forecast, the underlying detail was firm. More recently, increases in fuel prices point to a material lift in inflation by year-end. We expect further interest rate increases over the coming months, with the OCR reaching a peak of 4% next year.

Softer headline inflation but firm core pressures leave RBNZ on course to hike in October.

We now expect the RBNZ to raise the Official Cash Rate by 25bp at its October policy review (previously, we had expected a pause at this meeting). This change in view reflects significant upside risks to near-term inflation relative to the RBNZ's previous forecast.

Headline and core inflation

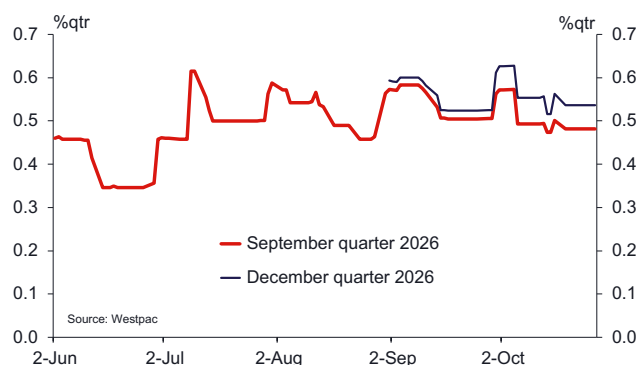


While **in line with our forecast**, the September quarter inflation figures were slightly softer than the RBNZ expected, with prices rising 3.7% over the past year

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

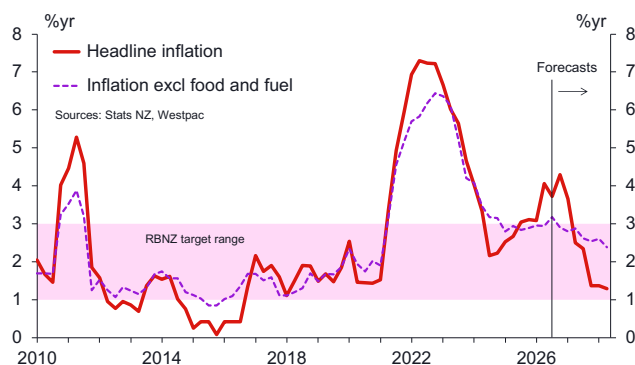
Date	Event
28 Oct 26	RBNZ OCR Review
28 Oct 26	FOMC meeting (29 Oct NZT)
3 Nov 26	RBA Monetary Policy Decision
4 Nov 26	Labour market surveys, September quarter
7 Nov 26	NZ General Election
17 Nov 26	RBNZ Financial Stability Report
17 Nov 26	NZ Selected price indexes, October
27 Nov 26	Official results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

(compared with the RBNZ's forecast of 3.9%). However, the details were less reassuring. Excluding volatile items such as food and fuel, underlying inflation pressures remained firm. Closely watched measures of core inflation moved higher and now sit close to, or a little above, the top of the RBNZ's target band. We also saw an increase in the number of goods recording price rises, taking that measure back to levels seen in the wake of the pandemic.

Alongside the existing firmness in underlying inflation, the risks for inflation over the coming quarters are firmly tilted to the upside. That near-term upside risk has also been noted by the Governor in a **recent speech**. Following a sharp rise in global fuel costs, we expect inflation to reach 4.3% by the end of this year (above the RBNZ's September MPS forecast for +3.9%). While that is mainly due to higher prices at the pump, businesses in sectors such as construction are also reporting related increases in transport and materials costs. Consistent with those trends, we expect core inflation to remain in the upper part of the RBNZ's target band through 2027.

Reinforcing the case for an OCR hike at the October meeting, the New Zealand dollar is notably weaker than the RBNZ assumed: on a trade-weighted basis, the NZD is around 3.4% below the RBNZ's September projections. If sustained, that would add to inflation pressures over the next few quarters. We suspect this will not have shifted the RBNZ's medium-term outlook for inflation.

Consumer price inflation forecasts



Several other developments need to be weighed against that firmer inflation outlook. First, wholesale long-term interest rates have risen markedly, and there has also been a more moderate rise in some mortgage rates. The RBNZ is likely to note the role of those increases in managing medium-term inflation risks.

In addition, the RBNZ is likely to continue to emphasise that there is little evidence of a lift in businesses' longer-term plans for price setting at this stage in response to the rise in energy prices (sometimes referred to as "second-round inflation effects"). We expect the RBNZ to highlight the risk that more persistent inflation pressures could emerge, depending on the duration of the oil price shock.

We also expect the RBNZ to note that the labour market remains cyclically weak and is not a significant driver of inflation. Employment growth that remains weak relative to labour force growth, subdued growth in job vacancies and low labour market turnover are consistent with this view and could be emphasised.

Finally, the RBNZ is likely to acknowledge that while the global growth outlook remains solid, there are significant downside risks from the Iran war and concerns about the sustainability of the AI investment cycle.

Balancing those concerns, we think the MPC will lift the cash rate this week. However, a vote seems very possible as differences in view will likely remain among the MPC about how much the medium-term inflation outlook has really shifted in recent weeks.

In September, the bulk of the MPC saw upside risks to the inflation outlook while two members (Conway and Hansen) thought the risks were balanced. Recent developments will not have made those seeing upside risks to inflation more comfortable, while the more dovish MPC members will likely focus on the ongoing downside risks for growth given continued softness in house prices and the mounting pressure on real incomes. Indeed, all MPC members saw some degree of downside risks to growth which likely remain relevant. All these messages should remain in the RBNZ's updated views.

The MPC is likely to continue to present its decision as a gradual evolution of the approach taken since July: a higher OCR now provides insurance against the need for a much higher OCR later if upside risks to medium-term inflation materialise. We doubt the aim will be to push market interest rates materially higher.

RBNZ to leave door open for further hikes, OCR still expected to peak at 4% in 2027.

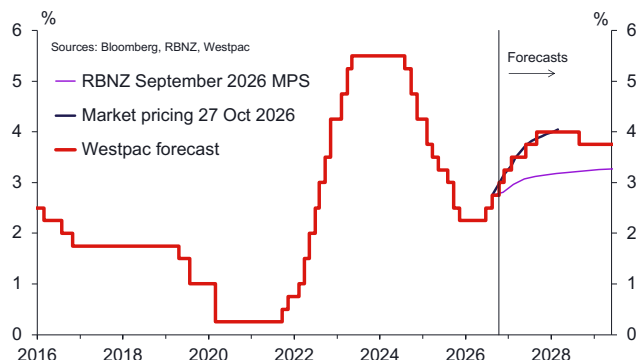
In its forward guidance, the RBNZ is likely to leave open the option of raising the OCR further at the December Monetary Policy Statement, without presenting an increase as certain. While the RBNZ will not publish an updated OCR projection at this review, the press statement is likely to note that further increases may be needed, depending on economic conditions. The September projection showed the OCR eventually rising to 3.25%.

We expect the RBNZ will end up delivering another 25bp hike in December, followed by a further hike in February. That would take the OCR to 3.5%, roughly where the RBNZ estimates the neutral rate to be. At that point, we expect the RBNZ to slow the pace of rate increases (previously, we had expected that point to be reached a little later).

We continue to expect further 25bp hikes at the June and September 2027 meetings, taking the OCR to a peak of 4.0%. While oil prices are generating significant swings

in inflation, underlying pressures remain firm. More restrictive conditions are likely to be needed to bring core inflation sustainably back to 2%.

Official Cash Rate forecasts



the deliberations of some MPC members if the decision between leaving the OCR unchanged and raising it now is viewed as finely balanced.

Satish Ranchhod, Senior Economist

Scenarios.

Our central scenario, with a probability of around 60%, is that the RBNZ increases the OCR by 25bp and signals that a further increase in December remains an option, without committing to a markedly tighter future stance than it outlined in September.

Alternative scenarios include:

- A **hawkish scenario** (around a 20% probability) would see the OCR increase to 3%, with the RBNZ placing greater emphasis on upside risks to core and medium-term inflation. That would suggest an upward revision to the RBNZ's projected OCR path in December. Downside risks to the exchange rate could also be emphasised.
- A **dovish scenario** (around a 20% probability) would see the RBNZ leave the OCR unchanged and signal that the medium-term inflation outlook has not changed meaningfully from its September forecast, despite higher near-term inflation. In this scenario, the RBNZ would reiterate its previous forecast: a 25bp increase in December and one further hike during 2027.

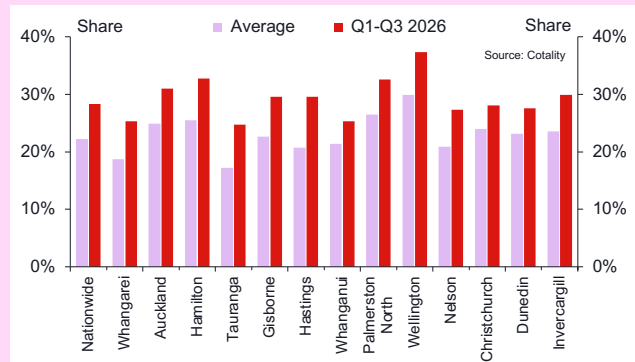
How might the election play into the decision?

While this week's meeting is close to the General Election on 7 November, the decision taken by the MPC will not be politically motivated. However, the election outcome is close. And should it result in a Labour Party-led coalition, it seems likely the new government would adopt the Labour Party's promise to restore the RBNZ's dual mandate. That would require the MPC to weigh the degree of labour market slack more highly in its deliberations. As the degree of labour market slack currently seems high, a new mandate might justify the MPC taking more time to return inflation to the middle of the target range (our earlier note discusses this issue). This could figure into

Chart of the week.

It's been another solid few months for first home buyers, with their share of house sales remaining around record highs across the country. Helping more New Zealanders to get into their first homes has been the large number of properties available for sale. That's meant those looking to get their foot on the property ladder have had plenty of options, and they've often been able to get into newer and larger standalone homes without significant increases in purchase prices. We've also had relatively low mortgage rates in recent years, with first home buyers now spending around 7% less of their after-tax incomes on debt-servicing costs than in 2023 when interest rates were at their peak. We'll take a closer look at these trends in our Cotality-Westpac First Home Buyer report, out on Friday.

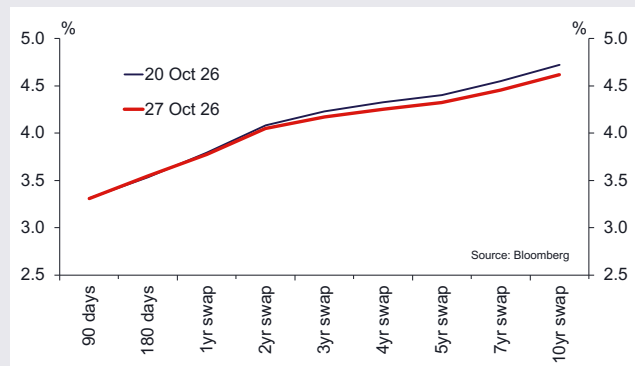
First home buyers' share of purchases



Fixed versus floating for mortgages.

We now expect the RBNZ will deliver a third successive OCR hike to 3.00% this week. This represents a bringing-forward of the timing of hikes; we still see the OCR on its way to a peak of 4.00% by September 2027. 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 begins this week at \$116/bbl, up around 6% over the past week. Houthi attacks have raised the perceived risk of disruption to Saudi production and exports, rather than just disrupting shipping.

North America.

The US economic diary was sparse last week, especially with the Fed in blackout ahead of this week's meeting. The S&P Global PMI reports continued to point to economic resilience, with the composite index standing at 57.6. However, housing data remained weak with the NAHB homebuilders index falling to a 14-year low in October amidst weak sales, while pending home sales fell 13%yr in September. The focus this week will be the latest FOMC meeting (7am Thursday morning NZT). Given recent Fed commentary, markets are pricing only around a 10% chance of a 25bp hike in the Fed's policy rate so most interest will centre on any guidance given by Chair Warsh regarding the outlook for future meetings. On the data front, the Conference Board's consumer confidence survey is released on Tuesday and the advance Q3 GDP report on Thursday, while news on inflation pressures will come with the release of the core PCE deflator for September on Thursday and the Employment Cost Index for Q3 on Friday.

Europe.

In the euro area the S&P global PMI softened in October, with the composite index falling to 51.9. By contrast the UK's PMI rose to 53.1 and the unemployment rate fell an unexpected 0.2ppts to 4.7% in August. Meanwhile, headline CPI inflation rose to 3.5%yr in September, while the core measure rose to 2.8%yr. This week the UK's Budget will be released on Wednesday while the ECB's Governing Council will meet on Thursday (no policy change expected). Advance euro area GDP data for Q3 will follow on Friday.

Asia-Pacific.

Chinese activity was firmer than expected in Q3, with quarterly GDP growth rising to 1.2% from 0.9% in Q2, lifting annual growth to 4.5%. Exports are playing the major role in driving the economy forward, with the 1.1% year-to-date lift in retail sales just a quarter of the gain reported a year ago and fixed asset investment exhibiting outright decline. In Australia, comments made by the RBA's Hauser were viewed as hawkish. This week, with the RBA's November meeting looming large, the focus will be on Wednesday's release of CPI data for the September month and Q3.

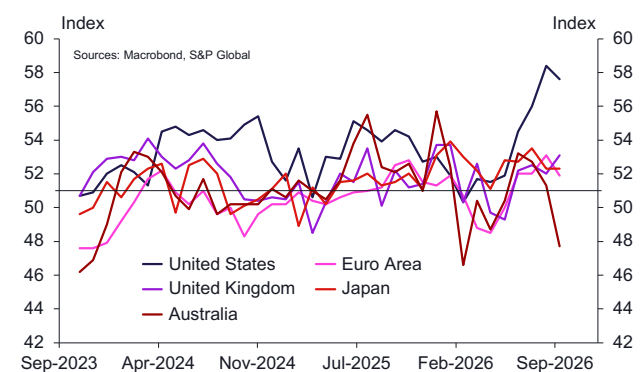
Trading partner real GDP (calendar years)

	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

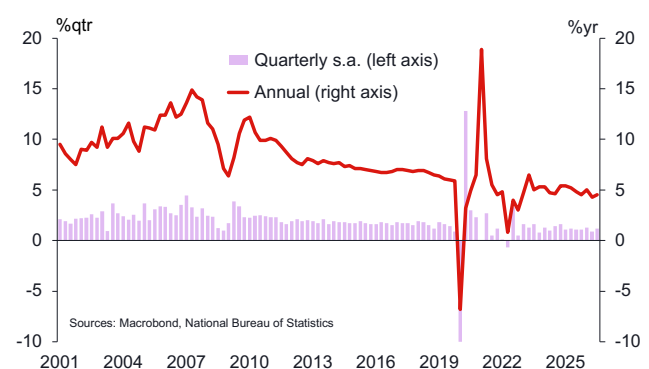
Australian & US interest rate outlook

	23 Oct	Dec-26	Dec-27	Dec-28
Australia				
Cash	4.60	4.85	4.35	3.85
90 Day BBSW	4.82	4.95	4.30	3.95
3 Year Swap	4.85	4.90	4.55	4.25
3 Year Bond	4.83	4.90	4.55	4.25
10 Year Bond	5.16	5.20	5.05	5.00
10 Year Spread to US (bps)	20	15	10	-15
US				
Fed Funds	3.875	4.125	4.125	3.625
US 10 Year Bond	4.97	5.05	4.95	5.15

S&P Global composite PMI readings



China GDP growth



Financial markets wrap

Foreign exchange.

Following a 4c fall in September, NZD/USD started to recover from mid-October, reaching 0.5710 last week but mostly remained rangebound. That has reflected the path of the broad US dollar, which fell after peaking in mid-October.

This week, potential for a range break is high given major event risk. The RBNZ is expected to hike the OCR on Wednesday, but market reaction will depend on the implied future path. The Fed is expected to remain on hold, but again, implied signals on the path will drive markets. Apart from central bank outcomes, Middle East developments will remain influential.

NZD/USD has two-way risks: a break above 0.5710 would signal a move towards 0.5800, while a break below 0.5665 would signal a move to major support at 0.5630.

Multi-month, a NZD/USD recovery to 0.5800+ is fundamentally plausible if: the RBNZ remains hawkish, there's further evidence of NZ's economic recovery, the US dollar weakens as Fed hiking expectations are pared, or the de-dollarisation theme returns following the US midterm elections.

NZD/AUD last week was mostly in consolidation mode, between 0.8080 and 0.8135. This week should witness an increase in volatility, since both the RBNZ decision and Australian CPI data are on Wednesday (the Australian CPI release precedes the RBNZ by 30 minutes). While risks this week are two-way, we retain a longer-term upward bias.

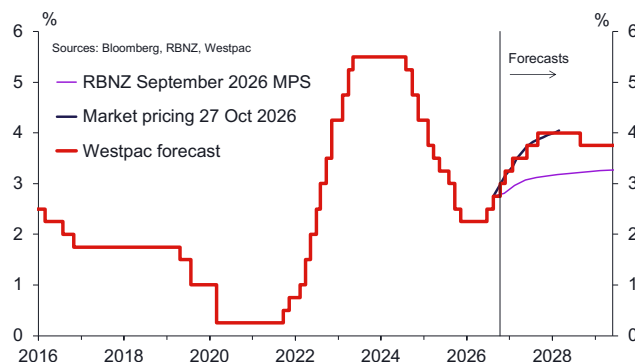
Interest rates.

The 2yr swap rate remains rangebound between 3.97% and 4.15%, awaiting the outcome of the RBNZ OCR decision on Wednesday. There's also event risk from the Fed outcome, as well as Australia's CPI data.

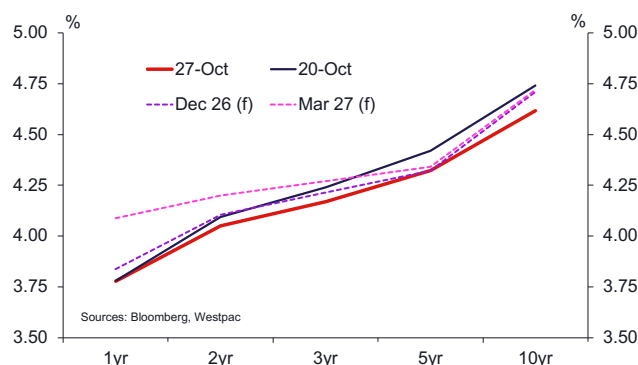
Regarding the RBNZ MPR on Wednesday, our central expectation (a 60% chance) is for an OCR hike, accompanied by a signal that December is live but with options left open. That shouldn't ruffle rates much. An upward reaction would ensue if the RBNZ implied upside risks to medium-term inflation, while an OCR hold would cause a downward reaction. We assign a 20% chance to each of these two scenarios.

Looking further ahead, absent international surprises and assuming the nascent NZ economic recovery continues as we expect, 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.

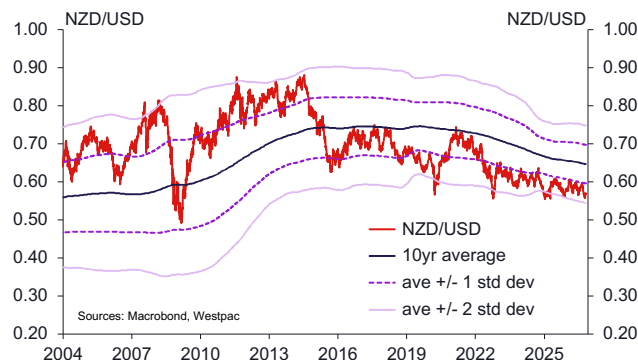
Official Cash Rate forecasts



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	0.569	0.558-0.597	0.553-0.718	0.608	0.56
AUD	0.810	0.802-0.837	0.802-0.967	0.902	0.79
EUR	0.508	0.497-0.511	0.484-0.637	0.554	0.49
GBP	0.426	0.422-0.438	0.422-0.531	0.475	0.42
JPY	89.5	88.3-95.0	75.5-98.6	87.6	88.0

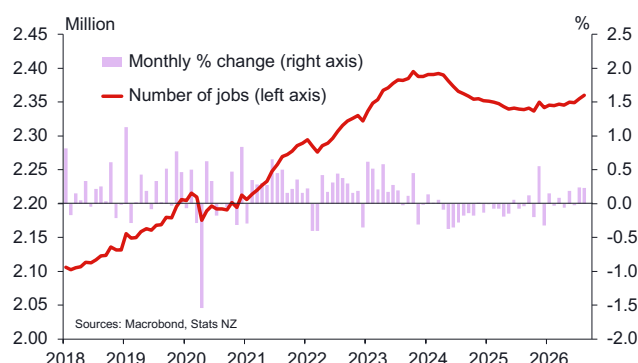
The week ahead

Sep Monthly Employment Indicator

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

The MEI has been gradually ticking 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 September – we’ve pencilled in a 0.3% increase. Given the history of this measure, however, both this month and the previous month are likely to be revised down a little from their initial release.

Monthly Employment Indicator filled jobs

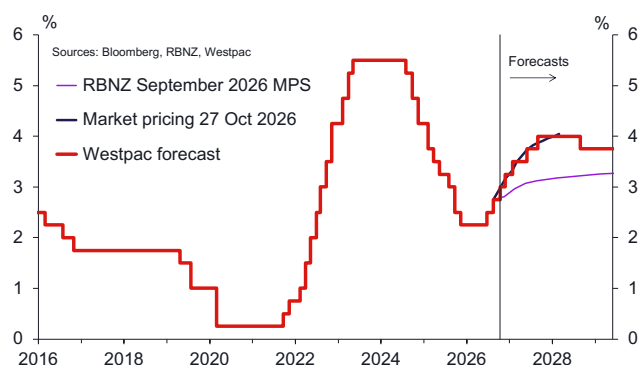


RBNZ Official Cash Rate Review

Oct 28, Last: 2.75%, Westpac f/c: 3.00%, Mkt f/c: 3.00%

We expect the RBNZ to raise the OCR by 25bps to 3% at the 28 October Review. Data since September show a higher outlook for year-end inflation and a stronger GDP starting point, but increased risks to domestic consumption and residential investment. On balance, the medium-term inflation picture will probably be judged to have worsened slightly given recent movements in energy prices and the exchange rate. A vote seems very possible as differences in view will likely remain among the MPC about how much the medium-term inflation outlook has really shifted in recent weeks. Forward guidance will likely leave open the option to raise the OCR further at the December Monetary Policy Statement without presenting it as a sure thing.

Official Cash Rate forecasts

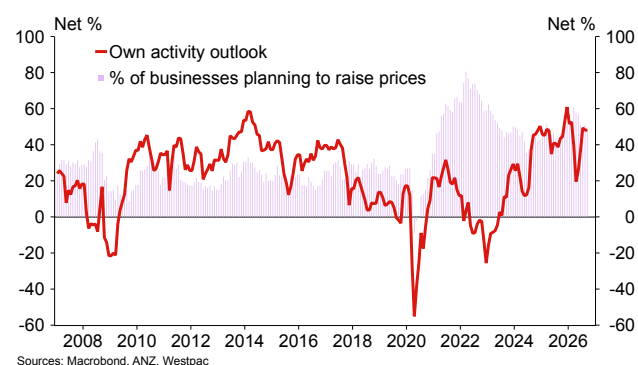


Oct ANZ Business Confidence

Oct 29, Last: 51.9

Firms remained optimistic in the September survey of business confidence, with both the activity and inflation measures broadly holding steady. However, it’s likely that most responses were submitted in the early part of the month, while fuel prices took a sharp step higher from the second half of September. The survey comes too late for the RBNZ’s October policy review, but evidence about the breadth of cost and price pressures could have a bearing on the RBNZ’s thinking about the total amount of policy tightening needed in the months ahead.

Business confidence and pricing intentions

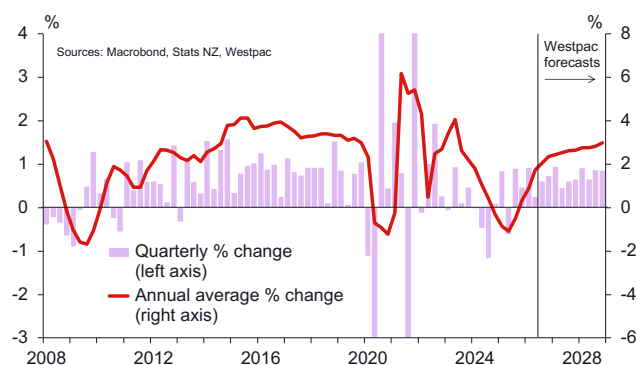


Economic and financial forecasts

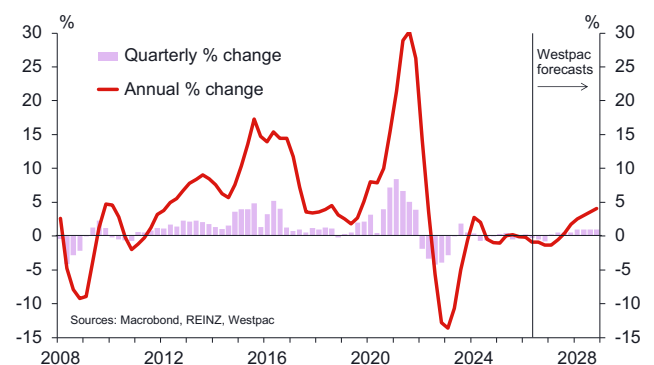
Economic indicators	Quarterly % change				Annual % change			
	Jun-26	Sep-26	Dec-26	Mar-27	2025	2026	2027	2028
GDP (production)	0.2	0.6	0.7	0.9	1.6	2.5	2.7	3.3
Consumer price index	1.5	0.7	1.2	0.3	3.1	4.3	1.4	1.9
Employment change	0.5	0.6	0.5	0.6	0.2	1.8	2.5	2.4
Unemployment rate	5.6	5.5	5.5	5.4	5.4	5.5	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	3.25	3.50	2.25	3.25	4.00	3.75
90 day bank bill	2.63	2.99	3.60	3.75	2.52	3.60	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

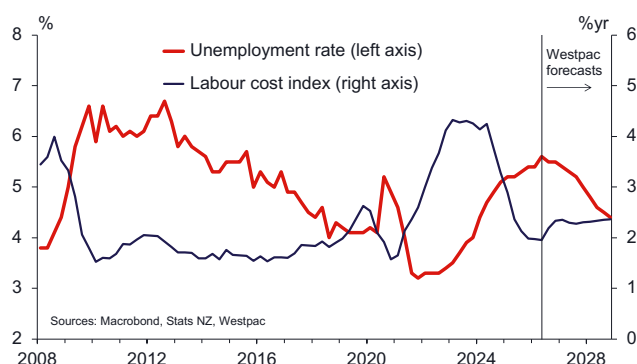
GDP growth



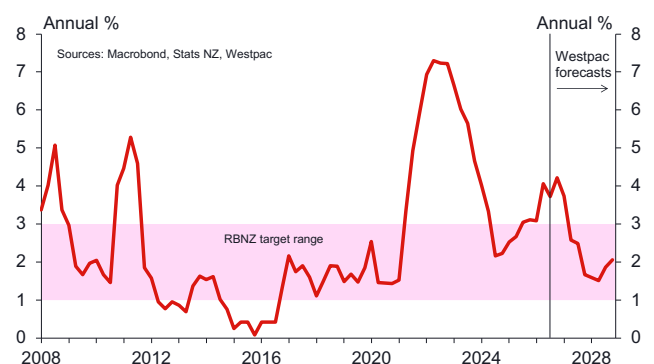
House prices



Unemployment and wage growth



Consumer price inflation



Data calendar

		Last	Market median	Westpac forecast	Risk/Comment
Tue 27					
Chn	Sep Industrial Profits, %ann	4.2	–	–	Profit growth narrowly based; consumer-facing sluggish.
US	Sep Durable Goods Orders, %mth	–0.1	1.4	–	Points to a solid underlying investment pulse.
	Aug S&P/CS Home Price Index, %mth	0.32	0.3	–	Prices continue to edge higher despite record long-term rates.
	Oct Richmond Fed Manufacturing, index	–2	–	–	Momentum fading over recent months.
	Sep New Home Sales, %mth	6.4	–6.4	–	Affordability limits number of buyers and available homes ...
	Oct Conf. Board Consumer Conf., index	81.9	80.4	–	... which among other factors, is weighing heavily on confidence.
Wed 28					
NZ	Sep Employment Indicator, %mth	0.2	–	0.3	August likely to be revised down from previous print.
	RBNZ Policy Decision	2.75	3	3	Near term inflation pressures have been mounting.
Aus	RBA Senate Appearance	–	–	–	RBA's top brass appear before Senate.
	Sep Headline CPI, %mth	0.4	0.6	0.6	Uptick in headline inflation anticipated in September month ...
	Sep Trimmed Mean CPI, %mth	0.2	0.3	0.3	... broad-based enough to see trimmed mean lift also.
	Q3 Headline CPI, %qtr	0.6	1.3	1.3	Chunky increase in Q3 headline inflation given fuel prices ...
	Q3 Trimmed Mean CPI, %qtr	0.8	1	0.9	... RBA will closely watch the quarterly trimmed mean.
US	Sep Wholesale Inventories, %mth	0.5	–	–	Business working hard to build inventory buffers.
	Oct FOMC Policy Decision, %	3.875	3.875	3.875	Committee members have advocated for patience near-term.
Can	Oct BoC Policy Decision, %	2.25	2.25	–	Markets split on whether to BoC will hold or hike.
Thur 29					
NZ	Oct ANZ Business Confidence, index	51.9	–	–	Resilient in recent months, price pressures will be a key focus.
Aus	Q3 Export Price Index, %qtr	1.1	–	–	Mixed price action among Australia's key resource exports ...
	Q3 Import Price Index, %qtr	5.7	–	–	... while fuel prices remain a clear driver on the import side.
Eur	Oct EC Economic Confidence, index	97.9	–	–	Sensitive to consumer sentiment, which remains sluggish.
	Oct ECB Policy Decision (Deposit Rate), %	2.5	2.5	2.5	Will remain on hold, but one final rate hike due by year-end.
US	Sep Personal Income, %mth	0.2	0.3	–	Nominal incomes rising at a slower pace than inflation ...
	Sep Personal Spending, %mth	0.9	0.6	–	... but consumer spending continues to charge ahead.
	Sep PCE Deflator, %mth	0.3	0.50	–	Fed's preferred inflation gauge to remain elevated.
	Initial Jobless Claims	194	–	–	Still at a low level versus history.
	Q3 GDP, %ann'd	2.2	3	3.1	Growth well above trend, thanks to data centres and AI.
Fri 30					
NZ	Oct ANZ Consumer Confidence, index	97.6	–	–	Continued increases in fuel costs likely to weigh on sentiment.
Aus	Q3 PPI, %qtr	1.3	–	–	Elevated fuel costs at the core of upstream price pressures.
	Sep Private Sector Credit, %mth	0.6	0.5	0.5	Investor credit growth continues to slow.
Jpn	Oct Tokyo CPI, %ann	2.7	2.7	–	Elevated core inflation gives green light for another rate hike.
	Sep Jobless Rate, %	2.5	2.5	–	Low, stable unemployment reflects a fairly tight labour market.
	Sep Industrial Production, %mth	–2.4	1.300	–	Factory output starting lift, albeit off a weak base.
	Oct BoJ Policy Decision, %	1.25	1.25	1.25	Expected to hold steady for now, hike in Dec looks likely.
Eur	Q3 GDP, %qtr	0.6	0.2	–	Should still eke out some growth amid significant headwinds ...
	Sep Unemployment Rate, %	6.4	6.4	–	... low unemployment a positive sign of the region's health.
US	Q3 Employment Cost Index, %qtr	0.9	0.8	–	Wages growth expected to tick slightly lower in Q3.
Sat 31					
Chn	Oct NBS Manufacturing PMI, index	50.1	50.1	–	Bumping around broadly neutral so far this year ...
	Oct NBS Non-Manufacturing PMI, index	50.2	–	–	... policy stimulus should support services activity, in time.

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