

4 June 2026

## Frequently Asked Questions

- We lay out some of the more common questions we've been getting recently
- Queries about fuel price impacts understandably commonplace
- Tourism, house prices, migration, and the global backdrop also in the mix
- Most expect interest rates to rise, with more interest in the 'how high' than the 'when'

Last year we produced an economic FAQ of sorts, based on what we were hearing from business groups at the time.

Twelve months on and the questions have changed! Tariff queries have been largely replaced with heightened interest in fuel security and price impacts. Below is a selection of these, and other, recent topics of discussion. We've summarised our responses, most of which are based on assumptions and events that remain highly changeable!

### How is it that the global economy and financial markets appear to have taken this shock in their stride so far?

Some countries have been hit harder than others but, yes, at an aggregate level the "biggest oil supply disruption in history" hasn't put much of a dent in the global economy.

Over the past three months the consensus has tabbed down global growth forecasts for this year just two tenths to 2.9%. Forecasts for 2027 have been left untroubled at 3.1%. And after tumbling 9% at the start of the Iranian conflict, global equity markets have rebounded 18% to new all-time highs.

Helping to explain this resilience is some combination of: the continued boom in all things AI, strong corporate earnings (particularly in the US), governments cushioning fuel price impacts, global output being less oil intensive than it was, and an underlying assumption that Iran and the US will soon reach a deal to allow shipping through the Strait to resume.

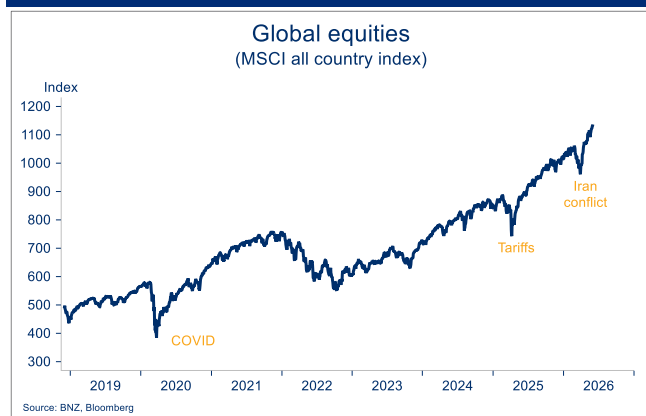
### What factors have helped maintain Asian fuel supply given Middle Eastern crude is largely shut off?

With the important disclaimer that we're not energy or supply chain experts, our read is a roughly even contribution from the following:

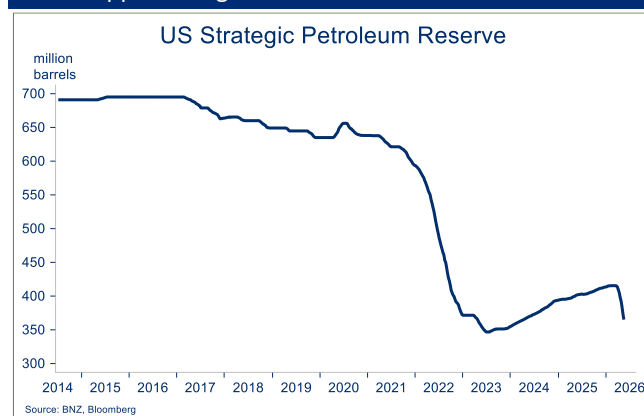
1. A portion of Middle Eastern crude exports continuing via pipelines in Saudi Arabia and the UAE;
2. Additional crude feedstock sourced from North America, Russia, and South America making its way to Asian refineries (with the caveat not all crude is created equal);
3. Some demand destruction and fuel rationing, the latter particularly through emerging Asia;
4. A large drawdown of global oil inventories.

The inventory rundown is of course finite in nature and is hence being closely watched. Significant uncertainty exists as to how long it can continue without oil prices spiking back up again. Another two to three months appears close enough to consensus, from what we've seen.

### Strong bounce back in global stock markets



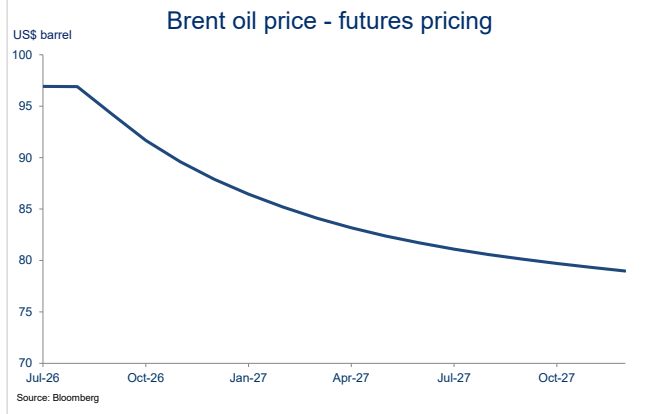
### US SPR approaching 2023 lows



**Where might oil/fuel prices ultimately settle, once flows out of the Middle East resume?**

It’s an area of both huge interest and, equally, uncertainty. The consensus appears to be lower than where prices are now but well above pre-conflict levels. That’s consistent with futures pricing in the oil market, although we note this is not a clean “forecast” per se.

**Forward pricing downward sloping**



The fuel price assumption underpinning our inflation (and broader) forecasts is that current prices normalise in line with the run-rate in oil futures pricing, adjusted for the exchange rate.

Running the numbers currently implies a 91 unleaded price around \$2.70/litre by the end of the year. That will continue to fluctuate as volatility in oil prices continues. And if our assumption sounds heroic, as it may be, it simply reinforces the downside risk on our growth forecasts and upside to those for inflation. All this said, recent developments are, directionally, not miles away from our assumptions.

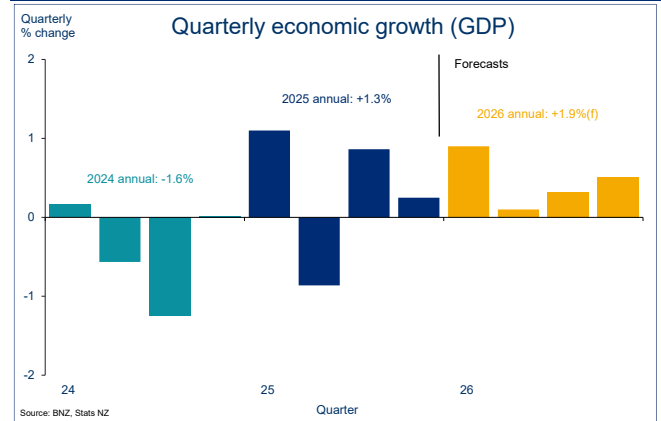
**Are there any buffers helping to cushion NZ’s economy?**

Buoyant primary sector revenues continue to flow, particularly for meat and dairy, with the outlook favourable. Global demand is holding in ok (as above), net migration is cycling higher, and the NZ dollar trade-weighted index has fallen to 7% below average.

These buffering factors are, alas, unlikely to prevent a stalling in the economy in the current quarter. We still think activity will stagger back to life in the second half of 2026 though, assuming the Strait reopens.

Last week’s small bounce in May business confidence and activity metrics provides some hope that, despite the obvious pain from the fuel price shock, there remains a modicum of momentum in the economy.

**Second half growth**



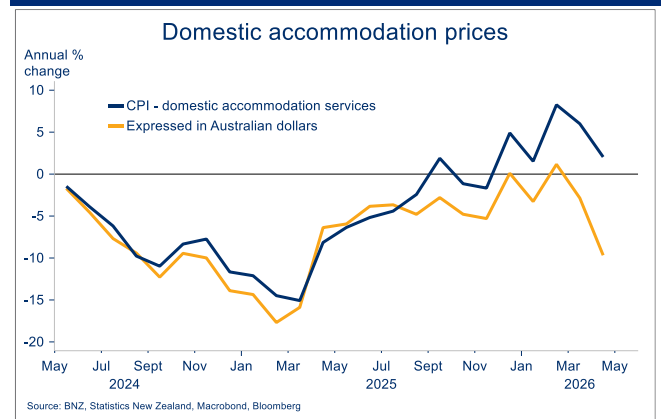
**How much of an impact will there be on the tourism sector?**

Tourist arrivals have been humming recently, running 15% ahead of last year and providing an important source of support for retailing and the economy more generally, especially in the lower South Island.

Higher airfares, particularly for long haul travel, reduced airline capacity, and a generally warier consumer seem likely to curtail some tourism activity later this year. Interestingly, we didn’t encounter much overt pessimism in the sector in our recent travels in Otago. For some, the continued depreciation in the NZD/AUD exchange rate may help in buoying NZ’s appeal across the Tasman.

As but one illustrative example, annual inflation in NZ domestic accommodation prices is running about 2%. Expressed in Australian dollars, the same index is down 10%/y.

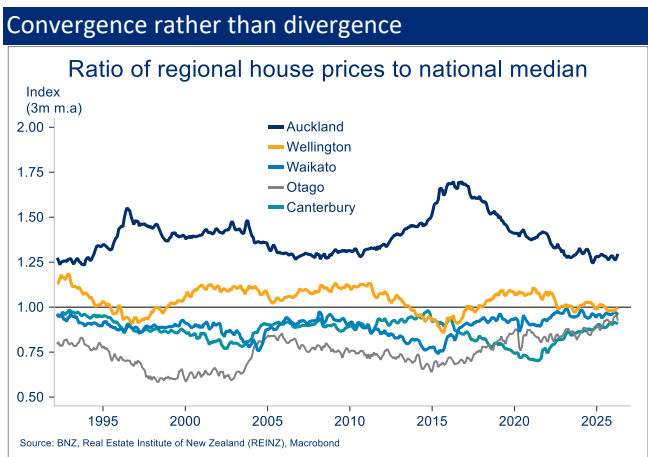
**Lower NZD/AUD a help for tourism?**



### How is it that house prices have gone in such different directions around the country?

The outperformance of the southern housing markets has been dramatic. Since national house prices stopped falling in April 2023, Auckland prices have eased a further 1%, Wellington’s have fallen 3% while those in Otago, Canterbury, and Southland are up 8½%, 9½%, and 19% respectively (REINZ House Price Index, s.a.).

This is often termed ‘divergence,’ but the chart shows it’s more ‘convergence.’ Back in 2016 there was a historically wide difference in regional house prices which has been narrowing since.



In our view there are three key factors underpinning this: 1) relatively sturdier mainland economies; b) the continued internal migration of folk from the north island to the south; and c) differing housing supply responses, with Auckland in particular standing out.

All three of these factors broadly remain in play. Regional house price relativities are also not yet historically extreme, so we think the convergence trend can run further.

### Are people going to keep leaving for Australia?

A net loss of NZ residents to Australia is the norm. Since 2004, the average annual net outflow has been 19,000. So, it’s very likely this net westward migration continues.

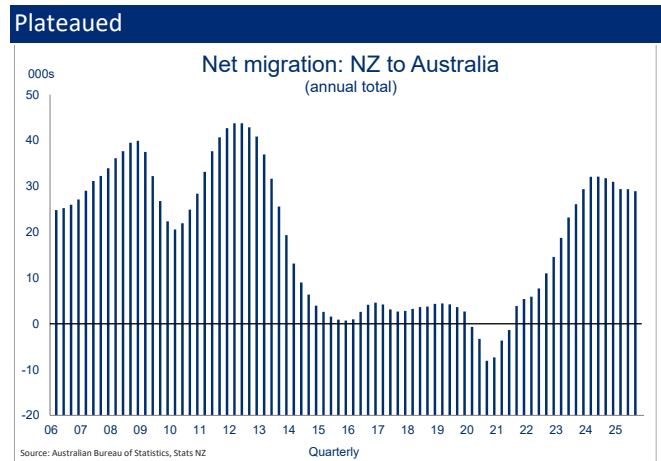
Nonetheless, the pace of these departures has slowed or at least plateaued. In mid-2024, a net 32,000 made the move, an 11-year high. The latest (lagged) official data, for the year to September 2025, put the number at a net 29,000.

Relative labour market trends tend to be the big driver of the trans-Tasman migration cycle. Job opportunities, essentially. The pull of Australia has started to fade on this front, with the unemployment rate across the ditch rising to 4.5% and the number of new job advertisements flat lining, particularly in NSW and Victoria. On their own,

these developments lean towards the trend in fewer NZ departures to Australia continuing.

However, the fuel price shock is a major source of new uncertainty. We expect the NZ labour market to deteriorate anew. Unemployment is expected to keep rising through to 5.7% by the end of the year but uncertainty abounds, including what this might mean for the relativities to Australia.

We’ll be watching relative trends in antipodean job ads for an early lead. These had been tending back towards NZ up until February.



### Won’t higher interest rates crunch the economy?

There’s no getting around the fact higher interest rates add to the challenges facing economic growth and the labour market.

It’s nonetheless worth bearing in mind CPI inflation is not only the Reserve Bank’s sole target, but inflation is slowing growth in and of itself by compressing household purchasing power. Containing medium-term inflation should be a priority, acknowledging the uncomfortable trade-offs involved.

There’s also the starting point. Cuts over 2024 and 2025 mean the official cash rate (OCR) is currently at a stimulatory setting of 2.25%. Lifting it back towards neutral, in the first instance, is more akin to easing off the accelerator than jumping on the brakes.

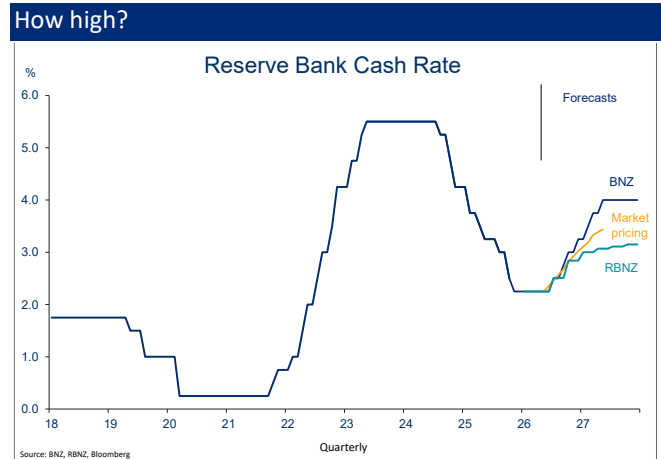
Finally, markets, and arguably mortgage borrowers, seem to be aware of what’s coming. Higher interest rates have been built into expectations to some extent.

### How high will the Reserve Bank need to take the OCR?

Perhaps the less-controversial bit is the Reserve Bank returning the cash rate to some semblance of neutral this year. That intent was relatively clear from the Bank’s commentary last week.

We've shaded our forecasts to build in the first 25bps hike in July and a series of hikes thereafter (3.25% by year end). Thereafter, a whole range of moving parts, not least the unpredictable global backdrop, makes forecasting extraordinarily difficult.

As depicted in the chart, market pricing implies an OCR peak of 3.7% by the end of 2027. That's a little higher than the Reserve Bank's (conditional) 3.2% expectation, but a touch below our 4.0%. Rather than a precise forecast the latter is a nod to our view the cash rate may ultimately need to rise above neutral to defeat inflation.



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# Quarterly Forecast

Forecasts as at 2 June 2026

## Key Economic Forecasts

Quarterly % change unless otherwise specified

	Forecasts									
	Jun-25	Sept-25	Dec-25	Mar-26	Jun-26	Sept-26	Dec-26	Mar-27	Jun-27	Sept-27
GDP (production s.a.)	-0.9	0.9	0.2	0.9	0.1	0.3	0.5	0.5	0.6	0.6
Retail trade (real s.a.)	0.7	2.0	0.9	0.9	0.6	0.4	0.5	0.6	0.7	0.8
Current account (ann, % GDP)	-3.7	-3.5	-3.7	-3.7	-3.8	-4.2	-4.4	-4.3	-4.0	-3.7
CPI (q/q)	0.5	1.0	0.6	0.9	1.4	0.6	0.3	0.6	0.7	0.5
Employment	-0.2	-0.1	0.5	0.1	0.2	0.3	0.5	0.5	0.5	0.5
Unemployment rate %	5.2	5.3	5.4	5.3	5.4	5.5	5.6	5.7	5.7	5.7
Pr. avg hourly earnings (ann %)	4.6	4.1	3.5	3.5	2.6	2.6	2.7	3.3	3.2	3.2
Trading partner GDP (ann %)	3.4	3.2	3.3	3.6	3.1	2.8	2.6	2.8	2.8	2.9
CPI (y/y)	2.7	3.0	3.1	3.1	4.0	3.6	3.2	2.9	2.2	2.1
GDP (production s.a., y/y)	-1.0	1.1	1.3	1.1	2.1	1.6	1.8	1.5	2.0	2.2

## Interest Rates

Historical data - qtr average

Forecast data - end quarter

	Government Stock				Swaps			US Rates		Spread
	Cash	90 Day	5 Year	10 Year	2 Year	5 Year	10 Year	SOFR	US 10 yr	NZ-US
		Bank Bills						3 month		Ten year
2025 Mar	3.92	3.84	3.99	4.58	3.47	3.71	4.15	4.30	4.45	0.13
Jun	3.33	3.38	3.85	4.55	3.19	3.57	4.10	4.30	4.35	0.19
Sep	3.08	3.09	3.67	4.42	2.99	3.40	3.95	4.20	4.25	0.17
Dec	2.33	2.51	3.54	4.27	2.71	3.26	3.85	3.80	4.10	0.18
2026 Mar	2.25	2.50	3.96	4.52	3.12	3.71	4.15	3.65	4.20	0.33
Forecasts										
Jun	2.25	2.75	4.05	4.75	3.50	3.80	4.35	3.65	4.35	0.40
Sep	2.75	3.25	4.30	4.90	3.80	4.05	4.50	3.65	4.50	0.40
Dec	3.25	3.65	4.40	4.90	4.00	4.20	4.55	3.40	4.50	0.40
2027 Mar	3.75	4.05	4.35	4.90	4.00	4.20	4.60	3.15	4.50	0.40
Jun	4.00	4.15	4.35	4.90	4.00	4.25	4.65	3.15	4.50	0.40
Sep	4.00	4.15	4.25	4.90	3.95	4.20	4.70	3.15	4.50	0.40
Dec	4.00	4.15	4.15	4.90	3.85	4.15	4.75	3.15	4.50	0.40

## Exchange Rates (End Period)

### USD Forecasts

	NZD/USD	AUD/USD	EUR/USD	GBP/USD	USD/JPY
Current	0.59	0.72	1.16	1.35	160
Forecasts					
Jun-26	0.59	0.71	1.18	1.33	156
Sept-26	0.61	0.72	1.19	1.34	153
Dec-26	0.63	0.73	1.20	1.33	152
Mar-27	0.64	0.74	1.21	1.36	150
Jun-27	0.63	0.73	1.20	1.35	149
Sept-27	0.63	0.72	1.20	1.35	146
Dec-27	0.63	0.72	1.19	1.35	144

### NZD Forecasts

	NZD/USD	NZD/AUD	NZD/EUR	NZD/GBP	NZD/JPY	TWI-17
Current	0.59	0.83	0.51	0.44	94.7	67.4
Forecasts						
Jun-26	0.59	0.83	0.50	0.44	92.0	66.7
Sept-26	0.61	0.85	0.51	0.46	93.3	68.4
Dec-26	0.63	0.86	0.52	0.47	95.4	69.8
Mar-27	0.64	0.87	0.53	0.47	96.2	70.7
Jun-27	0.63	0.87	0.53	0.47	94.2	69.6
Sept-27	0.63	0.88	0.53	0.47	92.0	69.6
Dec-27	0.63	0.88	0.53	0.47	90.7	69.7

### TWI Weights

16.2% 17.8% 9.2% 4.0% 4.7%

Source for all tables: Stats NZ, Bloomberg, Reuters, RBNZ, BNZ

# Annual Forecasts

Forecasts as at 2 June 2026	March Years					December Years				
	Actuals		Forecasts			Actuals		Forecasts		
	2024	2025	2026	2027	2028	2023	2024	2025	2026	2027
<b>GDP - annual average % change</b>										
Private Consumption	1.1	0.0	1.3	1.2	2.4	1.1	-0.2	1.4	0.9	2.1
Government Consumption	1.1	-1.3	3.4	1.3	-0.5	0.1	-0.9	2.4	2.3	-0.4
Total Investment	-1.1	-4.9	-0.3	5.5	3.7	-0.3	-4.9	-1.5	4.5	4.2
Stocks - ppts cont'n to growth	-1.4	0.4	0.4	0.2	-0.1	-1.2	0.4	-0.1	0.6	-0.2
GNE	-0.9	-1.1	1.8	2.3	2.1	-0.7	-1.1	0.8	2.6	1.9
Exports	8.6	3.4	2.7	4.8	3.6	11.5	4.7	2.7	4.8	3.6
Imports	-1.4	1.5	5.1	6.1	2.6	-0.7	1.7	3.4	7.0	2.9
Real Expenditure GDP	1.5	-0.7	0.8	1.7	2.3	2.1	-0.3	0.5	1.6	2.0
<b>GDP (production)</b>	<b>1.8</b>	<b>-0.9</b>	<b>0.6</b>	<b>1.8</b>	<b>2.3</b>	<b>2.2</b>	<b>-0.3</b>	<b>0.2</b>	<b>1.7</b>	<b>2.0</b>
<i>GDP - annual % change (q/q)</i>	1.6	-0.7	1.1	1.5	2.6	1.4	-1.6	1.3	1.8	2.4
Output Gap (ann avg, % dev)	1.3	-0.4	-1.0	-0.7	-0.3	1.4	0.0	-0.9	-0.7	-0.4
Nominal Expenditure GDP - \$bn	417	431	449	474	496	413	427	445	468	491
<b>Prices and Employment -annual % change</b>										
CPI	4.0	2.5	3.1	2.9	2.0	4.7	2.2	3.1	3.2	2.0
Employment	0.9	-0.9	0.4	1.5	2.3	2.6	-1.3	0.2	1.1	2.1
Unemployment Rate %	4.4	5.1	5.3	5.7	5.6	4.0	5.1	5.4	5.6	5.7
Wages - ave. hr. ord. time earnings (private sector)	4.8	3.8	3.5	3.3	3.2	6.6	4.0	3.5	2.7	3.2
Productivity (ann av %)	-0.6	0.1	1.1	0.6	0.3	-0.8	0.1	1.1	0.7	0.2
Unit Labour Costs (ann av %)	6.6	4.4	2.6	2.6	3.0	7.1	4.7	3.0	2.3	3.1
House Prices (stratified, mth)	2.7	-0.7	0.3	-0.5	5.4	0.7	-0.8	-0.3	0.0	4.5
<b>External Balance</b>										
Current Account - \$bn	-23.8	-18.3	-16.8	-20.4	-15.9	-25.8	-20.0	-16.3	-20.5	-16.8
Current Account - % of GDP	-5.7	-4.2	-3.7	-4.3	-3.2	-6.3	-4.7	-3.7	-4.4	-3.4
<b>Government Accounts - June Yr, % of GDP</b>										
OBEGAL ex ACC (core op. balance) (Treasury forecasts)	-2.1	-2.1	-2.6	-2.4	-0.8					
Net Core Crown Debt (ex NZS) (Treasury forecasts)	41.7	41.9	42.4	45.6	46.1					
Bond Programme - \$bn (Treasury forecasts)	39.3	42.6	35.0	34.0	32.0					
Bond Programme - % of GDP	9.4	9.9	7.8	7.2	6.5					
<b>Financial Variables <sup>(1)</sup></b>										
NZD/USD	0.61	0.57	0.58	0.64	0.63	0.62	0.57	0.58	0.63	0.63
USD/JPY	150	149	159	150	142	144	154	156	152	144
EUR/USD	1.09	1.08	1.16	1.21	1.18	1.09	1.05	1.17	1.20	1.19
NZD/AUD	0.93	0.91	0.83	0.87	0.88	0.93	0.91	0.87	0.86	0.88
NZD/GBP	0.48	0.44	0.44	0.47	0.46	0.49	0.45	0.43	0.47	0.47
NZD/EUR	0.56	0.53	0.51	0.53	0.53	0.57	0.55	0.49	0.52	0.53
NZD/YEN	91.1	85.4	92.8	96.2	89.5	89.5	88.4	90.3	95.4	90.7
TWI	71.2	67.9	66.8	70.7	69.8	72.0	68.5	66.8	69.8	69.7
Overnight Cash Rate (end qtr)	5.50	3.75	2.25	3.75	4.00	5.50	4.25	2.25	3.25	4.00
90-day Bank Bill Rate	5.64	3.60	2.50	4.05	4.15	5.63	4.26	2.49	3.65	4.15
5-year Govt Bond	4.60	4.00	4.10	4.35	4.10	4.50	3.90	3.90	4.40	4.15
10-year Govt Bond	4.60	4.50	4.65	4.90	4.90	4.65	4.45	4.50	4.90	4.90
2-year Swap	4.91	3.35	3.32	4.00	3.75	4.93	3.53	2.98	4.00	3.85
5-year Swap	4.40	3.65	3.87	4.20	4.10	4.43	3.63	3.61	4.20	4.15
US 10-year Bonds	4.20	4.25	4.25	4.50	4.50	4.00	4.40	4.15	4.50	4.50
NZ-US 10-year Spread	0.40	0.25	0.40	0.40	0.40	0.65	0.05	0.35	0.40	0.40

<sup>(1)</sup> Average for the last month in the quarter

Source: Statistics NZ, BNZ, RBNZ, NZ Treasury