Eco-Pulse

4 September 2026

Is there some Aussie catch-up happening?

- **Gap between Australia and NZ on output, unemployment, house prices, and interest rates expected to narrow…**
- **…but not all the way. The Australia economy's relative starting point advantage is large**
- **Net westward migration outflow to ease but continue**
- **OCR expectations tweaked as RBNZ leans into gradualism**

Change is afoot across the ditch. Australian economic growth is slowing, the labour market is losing steam, and house prices are in decline. These trends likely have further to run given Aussie interest rates look set to move further into restrictive territory.

So, yes, there might be a bit of 'catch-down' to NZ underway. There is a risk of overstating the degree though.

Below, we have a look at where and how much convergence might be happening. We've concentrated on economic growth, house prices, the labour market, and interest rates. We're also hopeful of additional convergence in the cricketing fortunes of the two countries, but that's another note.

Has NZ been closing the growth gap?

After the deep slump of 2024, NZ economic growth has clambered back to an annual growth rate of about 1.5% (as of Q1). We see it holding not far from there for the rest of 2026. Underwhelming though it's been, NZ's recovery to date has been enough to close much of the growth gap to Australia.

Gap closes

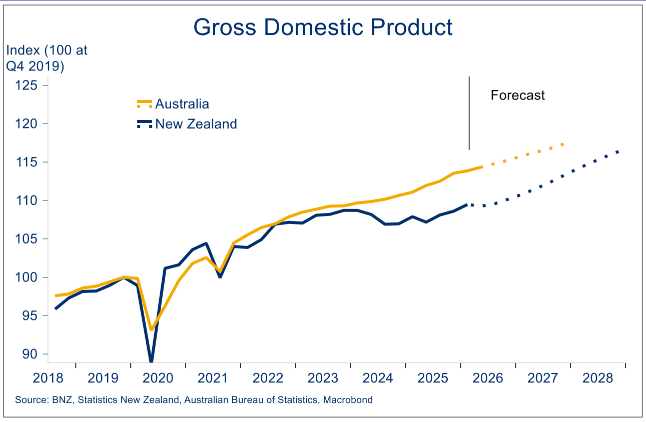
Additional convergence is anticipated. And, if things go to plan in NZ and our forecasts ring roughly true, NZ could stage an overtake around the middle of 2027.

After an oil price spike-induced hiccup in the second quarter, NZ economic momentum is expected to build. In contrast, after a good run, Aussie economic growth is cooling.

From 2.1%y/y in the second quarter, Australia GDP growth is expected to fall to around 1½% by the end of the year. At the heart of this is a tiring Aussie consumer. Growth in disposable incomes is expected to slow reflecting higher interest rates, falling house prices, and fading fiscal stimulus.

It's nonetheless important to emphasise the nuance in this comparison. The bar for some NZ growth catch-up is low given the weak economy of the past few years. And a faster rate of NZ growth in the next 12 months or so will not close the gap in the *level* of activity that opened up as the NZ economy struggled through 2024 and 2025.

Gap maintained



Home truths

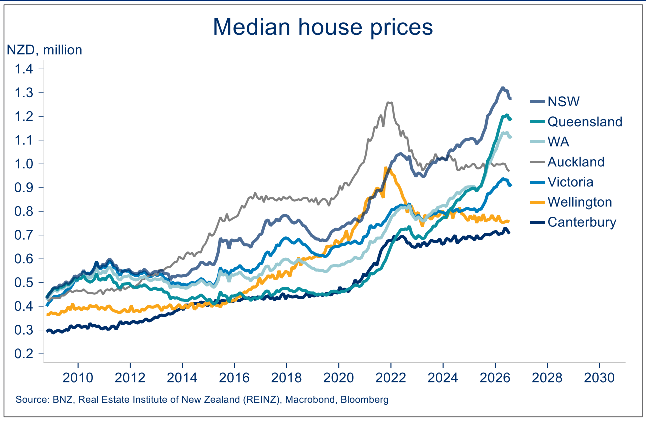
Playing a key role in the shifting Aussie macro-outlook has been a turning in the housing market.

House prices in Victoria and NSW have been falling since March. Declines have recently broadened out to all other States. To date, national house prices are down 3.6% from the autumn highs. That still leaves them some 14% above the COVID-era peak.

The contrast to NZ's experience, where national house prices are still 15% *below* the 2021 peak, is obvious. Expressed in NZ dollar terms, median house prices in NSW, Western Australia, and Queensland are consequently now well above all NZ regions.

As recently as 2022, all Australian States apart from NSW had median house prices below the NZ median. Of course, part of the recent widening in these relativities reflects a depreciating NZ dollar against the Aussie.

Aussie house prices fly past NZ

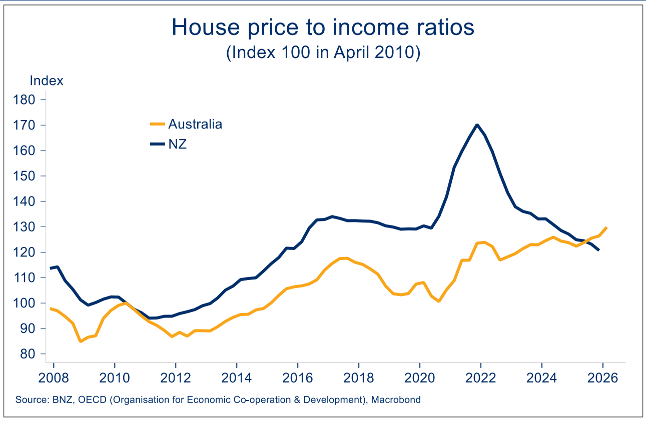


Can it be said, then, that NZ houses are now more affordable than Australia? This requires a broader consideration of servicing metrics like income growth and mortgage rates. We touched on this recently.

Suffice to say, NZ affordability has improved dramatically relative to Australia since 2021. But that's from a starting point of extreme unaffordability in NZ. So it's more a case of Australia becoming more unaffordable than NZ becoming affordable outright.

Highlighting the point, indexing changes in house-price-to-income ratios since 2010 reveals Australia as only recently creeping above NZ.

Relative affordability swings back toward NZ



This shift in relative affordability towards NZ may have run its course for now. NAB expect Australian house prices to keep falling, picking a peak-to-trough decline in national prices of 7%.

NZ house prices, by contrast, are expected to broadly hold their ground. We're building in a small 3% lift in national prices between now and the end of 2027.

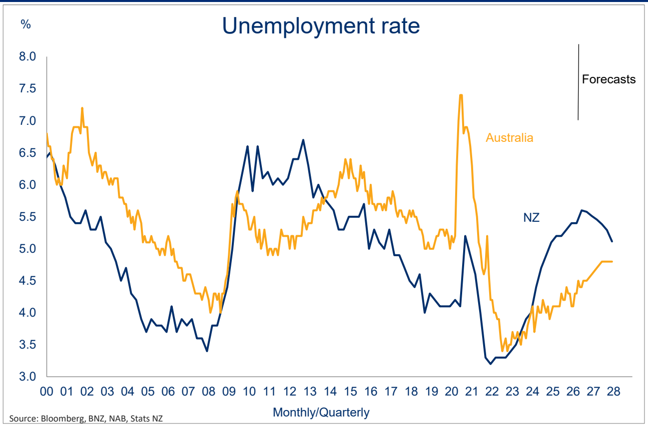
Following the jobs

In our last Trans-Tasman comparison, we said a "more rapid slackening in NZ's labour market stands out as one of the more important differences" between the two countries.

Unemployment has lifted in both countries in the two years since that update. Labour market conditions are difficult in both. But Australia's relatively tighter labour market has indeed proved influential, contributing to:

- Firmer wage growth. Comparable measures of labour costs over the year to June put annual growth at 3.2% in Australia compared to 2.0% in NZ.
- A continued "pull" for NZ workers seeking stronger labour market conditions offshore. Net migration from NZ to Australia hit 11-year highs of around 32,000 people in 2024. It's eased only a little since.
- Much stronger migration-led population growth in Australia more generally, with implications, in turn, for the housing market, spending, and broader activity.

A tighter Aussie jobs market



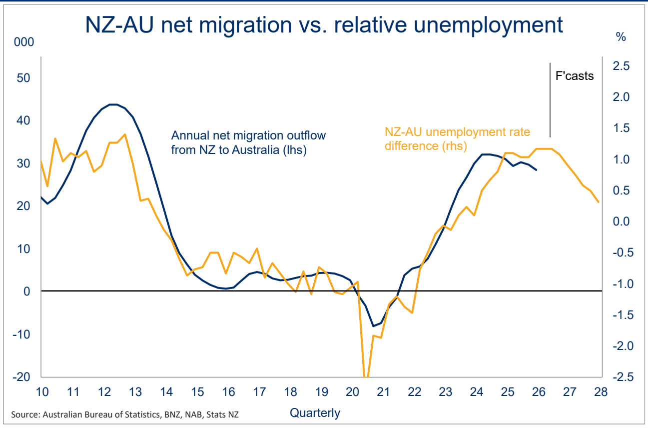
Given all this, the fact that labour market relativities could be slowly nudging back towards NZ is significant. It's a narrowing in the gap though, not a closing.

We think NZ's current unemployment rate of 5.6% is around the peak. Improved labour market conditions are eyed for next year. Aussie unemployment is much lower at 4.4% but expected to rise towards 5% through 2027.

Recent job advertisement figures have tended to confirm the existence of this relative shift. NZ job vacancies have been on an, admittedly slow and shaky, uptrend for the past 12 months. In Australia they're drifting lower.

On past form, shifts in relative unemployment of the order we're forecasting would be consistent with annual migration outflows to Oz easing off to about 20,000 over the coming 12 months. So, a reduction in net outflows, but a long way from kiwis beating a path back to our shores en masse. Indeed, a net 20,000 outflow from NZ to Australia is about the long-run average.

Still headed west, but in fewer numbers



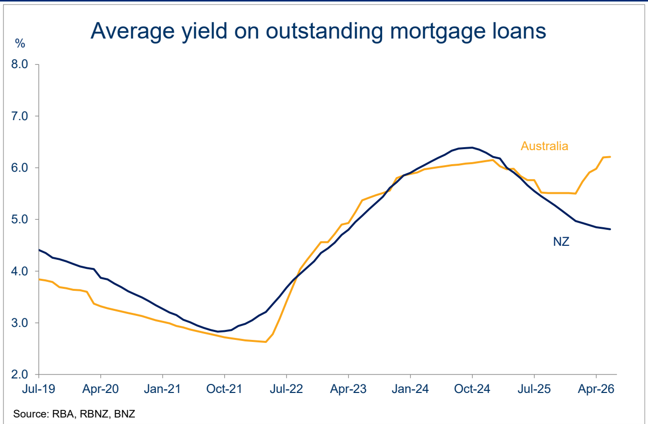
RBA onto the front foot, RBNZ hangs back

The Reserve Bank of Australia (RBA) both cut its cash rate by less and started lifting it earlier than the Reserve Bank of NZ (RBNZ).

Both countries face into a stern inflation challenge. But the stronger performing Aussie economy and labour market has necessitated a more front-footed approach from the RBA.

The average interest rate paid on Australian mortgage borrowings (which feature a much higher share on floating terms) has consequently returned to recent highs of around 6.2%. By contrast, the average rate paid on NZ mortgage debt is a much lower 4.8% and, as of June, has yet to start rising. This widening gap is good context for the narrowing in economic performance discussed already.

Widening gap in mortgage rates being paid



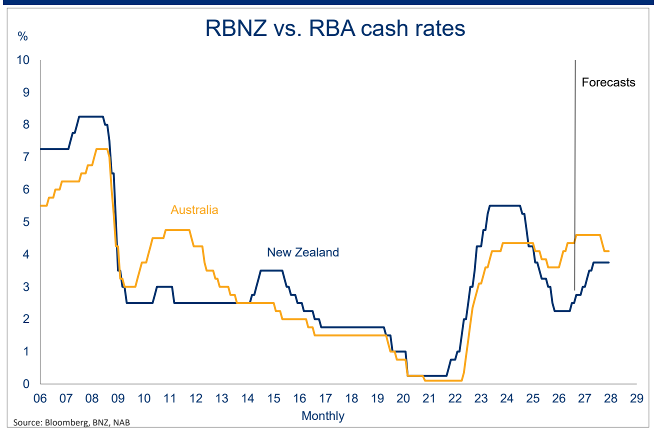
In June, the difference between the two central bank cash rates exceeded two percentage points for the first time in 15 years (RBNZ: 2.25% vs. RBA: 4.35%). The large differential has been instrumental in pulling the NZD/AUD exchange rate down to a little below 0.8200 - the lowest in 13 years.

The lower exchange rate has provided a boost for NZ's exports to Australia – by far the largest component being Australian holidays in ~~Queenstown~~ NZ.

Of course, it hasn't been as welcome for Kiwis headed in the other direction. Indeed, we've seen early signs of a, possibly currency-related, tilt in NZ offshore holiday destinations away from Australia in the very recent departure numbers.

We reckon the gap between NZ and Aussie interest rates will narrow from December and through next year. The RBA is putting the finishing touches on its tightening cycle. NAB expect one further 25bps lift to 4.6% this month, with the risk of one more thereafter. Interest rates in Australia are already restrictive and set to become more so.

NZ cash rate has further to rise



That's not yet the case in NZ. We're still forecasting a series of rate increases from the RBNZ taking the OCR to eventual peak of 3.75% by May. That's a slight reduction on the 4.00% previously forecast as it allows for a pause at the next (October) RBNZ meeting. All of which is in keeping with the RBNZ's step towards gradualism at Wednesday's decision to lift the OCR 25bps to 2.75%.

Together, these views produce a clear convergence in NZ-AU cash rates over the coming 12-18 months. Throw this in with narrowing unemployment and economic growth gaps and we think it's more likely the NZD/AUD exchange rate strengthens over the coming 12 months than keeps falling.

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