

New Zealand At A Glance

26 February 2026

Overview

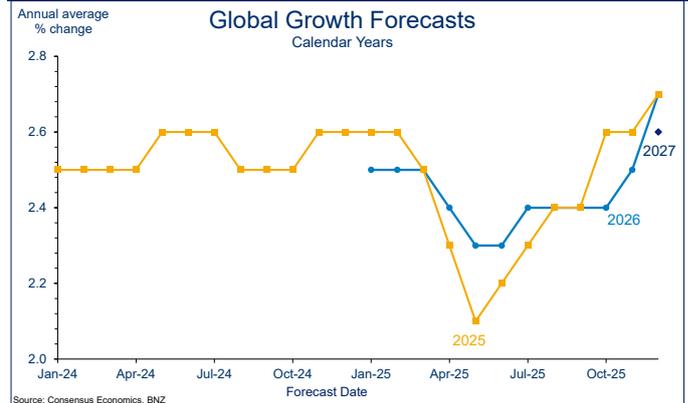
Not that long ago the big question was could New Zealand gain economic momentum in 2026? Nearly every indicator that we currently look at provides confirmation that the recovery is underway. Moreover, there is every reason to assume it can be sustained. The bigger question now is how fast it can grow before current spare capacity is eroded and inflationary pressures climb enough that a tightening cycle is kicked off. We think there's water to go under the bridge for a few months yet but by year's end rates will be on a clear uptrend.

Key Indicators	December Years					
	Actual			Forecasts		
	2022	2023	2024	2025	2026	2027
GDP production (an avg %)	2.6	2.2	-0.3	0.4	2.6	2.3
Consumers Price Index (ann %)	7.2	4.7	2.2	3.1	2.3	2.0
Unemployment Rate (end qtr %)	3.4	4.0	5.1	5.4	4.8	4.7
Current Account (% of GDP)	-9.0	-6.3	-4.7	-3.5	-3.5	-3.1
Fiscal Balance (% GDP June Yr)	-2.4	-1.8	-2.1	-2.1	-3.0	-2.2
NZD/USD (Dec mth avg)	0.63	0.62	0.57	0.58	0.63	0.62
Overnight Cash Rate (Dec mth end %)	4.25	5.50	4.25	2.25	2.75	4.00
10 Year Govt Bond (Dec mth avg %)	4.20	4.70	4.40	4.50	4.90	4.90

International

Almost unbelievably, it looks like global growth is shaping to be stronger than was forecast prior to Donald Trump's April tariff announcements. Immediately post the tariff news forecasters across the planet slashed their expectations for trade and, in turn, global growth. Instead, the world trading system has proven to have adjusted at a remarkable pace. Additionally, forecasters have been surprised by the impact of the growth in the AI sector, and its associated demands for energy, on total activity. For now, global activity could be considered as being supportive of the New Zealand economy, but it would be unwise to overlook the risks that remain.

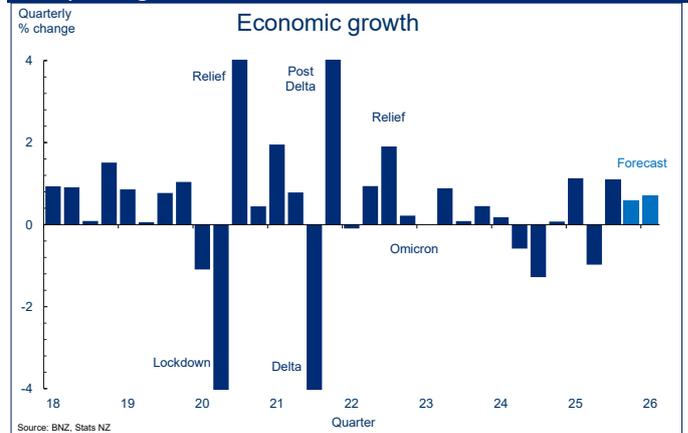
Surprisingly strong



Growth

There is no doubt the New Zealand economy is in recovery mode. Soaring returns across the broader agriculture sector are driving the expansion which, unsurprisingly, is being felt most in the regions. Urban centres are slower to feel the economic improvement, in part because net migration remains very weak. But there are clear signs that falling interest rates are providing the requisite stimulus. House sales are rising, residential building permits are on the up, lending to the household sector is accelerating and spending on durables is picking up. Tourism growth is also supportive as will be government infrastructure spending.

Ready, set, go!



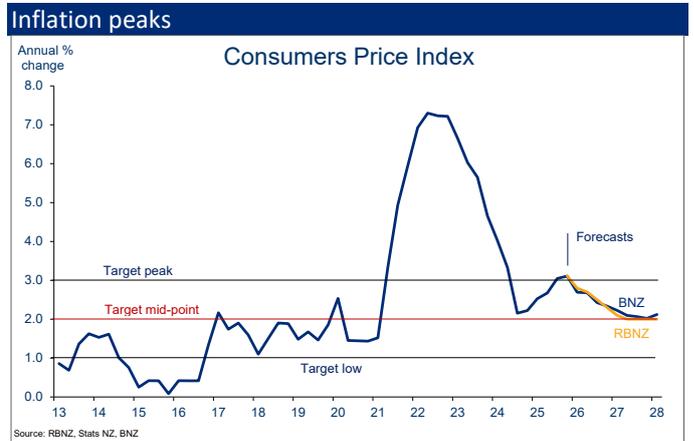
Labour Market

The labour market always lags the real economy. This cycle is no different, but the good news is that there are already clear signs the worm is turning. Hours worked started rising in the September quarter 2025. They did so again in the fourth quarter in which employment also grew 0.5%. Business surveys show hiring intentions are increasing, and job ads are in the ascendancy. And an increasing number of businesses are reporting heightened difficulty in finding skilled labour. Sure, the unemployment rate rose to a ten year high of 5.4% but this was largely due to a sharp increase in the participation rate. We also believe this is the peak for this cycle.



Inflation

CPI inflation climbed to an annual 3.1% in the December quarter, despite the economy having been weak for an extended period. Disconcertingly, key core measures of inflation are near the top end of the RBNZ’s target band and most inflation expectations surveys reveal a rising trend. Nonetheless, we still think inflation will be back within its target band in the March quarter, 2026 and will eventually track down to the mid-point by end 2027. Note, however, that our forecasts are highly dependent on a combination of moderating commodity price inflation; a rising New Zealand dollar; minimal wage growth; and, most importantly, higher interest rates.



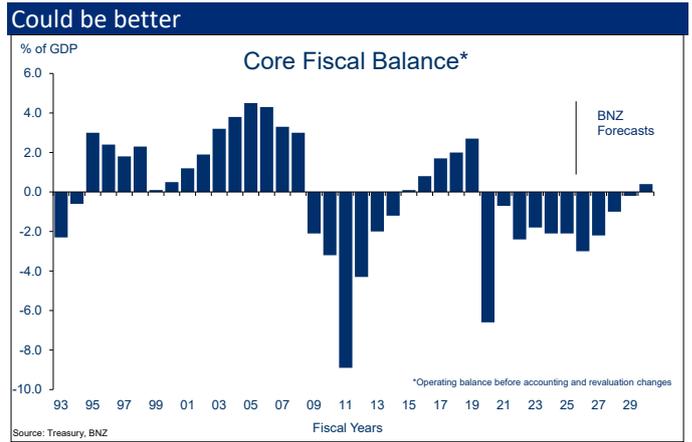
External Accounts

New Zealand’s current account deficit continues to diminish. At 3.5% of GDP in the September quarter, 2025 it’s miles below the 9.0% peak reported in Q4, 2022. A soaring terms of trade and improving visitor inflows have been key drivers of the improvement. But with the terms of trade now drifting lower and import volumes likely to pick up in line with rising investment activity, further gains will be tempered. Meanwhile New Zealand’s net international investment position continues in the “right” direction. At 46.1% of GDP it’s a stark comparison with its 84.1% of GDP peak in 2009.



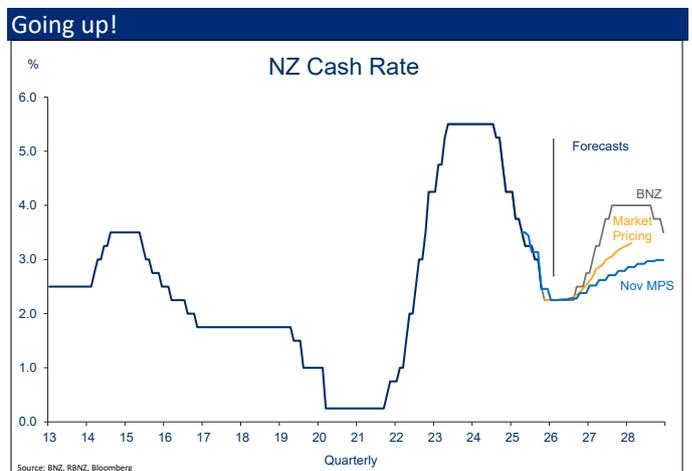
Fiscal Policy

Despite perceptions that fiscal policy has been tightening aggressively, the numbers show nothing of the sort. In the year to June 2026, the core (OBEGALx) fiscal balance is forecast to show a deficit of 3.0% of GDP. This will represent the seventh consecutive fiscal shortfall and, if you exclude the 2019/2020 COVID rescue package, the largest since fiscal 2012 when the fiscal balances were under pressure from the GFC and Christchurch earthquakes. At least with growth accelerating the government has an improved chance of achieving the fiscal surplus it now forecasts for fiscal 2030. The biggest question for the years ahead is how much government will allow debt to increase to fund the desperately needed infrastructure build.



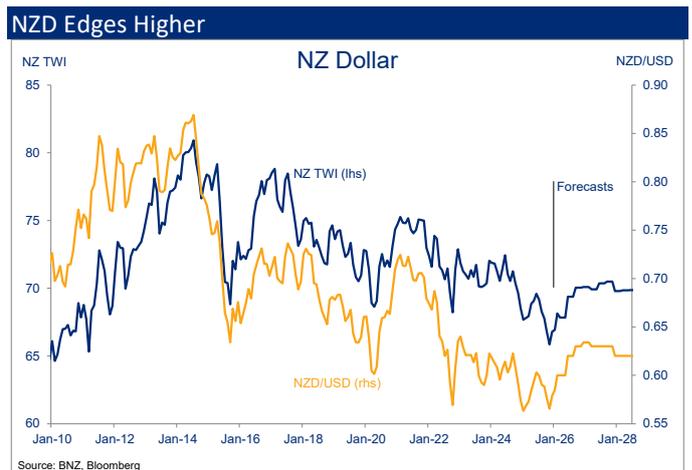
Interest Rates and RBNZ Policy

The next move in the cash rate is up and there will be a series of increases until such time that monetary settings are sufficiently tight to keep inflation near the mid-point of the target band. The only questions are: when do rate hikes start and where do they finish? At the time of writing the market fully prices the first rate hike in December. This broadly matches the RBNZ’s recent Monetary Policy Statement. We are not wildly opposed to this view but think the balance of risk is that inflationary pressures will prove higher than the RBNZ currently believes bringing that rate move forward to September. We then expect the cash rate to be progressively raised to reach a peak of around 4.0%.



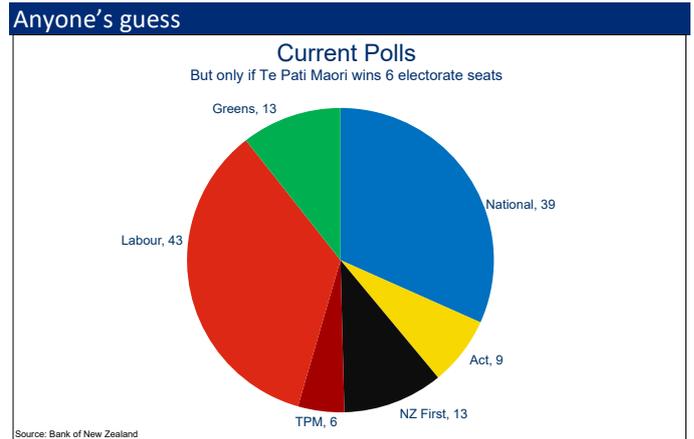
Exchange Rates

We think the NZD will consolidate around the current USD0.60 level through until the end of the quarter. However, we expect it to resume its appreciating trend as it becomes clearer that the RBNZ will need to tighten monetary policy more aggressively than it currently forecasts. On the same basis, we expect the NZD to appreciate against most of the other majors. In contrast, it is unlikely the NZD will make any ground against the AUD while Australia’s inflation rate pushes higher and unemployment rate lower. Overlaying all this, of course, is the potential for Trump-driven volatility including the possibility of joint US-Israel military action against Iran.



Politics

New Zealanders go to the polls in the General Election on November 7. There is little clarity as to the likely shape of the government given the state of current polling. Not only is there the possibility of either a “right-of-centre” or “left-of-centre” victory but there is also an outside chance of a minority government of either flavour. Uncertainty over the outcome is weighing on investment decisions given the differences in policy that each option portends. Keep an eye on the minor parties, especially Te Pāti Māori, the success or failure of which could determine the shape of government.



stephen_toplis@bnz.co.nz

Quarterly Forecasts

Forecasts as at 26 February 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.)	-1.0	1.1	0.6	0.7	0.9	0.6	0.6	0.5	0.5	0.5
Retail trade (real s.a.)	0.8	1.9	0.9	1.0	0.9	0.8	0.7	0.7	0.7	0.7
Current account (ann, % GDP)	-3.7	-3.5	-3.5	-3.5	-3.5	-3.6	-3.5	-3.4	-3.3	-3.2
CPI (q/q)	0.5	1.0	0.6	0.5	0.5	0.7	0.5	0.4	0.5	0.6
Employment	-0.2	0.0	0.5	0.5	0.7	0.8	0.7	0.6	0.5	0.5
Unemployment rate %	5.2	5.3	5.4	5.3	5.2	5.0	4.8	4.6	4.7	4.7
Pr. avg hourly earnings (ann %)	4.6	4.1	3.5	4.2	3.3	3.3	3.4	3.3	3.2	3.2
Trading partner GDP (ann %)	3.3	3.2	2.5	2.7	2.7	2.8	3.0	2.9	2.8	2.8
CPI (y/y)	2.7	3.0	3.1	2.7	2.7	2.4	2.3	2.2	2.1	2.1
GDP (production s.a., y/y)	-1.1	1.3	1.8	1.4	3.3	2.9	2.9	2.7	2.3	2.2

Interest Rates

Historical data - qtr average

Forecast data - end quarter

	Cash	Government Stock			Swaps			US Rates		Spread
		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
Forecasts										
2026 Mar	2.25	2.40	3.85	4.60	2.90	3.60	4.20	3.65	4.25	0.35
Jun	2.25	2.50	3.95	4.75	3.35	3.70	4.35	3.40	4.35	0.40
Sep	2.50	2.75	4.25	4.90	3.70	4.00	4.50	3.15	4.50	0.40
Dec	2.75	3.15	4.35	4.90	3.95	4.15	4.55	3.15	4.50	0.40
2027 Mar	3.25	3.65	4.45	4.90	4.10	4.30	4.60	3.15	4.50	0.40
Jun	3.75	4.05	4.40	4.90	4.10	4.30	4.65	3.15	4.50	0.40
Sep	4.00	4.15	4.35	4.90	4.10	4.30	4.70	3.15	4.50	0.40
Dec	4.00	4.15	4.35	4.90	4.10	4.35	4.75	3.15	4.50	0.40

Exchange Rates (End Period)

USD Forecasts

NZD Forecasts

	NZD/USD	AUD/USD	EUR/USD	GBP/USD	USD/JPY	NZD/USD	NZD/AUD	NZD/EUR	NZD/GBP	NZD/JPY	TWI-17
Current	0.60	0.71	1.18	1.35	155	0.60	0.84	0.51	0.44	92.5	67.6
Forecasts											
Mar-26	0.60	0.70	1.20	1.37	154	0.60	0.86	0.50	0.44	92.4	67.8
Jun-26	0.62	0.72	1.22	1.38	152	0.62	0.86	0.51	0.45	94.2	69.4
Sept-26	0.63	0.73	1.22	1.38	150	0.63	0.86	0.52	0.46	94.5	70.0
Dec-26	0.63	0.73	1.23	1.38	148	0.63	0.87	0.52	0.46	93.8	70.1
Mar-27	0.63	0.72	1.22	1.36	146	0.63	0.88	0.52	0.46	92.0	69.9
Jun-27	0.63	0.71	1.22	1.35	145	0.63	0.89	0.52	0.47	91.4	70.4
Sept-27	0.63	0.71	1.21	1.34	143	0.63	0.89	0.52	0.47	90.1	70.5
Dec-27	0.62	0.70	1.19	1.34	142	0.62	0.89	0.52	0.46	88.0	69.8

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 26 February 2026	March Years					December Years				
	Actuals		Forecasts			Actuals		Forecasts		
	2024	2025	2026	2027	2028	2023	2024	2025	2026	2027
GDP - annual average % change										
Private Consumption	1.1	0.0	1.7	2.3	2.3	1.1	-0.2	1.6	2.0	2.3
Government Consumption	1.1	-1.3	2.3	0.2	-0.5	0.1	-0.9	1.9	0.7	-0.4
Total Investment	-1.1	-5.0	2.5	6.6	3.8	-0.3	-4.9	0.3	6.6	4.3
Stocks - ppts cont'n to growth	-1.4	0.4	0.2	0.4	0.0	-1.2	0.4	-0.2	0.6	0.0
GNE	-0.9	-1.1	2.3	3.3	2.1	-0.7	-1.1	1.2	3.5	2.3
Exports	8.6	3.4	3.2	5.1	3.7	11.5	4.7	2.9	5.3	3.8
Imports	-1.4	1.5	5.3	5.4	3.0	-0.7	1.7	3.6	6.1	3.4
Real Expenditure GDP	1.5	-0.7	1.3	3.1	2.2	2.1	-0.3	0.8	2.9	2.3
GDP (production)	1.8	-0.9	0.9	2.9	2.2	2.2	-0.3	0.4	2.6	2.3
<i>GDP - annual % change (q/q)</i>	1.6	-0.7	1.4	2.7	2.3	1.4	-1.6	1.8	2.9	2.2
Output Gap (ann avg, % dev)	1.2	-0.7	-1.3	-0.2	0.2	1.3	-0.2	-1.2	-0.4	0.1
Nominal Expenditure GDP - \$bn	417	431	449	472	494	413	427	445	466	489
Prices and Employment -annual % change										
CPI	4.0	2.5	2.7	2.2	2.1	4.7	2.2	3.1	2.3	2.0
Employment	0.9	-0.9	0.8	2.8	1.9	2.7	-1.3	0.2	2.7	2.0
Unemployment Rate %	4.4	5.1	5.3	4.6	4.7	4.0	5.1	5.4	4.8	4.7
Wages - ave. hr. ord. time earnings (private sector)	4.8	3.8	4.2	3.3	3.2	6.6	4.0	3.5	3.4	3.2
Productivity (ann av %)	-0.6	0.1	1.2	0.5	0.1	-0.8	0.1	1.3	0.7	-0.1
Unit Labour Costs (ann av %)	6.6	4.4	2.7	3.2	3.2	7.1	4.7	2.8	3.1	3.3
House Prices (stratified, mth)	2.8	-0.6	-1.2	2.9	4.0	0.6	-0.8	-0.3	1.7	3.9
External Balance										
Current Account - \$bn	-23.8	-18.3	-15.9	-16.0	-14.2	-25.8	-20.0	-15.6	-16.2	-15.0
Current Account - % of GDP	-5.7	-4.2	-3.5	-3.4	-2.9	-6.3	-4.7	-3.5	-3.5	-3.1
Government Accounts - June Yr, % of GDP										
OBEGAL ex ACC (core op. balance) (Treasury forecasts)	-2.1	-2.1	-3.0	-2.2	-1.0					
Net Core Crown Debt (ex NZS) (Treasury forecasts)	41.8	41.8	43.3	46.0	46.9					
Bond Programme - \$bn (Treasury forecasts)	39.3	42.6	35.0	34.0	34.0					
Bond Programme - % of GDP	9.4	9.9	7.8	7.2	6.9					
Financial Variables ⁽¹⁾										
NZD/USD	0.61	0.57	0.60	0.63	0.62	0.62	0.57	0.58	0.63	0.62
USD/JPY	150	149	154	146	140	144	154	156	148	142
EUR/USD	1.09	1.08	1.20	1.22	1.18	1.09	1.05	1.17	1.23	1.19
NZD/AUD	0.93	0.91	0.86	0.88	0.89	0.93	0.91	0.87	0.87	0.89
NZD/GBP	0.48	0.44	0.44	0.46	0.47	0.49	0.45	0.43	0.46	0.46
NZD/EUR	0.56	0.53	0.50	0.52	0.53	0.57	0.55	0.49	0.52	0.52
NZD/YEN	91.1	85.4	92.4	92.0	86.8	89.5	88.4	90.3	93.8	88.0
TWI	71.2	67.9	67.8	69.9	69.8	72.0	68.5	66.8	70.1	69.8
Overnight Cash Rate (end qtr)	5.50	3.75	2.25	3.25	4.00	5.50	4.25	2.25	2.75	4.00
90-day Bank Bill Rate	5.64	3.60	2.40	3.65	4.15	5.63	4.26	2.49	3.15	4.15
5-year Govt Bond	4.60	4.00	3.85	4.45	4.15	4.50	3.90	3.90	4.35	4.25
10-year Govt Bond	4.60	4.50	4.60	4.90	4.90	4.65	4.45	4.50	4.90	4.90
2-year Swap	4.91	3.35	2.90	4.10	3.80	4.93	3.53	2.98	3.95	3.95
5-year Swap	4.40	3.65	3.60	4.30	4.15	4.43	3.63	3.61	4.15	4.25
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	0.35	0.40	0.40	0.65	0.05	0.35	0.40	0.40

⁽¹⁾ Average for the last month in the quarter

Source: Statistics NZ, BNZ, RBNZ, NZ Treasury

Contact Details

BNZ Research

Stephen Toplis
Head of Research

Doug Steel
Senior Economist

Matt Brunt
Economist

Jason Wong
Senior Markets Strategist

Stuart Ritson
Senior Interest Rate Strategist

Mike Jones
BNZ Chief Economist

Main Offices

Wellington
Level 2, BNZ Place
1 Whitmore St
Private Bag 39806
Wellington Mail Centre
Lower Hutt 5045
New Zealand
Toll Free: 0800 283 269

Auckland
80 Queen Street
Private Bag 92208
Auckland 1142
New Zealand
Toll Free: 0800 283 269

Christchurch
111 Cashel Street
Christchurch 8011
New Zealand
Toll Free: 0800 854 854

This document has been produced by Bank of New Zealand (BNZ). BNZ is a registered bank in New Zealand and is only authorised to offer products and services to customers in New Zealand.

Analyst Disclaimer: The Information accurately reflects the personal views of the author(s) about the securities, issuers and other subject matters discussed, and is based upon sources reasonably believed to be reliable and accurate. The views of the author(s) do not necessarily reflect the views of the NAB Group. No part of the compensation of the author(s) was, is, or will be, directly or indirectly, related to any specific recommendations or views expressed.

BNZ maintains an effective information barrier between the research analysts and its private side operations. Private side functions are physically segregated from the research analysts and have no control over their remuneration or budget. The research functions do not report directly or indirectly to any private side function. The Research analyst might have received help from the issuer subject in the research report.

New Zealand: The information in this publication is provided for general information purposes only, and is a summary based on selective information which may not be complete for your purposes. This publication does not constitute any advice or recommendation with respect to any matter discussed in it, and its contents should not be relied on or used as a basis for entering into any products described in it. Bank of New Zealand recommends recipients seek independent advice prior to acting in relation to any of the matters discussed in this publication.

Any statements as to past performance do not represent future performance, and no statements as to future matters are guaranteed to be accurate or reliable.

Neither Bank of New Zealand nor any person involved in this publication accepts any liability for any loss or damage whatsoever which may directly or indirectly result from any advice, opinion, information, representation or omission, whether negligent or otherwise, contained in this publication.

USA: If this document is distributed in the United States, such distribution is by nabSecurities, LLC. This document is not intended as an offer or solicitation for the purchase or sale of any securities, financial instrument or product or to provide financial services. It is not the intention of nabSecurities to create legal relations on the basis of information provided herein.