Research

New Zealand At A Glance

23 July 2026

Overview

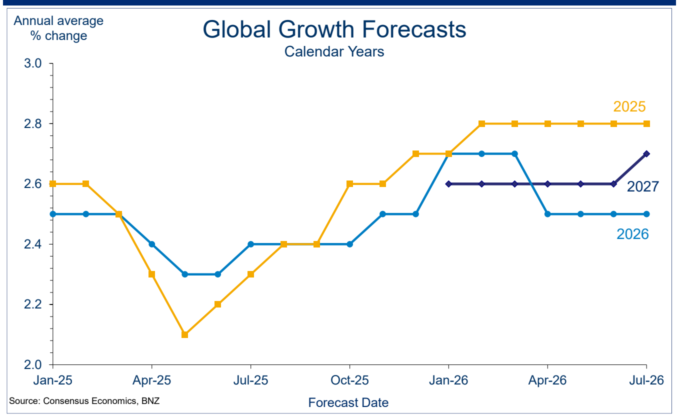
In this environment it is imperative to separate the noise from the signal. The noise is the Middle East, US tariff policy, New Zealand's General Election and, increasingly, the threat of El Nino. All these factors will determine the pace and timing of adjustment but are unlikely to undermine the core direction of the economy. With this in mind the key messages are: strong commodity prices and very easy monetary policy have set in motion an economic recovery; that recovery will see inflationary pressures build; in turn it will be appropriate for the central bank to push monetary conditions towards neutral; and this will help underpin a strengthening in the New Zealand Dollar.

Key Indicators		Actual			Forecasts	
	December Years					
	2023	2024	2025	2026	2027	2028
GDP production (an avg %)	2.2	-0.3	0.3	1.6	2.2	2.9
Consumers Price Index (ann %)	4.7	2.2	3.1	3.5	1.9	2.3
Unemployment Rate (end qtr %)	4.0	5.1	5.4	5.6	5.7	5.5
Current Account (% of GDP)	-6.3	-4.7	-3.6	-4.6	-3.8	-3.3
Fiscal Balance (% GDP June Yr)	-1.8	-2.1	-2.1	-2.6	-2.4	-0.8
NZD/USD (Dec mth avg)	0.62	0.57	0.58	0.59	0.61	0.63
Overnight Cash Rate (Dec mth end %)	5.50	4.25	2.25	3.25	4.00	3.50
10 Year Govt Bond (Dec mth avg %)	4.70	4.40	4.50	4.80	4.90	4.80

International

Clearly the international focus remains very much on the fallout from the turmoil in the Middle East. Every time oil prices push higher New Zealand's emerging recovery is put under threat from the impact of falling real disposable incomes on household spending. But the good news is that the impact on trading partner growth has been much less than feared allowing New Zealand to benefit from both solid export volumes and prices. Notably, soaring demand for computer technology has had a dramatic positive impact on the economic health of Asia.

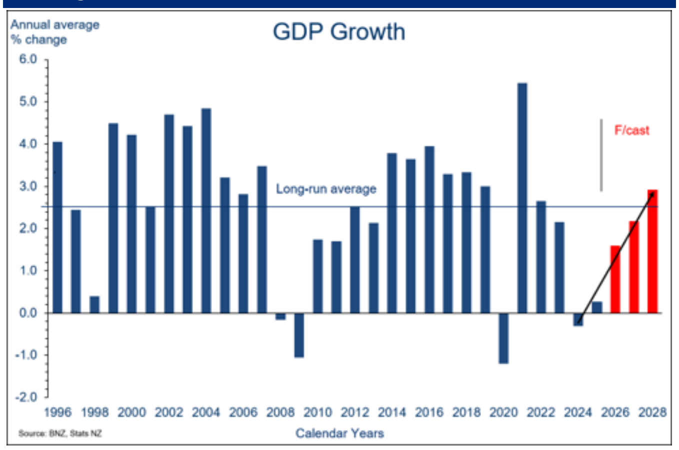
Weaker but not weak



Growth

Despite the hit from the Middle East, New Zealand's economy continues to recover buoyed by a soaring terms of trade, strong demand for our primary products, and the lagged impact of strongly stimulatory monetary conditions. We are forecasting the economy to expand 1.6% in calendar 2026 rising to 2.2% and then 3.0% in the following two years. While far from spectacular this is a vast improvement from the stasis of 2024 and 2025. But the recovery is fragile and prone to derailment by the Middle East, El Nino and electoral uncertainty amongst other things.

Getting better



Labour Market

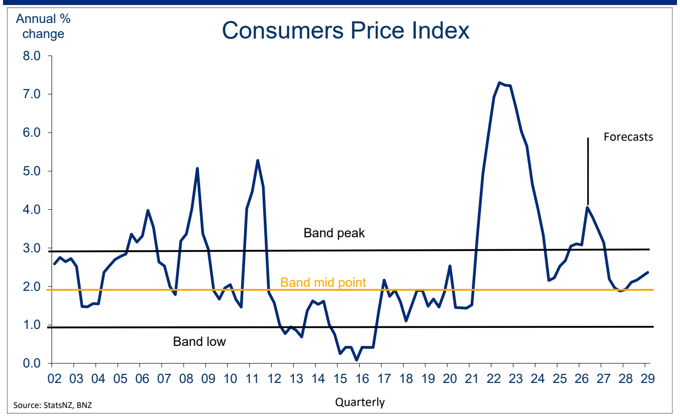
The labour market lags the real economy. With economic momentum building but at a slow pace it is unlikely we will see meaningful improvement in labour market conditions any time soon. Both employment intentions and job ads suggest employment growth will accelerate but we think the pace of that growth will not match labour supply. Accordingly, we are forecasting the unemployment rate to rise to 5.7% early next year from its current 5.3%. With the demand for labour as soft as it is, alongside challenging corporate margins, we expect wage growth to remain weak.

Unemployment further to go

Inflation

We think annual CPI inflation peaked at 4.1% in the June quarter of this year. Notwithstanding the recent increase in crude oil prices, we have assumed that the direct impact of fuel prices on the CPI will be downward over time, so much so that inflation will drop to near the mid-point of the RBNZ's target band in mid-2027. The concern, however, is that this might be short-lived given what appears to be growing upward pressure on core inflation, which is already sitting in the top half of the Reserve Bank's target band despite the economy allegedly experiencing a large disinflationary output gap.

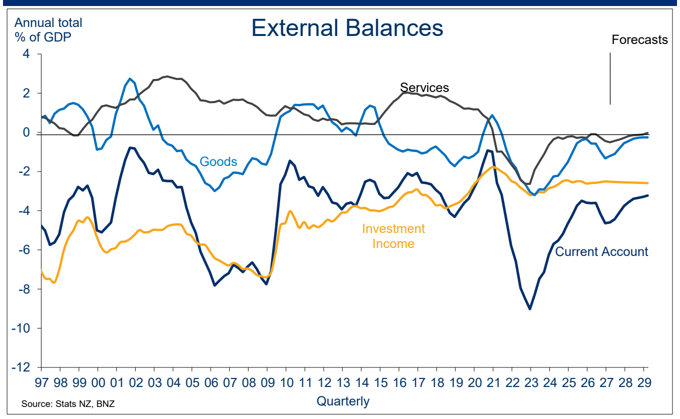
Inflation peaks



External Accounts

A soaring terms of trade coupled with solid production from our primary sector has been a boon for New Zealand's trade balance. On a balance of payments basis our goods trade deficit stood at just 0.6% of GDP in the year ended March 2026, well below its peak of 3.2% three years earlier. A resurgence in travel revenue has also been helpful in driving the current account deficit down to 3.6% of GDP, its lowest since September 2021. Unfortunately, we think that's as low as the deficit will get. We do not expect a serious deterioration in the balance but heightened fuel prices and what appears to be a pick up in import volumes will see the deficit increase for the next 15 months.

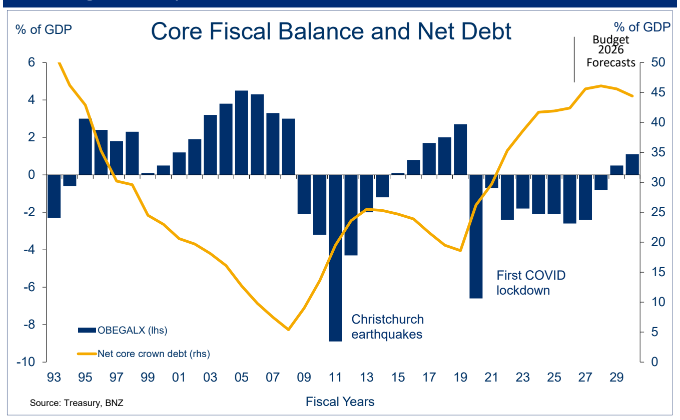
Hitting the low



Fiscal Policy

The government is committed to achieving a fiscal surplus in the year ended June 2029 which by then would bring to an end a nine-year run of deficits. We were sceptical that this objective would be achievable as Treasury's growth forecasts appeared overly optimistic, and there were question marks as to whether the government could sustain the level of fiscal austerity it was projecting. However, recent data show that the government may have significantly underestimated the degree of improvement in its accounts in the latter part of fiscal 2026. This may well offset the fiscal impact of our concerns.

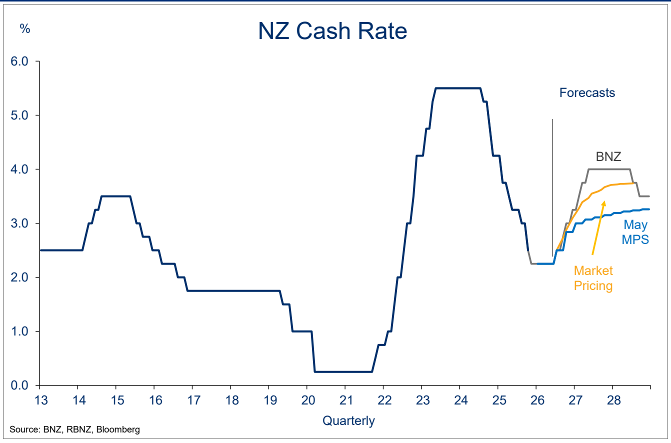
Heading for surplus



Interest Rates and RBNZ Policy

We have a simple view on what the RBNZ should do. We acknowledge the difficulty central banks have dealing with supply shocks especially when those shocks increase short term inflation at the same time that real disposable income destruction lowers growth prospects. But 2% inflation is the target so with inflationary pressures aplenty it is important the Bank progressively moves the cash rate to neutral to ensure it is not adding to inflationary pressure. Once there, decisions can be made as to the appropriate next move depending on conditions at the time. The RBNZ says the forecast horizon neutral is around 3.5% so we see this as the initial target.

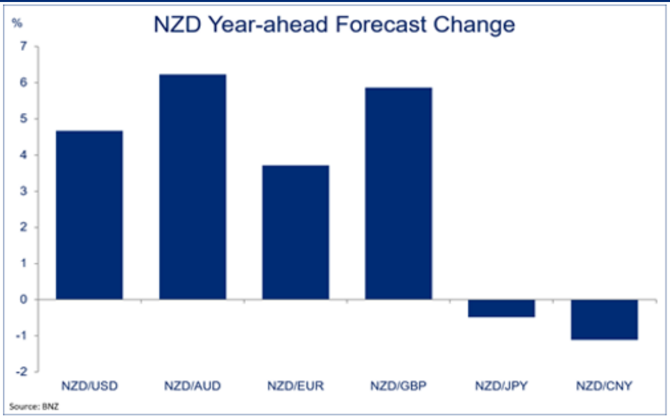
Going up!



Exchange Rates

The New Zealand Dollar has been pushed lower by a combination of: global risk aversion; a poorly performing economy; and relatively low domestic interest rates. If the world becomes more stable, domestic economic momentum builds and our interest rate differential narrows, in line with our projected tightening in monetary policy, then the currency should appreciate. The first signs of this may already be evidenced by the observed appreciation of the currency since late June. While we see the NZD lifting solidly against the USD, AUD, GBP and EUR we are less confident that the currency will rise against the CNY and JPY.

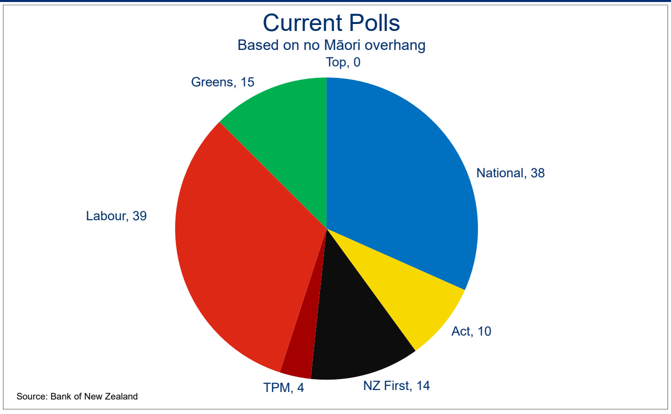
NZD Set to Bounce



Politics

The timing of this election couldn't be much worse. When there is economic fragility and heightened global uncertainty it would be nice to have certainty about the domestic policy mix. The closer an election outcome is likely to be, the greater the uncertainty created. For businesses this is an unwelcome headwind to investment. We do not forecast election outcomes but the accompanying graph, based on the average of the last three political polls, highlights how close the outcome could be and the fact that minor parties such as Te Pati Māori and, potentially, Top (if it gets over the magical 5% mark, which it is very close to doing) could have a disproportionate influence on the formation of government. Additionally, it is worth noting that even if the "same" government is elected its composition could be quite different to what we have now.

Anyone's guess



stephen_toplis@bnz.co.nz

Quarterly Forecasts

Forecasts as at 23 July 2026

Key Economic Forecasts

Quarterly % change unless otherwise specified — Forecasts (shaded: Jun-26 onward)

	Jun-25	Sept-25	Dec-25	Mar-26	Jun-26	Sept-26	Dec-26	Mar-27	Jun-27	Sept-27
GDP (production s.a.)	-0.7	0.9	0.5	0.8	-0.2	0.3	0.6	0.6	0.7	0.7
Retail trade (real s.a.)	0.7	2.0	0.9	0.9	0.4	0.6	0.5	0.6	0.7	0.8
Current account (ann, % GDP)	-3.7	-3.5	-3.6	-3.6	-3.6	-4.2	-4.6	-4.6	-4.4	-4.1
CPI (q/q)	0.5	1.0	0.6	0.9	1.5	0.7	0.3	0.6	0.6	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	4.1	3.8	3.5	3.1	2.2	2.0
GDP (production s.a., y/y)	-0.9	1.1	1.5	1.5	1.9	1.4	1.5	1.2	2.1	2.5

Interest Rates

Historical data - qtr average		Government Stock				Swaps			US Rates		Spread
Forecast data - end quarter		Cash	90 Day Bank Bills	5 Year	10 Year	2 Year	5 Year	10 Year	SOFR 3 month	US 10 yr	NZ-US Ten year
2025	**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
	Jun	2.25	2.68	3.96	4.47	3.40	3.75	4.15	3.70	4.45	0.00
Forecasts											
	Sep	2.75	3.25	4.25	4.70	3.80	4.00	4.30	3.65	4.50	0.20
	Dec	3.25	3.65	4.35	4.75	4.00	4.15	4.40	3.40	4.50	0.25
2027	**Mar**	3.75	4.05	4.35	4.80	4.00	4.20	4.50	3.15	4.50	0.30
	Jun	4.00	4.15	4.30	4.85	4.00	4.20	4.60	3.15	4.50	0.35
	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
2028	**Mar**	4.00	4.15	4.10	4.90	3.75	4.10	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	0.58	0.70	1.14	1.34	163	0.58	0.83	0.51	0.44	95.1	66.8
Forecasts											
Sept-26	0.57	0.69	1.14	1.32	163	0.57	0.83	0.50	0.43	92.6	65.4
Dec-26	0.59	0.70	1.15	1.32	161	0.59	0.84	0.51	0.45	94.7	67.1
Mar-27	0.60	0.70	1.16	1.33	158	0.60	0.86	0.52	0.45	94.5	67.9
Jun-27	0.61	0.69	1.15	1.32	155	0.61	0.88	0.53	0.46	94.6	69.0
Sept-27	0.61	0.68	1.15	1.31	153	0.61	0.90	0.53	0.46	93.0	69.2
Dec-27	0.61	0.67	1.15	1.32	151	0.61	0.90	0.53	0.46	91.4	68.9
Mar-28	0.61	0.67	1.15	1.32	151	0.61	0.90	0.53	0.46	91.4	68.9
						TWI Weights					
						16.2%	17.8%	9.2%	4.0%	4.7%	

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

Annual Forecast

Forecasts as at 23 July 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	1.4	1.3	2.4	1.1	-0.2	1.4	1.1	2.1
Government Consumption	1.1	-1.3	3.8	1.2	1.0	0.1	-0.9	2.5	2.9	0.4
Total Investment	-1.1	-4.9	-0.2	4.2	3.7	-0.3	-4.8	-1.3	3.2	4.1
Stocks - ppts cont'n to growth	-1.4	0.4	0.3	0.2	-0.1	-1.2	0.4	-0.1	0.5	-0.1
GNE	-0.9	-1.0	1.8	2.3	2.4	-0.7	-1.1	0.9	2.6	2.2
Exports	8.6	3.4	3.3	6.8	3.4	11.5	4.7	2.8	7.1	3.5
Imports	-1.4	1.5	5.4	7.9	2.6	-0.7	1.6	3.3	8.9	3.1
Real Expenditure GDP	1.5	-0.7	1.3	2.0	2.5	2.1	-0.3	0.7	2.2	2.2
GDP (production)	**1.8**	**-0.9**	**0.8**	**1.5**	**2.6**	**2.2**	**-0.3**	**0.3**	**1.6**	**2.2**
GDP - annual % change (q/q)	*1.5*	*-0.8*	*1.5*	*1.2*	*3.0*	*1.5*	*-1.6*	*1.5*	*1.5*	*2.8*
Output Gap (ann avg, % dev)	1.3	-0.4	-0.8	-0.8	-0.2	1.4	0.0	-0.9	-0.7	-0.4
Nominal Expenditure GDP - $bn	417	432	451	472	495	413	427	445	468	489
Prices and Employment -annual % change										
CPI	4.0	2.5	3.1	3.1	1.9	4.7	2.2	3.1	3.5	1.9
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	1.2	0.3	0.6	-0.8	0.1	1.2	0.6	0.3
Unit Labour Costs (ann av %)	6.6	4.4	2.5	2.8	2.7	7.1	4.7	2.9	2.4	2.9
House Prices (stratified, mth)	2.7	-0.7	0.2	-0.7	4.3	0.7	-0.8	-0.3	0.0	3.0
External Balance										
Current Account - $bn	-23.8	-18.3	-16.3	-21.7	-17.6	-25.8	-20.0	-16.0	-21.7	-18.4
Current Account - % of GDP	-5.7	-4.2	-3.6	-4.6	-3.6	-6.3	-4.7	-3.6	-4.6	-3.8
Government Accounts - June Yr, % of GDP										
OBEGAL ex ACC (core op. balance) (Treasury forecasts)	-3.1	-3.2	-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					
Financial Variables (1)										
NZD/USD	0.61	0.57	0.58	0.60	0.61	0.62	0.57	0.58	0.59	0.61
USD/JPY	150	149	159	158	150	144	154	156	161	151
EUR/USD	1.09	1.08	1.16	1.16	1.14	1.09	1.05	1.17	1.15	1.15
NZD/AUD	0.93	0.91	0.83	0.86	0.90	0.93	0.91	0.87	0.84	0.90
NZD/GBP	0.48	0.44	0.44	0.45	0.47	0.49	0.45	0.43	0.45	0.46
NZD/EUR	0.56	0.53	0.51	0.52	0.54	0.57	0.55	0.49	0.51	0.53
NZD/YEN	91.1	85.4	92.8	94.5	91.5	89.5	88.4	90.3	94.7	91.4
TWI	71.2	67.9	66.8	67.9	69.4	72.0	68.5	66.8	67.1	68.9
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	4.35	4.15
10-year Govt Bond	4.60	4.50	4.65	4.80	4.90	4.65	4.45	4.50	4.75	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	4.15	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	0.30	0.40	0.65	0.05	0.35	0.25	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

Jason Wong
Senior Markets Strategist

Stuart Ritson
Senior Interest Rate Strategist

India Power
Economist

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