Week beginning 25 May 2026

AUSTRALIA & NEW ZEALAND WEEKLY

Analysis and forecasts for this week's key releases.

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For the week ahead:

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New Zealand: RBNZ policy decision, Budget 2026, ANZ business confidence, employment indicator.

Japan: Tokyo CPI, jobless rate.

China: Industrial profits.

Euro area: Consumer confidence, economic confidence.

United States: Consumer confidence, personal income and spending, house prices, Q1 GDP (second est.).

Information contained in this report current as at 22 May 2026.

What fiscal can learn from monetary

Luci Ellis
Chief Economist, Westpac Group

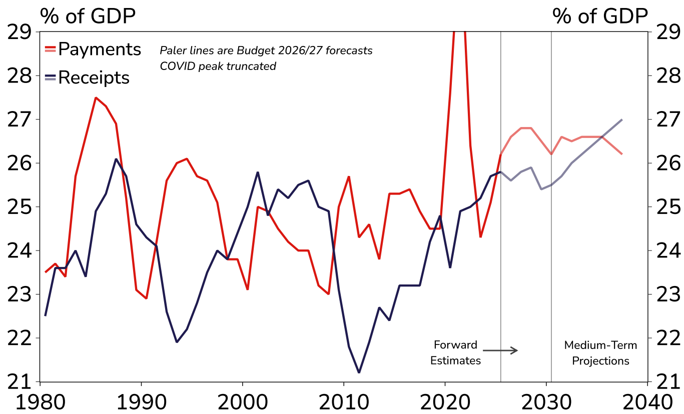
- **Much post-Budget focus is on who wins, who loses, and the micro-level incentives they face. Macroeconomic perspectives are mostly downplayed, partly out of a belief that fiscal policy is not suited for management of the business cycle.**
- **Even taking the allocation of responsibilities – monetary policy for the business cycle and fiscal policy for microeconomic incentives – as given, fiscal policy can learn from monetary policy.**
- **One example is the way institutional arrangements were designed to reduce the 'time-inconsistency problem' in monetary policy, the temptation to boost demand and inflation to lower unemployment. A similar problem applies to fiscal policy. Projections of future outcomes assume that bracket creep will boost tax revenue to a degree that no government will actually go through with when the time comes.**
- **Indexation of tax brackets can be viewed as a kind of commitment device to reduce this inconsistency. Care must be taken, however, to ensure that the countercyclical features of a progressive tax system are not lost. This points to another lesson from monetary policy: there are benefits to some degree of automation.**

This year's budget, with its focus on intergenerational distribution, will have significant effects on property and other asset markets, as well as on how many families manage their affairs. Even once they move beyond a pure winners-versus-losers framing, though, proponents of the changes and detractors alike are mostly thinking about fiscal policy like microeconomists. The emphasis is on efficiency and incentives across different activities and asset classes. Only rarely are macroeconomic perspectives, like the role of the fiscal system in managing the economic cycle, the focus.

The micro perspective stems from a deep-seated belief that fiscal policy cannot be used effectively to manage the macroeconomic cycle. Even though payments and other fiscal actions can affect demand immediately, the decision-making process is too slow, and prone to being politicised. And with many moving parts, a budget can be directed to other objectives. Best leave the macro side to monetary policy, goes the thinking. It has much faster decision-making cycles, and you can dedicate one instrument to one job.

Even if you take this allocation of responsibilities as given, though, there is plenty that fiscal policy can learn from monetary policy. One example is evident in the medium-term projections beyond the four-year 'forward estimates' horizon of the budget. These projections show a comforting upward trend in tax revenue as a share of GDP that closes the current deficit out in the 2030s. This is because the projections take current policy as given – including the tax brackets, which are fixed in dollar terms. There are some revenue measures as well, including the tax changes announced in last week's federal budget, but it is mostly bracket creep.

Federal Budget: Payments & Receipts



Source: Australian Department of the Treasury, Macrobond, Westpac Economics

The reality is that, by the time we get to the 2030s, future governments will have given some of that bracket creep back. They always do. The alternative is an ever-rising share of household income going to tax. This inconsistency between forecasts based on known policy and the outcomes that are likely to actually occur once we get there is analogous to the 'time-inconsistency problem' that is well known to analysts of monetary policy.

The 'inconsistency' is that monetary policymakers will always be tempted to 'cheat' on an inflation target, choosing a bit more inflation in the near term to get a bit less unemployment. Without some suitable institutional constraints, a central bank therefore cannot credibly commit to keep future inflation at the desired rate. Resolving this inconsistency is one of the reasons why independence of the central bank is seen as so important.

So too with fiscal policy. A government can project to close a fiscal deficit using the increasing revenue from bracket creep. But when the day comes, the temptation to moderate an ever-increasing tax burden is too great. Just as central banks cannot credibly pre-commit to hit inflation targets without independence, accountability or some contractual arrangement, governments cannot credibly commit to improving their finances via future bracket creep. (To be clear, budget deficits of the order of 1% of GDP are not a big deal in the scheme of things, especially compared with most other major economies. But if your ostensible aim is to eliminate that deficit eventually, projections that assume full bracket creep are not credible indications that you will get there.)

Proposals to index tax brackets in some way can been seen in this context as a kind of pre-commitment device, much like independence and inflation targets are for monetary policy. Instead of giving periodic tax cuts but pretending you will not, bracket indexation legislates the unwind of bracket creep in a more mechanical way. It also avoids the risk that the usual decision and implementation lags end up seeing ad-hoc bracket adjustments arrive when the economy is hot and tax cuts are least needed.

Of course, medium-term projections formulated on this basis will look more alarming than the recent run of budget papers. The gap is more appearance than substance, however. Perhaps, though, this will bring forward the hard conversations about the appropriate size of government and the share of government spending in GDP. This share took a noticeable step up in the late 2010s and again since the pandemic. Bracket creep enabled this expansion in government payments without needing to raise taxes explicitly.

Plans to rein in NDIS spending should help avoid a further ramp-up in payments and the fiscal sustainability issues that would ensue. As we noted on Budget night, though, executing on these plans is crucial but far from assured.

This points to another lesson that fiscal policy can learn from monetary policy: that while a hard-and-fast policy rule is too rigid and too simplistic, there are benefits to some degree of automaticity, of counter-cyclicality by design. A progressive tax system like Australia's embeds countercyclicality. When the economy is growing quickly, incomes rise. More of people's income is then taxed at their top marginal rate and more people get pushed into higher tax brackets. This raises the share of income going to tax. As long as the revenue windfall is not automatically recycled as higher government spending, this effect dampens demand automatically. Targeted welfare systems help on this front, too. For the record, Australia's system is widely regarded as more targeted than most developed countries' systems.

Indexation of tax brackets, like periodic tax cuts, reduces the drag from bracket creep but can lose that countercyclical feature depending on how it is implemented. For this reason, we have previously argued that fixed indexation at 2.5% – the mid-point of the RBA's inflation target – is in most cases preferable to CPI indexation. (This point also applies to calculation of capital gains tax, administered prices and some payments as well as income tax brackets.) That way, when the economy is strong and inflation is high, the tax system still leans against inflation somewhat. The central bank does not have to shoulder the burden of macroeconomic management alone.

The political nature of fiscal policy means there will always be some level of 'consistency problem'. But careful design, including automation of some settings, can help address this. That in turn means fiscal policy can be more usefully used as a macroeconomic management tool, without risking the credibility of its medium-term sustainability.

Cliff Notes: consumers wonder what's next

Elliot Clarke, Head of International Economics
Illiana Jain, Economist
Ryan Wells, Economist

In Australia this week, the Westpac-MI Consumer Sentiment Index clawed back only a quarter of April's collapse, rising 3.5% to 83.0. This leaves sentiment at a deeply pessimistic level, reminiscent of the scars inflicted by the post-pandemic cost-of-living shock. The halving of fuel excise provided some relief in May, facilitating an improvement in views around family finances – the 'last 12 months' and 'next 12 months' sub-indices rising 9.0% and 10.7% respectively. However, a third consecutive cash rate increase left 85% of consumers bracing for further increases in mortgage rates over the coming year. Adding in the uncertainty created by the seemingly open-ended Middle East conflict and anxiety over the tax changes proposed in the Budget, it is not surprising views on the economic outlook for one and five years hence sit at a combined three-and-a-half year low.

April's labour force survey also points to an imminent slowing in economic momentum. Employment fell 18.6k, abruptly halting the uptrend that commenced early this year. The participation rate nudged 0.1ppt lower to 66.7%, but the unemployment rate still rose 0.2ppts to 4.5%, the highest reading since the 'delta' COVID-19 outbreak of late-2021. Some of the surprise can be explained by 'abnormal' seasonality around Easter and noise in youth outcomes, but genuine weakness is also evident just as the shocks associated with the Middle East conflict and 2026's rate increases reverberate through the wider economy.

Aware of the volatility of labour data, like us the RBA will probably expect some degree of payback next month. This week's data will give the RBA cause to pause in June. But we continue to expect them to raise the cash rate in August and September as energy costs are passed through and given their desire to keep inflation expectations anchored. The cash rate is then likely to remain on hold until 2028, when a return to near-target inflation will allow a reversal of this year's rate hikes.

In the US, the minutes of the April FOMC meeting primarily focused on the outlook for inflation. There was a lengthy discussion of potential upside risks to inflation, with the Middle East conflict's direct and indirect effect on prices, US tariffs and the strength of AI infrastructure investment all commented on. In contrast, participants were sanguine on the labour market, assessing there to be balance between labour demand and supply and limited downside risks. GDP growth was also expected to be solid this year, the staff forecasting momentum to hold just above trend. On policy, members indicated that, if they see evidence of disinflation being back on track or the labour market weakening, easing could be considered. A "majority of participants highlighted, however, that some policy firming would likely become appropriate if inflation were to continue to run persistently above 2 percent".

Over in Europe, Euro Area CPI inflation met expectations in April, prices rising 1.0% in the month, lifting annual inflation from 2.6%yr to 3.0%yr. Core inflation was elevated in the month, but remained close to the 2.0%yr medium-term target on an annual basis. Gains were broad-based across the different categories, but transport contributed the most. UK annual CPI inflation meanwhile moderated from 3.3%yr in March to 2.8%yr in April as prices rose 0.7% in the month. The deceleration in inflation came from several discretionary goods categories including clothing and furniture. Core CPI inflation rose 2.5%yr in the month, down from 3.1%yr in March. Comments from Bank of England Governor Bailey noted the monetary policy committee has time to assess the impacts of the war, having already effectively tightened by removing the expectations of a cut set at the start of the year.

Also in the UK, employment rose by 148k over the three months to March while the unemployment rate eased to 5.0% for the same period. While on the surface this may paint a rosy picture, signs of labour market softening are starting to emerge. The unemployment rate for March rose to 5.5% and the number of payrolled employees fell 100k in April. Wages growth excluding volatile bonuses moderated from to 3.4%yr from 3.6%yr previously and, for the private sector only, underlying wage growth is a considerably more modest 3.0%yr.

"...give the RBA cause to pause in June."

Turning to Asia, China's partial indicators for April again highlighted a need for stimulus. Retail sales growth slowed sharply to 0.2%yr in April from 1.7%yr in March, a post-pandemic low, as reduced government subsidies weighed heavily on car and household appliance sales. Fixed asset investment fell 1.6%ytd driven by the private sector. Having improved in recent months, the decline in property investment accelerated again in April to -13.7%ytd. Industrial production growth also slowed from 5.7%yr to 4.1%yr in April, suggesting supply disruptions related to the Middle East are beginning to be felt. This is a risk for the entire Asian region for both activity and inflation, and a particular challenge for policy makers coming at a time of surging strength in tech-related production and investment.

Closing with the Middle East conflict. Iran has said the latest proposal from the US partly bridges the gap between the two sides, but comments from Supreme Leader Khamenei about keeping Tehran's uranium stockpile and a dispute over tolls in the Strait of Hormuz suggests a deal remains some way off. President Trump also said he opposes efforts by Iran and Oman to establish some form of permanent toll system for the Strait of Hormuz: "We want it open, we want it free, we don't want tolls".

To hold or not to hold, that is the question

Kelly Eckhold
Chief Economist NZ

Next week's RBNZ Monetary Policy Statement (Wednesday 27 May) is shaping up as one that will likely deliver more signal than action. The most likely outcome is an unchanged Official Cash Rate (OCR) at 2.25%, but the meeting is 'live': watch for whether the decision goes to a vote (and if so, how close it looks); how far the Bank lifts its near-term inflation track in response to higher energy costs; how much it downgrades the 2026 growth outlook as the Iran war weighs on confidence; and – above all – what the updated OCR track implies for the timing and pace of a return towards neutral policy settings. The press conference and Summary Record of Meeting will matter as much as the headline decision given the difficult balance the RBNZ must strike between a materially higher inflation track and a weakening real economy.

The RBNZ is 'skewered' between high inflation and weak growth, which will leave the MPC wriggling on the hook while debating what to do next week. The inflation outlook has shifted decisively higher, driven primarily by the surge in refined fuel prices associated with the Iran war. Headline inflation is expected to move above 4% and remain elevated for much, if not all, of 2026. While the RBNZ may continue to emphasise its intention to look through the first-round effects of such a supply-side shock, as is conventional, the persistence of above-target inflation raises clear risks around expectations and pricing behaviour. At the same time, the growth backdrop has weakened materially. The war has added a layer of uncertainty that is weighing on both household and business sentiment, undermining spending and investment decisions, and delaying the continuation of the economic recovery that had been widely anticipated earlier in the year. This combination – higher inflation but weaker activity – places the RBNZ in a challenging position and will drive careful calibration of both policy and communication.

Against that backdrop, the most coherent baseline that is consistent with the RBNZ's past rhetoric seems for the OCR to remain on hold in May, but for the Bank to deliver a materially more hawkish set of projections compared to the February Monetary Policy Statement. The rationale for not tightening immediately is not that inflation risks are benign, but rather that it may still be premature to conclude that a rate rise is required to secure the medium-term inflation objective. The Monetary Policy Committee is likely to place weight on the current level of uncertainty, the limited evidence so far on second-round inflation effects, and the risk that policy settings may already be more restrictive in effect than the nominal OCR suggests, given tighter financial conditions and weaker confidence. The most dovish on the MPC could argue that a premature increase in the OCR could prove counterproductive if it were subsequently reversed as the full extent of the growth slowdown becomes evident. Most though are more likely to accept that interest rates will rise in 2026, but that more information is required to fully justify what will be a very unpopular move – especially in an election year. We think a vote will be required to break the deadlock and will thus provide some revealing (and well overdue) information on individual MPC members' views.

The lack of hard data on inflation persistence may prove particularly important in the MPC's calculations. And certainly, the Governor's previous comments seem to emphasise the need to see at least some evidence before moving. Core inflation remained within the target band in the March quarter, but there is relatively little new information on how it is evolving in the wake of the shock. Many of the channels through which second-round effects might emerge – particularly in services prices – are only observed with a lag, meaning that the June quarter CPI will likely be the first meaningful test of whether inflation pressures are broadening. Until that evidence is available, a cautious approach to policy adjustment will seem defensible to those more cautious MPC members. More broadly, the Bank may judge that waiting allows it to better understand the interaction between higher inflation and weaker demand, and to assess whether the expected increase in spare capacity will offset some of the upward pressure on prices over time.

However, even if the OCR is left unchanged, the RBNZ's forecast updates are likely to reflect a significant shift in the economic outlook. Growth forecasts for 2026 are expected to be revised down materially, with GDP expansion now seen closer to 1.8–2.0% rather than the 2.8% envisaged in February. The labour market outlook is also likely to soften, with the anticipated decline in the unemployment rate deferred so that it potentially ends the year in the mid-5% range. These changes imply a greater degree of slack in the economy than previously assumed, which in normal circumstances would help to contain inflation pressures over the medium term. Nevertheless, the near-term inflation profile is expected to be considerably higher, as the direct and indirect impacts of energy costs flow through to a wide range of prices.

This divergence between short-term inflation and medium-term capacity pressures is likely to be reflected most clearly in the projected path of the OCR. The Bank is expected to signal a higher endpoint for the tightening cycle, with the terminal

OCR forecast rising modestly to around 3.2%. At the same time, the near-term path is likely to shift up more noticeably, with the December 2026 projection increasing to around 2.8%. Such a move would indicate an expectation of two and perhaps three rate increases in 2026, even if the exact timing remains conditional on incoming data. The implications for the July meeting will be a particular focus, although any signal may be partly obscured by the smoothing inherent in the forecast profile. As a result, greater clarity will likely come from the qualitative commentary rather than the numerical projections alone.

The central policy debate within the Committee will be one about timing rather than direction. There is little doubt that tightening is likely to be required over the medium term given the shift in the inflation outlook. The question is whether to begin that process immediately or to wait for more conclusive evidence on inflation persistence and the depth of the growth slowdown. Those favouring a delay are likely to emphasise the downside risks to activity, the limited information currently available on second-round effects, and the possibility that financial conditions have already tightened sufficiently to restrain demand. They may also point to the uncertainty surrounding the duration of the Iran war and the path of energy prices, noting that a quicker resolution could materially reduce inflation pressures.

By contrast, the case for an earlier move rests on the argument that the inflation outlook has changed so significantly that policy should begin adjusting sooner rather than later. Proponents of this view are likely to emphasise the risks to inflation expectations, particularly given the persistence of above-target inflation in recent years. Survey measures suggest that businesses are facing broad cost pressures and are increasingly inclined to raise prices, while households appear to be incorporating higher inflation into their expectations. Even if weak demand limits immediate price increases, there is a risk that pricing behaviour could become more entrenched once activity recovers. From this perspective, moving the OCR closer to neutral sooner could help contain these risks and provide greater flexibility in the future.

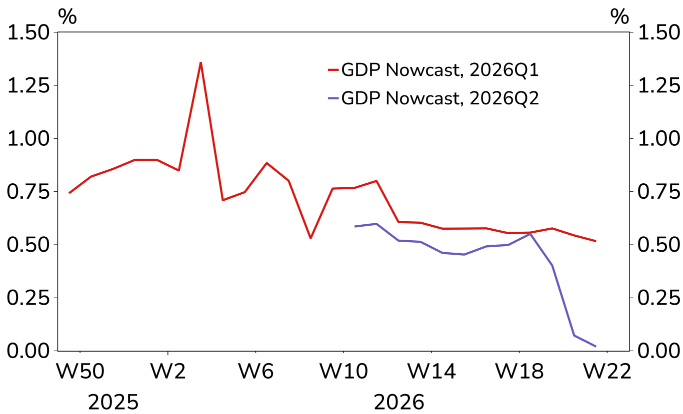
Financial considerations reinforce this argument. Real interest rates appear low in the context of rising inflation and inflation expectations and might suggest policy is too accommodative. In addition, the exchange rate has softened relative to earlier assumptions, which has likely contributed to recent inflation outcomes, and could drive more persistent inflation if New Zealand real interest rates remain too low for too long. Global central banking peers have shifted to a less accommodative outlook and either raised policy rates (Australia, Norway), shifted to a tightening bias (Canada, Euro area, Japan) or remained more neutral but with interest rates close to neutral settings (the US and UK). If NZ interest rates remain low relative to both estimates of the neutral OCR and foreign comparators the RBNZ could invite further currency depreciation and a larger inflation headache.

These considerations point to a more finely balanced decision than market pricing suggests for the May meeting, but one in which the most likely outcome is still to hold the OCR steady while clearly signalling that increases are coming. An unchanged rate combined with a higher projected path would effectively communicate that policy is on a tightening trajectory, even if the starting point is deferred.

Alternative outcomes remain very plausible. A more dovish scenario would involve little change in the Bank's language and only a modest adjustment to the OCR track, implicitly pushing out the timing of the first hike. A more hawkish outcome would see an immediate increase in the OCR and a stronger signal of follow-on moves, consistent with a desire to return to neutral more quickly.

The bottom line though is that the RBNZ's output gap focused framework, the absence of hard data on second-round inflation impacts, and the likely reliance on assumptions that will imply a significant fall in energy prices over the next year means we expect the OCR to remain unchanged next Wednesday. Unless they change their minds! I would support a tightening in May as with the benefit of hindsight the OCR probably shouldn't have been cut below 3% in the second half of 2025.

RBNZ Real GDP Nowcast



Source: RBNZ, Macrobond, Westpac Economics

Past performance is not a reliable indicator of future performance. The forecasts given above are predictive in character. Whilst every effort has been taken to ensure that the assumptions on which the forecasts are based are reasonable, the forecasts may be affected by incorrect assumptions or by known or unknown risks and uncertainties. The results ultimately achieved may differ substantially from these forecasts.

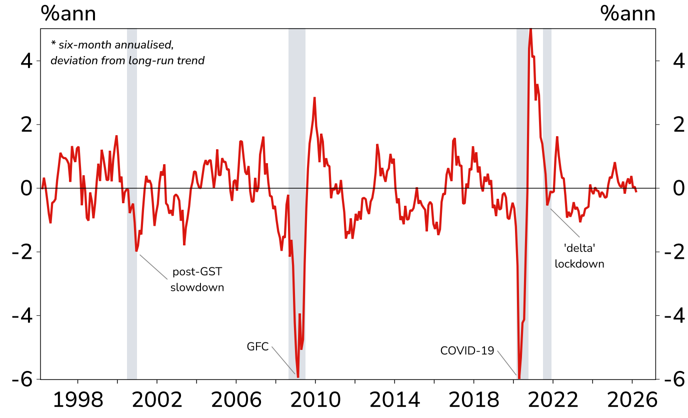
AUS: Apr Westpac-MI Leading Index (%6mth ann'd)

May 27, Last: –0.13

The Leading Index growth rate declined to –0.13% in March. While the growth pulse was not overly weak, March was the first below-trend read since August last year and, prior to that, since the extended period of weakness during the 'cost-of-living' crisis of 2022–2024. The economy lost momentum over the first few months of the year with more weakness likely to emerge through the middle of the year.

Component-wise, the Apr read will include partial rebounds in equity markets (the S&P/ASX200 up 2.2% vs –7.8% last month) and consumer sentiment (Westpac-MI Consumer Expectations Index up 2.3% vs –10.4% last month) and a solid gain in total hours worked (+0.8%) but some softening in commodity prices (down –0.8% in AUD terms), a further narrowing in the yield spread and a pull-back in dwelling approvals which rose sharply last month.

Westpac-MI Leading Index



Source: Westpac-MI, Macrobond

AUS: Apr Monthly CPI (%yr)

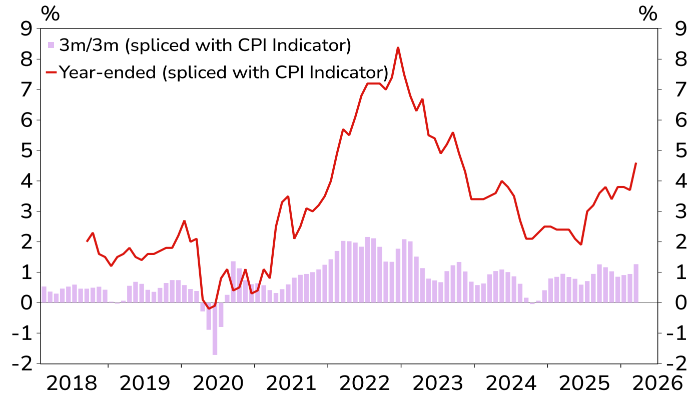
May 27, Last: 4.6, Westpac f/c: 4.8
Mkt f/c: 4.4, Range: 3.9 to 4.8

While March showed limited spillovers from the Middle East conflict beyond fuel, early signs of broader cost pass-through mean April will be key in assessing whether inflation pressures are widening.

Headline CPI is expected to rise 0.9%mth in April, lifting annual inflation to 4.8%yr. The increase is driven by holiday travel and clothing & footwear, partly offset by a decline in transport costs due to the fuel excise halving and free public transport in some states.

The monthly trimmed mean is forecast at 0.4%mth, taking the annual pace to 3.5%yr. For the full preview, see here.

Monthly CPI inflation (s.a.)



Source: ABS, Macrobond, Westpac Economics

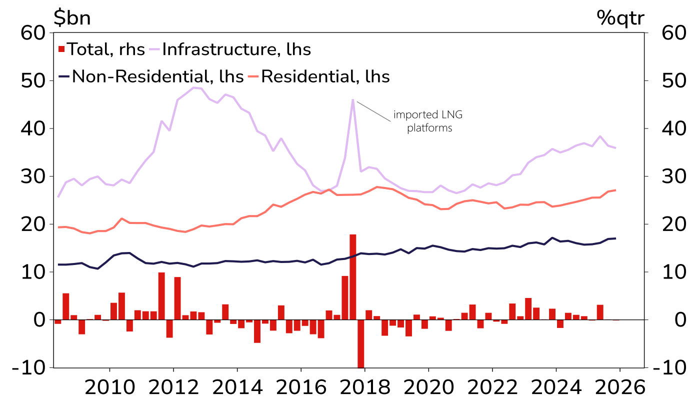
AUS: Q1 Construction Work Done (%qtr)

May 27, Last: –0.1, Westpac f/c: 1.0
Mkt f/c: 10.8, Range: 0.0 to 2.0

Construction activity declined 0.1% in Q4, though remained 3.0% higher over the year. As expected, the weakness in the headline number was driven by declines in public infrastructure work, reflecting the completion of major transport and electricity projects. This was partly offset by solid private sector activity, with private residential construction up 7.7%yr and new commercial building surging 12.5%yr.

We expect a similar dynamic in Q1 2026. Public infrastructure work is likely to stabilise after falling in three of the past four quarters. Private activity should remain firm, supported by residential construction, commercial projects and energy infrastructure. A lift in commencements for data centres and short-term accommodation suggests activity is likely to be concentrated in these areas in the near term.

Public works to stabilise, private stays firm



Source: ABS, Macrobond, Westpac Economics

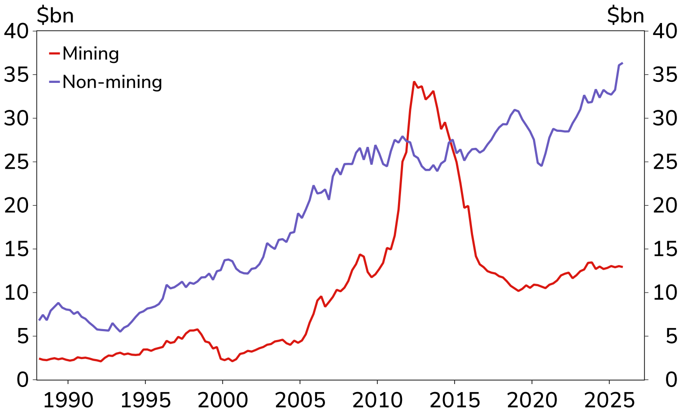
AUS: Q1 Private CAPEX (%qtr)

May 28, Last: 0.4, Westpac f/c: 4.0
Mkt f/c: 1.0, Range: 0.0 to 4.0

Private capex grew by a modest 0.4%qtr in Q4 2025, with weakness in data centre-related equipment weighing on the headline. We expect capex growth to accelerate in Q1 as data centre construction and fit-outs progress. Supporting this, data centre-related equipment imports surged 300% in March, while non-residential commercial building approvals and commencements remain elevated. This backdrop echoes Q3 2025, when capex grew 6.4%qtr. With data centres set to dominate, we expect real capex growth of 4.0%qtr in Q1 2026.

Est 5 for 2025/26 capex plans, after our adjustment, is consistent with robust 9.0%yr nominal and 7.01%yr real growth. With the capex survey in the field amid the Middle East conflict, we see material downside risk to our expectation for Est 6 unadjusted plans of $204bn.

Data-centres to re-emerge as a key driver



Source: ABS, Macrobond, Westpac Economics

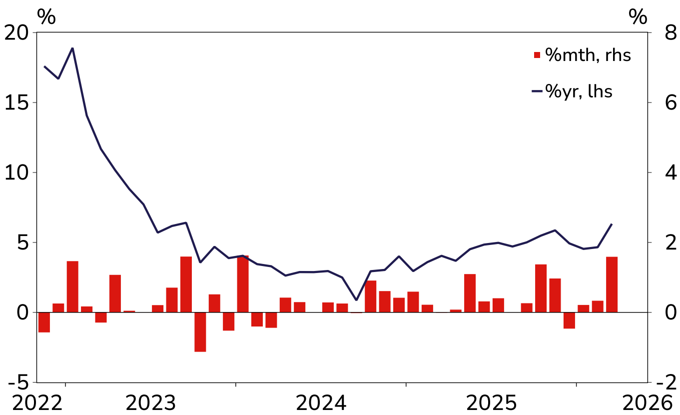
AUS: Apr Household Spending Indicator (%mth)

May 28, Last: 1.6, Westpac f/c: –1.0
Mkt f/c: –0.4, Range: –1.4 to 0.3

The Household Spending Indicator rose 1.6%mth in March, the strongest monthly gain since January 2024 lifting annual growth to 6.3%yr. The main driver was a spike in fuel spend, the wider transport category posting a strong 5.1% rise in the gain. Excluding transport, household spending increased a more moderate 0.9%mth.

April is expected to show a partial retracement with a 1% decline overall. Fuel is again the prime mover with the temporary halving in fuel excise tax and waiving of GST reducing fuel prices sharply in April. Our **Westpac-DataX Card Tracker** showed a clear pull back with some softening in discretionary spend late in the month. On balance we expect the ABS measure, which also draws on vehicle sales data, to show a 1% decline in the month.

Monthly household spending indicator



Source: ABS, Macrobond, Westpac Economics

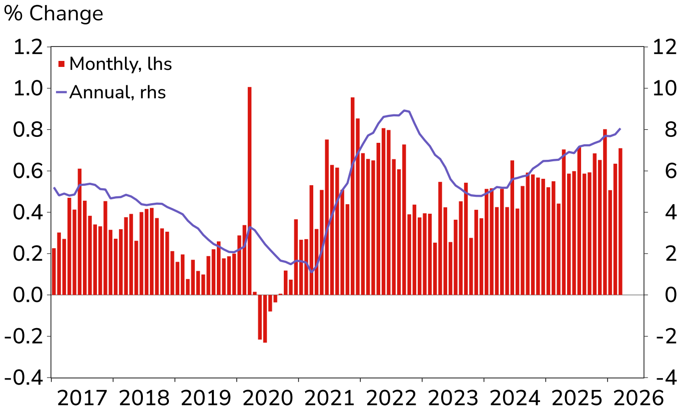
AUS: Apr Private Sector Credit (%mth)

May 29, Last: 0.7 Westpac f/c: 0.6
Mkt f/c: 0.6, Range: 0.5 to 0.7

Private sector credit growth surprised to the upside in March, rising to 0.7%mth, with all major components – housing, personal and business credit – showing strength on a month-on-month basis.

We expect headline credit growth to tick only slightly lower in April, to 0.6%mth. New housing finance approvals declined in Q1, while consumer and business sentiment took a notable hit in recent months from the energy price shock driven by the war in the Middle East. Given the usual lags, it will take time for these changes to feed through to credit growth. And given that credit growth has so far been very resilient to changes in the interest rate outlook and to RBA cash rate hikes, we do not expect an abrupt slowing in credit growth this time. However, we will be looking for signs across all major components that sentiment is beginning to shift.

Private Sector Credit Growth



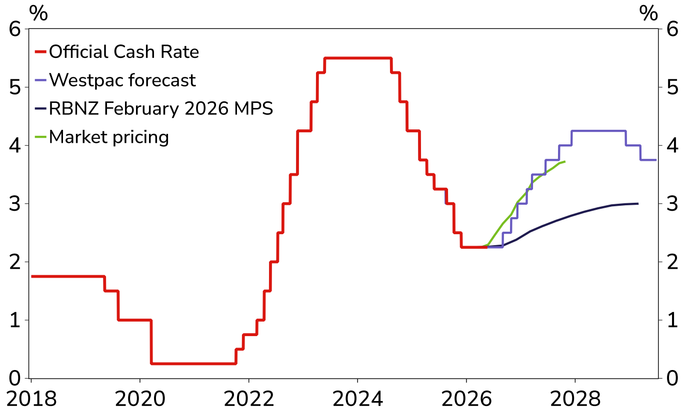
Source: RBA, Macrobond, Westpac Economics

NZ: RBNZ May Monetary Policy Statement (%)

May 27, Last: 2.25, Westpac f/c: 2.25
Market f/c: 2.25, Range: 2.25 to 2.25

We expect the RBNZ to leave the OCR at 2.25% at their May review, amid a challenging economic environment marked by rising inflation and weakening growth. Despite the challenges presented by the Middle East conflict, the RBNZ will acknowledge that there is a looming need to start removing monetary stimulus. Indeed, we think that some MPC members may see a strong case for starting that process as early as this month. Therefore, a vote is likely to be required to reach a decision at this meeting. For more details see our MPS preview bulletin.

RBNZ Official Cash Rate



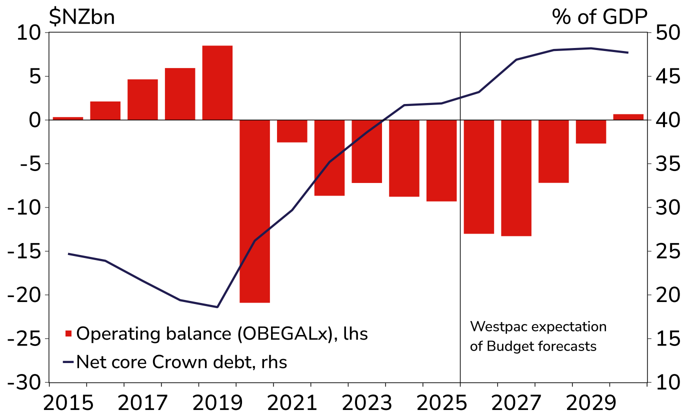
Source: RBNZ, Macrobond, Westpac Economics

NZ: Budget 2026

May 28

Budget 2026 will be set against the background of the Middle East conflict. Whereas a favourable revision to the fiscal outlook had seemed likely prior to the conflict, the Government now faces the prospect of higher welfare spending and debt financing costs and a weaker near-term outlook for tax revenue. So while the Government has reduced the operating allowance for new discretionary spending at this Budget, we expect that the Treasury will forecast a $7-9bn increase in the four-year borrowing requirement. We still expect the Treasury to forecast an OBEGALx surplus in 2029/30, with a rebound in the economy likely to be forecast once the conflict is assumed to end. For more details see our Budget preview bulletin.

Operating balance & net core Crown debt



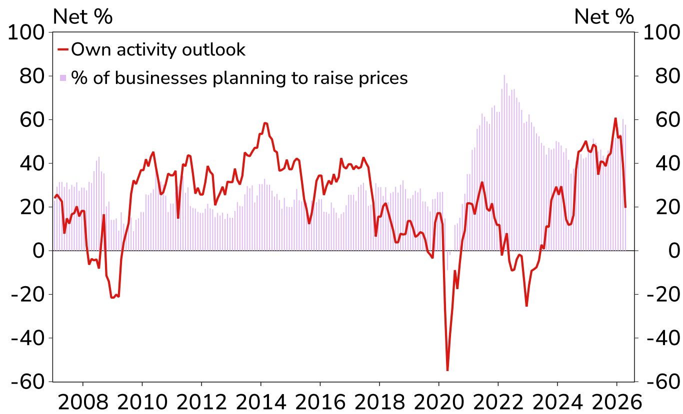
Source: NZ Treasury, Macrobond, Westpac Economics

NZ: May ANZ Business Confidence (index)

May 29, Last: -10.6

Business confidence took the full brunt of the Middle East conflict in the April survey, with general sentiment turning net negative for the first time since mid-2023. Measures of firms' own activity saw less dramatic moves, but were still down significantly from pre-war levels. We'd expect a modest rebound in confidence in the May survey, with hostilities cooling since the early April ceasefire and fuel prices having eased from their highs. The greater focus is likely to be on the inflation measures though, with the RBNZ watching for any second-round effects on pricing intentions and wage growth.

Business confidence down sharply since Iran war



Source: ANZ, Macrobond, Westpac Economics

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What to watch

	For	Data/Event	Unit	Last	Market f/c	Westpac f/c	Risk/Comment
Mon 25							
Tue 26							
US	Mar	FHFA House Prices	%mth	0.0	0.1	–	Price momentum should keep cooling as affordability…
	Mar	S&P/Cs Home Price Index	%mth	–0.05	0.1	–	.. and listings improve slightly.
	Apr	Chicago Fed Activity Index	%mth	–0.2	–	–	Tariff and energy shock add risk to the economy.
	May	CB Consumer Confidence	index	92.8	91.5	–	Job security signals remain the key swing factor.
	May	Dallas Fed Manufacturing Index	index	–2.3	–	–	Headwinds ahead with geopolitical shocks.
Wed 27							
Aus		RBA Speak	–	–	–	–	RBA MPB member Carolyn Hewson scheduled to speak.
	Apr	Monthly CPI Indicator	%ann	4.6	4.4	4.8	Keenly watched for any signs of broader pass-through.
	Q1	Construction Work Done	%qtr	–0.1	0.8	1.0	Public construction to stabilise; data centre activity strong.
NZ		RBNZ Policy Decision	%	2.25	2.25	2.25	Decision likely to be close-run - we expect a split vote.
Chn	Apr	Industrial Profits	%ann	15.8	–	–	Margin pressure from weak pricing power and excess capacity.
US	May	Richmond Fed Manufacturing Index	index	3.0	–	–	Orders may soften under trade uncertainty.
Thu 28							
Aus	Q1	Private New Capital Expenditure	%qtr	0.4	1.0	4.0	Growth to pick-up from data centre construction and fit-outs.
	Apr	Household Spending Indicator	%mth	1.6	–0.4	–1.0	Temporary halving in fuel excise will dent spending.
NZ	Apr	Monthly Employment Indicator	%mth	0.3	–	0.2	Jobs market was picking up prior to the Iran conflict.
		Budget 2026	–	–	–	–	Fiscal strategy unchanged, but more debt near term.
Eur	May	Economic Confidence	index	93.0	92.3	–	Confidence is likely to hinge on energy costs and external…
	May	Consumer Confidence	index	–19.0	–	–	…demand with consumers feeling the squeeze on real income.
US	Apr	Personal Income	%mth	0.6	0.4	–	Income growth will be key for consumption resilience…
	Apr	Personal Spending	%mth	0.9	0.5	–	… discretionary categories may fade first if confidence dips
	Apr	PCE Deflator	%mth	0.7	0.5	–	On the look out for stickiness in goods and services amid…
	Apr	Core PCE Deflator	%mth	0.3	0.3	–	… tariff-related cost pass-through.
		Initial Jobless Claims	000s	209	213	–	Still consistent with a stable labour market.
	Q1	GDP	%ann'd	2.0	2.1	–	Second estimate.
	Apr	New Home Sales	%mth	7.4	–3.9	–	Builder activity offsets resale supply constraints
Fri 29							
Aus	Apr	Private Sector Credit	%mth	0.7	0.6	0.6	So far resilient to changes in interest rates and expectations.
NZ	May	ANZ Consumer Confidence	index	80.3	–	–	Confidence down sharply in April on Iran conflict, though…
	May	ANZ Business Confidence	index	–10.6	–	–	…fuel prices have edged off their highs since the ceasefire.
Jpn	May	Tokyo CPI	%ann	1.5	1.6	–	Energy prices to take over from easing food prices.
	Apr	Jobless Rate	%	2.7	2.7	–	Labour market remains structurally tight.
	Apr	Industrial Production	%mth	–0.4	–0.6	–	Continued strength in AI-related tech will support growth.
US	Apr	Wholesale Inventories	%mth	1.3	–	–	Inventory dynamics will signal whether demand is slowing.
	May	Chicago PMI	index	49.2	51.2	–	Prices are a key watchpoint for cost pressures.

Economic & financial forecasts

Interest rate forecasts

Australia	Latest (22 May)	Jun–26	Sep–26	Dec–26	Mar–27	Jun–27	Sep–27	Dec–27	Mar–28	Jun–28
Cash	4.35	4.35	4.85	4.85	4.85	4.85	4.85	4.85	4.60	4.35
90 Day BBSW	4.43	4.55	4.90	4.90	4.95	4.95	4.95	4.80	4.55	4.30
3 Year Swap	4.55	4.75	4.75	4.70	4.65	4.60	4.50	4.40	4.30	4.20
3 Year Bond	4.54	4.75	4.75	4.70	4.65	4.60	4.50	4.40	4.30	4.20
10 Year Bond	4.93	5.00	5.05	5.05	5.05	5.05	5.00	4.95	4.90	4.90
10 Year Spread to US (bps)	36	65	65	60	55	50	40	30	20	15
United States										
Fed Funds	3.625	3.625	3.625	3.625	3.625	3.625	3.625	3.625	3.625	3.625
US 10 Year Bond	4.57	4.35	4.40	4.45	4.50	4.55	4.60	4.65	4.70	4.75
New Zealand										
Cash	2.25	2.25	2.50	3.00	3.50	3.75	4.00	4.25	4.25	4.25
90 Day Bill	2.63	2.50	2.95	3.40	3.75	4.00	4.25	4.45	4.45	4.45
2 Year Swap	3.57	3.75	4.05	4.30	4.40	4.40	4.40	4.35	4.30	4.25
10 Year Bond	4.69	4.85	4.95	5.00	5.05	5.10	5.10	5.10	5.10	5.10
10 Year Spread to US (bps)	12	50	55	55	55	55	50	45	40	35

Exchange rate forecasts

	Latest (22 May)	Jun–26	Sep–26	Dec–26	Mar–27	Jun–27	Sep–27	Dec–27	Mar–28	Jun–28
AUD/USD	0.7144	0.72	0.72	0.73	0.73	0.74	0.74	0.74	0.73	0.73
NZD/USD	0.5876	0.59	0.59	0.62	0.64	0.66	0.67	0.67	0.67	0.67
USD/JPY	159.08	157	156	154	152	150	148	146	144	142
EUR/USD	1.1616	1.18	1.18	1.19	1.20	1.21	1.22	1.22	1.22	1.22
GBP/USD	1.3430	1.35	1.36	1.37	1.38	1.39	1.40	1.41	1.41	1.41
USD/CNY	6.7987	6.80	6.75	6.70	6.60	6.50	6.45	6.40	6.35	6.35
AUD/NZD	1.2159	1.22	1.22	1.18	1.14	1.12	1.11	1.10	1.10	1.10

Australian economic forecasts

	2025		2026				2027		Calendar years			
% change	**Q3**	**Q4**	**Q1f**	**Q2f**	**Q3f**	**Q4f**	**Q1f**	**Q2f**	**2025**	**2026f**	**2027f**	**2028f**
GDP %qtr	0.5	0.8	0.5	0.2	0.1	0.2	0.3	0.4	–	–	–	–
%yr end	2.1	2.6	2.6	1.9	1.6	1.0	0.9	1.1	2.6	1.0	1.6	2.8
Unemployment rate % *	4.3	4.3	4.2	4.4	4.6	4.9	5.0	4.9	4.3	4.9	4.9	4.5
Wages (WPI) (sa) %qtr	0.8	0.8	0.8	0.8	0.8	0.8	0.7	0.8	–	–	–	–
%yr end	3.3	3.4	3.3	3.2	3.2	3.2	3.2	3.2	3.4	3.2	3.0	3.4
Headline CPI %qtr	1.3	0.6	1.4	1.5	1.4	0.5	0.6	0.6	–	–	–	–
%yr end	3.2	3.6	4.1	4.9	5.0	4.9	4.1	3.2	3.6	4.9	2.5	2.2
Trimmed Mean CPI %qtr	1.0	0.9	0.8	1.1	1.1	1.0	0.8	0.7	–	–	–	–
%yr end	3.0	3.4	3.5	3.9	4.0	4.0	4.0	3.6	3.4	4.0	3.0	2.4

* Quarter–average.

New Zealand economic forecasts

	2025		2026				2027		Calendar years			
% Change	**Q3**	**Q4**	**Q1f**	**Q2f**	**Q3f**	**Q4f**	**Q1f**	**Q2f**	**2025**	**2026f**	**2027f**	**2028f**
GDP %qtr	0.9	0.2	0.8	–0.3	0.4	0.6	1.1	0.6	–	–	–	–
Annual avg change	–0.6	0.2	0.6	1.2	1.3	1.3	1.6	1.8	0.2	1.3	2.7	3.4
Unemployment rate %	5.3	5.4	5.3	5.4	5.5	5.6	5.5	5.3	5.4	5.6	4.9	4.4
CPI %qtr	1.0	0.6	0.9	1.8	1.2	0.4	0.5	0.0	–	–	–	–
Annual change	3.0	3.1	3.1	4.4	4.5	4.4	4.0	2.1	3.1	4.4	1.6	2.1

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