



Week beginning 1 June 2026

# AUSTRALIA & NEW ZEALAND WEEKLY

Analysis and forecasts for this week's key releases.

## In this week's edition:

**Economic Insight:** Peering below the surface.

**The Week That Was:** AI goes from strength to strength.

**Focus on New Zealand:** RBNZ creeping towards hikes.

## For the week ahead:

**Australia:** RBA's Bullock and Hauser, Q1 national accounts, house prices and approvals, goods trade.

**New Zealand:** Building consents, building work, terms of trade.

**China:** RatingDog PMIs.

**Euro area:** HICP inflation, producer prices, retails sales, final Q1 GDP estimate.

**United States:** May labour market report, factory orders, ISM PMIs, job openings.

Information contained in this report current as at 29 May 2026.

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.

# Peering below the surface



**Luci Ellis**  
Chief Economist, Westpac Group

- **Headline data can sometimes mislead. One needs to delve into the detail to get the full story. Headline inflation was softer than expected in April, but underlying trends told a different story. Likewise, employment growth was weak in the month, but this was mostly seasonal and hours worked told a different story. Productivity growth is also likely to have been weak in Q1; again, business investment data give reason not to despair about the trend.**
- **The RBA has the knowledge and resources to delve into the detail and not be misled by the surface figures. It is clearly concerned about the possibility that the energy price shock will pass through to other prices at scale, keeping inflation high. New detailed datasets have become available that allow its staff to quantify some important relationships more accurately.**
- **The economy is a complicated thing, though, and it is possible that the RBA's analysis of the outlook is missing some important trends and relationships. Structural change is especially hard to grapple with. Shifts in labour market trends and the consequences of the data centre boom might be being misunderstood, though hopefully not for long.**

Recent data have tended to tell a different story than the headline figures would suggest. Headline inflation was [soft in April](#), but underlying measures were still too high and, if anything, still drifting up. Employment was even weaker than seasonal patterns implied in the month, but the [hours worked data told the opposite story](#). And productivity growth is likely to be reported to have been weak in the March quarter, but this is partly because much data centre investment is in the build phase, and will only add to GDP and productivity later.

These contrasts are all examples of why one can be misled by focusing on a few headline figures. Accurately assessing the state of the economy requires a considered view of the whole picture. There is no substitute for delving into all the data detail.

In doing so, one must also guard against seizing on the data detail that fits your preferred narrative. For example, we remain concerned that pass-through of fuel prices to the prices of other goods and services will be extensive, and we are seeing some evidence of pass-through in homebuilding costs and hospitality already in the April CPI. It is nonetheless also true that pass-through has so far been a bit less than we feared.

The RBA understands the subtleties of Australia's economic data and has the resources to look below the surface properly.

It will not jump to rash conclusions based on headline numbers. It will, however, want to [take a pause](#) to assess how dominant and lasting these below-the-surface trends will be.

To the extent that we can glean anything from the RBA's latest communications, it is that – like us – they are worried about second-stage pass-through of energy costs. [Recent research](#), which was [presented](#) to the May meeting of the Monetary Policy Board and discussed in a [subsequent speech](#) by the RBA's chief economist, highlights that pass-through is larger and faster following a large shock than after a small one.

**“Topline data, on their own, can mislead.”**

This is not exactly a new result. The RBA has known that the “Phillips curve” relationship between inflation and labour market slack is nonlinear for about [three decades](#). Their main whole-economy model [incorporates this nonlinearity](#), though it does not seem to be in the model used in the speech to highlight the different behaviour of inflation that it implies. And the linkage of this nonlinear relationship to the size of the shock is an implication of so-called “menu cost” models that has been known to other central banks for [at least 20 years](#), both in theory and in [other countries' data](#), though this link wasn't recognised when the original RBA nonlinearity paper was published.

Quantifying this effect accurately arguably had to wait until the dataset used in the recent research paper became available. The 1990s-era empirical result means it is nonetheless unlikely that the RBA's existing forecasting framework would have entirely missed faster pass-through of larger supply shocks, even if the theory behind it was not fully recognised at the time. But the recent communication does speak to the balance of risks that the RBA perceives.

It is possible, though, that the RBA's current analysis misses some other trends under the surface.

As highlighted by Westpac Economics colleague Ryan Wells' [note yesterday](#), as best as we can tell, official family forecasters' views about the outlook for labour supply have diverged. Commonwealth Treasury shares our view that the underlying trend in the participation rate is up. This is a departure from its longstanding assumption that population ageing shrinks the workforce. As we have been highlighting [for a while](#), the opposite is true in Australia and most other advanced economies.

By contrast, the RBA's forecast is for a flat participation rate this year and a decline next year as job opportunities diminish. The labour demand effect is assumed to dominate.

To be fair, Assistant Governor Hunter's speech did acknowledge that extra labour supply is a possible response to cost-of-living pressures, citing a recent [IMF working paper](#) that used Australian data to show this. But they acknowledge it only as a risk, not as their base case. It is also a cyclical factor, not the underlying trend discussed above. Past RBA communication has acknowledged this upward trend, but the [latest Statement on Monetary Policy](#) did not mention it. As Ryan commented in his note, the labour demand effect will have to work hard to offset this trend and generate the decline the RBA assumes.

(As an aside, I find it interesting that this paper was released as an IMF Working Paper and not an RBA Research Discussion Paper. Yes, three of the authors are from the IMF, but one is the deputy head of the RBA's Economic Research department and likely the only one authorised to access the detailed tax and Census linked dataset directly. Likewise, it is interesting that the speech cited the paper in the context of cost-of-living pressures, not the – admittedly small at a macro level – positive labour supply response to *monetary policy* that the paper focused on.)

It is also possible that the RBA's forecasting framework has not fully absorbed the implications of the build phase of the AI boom. Capex data released recently shows a [huge contribution](#) from data centres and IT investment more broadly – bigger than even our top-of-market expectation. Business investment will be strong, but as Westpac Economics colleague Pat Bustamante [points out today](#), the imported component is very large, especially in the fit-out stage. A fixed view of potential growth in supply capacity will interpret this growth as adding to capacity pressures, even though it is literally building capacity. And like the mining investment boom, the build phase actually drags on measured productivity, as workers labour to build capital stock that is not yet producing anything.

Will a weak outcome for measured labour productivity in Q1 nudge the RBA to become even gloomier about ongoing productivity trends, even though it is likely a temporary lag?

Let's hope the team at the RBA remember to look below the surface.

### Forecast changes

- Following the April monthly CPI release, we have revised the near-term profile for inflation lower. CPI inflation is now expected to reach 4.8%yr in Q2 (-0.1ppt) and peak at 5.0%yr in Q3 (unchanged).
- Trimmed mean inflation was revised down 0.1ppt in Q2 and Q3 and is now expected to peak at 4.0%yr in Q4.
- These revisions do not change the RBA cash rate outlook, with hikes still expected in August and September.
- Following a release of partial indicators this week, our Q1 Australian GDP forecast remains unchanged at 0.5%qtr.

# Cliff Notes: AI goes from strength to strength

Elliot Clarke, Head of International Economics  
Ryan Wells, Economist

**Australia's main market event this week was the [April CPI](#) which came in slightly below consensus on a headline basis (0.4%, 4.2%yr). Volatile, policy-driven components related to travel drove the outcome – the Federal Government's temporary halving of fuel excise and some state governments offering free public transport, while cancelled flights and refunds for holiday travel provided a partial offset. These dynamics were also the main factors behind [household spending's](#) April decline.**

Trimmed mean inflation meanwhile met expectations (0.3%, 3.4%yr). Pass-through of higher fuel costs is evident in some areas – home-building costs registered its strongest monthly gain since November 2023. However, the pass-through is not unfolding as rapidly as we initially feared. While April's outcome will give the RBA space to pause and assess in June, the risk of a larger and faster pass-through in coming months is material. We believe the RBA will feel compelled to resume raising the cash rate in the second half of the year as these risks crystalise.

In the run-up to Q1 GDP next Wednesday, we also received two partial indicators for investment.

[Construction activity](#) rose 3.4% in Q1, pushing annual growth to 6.3%yr. This outsized gain was mostly driven by a large mining infrastructure installation in WA – lumpy completions like these have a much smaller impact on National Accounts estimates which are reported on an accrual basis. Activity was weak elsewhere, residential construction dipping 0.6% despite a solid project pipeline, and public infrastructure works trending lower, down –3.2%.

[Private CAPEX](#) subsequently surprised to the upside, surging 6.5% in Q1 to be up 14.6% over the year. Data centres were responsible for almost all the increase: machinery and equipment spending in the information and telecommunications sector almost tripling (+196%) in Q1 alone. It should be noted that the net impact on GDP will be limited given the high import component of the data centre build-out. The second estimate of 2026/27 CAPEX plans provided an upgrade; adjusting for inflation, real investment intentions remained resilient as the Middle East conflict began.

While these headline estimates have their caveats, the underlying detail suggests there is some modest upside risk to Q1 GDP. Our preview will be published later today on [Westpac IQ](#).

This week's offshore data provided little fresh signal and, for the market, paled in significance to perceived progress towards a truce in the Middle East. Intermediated negotiations between the US and Iran continued throughout the week

despite several US strikes on Iranian military assets in the Strait, which were perceived to be active threats to shipping and dealt with. The successful transiting of several ships was instead focused upon as evidence to an end to the conflict was near. Having tested the top of 2026's range early last week, circa US\$110 per barrel, the price of Brent crude has since fallen to around US\$94.

As we go to press, reports suggest a 60-day ceasefire has been agreed to by the US and Iran, but this time it includes a full resumption of shipping through the Strait within a month. The intent is to allow supply of energy and other goods to resume, alleviating stress on the Iranian and global economy, while negotiations continue over Tehran's nuclear program. President Trump still needs to agree to the deal, however. And, further ahead, while November's US mid-term elections will, if necessary, arguably warrant an extension of the ceasefire to year end, the complexity and significance of the nuclear negotiations could see the conflict flare again in 2027. For the foreseeable future, the price of oil and downstream margins are likely to depend not only on the current balance of physical demand and supply, but also a heightened awareness of political risk.

Of this week's US data, releases related to the consumer were most notable. The second estimate for US GDP was revised down from 2.0% annualised to 1.6%, in large part due to weaker consumption growth. At 1.4% annualised, the current consumer pulse is well below the historic trend circa 2.5% and looks to be entrenched – real personal consumption up just 0.1% in April as wage growth failed to keep pace with inflation (0.2%). Housing is also clearly under pressure, S&P Cotality house prices falling for a second consecutive month (-0.2%, +0.8%yr), and new home sales down 6.2% in April after March's gain was halved from 7.4% to 3.4%.

FOMC members prioritising inflation risks is notable given the subdued pulse for housing demand. While market participants have been debating the probability of a fed funds rate hike(s) over the coming year, for activity it is the implications for the long end of the yield curve that matter most. The FOMC may find they do not need to hike, as we currently forecast, because inflation risks and fiscal uncertainty result in a modest uptrend in the US 10-year yield. Since mid-April, the US 10-year has risen as much as 40bps to 4.67% because of these factors. Now at 4.44%, we see it rising to 4.75% by mid-2028.

# RBNZ creeping towards hikes



**Satish Ranchhod**  
Senior Economist

It was a big week for policy announcements in the New Zealand economy. On the monetary policy front, the RBNZ kept the OCR on hold at its latest policy meeting, but signalled rate hikes over the coming months. We continue to expect the first hike in September, but a July start could be on the cards depending on the evolution of data. In terms of fiscal policy, the latest Budget included only modest spending increases as the Government tries to ensure its financial position remains on a sustainable path.

## Monetary policy tightrope

As expected, [the RBNZ held the OCR at 2.25% at its May policy meeting](#), but it was a close decision. The RBNZ is weighing up how to respond to the complex combination of a sharp oil-related lift in inflation with related downside risks for economic activity. It's not a simple trade-off, and there are genuine uncertainties about how the longer-term inflation outlook will shape up.

Highlighting just how tight that balancing act is, this month's decision went to a vote with members of the RBNZ's Monetary Policy Committee split down the middle. The three external members of the Committee all voted for a hike, noting that earlier interest rate increases could limit the upside risk for inflation expectations and potentially limit the extent that rates need to rise over the longer term.

In contrast, all three internal members of the Committee including the Governor voted for a hold. These members highlighted uncertainty around how the inflation outlook was shaping up given the downside risks for activity, along with related questions about the pass through to longer-term wage and price setting behaviour.

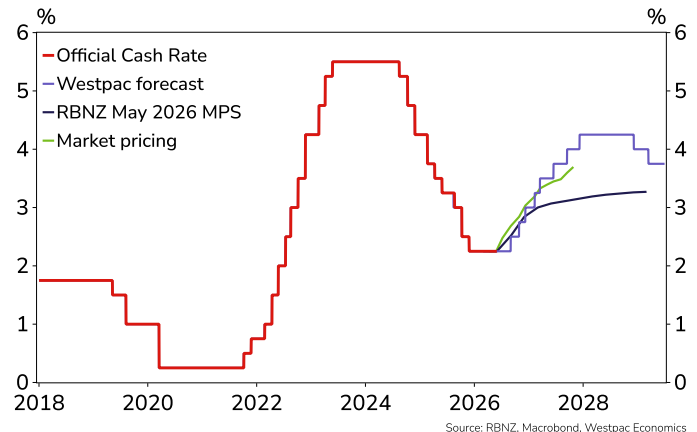
In such circumstances, the Governor has the tie-breaking vote, and that saw the OCR left on hold in May.

But while the OCR was left on hold at the latest meeting, all Committee members agreed that it will likely need to rise over the coming months. That was reflected in the updated OCR profile, with the end of 2026 projection revised up to 2.84% (from 2.38% in the February projections). That's broadly consistent with three rate hikes by the end of this year. The RBNZ also signalled the chance of further rate hikes next year.

The big question is when OCR increases are likely to begin. We continue to expect 25bp rate hikes in September, October and December. However, an earlier start to the hiking cycle in July is a real possibility, with financial markets pricing in a roughly 80% chance of a hike at that time.

Comments from those MPC members who voted for a hold in May have highlighted that the timing of interest rate hikes will be highly dependent on economic conditions over the coming weeks. The RBNZ will be watching economic data closely for signs of pressure on wages and inflation expectations. On this front, the latest confidence surveys for May (released after the RBNZ's meeting) showed modest increases in both household and business confidence after they fell sharply in recent months. At the same time, gauges of inflation expectations and pricing intentions have moderated, but remain at firm levels. Gauges of expected wage growth have also dropped back, and they remain subdued.

## RBNZ Official Cash Rate



Looking to the next few weeks, there will be further updates on confidence and some activity updates, like card spending. However, we won't get meaningful information on inflation and inflation expectations, GDP or wages until just before the September meeting.

To help fill the data void, the RBNZ is also making use of feedback from businesses. Our own talks with businesses in recent weeks have highlighted widespread cost pressures. However, conditions are mixed across the economy. Rural-linked regions and industries are outperforming. In contrast, businesses chasing the discretionary dollar are doing it tough, and that's limiting their pricing power. On the labour front, slack in the jobs market continues to provide a brake on wage growth even as cost of living pressures mount.

The other key factor is the progress of the war and oil prices. This is a fluid situation, and the RBNZ has noted that even when the geopolitical situation improves, any easing in oil and

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inflation could be gradual. Nonetheless, developments on this front could be an important consideration on both sides of the debate. We certainly see the risk of a protracted disruption stemming from the conflict.

A further consideration is the potential appointment of a new MPC member, expected in June. The successful candidate may come from outside the RBNZ but will become an internal MPC staff member.

Putting this all together, there's a clear case for the OCR to rise over the coming months. Inflation is set to rise to well over 4% this year. That follows an extended period when prices have been rising rapidly. As a result, there is a clear risk of a damaging creep higher in inflation expectations which could extend the inflation shock.

However, it's not clear that evidence of such 'second round' inflation pressures will be evident by July. Furthermore, we suspect that some of the RBNZ's concerns about the downside risks for activity will be borne out. As a result, we continue to expect rate hikes will begin in September, but it's a close call between the July and September meetings.

## Moving closer to the promised land of fiscal balance

The other big news this week was the release of [Budget 2026](#). This was a relatively austere Budget for an election year. While we did see increased spending in areas like health, transport and education, those increases were relatively modest. Looking ahead, as announced prior to the Budget, the operating allowance for new operating spending in the coming fiscal year has been set at a very tight \$2.1bn a year (albeit up from an even skinnier \$1.3bn in Budget 2025).

Given the deterioration in the near-term economic outlook, the Treasury forecasts an OBEGALx deficit of \$11.4bn (2.4% of GDP) in 2026/27, compared to the \$10.4bn deficit forecast in the HYEUFU.

Further ahead, however, a set of relatively 'tax-rich' economic forecasts and restrained spending growth drive a faster improvement in the operating balance compared to the Treasury's previous HYEUFU forecasts. Notably, the OBEGALx is projected to return to a surplus of \$2.6bn (0.5% of GDP) in 2028/29, a year earlier than in the HYEUFU projections (and a year earlier than we thought). The traditional OBEGAL measure (which doesn't exclude ACC costs) returns to surplus a year later.

The Budget forecasts of core Crown revenue are higher across every year compared to the HYEUFU, reflecting a higher level of nominal GDP and hence a larger tax base in dollar terms. These revenue forecasts were broadly in line with what we expected.

The robust nominal growth outlook means that the Treasury sees a relatively "revenue rich" outlook from 2028 onwards.

This has allowed the Government to bring forward by one year when they anticipate a OBEGALx surplus, with correspondingly lower borrowing requirements. The forecast bond programme in 2026/27 is unchanged and reduced by \$2 billion a year in 2027/28 onwards.

While the Treasury is expecting an improving outlook for the Government's books, we see a number of risks to this outlook. On expenditure, there will naturally be pressure to spend more in areas like health and aged care. Similarly, we see some downside risk to the Treasury's forecast for GDP growth, especially given the likelihood that interest rates rise faster than they have assumed.

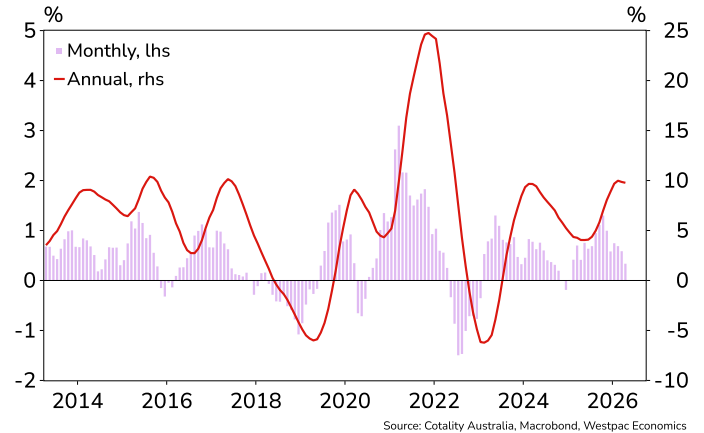
## AUS: May Cotality Home Value Index (%mth)

Jun 1, Last: 0.2, Westpac f/c: -0.1

The Cotality home value index rose 0.2% in April - the weakest monthly outcome since January 2025 - following revised gains of 0.4%*mth* in March and 0.5%*mth* in February. Annual growth eased to 9.1%*yr*.

May is expected to see a further slowdown with the daily measure pointing to a slight 0.1% dip for the month as a whole. The detail shows Sydney and Melbourne prices declining at a similar pace as in April and the relatively robust gains in Brisbane, Adelaide and Perth showing a clearer moderation. Prices are expected to see outright declines nationally in coming months as the combined impact of rising interest rates and housing-related tax policy changes announced in the Federal budget come through (see [here](#) for a more detailed discussion of the outlook).

## Cotality home value index



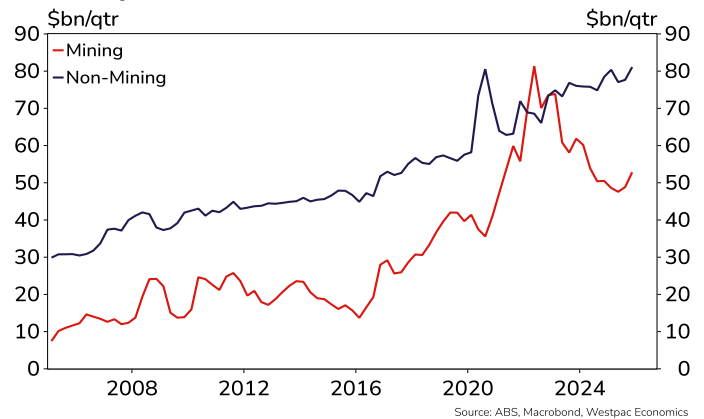
## AUS: Q1 2026 Company Profits (%qtr)

Jun 2, Last: 0.0, Westpac f/c: 0.5

Headline company gross operating profits rose 5.8%*qtr* in the December quarter 2025. The increase was broad-based, with profits rising in all but three industries. The non-mining sector recorded a 4.4%*qtr* increase in Q4 — the strongest quarterly rise outside of COVID since the December quarter 2016, while mining profits increased a solid 8.1%*qtr*, lifting year-ended growth to 4.6% — the first year-ended increase since the March quarter 2023.

Growth in company profits is expected to moderate to 0.5%*qtr* in Q1. Non-mining profit growth is expected to show some resilience in Q1 before the full impacts of the global fuel price shock hit margins in Q2. Mining profits, on the other hand, are expected to have fallen on the back of weaker export earnings. Across iron ore, coal and LNG, export earnings fell almost 6%*qtr* over Q1.

## Company profits



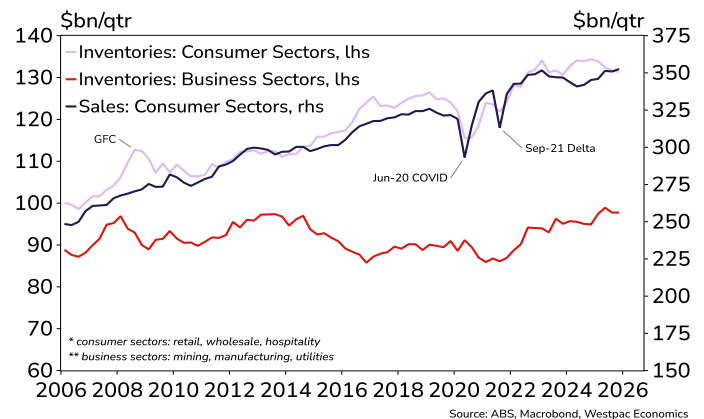
## AUS: Q1 Inventories (%qtr)

Jun 2, Last: -0.1, Westpac f/c: -0.1  
Market f/c: zero, Range: -0.2 to 0.6

Private non-farm business inventories declined by 0.1% in the December quarter 2025. The mining industry rebuilt some inventories (0.7%*qtr*), while outside of mining outcomes were mixed. Inventories were run down further in consumer-facing industries, including hospitality (-3.0%*qtr*) and retail (-0.4%*qtr*), while inventories in the utilities industry increased 3.7%*qtr*.

We expect non-farm business inventories declined 0.1%*qtr* in Q1 2026. We estimate imports of consumption goods fell over the quarter while consumption held steadier, suggesting some of this demand was met by a rundown in inventories. There is also likely to be a rundown of public inventories, including vaccinations, as we approach flu season. Overall, we expect total inventories (non-farm, farm and public) to detract around 0.1ppt from economic growth in Q1 2026.

## Inventories

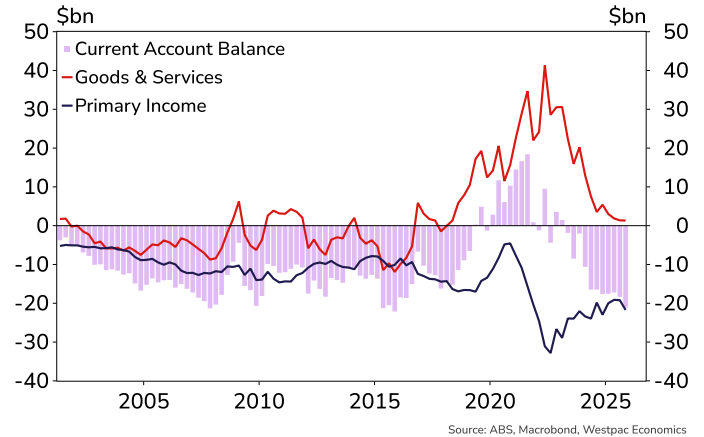


## AUS: Q1 Current Account Balance (\$bn)

**Jun 2, Last: -21.1, Westpac f/c: -24.8**  
**Market f/c: -23.5 Range: -24.8 to -19.7**

The current account deficit widened to \$21.1bn in Q4, and we expect it to increase further in Q1 to \$24.8bn, which would be a new record high. The goods trade surplus narrowed in every quarter of 2025, and we expect another decline in Q1, driven by weaker commodity export earnings and higher imports of data processing equipment. This may be partly offset by an improvement in the services trade balance, but the primary income deficit is also likely to widen, adding to the deterioration in the current account as higher interest rates in Australia lift returns on domestic assets held by foreigners.

## Current account balance

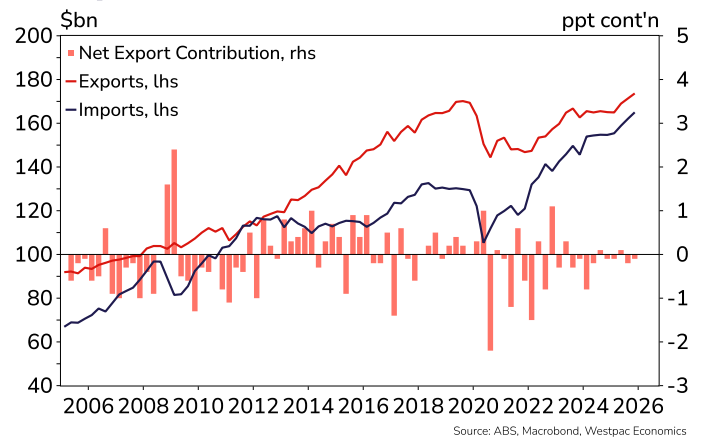


## AUS: Q1 Net Exports (ppt cont'n)

**Jun 2, Last: -0.1, Westpac f/c: -0.6**  
**Market f/c: -0.6 Range: zero to -0.9**

Net exports look to have detracted significantly from GDP growth in Q1 – we expect a negative contribution of -0.6ppt. Weak goods exports seem to be the main driver, despite expected increases in rural goods and gold exports. Iron ore and coal exports look to have fallen significantly, largely due to severe weather disruptions to mining and trade, while other goods exports also appear weak. Import volumes of ADP equipment look to have doubled, driving a very sharp increase in overall capital goods inflows. So, despite expected small decreases in the consumption and intermediate goods categories, overall goods imports look to have risen notably. Falling numbers of international student visa holders and a small decline in short-term visitor arrivals point to downside risks to services exports.

## Net exports



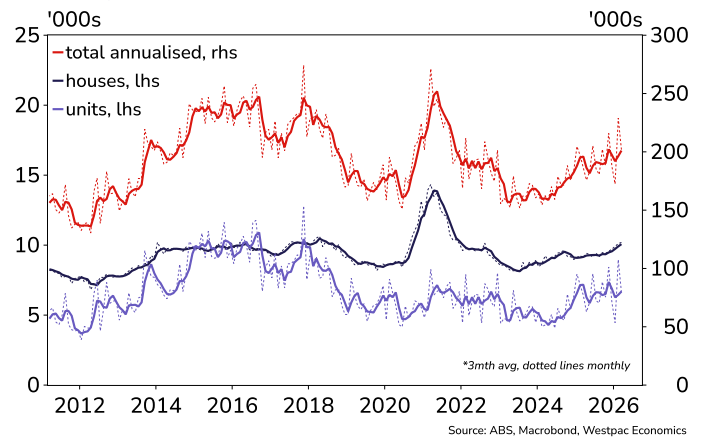
## AUS: Apr Dwelling Approvals (%mth)

**Jun 2, Last: -10.5, Westpac f/c: -1.5**  
**Market f/c: -1.5 Range: -5.0 to 5.0**

Dwelling approvals fell sharply in March, the 10.5% decline partially unwinding an even bigger 31% spike in February. The annual pace eased but at 9%yr remained in solid positive, supported by the large February gain. Volatility, as always, has centred around high rise unit approvals. Other segments have been more settled with detached house approvals showing a firm up-trend that has accelerated since late last year.

The April update is likely to still have some residual noise around high rise approvals with the February spike only partially unwound in March. The non-high rise components will be more revealing with the key question being the extent to which rate rises are starting to impact. On balance, its likely to be a little too early to see these effects. We expect April to show a small further 1.5% decline in total dwelling approvals.

## Building approvals



## AUS: Q1 GDP

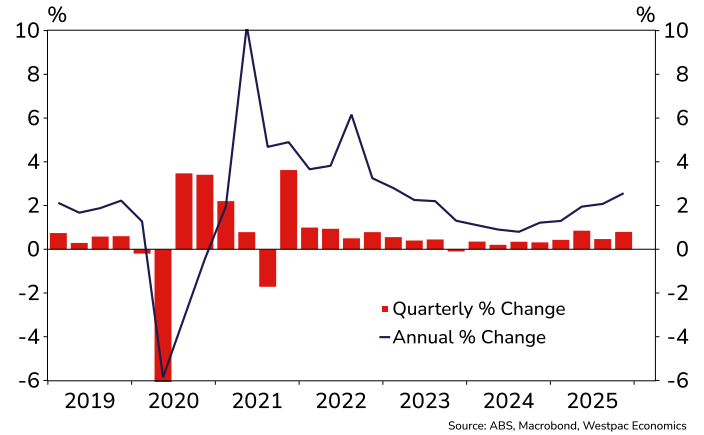
**Jun 3, Last: 0.8, Westpac f/c: 0.5**  
**Market f/c: 0.5, Range: 0.2 to 0.8**

Growth likely moderated in Q1 2026, with the economy expanding 0.5% in Q1, down from 0.8%qtr in Q4 2025. Significant headwinds from the conflict in the Middle East will only partly be reflected in this quarter's Accounts. We expect these impacts to intensify in Q2 2026, with the possibility of a quarterly contraction.

The big story in this quarter's Accounts will instead be data centres. The Private capex survey showed investment in data centres almost doubled in Q1, with expectations pointing to a further acceleration in FY2027. Some of this will be 'leaked' out via higher imports, but it will still provide a significant support to activity in the Australian economy.

For more, see our full preview [here](#).

## Q1 GDP forecast: 0.5%qtr, 2.6%yr

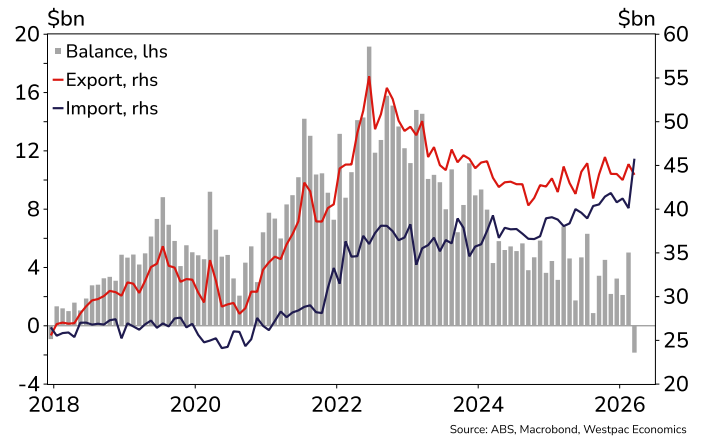


## AUS: Apr Goods Trade Balance (\$bn)

**Jun 4 Last: -1.8, Westpac f/c: 2.6**  
**Mkt f/c: 1.6, Range: -2.5 to 3.0**

In March, an unexpected 14.1%*mth* surge in imports and a 2.7%*mth* decline in exports saw the headline monthly goods trade balance record its first deficit (-\$1.8bn) since late 2017. We expect a recovery in April, with the balance returning to a surplus of \$2.6bn. Major commodity exports look to have increased notably after three consecutive monthly declines, pointing to a solid lift in export volumes. With gold prices having moved lower over the month, gold export values are likely to decline. Import flows pose the bigger question. The outlook depends largely on ADP imports linked to data-centre investment. This category effectively tripled in March, and while we expect at least some pullback in April, uncertainty around its path over the coming months and quarters is extremely high.

## Goods trade balance

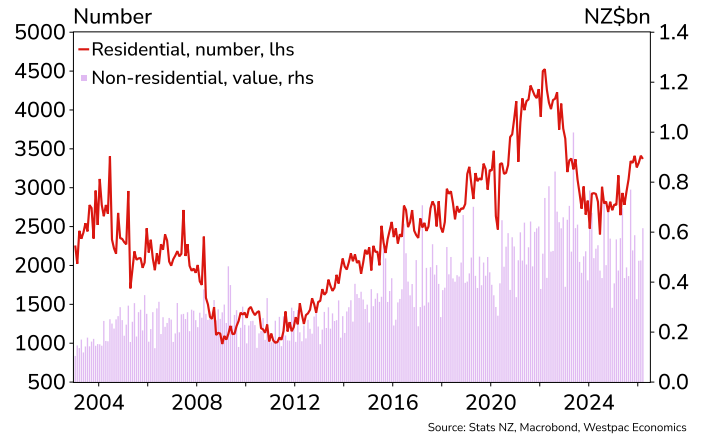


## NZ: Apr Building Consents (%*mth*)

**Jun 3, Last: -1.3, Westpac f/c: -5.0**

We're forecasting a modest 5% dip in building consents in April. That's related to an expected easing in apartment consents after they took a step higher last month (apartment consents tend to be issued in batches, and can be lumpy on a month-to-month basis). Looking at the longer-term trend, residential consent issuance has taken a step higher over the past year. That's encouraging news for the building sector. However, the softening economic outlook and increased economic uncertainty cast doubt on how long that firmness will be sustained. Those headwinds are also expected to be a drag on the amount of non-residential work that's planned.

## Building consents picking up

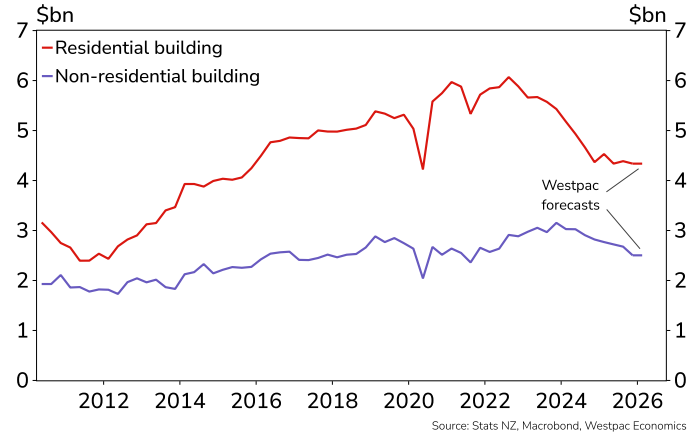


## NZ: Q1 Building Work Put in Place (%qtr)

Jun 4, Last: -3.1, Westpac f/c: 1.0

We're expecting a flattening off in building activity in the March quarter. However, trends remain mixed across sectors. Residential construction has found a base over the past year, and with an uptick in the number of new projects being consented, we expect a moderate 1.5% gain in the March quarter. There's more uncertainty around non-residential building, which has been trending lower for several years now in response to softness in economic conditions and ongoing economic uncertainty. After last quarter's sharp 5% drop, we've assumed a modest 0.5% bounce. Nevertheless, the trend remains downwards.

## Pipeline of building work continues to run down



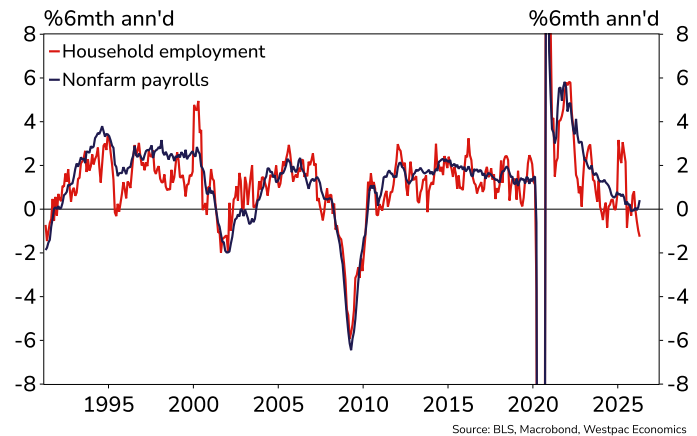
## US: May employment report

Jun 5, payrolls Last: 115k, Mkt f/c: 93k, WBC f/c: 85k  
Jun 5, U/E rate, Last: 4.3%, Mkt f/c: 4.3%, WBC f/c: 4.3%

Nonfarm payrolls rose 115k in April, keeping the 3-month average consistent with balance between labour demand and supply. The household survey kept downside risks in the picture, however, the unemployment rate unchanged at 4.3% as the participation rate edged down.

In June, another robust gain is expected for payrolls, circa 85k. In coming quarters though, labour demand is likely to diverge across sectors given weakness in consumption and housing but strength in tech-related investment and activity. Wages growth is likely to continue moderating in aggregate, limiting upside for demand-driven inflationary pressures.

## Labour demand has stalled ...



# What to watch

	For	Data/Event	Unit	Last	Market f/c	Westpac f/c	Risk/Comment
<b>Mon 01</b>							
<b>Aus</b>	May	Cotality Home Value Index	%mth	0.2	–	–0.1	The daily measure is pointing to a slight dip for the month.
	May	MI Inflation Gauge	%ann	4.3	–	–	Has seen a steady rise since late last year.
	May	ANZ–Indeed Job Ads	%mth	–0.8	–	–	Will offer insight into the state of labour demand.
<b>NZ</b>		King's Birthday	–	–	–	–	Markets closed.
<b>Chn</b>	May	RatingDog Manufacturing PMI	index	52.2	51.3	–	Posted an unexpectedly resilient result in April.
<b>Eur</b>	Apr	Unemployment Rate	%	6.2	6.2	–	Remained low and stable heading into the latest energy shock.
<b>US</b>	May	ISM Manufacturing	index	52.7	53.2	–	Strong demand set to support the index.
<b>World</b>	May	S&P Global Manufacturing PMI	index	–	–	–	Final estimate for Japan, Europe, UK and US.
<b>Tue 02</b>							
<b>Aus</b>		RBA Board Member Speech	–	–	–	–	Ian Harper speaking at CEDA, 10:30am AEST.
	Q1	Current Account Balance	\$bn	–21.1	–23.5	–24.8	Falling goods trade balance will drive an increase in deficit.
	Q1	Net Exports Contribution	ppt	–0.1	–0.6	–0.6	A surge in data processing equipment imports.
	Q1	Company Profits	%qtr	5.8	0	0.5	Mining profits expected to fall on the back of weaker exports.
	Q1	Inventories	%qtr	–0.1	0.1	–0.1	Imports and demand balance suggest a rundown.
	Apr	Dwelling Approvals	%mth	–10.5	–1.5	–1.5	Residual noise around high rise approvals.
<b>Eur</b>	May	HICP Inflation	%ann	3.0	3.3	–	Will be closely watched by the ECB as a June hike is debated.
<b>UK</b>		BoE Speak	–	–	–	–	Governor Bailey appearing before House of Lords.
<b>US</b>	Apr	JOLTS Job Openings	000s	6866	6890	–	Has seen minor falls in recent months, though remains stable.
		Fedspeak	–	–	–	–	FOMC members Kashkari and Hammack scheduled to speak.
<b>Wed 03</b>							
<b>Aus</b>	Q1	GDP	%qtr	0.8	0.5	0.5	The big story in Q1 Accounts will be data centres.
<b>NZ</b>	Q1	Terms Of Trade	index	3.7	–1.0	–3.5	Weaker dairy prices in late 2025 flowing through.
	Apr	Building Permits	%mth	–1.3	–	–5.0	Trend still firm for now, but expected to soften.
<b>Chn</b>	May	RatingDog Services PMI	index	52.6	52.2	–	Competitiveness concerns driving providers to reduce charges.
<b>Eur</b>	Apr	PPI	%ann	2.1	–	–	Saw a sharp increase post the US–Iran conflict.
<b>US</b>	Apr	Factory Orders	%mth	1.5	4.3	–	Recent strength driven by capital goods.
	May	ISM Services	index	53.6	53.7	–	Has cooled in recent months while remaining elevated.
	Jun	Federal Reserve's Beige Book	–	–	–	–	Update on economic conditions across the regions.
<b>World</b>	May	S&P Global Services PMI	index	–	–	–	Final estimate for Japan, Europe, UK and US.
<b>Thu 04</b>							
<b>Aus</b>	Apr	Goods Trade Balance	\$bn	–1.8	1.6	2.6	Return back to a surplus expected.
		RBA Governor Bullock	–	–	–	–	Senate testimony with Assist' Governor Kent, 3:00pm AEST.
<b>NZ</b>	Q1	Volume of Building Work	%qtr	–3.1	1.5	1.0	Res stabilising. Non–res weak but could see a small bounce.
	May	ANZ Commodity Prices	%mth	–0.8	–	0.5	Aluminium up strongly, other prices mixed.
<b>Eur</b>	Apr	Retail Sales	%mth	–0.1	–	–	Remains low with consumer confidence having taken a hit.
<b>US</b>		Initial Jobless Claims	000s	215	–	–	Have been relatively stable.
		Fedspeak	–	–	–	–	FOMC member Daly.
<b>Fri 05</b>							
<b>Aus</b>		RBA Deputy Governor Hauser	–	–	–	–	Fireside chat at Sky News Economic Summit, 2:35pm AEST.
<b>Jpn</b>	Apr	Household Spending	%ann	–2.9	–	–	Consumption remains weak despite continued wages growth.
<b>Eur</b>	Q1	GDP	%qtr	0.1	0.1	–	Final estimate.
<b>US</b>	May	Nonfarm Payrolls	000s	115	93	85	Growth likely to continue at a solid pace.
	May	Average Hourly Earnings	%mth	0.2	0.3	–	Inflation likely to challenge any real earning growth.
	May	Unemployment Rate	%	4.3	4.3	4.3	Has remained stable, although masked by falling participation.

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# Economic & financial forecasts

## Interest rate forecasts

	Latest (29 May)	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27	Mar-28	Jun-28
<b>Australia</b>										
Cash	4.35	4.35	4.85	4.85	4.85	4.85	4.85	4.85	4.60	4.35
90 Day BBSW	4.46	4.55	4.90	4.90	4.95	4.95	4.95	4.80	4.55	4.30
3 Year Swap	4.47	4.75	4.75	4.70	4.65	4.60	4.50	4.40	4.30	4.20
3 Year Bond	4.47	4.75	4.75	4.70	4.65	4.60	4.50	4.40	4.30	4.20
10 Year Bond	4.83	5.00	5.05	5.05	5.05	5.05	5.00	4.95	4.90	4.90
10 Year Spread to US (bps)	39	65	65	60	55	50	40	30	20	15
<b>United States</b>										
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	4.44	4.35	4.40	4.45	4.50	4.55	4.60	4.65	4.70	4.75
<b>New Zealand</b>										
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	4.71	4.85	4.95	5.00	5.05	5.10	5.10	5.10	5.10	5.10
10 Year Spread to US (bps)	27	50	55	55	55	55	50	45	40	35

## Exchange rate forecasts

	Latest (29 May)	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27	Mar-28	Jun-28
AUD/USD	0.7165	0.72	0.72	0.73	0.73	0.74	0.74	0.74	0.73	0.73
NZD/USD	0.5961	0.59	0.59	0.62	0.64	0.66	0.67	0.67	0.67	0.67
USD/JPY	159.30	157	156	154	152	150	148	146	144	142
EUR/USD	1.1642	1.18	1.18	1.19	1.20	1.21	1.22	1.22	1.22	1.22
GBP/USD	1.3440	1.35	1.36	1.37	1.38	1.39	1.40	1.41	1.41	1.41
USD/CNY	6.7705	6.80	6.75	6.70	6.60	6.50	6.45	6.40	6.35	6.35
AUD/NZD	1.2020	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	1.4	1.6	0.5	0.6	0.6	-	-	-	-
%yr end	3.2	3.6	4.1	4.8	5.0	4.9	4.2	3.4	3.6	4.9	2.6	2.2
Trimmed Mean CPI %qtr	1.0	0.9	0.8	1.0	1.1	1.0	0.8	0.7	-	-	-	-
%yr end	3.0	3.4	3.4	3.8	3.9	4.0	4.0	3.7	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	f0.2	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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