Week beginning 20 July 2026

AUSTRALIA & NEW ZEALAND WEEKLY

Analysis and forecasts for this week's key releases.

In this week's edition:

Economic Insight: AI-carus?

The Week That Was: Frayed nerves.

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For the week ahead:

Australia: Westpac-MI Leading Index, labour force survey.

New Zealand: Q2 CPI, trade balance.

Japan: CPI.

Euro Area: ECB policy decision, bank lending survey, consumer confidence.

United Kingdom: CPI, unemployment rate, retail sales, consumer sentiment, public borrowing.

United States: leading index, new home sales, regional manufacturing survey.

Global: S&P Global PMIs.

Information contained in this report current as at 17 July 2026.

AI-carus?

Luci Ellis
Chief Economist, Westpac Group

- **Is AI a bubble? The extraordinary valuations and scale of investment raise the question. Missing, though, is the speculative behaviour of buying an asset now with the intent of resale for profit later.**
- **It is natural to want to look for parallels in history. Neither the late 1990s/early 2000s 'dot com' nor the 19th century railway booms quite match the current episode. Better analogies may be found in other price cycles stemming from investment booms, spurred by structural shifts. In the rush to build for the new technology, construction costs and end-product prices rise before eventually correcting. Time-to-build and resource constraints can create price cycles even where classic speculative behaviour is absent.**
- **Non-financial goals around geopolitics or a rush to build a god-like intelligence could blind investors to commercial reality and encourage investments that do not pay off. To avoid a mad flap that takes us, Icarus-like, too close to the sun, choices must be based on cost and ROI.**

The exceptional valuations on AI-adjacent firms are matched only by the extraordinary scale of capital expenditure on data centres, both overseas and in Australia. The use of leverage and sometimes opaque financing structures twitch the antennae of those of us who have been through financial boom–bust cycles before. Naturally, people question the return on investment and whether this is a "bubble". But is it?

It helps to define terms. The usual definition of a bubble is a deviation of asset prices from "fundamental" value, but this is only as good as your model of fundamentals. The distinctive feature in episodes labelled as bubbles is speculative behaviour: investors buying an asset mainly or solely because they expect its price will rise so they can resell at a profit. (In technical terms, the current price of the asset depends on expectations of future price growth). In the extreme, the market is in "Greater Fool" territory, where investors admit that they do not think the revenue warrants the price, but believe they will find a Greater Fool to buy it later.

Property assets are one of the main areas where "bubbly" boom–bust cycles can occur, because investors can use more leverage than for other assets. The asset also does not become obsolete quickly and much of the value is in the non-depreciating land or location component.

Data centres are a kind of property, and leverage is clearly being used to finance their construction. Even so, the speculative behaviour that typically characterises property bubbles is missing: nobody is making these investments in expectation of reselling data centres to make a quick buck. It is all about the expected value of the computing services these data centres will provide. Currently the "cost of compute" seems to be on the rise as the firms building the models try to shift their customer bases away from free and flat-rate subscriptions onto higher-cost pay-by-use plans. Yet everyone knows that AI can only achieve the desired returns by expanding usage, which means it needs to be cheaper than the human labour it seeks to replace. Even if investment decisions are based on expected returns on services provided by that capital, the realism of those return expectations can and should be scrutinised.

It is natural to want to look for parallels in history.

The seemingly obvious one is the 'dot com' boom of the late 1990s/early 2000s. But while there are some similarities to that episode, there are also important differences. Back then, the tech firms building the new technology were not so financially intertwined with the telco firms buying the spectrum, laying the fibre – and borrowing the money.

There are also similarities to the railway boom of the 19th century, except that location is not as inherent to a data centre. You can train an LLM anywhere you can access the electricity, water and construction inputs. A railway, by contrast, goes from somewhere to somewhere else, and the returns to duplicating the route decline rapidly.

"Data centres do not have the same network effects or location-based natural monopoly characteristics."

Better analogies to the current AI/data centre boom can be found in other price cycles. Many boom–bust cycles start from something real and substantial. A new technology might instigate an equities boom. Opening up a new region might instigate a land boom there. The value underlying the boom remains even after the period of over-exuberance ends. We did not regret creating the Internet, or building that fibre network, or opening up regions through better transport.

What we did sometimes do, though, is pay too much for what we got. If everyone is rushing to build the infrastructure, hoping not to be the Slower Builder who ends up losing money, pressure on construction resources rises, and so do construction prices. We have seen similar cost surges during the mining boom and more recently in the cycle of infrastructure projects in the eastern seaboard states. (This is likely one reason why suppliers of construction materials were so quick to pass increased fuel and transport costs into their prices.)

Along the way, the cost of the services also rise, precisely because of the lags involved in expanding the infrastructure. There is an analogy here in things like shipping costs, which show boom–bust price cycles even though there has obviously never been a bubble in shipping services. In shipping, office property and now data centres, demand might increase but supply is fixed in the short term because it takes time to build that infrastructure. The price of the service therefore rises in the upswing phase.

This upswing phase can also spill over into related sectors, as seen this time in the broader tech sector. Export prices for Korean semiconductors have exploded in the past 6–9 months, up more than 150% over the year. Pass-through to US import prices is more muted, given lags and the usual pricing to market, but tech inflation has increased. As well as the much-publicised price increases for iPads and Macs, the CPI components covering computers and other tech goods have picked up recently in Australia and other advanced economies, to inflation rates close to the peak of the pandemic. This is a departure from their usual deflationary pulse and shows that the current inflationary environment is about more than the US–Iran conflict.

The high costs of the upswing phase nonetheless contain the seeds of their reversal. They discourage use of the underlying service, so adoption is slower than its boosters assume. They also encourage further innovations to economise on the expensive input; routing algorithms to choose the most cost-effective AI model are one example. Over time, as data centres are completed, the supply of computing power expands and its price falls. Investments that only made sense when the service's price was high will become distressed.

"What worries me about the current boom is how far financial considerations seem to sit in the background"

Capitalism has its drawbacks, but at least raw commercial incentives limit people's appetite to overpay for things. When all the focus is instead on geopolitical rivalries or being the first to build god-like intelligence, commercial discipline is lost. A potentially beneficial innovation wave instead risks becoming an Icarus-like mad flap that takes us too close to the sun. That is the perfect environment for a price cycle, including in the tech sector more broadly.

The end result need not be a meltdown. That depends on the debt: how much there is relative to revenues after the price downswing, who borrowed it and who lent it. The role of deep-pocketed tech firms eases some concerns. Some borrowers are substantial firms with other revenues. In addition, other tech firms who have not leveraged themselves to the data centre build-out have big enough cash piles to pick up the pieces (at discounted prices) should some projects come unstuck. Regulators will be most concerned about whether the lenders who lent to the hyperscalers and AI firms in turn funded themselves from parts of the financial system that amplify shocks through their leverage and connection to the regulated banking system.

The answer is not to regulate AI out of existence or stymie its further development – a point the federal government has clearly heeded in the PM's latest announcements. The advice I'd give now is the same as I gave a decade ago, in a different context: in the face of structural change giving rise to a boom, go in with your eyes open. Don't get ahead of yourself. And have something to catch you when you fall.

Humans have managed to transcend Greek mythology and master the art of flying without melting. Yet the message of Icarus's story endures: there are dangers when hubris goes unchecked. To avoid getting ahead of yourself, it helps to let commercial considerations shape decisions, especially around borrowing. Far better that than basing decisions on imagined scenarios that do not survive contact with real-world economics.

Cliff Notes: frayed nerves

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

The Westpac–MI Consumer Sentiment Index rose 4.1% in July; but at 83.9, the index is still in the bottom decile of historical outcomes, pointing to deep pessimism. Lower fuel prices have provided some breathing room, contributing to a less-negative assessment of 'family finances vs a year ago' (+5.6%) and 'family finances next 12mths' (+13.4%). Consumers remain sensitive to developments in the Middle East, however, last week's re-escalation of the conflict resulting in a progressive deterioration in daily responses while the survey was in the field.

Views on the economic outlook are weak and little changed, the one- and five-years ahead sub-indexes lifting just 0.6% and 0.7% in the month; more encouragingly, concerns over the jobs outlook have eased. Most consumers still expect mortgage rates to rise over the next year, though the share has declined from 66% to 60%, with a rising proportion reporting uncertainty about where rates are headed. Ultimately, the survey reported a reprieve from worst-case fears but is also evidence of the scale of challenges ahead.

The latest NAB business survey echoed similar themes. Business confidence continued to retrace the sharp falls seen at the onset of the Middle East conflict, rising +9pts to a less-pessimistic reading of –5. Lower fuel prices contributed to slower growth in purchase costs and final prices, but the cumulative impact of these pressures have weighted on capital expenditure plans and labour demand. Business conditions remain subdued, holding at +3 for a third consecutive month having weakened earlier in 2026.

"This is consistent with sluggish activity growth as households and businesses approach the outlook with caution."

Offshore, US inflation data was supportive of interest rates remaining on hold in coming months. Headline prices fell 0.4% in June as energy prices responded to the Middle East ceasefire agreed mid-month, pulling annual inflation down from 4.2%yr to 3.5%yr. Of greater significance for monetary policy, however, was the flat monthly read for core inflation, 2.6%yr.

Members of the FOMC want to see further evidence of disinflation towards the 2.0%yr target. In our view, the multi-month trends are consistent with such an out-turn, with core goods prices broadly unchanged year-to-date and core services inflation averaging just below 0.3% per month. The June PPI report corroborates this view, headline producer prices falling 0.3%, while May was revised down sharply from 1.1% to 0.6%. Ex food and energy, prices rose a modest 0.2%mth, and the prior month's gain was revised lower from 0.4% to 0.1%. The latest readings on consumer demand are also consistent with inflation returning to target, nominal control group retail sales up a modest 0.5% in June after a 0.8% gain in May, and the latest Beige Book also pointing to consumer demand being constrained by cost-of-living pressures. The duration and severity of the renewed conflict in the Middle East will be critical to the US growth outlook given University of Michigan consumer sentiment remains stuck near multi-decade lows.

Over in Asia, China's Q2 GDP and June activity data provided a mixed read on their economy. Q2 GDP met expectations at 0.9%qtr, although the annual rate disappointed at 4.3%yr. Year-to-date, growth remains broadly consistent with our expectation of 4.7%, but such an outcome would be at the lower end of authorities' 4.5–5.0% full-year target. The industrial sector continues to drive aggregate momentum, production growth rebounding to 5.3%yr in June from around 4.0%yr through April and May. But the domestic growth story remains fragile, primarily owing to declining investment, -5.7%ytd in June. Retail sales growth recovered from -0.6%yr in May to 1.0%yr in June, though that still leaves it at the lower end of the historical rage. Together, the state of domestic investment and household consumption call for urgent pro-active stimulus to support cyclical momentum as well as structural change to help the gains of trade flow to the wider economy.

The Bank of Korea raised rates by 25bp this week and signalled further tightening is likely. Inflation remains elevated, due to a combination of higher energy, exchange rate and food costs alongside resilient domestic demand. But the BoK's greater challenge is managing an increasingly two-speed economy, with tech-related sectors benefiting directly from the AI and data centre investment boom while others wait for those gains to spill over. For now, policymakers appear comfortable leaning against inflation and expecting the benefits of AI production and investment to broaden; although, in the interim, this leaves Korea exposed should enthusiasm around AI turn. Investment and the implications for growth and policy is a focus of this month's edition of The Wrap on Asia; and, with a particular focus on AI investment, Chief Economist Luci Ellis' weekly essay.

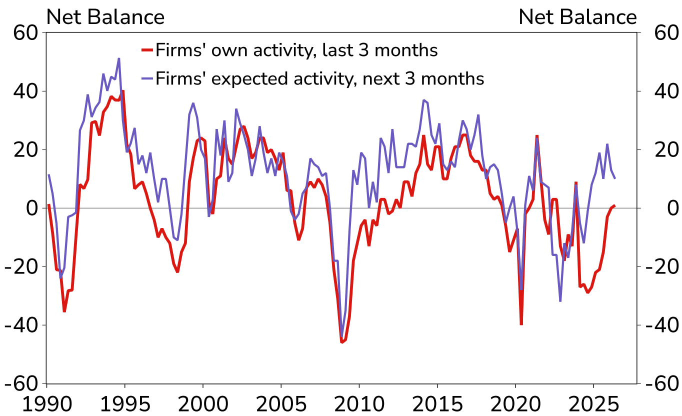
Soggy activity data ahead of key CPI report

Darren Gibbs
Senior Economist

Following last week's RBNZ meeting, which resulted in the first OCR hike in three years, the market has turned its attention to the prospect of a follow-up rate hike at the next meeting on 2 September. The past week has provided numerous economic reports and a key RBNZ speech for the market to digest, covering topics such as business sentiment, consumer spending, housing, the labour market, tourism and inflation.

Early in the week, the QSBO – New Zealand's premier business survey – pointed to a modest lift in business sentiment in the June quarter. The survey period ran from 10 June to 7 July. The average response over that period meant that the headline confidence index rose 11pts to +12. Early responses were a net 5% negative, while the second major batch of responses – mostly arriving after the signing of the Memorandum of Understanding by the US and Iran – were a net 20% positive. Given the renewed hostilities in the Middle East this month, the earlier responses may be more representative of where sentiment would stand if the survey was re-run today. Firms' expectations of their own activity, which tend to have a closer correspondence with GDP growth, were little changed for the quarter. Other activity indicators were mixed. Investment and hiring intentions were less negative than in the March quarter, but profitability was expected to worsen further. Meanwhile, the rise in fuel prices since March was clearly reflected in the pricing measures. A net 41% of firms reported raising their prices in the June quarter, up from 22% last quarter and the highest reading since September 2023. In the next three months, a net 54% of firms indicated an intention to raise their prices – the highest since March 2023.

QSBO business survey

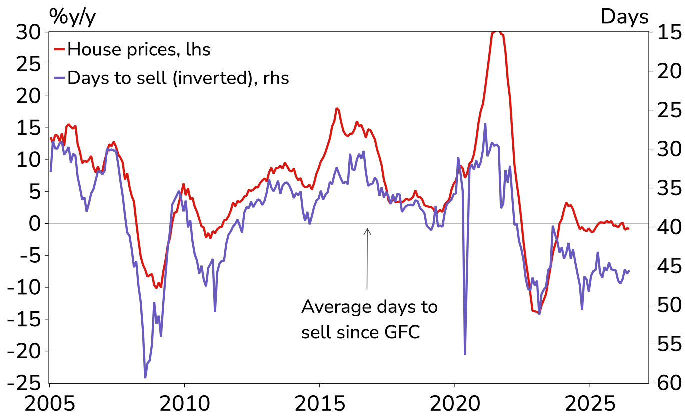


Source: NZIER, Macrobond, Westpac Economics

News from the retail sector was more downbeat than expected in June, with the value of retail spending processed through the electronic payments system declining 1.4%, reversing the step higher seen in May. Of note was a 4% decline in spending on household durables, while spending on apparel and hospitality both fell 2%. The only category that saw a rise in June was spending on groceries. Given the June result, total spending over the June quarter increased just 0.4%, driven entirely by a 7.3% lift in spending on fuel. Core retail spending fell 0.1%, marking the first decline since the March quarter last year.

Our own recent survey of households confirmed that consumers remain cautious. In response to developments in the Middle East, 36% of respondents reported having wound back their discretionary spending and around 15% have delayed or cancelled travel plans. Even when it comes to spending on essentials like groceries, around 30% said they've changed how they shop e.g., by purchasing fewer or cheaper items. Looking ahead, the pressure on fuel costs looks likely to persist, especially given the rebound in oil prices this week due to renewed tensions in the Middle East. Combined with other cost of living pressures, a soft labour market and continued economic uncertainty, we expect growth in consumer spending will remain comparatively subdued.

House prices and days to sell



Source: REINZ, Macrobond, Westpac Economics

The housing market data also struck a soggy note in June, with house sales edging lower and so added to a cumulative 9% decline since the start of the year. The median time to sell was little changed and so remained well above the historic average. Reflecting buyers' lack of urgency, the REINZ house price index fell by 0.3% for the month and was down 0.8% on a year ago. National average prices have moved sideways for the last three years, though with some marked distinctions across regions. Wellington and Auckland have seen the largest price declines over the last year, while regions with stronger links to agriculture and tourism, such as Canterbury and Otago, have seen prices continue to set new highs.

Fixed-term mortgage rates have risen since the start of this year, in anticipation of the next RBNZ tightening cycle (which is now in motion). Looking ahead, we expect that higher interest rates will continue to weigh on the housing market, leaning against any improvement in incomes as the economy gets back on its feet. Meanwhile, demand for housing remains constrained by relatively weak population growth. New Zealand saw a net inflow of just 1,860 migrants in May, with a downward revision to earlier months reducing the annual inflow to less than 19,000. Given historically weak natural growth in the population due to a declining fertility rate, annual population growth is running at less than 1%.

In some better news, MBIE's measure of job advertising picked up in June, perhaps helped by – at the time – a recovery in business confidence amidst easing tensions in the Middle East. The level of advertising remains low by historical standards but is now 13% higher than a year earlier. Not surprisingly, the strongest lift in job vacancies was seen in the primary sector, reflecting buoyant prices for almost all of New Zealand's key exported commodities. This is also reflected in the regional breakdown, with the major urban area of Auckland yet to see any lift in vacancies from the cycle low point.

Moving on, tourist data for May suggests some impact from the Middle East conflict with non-resident arrivals declining 2.4% to be 3.6% below their recent February peak. Even so, arrivals were around 7% higher than a year earlier reflecting the strong growth seen since around the middle of last year. Much of that growth owes to arrivals from Australia – New Zealand's largest market – and Asia, including a significant uplift in arrivals from China (the latter up more than 30% from a year earlier). By contrast, arrivals from major North American and European markets were lower than a year earlier. Looking ahead, we continue to expect a soft patch in tourism arrivals over the second half of this year due to the impact of high airfares and Middle East uncertainty on long haul forward bookings.

On balance, today's Selected Prices data for the June month – covering around 47% of the CPI – provided a modest upside surprise. Fuel prices – especially diesel – were lower, as expected. Food prices posted their expected seasonal increase while rental inflation remained very subdued. Electricity prices rose by less than expected, but the very volatile international accommodation component rose a much stronger-than-expected 9% during the month. Given this information, we have nudged up our earlier forecast and now think that next week's June quarter CPI report will reveal a 1.5% lift in the headline index, raising annual inflation to 4.1% from 3.1% at present. We view the risks around this forecast as balanced. Our estimate of annual inflation is 0.2ppt above the updated estimated provided by the RBNZ at the July Monetary Policy Review.

Finally, this week the RBNZ's Chief Economist, Paul Conway, gave a speech on pricing behaviour. He emphasised that the key monetary policy challenge facing policymakers is to prevent the oil shock from becoming embedded in expectations and business pricing behaviour. In that regard, he noted several findings from recent research – some of which is ongoing at the Bank – which in his view raise the risk of inflation persistence:

- Businesses and households pay much more attention to inflation when it is above the 1-3% target range, making expectations more sensitive to current inflation outcomes.
- Household inflation expectations have risen and become more dispersed since the Middle East conflict, indicating greater uncertainty about future inflation.
- Firms now change prices more frequently than in the past due to lower repricing costs and digital technology.
- Businesses are more willing to pass through cost increases than they are to reverse price rises when costs fall, creating a greater risk that temporary shocks become lasting inflation.
- These effects appear particularly strong in the services sector, where inflation tends to be more persistent.

Conway noted that the RBNZ may need to respond more forcefully to re-anchor expectations if businesses and households begin to expect inflation to remain elevated. Balanced against this, he argued – correctly in our view – that the current situation differs markedly from the inflationary episodes of the 1970s and from the post-pandemic inflation surge. In particular, the New Zealand economy currently has spare capacity, which should make it harder for firms to raise prices aggressively and should help inflation return to target over time. Medium-term inflation expectations also remain relatively well anchored.

Nonetheless, the market interpreted the speech as "hawkish", especially when set against the dovish comments that Conway had previously made in recent months. Combined with developments in the Middle East and elsewhere, the speech has consolidated the market's confidence that the RBNZ will deliver a further lift in the OCR at the 2 September meeting, with a 25bp hike now around 90% priced.

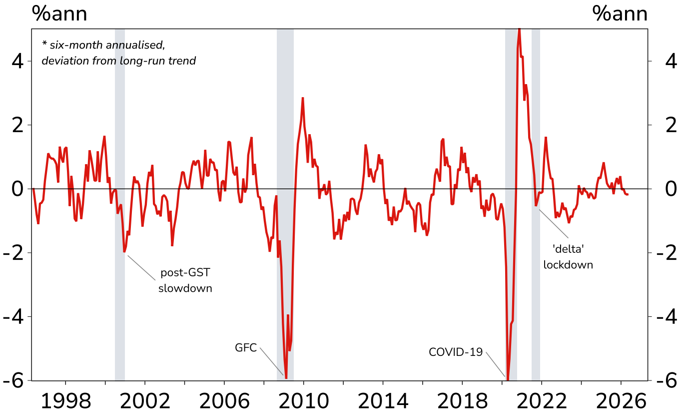
AUS: Jun Westpac-MI Leading Index (%ann'd)

Jul 22, Last: –0.17

The Leading Index growth rate ticked up slightly to –0.17% in May, the read still consistent with sluggish, below-trend growth momentum through the second half of 2026 and into early 2027.

The June read will include a mixed bunch of component updates. On the plus side, the ASX200 lifted 0.5% and consumer sentiment-based measures posted some recovery. However, there were a significant weakening across several other components including: commodity prices (–0.7% in AUD terms); dwelling approvals (–1.1%); total hours worked (–1.1%); and a further narrowing in the yield spread. That looks likely to see some further softening in growth momentum overall.

Westpac-MI Leading Index



Source: Westpac-MI, Macrobond

AUS: Jun Labour Force – Employment Change (000s)

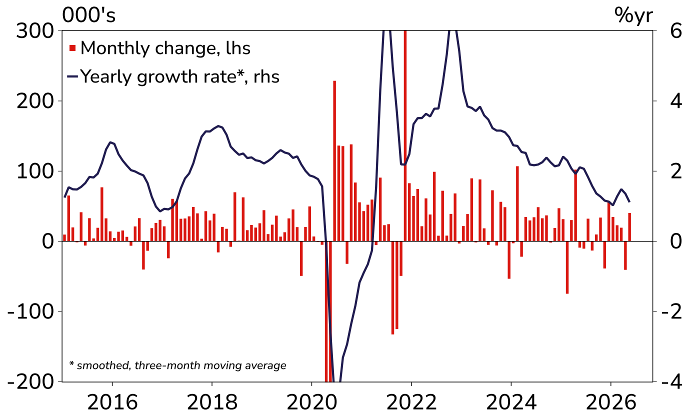
Jul 23, Last: 40.3, Westpac f/c: 15
Market f/c: 15, Range: flat to 50

After expanding around +26k/mth in Q1, employment growth effectively stalled over April and May. On a three-month average basis, employment is growing well below the pace of the working-age population, leaving the employment-to-population ratio 0.7ppts below its recent historical high.

The brief recovery around the start of the year has well and truly faded. Higher inflation and recent interest rate rises will still take time to fully work its way through to the labour market, but for now, it is looking weaker than earlier in the year.

Forward-looking business survey measures point to sluggish employment growth ahead. We have pencilled in a +15k lift in June, and see risks tilted to the downside. See our [full preview](#).

Uptrend in employment growth halted



Source: ABS, Macrobond, Westpac Economics

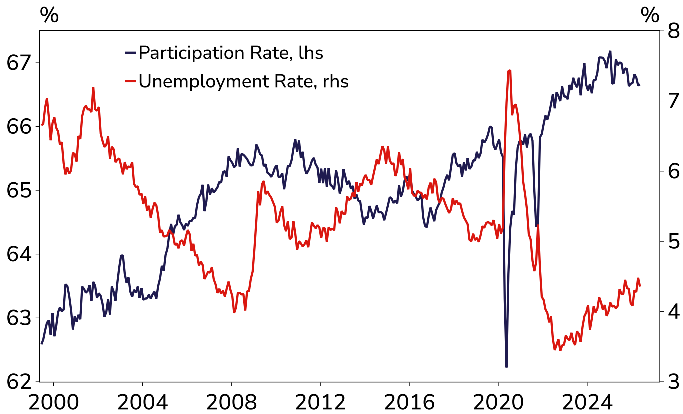
AUS: Jun Labour Force – Unemployment Rate (%)

Jul 23, Last: 4.4, Westpac f/c: 4.4
Market f/c: 4.4, Range: 4.3 to 4.5

The unemployment rate also eased as expected, edging down from a cycle high 4.5% to 4.4% in May as various sources of noise faded. Given the participation rate has held up a bit better than employment, the trend for the unemployment rate has been a continued grind higher.

For June, we think both the participation and unemployment rates will hold steady. But as discussed in [our preview](#), re-published official data and new unofficial measures are pointing to a material increase in underemployment in recent months. Both demand-side (weaker employment) and supply-side (cost-of-living pressures) are likely at play, and it may be pointing to higher measured unemployment down the track.

Participation and unemployment rates



Source: ABS, Macrobond, Westpac Economics

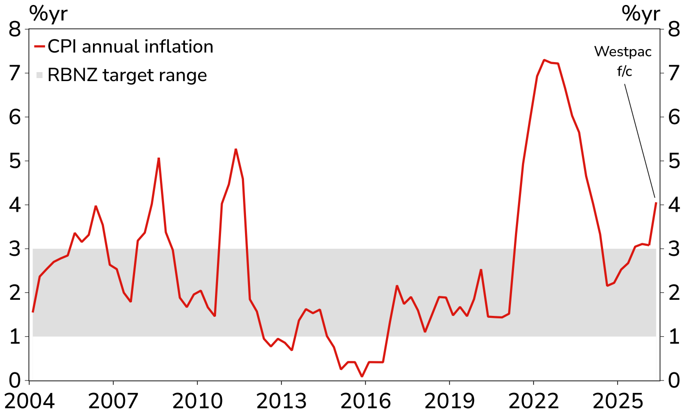
Past performance is not a reliable indicator of future performance. The forecasts given above are predictive in character. Whilst every effort has been taken to ensure that the assumptions on which the forecasts are based are reasonable, the forecasts may be affected by incorrect assumptions or by known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

NZ: Q2 Consumer Price Index (%)

Jul 21, Quarterly, Last: 0.9, Westpac f/c: 1.5
Annual, Last: 3.1%, Westpac f/c: 4.1, RBNZ f/c: 3.9

With the war in the Middle East pushing oil prices sharply higher, consumer price inflation is set to rise to a two-year high. We estimate that New Zealand consumer prices rose by 1.5% in the June quarter. The annual inflation rate is expected to rise to 4.1% (up from 3.1% previously). That's slightly higher than the 3.9% the RBNZ assumed in their recent July update, however much of the surprise is likely related to volatile items like holiday accommodation. More importantly, core inflation has been softening but remains above the RBNZ's 2% target midpoint. That's despite the downturn in economic growth and softness in the labour market.

Inflation to spike on higher fuel prices



Source: Stats NZ, Macrobond, Westpac Economics

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What to watch

	For	Data/Event	Unit	Last	Market f/c	Westpac f/c	Risk/Comment
Mon 20							
NZ	Jun	Trade Balance	$mn	800	–	–	A seasonal fall in exports & high fuel costs eliminate surplus.
US	Jun	Leading Index	pts	0.1	–0.1	–	Consumer the soft spot for activity gauge.
Tue 21							
NZ	Q2	CPI	%qtr	0.9	1.5	1.5	Boost from fuel and energy prices.
	Q2	CPI	%ann	3.1	4.0	4.1	Headline elevated, core inflation firm despite soft activity.
Eur	Jul	ZEW Survey Of Expectations	index	9.5	–	–	Confidence recovery to be tested by growth concerns.
	Q2	ECB Bank Lending Survey	–	–	–	–	Standards tightening amid lower tolerance for perceived risk.
UK	Jun	Public Sector Borrowing	£bn	23.3	–	–	Fiscal balances remain under scrutiny.
	May	ILO Unemployment Rate	%	4.9	–	–	Labour market tightening looks to have stabilised.
Wed 22							
Aus	Jun	Westpac–MI Leading Index	%ann'd	–0.17	–	–	Consistent with sluggish, below-trend momentum.
UK	Jun	CPI	%ann	2.8	–	–	Domestically-driven inflation pressures appears sticky.
Thu 23							
Aus	Jun	Employment Change	000s	40.3	15	15	Forward-looking indicators point to sluggish employment …
	Jun	Unemployment Rate	%	4.4	4.4	4.4	… rising underemployment suggests slack is emerging.
Kor	Q2	GDP	%qtr	1.8	0.4	–	Growth outlook challenged by external demand risks.
Eur	Jul	ECB Policy Decision (Deposit Rate)	%	2.25	2.25	2.25	Markets focused on guidance beyond this meeting.
	Jul	Consumer Confidence	index	–17.7	–17.4	–	Yet to recover from Middle East driven decline.
US		Initial Jobless Claims	000s	208	214	–	Layoffs remain low.
	Jun	Chicago Fed Activity	index	–0.1	–	–	Broad activity measure may point to softer momentum.
	Jul	Kansas City Fed Manufacturing	index	11	–	–	Activity on uptrend despite persisting price pressures.
Fri 24							
Jpn	Jun	CPI	%ann	1.5	1.7	–	Weak yen a risk for higher import inflation.
	Jul	S&P Global Manufacturing PMI	index	54.8	–	–	New orders has the sharpest rise since January 2022 …
	Jul	S&P Global Services PMI	index	52.2	–	–	… with input cost inflation seeing a marked rise.
Eur	Jul	S&P Global Manufacturing PMI	index	51.4	51.7	–	Manufacturing is losing some of its steam across Europe…
	Jul	S&P Global Services PMI	index	49.4	49.8	–	… but services activity has risen to a three-month high.
UK	Jul	GfK Consumer Sentiment	index	–23	–	–	Confidence recovery remains fragile …
	Jun	Retail Sales	%mth	1.2	–	–	… posing another headwind for household spending.
	Jul	S&P Global Manufacturing PMI	index	52.5	–	–	Strategic stockpiling driving a rise in manufacturing output …
	Jul	S&P Global Services PMI	index	48.8	–	–	… meanwhile services sees sharpest decline in 3.5 years.
US	Jul	S&P Global Manufacturing PMI	index	53.9	54.4	–	Signs of pressures emerging in manufacturing employment …
	Jul	S&P Global Services PMI	index	51.2	–	–	… as services continues a steady recovery.
	Jun	New Home Sales	%mth	–7.3	4.6	–	Higher borrowing costs still weigh on housing.

Economic & financial forecasts

Interest rate forecasts

Australia	Latest (17 Jul)	Sep–26	Dec–26	Mar–27	Jun–27	Sep–27	Dec–27	Mar–28	Jun–28	Sep–28	Dec–28
Cash	4.35	4.85	4.85	4.85	4.85	4.60	4.35	4.10	3.85	3.85	3.85
90 Day BBSW	4.47	4.90	4.90	4.95	4.80	4.55	4.30	4.05	3.95	3.95	3.95
3 Year Swap	4.48	4.60	4.60	4.50	4.40	4.30	4.20	4.10	4.00	3.95	3.90
3 Year Bond	4.50	4.60	4.60	4.50	4.40	4.30	4.20	4.10	4.00	3.95	3.90
10 Year Bond	4.90	4.90	4.90	4.90	4.85	4.85	4.85	4.85	4.85	4.85	4.85
10 Year Spread to US (bps)	36	40	40	35	30	25	20	15	10	5	0
United States											
Fed Funds	3.625	3.625	3.625	3.625	3.625	3.625	3.625	3.625	3.625	3.625	3.625
US 10 Year Bond	4.55	4.50	4.50	4.55	4.55	4.60	4.65	4.70	4.75	4.80	4.85
New Zealand											
Cash	2.50	2.75	3.00	3.50	3.75	4.00	4.00	4.00	4.00	3.75	3.75
90 Day Bill	2.88	3.00	3.40	3.75	4.00	4.20	4.20	4.20	4.15	3.95	3.95
2 Year Swap	3.62	3.70	3.95	4.10	4.25	4.20	4.20	4.15	4.15	4.10	4.10
10 Year Bond	4.66	4.55	4.65	4.80	5.00	5.05	5.05	5.05	5.05	5.05	5.05
10 Year Spread to US (bps)	11	5	15	25	45	45	40	35	30	25	20

Exchange rate forecasts

	Latest (17 Jul)	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27	Mar-28	Jun-28	Sep-28	Dec-28
AUD/USD	0.6979	0.71	0.72	0.72	0.73	0.73	0.73	0.73	0.72	0.72	0.72
NZD/USD	0.5834	0.59	0.60	0.62	0.64	0.65	0.66	0.66	0.66	0.66	0.66
USD/JPY	162.42	162	160	159	158	156	154	152	150	148	146
EUR/USD	1.1435	1.16	1.17	1.18	1.19	1.20	1.21	1.22	1.22	1.21	1.21
GBP/USD	1.3457	1.35	1.35	1.36	1.37	1.38	1.39	1.40	1.41	1.41	1.40
USD/CNY	6.7754	6.75	6.70	6.60	6.50	6.45	6.40	6.35	6.35	6.30	6.30
AUD/NZD	1.1961	1.20	1.19	1.16	1.14	1.12	1.11	1.10	1.10	1.10	1.10

Australian economic forecasts

	2026				2027				Calendar years			
% change	**Q1**	**Q2(f)**	**Q3(f)**	**Q4(f)**	**Q1(f)**	**Q2(f)**	**Q3(f)**	**Q4(f)**	**2025**	**2026(f)**	**2027(f)**	**2028(f)**
GDP %qtr	0.3	0.0	0.1	0.3	0.4	0.4	0.4	0.4	–	–	–	–
%yr end	2.5	1.6	1.3	0.7	0.9	1.2	1.4	1.5	2.5	0.7	1.5	2.6
Unemployment rate %	4.2	4.4	4.6	4.9	5.0	4.9	4.9	4.9	4.3	4.9	4.9	4.5
Wages (WPI) (sa) %qtr	0.8	0.8	1.0	0.8	0.8	0.8	0.8	0.8	–	–	–	–
%yr end	3.3	3.2	3.4	3.4	3.4	3.4	3.2	3.2	3.4	3.4	3.2	3.4
Headline CPI %qtr	1.4	0.7	1.3	1.0	0.7	0.6	0.9	0.5	–	–	–	–
%yr end	4.1	4.0	4.0	4.4	3.8	3.7	3.3	2.8	3.6	4.4	2.8	2.6
Trimmed Mean CPI %qtr	0.8	0.9	1.0	0.8	0.8	0.7	0.7	0.7	–	–	–	–
%yr end	3.5	3.7	3.7	3.6	3.5	3.3	3.0	2.8	3.4	3.6	2.8	2.4

New Zealand economic forecasts

	2026				2027				Calendar years			
% Change	**Q1**	**Q2(f)**	**Q3(f)**	**Q4(f)**	**Q1(f)**	**Q2(f)**	**Q3(f)**	**Q4(f)**	**2025**	**2026(f)**	**2027(f)**	**2028(f)**
GDP %qtr	0.8	–0.1	0.6	0.7	1.0	0.5	0.6	0.7	–	–	–	–
Annual avg change	0.8	1.6	1.8	1.9	2.0	2.1	2.4	2.6	0.3	1.9	2.6	3.2
Unemployment rate %	5.3	5.4	5.4	5.3	5.2	5.1	5.0	4.9	5.4	5.3	4.9	4.4
CPI %qtr	0.9	1.5	0.7	0.4	0.5	0.2	0.7	0.4	–	–	–	–
Annual change	3.1	4.1	3.7	3.5	3.1	1.8	1.9	1.9	3.1	3.5	1.9	2.0

Corporate Directory

Westpac Economics / Australia

Sydney
Level 19, 275 Kent Street
Sydney NSW 2000
Australia

E: economics@westpac.com.au

Luci Ellis
Chief Economist Westpac Group
E: luci.ellis@westpac.com.au

Matthew Hassan
Head of Australian Macro–Forecasting
E: mhassan@westpac.com.au

Elliot Clarke
Head of International Economics
E: eclarke@westpac.com.au

Sian Fenner
Head of Business and Industry Economics
E: sian.fenner@westpac.com.au

Justin Smirk
Senior Economist
E: jsmirk@westpac.com.au

Pat Bustamante
Senior Economist
E: pat.bustamante@westpac.com.au

Mantas Vanagas
Senior Economist
E: mantas.vanagas@westpac.com.au

Ryan Wells
Economist
E: ryan.wells@westpac.com.au

Illiana Jain
Economist
E: illiana.jain@westpac.com.au

Neha Sharma
Economist
E: neha.sharma1@westpac.com.au

Luka Belobrajdic
Economist
E: luka.belobrajdic@westpac.com.au

Westpac Economics / New Zealand

Auckland
Takutai on the Square
Level 8, 16 Takutai Square
Auckland, New Zealand

E: economics@westpac.co.nz

Kelly Eckhold
Chief Economist NZ
E: kelly.eckhold@westpac.co.nz

Michael Gordon
Senior Economist
E: michael.gordon@westpac.co.nz

Darren Gibbs
Senior Economist
E: darren.gibbs@westpac.co.nz

Satish Ranchhod
Senior Economist
E: satish.ranchhod@westpac.co.nz

Paul Clark
Industry Economist
E: paul.clarke@westpac.co.nz

Westpac Economics / Fiji

Suva
1 Thomson Street
Suva, Fiji

Shamal Chand
Senior Economist
E: shamal.chand@westpac.com.au

IQ

westpaciq.com.au

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