Week beginning 31 August 2026

AUSTRALIA & NEW ZEALAND WEEKLY

Analysis and forecasts for this week's key releases.

In this week's edition:

Economic Insight: Hike odds have risen, but not odds-on; Short duration nation.

The Week That Was: Deciphering signal from noise in real time.

Focus on New Zealand: Shaking it off.

For the week ahead:

Australia: Q2 GDP and partials, private credit, current account, dwelling approvals, goods trade balance.

New Zealand: RBNZ policy decision, ANZ business confidence, building permits, ToT, building work.

Japan: industrial production, household spending.

China: August NBS and RatingDog PMIs.

Euro Area: HICP inflation, unemployment rate, retail sales.

United States: nonfarm payrolls, unemployment, job openings, ISM PMIs, factory orders, trade, productivity.

Information contained in this report current as at 28 August 2026.

Hike odds have risen, but not odds-on

Luci Ellis
Chief Economist, Westpac Group

When we last updated our rates view on 29 July, we said that the risk of a rate hike in November could not be ruled out, but it was no longer the base case.

The strong July monthly CPI does raise the chance of an RBA hike in November. But we do not think this one data point is enough to rush all the way to the other side of boat and lock in a hike. The RBA has emphasised that the monthly data are noisy, and their short history means seasonal patterns are unclear. The new financial year is a time when many businesses re-price, with subsequent months more moderate. This has been a pattern in the data in the past and might be again this year.

Recall also that the earlier data flow broke the other way. Labour market and wages data, as well as the Q2 CPI were all softer than RBA had been forecasting. Consumer spending has been more resilient recently, but we do not think the RBA will read "not outright contracting" as a sign of upside inflation risks crystallising.

Our earlier expectations for near-term hikes centred on concerns about outsized pass-through of higher fuel costs. Risks from this source have faded. If the RBA does raise the cash rate in the near term, it would more of an insurance hike, reflecting unease about a slow pace of return of inflation to target.

The timing of the September meeting is awkward for policymakers considering an early hike. The August CPI is released the following day. If it surprises on the downside or is simply moderate, the Monetary Policy Board (MPB) could look premature if it hiked the day before. (For anyone wondering, the RBA does not receive CPI data ahead of the market. A small number of ministerial staffers get an embargoed release a couple of hours early, but not the RBA.)

For this reason, a November hike is more plausible than September. In our view, November timing would still require confirmation from the intervening data.

Whatever the next few meetings bring, split decisions are a distinct possibility. If the minutes are any guide, some MPB members seem to be leaning towards the idea of pre-emptive hikes as insurance against future price spikes. The post-Review personnel changes have added a more academic – and potentially more activist – perspective to the MPB.

Its proponents could be less inclined to wait out monetary policy's transmission lags when inflation is half a percentage point above the target range.

> **"Higher July CPI raises risk of November hike, but is not enough to lock one in."**

But other members are likely to differ from the staff about the level and trend growth in supply capacity, particularly labour supply (see this note from Ryan Wells in May for more background). A September hike would certainly involve dissents. Depending on Q3 inflation and the rest of the data flow between now and then, a November hike could easily involve a split vote as well.

Bottom line: there are near-future states of the world which will lead us to change our call and expect a hike in November. As we said at the time of the August MPB meeting, we believe that investors should allow for some risk of a hike later this year. But one monthly CPI print is not enough evidence to price in a hike fully. We will be particularly attentive to the labour market and national accounts in coming weeks, as well as the August CPI.

Short duration nation

- **High bond yields have spurred the US government into manoeuvres to contain debt-servicing costs. They also matter for the US mortgage market, where mortgages are mostly fixed-rate. Existing borrowers by definition do not face higher repayments when bond yields rise, but they can feel 'trapped' by the high cost of moving or refinancing.**
- **The US model of 30-year fixed rate mortgages that are cheap to refinance is unlikely to be replicated in Australia. It only exists because of significant government intervention. Our tax, prudential regulation and superannuation systems also favour floating interest rates, even for loans with long contractual maturity like mortgages.**
- **Long yields still matter for fiscal policy, and our corporate bond market is attractive to both domestic and offshore (Kangaroo) issuers and investors. But when thinking about financial conditions from a monetary policy perspective, the short end of the yield curve matters far more than in some countries.**

Ten-year bond yields have breached 5% in Australia and the UK in recent weeks and are in the 4.6–4.8% range for US Treasuries, levels that have not been seen for some years. As discussed last week, this has spurred the US government to try to rearrange its finances to dampen yields. Its concerns go beyond the cost of servicing its own debt. In a mortgage market with predominantly fixed-rate loans, high bond yields drag mortgage rates up. Existing borrowers are insulated, but higher rates discourage moving, refinancing and home ownership. Demand for new homes is lower, weakening homebuilding activity, and some households feel 'trapped' by their current low mortgage rate. The cash-flow effects of monetary policy are therefore more concentrated on prospective borrowers and movers in a way that differs from Australia, where most mortgages reprice when the RBA tightens.

Some Australian observers see that relative insulation from interest rates and wish our system could be more like the US system. The reality is that the 30-year fixed-rate mortgage that is also cheap to refinance is almost unique to the US market and relies on a raft of expensive government interventions. From the government-sponsored entities (Fannie Mae, Freddie Mac, both still in government conservatorship, along with Ginnie Mae) to the network of Federal Home Loan Banks, the US mortgage market is built on an unusually large public infrastructure. Even other markets with shorter fixed terms sometimes rely on government interventions, such as Canada's Canadian Mortgage and Housing Corporation insuring securitised loans.

Countries that intervene less in their mortgage markets mostly follow one of two patterns. Some, like Germany, offer fixed-rate mortgages, but refinancing or moving before the term expires involves expensive break fees, to compensate lenders for the interest rate risk. Borrowers cannot refinance cheaply into a lower rate when bond yields fall. The secondary markets for housing in these countries tend to be less liquid, and home ownership rates are often lower than in Australia – below 50% in the case of Germany.

The tax system favours it

The other model for mortgage markets is more like the Australian model, where loans have long terms but are mostly variable rate or only short-term fixes for 2–3 years. In Australia, this structure rests on a web of incentives for both households and financial institutions favouring that outcome.

For households, the main incentive comes from the tax system. For owner-occupiers at least, mortgage interest is not tax deductible, unlike in the US. Paying your mortgage out of post-tax income is a powerful incentive to pay it ahead of schedule. Doing so delivers a risk-free, post-tax return of the mortgage rate, which would be difficult to match elsewhere. The option of being able to pay ahead of schedule is therefore highly valuable to borrowers.

Because of the interest rate risk involved for lenders if the loan is fixed-rate, pre-payment is typically unavailable or at least limited for fixed-rate loans. This includes break fees on exit and limits on the payments into redraw facilities. The peculiarly Australian mortgage features of offset accounts and redraw facilities are rarely offered in countries where fixed-rate mortgages predominate. This means Australia's tax system encourages borrowers to value payment flexibility, which in turn favours variable-rate loans. Borrowers can insulate themselves from rate rises using pre-payment buffers, rather than needing a fixed interest rate to do this.

> **"Tax and regulatory settings make widespread 30-year fixed-rate mortgages unlikely in Australia."**

APRA incentivises it

The regulatory system also encourages variable-rate lending. Normally, banks are assumed to be in the business of "borrowing short" (e.g. deposits at call) and "lending long" (e.g. mortgages). Fixed rates normally include a term premium – a kind of insurance premium for the risk that funding rates move against the lender. By borrowing short and lending long, banks earn that spread as profit. This is a matter of interest rate risk: the effective maturity of at-call deposits is often very long, because people tend to stick with one bank for transactional banking for a while.

This strategy can occasionally blow up, however, if short rates (and so funding costs) rise above the average yield on one's assets. It can also blow up if the assets are bonds and other fixed-coupon assets that fall in value when long yields rise, as Silicon Valley Bank and other US banks found out the hard way a few years ago.

Australian banks are more protected from these risks because, unlike other regulators, APRA requires banks and other deposit-takers to hold capital against "interest rate risk in the banking book". Its "Pillar 1" approach is more prescriptive than the global Basel standards, which capture this risk in "Pillar 2", which is more about principles-based supervision rather than a capital requirement.

This changes the incentives for both lenders and borrowers. Instead of "borrowing short to lend long", Australian banks end up borrowing short to lend short: variable rate mortgages and three-month BBSW links for some other loans. A bank that funded long fixed-rate mortgages and business loans with floating-rate deposits, without an offsetting hedge, would incur more measured interest-rate risk and potentially a larger capital requirement.

The super system reinforces it

The design of the superannuation system also contributes to Australia being a short-duration nation. Almost all currently open superannuation funds in Australia are what is known as "defined contribution" (DC). Members contribute a pre-specified fraction of their wage, while the fund manager seeks the best returns, without guaranteeing outcomes. This structure favours allocation to equities rather than fixed-interest bonds, because on average their returns are higher (the "equity risk premium").

This model contrasts with "defined benefit" (DB) pensions, where there is an explicit promise of a post-retirement income stream based on some formula such as fraction of final salary. These types of pension systems are seen in some other advanced countries, and they imply a long-dated liability that needs to be matched, usually with fixed-interest assets. A DC system does not have the same type of liability, so it has less need to liability-match.

As a DC system matures and more people move into retirement phase, fixed-interest portfolios might become more important. For now, though, Australia's superannuation system generates less demand for long-term fixed-interest assets than a DB system would. This does not prevent Australian borrowers from accessing long-term funding through global capital markets, but it does mean there is less natural domestic demand for long-duration fixed-interest assets.

Central bank watchers need to remember it

For all these reasons, Australia is a 'short duration nation'. Long yields still matter for asset valuations, hurdle rates, fiscal policy and some forms of private financing activity. Our corporate bond market is attractive to both domestic and offshore (Kangaroo) issuers. But organic domestic demand and supply for fixed interest securities is lower than in some countries. Long yields therefore matter less for monetary policy transmission and should receive less weight in considerations of financial conditions than in, say, the US or Japan.

A few conclusions arise from this difference. First, a US-style 30-year mortgage that is both fixed-rate and cheap to refinance is unlikely to become the norm in Australia.

Second, assessments of financial conditions can put more weight on the short end of the yield curve than the long end. In the US, people sometimes trip themselves up when bond yields move, thinking that this shifts financial conditions and means that the Federal Reserve does not have to move the policy rate to achieve the same effect. If yields moved because market participants expect the Fed to move the policy rate, though, things can get quite circular. Central banks can only use higher yields as a reason not to hike (or lower yields as a reason to hike) a few times before credibility suffers.

Third, it matters why yields have moved. For example, yields might fall because inflation expectations have fallen. The apparently looser financial conditions this implies do not need to be offset. The broader point is that the relationship between financial conditions and the policy rate is not mechanical. This was the lesson the Bank of Canada and Reserve Bank of New Zealand learned the hard way with their experiments with a Monetary Conditions Index in the 1990s, and that the RBA highlighted at the time. And in a short duration nation like Australia, that lesson needs to be remembered when thinking about financial conditions in the present day.

Cliff Notes: deciphering signal from noise in real time

Elliot Clarke, Head of International Economics
Ryan Wells, Economist

The main event in Australia this week was the July CPI report. It surprised modestly to the upside on both a headline (1.0%/3.5%yr) and trimmed mean basis (0.5%/3.6%yr). Strength in durable goods pricing was a key contributor, including for clothing and footwear, motor vehicles and household contents; however, in part this was due to regular seasonality caused by the conclusion of the EOFY sales discounting period. Of greater concern was the upside surprise for market services, even after making an allowance for the larger-than-expected awards wage increase which came into effect in July. While the risk of another RBA rate hike later in the year cannot be dismissed, it is not our base case. In the interim though, the RBA will certainly maintain a hawkish bias.

The inflation print was followed up by another solid showing from the household spending indicator, up 1.1% (7.0%yr) in July. Gains were broadly based but led by discretionary spending categories – consistent with the resilience recently shown by our own card indicators. That said, some pockets of strength may have been more price than volume led. The end of the fuel excise cut will also likely temper momentum in discretionary spending in coming months, particularly if global oil prices hold up.

We also received two partial indicators for investment this week ahead of Q2 GDP next Wednesday.

Construction activity disappointed, a 2.1% decline in Q2 bringing annual growth down to 2.1%yr. Most of the decline was driven by the mining sector following the completion of a large mining infrastructure installation in WA earlier in the year. Lumpy completions like these tend to have a smaller impact on National Accounts estimates as GDP is reported on an accrual basis (i.e. as work is done). Activity was otherwise firm, namely in residential construction (1.7%) and non-residential building (0.5%), though public infrastructure declined again. The recent uptick in cost pressures will be closely watched hence, but the pipeline still looks broadly balanced as public works roll off and private activity picks up.

Private CAPEX also surprised to the downside, falling 3.6% in Q2, although the annual pace remains at an elevated 10.7%yr. An unwind in machinery and equipment spending was the chief culprit, falling 8.9% in the quarter, largely due to a cooling in data centre-related equipment spending – an import-intensive component that will have only a negligible net impact on GDP. Excluding this specific dynamic, private capex spending rose a solid 2.6% in the quarter. Total capex plans also remain very healthy, consistent with double-digit real growth over the 2027-28 financial year.

Ahead of next Wednesday's release, our Q2 GDP preview will be published later today on Westpac IQ.

Offshore, the data flow was centred on the US consumer. US GDP growth was unrevised in Q2's second estimate at 1.5% annualised. In the detail, household consumption was revised up a touch (3.2% to 3.4% annualised) but offset by marginal downward revisions to business investment and government spending, as well as a larger drag from net exports. US personal consumption growth then beat expectations in July as it rose 0.2%, aided by a 0.4% increase in incomes. That said, the deflator was also 0.1ppts stronger at 0.2%, leaving real consumption flat for the month compared to a solid average gain of 0.2% per month through the first half.

While US consumers have steadily increased everyday spending at a steady clip through 2026, they are reticent to act on housing. US new home sales unexpectedly dropped by 10.5% in July to an annualised pace of just 607k – a new low for 2026. House price growth also remained weak, the FHFA house price measure and S&P Cotality Case-Shiller 20-City index averaging a monthly gain of just 0.1% through the first half.

While the stronger of the two major sentiment surveys, Conference Board consumer confidence still bears witness to households' entrenched anxiety. In August, the index held near its lowest level in 18 months – a level also materially below the historic average. Cost of living pressures are critical to consumers' concern: inflation has outpaced wage growth since the pandemic and workers fear this trend will continue, with 1-year inflation expectations remaining elevated in August at 5.8%yr – a multiple of nominal income growth.

Away from the data flow, this week the White House announced a new set of sanctions against Iran, ambitiously heralded by President Trump as Iran's "economic D-Day". The US' plan directly sanctions more than 70 entities related to various activities undertaken by Iran. However, the effectiveness of the new measures largely rests on whether the US is prepared to act against China, given their strong trade and financial relationship with Iran. The initial response suggests China is unlikely to acquiesce, with initial reports suggesting the unilateral sanctions will be ignored by China and Hong Kong.

The piece of news on the Strait that moved markets this week was instead reports of further discussions on commercial shipping between Iran and Oman. If agreed to, this could bring a degree of confidence over supply through the Strait, particularly if the US remains focused on applying economic pressure.

Shaking it off

Kelly Eckhold
Chief Economist NZ

Our new Economic Overview depicts a recovering economy after a pause at the height of the Iran war. Growth is expected to strengthen and broaden beyond the external sector that has thus far carried the economy forward. High and persistent inflation means the RBNZ is now on a tightening path. Higher domestic interest rates should support a gradual appreciation in the New Zealand dollar.

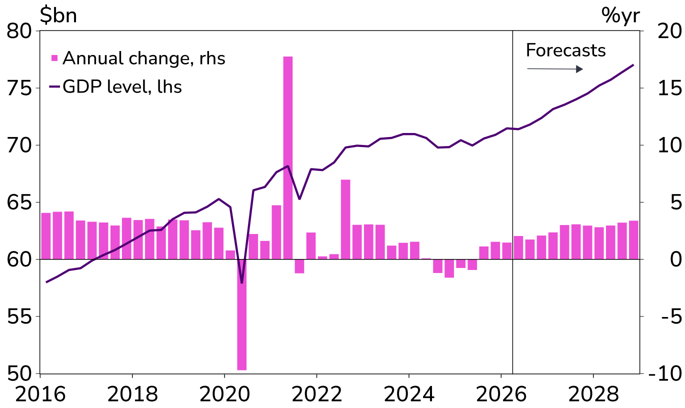
Westpac's August 2026 Economic Overview carries a broadly constructive message about the New Zealand economy. The disruption caused by the Iran conflict has left its mark, lifting fuel costs, slowing spending and resulting in a temporary pause in growth through the middle of the year. However, we believe the economy is beginning to shake off those disruptions. Activity is recovering, export incomes remain strong, and the effects of earlier monetary easing are still working their way through the economy. At the same time, inflation has proven more persistent than expected, meaning interest rates are now moving higher and will continue to do so over the next 18 months.

Our central view is that New Zealand remains in recovery mode, albeit with a more uneven profile than many would have expected six months ago. We estimate that GDP was essentially flat in the June quarter as the Middle East conflict pushed up prices and weighed on confidence and spending. Nevertheless, there are signs that growth has already resumed in the current quarter. Economic growth is forecast to reach 2.1% in 2026 before accelerating to 3.0% in 2027. The unemployment rate is expected to remain elevated in the near term but gradually decline from 5.6% currently to 4.9% by the end of next year.

The composition of growth is important. Domestic demand remains patchy, particularly for households facing higher living costs and a softer labour market. In contrast, the export sector continues to outperform. Strong commodity export prices and tourism earnings are supporting incomes, especially in regions with significant exposure to the rural economy and tourism. This divergence between export-led and domestic demand-led activity is likely to remain a defining feature of the economy over the coming year. Nevertheless, we do expect the recovery to gradually broaden, with a stronger labour market supporting consumer spending and the services sector contributing more to growth as 2027 nears and through the next year.

While the growth story is encouraging, inflation remains a key macroeconomic challenge. Annual inflation has risen to 4.1%, largely reflecting the surge in fuel prices following the Iran conflict. However, the more important point for the RBNZ is that underlying inflation pressures remain stubbornly firm. Core inflation has spent an extended period above the midpoint of the Reserve Bank's 1-3% target range, with domestic pricing pressures remain firm despite weak growth and higher unemployment.

NZ quarterly GDP



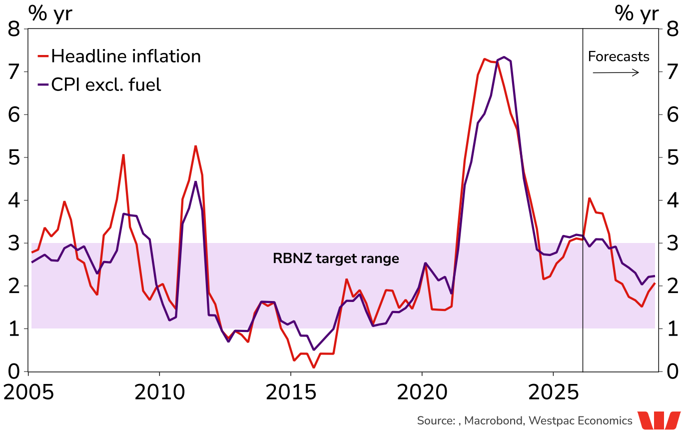
Source: , Macrobond, Westpac Economics

A key reason for the continued strength in domestic inflation has been increases in administered prices, such as those in the electricity and local authority sectors. Costs in these areas have continued to make an outsized contribution to inflation, albeit with some signs that these pressures might diminish over coming years. On this front, the Government this week confirmed plans to cap the extent of local council rates. While the proposed changes might limit the increases in direct costs for households, this would not remove the underlying challenges of funding council spending and could result in a shift to more user pays and direct charges.

Although headline inflation is expected to decline as fuel price effects wash out, core inflation is unlikely to move sustainably back towards 2% without further policy tightening. That assessment is central to both our interest rate and exchange rate outlooks.

The RBNZ began its tightening cycle with a 25bp OCR increase in July and has signalled that additional hikes are likely. We expect another two 25bp increases before the end of this year, taking the OCR to 3%. The first of these is expected to occur next week. We doubt the RBNZ will be dissuaded by recent drops in global energy and fuel costs to move away from their signal of an end-2026 OCR of 3%. Beyond that, we anticipate further tightening through 2027,

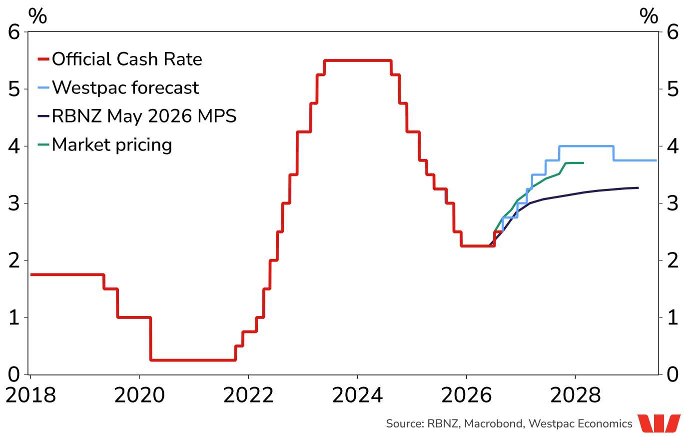
CPI inflation forecasts



ultimately taking the OCR to around 4%. The RBNZ is unlikely to endorse any such OCR profile in the Monetary Policy Statement next week, but rather leave their options open and adjustable to the data as it falls in coming months.

Our view is that although borrowing costs have already started rising, monetary policy is not yet restrictive by historical standards and would not be restrictive even at a 3% OCR. The move towards 4% through 2027 is the point at which policy begins to exert a more meaningful restraining influence on demand and would ensure core inflation moves back down from the top quarter of the 1-3% of the target range to the 2% level the RBNZ claims to target. The higher OCR will maintain upward pressure on wholesale interest rates and bond yields – which are also being supported by higher global long-term interest rates.

RBNZ Official Cash Rate



A stronger New Zealand dollar now seems more likely than it has for a while. With the OCR at cyclically low levels, growth weak and high levels of war-related uncertainty the NZD has struggled to outperform in the last year. With the more constructive economic outlook and higher interest rates, a stronger NZD may be in prospect. The NZD should rise versus a still-overvalued US dollar that should weaken over the next couple of years. Our forecast is for NZD/USD to finish 2026 around 0.60 and rise to approximately 0.66 by the end of 2027.

The interest rate story is particularly important when considering prospects for the relative performance of the New Zealand and Australian dollars. NZD/AUD fell to a 15-year low in May as the expected paths for RBNZ and RBA policy diverged, but it has since risen. As the RBNZ continues raising rates in 2027 and the RBA's tightening cycle matures, yield differentials should become more supportive of the New Zealand dollar.

For exporters, a stronger currency will eventually act as a modest headwind. Nevertheless, strong commodity prices, resilient global growth and improving domestic confidence should continue to provide support. For importers and inflation-sensitive sectors, a firmer currency would help reduce imported inflation and assist the RBNZ in bringing inflation back towards target.

So to summarise, the August Economic Overview's key message is that New Zealand's recovery remains intact despite a difficult mid-year period. Export earnings, tourism and the lagged effects of earlier monetary easing are supporting growth and should drive a stronger expansion through 2027. Persistent inflation means the RBNZ is on a tightening path that could ultimately take the OCR to around 4%. That outlook points to higher domestic interest rates, narrowing rate differentials relative to Australia and other advanced economies, and a gradual appreciation of the New Zealand dollar over the medium term.

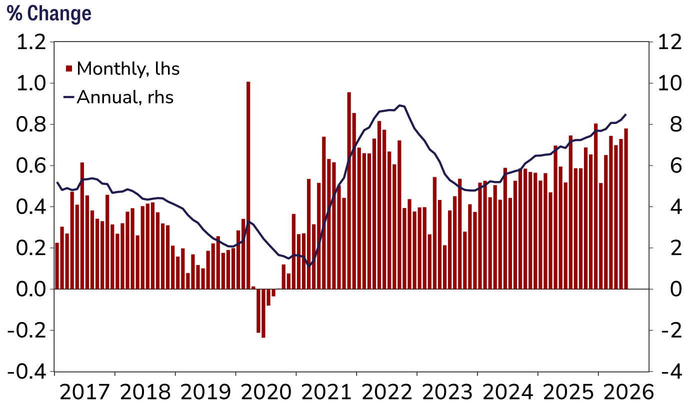
AUS: June Private Sector Credit (%mth)

Aug 31, Last: 0.8, Westpac f/c: 0.6
Market f/c: 0.7, Range: 0.2 to 0.7

Despite the RBA's cash rate hikes in the first half of the year and slower economic growth momentum recently, private sector credit surprised to the upside in June. Headline growth ticked higher to 0.8%mth, the top of the recent range. Firm business credit was the main driver, while housing credit was broadly stable.

We predict that growth will ease back to 0.6%mth in July. We expect to see clearer signs of a slowing in housing credit growth, with high interest rates and falling house prices beginning to have a larger impact, and investor credit beginning to soften more decisively following tax changes. Business credit is a big unknown, but after two consecutive months of solid growth, risks are skewed towards a softer reading.

Private Sector Credit Growth



Source: RBA, Macrobond, Westpac Economics

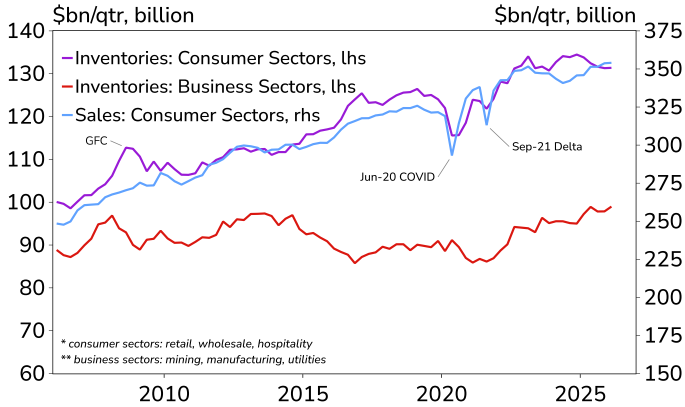
AUS: Q2 Inventories (%qtr)

Aug 31, Last: 0.5, Westpac f/c: 0.6
Market f/c: 0.5, Range: –0.3 to 1.0

Private non-farm business inventories increased 0.5%qtr in Q1, following a modest 0.1%qtr decline in Q4. Mining inventories rose strongly (+5.8%qtr), while inventories outside the mining sector declined 0.3%qtr.

For the June quarter, imports of consumer goods grew strongly (+5.5%qtr), with some of these imports likely adding to inventories, particularly motor vehicles. This accumulation is expected to be partly offset by a modest rundown in mining inventories following the substantial build-up recorded in Q1, when weather-related port closures prevented some production from being exported. There is also likely to have been a rundown in public inventories, reflecting the partial unwind of the build-up in non-monetary gold recorded over previous quarters.

Inventories



Source: ABS, Macrobond, Westpac Economics

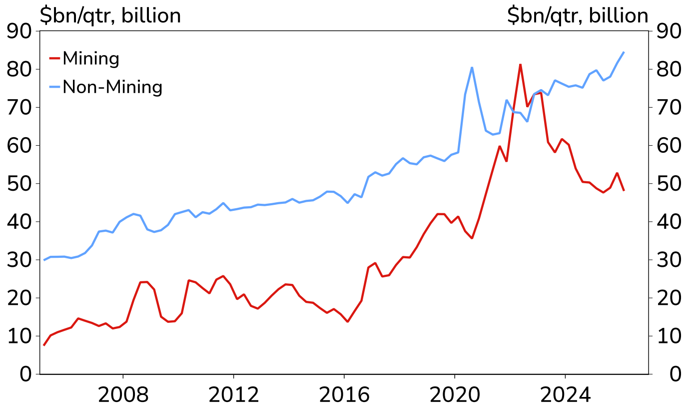
AUS: Q2 Company Profits (%qtr)

Aug 31, Last: -1.3 Westpac f/c: 3.1
Market f/c: 2.0, Range: 1.0 to 5.0

Headline company gross operating profits declined 1.3%qtr in the March quarter 2026, driven by a 9.1%qtr fall in mining profits as lower iron ore prices and cyclone-related disruptions weighed on export volumes. Non-mining profits rose 3.7%qtr and 6.1%yr, with gains broadly based across construction, wholesale trade, manufacturing, and information media and telecommunications.

We expect company profits to rebound by 3.1%qtr in Q2. Mining profits are likely to recover strongly following the weather-related weakness in Q1, consistent with the 10.4%qtr increase in mining export values over the quarter. By contrast, non-mining profit growth is expected to be slightly lower, with the full impact of the Middle East-related fuel price shock weighing on margins across a range of industries.

Company profits



Source: ABS, Macrobond, Westpac Economics

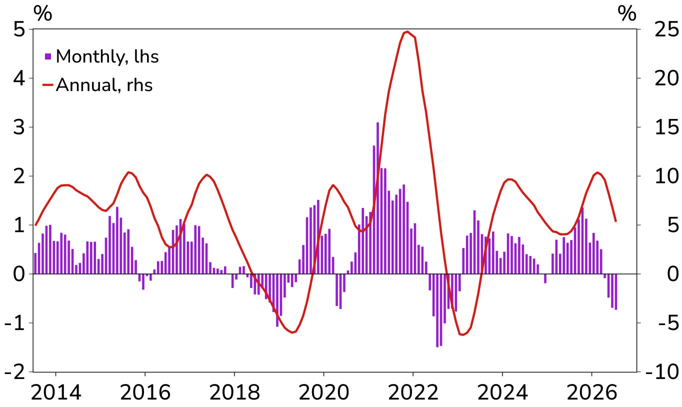
AUS: Aug Cotality Home Value Index (%mth)

Sep 1, Last: –0.7, Westpac f/c: –1.2

The Cotality home value index – covering all of Australia – fell 0.7% in July with downward revisions showing a 1.5%qtr decline over the three months to July, the most significant since the 2022 price correction. Annual growth slowed to 5.3%yr (see here for full July analysis).

The August update is set to show a significant further deterioration with the daily measure pointing to a 1.2% decline nationally. The detail shows slightly bigger declines starting to show through in Adelaide and Perth, markets that have been relative resilient to date. Price declines continue to be slight larger in Sydney, August tracking a 1.5% monthly fall. Markets are still adjusting to higher interest rates and the tax policy changes introduced in the May Federal budget with weakness likely to continue near term.

Cotality home value index



Source: Cotality Australia, Macrobond, Westpac Economics

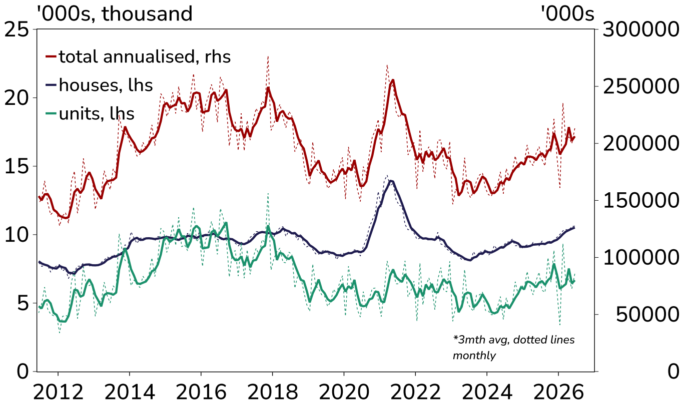
AUS: Jul Dwelling Approvals (%mth)

Sep 1, Last: +7.2, Westpac f/c: –5.0
Market f/c: –5.0, Range: –12.0 to 0.0

Dwelling approvals rose 7.2% in June lifting annual growth to 8.9%yr. The result was driven by a big rebound in unit approvals but with private detached dwelling approvals relatively resilient as well given interest rate rises since the start of the year (see here for full June analysis)

July is likely to see a pull-back as units cycle the June jump and more interest-rate softening effects start to show through. Overall, the July month is expected to see a 5% decline in approvals. While risks are to the downside, we expect residential building to remain relatively resilient through 2026 with latest updates on activity showing continued gains and a sizeable pipeline of work under construction (see here for comments on Q2 results).

Building approvals



Source: ABS, Macrobond, Westpac Economics

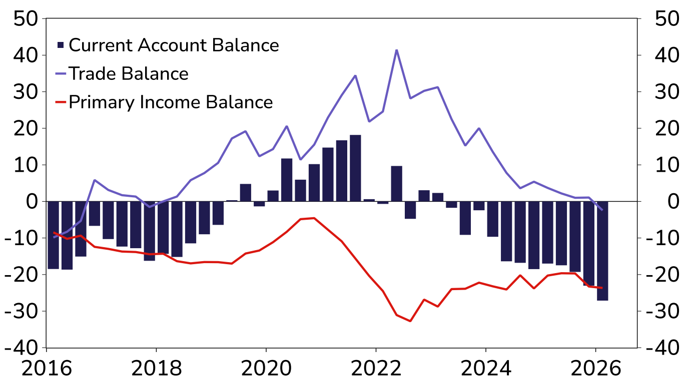
AUS: Q2 Current Account Balance ($bn)

Sep 1, Last: –27.1, Westpac f/c: –31.0
Market f/c: –30.0 Range: –34.6 to –12.9

The current account deficit widened to $27.1bn in Q1, and we expect it to increase further in Q2, by about $4bn to $31.0bn, a new record high. The goods trade balance should continued to shrink, as import growth far outpaced export growth. The services trade balance should be a little more stable, but it will remain firmly in deficit at around $9bn. We expect some positive contribution from the primary income balance, as returns on Australian assets abroad, mainly portfolio investment, should exceed domestic returns on foreign-owned assets.

Current Account Balance

Values, $bn



Source: ABS, Macrobond, Westpac Economics

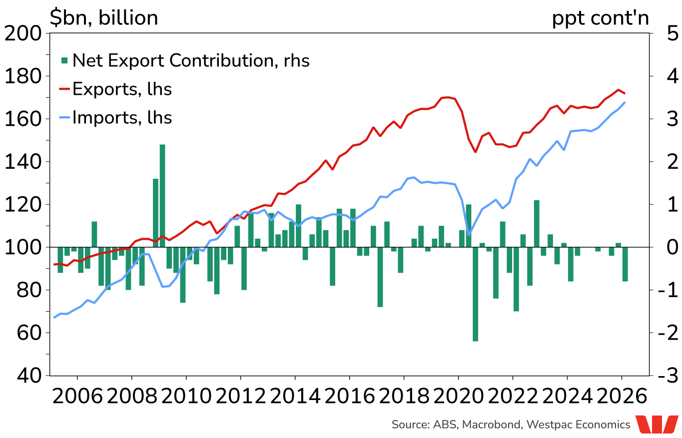
AUS: Q2 Net Exports (ppt cont'n)

Sep 1, Last: -0.8, Westpac f/c: –0.3
Market f/c: 0.1, Range: –0.6 to 0.5

Net exports look to have detracted from GDP growth again: after –0.8ppt in Q1, we expect a –0.3ppt contribution in Q2.

Major commodity exports – mainly iron ore and coal – look to have rebounded sharply after declining in Q1. Goods imports will likely emphasize a few major themes that developed that quarter. EV sales surged in Q2, and we expect to see a corresping rise in imports, while fuel imports should also be higher despite higher prices. Consistent with the message from the CAPEX data, which showed that data centre investment fell back in Q2, inflows of ADP equipment used for data centre fit-outs look to have eased as well. We also expect a negative contribution from services trade. Education exports are likely to fall again, in line with lower student numbers.

Net exports



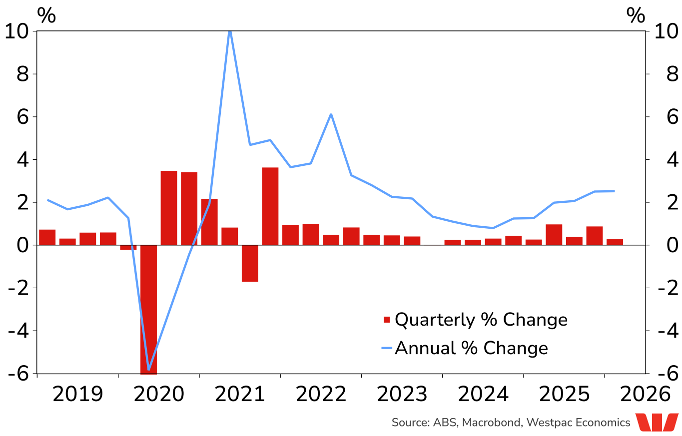
AUS: Q2 GDP (%qtr)

Sep 2, Last: 0.3, Westpac f/c: 0.2
Market f/c: 0.4, Range: 0.0 to 0.6

We expect that Australia's economy expanded just 0.2%qtr in Q2 and 1.7% in year-ended terms. Given the impacts of the conflict in the Middle East, and the ongoing effects of higher interest rates, Q2 was always going to be a challenging quarter. However, all things considered, the economy is showing some resilience, with notable structural support coming from investment in data centres, renewables and the construction required to house a growing population.

Please see our [Q2 GDP Preview Bulletin] for more details.

Q2 GDP forecast: 0.2%qtr, 1.7%yr



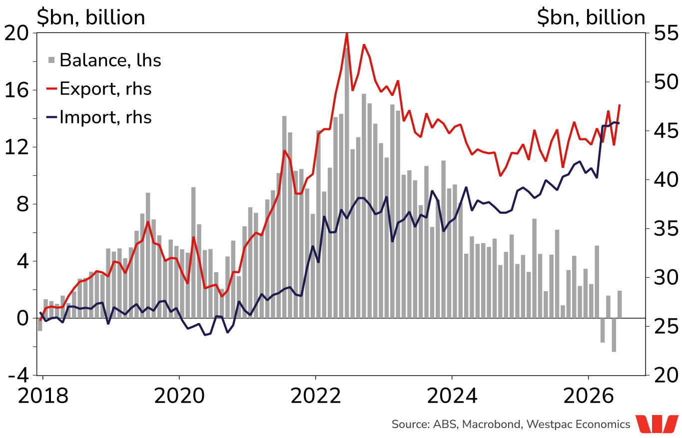
AUS: Jul Goods Trade Balance ($bn)

Sep 3 Last: 1.9, Westpac f/c: 1.0
Mkt f/c: 1.3, Range: 0.0 to 2.7

The goods trade balance recovered in June, jumping from a $2.4bn deficit to a $1.9bn surplus, thanks to a surge of almost 10% in exports. We think volatility will persist into July and the headline balance fall again. However, we expect it to remain in surplus, likely around $1bn.

Volatile gold flows will probably remain the dominant force. The precise movements are hard to predict, but lower prices in July and in the preceding few months make declines likely. Major commodity outflows will probably be somewhat mixed after steep increases across all three major commodities in June. On the imports side, we will be watching closely to see whether buoyant vehicle imports, driven by strong demand for EVs, are beginning to lose steam as fuel prices fall. ADP imports will also be in focus as an indicator of how capex spending may have evolved in early Q3.

Goods trade balance

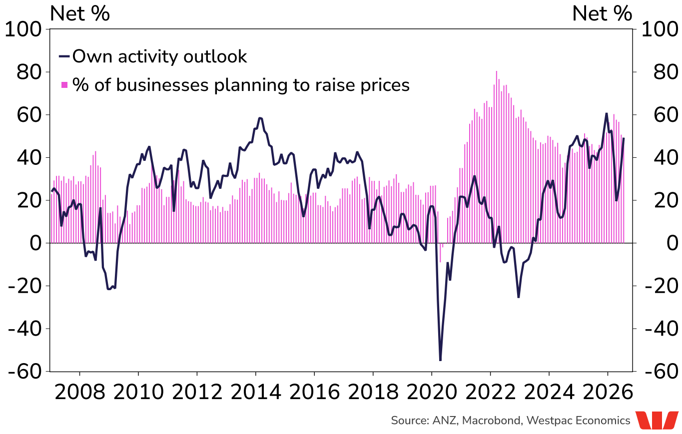


NZ: Aug ANZ Business Confidence

Aug 31, Last: 56.1

Business confidence rebounded strongly in July, reaching just below its pre-conflict levels, while the pricing measures in the survey generally softened. However, responses were more concentrated in the early part of the month, before resumed hostilities sent fuel prices higher again, so we may see some backpedalling in the August results. Nonetheless, the economy appears to be shaking off the initial effects of the oil price shock, underscoring the case for removing some of the policy stimulus that was put in place last year.

ANZ Business Outlook survey

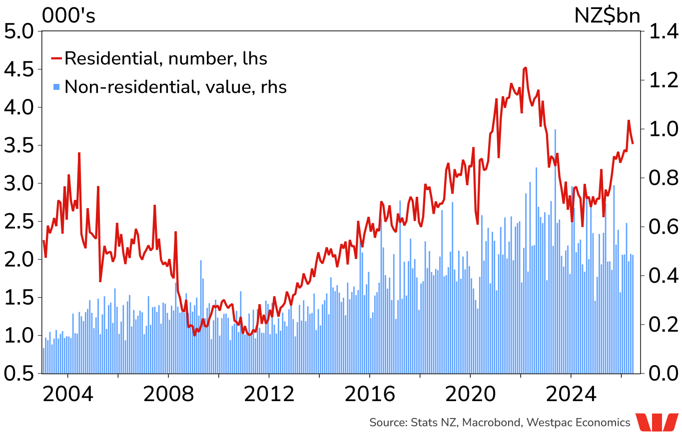


NZ: Jul Building Consents (%mth)

Sep 2, Last: –3.6, Westpac f/c: 2.0

Residential building consent numbers slipped back again in June, dropping 4% over the month. We're forecasting a modest 2% rise this month. Smoothing through the normal month-to-month swings, the longer-term trend in consent issuance has remained positive. June saw the number of new dwellings consented over the past 12 months rising above 40,000 for the first time since 2023. We expect that trend higher will continue this month. However, there are questions about whether that momentum will be sustained given the softness in the housing market and rising financing costs. In the non-residential space, we've seen softness in the number of retail and office developments, but greater resilience in the industrial segment.

Building consents

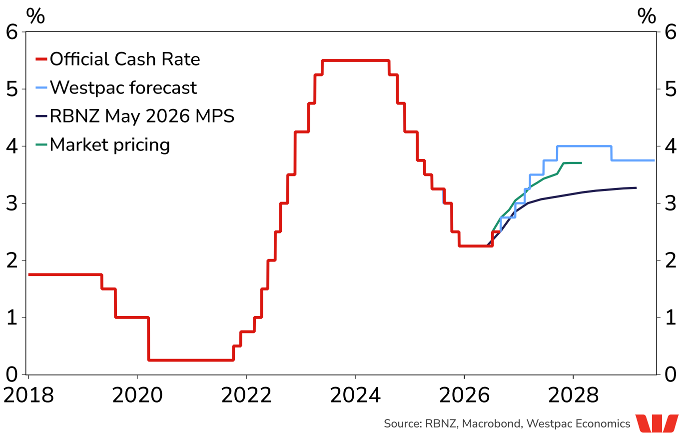


NZ: RBNZ Sep Monetary Policy Statement (%)

Sep 2, Last: 2.50, Westpac f/c: 2.75, Market f/c: 2.75

With the RBNZ kicking off a new tightening cycle in July, [we expect it to follow up with another 25bp increase at its September meeting](). The RBNZ's projections will likely continue to imply a 3% OCR by year-end, though we expect the committee to be equivocal about whether the next hike could come in October or December. The economy has evolved largely as expected since the RBNZ's May forecasts, and core inflation remains on the high side of the target range. For more detail see our MPS preview bulletin.

RBNZ Official Cash Rate

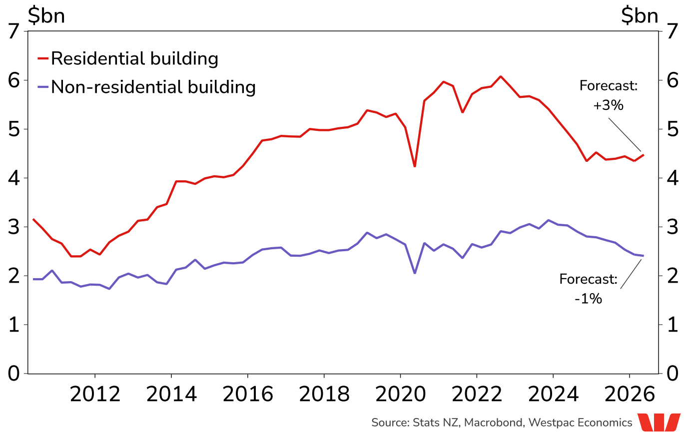


NZ: Q2 Building Work Put in Place (%qtr)

Sep 4, Last: –3.5, Westpac f/c: 1.8

We're expecting a 1.8% rise in building activity in the June quarter. That's mainly due to an expected 3% increase in residential work. That follows an unexpected decline last quarter and would leave home building activity at subdued levels. At the same time, non-residential building activity continues to decline, with occupiers and developers cautious about major capital outlays. We're forecasting a 1% drop in non-residential work this quarter.

Volume of building work



US: Aug Employment Report

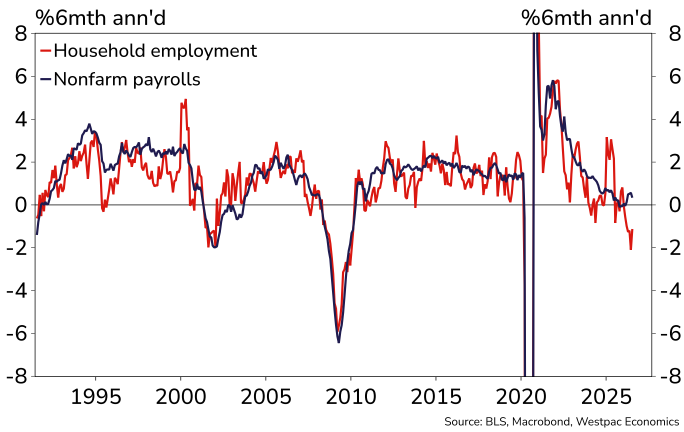
Sep 4, Payrolls, Last: –23k, Mkt f/c: 55k, WBC f/c: 70k
Sep 4, U/E Rate, Last: 4.1%, Mkt f/c: 4.1%, WBC f/c: 4.2%

The July payrolls read was a material disappointment: 23k jobs were lost against the market's expectation for an 80k gain. More telling for the underlying health of the labour market were back revisions to May and June, which delivered a cumulative 103k downgrade after June's –74k revision.

The household survey also continues to point to downside risks for payrolls. Over the past six months, payrolls have reported a gain of 44k per month, while the household survey an average decrease in the number employed of 153k.

These trends are unlikely to turn in the August report. We are most likely to a moderate gain for payrolls with evidence of downside risks in the revisions and/or household survey.

Jobs measures differ markedly



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What to watch

	For	Data/Event	Unit	Last	Market f/c	Westpac f/c	Risk/Comment
Mon 31							
Aus	Aug	MI Inflation Gauge	%ann	4.0	–	–	Inflation expectations have drifted higher.
	Q2	Company Profits	%qtr	–1.3	2.0	3.1	A recovery in the mining sector should drive profits higher.
	Jul	Private Sector Credit	%mth	0.8	0.7	0.6	Moderation on the cards, focus on housing credit growth.
	Q2	Inventories	%qtr	0.5	0.5	0.6	Higher inventories of consumer goods offset by mining.
NZ	Aug	ANZ Business Confidence	index	56.1	–	–	Strong lift in July, but was at the low point for fuel prices.
Jpn	Jul	Industrial Production	%mth	1.9	–0.7	–	Industrial momentum has improved recently.
Chn	Aug	NBS Manufacturing PMI	index	49.2	49.6	–	The unexpected contraction in July highlights ongoing challenges.
	Aug	NBS Non–Manufacturing PMI	index	49.0	49.8	–	The most recent result was the weakest since 2022.
US	Aug	Dallas Fed Manufacturing survey	index	1.3	1.6	–	Tentative signs of improvement emerging.
Tue 01							
Aus	Q2	Current Account Balance	$bn	–27.1	–30.0	–31.0	Continues to deteriorate due worsening goods balance.
	Q2	Net Exports Contribution	ppt	–0.8	0.1	–0.3	Strong goods imports will drive another negative contribution.
	Jul	Dwelling Approvals	%mth	7.2	–5.0	–5.0	A pull-back in units and more interest-rate softening effetct.
Jpn	Aug	S&P Global Manufacturing PMI	index	55.1	–	–	Last read at a record high.
Chn	Aug	RatingDog Manufacturing PMI	index	50.9	51.5	–	Holding up better than official statistics.
Eur	Aug	S&P Global Manufacturing PMI	index	52.8	52.8	–	Continues to recover post the conflict induced downturn.
	Aug	HICP inflation	%ann	2.9	3.2	–	Upside risks from higher energy prices remain in focus.
	Jul	Unemployment Rate	%	6.3	–	–	Has been at historical lows for a while.
US	Aug	S&P Global Manufacturing PMI	index	53.2	–	–	Tariff uncertainty has clouded the growth impulse.
	Aug	ISM Manufacturing	index	55.6	55.2	–	Markets look for signs of stabilisation.
	Jul	JOLTS Job Openings	000s	7359	7380	–	Labour demand showing signs of easing.
Wed 02							
Aus	Q2	GDP	%qtr	0.3	0.4	0.2	The economy has proven more resilient than feared.
NZ	Jul	Building Permits	%mth	–3.6	–	2.0	Residential consents continuing to trend higher.
		RBNZ Policy Decision	%	2.50	2.75	2.75	Signalling of the pace of future hikes will be of interest.
US	Aug	ADP Employment Change	000s	44	48	–	Labour demand is easing gradually.
	Jul	Factory Orders	%mth	–0.3	0.6	–	Business demand remains uneven.
	Jul	Durable Goods Orders	%mth	1.1	0.5	–	Investment intentions appear cautious.
Can		BoC Policy Decision	%	2.25	2.25	–	Fully expected to remain on hold.
Thur 03							
Aus	Jul	Goods Trade Balance	$bn	1.9	1.3	1.0	Vehicle, fuel and ADP equipment imports in focus.
NZ	Q2	Terms Of Trade	index	–2.0	–	–	A sharp lift in oil prices to dominate firmer export prices.
	Aug	ANZ Commodity Prices	%mth	–3.9	–	–	Some rebound in dairy prices; meat prices softer.
Chn	Aug	RatingDog Services PMI	index	50.4	50.5	–	Holding up better than official statistics.
Eur	Aug	S&P Global Services PMI	index	51.7	51.7	–	Activity has returned to growth post the conflcit related slowdown.
	Jul	PPI	%ann	4.6	–	–	Underlying inflationary pressures continue to ease.
US	Jul	Trade Balance	US$bn	–73.3	–74.5	–	Trade flows remain impacted by tariffs.
	Q2	Productivity	%ann	1.4	1.4	–	Productivity gains remain under scrutiny.
		Initial Jobless Claims	000s	203	205	–	Remain low and stable.
	Aug	S&P Global Services PMI	index	56.8	–	–	Services activity continues to drive growth.
	Aug	ISM Services PMI	index	54.1	54.3	–	Service sector momentum remains solid.
Fri 04							
NZ	Aug	Volume of Building Work	%qtr	–3.5	1.0	1.8	Bounce in res work, non-res activity continuing to drop back.
Jpn	Jul	Household Spending	%ann	–3.3	–1.7	–	Continues to track lower despite real wage gains.
Eur	Jul	Retail Sales	%mth	–0.3	–	–	Consumers remain cautious spenders.
US	Aug	Nonfarm Payrolls	000s	–23	55	70	July's payroll decline surprised expectations …
	Aug	Average Hourly Earnings	%mth	0.1	0.3	–	… while wage growth remained subdued …
	Aug	Unemployment Rate	%	4.1	4.1	–	… and lower participation limited the rise in unemployment.

Economic & financial forecasts

Interest rate forecasts

Australia	Latest (28 Aug)	Sep–26	Dec–26	Mar–27	Jun–27	Sep–27	Dec–27	Mar–28	Jun–28	Sep–28	Dec–28
Cash	4.35	4.35	4.35	4.35	4.35	4.10	3.85	3.60	3.60	3.60	3.60
90 Day BBSW	4.55	4.46	4.46	4.46	4.26	4.01	3.76	3.61	3.71	3.70	3.70
3 Year Swap	4.65	4.50	4.45	4.40	4.30	4.20	4.10	4.05	4.00	3.95	3.90
3 Year Bond	4.68	4.50	4.45	4.40	4.30	4.20	4.10	4.05	4.00	3.95	3.90
10 Year Bond	5.12	4.95	4.85	4.75	4.65	4.65	4.65	4.65	4.65	4.65	4.65
10 Year Spread to US (bps)	44	30	25	20	10	5	0	–5	–10	–15	–20
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	4.68	4.65	4.60	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	3.05	3.00	3.40	3.75	4.00	4.20	4.20	4.20	4.15	3.95	3.95
2 Year Swap	3.68	3.70	3.95	4.10	4.25	4.20	4.20	4.15	4.15	4.10	4.10
10 Year Bond	4.72	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)	4	5	15	25	45	45	40	35	30	25	20

Exchange rate forecasts

	Latest (21 Aug)	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27	Mar-28	Jun-28	Sep-28	Dec-28
AUD/USD	0.7199	0.71	0.72	0.72	0.73	0.73	0.73	0.73	0.72	0.72	0.72
NZD/USD	0.5954	0.59	0.60	0.62	0.64	0.65	0.66	0.66	0.66	0.66	0.66
USD/JPY	159.52	162	160	160	158	156	154	152	150	148	146
EUR/USD	1.1645	1.16	1.17	1.18	1.19	1.20	1.21	1.22	1.22	1.21	1.21
GBP/USD	1.3588	1.35	1.35	1.36	1.37	1.38	1.39	1.40	1.41	1.41	1.40
USD/CNY	6.7210	6.75	6.70	6.60	6.50	6.45	6.40	6.35	6.35	6.30	6.30
AUD/NZD	1.2081	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	0.2	0.2	0.3	0.4	0.4	0.4	0.4	–	–	–	–
%yr end	2.4	1.7	1.5	1.0	1.1	1.3	1.4	1.5	2.6	1.0	1.5	2.5
Unemployment rate %	4.2	4.4	4.6	4.8	4.9	4.9	4.8	4.8	4.3	4.8	4.8	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	0.6	1.1	0.8	0.6	0.6	0.8	0.5	–	–	–	–
%yr end	4.1	3.9	3.7	3.9	3.1	3.2	2.9	2.6	3.6	3.9	2.6	2.4
Trimmed Mean CPI %qtr	0.8	0.8	0.8	0.8	0.8	0.7	0.6	0.6	–	–	–	–
%yr end	3.5	3.6	3.5	3.3	3.2	3.1	2.9	2.7	3.3	3.3	2.7	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 %	5.4	5.6	5.5	5.4	5.3	5.2	5.1	4.9	5.4	5.4	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

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