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# New Zealand Chartbook


## Bevan Graham, Economist


## November 2026



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# Highlights

- **The 2026 general election delivered a less than definitive result, with the incumbent centre-right coalition holding a narrow parliamentary majority. Official results will be released on November 27 after Special Votes are counted. The implications for economic and fiscal policy will only become clearer once the composition of the next government is settled.**

- **We continue to see NZ growth as constrained, fragile and vulnerable to negative external developments. We expect annual growth of 2.0% calendar 2026, followed by 2.9% in 2027 and 2.7% in 2028.**

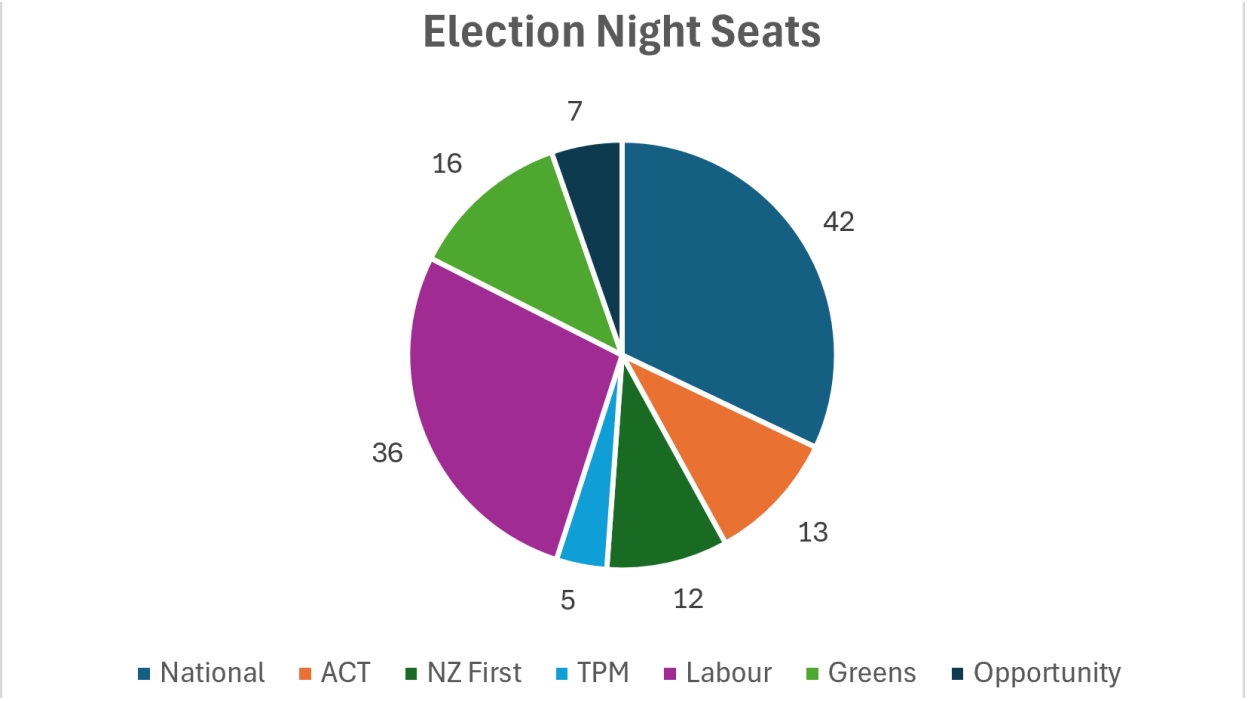
- **The NZ labour market was disappointingly weak in the September quarter. Getting the unemployment rate down will be difficult as job growth remains modest and the labour force grows. We don't expect the unemployment rate to move below 5.0% until early 2028.**

- **NZ headline inflation moderated slightly in the year to September, coming in at +3.7% y/y. Core inflation measures remain elevated at the top end of the target band with all now heading higher. Headline inflation will likely head higher again in the December quarter.**

- **While the RBNZ left interest rates unchanged in October, we expect a series of hikes over the next few months to around 3.5%, our assumed neutral rate. At that point we anticipate a pause as the RBNZ assesses whether further hikes are required to keep inflation at around target.**

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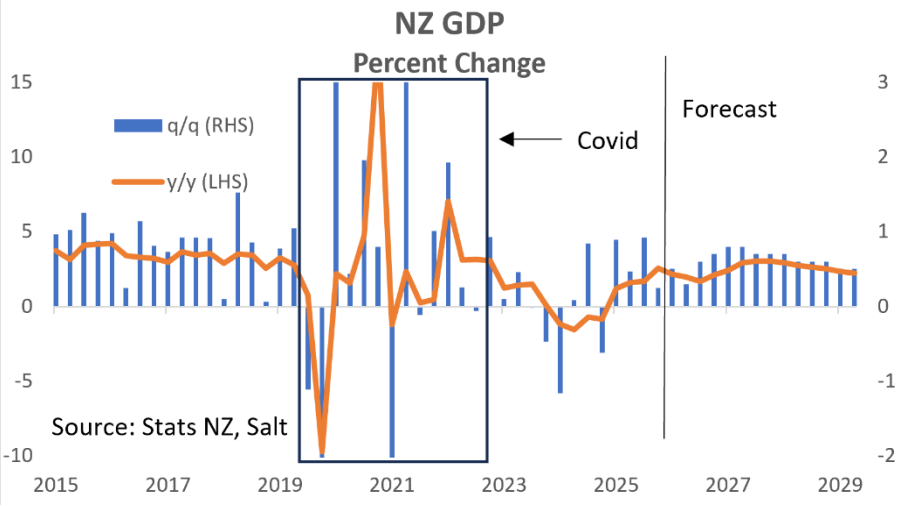
# No definitive result on election night



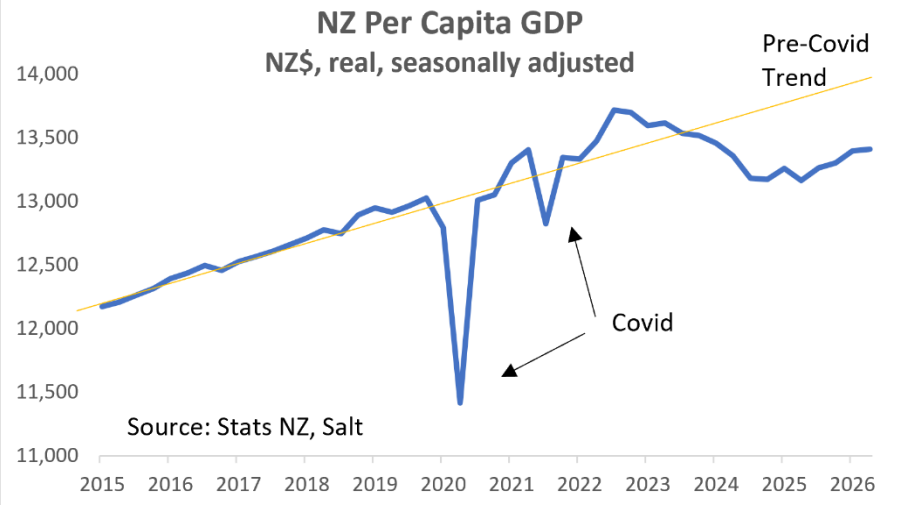

**The 2026 general election delivered a less than definitive result, with the incumbent centre-right coalition holding a narrow parliamentary majority. However, much may yet depend on the counting of around 400,000 special votes, which have historically favoured parties on the left. Official results will be released on November 27, although recounts in closely contested electorates could prolong the uncertainty. Coalition negotiations are unlikely to begin in earnest until the final results are known, with the current Government remaining in office in a caretaker capacity in the meantime. The implications for economic and fiscal policy will only become clearer once the composition of the next government is settled.**

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# GDP growth remains constrained and fragile

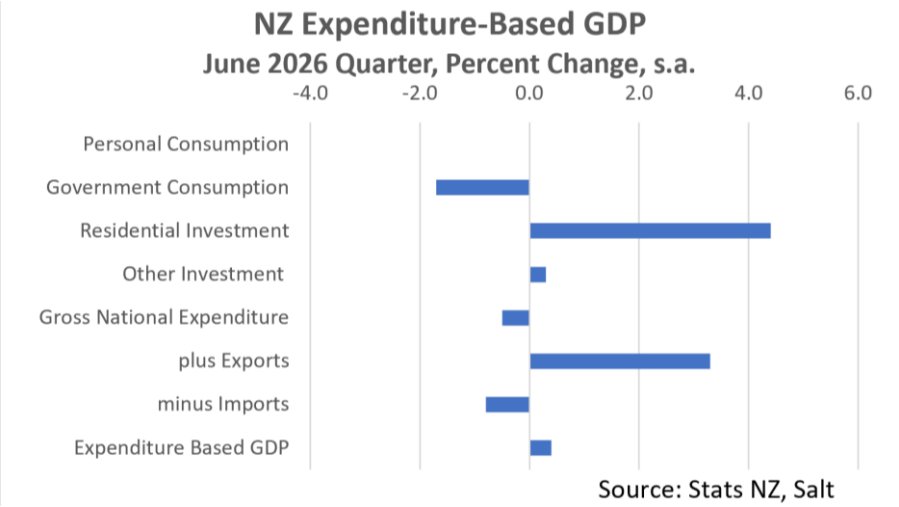



**The NZ economy eked out positive growth of +0.2% in the June quarter, even as consumer spending was subdued. Fuel price gyrations will likely see stronger growth in Q3 but then weaker again in Q4. Overall, we continue to see NZ growth as constrained, fragile and vulnerable to negative external developments. We see annual growth of 2.0% calendar 2026, followed by 2.9% in 2027 and 2.7% in 2028.**

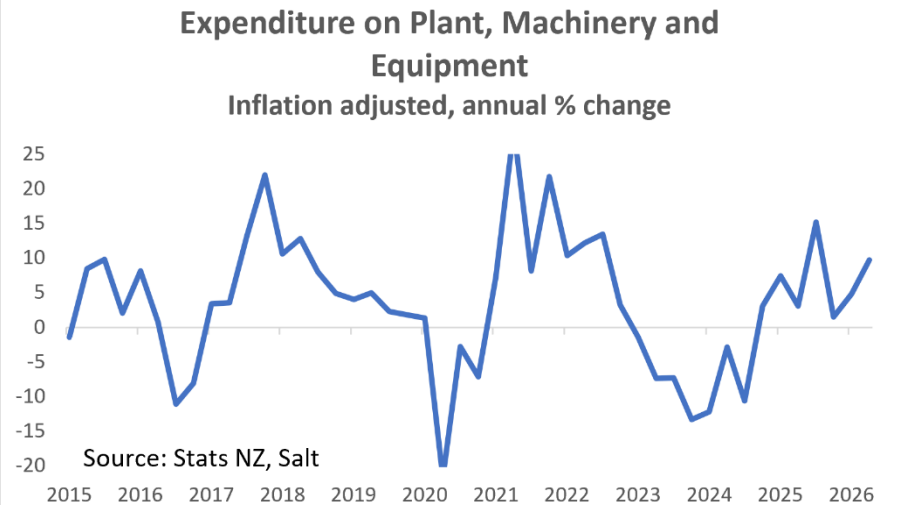



**Real GDP per capita is finally moving higher after a prolonged decline, signaling that the recovery is beginning to improve living standards rather than simply expanding the size of the economy. Even so, output per person remains well below its pre-Covid trend line, underlining NZ's challenge is not just returning to growth but generating stronger productivity and sustainable gains in real incomes.**

# Residential construction and exports the stars of Q2

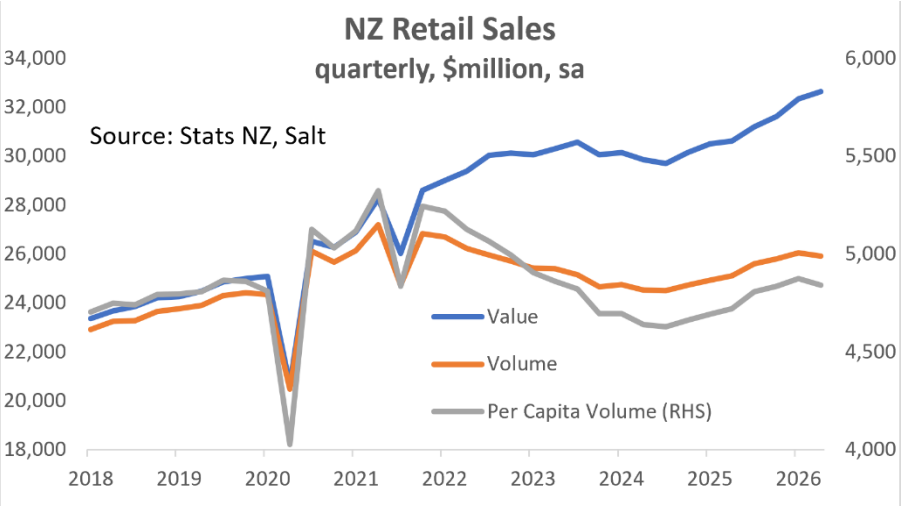



**Expenditure-based GDP was a tad stronger than the headline production-based measure in the June quarter, posting a rise of +0.4% q/q. Flat household and negative government consumption were offset by strength in residential construction and exports.**

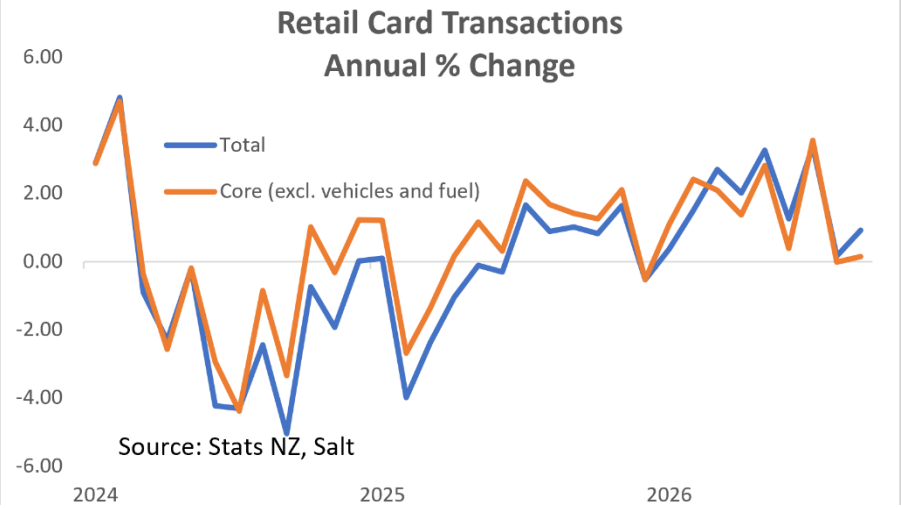



**While overall GDP growth has remained relatively constrained, a pleasing aspect of the recent data has been the trend improvement in expenditure on Plant, Machinery and Equipment. While this data can be volatile, growth of 9.7% over the past 12-months is a great result. Higher business investment is a necessary condition for improving productivity.**

# Higher fuel prices the latest constraint on retail spending

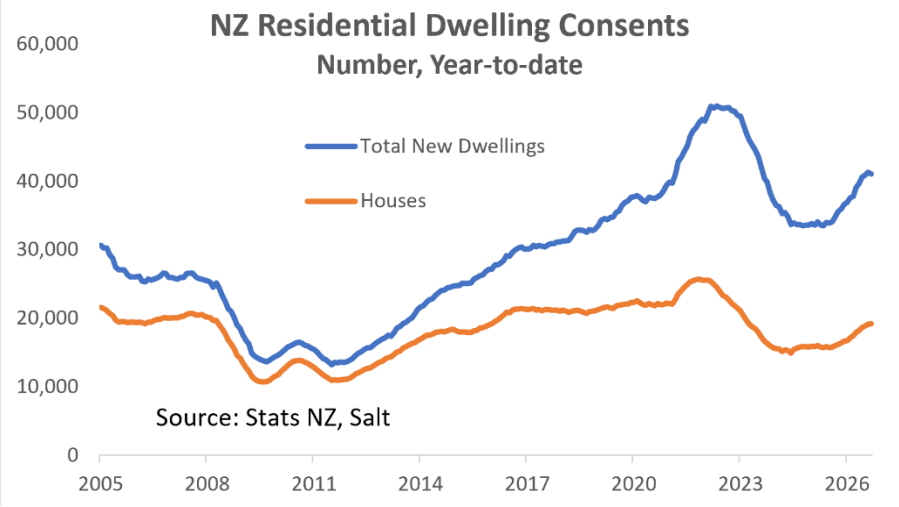



**The value of retail sales pushed higher in Q2, but this was all due to higher inflation. The volume of sales, both in total and per capita terms, were lower over the quarter. Conditions remain tough in the retail sector as higher fuel prices now add to more general costs of living pressures, flat house prices, rising interest rates and low levels of net migration as key constraints on overall consumer spending.**

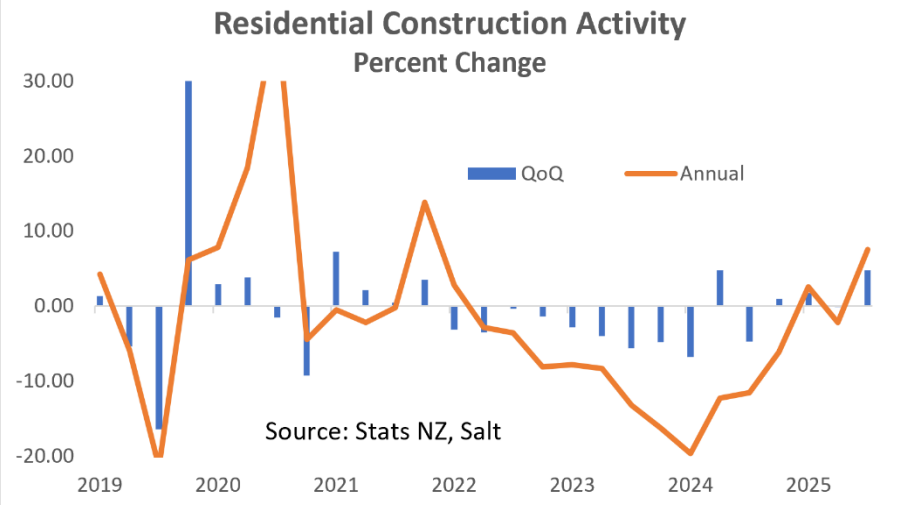



**More recent electronic card transaction data up to September reinforce the overall subdued retail spending message. Annual growth in both total and core (excluding fuel and motor vehicles) sales are barely positive. Furthermore, this data is nominal so the trend will be even weaker in volume terms.**

# Stronger residential construction activity…..finally

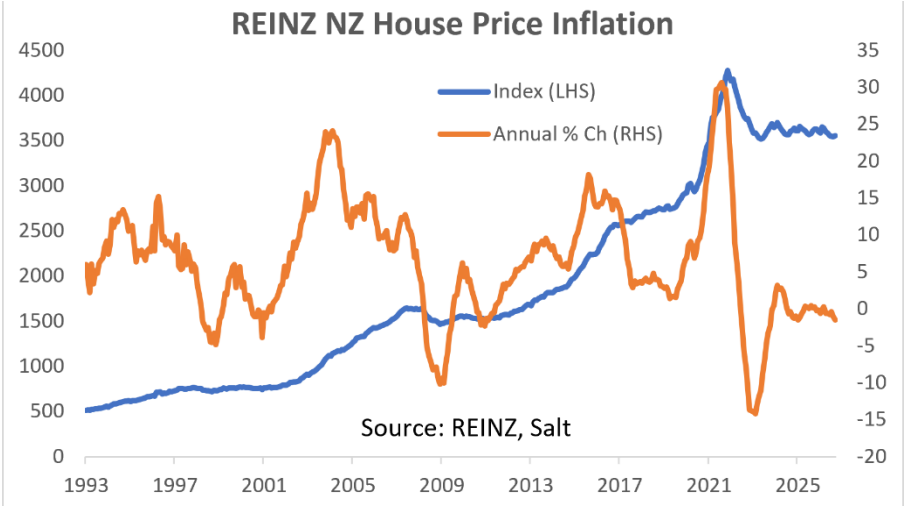



Dwelling consent issuance has recovered strongly over the last year or so although the last few months have seen a moderation in the rate of growth. The softness was in multi-unit dwellings. That could be due to any of higher interest rates, election uncertainty, net migration/population growth failing to fire, and/or generalised weakness in the existing-housing market.

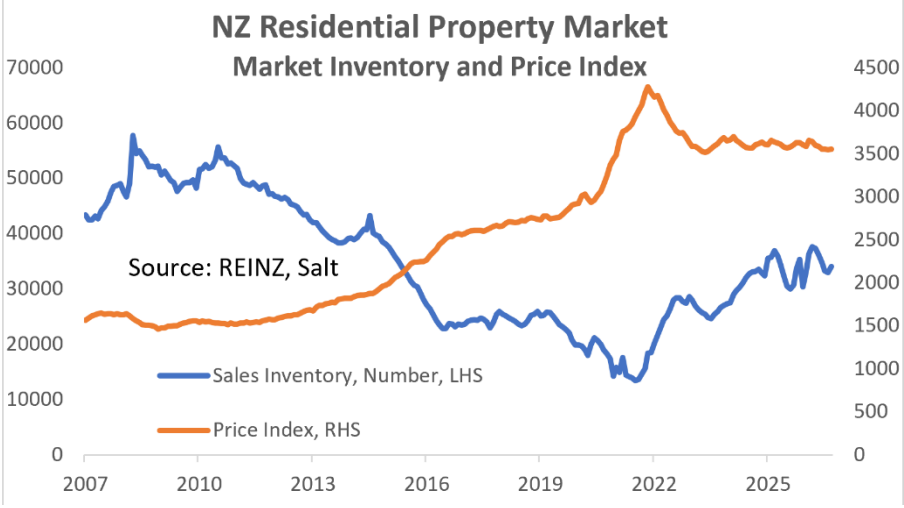



Residential construction activity has been subdued despite the recovery in dwelling consents, highlighting the lag between project approval and physical building work. The strong June quarter activity was therefore welcome and overdue and was a key catalyst helping June quarter GDP eke out a small positive result. Same constraints on the outlook apply here as to permit issuance.

# House price inflation remains soft

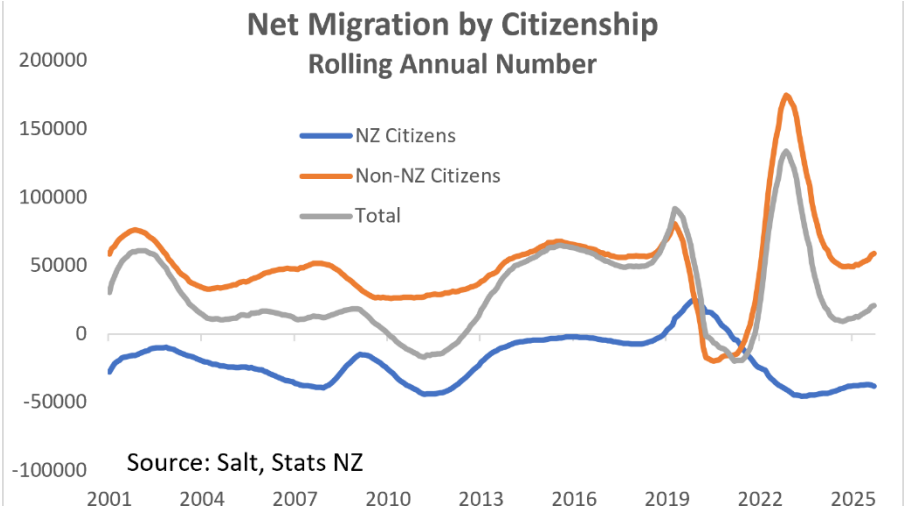


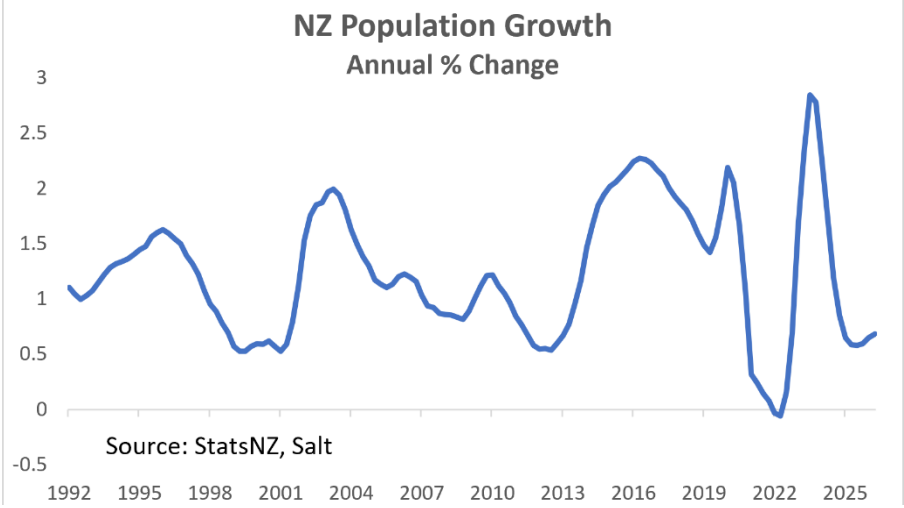

NZ house prices remain subdued, with renewed softness highlighting the fragile nature of the recovery. Despite earlier declines in mortgage rates prices have struggled to gain momentum. We expect house prices to remain under pressure in the near term, with any subsequent recovery likely to be modest reflecting affordability issues, higher borrowing costs, and subdued population growth.




One of the key constraining factors is the level of inventory which remains at decade highs. We think too high vendor price expectations are a constraint on transactions. The level of inventory is too high to generate any price tension. On the plus side, a more subdued housing market should encourage greater investment into productive parts of the economy.

# Net inward migration moving gradually higher

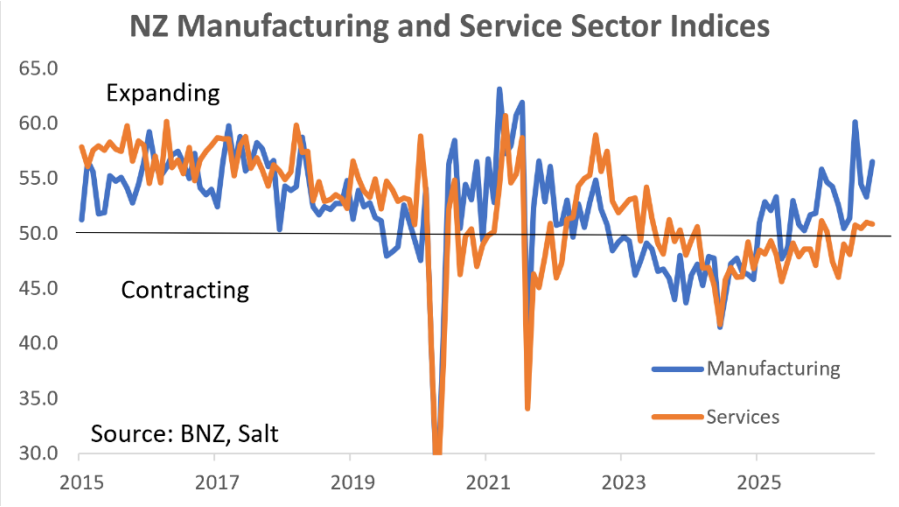


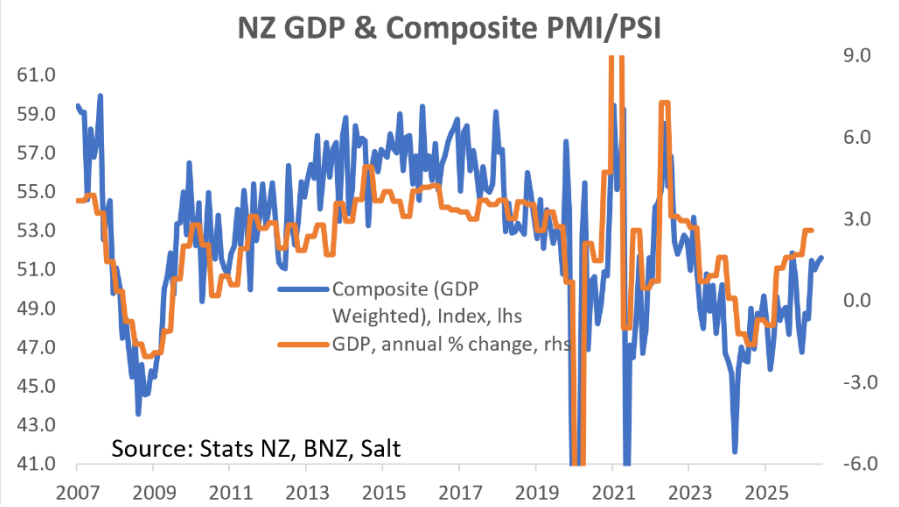

**Net migration has recovered from last year's lows as fewer Kiwis leave for Australia and arrivals from overseas have increased. While this provides support for economic growth, the current pace of +20,500 remains below its long run average of +30,000. Migration should continue to support demand but is unlikely to be the dominant driver of growth it has been in previous cycles.**

**As net migration has turned around, so too has population growth which stood at +0.7% in the year to June. New Zealand's population growth is expected to remain relatively subdued over the next few years, reflecting lower net migration and weak natural population growth, providing only modest support for economic activity, housing demand and consumer spending.**

# Manufacturing and service sector indices



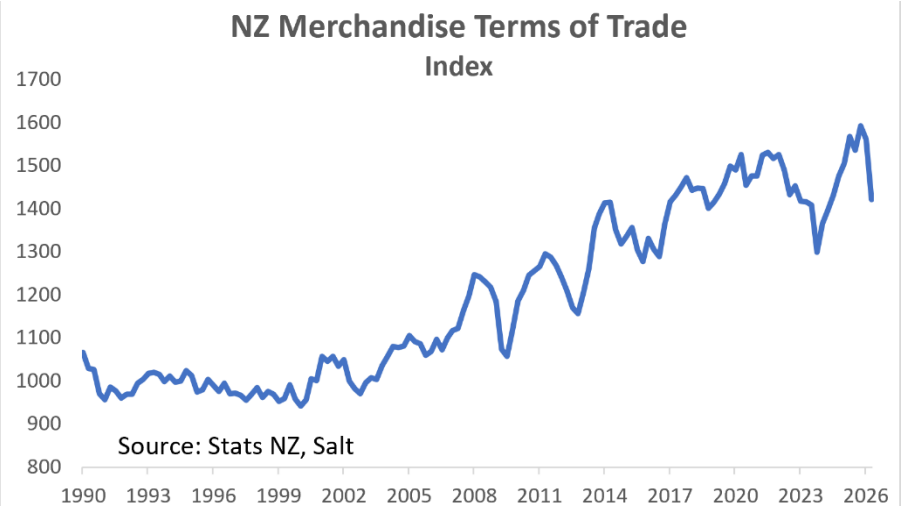

**Both the BNZ's Performance of Manufacturing (PMI) and Services (PSI) Indices have been tracking above 50, the benchmark that separates contraction (under 50) from expansion (over 50). The PMI has been more robust recently, with the PSI more contained, reflecting the lack of momentum in the retail sector which is a key component in the services sector.**



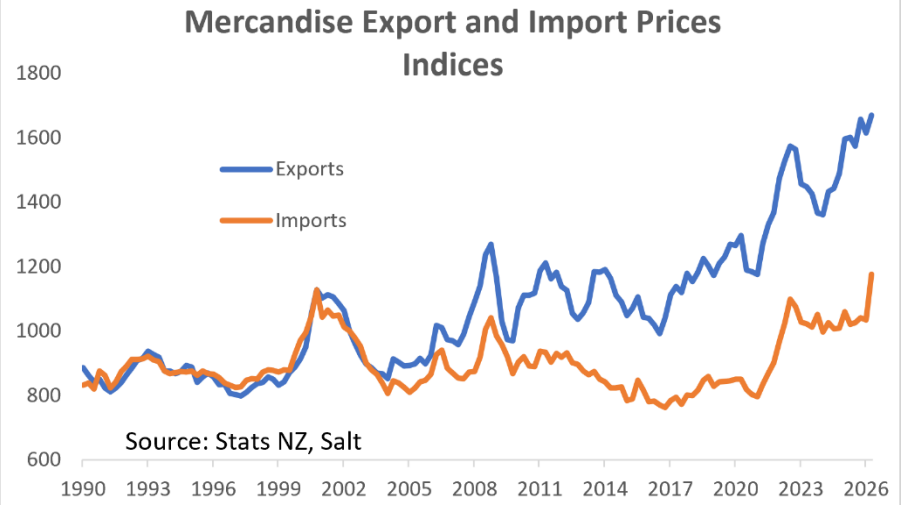

**The composite index, which GDP weights the PSI and PMI indices, has now been over 50 for four consecutive months. But at only 51.6, the index is consistent with the still overall subdued and fragile nature of the current economic expansion.**

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# Terms of trade hit by higher oil prices



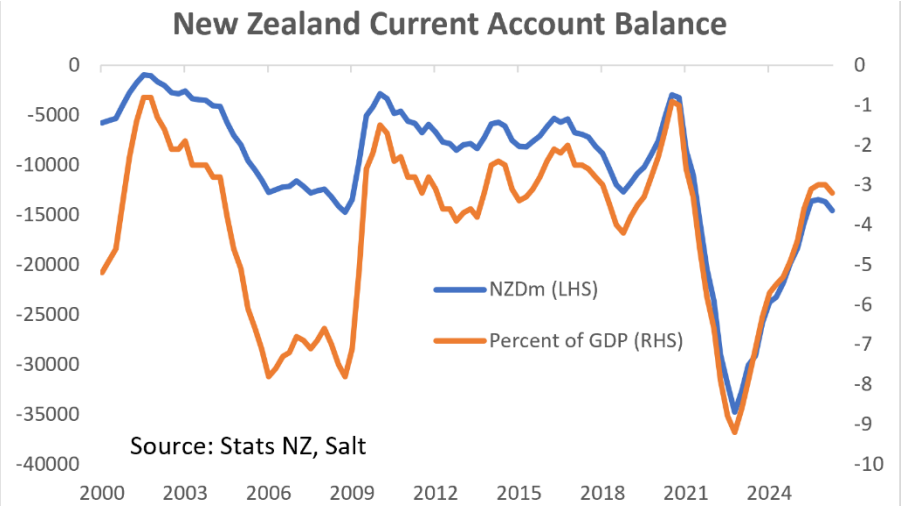

**The stellar run of New Zealand's Terms of Trade Index came to an end in the June quarter, fuelled by the sharp raise in oil prices over the period. Export prices rose by +3.5% q/q but this was swamped by a +13.7% q/q increase in import prices for an overall decline in the ToT of -9.0% over the quarter.**



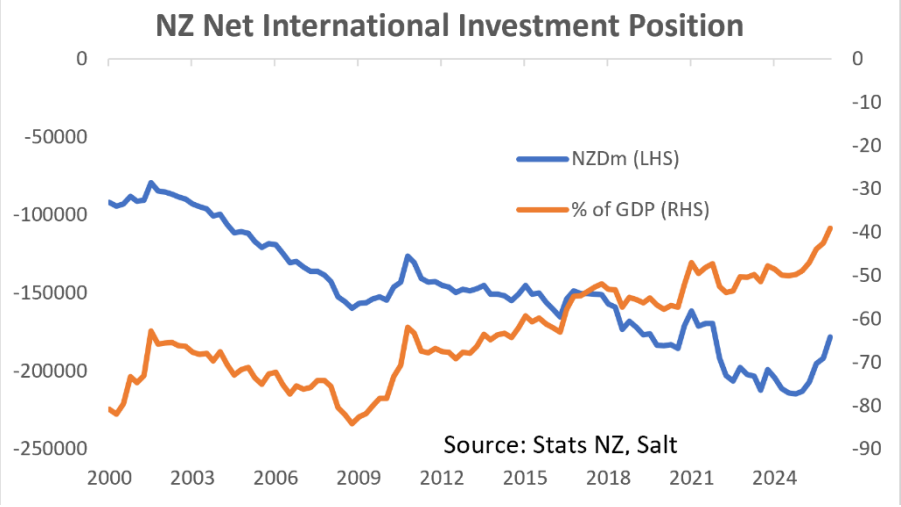

**The trend increase in the Terms of Trade over the last few years has been driven by a strong run up in export prices. While many parts of the economy have been struggling, stronger export prices have provided a degree of support, especially in the more provincial centers.**

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# Current account deficit widens as IIP continues improvement

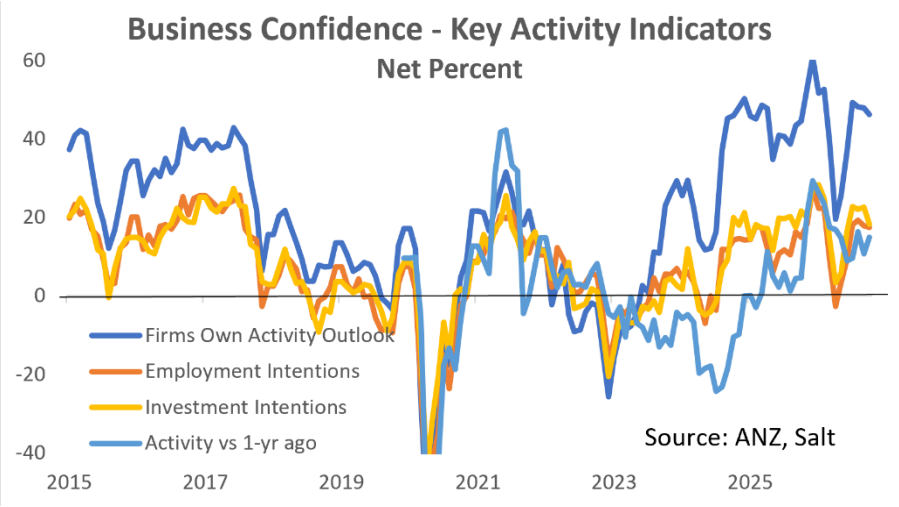



New Zealand's current account deficit widened modestly to 3.2% of GDP in the year to June, from 3.0% in March, largely reflecting a deterioration in the goods trade balance as higher fuel prices boosted import costs. While some further widening appears likely as domestic demand recovers, the deficit remains considerably smaller than the levels recorded in recent years.

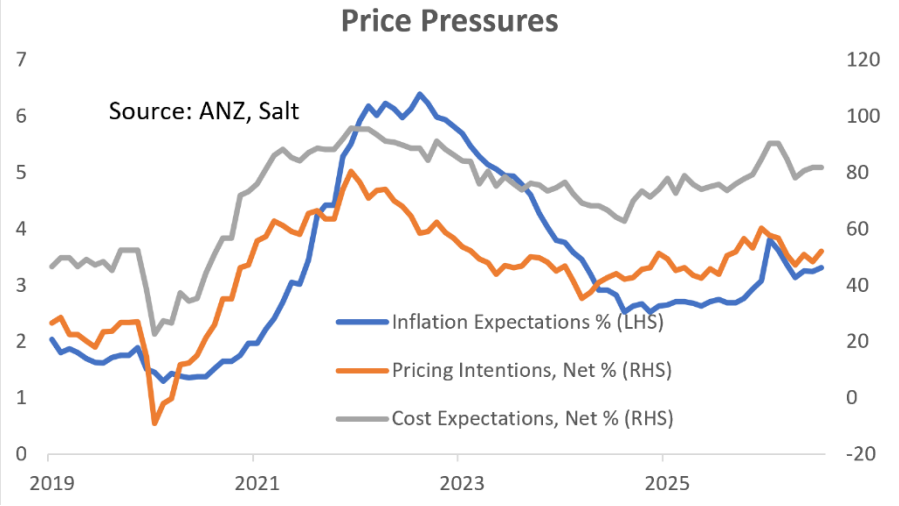



New Zealand's net international liability position improved significantly in the June quarter, declining from 42.5% to 39.0% of GDP, its lowest level in decades. The improvement largely reflected rising valuations of New Zealand's offshore investments, particularly equities, and represents a welcome strengthening of the country's external balance sheet.

# Business confidence proving resilient

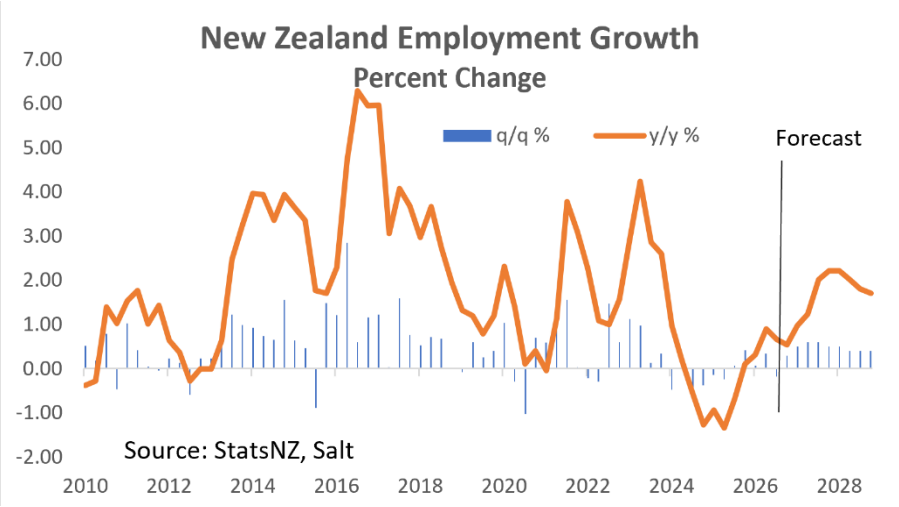



**October's ANZ Business Outlook survey suggests the NZ economy is proving resilient to the latest increase in energy prices. Headline business confidence edged higher to +53 in October, while firms' expectations for their own activity eased slightly to a still-healthy +46. Reported past activity improved from +11 to +15, consistent with our view of still difficult but improving trading conditions.**

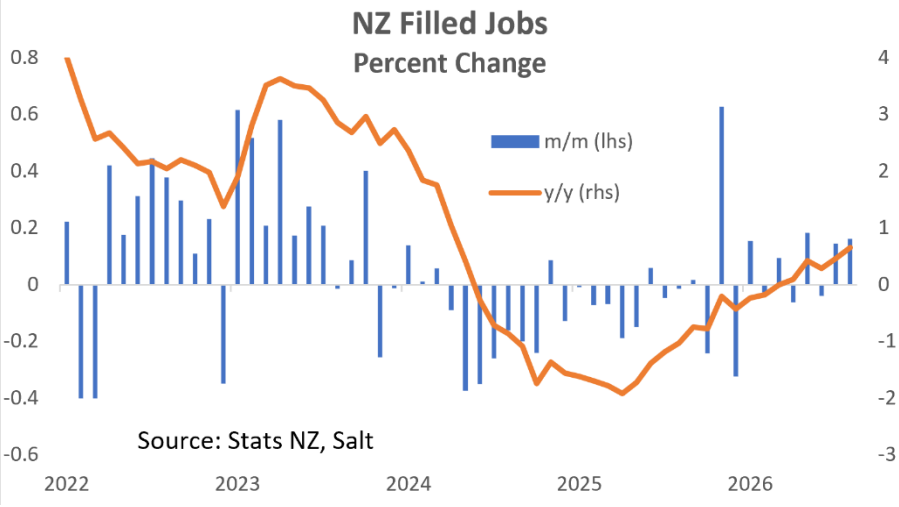



**The less encouraging news was on inflation. A net 82% of firms continue to expect higher costs, while pricing intentions rose to +52, their highest since May. Inflation expectations remain elevated at 3.3%.**

# Disappointing labour market report in Q3



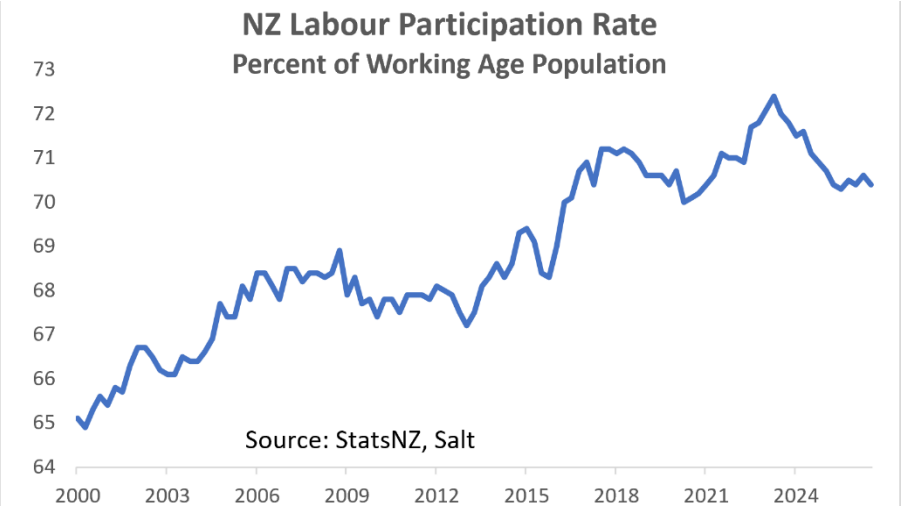

**Employment conditions have been improving slowly, however employment growth took a step back in the September quarter. Employment fell -0.1% over the quarter vs market expectations of an increase of +0.4%. The annual rate of change is now +0.7%.**



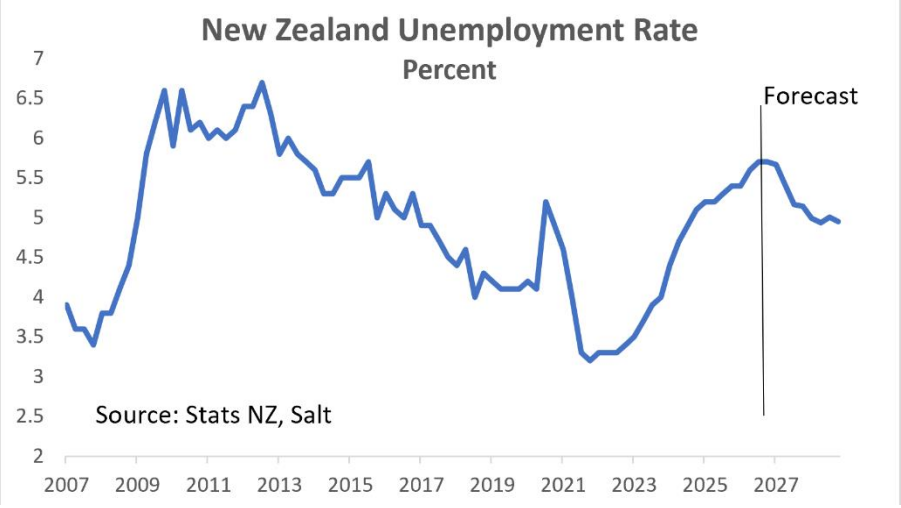

**The HLFS employment result was out of step with the more frequent filled jobs data sourced from the IRD. This data had shown further modest gains in employment over the quarter. The overall picture is that the labour market is improving, but only very gradually such that the occasional backward step can't be ruled out.**

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# Unemployment rate (still) peaking?

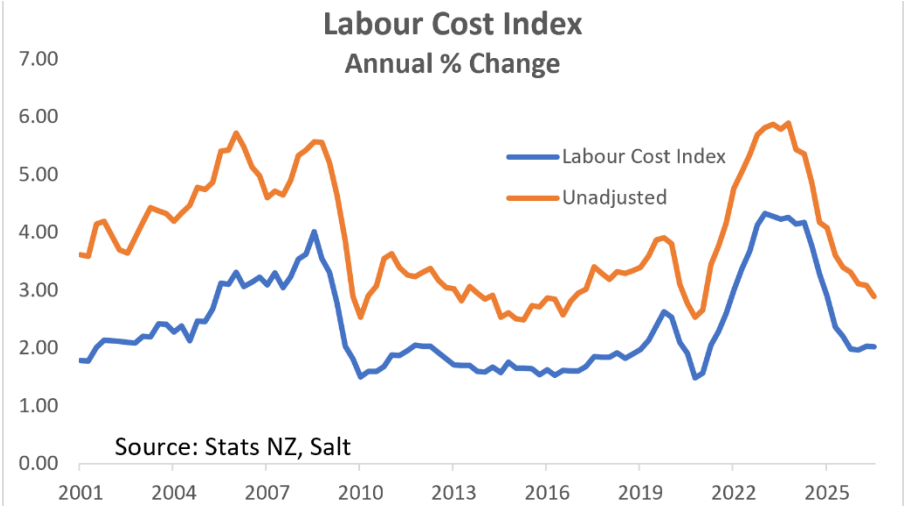



**The participation rate ticked lower again in Q3, preventing what could have been a worse outcome for the unemployment rate (see below). We expect as the economy continues to improve, the participation rate will resume its upward trend as more people are encouraged back into the labour force as job prospects improve, albeit gradually.**

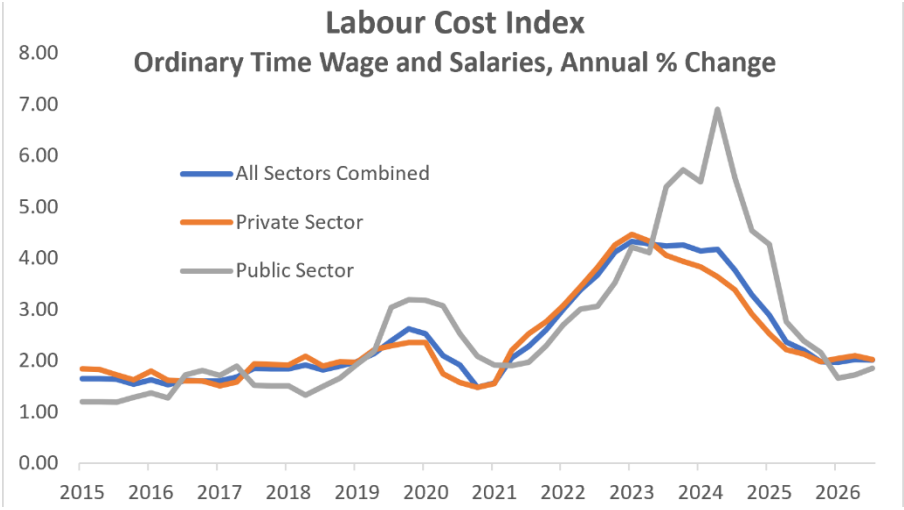



**The unemployment rate ticked higher in Q3, reaching 5.7% which was up from 5.6% in the June quarter. Getting the unemployment rate down will be difficult as job growth remains modest and the labour force grows. We don't expect the unemployment rate to move below 5.0% until early 2028.**

# Wage growth stabilising



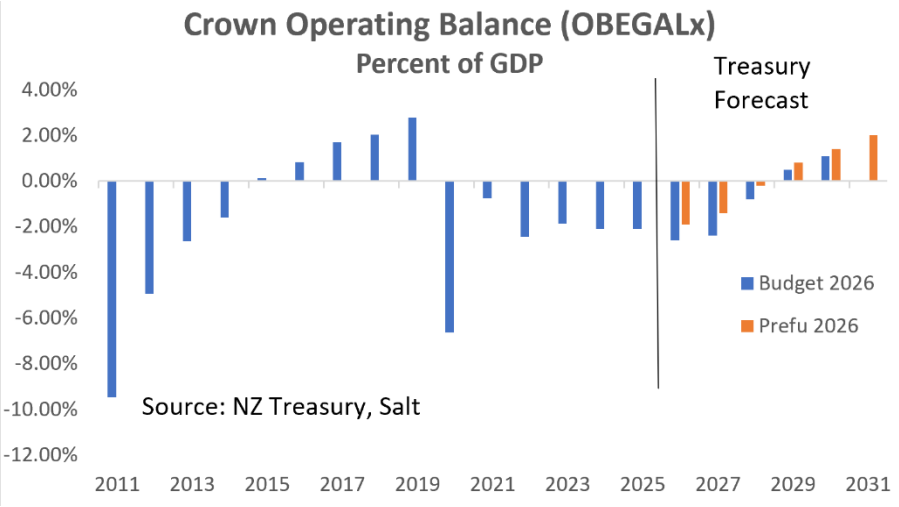

**The Labour Cost Index is a measure of unit labour costs, and at +2% y/y is consistent with target inflation. The unadjusted index is a measure of nominal wages and appears to be continuing to moderate. From the RBNZ's perspective, there is little risk of wage growth threatening their inflation target with an unemployment rate over 5%.**

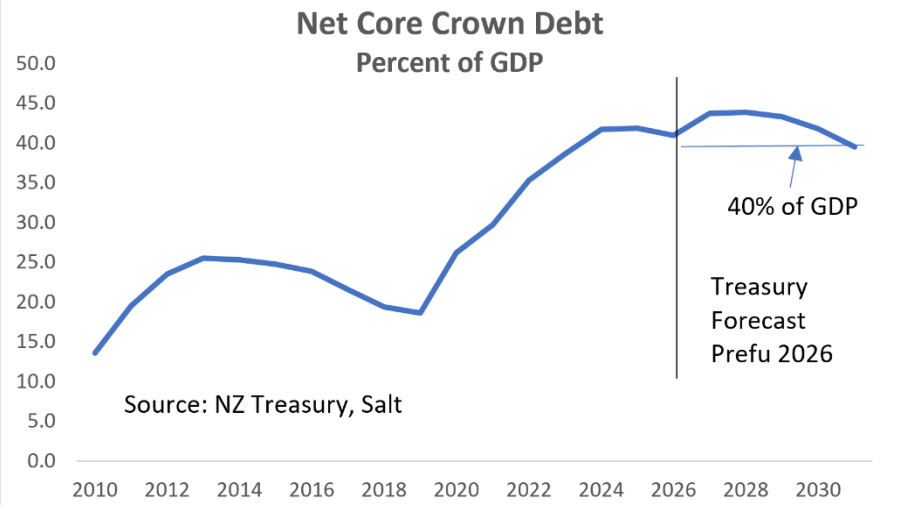



**On a sectoral basis, the LCI ticked slightly lower in the private sector, but was modestly higher in the public sector.**

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# Fiscal position better, but still challenging

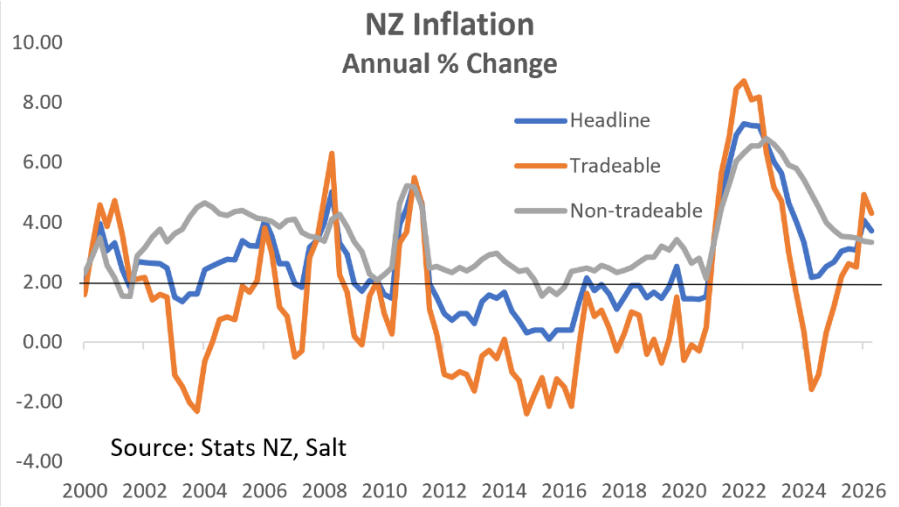


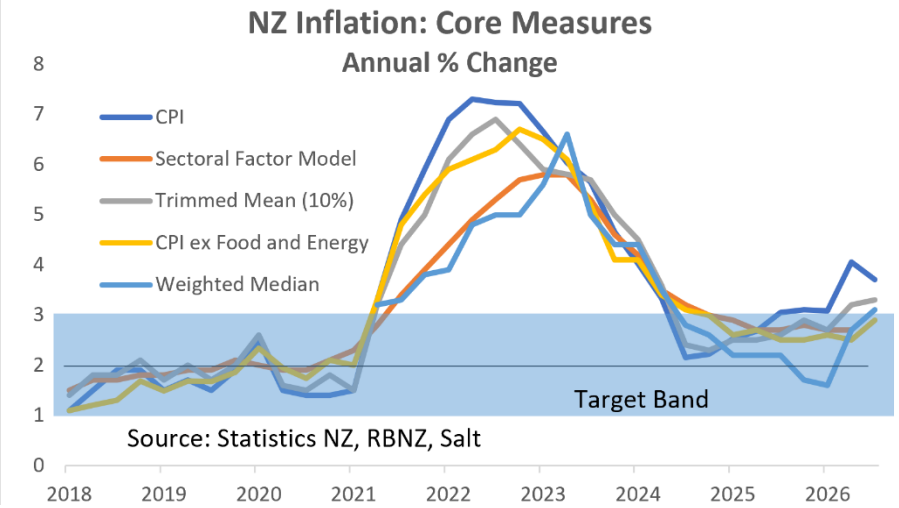

**The PreFU showed a better-than-expected starting position for the Crown's accounts. Stronger nominal GDP has improved the fiscal outlook, while the stronger cash position has allowed the Government to reduce planned bond issuance by $15 billion over the forecast period. There are, however, some important caveats. Part of the improvement reflects higher nominal growth associated with more persistent inflation, rather than simply a stronger real economy, and Treasury's economic forecasts were finalised in late August, before the latest rise in oil prices and global bond yields. Treasury itself therefore sees the balance of risks as tilted to the downside So, definitely a better starting point than we might have expected, but New Zealand's structural fiscal challenge hasn't disappeared. These numbers are a useful step in the right direction but aren't the end of the fiscal-consolidation journey.**

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# Headline inflation firm on higher oil prices

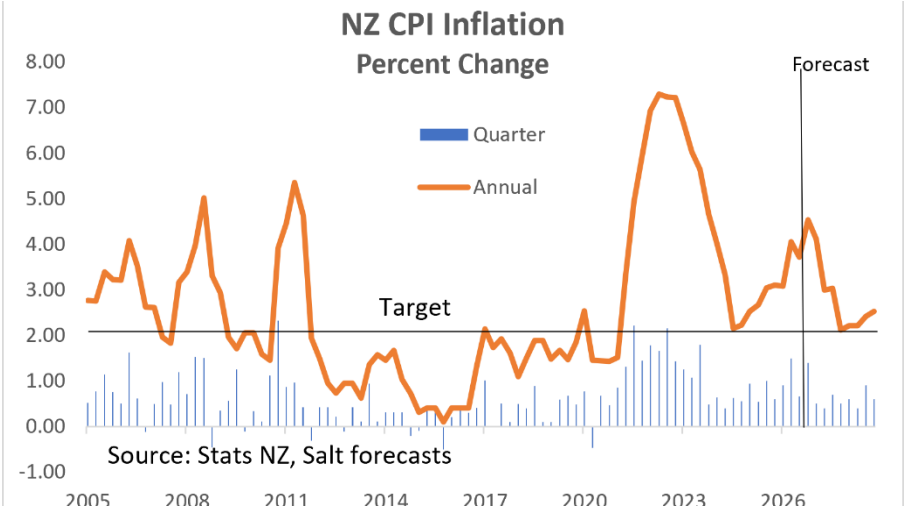



**NZ headline inflation moderated slightly in the year to September, coming in at +3.7% y/y. This is down from +4.1% y/y in June and lower than the RBNZ's forecast of +3.9% y/y. Tradeable inflation remains elevated on high fuel prices and the lower exchange rate, while non-tradable (domestic) inflation continued to ease.**

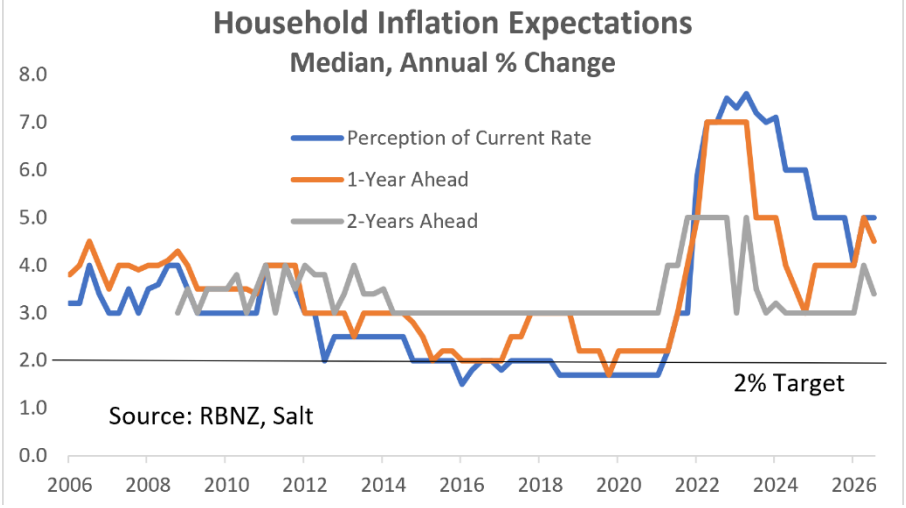



**Core inflation measures remain elevated at the top end of the target band with all now heading higher. This suggest higher interest rates are likely in the period ahead.**

# Headline inflation likely to be higher in December



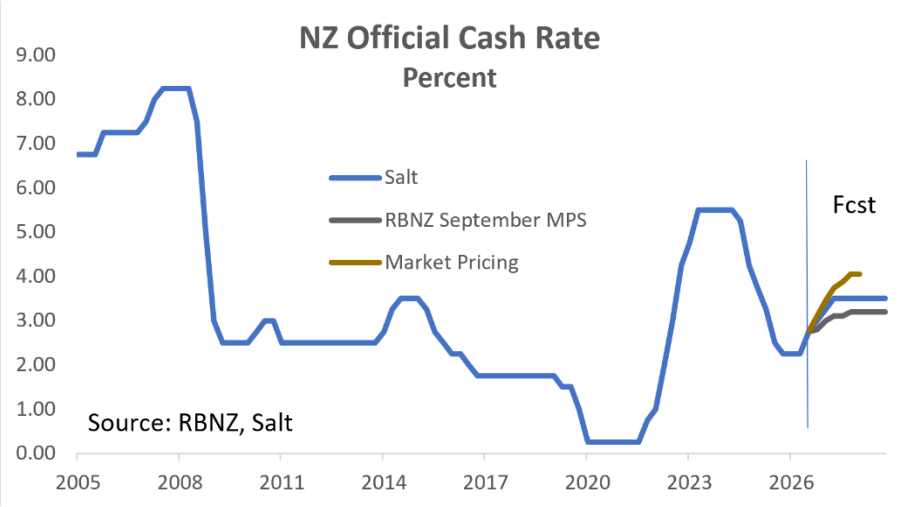

While headline inflation moderated in the year to September, we expect it will head higher again in the year to December. The recent resurgence in the international price of oil is likely to see annual inflation at 4.5% in the calendar year. The forecast is highly susceptible to changes in the oil price before the end of the year.

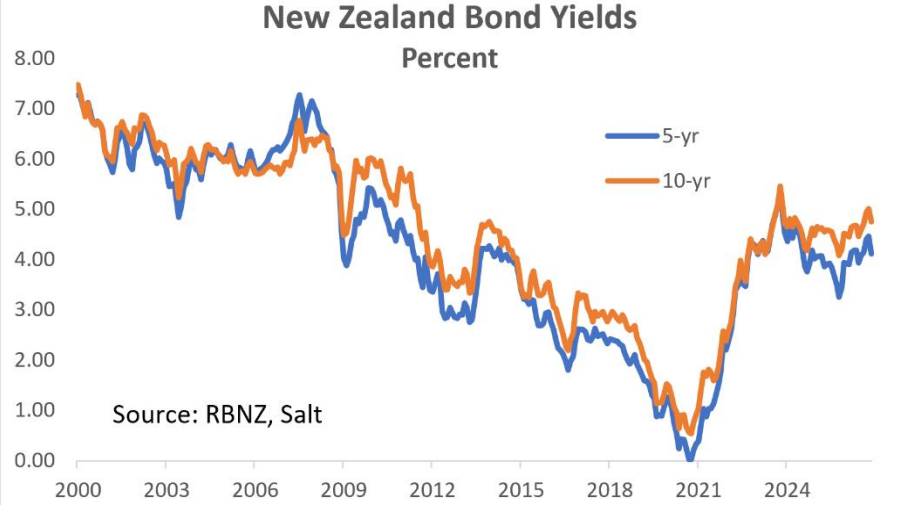



Household inflation expectations remained elevated in September, though the 1-and 2yr ahead numbers fell slightly on the back of lower petrol prices over that period. They will likely head higher again in December given the more recent increase in prices. The RBNZ will be watching this data closely given the risk of high inflation expectations feeding into wage demands.

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# OCR heading higher

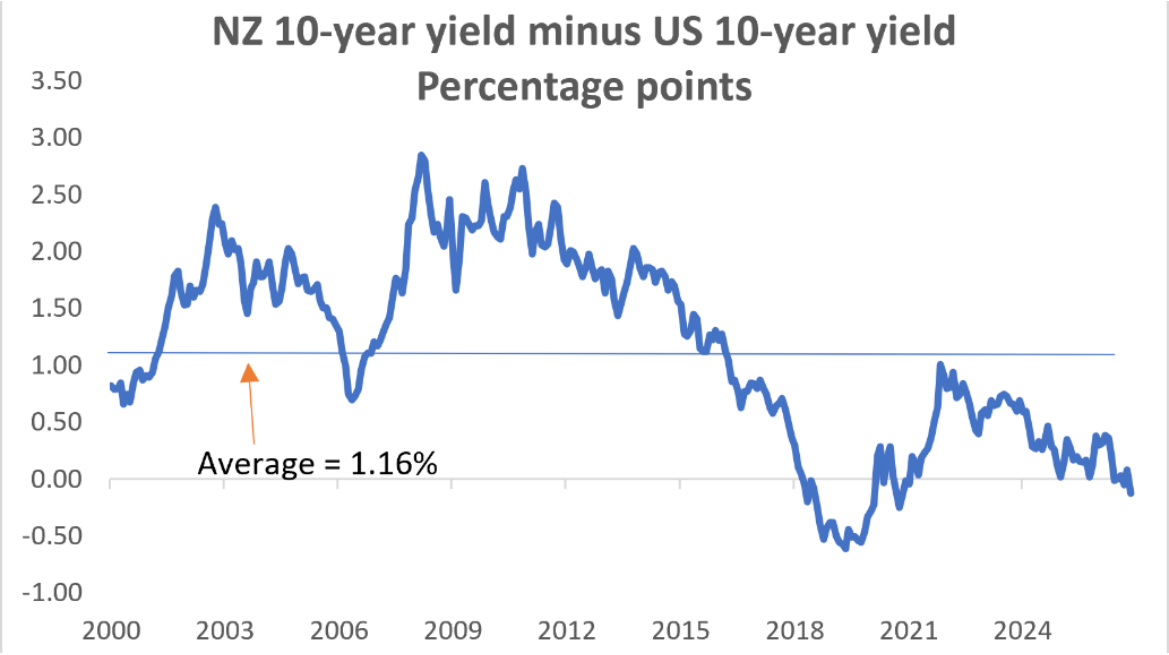



**The RBNZ has started to reduce the degree of monetary stimulus by hiking the Official Cash Rate a total of 50bp to 2.75%. While the bank left interest rates unchanged in October, we expect a series of hikes over the next few months to around 3.5%, our assumed neutral rate. At that point we anticipate a pause as the RBNZ assesses whether further hikes are required to keep inflation at around target.**

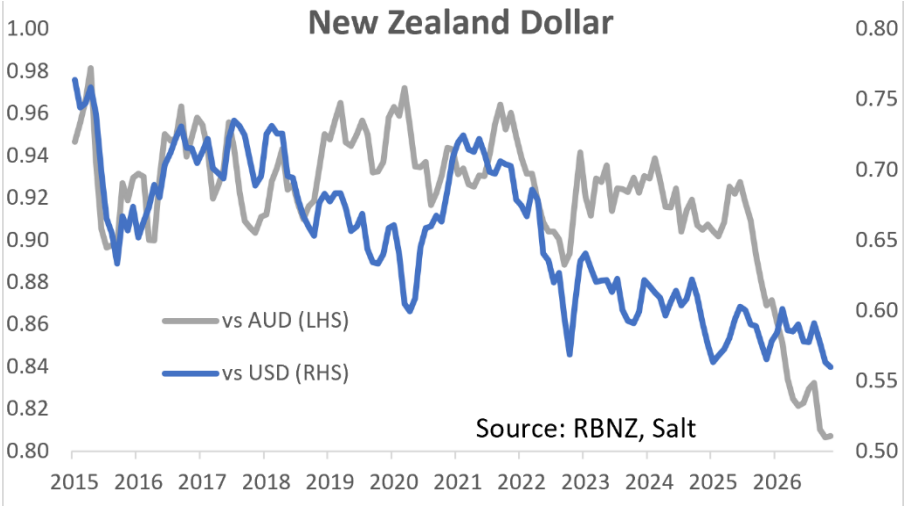
**New Zealand government bond yields followed global yields higher in September and then lower from late October as investors became more comfortable with prevailing interest rate levels. Domestic monetary policy also contributed to the decline following the RBNZ's decision to leave the OCR unchanged. Looking ahead, global bond market developments and fiscal pressures are likely to remain important influences on longer-term NZ yields.**

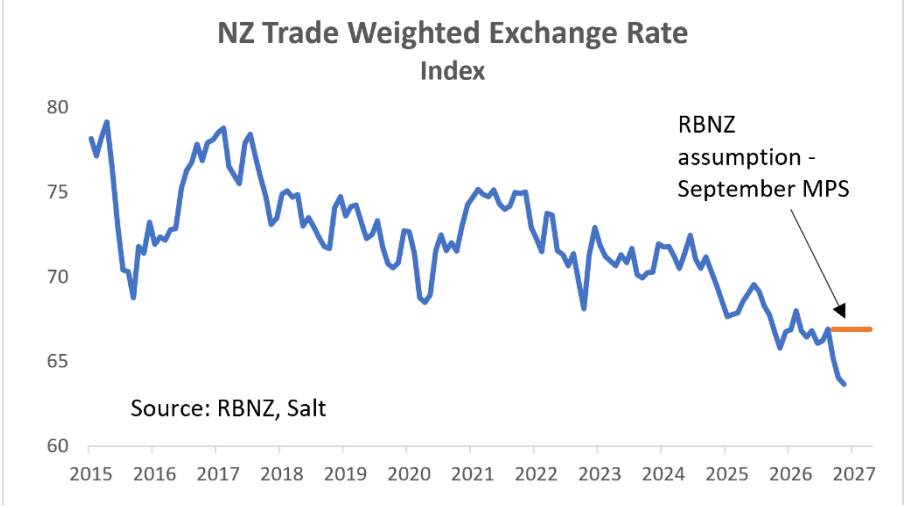
# Why NZ fiscal discipline matters




**The yield differential between New Zealand and US 10-year government bonds has narrowed significantly, recently flirting with negative territory. While global bond market developments remain an important influence, the narrowing spread is a timely reminder of the importance of fiscal discipline in small, open economies. New Zealand relies on international capital to help fund its investment needs and cannot take investor confidence for granted. Maintaining credible fiscal settings is therefore critical to containing borrowing costs and ensuring New Zealand does not have to pay an increasingly large risk premium to attract international capital.**

# New Zealand dollar

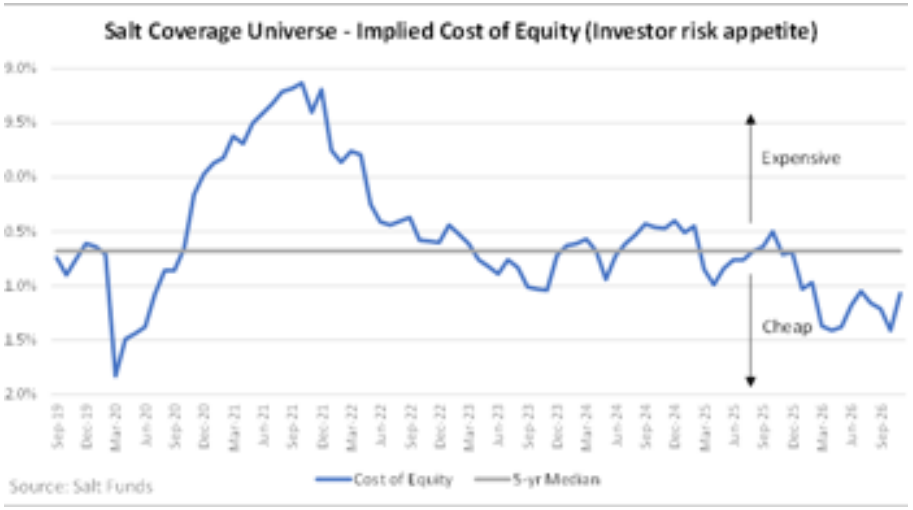



**The NZD has weakened significantly against both the US and Australian dollars in recent months, reflecting a combination of US dollar strength, global uncertainty and relatively subdued domestic economic conditions. Against the USD, the currency fell sharply in September before stabilising around US$0.56 in October. Against the AUD, the NZD has fallen to multi-year lows around A$0.80, reflecting Australia's stronger relative economic performance and expectations of further RBA tightening and more dovish expectations here in NZ. Looking ahead, relative interest rate settings and the strength of New Zealand's economic recovery will remain important drivers of both exchange rates. The TWI is running around 5% below the level assumed by the RBNZ in its September MPS, which will add to tradeable sector inflation.**

SALT

# Sharemarket valuations




**We view current pricing of the Salt stock coverage universe as moderately cheap relative to its 5-year average, with New Zealand equities priced around a 10% discount to Australian equities based on bottom-up DCF valuation methodology. Equities have derated since February on Iran-war driven negative earnings risk. Spiking fuel costs and declining consumer sentiment have begun to apply downward pressure to short-term earnings of cyclical stocks in particular, however valuations look attractive in the event of future recovery. The key question for investors currently is the residual impact of the war on the macro recovery that had gradually gained momentum in NZ through late CY25 & into early CY26.**

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