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New Zealand Chartbook

Bevan Graham, Economist

August 2026

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CarbonFund

RESEARCH IP FUND MANAGER OF THE YEAR 2023 - WINNER - ALTERNATIVES FUND OF THE YEAR

RESEARCH IP FUND MANAGER OF THE YEAR 2023 - WINNER - BOUTIQUE FUND MANAGER OF THE YEAR

PRI Principles for Responsible Investment

TCFD TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES

with. Intelligence HFM Asian Performance Awards 2023 Winner Australian Equity

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Highlights

- The NZ economy was on an improving trajectory as we entered 2026, but that was interrupted by the war in Iran. We think growth resumed into Q3 driven by strong commodity prices and stimulatory monetary conditions.

- Below trend net migration and flat house prices will continue to present headwinds to a more robust recovery. We see annual growth of 1.7% in 2026 rising to 2.3% in 2027 and 3.0% in 2028.

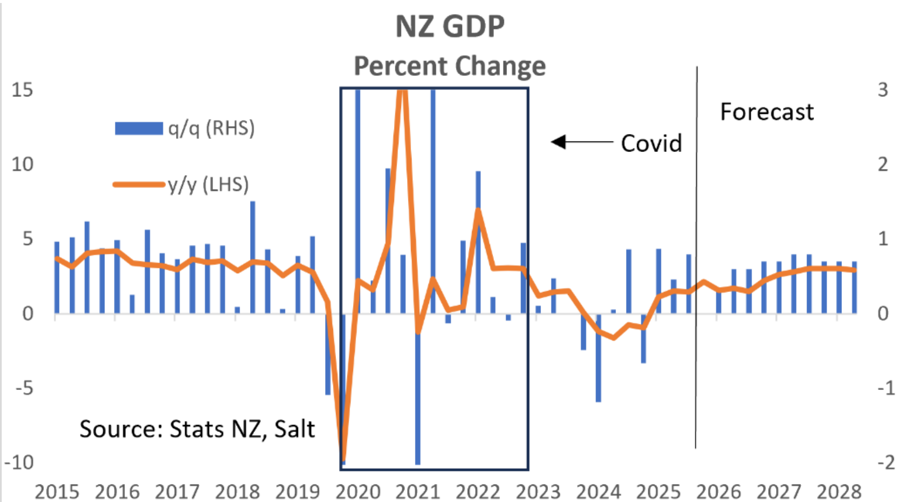
- Household spending is gradually recovering as lower interest rates, improving confidence and rising real incomes begin to support demand. Even so, retail activity remains subdued by historical standards, reflecting cautious consumers and a labour market that is only slowly gaining momentum.

- The unemployment rate stood at 5.6% in June. We expect this may be the peak and that the rate will start to come down gradually from here. However, progress will be slow.

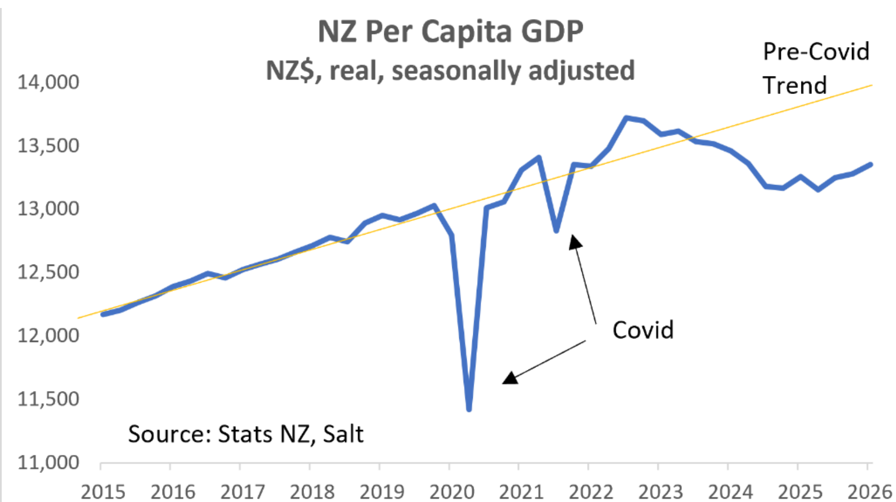
- We think June quarter inflation will mark the peak in headline inflation. However, the fact that oil prices are likely to remain elevated, at least relative to the pre-war level, means inflation looks set to remain outside the top end of the RBNZ's 1-3% target band until this time next year.

- The RBNZ has started to reduce the degree of monetary stimulus by hiking the Official Cash Rate 25bp to 2.5% in July. We expect a series of hikes over the next few moths 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.

Recovery set to resume after fuel price disruption

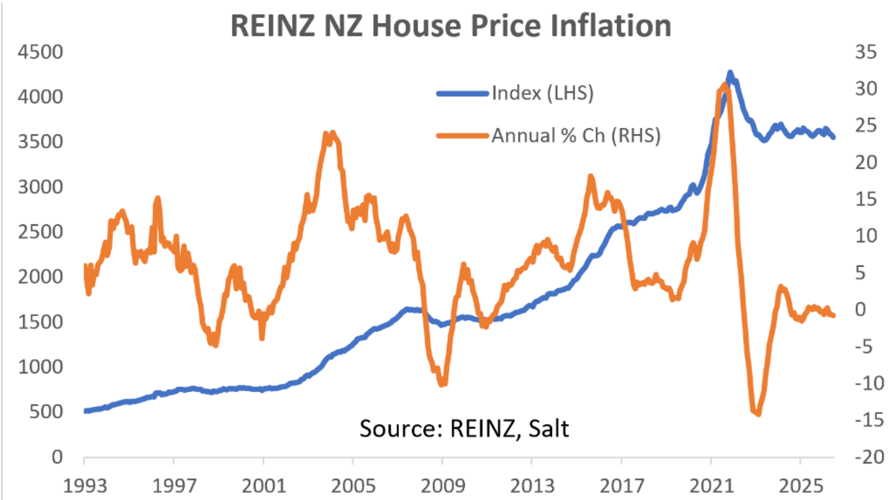


The NZ economy was on an improving trajectory as we entered 2026, but that was interrupted by the war in Iran. We think growth resumed into Q3 driven by strong commodity prices and stimulatory monetary conditions. Below trend net migration and flat house prices will continue to present headwinds to a more robust recovery. We see annual growth of 1.7% in 2026 rising to 2.3% in 2027 and 3.0% in 2028.

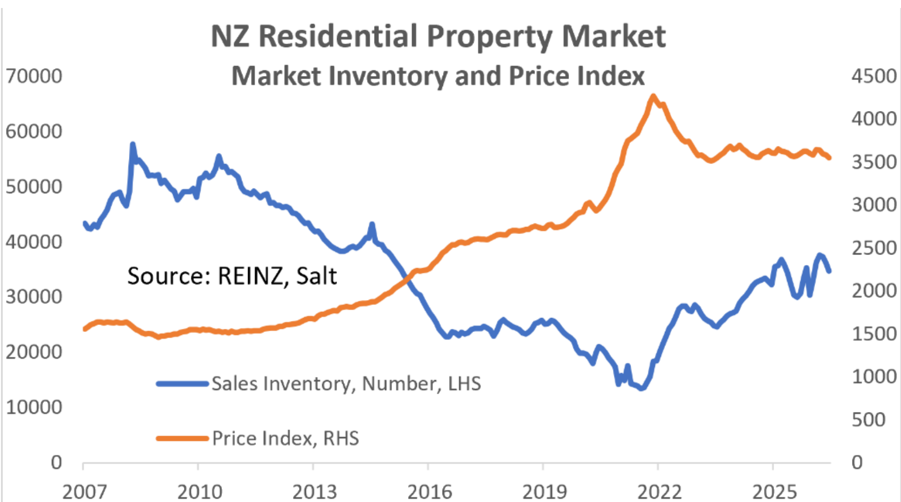


Real GDP per capita is finally moving higher after a prolonged decline, signaling that the recovery is beginning to improve living standards rather than simply expanding the size of the economy. Even so, output per person remains well below its pre-Covid level, underlining that NZ's challenge is not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

No tailwind from house price inflation…



New Zealand house prices have broadly stabilised after the covid surge and correction, supported by lower mortgage rates and a gradually improving economic backdrop. However, we expect only modest gains from here as affordability constraints, a more balanced housing market and only moderate population growth limit the scope for another rapid upswing.



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.

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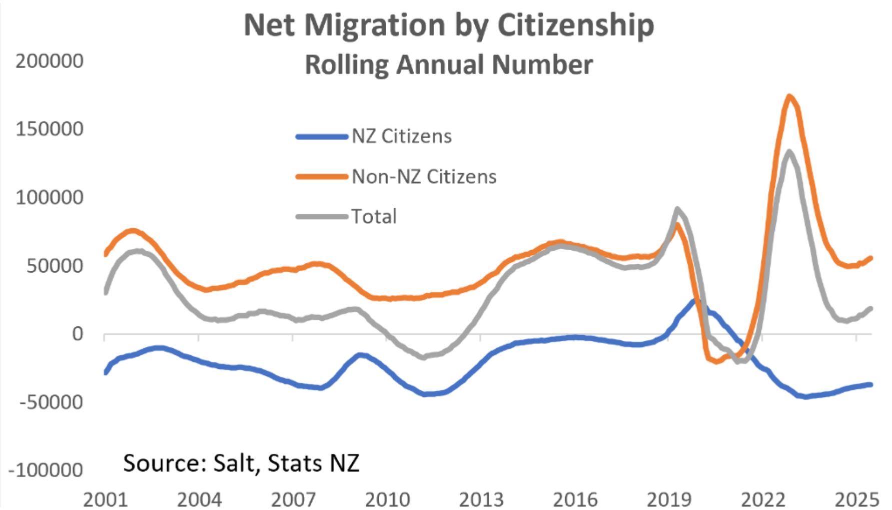
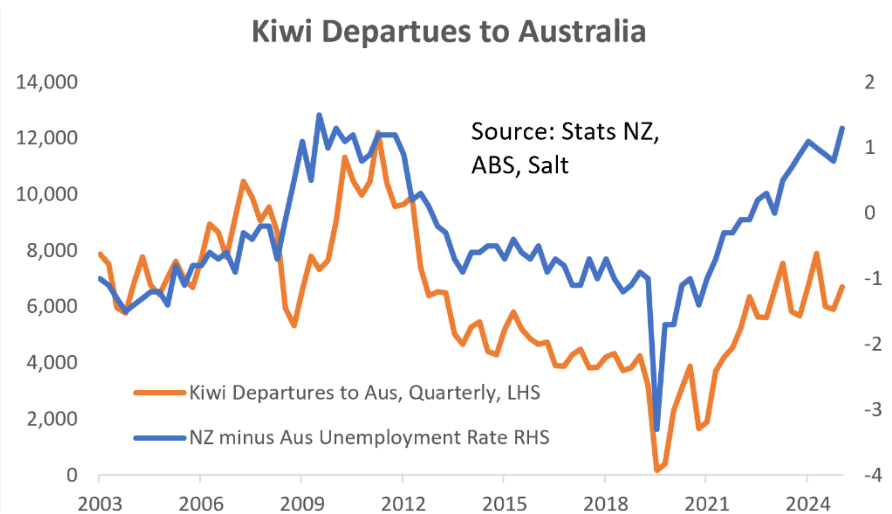
Net inward migration moving gradually higher





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 +18,800 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.

The relative Trans-Tasman economic cycle is likely to be in NZ's favour over the next 2-3 years. That likely means better job prospects here than in Australia which should see a continued reversal of the recently strong outflow of Kiwi's across the ditch.

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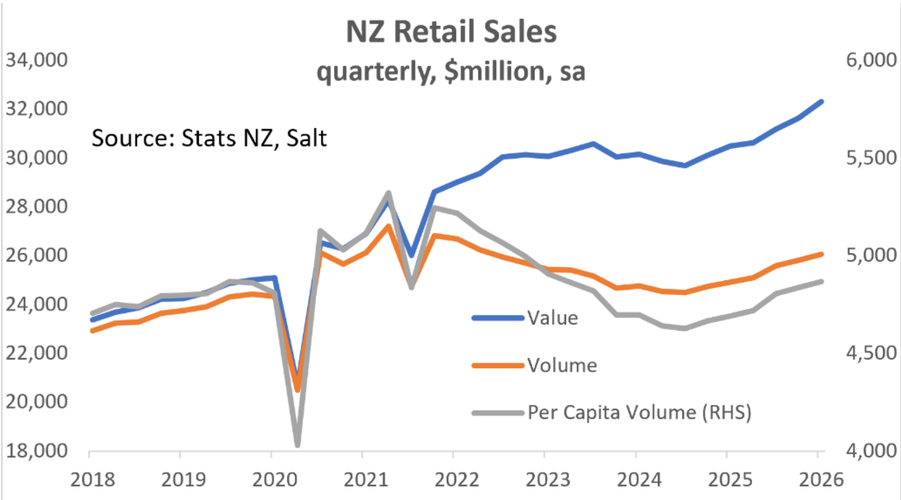
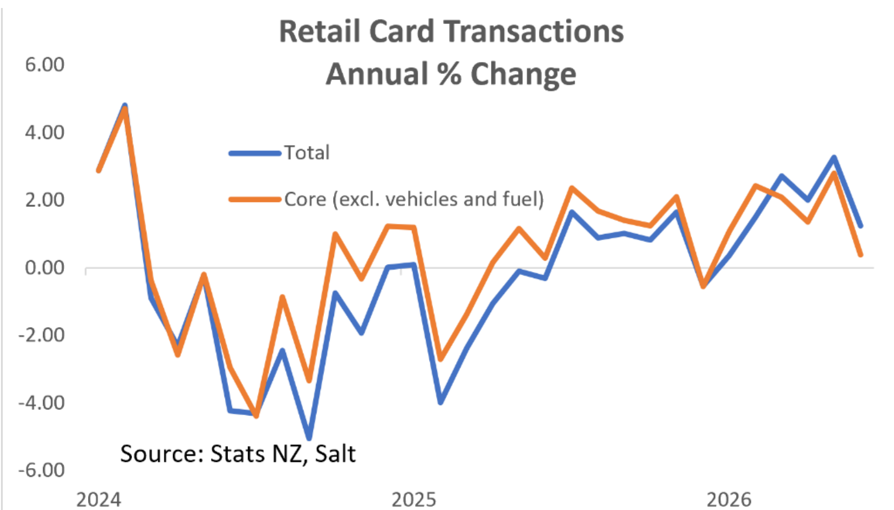
Retail spending recovering slowly

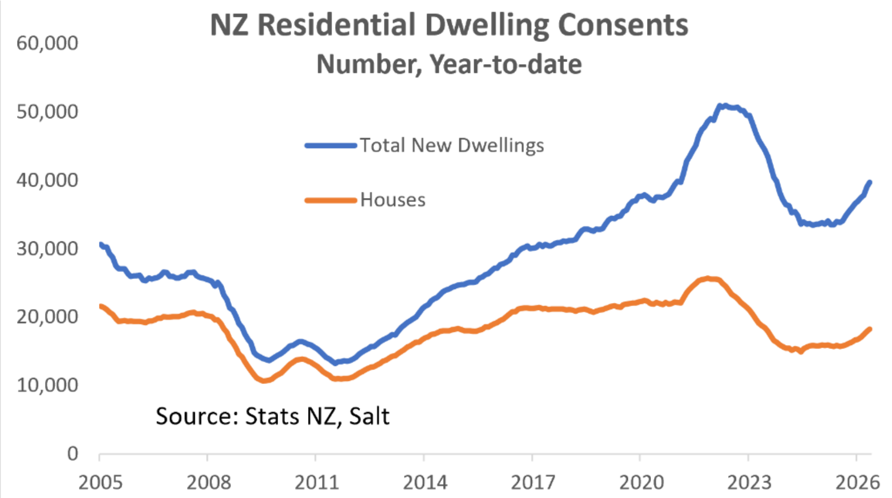


Household spending is gradually recovering as lower interest rates, improving confidence and rising real incomes begin to support demand. Even so, retail activity remains subdued by historical standards, reflecting cautious consumers and a labour market that is only slowly gaining momentum. Consumer spending should strengthen further as the recovery becomes more established.

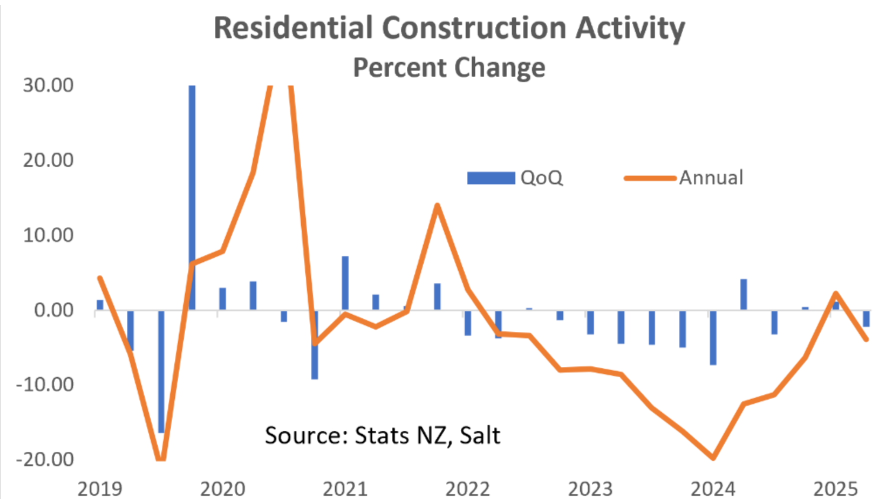


While the trend in sales remains up, the higher frequency retail card transaction data shows more subdued spending in the June quarter. Furthermore, this data is nominal so the volume of spending will be hit harder by the higher energy prices.

Residential construction struggling to get going



Dwelling consent issuance has begun to recover after a sharp decline, signaling that confidence in the residential development sector is gradually improving. While approvals remain below the elevated levels seen during the post-pandemic building boom, the recent upturn points to a gradual rebuilding (pun intended) of the future construction pipeline.



Residential construction activity remains subdued despite the recovery in dwelling consents, highlighting the lag between project approval and physical building work. As developers work through existing pipelines and gain confidence that the housing recovery will be sustained, construction activity should gradually strengthen over time.

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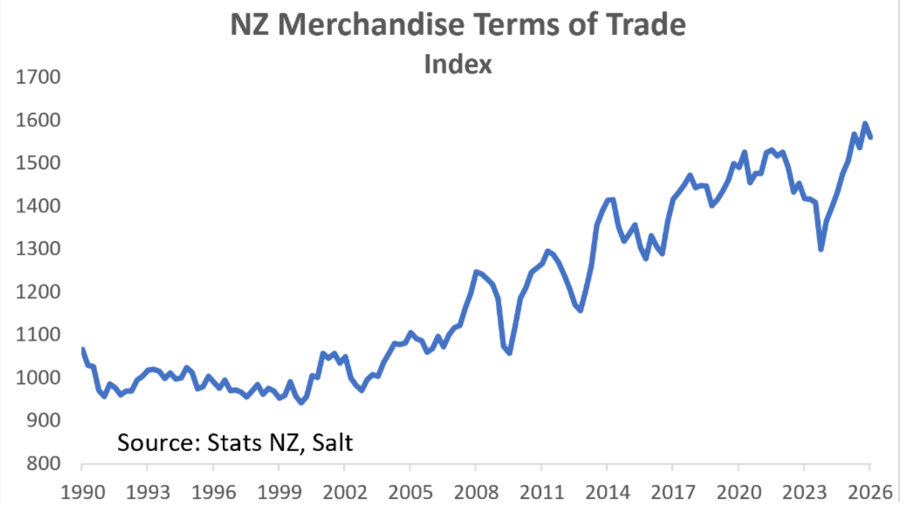
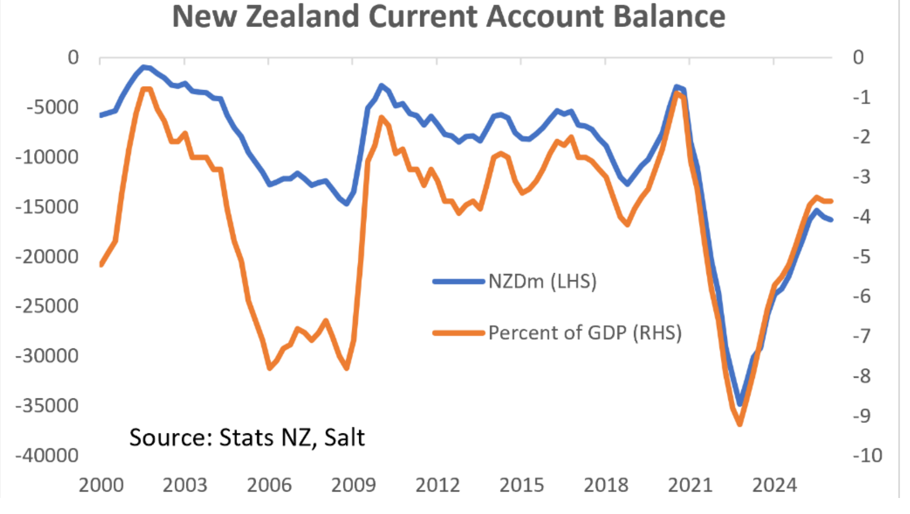
Terms of trade will be hit by higher oil prices



New Zealand's terms of trade remain at historically high levels, supported by resilient export prices and generally lower import costs. This continues to provide an important buffer for the economy, supporting national income despite a challenging global environment. The terms of trade will likely take a hit in the June quarter from higher import (fuel) prices.



NZ's current account deficit has narrowed significantly from its recent peak as domestic demand has softened and export earnings have improved. While the external position is becoming more sustainable, the structural nature of the problem is highlighted by the fact we are running a deficit of over 3% of GDP at the same time the terms of trade is at a record high.

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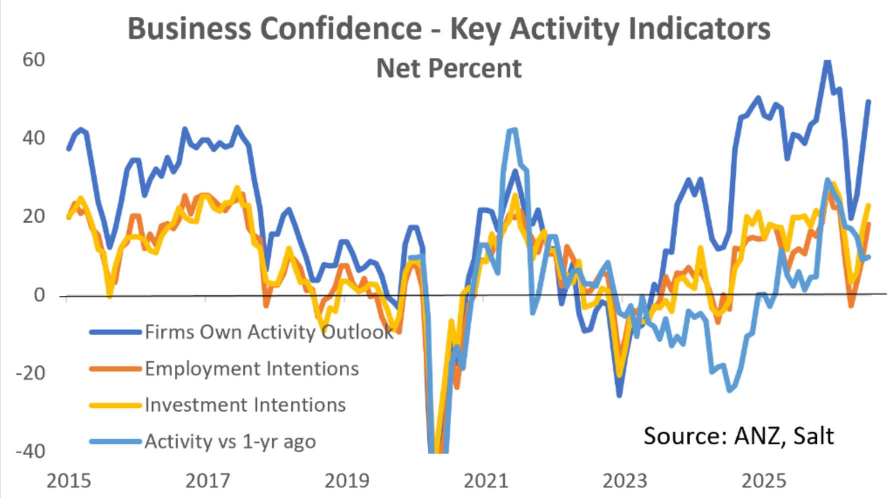
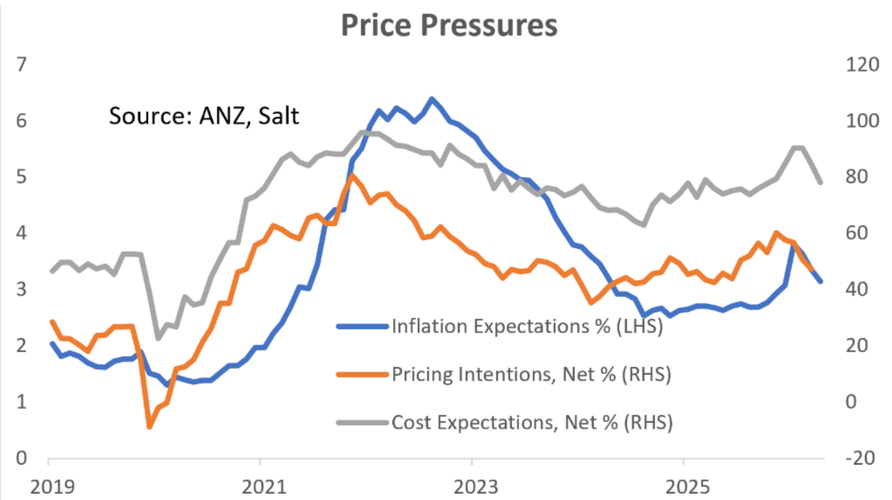
Business confidence recovering from war hit





The ANZ's July Business Outlook survey showed a further improvement in the key activity indicators, including the question about firm's current activity levels compared to the same time last year. This reflects the easing in US/Iran tensions and the lower oil price in the early part of the month. Responses took a turn for the worse later in the month as hostilities resumed and oil prices rose.

Inflation signals eased further over the month, reflecting the generally lower oil price. However, these indicators still remain at elevated levels relative to a 2% inflation target.

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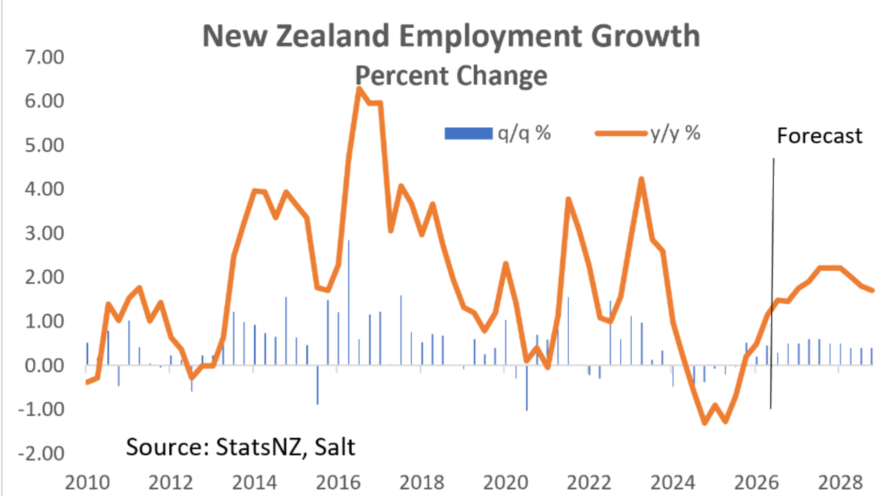
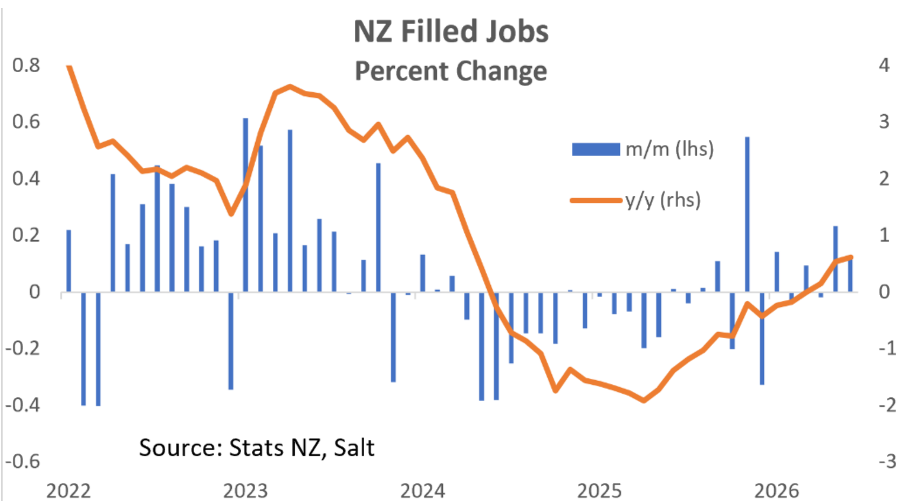
Employment conditions improving slowly



Employment conditions are gradually improving. June quarter growth was stronger than expected at +0.5% q/q but we think there are some measurement issues in the data that means some of that increase is likely given back next quarter. Annual growth of +0.7% y/y is a better sign of the still challenging jobs market in NZ.



The more frequent monthly filled jobs data, sourced from the IRD, is also consistent with the gradually improving trend in the labour market.

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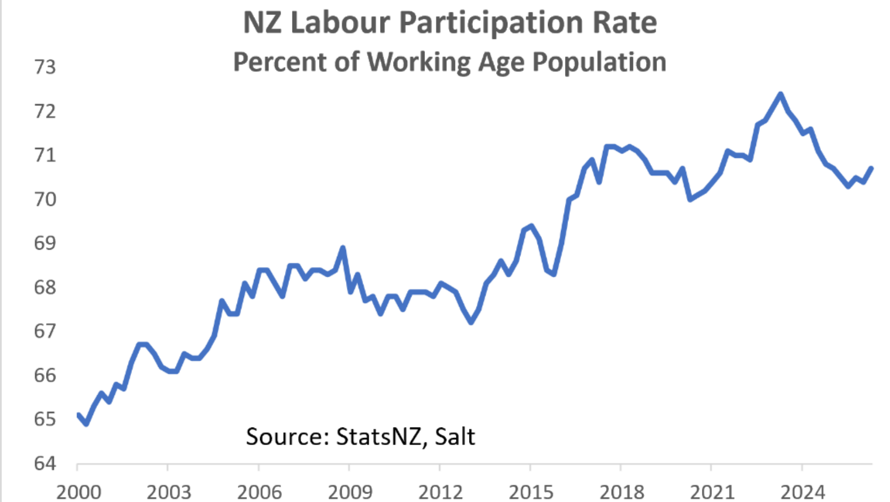
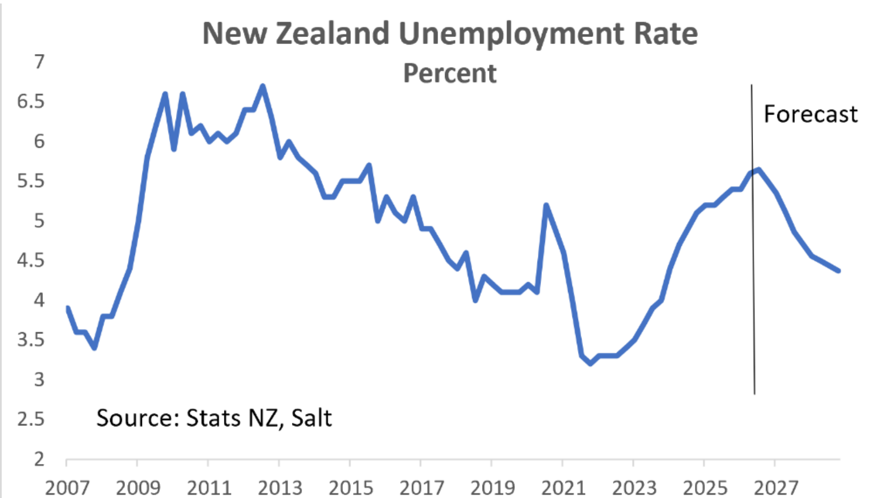
Unemployment rate peaking?



The participation rate appears to be turning up again, although the Q2 increase may have overstated the increase (as with employment). During tough economic times people can become discouraged at the prospect of finding work and drop out of the labour market. As job market conditions start to improve, some of those people may re-enter the labour market as they start to look for work again.



The unemployment rate stood at 5.6% in June. We expect this may be the peak and that the rate will start to come down gradually from here. This reflects the expected broad improvement in economic conditions in the period ahead. However, progress will be slow. The unemployment rate it is expected to remain over 5% until the end of next year.

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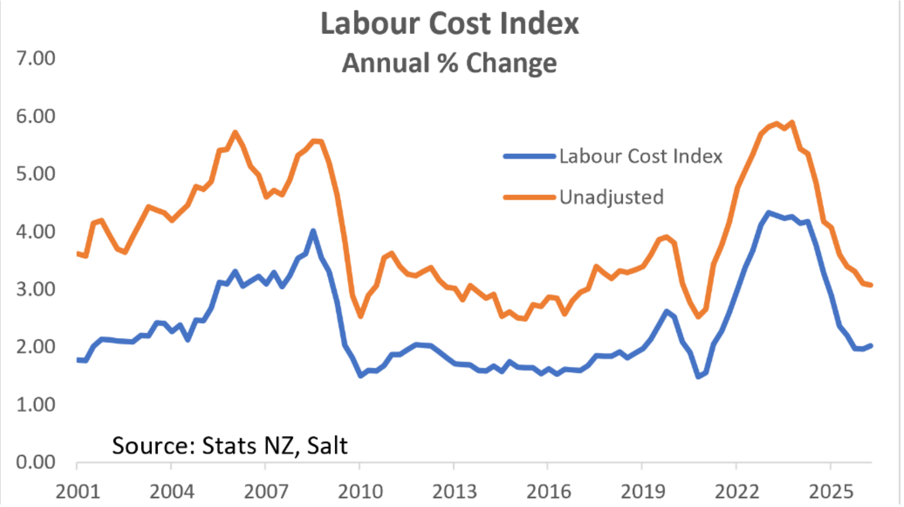
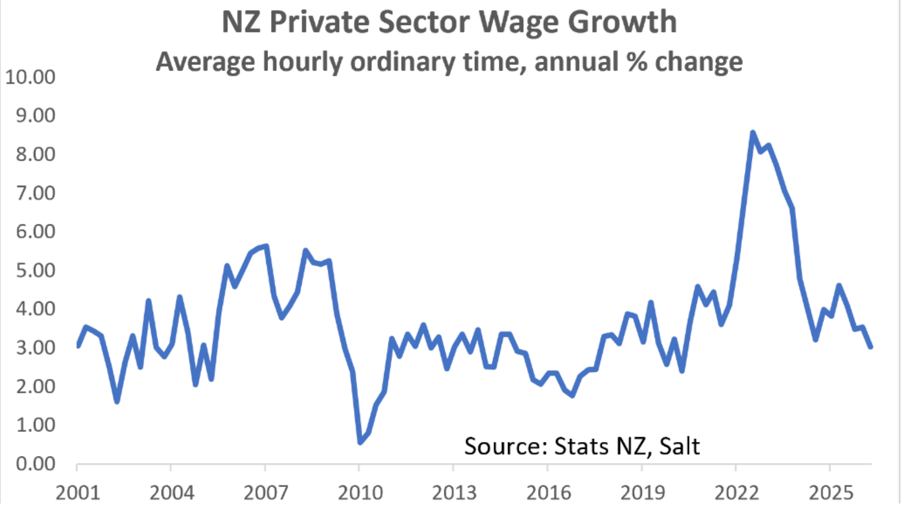
Wage growth stabilising





The recent decline in the growth rate of wages appears to be slowing. The LCI 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 bottoming out at around +3% y/y. From the RBNZ's perspective, there is little risk of resurgent wage growth with an unemployment rate over 5%.

In the Quarterly Employment Survey, the annual rate of wage growth fell further to 3.0%, but the fall reflects a large quarterly increase from last year dropping out of the calculation. This measure of wage growth can be volatile, but at current levels is consistent with other wage measures.

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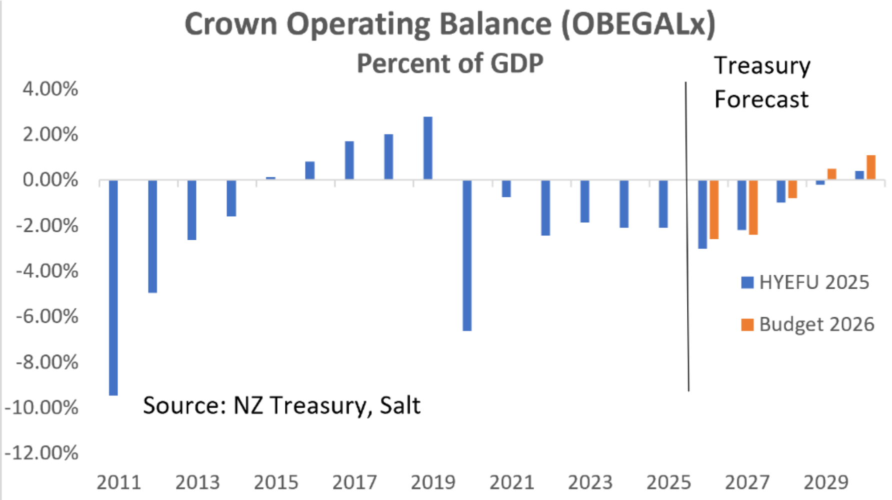
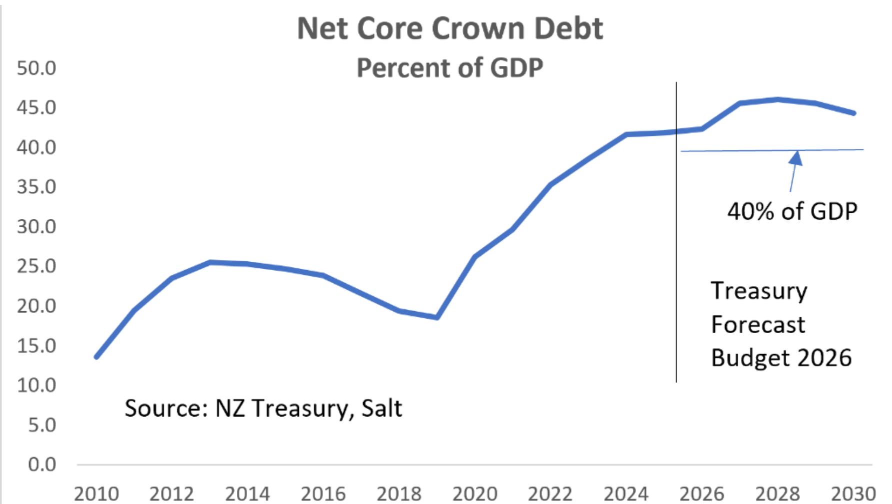
Fiscal position is challenging

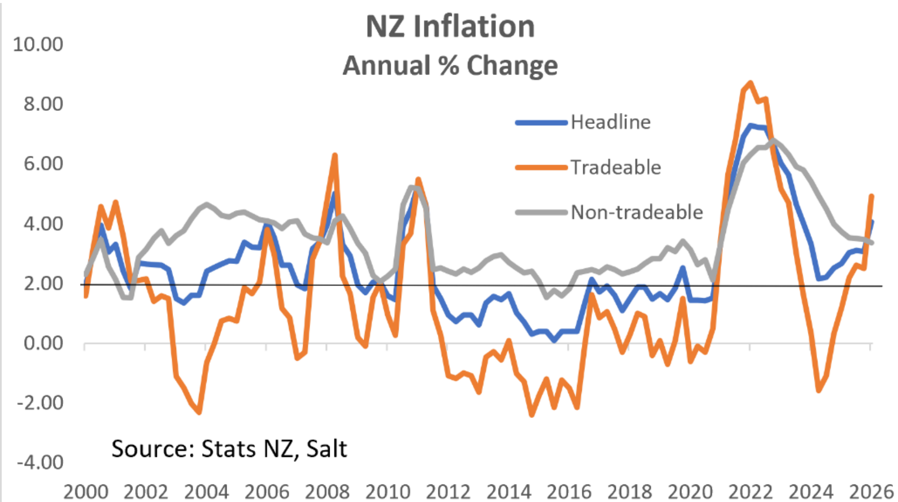


Budget 2026 showed an improved fiscal outlook. That said, fiscal policy remains constrained by persistent budget deficits and rising government debt following several years of elevated public spending. While the pace of fiscal deterioration is slowing, rebuilding fiscal resilience will remain an important challenge over the coming decade as demographic pressures continue to build.

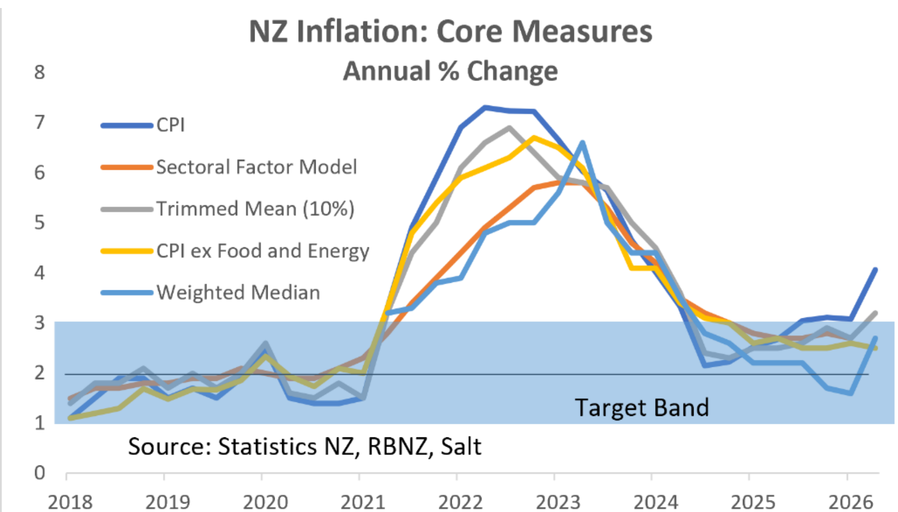


Net core Crown debt is expected to peak as percentage of GDP at around 46% in 2028 and then gradually decline. The Government remains committed to its 40%, which we fully support. It is essential we restore a buffer for whatever the next crisis is that gets thrown at us. Achieving the 40% target will present a key constraint on fiscal promises in this year’s general election.

Oil fuels rise in inflation

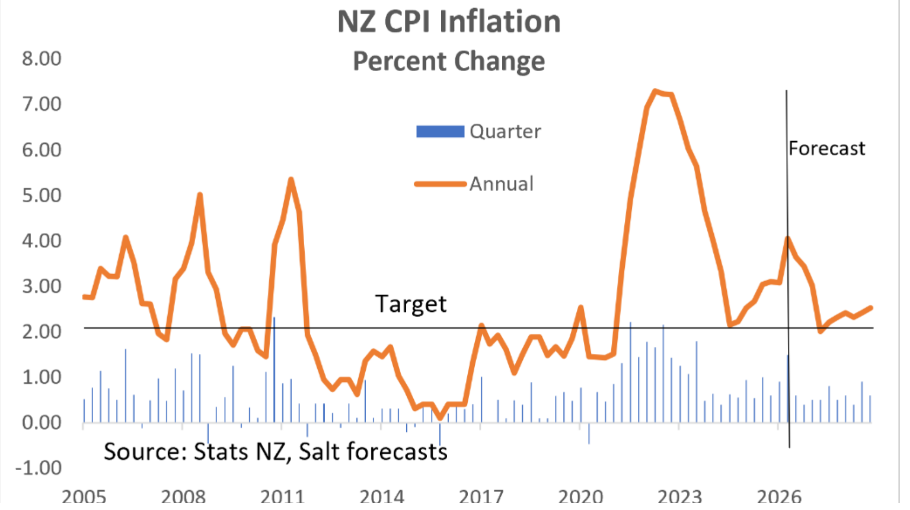


NZ June quarter CPI came in a tad higher than expected at +1.5% q/q and +4.1% y/y. The annual rate was up from the 3.1% in the year to March with much of the increase reflecting higher petrol prices. While the RBNZ can look through the initial impact of rising fuel prices, the risk that this will still feed into broader inflation is not yet passed, especially now that oil prices are rising again.

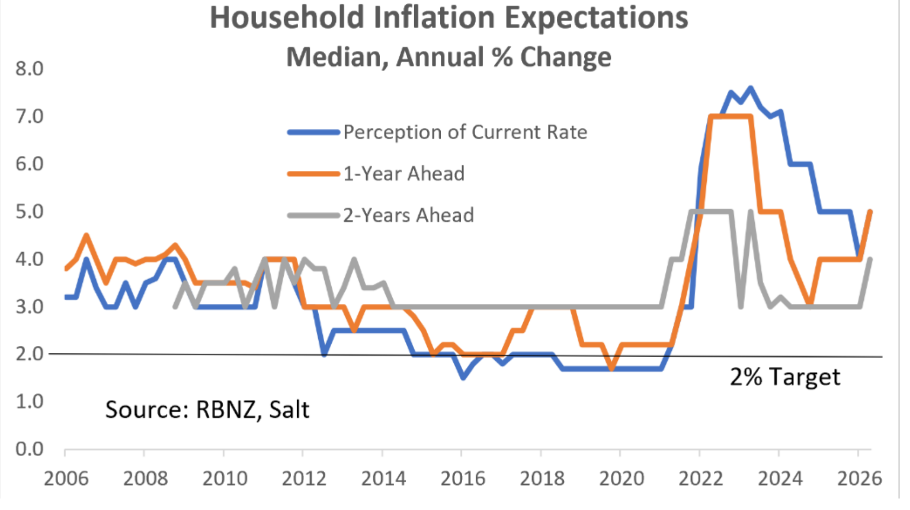


Core inflation measures were mixed. Annual trimmed mean and weighted median measures moved higher, but ex-fuel and energy was slightly softer. All are running hotter than the 2% mid-point of the target band. This supports the case for an ongoing withdrawal of monetary stimulus.

Inflation peaking, but to remain above target

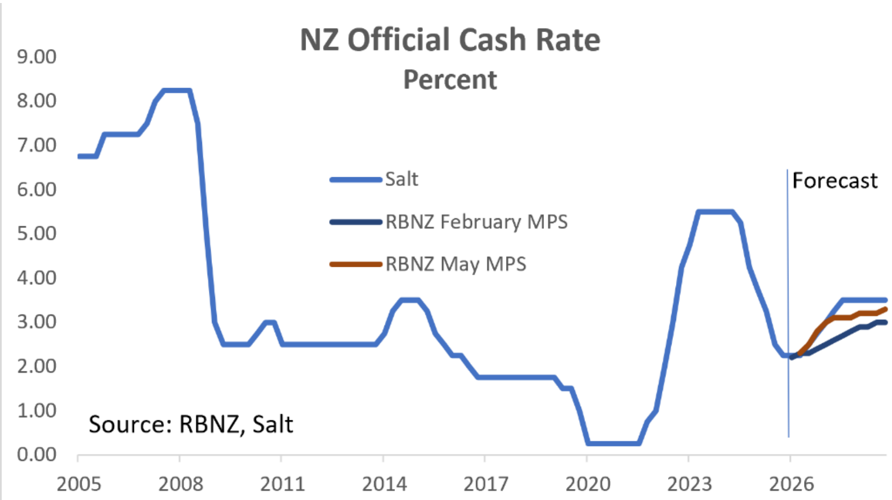


While we think June quarter inflation will mark the peak in headline inflation. However, the fact that oil prices are likely to remain elevated, at least relative to the pre-war level, means inflation looks set to remain outside the top end of the RBNZ's 1-3% target band until this time next year.



Not unsurprisingly, household inflation expectations nudged higher again in the June quarter, most likely reflecting the higher cost of fuel. The RBNZ will be watching this closely over the next few months, though with such a high unemployment rate, there seems little likelihood of higher inflation expectations spilling into higher wage demands and more generalised inflation.

OCR heading higher



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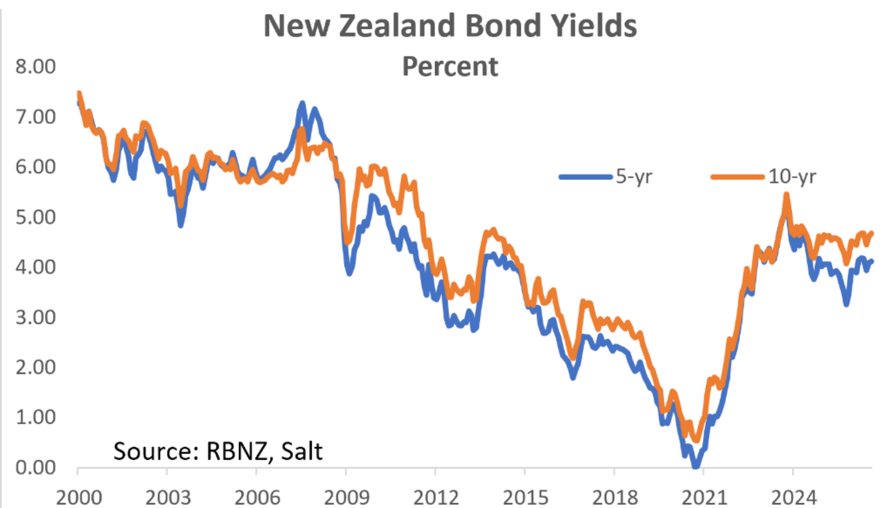

New Zealand bond yields have risen from their lows as markets price a stronger economic recovery and a higher long-run path for interest rates. While short-term movements will continue to reflect monetary policy expectations, longer-term yields are increasingly being influenced by global bond markets and fiscal developments.

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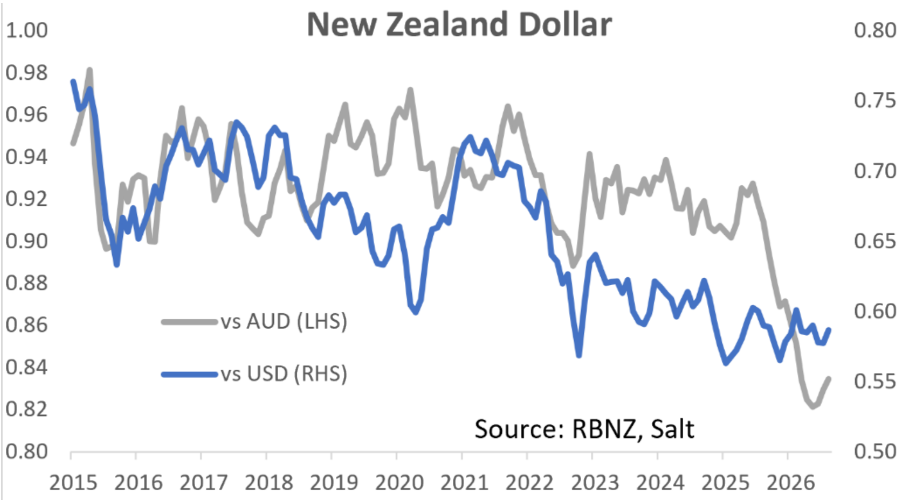
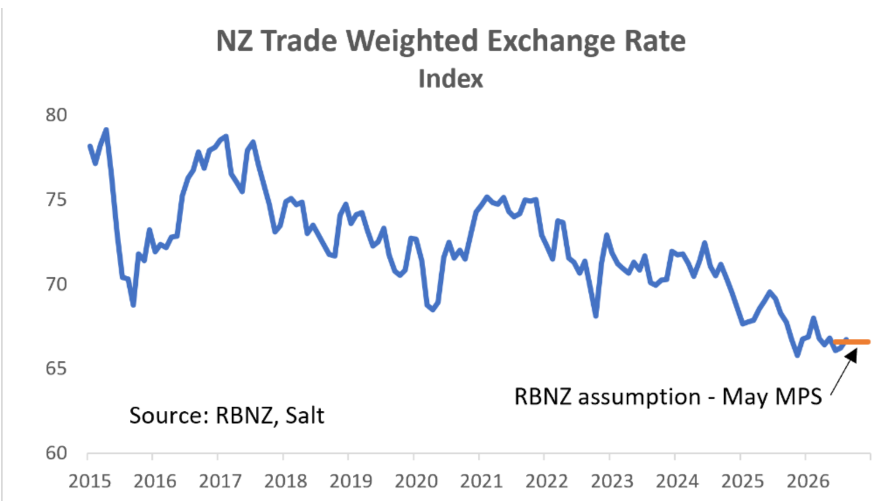
New Zealand dollar

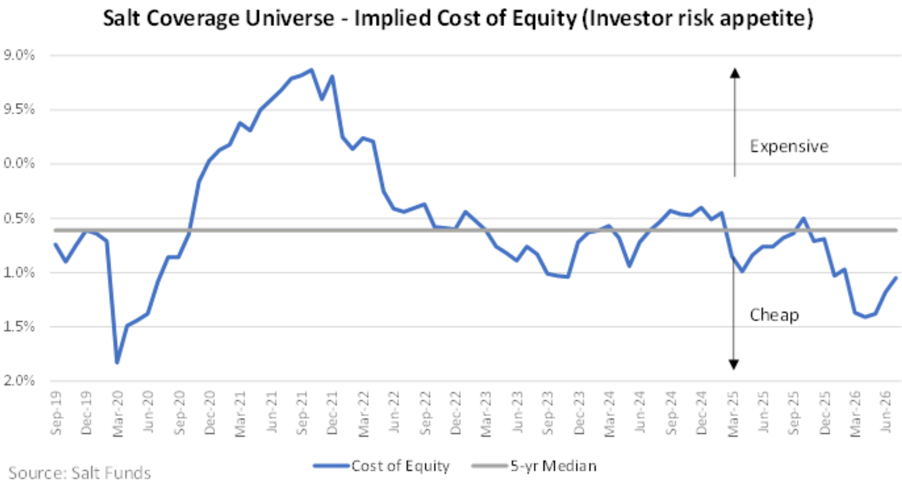




The NZD has remained relatively resilient against the US dollar despite ongoing geopolitical and financial market volatility, with shifting expectations for US monetary policy an important driver. Against the Australian dollar, the earlier period of significant weakness has stabilised as the RBNZ has joined the RBA in tightening monetary policy. Relative interest rates and economic performance will remain key drivers of both crosses from here.

What matters most for the RBNZ is how the NZD moves on a trade weighted basis. The TWI is currently around the level assumed in the May Monetary Policy Statement, so no drama here.

Valuations



Source: Salt Funds

We view current pricing of the Salt stock coverage universe as cheap relative to its 5-year average, with New Zealand equities priced around a 6% 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 but 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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