BUSINESS NZ
PLANNING FORECAST

BusinessNZ

JUNE 2026
NZ economy: No Strait answers

Executive summary

As the conflict in the Middle East winds down (for now), there is a degree of cautious optimism that the worst of the fall-out may now be behind us, with the key Strait of Hormuz reopening for business, at least temporarily. Oil prices have dropped from their historic highs although they are still well above levels seen pre-conflict.

Notwithstanding the recent signing of the Memorandum of Understanding between the US and Iran to cease hostilities, it is not a case of everything just returning to a pre-war "normal". Iran knows it has a Trump card in being able to close the Strait again if negotiations do not go well with the US over the next couple of months. Significant risks remain to investors, shippers, and shipping companies. This will be reflected in heightened insurance costs which will be passed on to end consumers.

Freight and transport costs are expected to remain elevated for some time with flow on impacts on input costs across most sectors, including agriculture, given NZ's heavy reliance on fertiliser imports from Saudi Arabia.

Despite obvious downside risks to NZ's potential ongoing economic performance, Treasury's recent Budget provided a reasonably rosy outlook for NZ's key economic indicators over the forecast period out to 2030. Some might say a bit too rosy, with expectations of the Government's books returning to surplus in the 2028/29 year – one year earlier than previously forecast. Even if achieved, NZ will have run deficits for a decade with ever increasing debt over the period which, currently, is costing the NZ taxpayer around $9 billion in annual interest payments alone.

While it is difficult to undertake forecasting at present with any degree of confidence, some key indicators outlined in the Treasury Budget such as the inflation outlook look too good to be true. This includes inflation falling away to 1.6 percent in the year ending 2027, which is highly dependent on the price of fuel returning to somewhere near pre-conflict levels in the not too distant future. While President Trump has declared "let the oil flow", only a trickle of ships were going through the Strait at the time of writing this, with many holding off until mine clearing operations are complete, which may take weeks.

With inflation, and inflationary expectations remaining outside the Reserve Bank's target range of 1-3 percent, it is only a matter of time before the Reserve Bank moves on raising the Official Cash Rate (OCR) back toward more neutral levels. Financial markets have already priced in rises over the remainder of this year with banks already having moved most mortgage rates higher. Conversely, some have dropped rates.

Both businesses and households remain cautious for a number of reasons, not only linked to the Middle East tensions, but potential regulatory uncertainty as a result of the upcoming general election will be playing on the minds of investors. The cost of uncertainty and a stop-go approach to infrastructure is significant as a recent report commissioned by sector groups, *Civil Contractors NZ, Infrastructure NZ,* and *Water NZ* shows. The report found that deferring or cancelling of projects can significantly add to costs under three categories – the inflation cost of deferring, a productivity penalty, and the deferred benefits of completing a project.

HIGHLIGHTS

The conflict in the Middle East has put a dampener on short-term growth – particularly over the current June quarter. However, prospects for the medium-term outlook look brighter with economic growth expected to be around 3 percent per annum by 2028.

The BusinessNZ Economic Conditions Index (ECI), which tracks major economic indicators, stands at -1 for the June 2026 quarter – down 13 points from the previous quarter but up 1 point on a year ago. An ECI reading above zero indicates improving economic conditions, while a reading below zero signals a general decline.

Sectoral performance remains mixed with the agricultural sector (both in respect to dairy and red meat) continuing to perform well on the back of high international commodity prices. On the downside, higher input costs will likely reduce profitability.

On the other hand, the BNZ - BusinessNZ Performance of Manufacturing Index (PMI), and its sister survey, the BNZ – BusinessNZ Performance of Services Index (PSI) continue to struggle with both in negative territory.

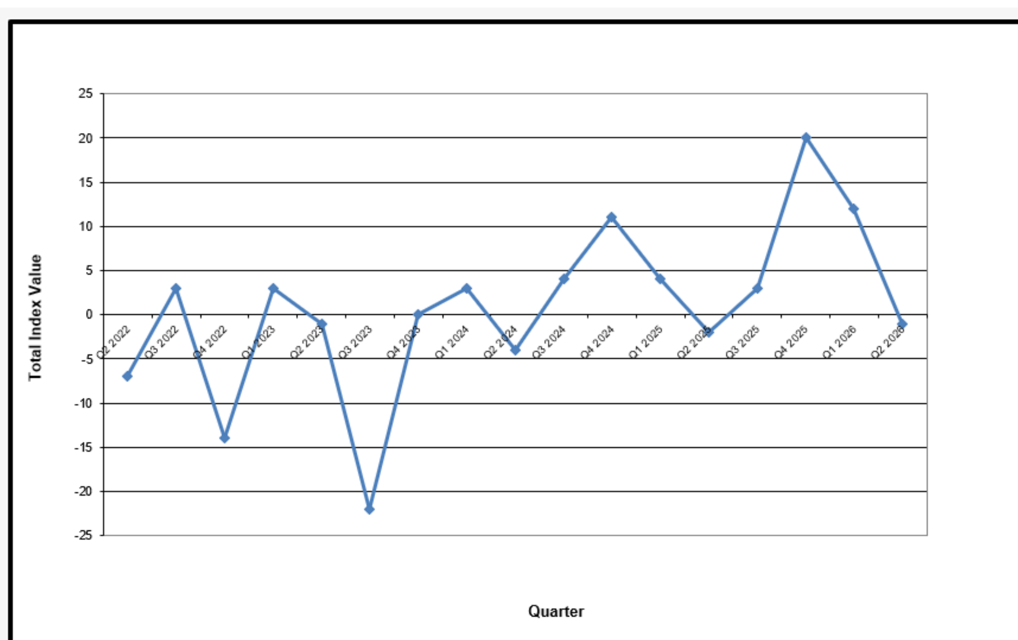
Consumer confidence remains low on the back of increased uncertainty and rising costs, despite some major events which have boosted activity in some regions. Households continue to take a relatively cautious approach to new spending – which is being reflected in house prices going sideways with mortgage lending slowing considerably over recent weeks.

PART 1: THE NZ ECONOMY – WHERE ARE WE NOW?

The BusinessNZ Economic Conditions Index (ECI) is a measure of some of NZ's key economic indicators. It sits at -1 for the June 2026 quarter, down 13 on the previous quarter, and up 1 on a year ago. An ECI reading above 0 indicates that economic conditions are generally improving overall; below 0 means economic conditions are generally declining.

The ECI tracks more than 30 indicators on a quarterly basis. The overall index value for any one quarter represents the net balance of the indicators (generally the number increasing minus the number decreasing) thus providing an overall measure of performance. Note: The results for the June quarter 2026 are estimates based on available data and information to date.

Overall Economic Conditions Index (ECI)



Data in the ECI is broken into four key sub-groups:

- Economic growth/performance indicators
- Monetary policy/pricing indicators
- Business/consumer confidence indicators
- Labour market indicators

Economic growth/performance indicators sit at 3 for the June 2026 quarter, down 2 on the previous quarter but an improvement of 6 on a year ago.

Monetary policy/pricing indicators sit at -1 for the June 2026 quarter, down 2 on the previous quarter, and down 5 on a year ago.

Business/consumer confidence indicators sit at -2 for the June 2026 quarter, down 3 on the previous quarter and down 2 on a year ago.

Labour market indicators sit at -1 for the June 2026 quarter, down 6 on the previous quarter but an improvement of 2 on a year ago.

PART 2: THE NZ ECONOMY – WHERE ARE WE HEADING?

1.1 Economic growth (GDP): Improving outlook

Despite a short-term snag in growth, largely as a result of the recent conflict in the Middle East, the medium-term outlook for NZ remains cautiously optimistic, with economic growth expected to reach 3% in the year to June 2028.

However, the focus is still very much on the Middle East and whether or not the recent Memorandum of Understanding between the US and Iran will stick long-enough to allow underlying and unresolved issues between the parties to be settled in a satisfactory manner to all parties. This is far from certain.

There are several issues of crucial concern that will be focusing the minds of investors and policy makers.

First, it will likely take months before energy companies can resume operations to the point of meeting the world's energy demand.

Ships loaded with crude oil have been stranded in the Persian Gulf for more than three months, unable to safely travel through the waterway, through which about a fifth of the world's oil and gasoline supplies typically traveled before the war began.

The second, and perhaps more concerning, is that the Iranian regime has been quite effective at blocking the Strait of Hormuz, which it could potentially repeat further down the track if long-term issues such as the future of nuclear weapons are not resolved to their satisfaction. It is a Trump card they know they can play should negotiations become bogged down.

The third, is the role (if any) of Israel in negotiations and the ability of all sides to keep to the script. Already ongoing tensions between the parties appear to be arising which do not necessarily bode well for further negotiations.

The fourth, the ability of Iran to develop its nuclear capability appears to have been, at least partially, kicked for touch.

Finally, while President Trump early on in the process supported a complete change in regime in Iran, while some key leaders have been replaced there is no public indication that the regime has fundamentally changed its spots.

While most people will welcome the end to current hostilities, the fact remains that once analysis is done as to where things are currently at, there are still significant risks to medium-term peace in the region. A risk premium will likely remain for the foreseeable future.

Investors will build in a risk premium for continued involvement in the region, including shipping lines, who will not want to expose the potential loss of major oil tankers to the vagaries of uncertain or potentially unstable regimes. At best, a risk premium will be added to supplies entering the Strait of Hormuz. At worst, some shipping lines may exit the region until there is much more clarity and stability on the future of the region. This will be reflected in heightened insurance costs which will be passed on to end consumers.

Freight and transport costs, including shipping, aviation and road, are expected to remain elevated for some time with flow on impacts on input costs across most sectors. This includes agriculture, given NZ's heavy reliance on fertiliser imports from Saudi Arabia.

Despite obvious downside risks to NZ's potential ongoing economic performance, Treasury's recent Budget provided a reasonably rosy outlook for NZ's key economic indicators over the forecast period

out to 2030. Perhaps too rosy, with expectations of the Government's books returning to surplus in the 2028/29 year – one year earlier than previously forecast. Even if achieved, NZ will have run deficits for a decade with ever increasing debt over the period which, currently, is costing the NZ taxpayer around $9 billion in annual interest payments alone.

While it is difficult to undertake forecasting at present with any degree of confidence some key indicators outlined in the Treasury Budget such as the inflation outlook, look too good to be true, such as inflation falling away to 1.6 percent in the year ending 30 June 2027, which is highly dependent on the price of fuel falling rapidly on the back of ending hostilities in the Middle East and a return to normal fuel transport flows through the Strait of Hormuz.

Given the importance of international trade to New Zealand's economic wellbeing, the country remains vulnerable to external shocks, including moves toward greater protectionism and more nationalistic policies.

President Trump continues to roll out his new tariff regimes with the Office of the United States Trade Representative (USTR) releasing its initial findings from its Section 301 investigation into the use of forced labour among 60 trading partners, including NZ.

As part of the investigation, USTR has proposed an additional 12.5% tariff on imports from NZ and a number of other economies it alleges do not have sufficiently robust prohibitions on goods produced using forced labour. Economies that have implemented, or committed to implement, forced labour import bans would face a lower proposed tariff of 10%.

It is important to note that these tariffs are not yet in force as a consultation process will now take place before any final decision is made with no date set for when these tariffs will be introduced.

It is understood that the 12.5% (Section 301) tariff would not stack on top of the current 10% (Section 122) tariff; instead, it would replace them once the Section 122 tariff expires on 24 July.

On the domestic scene, economic growth is expected to come under pressure in the short term while inflation and inflationary expectations continue to rise — a combination that increases the likelihood of higher interest rates for both businesses and households, despite spare capacity still existing within the economy.

Many sectors are already beginning to feel the effects of rising input costs. Manufacturing activity is slowing, while service-sector performance is being affected by weaker business and consumer confidence. The construction sector is also under pressure, with developers increasingly taking a cautious "wait-and-see" approach before committing to new investments.

Both businesses and households remain cautious for a number of reasons not only linked to the Middle East tensions, but potential regulatory uncertainty, as a result of the upcoming general election will be playing on the minds of investors. The cost of uncertainty is significant as a recent report commissioned by sector groups, Civil Contractors NZ, Infrastructure NZ, and Water NZ shows. The report found that deferring or cancelling of projects can significantly add to costs under three categories – the inflation cost of deferring, a productivity penalty, and the deferred benefits of completing a project.

In this respect, it is pleasing that the Government's response to the Infrastructure Commission's National Infrastructure Plan recommendations generally received broad support across the political spectrum, which is positive.

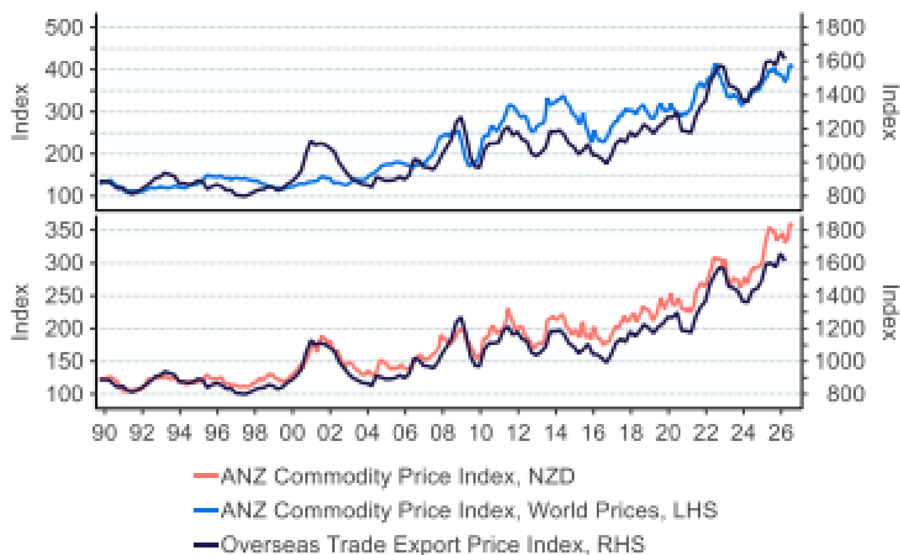
International commodity prices remain relatively strong, which is underpinning the agricultural sector and regional NZ. Dairy, red meat and a comeback for wool, continue to demand high prices internationally.

The latest ANZ World Commodity Price Index rose 0.7% m/m in May, with all commodity groups in the index seeing incremental gains. Dairy prices rose 0.1% m/m, with higher milk powder prices offsetting lower butter prices. Over the past year, skim milk powder prices are up 25.8% while butter prices are down 29.2%.

Over the past year, the index is up 1.3%, with the standouts being wool (up 75.3%), aluminium (up 49.1%), and beef (up 25.3%). Tight global supplies are the common theme among these three commodities.

Aluminium prices continue to strengthen due to damaged production facilities in the Persian Gulf. Shipping has also been disrupted with higher fuel surcharges and increased congestion at some ports.

When converted into $NZ, the Commodity Price Index fell 0.3% m/m in May, owing to a slightly stronger New Zealand dollar.



The upcoming general election also presents risks, with the outcome remaining highly uncertain and political blocs keenly contested.

Already political parties are starting to promise to hand out the lollies to voters, although in some cases there appears to be a lack of credible costings as to where the money will come from to pay for increased subsidies and hand-out to the general population, or to fund the buy-back of assets currently in private ownership.

Any proposals that involve substantial government borrowing to acquire private assets could prove counterproductive, particularly given that credit rating agencies are already closely monitoring New Zealand's fiscal position.

On the other hand, moves to increase taxation rates to pay for political promises will simply make NZ a less competitive country to invest in. There is no free lunch here.

Government finances remain under pressure despite efforts to restrain expenditure. The Government has announced a significant reduction in public sector staffing numbers, with a target of reducing core public service numbers to around 1 percent of the population (from approximately 1.2 percent currently).

Despite these proposed savings, budget surpluses remain some distance away. Net debt is forecast to rise in the short term (as a percentage of GDP) before gradually declining over time.

If the Government is serious about returning to surplus and reducing debt — currently costing more than $9 billion annually in interest payments alone — it must address significant expenditure pressures such as the age of eligibility for New Zealand Superannuation. NZ Superannuation already costs taxpayers around $23 billion per annum currently with this expected to blow-out to over $30 billion by the end of the decade. Delaying tough decisions simply shifts costs into the future.

Moreover, opportunities exist for greater asset recycling where continued government ownership may not be necessary. Selected commercial activities including electricity generation should also be investigated. Ring-fencing sale proceeds for future assets could be a way of getting more of the public on board. Capital generated through such initiatives could potentially be redirected towards infrastructure investment and other priorities critical to long-term economic growth.

While some commentators continue to argue for higher levels of debt, given New Zealand's relatively modest debt position by international standards, this overlooks two crucial factors. First is the rapid increase in net debt since 2019, rising from approximately 19 percent of GDP to more than 43 percent currently. Second is New Zealand's exposure as a small trading economy to external shocks and natural disasters, reinforcing the need for prudent fiscal management.

Although debt levels are projected to stabilise and gradually decline over time, debt as a proportion of GDP has more than doubled over the past seven years. This leaves New Zealand more exposed to future shocks.

Forecasts: Real GDP percent Growth

	Years Ending		
	June 26	June 27	June 28
Highest	1.4	1.9	3.3
Average	1.3	1.8	3.0
Lowest	1.2	1.8	2.8

Source: ASB, BNZ, and Westpac

1.2 Monetary policy: Increased transparency supported

Given the independence of the Reserve Bank of NZ (RBNZ) it is important that decisions made are transparent and make sense.

There have been improvements since the new Governor Anna Breman has come on board with the decision made that members of the Monetary Policy Committee will have their individual voting decisions on proposed movement in the Official Cash rate (OCR) made public and presumably will allow the media to drill down as to why they supported particular decisions (or not as the case may be). This new transparency was outlined in the new Monetary Policy Committee Charter which was signed by the Minister of Finance and the Reserve Bank governor and took effect on 30 April 2026.

This closely mirrors the decisions of the NZIER's Shadow Monetary Policy Committee where participants state their personal view on what the RB should do at each upcoming review and their view as to what the OCR should be in a year's time. Members are also encouraged to provide a brief description (up to 60 words) as to why they have come to the decision they have made.

Providing the RB's MPC with similar freedoms should provide markets with more information on how each member is currently viewing monetary policy and should provide greater clarity to markets as to the future direction of interest rates.

Notwithstanding this latest move, other policies still raise issues as to whether the Reserve Bank is still operating outside its brief with the recent proposal (currently out for public feedback) for banks to provide access to cash facilities within reasonable walking distance in urban areas and reasonable driving distances within rural areas, has drawn sharp (and in our opinion justified) criticism from the banking sector.

While cash is still an important mechanism for transactions for a number of people and businesses, and will be for the foreseeable future, the idea that the RBNZ should be telling banks and other deposit and lending institutions how to run their business seems absurd. People, in many cases, make decisions about where they live and work based on many factors, including perhaps how close they are to facilities, including perhaps banking facilities.

The challenge is that markets, including banking services, are evolving rapidly. Mandating how and what banks must supply risks two adverse effects. First, it may well increase banking costs across the spectrum, on the margin at least, which ultimately will be passed on to consumers through a higher cost of credit. Second, and perhaps more importantly, it may reduce incentives for banks to innovate in the services they provide to meet household and business demands.

While outside the direction of the RB, it is concerning that some political parties are toying with the idea of reintroducing a dual mandate for the RBNZ (price stability and a maximum sustainable employment objective).

BusinessNZ has long been a strong advocate of the Reserve Bank Act's core objective of price stability and the principle of independent monetary policy decision-making.

A number of reviews of the Reserve Bank Act, including the Independent Expert Advisory Panel's report to the Minister of Finance (March 2018), have concluded that the Reserve Bank has served New Zealand well. Indeed, numerous studies have affirmed that the Bank's independence and clear focus on price stability are consistent with international best practice.

BusinessNZ is concerned that a future Government could reintroduce a "maximum sustainable employment" objective alongside the price stability objective, as occurred under the previous Labour-led Government before being reversed by the current Coalition Government in 2023. Such a change risks creating uncertainty about the role and effectiveness of monetary policy. Employment outcomes are influenced by a wide range of factors, and beyond the short term, monetary policy is unlikely to

have a significant or lasting impact on employment levels.

The Expert Advisory Panel Report to the Minister of Finance (May 2018) acknowledged this point, stating:

"Monetary policy is not, however, a primary determinant of the level of full employment, which is largely determined by structural factors such as the level of skills in an economy, the tax system, and labour and product market regulations" (para 8, p.10).

BusinessNZ is strongly of the view that the Reserve Bank's primary focus should remain solely on price stability as the current Act stipulates.

Inflation: Up for now

The forecast below shows that inflation, as measured by the Consumers Price Index (CPI) is expected to be back in the box with inflation expected to be around 2% for both 2027 and 2028. This is smack in the middle of the Reserve Bank's target band of 1-3 percent.

The difficulty in achieving this result will be highly dependent on how the Middle East situation develops over coming months.

The timing of the 'deal' to end hostilities and enter negotiations will be a welcome relief for central bankers. The cooling of oil prices on the back of the Memorandum of Understanding (MOU) being officially signed will provide relief to the inflation outlook across the globe, including for NZ. However, any reduction in global fuel prices will take time to feed through into significantly lower prices at the pump for a number of reasons. Don't expect inflationary pressures to fall away quickly or economic growth to suddenly be up and running again.

Despite the recent signing of the Memorandum of Understanding between the US and Iran which has seen a ceasefire (for now), risks still remain on the upside for inflation given that oil prices will likely remain well above the $US60 per barrel before the conflict started (around 25% higher at the time of writing this).

Investors will require higher returns to compensate for risks which will be reflected in interest rates to Governments, businesses and households. NZ, as a small island nation but with sizeable Government debt (interest bill around $9 billion per annum) will not be immune from the flow on effects.

Insurance costs, as a result of both natural hazards and increased geopolitical risk, will likely continue to rise which ultimately will be reflected in increased prices for final consumers.

In this respect, as mentioned above, Treasury's forecast for inflation (as measured by the Consumers Price Index CPI) to be down to 1.6 percent in the year ending June 2027. This is highly dependent on the price of fuel falling rapidly on the back of ending hostilities in the Middle East and a return to normal fuel transport flows through the Strait of Hormuz. As stated earlier, neither of these scenarios are anywhere near guaranteed.

Key factors continuing to drive inflation higher include:

- Inflationary pressures are solid across the board. (it is not just the usual suspects – electricity, local government rates, and insurance) but more generalised inflation.
- Local Government rates will likely continue increasing, despite water services being broken away from general rates and being funded separately through new established water entities. Some proposed costs are clearly eye watering as efforts are made to repair and develop water services fit for a first world country.

- Inflationary expectations have continued to rise over recent times which tends to become self-fulfilling.
- The NZ dollar has declined over recent times, against our major trading partners which will add to inflationary pressures (particularly tradeables).
- International commodity prices generally remain firm (particularly for dairy and red meat) which will feed through to domestic prices facing households.
- Given the likelihood that oil prices will remain much higher than they were pre the Middle East conflict, and for longer, will continue to put pressure on inflation given that much production is dependent on oil inputs in one form or another.
- Continued concerns that climate change/natural hazards will add to costs as people demand responses which could lead to gold-plated infrastructure.
- Greater moves towards nationalism/protectionism and President Trump's on-again off-again tariff changes, will likely add to inflationary pressures.
- The Government continues to add levies to businesses over a range of areas while current levies have been increased substantially in some cases – again this will add to generalised costs of production and feed through into higher prices – at least on the margins.

On the other hand, there are several factors which will likely help keep a lid on inflation, which include:

- Despite most indicators showing that the economy is starting to improve again after taking a hit in the June quarter, there is still spare capacity which should help keep a lid in input costs.
- Limited demand should keep any second-round effects associated with higher fuel prices at bay.
- Net migration, while improving, is still relatively subdued which will take the pressure off housing/general demand for goods and services.
- The housing market is showing some volatility with some significant upward pressure in some regions. However the big markets of Auckland and Wellington show prices remain flat if not a slight fall over recent times.
- Likely higher interest rates for both businesses and households will likely constrain demand.
- Higher fuel prices will likely crowd out other areas of spending, including discretionary spending which could act to suppress overall inflation.
- Government is encouraging greater supply of housing through various regulatory reform measures aimed at freeing up land supply and making it easier to build small houses (granny flats) without the need for consents.
- Long-dated futures contracts for electricity supply have dropped significantly due to reduced risks thanks to a stronger investment pipeline, lower risk premiums and hydro lakes remaining at healthy levels.
- Election year risk/uncertainty may keep people from investing/buying which could suppress inflation.

Forecasts: Percent Change in Inflation (CPI)

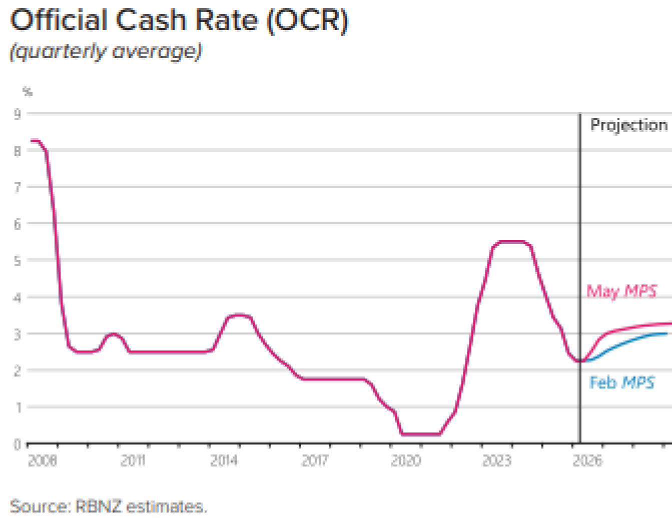
	Years Ending		
	June 26	June 27	June 28
Highest	4.4	2.2	2.2
Average	4.2	2.1	2.0
Lowest	4.0	2.0	1.7

Source: ASB, BNZ, and Westpac

Interest rates: likely rise although questions remain around timing

The RBNZ's latest Monetary Policy Statement (May 2026) effectively indicated that a gradual rise in the OCR is expected from later this year (see below).

Three members of the Monetary Policy Committee (Anna Breman, Karen Silk, and Paul Conway) voted to leave the OCR on hold and three members (Carl Hansen, Hayley Gourley, Prasanna Gai) voted for a 25-basis point increase. In this instance, the chairperson has a casting vote, meaning the OCR remains on hold at 2.25 percent.



In reality, it is likely that there will be a 25-basis point rise at the next review of the OCR (July) as the OCR is progressively increased to reach more neutral levels over the next year with financial institutions already pricing in a 75% chance of a rate hike at the July 8 OCR review. Higher wholesale interest rates are being passed through to higher fixed-term mortgage rates, and to a lesser extent, term deposit rates. However, some banks are bucking the trend with lower fixed term mortgages for 3 -5 year terms, along with deposit rates.

Mortgage lending has taken a dip over recent months, dropping to $8.3 billion in April from $8.7 billion in March, but still up 3.5% from $8 billion in the same month last year.

By far the biggest slice of lending is on two-year fixed interest rates at $1.8 billion, after the flurry of floating and short-term fixing while rates were dropping last year. The next most popular for borrowers are one-year fixed rates at $1.25 billion.

New residential investor mortgage is also declining, with lending dropping to $2.2 billion in April from $2.4 billion in March.

Forecasts: Interest Rates (90-day bills)

	Years ending		
	June 26	June 27	June 28
Highest	2.75	4.15	4.45
Average	2.6	3.8	3.9
Lowest	2.5	3.3	3.5

Source: ASB, BNZ, and Westpac

NZ Dollar: cross currents

The NZD has come under pressure over recent times and may do so for a while yet.

Risk sensitive currencies such as NZ's have seen some falls as investors retreat to traditional safe havens – such as the USD.

Moreover, given that most major central banks have either raised rates or clearly signaled rises down the track in light of persistent inflationary pressures, is also likely to keep downward pressure on the NZ dollar.

A recovery from current depressed levels is expected over the medium term although as can be seen from the forecasts below, there are wildly different forecasts of how high the NZ dollar may go.

Given that the next move on interest rates is likely to be up, this will likely support the NZD moving forward. Combined with potential improvements in exports and an improvement in the domestic economy, the NZD could move higher over the next year.

At the same time, New Zealand's geographic isolation and stable institutions may enhance its attractiveness as a relatively safe destination for capital and high-net-worth individuals.

However, risks remain. As a small island nation, heavily dependent on international trade for our livelihood, the NZD is likely to be buffeted further over coming months until the international geopolitical situation stabilises.

Forecasts: Exchange Rates

AUD (cents)			
	June 26	June 27	June 28
Highest	0.83	0.89	0.91
Average	0.83	0.87	0.88
Lowest	0.82	0.86	0.85

USD (cents)			
	June 26	June 27	June 28
Highest	0.59	0.66	0.67
Average	0.58	0.62	0.62
Lowest	0.57	0.56	0.58

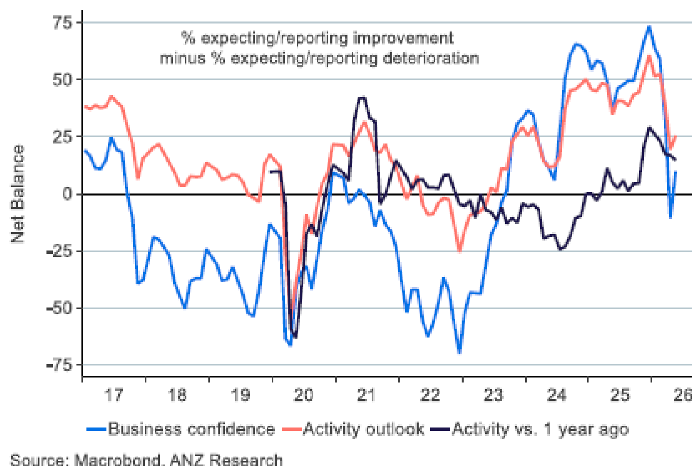
TWI			
	June 26	June 27	June 28
Highest	66.6	71.8	72.0
Average	65.8	68.5	68.9
Lowest	64.3	64.1	65.7

Source: ASB, BNZ, and Westpac

1.3 Business activity and sector activity: Confidence improving after short-term slump

Overall business confidence is improving after slumping in light of the recent conflict in the Middle East.

The ANZ NZ Business Outlook for May 2026 shows that confidence lifted 21 points in May, but at +10 it is still well down on levels prevailing before the Middle East conflict started. Expected own activity rose 6 points from 19.6 to 25.6. Past own activity eased from 16.1 to 14.8.



Source: Macrobond, ANZ Research

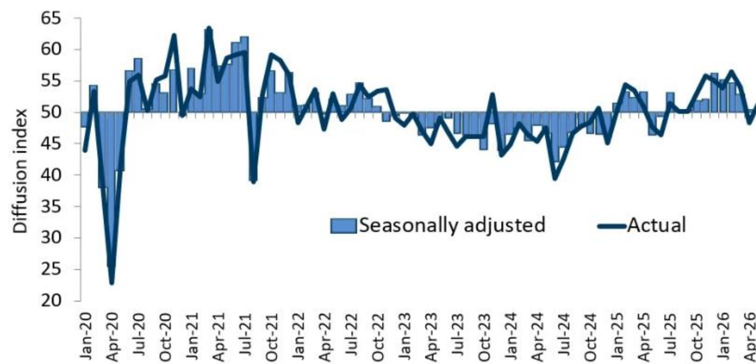
Inflation indicators were slightly lower. Inflation expectations eased from 3.81% to 3.63%, while pricing intentions fell 1 point to 56.7. Expected price and cost increases also eased a touch.

Manufacturing: Short-term blip

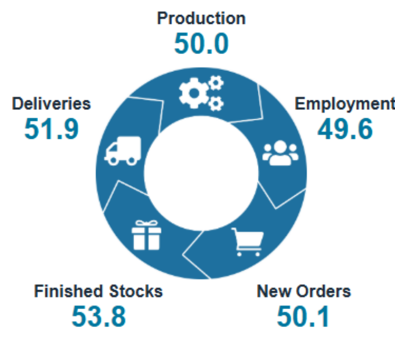
According to the latest BNZ – BusinessNZ Performance of Manufacturing (PMI), NZ's manufacturing sector contracted slightly in May.

The seasonally adjusted PMI for May was 49.9 (where a reading above 50.0 indicates that the manufacturing sector as a whole is expanding, and a reading below 50.0 indicates a contraction). This was down from 50.4 in April and 52.8 in March. The long-term average for the index is 52.5.

Manufacturers are obviously struggling in the face of a combination of adverse influences, including the lack of customer demand, higher fuel prices, and uncertainty about the future outlook in the Middle East.



The sub-indexes of the PMI suggest that firms are adding to their stocks of finished goods (53.8) and getting deliveries out the door (51.9), but the production, employment and new orders sub-indexes were flat at around 50.0.

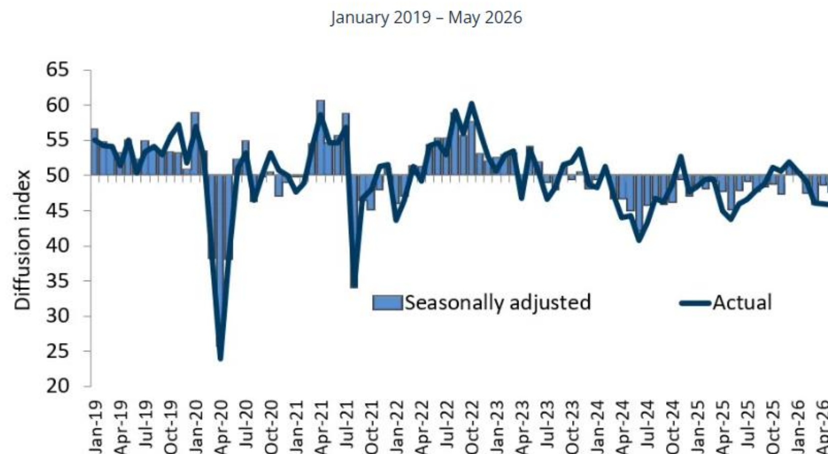


The good news is that manufacturing was quite strong earlier this year, as evidenced in the official Gross Domestic Product (GDP) numbers for the March quarter 2026. While the June quarter will see a hit as has already been shown above, the sector was building momentum before the latest blip so there can be reasonable confidence of an upturn as energy prices, and other heightened input costs of late, continue to fall to more historic levels.

Services: Struggle Street

According to the BNZ – BusinessNZ Performance of Services Index (PSI), the services sector in NZ contracted again in May. The PSI has now been in negative territory since February this year.

The PSI for May was 47.5 (where a reading above 50.0 indicates the sector is generally expanding, and a reading below 50.0 indicates the sector is in contraction). The PSI reading for April was 48.7.



While it is frustrating to see the services sector struggle, it is difficult to see how the sector's fortunes will turn around quickly. The industries within the sector that were weakest in May were those which rely heavily on discretionary expenditure, like Cafes & restaurants and Recreational & personal services. People are still wary of spending unless it cannot be avoided.

Just over two-thirds of the respondents' comments about the influences on their business environment were negative, about the same as April. The comments frequently related to rising costs, especially for fuel, and weak demand linked to lack of consumer confidence.

All five of the PSI sub-indices were below 50.0, with the weakest being the sub-index for activity levels and sales, which is a mark of how subdued the sector is currently. The least-weak was for supplier deliveries, which means it should be possible for the sector to respond quickly to any pick-up in demand.

Not assisting in services performance has been that consumer confidence has taken a beating with the latest Westpac-McDermott Consumer Confidence Index at its lowest level since 2023.

Confidence dropped 14.3 points in the June quarter to just 80.4.

However, the latest survey was conducted in the first two weeks of June, before the latest MOU was signed between the US and Iran to extend the ceasefire and open the Strait of Hormuz. Given that oil prices have already started to track down, this could pave the way for a recovery in consumer confidence and a firming in activity as NZ heads into the second half of the year.

On a better note, retail sales have remained relatively robust, despite continued low consumer confidence.

Changes in the value of electronic card transactions for May 2026 (compared with April 2026) were:

- spending in the retail industries increased 1.7 percent ($121 million)
- spending in the core retail industries increased 2.2 percent ($137 million)

Agriculture: Strong backbone

The agriculture sector continues to be a backbone with the sector going from strength to strength despite facing higher input costs of late.

A new study commissioned by *Beef+Lamb NZ* shows that the red meat sector generates $48.7 billion in spending across the economy each year and supports one in every 20 jobs.

The BERL study found the sector contributes $17.5 billion a year to NZ's GDP and supports 120,580 full-time equivalent jobs across the country.

More than half that contribution happens beyond farm-gates and processing plants, flowing through supply chains, local services and household spending, particularly in rural and regional NZ.

Meanwhile the latest Situation and Outlook for Primary Industries (SOPI) report highlights a resilient, high-performing food and fibre sector which is driving strong demand and prices for NZ products.

Export revenue is forecast to reach $64.3 billion in the year to 30 June 2026, up six percent, with records across multiple sectors driven by healthy demand for dairy and red meat, alongside bumper kiwifruit and apple crops.

New Zealand's total exports were valued at $8.9 billion in May 2026, up $1.4 billion (18 percent) compared with the same period last year.

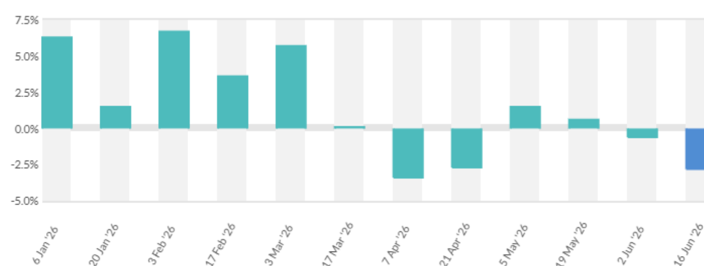
Leading the rise in total exports were meat (up $436 million), dairy (up $147 million), aluminium (up $134 million), and fruit (up $113 million).

Together, these four commodity groups made up 61 percent of the total increase in the value of exports in May 2026.

Total imports were valued at $8.1 billion in May 2026, up $1.7 billion (26 percent) compared with the same period last year. Petroleum and petroleum products (up $834 million) led the rise, accounting for almost half the increase in total imports.

While monthly overseas merchandise trade does not explicitly measure price changes, the rising value of fuel imports was predominately driven by higher prices.

The Global Dairy Trade (GDT) index continues to perform well, although there has been some slippage of late, but prices remain high by historical standards.



Construction: Mixed outlook

Recent statistics show that the construction sector is currently facing headwinds, although the outlook is improving.

According to StatsNZ, building work put in place volumes declined 3.5% between the December 2025 and March 2026 quarters, with falls in residential and non-residential activity of 2.2% and 4.0%, respectively. Quarterly activity was at its lowest level since the end of 2015 (excluding lockdown-affected quarters, with all figures seasonally adjusted).

Non-residential activity recorded a 13% decline in volumes from a year earlier, which was the largest annual drop since 2010, and took quarterly activity to its lowest level in almost nine years (excluding the Covid-19 lockdown period).

Residential activity was dragged lower by a 16% pa fall in the value of alterations and additions work, as previous decline in consents continue to flow through into activity.

Declines in activity are not consistent across the board with the total value of work in Canterbury in the March quarter down just 3.8% from a year ago, with the value of activity around the rest of the South Island up 1.1%. In contrast, North Island regions recorded annual declines ranging between 5.2% and 14%.

Housing remains the weakest part of the market. While dwelling consents have shown signs of recovery from recent lows, developers continue to face challenging feasibility conditions, elevated construction costs, and subdued house price growth. As a result, residential construction is likely to recover only gradually rather than experience a rapid rebound.

House prices nationally remain relatively flat, although regional variations show considerable variation with southern NZ showing significant growth of late.

Since national house prices stopped falling in April 2023, Auckland prices have eased a further 1%, Wellington's have fallen 3% while those in Otago have risen 8.5%, Canterbury is up 9.5% and Southland a significant increase of 19%. This at least partially reflects the continued improvement in the agricultural sector which has continued to flow through into other sectors of rural NZ. Secondly, the migration from main North Island centres like Auckland and Wellington is also keeping prices higher in Southern regions.

Infrastructure is expected to be the primary driver of construction activity going forward. A substantial pipeline of transport, water, energy, and social infrastructure projects supported by ongoing government capital investment is providing a stronger foundation for the sector. The challenge will be ensuring that projects move from planning into delivery and that political cycles do not undermine momentum.

In terms of large infrastructure works, the NZ Infrastructure Commission's latest Pipeline Snapshot reported a total of around $275 billion in the pipeline for the next 10 years with transport and water infrastructure projects accounting for over half the pipeline. The big question remains as to how this is all going to be funded but it is pleasing that in the recent Budget, the Government has cranked up allowances for capital expenditure over time which should support future investment.

On the subject of infrastructure, a recent report commissioned by Infrastructure NZ, Civil Contractors NZ and Water NZ, has shown the high cost for delaying, deferring or cancelling infrastructure projects.

The cost of stopping estimates that stop-start infrastructure investment has cost NZ around $11.8 billion over the past 25 years through increased project costs, reduced productivity and delayed public benefits.

The report challenges the assumption that pausing projects saves money. Instead, it finds that delays and cancellation often create additional costs through inflation, workforce disruption and the loss of benefits that infrastructure would otherwise deliver to communities and businesses.

BusinessNZ, and other business groups have continuously raised the point that we do not want stop-start approaches to infrastructure development as governments come and go.

In this respect, it is refreshing that political parties have broadly endorsed the Infrastructure Commission's 30-year Infrastructure National Plan with the Government responding to it recently.

Infrastructure spokespeople from the Green Party and Labour Party have both written forewords for the Government response, broadly endorsing the National Infrastructure Plan.

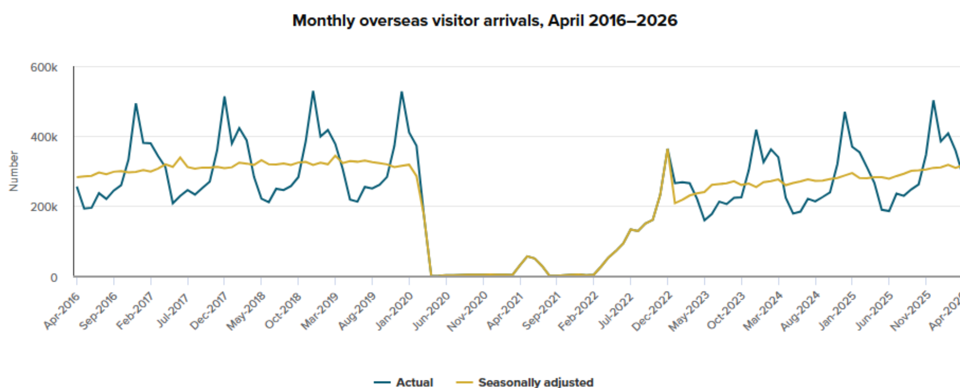
The release of the Commission's plan in February was a sobering wake-up call for many people, given that NZ spends a lot on infrastructure – around 5.8 percent of GDP annually over the past 20 years, one of the highest in the OECD – yet it ranks towards the bottom for efficiency, and fourth to last in the OECD for asset management.

The Government is taking action on all ten of the priorities identified by the Commission, including progressing time of use pricing, fleetwide road user charges, a National Adaptation Framework, lifting hospital investment, integrated spatial planning, and upzoning around key transport corridors.

Tourism: Strengthening

The tourism sector continues to strengthen and is expected to make a larger contribution to economic growth over the remainder of 2026. International visitor numbers have continued to recover, despite recent increased airfares and reduced flight availability as a result of the recent conflict in the Middle East.

Overseas visitor arrivals were 288,500 in April 2026, an increase of 21,300 from April 2025.



The biggest changes were arrivals from:

- China (up 11,000)
- Australia (up 5,500)
- United States (up 3,100)
- Japan (up 1,500)
- Taiwan (up 1,300)
- India (up 1,200)
- Malaysia (up 1,000)
- United Kingdom (down 3,300)

The increase in visitor arrivals from China coincided with an immigration NZ trial that allows eligible Chinese passport holders to travel to NZ from Australia without needing an NZ visitor visa.

There were record arrivals for an April month, of overseas visitors from some countries including Australia (138,200), the United States (25,800) and India (8,000).

The total number of overseas visitors is now around 95 percent of what it was pre-Covid.

While one might have expected tourism to be affected by higher fuel prices, airline availability and costs, the continuing low NZ dollar makes it an attractive destination for many visitors from overseas given that their currency goes further when converted into NZD.

The other factor which is hard to gauge is that with all the geopolitical risks around the world, NZ is seen as a safe haven with sound institutions and upholding the rule of law which may make NZ an even more attractive destination for many people, and potentially people who may want to migrate here to escape geopolitical risks in their own country or region.

1.4 Labour Market: Steady improvement forecast

The forecasts below show that unemployment is expected to continue drifting lower from here.

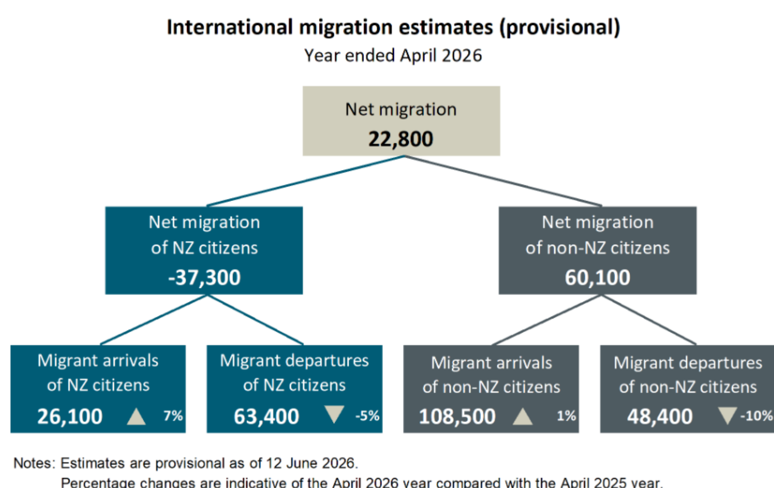
The unemployment rate eased slightly to 5.3 percent in the March quarter while employment grew – marginally. Other indicators, such as job advertisement data, also point to a recovery over recent months.

While there was a slight decrease in the labour force participation rate from 70.5 percent to 70.4 percent this is in the margin of error territory, while other key measures of labour market strength such as the underutilisation rate remained at 12.9 percent. Meanwhile, the total number of hours worked increased 0.8 percent over the quarter.

Notwithstanding the reasonably positive forecast for both employment growth and a reduction in unemployment, there are factors which could keep unemployment higher for longer, particularly if business and consumer confidence does not bounce back.

The Government's plan to reduce public sector jobs will have a bearing on the unemployment rate, particularly in regions where public service jobs are high as a proportion of total jobs like Wellington.

Net migration gain has continued to improve as migrant departures come off lows. Stats NZ's latest provisional net migration estimates point to an annual net migration gain of 22,800 in the year to April 2026.



This recovery in New Zealand's net migration inflows was driven by an increase in migrant arrivals and a slowing in migrant departures over the past year. The attractiveness of Australia as a destination may be reducing on the back of higher inflation in Australia, including prohibitive housing costs for many.

Forecasts: Unemployment percentage (HLFS)

	Quarter		
	Jun 26	Jun 27	Jun 28
Highest	5.3	4.9	4.7
Average	5.3	4.7	4.6
Lowest	5.3	4.6	4.4

Source: ASB, BNZ, and Westpac

Labour Costs: Moderate growth

In line with current excess capacity in the labour market, wage movements are generally expected to be constrained over the near term, with moderate increases expected over the forecast period as labour market conditions improve.

Although some forecasters have expressed concerns about the potential upside impact of the recent surge in fuel costs on price and wage setting behaviour, the impact is likely to be strictly limited by the considerable spare capacity in the New Zealand labour market.

The Government's plan to cut public sector jobs also presents a downside risk to the labour market outlook over the coming years. The overall softness of the New Zealand labour market is limiting wage growth.

Forecasts below for the Labour Cost Index (LCI) point to relatively subdued wage growth for the forecast period to June 2028.

Forecasts: Labour cost index percentage change (wages and salaries)

	Years Ending		
	Jun 26	Jun 27	Jun 28
Highest	2.0	2.4	2.2
Average	2.0	2.2	2.2
Lowest	1.9	2.1	2.1

Source: ASB, BNZ and Westpac