BUSINESS NZ

PLANNING FORECAST

BusinessNZ

SEPTEMBER 2026

NZ economy: Spring is here!

Executive summary

Despite the ongoing conflict in the Middle East, the prolonged war in Ukraine and heightened geopolitical tensions elsewhere, the NZ economy has weathered the storm reasonably well with forecasts of solid economic growth out to 2028.

On the domestic scene, New Zealanders go to the polls in a couple of months to cast their vote for the next Government as political parties start trying to woo undecided voters with their various policy proposals laced with the usual sugar hits.

Perhaps somewhat surprisingly, neither international nor domestic challenges appear to have seriously impacted economic performance with a range of indicators showing that the economy is back on track after the blip earlier in the year.

- **Business confidence** is holding up well after taking a hit earlier in the year.
- The **BNZ-BusinessNZ Performance of Manufacturing Index (PMI)** and its sister index, the **Performance of Services Index (PSI) are** back in black.
- **Inflationary expectations** have generally continued to ease, although inflation is likely to remain outside the Reserve Bank's target range of 1-3 percent until next year.
- **Interest rates, while continuing to rise back towards more neutral levels,** may level out by mid-next year.
- **Credit activity is increasing** with both business and housing lending on the increase.
- **International agricultural commodity prices remain solid,** despite some slippage earlier this year, which is driving growth in regional NZ, particularly in the South Island.
- **Net migration** levels are starting to improve again after taking a hammering over the last few years.
- **Tourism continues to grow,** helped in part by a lower NZD compared to some of our trading partners making NZ a relatively price-competitive option for many – along with our status as a reasonably safe destination.
- **NZ's significant infrastructure pipeline** will provide opportunities for both domestic and international capital, backed up by NZ's reputation as having stable and reliable institutions.

On the other hand, NZ still faces a number of longer-term challenges:

- **An ageing population** which has significant implications as to how future retirement income and healthcare costs are to be funded.
- **A 3-year electoral cycle** which tends to lead to short-term thinking and policy and regulatory flip-flops.
- **An increasingly complex world** in terms of geopolitical risks which exposes NZ as a trading nation to the vagaries of policy decisions from big international players such as the US and China.

HIGHLIGHTS

Prospects for the medium-term economic outlook look bright, with growth expected to be around 3 percent per annum by 2028.

The BusinessNZ Economic Conditions Index (ECI), which tracks major economic indicators, stands at 13 for the September 2026 quarter – up 13 points from the previous quarter and up 10 points on a year ago. An ECI reading above zero indicates improving economic conditions, while a reading below zero signals a general decline.

Sectoral performance across the board is generally improving with the agricultural sector continuing to be the standout performer on the back of continued high international commodity prices. This is being reflected in strong regional growth, particularly in the South Island.

The BNZ - BusinessNZ Performance of Manufacturing Index (PMI) and its sister survey, the BNZ – BusinessNZ Performance of Services Index (PSI) have shown solid growth of late as they recover lost ground over the last year or so.

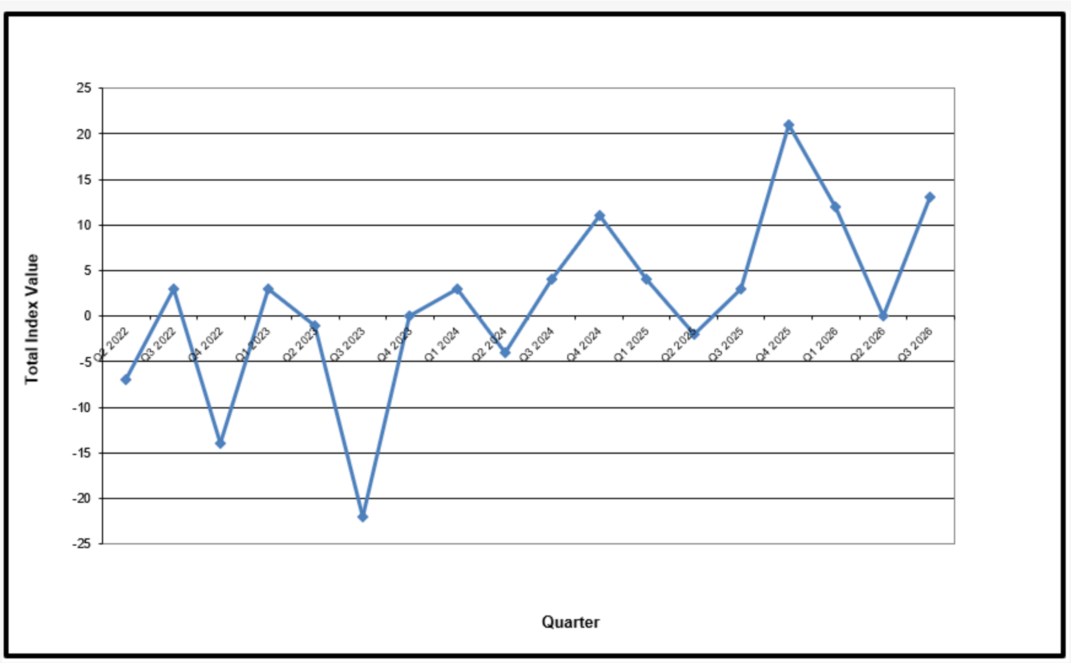
Despite a number of liquidations, the construction sector is showing continued signs of improvement, assisted in part by a long pipeline of infrastructure investment opportunities, alongside record residential building consents.

Tourism continues to expand on the back of a lower NZD and NZ's attractiveness as a vibrant but relatively safe place to visit. Alongside this, hospitality is improving although relatively low levels of consumer confidence are encouraging households to keep their wallets tucked away.

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 13 for the September quarter, up 13 on the previous quarter, and up 10 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.[1]

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 and activity indicators
- Labour market indicators

Economic growth/performance indicators sit at 5 for the September 2026 quarter, up 4 on the previous quarter and the same as a year ago.

Monetary policy/pricing indicators sit at 0 for the September quarter, an improvement of 1 on the previous quarter and up 2 on a year ago.

Business/consumer confidence and activity indicators sit at 5 for the September 2026 quarter, up 6 on the previous quarter and up 2 on a year ago.

Labour market indicators sit at 3 for the September quarter, up 2 on the previous quarter and up 6 on a year ago.

[1] 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 September quarter 2026 and partially for the June quarter 2026 are estimates based on available data and information to date.

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

1.1 Economic growth (GDP): spring growth

Despite the ongoing conflict in the Middle East, the prolonged war in Ukraine and heightened geopolitical tensions elsewhere, the NZ economy has weathered the storm reasonably well with forecasts of solid economic growth out to 2028.

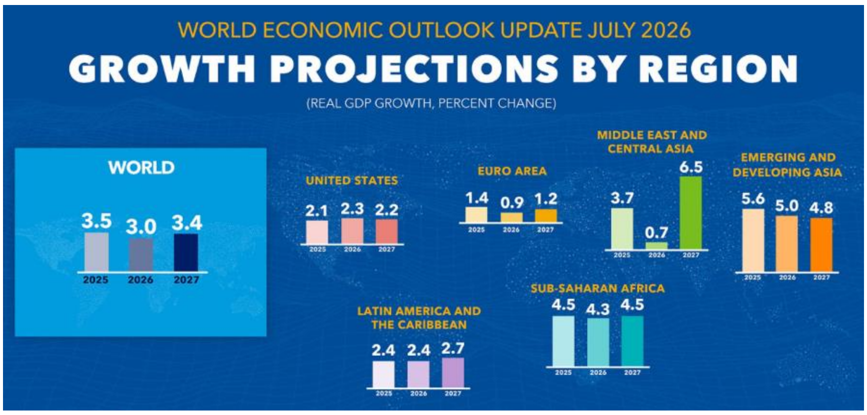
Global growth outlook?

Globally, conditions remain challenging, with policy instability, geopolitical conflicts and rising protectionism and inward-looking policy prescriptions adding to economic uncertainty.

In the US, President Trump's continued erratic approach to on-again off-again tariff announcements has disrupted the traditional international rules-based trading system, reducing trade and growth prospects.

International agencies, including the International Monetary Fund (IMF) continue to revise their growth forecasts.

The IMF's latest World Economic Outlook (July 2026) titled, *"Global Economy in Crosscurrents of War and Technology"*, notes that global growth is projected to be 3.0 percent in 2026 and 3.4 percent in 2027, down from the average of 3.5 percent observed in 2024-25 and broadly unchanged compared with the forecasts in the World Economic Outlook (April 2026).



Source: IMF, World Economic Outlook Update (July 2026)

The modest slowdown reflects the effects of the war in the Middle East offset by accelerated demand-driven momentum in the global technology cycle principally due to advances in artificial intelligence (AI) and its adoption.

Global headline inflation is expected to increase from 4.1 percent in 2025 to 4.7 percent in 2026 before declining to 3.9 percent in 2027.

The possibility of renewed Middle East conflict looms large and could extend commodity price volatility, further threaten supply chains, raise prices, and weigh on financial conditions.

As we write this update, the United States appears to be relying principally on economic sanctions on

Iran and those who trade with Iran as the mechanism to bring Iran back to the negotiating table.

Claims that the United States is in full control of the Strait of Hormuz do not seem to be accurate as the flow of shipping through the Strait is way below normal and ships continue to be attacked by Iran.

As well, Iran's allies the Houthi rebels continue to attack shipping in the Red Sea.

The potential for a further deterioration of the situation in this region remains high.

Meanwhile, growth rates of global manufacturing output and new orders remain solid despite some easing of late.

The J.P. Morgan Global PMI for July saw an upturn in global manufacturing production and new orders sustained, and the fastest rise in employment since June 2024.

Domestic growth outlook?

Perhaps somewhat surprisingly, neither international nor domestic challenges appear to have seriously impacted on economic performance with a range of indicators showing that the economy is back on track after the blip earlier in the year.

- **Business confidence** is holding up well after taking a hit earlier in the year.
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- **Inflationary expectations** have generally continued to ease, although inflation is likely to remain outside the Reserve Bank's target range of 1-3 percent until next year.
- **Interest rates, while continuing to rise back towards more neutral levels,** may level out by mid-next year.
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trading partners making NZ a relatively price-competitive option for many – along with our status as a reasonably safe destination.

- **NZ's significant infrastructure pipeline** will provide opportunities for both domestic and international capital, backed up by NZ's reputation as having stable and reliable institutions.

On the other hand, NZ still faces a number of longer-term challenges:

- **An ageing population** which has significant implications as to how future retirement income and healthcare costs are to be funded.
- **A 3-year electoral cycle** which tends to lead to short-term thinking and policy and regulatory flip-flops.
- **An increasingly complex world** in terms of geopolitical risks which exposes NZ as a trading nation to the vagaries of policy decisions from big international players such as the US and China.

New Zealanders go to the polls in a couple of months to cast their vote for the next Government as political parties start trying to woo undecided voters with their various policy proposals laced with the usual sugar hits.

Given that the possible make-up of the next Government looks like it is very wide open at this stage, it is perhaps surprising that while investors are nervous, it does not appear to be adversely impacting on investment intentions at this stage.

A record 40 percent of New Zealand investors say they are "very concerned" about how domestic political uncertainty could affect their investments, according to ASB's latest Investor Confidence Survey, though that anxiety has yet to translate into a broader shift in actual investment behaviour.

A further 46 percent of respondents described themselves as "concerned," bringing total concern about the local political environment to 86 percent. That very-concerned figure has climbed steadily over the past year, from 25 percent in the September 2025 quarter to 32 percent, then 30 percent, and now 40 percent in the June 2026 quarter — though ASB noted the question wording changed this quarter, meaning results are not directly comparable with earlier periods.

Global geopolitical and economic concern followed a similar pattern, hitting a record high of 57 percent "very concerned" this quarter, up from 40 percent a year earlier. Despite the elevated anxiety on both fronts, ASB found no increase in the proportion of investors making or considering changes to their portfolios as a result.

Forecasts: Real GDP percent Growth

	Years Ending		
	Sept 26	Sept 27	Sept 28
Highest	1.7	3.1	3.2
Average	1.6	2.3	3.0
Lowest	1.6	1.8	2.9

Source: ASB, BNZ, and Westpac

1.2 Monetary policy: Focus on what you can control

As the election nears and policy announcements are made by various political parties, it is concerning that some political parties are toying with the idea of reintroducing 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. Some commentators have stated it would make no difference but the argument remains unconvincing.

When the Reserve Bank Act 1989 was introduced close to four decades ago, it was internationally recognised because it gave New Zealand something many countries lacked, a central bank with one clear monetary policy objective: maintaining price stability.

For more than three decades New Zealand enjoyed low and relatively stable inflation. Businesses were able to invest with greater confidence. Households could make long-term financial decisions knowing that inflation would remain under control. Wage negotiations became less contentious because inflation expectations were well anchored. Lower inflation also contributed to lower interest rates than would otherwise have prevailed.

It happened because the Reserve Bank had a simple mandate that everyone understood, and against which everyone could judge its performance. The temptation in public policy is often to ask institutions to solve more problems. While understandable, this approach misunderstands what monetary policy can realistically achieve.

The Reserve Bank has one principal instrument, the Official Cash Rate (OCR). It cannot permanently increase productivity, build houses, improve education outcomes, reduce compliance costs or lift business investment. Those challenges require structural policy reforms and good government decision-making.

Monetary policy is an important stabilisation tool, but it is not an economic development strategy. Employment matters enormously. Every New Zealander benefits from an economy that creates jobs and opportunities.

But employment is influenced by a vast range of factors outside the Reserve Bank's control. Labour market settings, business confidence, taxation, skills, infrastructure, immigration, international demand and productivity all play a far greater role in determining sustainable employment than interest rates.

Giving the Reserve Bank responsibility for outcomes it cannot ultimately control risks weakening accountability rather than strengthening it. Clear objectives produce clear accountability, whereas multiple objectives inevitably require trade-offs.

Businesses make investment decisions years in advance. They value predictability. Stable inflation allows firms to plan, borrow and invest with greater confidence. It lowers risk premiums and encourages productive investment. The same is true for households. Few things undermine living standards more quickly than inflation.

When prices rise unexpectedly, purchasing power falls. Savings lose value. Families on fixed incomes are hit hardest. Businesses face uncertainty over costs and pricing decisions. Investment is delayed. Confidence weakens. Inflation is often described as an invisible tax because it quietly erodes incomes and wealth across the economy.

New Zealand's recent experience should reinforce, not weaken, the case for maintaining price stability as the Reserve Bank's primary objective.

The inflation outbreak following the pandemic reminded us that once inflation becomes established, bringing it back under control is both difficult and costly. Higher interest rates become necessary, economic activity slows and unemployment often rises.

None of the above means the Reserve Bank should ignore developments in the wider economy. Employment, wages, consumer spending, business confidence and international developments all matter because they help determine future inflation pressures. The Bank must continue to consider them when setting monetary policy. But there is an important distinction between considering these factors and making them statutory objectives in their own right.

Governments have many instruments available to improve employment and long-term economic performance. They can invest in infrastructure, improve education and training, reform regulation, strengthen competition, encourage innovation and create conditions that support business investment.

The Reserve Bank should not become responsible for compensating for shortcomings elsewhere in the policy framework. New Zealand's economy will always face shocks, whether from global events, commodity prices, natural disasters or financial market volatility. Public institutions perform best when they have clear objectives, transparent accountability and well-defined responsibilities. The Reserve Bank is no exception.

Inflation: Lower expectations

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 percent for both 2027 and 2028. This is smack in the middle of the Reserve Bank's target band of 1-3 percent.

While headline inflation is still well outside the target band (currently 4.1 percent) largely driven by continuing higher fuel costs as a result of the conflict in the Middle East, it is pleasing that inflationary expectations moving forward have been pared back somewhat which is good news for both businesses and households alike.

However, there are still potential upside (and downside) risks to inflation which means that the Reserve Bank has to be on its toes in terms of any changes to interest rates as they continue to be adjusted upwards towards more neutral levels over coming months.

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 governments will likely continue increasing rates in the near term, and potentially more so given that the Government is proposing rates caps which could result in some councils trying to get in first to raise rates before any caps cut in.
- Water services have now been broken away from general rates and are being funded separately through newly 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. Brace for further rises as decades of neglect come home to roost.
- The NZ dollar has generally declined over recent times, against our major trading partners which will add to inflationary pressures (particularly tradables).
- 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, this 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 while insurance costs across the board, including healthcare, continue to ramp up.

- Greater moves towards nationalism/protectionism and President Trump's on-again off-again tariff changes, will likely add to inflationary pressures.
- Despite efforts by the Government to improve the quality of regulatory intervention through the adoption of the Regulatory Standards Act and the formation of the Ministry for Regulation, government continues to add levies to businesses over a range of areas while current levies have been increased substantially in some cases, which will ultimately feed through into higher prices to businesses and consumers.
- Business and household borrowing has continued to increase of late, which is positive, but on the margin, could put upward pressure on costs, given relatively high debt levels by households and indeed Government, which has to be serviced. In terms of Government debt, the interest bill alone is currently around $9 billion per annum.

Given the weight of issues which potentially will impact on inflation ahead, as outlined above, it is perhaps surprising that some government agencies (e.g. Treasury) are predicting inflation will be well and truly in the box by mid-2027. We are not so sure.

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 on input costs (although input costs paid by producers increased significantly for the June quarter - 2.9 percent - well above the 1.4 percent the previous quarter).
- 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 showing slight falls over recent times. According to the ASB's latest Housing Confidence Survey, house price expectations continue to slide in the three months to July 2026, with just a net 9 percent of New Zealanders expecting prices to rise in the next year, down from 30 percent at the start of 2026. Auckland saw a large drop in price optimism, to net 4 percent from net 14 percent. In contrast, price growth expectations sit at net 23 percent in Canterbury and 18 percent across the rest of the South Island, despite some easing over winter.
- Forecast 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.
- 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 although this does not appear to have had a major impact to date. While some recent surveys show that investors are concerned about the uncertainty associated with the upcoming election, this does not seem to have affected investment to date.

Forecasts: Percent Change in Inflation (CPI)

	Years Ending		
	Sept 26	Sept 27	Sept 28
Highest	3.8	2.2	2.2
Average	3.7	2.1	2.1
Lowest	3.7	2.0	1.9

Source: ASB, BNZ, and Westpac

Interest rates: continuing to move back to neutral

As widely expected, the Reserve Bank moved to increase the OCR from 2.5 percent to 2.75 percent at its latest review last week with further hikes signalled.

The driving factors supporting the move upwards are that inflation currently remains well outside the Reserve Bank's target range, while a stronger than expected economic recovery means that the Reserve Bank will continue raising rates over coming months as interest rates return to more neutral rates – given the economic stimulus they currently provide.

The New Zealand Institute of Economic Research (NZIER) Shadow Board's most recent release of likely interest rate movements suggested that further rises were likely over the next year with the neutral level looking likely to settle at around 3.0 - 3.25 percent by mid-2027. This suggests that two further 25 basis point hikes are likely between now and then, although the timing of such movements will be highly dependent on real time data, alongside the monitoring of international events which could either bring forward or delay future movements.

Meanwhile, the Reserve Bank's Financial Policy Committee (FPC) has decided to maintain current Loan-to-Value Ratios (LVR) settings in its annual review of macroprudential policy.

In reaching its decision, the FPC considered a range of information, including house price developments, the risk profile of recent mortgage lending, financial strain amongst existing borrowers, and the resilience of the banking system.

"Housing risks are currently contained. Nationally, house prices have remained broadly flat in recent years, while mortgage lending growth has been modest and the share of higher-risk lending remains manageable."

Accordingly, the FPC decided to maintain the current LVR restrictions which have been in place since December last year:

- For owner occupiers, allowing up to 25 percent of new lending to have an LVR above 80 percent.
- For investors, allowing up to 10 percent of new lending to have an LVR above 70 percent.

Forecasts: Interest Rates (90-day bills)

	Years ending		
	Sept 26	Sept 27	Sept 28
Highest	3.25	4.2	3.95
Average	3.1	3.9	3.7
Lowest	3.05	3.45	3.45

Source: ASB, BNZ, and Westpac

NZ Dollar: forecast to rise

Given that the Reserve Bank is no longer in an easing cycle and is likely to continue to raise interest rates from here, it is likely that the NZ dollar will continue to rise, admittedly off a low base as the NZ dollar becomes more attractive.

Given continuing inflationary pressures it is possible that the OCR may still have some way to go until it reaches what the Reserve Bank considers to be a neutral level (neither expansionary nor contractionary).

Secondly, a weakening USD on the back of potentially lower interest rates (if the Federal Reserve eventually cuts rates) means the relative yield advantage of NZ assets improves. This will tend to attract capital towards the NZ dollar. However, recent data out of the US shows that inflation pressures are still persisting, which could result in further rate rises in the US.

Notwithstanding the above, 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)			
	Sept 26	Sept 27	Sept 28
Highest	0.84	0.90	0.91
Average	0.83	0.89	0.88
Lowest	0.83	0.87	0.84

USD (cents)			
	Sept 26	Sept 27	Sept 28
Highest	0.59	0.65	0.66
Average	0.58	0.61	0.63
Lowest	0.57	0.58	0.59

TWI			
	Sept 26	Sept 27	Sept 28
Highest	67.0	71.8	71.8
Average	65.7	69.0	69.8
Lowest	64.3	65.9	66.4

Source: ASB, BNZ, and Westpac

1.3 Business confidence and activity: Activity continues to improve

Overall business confidence is holding up well after slumping earlier in the year as a result of the conflict in the Middle East – and associated significantly higher fuel prices.

The ANZ NZ Business Outlook for August 2026 shows that business confidence fell 2 points in August to 54, while expected own activity eased 1 point to 48. Both are still at very high levels.

Inflation indicators were mixed. Inflation expectations lifted slightly from 3.14 percent to 3.26 percent, and more firms are expecting cost increases and to raise their own prices. But the size of expected cost increases is getting smaller.

ANZ Business Confidence, Own Activity and Past Activity

Source: Macrobond, ANZ Research

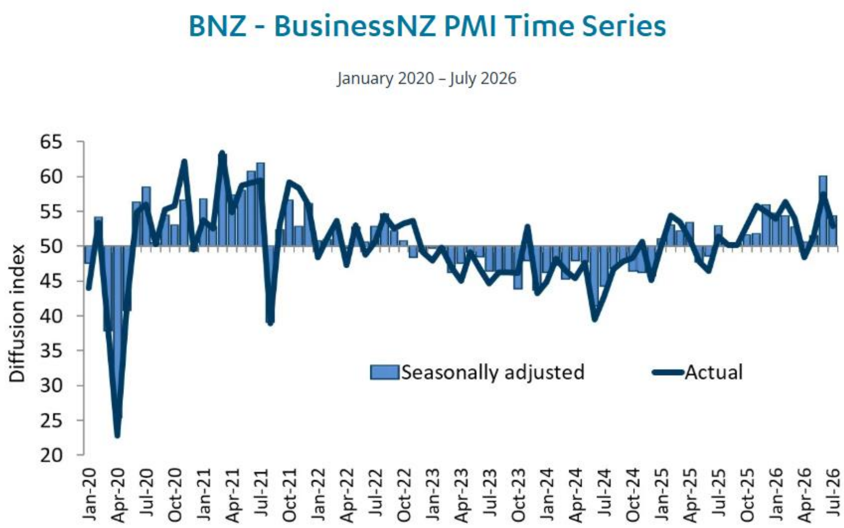
Manufacturing: Up and away

According to the latest BNZ – BusinessNZ Performance of Manufacturing Index (PMI), NZ's manufacturing sector continued to expand in July, but at a more moderate pace.

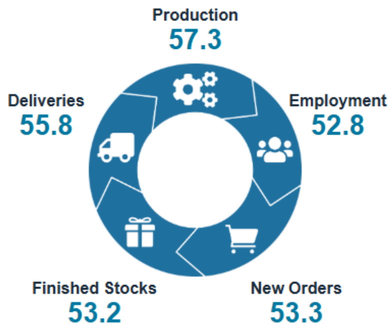
The seasonally adjusted PMI for July was 54.3 (where a reading above 50.0 indicates that the manufacturing sector as a whole is expanding, and a reading below 50.0 indicates a contraction). This was down from 60.1 in June but still above 51.5 in May and well clear of the survey's long-term average of 52.5.

After last month's exceptional result, it is not surprising to see some of that momentum ease, but a reading of 54.3 still represents solid expansion for the sector. What's more concerning is the shift in sentiment, with 57 percent of comments being negative. Respondents continue to point to the conflict in the Middle East, high fuel and raw material costs, and a general reluctance from customers to spend, with a number also citing uncertainty ahead of the election.

The respondent comments showed that cost pressures, from fuel and freight through to raw materials and the ongoing Middle East conflict, remain front of mind for many manufacturers - though a fair share pointed to steady order books and stronger export sales as reasons for optimism.



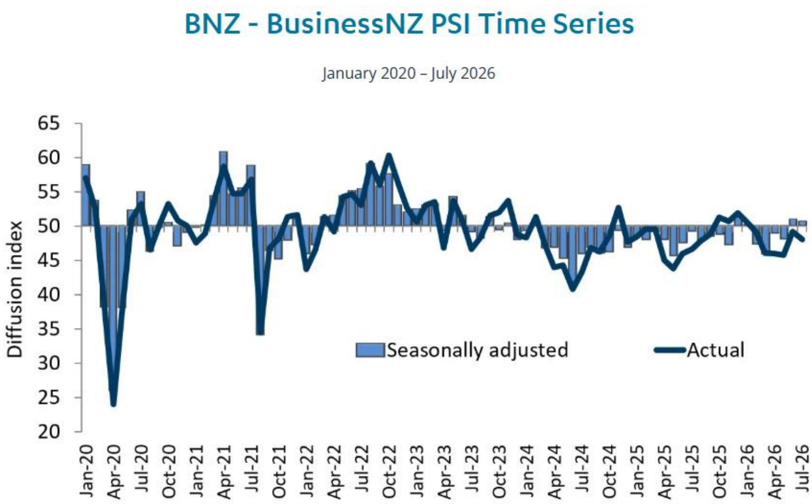
Every sub-index remained in expansion, though all eased from June's remarkable levels. Production was the strongest at 57.3, followed by Deliveries at 55.8. New Orders fell back to 53.3, Finished Stocks eased to 53.2, and Employment was the weakest at 52.8.



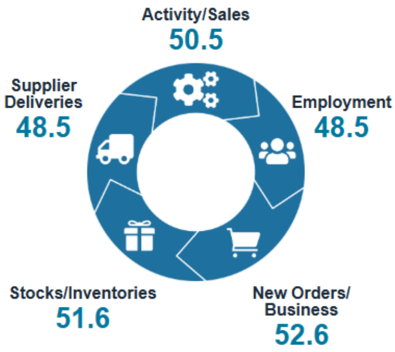
Services: Tentative growth

According to the BNZ – BusinessNZ Performance of Services Index (PSI), New Zealand's services sector held onto its expansion in July, following June's return to growth.

The PSI for July was 50.6 (where a reading above 50.0 indicates the sector is generally expanding, and a reading below 50.0 indicates the sector is in contraction). This was down slightly from 50.9 in June, but still above 48.1 in May. July marks a second consecutive month above the breakeven mark.



It's encouraging to see the PSI hold above 50.0 for a second month running, even if the pace has eased slightly from June. Employment remains the sector's soft spot, sitting at 48.5 alongside Supplier Deliveries, which tells us firms are still cautious about committing to new hires. Until consumer confidence firms up further, this recovery will likely stay modest rather than becoming the stronger bounce we've seen in manufacturing.



The respondent comments showed that cost of living pressures, fuel and petrol prices, and rising interest rates remain front of mind for many, with a number also citing uncertainty ahead of the election. Sentiment was notably softer than in manufacturing, with 64 percent of comments negative.

New Orders/Business was the strongest sub-index, at 52.6, followed by Stocks/Inventories at 51.6 and Activity/Sales at 50.5. Employment and Supplier Deliveries were the weakest, both at 48.5, a reminder that the recovery remains narrowly based.

Agriculture: positive outlook

The agriculture sector continues to go from strength to strength despite facing higher input costs of late.

The outlook for New Zealand agriculture is broadly positive over the next 12–24 months, although the exceptionally strong returns of 2025–26 are unlikely to be repeated across all sectors. The key point is that export prices and farm profitability remain much stronger than they were a few years ago, while production is responding.

MPI's June 2026 *Situation and Outlook for Primary Industries* is quite encouraging. Food and fibre export revenue is expected to reach a record $64.3 billion in the year to June 2026, up 6 percent, with dairy, red meat, kiwifruit and apples leading the increase.

Dairy is probably the biggest area to watch.

MPI expects dairy export revenue to reach $28.6 billion in 2025–26, up 5 percent, helped by high global prices, favourable exchange rates and record milk production. It expects the 2026–27 revenue to fall about 3 percent as global prices soften and domestic production retreats from record levels.

There is already evidence of this moderation. Fonterra cut its 2026–27 forecast in July from $9.75 to $9.25/kgMS, after GDT prices fell 11 percent from late May and global milk production increased. Its current range is $8.00–$10.50/kgMS.

Nevertheless, a $9.25/kgMS payout would still represent a very good historical return for dairy farmers.

The major upside risk is that an El Niño event reduces production in major exporting countries, tightening global supply. The downside risk is continued growth in global milk production combined with weaker Chinese demand and President Trump's on-again off-again tariff policy.

MPI expects meat and wool export revenue to reach $14.1 billion in 2025–26, up 14 percent. Farm-level sheep and beef profit before tax is forecast to rise an extraordinary 96 percent, as higher revenue more than offsets higher expenditure.

The important structural factor is tight global beef supply.

MPI expects meat and wool export revenue to rise another 1 percent in 2026–27, with higher beef prices and volumes more than offsetting softer lamb prices.

This suggests the sheep and beef sector could continue to benefit from a favourable supply-demand balance even if the broader commodity cycle becomes less buoyant.

Horticulture is another strong performer.

Export revenue is forecast to rise 7 percent to $9.5 billion in 2025–26, driven by record kiwifruit and apple export volumes and strong kiwifruit prices. MPI expects further growth in 2026–27.

The interesting feature here is that horticulture has a somewhat different growth model from traditional livestock agriculture: productivity, orchard development and higher-value varieties can continue driving export growth without simply requiring more land.

Kiwifruit therefore remains one of NZ's strongest agricultural growth stories.

On the negative side, cost increases are still an issue in the agricultural sector, alongside concern about President Trump’s trade policies and the slow-down in China.

The major change compared with the immediate post-Covid period is that farmers are now receiving strong commodity prices but are also facing substantially higher costs.

Fertiliser, fuel, freight, machinery, finance and other imported inputs remain important constraints.

Consequently, the next phase of the agricultural cycle is likely to be less about simply increasing output and more about improving productivity and margins.

That actually favours New Zealand's better managed and more efficient farms.

China is still enormously important to NZ agriculture, particularly dairy, meat, horticulture and forestry.

The risk is not necessarily a collapse in Chinese demand, but rather that Chinese economic growth and consumer demand don't recover sufficiently to absorb increasing global agricultural supply.

That is already evident in dairy: Fonterra's July reduction was explicitly attributed to softer-than-expected demand alongside stronger global supply.

Diversification into Southeast Asia, the Middle East, India and other markets therefore remains strategically important.

Talking of trade, the trade policy world has continued to evolve over recent months with a number of announcements having potential implications for NZ.

US Investigation into Sheep meat Imports

As has been feared for some time, the Trump administration has requested a formal safeguards investigation into imports of sheep meat. The concern principally relates to imports from Australia, but New Zealand imports are included in the investigation also. The investigation follows a formal application from US industry.

The investigation will not be completed until after the US mid-term elections which has caused some to speculate that this move may be more optical than real. The Administration is wanting support from sheep producers but is concerned about introducing new cost increases. Whether safeguard tariffs are actually introduced there is very much in question. Given the importance of the United States as a sheep meat market for New Zealand, safeguard tariffs would be a negative development.

New Zealand industry and the Government are vigorously defending New Zealand interests. Any surge in sheep meat imports into the United States has not come from New Zealand.

Beef

There is potentially better news on the beef front. Because of concerns about cost-of-living increases in the United States President Trump said that he has "concluded a deal to substantially lower the price of ground beef for working American families. For the next 90 days, the United States will allow up to 300,000 metric tons of product for ground beef to be imported with no out-of-quota tariff. We have a commitment that this beef will be sold at 25 percent below current market prices."

There is not much detail provided yet on who this "deal" was done with, and which country or countries might be involved.

There has been significant pushback from US industry following this announcement.

Construction: improving outlook

The outlook for New Zealand construction is turning from contraction to recovery. A positive sign of recovery is showing up in the data, with ready-mixed concrete volumes increasing by 3.7 percent in the year to June 2026.

The latest MBIE/BRANZ construction pipeline work points to a significant recovery after the downturn of 2023–25. Total construction activity fell from $63.0 billion in 2023 to $58.1b in 2024 and an estimated $55.7b in 2025, but is forecast to rise from 2026, reaching around $65.4b by 2030.

Residential construction should be an important source of the recovery.

The combination of:

- Continued relatively low interest rates;
- improved mortgage affordability;
- population growth;
- a substantial improvement in housing affordability;
- rising dwelling consents; and
- the large backlog of housing demand

should gradually lift residential construction.

There is already evidence of this turning point. Government data show 40,581 new homes were consented in the year to June 2026, up 19 percent.

The important qualification is that consents lead actual construction by some time. Consequently, the improvement in consent numbers should translate into stronger construction activity progressively through 2026–28 rather than all at once.

Meanwhile, non-residential construction is improving, but more slowly.

BRANZ's forecast has non-residential building increasing from $13.2b in 2025 to $15.6b in 2029.

The main constraints are:

- relatively high vacancy rates in some commercial property markets;
- subdued business investment;
- cautious corporate spending;
- difficult project economics; and
- financing costs.

However, public-sector projects, education, health, industrial buildings and selected logistics projects should provide support.

The industrial/commercial split is important: industrial construction is likely to perform considerably better than some traditional office-related construction.

Infrastructure is perhaps the strongest part of the construction story with a significant pipeline of projects going forward – some funded, some not.

New Zealand has accumulated a very substantial infrastructure deficit, while the Government has increasingly prioritised transport, infrastructure and major capital projects.

Te Waihanga's June 2026 National Infrastructure Pipeline shows:

- $290b of projects in the overall pipeline;
- $95.8b fully funded;
- $192.8b with committed funding or a confirmed funding source;
- $71.2b already under construction; and
- approximately $17.5b of projects expected to enter construction over the following 12 months, with 89 percent fully funded, partly funded or having a confirmed funding source.

Tourism/Hospitality: More growth expected

The outlook for New Zealand tourism is now quite positive, with the sector moving from post-Covid recovery into a genuine growth phase. Hospitality should benefit from this, although the outlook is somewhat less strong because domestic household spending remains constrained and operating costs are still high.

The key economic story is that tourism is likely to become an increasingly important source of export-led growth at precisely the time domestic consumption remains relatively subdued.

International tourism has become the major positive with the latest figures particularly encouraging. New Zealand received 3.67 million overseas visitor arrivals in the year to June 2026, up 9 percent from 3.38 million a year earlier.

Tourism New Zealand says the country reached 3.7 million arrivals, with holiday arrivals up 15.3 percent and conference arrivals up 16.7 percent. Australia, the US and China are all performing strongly.

This is important because the recovery is no longer simply about getting back to previous levels — visitor growth is now generating additional economic activity.

One particularly encouraging development is the recovery in higher-value holiday tourism.

MBIE reports that, for the year to March 2026, visitor numbers were at 94 percent of 2019 levels, while real international visitor expenditure had also reached 94 percent of pre-Covid levels. Holiday visitors represented 52 percent of arrivals — back to the 2019 proportion.

There are also substantial differences between markets:

- Australia: now around 105 percent of 2019 visitor numbers.
- US: around 106 percent of 2019.
- China: recovering rapidly, with holiday arrivals up 40 percent.
- India: 83,000 arrivals in the year to May 2026, already 125 percent of 2019 levels.

This diversification is positive for New Zealand because it reduces dependence on any single country.

A relatively weak NZ dollar is also generally helpful for inbound tourism because it makes New Zealand cheaper for overseas visitors, although it increases the cost of imported goods for hospitality businesses.

The tourism recovery should flow directly into:

Hospitality and accommodation businesses are likely to be among the clearest beneficiaries because international visitors generally require overnight accommodation.

Restaurants and cafés should also benefit, particularly in tourist destinations, although the improvement will be less uniform.

The reason is that hospitality has two very different sources of demand:

1. International tourists — currently strong
2. New Zealand households — still relatively constrained

The second group is important. Even with an improving economy, households are still adjusting to the effects of the cost-of-living shock. Consequently, restaurants, cafés, bars and other discretionary businesses will probably experience a gradual rather than explosive improvement in domestic demand.

Notwithstanding the above positive picture, hospitality margins remain the weak point.

Revenue prospects are improving strongly, but businesses continue to face:

- relatively high labour costs;
- food and beverage input costs;
- electricity and other utilities;
- commercial rents;
- insurance costs;
- compliance costs;
- difficulty obtaining appropriately skilled staff;
- relatively low productivity.

Consequently, higher visitor numbers will not necessarily translate one-for-one into higher profits.

This is likely to produce a two-speed hospitality sector: businesses in strong tourist locations with good occupancy and differentiated offerings should perform considerably better than marginal operators.

***Defence/Technology*: Growing Opportunities**

Technology and defence are two of the more promising parts of New Zealand's medium-term economic outlook, although for rather different reasons. Defence is being driven primarily by a substantial increase in Government spending, while technology has the greater potential to generate productivity gains and export growth.

Defence is arguably one of the clearest areas of structural growth in the NZ economy over the next decade.

The 2025 Defence Capability Plan provides for $12 billion of planned commitments over four years, including $9 billion of new spending, with defence spending intended to rise to around 2 percent of GDP within eight years.

Budget 2026 has continued this trajectory, including $2.35 billion of Defence capital expenditure and funding for a Defence Technology Accelerator.

New Zealand doesn't have the scale to develop a conventional defence manufacturing industry comparable with Australia, UK or US but it can potentially specialise in high-value niche technologies.

The Government's July 2026 decision to pursue long-range one-way strike drones and research long-range uncrewed maritime surveillance aircraft is a particularly good example of the direction of travel. The Government is explicitly encouraging NZ suppliers to participate.

The Government's Defence Industry Strategy includes a proposed $100–300 million Technology Accelerator to connect the NZ technology sector with Defence and develop technologies with export potential.

Areas such as:

- drones and autonomous systems;
- maritime surveillance;
- AI;
- cyber-security;
- simulation;
- communications;
- sensors;
- electronic warfare; and
- advanced manufacturing

could therefore receive substantially more investment.

Technology is attractive because it is relatively "weightless" compared with traditional NZ exports. A successful SaaS company can export globally without the transport and infrastructure constraints associated with agriculture or manufacturing.

The biggest problem remains scale.

NZ has excellent technology companies but lacks:

- a large domestic market;
- deep pools of venture capital;
- sufficient late-stage growth capital;
- large numbers of specialist technology workers; and
- strong commercialisation links between universities and business.

Consequently, the technology sector is likely to remain one of NZ's fastest-growing sectors, but its direct contribution to overall GDP will remain relatively modest unless NZ becomes much better at retaining and scaling successful companies domestically.

The important point economically is that technology can grow much faster than the overall NZ economy without requiring large amounts of physical capital.

In a major move, Hyperscaler Datagrid gained full consent approval to build a 289MW datacentre in rural Makarewa, north of Invercargill, last week, allowing it to proceed with construction for a previously stated 2028 opening of the artificial intelligence training facility.

The datacentre project altogether was known to include the laying of a submarine cable to connect nearby Ōreti Beach with Australia, a cable-landing substation for up to three cables, and a 220kV substation under agreement with Transpower.

Datagrid plans to build six data halls with a total area of 9.5ha, each with its own cooling plant, and a total of 84 generators for emergency power back-up.

"The datacentre is a strategic infrastructure facility that requires a large, unconstrained site with proximity to the national grid, fibre connectivity, and reliable renewable power, all attributes present at Makarewa," reads the Southland District Council resource consent decision.

Datagrid said Southland had been chosen for its low average temperatures (reducing cooling requirements), and its proximity to the Manapouri, Mataura and Monowai hydro schemes for power.

A recent report from Boston Consulting Group (BCG) highlights NZ's advantages that are attractive to companies building datacentres: abundant renewable energy, cooler climate, strong fibre connectivity, and a stable operating environment.

Notwithstanding the above, there are some concerns about the amount of power that proposed AI centres may use and the potential impacts on other existing users and ultimately power prices overall.

Political parties are still grappling with these issues with some parties supporting development while others are more cautious until issues such as the potential impact on electricity supplies have been worked through.

While the NZ National Party supports harnessing large-scale artificial intelligence datacentres for economic growth they are advocating for rules to protect energy supplies.

- **Economic Potential:** The government views the AI and digital infrastructure boom as a major economic opportunity, noting that generative AI adoption could significantly boost national GDP.
- **Energy Requirements:** Prime Minister Christopher Luxon has stated that large-scale datacentres must demonstrate "additionality" to the electricity network. This means new data facilities should be tied to new, firmed power generation rather than simply drawing power from the existing grid and driving up prices for households and businesses.
- **Regulatory Approach:** While opposing rigid moratoriums or bans proposed by other parties like the Greens, National acknowledges the need for common-sense guardrails and has looked to frameworks similar to those developed internationally to manage resource and grid impacts.

How such policies are to be implemented will take some working through.

1.4 Labour Market: Improvement expected

The forecasts below show that unemployment is expected to have peaked in the June quarter of this year and will drift lower from here while employment growth remains modest.

The unemployment rate increased slightly to 5.6 percent in the June quarter while employment continued to grow – marginally. Other indicators, such as job advertisement data, point to an expected recovery from here.

Of the 165,500 people who were unemployed in the June 2026 quarter (not seasonally adjusted), 19.0 percent have been unemployed for more than a year. Around 8,000 more people were experiencing long-term unemployment (more than a year) in the June 2026 quarter than in the same quarter in 2025.

While most employment indicators remain firm, such as the labour force participation rate, there is still some slack in the labour market with the underutilisation rate sitting at 13.8 percent, up from 12.9 percent in the March quarter and up from 12.8 percent a year ago.

By age group, youth experienced the largest increases in underutilisation in the year to the June 2026 quarter.

The underutilisation rate for 15 to 24-year-olds rose from 33.6 percent to 37.0 percent over the year. The underutilisation rate for 25 to 34-year-olds also increased, rising from 9.7 percent to 11.6 percent.

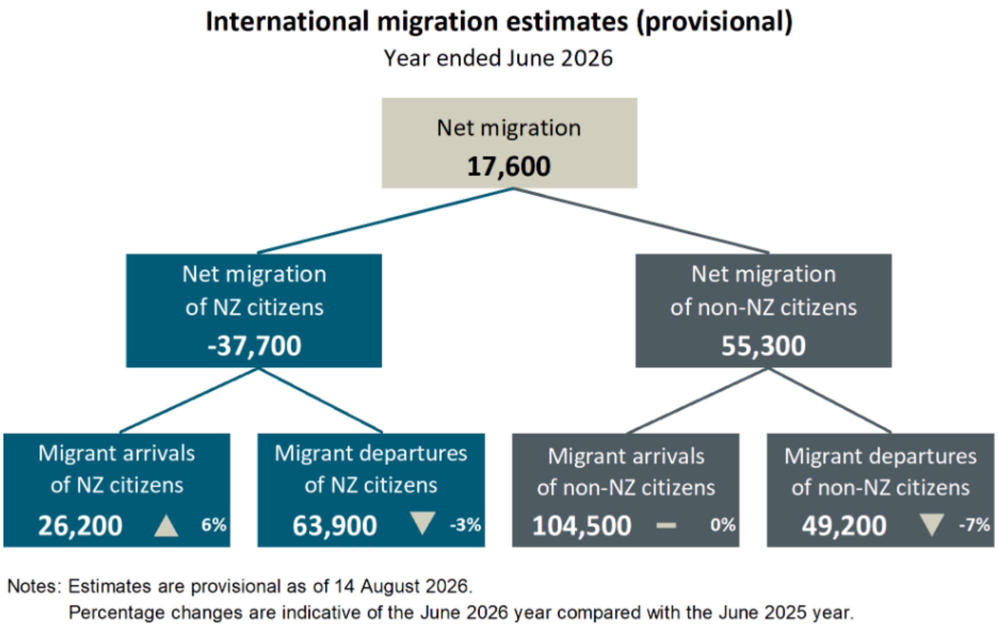
In the June 2026 quarter 25.8 percent of underutilised people were Māori, with the Māori underutilisation rate at 22.8 percent, up 3.2 percentage points over the year.

Notwithstanding reasonably positive forecasts for both employment growth and a reduction in unemployment, there are still significant regional variations in unemployment levels, with unemployment relatively low in many areas of the South Island which is being driven by both continued agricultural growth and the upturn in tourism.

On the other hand, both Auckland and Wellington are weighing down the North Island.

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 generally continued to improve as migrant departures ease up. Stats NZ's latest net migration estimates point to an annual net migration gain of around 17,600 in the year to June 2026.



NZ had a net migration gain of 17,600 the June 2026 year, up from a net gain of 10,300 in the June 2025 year, according to provisional estimates from StatsNZ.

The increase to net migration in the June 2026 year was due to a 5 percent fall in migrant departures and a 1 percent rise in migrant arrivals, compared to the June 2025 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 which may be drawing some people back from Australia as the economy here continues to pick up.

The massive drain of New Zealanders moving to Australia appears to be levelling off. Over the 2025 calendar year, NZ had a net migration loss of 28,500 people to Australia. While still higher than the historical long-term average of 19,000, it represents a significant drop from the 32,000 net outflow seen in early 2024.

While relative opportunities for higher salaries previously encouraged many New Zealanders to try their luck overseas, softening global markets and higher living costs abroad are narrowing the gap.

Forecasts: Unemployment percentage (HLFS)

	Quarter		
	Sept 26	Sept 27	Sept 28
Highest	5.6	5.3	4.9
Average	5.6	5.2	4.7
Lowest	5.5	5.1	4.5

Source: ASB, BNZ, and Westpac

Labour Costs: steady

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

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: Labour cost index percentage change (wages and salaries)

	Years Ending		
	Sept 26	Sept 27	Sept 28
Highest	2.2	2.3	2.4
Average	2.1	2.1	2.2
Lowest	1.9	1.9	2.0

Source: ASB, BNZ and Westpac