The Treasury

Budget 2026 Information Release

September 2026

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[26] 9(2)(ba)(i) - to protect information which is subject to an obligation of confidence or which any person has been or could be compelled to provide under the authority of any enactment, where the making available of the information would be likely to prejudice the supply of similar information, or information from the same source, and it is in the public interest that such information should continue to be supplied

[27] 9(2)(ba)(ii) - to protect information which is subject to an obligation of confidence or which any person has been or could be compelled to provide under the authority of any enactment, where the making available of the information would be likely otherwise to damage the public interest

[31] 9(2)(f)(ii) - to maintain the current constitutional conventions protecting collective and individual ministerial responsibility

[33] 9(2)(f)(iv) - to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials

[34] 9(2)(g)(i) - to maintain the effective conduct of public affairs through the free and frank expression of opinions

[35] 9(2)(g)(ii) - to maintain the effective conduct of public affairs through protecting ministers, members of government organisations, officers and employees from improper pressure or harassment;

[36] 9(2)(h) - to maintain legal professional privilege

[37] 9(2)(i) - to enable the Crown to carry out commercial activities without disadvantage or prejudice

[38] 9(2)(j) - to enable the Crown to negotiate without disadvantage or prejudice

[39] 9(2)(k) - to prevent the disclosure of official information for improper gain or improper advantage

[40] 18(c)(i) - that the making available of the information requested would be contrary to the provisions of a specified enactment

[41] 18(d) - information requested is or will soon be publicly available

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TE TAI ŌHANGA
THE TREASURY

Treasury Report: Budget 2026 Preliminary Economic Forecasts

Date:	13 February 2026	**Report No:**	T2026/209
		File Number:	BM-3-6-1-M133758

Action sought

	Action sought	Deadline
Hon Nicola Willis **Minister of Finance**	Discuss this report with officials at the next Fiscal Matters meeting.	None

Contact for telephone discussion (if required)

Name	Position	Telephone		1st Contact
Hilary Croke	Senior Analyst, Forecasting and Monitoring	[39]	[35]	✓
Peter Gardiner	Manager, Forecasting and Monitoring			

Minister's Office actions (if required)

Return the signed report to Treasury.

Note any feedback on the quality of the report	

Enclosure: No

Executive summary

This Treasury Report provides you with an overview of the Preliminary Economic forecasts. Following last week's Fiscal Matters meeting where we provided you with a verbal update on the economic outlook, you have a further opportunity to discuss the content of this report with Treasury officials at Fiscal Matters on Monday 16 February.

We have slightly reduced our real GDP growth forecasts and increased our nominal GDP growth forecasts compared with the *Half Year Economic and Fiscal Update 2025* (*Half Year Update*).

As previously reported, the economic recovery appears to be broadening. However, judging the pace of this recovery is difficult and remains a key uncertainty at this early stage of the Budget forecast process. We have taken a balanced view on the momentum of real GDP growth forecast at the *Budget Economic and Fiscal Update 2026* (*Budget Update 2026*). Given several years of data volatility in quarterly GDP data, we have not revised up our forecasts as a result of the strong September quarter GDP result.

In addition, data outturns and historical labour market revisions point to a broadening in economic growth but less spare capacity and slightly lower potential growth. This means that the pace of recovery and overall real activity is now expected to be slightly slower than forecast in the *Half Year Update* as the economy cannot expand as quickly without generating additional inflationary pressure, and monetary policy stimulus is reduced.

However, higher near-term inflation and a strengthening terms of trade over the forecast period offset a slower acceleration in economic activity, strengthening nominal growth that is higher than previously forecast. This is positive for tax revenue, although some economic factors will also increase government expenses.

We will update our forecasts over the next two months to incorporate your Budget decisions and updated economic and fiscal information. We will also review some underlying assumptions as we update our final Budget forecasts including:

- Our economic outlook could be revised depending on Reserve Bank forecasts due out in the February Monetary Policy Statement. A change in our forecasts since the *Half Year Update* has meant interest rates are higher and expected to increase earlier consistent with current market pricing and output gap indicators. We will also take into account the Reserve Bank's commentary on the recovery, their assessment of recent inflation outturns on their medium-term outlook for price stability, and risks related to the timing and magnitude of changes to the official cash rate.

- December 2025 quarter GDP will be released on 19 March and will provide additional information on the pace of the recovery and the underlying economy. Our forecasts assume a broadening and gradual increase in economic growth across sectors rather than a sharp acceleration. A stronger December quarter outturn and additional insight from survey data and high frequency indicators could lead us to reassess the pace at which the economy is recovering.

- Business talks in early March will also provide additional qualitative information about the state of the economy. We are focusing on Auckland businesses in particular given the importance of Auckland economy to the economic recovery.

- Given its importance to the forecasts and the different methods to assess the level of spare capacity in the economy, new forecasts from the Reserve Bank and the OECD will add additional insight into our own assessment of potential growth and spare capacity.
- We have retained a long run assumption of 40,000 annual net migration. In light of post-COVID migrant flows, new census data and data revisions, we think that it is an appropriate time to assess whether this remains appropriate.

Table 1: Preliminary economic forecasts

June years		2025 Actual	2026 Forecast	2027 Forecast	2028 Forecast	2029 Forecast	2030 Forecast
Real GDP (AAPC)	B26 prelim	-1.1	1.8	2.9	2.7	2.4	2.2
	HYEFU 25	-1.1	1.7	3.4	2.6	2.5	2.5
Unemployment rate (June quarter)	B26 prelim	5.2	5.2	4.7	4.4	4.3	4.3
	HYEFU 25	5.2	5.3	4.8	4.6	4.5	4.3
CPI inflation (APC)	B26 prelim	2.7	2.7	2.3	2.2	2.1	2.0
	HYEFU 25	2.7	2.4	2.2	2.1	2.0	2.0
90-day rate (June quarter)	B26 prelim	3.4	2.5	2.6	3.0	3.1	3.1
	HYEFU 25	3.4	2.1	2.0	2.1	2.3	2.5
Current account balance (annual, % of GDP)	B26 prelim	-3.8	-3.3	-3.2	-2.9	-2.8	-2.6
	HYEFU 25	-3.7	-2.8	-2.8	-2.7	-2.6	-2.6
Nominal GDP (expenditure, $ billion)	B26 prelim	434.8	455.2	480.0	505.4	528.5	551.1
	HYEFU 25	436.0	454.5	479.0	502.2	526.2	551.1
	Change	-1.3	0.7	1.0	3.1	2.2	0
Nominal GDP (income, $ billion)	B26 prelim	435.4	453.8	478.1	503.1	525.9	548.3
	HYEFU 25	431.5	448.0	472.2	495.2	519.0	543.7
	Change	3.8	5.8	5.9	7.9	6.9	4.6

Treasury Report: Budget 2026 Preliminary Economic Forecasts

Purpose of Report

1. This report presents the preliminary economic forecasts and emerging fiscal narrative to inform Budget 2026 decision-making. The Treasury's preliminary fiscal forecasts will be reported to you on 5 March. This report follows the most recent Aide Memoire on economic data developments (T2026/77 refers) prepared on 22 January for the post-the *Half Year Update* FEC briefings.

2. The preliminary economic forecasts were finalised on 5 February and were briefly summarised with you at the Fiscal Matters briefing on 9 February. We will continue to test our assumptions as new data is released in addition to incorporating Budget decisions as they are agreed upon. Any material impacts from new data and Budget policies will be communicated to you before the finalisation of Budget economic forecasts on 1 April. You are scheduled to discuss this report with Treasury officials at next week's Fiscal Matters Meeting on 16 February.

Economic outlook

We have reduced our forecast for real GDP growth over the forecast period

3. September quarter GDP growth was stronger than expected and high frequency data for December and January have been mainly positive. However, judging the pace of this recovery is a key uncertainty at this stage of the Budget forecast process.

4. There are two key judgements that we need to make to determine the broad outlook for the real GDP forecast. The first is the pace of recovery and whether the September quarter represents a stronger recovery. The second, and perhaps more important, is how much spare capacity there is in the economy, which along with other assumptions around migration and productivity growth, determine how much the economy can grow before it hits capacity constraints.

5. On the first, there is significant volatility in the GDP data and we have not revised up our forecasts for near term growth as a result of the strong September quarter data point. Our assessment is that we will see moderate growth in the December quarter (0.5%) after essentially flat growth across the June (-1.0%) and September quarters (1.1%) combined. Care needs to be taken when looking at individual quarterly movements in headline GDP, with recent quarterly outturns oscillating between positive and negative over the past two years.

6. On the second, we have reduced our assumption on the amount of spare capacity in the economy and therefore the amount that the economy can grow before capacity constraints bite. This means that we have lowered our assessment of potential output and the potential growth rate.

7. Since the *Half Year Update*, historical revisions by Stats NZ led to the level of GDP revised down by around 0.3 percentage points between 2017 to 2023. In addition, Stats NZ revised working age population estimates by around 11,000 people. These changes, in conjunction with an assessment of a range of other capacity indicators, contribute to a revised view of lower potential output and a less negative output gap compared to our *Half Year Update* (-2.0% compared to -3.1% at the *Half Year Update*). This is more in line with other indicators of the spare capacity and supports the view of aggregate demand pressures being relatively higher, requiring higher interest rates to keep inflation in check.

8. These two factors combined have reduced our forecasts for real GDP growth across the forecast period, compared with the *Half Year Update*. We will have more data to further test these judgements before we finalise our economic forecasts. In particular, December quarter GDP data will give us more information on the near-term momentum in the economy and we will have the Reserve Bank's assessment of spare capacity which will provide a check on our assumptions.

Figure 1: Real GDP growth

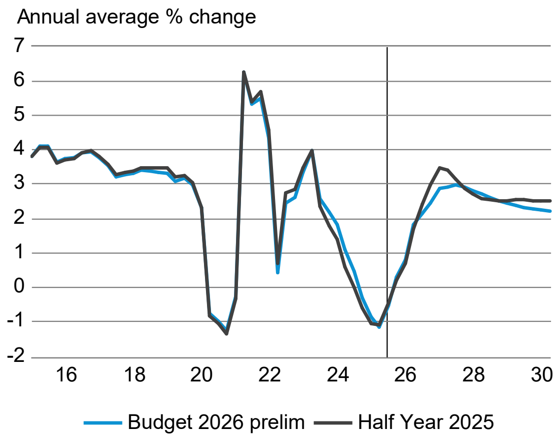
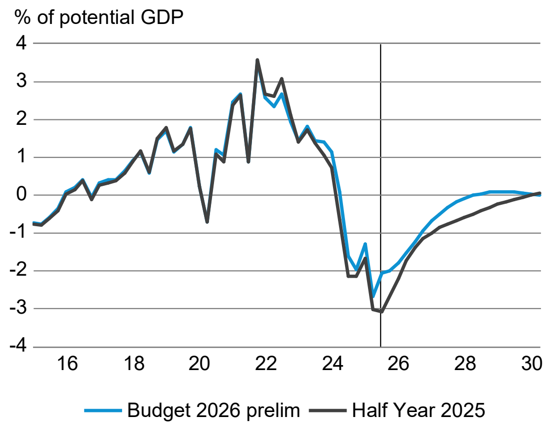


Figure 2: Output gap



The main changes since the Half Year Update

Monetary policy and interest rates

9. In line with this assessment of reduced spare capacity, interest rates are higher and the monetary policy easing cycle is assumed to have ended last year. Monetary policy is expected to be stimulatory for some time, but to a lesser extent and for a shorter period than at the *Half Year Update*. We have also adjusted our COVID-related assumption about the neutral interest rate over the forecast period from 2.75% to 3.0%. This was necessary in order to achieve a 90-day rate that holds at the current rate (2.5%) before increasing to around 3% by the end of 2027. The change in our neutral rate assumption is in line with the suite of rates modelled by the Reserve Bank.

Inflation

10. Inflation is higher than forecast at the *Half Year Update*, although we still expect this to return towards the middle of the Monetary Policy Committee's target band. Recent CPI inflation outturns have been slightly higher than forecast at the *Half Year Update*. Much of this pressure is from previous quarterly increases in sources less sensitive to domestic interest rates such as petrol prices, international airfares, electricity distribution charges, and local government rates. Annual CPI inflation is forecast to ease from 3.1% to 2.8% in the March 2026 quarter as recent tradable inflation abates. While there is some persistence in non-tradable inflation, core measures of inflation are still well contained, with inflation expectations close to 2.0%, and slowing wage inflation. In addition to next week's February MPS the Reserve Bank has also recently released quarterly survey inflation expectations data, which will be included in our final economic forecasts.

Figure 3: Consumer Price Inflation

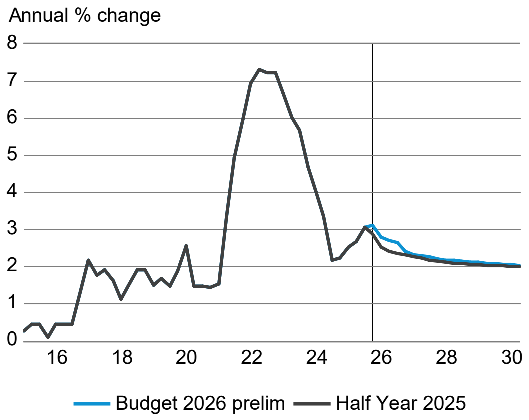
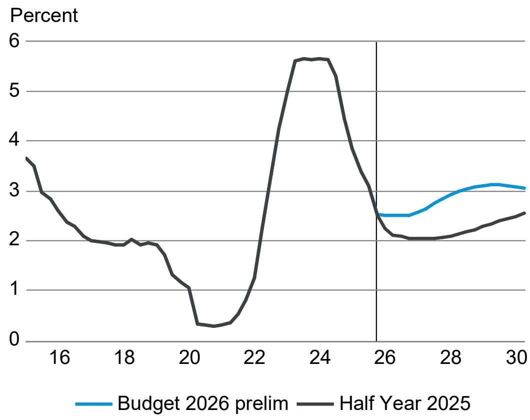


Figure 4: 90-day interest rates



House prices

11. We have lowered our house price forecasts from 6-7% annual growth to 3-4% as prices have stayed nearly flat since the March 2023 quarter. Housing market activity is soft and the December quarter was weaker than forecast. House price fundamentals suggest slower growth at the end of the forecast period relative to the Half Year Update due to higher interest rate forecasts, estimated dwelling growth, weak rental price growth and growth in housing supply.

Figure 5: House prices

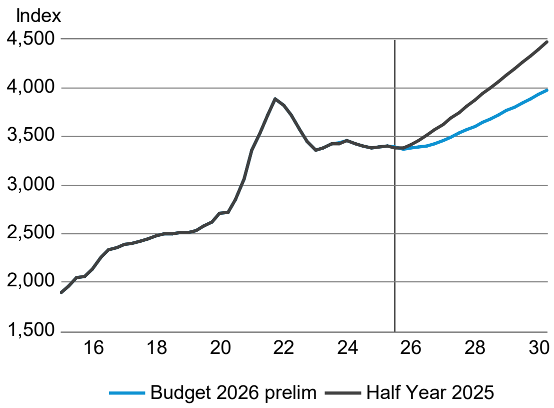
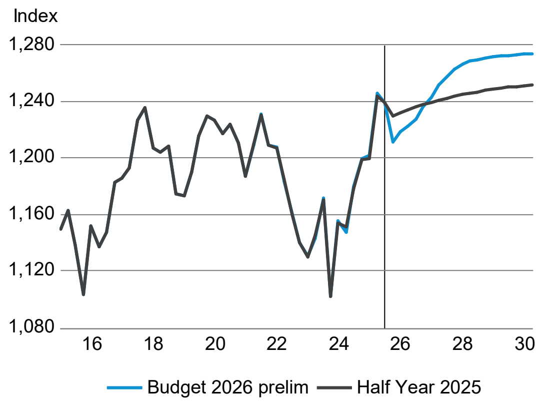


Figure 6: Terms of trade



International trade

12. The terms of trade is forecast to rise to a higher level than at the *Half Year Update* as a result of a lower real world import prices. After near-term weakness, the total terms of trade are forecast to resume their upward trend, reflecting rising goods export prices and a higher services terms of trade. A higher exchange rate supports the services terms of trade through lower services import prices. Over the past 30 years, real world import prices have trended downwards, reflecting the impact of globalisation and technological advancement.

13. Goods exporters benefited from high commodity prices in 2025 and a low exchange rate. Commodity prices have since come off their highs and the exchange rate has appreciated, indicating a more pronounced export price cycle than had been assumed at the *Half Year Update*. However, international demand for exports remains strong and after near term weakness rising goods export prices will help lift the terms of trade and support business investment via lower import prices for plant, machinery, and transport equipment.

Labour market

14. In the near term, domestic demand is forecast to gather pace as labour market conditions improve providing support for household incomes and spending. Since the *Half Year Update*, employment growth has been stronger, the unemployment rate has been lower, and there have been two consecutive quarters of strong growth in hours worked. Annual wage growth is expected to increase from the second half of 2026 reaching 2.8% in June 2027 and peaking at 3.4% by June 2030, compared with 2.6% and 3.0% for the same quarters in the *Half Year Update*. While slower than the *Half Year Update*, house price growth will also support household spending from the second half of 2026 and through the end of the forecast period.

Figure 7: Unemployment rate

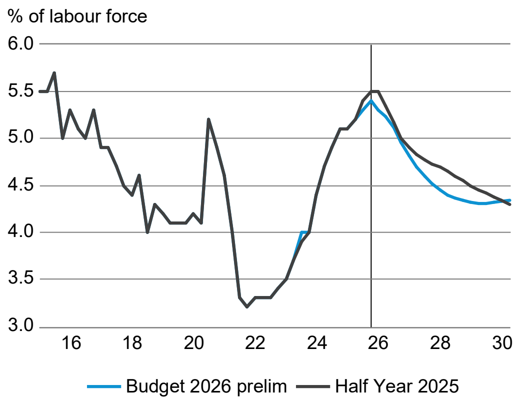
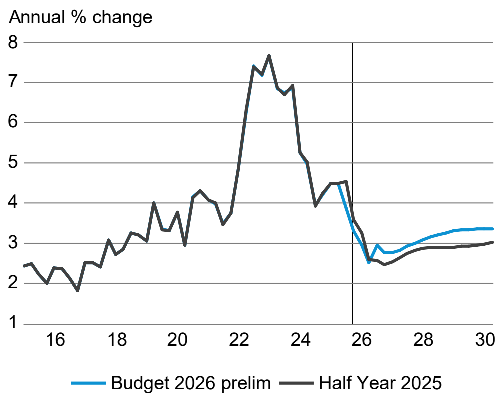


Figure 8: Wage growth



Business investment

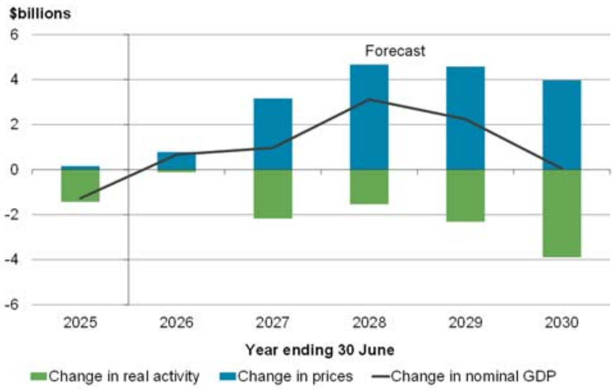
15. Business confidence has been consistently high and very recently an improvement in their trading activity has been reflected in stronger hiring and investment intentions. Over the medium term, economic growth will be supported by business investment, which will pick up pace reaching 5.2% by March 2028. We have retained our investment assumption consistent with a cyclical upturn and an improvement in the terms of trade with lower import prices and the incentive from Investment Boost.

Higher nominal GDP will flow through to improvements in tax revenue

16. Despite slower economic growth over the forecast period, stronger growth in prices, due to higher near-term inflation and strengthening terms of trade over the forecast period lifts nominal GDP compared with the *Half Year Update*. By June 2030 nominal GDP expands by around $100 billion to over $550 billion.

17. As a result of increased nominal GDP, and combined with recent strength in tax revenues, tax revenue forecasts will be stronger than at the *Half Year Update*. While these improvements are welcome, they need to be treated with caution. A number of the economic factors driving improvements in tax revenue are also likely to affect government expenditures. For example, higher inflation and interest rates are likely to also feed through to an increase in expenditure, namely benefit payments and debt servicing costs.

Figure 9: Changes to nominal expenditure GDP forecast vs the Half Year Update 2025



18. The overall fiscal impact from the updated preliminary economic forecasts will be reflected into the preliminary fiscal forecasts (alongside other developments) due to be completed on Thursday 5 March. Our assessment is that the preliminary fiscal forecast is likely to indicate an improved fiscal outlook; however, it is too early to determine the extent of the improvement.

Next steps

19. You are scheduled to discuss this report with officials at the Fiscal Matters meeting on 16 February.

20. The preliminary fiscal forecasts are scheduled to be finalised on 5 March and a report will be provided to you during the week beginning 9 March. Updated economic forecasts that incorporate new data and Budget policies are scheduled to be finalised on 1 April, tax forecasts on 10 April, and final fiscal forecasts on 6 May. In addition to economic developments, the next iteration of economic forecasts will include the Budget package at the time of finalisation.

Recommended actions

We recommend that you:

a **Note** this report is on the agenda for discussion at the next Fiscal Matters Meeting.

Peter Gardiner
Manager

Hon Nicola Willis
Minister of Finance

_____/_____/_______

Annex 1: Forecast Summary Table

Table: Summary of Economic Forecasts – June Years

(Annual average percent change, unless specified otherwise)

June Years	2022	2023	2024	2025	2026 Forecast	2027 Forecast	2028 Forecast	2029 Forecast	2030 Forecast
Private consumption	1.2	3.8	0.2	0.6	1.7	2.8	2.9	2.6	2.6
Public consumption	7.9	1.2	0.6	-0.8	2.3	-0.0	-0.0	-0.1	0.1
TOTAL CONSUMPTION	**2.8**	**3.2**	**0.3**	**0.3**	**1.8**	**2.1**	**2.2**	**2.0**	**2.0**
Residential investment	-5.6	-0.8	-6.8	-12.1	6.4	8.8	5.1	2.6	1.8
Business investment*	5.9	5.9	-2.5	-2.5	3.6	3.1	5.1	3.4	2.5
TOTAL INVESTMENT	**2.9**	**4.3**	**-3.5**	**-4.5**	**4.1**	**4.2**	**5.1**	**3.2**	**2.3**
Stocks (contribution to GDP growth)	1.0	-1.0	-0.2	-0.1	-0.1	0.7	0.0	0.0	0.0
GROSS NATIONAL EXPENDITURE	**4.0**	**2.4**	**-0.9**	**-1.0**	**2.7**	**3.3**	**2.9**	**2.3**	**2.1**
Exports	-3.1	12.0	5.2	2.9	4.8	1.7	2.1	2.3	2.3
Imports	12.0	2.7	-1.3	1.9	4.7	2.6	2.6	1.9	1.8
EXPENDITURE ON GDP	**0.6**	**4.6**	**0.7**	**-0.9**	**2.3**	**3.0**	**2.8**	**2.4**	**2.3**
GDP (PRODUCTION MEASURE)	**0.4**	**4.0**	**1.1**	**-1.1**	**1.8**	**2.9**	**2.7**	**2.4**	**2.2**
- annual % change, June quarter	0.4	3.0	0.1	-1.1	3.0	3.0	2.5	2.3	2.2
Other Output Measures									
Real Gross National Disposable Income	-0.3	2.9	0.9	0.3	2.3	3.1	3.1	2.4	2.3
Nominal GDP (Expenditure Basis)	6.3	10.0	4.7	3.3	4.7	5.4	5.3	4.6	4.3
Potential GDP	-0.0	4.4	2.0	1.8	1.8	1.9	2.0	2.1	2.2
Output gap (June qtr,% of potential)	2.3	1.8	0.1	-2.7	-1.5	-0.5	-0.0	0.1	-0.0
Total Population (thousands, mean quarter ended)	5,082	5,183	5,287	5,320	5,363	5,420	5,484	5,549	5,615
Real GDP per capita (Production basis)	0.4	3.1	-1.4	-2.1	1.1	1.9	1.6	1.2	1.0
Labour Market									
Employment	2.5	2.4	1.6	-1.0	0.5	2.3	2.1	1.7	1.4
Unemployment Rate (June quarter)	3.3	3.7	4.7	5.2	5.2	4.7	4.4	4.3	4.3
Labour Productivity (Hours worked basis)	1.5	-0.9	-0.0	1.4	0.8	0.4	0.6	0.8	0.9
Wages (QES average hourly ord time earnings, APC)	6.3	6.9	5.0	4.5	2.5	2.8	3.2	3.3	3.4
Monetary Conditions									
90-day Bank Bill Rate (June quarter ave)	2.2	5.6	5.6	3.4	2.5	2.6	3.0	3.1	3.1
10-year Bond Rate (June quarter ave)	3.7	4.3	4.7	4.6	4.5	4.5	4.5	4.5	4.5
TWI (June quarter ave)	72.2	70.9	71.4	69.1	68.2	68.7	69.2	69.5	69.8
- annual % change (June quarter)	-3.4	-1.7	0.7	-3.3	-1.3	0.8	0.6	0.5	0.4
Price Measures									
CPI Inflation (ann % change, June quarter)	7.3	6.0	3.3	2.7	2.7	2.3	2.2	2.1	2.0
Consumption Deflator	4.9	6.6	3.8	2.5	2.5	2.2	2.1	2.1	2.1
GDP Deflator	5.7	5.2	4.0	4.2	2.4	2.3	2.4	2.1	2.0
House Price Inflation (ann % change, June qtr)	5.3	-9.0	1.5	-0.7	-0.2	3.1	4.4	4.4	4.6
Key Balances									
Current account balance ($ million)	-29,166	-29,826	-23,253	-16,580	-14,962	-15,306	-14,811	-14,618	-14,385
Current account balance (% of GDP)	-8.0	-7.4	-5.5	-3.8	-3.3	-3.2	-2.9	-2.8	-2.6
Terms of Trade (goods) - SNA Basis	2.8	-7.0	-2.7	8.1	1.9	2.1	2.5	0.5	-0.1
Net International Investment Position (%GDP)	-52.0	-50.0	-47.7	-48.2	-46.4	-46.4	-46.2	-46.1	-46.0

* Total investment excluding residential

Annex 2: Comparison to other forecasters

Real GDP	Quarterly % change				
	2025Q4	2026Q1	2026Q2	2026Q3	2026Q4
ANZ	0.7	0.8	0.6	0.7	0.7
ASB	1.0	0.7	0.7	0.8	0.8
BNZ	0.5	0.7	0.9	0.6	0.6
Wesptac	0.6	1.0	0.5	0.9	0.9
Treasury prelim BEFU	0.5	0.6	0.7	0.8	0.8

CPI inflation	Annual % change				
	2026Q1	2026Q2	2026Q3	2026Q4	2027Q1
ANZ	2.8	2.6	2.5	2.3	2.0
ASB	2.8	2.9	2.7	2.7	2.6
BNZ	2.7	2.7	2.4	2.3	2.2
Wesptac	2.6	2.6	2.5	2.3	2.3
Treasury prelim BEFU	2.8	2.7	2.6	2.4	2.3

Unemployment rate	% of labour force				
	2026Q1	2026Q2	2026Q3	2026Q4	2027Q1
ANZ	5.3	5.2	5.1	4.9	4.8
ASB	5.3	5.1	5.1	5.0	4.9
BNZ	5.3	5.2	5.0	4.8	4.6
Wesptac	5.3	5.1	4.9	4.7	4.6
Treasury prelim BEFU	5.3	5.2	5.1	5.0	4.8