RETAIL SPENDING PULSE

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Retail sales on the rise as borrowing costs drop

Overview.

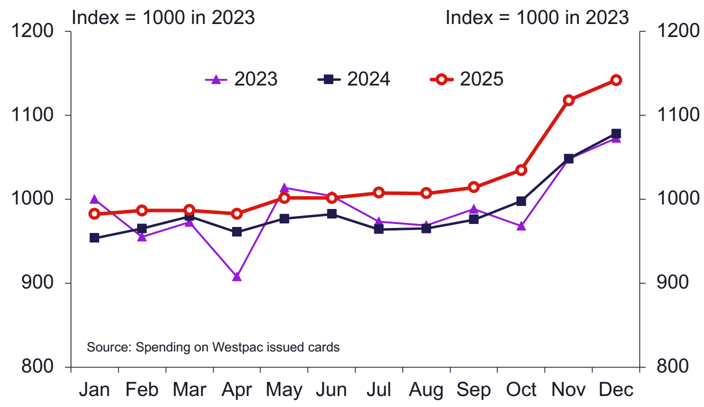
- After a sharp rise in November, spending on Westpac-issued debit and credit cards remained firm in December. And this wasn't just a seasonal lift. Spending growth has been accelerating in recent months, with per-person spending up nearly 6% on this time last year.
- The lift in spending has been spread across retail categories, with notable gains in discretionary spending areas like dining out. That's consistent with the lift in consumer confidence in recent months.
- Some retailers in industries like apparel are still dealing with tough conditions. But the overall picture for the retail sector heading into 2026 is looking firmer. That's been echoed in recent business surveys.
- Spending remains strongest in the lower South Island. But in contrast to the past year, spending growth is becoming increasingly widespread across the country.
- The pickup in spending in the final months of 2025 is an encouraging sign, and we expect it will continue into 2026. Borrowing costs have fallen sharply over the past year. However, the full impact of those interest rate declines is yet to be felt. Over the coming year, increasing numbers of borrowers will roll on to lower interest rates. That will help to boost disposable incomes and spending appetites right across the country.

Spending appetites holding firm through December.

- Spending appetites are on the rise, and this isn't just a seasonal holiday pickup.
- On a per person basis, spending on Westpac-issued debit and credit cards was up a hefty 6% in December compared to the same time last year.* Even allowing for the continued march higher in retail prices, that's a healthy rise.
- December's firm spending result followed a large rise in November. That earlier lift was boosted by the increasing prevalence of sales events like Black Friday and Singles Day which saw some households bringing their normal holiday spending forward into November. However, spending levels have held up even following those events.

* With this update we've shifted to looking at per-person spending, rather than total spending on Westpac cards. That helps to give a better indication of households' spending patterns as it won't be affected by changes in card provider.

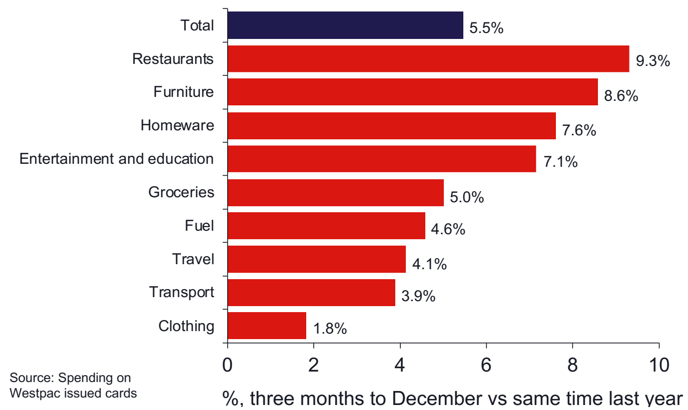
Spending on Westpac cards (per person, level)



Discretionary spending continues to climb.

- The lift in spending in recent months has been widespread across retail categories.
- Notably, while we are spending more on essentials like groceries and fuel, the biggest gains have been in discretionary areas. That includes a sharp increase in spending on dining out. We've also been spending more on furnishings and other items for the home.
- Those increases in discretionary spending chime with the **lift in consumer confidence** in the latter part of the year and are an encouraging sign for 2026.
- While the overall picture for the retail sector is looking firmer, retailers in some industries are still dealing with tough trading conditions. One sector where conditions have been particularly challenging is the apparel sector. With strong competition among local retailers and growing competition from low-cost offshore and online retailers, spending growth in the sector has remained soft.

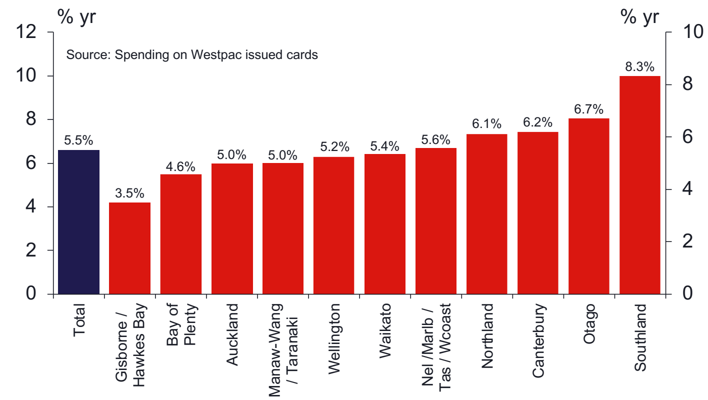
Spending growth by category (per person spend)



Spending up across the country.

- South Island regions with strong rural backbones, like Canterbury, Otago and Southland, have continued to see the strongest spending growth. That's been underpinned by the strength in commodity export prices over the past year, which have boosted incomes and sentiment in many rural regions. That's been flowing through to increases in spending, both on and off the farm.
- However, spending has been on the rise right across the country, with metro areas like Auckland and Wellington also recording solid increases.
- That lift in spending in metro regions (and elsewhere) has been supported by the sharp falls in interest rates over the past year, which are continuing to gradually work their way through the economy.

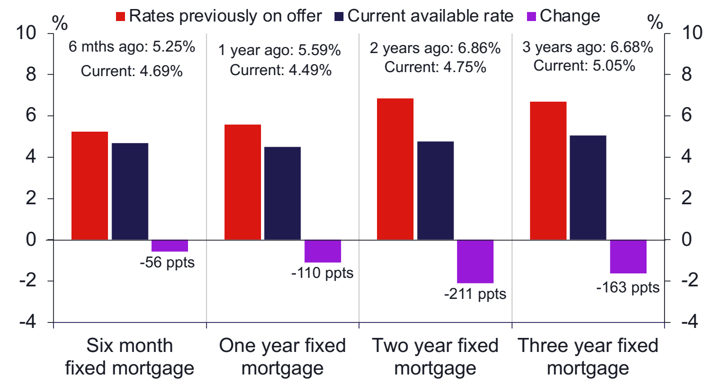
Spending growth (three months to December vs same time last year)



RBNZ on hold, borrowing costs continuing to fall.

- A key reason for the pickup in spending growth has been the sharp fall in mortgage rates over the past year. However, at its last policy meeting in November, the RBNZ signalled that the easing cycle has likely come to an end. And since then, some mortgage rates have risen.
- But while the RBNZ may have hit the pause button, the full impact of last year's interest rate cuts is still flowing through to households' back pockets. That's because most New Zealand mortgages are fixed for a period, and many are still on the relatively high rates that were previously on offer.
- However, increasing numbers of mortgages are now coming up for re-fixing, with around a third of fixed rate mortgages due to roll over in the first half of this year alone. When borrowers do refix, many will roll on to much lower rates. For instance, over the past year the one-year mortgage rate has fallen by nearly 110bps, while the two-year rate is around 210bps lower than in 2024.
- That ongoing rollover on to lower mortgage rates will help to boost disposable incomes for an increasing number of households over the coming year. And we expect that will also boost retail spending appetites.

How much relief could borrowers see?



Source: RBNZ data for borrowers with over 20% equity. Current rates on offer from Westpac from 13 January 2026.

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