



NZ December quarter 2025 inflation review

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NZ inflation stronger than expected, above RBNZ's target band.

Key results

- New Zealand consumer prices rose 0.6% in the December quarter.
- That saw the annual inflation rate rising to 3.1%, up from 3.0% in the year to September and above the RBNZ's target band.
- The result was above our forecast (+0.5% qtr / +3.0%yr) and the RBNZ's November MPS assumption (+0.2%qtr / +2.7%yr).

What was behind the December quarter rise in prices?

- December saw large seasonal increases in travel costs, like airfares.
- We also saw higher prices for petrol and utilities including electricity and phone plans.
- Those increases off set a seasonal fall in food prices.

Major groups

- Non-tradables inflation has been cooling only gradually and is lingering above historic averages. In part, that's due to the continued large increases in administered prices, like electricity charges.
- However, other non-tradables prices have also held up. Non-tradables excluding housing and utilities costs (which also omits rates) was 3.4% for the year.
- There has been a stark turnaround in tradables inflation. Tradables prices rose by 0.7% over the December quarter. That saw annual tradables inflation rising to 2.6% (from 2.2% previously).
- Over the past year, lower prices for imported consumer goods were a significant contributor to the fall in overall inflation. However, tradables prices are no longer falling.
- While we don't expect high levels of tradables inflation going forward, it won't be the significant drag on overall inflation that it was in recent years.

Downturn in core inflation is flattening off as signs of recovery build.

Core inflation

- The earlier decline in the various measures of core inflation has been arrested, with most measures lingering in the upper part of the RBNZ's target band. Some measures picked up this quarter.
- In terms of specifics:
 - Inflation excluding food, fuel and energy costs remained unchanged at 2.5%.
 - Inflation excluding fuel rose to 3.2% from 3.1%.
 - Trimmed mean inflation rose to 2.7% from 2.4% previously.

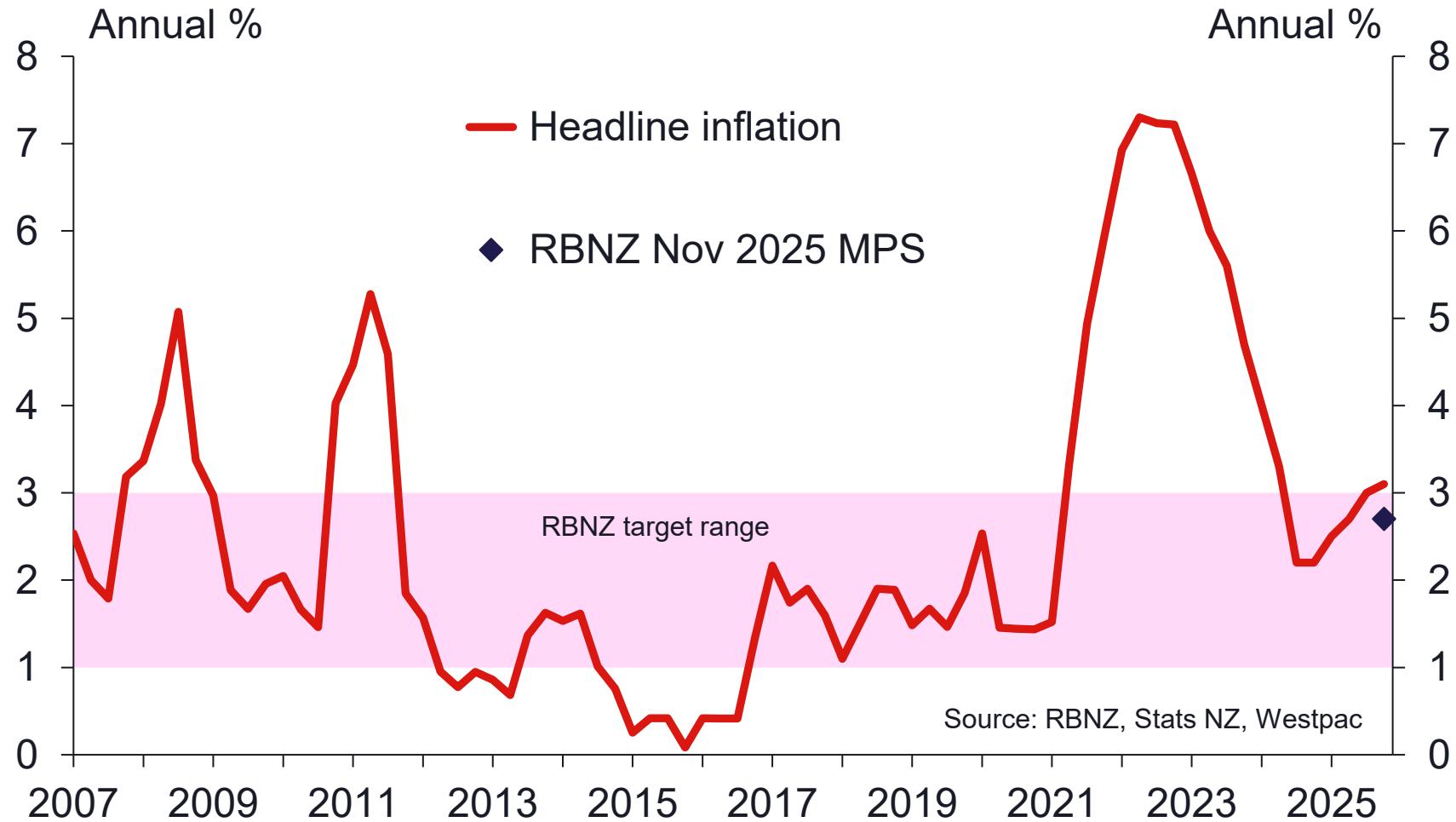
RBNZ outlook

- The RBNZ's easing cycle has come to a close.
- Headline inflation is running hotter than the RBNZ expected, and the earlier downturn in core inflation is flattening off at levels above 2%.
- At the same time, economic activity is showing signs of picking up. Recent months have seen a lift in surveys of business sector activity, retail spending and

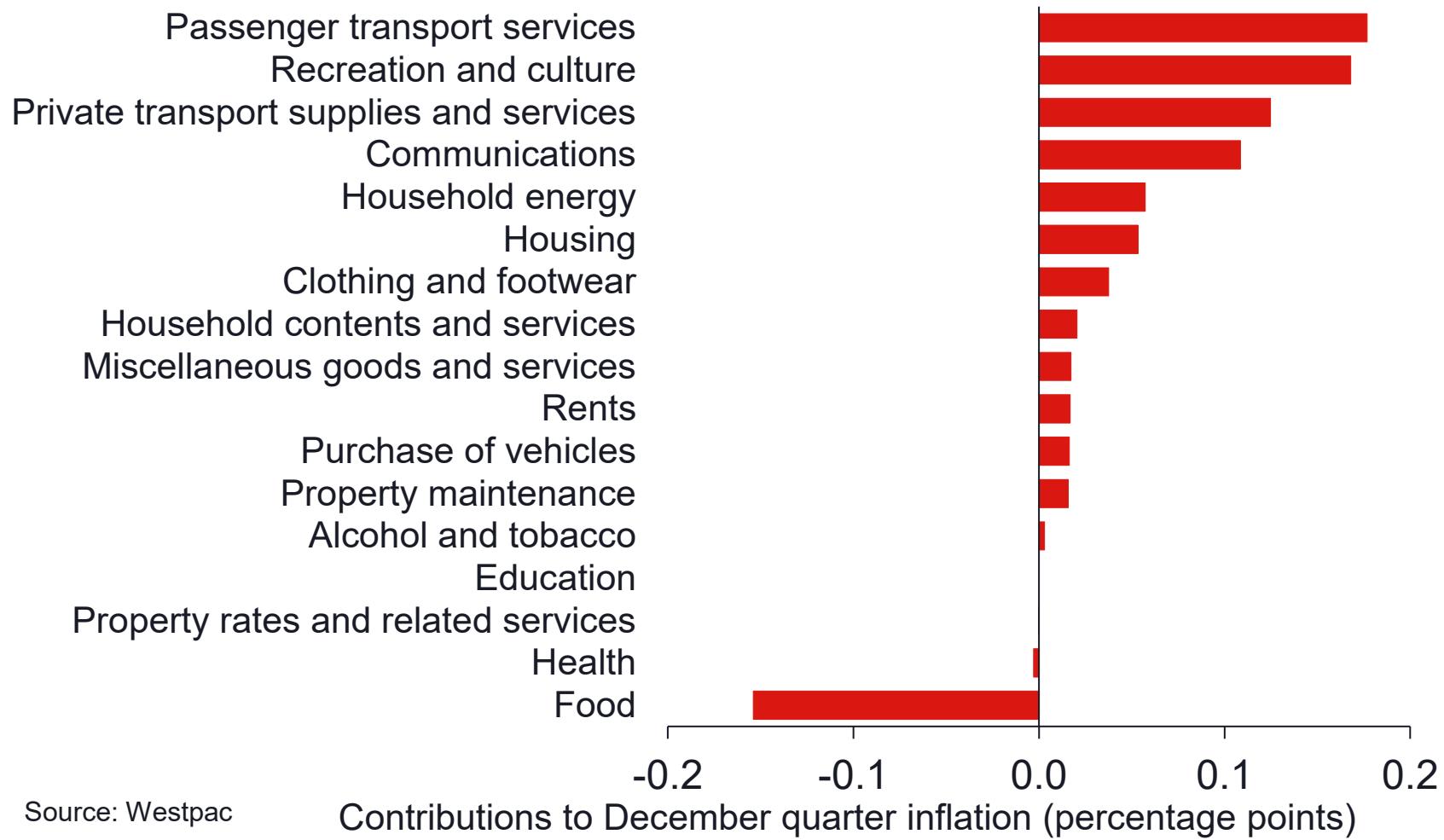
planned construction work.

- In addition, many borrowers are still rolling off earlier high fixed mortgage rates on to lower ones.
- However, for now, the economy still has lingering spare capacity and higher than average unemployment. In addition, lower food and fuel inflation will help to pull headline inflation down over 2026.
- It's likely the RBNZ will be bringing forward their forecasts of when the OCR will start to rise. But not to the extent where OCR increases in the first half of 2026 are on the cards.
- Our forecast of a December OCR increase look odds on at this stage, and market pricing for a hike in September looks understandable – although there is a lot of water to go under the bridge before then.

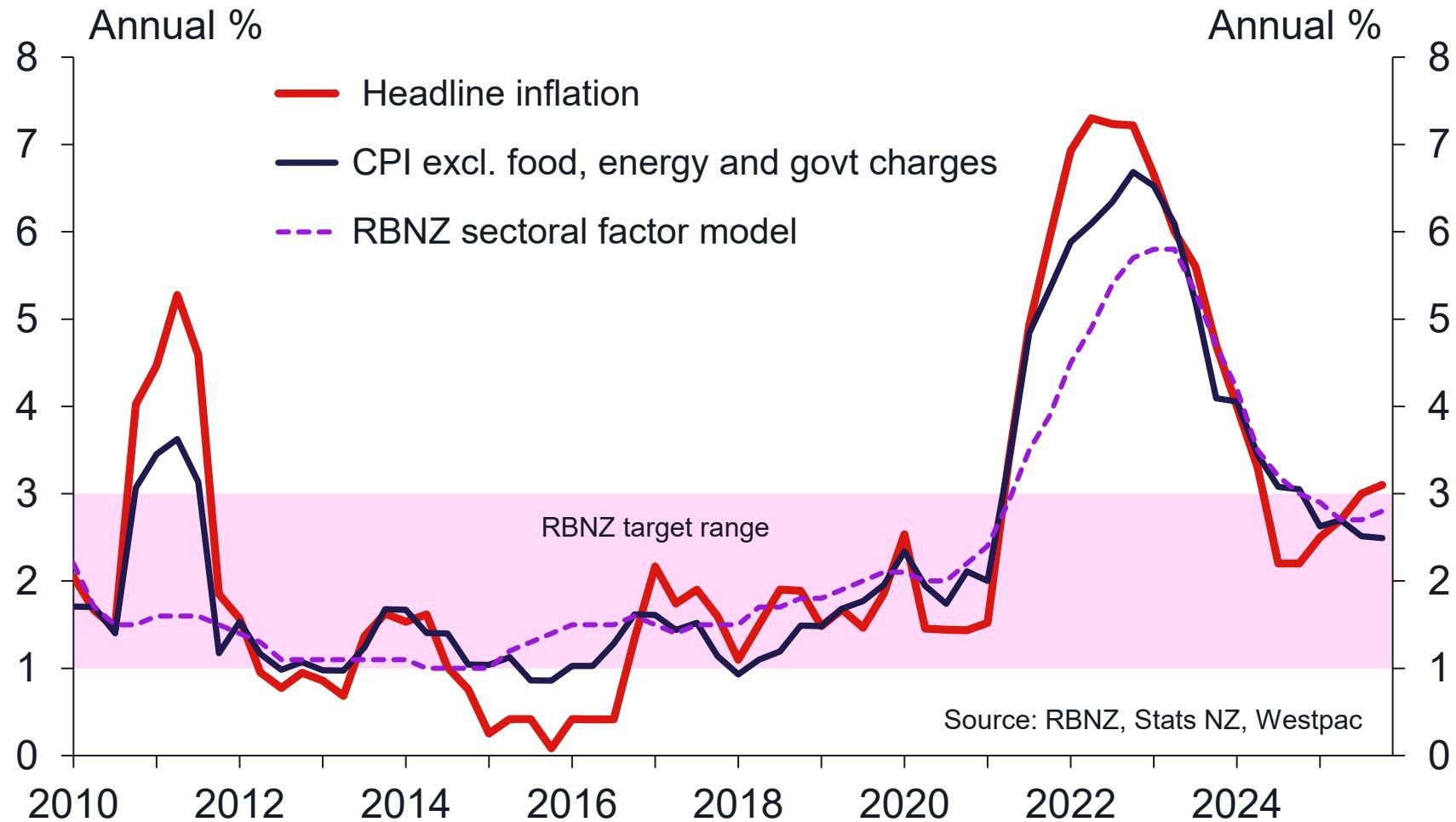
Annual inflation lifted to 3.1% in the December quarter, above market and RBNZ forecasts.



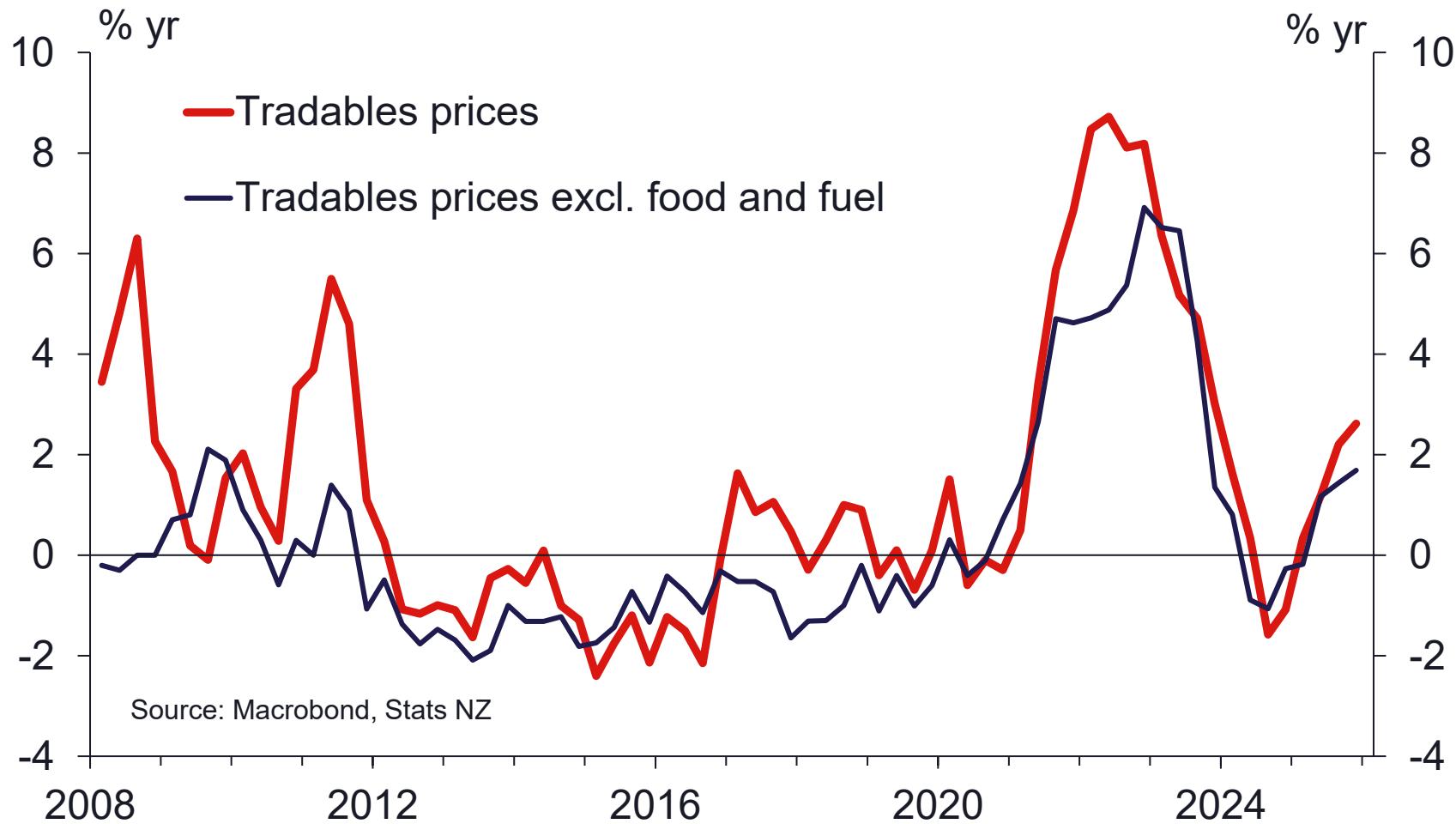
Transport and holiday costs were the main contributors to quarterly inflation, offsetting the seasonal fall in food prices.



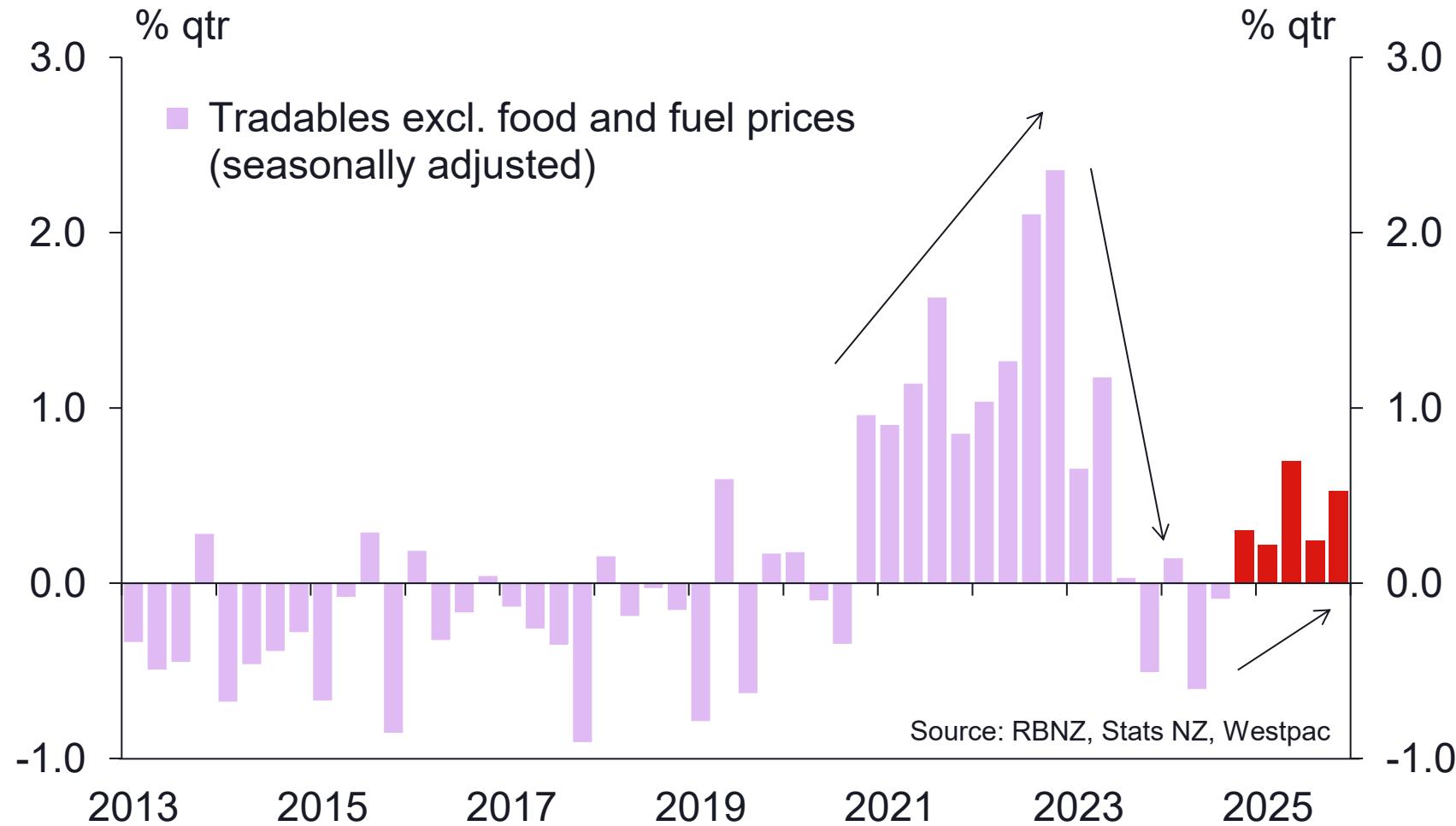
Under the surface, the downturn in core inflation has been arrested and is lingering in the upper part of the target band.



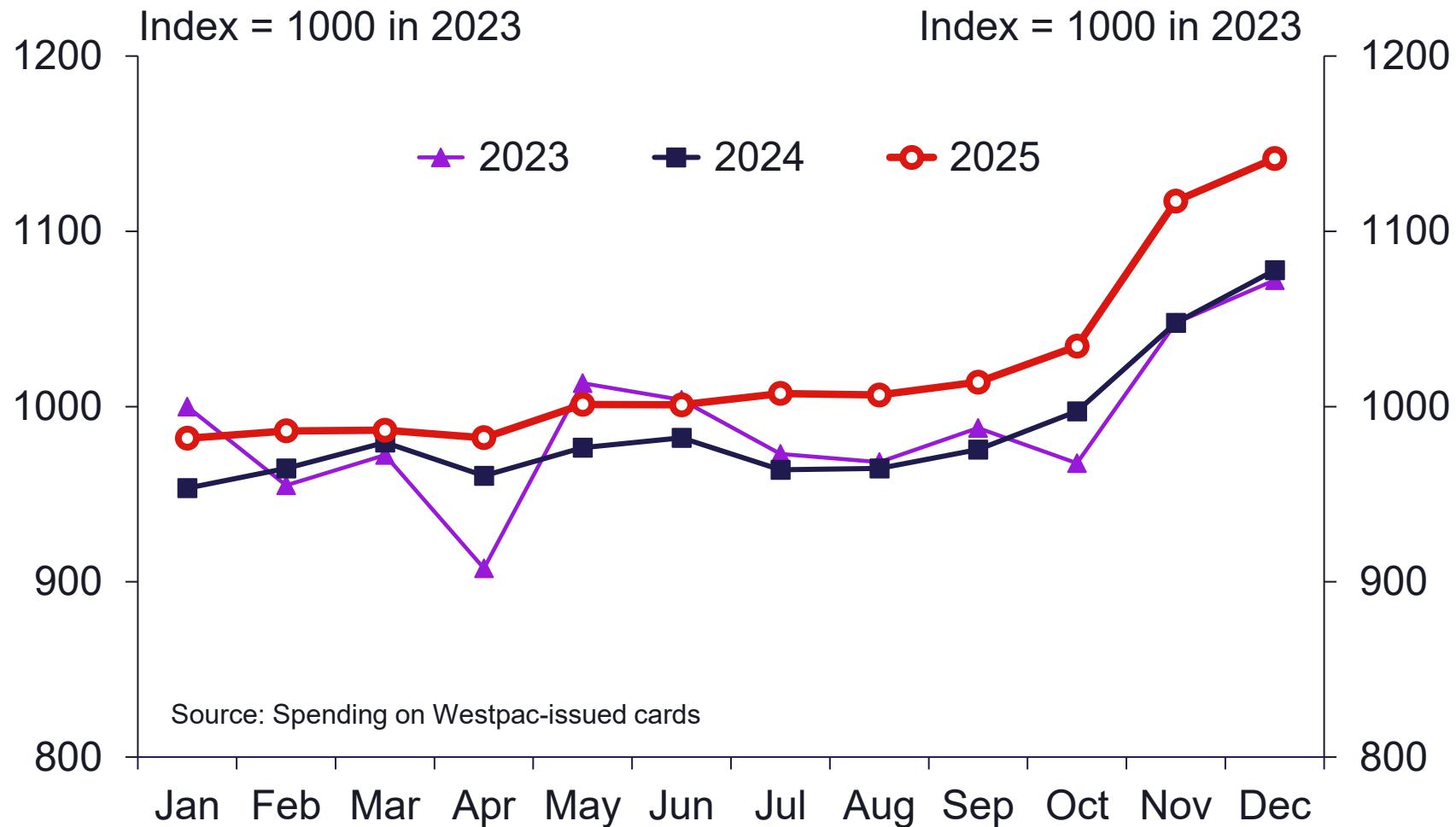
A key reason why inflation isn't falling anymore is the turnaround in tradables prices.



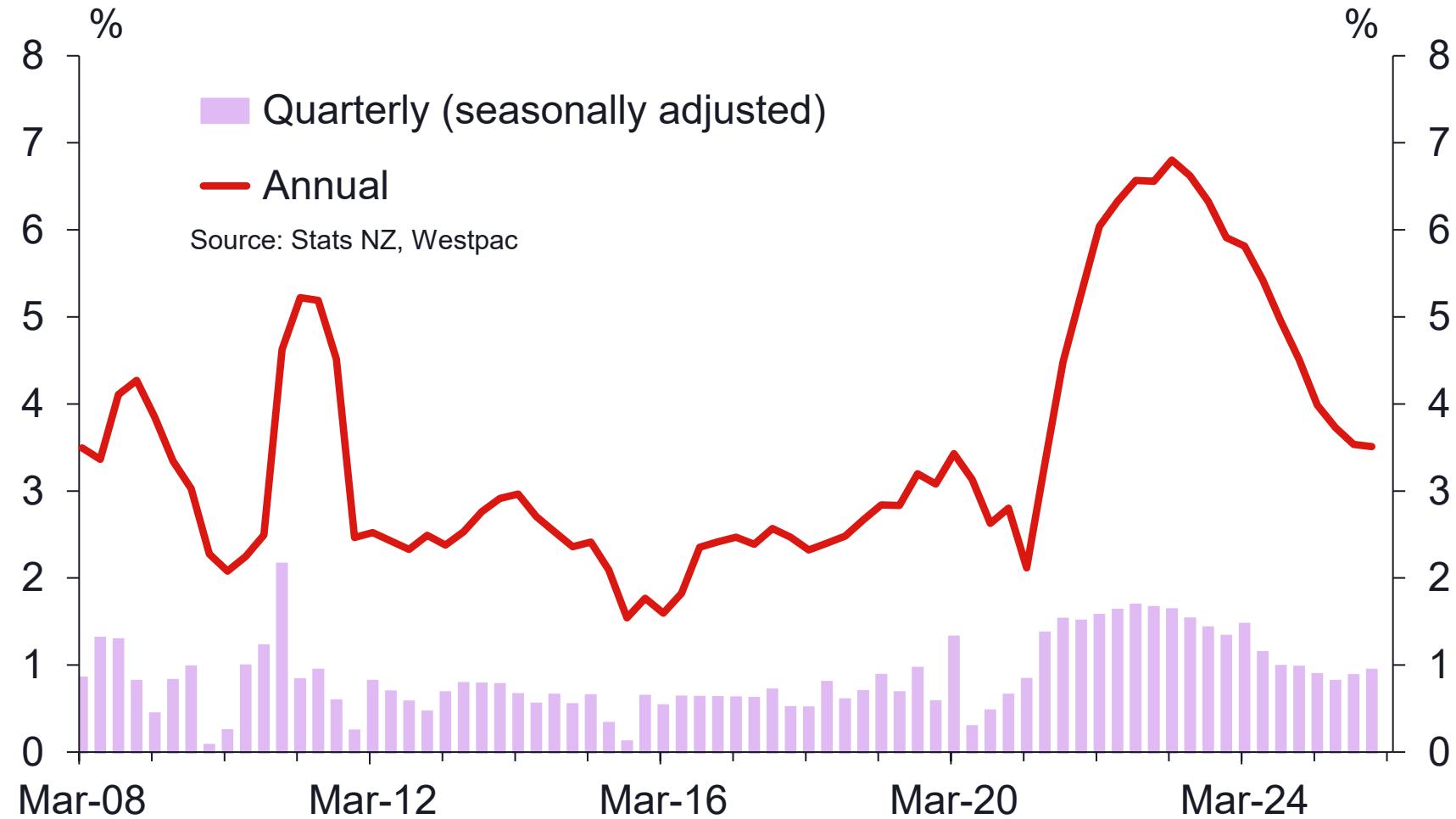
Tradables inflation won't be the dampening impact on inflation that it was over the past year.



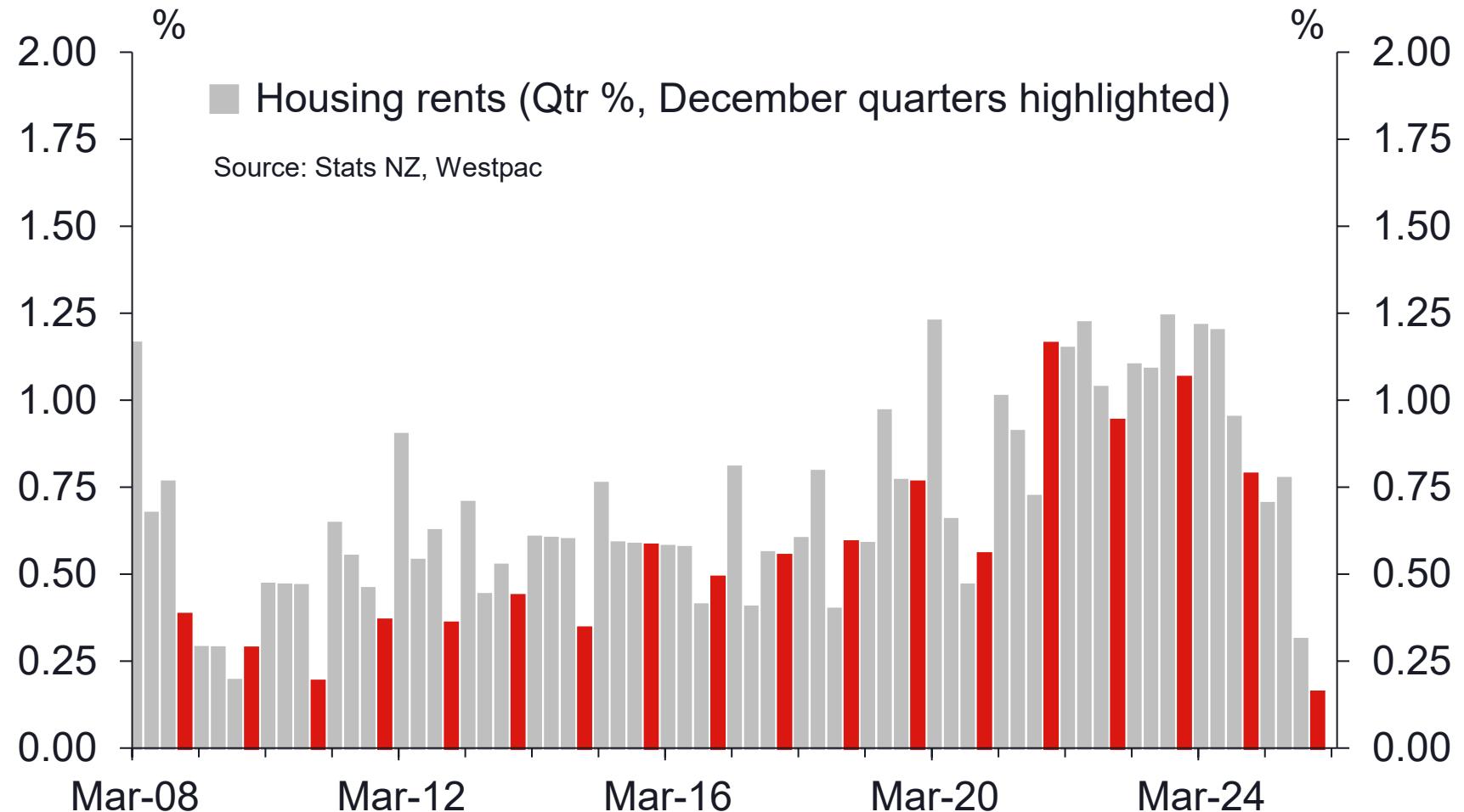
Retail spending on Westpac cards has picked up (per person, level)



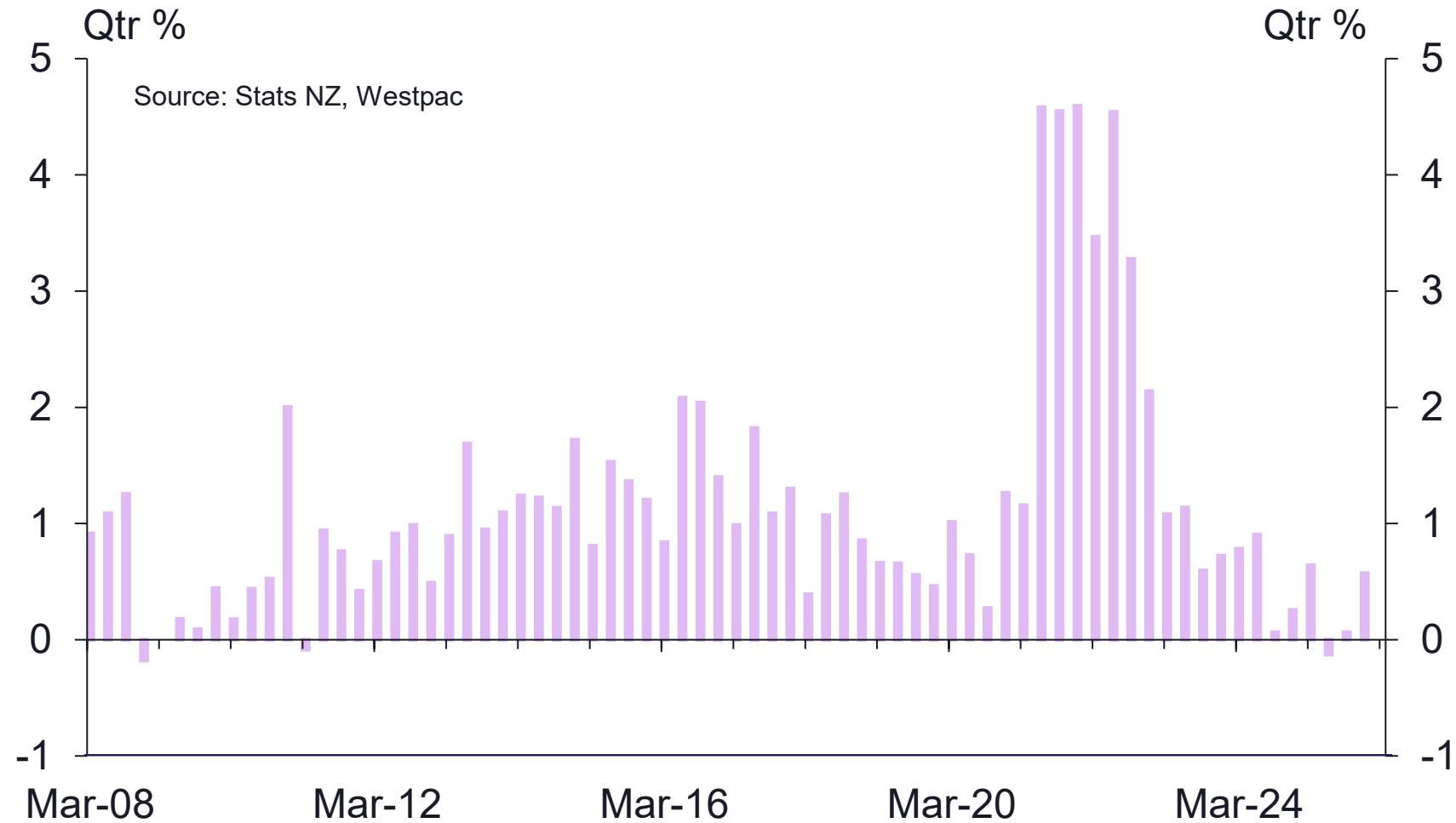
Domestic (non-tradables) inflation has cooled, but is lingering above average levels.



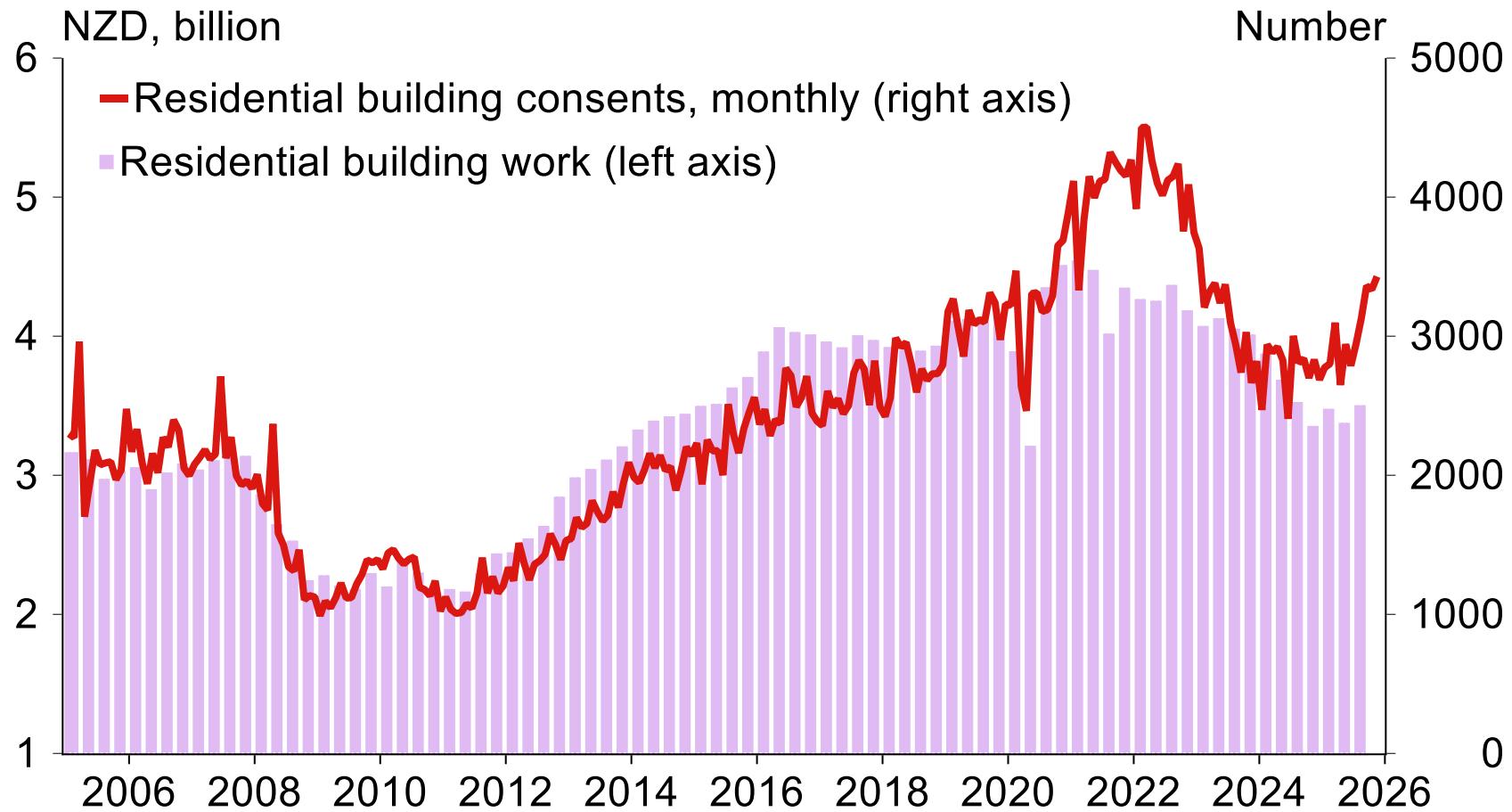
Much of the easing in non-tradables has been due to lower housing costs, including rents.



Construction cost inflation also low, but is it turning?



Residential consents turning higher – suggests the downside risks for building costs are dissipating.

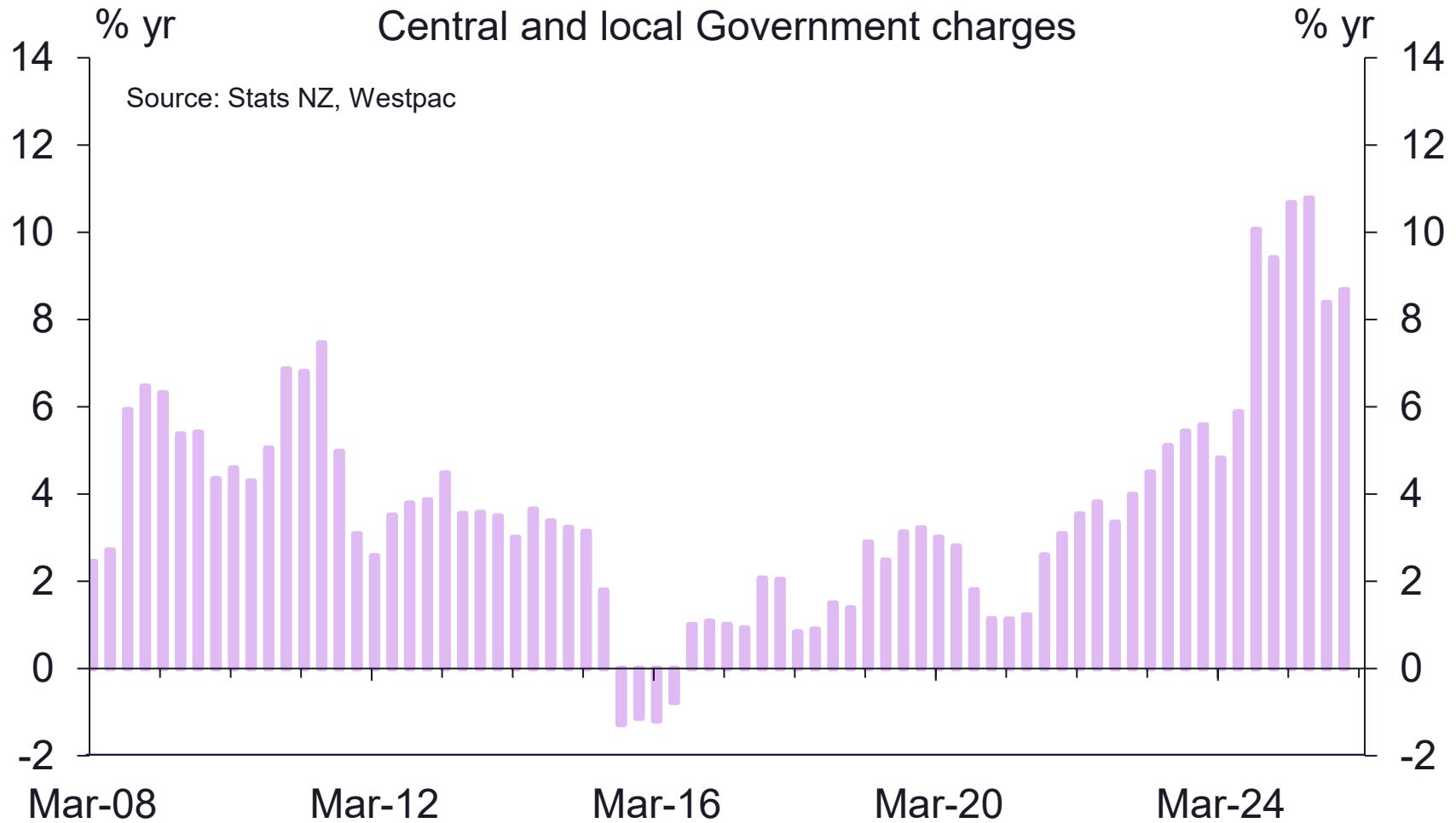


Sources: Macrobond, Stats NZ, Westpac

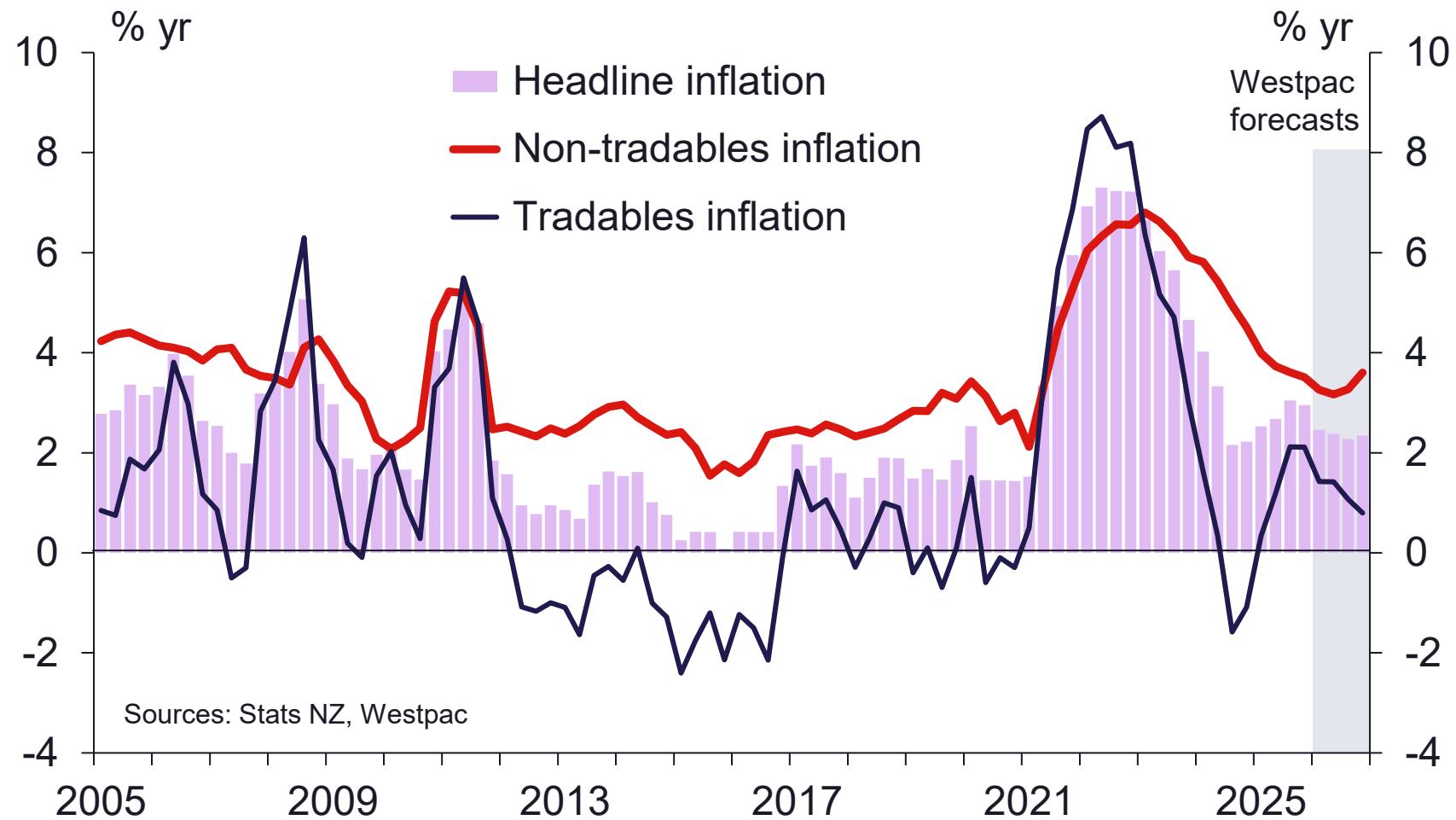
Other non-tradables inflation has eased, but that downturn looks like it has been arrested.



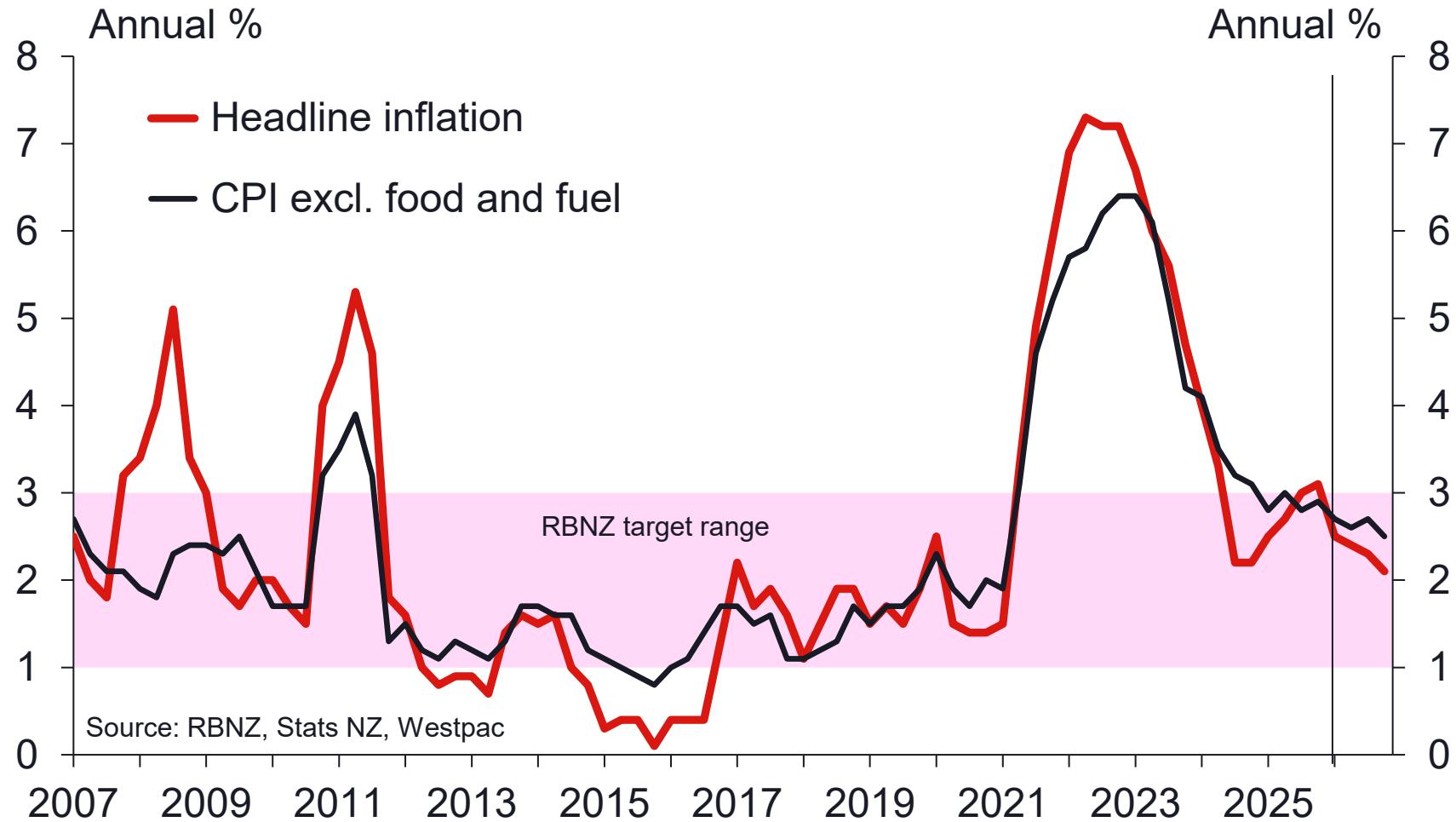
There has been continued strength in government and administered prices.



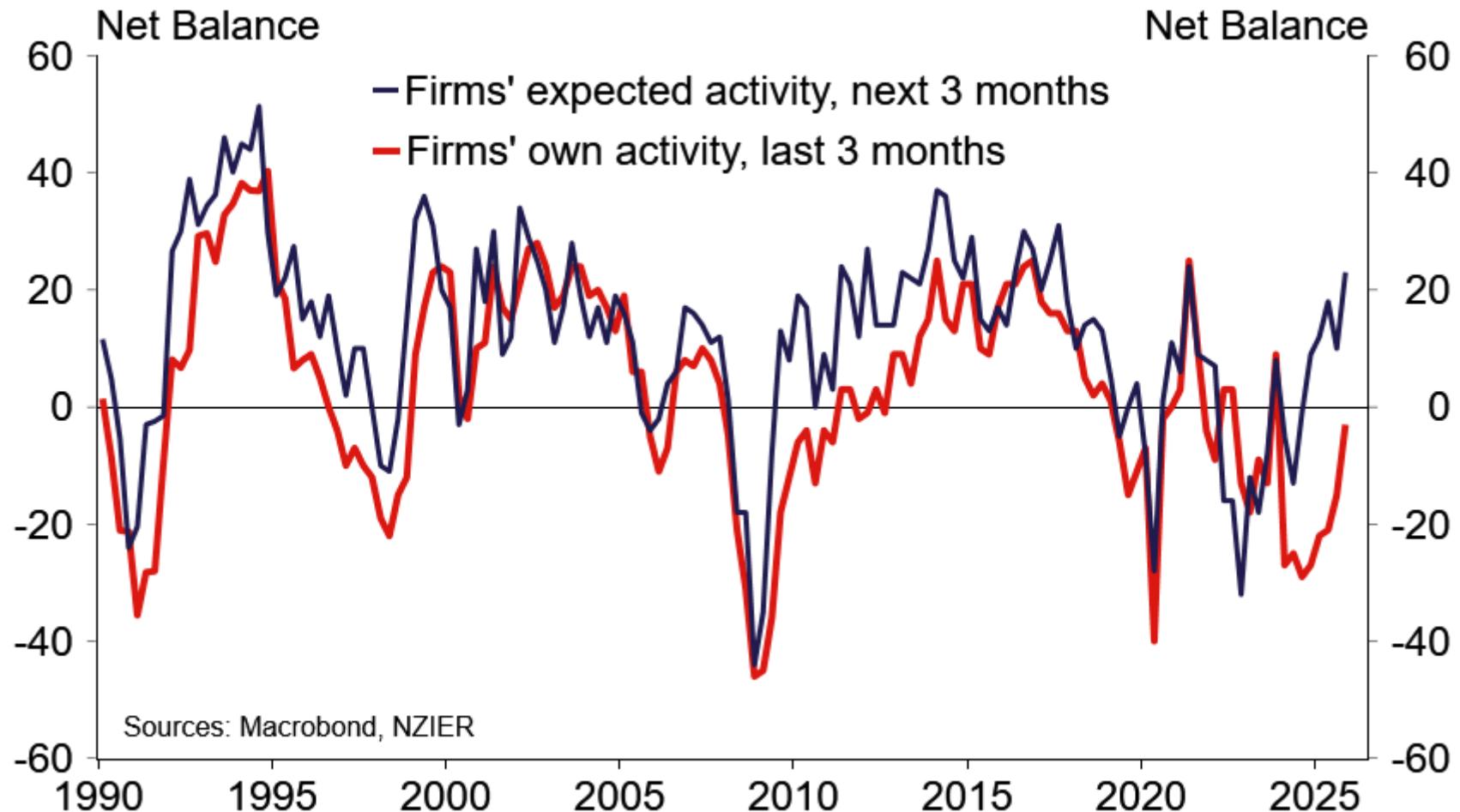
Inflation to ease back in 2026 due to lower food and fuel prices...



...but core inflation to linger around 2.3% to 2.5%.

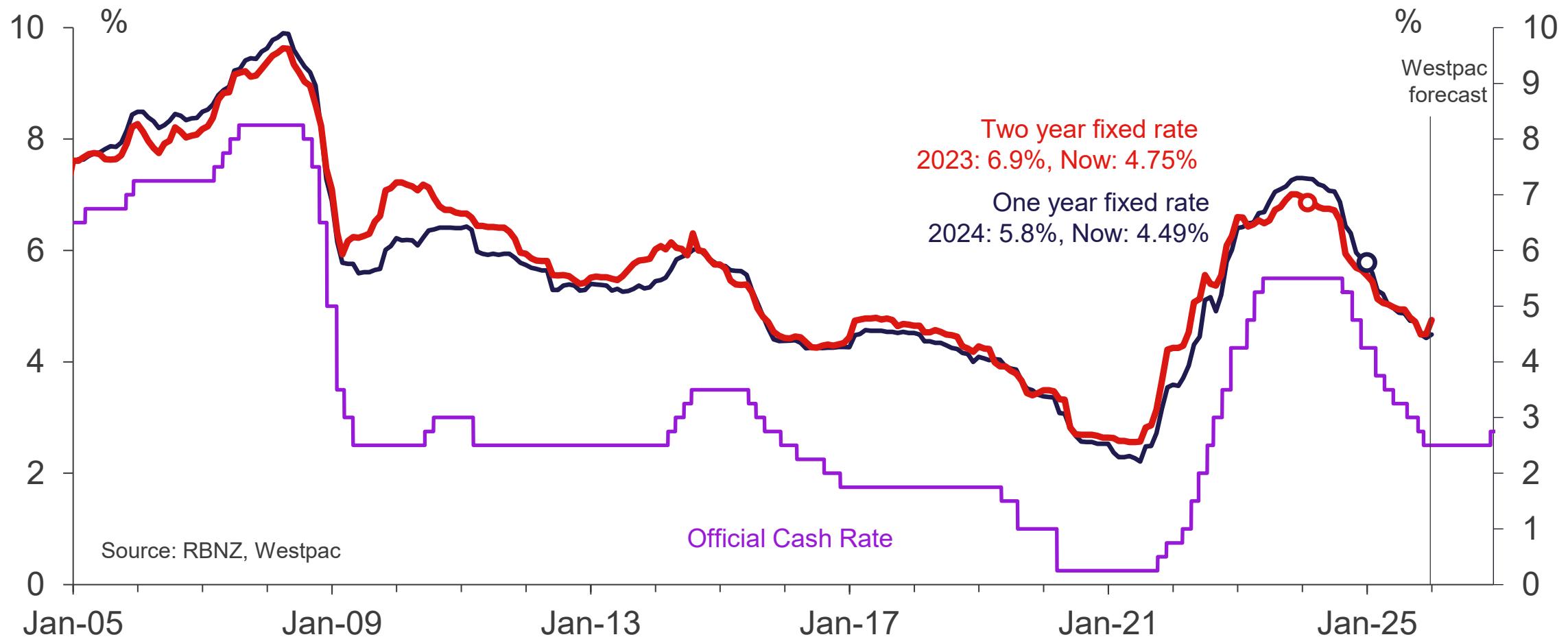


Business surveys pointing to a firming in activity.

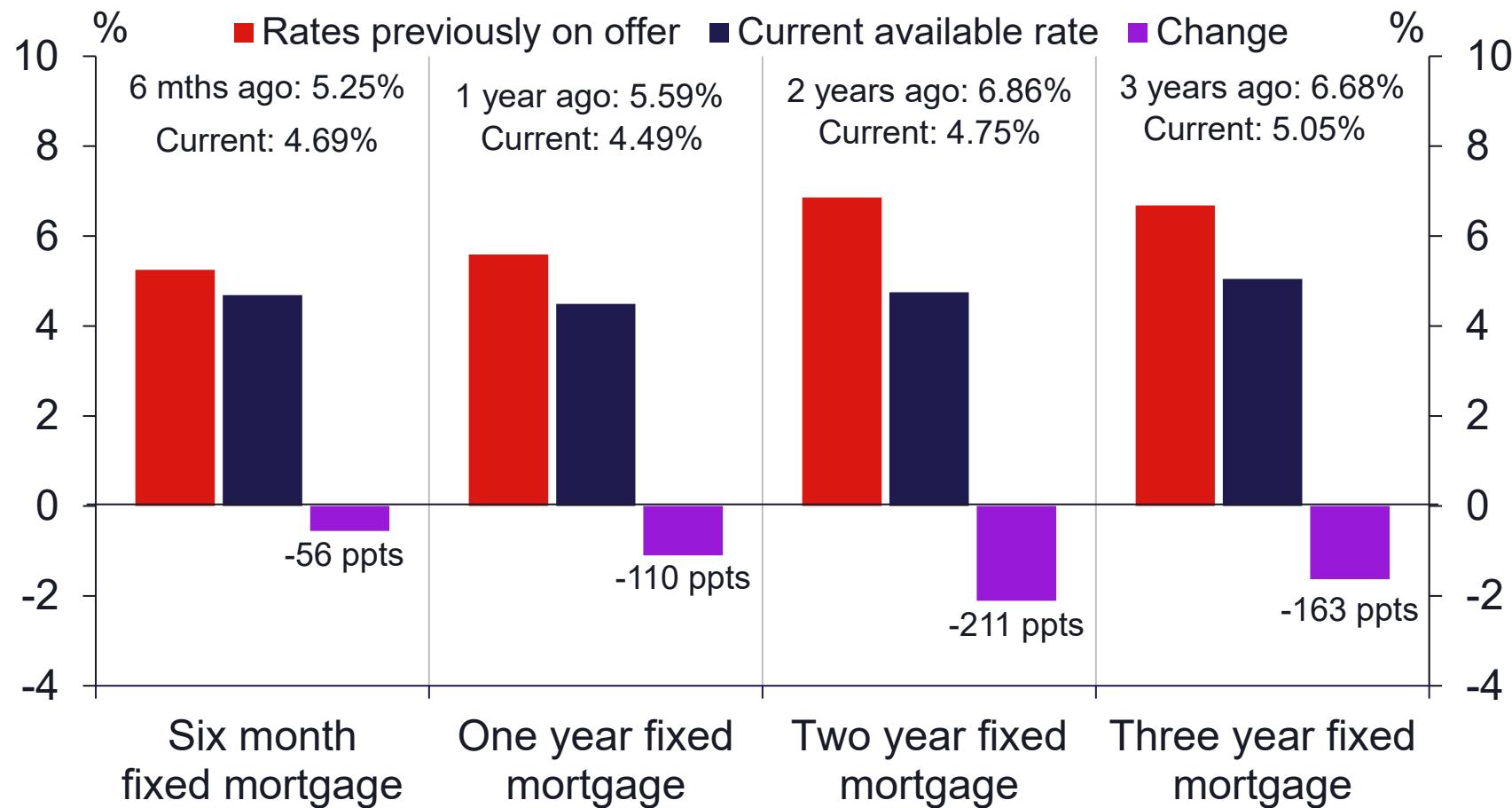


How much mortgage relief is coming?

Mortgage rates ticking higher, but borrowers still rolling off earlier higher rates.

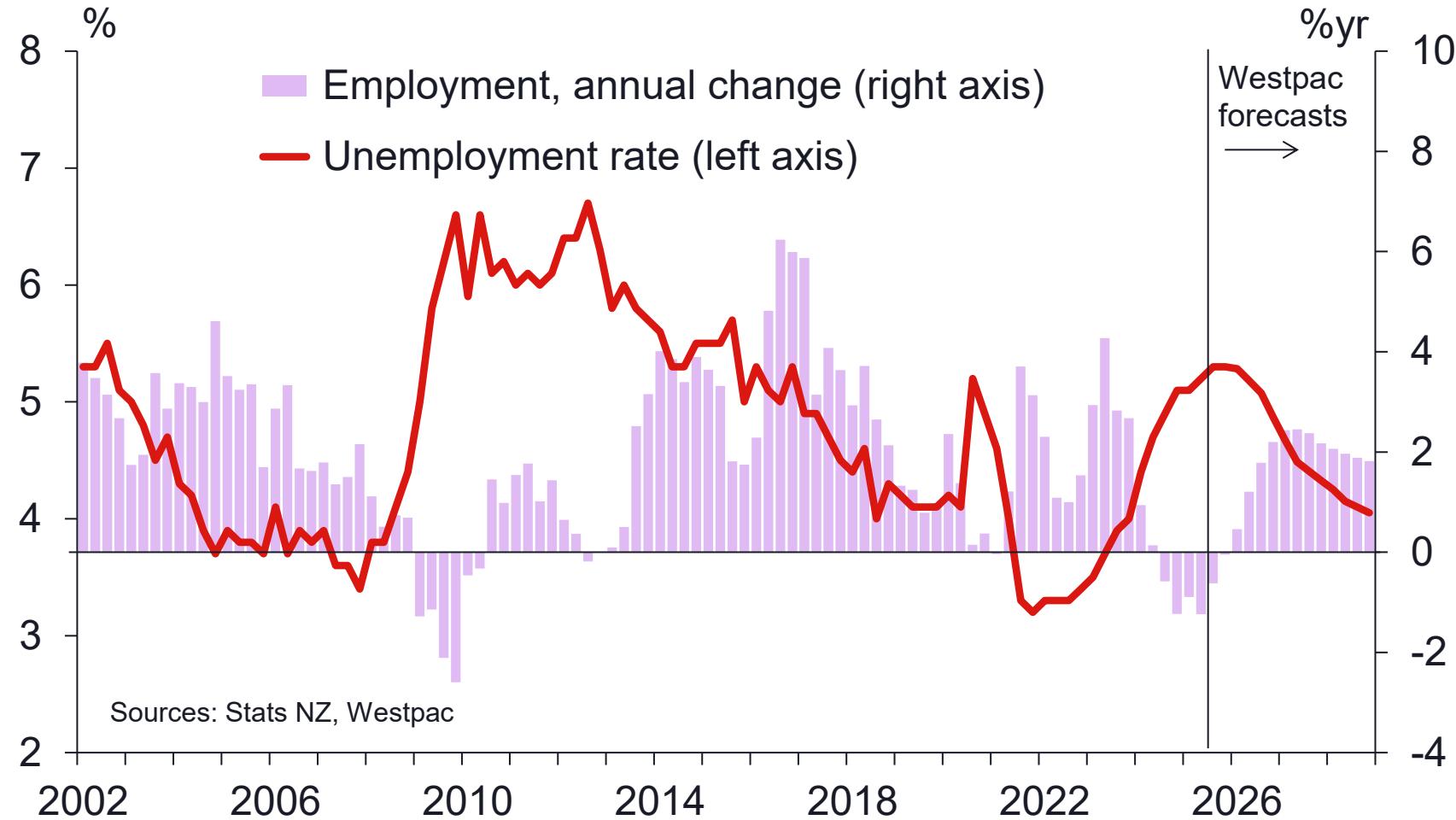


How much relief could borrowers see?

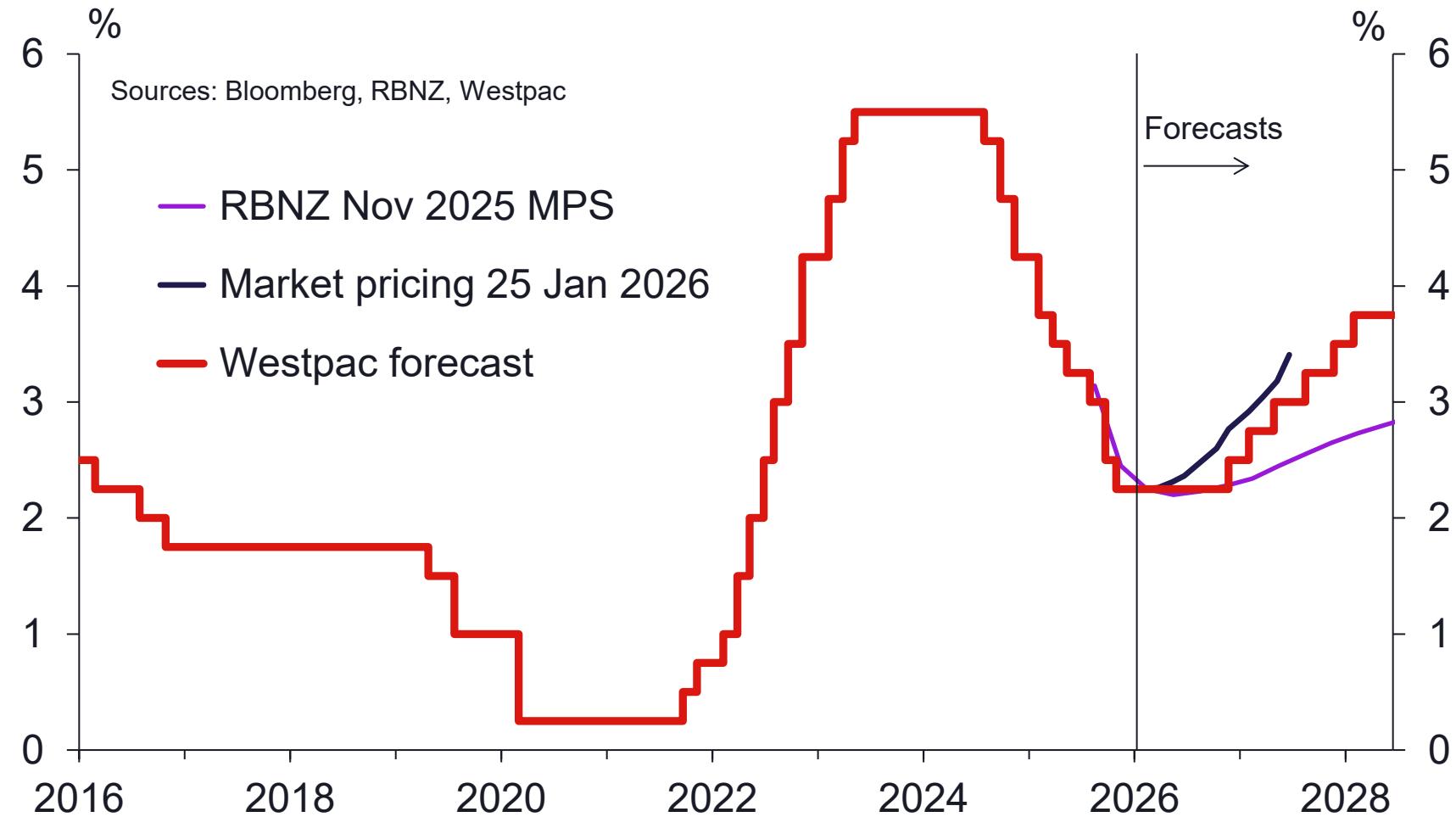


Source: RBNZ data for borrowers with over 20% equity. Current rates on offer from Westpac from 26 January 2026.

The economy still has spare capacity and the labour market remains soft for now.



The easing cycle is over, rate hikes from the latter part of 2026.



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