



# WEEKLY ECONOMIC COMMENTARY



1 Dec 2025 | Westpac Economics Team | [westpac.co.nz/economics](https://westpac.co.nz/economics) | [economics@westpac.co.nz](mailto:economics@westpac.co.nz)

## RBNZ cuts 25bps, turns neutral; data flow turns up.

The main local event last week was the RBNZ's final OCR review and Monetary Policy Statement (MPS) for this year. As was widely expected and fully priced by markets, the RBNZ delivered a 25bp reduction in the OCR to 2.25%. However, both wholesale interest rates and the NZ dollar rose following the meeting and especially following the post-meeting press conference.

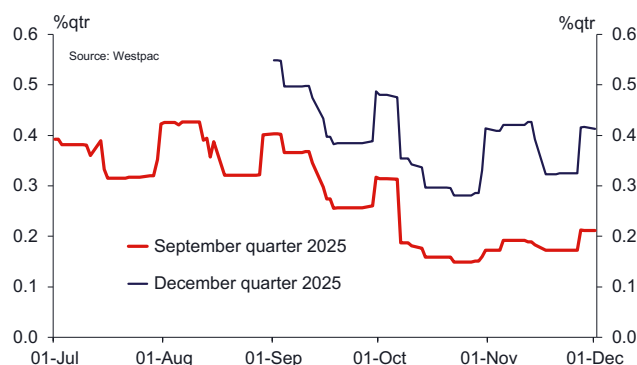
As we discussed in [our full review of the meeting](#), in part this reflected the somewhat surprising news that the decision had been reached following a 5 – 1 vote, with one Monetary Policy Committee voting to leave the OCR at 2.5%. If anything, a dissent in favour of a 50bps cut had seemed more likely. In addition, the forecast terminal OCR of 2.20% – reached in in Q2 next year – was slightly higher than the market had priced going into the meeting. Finally, the press conference conveyed a greater sense of confidence in the economic outlook than markets had expected considering the tone of the commentary made at the time of the October meeting.

Outgoing Governor Christian Hawkesby characterised the RBNZ's new forecast as being consistent with the likelihood that the OCR would remain on hold at current levels through 2026. He noted that should there be a change in the OCR in the near-term, it is more likely to be down than up, as reflected in the terminal OCR forecast sitting slightly below the current OCR. That said, in a subsequent interview, Hawkesby indicated that further interest rate cuts now face a "high hurdle". Beyond the near term, the balance of risks begins to tilt the other way. The RBNZ's projections imply that the OCR will most likely remain at current levels until the middle of 2027, before gradually climbing towards 3% (the RBNZ's estimated long-term neutral rate) by the end of 2028.

### Key views

	Last 3 months	Next 3 months	Next year
Global economy	→	→	→
NZ economy	↗	↗	↗
Inflation	↗	↘	↘
2 year swap	→	→	↗
10 year swap	→	→	↗
NZD/USD	↘	→	↗
NZD/AUD	↘	↘	↘

### Westpac GDP nowcasts



### Key data and event outlook

Date	Event
4 Dec 25	NZ Government accounts (4 months to October)
9 Dec 25	RBA Monetary Policy Decision
10 Dec 25	FOMC meeting (11 Dec NZT)
16 Dec 25	NZ Selected price indexes, November
16 Dec 25	Half Year Economic and Fiscal Update (HYEFU)
18 Dec 25	NZ GDP, September quarter
13 Jan 26 (tbc)	NZ QSBO Business Survey, December quarter
16 Jan 26	NZ Selected price indexes, December
22 Jan 26	NZ Government accounts (5 months to November)
23 Jan 26	NZ CPI, September quarter

According to the RBNZ, the lowering of the projected OCR track since the August MPS owed to the greater excess capacity generated by the disappointing June quarter activity data and the recent softening in some export commodity prices. Despite the worse starting point, the RBNZ expressed a degree of confidence that a return to modest GDP growth had commenced in recent months. And looking ahead, the lower OCR track, together with a lower assumption for the exchange rate, is expected to support strengthening GDP growth over the course of 2026.

Looking ahead to the next RBNZ meeting on 18 February, we will receive a full round of top tier economic indicators in the interim (i.e., GDP, CPI, labour market and the QSBO business survey), together with the usual monthly high frequency indicators. This week the RBNZ will also welcome a new Governor, Anna Breman, and there may yet be a further MPC appointment, perhaps temporary, pending the naming of a new Deputy Governor.

Our expectations for the upcoming key data releases are not markedly different to those of the RBNZ (our Q3 GDP estimate of 0.4%/q/q is identical; our Q4 unemployment rate forecast of 5.4% is a tenth higher; our Q4 CPI forecast of 2.8% is a tenth higher). Therefore, we remain content with our existing forecast that the OCR will remain at 2.25% at the February meeting and that this will constitute the cycle low. We have also retained our forecast that the OCR will begin moving higher at the end of next year – likely after the General Election – if the economy evolves in line with our expectations.

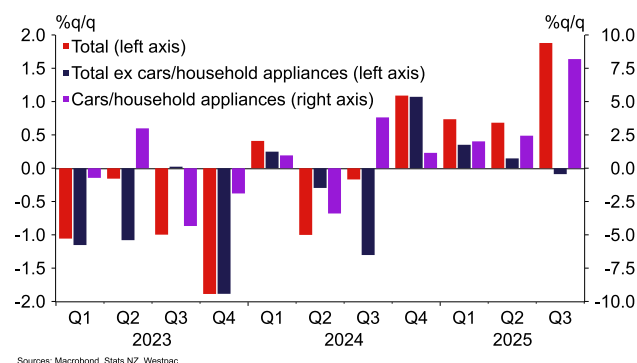
Turning to the rest of last week's local news, following a string of declines at the major fortnightly auctions, Fonterra announced that it had decided to lower its forecast midpoint payout for this year by 50c to \$9.50/kg/ms (with a forecast range of \$9-10kg/ms). The decline largely reflects the significant lift in milk supply that had been recorded across almost all major dairy sector exporting countries, including New Zealand, which has placed downward pressure on dairy product prices.

Last week we also took the opportunity to **revise our export commodity forecasts**. Given the prospect of further declines in prices over coming auctions, we estimate that this season's Fonterra payout will be around \$9.30/kg/ms. While this is down from \$10.16/kg/ms last season, this will still represent a good return to farmers. Moreover, it is worth recalling that, subject to regulatory approvals, farmers will also receive a special dividend of around \$2/kg/ms this season due to the completion of the sale of Fonterra's main consumer brands business. Therefore, we expect that this sector will continue to help drive the economy forward over the coming year.

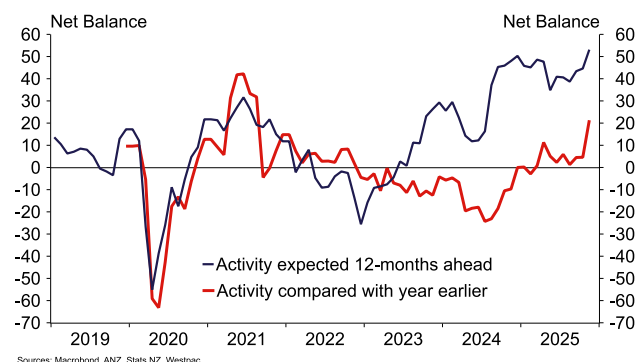
On a positive note, last week we learned that retail spending grew a much sharper than expected 1.9%/q/q in the September quarter. The upside surprise – we and the market had expected growth of around 0.5%/q/q

– was due to very strong growth in spending on motor vehicles and household appliances. We view this as a positive sign that the easing of monetary conditions is now transmitting through to the household sector (as of September, the effective mortgage rate paid by households was around 100bps below last year's peak). At face value this outcome presents some upside risk to our Q3 GDP estimate. That said, the upside surprise came in heavily import-intensive areas of spending, rather than on locally produced goods and services. Indeed, spending on items other than motor vehicles and household appliances fell modestly during the quarter.

#### NZ retail sales volumes



#### Activity past year vs expected year ahead

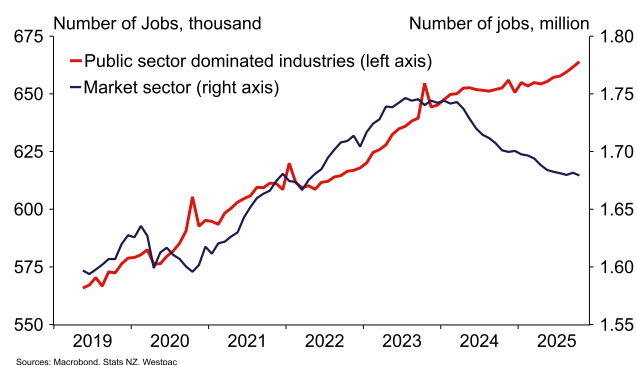


The latest ANZ business survey also provided some good news, pointing to a strengthening of activity in the current quarter. The headline business confidence index improved further to a fresh 11-year high, and firms also expressed greater positivity about the outlook for their own activity. Especially welcome was a lift in the proportion of firms reporting that they had experienced a lift in activity over the past year, which rose more than 15pts to +21.3 – the highest reading since August 2021. This suggests that forward optimism – which has been at historically high levels for almost two years – is finally being validated. The more positive vibe was widespread through the survey, except for a modest decline in investment expectations this month. On the pricing front, firms' 1-year ahead inflation expectations nudged down to 2.69% while firms' expectations about cost increases also eased to the lowest level this year. Reported and

expected wage growth remained at moderate levels. The proportion of firms hoping to lift prices over the next three months did rise to the highest level since March, although this indicator has overstated inflation over the past 18 months or so.

While consumers remain somewhat more circumspect, the ANZ's measure of consumer confidence increased a welcome 6.5% to 98.4 in November – the best reading since June. While it is usual for confidence to lift a little at this time of the year, households' perception of the forward outlook rose to its most optimistic level in a year, with fewer households holding a pessimistic view regarding the economy and financial conditions over the year ahead. By contrast, the index measuring perceptions of current conditions was little changed and remains very soft by historical standards. We suspect this reflects ongoing dissatisfaction with current and past inflation and ongoing weakness in the labour market.

### Monthly Employment Indicator



On that score, the Monthly Employment Indicator pointed to no change in filled jobs in October. As is usually the case, employment over the previous two months was revised lower. We expect the October result will ultimately be revised down slightly to show a small decline. Even so, we still view this report as pointing to some stabilisation in the jobs market in recent months after a renewed downturn through the earlier part of this year. The most positive employment trends continue to be in areas dominated by the public sector (especially public administration and safety, together with healthcare). There have been some signs of an uptick in tourism-linked sectors such as transport and recreational services but continued declines in construction and professional services. Regionally, we have seen some signs of a lift in jobs in Auckland of late, whereas trends remain weak in Wellington.

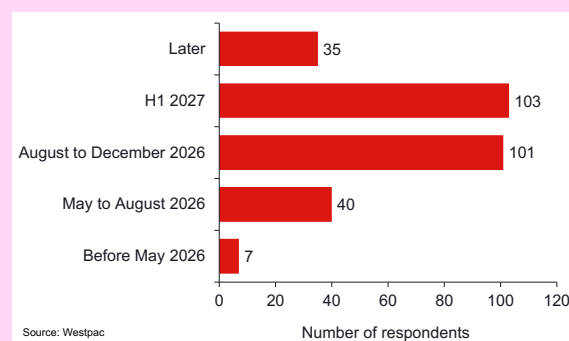
While surveyed hiring indicators are positive, the most comprehensive measure of job advertising (published by MBIE) continues to point to weak demand for labour at this stage. However, if the economy strengthens as expected, the unemployment rate should begin moving lower around the middle of next year.

**Darren Gibbs**, Senior Economist

### Chart of the week.

The RBNZ confidently sent the nightwatchman out to the crease on Wednesday and noted in their post-Monetary Policy Statement communications that they thought it was likely that the easing cycle is now over. Their forecasts leave the door ajar for another cut if the economy underperforms, but by the middle of 2026 the RBNZ's OCR forecast track is on a rising trend. A full hike is implicit by mid-2027. We asked our [social media followers](#) their opinion for our Chart of the Week. Just over 50% of respondents see interest rate hikes beginning earlier than the RBNZ projects. Recent data pushes in that direction given the pick-up in business confidence, consumer spending and the RBNZ's own GDP Nowcasts in the last week. Westpac continues to forecast a first hike after the 2026 election in December 2026 with balanced risks around that forecast.

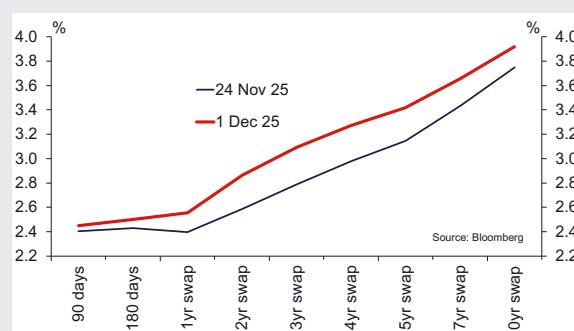
### When will the RBNZ begin tightening?



### Fixed versus floating for mortgages.

While the RBNZ hasn't completely closed the door on further OCR cuts, we think the hurdle for further reductions from here is high. 3-5 year fixed-rate mortgage rates are now under 5% for those for borrowers with at least a 20% deposit. Given the RBNZ's stance, fixing for longer periods of two to three years appears attractive.

### NZ interest rates



# Global wrap

## US.

Data delayed by the US government shutdown is now being released and has been coming in a little on the soft side of expectations. Most notably, retail sales growth slowed to 0.3% in September (vs +0.6% in August and +0.4% exp) and consumer confidence dropped back in the Conference Board's latest survey. In the business sector, both the Dallas Fed and Richmond Fed manufacturing surveys were weaker than expected. Similarly, the Beige Book pointed to relatively unchanged economic conditions in recent weeks and some softening in the labour market. On the monetary policy front, markets have priced in a greater chance of a Fed rate cut following dovish comments from Fed members like Daly and Waller, both of whom have noted concerns about the labour market. This week we'll get updates on the ISM, industrial production, consumer confidence and personal income/spending.

## UK.

The UK's Budget included an extra GBP11.3bn of spending initiatives, along with tax raising measures worth around GBP26bn. Those revenue measures include a freeze on income tax thresholds until 2031 (which will allow bracket creep to boost revenues over time) and a 'mansion tax.' The proposed budget provides the government with GBP22bn of headroom, with borrowing expected to increase by GBP57bn over the forecast horizon.

## Asia-Pacific.

Australia's October's CPI report (the first complete set of monthly inflation data) surprised markets to the upside, with headline inflation coming in at 3.8%yr and trimmed mean printing at 3.3%yr. Base effects around electricity prices, related to government subsidies, was the main driver of the lift in headline inflation. In addition, firmness in administered prices and supply shocks / volatile items boosted core inflation. However, such strength isn't expected to be sustained through 2026. In terms of activity, we've revised up our forecast for Australian GDP growth in the September quarter to 0.8% (from 0.6% previously). The key theme is of a broadening recovery, with business investment, residential construction and public demand all expected to have increased. Up in China, the latest round of PMIs continued to point to softness in business conditions, with both the manufacturing and services gauges sitting below 50. This week's calendar in Australia includes September GDP (Wednesday) and updates on households spending (Thursday). China's RatingDog PMIs will also be released.

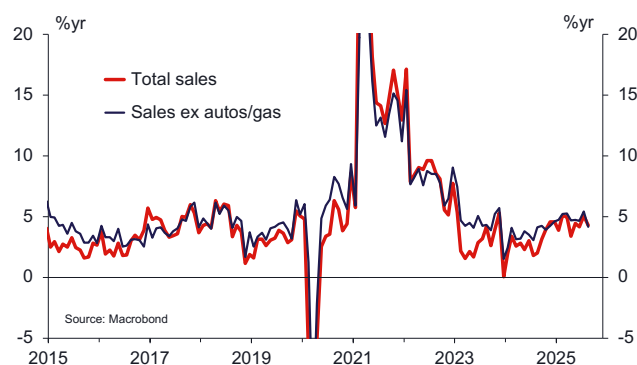
Trading partner real GDP (calendar years)

	Annual average % change			
	2024	2025	2026	2027
Australia	1.0	1.8	2.4	2.5
China	5.0	4.8	4.6	4.5
United States	2.8	1.9	1.3	1.6
Japan	0.1	1.1	0.8	0.8
East Asia ex China	4.3	3.7	3.8	4.0
India	6.5	6.6	6.4	6.3
Euro Zone	0.8	1.4	1.1	1.4
United Kingdom	1.1	1.5	1.1	1.5
NZ trading partners	2.9	2.8	2.7	2.8
World	3.3	3.2	3.1	3.2

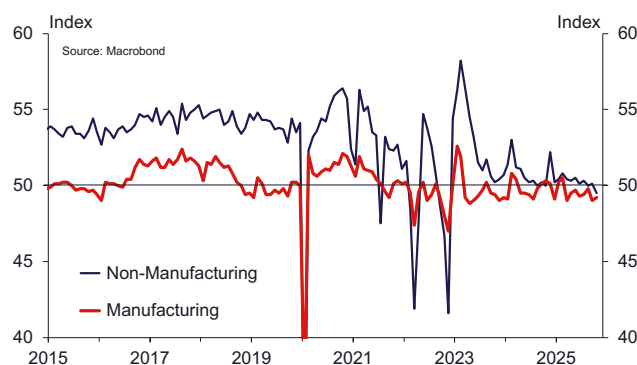
Australian & US interest rate outlook

	28 Nov	Dec-25	Dec-26	Dec-27
<b>Australia</b>				
Cash	3.60	3.60	3.10	3.10
90 Day BBSW	3.66	3.65	3.15	3.20
3 Year Swap	3.88	3.55	3.70	4.00
3 Year Bond	3.89	3.60	3.75	4.00
10 Year Bond	4.53	4.35	4.50	4.60
10 Year Spread to US (bps)	52	20	10	0
<b>US</b>				
Fed Funds	3.875	3.875	3.375	3.375
US 10 Year Bond	4.09	4.15	4.40	4.60

US retail sales



Chinese PMIs



# Financial markets wrap

## Foreign exchange.

NZD/USD rebounded sharply last week, in response to the RBNZ's hawkish shift. After falling to a multi-month low of 0.5581 in late November, it rose to 0.5741 on Friday – its highest level in a month. There's potential for further gains during the week ahead, towards 0.5800, the recent softening of the US dollar combining with the RBNZ theme.

The RBNZ's shift in stance was significant. It surprised markets by effectively declaring the easing cycle complete, assuming no surprises to its forecasts. NZ interest rates have risen sharply. In turn, the NZ-US 2yr yield spread is up by around 40bp since early November, helping support NZD/USD.

The US dollar has recently softened as markets have increased their expectations of further Fed rate cuts, with an 11 December cut now widely expected.

New Zealand event risk this week is low, with no major economic data until September GDP on 18 Dec. The US, though, has plenty on tap, including private sector payrolls and inflation expectations.

NZD/AUD rose last week, mainly due to the RBNZ surprise. Further gains are possible this week but probably limited to 0.8850 given Australian economic momentum has been strong and markets are now expecting rate hikes, rather than cuts, from the RBA next year.

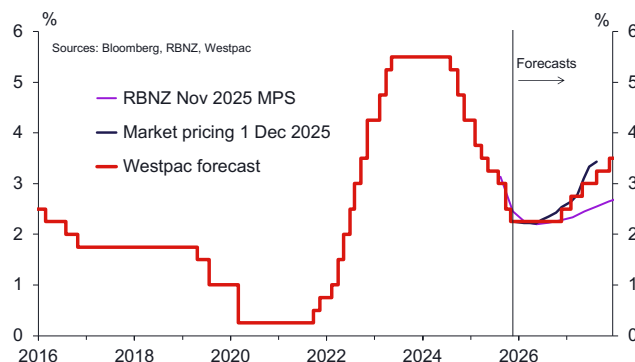
## Interest rates.

The NZ 2yr swap rate last week rose sharply in response to the RBNZ's hawkish surprise, up from 2.59% to 2.87%. That's a large move over a three-day span and leaves it slightly stretched and in need of some consolidation this week. For the month ahead, there's potential to reach 3.00% if NZ economic data continues to reveal more green shoots of recovery.

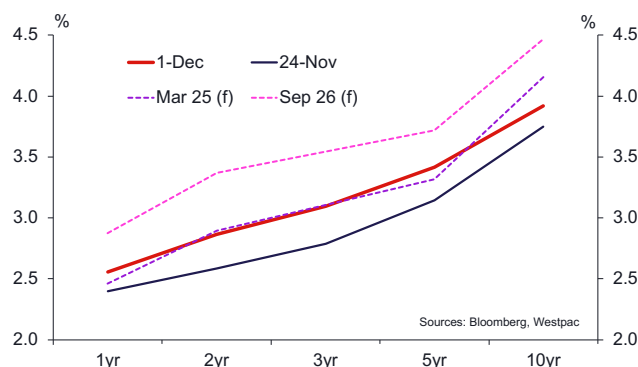
The OIS market prices only a 10% chance of an OCR cut at the next RBNZ meeting on 18 February, but a 100% chance of a hike by December 2026.

The yield curve has flattened significantly since the RBNZ surprise. The 2-10yr swap has fallen from the 117bp peak to 105bp. During the year ahead, we expect a flattening trend to develop as markets price a higher OCR in 2027.

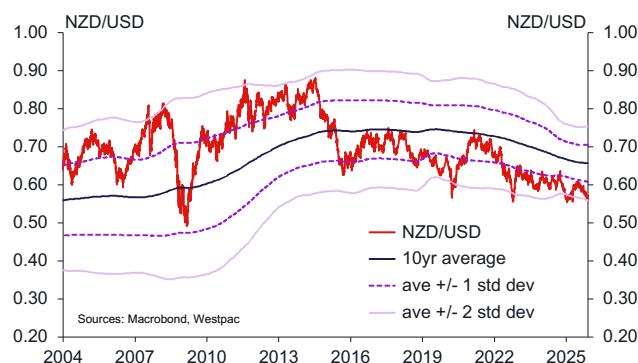
## Official Cash Rate forecasts



## Swap rates



## NZD/USD vs rolling 10yr average



## FX recent developments

	Historical data				F'cast
	Spot	3mth range	5yr range	5yr avg	Mar-26
USD	0.572	0.559-0.597	0.553-0.743	0.631	0.57
AUD	0.875	0.862-0.902	0.862-0.971	0.921	0.86
EUR	0.493	0.484-0.509	0.484-0.637	0.570	0.49
GBP	0.433	0.426-0.440	0.426-0.535	0.489	0.43
JPY	89.4	85.6-89.5	72.8-98.6	84.9	87.2



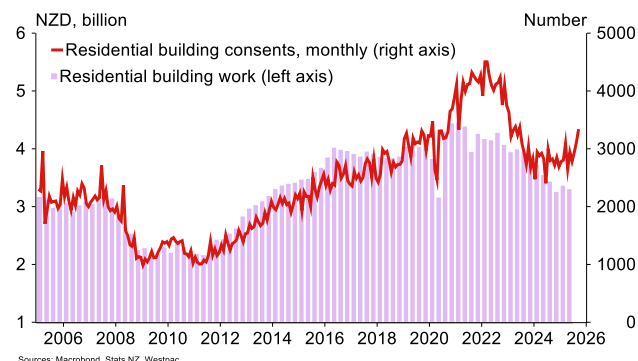
# The week ahead

## Oct Building Consents

**Dec 1, last +7.2%, Westpac f/c: -5.0%**

The number of residential building consents rose 7.2% in September, its third rise in a row. With much of the recent gains related to ‘lumpy’ categories, like apartments, we’re forecasting a 5% fall in October. But more important than such month-to-month swings, the rolling total number of homes consented over the past 12 months is starting to tilt higher. We expect that trend will continue over the coming months. That signals that we’re likely to see a gradual rise in residential construction over the year ahead. On the non-residential front, commercial consents have been tracking sideways with businesses still cautious about significant capital expenditure at this stage.

## Residential building and consent numbers

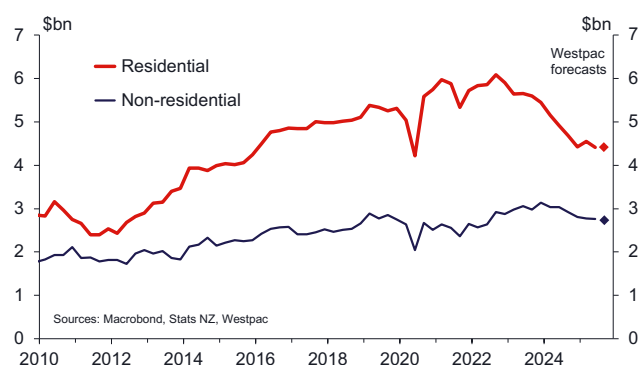


## Q3 Building work put in place

**Dec 4, Last: -1.8%, Westpac f/c: -0.4%**

Total construction activity fell 1.8% over the June quarter, mainly due to a dip in residential construction. Despite that decline, the current downturn in construction looks like it is approaching a base, with building levels flattening off through the first half of the year and a stabilisation in the amount planned work. We’re forecasting flat residential construction in the September quarter, along with a small decline in non-residential building. Looking further ahead, construction activity is expected to start rising again next year, though that recovery is likely to be gradual.

## Real building work put in place

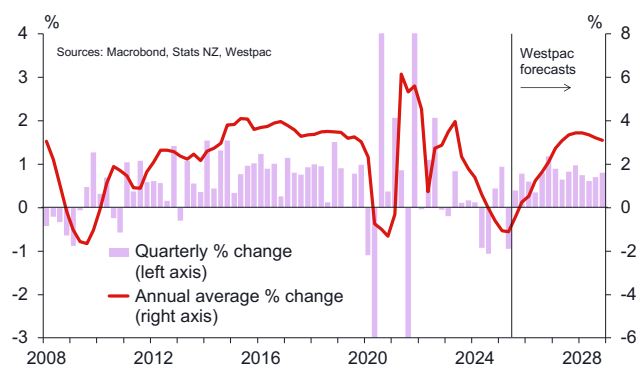


# Economic and financial forecasts

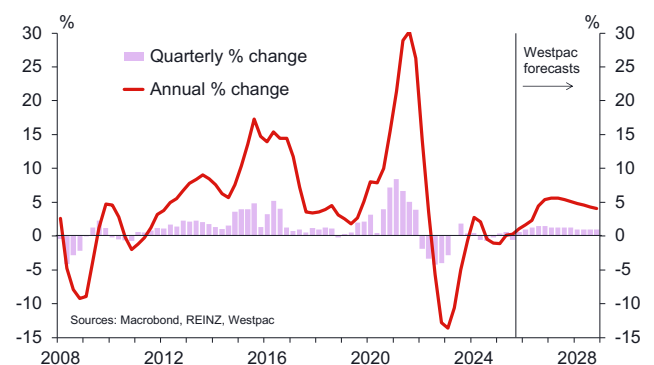
Economic indicators	Quarterly % change				Annual % change			
	Jun-25	Sep-25	Dec-25	Mar-26	2024	2025	2026	2027
GDP (production)	-0.9	0.4	0.8	0.6	-1.4	1.2	3.0	3.4
Consumer price index	0.5	1.0	0.3	0.4	2.2	2.8	2.2	2.1
Employment change	-0.2	0.0	0.2	0.4	-1.2	-0.1	2.3	2.2
Unemployment rate	5.2	5.3	5.4	5.4	5.1	5.4	4.9	4.3
Labour cost index (all sectors)	0.6	0.4	0.5	0.5	3.3	2.1	2.3	2.2
Current account balance (% of GDP)	-3.7	-3.5	-3.5	-3.6	-4.7	-3.5	-4.2	-4.0
Terms of trade	4.1	1.0	-0.9	0.4	13.7	6.2	3.2	2.3
House price index	0.6	-0.5	0.6	1.0	-1.0	1.1	5.4	5.1

Financial forecasts	End of quarter				End of year			
	Jun-25	Sep-25	Dec-25	Mar-26	2024	2025	2026	2027
OCR	3.25	3.00	2.25	2.25	4.25	2.25	2.50	3.50
90 day bank bill	3.38	3.10	2.35	2.35	4.45	2.35	2.70	3.70
2 year swap	3.18	2.99	2.85	3.05	3.64	2.85	3.60	4.00
5 year swap	3.56	3.40	3.50	3.55	3.73	3.50	3.90	4.25
10 year bond	4.57	4.42	4.30	4.35	4.50	4.30	4.70	4.95
TWI	69.1	68.4	66.3	66.1	69.5	66.3	68.4	70.6
NZD/USD	0.59	0.59	0.57	0.57	0.59	0.57	0.61	0.65
NZD/AUD	0.93	0.91	0.87	0.86	0.91	0.87	0.87	0.89
NZD/EUR	0.52	0.51	0.49	0.49	0.55	0.49	0.51	0.54
NZD/GBP	0.44	0.44	0.43	0.43	0.46	0.43	0.45	0.47

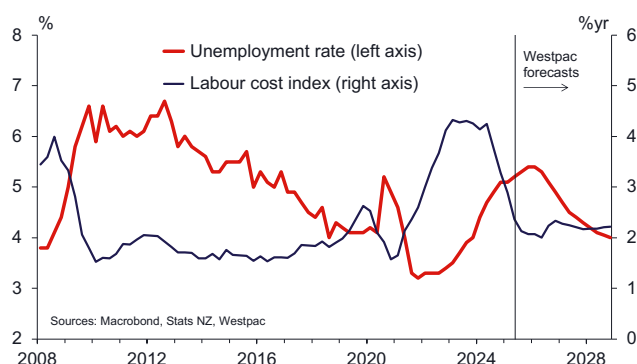
GDP growth



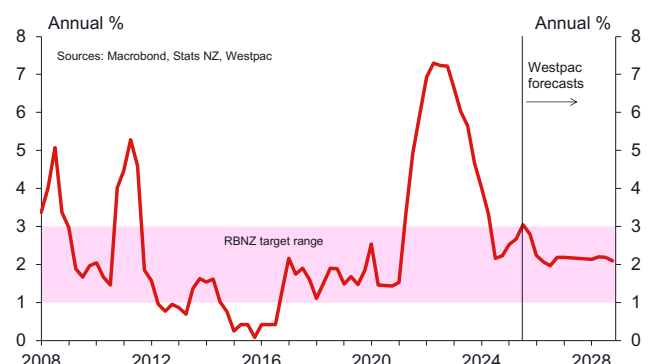
House prices



Unemployment and wage growth



Consumer price inflation



# Data calendar

		Last	Market median	Westpac forecast	Risk/Comment
<b>Mon 01</b>					
<b>NZ</b>	Oct Building Permits, %mth	7.2	–	–5.0	Monthly drop, but longer term trend looking positive.
<b>Aus</b>	Nov CoreLogic Home Value Index, %mth	1.1	–	1	Price growth divergence re-emerging between cities.
	Nov MI Inflation Gauge, %ann	3.1	–	–	Inflation gauge picking up since mid-year.
	Q3 Company Profits, %qtr	–2.4	1.5	1.6	Mining sector to drive profit growth, non-mining supporting.
	Q3 Inventories, %qtr	0.1	0	–0.5	Consumer facing businesses likely ran down inventories.
	Nov ANZ-Indeed Job Ads, %mth	–2.2	–	–	Fallen for four consecutive months to be –7.4%yr lower.
<b>Chn</b>	Nov RatingDog Manufacturing PMI, index	50.6	50.5	–	To maintain positive growth momentum into the year end.
<b>US</b>	Nov ISM Manufacturing, index	48.7	49	–	Ongoing contraction in the US manufacturing sector.
<b>World</b>	Nov S&P Global Manufacturing PMI, index	–	–	–	Final estimate for Japan, Eurozone, UK and US.
<b>Tue 02</b>					
<b>NZ</b>	Q3 Terms Of Trade, %qtr	4.1	0.4	1.0	Modest rise to new high; weaker dairy prices to weigh from Q4.
	Finance and expenditure committee	–	–	–	RBNZ annual review, Dr Breman first speaking engagement.
<b>Aus</b>	Q3 Current Account Balance, \$bn	–13.7	–13.0	–12.5	Export and import prices will support nominal balance.
	Q3 Net Exports Contribution, ppts	0.1	0.1	–0.3	High imports suggest negative net exports contribution.
	Oct Dwelling Approvals, %mth	12.0	–5.0	–5.0	Units surge from last month will likely unwind.
<b>Eur</b>	Oct Unemployment Rate, %	6.3	6.3	–	At historical lows.
	Nov HICP Inflation, %ann	2.1	2.2	–	Inflation close to the ECB target.
<b>Wed 03</b>					
<b>NZ</b>	Nov ANZ Commodity Prices, %mth	–0.3	–	–	Falling dairy prices likely to drive a third consecutive decline
<b>Aus</b>	Q3 GDP, %qtr	0.6	0.7	0.8	Economic recovery broadens as businesses join consumers.
<b>Chn</b>	Nov RatingDog Services PMI, index	52.6	51.9	–	Consistent with higher growth than manufacturing.
<b>US</b>	Nov ADP Employment Change, 000s	42	20	–	Private sector equivalent to official payrolls.
	Sep Import Price Index, %mth	0.3	0.1	–	Data previously delayed by government shutdown.
	Sep Industrial Production, %mth	–0.1	0.1	–	Data previously delayed by government shutdown.
	Nov ISM Services, index	52.4	52	–	Have been fluctuating close to the neutral level recently.
<b>World</b>	Nov S&P Global Services PMI, index	–	–	–	Final estimate for Japan, Eurozone, UK and US.
<b>Thu 04</b>					
<b>NZ</b>	Q3 Volume of Building Work, %qtr	–1.8	0.2	–0.4	Downturn in home building flattening off.
<b>Aus</b>	Oct Goods Trade Balance, \$bn	3.9	4.5	3.6	Volatile gold exports will be key.
	Oct Household Spending Indicator, %mth	0.2	0.5	0.6	Discretionary spend should start to lift heading into year-end.
<b>Eur</b>	Oct Retail Sales, %mth	–0.1	0.2	–	Did not growth in the prior three months.
<b>US</b>	Wkly Initial Jobless Claims, 000s	216	–	–	Last week eased below the recent range.
<b>Fri 05</b>					
<b>Jpn</b>	Oct Household Spending, %ann	1.8	1	–	Growth has been on an upward trajectory.
<b>Eur</b>	Q3 GDP, %qtr	0.2	0.2	–	Final Q3 estimate set to confirm 0.2%qtr growth.
<b>US</b>	Dec Uni. Of Michigan Sentiment, index	51	52	–	Just a touch above historical lows.
	Sep Personal Income, %mth	–	0.3	–	Data previously delayed by government shutdown.
	Sep Personal Spending, %mth	–	0.3	–	Data previously delayed by government shutdown.
	Sep PCE Deflator, %mth	–	0.3	–	Data previously delayed by government shutdown.
	Sep Core PCE Deflator, %mth	–	0.2	–	Data previously delayed by government shutdown.

\* The US data release schedule is being updated following the shutdown's end. Releases may be incomplete and the schedule updated at short notice for a number of weeks.



# Contact

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