



WEEKLY ECONOMIC COMMENTARY



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Running rough

Last week we released our final **Economic Overview** for 2025 with the theme “Running rough”. This referred to the stop-start nature of the economy through 2025 and the generally disappointing performance in the second half of the year. In many respects the economy has resembled an aging jalopy that on a good day shows potential for some get up and go, but on others it looks doubtful whether forward motion is possible at all.

This theme is reflected in our updated forecasts where we have pushed out the timing of the economic recovery for 3-6 months, reflecting the quite poor dataflow seen recently. Thinking back six months or so, the view was that by now the economy would be showing strong signs of firing on all cylinders and heading towards a period of above-trend growth, as interest rate cuts and strong commodity returns drove a stronger and increasingly broader upturn.

That isn’t what has transpired – instead growth took a backward step in the June quarter, and available indicators suggest still sub-par growth in the second half of 2025. This means the significant excess capacity that has built up in the last couple of years is not reducing yet, although hopefully it isn’t getting too much larger.

We have revised down our short-term growth projections to imply 1.2% growth for 2025. As we noted in our recent **GDP deep dive**, the reported volatility of GDP significantly exceeds what’s really been happening in the economy in the last few years. Nevertheless, we think that underlying output still went backward in the June quarter (by about -0.1%) and it’s only slowly coming out of that hole – adjusting for statistical volatility, we estimate the economy grew by 0.2% in Q3 and expect that it will grow by 0.4% in Q4. The volatility of measurement and other factors will make the comeback look a little stronger (reported growth figures are likely to print at 0.4% in Q3 and 0.8% in Q4) – but don’t be

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

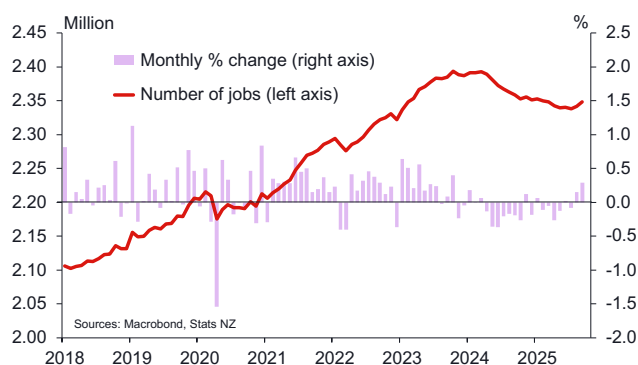
Date	Event
4 Nov 25	RBA Monetary Policy Decision
5 Nov 25	NZ Labour Market Statistics, September quarter
6 Nov 25	NZ Government accounts (3 months to September)
17 Nov 25	NZ Selected price indexes, October
26 Nov 25	RBNZ OCR Review & Monetary Policy Statement
4 Dec 25	NZ Government accounts (4 months 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)

fooled by that sort of statistical ‘noise’ in the data. We are still some way off before registering consistently solid trend growth.

This more cautious view of the short-term outlook appears vindicated by recent economic indicators. This week we saw an unconvincing increase in monthly business confidence and a small fall in consumer confidence. Neither of these reports screams a stunning reignition of the economy. Our Nowcast continues to suggest Q3 and Q4 growth languishes around 0.2-0.4% for each quarter, similar to our forecasts for underlying GDP growth.

All this is consistent with our updated, less positive picture for the labour market. The Q3 labour market reports are out next week and **we expect a further rise in the unemployment rate**, flat employment growth, and still-declining wage inflation. We have pushed up the expected peak unemployment rate to 5.4% in the Q4 report (due early February next year), and we don’t expect unemployment to fall until mid-2026. Again, that recovery is pushed out another 3-6 months.

Monthly Employment Indicator filled jobs



The public sector has been a pillar of support for the jobs market over the last couple of years; the real weakness in that time has been in the private sector, particularly for highly cyclical industries such as construction and manufacturing. The Monthly Employment Indicator (MEI) of filled jobs suggests that we’re finally starting to see a turn in that trend. That said, we’re aware that this measure tends to be overstated on its initial release, and our assumption is that the true picture was closer to flat on average for the September quarter.

We continue to have optimism for the year ahead. For all the faults of this old jalopy of an economy, it has received a good amount of oil and gas now. 300 bp of OCR cuts have been delivered, and we expect another 25 (possibly 50) bp to be delivered in the November Monetary Policy Statement, before the RBNZ calls it a day with the easing cycle and sits back and lets the medicine do its work over 2026. Of the total 325-350 bp of cuts this cycle we think about 60% of those have passed into household budgets. So there is still a bit more to come (perhaps 80-90 bp in effective mortgage rate terms). These stimulatory interest

rates, combined with still resilient export commodity prices and a supportive exchange rate mean we expect 3% GDP growth in 2026. That’s above trend.

Inflation looks like it has peaked at 3% in Q3 2025, and we expect it will track down towards 2.2% by the end of 2026. Commodity and food prices aren’t likely to add to inflation in 2026 as they did in 2025. In addition, the cyclically sensitive elements of inflation are now running at low levels and should remain low while significant excess capacity remains. Those conditions should see inflation dropping back to levels the RBNZ is comfortable with over the year ahead. We don’t think there’s a strong chance of sub 2% inflation right now given the large rises in administered prices (local authority rates and utility fees) that remain in prospect.

Fiscal policy is expected to remain tight given the lack of money in the Government’s kitty. The prospect of a surplus (in OBEGALx terms) remains in 2029. There’s huge uncertainty in those forecasts as it’s by no means clear that the assumptions driving the fiscal outlook will pan out as expected. The next General Election, likely in late 2026, is going to see voters presented with a broad range of taxation and spending options.

We got a hint of that last week when the Labour Party announced its Capital Gains Tax policy coupled with a promise of three free doctor’s visits for all. There will be other ideas on the table too. Our assessment of the CGT is that it might deter investment in property at the margin, but it isn’t a game changer for the property market, as reductions in demand for investment property might be balanced by reduced supply given the reduced incentives to invest in the sector. The revenue raised might be modest given we don’t expect very high house price inflation in coming years (and any revenue that accrues isn’t available until late in the decade). But we can’t quibble much with the assumptions made at this stage.

We continue to think the New Zealand dollar will languish for the time being. Interest rate differentials are low and growth modest. While we might not move much lower versus what we expect will be a weaker US dollar, we are likely to underperform against the TWI basket more broadly. The NZD/AUD exchange rate, in particular, could remain pretty weak – aided by some of the data seen in Australia of late.

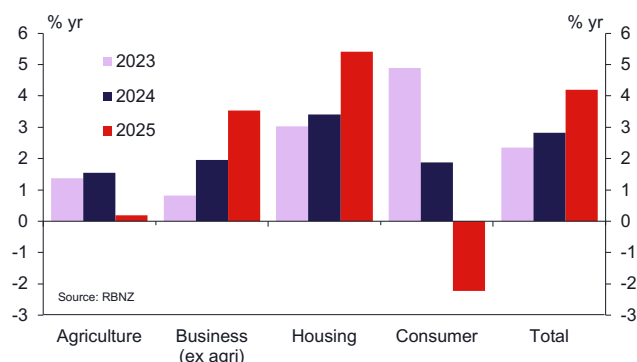
Ultimately, we continue to expect that New Zealand Interest rates will normalise. Our assumption on the neutral OCR remains 3.75%, hence current interest rates are stimulatory. That petrol should propel us forward in 2026. But once we do see things moving forward sustainably, the case for keeping the OCR close to 2% will look thinner. Our base case is the OCR will start rising again in late 2026 after the election. But an earlier, perhaps mid-year take-off shouldn’t be dismissed if the interest sensitive sections of the economy get moving.

The RBNZ's comfort with inflation much above 2% might reduce when sustained above-trend growth is in prospect.

We had a couple of RBNZ speakers last week who generally presented a cautious tone. Director of Financial Markets Adam Richardson noted that some of the OCR cuts in the last year or so have been offset by rising global term premia and stable to rising long term interest rates. External MPC member Prasanna Gai made a case for cutting the OCR aggressively to prompt the economy into action in the wake of an uncertainty shock to confidence. Neither message suggested the RBNZ has an optimistic view just yet. Certainly, their Nowcast estimates suggest muted growth in H2 2025.

That's not to say all data are downbeat. Credit growth data for September were solid, and investors continue to move into the housing market. Business credit also moved noticeably higher while agricultural sector credit remained strong even in the face of strong cash flows received of late. These are all signs that the impacts of past easing are delayed not cancelled.

Credit growth (September years)



So, what will farmers do with this money? We expect that many will seek to reinvest this money in their farm, by paying down debt and/or additional on-farm investment. Some will likely use this money to expand their farms, potentially allowing some farmers to exit the industry. Some may also be funnelled into non-farm investments (retirement funds and the like), so as to diversify earnings. And finally, some will doubtless will find its way into the broader economy through increased spending on holidays, cars, home renovations and the like.

Kelly Eckhold, Chief Economist

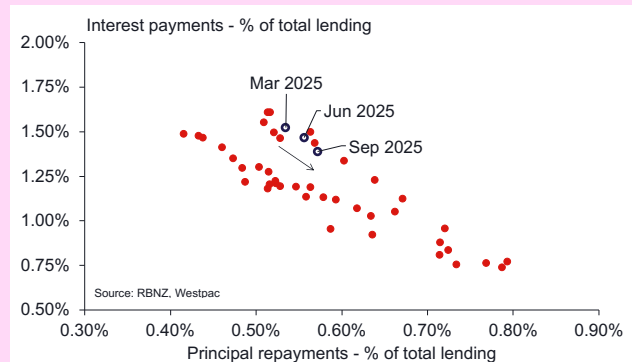
Turning to other news, over the past week Fonterra's shareholders voted in favour of the company's proposal to sell most of its consumer business (excluding that in China) to the French dairy giant Lactalis for \$NZ4.2bn. The deal, which – subject to numerous regulatory approvals – is expected to be completed in the first half of next year, will see \$NZ3.2bn returned to shareholders (around \$NZ2 per share) and \$NZ1.0bn retained by Fonterra to reinvest in growing its ingredients and food services businesses (Fonterra hopes that within three years this growth will replace the profits it will lose from selling its consumer business). It also includes a multiyear agreement to supply raw ingredients to Lactalis.

For Fonterra's roughly 8150 farmer shareholders, this implies an average return of just under \$NZ400k per farm. That said, there is a wide variety of farm sizes (and the median herd is much smaller than the mean herd) as well as some variation in shareholding structures (i.e., shares held per kilo of milk solids produced). So many farmers will likely see a return of \$NZ200-300k while a few will see returns that are multiples greater.

Chart of the week.

Interest rates have fallen sharply over the past year. And while mortgage rate fixing has meant that the passthrough of those reductions has been gradual to date, we're now seeing large numbers of borrowers rolling onto lower rates. That process is set to continue over the coming year, and those falls in interest costs are expected to boost households' disposable incomes and spending. However, not all of the fall in interest costs will be spent. As borrowers roll onto lower interest rates, we often see many of them keeping their repayments the same, but paying down principal faster. We've seen some signs of that occurring since the start of this year, and expect to see that behaviour becoming more prevalent over 2026.

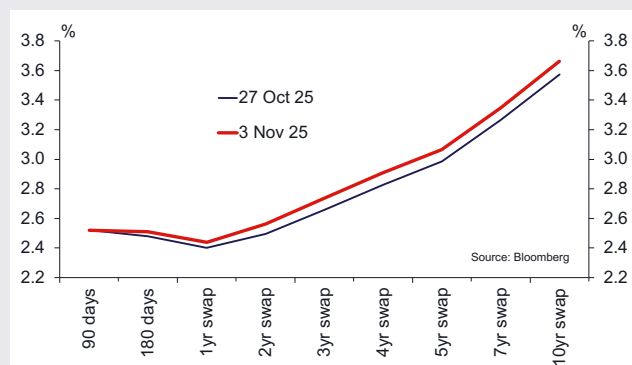
Interest charged vs scheduled principal repayments



Fixed versus floating for mortgages.

The RBNZ has signalled the likelihood of further easing and we're now forecasting the cash rate to bottom at 2.25% later this year. Fixed-term mortgage rates have moved lower in recent weeks and 'special' rates (those for borrowers with at least a 20% deposit) are now under 5%, reflecting the recent falls in wholesale rates. Very short-term mortgage rates will likely fall slightly if the RBNZ cuts the OCR as we expect, but they remain above current longer-term fixed rates. At current rates, fixing for longer periods of two to three years looks attractive.

NZ interest rates



Global wrap

North America.

As expected, the FOMC delivered a 25bp cut at its October meeting. The close of the quantitative tightening programme from 1 December was also announced. Markets interpreted the Fed's stance as 'hawkish' with expectations for rate cuts over the coming year pared. The decision was reached in a 10-2 vote. While Miran voted for a larger 50bp cut as expected, Schmid preferred to remain on hold. Crucially, Powell noted that a December rate cut "is not a foregone conclusion, far from it." The past week also saw an easing in US-China trade relations after Trump and Xi met in Korea. On the data front, business sector gauges pointed to a lift in activity in October, with gains in the Chicago, Dallas and Richmond surveys of manufacturing. In the household sector, consumer confidence dropped back again in October with softness in the expectations components. This week's calendar includes updates on the ISM, ADP jobs report and Michigan consumer confidence. There are also a number of Fed members speaking.

Canada's central bank also cut its overnight rate 25bps at its latest meeting. The BOC indicated that this may be the end of the cutting cycle with current settings viewed as appropriate to keep inflation near 2% while still supporting activity.

Europe.

The ECB left its deposit rate at 2.0% at its latest policy meeting. Lagarde said the ECB is in a good place on rates, but added it is "not a fixed good place" and that the central bank will work to stay there. That leaves the door open for further easing, if needed. The BOE meets on Thursday and is expected to leave the bank rate on hold.

Asia-Pacific.

Australia's September quarter inflation report was hotter than expected, with prices up 1.3% over the quarter (exp. +1.1%) and 3.2% over the past year. Core inflation was also stronger than expected, running at 3%yr. Given that strength in inflation, we now expect the RBA will pause at its policy meeting this Tuesday, but will deliver **25bp reductions in May and August next year** (previously, we forecast cuts in November and February). In addition to Tuesday's RBA meeting, this calendar includes updates on household spending, housing market and the latest trade figures. In Japan, the BOJ held its policy rate steady in a 7-2 vote (the two dissenters voted for a hike). The Committee reiterated its commitment to further rate hikes but gave no timing guidance. In China, the PMIs pointed to further softness in business conditions.

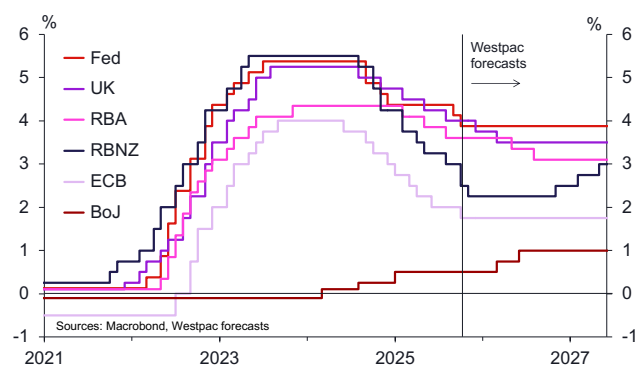
Trading partner real GDP (calendar years)

	Annual average % change			
	2024	2025	2026	2027
Australia	1.0	1.7	2.3	2.5
China	5.0	5.0	4.6	4.5
United States	2.8	1.9	1.3	1.6
Japan	0.1	0.9	0.8	0.8
East Asia ex China	4.3	3.9	3.8	4.0
India	6.5	6.7	6.4	6.3
Euro Zone	0.9	1.4	1.1	1.5
United Kingdom	1.1	1.5	1.1	1.5
NZ trading partners	2.9	2.9	2.7	2.8
World	3.3	3.2	3.1	3.2

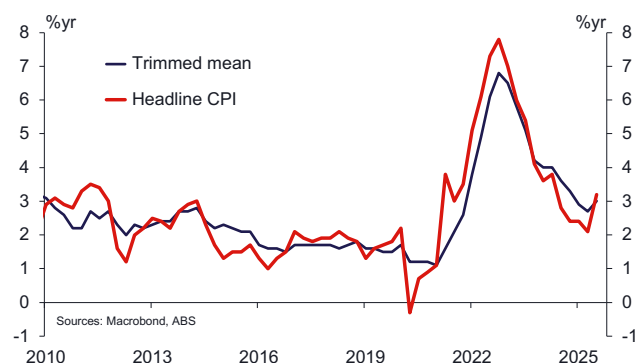
Australian & US interest rate outlook

	31 Oct	Dec-25	Dec-26	Dec-27
Australia				
Cash	3.60	3.60	3.10	3.10
90 Day BBSW	3.64	3.55	3.20	3.20
3 Year Swap	3.58	3.40	3.70	4.00
3 Year Bond	3.61	3.45	3.75	4.00
10 Year Bond	4.31	4.30	4.50	4.65
10 Year Spread to US (bps)	21	15	10	-5
US				
Fed Funds	3.875	3.875	3.875	3.875
US 10 Year Bond	4.10	4.15	4.40	4.70

Global central bank policy rates



Australian CPI inflation



Financial markets wrap

Foreign exchange.

The past few weeks have seen NZD/USD contained inside a 0.5700 to 0.5800 range, currently closer to the lower bound. The downside looks vulnerable during the week ahead.

That is because the broad US dollar has risen to the top of a five-month old range and looks poised to break higher. Last week the Fed cut its policy rate by 25bp, but there was higher than usual disagreement around the decision (two members officially voted against it), suggesting another cut in December is not assured.

In NZ, markets will focus on the Q3 labour data on Wednesday. The median expectation among economists is for a rise in the unemployment rate, from 5.2% to 5.3%, which matches the RBNZ's forecast from the August MPS. As is always the case, a different outturn would cause a reaction in the NZD.

NZD/AUD's large decline since April (0.9388 to 0.8737) has come to a rest in the mid-0.87s. But the potential for either a break lower or a rebound this week is high given major NZ and AU event risk. The RBA decision tomorrow is expected by the market and economists to result in the cash rate remaining at 3.60%, so that guidance for future rate cuts will determine the AUD reaction.

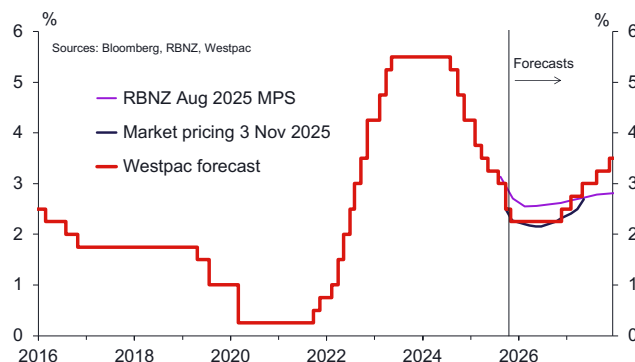
Interest rates.

The NZ 2yr swap rate last week remained above its mid-October (and possible cycle) low of 2.44%, mostly following minor movements in US and AU interest rates. The main influences on swap rates this week will probably be the NZ labour data and the RBA decision.

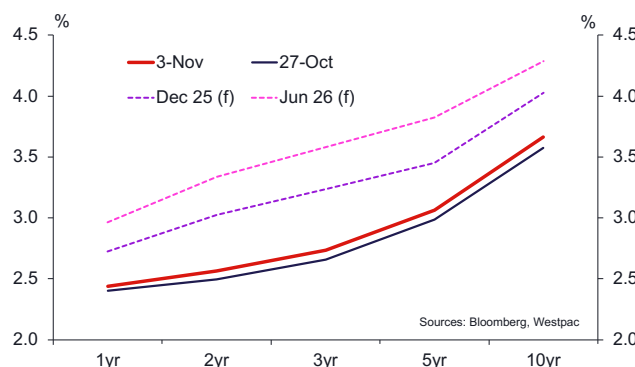
The OIS market remains happy to price a 25bp cut to 2.25% at the next RBNZ meeting on 26 November, assigning an almost 100% chance, and a 0% chance to a larger 50bp cut (it surprised with a 50bp cut in October). Regarding the remainder of this easing cycle, it assigns around a 50% chance to a final 25bp cut by May 2026, suggesting little conviction in whether the OCR bottoms at 2.25% or 2.0%.

The NZ yield curve continues to show tentative signs of peaking, the 2-10yr swap curve currently at 110bp (vs the recent peak at 111bp), with minor movements last week driven by offshore bond yields. The yield curve will start to flatten more convincingly when the OCR cycle low is eventually confirmed.

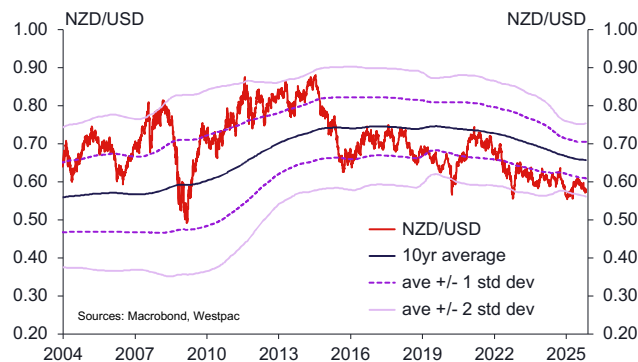
Official Cash Rate forecasts



Swap rates



NZD/USD vs rolling 10yr average



FX recent developments

	Historical data				F'cast
	Spot	3mth range	5yr range	5yr avg	Dec-25
USD	0.573	0.571-0.598	0.553-0.743	0.633	0.58
AUD	0.875	0.875-0.914	0.873-0.971	0.922	0.87
EUR	0.497	0.489-0.515	0.489-0.637	0.572	0.49
GBP	0.436	0.426-0.445	0.426-0.535	0.491	0.43
JPY	88.2	85.6-88.7	69.0-98.6	84.6	88.2

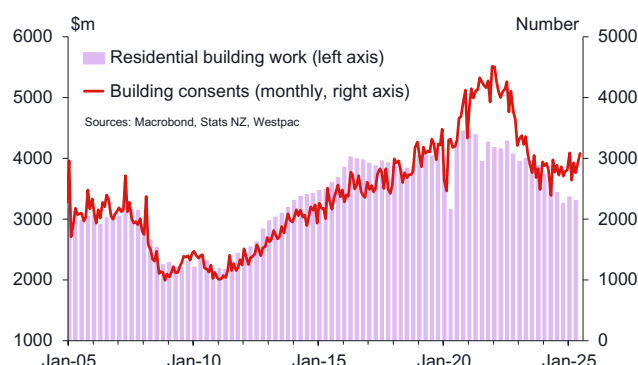
The week ahead

Sep Building Consents

Nov 3, last +5.8%, Westpac f/c: -2.0%

The number of residential building consents rose 6% in August, following a similar sized gain in July. We're forecasting a 2% fall in September as some of last month's lift related to the volatile multi-unit categories. More important than month-to-month swings, the total number of homes consented over the past 12 months has remained stable at around 34,000 for more than a year now. While we don't expect a material upswing until next year, we'll be watching for early signs that the development pipeline is starting to firm. On the non-residential front, softness in public sector projects is continuing. Planned private sector work is holding up, but is unlikely to break higher until economic conditions more generally firm.

Residential building and consent numbers



Q3 Labour Market Surveys

Nov 5, Unemployment rate – Last: 5.2%, WBC f/c: 5.3%
Labour Cost Index, private sector – Last: +0.6%, WBC f/c: +0.5%

We expect the unemployment rate to rise from 5.2% to 5.3% for the September quarter. Monthly employment indicators have ticked up recently, but were around flat on average over the quarter. That's not enough to absorb the growth in the working-age population, which will likely be resolved through a mix of higher unemployment and lower participation. Given the softness in the labour market, wage growth has dropped back to levels that are consistent with 2% overall inflation.

Labour market indicators

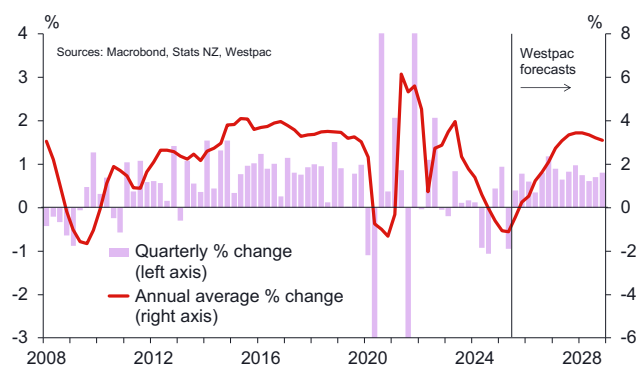


Economic and financial forecasts

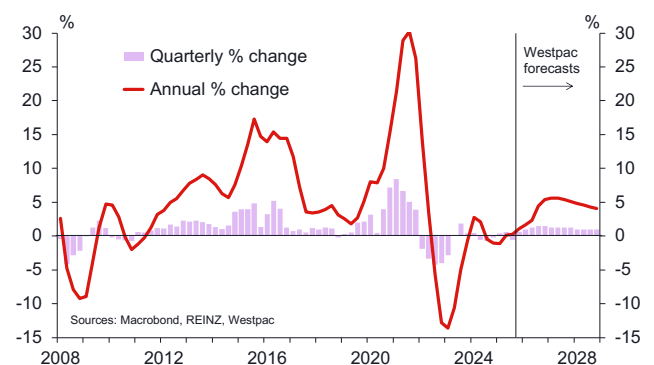
Economic indicators	Quarterly % change				Annual % change			
	Jun-25	Sep-25	Dec-25	Mar-26	2024	2025	2026	2027
GDP (production)	-0.9	0.4	0.8	0.6	-1.4	1.2	3.0	3.4
Consumer price index	0.5	1.0	0.4	0.4	2.2	2.9	2.3	2.1
Employment change	-0.1	0.0	0.1	0.4	-1.2	0.1	2.3	2.2
Unemployment rate	5.2	5.3	5.4	5.4	5.1	5.4	4.9	4.3
Labour cost index (all sectors)	0.6	0.6	0.5	0.5	3.3	2.3	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	-1.4	0.0	13.7	5.6	1.7	1.9
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	2.70	2.90	3.64	2.70	3.55	4.00
5 year swap	3.56	3.40	3.15	3.30	3.73	3.15	3.90	4.25
10 year bond	4.57	4.42	4.15	4.30	4.50	4.15	4.70	4.95
TWI	69.1	68.4	66.6	66.1	69.5	66.6	67.9	70.4
NZD/USD	0.59	0.59	0.58	0.58	0.59	0.58	0.61	0.65
NZD/AUD	0.93	0.91	0.87	0.86	0.91	0.87	0.86	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



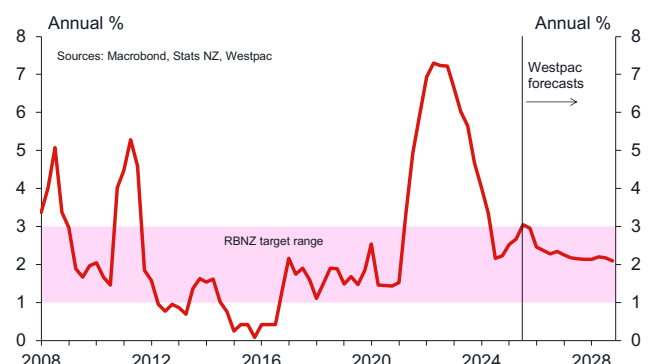
House prices



Unemployment and wage growth



Consumer price inflation



Data calendar

		Last	Market median	Westpac forecast	Risk/Comment
Mon 03					
NZ	Sep Building Permits, %mth	5.8	–	–2.0	Watching for early signs of a firming.
Aus	Oct Cotality Home Value Index, %mth	0.9	–	1.1	Housing prices gather further steam in the spring high season.
	Oct MI Inflation Gauge, %ann	3	–	–	Inflation gauge trending higher since mid-year.
	Oct ANZ–Indeed Job Ads, %mth	–3.3	–	–	Posted its largest monthly decline since February 2024.
	Sep Dwelling Approvals, %mth	–6.0	5	7	Supportive market conditions should see approvals lift.
	Sep Household Spending Indicator, %mth	0.1	0.4	1.1	Our internal card data is showing solid spending momentum ...
	Sep Household Spending Indicator, %yr	5	5.5	6.3	... hinting a firmer footing for the consumer recovery.
Chn	Oct RatingDog Manufacturing PMI, index	51.2	50.7	–	Positive, albeit subdued, sentiment contrasts with official PMI.
Tue 04					
Aus	Nov RBA Policy Decision, %	3.6	3.6	3.6	Rate cut is off the cards following upside surprise to Q3 CPI.
	Melbourne Cup	–	–	–	Vic public holiday. Tight field, bookies favour Half Yours.
US	Oct ISM Manufacturing PMI, index	49.1	49.2	–	Weakness in the US manufacturing sector to continue.
Wed 05					
NZ	RBNZ Financial Stability Report	–	–	–	Six-monthly review of financial conditions.
	Q3 Employment Change, %qtr	–0.1	0.1	0	Jobs market has stabilised in recent months, but ...
	Q3 Unemployment Rate, %	5.2	5.3	5.3	... not enough to prevent a further uptick in unemployment.
	Q3 LCI (Pvte, Ord. Time), %qtr	0.6	0.5	0.5	Wage growth back in line with 2% inflation target.
	Oct ANZ Commodity Prices, %mth	–1.1	–	–	Dairy prices down, beef and lamb up.
Chn	Oct RatingDog PMI Services, index	52.9	–	–	Services sentiment exceeding manufacturing ...
	Oct RatingDog PMI Composite, index	52.5	–	–	... driving the overall momentum in the economy.
Thu 06					
NZ	Sep Fiscal Accounts 3mths to Sep, NZ\$m	–	–	–	First look at how tax revenue is tracking for the '25/26 year.
Aus	Sep Trade Balance, \$bn	1.8	4	4.1	Stronger commodity exports expected to drive surplus higher.
Eur	Sep Retail Sales, %mth	0.1	–	–	So far implies weakening household spending growth in Q3.
Ger	Sep Industrial Production, %mth	–4.3	–	–	A recovery after summer factory closures expected.
UK	BoE Policy Decision	4	4	–	Higher inflation putting the easing cycle on pause.
US	Oct ADP Employment Change, 000s	–32	25	–	In the spotlight, given the delay in the official payrolls data.
	Oct ISM Services PMI, index	50	51	–	Broadly neutral sentiment in the services sector.
	Fedspeak	–	–	–	Williams, Hammack.
Fri 07					
Jpn	Sep Household Spending, %yr	2.3	2.6	–	Growth has been following an upward trajectory.
Chn	Oct Trade Balance, US\$bn	90.45	–	–	Downward pressure from weak US exports and high imports.
US	Nov Uni. Of Michigan Sentiment, index	53.6	54	–	Remains near historical lows.
	Sep Consumer Credit, \$bn	0.363	–	–	Volatile around a broadly flat trend.
	Fedspeak	–	–	–	Paulson, Musalem, Williams.

US government data releases are delayed indefinitely due to the government shutdown. These releases will be reinstated once publication by agencies is confirmed.

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