WEEKLY ECONOMIC COMMENTARY

6 Oct 2025 | **Westpac Economics Team** | **westpac.co.nz/economics** | economics@westpac.co.nz

Getting the OCR to where it needs to be

The key market-moving event over the week ahead is likely to be the RBNZ Monetary Policy Review (MPR) on Wednesday 8 October. The data received this week has done little to shift views and tends to suggest that business sentiment remains brittle and the labour market stable.

The Monthly Employment Indicator (MEI) rose by 0.2% in August. This result was slightly stronger than the flat outturn that we had expected but followed June and July outcomes that were revised to flat from initially reported positive outcomes. And while there is a good chance that the August outcome will suffer the same fate when Stats NZ releases the September outturn, it remains the case that the jobs market appears to be stabilising again after a renewed downturn through the autumn months. Jobs appear to be growing in the regions most boosted by strong commodity prices while job losses continue in the largest urban areas. Allowing for likely revisions, the MEI is tracking consistent with our forecast of a broadly stable level of HLFS employment in the September quarter. At a time when the working-age population is still growing, albeit slowly, this would suggest a further uptick in the unemployment rate for the quarter. Such an outcome would also be consistent with the RBNZ's most recent forecasts.

The September ANZ Business Outlook survey was slightly stronger on balance compared to August. Firms' optimism about the year ahead remained elevated compared to current conditions, and even the small number of responses that were received after the June quarter GDP shocker were not significantly weaker than the August readings. The RBNZ's pivot in August to signalling further rate cuts will have been fully captured for the first time in the September survey. Pricing indicators also rose a touch in September. Overall,

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
7 Oct 25	NZ QSBO Business Survey, September quarter
8 Oct 25	RBNZ OCR Review
9 Oct 25	Govt audited financial accounts, 2024/25
16 Oct 25	NZ Selected price indexes, September
20 Oct 25	NZ CPI, September quarter
29 Oct 25	FOMC meeting (30 Oct NZT)
4 Nov 25	RBA Monetary Policy Decision
5 Nov 25	NZ Labour Market Statistics, September quarter
17 Nov 25	NZ Selected price indexes, October
26 Nov 25	RBNZ OCR Review & Monetary Policy Statement

this survey indicated businesses felt better than they did at the end of the June quarter when activity and employment was declining. Even so, the measure of 'activity versus a year ago' remains at levels suggesting a still pedestrian rate of growth in September.

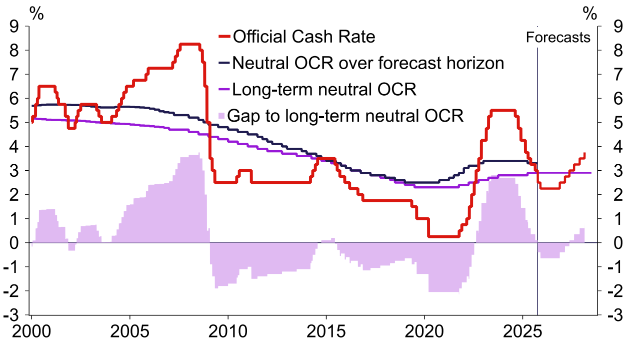
Late Friday the RBNZ released their GDP Nowcasts and for the first time released their estimates for the December quarter. The September quarter estimate continues to trend up to the region of our 0.6% forecast for GDP growth. That's better than nothing but still doesn't fill the June quarter's 0.9% hole. The most interesting release was the estimate for December quarter growth, which is low and falling. Admittedly the models don't have much to go on for now, but most forecasts anticipate a strong December quarter outcome to save the 2025 forecast. Certainly, that's the case for the RBNZ. The downside risks to growth momentum running into the summer trading period and into 2026 are a key argument for front loading stimulus in October.

Expectations for the RBNZ meeting on 8 October.

In the August Monetary Policy Statement (MPS) the RBNZ indicated that it expected to reduce the OCR to 2.5% by year end. On balance, the data flow since August – notably the very disappointing June quarter GDP report – has supported the RBNZ's forecast. Indeed, commentators seem united in the belief that the OCR needs to go to 2.5%, with downside risk beyond. The market has a similar view on the policy outlook, having quickly moved to price a terminal OCR of 2.25% in the wake of the GDP report.

An OCR that troughs close to 2% is consistent with the type of cycle we often see outside periods of economic crisis. Hence risks of policy overshooting don't look especially large based on the data we see now. For example, relative to the RBNZ's estimates of the neutral interest rate, a 2.25% OCR likely lies around 75-125 basis points below the range of estimates available. This implies that interest rates will be stimulatory, but not to the extent seen during the Covid-19 period or the Global Financial Crisis.

OCR and RBNZ estimates of neutral



Sources: Macrobond, RBNZ, Westpac

In our view, there doesn't seem to be a good reason to delay a move to 2.5%. Quickly moving the OCR to a stimulatory level will generate confidence and activity ahead of the important Christmas and summer trading period. This may also reduce the likelihood that even further monetary policy support is required in the new year – a year in which domestic political uncertainty is likely to grow if opinion polls continue to point to a tight General Election. In the August MPS, two MPC members voted for a "circuit breaking" shift in the OCR to levels more consistent with boosting demand. Those views should hold even greater sway this meeting, helping to tip the balance on the MPC towards a 50bps cut. Hence, we expect the RBNZ to cut the OCR by 50bp to 2.5% at this meeting.

We also note that the composition of the MPC has shifted since August. The most hawkish member, Dr Bob Buckle, has ended his term and there is a new member, Hayley Gourley, who may be happy to move with the consensus while getting familiar with the process. Similarly, we expect Governor Christian Hawkesby – who will depart the RBNZ at the end of November – will give additional weight to the views other members of the MPC, since they will be the ones remaining to deal with the consequences of policy decisions taken now. We suspect this might increase the weight the most dovish MPC members carry this time.

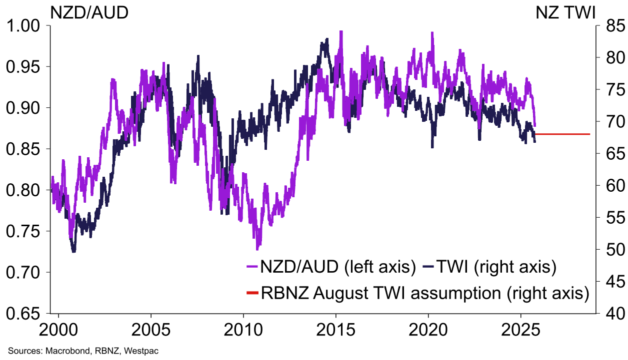
We expect the Bank to maintain an easing bias, with the prospect of a further reduction in the OCR at the 26 November meeting conditional on the flow of data to come (which will include the September quarter inflation and labour market reports). We doubt the MPC will want to be seen as delaying stimulus and encouraging the public and businesses to hold back spending, hiring and investment decisions in anticipation of more policy action later. This type of behaviour has been a feature of the easing cycle to date and may have contributed to a slower than ideal response to the 250bp of cuts already implemented.

It's also worth noting that given current market pricing, it will be very hard for the RBNZ to cut the OCR by just 25bp and not cause interest rates to rise somewhat. Most major banks cut the key 1-year mortgage rate to below 4.5% this week reflecting market pricing of a terminal OCR of 2.25%. What would be required is a relatively strong commitment to cut rates significantly in November. But if the RBNZ was to signal that a 50bp cut is on the table in November – ahead of the 3-month hiatus before the next meeting in February – this would raise the obvious question of why a greater easing wasn't occurring now? The MPC might be sensitive to unnecessarily stoking further criticism of the RBNZ, especially considering the public discourse in recent months.

We think our central scenario of a 50bp cut and a conditional easing bias for November has around a 70% likelihood. A **hawkish outcome** (20% chance) would be a 25bp cut and indications of another 25bp coming in November. This would indicate that the MPC sees the path depicted in the August forecasts as remaining reasonable. There would unavoidably be a decent backup in interest rates given markets currently price the OCR to bottom out around 2.25%. A **dovish outcome** (10% chance) would be the RBNZ coupling the 50bp cut at this meeting with a strong presumption of at least a 25bp cut in November. This would indicate that the MPC interpret recent data as implying significant downside risks to the timing of the recovery forecast in the second half 2025 and into 2026. Hence this would imply an amping up of the 'circuit breaking' easing discussed in August beyond what we see as more likely right now.

Following a period of weakness in the wake of the GDP report, the New Zealand dollar exchange rate has consolidated over the past week. The Trade Weighted Index (TWI) has nudged higher this week but remains somewhat lower than the level assumed at the RBNZ August Monetary Policy Statement. The NZD/AUD exchange moved through 88 cents for a time but is now unchanged from where it stood a week earlier. Weakness in the exchange rate is to be expected given New Zealand's relatively anaemic growth pulse and the associated interest rate differentials to alternative investment destinations.

NZD/AUD exchange rate and Trade Weighted Index

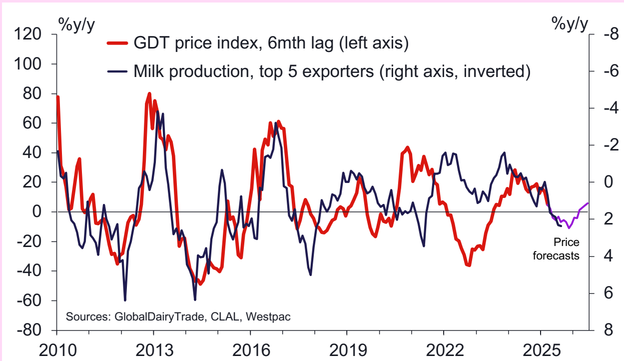


Kelly Eckhold, Chief Economist

Chart of the week.

The local dairy season has got off to a strong start with milk collections in August up 2.5%y/y and at their highest level ever for that month. Production over the season to date is up 4.2%y/y, stimulated by high milk prices, good pasture conditions and affordable feed. Unlike last year, many of New Zealand's key export competitors are also producing more milk, unburdened by the animal disease issues that had weighed on production last season. As this week's chart shows, given underlying growth in demand, milk production growth of around 1.5%y/y is usually consistent with steady prices. At present, growth in production amongst the top exporters is running at 2.4%y/y. This suggests the potential for downward pressure on prices, and probably a bit more than in our current forecast. Just last week Fonterra announced that it had decided to add an additional 10,000m/t of whole milk powder to this season's offering on the GDT auction site (a 2.9% increase). We will be interested to see how this news is absorbed by participants in Tuesday's full GDT auction.

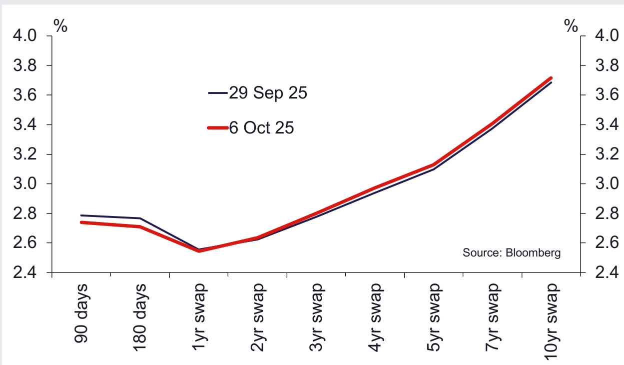
Dairy prices follow global milk production



Fixed versus floating for mortgages.

The RBNZ has signalled the likelihood of further rate cuts 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 deeply as we now 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

US.

Key parts of the US government went into shutdown on Wednesday, with Republicans and Democrats failing to reach an agreement on spending. While the two sides seek a compromise, President Trump has said he will use the shutdown to significantly and permanently reduce the number of government employees. It's not clear how long the shutdown will last – a further vote will take place today – but a protracted shutdown would weigh on the economy. The shutdown has also delayed the reporting of official economic statistics, including the September payrolls report. The private sector ADP report was still released and showed a fall of 32k. We also saw a drop in the Conference Board consumer confidence gauge to 94.2 (prev. 97.8). Business sector indicators remained mixed, with a lift in the ISM manufacturing gauge, but sharp falls in the ISM's service sector indicator and some regional activity surveys. There were a range of Fed-speakers over the past week. Many of their comments highlighted ongoing concern about the upside risks for inflation, while downside risks for the labour market were also noted. This week's reduced calendar includes the latest FOMC minutes (Wednesday) and Michigan Consumer Confidence report (Friday). In the unlikely event the government shutdown ends quickly, some of last week's delayed data may be released later this week.

Australia.

As expected, the RBA left its cash rate at 3.6% in September. The Board noted that while inflation was within the target range, its decline has slowed and Q3 inflation may be stronger than expected. In terms of forward guidance, the Board has retained its optionality, with Governor Bullock noting that decisions will be made "meeting by meeting based on the data." Westpac is forecasting a 25bp cut in November. On the data front, household spending appetites have flagged as early boosts from temporary factors like discounting faded. Spending grew just 0.1% in August following an average monthly gain of 0.5% in Q2. That cooling in demand was also reflected in the latest international trade data, which showed a slowdown in imports of consumption goods. There is limited data out this week, the highlight being the Westpac-MI Consumer Sentiment on Tuesday.

China.

While China's manufacturing PMI recorded a slight tick higher in September, it has remained in contractionary territory for six months now. At the same time, service sector conditions have cooled. The data reinforced the picture of softening economic conditions, adding to the case for additional policy stimulus.

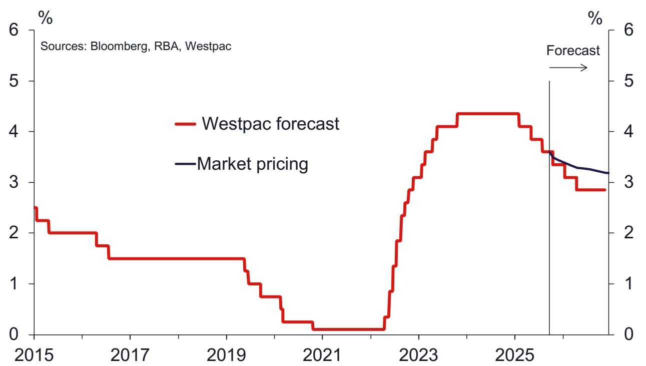
Trading partner real GDP (calendar years)

	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	3.7	3.8	4.0
India	6.5	6.7	6.4	6.3
Euro Zone	0.9	1.2	1.1	1.5
United Kingdom	1.1	1.3	1.3	1.5
NZ trading partners	2.9	2.8	2.7	2.8
World	3.3	3.2	3.1	3.2

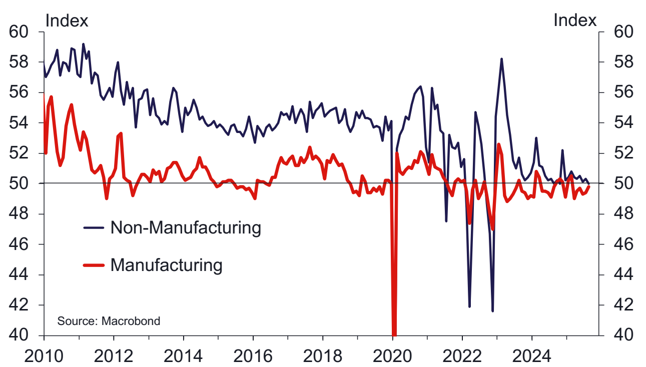
Australian & US interest rate outlook

	3 Oct	Dec-25	Dec-26	Dec-27
Australia				
Cash	3.60	3.35	2.85	2.85
90 Day BBSW	3.59	3.30	2.95	2.95
3 Year Swap	3.50	3.40	3.70	4.00
3 Year Bond	3.54	3.45	3.75	4.00
10 Year Bond	4.33	4.35	4.65	4.85
10 Year Spread to US (bps)	24	15	5	-5
US				
Fed Funds	4.125	4.125	3.875	3.875
US 10 Year Bond	4.09	4.20	4.60	4.90

RBA cash rate



Chinese PMIs



Financial markets wrap

Foreign exchange.

NZD/USD recovered last week from 0.5754, helped by the US dollar weakening due to the US government shutdown. There's potential for further gains to 0.5900 if the shutdown is expected to persist for some time.

Locally, the RBNZ MPR on Wednesday is likely to surprise the market on the day. A 50bp OCR cut (our expectation) would cause a fall in the NZD, while a 25bp cut would probably cause a rise, depending on the accompanying guidance.

NZD/AUD fell further last week to 0.8758 – lowest since 2022. A minor recovery is possible during the week ahead, given it was quite stretched technically, although much will depend on the direction of RBNZ surprise on Wednesday. Beyond this week, we expect the theme of NZ's relative economic underperformance to endure. The RBA last week remained on hold and reiterated its cautious approach to easing.

Interest rates.

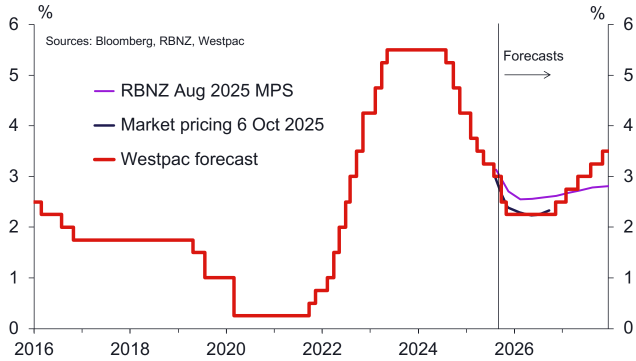
The downward trend in the NZ 2yr swap rate, which started in 2023, extended to 2.62% last week. Whether that level holds during the week ahead will depend on whether the RBNZ cuts the OCR by 50bp (Westpac's forecast) or 25bp. A 50bp cut could push the 2yr down to around 2.50%.

Markets are undecided on whether a 50bp or 25bp cut is more likely this week. OIS pricing assigns a 35% chance to a 50bp cut to 2.50%. By May 2026, though, a 2.25% low is expected.

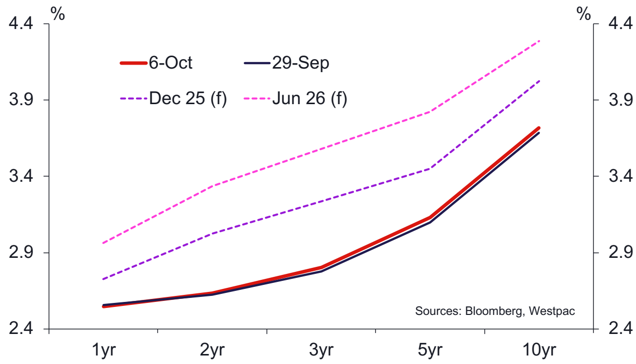
There is one key data release ahead of the RBNZ MPS – the NZIER business confidence survey (out Tuesday) – which could have some influence on the decision if the outturn is a significant surprise. The Government will release its audited financial statements for the 2024/25 year on Thursday.

The NZ yield curve, which steepened sharply following the weak NZ GDP data, steepened slightly further last week, the 2-10yr swap curve currently at 108bp. A 50bp cut this week would likely steepen it further. Eventually, the curve will start to flatten, but only when markets are confident of the OCR cycle low's level and timing.

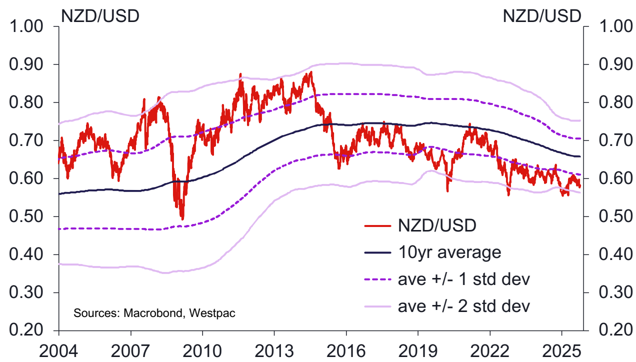
Official Cash Rate forecasts



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	0.582	0.576-0.606	0.553-0.743	0.634	0.59
AUD	0.883	0.876-0.924	0.873-0.971	0.923	0.87
EUR	0.496	0.493-0.516	0.493-0.637	0.573	0.50
GBP	0.433	0.430-0.447	0.430-0.535	0.492	0.44
JPY	86.9	85.6-88.9	69.0-98.6	84.3	85.9

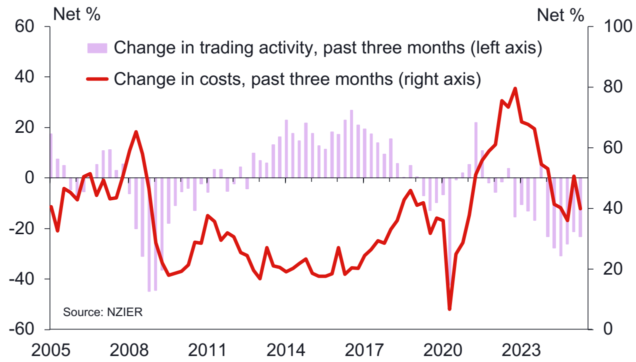
The week ahead

Q3 NZIER Survey of Business Opinion

Oct 7, General business confidence - last: +26.6

The QSBO is often a valuable early indicator of the state of the economy, given its coverage and timeliness. However, it has produced markedly divergent signals in recent quarters, with firms becoming increasingly confident about the coming months even as they report that their recent performance has remained very weak – and neither measure has provided a consistent steer on the recent volatility in GDP. The QSBO measures of price pressures appear to have been quite influential on the RBNZ over the last year, and while this week's survey comes out only a day before their OCR decision, the Monetary Policy Committee will no doubt be looking at the details closely.

NZIER Quarterly Survey of Business Opinion

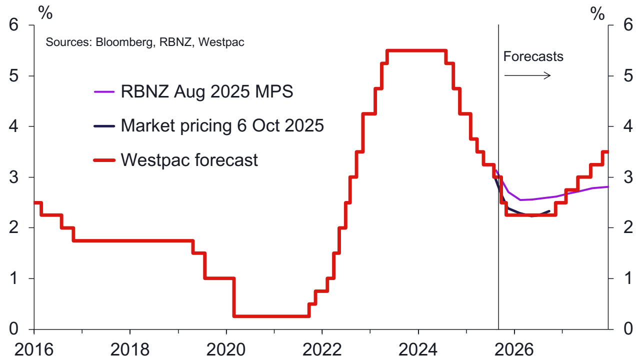


RBNZ Official Cash Rate Review

Oct 8, last: 3.00%, Westpac f/c: 2.50%, Market: 2.50%

We expect the RBNZ will cut the OCR 50bps at its October Policy review, taking the OCR to 2.50%. At the time of their last policy statement, the RBNZ noted that, provided economic conditions evolved as expected, they were likely to continue cutting the OCR through the latter part of this year. Since that time, economic conditions have actually proven to be softer than the RBNZ and private sector forecasters anticipated. As a result, we expect the RBNZ will deliver a larger rate cut at this meeting and will maintain a data-dependent easing bias. The arguments for a "circuit-breaking" shift in the OCR to levels more consistent with boosting demand should remain prominent and tip the balance among the committee members.

Official Cash Rate forecasts

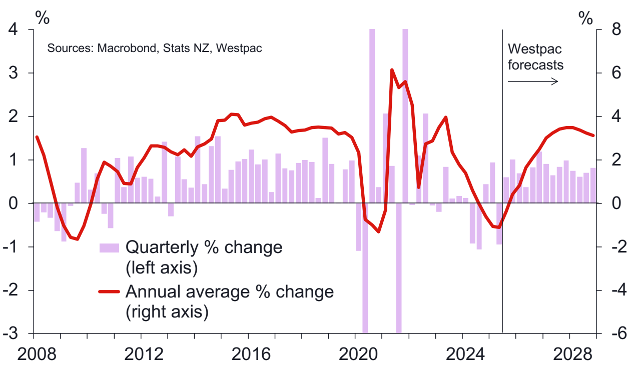


Economic and financial forecasts

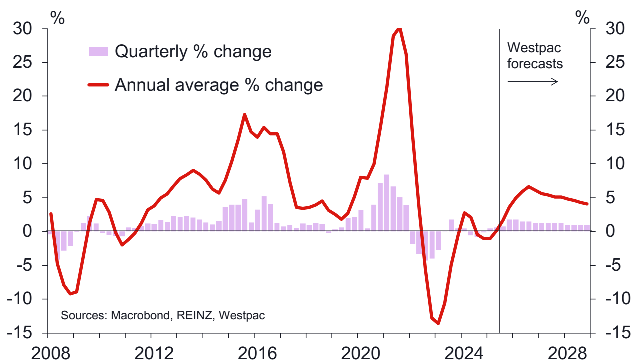
Economic indicators	Quarterly % change				Annual % change			
	Mar-25	Jun-25	Sep-25	Dec-25	2024	2025	2026	2027
GDP (production)	0.9	-0.9	0.6	1.0	-1.4	1.6	3.1	3.4
Consumer price index	0.9	0.5	1.1	0.5	2.2	3.0	2.0	2.1
Employment change	0.0	-0.1	0.0	0.2	-1.2	0.2	2.5	2.0
Unemployment rate	5.1	5.2	5.3	5.3	5.1	5.3	4.6	4.2
Labour cost index (all sectors)	0.5	0.6	0.6	0.5	3.3	2.2	2.2	2.2
Current account balance (% of GDP)	-4.2	-3.7	-3.5	-3.6	-4.7	-3.6	-4.1	-4.1
Terms of trade	2.0	4.1	0.5	-0.2	13.7	6.4	1.4	1.0
House price index	0.4	0.5	-0.6	0.6	-1.0	1.0	5.4	5.1

Financial forecasts	End of quarter				End of year			
	Mar-25	Jun-25	Sep-25	Dec-25	2024	2025	2026	2027
OCR	3.75	3.25	3.00	2.25	4.25	2.25	2.50	3.50
90 day bank bill	3.86	3.38	3.10	2.35	4.45	2.35	2.70	3.70
2 year swap	3.46	3.18	2.99	2.70	3.64	2.70	3.55	4.00
5 year swap	3.71	3.56	3.40	3.15	3.73	3.15	3.90	4.25
10 year bond	4.62	4.57	4.42	4.20	4.50	4.20	4.70	4.95
TWI	67.8	69.1	68.4	67.4	69.5	67.4	69.1	70.1
NZD/USD	0.57	0.59	0.59	0.59	0.59	0.59	0.62	0.65
NZD/AUD	0.90	0.93	0.91	0.87	0.91	0.87	0.88	0.89
NZD/EUR	0.54	0.52	0.51	0.50	0.55	0.50	0.52	0.54
NZD/GBP	0.45	0.44	0.44	0.44	0.46	0.44	0.46	0.47

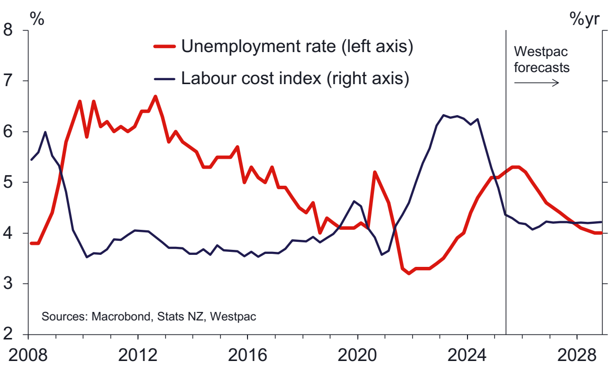
GDP growth



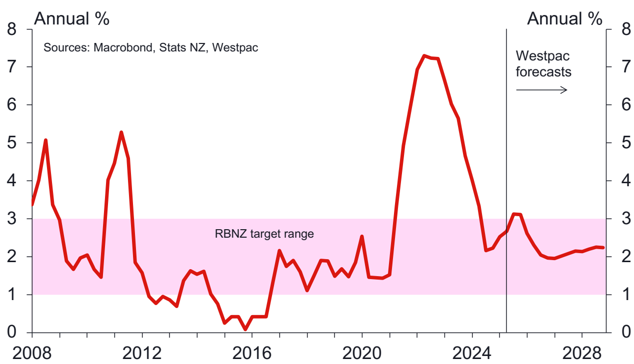
House prices



Unemployment and wage growth



Consumer price inflation



Data calendar

		Last	Market median	Westpac forecast	Risk/Comment
Mon 06					
NZ	Sep ANZ Commodity Prices, %mth	0.7	–	-2	Dairy prices down 5% over the month.
Aus	Sep MI Inflation Gauge, %ann	2.8	–	–	Insights into risks to inflation.
	Public Holiday	–	–	–	NSW, ACT, SA and Qld only. Markets will remain open.
Eur	Oct Sentix Investor Confidence, index	–9.2	–8.6	–	An upward trend behind high monthly volatility.
	Aug Retail Sales, %mth	–0.5	0.2	–	Struggling to gain more momentum.
UK	BoE Speak	–	–	–	Governor Bailey speaks in Scotland.
Tue 07					
NZ	Q3 NZIER Survey of Business Opinion, index	26.6	–	–	Early indicator of Q3 activity.
Aus	Oct Westpac-MI Cons. Sentiment, index	95.4	–	–	Will capture reactions to the RBA decision.
Jpn	Aug Household Spending, %yr	1.4	1.3	–	Slow recovery in real consumer spending.
US	Aug Trade Balance, US$bn	–78.3	–61.4	–	Likely to be delayed/cancelled due to the US gov shutdown.
	Fedspeak	–	–	–	Miran, Kashkari and Bostic are scheduled to speak.
Wed 08					
NZ	RBNZ Policy Decision	3.00	2.50	2.50	Moving the OCR to a stimulatory level more quickly.
Jpn	Aug Current Account Balance, ¥bn	2684	3540	–	Volatile series, downward trend since February.
Ger	Aug Industrial Production, %mth	1.3	–1.0	–	The underlying trend has shifted higher.
US	Aug Consumer Credit, $bn	16	15	–	Has turned slightly more positive in recent months.
	NY Fed 1Y inflation expectations	3.2	–	–	Inched higher in the last couple of months.
	Fed Minutes	–	–	–	Minutes of the 17 September FOMC meeting.
Thu 09					
Aus	Oct MI Inflation Expectations, %ann	4.7	–	–	Has been particularly volatile, at elevated ~4-5% levels.
US	Fedspeak	–	–	–	Fed's Barr at Community Banking Research Conference.
	Initial Jobless Claims	–	–	–	Likely to be delayed/cancelled due to the US gov shutdown.
Fri 10					
NZ	Sep Manufacturing PMI, index	49.9	–	–	Has improved this year but still choppy.
US	Aug Wholesale Inventories, %mth	–0.2	–	–	Likely to be delayed/cancelled due to the US gov shutdown.
	Oct Univ of Michigan Cons. Sentim., index	55.1	54.3	–	Not far from historical lows.
	Fedspeak	–	–	–	Goolsbee is giving opening remarks at the Fed conference.

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