



# WEEKLY ECONOMIC COMMENTARY



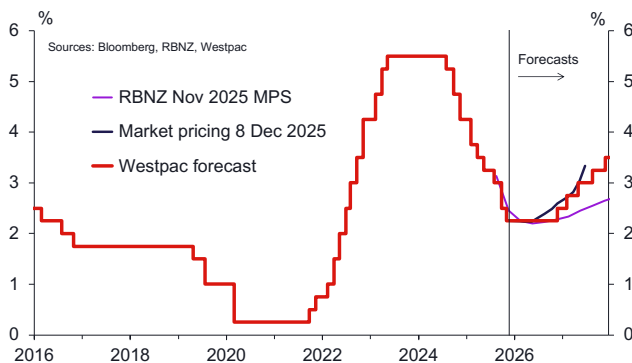
8 Dec 2025 | Westpac Economics Team | [westpac.co.nz/economics](https://westpac.co.nz/economics) | [economics@westpac.co.nz](mailto:economics@westpac.co.nz)

## After the dust settled

It's been an interesting time in New Zealand interest rate markets in the wake of the RBNZ's November policy meeting. Markets have responded to the RBNZ's message that further OCR cuts are unlikely and pushed up short-term rates. That signals upward pressure on borrowing rates in both mortgage and wholesale markets.

Prior to the RBNZ's November policy statement, markets were pricing in some chance of the OCR falling to 2% by the middle of 2026 and then a very gradual rising trend after that. This would have meant the OCR would remain below 2.5% until mid-2027. However, with the RBNZ signalling that the hurdle for further rate cuts is high, market pricing has swung around sharply. At the time of writing only 3bps of easing was priced in over the coming months. And looking further ahead, a hike in the OCR to 2.50% is fully priced in by the end of 2026, with several further increases expected over 2027. Since the RBNZ meeting, benchmark wholesale interest rate swap rates have increased by 15-30 basis points, with longer maturity rates rising by more than shorter maturities.

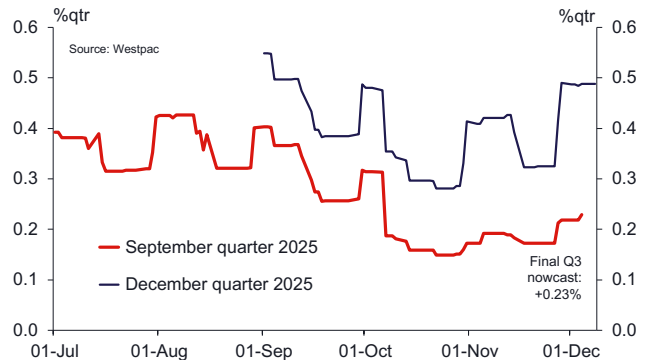
### Official Cash Rate forecasts



### 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

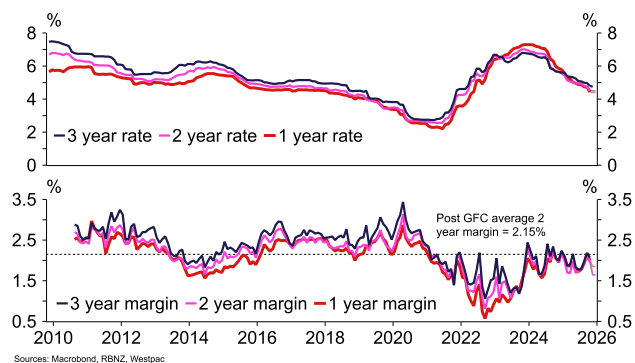
Date	Event
9 Dec 25	RBA Monetary Policy Decision
10 Dec 25	FOMC meeting (11 Dec NZT)
16 Dec 25	NZ Selected price indexes, November
16 Dec 25	Half Year Economic and Fiscal Update (HYEFU)
18 Dec 25	NZ GDP, September quarter
13 Jan 26	NZ QSBO Business Survey, December quarter
16 Jan 26	NZ Selected price indexes, December
22 Jan 26	NZ Government accounts (5 months to November)
23 Jan 26	NZ CPI, September quarter
28 Jan 26	FOMC meeting (29 Jan NZT)

That rise in wholesale borrowing costs has **implications for retail mortgage rates**. Typically banks pitch retail mortgage rates at a margin above their funding costs. And wholesale swap rates are a key component of those funding costs. This means that as wholesale rates rise, the likelihood of retail interest rates increasing (including mortgage rates) also rises.

It's also notable that the margin between retail rates and wholesale rates is as narrow as we have seen since the start of 2024. And margins are a lot narrower than the average seen since 2010. Margins were a lot lower during the Covid period in 2021- 23. However, that was likely due to the concessionary financing offered by the RBNZ as part of its Covid response, which temporarily reduced bank funding costs and allowed narrower funding spreads.

This suggests that it is longer-term mortgage rates that might be under the most pressure to rise. This makes sense given it has been longer-term wholesale rates that have reacted the most to the RBNZ's less dovish stance.

**Retail mortgage rates and margin to wholesale swap rates**



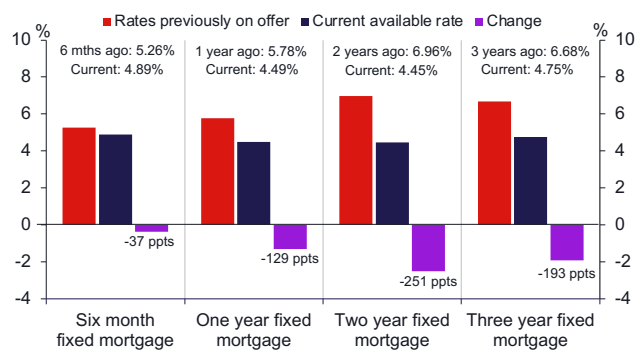
The outlook for interest rates remains cloudy. It's important to note that while the RBNZ was signalling a high hurdle for further OCR cuts, there was certainly no signal of OCR increases in the immediate future. We continue to forecast a gradually improving trend in the economy. However, it will take some time for above-trend growth to absorb spare capacity in the economy, allowing policy settings to remain supportive so long as inflation remains contained. Should that forecast be borne out by the data, then wholesale interest rates might not rise much further and there would not be further upward pressure on retail mortgage rates.

In the meantime, it's also possible the RBNZ could find an avenue to make some public comment on evolving financial conditions. We doubt the RBNZ intended to materially tighten financial conditions. The RBNZ could comment explicitly to that effect, which could assuage concerns in wholesale markets that a normalisation of the OCR might be coming sooner than previously expected. This may also help to cap wholesale rates and ease the tightening in financial conditions.

## Further signs activity is firming, boosting expectations for September quarter GDP growth.

The pressure on borrowing costs is notable given the **increasing numbers of fixed rate mortgages that are now coming up for repricing**. We've already seen around 40% of mortgages coming up for refixing over the past six months, and a further 32% will be rolling over in the next six months. That's important, as even though the RBNZ's cutting cycle has likely come to an end, when borrowers go to refix their mortgages, many will be rolling on to much lower rates. For instance, over the past year the one-year mortgage rate has fallen by nearly 130bps, while the two-year rate is around 250bps lower than in 2023.

**How much relief could borrowers see?**



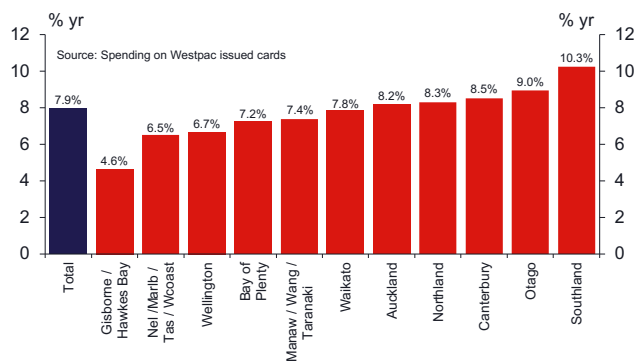
Source: RBNZ data for borrowers with over 20% equity. Current rates on offer from Westpac from 4 December 2025.

Accounting for when borrowers fixed their mortgages (rather than the rates currently on offer), the average 'effective' mortgage rate that borrowers are actually paying has already fallen from 6.39% in Oct 2024 to 5.36% in September 2025 (down 103bps). We expect further falls over the months ahead.

That drop in mortgage costs has been slowly feeding through to a lift in household disposable incomes, and we're starting to see early signs that this is boosting spending appetites. For instance, we saw a **sizeable lift in spending on Westpac-issued cards over November**, including a lift in discretionary spending areas like furnishings and apparel.

Notably, spending growth is becoming increasingly widespread across the country. We're still seeing the strongest spending growth in rural regions in the south, where the impact of strong commodity export prices has been the largest. However, spending is now also picking up in other regions, including Auckland and Wellington. That's an important change from earlier this year. We expect to see spending appetites continuing to firm into the near year.

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



And it's not just retail spending that has been picking up. We've also seen encouraging signs emerging in the building sector, including a stronger than expected **2.8% rise in residential building** in the September quarter. The sharp fall in home building over the past few years now looks like it has been arrested, and the number of new projects being consented has started to trend higher in recent months. That bodes favourably for home building activity over the year ahead (though we still expect the recovery will be gradual, reflecting factors such as the softness in house prices and sizeable increases in the housing stock over the past few years).

Even with signs that demand in the economy is firming, there still clearly some caution among businesses. Talking to businesses in recent weeks, while firms are no longer shedding staff, they're reluctant to take on new workers at this stage. Similarly, businesses are hesitant about committing to significant capital expenditure. That's been clearly evident in the non-residential building sector, with a continued drop in the amount of work being completed and a further fall in planned projects.

Another area where we've recently seen some softness emerging is in the dairy sector, with a 4.3% drop in prices in the latest GlobalDairyTrade auction – the eighth consecutive fall – including a 2.4% fall in whole milk powder prices. **We recently revised down our forecast milk payout for this season to \$9.30/kg**, lower than the \$9.50/kg midpoint of Fonterra's projected range. However, even with recent declines, prices remain at healthy levels and sentiment in rural regions is still very positive.

With signs that economic activity is turning higher, our forecast for September quarter GDP growth is now tracking at 0.6%, up from 0.4% previously and higher than the RBNZ's MPS forecast (which was also 0.4%). We'll finalise our pick once the last set of indicators is published this Thursday, ahead of the GDP release on 18 December.

### Fiscal accounts preview.

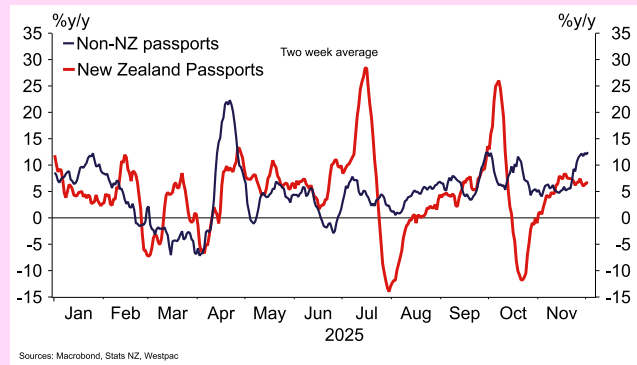
Finally, we recently published our **preview of the Half-Year Economic and Financial Update** (HYEFU), which the Treasury will publish on 16 December. The HYEFU will provide an update on the state of the Government's books (including a first forecast for 2029/30) while the accompanying Budget Policy Statement will outline the Government's priorities for Budget 2026. The deficit for the 2024/25 fiscal year was smaller than forecast in Budget 2025, especially in cash terms, providing a positive starting point for this year's funding needs. Since then, outcomes over the first third of the 2025/26 fiscal year have been mixed relative to Budget forecasts. The operating deficit (OBEGALx) is slightly wider than forecast due to a small tax shortfall but the core Crown residual cash deficit is smaller than forecast due to lower-than-expected net capital outlays. We expect that the HYEFU forecast for the full-year OBEGALx deficit in 2025/26 will slightly exceed the Budget 2025 forecast, but that the Government's funding needs will be no higher than forecast. As a result, we think it is likely that NZDM will confirm the \$38bn bond issuance programme for this year that was forecast in Budget 2025 (T-bill/ECP issuance will be less than forecast in Budget 2025). We don't have much cause to expect sizeable revisions to the Treasury's economic and fiscal forecasts beyond the current year, and so forecast bond issuance in the out years is also likely to be close to the Budget forecast.

**Satish Ranchhod**, Senior Economist

### Chart of the week.

The tourism sector has been a relative bright spot for the New Zealand economy in recent months. Short-term visitor arrivals increased just over 8% over the three months to September, lifting annual growth to 10%. Moreover, arrivals in September were also 95% of pre-Covid levels – the best result in the post Covid era. This week will see the release of visitor arrivals data for October. Daily data capturing border crossings suggests a pull-back in arrivals during the month. However, data for the second week of November suggests that activity has since rebounded with arrivals by people travelling on foreign passports up around 12%/y. This ties in with generally upbeat anecdotes within the tourism sector and our own experience trying to book a rental car in Christchurch for early in the New Year (spoiler alert: it wasn't cheap!).

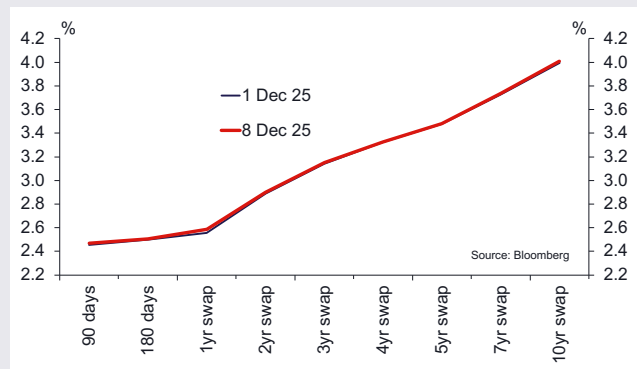
### Border crossings – arrivals



### 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

## North America.

US data retained a softer tone last week, supporting expectations that the Fed will ease policy at this week's meeting. The manufacturing ISM eased to 48.2 and ADP reported a 32k decline in private payrolls in November. The services ISM edged up to 52.6, but the new orders index fell 3.3pts to 52.9. In other news, previously delayed data showed that both manufacturing production and real personal spending was unchanged in September. The core PCE deflator rose 0.2%/m/m in September, so that annual inflation slowed to 2.8%. Over the coming week the focus will be Wednesday's FOMC meeting (Thursday morning NZT). In addition to the rate decision, markets will pay attention to the updated Summary of Projections (SEP) to see what this implies about the outlook for policy in 2026 and beyond. The Bank of Canada will announce the outcome of its final meeting for the year just a few hours earlier, with the overnight lending rate widely expected to be maintained at 2.25%.

## Europe.

Preliminary data suggests that euro area core inflation was steady at 2.4%/y/y in November. Euro area GDP was confirmed to have expanded 1.4%/y/y in Q3. In the UK Friday will bring the release of monthly GDP data for October – one of the last key releases ahead of next week's Bank of England policy meeting.

## Asia-Pacific.

Australia's economy grew a slower than expected 0.4%/q/q in Q3, albeit following modest upward revisions. However, domestic final demand grew a robust 1.2%/q/q, led by strong growth in capex. Meanwhile, Q4 appears to have started on a strong note, with household spending rising 1.3%/m/m in October – the largest increase since early last year. This week most attention will be on Tuesday's RBA policy meeting. While the policy rate is unlikely to change, there will be plenty of interest in how the RBA characterises the recent solid data flow and what this means for the inflation and policy outlook in 2026 and beyond. The November NAB Business Survey and Labour Force reports will also be awaited with interest (Westpac expects the unemployment rate to nudge up to 4.4%). In Japan, bond yields rose to a fresh 17-year high after BoJ Governor Ueda noted that the Bank would "consider the pros and cons" of a rate hike at next week's meeting. The tone of his comments, which focused on diminishing global uncertainty and growing wage pressures, has seen markets price around a 90% chance of a 25bp lift in the Bank's overnight rate to 0.75%. In China, following the release of more soft PMI data last week, the November trade and CPI reports will be the focus this week.

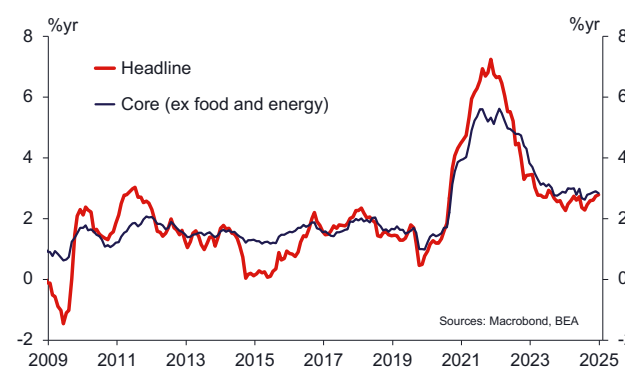
Trading partner real GDP (calendar years)

	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

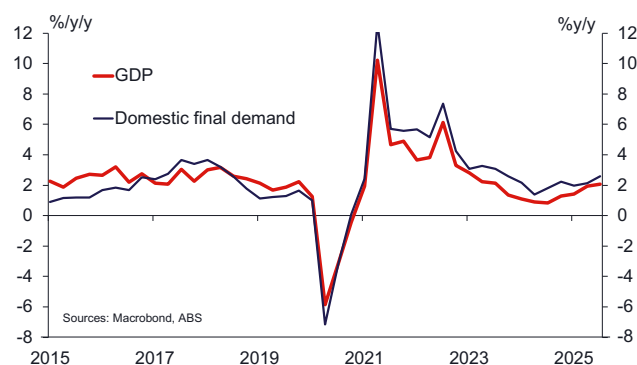
Australian & US interest rate outlook

	5 Dec	Dec-25	Dec-26	Dec-27
<b>Australia</b>				
Cash	3.60	3.60	3.10	3.10
90 Day BBSW	3.68	3.65	3.15	3.20
3 Year Swap	4.02	3.55	3.70	4.00
3 Year Bond	4.02	3.60	3.75	4.00
10 Year Bond	4.68	4.35	4.50	4.60
10 Year Spread to US (bps)	60	20	10	0
<b>US</b>				
Fed Funds	3.875	3.625	3.375	3.375
US 10 Year Bond	4.08	4.15	4.40	4.60

US PCE deflator



Australian GDP growth



# Financial markets wrap

## Foreign exchange.

NZD/USD has preserved its gains which followed the hawkish RBNZ two weeks ago. It is up 2c since late November, and there is potential to extend further beyond the 0.5787 peak seen last week.

Since the RBNZ MPS, NZ economic data momentum has been positive, solidifying market expectations there will be no more rate cuts. Also supporting NZD/USD has been the recent slump in the broad US dollar, in turn driven by mixed economic data, expectations the US shutdown's effects will be apparent soon, and the likelihood a dovish (and Trump-loyal) candidate will be the next Fed chair.

NZ event risk this week is moderate, with retail spending on Friday worth watching. The next major data release will be Q3 GDP on 18 December, for which our economists expect a 0.6%q/q outturn (vs RBNZ forecast 0.4%), subject to final inputs later this week. Global events will be important, with central bank decisions from the Fed, RBA, Bank of Canada and Swiss National Bank.

NZD/AUD's rise post-RBNZ was small, limited to 0.8773. Last week it fell almost a cent and looks poised to test the 0.8650 area this week. The main driver here has been the stream of strong Australian economic data, resulting in the market pricing out RBA rate cuts and pricing in rate hikes for next year.

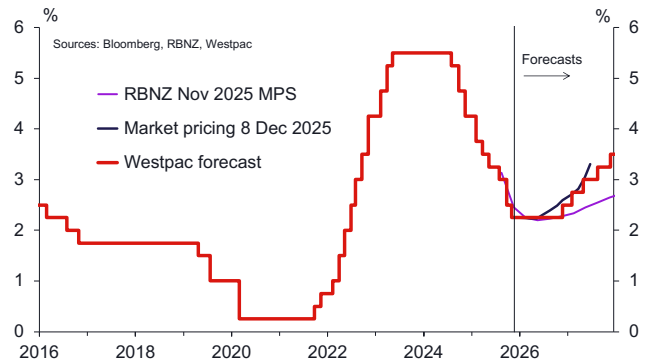
## Interest rates.

The NZ 2yr swap rate has preserved its post-RBNZ gains, and at 2.90% currently is up a total of 46bp since mid-October. Given the large move in a short period, it does look stretched and in need of consolidation, so further gains this week are not assured. However, for the month ahead, there's potential to reach 3.00% if NZ economic data continues to reveal more green shoots of recovery. GDP data on 18 December will be closely watched.

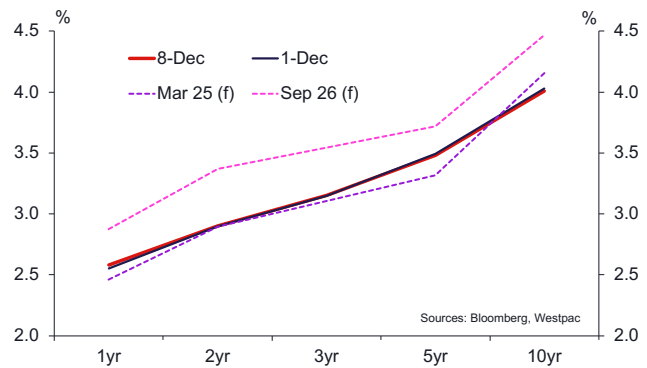
The OIS market prices only a 10% chance of an OCR cut at the next RBNZ meeting on 18 February, but a 100% chance of a hike by October 2026.

The yield curve has been quite volatile, flattening sharply post-RBNZ, but then rebounding as offshore curves steepened, and most recently flattening again as NZ economic data endorsed the RBNZ's on-hold stance. During the year ahead, we expect a flattening trend to develop as the market prices a higher OCR by 2027.

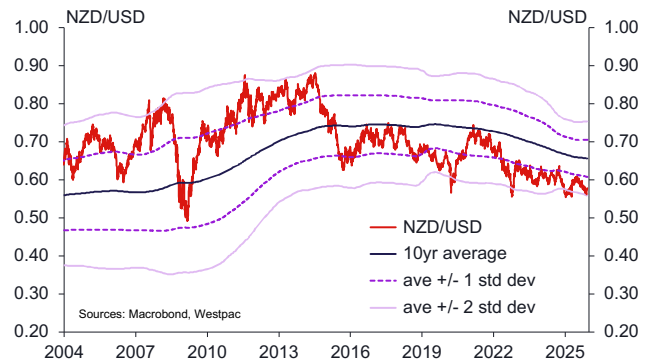
Official Cash Rate forecasts



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	0.577	0.559-0.597	0.553-0.743	0.631	0.57
AUD	0.870	0.862-0.900	0.862-0.971	0.921	0.86
EUR	0.496	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	89.5	85.6-89.6	72.8-98.6	84.9	87.2

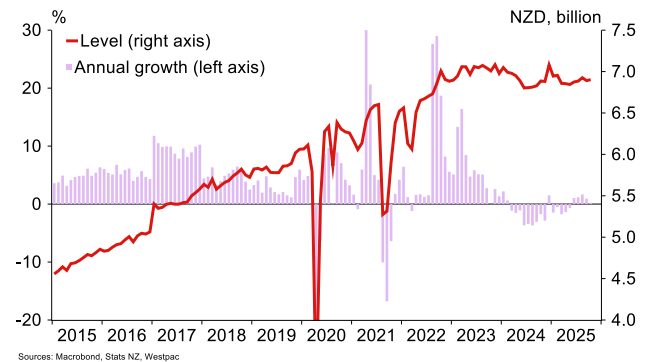
# The week ahead

## Nov Retail Card Spending

**Dec 12, last: +0.2%, Westpac f/c: +0.6%**

Retail spending levels rose 0.2% in October. However, that gain was almost entirely related to increased spending on groceries. Under the surface, there's been a disappointing lack of momentum in discretionary spending areas. We expect spending will take a step higher in November and have pencilled in a 0.6% rise. Some of that is related to higher fuel prices, but we also expect a 0.3% rise in core (ex-fuel) categories. Our own data on spending on Westpac issued cards points to a pick-up in discretionary spending in November. Notably, that rise has become increasingly widespread geographically with lower interest rates helping to boost spending across the nation.

Monthly retail card spending

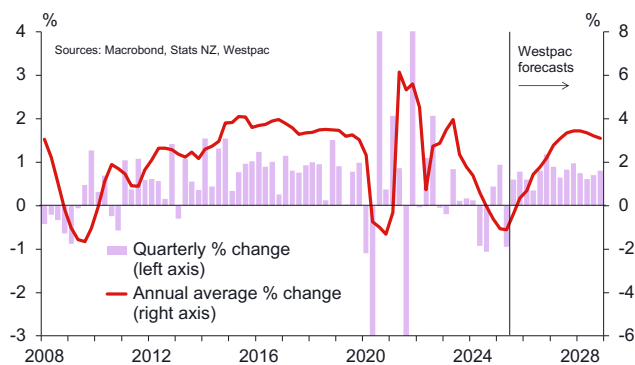


# Economic and financial forecasts

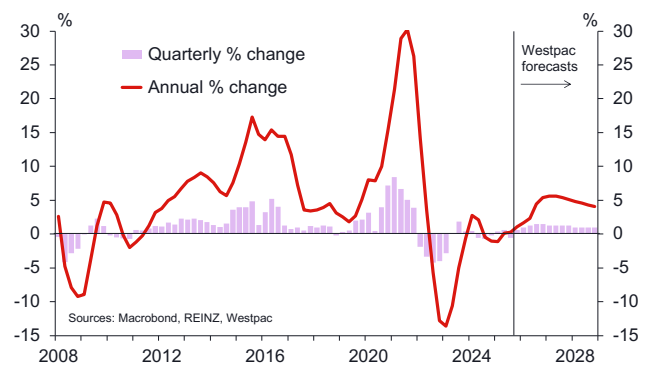
Economic indicators	Quarterly % change				Annual % change			
	Jun-25	Sep-25	Dec-25	Mar-26	2024	2025	2026	2027
GDP (production)	-0.9	0.6	0.8	0.6	-1.4	1.4	3.0	3.4
Consumer price index	0.5	1.0	0.3	0.4	2.2	2.8	2.2	2.1
Employment change	-0.2	0.0	0.2	0.4	-1.2	-0.1	2.3	2.2
Unemployment rate	5.2	5.3	5.4	5.4	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	-2.1	-1.2	-2.1	13.7	2.7	-1.7	3.8
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	66.4	66.1	69.5	66.4	68.4	70.7
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



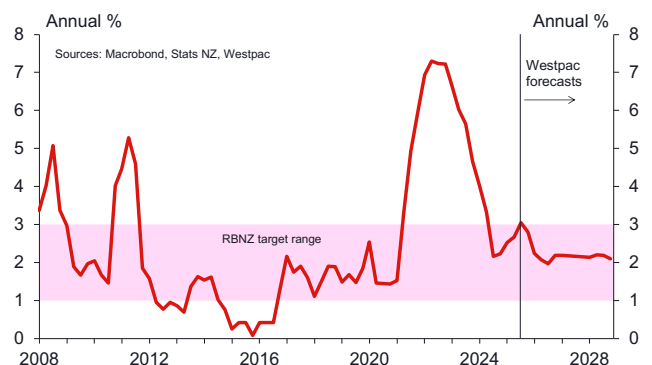
House prices



Unemployment and wage growth



Consumer price inflation



# Data calendar

		Last	Market median	Westpac forecast	Risk/Comment
<b>Mon 08</b>					
<b>Jpn</b>	Q3 GDP, %qtr	-0.4	-0.5	-	Final estimate.
	Oct Current Account Balance, ¥bn	4483	3150	-	Current account surplus expected to narrow from record high.
<b>Eur</b>	Dec Sentix Investor Confidence, index	-7.4	-	-	Investor confidence wallowing in pessimism as ...
<b>Ger</b>	Oct Industrial Production, %mth	1.3	-	-	... manufacturing activity fails to gain much traction in H2.
<b>Tue 09</b>					
<b>Aus</b>	Nov NAB Business Conditions, index	9	-	-	Businesses more optimistic as the consumer sentiment firms.
	RBA Policy Decision	3.6	3.6	3.6	Monetary policy on hold as the RBA assess inflation outlook.
<b>US</b>	Nov NFIB Small Business Optimism, index	98.2	98.2	-	Weak demand weighing on small business sentiment.
	Oct JOLTS Job Openings, 000s	-	-	-	Sept and Oct results due following shutdown delay.
<b>Wed 10</b>					
<b>NZ</b>	Oct Net Migration, no.	1800	-	-	Watching for signs the cycle has troughed.
	RBNZ Governor Breman	-	-	-	Media Q&A, at 10.00am.
<b>Chn</b>	Nov PPI, %ann	-2.1	-2.0	-	In deflation for over two years but pace of decline easing.
	Nov CPI, %ann	0.2	0.8	-	Expected to lift on account of a smaller drop in food prices.
<b>US</b>	Q3 Employment Cost Index, %qtr	0.9	0.9	-	Pace of growth has gradually slowed from a peak of 1.3%qtr.
	Nov Monthly Budget Statement, \$bn	-284.4	-	-	Some lost spending from the shutdown will not be recovered.
	FOMC Policy Decision	3.875	3.625	3.625	Widely expected to bring a 'risk management' cut.
<b>Thu 11</b>					
<b>Aus</b>	Nov Employment Change, 000s	42.2	20	20	Jobs growth gradually slowing as care economy normalises.
	Nov Unemployment Rate, %	4.3	4.4	4.4	Expected to round up from a 'fat' 4.3% (4.34%) in October.
<b>US</b>	Initial Jobless Claims	191	-	-	Holidays distorted the weekly figure.
	Sep Trade Balance, \$bn	-59.6	-66.6	-	Bumping around 2023 average levels.
<b>Can</b>	BoC Policy Decision	2.25	2.25	-	Markets pricing in an extended pause as govt props economy.
<b>Fri 12</b>					
<b>NZ</b>	Nov Manufacturing PMI, index	51.4	-	-	Business conditions gradually firming, including orders.
	Nov Retail Card Spending, %mth	0.2	-	0.6	Signs of a pick up in discretionary spending.
<b>Jpn</b>	Oct Industrial Production, %mth	1.4	-	-	Final estimate.
<b>UK</b>	Oct Trade Balance, £bn	-1094	-	-	Trade deficit narrowing since February.
	Oct Monthly GDP, %mth	-0.1	0.1	-	First glimpse into Q4 after Q3 growth missed expectations.

# Contact

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

**Kelly Eckhold**, Chief Economist | +64 9 348 9382 | +64 21 786 758 | [kelly.eckhold@westpac.co.nz](mailto:kelly.eckhold@westpac.co.nz)

**Satish Ranchhod**, Senior Economist | +64 9 336 5668 | +64 21 710 852 | [satish.ranchhod@westpac.co.nz](mailto:satish.ranchhod@westpac.co.nz)

**Darren Gibbs**, Senior Economist | +64 9 367 3368 | +64 21 794 292 | [darren.gibbs@westpac.co.nz](mailto:darren.gibbs@westpac.co.nz)

**Michael Gordon**, Senior Economist | +64 9 336 5670 | +64 21 749 506 | [michael.gordon@westpac.co.nz](mailto:michael.gordon@westpac.co.nz)

**Paul Clark**, Industry Economist | +64 9 336 5656 | +64 21 713 704 | [paul.clark@westpac.co.nz](mailto:paul.clark@westpac.co.nz)

**Imre Speizer**, Market Strategist | +64 9 336 9929 | +64 21 769 968 | [imre.speizer@westpac.co.nz](mailto:imre.speizer@westpac.co.nz)

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