



WEEKLY ECONOMIC COMMENTARY



9 Feb 2026 | Westpac Economics Team | westpac.co.nz/economics | economics@westpac.co.nz

Turning a corner

Last week's labour force surveys showed that the jobs market remains soft, but with some early signs of improvement as the economy starts to regain momentum. With the details largely in line with the RBNZ's previous forecasts, we don't think it will have given them much new to ponder, over and above the already-improving flow of data in the last few months.

The Household Labour Force Survey (HLFS) showed a 0.5% rise in the number of people employed over the December quarter. That was more than what was suggested by the Monthly Employment Indicator (MEI), a comprehensive measure based on income tax data, which formed the basis of our forecast. However, there was an even larger rise in the labour force participation rate from 70.3% to 70.5%, with the net result being a small rise in the unemployment rate.

Labour market surveys

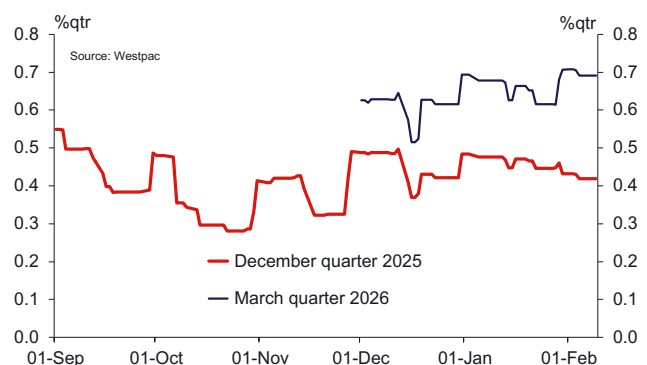


It's actually not uncommon for both employment and participation to surprise in the same direction, and it most likely reflects the sampling error that is inherent in the household survey. We generally recommend focusing on the unemployment rate, where any such sampling errors will cancel each other out. In this case,

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
12 Feb 26	NZ Government accounts (6 months to December)
17 Feb 26	NZ Selected price indexes, January
18 Feb 26	RBNZ OCR Review & Monetary Policy Statement
17 Mar 26	NZ Selected price indexes, February
17 Mar 26	RBA Monetary Policy Decision
18 Mar 26	FOMC meeting (19 Mar NZT)
19 Mar 26	NZ GDP, December quarter
8 April 26	RBNZ OCR Review
17 Apr 26	NZ Selected price indexes, March
21 Apr 26	NZ QSBO Business Survey, March quarter

unemployment ticked up from 5.3% to 5.4% – above our forecast of a flat outturn, but not meaningfully different.

There was a further lift in average hours per worker, a positive indicator for December quarter GDP. In the early stages of an economic recovery, it's not surprising to see businesses trying to get more out of their existing workers before they resort to more hiring. Our discussions with businesses suggest that there has been a degree of labour hoarding during the recent downturn, as employers were concerned about being caught out again by the skill shortages that were prominent a few years back.

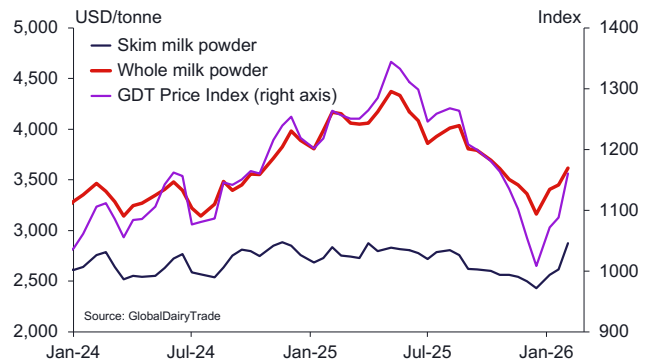
Given the existing degree of slack in the labour market, wage trends unsurprisingly remained subdued. The Labour Cost Index rose by 0.4% overall for the quarter, with a 0.5% rise in the private sector and a more modest 0.3% rise in the public sector. On an annual basis the LCI rose by 2.0%, its slowest pace since March 2021. Other measures such as the QES average hourly earnings, which more closely reflect what workers actually receive in hand, also slowed on an annual basis.

The labour force surveys were the last major data release ahead of the Reserve Bank's *Monetary Policy Statement* on 18 February (aside from their own survey of inflation expectations, which will be released on Friday). The details were largely in line with the RBNZ's November MPS forecasts, with some small overs and unders. Still-muted wage pressures mean that the RBNZ has time to assess the strength and durability of the recovery before they start reversing last year's rate cuts. We're comfortable with our forecast that the first OCR hike will come in December 2026.

That said, it's clear that monetary policy is moving into a new phase. As we discussed in last week's essay, the RBNZ is under no immediate pressure to follow the RBA into raising rates, as current conditions are quite different across their respective economies. But there's likely to be a vigorous discussion around the committee table about the appropriate timing of rate hikes. Our latest **Hawks, Doves, and Kiwis** report considers the arguments that might be made in both directions.

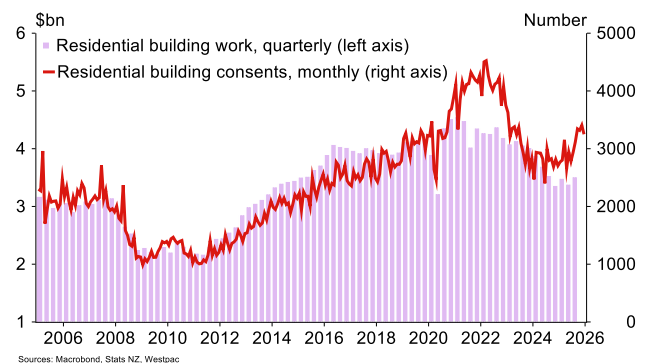
The other data in the last week generally continued the positive tone of recent months. The latest GlobalDairyTrade auction saw a 6.7% jump in world dairy prices, the third consecutive gain. Dairy prices have now erased the steep fall that we saw in November and December, though they're still down about 8% on this time last year. The rebound in prices has been a surprise given the well-documented surge in global milk production, but it indicates that the level of demand also remains robust. We recently nudged up our farmgate milk price for this season by 10 cents to \$9.40/kg; the latest auction result leaves us with some upside risk to that.

GlobalDairyTrade auction prices



Finally, dwelling consents eased back by 4.6% in December, but that followed a cumulative 22% rise since June. Around 36,600 new dwellings have been consented over the past year, the highest annual total in two years. Lower interest rates have been encouraging developers to bring new projects to market, by both reducing developers' financing costs and supporting a lift in buyer demand.

Residential building and consent numbers

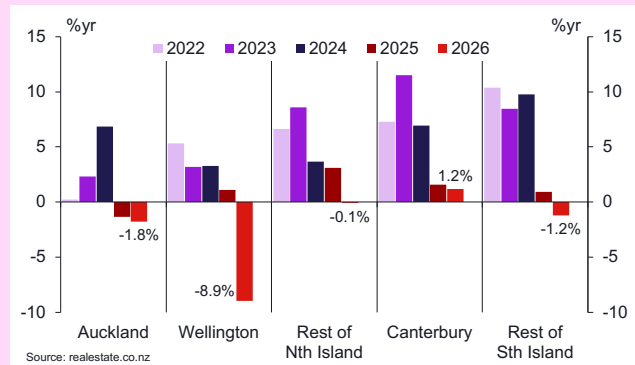


Michael Gordon, Senior Economist

Chart of the week.

There continues to be downward pressure on housing rents in the face of ample supply. The latest update from realestate.co.nz showed a 2% drop in nationwide rents over the past year. Over the same period, there's been a 5% increase in the number of properties available to rent. January typically sees larger increases in rents, with many rental agreements rolling over, people moving cities, and the start of the university year. However, the combination of low population growth, slower wage growth and increases in the housing stock have kept a lid on rents. There's been particular weakness in Wellington, where the number of properties available to rent has more than doubled compared to pre-pandemic levels. We expect rental inflation will remain subdued over the coming year, with population growth still low, while building activity is picking up again.

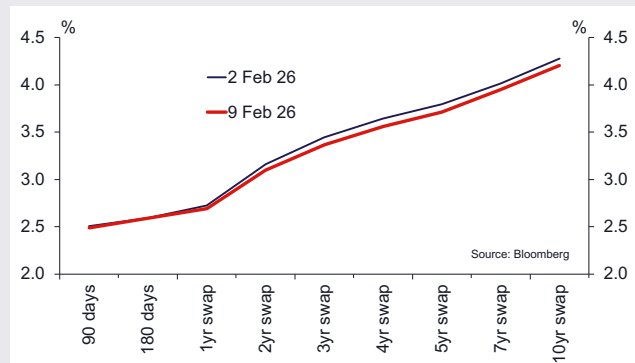
Housing rents continuing to drop



Fixed versus floating for mortgages.

The RBNZ seems to have pretty much closed the door on further OCR cuts and suggests the hurdle for further reductions from here is high. Longer term mortgage rates have started to lift as markets look forward to the return of the OCR to more neutral levels in due course. 3-5 year fixed-rate mortgage rates are now just above 5% for those borrowers with at least a 20% deposit, while 1-2 year rates are in the 4.5-4.75% range. Fixing for longer periods of two to five years appears attractive as these will insulate borrowers from a lift in the OCR in the next couple of years.

NZ interest rates



Global wrap

US.

Early last week, an agreement was reached ending the temporary shutdown of the federal government, which lasted from 31 January to 3 February. The related disruptions delayed the release of some US economic data, including the January payrolls report. Data that was released pointed to softening in the labour market, with a drop in job openings and a muted rise in the ADP's measure of private sector employment. In the business sector, the PMI surveys pointed to improving conditions in the manufacturing sector, with a lift in orders and employment. In contrast, service sector conditions have been broadly steady. We also saw a modest rise in the latest Michigan Sentiment Survey. This week's calendar includes the latest retail sales figures (Tuesday), the delayed January payrolls report (out Wednesday and expected to show limited jobs gains) and CPI on Friday. There will also be several Fed speakers.

Asia-Pacific.

Last week the RBA hiked its cash rate 25bps. The Board stated that inflation had "picked up materially" against a backdrop of "greater momentum in demand". The RBA's updated forecasts pointed to stronger near-term growth and inflation. Governor Bullock expressed some discomfort with the inflation profile still being above 2.5% at the end of the forecast horizon. Given that the forecasts imply higher inflation than the RBA is comfortable with even after raising rates, we now expect a follow up 25bp rate hike at the RBA's May meeting. In Japan, PM Takaichi secured a convincing majority in the Lower House following the recent snap election. This clears the way for planned tax cuts and increased military spending. This week's calendar in Australia includes updates on household spending (Monday) and consumer sentiment (Tuesday), along with RBA speaking events on Wednesday and Thursday.

Europe.

The Bank of England voted 5-4 to keep the Bank Rate steady at 3.75% at its latest meeting. The accompanying statement noted that the "Bank Rate is likely to be reduced further", but that "judgements around further policy easing will become a closer call." The minutes also pointed to split views among the MPC regarding the persistence of inflation risks and the speed at which rates can fall. The ECB also voted to hold rates steady in February. The central bank's forward guidance was largely unchanged, with the Governing Council set to "follow a data-dependant and meeting-by-meeting approach". President Lagarde reiterated that the ECB is in a "good place".

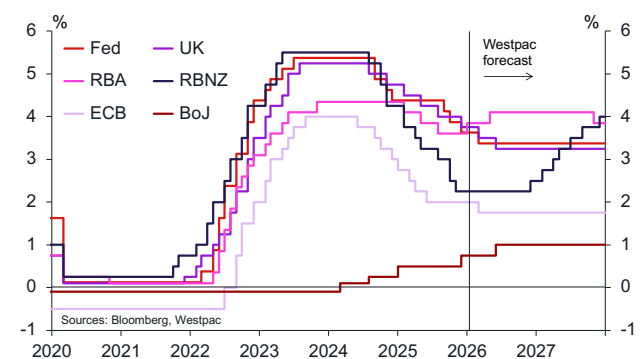
Trading partner real GDP (calendar years)

	Annual average % change			
	2024	2025	2026	2027
Australia	1.0	1.8	2.4	2.5
China	5.0	5.0	4.6	4.5
United States	2.8	1.9	1.8	1.8
Japan	0.1	1.2	0.8	0.8
East Asia ex China	4.3	4.1	3.9	4.0
India	6.5	6.6	6.8	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	3.0	2.8	2.9
World	3.3	3.2	3.2	3.2

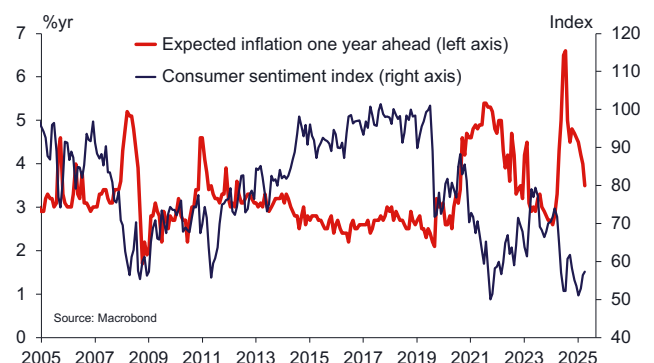
Australian & US interest rate outlook

	6 Feb	Mar-26	Dec-26	Dec-27
Australia				
Cash	3.85	3.85	4.10	3.85
90 Day BBSW	3.93	4.05	4.15	3.80
3 Year Swap	4.30	4.25	4.00	3.60
3 Year Bond	4.30	4.25	4.00	3.60
10 Year Bond	4.83	4.80	4.80	4.60
10 Year Spread to US (bps)	64	55	40	0
US				
Fed Funds	3.625	3.375	3.375	3.375
US 10 Year Bond	4.18	4.25	4.40	4.60

Global central bank policy rates



US University of Michigan consumer sentiment



Financial markets wrap

Foreign exchange.

NZD/USD's pullback over the past fortnight took it down from 0.6093 to 0.5928. We viewed this as a correction within a broader uptrend, alleviating an overbought condition. Whether this correction is now complete – the 0.6000 level has since been regained – or whether it resumes and runs a little further to the 0.5860-0.5900 area during the week ahead, is unclear.

Multi-month, we remain bullish, and target 0.62. NZ economic data is expected to trend positively during the year ahead as the economy recovers, and local interest rates are expected to gradually rise. In the US, the volatile nature of this administration's policymaking is likely to leave a scar on the US dollar's safe-haven identity.

The key events for the NZD/USD market this week will be the US payrolls data for January on Wednesday (delayed from last Friday due to the partial government shutdown) and CPI inflation data on Friday. The NZ calendar is second tier, with the RBNZ's inflation expectations survey on Friday likely to attract interest.

NZD/AUD has spent this year consolidating a 9-month long trend decline, ranging between 0.8552 and 0.8688. We expect a break below this range during the month ahead, targeting 0.8500. The RBA started its hiking cycle last week, and we (and the market) expect another in May. Yield spreads should continue to favour the AUD in the near term.

Interest rates.

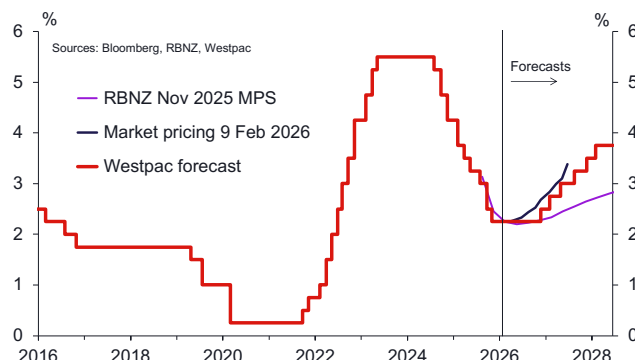
The NZ 2yr swap rate rose to a cycle high of 3.17% last Monday and then corrected lower to 3.07% in sympathy with the moderate decline in US rates. The slight rise in the NZ unemployment rate also contributed on the day.

This week, offshore rates are likely to again lead NZ rates, given little major NZ data. Overall, though, the trend remains upwards, and we expect to see 3.30% during the next few months.

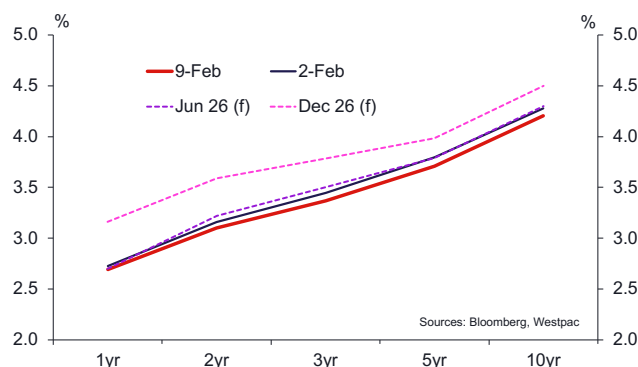
The improvement in the NZ economy during the past few months has increased the chances of an OCR rate hike in 2026. The OIS market continues to price 0% chance of a rate change at the next RBNZ meeting on 18 February (an MPS) but has an 80% chance of a hike by September 2026 and close to a 100% chance of a second hike by December.

The yield curve has flattened slightly from the peak formed in late December, driven by higher short maturity yields and relatively stable long maturity yields. We expect further flattening during the year ahead as markets become more confident about the extent of the next RBNZ hiking cycle.

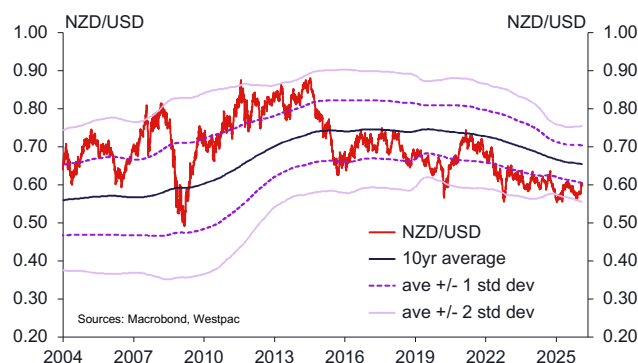
Official Cash Rate forecasts



Swap rates



NZD/USD vs rolling 10yr average



FX recent developments

	Historical data				F'cast
	Spot	3mth range	5yr range	5yr avg	Dec-26
USD	0.601	0.559-0.605	0.553-0.743	0.626	0.64
AUD	0.857	0.857-0.876	0.857-0.971	0.918	0.89
EUR	0.508	0.484-0.511	0.484-0.637	0.567	0.53
GBP	0.442	0.427-0.442	0.426-0.531	0.486	0.46
JPY	94.5	86.2-94.5	74.7-98.6	85.5	92.8

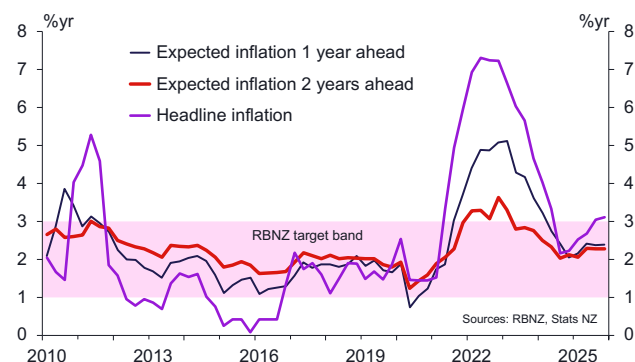
The week ahead

Q1 RBNZ Survey of Expectations

Feb 13, Expected inflation two years ahead, last: 2.28%

It's likely that we will see some rise in inflation expectations in the RBNZ's latest survey of businesses, at least at near-term horizons. The past few months have seen inflation surprising to the upside and signs of a recovery in activity have been building. This will be an important consideration for the RBNZ ahead of its 18 February policy meeting, especially if we see longer-term expectations lift. Other recent data already suggest that the inflation outlook is likely to be stronger than the RBNZ had anticipated.

RBNZ Survey of Expectations

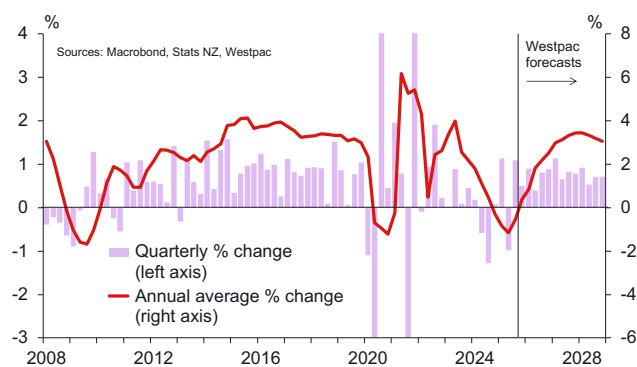


Economic and financial forecasts

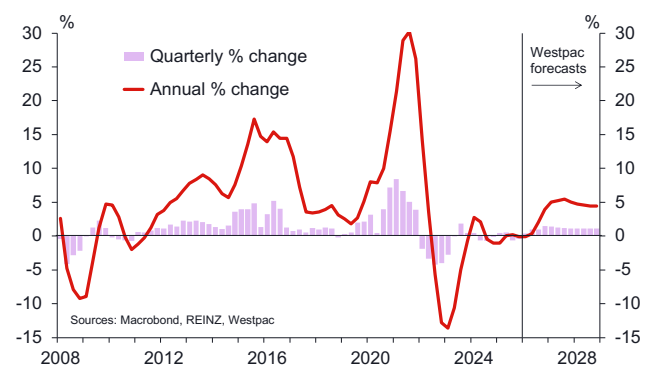
Economic indicators	Quarterly % change				Annual % change			
	Sep-25	Dec-25	Mar-26	Jun-26	2024	2025	2026	2027
GDP (production)	1.1	0.5	0.9	0.4	-1.6	1.7	3.0	3.4
Consumer price index	1.0	0.6	0.4	0.4	2.2	3.1	2.1	2.1
Employment change	0.0	0.3	0.3	0.6	-1.2	0.0	2.2	2.2
Unemployment rate	5.3	5.4	5.3	5.1	5.1	5.4	4.7	4.2
Labour cost index (all sectors)	0.4	0.4	0.5	0.6	3.3	2.0	2.3	2.2
Current account balance (% of GDP)	-3.5	-3.6	-3.7	-4.1	-4.7	-3.6	-4.5	-3.8
Terms of trade	-2.1	-1.7	-2.1	-0.9	13.7	2.2	1.0	3.7
House price index	-0.6	-0.4	1.0	1.3	-1.0	0.0	5.4	5.1

Financial forecasts	End of quarter				End of year			
	Sep-25	Dec-25	Mar-26	Jun-26	2024	2025	2026	2027
OCR	3.00	2.25	2.25	2.25	4.25	2.25	2.50	3.50
90 day bank bill	3.10	2.52	2.35	2.35	4.45	2.52	2.70	3.70
2 year swap	2.99	2.71	3.05	3.20	3.64	2.71	3.60	4.00
5 year swap	3.40	3.27	3.70	3.80	3.73	3.27	4.00	4.25
10 year bond	4.42	4.27	4.60	4.65	4.50	4.27	4.75	4.95
TWI	68.4	66.4	67.9	68.4	69.5	66.4	69.9	71.2
NZD/USD	0.59	0.57	0.60	0.61	0.59	0.57	0.63	0.66
NZD/AUD	0.91	0.87	0.86	0.86	0.91	0.87	0.88	0.89
NZD/EUR	0.51	0.49	0.50	0.51	0.55	0.49	0.52	0.55
NZD/GBP	0.44	0.43	0.44	0.44	0.46	0.43	0.46	0.47

GDP growth



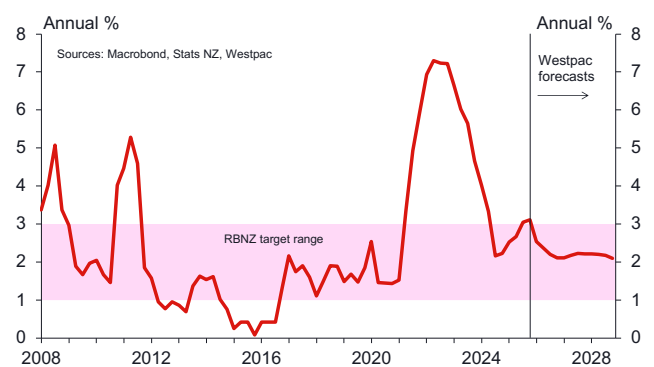
House prices



Unemployment and wage growth



Consumer price inflation



Data calendar

		Last	Market median	Westpac forecast	Risk/Comment
Mon 09					
Aus	Dec Household Spending Indicator, %mth	1	0.1	0	Growth accelerated significantly in Oct and Nov.
Jpn	Dec Current Account Balance, ¥bn	3674	1081	–	Seasonality drives a sharp deterioration.
Eur	Feb Sentix Investor Confidence, index	–1.8	–	–	Investor sentiment improved early this year.
US	Dec NY Fed 1Y Inflation Expectations, %ann	3.4	–	–	Consumer inflation expectations remain elevated.
	Fed Speak	–	–	–	Fed's Waller and Bostic scheduled to speak.
Tue 10					
Aus	Feb Westpac-MI Cons. Sentiment, index	92.9	–	–	Consumer reaction to higher interest rates in focus.
	Jan NAB Business Conditions Survey, index	9	–	–	Businesses feeling somewhat more comfortable.
US	Jan NFIB Small Business Sentiment, index	99.5	99.8	–	Ticked higher in the last two months of 2025.
	Q4 Employment Cost Index, %qtr	0.8	0.8	–	Stable inflationary pressures in the US labour market.
	Dec Import Price Index, %mth	–1.8	–	–	Will be analysed for evidence of tariff pass-through.
	Dec Retail Sales, %mth	0.4	0.4	–	US consumer spending maintains the firm pace of growth.
	Fed Speak	–	–	–	Fed's Hammack and Logan scheduled to speak.
Wed 11					
Aus	RBA Speak	–	–	–	Fireside chat with Deputy Governor Andrew Hauser.
	Q4 Housing Finance Approvals, %qtr	9.6	6	7.5	Another steep increase in Q4 is on the cards...
	Q4 Owner-Occupier Loans, %qtr	4.7	–	–	...as the latest credit data signalled stronger growth...
	Q4 Investor Loans, %qtr	17.6	–	–	...mainly driven by investors.
Chn	Jan PPI, %ann	–1.9	–1.5	–	Persistent deflationary pressures driven by overcapacity.
	Jan CPI, %ann	0.8	0.3	–	Remains very low, only slightly above zero.
US	Jan Non-fram payrolls, 000s	50	70	70	Modest employment growth...
	Jan Unemployment Rate, %	4.4	4.4	4.4	...sufficient to keep the unemployment rate stable.
Thu 12					
Aus	RBA Speak	–	–	–	Senate Testimony, 9.00am AEDT.
	RBA Speak	–	–	–	Assistant Governor Hunter speaking in Perth.
UK	Q4 GDP, %qtr	0.1	0.2	–	Growth momentum remained subdued at the end of 2025.
US	Wkly Initial Jobless Claims, 000s	231	–	–	Consistent with broadly stable labour market conditions.
	Jan Existing Home Sales, %mth	5.1	–3.2	–	Fed policy easing late in 2025 supporting the housing market.
Fri 13					
NZ	Jan Manufacturing PMI, index	56.1	–	–	Reached a four-year high in December.
	Dec Net Migration, no.	990	–	–	Steady at low but positive levels.
	Q1 RBNZ Inflation Expectations, %ann	0.0228	–	–	Upside risk, CPI stronger than expected and activity firming.
Chn	Jan New Home Prices, %mth	–0.37	–	–	Have been falling since mid-2023.
Eur	Dec Trade Balance, €bn	10.7	–	–	Exports to the US and China in focus.
	Q4 GDP, %qtr	0.3	0.3	–	Second estimate of Q4 growth.
US	Jan CPI, %mth	0.3	0.3	0.3	Broadly stable inflationary pressures.
	Fed Speak	–	–	–	Fed's Miran and Logan scheduled to speak.

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