



WEEKLY ECONOMIC COMMENTARY



10 Nov 2025 | Westpac Economics Team | westpac.co.nz/economics | economics@westpac.co.nz

Labour market soft, but with some green shoots.

The September quarter labour market surveys were as subdued as expected, giving the Reserve Bank little new to chew on ahead of its policy review later this month. Other data last week was mixed, with another drop in dairy prices and a shortfall in government revenue, but an encouraging run of gains in building consents.

Labour market.

The Household Labour Force Survey showed a lift in the unemployment rate from 5.2% to 5.3% in the September quarter, its highest level since 2016. Employment was flat, which was a relative improvement on the declines seen in previous quarters. But with the working-age population still growing, this was instead absorbed through a mix of higher unemployment and lower participation. Our [quarterly labour market chartpack](#) goes further into the details.

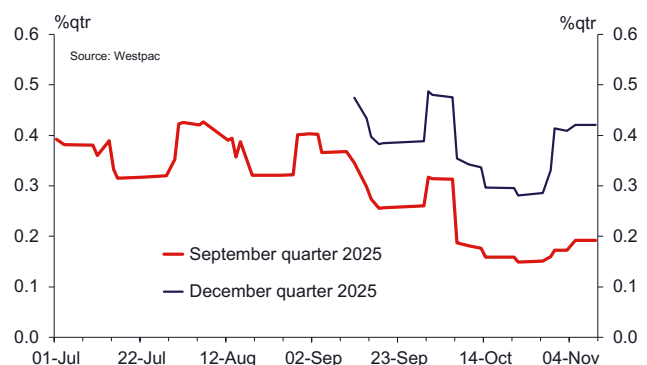
Given the degree of spare capacity in the labour market, wage pressures have been unsurprisingly subdued. The Labour Cost Index rose by 0.4% for the quarter, taking annual growth down to a four-year low of 2.1%. The distribution of pay rates has returned to pre-Covid trends: only 44% of roles saw a pay rise over the last year, and for those that did see an increase, the average size is converging on the 2-3% range.

One unexpected but encouraging result was a rise in hours worked, the first increase since December 2023. Hours per worker had fallen markedly over the last year, implying that employers were adjusting to the soft economy by reducing hours rather than laying off workers. The latest result suggests that we may be seeing the usual early response to a pickup in demand: employers will first look to get more out of their existing workers, before they turn to hiring new ones.

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	↘	↘	↘

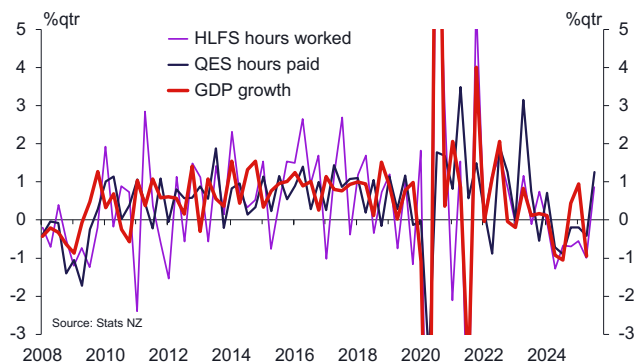
Westpac GDP nowcasts



Key data and event outlook

Date	Event
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)
18 Dec 25	NZ GDP, September quarter
13 Jan 26 (tbc)	NZ QSBO Business Survey, December quarter
16 Jan 26	NZ Selected price indexes, December

Hours worked and GDP



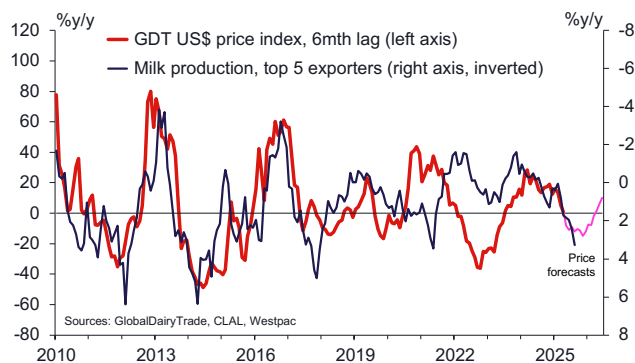
The labour market surveys were the last major data release before the RBNZ's *Monetary Policy Statement* on 26 November. With the results almost entirely in line with the RBNZ's earlier forecasts, there was little guidance as to the next OCR decision – arguably the odds of a 50bp cut have reduced a little, as the risk of an unexpectedly weak print has now passed. While there are some early signs of the economy stabilising, the existing degree of spare capacity will leave the RBNZ comfortable that inflation will moderate back towards 2% next year. We continue to expect a 25bp cut at the November review.

Dairy prices.

The GlobalDairyTrade auction for early November recorded a 2.4% fall in prices, its sixth straight decline. Prices have fallen by 16% from their peak in May this year, and are lower than they were a year ago.

The global market is flush with milk this year, with last year's high prices incentivising more production, and with European and US farms less affected by disease than they were last year. Milk production among the top exporting countries is up about 3% on a year ago (though there is some uncertainty around this – the reported results from some European countries have been implausibly high in recent months, and the data is under review).

Dairy prices and global milk production



We're not particularly fazed by this, as our long-held forecast of a \$10/kg farmgate milk price for this season assumed a fall in auction prices over this year. That

said, the headroom in our forecast is starting to run out; further declines in auction prices in the coming months would require a downgrade to the full-season outlook. The weaker New Zealand dollar has been providing some buffer against the fall in world dairy prices over recent months.

Fiscal update.

Following a slightly better end to the 2024/25 year than predicted in the Budget, the government's operating deficit for the September quarter was \$500m larger than the Treasury expected, and \$200m larger than the same time last year. Core Crown spending was close to expectations, but tax revenue was below forecast, mostly due to individuals' income tax payments.

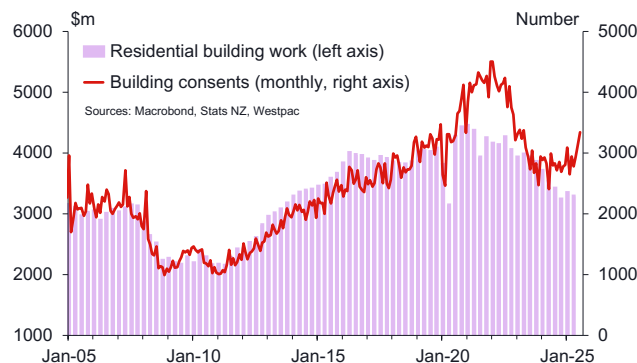
Despite the miss on the operating deficit, the residual cash position – which is what really matters for the government's bond issuance requirements – was \$1.6bn better than forecast, due to lower-than-expected capital spending outflows. While a good portion of this may be due to timing, this also comes after a cash deficit for the 2024/25 year that was \$4bn smaller than expected. As a result, these figures don't suggest an obvious need to increase the borrowing programme at the Half-Year Economic and Fiscal Update in December, and indeed there may even be room to reduce next year's programme slightly.

Building consents.

The other data of note last week was a surprisingly strong signal for the beleaguered building industry. Housing consents 7% in September, the third straight month of strong gains. Previously this measure had been choppy around an overall sideways trend for the past year or so.

Looking ahead, we expect consent numbers will continue to trend higher over the year ahead and that homebuilding activity will lift over 2026. However, it's likely to be a gradual rise. While low interest rates are supporting new development, population growth remains low and there have been sizeable increases in the housing stock over the past few years, which is still weighing on house price growth.

Residential building and consent numbers



Forecast updates.

Finally, we've made some changes to our international and financial forecasts as part of our global team's monthly **Market Outlook** released last week. Our global growth forecasts are little changed overall, but with downgrades for this year for China and southeast Asia, a key trading bloc for New Zealand. The initial communications on the Chinese government's next Five-Year Plan out to 2030 had a strong focus on the consumer and domestic investment, but with little indication of any meaningful direct support for households and the housing market in the near future.

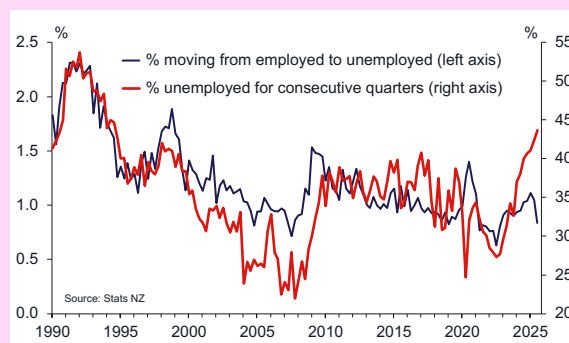
On exchange rates, we have nudged down our New Zealand dollar forecasts for the next couple of quarters, and we now expect the NZD/USD exchange rate to finish the year at around 0.57, close to its current level. The fall in the NZD in recent weeks has been understandable given currently weak growth and low interest rates, and we expect this softness to persist for a while longer. We still expect a modest rise in NZD/USD over 2026 on the back of a generally weaker US dollar – we now expect two further rate cuts by the Fed next year, where we previously saw them remaining on hold. In contrast, we expect the NZD's underperformance against the Australian dollar to continue through next year.

Michael Gordon, Senior Economist

Chart of the week.

The number of people unemployed rose by 2,000 in the September quarter, lifting the total to 160,000. However, this balance reflects the large number of people who move in and out of unemployment in any given quarter. One unusual aspect of the current cycle is that the rate at which people have lost their jobs has never risen particularly high (and actually fell a bit in the September quarter). But for those who are out of work, it's been increasingly difficult to get back in again – the odds of remaining unemployed for more than one quarter have risen to their highest level since the mid-1990s.

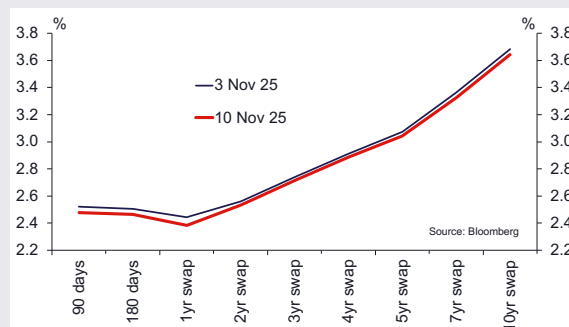
Labour force transition rates



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.

The US government shutdown has now stretched out to 40 days, making it the longest on record. With the two sides of the House still at loggerheads, economic disruptions are mounting including delays to SNAP (food stamps) benefits for lower income earners and interruptions to travel networks. Economic data releases have also been delayed, including last week's scheduled payrolls report and this week's CPI report. Data that was released pointed to mixed conditions. On the downside, consumer confidence in the Michigan survey continued to sink, while the ISM manufacturing gauge slipped further into contractionary territory. In contrast, the service sector ISM lifted to an eight-month high and the ADP private sector survey reported a 42k job gain in October, leaving the 6-month average at a modest, but positive, 20k. While there is limited data out this week, there will be a large number of Fed speakers.

UK.

The BOE left its policy rate at 4.0% at its November policy meeting. The decision was a 5-4 split decision, with the minority voting for a 25bp cut (In contrast, in September only two members voted for a cut). Governor Bailey judged that slack in the UK economy is rising, but preferred to "wait and see if the durability of disinflation is confirmed". The forward guidance was explicit, stating that the "Bank Rate is likely to continue on a gradual downward path" if the disinflationary process continues.

Asia-Pacific.

As expected, the RBA kept its cash rate on hold at its November policy meeting in a unanimous vote. That followed the stronger than expected September quarter CPI result, with some of that surprise seen as evidence that there is a bit less capacity in the economy than previously thought. The post-meeting communication characterised the labour market as still "a little tight" despite its recent easing. However, the language was not as hawkish as it could have been. The RBA acknowledged that some of the latest inflation spike was temporary, and an increase in the cash rate was not considered. In the media conference, the Governor characterised the MPB as having no bias and that it will be taking things meeting by meeting from here. The stance of policy was seen as "pretty close to neutral." We expect **the RBA will remain on hold** until May next year. In China the RatingDog PMIs slipped in October, with a further softening in export orders a headwind for manufacturers. This week's calendar includes updates on Australia's jobs market (Thursday), and Chinese industrial production and retail data out on Friday.

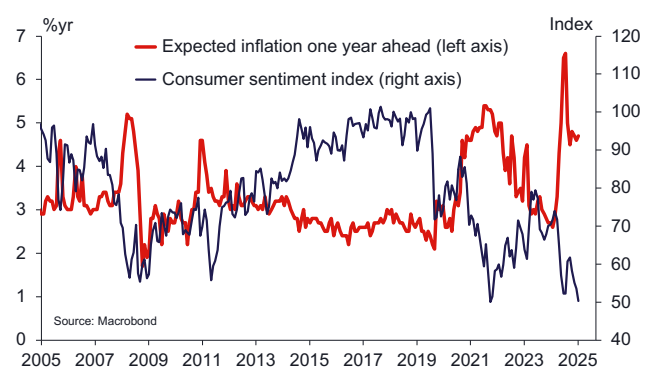
Trading partner real GDP (calendar years)

	Annual average % change			
	2024	2025	2026	2027
Australia	1.0	1.0	2.3	2.5
China	5.0	4.8	4.6	4.5
United States	2.8	2.0	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	0.9	1.2	1.1	1.5
United Kingdom	1.1	1.3	1.1	1.5
NZ trading partners	2.9	2.7	2.7	2.8
World	3.3	3.2	3.1	3.2

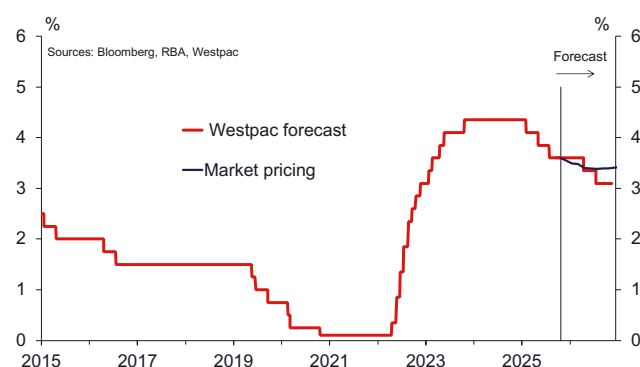
Australian & US interest rate outlook

	7 Nov	Dec-25	Dec-26	Dec-27
Australia				
Cash	3.60	3.60	3.10	3.10
90 Day BBSW	3.64	3.65	3.15	3.20
3 Year Swap	3.60	3.55	3.70	4.00
3 Year Bond	3.62	3.60	3.75	4.00
10 Year Bond	4.33	4.35	4.50	4.60
10 Year Spread to US (bps)	25	20	10	0
US				
Fed Funds	3.875	3.875	3.375	3.375
US 10 Year Bond	4.08	4.15	4.40	4.60

US University of Michigan consumer sentiment



RBA cash rate



Financial markets wrap

Foreign exchange.

NZD/USD fell further last week, to 0.5606 – its lowest level since April. It should find some support around 0.5600 during the week ahead, but the risks are skewed to even further downside during the month ahead.

The NZD has been the worst performer among all G10 currencies since June, partly reflecting the underperformance of the New Zealand economy. In addition, the US dollar bottomed and has risen slightly over the past two months. Markets have pared the number of Fed rates cuts expected during the year ahead, as the economy has not been as weak as feared.

This week's New Zealand data is minor but still worth watching for potential NZD reactions: RBNZ inflation expectations, retail spending, and manufacturing PMI. RBNZ external MPC member Gai will also be speaking. US events will be thin, given the continuation of the government shutdown.

NZD/AUD's large decline since April extended further last week to 0.8645 – lowest since 2012. It looks quite stretched technically, but sometimes such conditions can persist for longer than expected. The broad theme of Australian economic outperformance remains intact. Australian jobs data could add volatility this week.

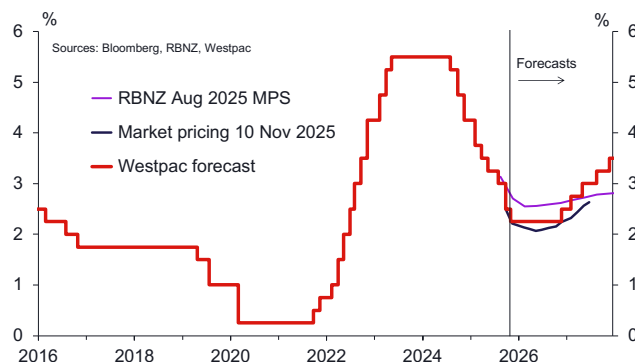
Interest rates.

The NZ 2yr swap rate last week continued to consolidate above its mid-October (and possible cycle) low of 2.44%, mostly following minor movements in US and AU interest rates. Event risk this week will come from the plethora of second-tier NZ economic data, which will be watched for signs of green shoots, as well as offshore – US government shutdown negotiations, and Australian jobs data.

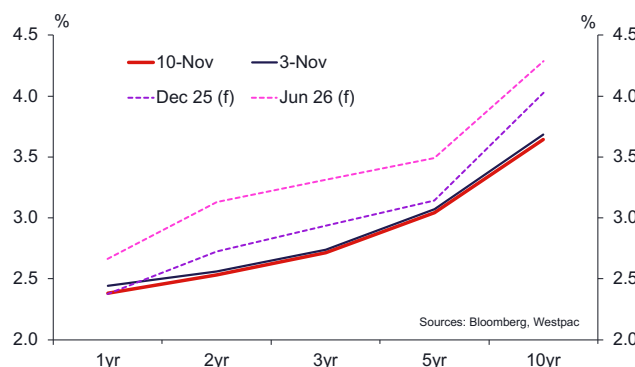
The OIS market continues to price a 25bp cut to 2.25% at the next RBNZ meeting on 26 November, and now assigns a 15% chance to a larger 50bp cut. For the remainder of this easing cycle, it assigns around a 70% chance to a final 25bp cut to 2.0% by May 2026.

The NZ yield curve continues to show only tentative signs of peaking, the 2-10yr swap curve currently at 111bp (vs the recent peak at 112bp). The yield curve will start to flatten convincingly when the OCR cycle low is eventually confirmed.

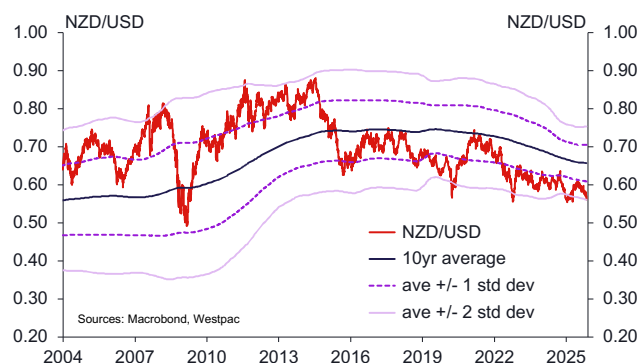
Official Cash Rate forecasts



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	0.562	0.561-0.598	0.553-0.743	0.633	0.57
AUD	0.867	0.865-0.914	0.869-0.971	0.922	0.87
EUR	0.487	0.485-0.511	0.488-0.637	0.571	0.49
GBP	0.428	0.426-0.443	0.426-0.535	0.490	0.43
JPY	86.4	85.6-88.4	70.2-98.6	84.7	87.5

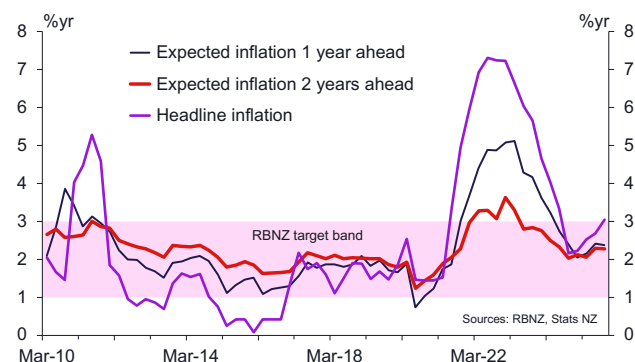
The week ahead

Q4 RBNZ Survey of Expectations

Nov 11, Expected inflation two years ahead, last: 2.28%

Inflation expectations will be an important consideration for the RBNZ ahead of its 26 November policy meeting. While the RBNZ signalled an easing bias at its October policy announcement, the lift in inflation back to 3% raises questions about the extent and pace of further rate cuts. Expectations of inflation took a step higher through the middle part of the year, and there's a risk of a further modest increase in the Q4 survey. Even so, longer-term expectations are likely to remain comfortably inside the RBNZ's target band, consistent with the softness in demand and lingering spare capacity in the economy.

RBNZ Survey of Expectations

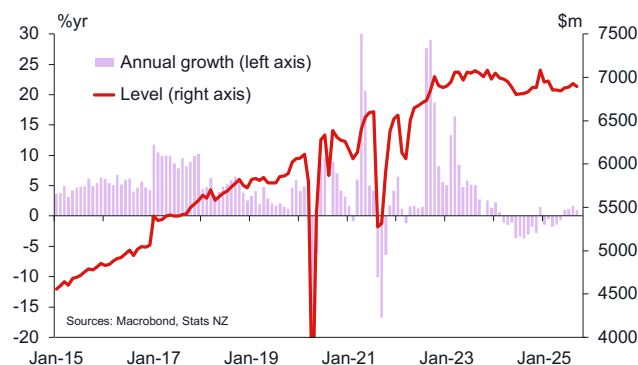


Oct Retail Card Spending

Nov 13, last: -0.3%, Westpac f/c: +0.3%

Retail spending fell 0.5% in September. However, that fall followed three months of gains. Looking at the longer-term trend, the picture is one of modest growth rather than decline, with spending levels up 1% over the past year. We're forecasting a 0.3% rise in spending in October. Some of that is related to increases in fuel prices. Even so, we still expect a modest rise in core (excl. fuel) spending, including gains in discretionary areas. Falls in borrowing costs are now passing through to households' back pockets, and that should support spending over the months ahead.

Monthly retail card spending

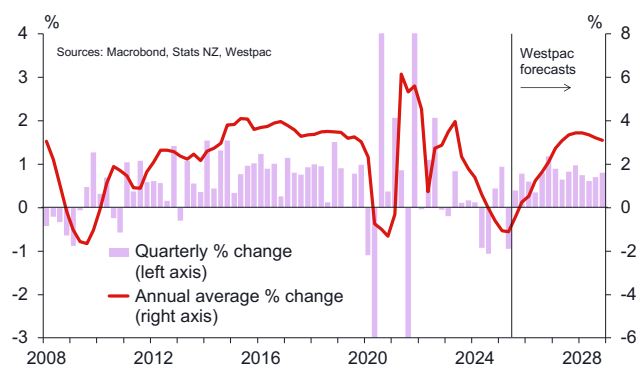


Economic and financial forecasts

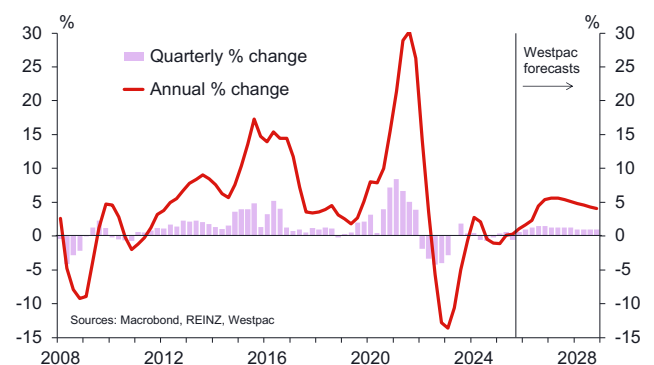
Economic indicators	Quarterly % change				Annual % change			
	Jun-25	Sep-25	Dec-25	Mar-26	2024	2025	2026	2027
GDP (production)	-0.9	0.4	0.8	0.6	-1.4	1.2	3.0	3.4
Consumer price index	0.5	1.0	0.4	0.4	2.2	2.9	2.3	2.1
Employment change	-0.2	0.0	0.2	0.4	-1.2	-0.1	2.3	2.2
Unemployment rate	5.2	5.3	5.4	5.4	5.1	5.4	4.9	4.3
Labour cost index (all sectors)	0.6	0.4	0.5	0.5	3.3	2.1	2.3	2.2
Current account balance (% of GDP)	-3.7	-3.5	-3.5	-3.6	-4.7	-3.5	-4.2	-4.0
Terms of trade	4.1	1.0	-0.9	0.4	13.7	6.2	3.2	2.3
House price index	0.6	-0.5	0.6	1.0	-1.0	1.1	5.4	5.1

Financial forecasts	End of quarter				End of year			
	Jun-25	Sep-25	Dec-25	Mar-26	2024	2025	2026	2027
OCR	3.25	3.00	2.25	2.25	4.25	2.25	2.50	3.50
90 day bank bill	3.38	3.10	2.35	2.35	4.45	2.35	2.70	3.70
2 year swap	3.18	2.99	2.65	2.90	3.64	2.65	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	66.3	66.1	69.5	66.3	68.4	70.6
NZD/USD	0.59	0.59	0.57	0.57	0.59	0.57	0.61	0.65
NZD/AUD	0.93	0.91	0.87	0.86	0.91	0.87	0.87	0.89
NZD/EUR	0.52	0.51	0.49	0.49	0.55	0.49	0.51	0.54
NZD/GBP	0.44	0.44	0.43	0.43	0.46	0.43	0.45	0.47

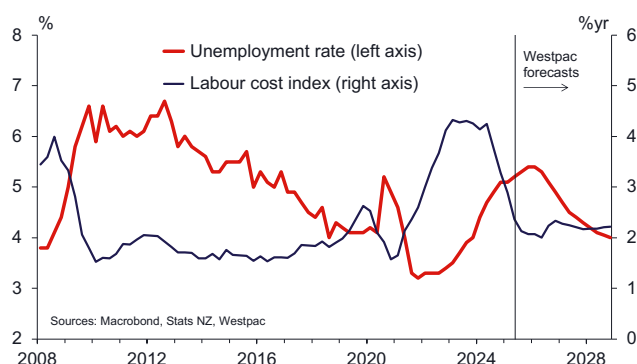
GDP growth



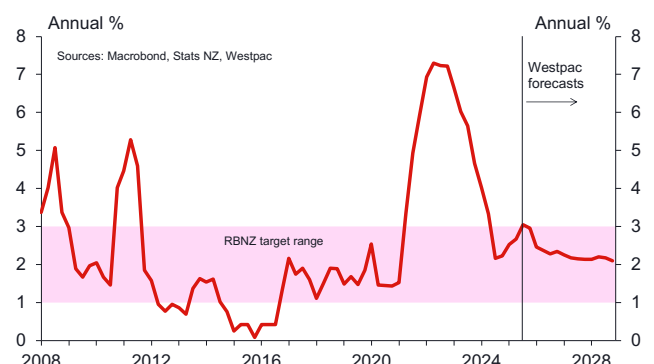
House prices



Unemployment and wage growth



Consumer price inflation



Data calendar

		Last	Market median	Westpac forecast	Risk/Comment
Mon 10					
Aus	RBA Deputy Governor	–	–	–	Hauser speaking in Sydney.
Eur	Nov Sentix Investor Confidence, index	–5.4	–4.6	–	Expectations are positive weighed down by current conditions.
Tue 11					
NZ	Q4 RBNZ Inflation Expectations, %yr	2.3	–	–	Near-term likely to lift, longer-term exps still contained.
	RBNZ MPC member presentation	–	–	–	Prof Gai speaking on monetary policy and global uncertainty.
Aus	Nov Westpac–MI Cons. Sentiment, index	92.1	–	–	Will capture reactions to the latest RBA's decision.
	Oct NAB Business Conditions, index	8	–	–	Businesses cautious as forward orders dip below average.
Jpn	Sep Current Account Balance, ¥bn	3776	2468	–	Current account surplus rising in Q3.
Eur	Nov ZEW Sentiment Survey, index	22.7	–	–	Survey of financial analysts on six-month economic outlook.
UK	Sep ILO Unemployment Rate, %	4.8	5	–	At a 4.5 year high, but response rate remains low.
US	Oct NFIB Small Business Optimism, index	98.8	98.2	–	Rising inflation pressures and softer sales outlook cited.
Wed 12					
Aus	RBA Assist' Governor (Fin System)	–	–	–	Jones speaking in Broadbeach.
	Q3 Housing Finance Approvals, %qtr	2.0	2.6	3.5	A "catch-up" with higher house prices expected.
	Q3 Owner-Occupier Loans, %qtr	2.4	–	3	Private credit data suggests that the gain ...
	Q3 Investor Loans, %qtr	1.4	–	4.5	... should be centred on investors.
US	Fedspeak	–	–	–	Waller, Miran, Bostic, Williams, Paulson.
Thu 13					
NZ	Oct Retail Card Spending, %mth	–0.5	–	0.3	Watching for a gradual lift in discretionary spending.
	Sep Net Migration, no.	460	–	–	Steady at low but positive levels.
Aus	Nov MI Inflation Expectations, %yr	4.8	–	–	Up 0.8ppts since the start of the year.
	Oct Employment Change, 000s	14.9	20	15	Employment growth slows to a below-average pace ...
	Oct Unemployment Rate, %	4.5	4.4	4.4	... but monthly noise likely to see partial reversal in U/E.
Eur	Sep Industrial Production, %mth	–1.2	1	–	Germany record strongest monthly fall since March 2022.
UK	Q3 GDP, %qtr	0.3	0.1	–	Monthly GDP indicator has printed a -0.1% and 0.1% so far.
US	Fedspeak	–	–	–	Musalem.
Fri 14					
NZ	Oct Manufacturing PMI, index	49.9	–	–	Has been choppy around the 50 mark this year.
Chn	Oct Industrial Production, ytd %yr	6.2	6.1	–	Risks to China's growth outlook are domestic in nature ...
	Oct Retail sales, ytd %yr	4.5	4.4	–	... as consumption struggles to gain a footing ...
	Oct Fixed Asset Investment, ytd %yr	–0.5	–0.8	–	... and investment in high-tech manufacturing matures.
Eur	Q3 GDP, %qtr	0.2	0.2	–	Second estimate.
	Sep Trade Balance, €bn	9.7	–	–	Surplus has expanded for two consecutive months.
US	Fedspeak	–	–	–	Bostic, Schmid.
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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