



# WEEKLY ECONOMIC COMMENTARY



13 Oct 2025 | **Westpac Economics Team** | [westpac.co.nz/economics](https://westpac.co.nz/economics) | [economics@westpac.co.nz](mailto:economics@westpac.co.nz)

## Breaking the spell

The Reserve Bank delivered the 50bps OCR cut that we were expecting. Some Monetary Policy Committee members had previously argued for a larger move, as a ‘circuit breaker’ to the pervasive gloom among households and businesses. And after the weak June quarter GDP results and last week’s soft business sentiment survey, it’s understandable that those members proved most persuasive this time around. We continue to expect another cut of 25bp at the November review; further cuts into next year remain a possibility but are not our base case.

The seeds for last week’s decision were sown in the August *Monetary Policy Statement*, which we perceived as a dovish shift from the RBNZ. There was a strong sense that the RBNZ was losing patience with the lack of momentum in some parts of the economy, despite a year of falling interest rates, and had little tolerance for a further increase in the economy’s spare capacity.

The August decision was taken to a vote, with two of the six committee members voting for a larger 50bp cut. The reasoning given by those seeking a 50bps cut was that global policy uncertainty seemed to be having a persistent and self-reinforcing impact on consumption and investment, and that a larger OCR cut might help to break that dynamic (presumably in a way that two consecutive 25bp cuts would not).

The case of those arguing for a ‘circuit breaker’ would no doubt have been bolstered by the GDP figures that were released the following month. GDP fell by 0.9% in the June quarter, a stark turnaround from a 0.9% rise in the March quarter. The RBNZ had been early in identifying that the June result would likely be negative, largely due to a seasonal distortion in the data. But even after accounting for this, the results were much weaker than the RBNZ or anyone in the market had expected. We

### 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
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
6 Nov 25 (tbc)	NZ Government accounts (3 months to September)
17 Nov 25	NZ Selected price indexes, October
26 Nov 25	RBNZ OCR Review & Monetary Policy Statement
9 Dec 25	RBA Monetary Policy Decision
10 Dec 25	FOMC meeting (11 Dec NZT)

immediately shifted our October OCR forecast from a 25bp to a 50bp cut after the GDP release.

Last week's NZIER Survey of Business Opinion suggested that the economic recovery remained sluggish into the September quarter. (While the survey was published only a day before the OCR decision, the RBNZ would have had sufficient time to go through the detail.) A net 14% of firms saw weaker performance over the last three months – an improvement compared to the net 22% in the previous quarter, but still very soft compared to history. Expectations for the three months ahead were a net 9% positive, but were down from 18% in the previous survey and were the lowest reading in a year.

#### QSBO past vs expected activity

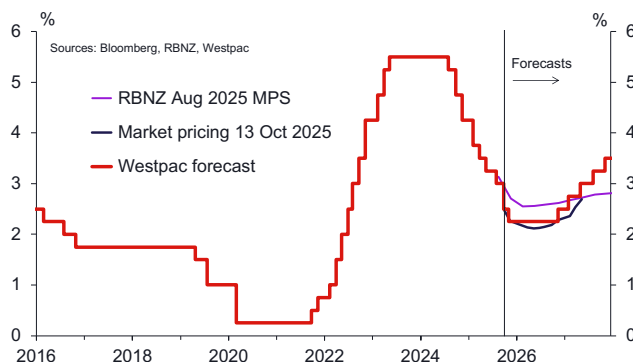


With these soft economic indicators in hand, the Monetary Policy Committee's decision last week was reached by consensus, with no vote required. That said, it doesn't appear to have been a clear-cut decision; the record of the meeting suggests that there was serious debate between a 25bp and a 50bp move. But ultimately the arguments for a 'circuit breaker' move proved to be persuasive enough to the entire committee.

Market opinion was split ahead of the decision. Interest rate markets were pricing less than a 50% chance of a 50bp easing, and the median economist forecast was for a 25bp move (although among the domestic banks there was a slight majority for 50bp). With the larger move on the day, and the RBNZ's forward guidance also leaning dovish, we've since seen a sizeable drop in short-term interest rates and in the New Zealand dollar.

Given our expectations for the data flow over the coming weeks, a further 25bp reduction in the OCR seems more likely than not at the 26 November meeting. The RBNZ noted that it "*remains open to further reductions [plural] as required for inflation to settle sustainably near the 2 percent target mid-point*". So we wouldn't rule out further easings into next year, but this will be data-dependent, and there is a significant amount of water to go under the bridge between the November review and the next one in February.

#### Official Cash Rate forecasts



#### Interest rate passthrough.

Stats NZ's June quarter update on household incomes and savings shed some further light on the transmission of the RBNZ's interest rate reductions. Since August 2024, the RBNZ has cut the OCR by 300bp. However, as we've often highlighted, the passthrough of interest rate reductions is subject to long and variable lags.

That's in large part because of the structure of New Zealand's mortgage market – about 90% of lending is fixed for a chosen period. And in the current cycle, the passthrough of rate cuts was further delayed as earlier this year many borrowers were opting to roll on to relatively more expensive floating or short-term rates while they waited for further fixed-rate cuts. This is a key reason why, despite large reductions in the OCR over the past year, we haven't seen much of a response in terms of economic conditions.

However, Stats NZ's latest update shows that interest rate reductions are now flowing through to households' back pockets, as increasing numbers of borrowers are rolling on to significantly lower mortgage rates. To put the fall in interest costs in context, over the past year the one-year mortgage rate has fallen by around 150bps, while the two-year rate is around 240bps lower than in 2023. That saw household spending on interest costs fall for a second quarter in a row.

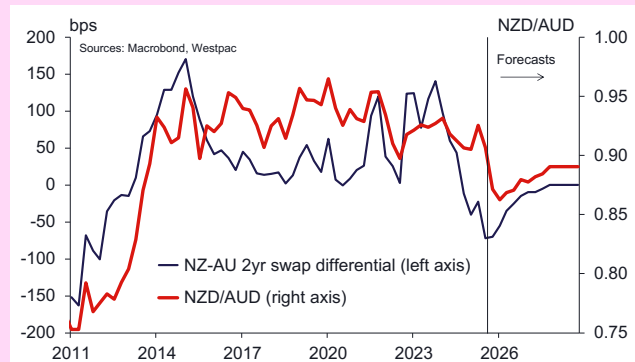
Importantly, the passthrough of the RBNZ's OCR reduction still has some way to go, with around 40% of all mortgages coming up for repricing again in the next six months. As these loans reset at lower rates, we expect to see the OCR cuts over the past year having a bigger impact on economic conditions through the final months of this year and the early part of 2026.

**Michael Gordon**, Senior Economist

## Chart of the week.

Last week's OCR cut was larger than the market was bracing for, sending the New Zealand dollar lower. The NZD/AUD cross rate initially fell as low as 0.8750, its lowest level in three years, though it has since ticked up again due to a weaker Australian dollar over the weekend. We see NZD/AUD's fall below 90 cents in recent weeks as an overdue reflection of the differences in economic conditions, and hence in the outlooks for monetary policy, between the two countries. In Australia, steady growth and lingering inflation pressures have seen the RBA ease cautiously this year, in contrast with the rapid easing by the RBNZ. Going forward though, we expect that the performance gap between the two economies will start to narrow: the RBNZ's rate cuts to date should help to reinvigorate growth by next year, while some signs of softness are emerging in Australia's labour market.

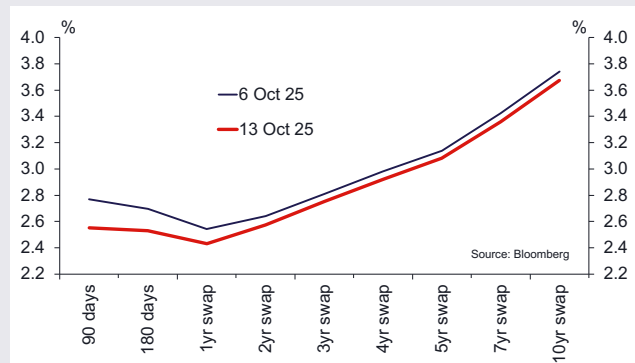
NZD/AUD and relative interest rates



## 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.

Trade tensions returned to the fore late last week, with President Trump announcing an additional 100% tariff on China (effective 1 November) in response to China's decision to place some controls on exports of rare earths. This resulted in a large risk-off move in markets, with equities, bond yields and crude oil closing the week sharply weaker. The ongoing US government shutdown – which shows no immediate signs of being resolved – again curtailed the economic diary. Amongst the few releases, the University of Michigan's survey pointed to little change in sentiment or inflation expectations in October. Meanwhile, the minutes from last month's FOMC meeting highlighted the division across the committee, with a few members seeing merit in holding rates unchanged considering the lack of progress in reducing inflation to the 2% target. Looking ahead, following today's Columbus Day holiday, the coming week's diary is again badly impacted by the shutdown, with many key reports – such as the CPI and retail sales reports – delayed (the BLS has said it aims to release the CPI on 24 October despite the shutdown). Only those statistics that were already prepared just ahead of the shutdown – such as the September non-farm payrolls report – will be released soon after the shutdown ends. With that in mind, regional Fed business surveys and the Fed's Beige Book are likely to be the only significant releases this week. Fed Chair Powell, speaking tomorrow, headlines a busy week of Fed speeches. On the corporate front, the quarterly reporting season will kick off in earnest with most of the major banks releasing their earnings this week.

## Europe.

Another quiet week looms in Europe. In the euro area, final CPI reports for September and the ZEW business survey are the main diary entries of note. In the UK the focus will be on the latest monthly activity and labour market readings.

## Asia-Pacific.

The Westpac consumer confidence index pointed to a further decline in Australian consumer sentiment to a 6-month low in October, while job advertisements took a backward step in September. The focus in Australia this week will be on Tuesday's business sentiment survey, followed by Thursday's labour force survey for September (we expect the unemployment rate to edge up to 4.3%). In China the countdown to next week's Q3 GDP report will begin with today's release of September trade data. Further light on the state of the economy will be cast by Wednesday's September inflation data, while money and credit data for September should also surface this week.

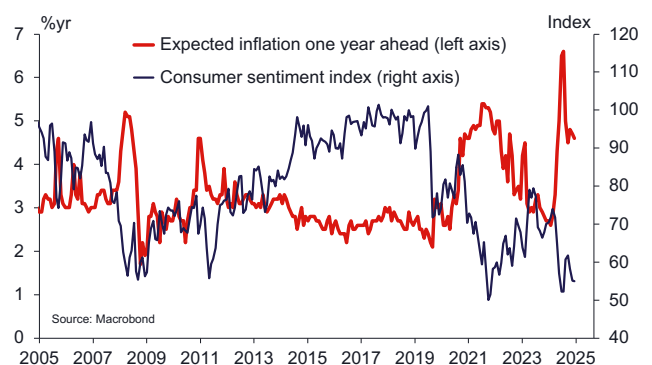
Trading partner real GDP (calendar years)

	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

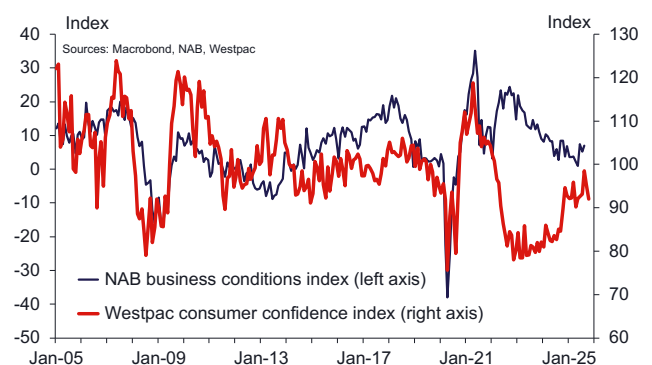
Australian & US interest rate outlook

	10 Oct	Dec-25	Dec-26	Dec-27
<b>Australia</b>				
Cash	3.60	3.35	2.85	2.85
90 Day BBSW	3.59	3.30	2.95	2.95
3 Year Swap	3.56	3.40	3.80	4.00
3 Year Bond	3.59	3.45	3.85	4.00
10 Year Bond	4.38	4.35	4.70	4.85
10 Year Spread to US (bps)	25	15	0	-5
<b>US</b>				
Fed Funds	4.125	3.875	3.875	3.875
US 10 Year Bond	4.13	4.20	4.70	4.90

US University of Michigan consumer sentiment



Australian consumer & business confidence



# Financial markets wrap

## Foreign exchange.

NZD/USD had a volatile week, closing at the lowest level since April. On Wednesday, the RBNZ cut the OCR by 50bp, causing a sharp fall. The following day saw a recovery, as markets were reluctant to price much further easing. Then on Friday, trade tensions between the US and China reignited, causing a flight to safe-haven currencies. NZD/USD fell to 0.5717 – the lowest since April (when Trump announced tariffs on most countries) and is currently at 0.5744. We see potential for the decline to test 0.5700 this week if the trade tensions persist. Rallies should be limited to around 0.5800.

There's also plenty of NZ second-tier data worth watching this week. Important will be monthly inflation readings for around half of the constituents of the CPI basket. Also of interest will be the monthly retail spending data, as well as today's update on services activity.

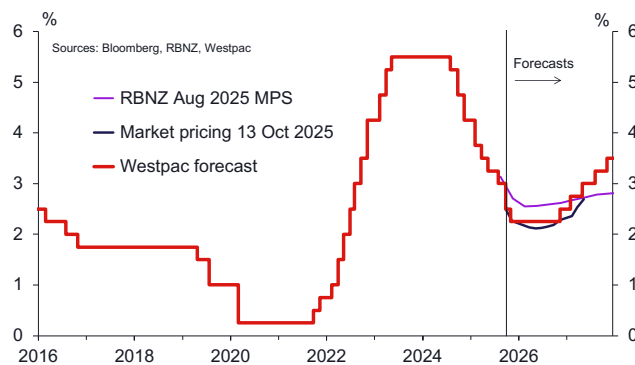
NZD/AUD fell further last week to 0.8737 – the lowest since 2022 – in the wake of the RBNZ OCR cut. It has since recovered to 0.8830, which is unsurprising given it was quite stretched technically. Trade tensions will also be supportive near term (the AUD is more sensitive to China news), so a bounce to 0.8900 this week is plausible. Multi-month, though, we retain a bearish bias, based on an expectation that NZ's relative economic underperformance will continue, weighing on NZ-AU interest rate differentials.

## Interest rates.

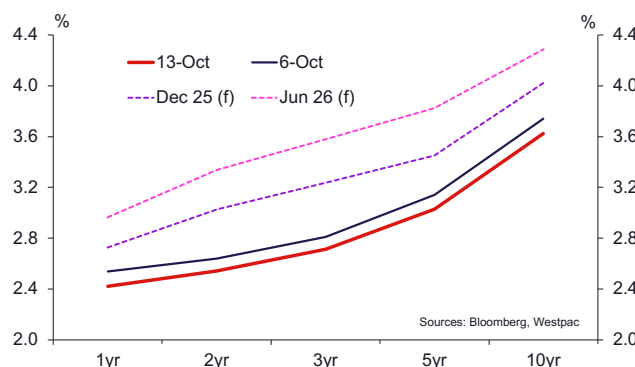
The downward trend in the NZ 2yr swap rate, which started in 2023, extended to 2.55% last week, the initial reaction to the RBNZ's 50bp OCR cut worth -8bp. Swap markets were surprised because they had only priced a 40% chance of a 50bp cut. Swap rates subsequently rose a few basis points, as markets sense the easing cycle will probably end in November with a 25bp cut, and are reluctant to speculate aggressively on the OCR falling below 2.25% unless economic data over the next few months remains weak. That said, Friday's US tariff news has seen renewed downward pressure on swap rates this morning.

The OIS market has priced a 25bp cut in November as a 100% chance and assigns a 50% chance to an additional cut by May 2026. Whether the latter shifts towards 100% will determine whether the 2yr swap rate falls below 2.50%. There will be plenty of data ahead of the MPS on 26 November, including CPI inflation and employment, suggesting volatility in market rates can be expected. The NZ yield curve steepened further following last week's OCR cut, the 2-10yr swap curve peaking at around 111bp. Whether that level proves to be the cycle high will depend on the OCR bottoming at 2.25%.

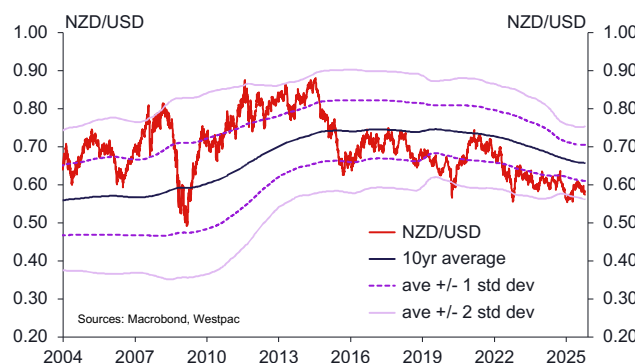
## Official Cash Rate forecasts



## 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	0.575	0.575-0.605	0.553-0.743	0.634	0.59
AUD	0.883	0.875-0.915	0.873-0.971	0.923	0.87
EUR	0.495	0.493-0.516	0.493-0.637	0.573	0.50
GBP	0.431	0.429-0.447	0.429-0.535	0.491	0.44
JPY	87.2	85.6-88.9	69.0-98.6	84.4	85.9



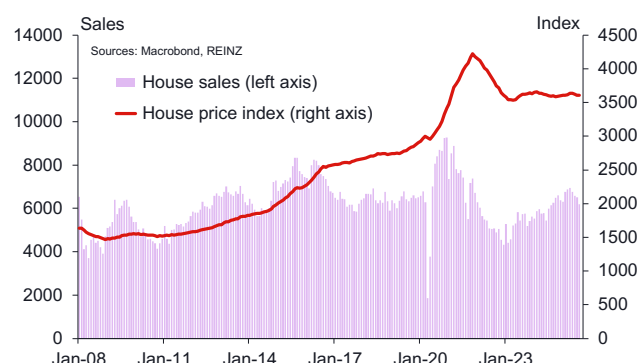
# The week ahead

## Sep REINZ House Prices and Sales

**Oct 14, Prices last: +0.4%/yr; Sales last: -3.7%/yr**

The New Zealand housing market remained fairly static in August. Prices were flat for the month, and sales continued to ease off their earlier highs. While lower mortgage rates have helped to spur higher levels of activity this year, demand is being matched by an ample supply of homes hitting the market. As a result, there has been little upward pressure on sale prices. Performance has varied across the country however, with the more dairying-intensive regions tending to fare best, while the main centres of Auckland and Wellington have softened.

## REINZ house prices and sales

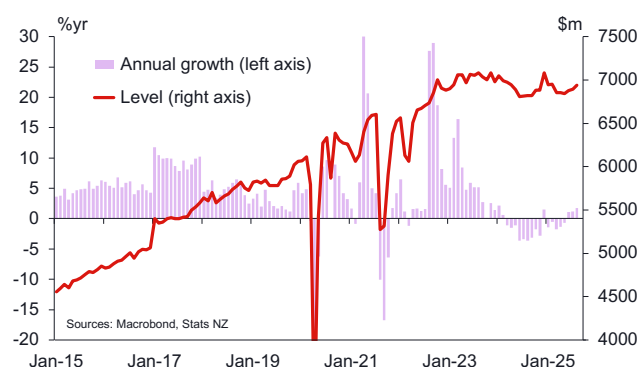


## Sep Retail Card Spending

**Oct 14, last: +0.7%, Westpac f/c: +0.3%**

Retail spending was stronger than expected in August, with sales up 0.7%. That was the third gain in a row and included increases in all the core categories. We're forecasting another 0.3% rise in spending in September. Some of that is related to increases in fuel prices, which will siphon funds away from other areas. Even so, we still expect a modest rise in core (ex-fuel) spending, including further modest 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

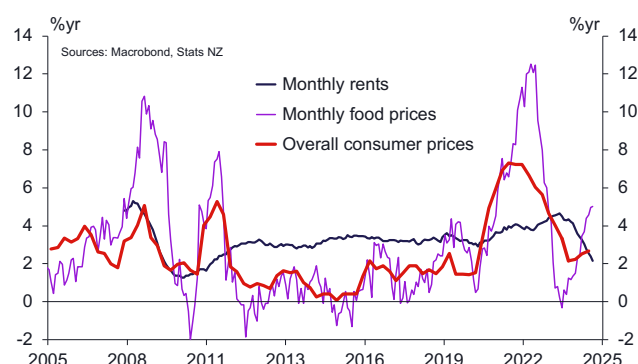


## Sep Selected Price Indices

**Oct 16**

This will be the last monthly price update before the full CPI is released on 20 October. In terms of specifics, we expect to see a 0.1% rise in food prices over the month, with falls in fresh produce prices balanced against higher grocery prices. We also expect another weak 0.1% rise in housing rents with several regions (most notably Wellington) seeing some falls in rents against a backdrop of ample supply. We'll also be watching for further large increases in household energy prices and a rebound in travel costs after last month's sharp falls. Overall, we expect the September report to confirm our forecast that annual inflation is pushing back up to 3% (or just slightly above). That would be in line with the RBNZ's forecast. Much of that rise is in non-core categories and is likely to be temporary.

## Selected consumer prices

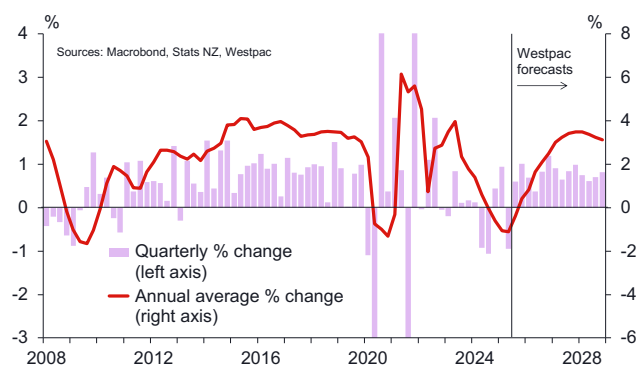


# Economic and financial forecasts

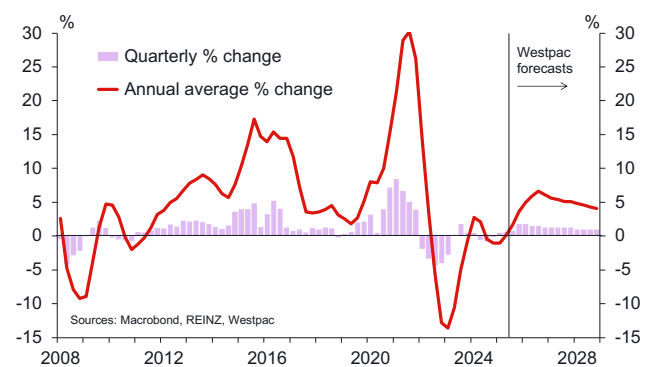
Economic indicators	Quarterly % change				Annual % change			
	Mar-25	Jun-25	Sep-25	Dec-25	2024	2025	2026	2027
GDP (production)	0.9	-0.9	0.6	1.0	-1.4	1.6	3.1	3.4
Consumer price index	0.9	0.5	1.1	0.5	2.2	3.0	2.0	2.1
Employment change	0.0	-0.1	0.0	0.2	-1.2	0.2	2.5	2.0
Unemployment rate	5.1	5.2	5.3	5.3	5.1	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

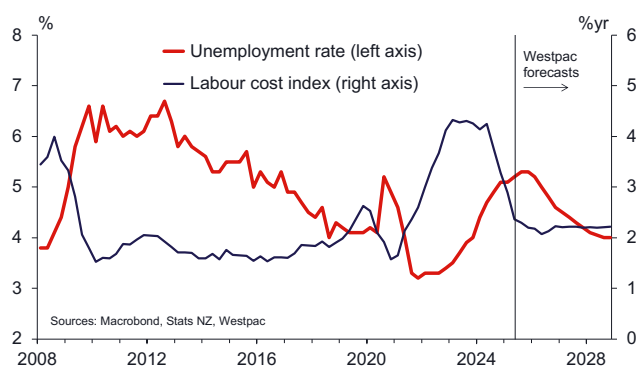
GDP growth



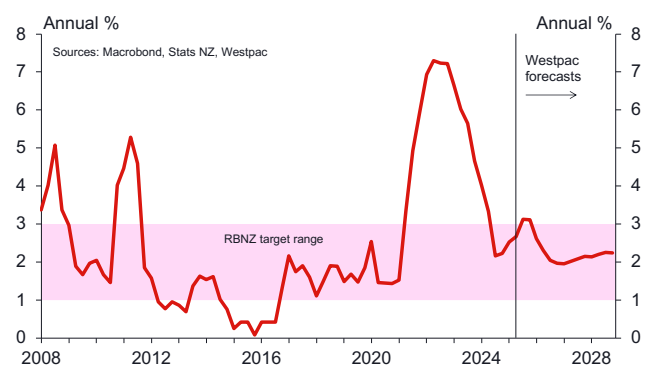
House prices



Unemployment and wage growth



Consumer price inflation



# Data calendar

		Last	Market median	Westpac forecast	Risk/Comment
<b>Mon 13</b>					
<b>NZ</b>	Sep BusinessNZ PSI, index	47.5	–	–	Yet to see an improvement in this measure this year.
	Aug Net Migration, no.	2060	–	–	Stabilised at low positive levels.
<b>Tue 14</b>					
<b>NZ</b>	Sep REINZ House Prices, %yr	0.4	–	–	House price trends remain subdued ...
	Sep REINZ House Sales, %yr	–3.7	–	–	... even as lower mortgage rates spur higher activity.
	Sep Retail Card Spending, %mth	0.7	–	0.3	Discretionary spending gradually pushing higher.
<b>Aus</b>	Sep NAB Business Conditions, index	7	–	–	Conditions sitting around the long-term average.
	RBA Minutes	–	–	–	To provide additional insights into the Board's deliberations.
<b>Eur</b>	Oct ZEW Survey Of Expectations, index	26.1	–	–	German investors remain cautiously optimistic.
<b>UK</b>	Aug ILO Unemployment Rate, %	4.7	4.7	–	Sitting at its highest level in over four years.
<b>US</b>	Fedspeak	–	–	–	Powell and Bowman
	Sep NFIB Small Business Optimism, index	100.8	–	–	Has recovered half of its tariff induced decline from earlier.
<b>Wed 15</b>					
<b>NZ</b>	RBNZ Chief Economist Conway	–	–	–	Speech on monetary policy through the pandemic.
<b>Aus</b>	Sep Westpac-MI Leading Index, %ann'd	–0.16	–	–	The Sep read looks likely to be on the soft side again.
	RBA Assistant Governor (Economic)	–	–	–	Hunter speaking in Sydney.
<b>Jpn</b>	Aug Industrial Production, %mth	–1.2	–	–	Final estimate.
<b>Chn</b>	Sep PPI, %ann	–2.9	–2.3	–	Deflationary pressures seem to be easing ever so slightly ...
	Sep CPI, %ann	–0.4	–0.2	–	... while consumer prices are once again falling.
<b>Eur</b>	Aug Industrial Production, %mth	0.3	–	–	Industrial production is yet to see a sustained recovery.
<b>US</b>	Fedspeak	–	–	–	Miran, Waller, and Collins.
	Oct Fed Empire State Manufac. Survey, index	–8.7	–	–	On an upward trend since April.
	Federal Reserve's Beige Book	–	–	–	Update on current economic conditions across the districts.
	Sep CPI*, %mth	0.4	0.4	–	August gave further evidence of a slow passthrough of tariffs.
<b>Thu 16</b>					
<b>NZ</b>	Sep Selected Price Indices - Food, %mth	0.3	–	0.1	Falls in produce prices, increases in grocery goods.
	Sep Selected Price Indices - Rents, %mth	0.1	–	0.1	Rental growth very soft, esp. in areas like Wellington.
<b>Aus</b>	RBA speakers	–	–	–	Bullock in the US and Kent in Sydney.
	Sep Employment Change, 000s	–5.4	20	15	Gradual softening trend has re-emerged for jobs ...
	Sep Unemployment Rate, %	4.2	4.3	4.3	... seeing unemployment slowly tick higher.
<b>Jpn</b>	Aug Core Machinery Orders, %mth	–4.6	0.4	–	Three declines in the last four months.
<b>Eur</b>	Aug Trade Balance, €bn	5.3	–	–	External sector shaping up to be the key risk for Q3 growth.
<b>UK</b>	Aug Trade Balance, £bn	–5.3	–	–	Services exports has fallen for two consecutive months.
	Aug Monthly GDP, %	0	0.1	–	Resilience seen in the first half of the year looks to be fading.
<b>US</b>	Fedspeak	–	–	–	Waller, Miran, and Bowman.
	Sep Retail Sales*, %mth	0.6	–	–	Online spending surges as bargain hunting ramps up.
	Sep PPI*, %mth	–0.1	–	–	Producer prices fell for the first time since April.
	Oct Philly Fed Business Outlook Survey, index	23.2	–	–	Above average expectations for prices paid and received.
	Aug Business Inventories*, %mth	0.2	–	–	Holding a touch below average levels.
	Oct NAHB Housing Market Sentiment, index	32	–	–	Homebuilder confidence slumps as housing affordability bites.
	Initial Jobless Claims*	–	–	–	Started to trend softer prior to government shutdown.
<b>Fri 17</b>					
<b>Eur</b>	Sep HICP, %ann	2.2	2.2	–	Final estimate.
<b>US</b>	Fedspeak	–	–	–	Musalem fireside chat at IIF conference in Pennsylvania.
	Sep Housing Starts*, %mth	–8.5	0.6	–	Construction slows as housing supply reaches decade highs.
	Sep Building Permits*, %mth	–2.3	1.2	–	Has declined for five consecutive months.
	Sep Import Price Index*, %mth	0.3	0.1	–	Importers look to be absorbing most of the tariff costs.
	Sep Industrial Production*, %mth	0.1	0	–	Manufacturing capacity has been improving.

\* Data releases may be delayed/cancelled due to the US government shutdown.



# 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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