WEEKLY ECONOMIC COMMENTARY

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

The jalopy is struggling in the mud.

Data last week continued to be mixed. We saw further encouraging signs from the construction and tourism sectors and a welcome lift in the Performance of Manufacturing Index (PMI). Less encouragingly, dairy prices continued to fall and consumer spending looks flat. The weaker New Zealand dollar is helping to support externally oriented sectors increasingly.

The theme of our recently released **Economic Overview** was one of an economy that, despite being given a fair amount of oil and gas, is still struggling to move decisively forward towards cruising speed – a bit like that old Jalopy you might have been driving as a teenager. The data last week continued in this theme: there were signs of emerging strength in some areas, but still moribund activity in others. The implications for markets seem clear enough as it seems likely that interest rates will head a little lower yet and the exchange rate should remain weak.

On the positive side of things, we got some encouraging data from the construction sector where the volume of concrete poured rose 2.3% in Q3. This didn't reverse the 5.4% drop from Q2, and the volume of activity remains well below year ago levels as the construction sector remains one of the weakest sectors. But the rise this quarter likely implies a positive contribution to Q3 GDP and is hopefully a portent of stronger times ahead – consistent with the stronger trend in consents we discussed last week.

Also, tourist numbers are picking up nicely, closing in on their pre-Covid levels. Visitor arrivals rose about 3% in seasonally adjusted terms in September and are up by about 8% over the last three months. One thing to remember is that the weaker exchange rate is a support to the tourism sector as it makes a holiday in New Zealand cheaper. We suspect this means that the

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

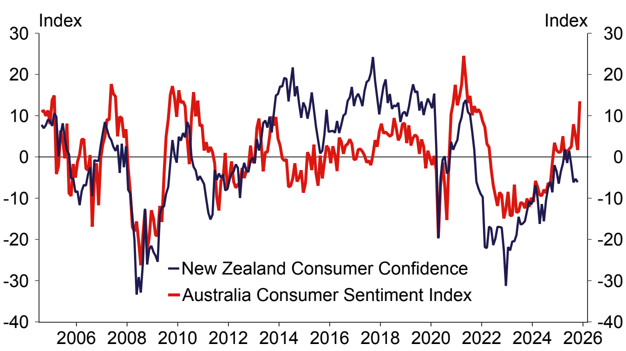
Date	Event
17 Nov 25	NZ Selected price indexes, October
26 Nov 25	RBNZ OCR Review & Monetary Policy Statement
4 Dec 25	NZ Government accounts (4 months to October)
9 Dec 25	RBA Monetary Policy Decision
10 Dec 25	FOMC meeting (11 Dec NZT)
16 Dec 25	NZ Selected price indexes, November
16 Dec 25	Half Year 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

upcoming summer might be a decent one for the tourism sector, with flow-on benefits to the services sector and hospitality.

Net migration data for September were a touch better than previous estimates with a net 1800-person gain recorded for September. Downward revisions to the data on the number of New Zealanders permanently leaving the country painted a slightly more positive picture. The issue is that Stats NZ's models are struggling to discern between people leaving for a holiday and those leaving permanently. With time, when people return from holiday the estimates are being revised. We see potential for this to continue in coming months. The last couple of summers, the initial estimates of outward migration spiked, only to be revised back down again as the holiday makers were correctly tabulated. This possibly means that narratives of increasingly large numbers of New Zealanders exiting the country have been overblown. We expect net migration to pick up gradually over 2026 as job prospects improve in New Zealand compared to Australia – at least relative to where they sit today.

The manufacturing sector continues to poke its head cautiously over the parapet. The PMI index rose a touch and has now been at 50 or higher for 4 months now. The last run of above-50 readings was in early 2025 when we did register some solid GDP growth. We interpret these readings as in the cautiously optimistic category though as the sector is clearly not speeding ahead.

Detrended Australia vs NZ consumer confidence



Sources: Macrobond, Melbourne Institute of Applied Economic & Social Research, ANZ, Westpac

Less positively, **October's retail card spending report** pointed to a disappointing lack of momentum in spending. Spending levels were up just 0.2% over the month. That gain almost entirely related to increased spending on groceries, with prices continuing to rise for many essential food items. Spending in discretionary spending categories looked a bit weak, with falls in spending on household durables, apparel and hospitality. Recent months had seen spending in those categories starting to rise, but that momentum has not been sustained. Overall, these data don't look consistent with consumers opening their wallets after recent interest rate cuts. This seems to gel with the still below trend level of consumer confidence (a real contrast to the **storming result registered from our Australian cousins** last week). Ongoing weakness in the jobs market is likely an important factor weighing on spending appetites.

The latest **RBNZ Survey of Expectations** suggested stable inflation expectations – although I remain sceptical of the value of this small survey of expert commentators compared to the larger household and business surveys due to be released in coming weeks. Nevertheless, there is no smoking gun getting in the way of another RBNZ interest rate cut this month.

Westpac's joint report on First Home Buyers with Cotality painted a positive picture for the housing market from the perspective of first home buyers. Our estimates indicate that the combination of flat prices and falling interest rates has improved incentives to enter the market. The proportion of first home buyers as a ratio of total sales is at the highest level since data were available from 2005. The average Loan-to-Value ratio for mortgages has been rising this year – and it's the increasing number of more marginal participants such as first home buyers that are driving that trend. It's an indication that the transmission mechanism for monetary policy is grinding forward. That's encouraging.

Trends in the dairy sector look a bit more mixed than they have done for a while. Futures prices for dairy products have been falling now for a few months as increasing supply in global markets weighs on prices. The falling exchange rate has taken the edge off the final impact for domestic producers, but it's beginning to look like we have some modest downside risks to our $10/kg forecast for the 2025/26 season now (after having some upside risks earlier in the year).

We have been presenting our new Economic Overview to clients in Auckland and Wellington. Talking to businesses in our recent travels, there's still a degree of caution about the outlook. Lower interest rates are helping businesses feel more optimistic about where the economy is heading. But for now, there is caution about taking on more staff and major capital outlays.

There's also a noticeable difference in sentiment across the regions. Those in Wellington are still feeling more downbeat about the economic landscape, with continued restraint in government spending being felt across the region. A greater number of businesses in the Capital also expect uncertainty about next year's election to have some impact on their business. Expectations for house price growth are also softer in Wellington, with the region's housing market underperforming relative to other parts of the country for some time.

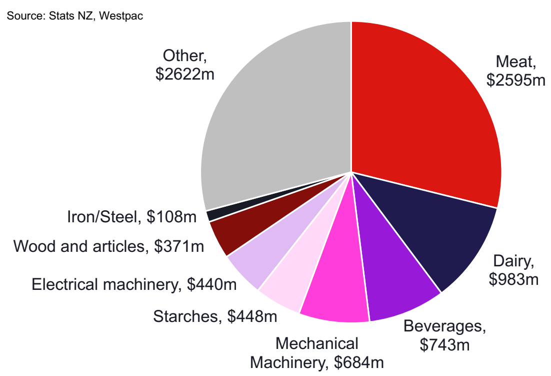
We asked firms about the extent to which election uncertainty might impact their business next year. Encouragingly, this factor was not exceptionally pervasive – although clients in Wellington seemed to feel this risk more tangibly.

So how is this all boiling down to the bottom line? Our GDP Nowcasts continue to point to modestly positive but below trend GDP growth that's not far off either our or the RBNZ's forecasts. Hence the theme of "Running rough," where we need to wait until 2026 for more tangible signs of an economy operating at or above trend, looks about right. And also, our view that we get another 25bp cut from the RBNZ also looks right based on the data alone.

Some breaking news over the weekend was the new Executive Order from the White House rolling back reciprocal tariffs on a broad range of imports and agricultural exports in particular. In New Zealand's case this means beef and fruit exports are no longer subject to tariffs. However dairy and wine still miss out. It looks like the discount is significant and that perhaps 25% of our exports to the US are covered by the tariff exemption.

We always thought that the direct impact of these tariffs would be modest. And indeed, the reason these tariffs are being rolled back is because it was the US consumer who was increasingly bearing their cost. But at least the indirect impact is now reduced – especially to the extent that we had a competitive disadvantage to other countries who had lower reciprocal tariff levels (such as Australia). Given the Supreme Court is likely to strike down the reciprocal tariffs anyway, perhaps the administration is getting ahead of this by pulling the tariff regime back to areas which might be more defensible under other legal authorities. Let's see.

NZ's direct export exposure to US tariffs – 2024 (NZ$)



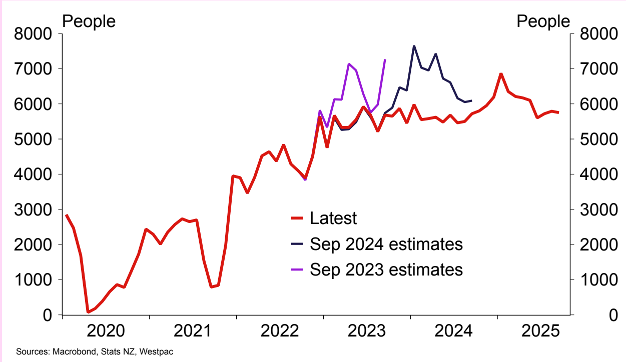
We will issue our preview of the RBNZ's November Monetary Policy Statement next week. We still see the choice as being between a 25 and 50bp cut. The choice will reflect questions of strategy rather than data. Last week we had another speech from RBNZ MPC member Gai which focused on communication in times of uncertainty. Gai's previous speech discussed the merits of acting aggressively to cut through uncertainty – presumably in reference to the RBNZ's 50bp cut in October. Comparing the themes of these speeches, the implication might be that we might see a few more scenarios in the coming Monetary Policy Statement to illustrate what might happen in different states of the world, as opposed to more bold action now. However, if the RBNZ feels that there's a good chance they may need to cut again in February, the argument for another 50bp cut before Christmas could look compelling. The weekend tariff news likely pushes down the risks of a 50bp cut a bit given the MPCs focus on the impact the tariff regime might have been having on uncertainty among consumers and businesses.

Kelly Eckhold, Chief Economist

Chart of the week.

Measures of migrant flows always face a trade-off between timeliness and accuracy. The figures reported by Stats NZ are initially modelled estimates, which are then revised as they collect more information about people's actual movements. These revisions can be large and go back a year or more, which means that the picture of migration trends can look quite different in hindsight. A year ago, the reported figures showed a surge in departures of New Zealanders in late 2023 and early 2024, which has since been revised away; a similar revision happened to the figures reported two years ago. We can only guess as to what the currently reported figures will look like in a year's time. It's worth noting that data independently reported by the ABS shows a much more moderate rise in the number of Kiwis moving to Australia – certainly higher than pre-Covid levels, but well below the previous peak seen in the early 2010s.

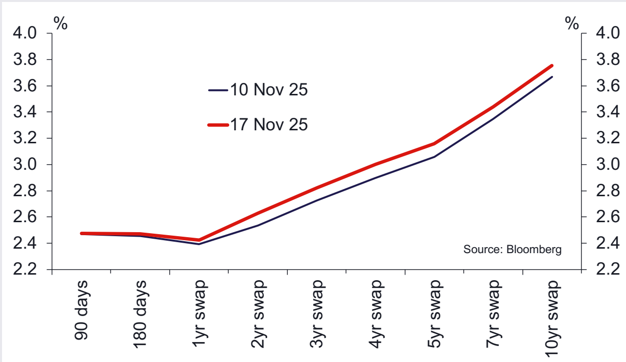
Monthly departures by New Zealand citizens



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

US.

The US government shutdown ended after 43 days – the longest on record. Funding for government services has been extended until the end of January, at which time further agreement will be needed. In coming weeks, delayed economic reports will be released, though some releases will be incomplete. Looking at the data that was released over the past week, we've seen continued softness in small business confidence, while ADP's private sector jobs report recorded an 11k drop in employment in the four-weeks to 25 October. Comments from FOMC members continue to focus attention on inflation risks, viewing these as more significant and immediate than signs of softness in the labour market. Arguably then, it will take a material deterioration in conditions for the Committee to ease again at the December meeting. On the trade front, President Trump has announced an easing in tariffs on some food items, including products like beef that are key exports for New Zealand. This week's data calendar includes the minutes of the FOMC's October meeting (Thursday), the delayed September payrolls report (Friday) and several updates on the business sector.

UK.

UK GDP growth came in at 0.1% in the September quarter, falling short of the 0.2% rise the BOE and markets had expected. Combined with softness in the labour market, the undershoot on GDP growth has added to expectations for a rate cut at the BOE's 13 December meeting. That follows dovish commentary from the BOE at their November meeting.

Asia-Pacific.

In Australia, the **Westpac-MI Consumer Sentiment** surged 12.8% in November to 103.8, the first reading above the optimist / pessimist divide since the 'Delta' outbreak. The recovery has been supported by a calmer global backdrop and a more assured domestic recovery. October's **labour force data** confirmed that the labour market is only softening at a very gradual pace. Employment was firmer-than-expected in the month, rising 42.2k. The unemployment rate also fell from 4.5% in September to 4.3%. Looking through the noise, the steady-but-modest uptrend in the unemployment rate in place throughout 2025 remains intact. At its current level, the unemployment rate is broadly consistent with full employment. In China, October's activity indicators were softer than expected, with a further drop in investment spending and a cooling in industrial production. Retail sales growth also slowed. This week's calendar includes the RBA's November meeting minutes (Tuesday) and several updates on the Japanese economy.

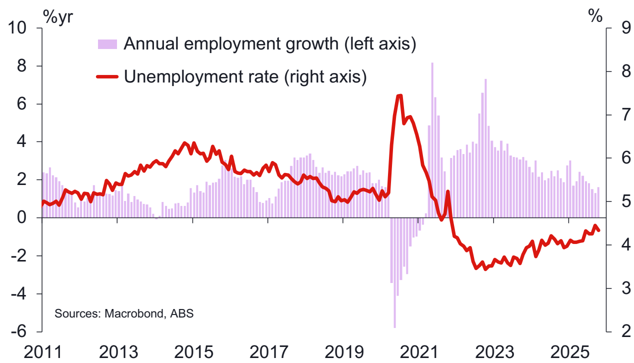
Trading partner real GDP (calendar years)

	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

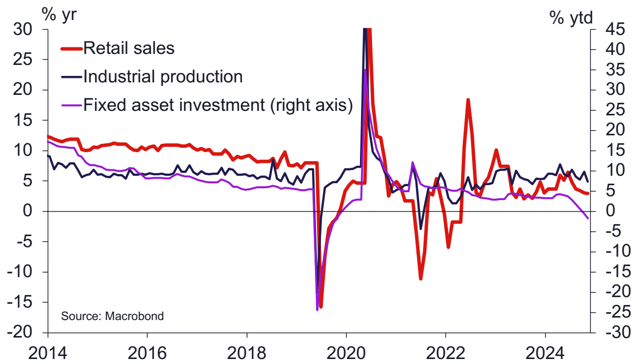
Australian & US interest rate outlook

	14 Nov	Dec-25	Dec-26	Dec-27
Australia				
Cash	3.60	3.60	3.10	3.10
90 Day BBSW	3.65	3.65	3.15	3.20
3 Year Swap	3.76	3.55	3.70	4.00
3 Year Bond	3.78	3.60	3.75	4.00
10 Year Bond	4.45	4.35	4.50	4.60
10 Year Spread to US (bps)	33	20	10	0
US				
Fed Funds	3.875	3.875	3.375	3.375
US 10 Year Bond	4.12	4.15	4.40	4.60

Australian labour market



Chinese activity indicators



Financial markets wrap

Foreign exchange.

NZD/USD stabilised last week after the previous week's fall to 0.5606 – its lowest level lowest since April. This week, we expect it to continue to consolidate between 0.5600 and 0.5700, with potential for 0.5700 to be tested.

The main driver this week is likely to be the US dollar's reaction to the looming flood of economic data which was previously delayed due to the record long (43 days) US government shutdown. The overall complexion of the data could see market pricing for Fed rate cuts either increase or decrease, and the USD would likely follow suit.

This week's NZ data is minor but could still ruffle NZD markets, particularly the Selected Price Indices – a subset of the CPI – which are released on Monday. REINZ housing data will also be watched for signs the falling mortgage rates are having some effect. The next major New Zealand data event will be the RBNZ MPS on 26 November.

NZD/AUD's large decline since April extended further last week to 0.86594– its lowest level since 2012. It looks quite stretched (oversold) technically, so a rebound to the 0.88 area during the week ahead would not surprise. That said, we remain bearish long term (i.e. into next year), as the broad theme of AU economic outperformance is likely to remain intact during the next month or two. Key Australian economic data – CPI inflation and labour – have positively surprised. The next major data will be Q3 wage inflation on 19 November and October CPI on 26 November.

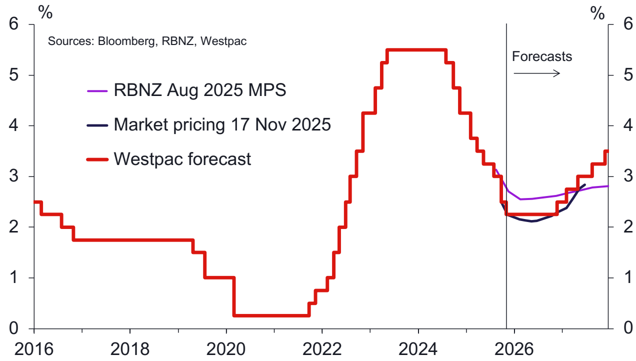
Interest rates.

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. This week, markets will continue to comb the second-tier NZ economic data for signs of green shoots.

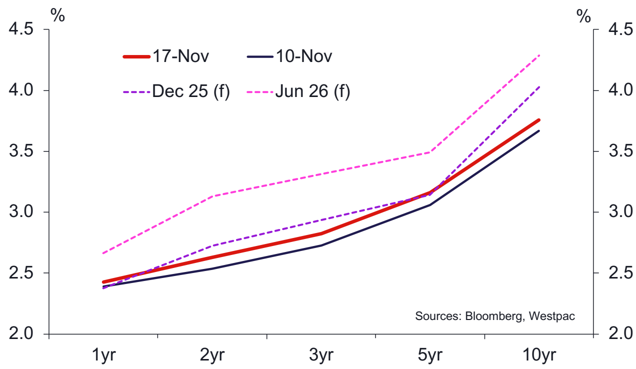
The OIS market continues to price a 25bp cut to 2.25% at the next RBNZ meeting on 26 November, and assigns only a 5% chance to a larger 50bp cut. For the remainder of this easing cycle, it assigns around a 60% chance to a final 25bp cut to 2.0% by May 2026.

The NZ yield curve continues to show only tentative signs of peaking, the 2-10yr swap curve currently at 112bp (vs the recent peak at 114bp). The yield curve will start to flatten convincingly when the OCR cycle low is eventually confirmed.

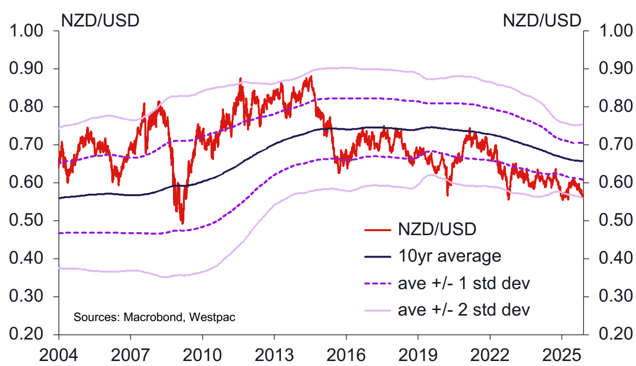
Official Cash Rate forecasts



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	0.568	0.56-0.597	0.553-0.743	0.632	0.57
AUD	0.869	0.858-0.912	0.862-0.971	0.921	0.87
EUR	0.489	0.483-0.509	0.486-0.637	0.571	0.49
GBP	0.431	0.426-0.440	0.426-0.535	0.490	0.43
JPY	87.7	85.6-88.4	71.6-98.6	84.7	87.5

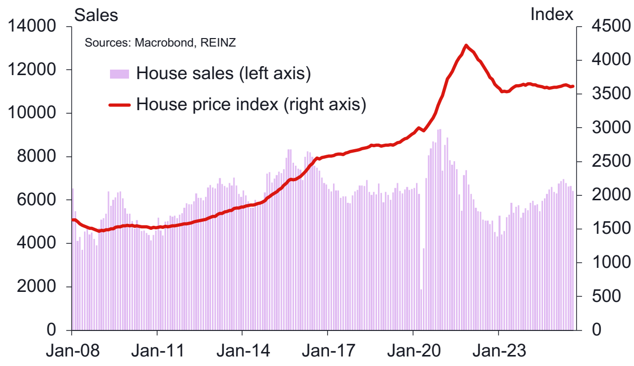
The week ahead

Oct REINZ House Prices and Sales

Nov 17, Prices last: +0.2%yr; Sales last: +3.1%yr

September was another subdued month for the New Zealand housing market, with prices remaining flat and sales continuing to ease off the highs seen earlier in the year. The RBNZ's dovish shift in August, followed by the larger 50bp cut at its October review, has given a fresh downward leg to mortgage rates in recent months. Against this, the housing market remains adequately supplied due to reasonable levels of construction activity and the slow pace of population growth. As a result, we expect only a modest lift in prices in the months ahead.

REINZ house prices and sales

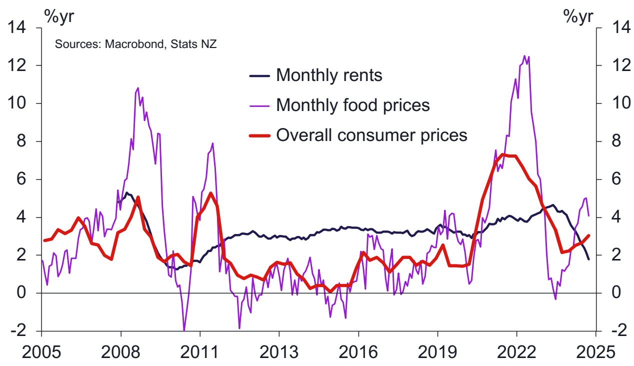


Oct Selected Price Indices

Nov 17

After rising to 3%yr in the September quarter, we expect inflation will start to ease back over the coming months. That's in large part due to an expected moderation in food price inflation. We expect a seasonal fall in vegetable prices in October, and will also be watching for signs that meat and grocery price inflation is starting to ease back after earlier large increases. Rents (11% of the CPI) will also be a key focus, with the recent softness expected to continue well into the new year. On the upside, we'll be watching for further strength in household energy prices, with the December quarter often seeing large increases in gas prices.

Selected consumer prices

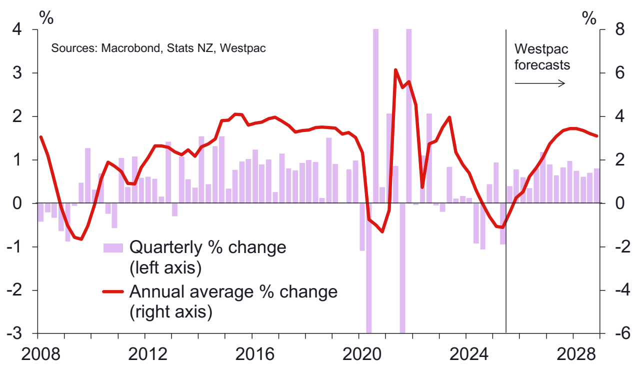


Economic and financial forecasts

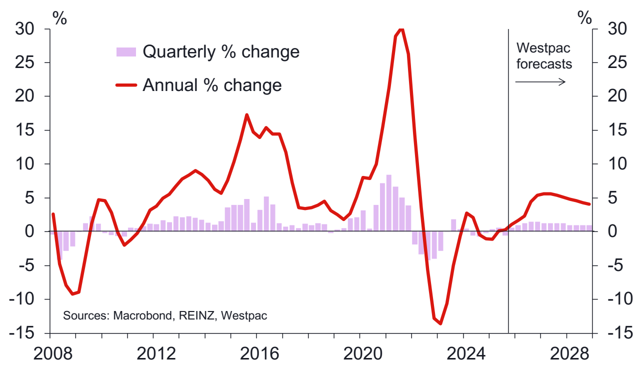
Economic indicators	Quarterly % change				Annual % change			
	Jun-25	Sep-25	Dec-25	Mar-26	2024	2025	2026	2027
GDP (production)	-0.9	0.4	0.8	0.6	-1.4	1.2	3.0	3.4
Consumer price index	0.5	1.0	0.4	0.4	2.2	2.9	2.3	2.1
Employment change	-0.2	0.0	0.2	0.4	-1.2	-0.1	2.3	2.2
Unemployment rate	5.2	5.3	5.4	5.4	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

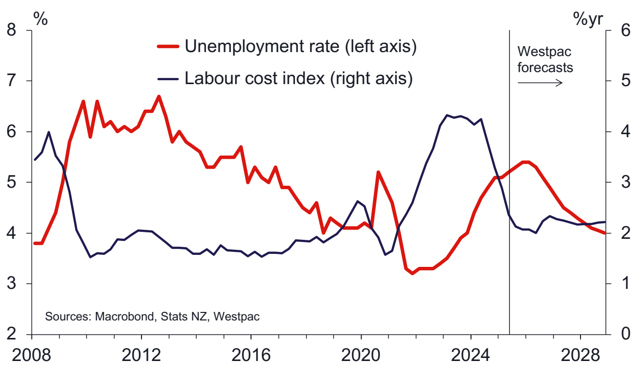
GDP growth



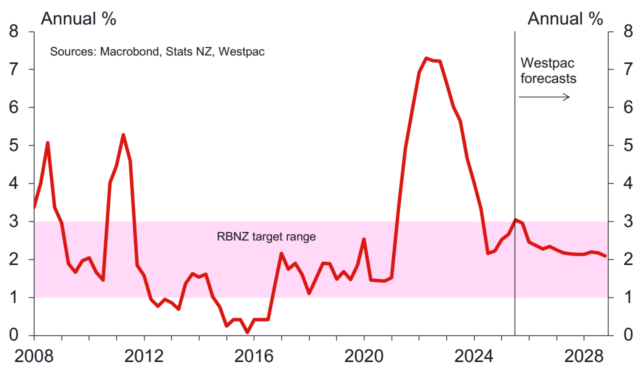
House prices



Unemployment and wage growth



Consumer price inflation



Data calendar

		Last	Market median	Westpac forecast	Risk/Comment
Mon 17					
NZ	Oct REINZ House Prices, %ann	0.2	–	–	Mortgage rates have taken a fresh leg lower recently ...
	Oct REINZ House Sales, %ann	3.1	–	–	... but the housing market remains amply supplied.
	Oct BusinessNZ PSI, index	48.3	–	–	The services measure has remained soft this year.
	Oct Selected Price Indices – Food, %mth	–0.3	–	–0.4	Seasonal fall in vegetable prices.
	Oct Selected Price Indices – Rents, %mth	0	–	0.1	Rental inflation very soft. Supply up, population growth down.
Jpn	Q3 GDP, %qtr	0.5	–0.6	–	Reversal of net export bounce set to drive decline.
	Sep Industrial Production, %mth	2.2	–	–	Final estimate.
US	Nov Fed Empire State, index	10.7	5.8	–	Volatile around a broadly neutral level.
	Aug construction spending, %mth	-0.1%	-0.1%	-	Delayed due to shutdown.
Tue 18					
Aus	Nov RBA Minutes	–	–	–	Detail on policy deliberations to reinforce patient approach.
US	Nov NAHB Housing Market, index	37	–	–	Still very weak, but falling mortgage rates will help in time.
	Oct industrial production, %mth	0.0	-	-	Signs of cooling in recent surveys
	Aug durable orders, %mth	2.9	2.9	-	Delayed due to shutdown.
Wed 19					
Aus	Oct Westpac–MI Leading Index, %ann'd	0.0	–	–	Points to growth around-trend in early 2026.
	Q3 Wage Price Index, %qtr	0.8	0.8	0.7	Smaller minimum wage increase adds to overall moderation.
Jpn	Sep Core Machinery Orders, %mth	–0.9	2.5	–	Momentum positive, reflecting stronger investment intentions.
Eur	Oct CPI, %ann	2.2	–	–	Final estimate.
UK	Oct CPI, %ann	3.8	3.6	–	BoE more confident that inflation's downtrend is resuming.
US	Aug trade balance, $b	-78.3	-60.3	-	Delayed due to shutdown.
	Nov FOMC Minutes	–	–	–	More colour on views around the balance of risks.
Thu 20					
Aus	RBA Assist' Governor (Economic)	–	–	–	Hunter speaking at AiG.
Eur	Nov Consumer Confidence, index	–14.2	–	–	Still on a fragile footing; risks varied across the region.
US	Initial jobless claims	225k	-	-	Still relatively low.
	Sep non-farm payrolls, 000s	22	50	-	Delayed due to shutdown.
	Nov Phily Fed, index	–12.8	–1.5	–	Most volatile out of the regional manufacturing surveys.
	Oct Existing Home Sales, %mth	1.5	0.7	–	Turnover little-changed around 28% below late-2020 peak.
	Nov Kansas City Fed, index	6	–	–	Tracking a consistent, gradual uptrend.
	Fedspeak	–	–	–	Goolsbee.
Fri 21					
NZ	Oct Trade Balance, $bn	–1.4	–	–0.8	Seasonal lift in export volumes.
Jpn	Oct CPI, %ann	2.9	3	–	On the path to sustainable inflation, albeit a bumpy one.
	Nov S&P Global Manufacturing PMI, index	48.2	–	–	In a weak patch, driven by automotive and semiconductors ...
	Nov S&P Global Services PMI, index	53.1	–	–	... but services continues to provide a meaningful offset.
Eur	Nov HCOB Manufacturing PMI, index	50	–	–	As Germany's manufacturing woes drag on the region ...
	Nov HCOB Services PMI, index	53	–	–	... a broadening services growth pulse is certainly welcome.
UK	Nov Gfk Consumer Sentiment, index	–17	–	–	No shortage of factors to keep confidence fragile ...
	Oct Retail Sales, %mth	0.5	0	–	... but at least spending is on a firmer footing.
	Nov S&P Global Manufacturing PMI, index	49.7	–	–	In a holding pattern amid heightened geopolitical risks ...
	Nov S&P Global Services PMI, index	52.2	–	–	... and elevated uncertainty ahead of the next Budget.
US	Nov S&P Global Manufacturing PMI, index	52.5	–	–	Stark contrast to ISM which points to downside risks in mfg ...
	Nov S&P Global Services PMI, index	54.8	52.3	–	... though in broad agreement about services upturn.
	Nov Uni. Of Michigan Sentiment, index	50.3	–	–	Final estimate.
	Fedspeak	–	–	–	Logan.

The US data release schedule is being updated following the shutdown's end. Releases may be incomplete and the schedule updated at short notice for a number of weeks.

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