



WEEKLY ECONOMIC COMMENTARY



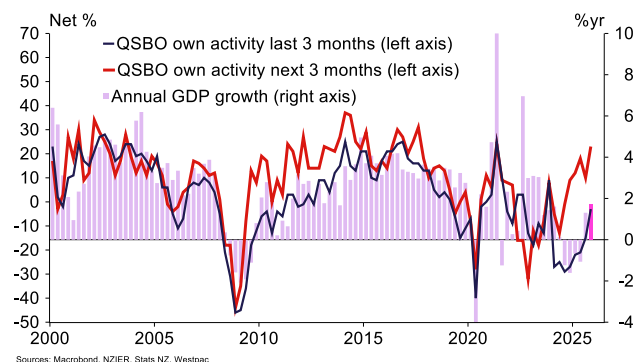
19 Jan 2026 | Westpac Economics Team | westpac.co.nz/economics | economics@westpac.co.nz

A hiss and a roar

While the summer holiday period isn't over yet for many Kiwis, the economic data calendar was back in full swing last week. And the tone was generally encouraging: businesses are starting to see a lift in activity, and there are signs that the jobs market is stabilising. One potential dampener is that we're heading into an upturn with inflation already at the top of the RBNZ's target range, but we expect some moderation on that front over the course of this year.

The highlight of the week was the NZIER's Quarterly Survey of Business Opinion, which showed a more upbeat attitude among businesses than we've seen for some time. General business sentiment rose to +39% in December from +17% in September, marking the highest reading since March 2014. In terms of their own performance, a net 23% of firms expected an improvement over the coming quarter, compared to 10% in September.

QSBO own activity vs GDP growth

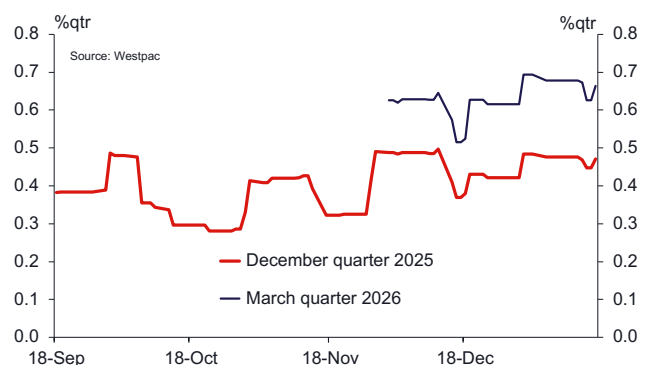


Notably, the backward-looking measures of the survey, which have been more circumspect in recent quarters compared to the forward-looking ones, also saw a meaningful pickup in the December quarter. The past

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
22 Jan 26	NZ Government accounts (5 months to November)
23 Jan 26	NZ CPI, September quarter
28 Jan 26	FOMC meeting (29 Jan NZT)
3 Feb 26	RBA Monetary Policy Decision
4 Feb 26	Labour market surveys, December quarter
12 Feb 26	NZ Government accounts (6 months to December)
16 Feb 26	RBNZ OCR Review & Monetary Policy Statement
17 Feb 26	NZ Selected price indexes, January
18 Feb 26	RBA Monetary Policy Decision
17 Mar 26	NZ Selected price indexes, February

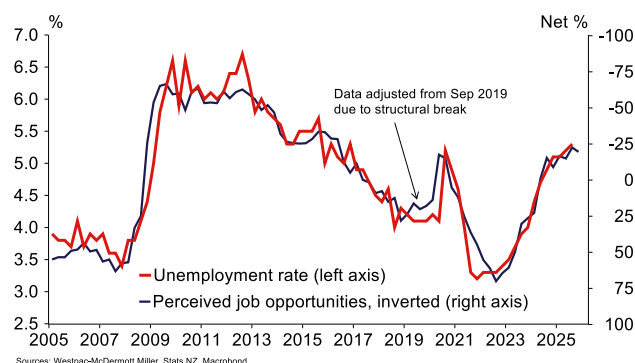
performance measure has typically been the better leading indicator of GDP growth, though not always and certainly not on a quarter-to-quarter basis. Having said that, the latest reading is consistent with our current forecasts – we expect a 0.5% rise in December quarter GDP, which would lift the annual growth rate to 1.7%.

The biggest improvement in the QSBO was seen in the manufacturing sector. That finding was also backed by the monthly BusinessNZ manufacturing PMI, which jumped to a four-year high of 56.1 in December. Unusually, the manufacturing survey has been running much stronger than the equivalent services sector survey over the last year (the December PSI will be released on Tuesday).

The QSBO also signalled that the labour market is starting to turn as business activity continues picks up. A net 2% of firms reported an increase in staff numbers, the first positive result in two years. Moreover, hiring intentions for the next quarter rose from 7% to 15%. Firms reported that skilled workers in particular are starting to become hard to find. The MBIE Jobs Online report showed that job advertisements in December were up 10% on a year ago, though they remain well below pre-Covid levels.

The confidence among businesses is being matched to a lesser degree by households. **The Westpac-McDermott Miller Employment Confidence Index rose by 3.9 points** to 93.8 in December, its highest reading since early 2024. Households were a bit more positive about job prospects and security over the next year, but perceptions of current job opportunities remain very soft. That said, the latter measure did improve slightly in the December survey, and provides some support to our view that the current unemployment rate of 5.3% is at its peak or at least very close to it.

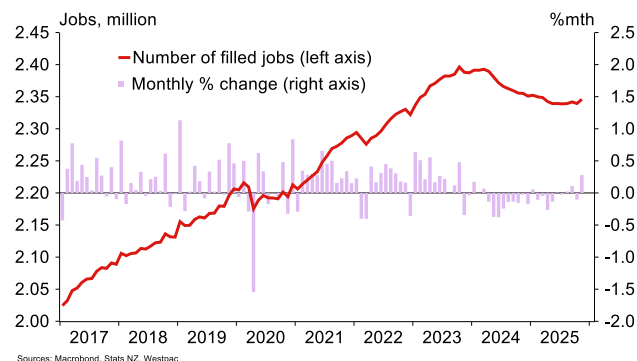
Current job opportunities vs unemployment rate



The final word on the labour market last week was the Monthly Employment Indicator (MEI), which reported a 0.3% rise in the number of filled jobs in November – the most positive month since April 2023 (aside from a temporary blip in hiring related to the October 2023 election). The MEI is drawn from income tax data, making it a comprehensive record of the number of people in work, although it has a tendency to be revised down from

its initial release due to incomplete information at the end of the month. We think the November result may end up more like a +0.1% – which would still be an improvement on the sustained fall in jobs that we saw from early 2024 to mid-2025.

Monthly Employment Indicator filled jobs



Getting positive signals from three different angles – businesses, households, and tax data – gives us more confidence that the pickup in the jobs market is genuine. However, we know that the labour market is typically a lagging element of the economic cycle. So while we expect a return to more consistent GDP growth over 2026, we think the turnaround in the unemployment rate will be more gradual, starting to head lower by the middle of this year.

Another positive development last week was news of a 2.8% rise in residential building consents in November, lifting the 12-month total to just under 36,000 consents – the highest in over a year. While trading conditions in the construction sector remain tough, low interest rates are encouraging developers to bring more projects to market.

Altogether, the signs of improving activity in the New Zealand economy confirm that monetary policy is now well into stimulatory territory. The RBNZ will be feeling comfortable with its shift to an on-hold stance at its November policy review; we think they will be able to maintain the OCR at its current 2.25% until late this year.

The potential spoiler, though, is that we're heading into an upturn with inflation already on the higher side – not what you'd hope to see given the estimated extent of spare capacity in the economy. Some of this is due to idiosyncratic factors, but even the 'core' measures of inflation are not exactly running low.

Following last week's selected monthly prices update, **we've revised up our forecast to a 0.5% increase in the CPI for the December quarter**. This would see annual inflation hold at 3.0% for a second straight quarter, right at the top of the RBNZ's 1-3% target range. In its November policy statement, the RBNZ expected inflation ease back to 0.2% for the quarter (2.7% annual).

We still expect annual inflation to ease back over the course of this year. Housing-related inflation (rents and

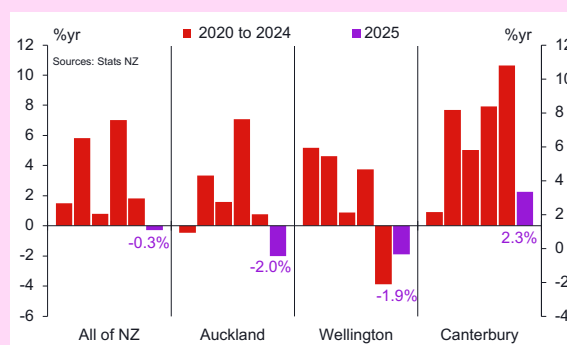
new dwelling prices) has eased significantly, and this tends to have a lot of persistence. The degree of slack in the in the labour market means that wage cost pressures remain modest. And there are signs that food price inflation is cooling again, both here and globally. If we're right, that will remove any pressure on the RBNZ for an early tightening to keep inflation expectations in check, and instead allow it to normalise policy gradually based on a forward-looking view of inflation.

Michael Gordon, Senior Economist

Chart of the week.

Recent years have seen a reshaping of New Zealand's rental market. On the demand side, we've seen a downturn in population growth and tertiary student enrolments. On the supply side, relatively high levels of home building have alleviated much of the underbuilding of homes that we saw over the past decade. The combination of those factors has been weighing on housing rents, with areas like Auckland and Wellington actually seeing average rents falling over the past year. Coming into 2026, population growth looks like it has found a base, and we are hearing some reports that demand is picking up (though at this stage it's not clear that this is more than the normal seasonal rise). Even so, we think that rental growth is likely to remain muted this year, especially with signs that home building is starting to turn higher again.

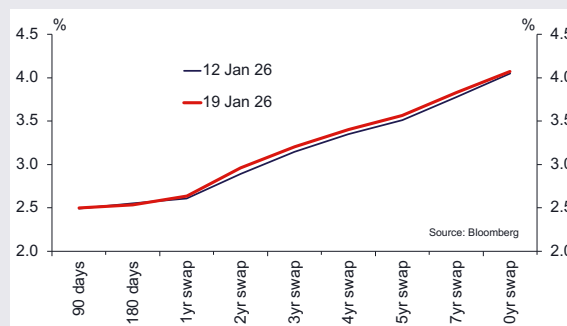
Annual housing rent inflation



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.

Political developments dominated the economic headlines last week. The US Department of Justice subpoenaed Fed Chair Powell and the Federal Reserve in relation to renovations of the Fed's headquarters, including the threat of criminal sanctions. This prompted an extraordinary public response from Powell, where he bluntly noted that this was an attempt to undermine the Fed's independence. The **heads of other central banks have signalled their support for Powell**. The Fed's next policy decision is on 29 January, with the funds rate expected to be left on hold. Sticking with politics, the possibility of US intervention in Iran has added to the downward pressure on equities and risk sensitive assets. In addition, President Trump has said the US will impose additional tariffs on goods from several European nations from 1 February unless they support the US acquisition of Greenland. On the data front, US headline CPI rose 0.3%*mt*/2.7%*yr* in December as expected, however core inflation was slightly softer than expected at 0.2%*mt*/2.6%. While that's still above the Fed's target, it looks like inflation is cooling, with tariffs having a more limited impact than may have been feared. On the activity front, retail sales were a touch softer than expected in November, but the Beige Book and recent business surveys pointed to firmer trading conditions as we've entered the new year. Following today's holiday, this week we'll get updates on personal incomes/spending and the PCE deflator (Thursday), with updates on retail spending and consumer confidence out on Friday.

Australia.

November saw a solid 1% rise in household spending, building on the solid gain seen in October. However, questions remain around how sustained that strength will be, with consumer confidence dropping back in our January Westpac-MI Consumer sentiment survey. That survey highlighted the possibility of earlier interest rate hikes from the RBA as a key concern for households. Looking to the week ahead, the main event will be Thursday's labour market report, which is expected to show moderate employment gains in December, along a small rise in the unemployment rate to 4.4%

Asia.

Chinese exports rose by more than expected at the end of 2025, with increased shipments to other parts of Asia and Europe offsetting a downturn in exports to the US. Today will see the release of Chinese GDP data for the final quarter of 2025, along with updates on economic activity for December. Over in Japan, Prime Minister Takaichi is expected to dissolve parliament and call a snap election.

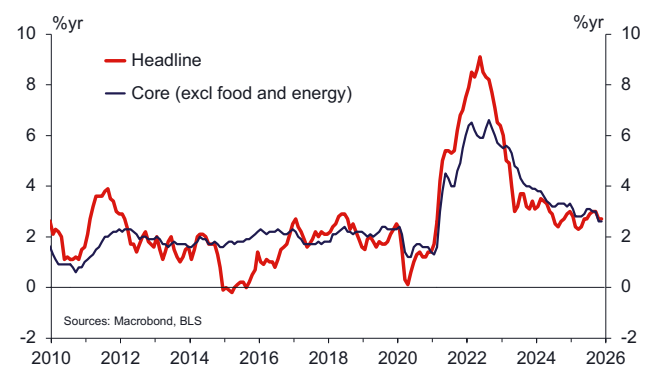
Trading partner real GDP (calendar years)

	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

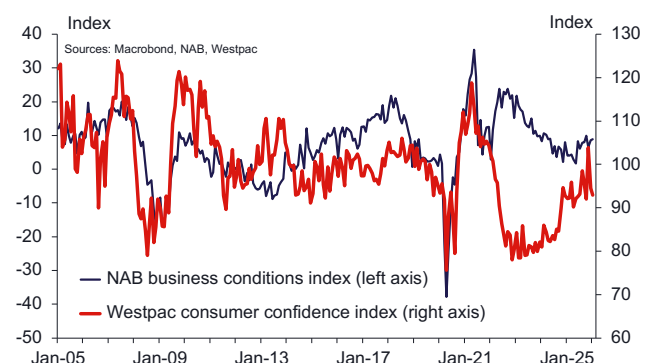
Australian & US interest rate outlook

	16 Jan	Mar-26	Dec-26	Dec-27
Australia				
Cash	3.60	3.60	3.60	3.10
90 Day BBSW	3.73	3.70	3.55	3.20
3 Year Swap	4.08	3.90	3.50	3.55
3 Year Bond	4.11	3.93	3.53	3.58
10 Year Bond	4.72	4.65	4.65	4.65
10 Year Spread to US (bps)	55	50	25	5
US				
Fed Funds	3.625	3.375	3.375	3.375
US 10 Year Bond	4.17	4.15	4.40	4.60

US CPI inflation



Australian consumer & business confidence



Financial markets wrap

Foreign exchange.

Since peaking at 0.5853 on 24 December, NZD/USD has retraced to 0.5711. It looks vulnerable to falling further, below 0.5700, during the month ahead, although the week ahead could see further ranging between 0.5710 and 0.5780.

Much of the decline can be explained by the US dollar, which has risen over the past month (following the trajectory of US bond yields), and has also responded to heightened geopolitical tensions (the US dollar acts as a safe-haven currency amid global uncertainty).

Also contributing to the recent decline in NZD/USD have been NZ-US yield spreads, the 2yr down around 20bp over the past month. NZ economic news has continued to portray an economy which is in the early stages of a recovery, although some areas remain weak.

This week contains some major economic data which could ruffle NZD/USD. NZ CPI for Q4 is expected to be stronger than the RBNZ forecast in November, while in the US we have GDP and PCE inflation to watch.

NZD/AUD extended its trend decline to 0.8552 on 7 January – the lowest level in 12 years. It looks technically stretched here and a period of consolidation between 0.8600 and 0.8700 is warranted. AU markets are now less exuberant about the prospect of RBA rate hikes this year, in the wake of mixed CPI inflation data. This week's data highlight will be the jobs data for December.

Interest rates.

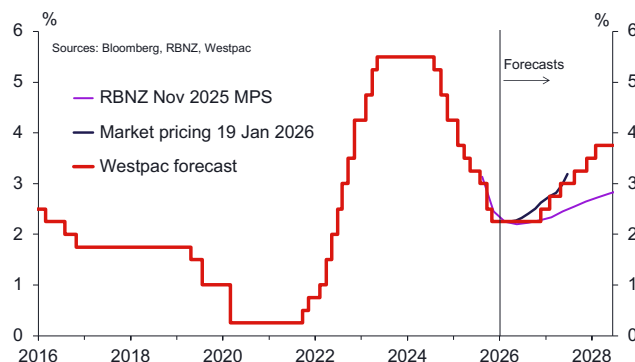
The NZ 2yr swap rate reversed from the 3.14% peak on 15 December to 2.89%, but currently sits at 2.95%. For the week ahead, we expect support at 2.89% to hold, absent news surprises.

The main local news will be the Q4 CPI data on Friday, which most economists expect to show a 2.9% or 3.0% annual gain. The RBNZ in November forecast 2.7%. Offshore events will also be influential, particularly AU jobs data and US PCE inflation data.

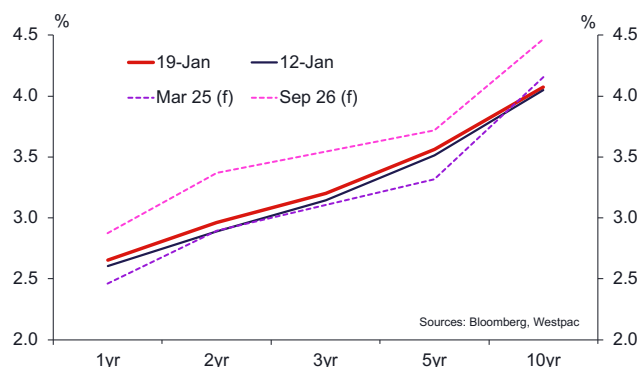
The OIS market continues to price a 100% chance of an on-hold decision at the next RBNZ meeting on 18 February – an MPS, but a 100% chance of a hike by October 2026.

The yield curve remains steep, but slightly less so than in late December/early January. During the year ahead, we expect a flattening trend to develop as markets price a higher OCR by 2027.

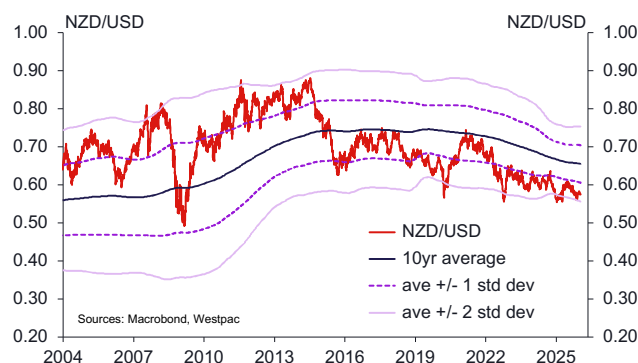
Official Cash Rate forecasts



Swap rates



NZD/USD vs rolling 10yr average



FX recent developments

	Historical data				F'cast
	Spot	3mth range	5yr range	5yr avg	Mar-26
USD	0.580	0.559-0.597	0.553-0.743	0.630	0.57
AUD	0.873	0.862-0.896	0.862-0.971	0.920	0.85
EUR	0.494	0.484-0.509	0.484-0.637	0.570	0.49
GBP	0.434	0.426-0.440	0.426-0.535	0.488	0.43
JPY	90.4	85.6-90.5	72.8-98.6	85.0	86.6

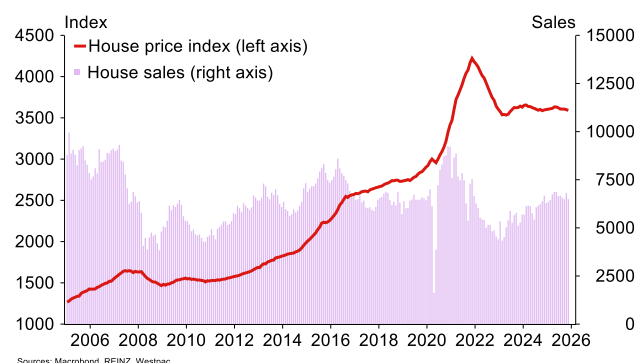
The week ahead

Dec REINZ House Sales and Prices

Jan 22, Sales last: -5.7%yr, Prices last: -0.2%yr

New Zealand's housing market is continuing to tread water. Sales have flattened off in recent months, while prices are tracking sideways on average (but with regional variation). This is notable given the sharp falls in borrowing costs over the past year. However, those falls have occurred at the same time as we've seen a large increase in the number of properties for sale. We're also still seeing relatively firm levels of building (including large numbers of townhouses and other medium-density dwellings), at the same time that population growth has slowed.

REINZ house prices and sales

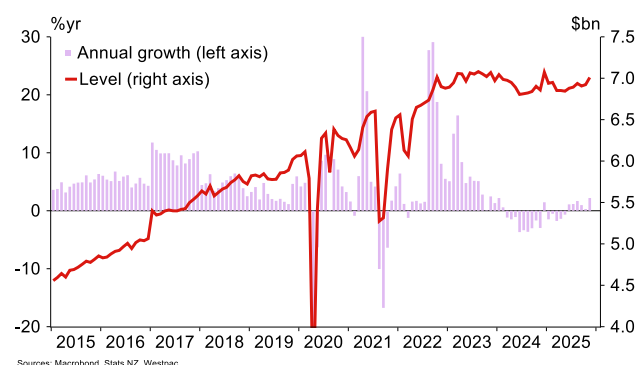


Dec Retail Card Spending

Jan 22, last: +1.2%, Westpac f/c: +0.3%

Retail spending rose by 1.2% in November, buoyed by the increasing prevalence of holiday sales events like Black Friday as well as the fall in borrowing costs. With borrowers continuing to roll onto lower rates, we're forecasting a further 0.3% rise in the December figures. Under the surface, we expect to see spending picking up in discretionary areas, like hospitality and household furnishings. While falls in borrowing costs are helping to support household spending, the growing prevalence of shopping events in November may impact the normal seasonal pattern in spending. If so, we could see the reported figures for this month coming in on the low side of expectations.

Monthly retail card spending

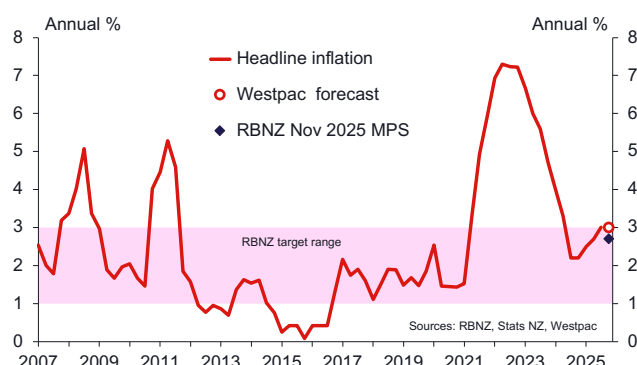


Q4 Consumer Price Index

Jan 23: Last: +1.0%qtr / +3.0%yr, Westpac: +0.5% qtr / +3.0%yr, RBNZ: +0.2% qtr / 2.7% yr

We estimate that New Zealand consumer prices rose by 0.5% in the December quarter. The annual inflation rate is expected to remain at 3.0%. December's lift in consumer prices is mainly due to higher prices for petrol, as well as seasonal increases in travel and accommodation costs. Balanced against those increases has been a seasonal fall in food prices. Under the surface, measures of core inflation have trended down over the past year, with most running at levels of around 2 to 3%. Our forecast is higher than the RBNZ's forecast for a 0.2% quarterly rise and 2.7% annual inflation rate from their November MPS.

Annual headline inflation

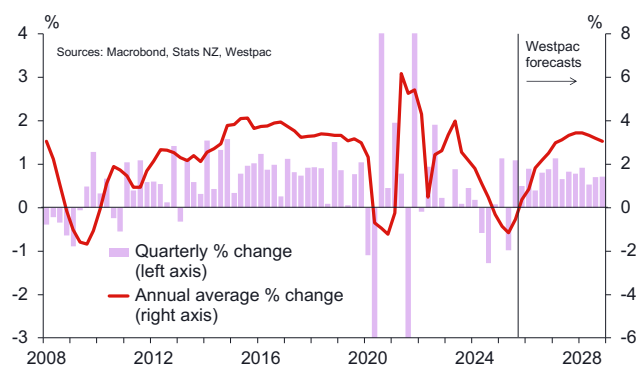


Economic and financial forecasts

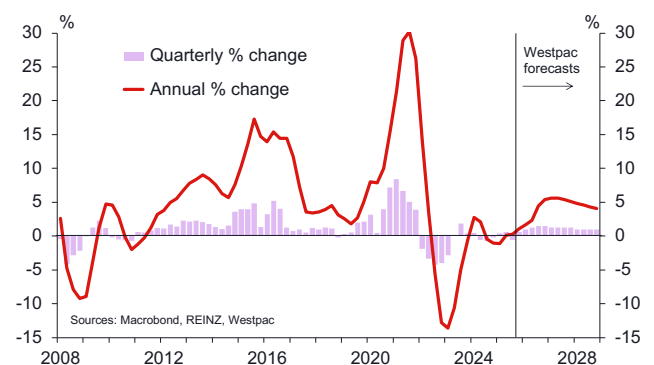
Economic indicators	Quarterly % change				Annual % change			
	Jun-25	Sep-25	Dec-25	Mar-26	2024	2025	2026	2027
GDP (production)	-1.0	1.1	0.5	0.9	-1.6	1.7	3.0	3.4
Consumer price index	0.5	1.0	0.5	0.3	2.2	3.0	2.1	2.1
Employment change	-0.2	0.0	0.3	0.3	-1.2	0.0	2.2	2.2
Unemployment rate	5.2	5.3	5.3	5.3	5.1	5.3	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	-3.6	-3.7	-4.7	-3.6	-4.5	-3.8
Terms of trade	4.1	-2.1	-1.7	-2.1	13.7	2.2	1.0	3.7
House price index	0.5	-0.6	-0.4	1.0	-1.0	0.0	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	2.52	2.35	4.45	2.52	2.70	3.70
2 year swap	3.18	2.99	2.71	3.05	3.64	2.71	3.60	4.00
5 year swap	3.56	3.40	3.27	3.55	3.73	3.27	3.90	4.25
10 year bond	4.57	4.42	4.27	4.40	4.50	4.27	4.70	4.95
TWI	69.1	68.4	66.4	65.3	69.5	66.4	67.4	70.4
NZD/USD	0.59	0.59	0.57	0.57	0.59	0.57	0.60	0.65
NZD/AUD	0.93	0.91	0.87	0.85	0.91	0.87	0.86	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	0.44	0.47

GDP growth



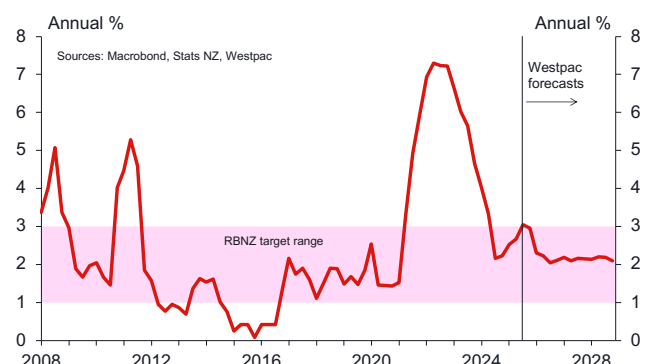
House prices



Unemployment and wage growth



Consumer price inflation



Data calendar

		Last	Market median	Westpac forecast	Risk/Comment
Mon 19					
NZ	PM Luxon speech	46.9	–	–	State of the nation speech, 12:55pm.
Aus	Dec MI Inflation Gauge, %ann	3.2	–	–	Above the target range, but only modestly so.
Jpn	Nov Core Machinery Orders, %mth	7	–6.4	–	Signalling a firmer trend for private capex.
	Nov Industrial Production, %mth	–2.6	–	–	Final estimate.
Chn	Q4 GDP, %ann	4.8	4.5	–	China's economy has broadly met expectations in 2025 ...
	Dec Retail Sales, ytd %yr	4	–	–	... despite authorities restraint regarding policy support.
	Dec Industrial Production, ytd %yr	6	–	–	Manufacturing and trade supported activity in the interim ...
	Dec Fixed Asset Investment, ytd %yr	–2.6	–3.1	–	... but investment in high-growth sectors is taking a breather.
Eur	Dec CPI, %ann	2	–	–	Final estimate.
US	Martin Luther King Jr. Day	–	–	–	Markets closed.
Tue 20					
NZ	Dec BusinessNZ PSI, index	46.9	–	–	Recent surveys point to a firming in activity.
Eur	Jan ZEW Survey Of Expectations, index	33.7	–	–	Growth prospects looking firmer, from investment and defence.
UK	Nov ILO Unemployment Rate, %	5.1	–	–	Lifted to a new high for the cycle; data quality still a concern.
Wed 21					
Aus	Dec Westpac-MI Leading Index, %ann'd	0.16	–	–	Positive but subdued, indicating some stalling in momentum.
UK	Dec CPI, %ann	3.2	3.3	–	Core inflation resuming a downtrend.
US	Dec Leading Index, %mth	–0.3	–	–	Pointing to some downside risk to the growth outlook.
Thu 22					
NZ	Dec REINZ House Prices %yr	–0.2%	–	–	Price growth remains muted...
	Dec REINZ House Sales %yr	–5.75%	–	–	...and sales have been tracking sideways.
	Dec Retail Card Spending, %mth	1.2	–	0.3	Spending holding up through the holiday shopping season.
	Nov Net Migration, no.	2400	–	–	Looks like the net flow has found a base.
Aus	Dec Employment Change, 000s	–21.3	25.6	40	Volatility to be expected over the summer holiday period.
	Dec Unemployment Rate, %	4.3	4.4	4.4	Unemployment rate continues to trend higher.
Eur	Jan EC Consumer Confidence, index	–13.1	–	–	Struggled to make any meaningful headway in 2025.
US	Q3 GDP, %ann'd	4.3	4.3	–	Final estimate.
	Nov Personal Income, %mth	–	0.4	–	Income volatile post-shutdown, spending growth slowing ...
	Nov Personal Spending, %mth	–	0.5	–	... delayed figures for October are also set to be published.
	Nov PCE Deflator, %mth	–	0.2	–	Fed's preferred measure of consumer inflation ticking higher.
	Wkly Initial Jobless Claims, 000s	–	–	–	Still at low levels versus history.
	Jan Kansas City Fed Manufacturing, index	1	–	–	Regional surveys volatile, but broadly point to soft conditions.
Fri 23					
NZ	Q4 CPI, %qtr	1.0	–	0.5	Inflation running hotter than RBNZ forecasts.
	Q4 CPI, %ann	3.0	–	3.0	Core inflation easing gradually.
Jpn	Jan BoJ Policy Decision, %	0.75	0.75	0.75	Conditions are building for further hikes.
	Dec CPI, %ann	2.9	2.2	–	... as policymakers grow confident on inflation's sustainability.
UK	Jan GfK Consumer Confidence, index	–17	–	–	Confidence barely improved over the course of last year ...
	Dec Retail Sales, %mth	–0.1	–	–	... seeing retail spending hold relatively flat overall.
US	Jan Uni. of Michigan Sentiment, index	54	54	–	Final estimate.
World	Jan S&P Global PMIs, index	–	–	–	First estimate for Japan, Europe, UK and US.

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