



WEEKLY ECONOMIC COMMENTARY



20 Oct 2025 | Westpac Economics Team | westpac.co.nz/economics | economics@westpac.co.nz

Economic conditions still soggy

The New Zealand economy is still looking sluggish. The latest updates from BusinessNZ showed that both the manufacturing and services sectors continued to contract through September, with softness in orders and the demand for staff. That echoes other recent business surveys and indicators like filled jobs growth and building consents, which have also pointed to limited momentum in economic growth in recent months. RBNZ Chief Economist Paul Conway also noted last week that recent data pointed to a “moderate” improvement in economic momentum in the second half of the year after that shocker of an outcome in the June quarter. Our own Nowcast indicator (which summarises the trend in economic indicators) points to growth in economic output of just 0.2% in the September quarter. That would be a very muted rise after activity contracted 0.9% in the June quarter.

This ongoing weakness in economic data chimes very closely with the feedback we’ve been hearing on the ground when **talking to businesses around the country** over the past couple of weeks. Most of those we spoke to told us that business conditions have remained tough in the past few months with the construction and retail sectors being especially weak. Notably, in the retail sector spending levels are up just 1% over the past year. And in the context of continued price gains, that points to very muted per-capita spending.

However, it’s not all bad news. While conditions remain challenging, businesses have told us that they aren’t going backwards like they did over the past year. And in some parts of the country, we’re seeing early signs that those wintry conditions are starting to thaw, with several businesses reporting signs of a modest lift in demand, albeit from a low base.

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
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)
16 Dec 25	NZ Selected price indexes, November

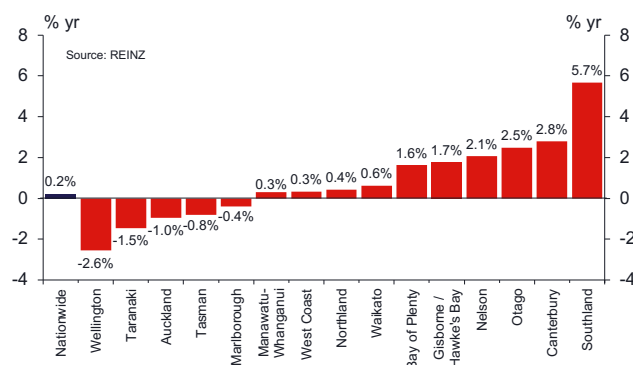
Consistent with that stabilisation in economic conditions, the earlier downturn in the labour market has flattened off. Businesses are still reluctant to take on new staff, with several telling us that they're waiting to see how the economy performs and job advertisements still at low levels. However, far fewer firms told us that they have been shedding staff than was the case earlier in the year.

Conditions remain very mixed across the country. Rural areas, especially dairy-intensive regions like Otago and Canterbury, are continuing to see firmer conditions. Strong commodity prices have boosted farm incomes, leading to increased spending on capital items like sheds and equipment. That's helping to lift activity and sentiment in related industries and rural regions more generally.

But while rural regions are starting to warm up, it's a different picture in some urban centres, most notably Wellington. Ongoing pressure on household finances and related low levels of confidence are continuing to weigh on spending. There's also been softness in the services sector.

Those differences in regional economic trends are also evident in the housing market. Across the nation as a whole, house prices have been moving sideways for the past couple of years. However, under the surface, prices in our rural regions have been climbing, with Otago up nearly 6% over the past year, and other regions seeing gains of around 2%. It's a starkly different picture in urban areas, however, with Auckland down 1% and Wellington down 3%.

House price growth by region (12 months to September)

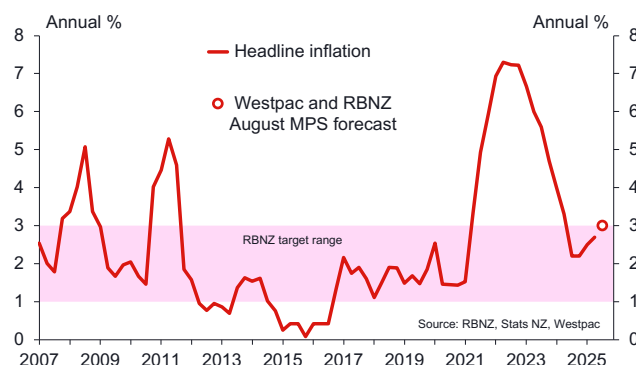


Temporary rise to the top of the target band.

Looking to the week ahead, the highlight will be the September quarter inflation report (out Monday 20 October at 10:45am, [full preview here](#)). We estimate that prices rose 1% over the past quarter. That would see the annual inflation rate rising to 3%, up from 2.7% previously. Our forecast for quarterly inflation is a little above the RBNZ's last published forecast for a 0.9% increase. However, we have the same forecast for annual inflation (+3.0%/yr).

We'll put out a full write up on the September quarter inflation numbers later today. The expected pickup in inflation is expected to be heavily concentrated in a few specific areas. Most notably, recent months have seen a large 1.8% rise in food prices, along with another large annual increase in local council rates. That's balanced against weaker price trends in discretionary spending areas and sectors more sensitive to interest rates, with particular weakness in housing rents and the cost of purchasing a newly built home.

Annual headline inflation



The rise in inflation back to the top of the RBNZ's target band raises questions about how far and fast the RBNZ might cut the OCR from here. We're forecasting one more 25bp cut in the OCR at the RBNZ's November meeting, with financial markets pricing in some chance of a further cut to 2%.

While inflation is pushing higher again, much of the current rise is expected to be temporary. As noted above, much of the recent rise in inflation has been heavily concentrated in the food group. There have been particularly large rises for items like milk and butter, along with meat and other items. While prices are likely to continue rising, further increases are likely to be a lot more modest (for instance, we might see butter prices increase, but we're not likely to see another 30% rise as we did over the past year). In fact, over the past month we did see falls in a number of categories.

There have also been some large increases in administered prices, most notably electricity. Again, while we'll get further price rises, they're likely to be more modest than those seen over the past couple of months.

On the more cyclical components, the downturn in rents and construction costs is notable. Neither of those groups will remain at their current low forever, but a significant turnaround over the coming year is looking doubtful. A recovery in home building is still someway off, with the pipeline of new projects flat and house price growth very muted. Those conditions aren't supportive of a large pickup in building or significant price rises over the coming year. Similarly in the case of rents, we might see some lift from the current very low levels, but there's been a big increase in supply at the same time as

population growth has fallen. That's limiting the upside for rents over the year ahead.

Looking at demand and prices more generally, as a nation we're continuing to operate with a sizeable amount of excess capacity (which economists often refer to as "a negative output gap"), with related softness in retail spending. The pass through of interest rate reductions has been gradual to date. But large numbers of borrowers are now rolling on to lower mortgage rates, and that will boost disposable incomes over the next 6 to 12 months. Over time, that will also boost demand and inflation pressures, but that's a lift from subdued levels.

A risk the RBNZ will have in mind, and one noted by RBNZ Chief Economist Paul Conway last week in his remarks during a Bloomberg TV interview, are concerns that headline inflation close to 3% will lead to increasing inflation expectations. We suspect those concerns will be

offset by the soft economy, significant excess capacity and still weak labour market. Businesses have noted pressures on operating costs, but soft demand means they haven't been able to pass that through to output prices and wage growth likely remains muted. To the extent that the CPI confirms that we have seen the peak in inflation, it seems possible that even 3% inflation won't hold back further easing while the economy remains weak.

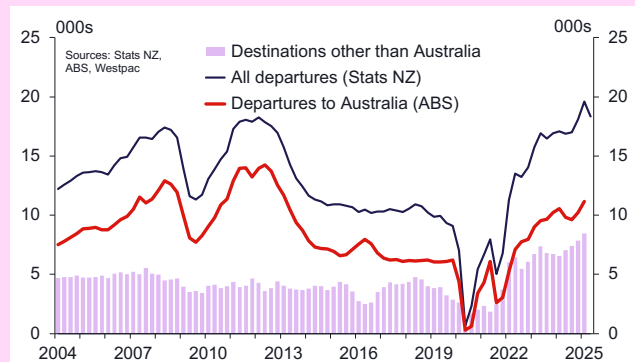
We suspect the RBNZ will be tossing up between a final cut in 2025 of either 25 or 50 basis points. The inflation expectations risks will be important, but signs of economic momentum (or the lack thereof) are likely to be of greater importance. We understand why markets are pricing some chance of a 50bp cut in November, and we assess the chance of a 50bp cut as lying in the 30-35% range.

Satish Ranchhod, Senior Economist

Chart of the week.

Australia has traditionally been the main destination for migrating New Zealanders, and typically also the most cyclical, reflecting the changing relative fortunes of the two economies over time. But while the appeal of Australia might seem obvious now – given their ongoing economic growth and a lower unemployment rate – that's not the only factor behind the surge in departures in the last few years. Stats NZ is no longer able to report the destination of migrants, due to the removal of departure cards in 2018. However, data from the Australian Bureau of Statistics shows that the number of New Zealanders arriving has been rising but is still well below the previous peak seen during the early 2010s mining boom. The implication from these two data sources is that Kiwis have been heading to destinations other than Australia to a far greater degree than we've seen in the past.

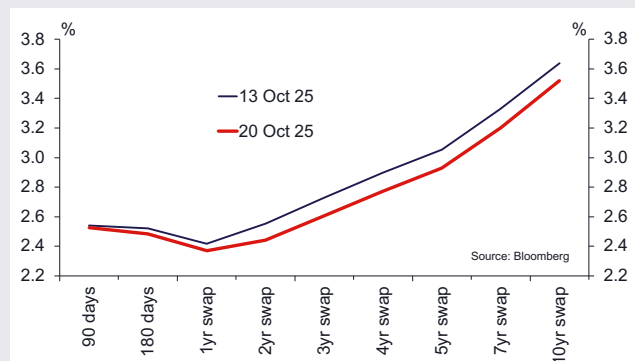
Departures of New Zealand citizens, s.a.



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

Asia-Pacific.

The Australian labour force survey for September was one of two key data releases in the run-up to the RBA's November decision. Employment printed in line with our forecast (+15k), extending an easing in the growth pace amid an underlying slowdown in 'care economy' jobs. However, with labour force participation outpacing jobs growth, the unemployment rate jumped from 4.3% to 4.5%, the highest rate since 2021. Compared to the RBA's August forecasts, the unemployment rate now looks likely to overshoot their projections, lending weight to our view that there is a good chance the RBA will cut rates in November. However, the Q3 CPI (due 29 October) will be the ultimate determinant. Chinese consumer prices were down 0.3%/yr and producer prices down 2.3%/yr in September. Price momentum has struggled to pick up in recent months despite government policies aimed at curbing overproduction. At the consumer level, if inflation is to return sustainably to 2-3%/yr, there is also need for fiscal support targeting household demand. The need for support is likely to be underscored by the Q3 GDP release later today, where annual growth is expected to drop below the 5% mark. That will set the stage for the Central Committee's discussions of the next Five-Year Plan over the course of this week, with an outline of the plan expected to be released at the conclusion.

North America

With most official data remaining suspended due to the government shutdown, the Fed's Beige Book was the key source of insights into the US economy. Contacts reported that overall economic activity was little changed on balance, but with some signs of softening in consumer spending. Employment levels were viewed as "largely stable in recent weeks", though more employers "reported lowering headcounts through layoffs and attrition". On inflation, contacts observed the impact of tariffs on input costs, alongside a rise in services prices. The latest threat from President Trump of a further 100% tariff on Chinese goods from 1 November, and the introduction of additional US port fees for China-linked ships, highlights that tariff uncertainties are likely to linger for US inflation for an extended period.

Europe

UK labour market data for August was softer than expected, with the unemployment rate up from 4.7% to 4.8% and private sector earnings growth down from 4.7% to 4.4%. Monthly GDP rose 0.1% in August, as expected, although the prior month was revised from 0.0% to -0.1%. Eurozone inflation held steady at 2.2%, as expected.

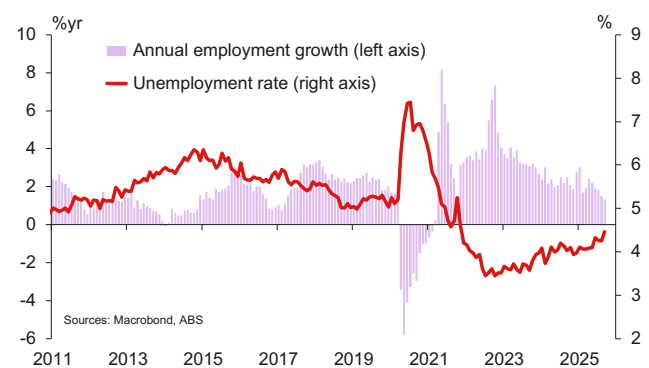
Trading partner real GDP (calendar years)

	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	3.9	3.8	4.0
India	6.5	6.7	6.4	6.3
Euro Zone	0.9	1.4	1.1	1.5
United Kingdom	1.1	1.5	1.1	1.5
NZ trading partners	2.9	2.9	2.7	2.8
World	3.3	3.2	3.1	3.2

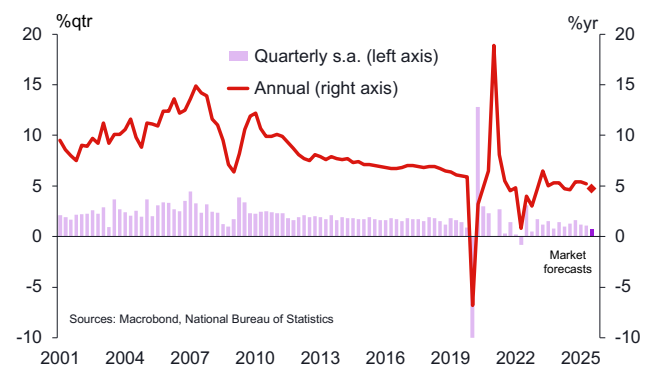
Australian & US interest rate outlook

	17 Oct	Dec-25	Dec-26	Dec-27
Australia				
Cash	3.60	3.35	2.85	2.85
90 Day BBSW	3.50	3.30	2.95	2.95
3 Year Swap	3.30	3.40	3.70	4.00
3 Year Bond	3.31	3.45	3.75	4.00
10 Year Bond	4.09	4.30	4.50	4.65
10 Year Spread to US (bps)	15	15	10	-5
US				
Fed Funds	4.125	3.875	3.875	3.875
US 10 Year Bond	3.94	4.15	4.40	4.70

Australian labour market



China GDP growth



Financial markets wrap

Foreign exchange.

NZD/USD last week fell to a six-month low of 0.5683 following a revival of US-China trade tensions. But that was followed by consolidation in the pair, as the continuing US government shutdown weighed on the US dollar.

This week, the downside again remains vulnerable, with further probing of the 0.5700 support area likely, absent major data or event surprises. The 26 November RBNZ MPS will almost surely cut the OCR by 25bp, with some chance of a larger 50bp cut if the data warrants it.

Today we get a major data update – Q3 CPI. We expect a 1.0%q/q and 3.0%y/y outturn, similar to the RBNZ's forecast. Markets would likely react to either a 0.8% or 1.1%q/q outturn. Later in the week, on Friday, we get the delayed US Q3 CPI result, which will be an important input to the Fed decision on 30 October, and could cause a reaction in the US dollar.

NZD/AUD last week rebounded off a three-year low. It was already quite stretched technically, and US-China trade tensions and weak AU jobs data provided ample justification for the bounce. But NZ's economic backdrop remains soft, likely limiting the upside to around 0.90 for the week ahead.

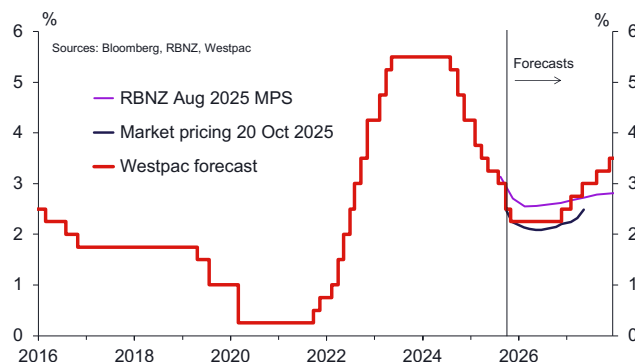
Interest rates.

The downward trend in the NZ 2yr swap rate, which started in 2023, extended to 2.44% last week. Mostly that was due to US and AU interest rates falling, with a smattering of NZ second-tier economic data consistent with the theme. There is potential for slightly further downside if the NZ economy continues to indicate weakness.

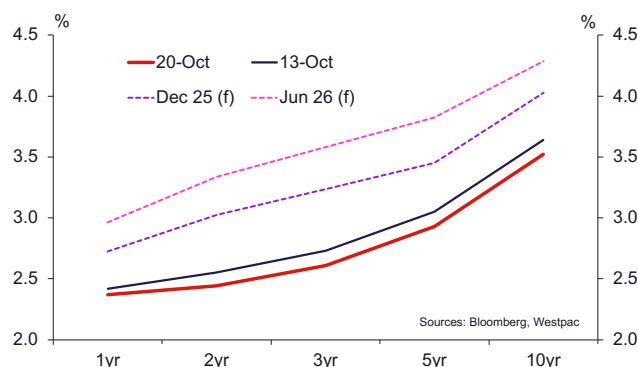
The OIS market has priced a 25bp cut in November as a 100% chance, and assigns a 5% chance to a larger 50bp cut. In addition, pricing implies a 50% chance of a final 25bp cut by February 2026. These probabilities are likely to be adjusted following today's NZ CPI data, as well as the labour data on 5 November.

The NZ yield curve has shown tentative signs of peaking, the 2-10yr swap curve trading around 108bp (vs the previous week's peak at 111bp). Whether the recent peak proves to be the cycle peak will depend on whether the OCR bottoms at 2.25%. A lower bottom would steepen the curve further.

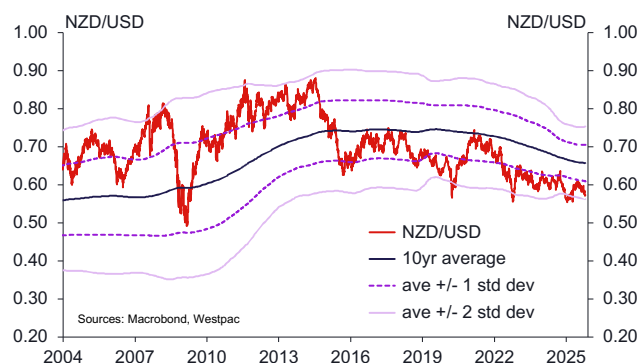
Official Cash Rate forecasts



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	0.574	0.571-0.605	0.553-0.743	0.634	0.58
AUD	0.883	0.875-0.915	0.873-0.971	0.922	0.87
EUR	0.492	0.489-0.516	0.489-0.637	0.572	0.49
GBP	0.427	0.426-0.447	0.426-0.535	0.491	0.43
JPY	86.3	85.6-88.9	69.0-98.6	84.5	88.2

The week ahead

Q3 Consumer Price Index

Oct 20, Qtr: Last: +0.5, Westpac: +1.0%, RBNZ:

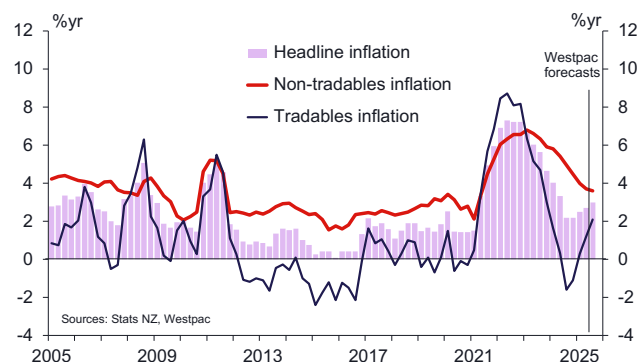
+0.9%, Market: +0.9% to +1.1%

Annual: Last: +2.7%, Westpac: +3.0%, RBNZ: +3.0%,

Market: +3.0%

We estimate consumer prices rose by 1.0% in the September quarter. The annual inflation rate is expected to rise to 3.0%, up from 2.7% in the year to June. Our forecast for quarterly inflation is slightly higher than the RBNZ's +0.9% forecast, but we have the same forecast for the annual inflation rate. In addition to a large annual increase in local council rates, the September quarter also saw large increases in food prices and household energy costs. However, inflation in more interest rate-sensitive areas, including housing costs, has been cooling. While large swings in some specific prices are boosting headline inflation, the various measures of core inflation are expected to remain contained in the upper part of the RBNZ's 1-3% target band.

Inflation components

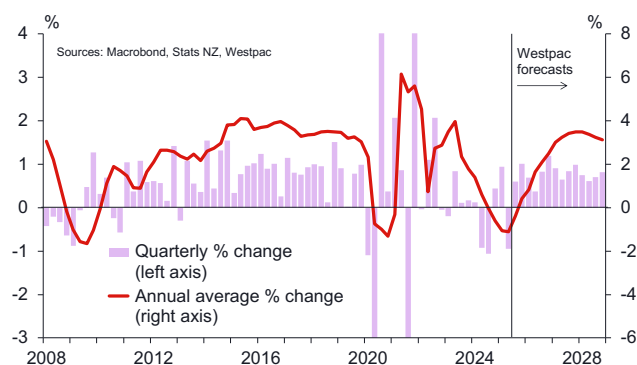


Economic and financial forecasts

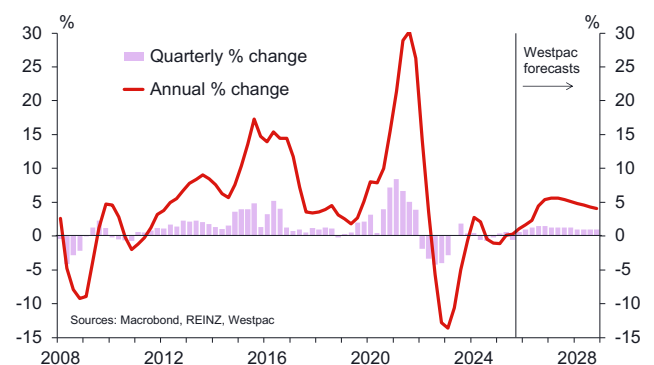
Economic indicators	Quarterly % change				Annual % change			
	Mar-25	Jun-25	Sep-25	Dec-25	2024	2025	2026	2027
GDP (production)	0.9	-0.9	0.6	1.0	-1.4	1.6	3.1	3.4
Consumer price index	0.9	0.5	1.0	0.5	2.2	3.0	2.3	2.1
Employment change	0.0	-0.1	0.0	0.2	-1.2	0.2	2.5	2.0
Unemployment rate	5.1	5.2	5.3	5.3	5.1	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	4.15	4.50	4.15	4.70	4.95
TWI	67.8	69.1	68.4	66.6	69.5	66.6	67.9	70.4
NZD/USD	0.57	0.59	0.59	0.58	0.59	0.58	0.61	0.65
NZD/AUD	0.90	0.93	0.91	0.87	0.91	0.87	0.86	0.89
NZD/EUR	0.54	0.52	0.51	0.49	0.55	0.49	0.51	0.54
NZD/GBP	0.45	0.44	0.44	0.43	0.46	0.43	0.45	0.47

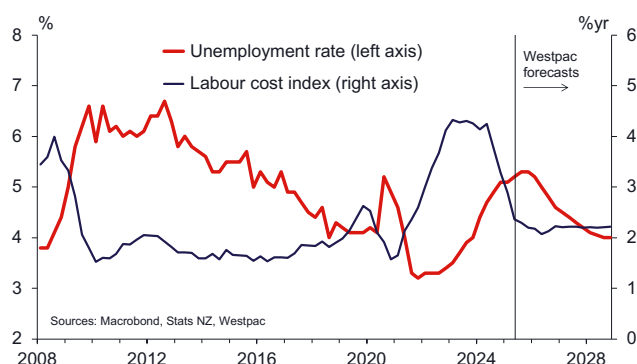
GDP growth



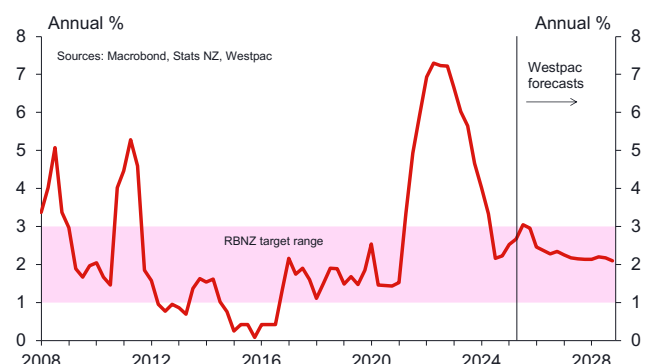
House prices



Unemployment and wage growth



Consumer price inflation



Data calendar

		Last	Market median	Westpac forecast	Risk/Comment
Mon 20					
NZ	Q3 CPI, %qtr	0.5	0.9	1	Boost from food prices and council rates.
	Q3 CPI, %ann	2.7	3	3	Core rates still contained.
Chn	Q3 GDP, %ytd	5.3	5.1	5.2	Growth set to edge closer to authorities' target pace.
	Sep Retail Sales, ytd %yr	4.6	4.4	–	Downside risks are concentrated in household demand...
	Sep Industrial Production, ytd %yr	6.2	6.1	–	... trade is offering support in the interim, but restoring...
	Sep Fixed Asset Investment, ytd %yr	0.5	0	–	... confidence is critical to ensure growth remains near target.
	Fourth Plenary Session	–	–	–	Five-Year Plan to be released.
US	Sep Leading Index*, %mth	–0.5	–	–	Fragile sentiment and weaker labour market impacting.
Tue 21					
NZ	Sep Trade Balance, \$mn	–1185	–	–1485	Exports remain in a seasonal lull; imports ramp up pre-Xmas
Aus	RBA Assist' Governor (Fin System)	–	–	–	Jones participating in a panel in Sydney.
Wed 22					
UK	Sep CPI, %ann	3.8	–	–	Sticky inflation delays further rate cuts until at least 2026.
Thu 23					
Eur	Oct Consumer Confidence, index	–14.9	–14.5	–	Consumers remain circumspect amid a plethora of risks.
US	Sep Chicago Fed Activity Index*, %mth	–0.12	–	–	Softer labour market remains a drag on activity.
	Initial Jobless Claims*	–	–	–	Trend softening prior to government shutdown.
	Sep Existing Home Sales, %mth	–0.2	1.5	–	Homebuyer sentiment crimped by elevated rates and prices.
	Oct Kansas City Fed, index	4	–	–	Manufacturing conditions remain soft across the regions.
Fri 24					
Aus	RBA Governor Bullock	–	–	–	Remarks in Sydney.
	Annual National Accounts, GDP, %ann	1.4	–	–	New annual benchmarks can see significant revisions.
Jpn	Sep CPI, %ann	2.7	2.8	–	On the path to sustainable inflation, albeit a bumpy one.
	Oct S&P Global Manufacturing PMI, index	48.5	–	–	Manufacturing under pressure as global demand softens...
	Oct S&P Global Services PMI, index	53.3	–	–	... although services is providing somewhat of a buffer.
Eur	Oct HCOB Manufacturing PMI, index	49.8	50	–	Clawed back to 'stable' territory, but outlook remains shaky...
	Oct HCOB Services PMI, index	51.3	51.5	–	... though services continues to fare relatively well.
UK	Oct GfK Consumer Sentiment, index	–19	–	–	Sentiment remains delicately poised ...
	Sep Retail Sales, %mth	0.5	–	–	... and spending lacks a clear 'pulse'.
	Oct S&P Global Manufacturing PMI, index	46.2	–	–	Manufacturing remains in dire straits ...
	Oct S&P Global Services PMI, index	50.8	–	–	... and services growth has cooled notably.
US	Sep CPI, %mth	0.4	0.4	0.4	Risks varied, but a similar print is expected. See preview box.
	Oct S&P Global Manufacturing PMI, index	52	51.8	–	Volatile and in contrast to ISM's more downbeat tone...
	Oct S&P Global Services PMI, index	54.2	53.5	–	... across both manufacturing and services.
	Sep New Home Sales, %mth	20.5	–11.3	–	Homebuyer sentiment crimped by elevated rates and prices.
	Oct Uni. Of Michigan Sentiment, index	55	55	–	Final estimate.
* Data releases may be delayed/cancelled due to the US government shutdown.					

CONTACT

Westpac Economics Team | westpac.co.nz/economics | economics@westpac.co.nz

Kelly Eckhold, Chief Economist | +64 9 348 9382 | +64 21 786 758 | kelly.eckhold@westpac.co.nz

Satish Ranchhod, Senior Economist | +64 9 336 5668 | +64 21 710 852 | satish.ranchhod@westpac.co.nz

Darren Gibbs, Senior Economist | +64 9 367 3368 | +64 21 794 292 | darren.gibbs@westpac.co.nz

Michael Gordon, Senior Economist | +64 9 336 5670 | +64 21 749 506 | michael.gordon@westpac.co.nz

Paul Clark, Industry Economist | +64 9 336 5656 | +64 21 713 704 | paul.clark@westpac.co.nz

Imre Speizer, Market Strategist | +64 9 336 9929 | +64 21 769 968 | imre.speizer@westpac.co.nz

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