



WEEKLY ECONOMIC COMMENTARY



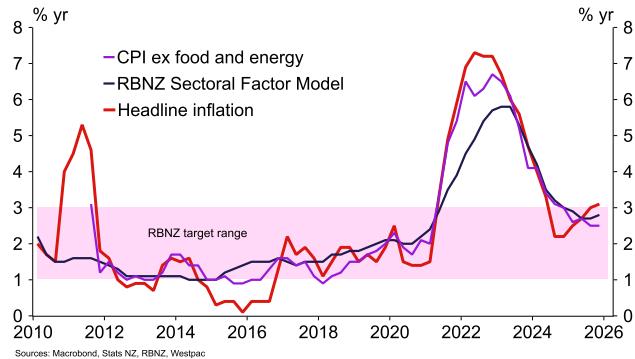
27 Jan 2026 | Westpac Economics Team | westpac.co.nz/economics | economics@westpac.co.nz

Firm CPI leaves RBNZ with less room to manoeuvre

International economic and political developments have continued to buffet domestic financial markets over the past week. However, the domestic economic dataflow has also continued to come thick and fast and has contributed to a rise in swap rates and the New Zealand dollar.

The most anticipated release was the December quarter CPI. The headline index increased 0.6%q/q, causing annual inflation to lift 0.1ppts to 3.1%. This outcome was a tenth higher than Westpac and market expectations, and four tenths higher than the RBNZ had forecast in the November MPS. The previous decline in most core measures was also arrested. For example, the CPI ex-food and energy rose an unchanged 2.5%y/y and the 30% trimmed mean rose to 2.5%y/y, up from 2.2%y/y previously. The weighted median inflation rate did slow, declining to 1.7%y/y from 2.2%y/y previously.

CPI inflation

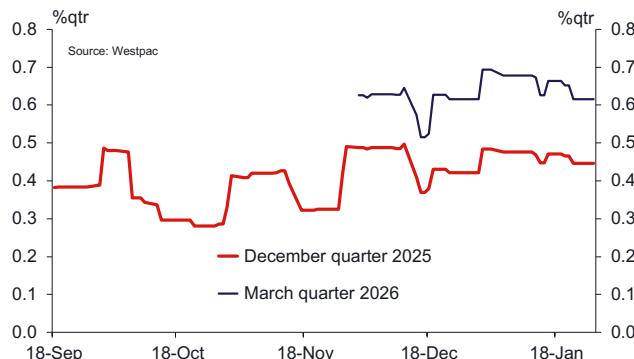


Some of the firm result was due to large seasonal increases in the costs of international airfares and holiday accommodation, while fuel prices were also higher this quarter. However, there were also larger-than-expected increases across several other categories, notably

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

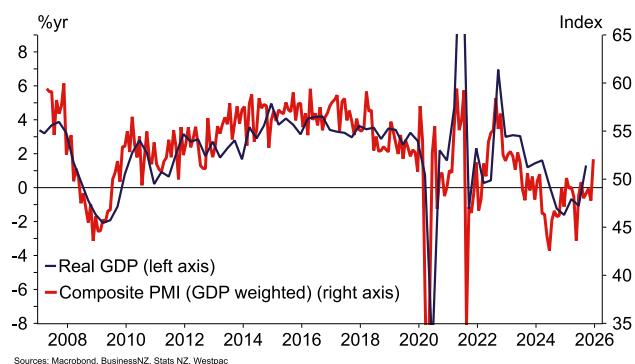
Date	Event
28 Jan 26	FOMC meeting (29 Jan NZT)
3 Feb 26	RBA Monetary Policy Decision
4 Feb 26	Labour market surveys, December quarter
12 Feb 26	NZ Government accounts (6 months to December)
17 Feb 26	NZ Selected price indexes, January
18 Feb 26	RBNZ OCR Review & Monetary Policy Statement
17 Mar 26	NZ Selected price indexes, February
17 Mar 26	RBA Monetary Policy Decision
18 Mar 26	FOMC meeting (19 Mar NZT)
19 Mar 26	NZ GDP, December quarter

communications (due to more expensive costs for mobile phones and related services) and some durable household items (like furnishings). These increases coincide with a clear lift in spending on durable goods in recent months. Lastly, construction costs posted a solid 0.6% increase – a stark turnaround from recent quarters, with higher materials, labour and power costs all contributing. Inflation was restrained by weak growth in rentals and insurance, which in recent years had been key contributors to high inflation outcomes.

As for what this means for the RBNZ, we continue to expect that inflation will drop back inside the RBNZ's target band over the coming year. However, we have nudged up our near-term forecast for the CPI, with annual inflation now expected to decline to 2.5% y/y in Q1, 2.4% y/y in Q2 and 2.2% in Q3 – in each case 0.2pp higher than previously. With inflation cooling more gradually than forecast and signs that activity has been picking up, the easing cycle has almost certainly come to an end (at least barring a new major negative shock to the economy). When it releases its next Monetary Policy Statement next month, we think the RBNZ will forecast a first OCR tightening sooner than the 2027 start date projected in November. At this stage, we remain comfortable with our forecast of a first hike at the December meeting. That said, the market's close-to-fully pricing of a first hike in September is not unreasonable – certainly within the range of possible outcomes – although there is a lot of water to go under the bridge before then.

Turning to the rest of last week's news, the BusinessNZ Services PMI for December cast the economy in a positive light. The headline index increased 4.3pts to 51.5, marking the first reading above 50 since February 2024 and the highest reading since June 2023. Both the activity and new orders indexes moved into expansionary territory, while the employment index rose to a 9-month high of 49.6. Combined with the previous week's very encouraging lift in the Business NZ manufacturing PMI, the resulting composite PMI is now consistent with annual GDP growth approaching trend levels, if not beyond.

Composite PMI vs annual GDP growth



Notwithstanding the improved PMI, the value of retail spending through the electronic payments system fell

0.1% in December. While this was a little softer than expected, it did follow a very solid 1.2% m/m increase in spending in November as shoppers flocked to the increasingly ubiquitous Black Friday sales. Spending was still 0.5% lower than a year earlier, but we think this understates growth in consumer spending over the past year. Some spending – especially on big ticket items that have a credit component – is not captured by the electronic transactions survey. And in recent quarters, spending on big ticket items (especially cars and household appliances) has been a large driver of growth in the official retail trade survey. Looking ahead, we expect the retail sector will continue to strengthen this year, helped by further passthrough of last year's monetary policy easing and a gradual improvement in the labour market.

The housing market closed last year in line with the trend seen in prior months. After adjusting for seasonal effects, and allowing for the usual initial undercount, the number of house sales were little changed in December and so remain at similar levels to that seen since April. The median time to sell a house was unchanged at just over 45 days, thus remaining longer than average. Meanwhile, the house price index rose a modest 0.2% following declines in the prior two months. Prices were down 0.4% compared with a year earlier – a soft result that is consistent with the slow selling times. It is worth noting that that there continues to be some variation in conditions across the country, with prices remaining weak in the major urban areas (especially Wellington) but firmer in those regions exposed to strong commodity prices and growth in tourist arrivals (especially the south of the South Island).

House prices and days to sell

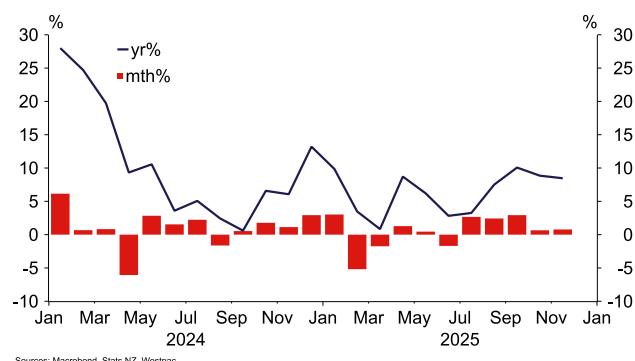


News regarding net migration helps to explain the relatively subdued state of the housing market (especially considering the low level of mortgage interest rates). The number of migrant arrivals in the year to November was down 9% compared to the previous year and is now around 40% lower than the peak annual inflow seen in 2023. Meanwhile, the number of migrant departures increased 4%. As a result, the net inflow of migrants stood at just under 11,000 people, thus contributing less

than 0.2ppts to annual population growth – about a third of the average contribution over the past 25 years.

While the migrant inflow is currently subdued, tourism inflows have displayed a positive trend in recent months. Short-term visitor arrivals rose 0.8% m/m in November, marking the fifth consecutive month of growth. And arrivals in the year to November were up 6.6% on the preceding year. Key contributors to that growth have been arrivals by Australian visitors – accounting for a third of all arrivals – and increasing visits home by the large numbers of New Zealanders living offshore. Arrivals remain around 10% below the pre-Covid peak, but at the current rate of improvement new highs should be seen sometime in 2027.

Short-term visitor arrivals



In fiscal news, an OBEGALx deficit of \$5.6bn was reported for the 5 months to November – about \$1.1bn lower than the Treasury had expected based on the HYEFU forecast released last month. Core Crown tax revenue was a modest \$0.2bn less than expected while core Crown spending was \$0.9bn below forecast (most of the latter variance is expected to reverse over coming months). Results from Crown commercial entities were slightly stronger than forecast, contributing to the better-than-expected OBEGALx outcome. The core Crown residual cash deficit – more closely linked to the Government's funding requirement – was also \$0.6bn lower than forecast.

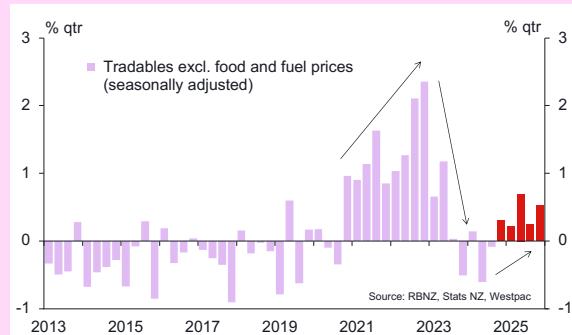
Finally, last week the Prime Minister announced that the next General Election will be held on 7 November (continuing the recent tradition of revealing the election date early). The election will take place just a matter of days after the scheduled release of the September quarter labour market surveys, which should provide favourable news for the current government if the economy evolves in line with our expectations. It will also be just over a week after the RBNZ's 28 October OCR Review. History suggests that the RBNZ may be reticent to move the OCR at a meeting so close to the election date. During a "State of the Nation" speech made earlier in the week, the Prime Minister warned that there will need to be more savings made in this year's Budget and that there was no room for "extravagant" election promises.

Darren Gibbs, Senior Economist

Chart of the week.

Last week's December quarter inflation figures came out on the high side of our own forecast and the RBNZ's expectations. That was in large part due to higher prices for imported goods and services, like petrol and international airfares. Swings in the prices of those sorts of volatile items are not the key focus for the RBNZ when setting policy. However, even excluding those volatile items, there's been a notable turnaround in tradables inflation over the past year. In the wake of the pandemic, falls in tradable prices were a key driver of the easing in overall inflation. More recently, however, tradables inflation has picked up again, contributing to inflation rising above the RBNZ's target band. Looking forward, we don't expect high levels of tradables inflation, but it is expected to remain at firm levels, especially with signs that demand is starting to turn higher (the tradables group includes most retail goods). That's important for the RBNZ, as tradables won't be the same dampening impact on overall inflation that it was previously.

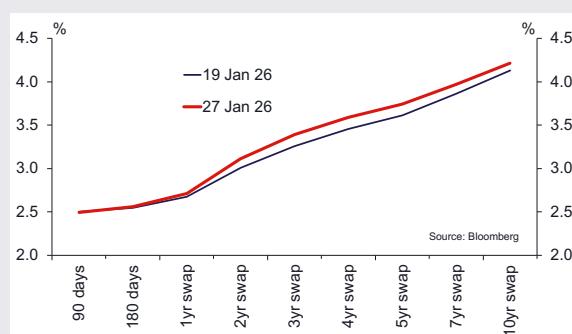
Tradables inflation excluding food and fuel prices



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

Asia Pacific.

Australian employment surged by 65k in December, well above market forecasts. With only a marginal lift in labour force participation, the unemployment rate fell from 4.3% to 4.1%. The details of the last few months of jobs reports suggest that the 'gradual softening' narrative that prevailed through much of 2025 may have paused or come to an end. Jobs growth may be near or at its trough now that the slowdown in 'care economy' hiring has largely played out, and market sector hiring is starting to pick up. Given the stronger labour market read and evidence of a moderate consumer upswing, this Wednesday's Q4 inflation data will be the deciding factor for the RBA's February decision. We are forecasting trimmed mean inflation to print 0.7%qtr (3.1%yr), at the low end of market forecasts, which in our view would be enough to warrant the Board keeping rates on hold.

China's Q4 GDP report showed the economy met its 5.0% target in 2025. However, the growth was narrowly based, with investment in high-tech manufacturing capacity and consequent strong growth in exports driving the result as the construction sector continued to contract and consumer demand remained weak. December's partial activity data made clear that the risks to growth are skewed to the downside into 2026.

US.

The US PCE price index rose 0.2% in November to be 2.8% higher over the year, broadly consistent with the October and September outcomes. Higher tariffs are slowly being passed through to consumers, and while inflation is unlikely to re-accelerate meaningfully in 2026, it will remain materially above the FOMC's 2% target and warrant modestly restrictive monetary policy. We expect the FOMC to hold rates steady this week, followed by one last rate cut in March and an on-hold stance for the rest of the year. In Canada, annual inflation picked up to 2.4% against market forecasts for it to hold steady at 2.2%. The Bank of Canada is widely expected to hold its policy rate at 2.25% this week.

Europe.

The UK CPI rose 0.4% in December after a 0.2% fall in November. Annual inflation accelerated to 3.4%, supported by a 4.5% rise in services prices. Fiscal measures such as energy bill reductions and a freeze on rail fares should contribute to a slowdown in inflation in coming months. The unemployment rate held steady at 5.1% in November, while average weekly earnings slowed slightly to 4.7%yr from a revised 4.8%yr.

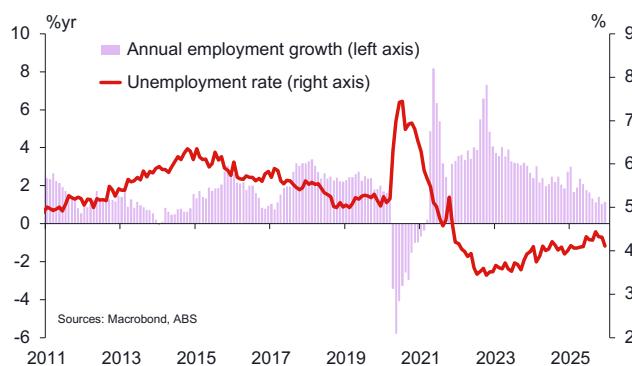
Trading partner real GDP (calendar years)

	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

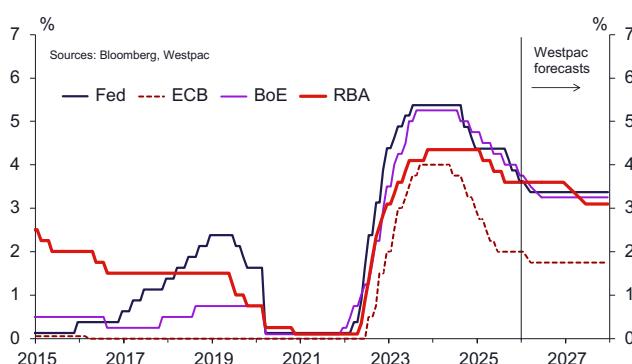
Australian & US interest rate outlook

	23 Jan	Mar-26	Dec-26	Dec-27
Australia				
Cash	3.60	3.60	3.60	3.10
90 Day BBSW	3.81	3.70	3.55	3.20
3 Year Swap	4.23	3.90	3.50	3.55
3 Year Bond	4.26	3.93	3.53	3.58
10 Year Bond	4.82	4.65	4.65	4.65
10 Year Spread to US (bps)	57	50	25	5
US				
Fed Funds	3.675	3.375	3.375	3.375
US 10 Year Bond	4.24	4.15	4.40	4.60

Australian labour market



Global central bank policy rates



Financial markets wrap

Foreign exchange.

NZD/USD has risen sharply this month, up 5% since 9 January, and is the best performing G10 currency so far this year. Overnight it tested 0.6000 – a major resistance level which has held so far but is vulnerable to giving way. A break above would signal a move to 0.6050 and possibly 6100.

The NZD's performance is a result of (1) a decline in the US dollar as the de-dollarisation theme returned amid developments which questioned its safe-haven identity, such as US-EU trade frictions, the Greenland issue, and risks to the independence of the Fed; and (2) local fundamentals, with NZ economic data momentum notably improving over the past few months.

The key event for NZD/USD this week will be the US Federal Reserve's interest rate decision (likely a hold, but Chair Powell's commentary will be of interest). The NZ economic calendar is second tier, with the ANZ monthly business confidence survey of some interest.

NZD/AUD has spent January consolidating a 9-month long trend decline, ranging between 0.8552 and 0.8677. This range is likely to hold during the week ahead, barring a surprise from AU CPI data on Wednesday.

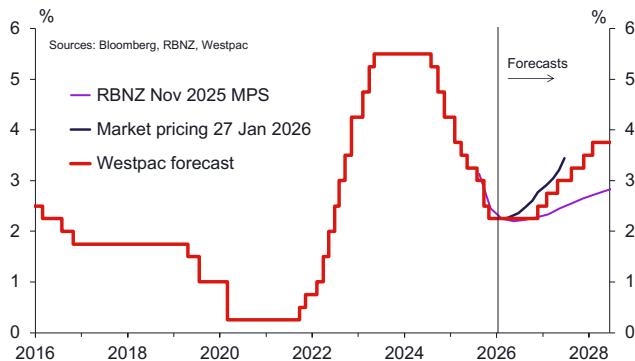
Interest rates.

The NZ 2yr swap rate has risen from 2.89% during the past two weeks, and at 3.12% currently, is at the top of the two-month range. This rise reflects the improvement in the NZ economy recently, which in turn has increased the chances of an OCR rate hike in 2026. The latest iteration, last week's NZ CPI data, was above expectations.

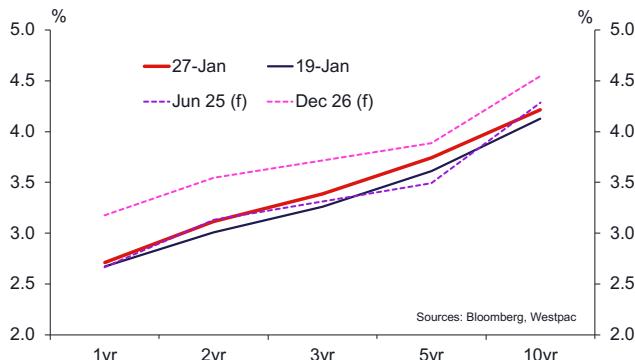
The OIS market continues to price 0% chance of a rate change at the next RBNZ meeting on 18 February (an MPS), but a 90% chance of a hike by September 2026, and 100% chance of two hikes by December.

The yield curve has flattened slightly from the peak formed in late December, driven by higher short maturity yields and relatively stable long maturity yields. We expect further flattening during the year ahead as markets become more confident about the extent of the next RBNZ hiking cycle.

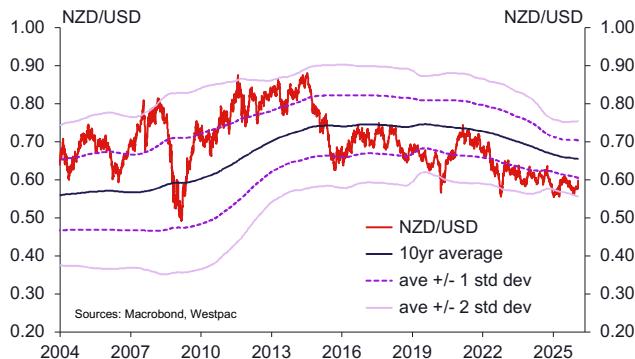
Official Cash Rate forecasts



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	0.599	0.559-0.599	0.553-0.743	0.627	0.60
AUD	0.865	0.857-0.883	0.857-0.971	0.919	0.86
EUR	0.504	0.484-0.504	0.484-0.637	0.568	0.51
GBP	0.438	0.427-0.438	0.426-0.531	0.486	0.44
JPY	92.3	86.2-93.7	74.3-98.6	85.4	89.4

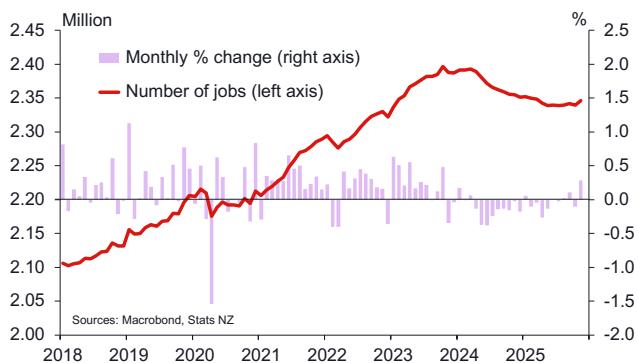
The week ahead

Dec Monthly Employment Indicator

Jan 28, Last: +0.3%, Westpac f/c: +0.2%

The MEI showed a 0.3% rise in the number of filled jobs in November, the most positive month since April 2023. This measure is typically overstated on the first release due to incomplete information at the end of the month, so we wouldn't be surprised to see this revised to more like +0.1%. We've pencilled in another modest rise in December; the weekly snapshots provided by Stats NZ have been strengthening recently, but these raw figures have tended to be a poor guide to the seasonally adjusted monthly figures during the Christmas/New Year period.

Monthly Employment Indicator filled jobs

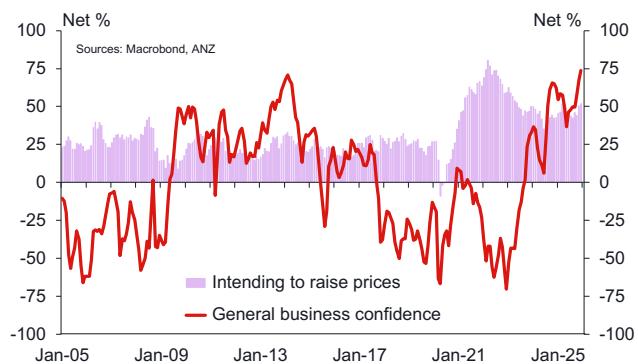


Jan ANZ Business Confidence

Jan 29, Last: 73.6

The December business outlook survey saw a strong lift in confidence from already-high levels. More importantly, this high level of confidence is now being accompanied by an improvement in actual performance, with a net 29% of firms reporting that their activity was up on a year ago and a net 4% reporting a lift in employment. The January survey will give some guidance as to whether the Christmas trading period lived up to expectations, as well as whether renewed geopolitical risks have put a dampener on local sentiment.

Business confidence and pricing intentions

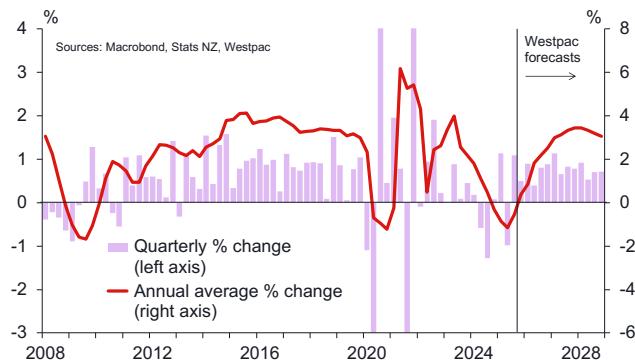


Economic and financial forecasts

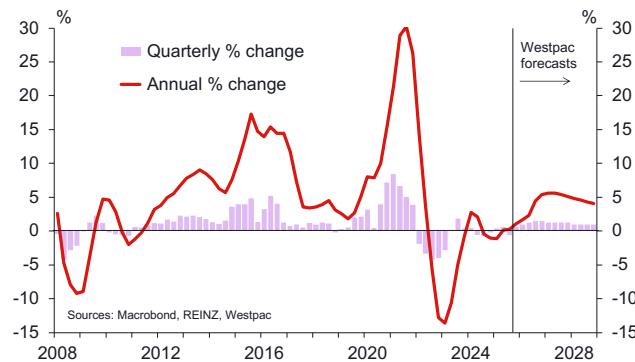
Economic indicators	Quarterly % change				Annual % change			
	Sep-25	Dec-25	Mar-26	Jun-26	2024	2025	2026	2027
GDP (production)	1.1	0.5	0.9	0.4	-1.6	1.7	3.0	3.4
Consumer price index	1.0	0.6	0.4	0.4	2.2	3.1	2.1	2.1
Employment change	0.0	0.3	0.3	0.6	-1.2	0.0	2.2	2.2
Unemployment rate	5.3	5.3	5.3	5.2	5.1	5.3	4.9	4.3
Labour cost index (all sectors)	0.4	0.5	0.5	0.6	3.3	2.1	2.3	2.2
Current account balance (% of GDP)	-3.5	-3.6	-3.7	-4.1	-4.7	-3.6	-4.5	-3.8
Terms of trade	-2.1	-1.7	-2.1	-0.9	13.7	2.2	1.0	3.7
House price index	-0.6	-0.4	1.0	1.3	-1.0	0.0	5.4	5.1

Financial forecasts	End of quarter				End of year			
	Sep-25	Dec-25	Mar-26	Jun-26	2024	2025	2026	2027
OCR	3.00	2.25	2.25	2.25	4.25	2.25	2.50	3.50
90 day bank bill	3.10	2.52	2.35	2.35	4.45	2.52	2.70	3.70
2 year swap	2.99	2.71	3.05	3.20	3.64	2.71	3.60	4.00
5 year swap	3.40	3.27	3.55	3.65	3.73	3.27	3.90	4.25
10 year bond	4.42	4.27	4.40	4.45	4.50	4.27	4.70	4.95
TWI	68.4	66.4	65.3	66.3	69.5	66.4	67.4	70.4
NZD/USD	0.59	0.57	0.57	0.58	0.59	0.57	0.60	0.65
NZD/AUD	0.91	0.87	0.85	0.85	0.91	0.87	0.86	0.89
NZD/EUR	0.51	0.49	0.49	0.49	0.55	0.49	0.51	0.54
NZD/GBP	0.44	0.43	0.43	0.44	0.46	0.43	0.44	0.47

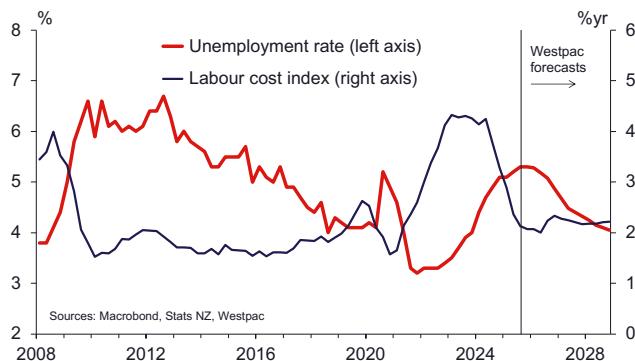
GDP growth



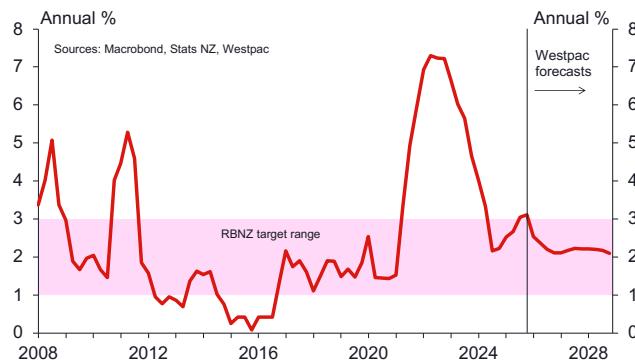
House prices



Unemployment and wage growth



Consumer price inflation



Data calendar

		Last	Market median	Westpac forecast	Risk/Comment
Mon 26					
Aus	Jan Australia Day	-	-	-	Markets closed.
US	Nov Durable Goods Orders, %mth	-2.2	3	0.2	Recovery from October's fall.
Tue 27					
Aus	Dec NAB Business Confidence, pts	1	-	-	Confidence bumpy despite signs of a continued recovery.
US	Nov S&P CaseShiller CS House Price Index, %mth	0.32	0.2	-	Price growth nearing a trough.
	Jan Richmond Fed Manufacturing, index	-7	-	-	Conditions remain volatile across the regions.
	Jan CB Consumer Confidence, index	89.1	-	-	Labour market a preeminent concern for consumers.
Wed 28					
NZ	Dec Employment Indicator, %mth	0.3	-	0.2	Job numbers have been stabilising in recent months.
Aus	Dec Monthly CPI, %ann	3.4	3.6	3.7	Electricity to see the headline index surge 0.9% in Dec mth...
	Dec Monthly Trimmed Mean, %ann	3.2	3.3	3.2	... while the Trimmed Mean is more contained at 0.1% mth.
	Q4 CPI, %qtr	1.3	0.6	0.5	In the quarter, electricity prices fall due to the rebates in Oct...
	Q4 CPI, %yr	3.2	3.6	3.5	... and November, all set to be reversed in March.
	Q4 Trimmed Mean CPI, %qtr	1.0	0.8	0.7	The Trimmed Mean estimate is 0.74% so has upside risk to...
	Q4 Trimmed Mean CPI, %ann	3	3.2	3.1	... our estimate. For more see " December CPI Preview ".
US	Jan FOMC Policy Decision, %	3.625	3.625	3.625	To remain on hold, having cut in December.
Thu 29					
NZ	Dec Trade Balance, \$mn	-163	-	-17	Seasonal boost should offset falling dairy prices
	Jan ANZ Business Confidence, index	73.6	-	-	Measures of past performance are now picking up.
Aus	Q4 Export Price Index, %qtr	-0.9	-	-	Boost from terms of trade...
	Q4 Import Price Index, %qtr	-0.4	-	-	... is gradually fading.
Sing	Jan MAS Monetary Policy Statement	-	-	-	Slope of NEER band could flatten as prices remain soft.
Eur	Jan Economic Confidence, index	96.7	96.8	-	Plateuing on stable confidence for consumers and business.
US	Initial Jobless Claims	200	-	-	Consistent with a balanced labour market.
	Nov Trade Balance, US\$b	-29.4	-45.0	-	Pharaceuticals and gold causing volatility.
	Nov Factory Orders, %mth	-1.3	0.5	-	Exceptionally choppy as businesses deal with tariffs.
Can	Jan BoC Policy Decision, %	2.25	-	-	Easy policy remains in light of excess capacity.
Fri 30					
NZ	Jan ANZ Consumer Confidence, index	101.5	-	-	Better news on economy drives lift.
Aus	Q4 PPI, %qtr	1	-	-	May provide clues on upstream inflation dynamics.
	Dec Private Sector Credit, %mth	0.6	0.6	0.6	Strong upward trend is persisting.
Jpn	Jan Tokyo CPI, %ann	2	1.7	-	Food prices are keeping headline inflation.
	Dec Jobless Rate, %	2.6	2.6	-	Structural factors are keeping the labour market tight.
	Dec Industrial Production, %mth	-2.7	-0.4	-	Machinery orders suggest slowdown.
Eur	Q4 GDP, %qtr	0.3	0.3	-	Domestic demand to improve despite external trade drag.
	Dec Unemployment Rate, %	6.3	-	-	Labour market remains a relative brightspot for the region.
US	Dec PPI, %mth	0.2	0.3	-	Capacity constraints to keep inflation above-target.
	Jan Chicago PMI, index	42.7	44	-	Points to downside risks on activity.
	Fedspeak	-	-	-	Musaleem.

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