



WEEKLY ECONOMIC COMMENTARY



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

3% inflation not a barrier to another RBNZ rate cut.

Inflation in New Zealand has picked up again, rising to 3% in the year to September. That's up from 2.7% in the year to June and right at the top of the RBNZ's target band.

Inflation crunchy on the outside...

The latest pickup in inflation has been heavily centred around a few specific areas ([check out our full chart pack](#)). That includes a 4.6% increase in food prices, which in part reflects tightness in global supply. We also saw large increases in regulated prices, with electricity costs up 11% and local council rates up an average of 8.8% across the country.

Such price increases are notable for a couple of reasons. First, all those costs relate to essentials, meaning households have limited (if any) ability to substitute their spending to cheaper alternatives. That's a particular concern for households on lower incomes who tend to spend more of their incomes on essentials. Second, prices in all these areas are relatively unresponsive to changes in monetary policy.

Looking ahead, we are likely to see food price inflation dropping back over the coming year as supply conditions improve. While we will continue to see price rises for some items, such increases are likely to be more modest than over the past year (for instance, we might see butter prices increase, but we're not likely to see another 30% rise). In fact, over the past month we saw falls in several categories.

However, we're less optimistic when it comes to regulated prices, like council rates. The increases we've seen over the past few months are the latest in a series of large increases seen across a range of areas. And with continued pressure on service providers' finances

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

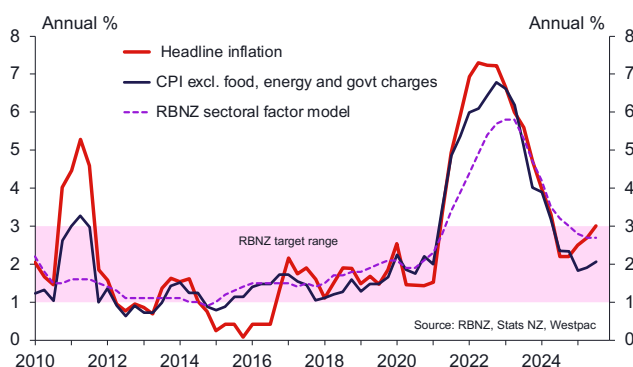
Date	Event
29 Oct 25	FOMC meeting (30 Oct NZT)
4 Nov 25	RBA Monetary Policy Decision
5 Nov 25	NZ Labour Market Statistics, September quarter
6 Nov 25	NZ Government accounts (3 months to September)
17 Nov 25	NZ Selected price indexes, October
26 Nov 25	RBNZ OCR Review & Monetary Policy Statement
4 Dec 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

(including local councils), we expect to see further large increases over the next few years.

...but soft on the inside.

While we are seeing continued large price increases in some areas, underlying the surface the broader picture of price pressures is a lot better contained. The various measures of core inflation have drifted down below 3% in recent months, and inflation excluding food and regulated prices is running at just over 2%. That reflects the softness in economic conditions over the past year, with the economy continuing to operate with significant spare capacity, including unemployment at 5.2%.

Headline and core inflation



With softness in domestic demand and weakness in the labour market, price increases in discretionary spending areas have been modest. That includes areas like household furnishings, where retailers have reported weak demand.

There has been particular weakness in housing costs, which account for around 20% of the CPI. In annual terms, rental inflation has fallen to its lowest level since 2019 and construction cost inflation is at its lowest level since 2009. That weakness comes against a backdrop of low population growth and a sharp downturn in building activity. Inflation in both of those areas is expected to remain modest over the year ahead.

With underlying softness in inflation, the RBNZ is set to cut the OCR again in November.

Subdued price pressures in the discretionary and more cyclical areas of the CPI are significant for the RBNZ. Combined with the expected easing in food prices, overall inflation is expected to drop back to levels comfortably within the RBNZ's target band over the year ahead. That's despite the continued firmness in regulated prices.

With the medium-term inflation outlook contained and the economy still operating with spare capacity, that gives the RBNZ headroom to continue cutting the OCR. We're

forecasting one more 25bp rate cut at the November meeting, with the OCR expected to bottom at 2.25%.

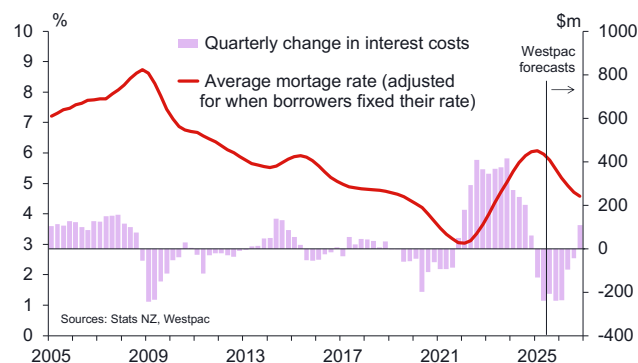
Financial markets have fully priced a 25bp cut in November and have priced some chance that the OCR falls even further.

Key to how far the OCR falls will be how the economy responds over the next few months. It's true that domestic activity has been sluggish recently. However, New Zealand has a very high proportion of mortgages that are fixed for a period (around 90%). As a result, while interest rates have been dropping since August 2024, we've only really seen a material fall in households' debt servicing costs since around the middle of this year.

With a large amount of stimulus now hitting the economy's blood stream, we'll be watching for signs that spending is starting to turn as we head into the summer months. We'll also be keeping a close eye on gauges of the job market, with the September quarter labour market update out on 5 November.

Our upcoming *Economic Overview* (out this Thursday) looks at how the economy has been responding to the 300bps of interest rates cuts to date and what's ahead for the RBNZ.

Household spending on interest costs



Underlying trade balance continues to improve.

The only other significant local data over the past week was the merchandise trade report for September. As expected, seasonal influences – the usual lull in primary exports and pre-Christmas ramp-up in imports – resulted in a trade deficit of \$1.4bn. But after adjusting for seasonal effects, a small surplus of \$0.4bn represented the best outcome since 2014 (excluding the volatility associated with the pandemic lockdowns). Exports of milk powder butter and cheese were 27% higher than a year earlier, making a significant contribution to a 19% rise in overall exports. And while prices fell again at last week's GDT dairy auction, for now prices remain consistent with our forecast of a \$10 kg/ms payout for this season. Imports in September were just 1.6% higher than

a year earlier, although this partly reflects base effects associated with large aircraft imports a year earlier. We were encouraged to see a 15% rise in imports of machinery and plant and a more than one-third increase in imports of passenger vehicles (the latter seems to be associated with the arrival of new Chinese EV brands into the country).

Merchandise trade balance



Campaign 2026.

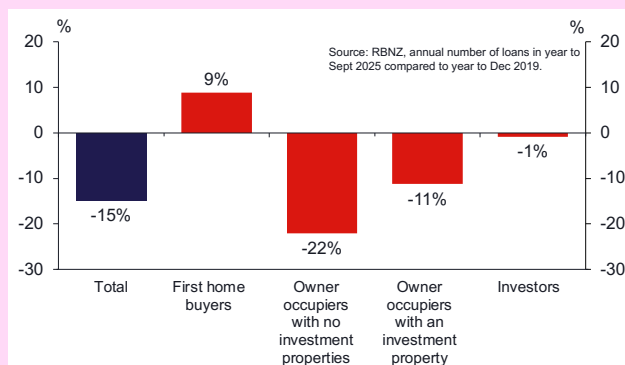
Policy announcements ahead of next year's election are starting to roll out. Today Labour announced plans for a capital gains tax if elected. The proposed tax would be narrowly focused on profits from the sale of commercial and residential properties (excluding the family home). The tax would not take effect until 1 July 2027 and would be imposed at a rate of 28%. While we haven't seen a full costing of the policy, it's likely that the tax revenue raised would be relatively modest, with Labour indicating that earnings from the policy would be used for increased health spending.

Satish Ranchhod, Senior Economist

Chart of the week.

The post-pandemic recovery in the housing market has been gradual. However, there have been some big differences across buyer groups. The number of new loans to first home buyers is now up nearly 10% on pre-pandemic levels. Falls in prices over the past couple of years and declines in borrowing costs means that home ownership is now a lot more affordable for many Kiwis. We're also seen increasing activity amongst investors, with the number of new investor loans back at pre-pandemic levels. However, in contrast to previous years where buyers often expected large capital gains, investors are now more focused on rental yields, and that's affecting how much they're willing to pay. Many investors have also told us that they're nervous about potential changes to the tax system. Meanwhile, movers and upgraders are still on the sidelines. In some cases, buyers in these groups will have entered the market at the peak, and the value of their homes will have fallen. Others are still cautious about purchasing, reflecting concerns about the general state of the economy.

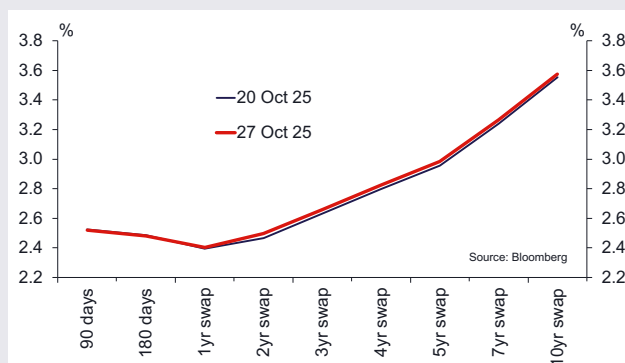
Number of new home loans compared to start of pandemic



Fixed versus floating for mortgages.

The RBNZ has signalled the likelihood of further easing and we're now forecasting the cash rate to bottom at 2.25% later this year. Fixed-term mortgage rates have moved lower in recent weeks and 'special' rates (those for borrowers with at least a 20% deposit) are now under 5%, reflecting the recent falls in wholesale rates. Very short-term mortgage rates will likely fall slightly if the RBNZ cuts the OCR as we expect, but they remain above current longer-term fixed rates. At current rates, fixing for longer periods of two to three years looks attractive.

NZ interest rates



Global wrap

North America.

The US data flow has remained sparse over the past week as the government shutdown – now the second longest on record – continued with little sign of an impending resolution. However, the BLS did release the September CPI report, which revealed a smaller than expected 0.2%*m/m* lift in the core index. In other news, the University of Michigan's consumer survey pointed to a further decline in sentiment, but the flash PMI readings improved slightly in October. The focus over the week ahead will be on the latest FOMC meeting (Thursday morning NZT). A further 25bp reduction in the fed funds rate to 3.75% is fully priced as the Fed continues to balance near-term upside risks to inflation and perceived downside risks to the labour market.

Europe.

The highlight of an otherwise quiet week in Europe was the release of the flash PMI reports for October. The headline manufacturing and services indexes nudged higher in both the euro area and the UK. Meanwhile, UK core CPI inflation unexpectedly eased to 3.5%*y/y* in October while retail spending unexpectedly grew in September. The coming week's euro area diary sees the release of the preliminary Q3 GDP report on Thursday and the flash CPI report on Friday. In between those reports, the ECB will announce the outcome of its latest policy deliberation, with markets expecting an 'on hold' decision.

Asia-Pacific.

China's economy grew 5.2%*y/y* in Q3, with weakness in domestic demand – especially investment – countered by stronger than expected export-led growth in factory production. Without a marked increase in support for domestic demand, Chinese GDP growth in 2026 and beyond is likely to be nearer 4% than 5%. Meanwhile, last week's Plenum set new major objectives for country's 15th 5-year plan, including substantial improvements in scientific and technological self-reliance; further deepening of reform; further improvements in quality of life; and further advances in strengthening the national security shield. In Japan, the CPI inflation rate rose to 2.9%*y/y* in September, but the BoJ's favoured core measure eased slightly to 3.0%*y/y*. Attention this week now turns to Thursday's BoJ meeting and updated Outlook Report. Markets are pricing only a small chance that the BoJ's revised forecast will support a further lift in the policy rate this week. In Australia, following the release of weaker-than-expected labour market data earlier this month, this week all eyes will be on Wednesday's Q3 CPI. Westpac expects a 0.8%*m/m* lift in the trimmed mean, which is also the consensus forecast.

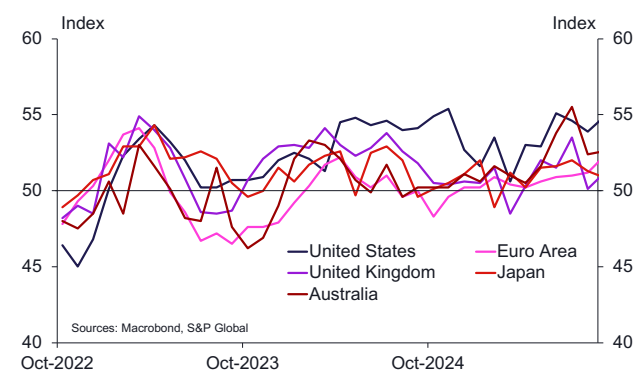
Trading partner real GDP (calendar years)

	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

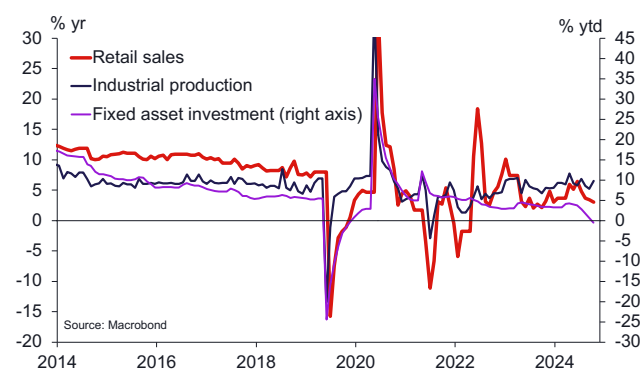
Australian & US interest rate outlook

	24 Oct	Dec-25	Dec-26	Dec-27
Australia				
Cash	3.60	3.35	2.85	2.85
90 Day BBSW	3.51	3.30	2.95	2.95
3 Year Swap	3.37	3.40	3.70	4.00
3 Year Bond	3.37	3.45	3.75	4.00
10 Year Bond	4.14	4.30	4.50	4.65
10 Year Spread to US (bps)	14	15	10	-5
US				
Fed Funds	4.125	3.875	3.875	3.875
US 10 Year Bond	4.00	4.15	4.40	4.70

S&P Global composite PMI readings



Chinese activity indicators



Financial markets wrap

Foreign exchange.

NZD/USD fell to 0.5683 in mid-October and since then has ground slightly higher, spending most time in the 0.5700-0.5750 range.

From here, we see potential for further gains to 0.5800 during the week ahead. Risk sentiment has been lifted by signals that the Trump-Xi trade meeting on Thursday will result in an outcome agreeable to both parties. US equities have already responded to those expectations, rising to fresh record highs, and the defensive US dollar has fallen slightly.

The other major risk event this week will be the FOMC decision (Thu morning NZT), which is widely expected to deliver a rate cut. But given around four more rate cuts are priced in by markets, the guidance will be of most interest.

There will also be central bank decisions from the ECB, Bank of Japan, and Bank of Canada. Surprises from those will affect the respective NZD cross rates. In NZ, the data is second-tier, but worthy of watching will be filled jobs, business confidence, and consumer confidence. There will also be several speeches from the RBNZ.

NZD/AUD has been stuck in consolidation mode in October, between 0.8737 and 0.8867. If the Trump-Xi meeting does conclude favourably for risk sentiment, NZD/AUD will be vulnerable to breaking below the range. AU CPI data on Wednesday will also be influential.

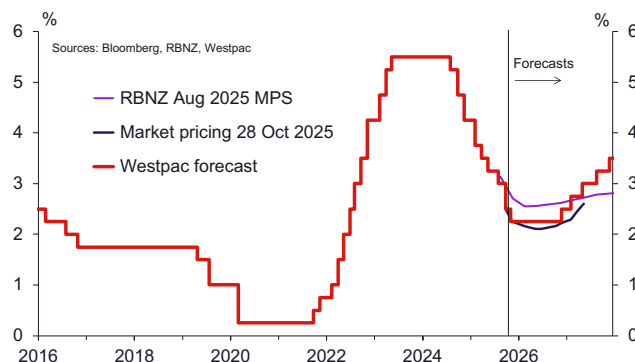
Interest rates.

The downward trend in the NZ 2yr swap rate, which started in 2023, stalled last week at 2.44%, and some consolidation around 2.50% can be expected. Any further downside will require negative surprises from the economic data, which would result in an OCR below 2.25% being fully priced.

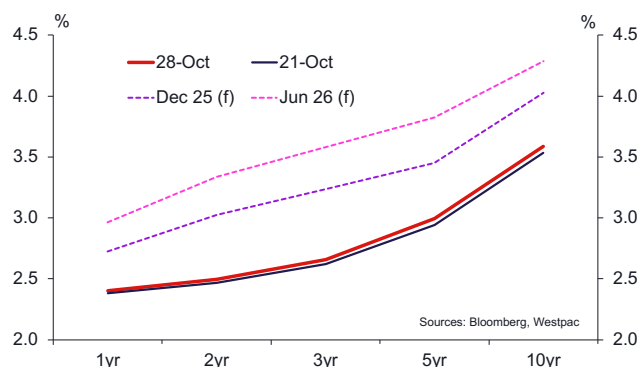
But for now, the OIS market is happy to price a 25bp cut in November as a 100% chance, and assign a 0% chance to a larger 50bp cut. There is also a 50% chance of a final 25bp cut by May 2026, suggesting little conviction in whether the OCR bottoms at 2.25% or 2.0%.

The NZ yield curve continues to show tentative signs of peaking, the 2-10yr swap curve currently at 107bp (vs the recent peak at 111bp). Confirmation will hinge on whether the OCR bottoms at 2.25%.

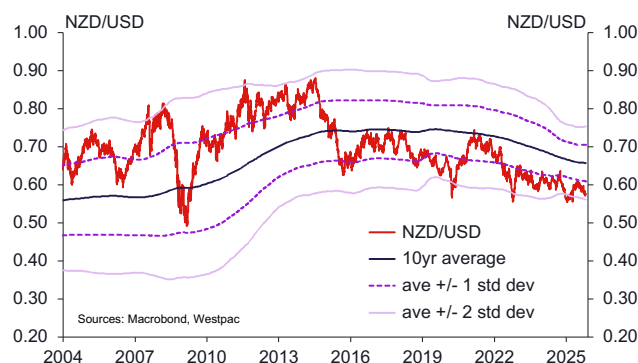
Official Cash Rate forecasts



Swap rates



NZD/USD vs rolling 10yr average



FX recent developments

	Historical data				F'cast
	Spot	3mth range	5yr range	5yr avg	Dec-25
USD	0.577	0.571-0.602	0.553-0.743	0.633	0.58
AUD	0.880	0.875-0.915	0.873-0.971	0.922	0.87
EUR	0.495	0.489-0.516	0.489-0.637	0.572	0.49
GBP	0.433	0.426-0.447	0.426-0.535	0.491	0.43
JPY	88.2	85.6-88.9	69.0-98.6	84.5	88.2

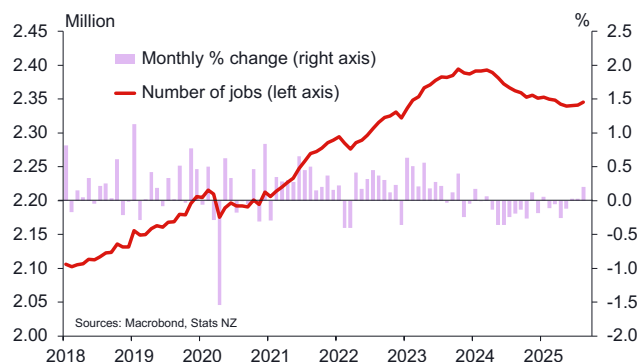
The week ahead

Sep Monthly Employment Indicator

Oct 28, Last: +0.2%, Westpac f/c: +0.2%

The Monthly Employment Indicator (MEI) is drawn from income tax data, making it a comprehensive record of the number of people in work. However, it tends to be overstated on the first release – we expect that the 0.2% rise in filled jobs for August will be revised down to a flat outcome, similar to the previous two months. The weekly snapshots provided by Stats NZ have been fairly stable in recent weeks; we expect to see a modest rise for the September month (though again likely to be revised down in future releases). Employment trends have been more positive in areas dominated by the public sector, and in the more farming-oriented parts of the South Island.

Monthly Employment Indicator filled jobs

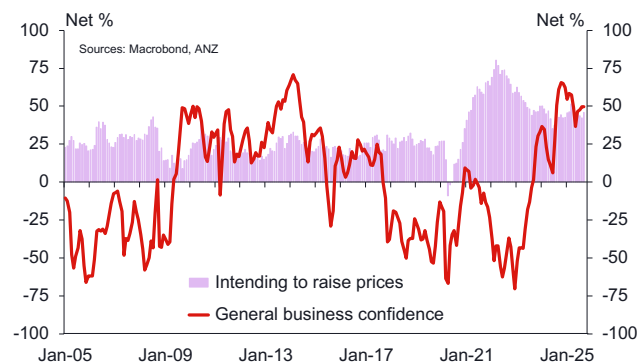


Oct ANZBO business confidence

Oct 30, Last: 49.6

The September Business Outlook survey showed that firms remain very optimistic about the year ahead. Responses received in the second half of the month, after the very weak Q3 GDP result, were on the softer side but not by a huge amount (and on some measures were still higher than in August). The RBNZ's larger 50bp cut in early October was intended to provide a shot in the arm to household and business confidence, and in that respect we may well see a further lift in the headline measures for October (the consumer confidence survey is also out on the 31st). But the real test will be when we see that translate into an improvement in current trading conditions. In September only a net 5% of firms said that their activity was up on a year ago.

Business confidence and pricing intentions

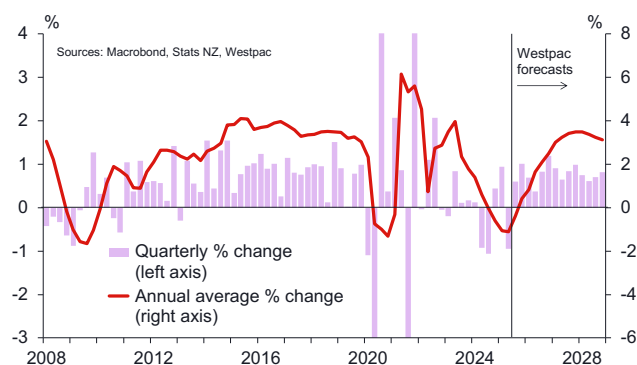


Economic and financial forecasts

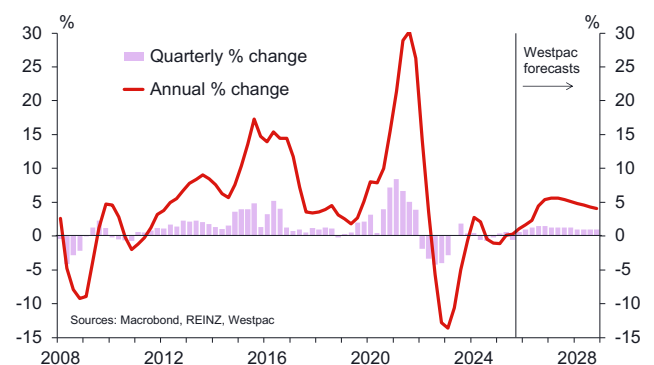
Economic indicators	Quarterly % change				Annual % change			
	Mar-25	Jun-25	Sep-25	Dec-25	2024	2025	2026	2027
GDP (production)	0.9	-0.9	0.6	1.0	-1.4	1.6	3.1	3.4
Consumer price index	0.9	0.5	1.0	0.5	2.2	3.0	2.3	2.1
Employment change	0.0	-0.1	0.0	0.2	-1.2	0.2	2.5	2.0
Unemployment rate	5.1	5.2	5.3	5.3	5.1	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

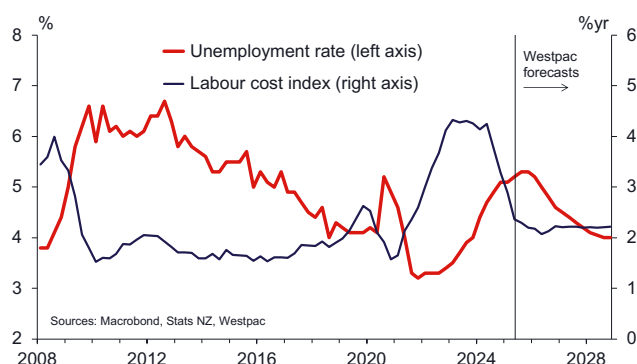
GDP growth



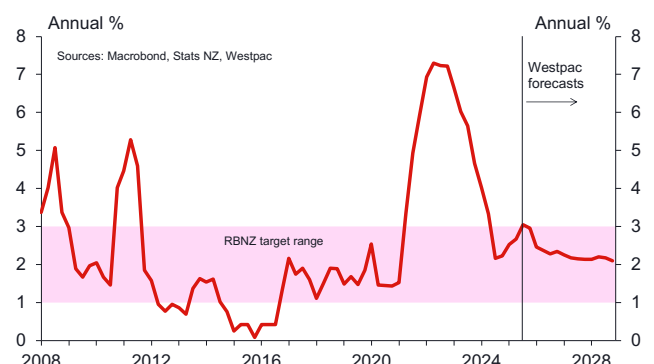
House prices



Unemployment and wage growth



Consumer price inflation



Data calendar

		Last	Market median	Westpac forecast	Risk/Comment
Tue 28					
NZ	Sep Employment Indicator, %mth	0.2	–	0.2	Weekly snapshots up slightly; Aug likely revised down.
Eur	Q3 ECB Bank Lending Survey	–	–	–	Credit conditions remain accommodative.
US	Aug S&P/CS Home Price Index, %mth	–0.07	–	–	Elevated mortgage rates limits turnover in housing market.
	Oct Richmond Fed Manuf. Sentiment, index	–17	–	–	Tariff-related costs proving to be a dampener ...
	Oct Conf. Board Consumer Conf., index	94.2	93.8	–	... on both producer and consumer sentiment.
Wed 29					
NZ	RBNZ Acting Governor Speech	–	–	–	Hawkesby speaking on central bank independence.
	RBNZ Director of Fin Mkts Speech	–	–	–	Richardson speaking on Transmission of OCR cuts.
Aus	Sep Monthly CPI Indicator, %ann	3.0	3.1	3.1	August partial data painted a mixed picture on inflation ...
	Q3 CPI, %qtr	0.7	1.1	1.1	... with electricity falling by more than expected ...
	Q3 CPI, %ann	2.1	3	3	... while gains across other parts of the basket offset.
	Q3 Trimmed Mean CPI, %qtr	0.6	0.8	0.8	Housing components will be key to underlying inflation ...
	Q3 Trimmed Mean CPI, %ann	2.7	2.7	2.7	... to which we see upside risk to our current forecast.
US	Oct FOMC Policy Decision, %	4.125	3.875	3.875	Rate cut to lean against downside risks while 'flying blind'.
Thu 30					
NZ	Oct ANZ Business Confidence, index	49.6	–	–	Comes after the GDP shocker but also the 50bp OCR cut.
Aus	Q3 Export Price Index, %qtr	–4.5	–	–	Lift in commodity prices will be beneficial for our exports ...
	Q3 Import Price Index, %qtr	–0.8	–	–	... dynamics around import prices remain somewhat uncertain.
Jpn	Oct BoJ Policy Decision, %	0.5	0.5	0.5	Pause to assess conditions.
Eur	Q3 GDP, %qtr	0.1	0.1	–	Some downside risks to growth as confidence wanes across ...
	Sep Unemployment Rate, %	6.3	6.3	–	... the region but structural factors keep labour market tight.
	ECB Policy Decision (Deposit Rate)	2	2	–	With inflation broadly at target, no policy change expected.
Can	BoC Policy Decision	2.5	2.25	–	Soft growth will motivate a 25bp cut.
Fri 31					
NZ	Oct ANZ Consumer Confidence, index	94.6	–	–	Watching for signs of a boost from lower interest rates.
	RBNZ MPC Member Speech	–	–	–	Prof. Gai speaking on monetary policy and global uncertainty.
Aus	Q3 PPI, %qtr	0.7	–	–	Manufacturing still experiencing upstream price pressures.
	Sep Private Sector Credit, %mth	0.6	0.6	0.6	Business credit growth lifting, but so too housing.
Jpn	Sep Jobless Rate, %	2.6	2.5	–	Structural forces keep conditions tight.
	Sep Industrial Production, %mth	–1.5	1.4	–	Global slowdown to weigh on production.
Chn	Oct NBS Manufacturing PMI, index	49.8	49.6	–	Authorities' five-year plan should help boost optimism ...
	Oct NBS Non-Manufacturing PMI, index	50	50.2	–	... across industries but in particular high-tech manufacturing.
Eur	Oct HICP Inflation, %ann	2.2	2.2	–	Stable inflationary pressures.
US	Oct Chicago PMI, index	40.6	42	–	Surprised to the downside in September.

US government data releases are delayed indefinitely due to the government shutdown. These releases will be reinstated once publication by agencies is confirmed.

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