Week beginning 6 October 2025

AUSTRALIA & NEW ZEALAND WEEKLY

Analysis and forecasts for this week's key releases.

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The Week That Was: Data dependent.

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For the week ahead:

Australia: Public holiday on 6 Oct (markets open), Westpac-MI consumer sentiment.

New Zealand: RBNZ policy decision, NZIER survey of business optimism, ANZ commodity prices.

Japan: Household spending, current account balance.

Euro Area: Sentix investor confidence, retail sales, industrial production.

United States*: Consumer credit, NY Fed inflation expectations, UoM consumer sentiment, Fed minutes.
*government shutdown could impact some releases.

Information contained in this report current as at 3 October 2025

RBA holds cash rate, cautiously keeps its options open

Luci Ellis
Chief Economist, Westpac Group

- **RBA Monetary Policy Board (MPB) keeps cash rate on hold at 3.6%, citing recovering private sector demand, an assessment that labour market conditions are stable, and the possibility that inflation might remain persistent in some areas.**
- **The post-meeting statement acknowledges that inflation is within the 2–3% target range. However, the RBA chose instead to highlight as a subheading that the rate of decline in underlying inflation 'had slowed' – hardly a surprise when the comparison is with the rapid decline from almost 7%. The statement noted that inflation would likely be higher in the September quarter than previously forecast but gave no steer on what this implied for subsequent quarters.**
- **The post-meeting statement was notably cautious and non-committal about the outlook. It also flagged that the MPB would review the outlook (as well as the risks, as in the language in August) in light of the incoming data. Maximum optionality has been retained but in our view, the choice is still when to cut further, not whether. With monetary policy still seen as 'a bit restrictive', the rate-cutting phase is not over.**

The post-meeting statement again opened by noting that inflation has fallen substantially since 2022. Both headline and underlying inflation were acknowledged as being within the 2–3% target range, but it is noteworthy that this was not the headline in the statement. Rather, the post-meeting statement highlighted that the decline 'had slowed'. This is hardly surprising as one approaches the desired end-point. Like the attention given to the monthly CPI indicator that the RBA had previously downplayed, the language choice suggests that the RBA remains sensitive to even small upside risks to inflation.

Indeed, in the media conference, the Governor emphasised the upside surprises in market services and housing-related inflation revealed in the August monthly data. Contrast this with the downplaying of the weaker monthly data a few months ago, and one cannot help getting the impression that the weight put on this indicator depends notably on how well it supports an existing broader narrative.

The post-meeting statement characterised conditions in the labour market as 'remaining stable', with the unemployment rate and measures of underemployment broadly constant even as employment growth slowed, and by more than the RBA expected. We think this assessment could be too bullish, noting the longer-term underlying trend for the participation rate to rise, and the role of cost-of-living pressures boosting labour supply until recently. The post-meeting statement mentioned liaison and survey measures of labour availability but not the ABS vacancies data, which gives a rather different impression of the direction of travel. (That said, the Governor did list vacancies in an answer in the media conference.) Likewise in the media conference, Governor Bullock contrasted current labour market conditions against an alternative of mass layoffs. This seems like an overly gloomy alternative when the question is whether to withdraw remaining policy restrictiveness.

Productivity growth was characterised as being weak (versus the August language of it not having picked up) and the outlook for productivity growth was described as uncertain, rather than its continued weakness being the uncertainty. This suggests a further evolution in the RBA's views on this front with the release of the Q2 national accounts, following the major pivot in the RBA's thinking on productivity outlines in the August SMP.

The statement also highlighted the 'stronger-than-expected' consumption growth data, attributing this to households possibly 'becoming more comfortable consuming as real incomes and wealth rise'. Again, some recovery should be expected given that real incomes are finally rising. The risks around the consumption outlook and its implications for inflation were framed around whether current growth 'persists'. We would note, however, that the ongoing unwind in growth in public demand means that growth in private demand (mostly consumption) needs to keep recovering to avoid an 'air pocket' in overall domestic demand. We also observe that the risk noted in the post-meeting statement of businesses potentially using this strength in demand to pass on cost increases was not evident in any data. In the media conference, the Governor acknowledged that this was merely a risk scenario.

Overall, this was a remarkably non-committal set of communications, making no mention of the previous forecasts being predicated on further cuts to the cash rate. The Governor mentioned that monetary policy is 'still a bit restrictive' in the media conference but there was no clear mention of the stance of policy in the post-meeting statement. If there was a skew to the messaging, it was in the direction of highlighting inflation risks. The RBA considers that the easier financial conditions stemming from the prior cash rate cuts are working their way through the economy broadly as expected, and that this will take time to be fully evident.

The MPB is clearly trying to give itself maximum optionality for the next few meetings. This means that our current base case of a cash rate cut in November is far from assured, though neither is it off the table. The longer the MPB delays further cuts, the more likely it is that it will end up cutting by more than it current envisages.

Cliff Notes: data dependent

Ryan Wells, Economist
Illiana Jain, Economist
Neha Sharma, Economist

This week, the RBA's decision to leave the cash rate unchanged at 3.6% was widely expected, though the associated commentary struck a more cautious tone. The Board's non-committal stance was echoed by Governor Bullock in the subsequent press conference, emphasising the greater degree of concern over the inflation outlook. This comes after August's partial inflation data, which raised the risk that the full Q3 reading on underlying inflation may print above the RBA's previous forecasts. Clearly, the Board is giving itself optionality as it continues to digest the data flow – but with policy still seen as "a bit restrictive", we continue to expect the next rate cut to be delivered in November, though it is less assured than previously.

Another factor feeding into the RBA's wariness to upside risks is consumer spending, given growth proved to be "stronger-than-expected" in Q2. However, this week's household spending data provided more evidence that temporary factors – such as insurance payouts, holidays and discounting – played a significant role, as growth slowed to 0.1% in August following an average monthly gain of 0.5% in Q2. This was further corroborated by recent international trade data, which showed that consumption good imports are tracking a weaker pace over recent months. Growth remains positive even as households move past these one-offs, though the trend in consumer spending may remain 'bumpy' as households look toward discounting and sales periods in this early stage of the recovery.

This recovery in consumer spending is a key part of the 'handover' of growth from public to private demand, with the former now slowing more clearly. As far as the federal budget's bottom line is concerned, the final outcome for 2024/25 revealed a better-than-expected cash deficit of $10bn (0.4% of nominal GDP) off the back of elevated commodity prices and stronger company and income tax receipts. Although growth in public spending has slowed recently, the higher level of public spending will see the budget remain in deficit over the next decade.

Before moving offshore, a final note on housing. The latest Cotality (formerly CoreLogic) data pointed to another pick-up in house price growth, lifting 0.9% in September. The combination of firmer homebuyer sentiment and RBA rate cuts to date have played a key role, as evinced by the commensurate lift in housing credit. Tight supply will also have a hand in supporting price growth near-term, with Westpac forecasting a 6% lift in 2025 overall. Looking further ahead, affordability constraints loom as a key risk that could temper price growth, and although recent data on dwelling approvals does not bode well for the front-end of the pipeline, continued progress on the large existing stock of dwelling projects should go some way to alleviating supply constraints medium-term.

Offshore markets once again focused on the US, where negotiations over government spending reached an impasse, resulting in a shutdown. A key implication is the delay of major data releases such as nonfarm payrolls and CPI, as outlined in the Department of Labor's Contingency Plan. The plan also states that "all active data collection activities for BLS surveys will cease," raising the risk of data quality issues, the extent of which will depend on the shutdown's duration.

Elsewhere in the US, the ISM Manufacturing PMI for September rose to 49.1pts. Within the details, the prices component fell 1.8pts to 61.9pts—still well above the five-year pre-COVID average of 55.8pts. The employment index edged up to 45.3pts, signalling a labour market that remains subdued in a "low hiring, low firing" environment.

"...the Board is giving itself optionality as it continues to digest the data flow...policy still seen as "a bit restrictive"..."

Across the Pacific, China's NBS Manufacturing PMI for September was slightly more upbeat at 49.8pts, with most sub-indicators improving. Overcapacity in the manufacturing sector was evident, with strong gains in production (+1.1pts) and inventory (+1.4pts), while output prices fell by 0.9pts. The impact of recent "involution" policies aimed at curbing overproduction has yet to materialise. Conversely, the Non-Manufacturing PMI slipped 0.3pts to 50.0pts, largely due to a 1.3pt drop in prices charged. Weak demand was reflected in declines in activity and new orders. These results strengthen the case for future stimulus measures focused on boosting household demand. China's next Five-Year Plan (2026–30) will be discussed from 20–23 October, where additional demand-side stimulus could be announced.

Getting the OCR to where it needs to be

Kelly Eckhold
Chief Economist, NZ

The key market-moving event over the week ahead is likely to be the RBNZ Monetary Policy Review (MPR) meeting on Wednesday 8 October. The data received this week has done little to shift views and tends to suggest that business sentiment remains brittle and the labour market stable.

The Monthly Employment Indicator (MEI) rose by 0.2% in August. This result was slightly stronger than the flat outturn that we had expected but followed June and July outcomes that were revised to flat from initially reported positive outcomes. And while there is a good chance that the August outcome will suffer the same fate when Stats NZ releases the September outturn, it remains the case that the jobs market appears to be stabilising again after a renewed downturn through the autumn months. Jobs appear to be growing in the regions most boosted by strong commodity prices while job losses continue in the largest urban areas. Allowing for likely revisions, the MEI is tracking consistent with our forecast of a broadly stable level of HLFS employment in the September quarter. At a time when the working-age population is still growing, albeit slowly, this would suggest a further uptick in the unemployment rate for the quarter. Such an outcome would also be consistent with the RBNZ's most recent forecasts.

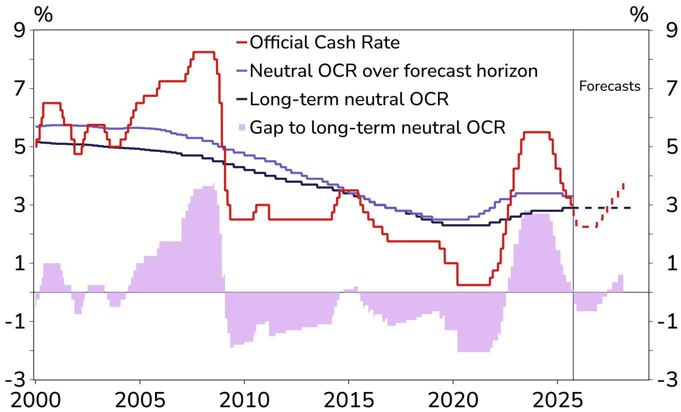
The September ANZ Business Outlook survey was slightly stronger on balance compared to August. Firms' optimism about the year ahead remained elevated compared to current conditions, and even the small number of responses that were received after the June quarter GDP shocker were not significantly weaker than the August readings. The RBNZ's pivot in August to signalling further rate cuts will have been fully captured for the first time in the September survey. Pricing indicators also rose a touch in September. Overall, this survey indicated businesses felt better than they did at the end of the June quarter when activity and employment was declining. Even so, the measure of 'activity versus a year ago' remains at levels suggesting a still pedestrian rate of growth in September.

Expectations for the RBNZ meeting on 8 October

In the August Monetary Policy Statement (MPS) the RBNZ indicated that it expected to reduce the OCR to 2.5% by year end. On balance, the data flow since August – notably the very disappointing June quarter GDP report – has supported the RBNZ's forecast. Indeed, commentators seem united in the belief that the OCR needs to go to 2.5%, with downside risk beyond. The market similarly views the policy outlook, having quickly moved to price a terminal OCR of 2.25% in the wake of the GDP report.

An OCR that troughs close to 2% is consistent with the type of cycle we often see outside periods of economic crisis. Hence risks of policy overshooting don't look especially large based on the data we see now. For example, relative to the RBNZ's estimates of the neutral interest rate, a 2.25% OCR likely lies around 75-125 basis points below the range of estimates available. This implies that interest rates will be stimulatory, but not to the extent seen during the Covid-19 period or the Global Financial Crisis.

OCR and RBNZ estimates of 'neutral'



Source: RBNZ, Macrobond, Westpac Economics

In our view, there doesn't seem to be a good reason to delay a move to 2.5%. Quickly moving the OCR to a stimulatory level will generate confidence and activity ahead of the important Christmas and summer trading period. This may also reduce the likelihood that even further monetary policy support is required in the new year – a year in which domestic political uncertainty is likely to grow if opinion polls continue to point to a tight General Election. In the August MPS, two MPC members voted for a "circuit breaking" shift in the OCR to levels more consistent with boosting demand. Those views should hold even greater sway this meeting, helping to tip the balance on the MPC towards a 50bps cut. Hence, we expect the RBNZ to cut the OCR by 50bp to 2.5% at this meeting.

“In our view, there doesn’t seem to be a good reason to delay a move to 2.5%.”

We also note that the composition of the MPC has shifted since August. The most hawkish member, Dr Bob Buckle, has ended his term and there is a new member, Hayley Gourley, who may be happy to move with the consensus while getting familiar with the process. Similarly, we expect Governor Christian Hawkesby – who recall will depart the RBNZ at the end of November – will give additional weight to the views other members of the MPC, since they will be the ones remaining to deal with the consequences of policy decisions taken now. We suspect this might increase the weight the most dovish MPC members carry this time.

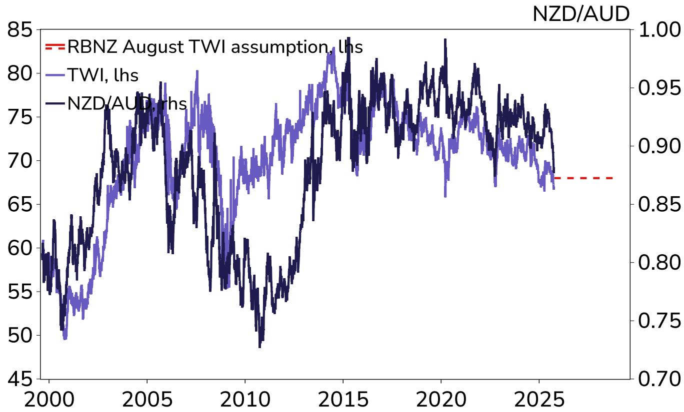
We expect the Bank to maintain an easing bias, with the prospect of a further reduction in the OCR at the 26 November meeting conditional on the flow of data to come (which will include the September quarter inflation and labour market reports). We doubt the MPC will want to be seen as delaying stimulus and encouraging the public and businesses to hold back spending, hiring and investment decisions in anticipation of more policy action later. This type of behaviour has been a feature of the easing cycle to date and may have contributed to a slower than ideal response to the 250bp of cuts already implemented.

It’s also worth noting that given current market pricing, it will be very hard for the RBNZ to cut the OCR by just 25bp and not cause interest rates to rise somewhat. Most major banks cut the key 1-year mortgage rate to below 4.5% this week reflecting market pricing of a terminal OCR of 2.25%. What would be required is a relatively strong commitment to cut rates significantly in November. But if the RBNZ was to signal that a 50bp cut is on the table in November – ahead of the 3-month hiatus before the next meeting in February – this would raise the obvious question of why a greater easing wasn’t occurring now? The MPC might be sensitive to unnecessarily stoking further criticism of the RBNZ, especially considering the public discourse in recent months.

We think our central scenario of a 50bp cut and a conditional easing bias for November has around a 70% likelihood. A **hawkish outcome** (20% chance) would be a 25bp cut and indications of another 25bp coming in November. This would indicate that the MPC sees the path depicted in the August forecasts as remaining reasonable. There would unavoidably be a decent backup in interest rates given markets currently price the OCR to bottom out around 2.25%. A **dovish outcome** (10% chance) would be the RBNZ coupling the 50bp cut at this meeting with a strong presumption of at least a 25bp cut in November. This would indicate that the MPC interpret recent data as implying significant downside risks to the timing of the recovery forecast in the second half 2025 and into 2026. Hence this would imply an amping up of the ‘circuit breaking’ easing discussed in August beyond what we see as more likely right now.

Following a period of weakness in the wake of the GDP report, the New Zealand dollar exchange rate has consolidated over the past week. The Trade Weighted Index (TWI) has nudged higher this week but remains somewhat lower than the level assumed at the RBNZ August Monetary Policy Statement. The NZD/AUD exchange moved through 88 cents for a time but is now unchanged from where it stood a week earlier. Weakness in the exchange rate is to be expected given New Zealand’s relatively anaemic growth pulse and the associated interest rate differentials to alternative investment destinations.

NZD/AUD exchange rate and Trade Weighted Index



Source: RBNZ, Macrobond, Westpac Economics

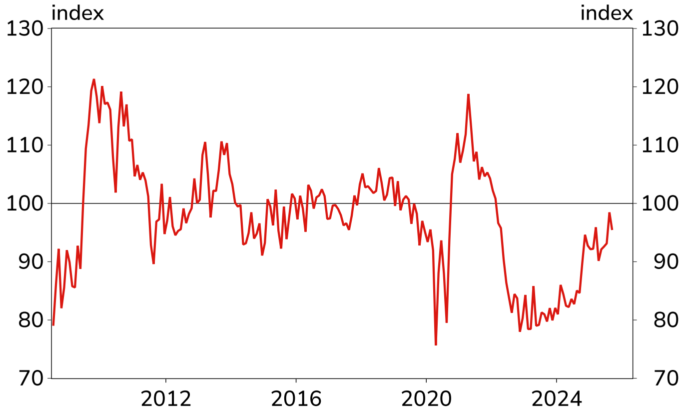
AUS: Oct Westpac-MI Consumer Sentiment (index)

Oct 7, Last: 95.4

Consumer sentiment declined 3.1% in September, giving back some of the previous month's gain. A recovery is still evident but continues to move along in fits and starts. At 95.4, the Index read is 2.5% above its July level and 5.9% above the low seen following the tariff-related turmoil in April but still in 'cautiously pessimistic' territory.

The latest survey is in the field over the week ending October 4. It will capture reactions to the RBA's decision to leave interest rates on hold at its September meeting. While this did not come as a surprise, the Bank's comments suggest prospects for further policy are a little less assured. Against this, there may be a little more confidence on the economy as the consumer and housing recoveries continue to become more evident although external factors have been a key negative on this front.

Consumer Sentiment Index



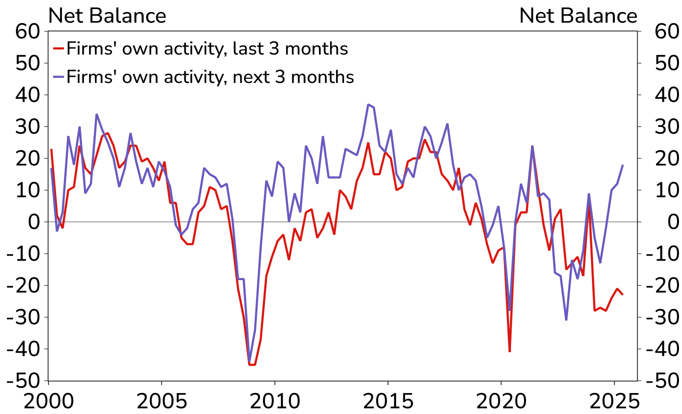
Source: Westpac-MI, Macrobond

NZ: Q3 NZIER Survey of Business Opinion

Oct 7, General business confidence - last: +26.6

The QSBO is often a valuable early indicator of the state of the economy, given its coverage and timeliness. However, it has produced markedly divergent signals in recent quarters, with firms becoming increasingly confident about the coming months even as they report that their recent performance has remained very weak – and neither measure has provided a consistent steer on the recent volatility in GDP. The QSBO measures of price pressures appear to have been quite influential on the RBNZ over the last year, and while this week's survey comes out only a day before their OCR decision, the committee will no doubt be looking at the details closely.

QSBO past vs expected activity



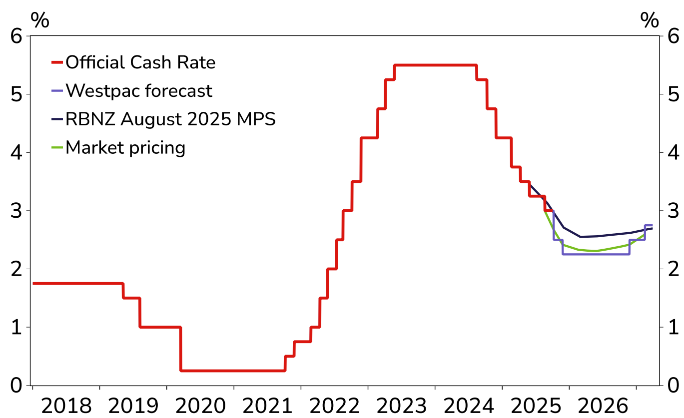
Source: NZIER, Stats NZ, Macrobond, Westpac Economics

NZ: RBNZ Official Cash Rate Review (%)

Oct 8, last: 3.00, Westpac f/c: 2.50, Market: 2.50

We expect the RBNZ will cut the OCR 50bps at its October Policy review, taking the OCR to 2.50%. At the time of their last policy statement, the RBNZ noted that, provided economic conditions evolved as expected, they were likely to continue cutting the OCR through the latter part of this year. Since that time, economic conditions have actually proven to be softer than the RBNZ and private sector forecasters anticipated. As a result, we expect the RBNZ will deliver a larger rate cut at this meeting and will maintain a data-dependent easing bias. The arguments for a "circuit-breaking" shift in the OCR to levels more consistent with boosting demand should remain prominent and tip the balance among the committee members.

RBNZ Official Cash Rate



Source: RBNZ, Macrobond, Westpac Economics

What to watch

	For	Data/Event	Unit	Last	Market f/c	Westpac f/c	Risk/Comment
Mon 06							
Aus	Sep	MI Inflation Gauge	%ann	2.8	–	–	Insights into risks to inflation.
		Public Holiday	–	–	–	–	NSW, ACT, SA and Qld only. Markets will remain open.
NZ	Sep	ANZ Commodity Prices	%mth	0.7	–	-2.0	Dairy prices down 5% over the month.
Eur	Oct	Sentix Investor Confidence	index	–9.2	–8.6	–	An upward trend behind high monthly volatility.
	Aug	Retail Sales	%mth	–0.5	0.2	–	Struggling to gain more momentum.
UK		BoE Speak	–	–	–	–	Governor Bailey speaks in Scotland.
Tue 07							
Aus	Oct	Westpac-MI Consumer Sentiment	index	95.4	–	–	Will capture reactions to the RBA decision.
NZ	Q3	NZIER Survey of Business Opinion	index	26.6	–	–	Early indicator of Q3 activity.
Jpn	Aug	Household Spending	%yr	1.4	1.3	–	Slow recovery in real consumer spending.
US	Aug	Trade Balance	US$bn	–78.3	–61.4	–	Likely to be delayed/cancelled due to the US gov shutdown.
		Fedspeak	–	–	–	–	Miran, Kashkari and Bostic are scheduled to speak.
Wed 08							
NZ		RBNZ Policy Decision	%	3.00	2.50	2.50	Moving the OCR to a stimulatory level more quickly.
Jpn	Aug	Current Account Balance	¥bn	2684	3540	–	Volatile series, downward trend since February.
Ger	Aug	Industrial Production	%mth	1.3	–1.0	–	The underlying trend has shifted higher.
US	Aug	Consumer Credit	$bn	16.0	15.0	–	Has turned slightly more positive in recent months.
		NY Fed 1Y inflation expectations	%ann	3.2	–	–	Inched higher in the last couple of months.
		Fed Minutes	–	–	–	–	Minutes of the 17 September FOMC meeting.
Thu 09							
Aus	Oct	MI Inflation Expectations	%ann	4.7	–	–	Has been particularly volatile, at elevated ~4-5% levels.
US		Fedspeak	–	–	–	–	Fed's Barr Keynote at Community Banking Research Conference.
		Initial Jobless Claims	000s	–	–	–	Likely to be delayed/cancelled due to the US gov shutdown.
Fri 10							
NZ	Sep	Manufacturing PMI	index	49.9	–	–	Has improved this year but still choppy.
US	Aug	Wholesale Inventories	%mth	–0.2	–	–	Likely to be delayed/cancelled due to the US gov shutdown.
	Oct	Univ of Michigan Consumer Sentim.	index	55.1	54.3	–	Not far from historical lows.
		Fedspeak	–	–	–	–	Goolsbee is giving opening remarks at the Fed conference.

Economic & financial forecasts

Interest rate forecasts

Australia	Latest (3 Oct)	Dec–25	Mar–26	Jun–26	Sep–26	Dec–26	Mar–27	Jun–27	Sep–27	Dec–27
Cash	3.60	3.35	3.10	2.85	2.85	2.85	2.85	2.85	2.85	2.85
90 Day BBSW	3.59	3.30	3.05	2.95	2.95	2.95	2.95	2.95	2.95	2.95
3 Year Swap	3.50	3.40	3.45	3.50	3.60	3.70	3.80	3.90	3.95	4.00
3 Year Bond	3.54	3.45	3.50	3.55	3.65	3.75	3.85	3.90	3.95	4.00
10 Year Bond	4.33	4.35	4.45	4.55	4.60	4.65	4.70	4.75	4.80	4.85
10 Year Spread to US (bps)	24	15	15	15	10	5	0	–5	–5	–5
United States										
Fed Funds	4.125	4.125	3.875	3.875	3.875	3.875	3.875	3.875	3.875	3.875
US 10 Year Bond	4.09	4.20	4.30	4.40	4.50	4.60	4.70	4.80	4.85	4.90
New Zealand										
Cash	3.00	2.25	2.25	2.25	2.25	2.50	2.75	3.00	3.25	3.75
90 Day Bill	2.77	2.35	2.35	2.35	2.45	2.70	2.95	3.20	3.45	3.85
2 Year Swap	2.63	2.70	2.90	3.15	3.35	3.55	3.70	3.85	3.95	4.00
10 Year Bond	4.19	4.20	4.30	4.45	4.55	4.70	4.85	4.90	4.95	4.95
10 Year Spread to US (bps)	10	0	0	5	5	10	15	10	10	5

Exchange rate forecasts

	Latest (3 Oct)	Dec–25	Mar–26	Jun–26	Sep–26	Dec–26	Mar–27	Jun–27	Sep–27	Dec–27
AUD/USD	0.6595	0.68	0.69	0.70	0.71	0.71	0.72	0.72	0.73	0.73
NZD/USD	0.5818	0.59	0.60	0.61	0.62	0.62	0.63	0.64	0.64	0.65
USD/JPY	147.64	145	143	141	139	137	135	133	132	131
EUR/USD	1.1725	1.18	1.19	1.19	1.20	1.20	1.21	1.21	1.21	1.21
GBP/USD	1.3439	1.36	1.36	1.37	1.37	1.37	1.37	1.38	1.38	1.38
USD/CNY	7.1224	7.10	7.05	7.00	6.95	6.90	6.80	6.70	6.60	6.50
AUD/NZD	1.1334	1.15	1.16	1.15	1.15	1.14	1.14	1.13	1.13	1.12

Australian economic forecasts

	2025				2026				Calendar years			
% Change	**Q1**	**Q2**	**Q3f**	**Q4f**	**Q1f**	**Q2f**	**Q3f**	**Q4f**	**2024**	**2025f**	**2026f**	**2027f**
GDP %qtr	0.3	0.6	0.5	0.6	0.6	0.6	0.6	0.6	–	–	–	–
%yr end	1.4	1.8	1.9	1.9	2.2	2.2	2.4	2.4	1.3	1.9	2.4	2.6
Unemployment rate %	4.1	4.2	4.3	4.4	4.4	4.5	4.5	4.5	4.0	4.4	4.5	4.3
Wages (WPI) %qtr	0.9	0.8	0.7	0.7	0.8	0.8	0.6	0.8	–	–	–	–
%yr end	3.4	3.4	3.3	3.2	3.0	3.0	2.9	3.0	3.2	3.2	3.0	3.1
CPI Headline %qtr	0.9	0.7	1.1	0.2	0.7	0.8	0.6	0.5	–	–	–	–
%yr end	2.4	2.1	3.0	3.0	2.8	2.9	2.4	2.6	2.4	3.0	2.6	2.5
CPI Trimmed Mean %qtr	0.7	0.6	0.8	0.5	0.6	0.5	0.6	0.6	–	–	–	–
%yr end	2.9	2.7	2.7	2.6	2.5	2.4	2.2	2.3	3.2	2.6	2.3	2.5

New Zealand economic forecasts

	2025				2026				Calendar years			
% Change	**Q1**	**Q2**	**Q3f**	**Q4f**	**Q1f**	**Q2f**	**Q3f**	**Q4f**	**2024**	**2025f**	**2026f**	**2027f**
GDP %qtr	0.9	-0.9	0.6	1.0	0.7	0.4	0.8	1.2	–	–	–	–
Annual avg change	-1.1	-1.1	-0.4	0.4	0.8	1.6	2.1	2.5	-0.6	0.4	2.5	3.5
Unemployment rate %	5.1	5.2	5.3	5.3	5.2	5.0	4.8	4.6	5.1	5.3	4.6	4.2
CPI %qtr	0.9	0.5	1.1	0.5	0.5	0.2	0.8	0.4	–	–	–	–
Annual change	2.5	2.7	3.1	3.0	2.5	2.2	2.0	2.0	2.2	3.0	2.0	2.1

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