Week beginning 22 December 2025

AUSTRALIA & NEW ZEALAND WEEKLY

Analysis and forecasts for this week's key releases.

In this week's edition:

Economic Insight: RBA on hold in 2026, risks on both sides.

The Week That Was: Into 2026, a broad array of risks remains.

Focus on New Zealand: Christmas rush.

For the weeks ahead (22 December to 12 January)

Australia: RBA Minutes, house prices, dwelling approvals, household spending, trade balance, job vacancies, Westpac-MI Consumer Sentiment, monthly CPI.

New Zealand: Q4 NZIER QBSO, Westpac-MM Employment Confidence, building consents, price indices.

Japan: jobless rate, industrial production, household spending

China: PMIs, industrial profits, retail sales, industrial production, fixed asset investment, trade balance.

Eurozone: CPI, unemployment rate, retail sales, industrial production, trade balance.

United States: Q3 GDP, nonfarm payrolls, unemployment rate, industrial production, consumer confidence, FOMC Minutes, ISMs, CPI, PPI, regional manufacturing surveys.

This is the last edition of the Australia & New Zealand Weekly for 2025, returning mid-January 2026.

Information contained in this report current as at 19 December 2025

RBA on hold in 2026, risks on both sides

Luci Ellis
Chief Economist, Westpac Group

- **Westpac Economics has revised its outlook for the RBA cash rate to an extended hold for the whole of 2026. While the RBA recognised that some of the recent inflation surprise reflected temporary factors, it has clearly taken signal from it. Inflation is expected to moderate in 2026, but not soon enough to induce the RBA to step back from its current hawkish view of the risks. If our broader set of forecasts are borne out, rate cuts are still feasible in February and May 2027.**
- **There are risks on both sides of our base case view. We reserve the option to put rate cuts in 2026 back on the table if the labour market starts to unravel. We think that rate hike talk is premature. We cannot rule out that more near-term bad news on inflation spooks the RBA and induces a near-term hike, but in our view, it is not the most likely outcome. If it does happen, though, our forecasts for growth, the medium-term inflation outlook and the labour market would need to be revised down, and a subsequent reversal of that policy tightening would be in play in 2027.**
- **The Australian economy has been playing out broadly as Westpac Economics expected. Public sector demand growth is slowing and indeed was negative over the first half of 2025. Private sector demand growth is recovering, and the labour market is gradually easing. Underlying growth in labour costs is also easing, and productivity growth is already running faster than the RBA's pessimistic trend assumption. Our forecasts see 2026 as involving further recovery from the period of very weak private sector demand growth. The 'shaky handover' risk, of private sector growth not picking up as public sector demand growth normalised, looks to have dissipated.**

Inflation saw a bump in September quarter and October month. The main sources of the surprise had little to do with domestic demand or labour market pressures. Rather, a sizeable part of that bump looks to have been administered prices and noise. The RBA recognised this at the time but has since communicated that it is more worried about upside risks to inflation. And since what matters for monetary policy is how the RBA sees things, this means that rate cuts are off the table for the time being.

We expect inflation to get back to the RBA's target (and below the midpoint of the 2–3% range on a trimmed mean basis), but not until later in 2026. This is too late to give the RBA enough comfort to start cutting rates on our previously expected timetable of May and August 2026. Accordingly, we push out the earliest feasible timetable for rate cuts beyond 2026. If our inflation and labour market view is right, by the end of 2026 it will become apparent that domestic inflation pressures have eased. This would leave the way clear to remove remaining policy tightness in the first half of 2027 – we pencil in February and May 2027 for that normalisation. If the labour market weakens noticeably more than we expect, we reserve the option to put earlier rate cuts back on the table.

Following the inflation surprises, markets immediately rushed to the other side of the boat to price in rate hikes. The probability of a hike is not zero, and the RBA was right to warn the community of the possibility. In our view, however, a near-term hike is far from the base case. Labour market data has been less bullish than the inflation data, and the Monetary Policy Board will need to balance this with its fears about inflation. Further upside surprises on inflation in the rest of the December quarter or early 2026 would tip the balance but would not be warranted if our own inflation forecasts are borne out. If a near-term hike does happen, though, our forecasts for growth, the medium-term inflation outlook and the labour market would need to be revised down, and a subsequent reversal of that policy tightening would be in play in 2027.

Our assessment that inflation is still headed down accounts for the role of past restrictive policy and the unwind of earlier government policies. Too much market commentary has understated the role of policy lags. Monetary policy takes time to affect the labour market and inflation, with most estimates pointing to a peak effect after at least a year. This means that recent outcomes mainly reflect the influence of the peak cash rate a year or so ago, and thus that further labour market easing is likely. Some of that policy restrictiveness was masked by the ramp-up in the jobs-rich 'care economy' and strong public sector infrastructure spending. As these offsetting factors fade, along with the growth boost from last year's tax cuts, the effects of past restrictive policy remain in the system because of these usual lags. This would be true for some time even if the 75bp reduction in the cash rate since the peak had fully removed policy restrictiveness, which we do not think is the case. At current levels of the cash rate and other interest rates, monetary policy remains mildly restrictive. Given the usual lags, this will continue to be evident in the data throughout 2026.

Into 2026, a broad array of risks remains

Elliot Clarke, Head of International Economics
Mantas Vanagas, Senior Economist
Illiana Jain, Economist
Ryan Wells, Economist

Australia's key release for the week was the Westpac-MI Consumer Sentiment Index which, after November's 'net positive' read, fell 9% to 94.5 in December – a 'cautiously pessimistic' level. Responses to questions on news recall suggest consumers were shaken by recent inflation results, the tone of related coverage now viewed as decisively negative versus somewhat mixed three months ago. This has sparked one of the sharpest turnarounds in consumers' mortgage rate expectations on record, 86% of those with a view now anticipate mortgage rates to be the same or higher in a year's time.

This has fed into renewed concerns over the economy, the one-year and five-year ahead sub-indexes falling 9.7% and 11.7% respectively. Buyer sentiment also looks to have been crimped, the 'time to buy a major household item' sub-index shedding 11.4% to be well below average. Official data is pointing to a genuine consumer upswing, driven by a recovery in real household disposable incomes; however, higher inflation, interest rates and bracket creep threaten the outturn. As a result, the year-ahead outlook for family finances fell 6.1% to be modestly below average.

The RBA has also taken signal from the recent lift in inflation, with only some of the pressures deemed temporary. As detailed by Chief Economist Luci Ellis earlier this week, Westpac continues to believe inflation will moderate through 2026, but the Monetary Policy Board's more hawkish assessment has pushed back the timing of further policy easing into 2027. There are risks to both sides of our view for policy to remain on hold in 2026 and two cuts in H1 2027. If inflation continues surprising meaningfully to the upside in the near term, a rate hike could become a possibility. But, if the labour market weakens more than expected, the cuts now forecast for 2027 may need to be brought forward.

Fiscal policy developments are also worth monitoring vis a vis inflation and growth. The Federal Government's MYEFO revealed an $8.7bn improvement in the budget's bottom line over the forward estimates due to a tax windfall associated with higher commodity prices and a firmer-than-expected economic upswing. If the government elects to save the bulk of the windfall, it would ease near-term inflationary pressures – at the margin.

Before moving offshore, a final note on the local manufacturing sector. The latest Westpac-ACCI Survey of Industrial Trends revealed that the long-awaited improvement in conditions is finally starting to materialise, the Actual Composite bouncing from a broadly neutral read to a solid 55.1 in Q4. The Expected Composite meanwhile continued to lift to fresh cycle highs. Some of the hallmark challenges facing the sector, such as elevated costs, skilled labour shortages and material constraints, has restricted the ability for some manufacturers to respond to firmer demand. Solid investment intentions and plans for hiring, if realised, should go some way to alleviating capacity constraints.

Over in the UK, the Bank of England cut rates by 25bps to 3.75% in a narrow 5-4 vote. Those voting for a cut emphasised the downside risks to growth; those for a pause that inflation, which came in at 3.2%yr earlier in the week, could show greater persistence. On the outlook, Governor Bailey noted that "judgements around further policy easing will become a closer call" suggesting that the BoE is nearing the end of its easing cycle. With GDP growth expected to be only slightly above 1% in 2026 and inflation trending down, we maintain a view of further gradual BoE easing in H1 2026, by 25bp per quarter. However, the committee may proceed more cautiously, delaying cuts to the second half of next year.

Across the English Channel, the European Central Bank kept rates steady at 2.0% with President Lagarde noting once again that "policy is in a good place". Inflation was revised up for 2026 due to a slower descent in services inflation (core inflation now 2.2%yr), but it is still expected to stabilise at target in 2027/2028 (1.9% and 2.0%). The economic growth projections have also been revised up to 1.4% in 2025, 1.2% in 2026 and 1.4% in 2027, where growth is expected to remain in 2028. The statement made clear the "Governing Council is not pre-committing to a particular rate path", highlighting that policy will be fine-tuned depending on how the risks evolve.

In the US, November's inflation read surprised to the downside, the core measure rising 2.6%yr while headline prices rose 2.7%yr, both down from 3.0%yr in September. However, with the government shutdown precluding an October report and essentially no month-to-month detail provided for November, the FOMC is unlikely to take signal from this inflation read. Earlier in the week, non-farm payrolls rose 64k in November after a 105k decline in October, both released at the same time. Average job gains over the last 3 months are circa 20k, towards the bottom of the range estimated to be consistent with balance between labour demand and supply. It is unsurprising then that the unemployment rate edged up 0.2ppts between September and November to 4.6%.

In Asia meanwhile, Chinese partial data came in softer than expected in November. Retail trade was up just 4%ytd, weighed down by persistent weakness in consumer prices, but more significantly weak sentiment and declining wealth.

Equities are now trending higher, but house prices continue to decline. Industrial production grew 6%ytd, however, highlighting that the capacity investment of recent years is earning a return. Fixed asset investment fell 2.6%ytd though, as high-tech manufacturing retraced some of its rapid gains of prior years, and property construction continued to contract. Clearly, pro-active stimulus in scale is necessary to put a floor under activity and, in time, see sentiment move back up.

Further east, the Q4 Tankan survey showed conditions improved by two points to 17pts, supporting views for a rate hike later today by the Bank of Japan. The output prices measure remained broadly steady, with one-year, three-year and five-year ahead projections all consistent with at-target inflation. Investment plans remain high, albeit with a slight downgrade from last quarter's expectations. Software investment is anticipated to increase 12.2%, while R&D investment is expected to rise 4.6%. All this is consistent with reports of firms investing to reduce their demand for labour and in pursuit of productivity. Employment conditions remained consistent with a tight labour market; firms expect to hire more new graduates in the following financial year. Overall, the survey points to a tight labour and historically elevated inflation expectations, which should aid workers case for higher wages in FY26 (ending in March 2027). See our latest chart pack for Asia here.

Christmas rush

New Zealand Economics Team

As is always the case, the lead-up to the holiday break has been a busy one in New Zealand. This year, not only did we receive a plethora of important data releases and the publication of the Government's fiscal update. In addition, the RBNZ's new Governor took the opportunity to communicate her views on the monetary policy outlook.

RBNZ Governor seeks to calm markets

Kicking off a busy week in New Zealand, on Monday RBNZ Governor, Anna Breman, took the rare step of commenting on monetary conditions outside of the usual window that follows a Monetary Policy Statement (MPS) or Review. In our view, the Governor's public statement, and subsequent media interviews, took ownership of the November MPS forecasts that were published prior to her arrival.

The Governor emphasised that financial conditions have tightened relative to the assumptions embedded in the November MPS and that there is still a lot of water to go under the bridge before OCR increases come into view. It seems clear that the RBNZ was not seeking a significant tightening in financial conditions and is now sending the signal that market pricing of OCR increases has run significantly ahead of the data and RBNZ thinking. Indeed, in one interview she noted "…given that we see inflation also falling and being low and stable going forward, it's very important now that we see growth that's lasting, that we see that we have a period where growth is coming back." We remain comfortable with our longstanding forecast of a single hike next year at the December meeting.

The Governor also noted that there is support amongst the MPC for introducing increased transparency around individual MPC member's views and adding an additional (likely January) meeting into the calendar. However, with RBNZ policy meeting dates already announced through to February 2027, any change in the frequency of RBNZ meetings is still a way off.

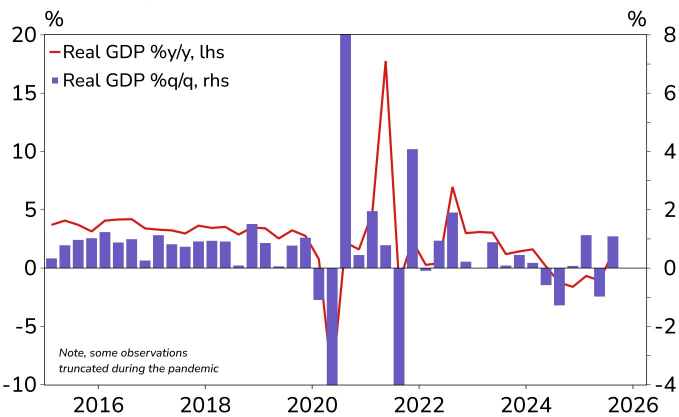
Less debt now, more debt later

On Tuesday the Treasury released the Half Year Economic and Fiscal Update (HYEFU). The local bond market welcomed the HYEFU, with this year's bond programme unexpectedly revised down by $3bn to $35bn and next year's programme revised down by $2bn to $34bn. However, the entirety of that revision was driven by a decision to reduce the Crown's minimum liquidity buffer by $5bn to $10bn (phased in over two years). As we discussed in our review, the underlying fiscal outlook portrayed by the Treasury was in fact slightly weaker than we had expected. This was reflected in the further delay of the projected return to surplus (now 2029/30 on the Government's favoured OBEGALx measure) and a $4bn upward revision to the projected bond programme in both 2027/28 and 2028/29. It is worth noting that the Treasury's forecasts were finalised back in late October, prior to the more recent run of more positive economic indicators (culminating in this week's GDP report). However, these forecasts were also finalised prior to the recent marked easing of dairy commodity prices (discussed further below). We also note that the Treasury's forecasts for financing costs are based on what we would consider to be optimistic forecasts for interest rates, with the OCR forecast to remain below 3% throughout the forecast period and the 10-year bond rate around the 4% level. Absent a much stronger cyclical upswing in the economy than we currently expect, the balance of risks remains skewed towards more rather than less bond issuance than depicted in the HYEFU.

Q3 GDP rebound confirmed

Turning to this week's data flow, the main event was Thursday's release of the GDP report for the September quarter. As we set out in some detail in a post release chart pack, GDP grew by 1.1% over the quarter, ahead of our 0.9% pick and at the top of the range of market forecasts (0.6% to 1.1%). Growth for the quarter was broad-based, with gains in all but two industries. Revisions to previous quarters meant that the annual growth rate landed in line with our forecast of +1.3%. This was the first year-on-year increase since June 2024.

NZ economy returns to growth in Q3



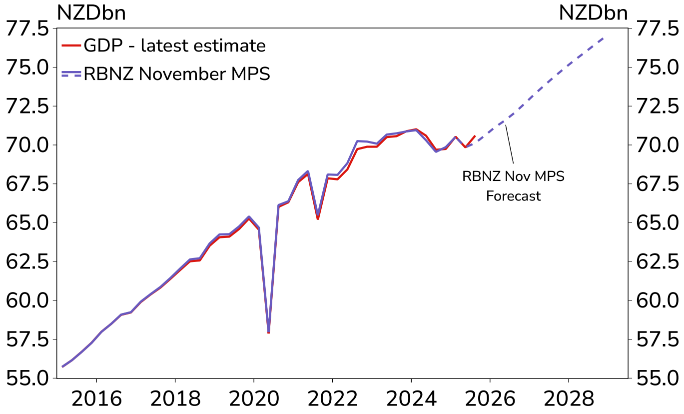
Source: Stats NZ, Macrobond, Westpac Economics

Past performance is not a reliable indicator of future performance. The forecasts given above are predictive in character. Whilst every effort has been taken to ensure that the assumptions on which the forecasts are based are reasonable, the forecasts may be affected by incorrect assumptions or by known or unknown risks and uncertainties. The results ultimately achieved may differ substantially from these forecasts.

We expect further solid growth in the coming quarters, albeit with some lingering seasonality in the reported data. We are forecasting 1.7% growth over 2025 and 3.0% over 2026.

Overall, the GDP figures represent an upside surprise to the RBNZ's forecasts and implies less spare capacity in the economy than they had anticipated. The RBNZ had previously signalled some small chance of another OCR cut. But with GDP ahead of their forecasts and other signs that economic activity is firming, the chance of another OCR cut in the near term looks remote.

GDP running slightly ahead of RBNZ forecasts



Source: Stats NZ, RBNZ, Macrobond, Westpac Economics

Looking further ahead, market pricing for OCR hikes is already well ahead of the RBNZ's thinking right now, and hence there's no need to be pricing in significant additional tightening in 2026 as result of the GDP surprise.

December quarter CPI tracking firmer

On the prices front, Stats NZ's November update was a bit firmer than we expected. That surprise was due to the volatile travel categories and means the risks to our forecast for a 0.3% quarterly rise in the overall CPI (out 23 January) are tilted to the upside.

Our existing forecast is already higher than the RBNZ's November MPS forecast for a 0.2% rise. We expect both tradables and non-tradables inflation will be a bit hotter than the RBNZ expects in the December quarter, with tradable prices accounting for most of that difference.

Looking to 2026, our forecasts remain for a gradual easing in inflation from its current level of 3% in the year to September, and we expect inflation will be comfortably inside the RBNZ's target band by mid-2026. A key reason for that is the continued softness in housing related costs. Housing rents, which are the largest component of the CPI, have recorded very low increases in recent months, with annual rental inflation slowing to its lowest levels since 2010. And with continued increases in housing supply and low population growth, we expect rental growth will remain subdued for some time. Similarly, construction cost inflation has slowed sharply over the past year, and it is likely to remain muted in the early part of 2026.

Housing market ending 2025 with limited momentum

Turning to the housing market, it's been a soft end to the year. Sales fell 3% in November, and prices were down 0.3% (adjusting for normal seasonal variations).

Smoothing through the usual month-to-month swings, the broader picture in New Zealand's housing market is one of limited momentum. Sales have been tracking sideways for most of this year. And while we're seeing mixed trends in prices around the country, the overall picture has been flat since mid-2023.

This continued softness is especially notable given the large falls in interest rates over the past year. However, those interest falls have occurred at the same time as we've seen a large increase in the number of properties for sale. In fact, adjusting for normal seasonal trends, the number of homes available for sale is at its highest level in a decade.

Looking ahead, with the RBNZ signalling that the rate cutting cycle has likely come to a close, we're expecting only modest house price growth over the year ahead. And at this stage, the risks appear tilted towards continued softness in the housing market, at least in the early part of 2026.

Global dairy prices under downward pressure

Finally, this year's final Global Dairy Trade (GDT) auction saw a further sharp fall in dairy product prices, with the overall GDT index slumping 4.4% (led by a 5.7% decline in the price of whole milk powder – the most important commodity in the New Zealand export basket). Following this result, citing continued strong milk flows both in New Zealand and globally, Fonterra has reduced its estimated milk payout by a further 50c to $9.00kg/ms (with a range of $8.50-$9.50). As an approximation, each 50c reduction in the payout equates to around a $1bn reduction in export revenue (just over 0.2% of GDP). While Fonterra's revised forecast is below our current forecast of $9.30kg/ms, we will wait to see how dairy prices evolve in January before considering whether any revision to our forecast is necessary.

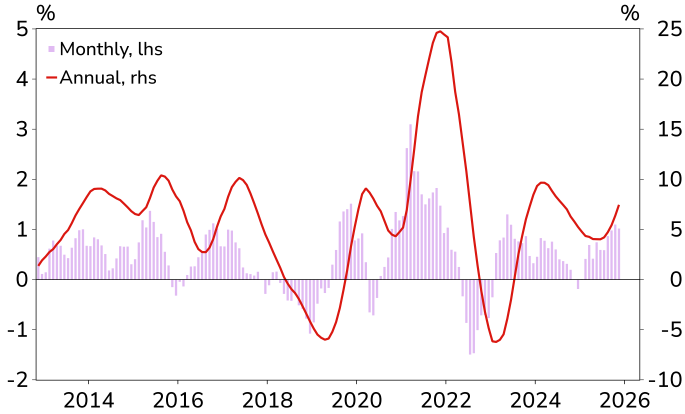
AUS: Dec Cotality Home Value Index (%mth)

Jan 2, Last: 1.0, Westpac f/c: 0.6

The Cotality home value index for major capitals rose 1% in November, lifting annual growth to 7.1%. While monthly gains eased slightly from October, momentum remained strong at a firm 13.2% annualised pace over the last three months. Clearer signs of a divergence between larger and smaller capital cities is emerging in the data.

Daily measures show Brisbane, Adelaide and Perth tracking 1.5-2% gains for the month, solid gains but all slower than previous months. At the other end, daily measures suggest prices have stalled flat in Sydney and Melbourne. Overall, daily measures point to a more subdued 0.6% rise nationally.

Price momentum softens slightly



Source: Cotality Australia, Macrobond, Westpac Economics

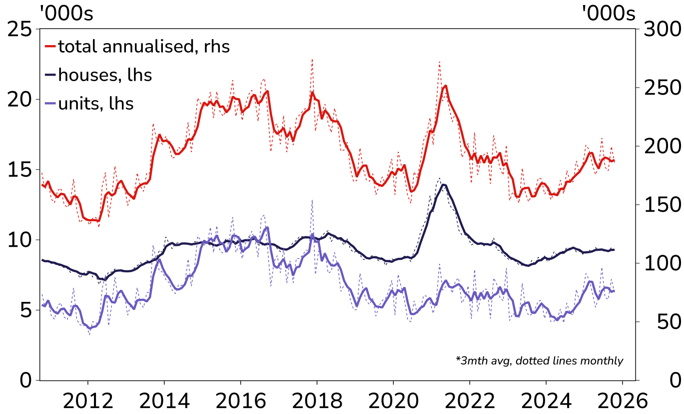
AUS: Nov Dwelling Approvals (%mth)

Jan 7, Last: –6.4, Westpac f/c: –7.0

Total dwelling approvals fell –6.4% in October, partly unwinding the 11.1% rise in November. Private unit approvals led the decline, falling –13.1%. The weakness was concentrated in high-rise projects, which plunged –24.9%, while low-mid-rise approvals rose following two months of decline. Private houses also fell.

November is also likely to see a chunky decline. High-rise approvals may still have further ground to give back after surging 25% in September. Meanwhile, HIA figures on new home sales – often a guide to detached and medium density approvals – fell for a second consecutive month, with the pace of decline accelerating in November. As such, we expect a –7% decline in dwelling approvals for November.

Dwelling approvals



Source: ABS, Macrobond, Westpac Economics

AUS: Nov CPI (%mth)

Jan 7, Last: 0.0, Westpac f/c: 0.4

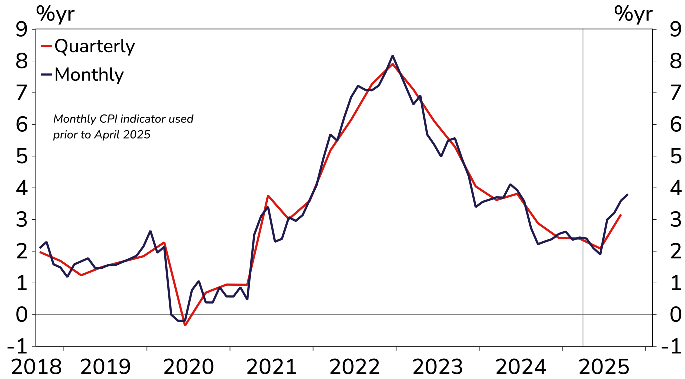
The October Monthly CPI was flat in the month, broadly as we expected, but stronger than market expectations. For more information see "[Electrical noise is far from static](#)".

The Complete Monthly CPI is a significant enhancement to our analysis of price formation in the Australian economy. However, given that many series have only a short history, it will take time before we fully understand some of the finer intricacies.

We estimate a 0.4% increase in the November Monthly CPI which will hold the annual pace flat at 3.8%yr. Boosting the November print is a 16% surge in electricity. For further information please refer to our [November CPI Preview](#).

Consumer Price Index

Quarterly CPI vs Monthly CPI



Source: ABS, Macrobond, Westpac Economics

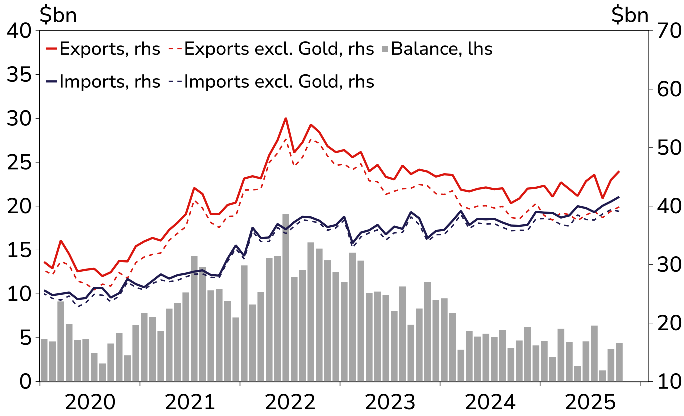
AUS: Nov Goods Trade Balance ($bn)

Jan 8, Last: 4.4, Westpac f/c: 3.7

The goods trade balance widened in October for a second consecutive month, reaching a surplus of $4.4bn, a level close to this year's average. Major commodity exports strengthened, while gold outflows also contributed. On the import side, capital goods inflows declined after a particularly strong Q3, but this was offset by a surge in gold inflows.

We expect the November figures to show a retreat in the trade surplus to $3.7bn. Major commodity exports appear to have fallen, and the balance of risks for gold exports is skewed to the downside, following sharp increases in recent months. Imports are likely to be lower as well, although uncertainty around gold imports may push the headline balance in either direction.

Goods Trade Balance



Source: ABS, Macrobond, Westpac Economics

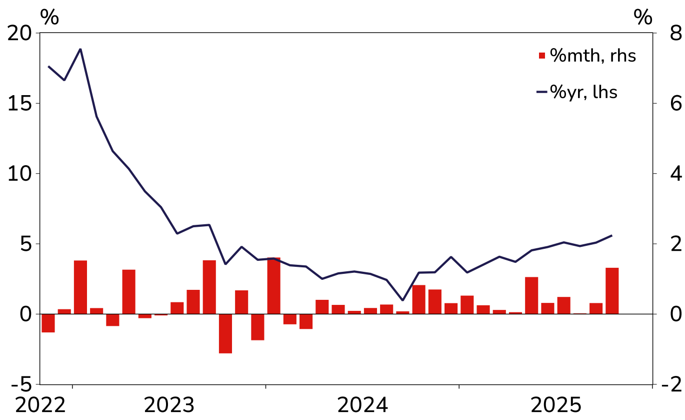
AUS: Nov Household Spending Indicator (%mth)

Jan 12, Last: 1.3, Westpac f/c: 0.7

The ABS monthly household spending surprised to the upside in October, rising 1.3% and marking 19 straight months of gains. Annual growth lifted to its fastest pace in around two years, clocking in at 5.6%yr. All categories lifted in the month, led by clothing & footwear and household furnishings, which the ABS attributed to promotional events.

Seasonal volatility is high leading into Christmas. Typically, October sees a dip as households wait for November sales, but if sales were earlier-than-usual this may have shifted spending forward, leading to a potentially weaker November. Big-ticket events like the AC/DC concerts and the first Ashes test could provide some positive offsets. Overall, we pencil a 0.7% rise in November.

Consumer recovery looking a little better shaped



Source: ABS, Macrobond, Westpac Economics

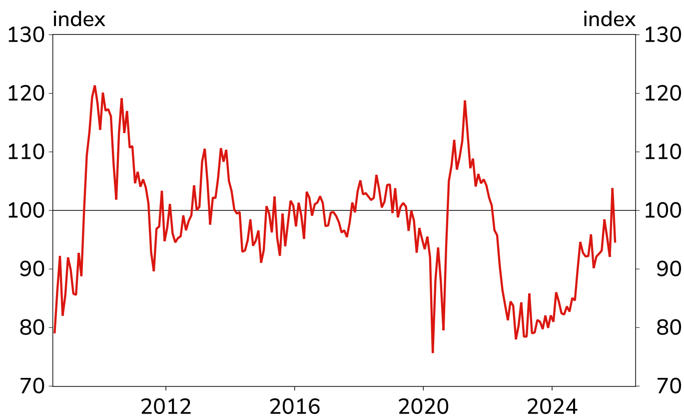
AUS: Jan Westpac-MI Consumer Sentiment Index

Jan 13, Last: 94.5

After a surprising bounce in November, confidence has fallen back to the 'cautiously pessimistic' levels that prevailed in the months just prior. This is still a clear improvement from the prolonged, deep pessimism that defined much of 2024, but a sustained move into outright optimism remains elusive.

Consumers remain highly sensitive to the interest rate outlook, but more recently, this has worked in the opposite direction. Mortgage rate expectations exhibited an extraordinarily sharp turnaround over the past three months, and this has started to weigh on consumers' mindset when it comes to the outlook for family finances and the economy. The extent to which this could last and potentially spill over into spending intentions will be closely watched.

Consumer Sentiment Index



Source: Westpac-MI, Macrobond

AUS: Q4 Job Vacancies (%qtr)

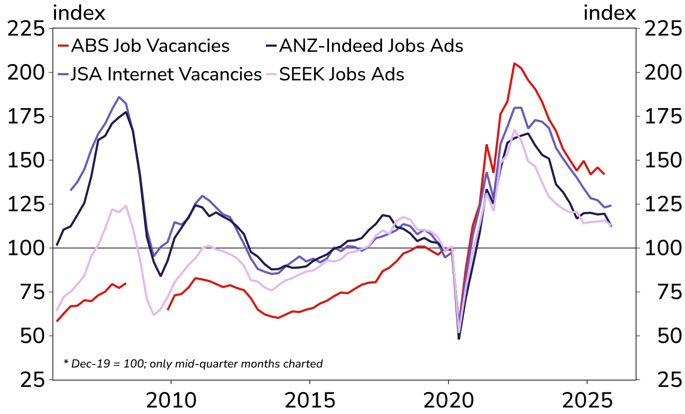
Jan 14, Last: –2.7, Westpac f/c: –3.5

Job vacancies fell 9.2k (–2.7%) between May and August, but over the past year, it has held broadly stable around 40-50% above pre-pandemic levels. In this context, with a gradual rise in unemployment, the vacancy-to-unemployment ratio continue to trend lower.

Over recent months, labour market data shows that a gradual softening trend remains intact, marked by a further slowing in jobs growth and further lifts in the unemployment rate, whilst the broad normalisation of industry dynamics unfolds.

Flow-based measures of vacancies has stabilised recently, but partial stock-based measures have resumed a declining trend. On balance, this points to a further decline in the official ABS measure of job vacancies.

Labour demand easing but still fairly gradual



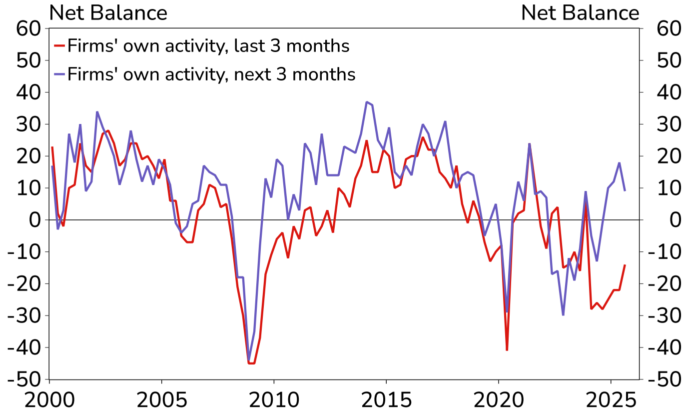
Source: ABS, Jobs & Skills Australia, ANZ-Indeed, SEEK Australia, Macrobond, Westpac Economics

NZ: Q4 NZIER QSBO (index)

Jan 13, General Business Confidence, Last: +15

The QSBO will be closely watched by the RBNZ ahead of their February policy meeting. The last update pointed to soft but improving trading conditions, with businesses expecting a firming in activity over the coming months. We'll be watching to see if the December quarter survey reinforces the picture of strengthening economic momentum in recent months. The measures of price pressures will also be closely watched, with recent surveys pointing to ongoing cost pressures, but limited ability to raise output prices.

QSBO past vs expected activity



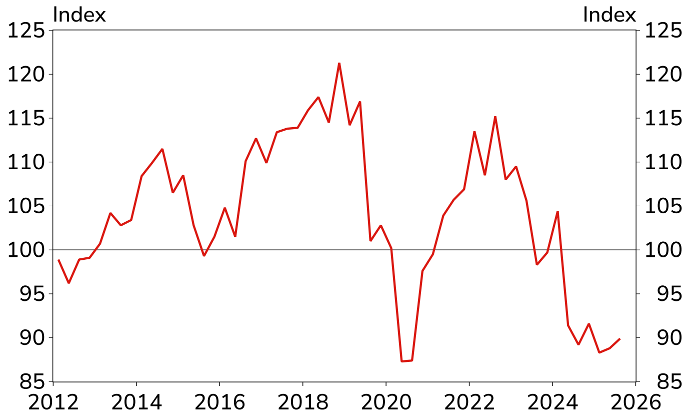
Source: NZIER, Stats NZ, Macrobond, Westpac Economics

NZ: Q4 Westpac McDermott Miller Employment Confidence (index)

Jan 14, Last: 89.9

Despite nudging higher in our last survey, confidence in New Zealand's job market remained low through the middle part of the year. A perceived lack of job opportunities and low job security continue to be key concerns for New Zealanders. Since our last survey, economic activity has started to firm, but monthly jobs figures have remained subdued. The latest survey was conducted on 1-11 December.

Employment confidence



Source: Westpac New Zealand, Macrobond, Westpac Economics

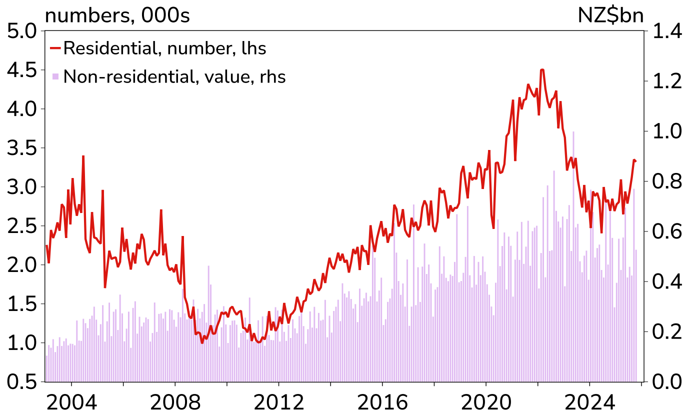
NZ: Nov Building Consents (%mth)

Jan 14, Last 7.2, Westpac f/c: –5.0

We're forecasting another modest easing in building consents in November after a large number of medium density projects were approved in the past couple of months (medium density projects are often approved in batches and can be 'lumpy' on a month-to-month basis). But more important than such monthly swings, the total number of homes consented over the past 12 months has been steadily climbing in recent months.

We expect that trend will continue in the new year, pointing to a gradual rise in residential construction over 2026. On the non-residential front, commercial consents have been tracking sideways with businesses still cautious about significant capital expenditure at this stage.

Building consents picking up



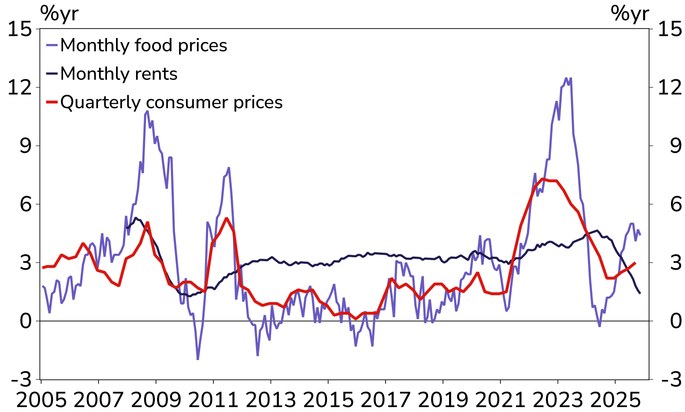
Source: Stats NZ, Macrobond, Westpac Economics

NZ: Dec Selected Prices

Jan 16

Stats NZ Selected Prices provides monthly updates on around half of the quarterly CPI (out 23 January). Recent updates have pointed to some upside risk to our forecast for a 0.3% rise in the quarterly CPI. That's mainly due to gains in the travel-related categories, and we'll be watching how those track over the summer. In terms of the other big components, food prices are expected to be flat, with falls in meat prices offsetting a seasonal rise in fresh produce. We'll also be keeping a close eye on rents, which are the largest component of the CPI. Rental growth has slowed sharply over the past year, dropping to its lowest levels since 2010. We're forecasting that softness will continue into the new year.

NZ selected consumer prices



Source: Stats NZ, Macrobond, Westpac Economics

Week beginning 22 December

	For	Data/Event	Unit	Last	Market f/c	Westpac f/c	Risk/Comment
Mon 22							
UK	Q3	GDP	%qtr	0.1	–	–	Final estimate.
US	Nov	Chicago Fed Activity Index	%mth	–0.2	–	–	Consistent with the economy running below capacity.
Tue 23							
Aus	Dec	RBA Minutes	–	–	–	–	More clues on deliberations and potential conditions for hike.
US	Q3	GDP	%ann'd	3.8	–	3.3	Dated, but detail a good guide on sector momentum/risks.
	Oct	Durable Goods Orders	%mth	0.5	–1.4	–	Softer global demand for goods and services ...
	Nov	Industrial Production	%mth	0.1	0.1	–	... and trade tensions will weigh on ...
	Dec	Richmond Fed Manufacturing Index	index	–15	–	–	... the manufacturing sector could ...
	Dec	Conf. Board Consumer Confidence	index	88.7	91.4	–	... feed through to the consumer.
Wed 24							
US		Initial Jobless Claims	000s	224	–	–	Consistent with low levels for firing versus history.
Thu 25							
World		Christmas Day	–	–	–	–	Markets closed across most jurisdictions.
Fri 26							
World		Boxing Day	–	–	–	–	Markets closed across most jurisdictions.
Jpn	Dec	Tokyo CPI	%ann	2.7	–	–	Food price deceleration should support easing.
	Nov	Jobless Rate	%	2.6	–	–	Structural forces keep labour market tight.
	Nov	Industrial Production	%mth	1.5	–	–	Weak export demamd to weigh.
Sat 27							
Chn	Nov	Industrial Profits	%ann	–5.5	–	–	Anti-involution policies should help shore up profits in time.

Week beginning 29 December

	For	Data/Event	Unit	Last	Market f/c	Westpac f/c	Risk/Comment
Mon 29							
US	Nov	Pending Home Sales	%mth	1.9	–	–	Elevated mortgage rates disincentivise moving.
	Dec	Dallas Fed Manufacturing Index	index	–10.4	–	–	Higher costs are weighing on manufacturers.
Tue 30							
US	Oct	FHFA House Prices	%mth	0.0	–	–	Soft growth anticipated while rates remain high.
	Dec	Chicago PMI	index	36.3	–	–	Manufacturers have plenty of risks to ponder.
	Dec	FOMC Meeting Minutes	–	–	–	–	Focus is on Committee's views around the balance of risks.
Wed 31							
Chn	Dec	RatingDog Manufacturing PMI	index	49.9	–	–	High-tech manufacturing investment surge winding up …
	Dec	NBS Manufacturing PMI	index	49.2	–	–	… China's economy is in need of active stimulus …
	Dec	NBS Non-Manufacturing PMI	index	49.5	–	–	… to ensure momentum can be sustained.
US		Initial Jobless Claims	000s	–	–	–	Consistent with low levels for firing versus history.
Thu 01							
World		New Years Day	–	–	–	–	Markets closed across most jurisdictions.
Fri 02							
Aus	Dec	Cotality Home Value Index	%mth	1.0	–	0.6	Slowdown evident in Sydney and Melbourne.
Eur	Dec	HCOB Manufacturing PMI	index	49.2	–	–	Final estimate.
	Nov	M3 Money Supply	%ann	2.8	–	–	Stable given neutral conditions.
UK	Dec	S&P Global Manufacturing PMI	index	51.2	–	–	Final estimate.
US	Dec	S&P Global Manufacturing PMI	index	51.8	–	–	Final estimate.
	Nov	Construction Spending	%mth	–	–	–	Builders constrained by borrowing capacity.

Week beginning 5 January

	For	Data/Event	Unit	Last	Market f/c	Westpac f/c	Risk/Comment
Mon 05							
Jpn	Dec	Jibun Bank Manufacturing PMI	index	49.7	–	–	Final estimate.
Chn	Dec	RatingDog Services PMI	index	52.1	–	–	Cautious households will weigh on demand.
Eur	Jan	Sentix Investor Confidence	index	–6.2	–	–	With fiscal support, confidence can recover.
US	Dec	ISM Manufacturing	index	48.2	–	–	All subcomponents bar prices below historic lows.
Tue 06							
Eur	Dec	HCOB Services PMI	index	52.6	–	–	Final estimate.
UK	Dec	S&P Global Services PMI	index	52.1	–	–	Final estimate.
US	Dec	S&P Global Services PMI	index	52.9	–	–	Final Estimate.
Wed 07							
Aus	Nov	Dwelling Approvals	%mth	–6.4	–	–7.0	September surge in units may have more left to give back.
	Nov	Monthly CPI	%mth	0.0	–	0.4	Monthly surge boosted by a 16% surge in electricity.
Jpn	Dec	Jibun Bank Services PMI	index	52.5	–	–	Final estimate.
Eur	Dec	CPI	%ann	2.1	–	–	Services disinflation is taking longer than anticipated.
US	Dec	ADP Employment Change	000s	–32	–	–	Small businesses are driving the weakness.
	Dec	ISM Services	index	52.6	–	–	Strength to wane as consumers become more cautious.
	Nov	JOLTS Job Openings	000s	7670	–	–	Broadly consistent with a softening labour market.
Thu 08							
Aus	Nov	Goods Trade Balance	$bn	4.4	–	3.7	Volatile gold flows complicate the picture.
Eur	Dec	Economic Confidence	index	97.0	–	–	Uncertainty is weighing on the consumer.
	Nov	Unemployment Rate	%	6.4	–	–	Indicative of a softening labour market.
US		Initial Jobless Claims	000s	–	–	–	Consistent with low levels for firing versus history.
	Nov	Consumer Credit	$bn	9.2	–	–	Credit card debt is creeping up.
Fri 09							
Jpn	Nov	Household Spending	%ann	–3.0	–	–	Real gains still nowhere to be found.
Eur	Nov	Retail Sales	%mth	0.0	–	–	Consumers cautious on outlook.
US	Dec	Nonfarm Payrolls	000s	64	–	50	Near lower-end of estimates for 'balanced' labout market ...
	Dec	Unemployment Rate	%	4.6	–	4.6	... resulting in a modest build-up of slack ...
	Dec	Average Hourly Earnings	%mth	0.1	–	0.3	... and softer wage growth.

Week beginning 12 January

	For	Data/Event	Unit	Last	Market f/c	Westpac f/c	Risk/Comment
Mon 12							
Aus	Dec	ANZ-Indeed Job Ads	%mth	–0.8	–	–	Labour demand softening gradually.
	Nov	Household Spending Indicator	%mth	1.3	–	0.7	Big-ticket events meets Black Friday; seasonal volatility high.
Tue 13							
Aus	Jan	Westpac-MI Consumer Sentiment	index	94.5	–	–	Angst over rates outlook sees 'cautious pessimism' linger.
NZ	Q4	NZIER Survey of Business Opinion	index	15.3	–	–	Early indicator of Q4 activity.
Jpn	Nov	Current Account Balance	¥bn	2833.5	–	–	Direct investment into Asia pose an enduring trend.
US	Dec	NFIB Small Business Optimism	index	99	–	–	Good barometer for the turning point of the economy.
	Dec	CPI	%mth	–	–	–	Nov surprised, but absent detail raises doubts.
		Fedspeak	–	–	–	–	Musalem.
Wed 14							
Aus	Q4	Job Vacancies	%qtr	–2.7	–	–3.5	Partial measures point to another decline.
NZ	Q4	Westpac Employment Confidence	index	89.9	–	–	Job availability an ongoing concern.
	Nov	Building Permits	%mth	–0.9	–	–0.5	Despite monthly swings, annual total continuing to climb.
	Dec	ANZ Commodity Prices	%mth	–1.6	–	–4.0	Sharp falls in dairy prices.
Chn	Dec	Trade Balance	US$bn	111.7	–	–	Trade direction to Asian and European markets to persist.
US	Nov	PPI	%mth	–	–	–	A lift is expected as tariff rates settle in.
		Fedspeak	–	–	–	–	Williams.
Thu 15							
Aus	Jan	MI Inflation Expectations	%ann	–	–	–	Ticking up, following the recent lift in inflation.
Eur	Nov	Industrial Production	%mth	0.8	–	–	Slowing demand for manufactured goods globally will …
	Nov	Trade Balance	€bn	14.0	–	–	… narrow surplus and weigh on production.
UK	Nov	Monthly GDP	%mth	–0.1	–	–	Excess capacity to grow with restrictive policy.
US		Initial Jobless Claims	000s	–	–	–	Consistent with low levels for firing versus history.
	Nov	Import Price Index	%mth	–	–	–	Don't capture the impact of tariffs.
	Jan	Fed Empire State Manufacturing	index	–3.9	–	–	Cost weigh on manufacturers.
	Dec	Retail Sales	%mth	–	–	–	Is 2026 the year the consumer breaks?
Fri 16							
NZ	Dec	Manufacturing PMI	index	51.4	–	–	At or above 50 for the last five months.
	Dec	Selected Price Indices - Food	%mth	-0.4	–	0.0	Falls in meat prices offsetting higher prices for fresh produce.
	Dec	Selected Price Indices - Rents	%mth	0.1	–	0.1	Rental inflation very soft. Supply up, population growth low.

Economic & financial forecasts

Interest rate forecasts

Australia	Latest (22 Dec)	Mar–26	Jun–26	Sep–26	Dec–26	Mar–27	Jun–27	Sep–27	Dec–27	Mar–28	Jun–28
Cash	3.60	3.60	3.60	3.60	3.60	3.35	3.10	3.10	3.10	3.10	3.10
90 Day BBSW	3.73	3.70	3.70	3.70	3.55	3.30	3.15	3.15	3.20	3.20	3.20
3 Year Swap	4.08	3.90	3.80	3.60	3.50	3.40	3.45	3.50	3.55	3.60	3.65
3 Year Bond	4.10	3.93	3.83	3.63	3.53	3.43	3.48	3.53	3.58	3.63	3.68
10 Year Bond	4.74	4.65	4.60	4.60	4.65	4.65	4.65	4.65	4.65	4.65	4.70
10 Year Spread to US (bps)	61	50	40	30	25	20	15	10	5	0	0
United States											
Fed Funds	3.625	3.375	3.375	3.375	3.375	3.375	3.375	3.375	3.375	3.375	3.375
US 10 Year Bond	4.13	4.15	4.20	4.30	4.40	4.45	4.50	4.55	4.60	4.65	4.70
New Zealand											
Cash	2.25	2.25	2.25	2.25	2.50	2.75	3.00	3.25	3.50	3.75	3.75
90 Day Bill	2.50	2.35	2.35	2.40	2.70	2.95	3.20	3.40	3.70	3.85	3.85
2 Year Swap	2.97	3.05	3.20	3.40	3.60	3.75	3.85	3.95	4.00	4.00	4.00
10 Year Bond	4.41	4.40	4.45	4.55	4.70	4.85	4.90	4.95	4.95	4.95	4.95
10 Year Spread to US (bps)	28	25	25	25	30	40	40	40	35	30	25

Exchange rate forecasts

	Latest (22 Dec)	Mar–26	Jun–26	Sep–26	Dec–26	Mar–27	Jun–27	Sep–27	Dec–27	Mar–28	Jun–28
AUD/USD	0.6611	0.67	0.69	0.70	0.71	0.72	0.72	0.73	0.73	0.73	0.73
NZD/USD	0.5765	0.57	0.58	0.59	0.60	0.62	0.63	0.64	0.65	0.65	0.65
USD/JPY	155.86	151	149	147	145	144	142	140	138	136	134
EUR/USD	1.1721	1.17	1.18	1.19	1.19	1.20	1.20	1.21	1.21	1.21	1.21
GBP/USD	1.3378	1.33	1.34	1.35	1.36	1.37	1.37	1.38	1.38	1.39	1.39
USD/CNY	7.0413	7.05	7.00	6.95	6.90	6.80	6.70	6.60	6.50	6.45	6.40
AUD/NZD	1.1467	1.18	1.18	1.18	1.17	1.15	1.14	1.13	1.12	1.12	1.12

Australian economic forecasts

	2025		2026				2027		Calendar years			
% Change	**Q3**	**Q4f**	**Q1f**	**Q2f**	**Q3f**	**Q4f**	**Q1f**	**Q2f**	**2024**	**2025f**	**2026f**	**2027f**
GDP %qtr	0.4	0.6	0.6	0.6	0.6	0.6	0.6	0.6	–	–	–	–
%yr end	2.1	2.2	2.4	2.2	2.4	2.4	2.5	2.5	1.3	2.2	2.4	2.5
Unemployment rate %	4.3	4.3	4.4	4.5	4.6	4.6	4.6	4.5	4.0	4.3	4.6	4.4
Wages (WPI) %qtr	0.8	0.8	0.8	0.7	0.7	0.8	0.8	0.8	–	–	–	–
%yr end	3.4	3.4	3.2	3.1	3.0	3.0	3.1	3.1	3.2	3.4	3.0	3.1
CPI Headline %qtr	1.3	0.6	0.8	0.7	0.7	0.5	0.5	0.6	–	–	–	–
%yr end	3.2	3.6	3.4	3.4	2.7	2.7	2.5	2.4	2.4	3.6	2.7	2.7
CPI Trimmed Mean %qtr	1.0	0.8	0.6	0.6	0.6	0.6	0.6	0.5	–	–	–	–
%yr end	3.0	3.2	3.1	3.0	2.6	2.3	2.3	2.2	3.3	3.2	2.3	2.6

New Zealand economic forecasts

	2025		2026				2027		Calendar years			
% Change	**Q3f**	**Q4f**	**Q1f**	**Q2f**	**Q3f**	**Q4f**	**Q1f**	**Q2f**	**2024**	**2025f**	**2026f**	**2027f**
GDP %qtr	1.1	0.5	0.9	0.4	0.8	0.9	1.1	0.7	–	–	–	–
Annual avg change	–0.5	0.4	0.8	1.8	2.2	2.5	3.0	3.1	–0.3	0.4	2.5	3.4
Unemployment rate %	5.3	5.3	5.3	5.2	5.1	4.9	4.7	4.5	5.1	5.3	4.9	4.3
CPI %qtr	1.0	0.3	0.4	0.4	0.9	0.5	0.4	0.4	–	–	–	–
Annual change	3.0	2.8	2.2	2.1	2.0	2.2	2.2	2.2	2.2	2.8	2.2	2.1

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