Week beginning 26 January 2026

AUSTRALIA & NEW ZEALAND WEEKLY

Analysis and forecasts for this week's key releases.

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The Week That Was: Distilling the trend.

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For the week ahead:

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New Zealand: employment indicator, trade balance, business and consumer confidence.

Japan: Tokyo CPI, unemployment rate, industrial production.

Eurozone: Q4 GDP, unemployment rate, economic confidence.

United States: FOMC policy decision, CB consumer confidence, trade balance, factory orders, PPI.

Canada: BoC policy decision.

Information contained in this report current as at 23 January 2026.

Once again, trimmed mean gets the casting vote

Luci Ellis
Chief Economist, Westpac Group

- **RBA does not really run policy by just reacting to the latest trimmed mean inflation print, but sometimes it looks that way. The inflation data (due next week) will once again have the casting vote in the RBA policy meeting in February.**
- **Stronger labour market and consumer spending data are feeding into a narrative that the Australian economy is running too hot. We think the true situation is more nuanced, with supply capacity expanding faster than the RBA and some others believe. Even so, these stronger data offset the downward revision to our expectations for Q4 inflation. An upside surprise next week relative to these downwardly revised inflation expectations will tip the balance over to a February hike.**
- **While the near-term starting point for domestic demand and the labour market is stronger than previously understood, a near-term hike will dampen the outlook further out. It will also pose some awkward questions about why policy needs to be almost as tight to squeeze out the last half a point of inflation as it was to reduce from 8% to 3%, and why it needs to be so much higher than expected in peer economies.**

In a recent interview, RBA Deputy Governor Andrew Hauser complained that some people seemed to think the RBA runs policy as a knee-jerk response to the latest inflation data. That is not really how they do it, of course. The RBA looks at every piece of data, including some things the private sector does not get to see. Yet for the past year or so, quarterly CPI prints, especially the trimmed mean, have been unusually consequential for monetary policy decisions.

If it is any consolation to Deputy Governor Hauser, we are as annoyed about this as he seems to be. Things should never be this line-ball, but it is partly an outworking of the RBA's decision-making process. When the other data are finely balanced, the data point that comes out last gets the casting vote. And because the forecast rounds ahead of RBA meetings are timed to take place just after that CPI release, it appears as if everything turns on it.

In addition, the RBA's current assessment of the balance of supply and demand in the economy – and the weight this has in its decision-making – makes the inflation print even more consequential. If inflation surprises on the upside, its thinking goes, it must therefore be that the balance of supply and demand was tighter than previously believed. For any given GDP outcome, this therefore leads the RBA to conclude that supply capacity is weaker than previously thought, and this conclusion from the inflation print is carried forward into the RBA's view of the broader outlook. While more recently there have been some attempts to triangulate this view of supply against business survey measures, by design recent inflation surprises heavily influence policy outcomes.

With this week's release of surprisingly strong labour market data for December, we are – once again – in the position of the cash rates view hinging on the CPI print next week. We have previously flagged the possibility that another uncomfortably high inflation result will induce a near-term hike in the cash rate at the February meeting. That possibility shifted closer to a 50:50 bet with the labour market data. It could tip over the line if trimmed mean inflation prints higher than expected.

At the same time, we note that the first two months of the quarter point to some downside risk to the inflation print. We have incorporated some of this into our nowcast for inflation, with the quarterly trimmed mean measure now expected to print at 0.7%qtr (3.1%yr). An outcome at this level or lower should be enough to stay the RBA's hand, at least for now. The rhetoric would remain hawkish, but such a result would support the RBA's earlier assessment that some of the surprise September quarter inflation result reflected temporary factors.

"Surprisingly strong labour market data means the RBA's February decision will (again) hinge on next week's inflation data."

If, however, the December quarter inflation result surprises us on the upside next week, the RBA will likely see little alternative to raising the cash rate in February. Such a response would buy into a narrative that the Australian economy is running too hot with interest rates at current levels. The RBA might even take the view that policy has been stimulatory with the cash rate at current levels and that the previous cuts were in hindsight a mistake. We would not draw that conclusion, but we can see how recent consumer spending and labour market data would lend themselves to it. And although the near-term demand picture is stronger, a February hike would induce a weaker outlook further out.

If the RBA does end up hiking in February, it would be unlikely to follow that up with a back-to-back hike in March. Even with a more hawkish view of where 'neutral' policy settings are, a ▸

50bp increase would take the cash rate almost all the way back to the peak in rates that everybody at the time thought was very restrictive. It would seem odd if almost the same policy setting was needed to get underlying inflation from the low 3s to 2½% as was needed to get inflation from 8% to 3%, but that is the implication of a two-hike forecast. Instead, a 'one-and-done' (or at least 'one then wait and see') path might be the outcome. Typically, people rule out a single 25bp move and expect multiple moves, given how little difference a 25bp move makes to inflation forecasts. Nowadays, though, the RBA is in the business of fine-tuning policy to hit that 2½% target midpoint. It might flag the possibility of further hikes in the post-meeting communication but not end up following through.

Also odd is the implication that – if market pricing and bond yields are any guide – Australia apparently needs higher rates than all its peers for years to shake out that last half a point or so of disinflation. Some observers will note that Australia did not hike as far as many of its peers and has seen less of a slowing in the labour market (which was the intent!), but it seems like a big difference now to offset what were not huge differences at the peak.

Part of the issue seems to be the belief that Australia cannot grow faster than about 2% before stoking inflation, much slower than in the past, and yet is actually growing faster than this. We have previously discussed how sensitive these judgements are to underlying assumptions. The thing is, the only way to judge how fast supply capacity is growing in real time is to see how inflation performs given actual growth in output. Once again, trimmed mean inflation gets the casting vote.

Consumers at a crossroads

- **A genuine cyclical upswing in consumer spending is underway, and has been for most of the past year. December quarter looks to have been particularly strong, and not just a blip related to shifting patterns of pre-Christmas shopping.**
- **This upswing should not be interpreted as necessarily signalling a problematic inflationary boom. The weak growth in consumption of recent years would be the wrong basis of comparison for the subsequent recovery. If consumer demand really were straining against supply, the pattern of increases in inflation would be different, and consumption imports and credit growth would be stronger. But that is not what the latest data show.**
- **There are several possible scenarios for the outlook for consumption, some more benign than others. The key driver will be household income, which has (finally) recovered enough to allow people to spend more.**

A genuine cyclical upswing in consumer spending is underway. It has been building since early last year, and the final quarter of 2025 looks to have been particularly strong, if the timely indicators are a guide. The ABS Household Spending Indicator (HSI) increased by 1% in the month of November, and October had been even stronger. While the HSI only covers a subset of total consumption, the timelier Westpac–DataX Card Tracker more closely matches total nominal spending and suggests the strength continued into December. We estimate quarterly growth in consumption to have been 2% in nominal terms, and 1% in real terms, and believe that there is upside risk to these estimates. Over the past 15 years or so, rates of growth of this magnitude have been rare outside post-lockdown bounce-backs.

The question is whether this is a lasting strong trend or a blip related to holiday spending. Seasonal adjustment processes are meant to adjust for pre-Christmas shopping, allowing observers to focus on underlying trends. When those seasonal patterns change, though, as they have been with the increasing popularity of Black Friday sales, this adjustment will not be complete. As in recent years, we therefore cannot be sure that all of the recent strength is true trend rather than a 'head fake' from shifting seasonality.

Despite these uncertainties, something genuine does seem to be going on. Real consumption growth has picked up. Even consumption per person is rising, after several years of stagnation. The fundamentals are consistent with this. Incomes are also recovering after languishing at 2018 levels until recently. Real disposable income per person is now back close to the pre-pandemic trend. Lower inflation and the Stage 3 tax cuts reduced the squeeze on real incomes; lower interest rates also helped a little. Wealth effects from higher housing prices would also have been supporting spending over and above these income effects.

Nor is this a 'K-shaped' economy story where the recovery is narrowly based on spending by the already well-off. Data from our Westpac–DataX Consumer Panel to December show that the recovery in spending has been broad-based across income groups. Even consumers in the lowest tax bracket, whose spending had previously lagged, are now seeing a turnaround. Nominal spending is growing at a reasonable clip across age groups, too. The pattern seen in 2023, when spending growth lagged and even turned negative for the under-35s while older consumers' spending remained strong, has long since passed.

We are cautious about interpreting the current upswing as a new, inflationary boom. Context is important: the gains come after several years of weakness. Interpreting that period of weakness as the new trend would be the wrong basis for comparison. The latest outcomes are not necessarily a story of rampant demand straining against stagnant supply. Leave aside our longstanding view that trend growth in supply capacity is a bit faster than the RBA and some others seem to think: the downstream effects that you would expect to see in a weaker-supply scenario are simply not in evidence.

"A genuine cyclical upswing in consumer spending is underway."

If consumer demand really were outstripping supply, one should expect to see the effect on inflation more or less immediately; the effect of actual spending on prices is not the 'long and variable lags' that apply to monetary policy. While inflation did kick up in Q3 2025, the monthly data (such as they are) for Q4 so far have been less clear-cut. If this really were a demand boom, one should also expect to see the pick-up in inflation being more skewed to categories where domestic demand might play a role, like market services and some retail goods, rather than the administered prices (water, council rates) and obvious global supply shocks (meat, coffee) that dominated the list of inflation components with the highest inflation rates in recent months.

Nor do we see much of a pick-up in consumption import volumes, which would be a normal release valve in the face of a sudden upswing in domestic demand. Even overseas travel is lagging the levels it would have reached had pre-pandemic trend growth continued. One might also expect to see stronger household credit growth relative to household incomes than has been the case until recently.

This upswing in spending, though genuine, poses something of a conundrum: consumer sentiment remains pessimistic, even as people spend more. Only outright homeowners – those without mortgages – are net optimistic as a group. Renters and households with mortgages are mostly pessimistic, and increasingly so in recent months as the interest rate outlook has turned.

Is this disconnect a case of false consciousness, with people feeling worse off even though they are spending more? There is evidence to suggest that people react badly to the way past inflation lifts price levels, even after the inflation itself has passed. We also know that it is usual for most people to say that they are not better off than before, but be more optimistic about their future finances.

Or is the disconnect between spending and sentiment telling us something about the recovery, i.e. that it is more fragile than it looks? It is hard to escape the conclusion that consumption has been able to recover only because real incomes have recovered. There is a pathway where solid employment and income growth, and thus consumption, continues to recover. But that is a pathway where overall GDP growth is decent, not one where demand challenges stagnant supply.

Less benign is the scenario that sees spending growth realign with weak sentiment: the one where the recovery in spending starts to fade. For most of 2025, the labour market was easing gradually, as the economy pivoted from growth driven by the jobs-rich 'care economy' to the more dynamic, but less employment-intensive, market sector. The December labour data went the other way, putting into question whether that trend will continue. If it does, income growth will moderate by more than we currently expect, especially given wages growth has been relatively benign so far this cycle. And with growth in housing prices already softening in the two largest cities as the outlook for rates shifted, any positive wealth effects in play could also peter out. Suffice to say that this scenario, of a return to sluggish growth in consumer spending, is not our base case or even a major risk, but it is plausible.

Before reaching for a particular narrative to explain an outcome, be sure to guard against getting stuck in the past. It isn't 2023 anymore. Australia is neither just emerging from a period of disrupted supply chains nor contending with a temporary surge in population growth to catch up from the effects of closed borders. It is also important to triangulate against multiple data sources, to ask, "if this were true, what else would we expect to see?", and "what would we need to see to change our minds?". And to be fair, it is possible that the current upswing evolves into something more exuberant over the course of this year. That is not what the latest consumption data imply, though. Consumers have been spending more because they (finally) have more income to spend. We expect this to continue – even with some moderation in income growth back towards pre-pandemic averages – and do not necessarily see it as cause for alarm.

Note that our forecasts on page 11 have been revised to reflect the stronger profile for consumer spending and slightly firmer labour market conditions. GDP growth is now expected to have lifted to 2.4%yr in 2025, revised up from 2.2%yr previously while the unemployment rate is now expected to peak at a slightly lower 4.5% in the second half of 2026, revised down slightly from 4.6%.

Cliff Notes: distilling the trend

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

The December Labour Force Survey was the only major release for Australia this week. After falling 28.7k in November, employment surged +65.2k, well above consensus (+27k) and even surpassing Westpac's above-market forecast (+40k). We had expected the rebound in employment to occur alongside a bounce-back in labour force participation; but the participation rate only lifted marginally to 66.7%. This combination meant the unemployment rate surprised, falling from 4.3% to 4.1%.

Looking through the monthly volatility, the past few months results suggest the 'gradual softening' narrative, which prevailed through much of 2025, may have paused or come to an end. Jobs growth may be near or at its trough now the rapid deceleration in 'care economy' hiring has largely played out, and market sector hiring is starting to pick up. We still think the unemployment rate will drift higher over 2026, as labour force growth outpaces employment at the margin. There could also be some seasonal volatility in the mix, as has typically been the case through summer post-COVID. The next few months will be key to confirming the trend.

Given December's stronger labour market read and evidence of a moderate consumer upswing, next week's Q4 inflation data will once again be the deciding factor for the RBA's February decision. We are forecasting trimmed mean inflation to print 0.7%qtr / 3.1%yr which should be enough to warrant the Board remain on hold. In this week's essay, Chief Economist Luci Ellis discusses the risk of an upside surprise for inflation and the implications for the RBA.

> **"Month-to-month volatility is making gauging the underlying trend a challenging task as 2026 begins."**

Offshore, China's Q4 GDP report showed the economy met its 5.0% target in 2025. However, the growth was narrowly based, with investment in high tech manufacturing capacity and consequent strong growth in exports driving the result as the construction sector continued to contract and consumer demand remained weak. December's partial activity data makes clear that risks to growth are skewed to the downside into 2026, with retail sales growth slowing to 3.7%ytd in December and fixed asset investment contracting 3.8%ytd, driven primarily by weakness in the private sector. With active fiscal support, China can achieve growth circa 4.5% in 2026. But additional stimulus must focus on households, bolstering the outlook for both income and confidence. Decisive support to end construction's long and deep contraction is also necessary.

In the US, the PCE price index rose 0.2% in November to be 2.8% higher over the year, broadly consistent with outcomes in October and September. Inflation remains above the FOMC's 2% target and is expected to remain elevated as tariff effects slowly pass through to the consumer. Survey anecdotes suggest businesses are hesitant to pass on higher costs given heightened price sensitivity among consumers. While inflation is unlikely to re-accelerate meaningfully in 2026, it will remain materially above target and warrant modestly restrictive monetary policy. We expect the Committee to hold rates steady next week, followed by one last rate cut in March and an on-hold stance for the rest of the year.

Across the pond, the UK CPI rose 0.4% in December after a 0.2% fall in November. Annual inflation accelerated to 3.4%, supported by a 4.5% rise in services prices. The monthly gain was driven by volatile components, including a 5.5% month-on-month jump in airfares and a 1.0% lift in food prices. Fiscal measures, such as energy bill reductions and a freeze on rail fares, should contribute to disinflation in coming months. The unemployment rate meanwhile held steady at 5.1% in November, while average weekly earnings slowed slightly to 4.7%yr from a revised 4.8%yr. Employment declined, reflecting ongoing softness in hiring across retail and hospitality. We expect the Bank of England to continue easing through Q1 and Q2 to guard against downside risks to growth.

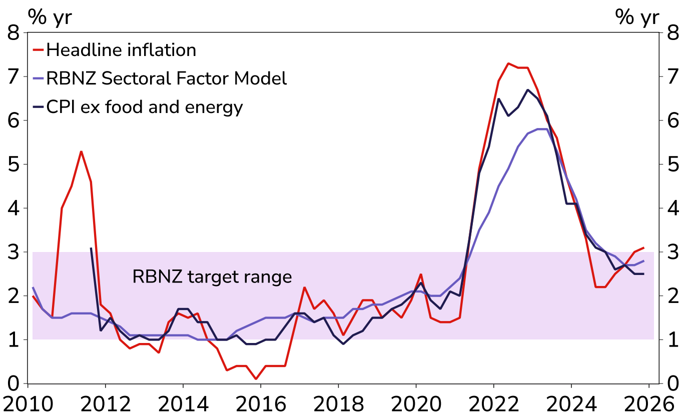
Firm CPI leaves RBNZ with less room to manoeuvre

Michael Gordon
Senior Economist

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

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

CPI inflation



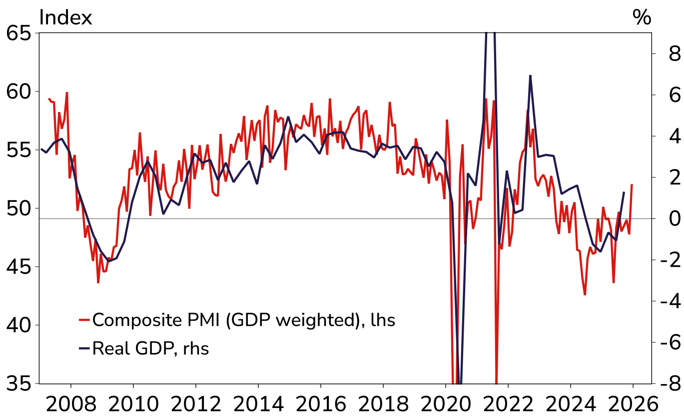
Source: Stats NZ, RBNZ, Macrobond, Westpac Economics

Some of the firm result was due to large seasonal increases in the costs of international airfares and holiday accommodation, while fuel prices were also higher this quarter. However, there were also larger-than-expected increases across several other categories, notably communications (due to more expensive costs for mobile phones and related services) and some durable household items (like furnishings). These increases coincide with a clear lift in spending on durable goods in recent months. Lastly, construction costs posted a solid 0.6% increase – a stark turnaround from recent quarters, with higher materials, labour and power costs all contributing. Inflation was restrained by weak growth in rentals and insurance, which in recent years had been key contributors to high inflation outcomes.

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

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

Composite PMI vs annual GDP growth

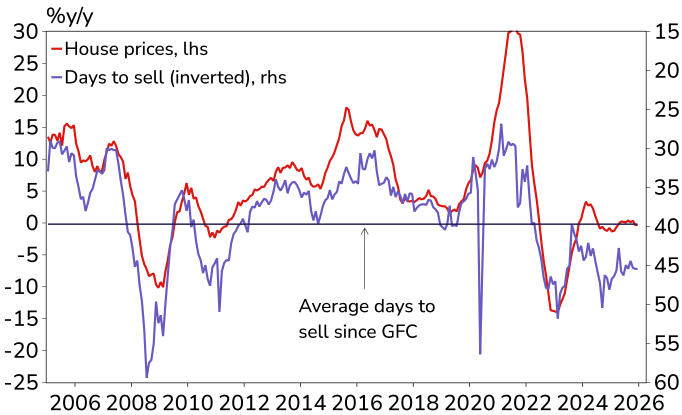


Source: BusinessNZ, Stats NZ, Macrobond, Westpac Economics

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

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

House prices and days to sell

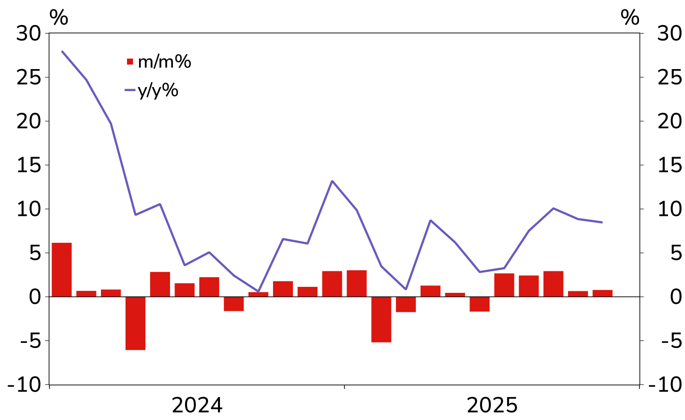


Source: REINZ, Macrobond, Westpac Economics

News regarding net migration helps to explain the relatively subdued state of the housing market (especially considering the low level of mortgage interest rates). The number of migrant arrivals in the year to November was down 9% compared to the previous year and is now around 40% lower than the peak annual inflow seen in 2023. Meanwhile, the number of migrant departures increased 4%. As a result, the net inflow of migrants stood at just under 11,000 people, thus contributing less than 0.2ppts to annual population growth – about a third of the average contribution over the past 25 years.

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

Short-term visitor arrivals



Source: Stats NZ, Macrobond, Westpac Economics

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

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

AUS: Q4 CPI (%qtr)

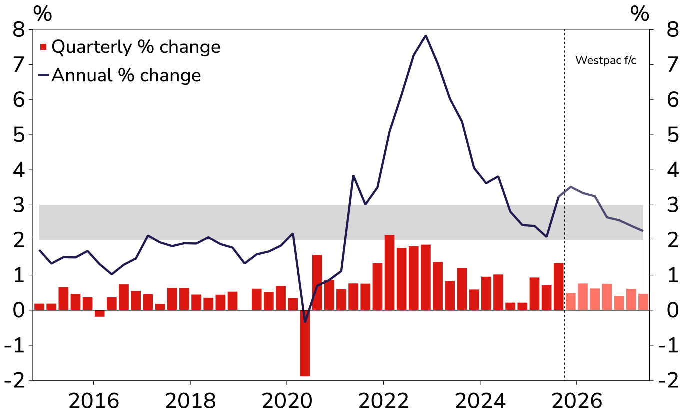
Jan 28, Last: 1.3, Westpac f/c: 0.5
Market f/c: 0.6, Range: 0.2 to 0.8

Westpac is estimating a 0.5% rise in the Q4 CPI, a 0.1ppt downgrade from our earlier forecast. Since a 0.2% quarterly increase is dropping out of the base of comparison, the annual pace is expected to lift from 3.2%yr to 3.5%yr.

Drags on quarterly inflation include a 4.7% fall in electricity prices – despite strong increases in November and December, the average level for the quarter is lower – alongside declines in pharmaceuticals (–1.6%) and alcohol (–1.0%), and motor vehicle prices (–0.9%). Rents (0.8%) and new dwellings (1.5%) provide solid contributions, as does automotive fuel (1.5%), but the standout is holiday travel & accommodation (2.8%).

For more information see "[December CPI preview and analysis]".

Headline CPI Inflation



Source: ABS, Macrobond, Westpac Economics

AUS: Q4 Trimmed Mean CPI (%qtr)

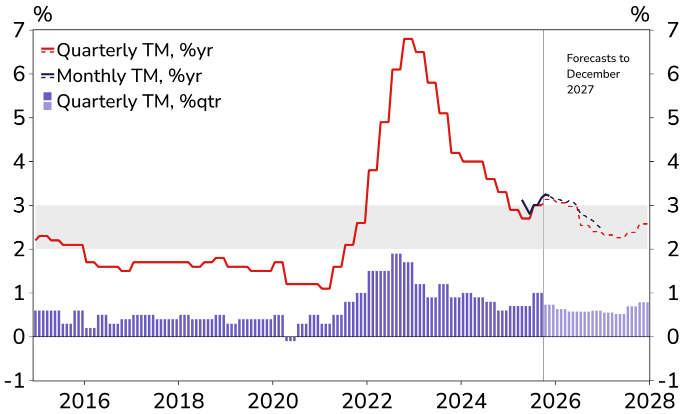
Jan 28, Last: 1.0, Westpac f/c: 0.7
Market f/c: 0.8, Range: 0.7 to 1.0

Westpac's estimate for the Q4 Trimmed Mean was revised down by 0.1ppt. We now expect a 0.7% increase which, with the 0.6% rise from December 2024 dropping out, lifts the annual pace slightly to 3.1%yr from 3.0%yr.

The range of price changes included in the Trimmed Mean runs from –0.71% to 1.52%, bookended by garments for men (–0.71%) and new dwellings (1.52%). Notable contributors within the Trimmed Mean for the quarter include automotive fuel (1.47%), restaurants (1.00%), domestic holiday travel & accommodation (0.92%), medical & hospital services (0.90%), rents (0.81%), takeaway & fast food (0.60%).

For more information see "[December CPI preview and analysis]".

Trimmed Mean Inflation



Source: ABS, Macrobond, Westpac Economics

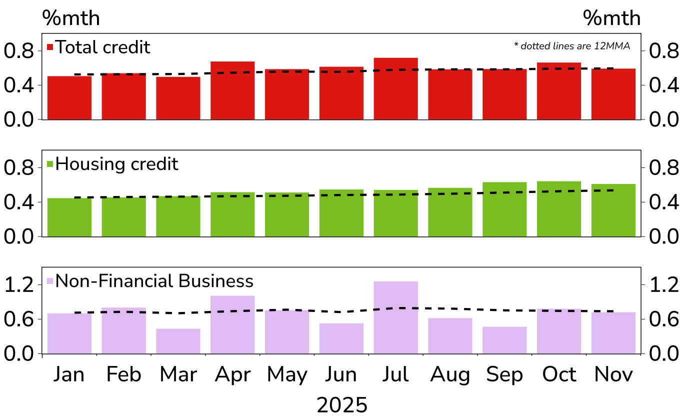
AUS: Dec Private Sector Credit (%mth)

Jan 30, Last: 0.6 Westpac f/c: 0.6
Mkt f/c: 0.6, Range: 0.4 to 0.6

Private sector credit growth edged down from 0.7%mth to 0.6%mth in November, however its strong upward trend persisted. Robust investor borrowing continued to support higher housing credit growth, while business credit also increased at a solid pace, in line with recent trends.

We expect that these trends were sustained in December, with headline private credit growth remaining at 0.6%mth. Shifting expectations for interest rates have led to slower house price growth towards the end of the year, and it remains to be seen whether this will place immediate downward pressure on credit growth in this segment. With consumer spending still strengthening, we anticipate that other personal credit will recover after a 0.5%mth decline in November. Business credit growth is likely to maintain its elevated pace.

Private sector credit growth



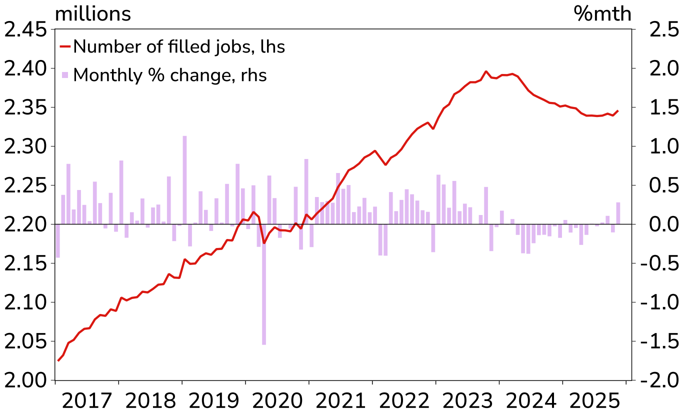
Source: RBA, Macrobond, Westpac Economics

NZ: Dec Monthly Employment Indicator (%mth)

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

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

Monthly Employment Indicator



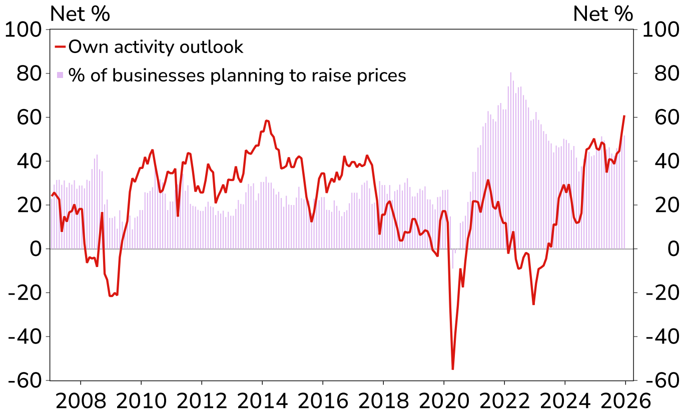
Source: Stats NZ, Macrobond, Westpac Economics

NZ: Jan ANZ Business Confidence (index)

Jan 29, Last: 73.6

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

Business confidence is surging



Source: ANZ, Macrobond, Westpac Economics

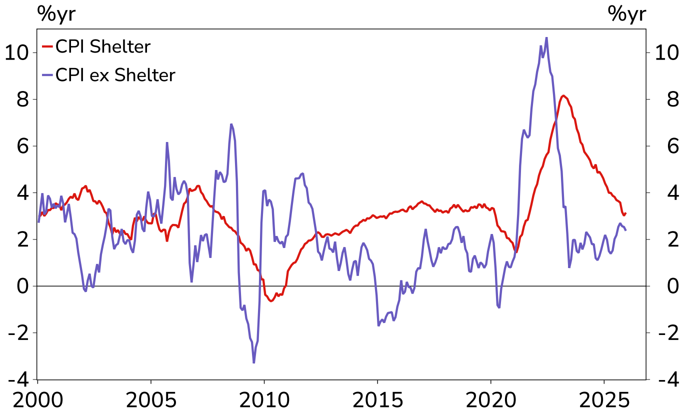
US: FOMC Policy Decision (%)

Jan 27-28, Last: 3.625, Westpac f/c: 3.625, Market f/c: 3.625

The FOMC is expected to remain on hold in January having cut in December and with inflation lingering above target. Businesses are only slowly passing through the tariffs' impost, and capacity constraints across the economy are adding additional pressure.

While employment growth has stalled over the past six months, evidence of persistent material job loss is yet to appear. As long as this remains the case, then we only expect one further cut in this cycle in March 2026.

Capacity and tariffs supporting inflation



Source: BLS, Macrobond, Westpac Economics

What to watch

	For	Data/Event	Unit	Last	Market f/c	Westpac f/c	Risk/Comment
Mon 26							
Aus	Jan	Australia Day	–	–	–	–	Markets closed.
US	Nov	Durable Goods Orders	%mth	–2.2	3.0	0.2	Recovery from October's fall.
Tue 27							
Aus	Dec	NAB Business Confidence	pts	1	–	–	Confidence bumpy despite signs of a continued recovery.
US	Nov	S&P Cotality CS House Price Index	%mth	0.32	0.20	–	Price growth nearing a trough.
	Jan	Richmond Fed Manufacturing	index	–7	–	–	Conditions remain volatile across the regions.
	Jan	CB Consumer Confidence	index	89.1	–	–	Labour market a preeminent concern for consumers.
Wed 28							
Aus	Dec	Monthly CPI	%ann	3.4	3.6	3.7	Electricity to see the headline index surge 0.9% in Dec mth …
	Dec	Monthly Trimmed Mean	%ann	3.2	3.3	3.2	… while the Trimmed Mean is more contained at 0.1%mth.
	Q4	CPI	%qtr	1.3	0.6	0.5	In the quarter, electricity prices fall due to the rebates in Oct …
	Q4	CPI	%yr	3.2	3.6	3.5	… and November, all set to be reversed in March.
	Q4	Trimmed Mean CPI	%qtr	1.0	0.8	0.7	The Trimmed Mean estimate is 0.74% so has upside risk to …
	Q4	Trimmed Mean CPI	%ann	3.0	3.2	3.1	… our estimate. For more see "December CP Preview".
NZ	Dec	Employment Indicator	%mth	0.3	–	0.2	Job numbers have been stabilising in recent months.
US	Jan	FOMC Policy Decision	%	3.625	3.625	3.625	To remain on hold, having cut in December.
Thu 29							
Aus	Q4	Export Price Index	%qtr	–0.9	–	–	Boost from terms of trade …
	Q4	Import Price Index	%qtr	–0.4	–	–	… is gradually fading.
NZ	Dec	Trade Balance	$mn	–163	–	–17	Seasonal boost should offset falling dairy prices
	Jan	ANZ Business Confidence	index	73.6	–	–	Measures of past performance are now picking up.
Sing	Jan	MAS Monetary Policy Statement	–	–	–	–	Slope of NEER band could flatten as prices remain soft.
Eur	Jan	Economic Confidence	index	96.7	96.8	–	Plateuing on stable confidence for consumers and business.
US		Initial Jobless Claims	000s	200	–	–	Consistent with a balanced labour market.
	Nov	Trade Balance	US$bn	–29.4	–45.0	–	Pharaceuticals and gold causing volatility.
	Nov	Factory Orders	%mth	–1.3	0.5	–	Exceptionally choppy as businesses deal with tariffs.
Can	Jan	BoC Policy Decision	%	2.25	–	–	Easy policy remains in light of excess capacity.
Fri 30							
Aus	Q4	PPI	%qtr	1.0	–	–	May provide clues on upstream inflation dynamics.
	Dec	Private Sector Credit	%mth	0.6	0.6	0.6	Strong upward trend is persisting.
NZ	Jan	ANZ Consumer Confidence	index	101.5	–	–	Better news on economy drives lift.
Jpn	Jan	Tokyo CPI	%ann	2.0	1.7	–	Food prices are keeping headline inflation
	Dec	Jobless Rate	%	2.6	2.6	–	Structural factors are keeping the labour market tight.
	Dec	Industrial Production	%mth	–2.7	–0.4	–	Machinery orders suggest slowdown.
Eur	Q4	GDP	%qtr	0.3	0.3	–	Domestic demand to improve despite external trade drag.
	Dec	Unemployment Rate	%	6.3	–	–	Labour market remains a relative brightspot for the region.
US	Dec	PPI	%mth	0.2	0.3	–	Capacity constraints to keep inflation above-target.
	Jan	Chicago PMI	index	42.7	44.0	–	Points to downside risks on activity.
		Fedspeak	–	–	–	–	Musalem.

Economic & financial forecasts

Interest rate forecasts

Australia	Latest (23 Jan)	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	3.81	3.70	3.70	3.70	3.55	3.30	3.15	3.15	3.20	3.20	3.20
3 Year Swap	4.23	3.90	3.80	3.60	3.50	3.40	3.45	3.50	3.55	3.60	3.65
3 Year Bond	4.26	3.93	3.83	3.63	3.53	3.43	3.48	3.53	3.58	3.63	3.68
10 Year Bond	4.82	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)	57	50	40	30	25	20	15	10	5	0	0
United States											
Fed Funds	3.675	3.375	3.375	3.375	3.375	3.375	3.375	3.375	3.375	3.375	3.375
US 10 Year Bond	4.24	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	3.10	3.05	3.20	3.40	3.60	3.75	3.85	3.95	4.00	4.00	4.00
10 Year Bond	4.59	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)	35	25	25	25	30	40	40	40	35	30	25

Exchange rate forecasts

	Latest (23 Jan)	Mar–26	Jun–26	Sep–26	Dec–26	Mar–27	Jun–27	Sep–27	Dec–27	Mar–28	Jun–28
AUD/USD	0.6840	0.67	0.69	0.70	0.71	0.72	0.72	0.73	0.73	0.73	0.73
NZD/USD	0.5907	0.57	0.58	0.59	0.60	0.62	0.63	0.64	0.65	0.65	0.65
USD/JPY	158.62	151	149	147	145	144	142	140	138	136	134
EUR/USD	1.1745	1.17	1.18	1.19	1.19	1.20	1.20	1.21	1.21	1.21	1.21
GBP/USD	1.3492	1.33	1.34	1.35	1.36	1.37	1.37	1.38	1.38	1.39	1.39
USD/CNY	6.9631	7.05	7.00	6.95	6.90	6.80	6.70	6.60	6.50	6.45	6.40
AUD/NZD	1.1578	1.17	1.16	1.16	1.16	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	0.9	0.7	0.6	0.6	0.6	0.6	0.6	–	–	–	–
%yr end	2.1	2.4	2.8	2.6	2.9	2.6	2.5	2.5	1.3	2.4	2.6	2.5
Unemployment rate %	4.3	4.2	4.3	4.3	4.4	4.5	4.5	4.5	4.0	4.2	4.5	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	0.5	0.8	0.6	0.8	0.4	0.6	0.5	–	–	–	–
%yr end	3.2	3.5	3.3	3.2	2.6	2.6	2.4	2.3	2.4	3.5	2.6	2.6
CPI Trimmed Mean %qtr	1.0	0.7	0.6	0.6	0.6	0.6	0.6	0.5	–	–	–	–
%yr end	3.0	3.1	3.1	3.0	2.5	2.4	2.3	2.3	3.3	3.1	2.4	2.6

New Zealand economic forecasts

	2025		2026				2027		Calendar years			
% Change	**Q3**	**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	0.6	0.4	0.4	0.8	0.5	0.4	0.4	–	–	–	–
Annual change	3.0	3.1	2.5	2.4	2.2	2.1	2.1	2.1	2.2	3.1	2.1	2.1

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