Week beginning 23 February 2026

AUSTRALIA & NEW ZEALAND WEEKLY

Analysis and forecasts for this week's key releases.

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New Zealand: Real retail sales, business confidence, consumer confidence

Japan: Tokyo CPI, industrial production.

Eurozone: CPI, economic confidence, IFO business survey.

United Kingdom: GfK consumer sentiment.

United States: Construction spending, regional manufacturing surveys, CB consumer confidence.

Information contained in this report current as at 20 February 2026.

NAIRU: dead, undead or just resting?

Luci Ellis
Chief Economist, Westpac Group

- **Full employment objectives for central banks are common and long-standing. The RBA has been mandated to pursue both price stability and full employment since its founding as a separate institution. Even a central bank with an inflation-only mandate would need to care about labour market developments, because these provide information about future inflation.**
- **It is harder to know whether the economy is at full employment than whether inflation is at target. Gaps from full employment are inferred from price and wage outcomes. The exact mapping from those outcomes to a judgement about tightness of the labour market depends in part on how you think the 'unemployment gap' or 'output gap' affects prices and wages, and how you think inflation expectations are formed.**
- **The RBA has in recent times instituted a dashboard or checklist approach to assessing where the labour market is relative to full employment. This approach has limitations but is being progressively evolved. It also still focuses on a subset of approaches to analysing the labour market. The so-called 'NAIRU' and the gap-oriented approach to assessing full employment is far from dead to central banks.**

Many central banks, including the RBA, have 'full employment' as part of their mandate, in addition to inflation control. In most cases, again including Australia, this has been true for decades. Indeed, it is well understood that even a central bank with an inflation-only mandate would still want to have a view on full employment, because a labour market being away from that point will influence inflation in future, potentially pushing it away from target. This was the point Mervyn King made back in 1997, that even an 'inflation nutter' central bank would still care about employment and unemployment.

But how do central banks know if they have achieved a full employment goal? An inflation target can be specified as a desired rate or range of rates for inflation, and perhaps a horizon over which to achieve it. 'Full employment' has, however, always been a bit more nebulous. Typically, policymakers and academic economists alike have framed 'full employment' as being the lowest rate of unemployment that is still consistent with inflation remaining at its target. That way, the two mandates are defined not to conflict. 'Full' does not mean 'everybody who wants one has a job', and it is not necessarily as low a rate of unemployment as other parts of society might prefer.

The evolution of economic understanding of the relationship between inflation and unemployment began in the middle of the previous century, when A W Phillips noted an inverse relationship between growth in money wages and the unemployment rate in the UK. In other words, an unemployment rate below its 'natural rate' – an 'unemployment gap' – was associated with faster wages growth. The 'Phillips curve' concept later expanded to be between price inflation and unemployment rather than money wages growth and unemployment. More recently, the RBA has also related these 'gaps' to growth in unit labour costs (which includes all employee compensation, not just wages, expressed relative to output produced) rather than wages or prices directly. This approach stems from the 'markup model' framework where marginal costs and labour market slack are related, rather than prices and slack. As we have previously noted, other central banks do not put anywhere near the emphasis on this model that the RBA does.

"Full employment objectives for central banks are common and long-standing."

Later work focused on the role of expected inflation, holding that unemployment would only decline below its 'natural rate' if people were 'surprised' by inflation. If unemployment was below the 'Non-Accelerating Inflation Rate of Unemployment' (now you know why economists call it the NAIRU), inflation (or wages growth) would not just be higher, but would be ever-increasing, because people would come to expect the current rate of inflation to continue, and then you needed to surprise them some more. So if inflation or wages growth was increasing, that was taken as evidence that the unemployment rate was below the NAIRU and the labour market was tighter than 'full employment'. A steady rate of unemployment or wages growth was seen as a signal that the labour market was roughly in balance.

The RBA's recent work on establishing where full employment might be has instead taken the view that inflation expectations in Australia are reasonably anchored. So instead of looking for increasing inflation or wages growth as a sign that the labour market is tighter than full employment, any deviation of inflation from target, or wages growth from what the central bank judges to be consistent with inflation remaining at target, is seen as a sign that the labour market is away from full employment. The NAIRU isn't really dead in the RBA's framework: they just dropped the "A".

Observant readers will note that the judgement about whether wages growth is consistent with inflation at target requires a judgement about the mapping from wages growth to labour costs to inflation target. This involves a judgement about trends in productivity growth that is subject to both debate and data revisions.

The RBA has also fleshed their assessment process out with a 'checklist' or 'dashboard' of indicators of full employment and a separate one for the output gap. This has not been without criticism from labour market experts, though to be fair the dashboards have been improved over time and are now less sensitive to historical averages. It has also integrated at least some of the insights from labour economics that frame the labour market as an exercise in matching workers and jobs, with all the frictions that might arise from that. Still, the exercise has a little of the flavour of the RBA's use of 'checklists' in the early 1980s, before the inflation targeting era. That experiment did not end well.

In the end, though, the RBA's framework is all about taking signal from inflation and wages data and reading back to the labour market. Consider two possible views of economic trends. One is that trend growth in capacity – that is, potential output – is just above 2%, and the sustainable rate of unemployment is around 4.6%, the RBA's latest estimate. Another, closer to our own view, would be that potential output growth is more likely to be in the 2¼–2½% range and the sustainable unemployment rate is more like 4¼%. The labour market data on its own will not help you distinguish between these two sets of assumptions. The signal from inflation and wages growth will be the deciders.

The upshot is that the RBA has put a lot of effort into measuring where full employment is. Neither it, nor the profession more broadly, have done as much on building theory about why it is where it is, or where it might go from here, including whether it could be deliberately moved to make even lower unemployment feasible. And despite the dropping of the "A", the intellectual framework has not evolved much over the past decade. It is still all about inferring gaps from Kalman filtering the relationship between output, labour market data and price and wage outcomes.

There are alternatives, which both policymakers and the research community would be familiar with but have generally not pursued, sticking instead to the 'gap-oriented' approach to assessing the balance between demand and supply. One alternative – though by no means the only one – was even expounded in a Bank of England publication more than a decade ago (full disclosure: the author, Professor Roger Farmer, was one of my PhD thesis examiners). There is also more to be gleaned from search-oriented analysis of the labour market.

The analysis of where full employment is therefore far from settled. Further changes in central bank frameworks can be expected as more research is done. Hopefully this future research avoids incrementalism and considers the implications of how labour markets actually work in the 21st century. Meanwhile, the NAIRU might have changed form, and dropped a letter here or there, but it is not dead to central banks.

RBA Minutes: never mind the greenbacks

- **In recent times, RBA minutes have typically added little information beyond what is already discussed at the media conference or published in the Statement on Monetary Policy (SMP). This time, though, the minutes highlighted how poor model-based measures of the 'neutral interest rate' are as a guide for policy.**
- **More concerningly, the minutes were quite dismissive of the exchange rate's role in holding down inflation. It is true that much of the recent appreciation in the AUD reflects the changing interest rate outlook and so is already in the (small) disinflationary impact forecast from that source. However, the exogenous-to-Australia sell-off in the USD and associated hedging behaviour is an independent element that the RBA seems not to have allowed for. While this will not become apparent for a while, it does suggest some downside risk to imported goods inflation.**
- **The bulk of the minutes were devoted to concerns about capacity pressures and the (smaller) proportion of the recent pick-up in inflation that was potentially persistent, which were already canvassed in the RBA's other communication. The risks around the market path for interest rates were seen as two-sided, depending on how demand pressures and supply constraints evolve from here.**

With the advent of media conferences after every meeting, RBA minutes have tended to provide less information value of late than in the past, particularly for SMP meetings. This time around, there were some interesting points that could point to under-appreciated risks for the policy outlook.

Their assessment of financial conditions was quite backward-looking, especially around credit. Credit responds to interest rate and economic conditions with a lag, so strong credit growth now tells you about conditions a little while ago, when rates were expected to fall further. While the higher exchange rate tightened financial conditions at the margin, there was considerable scepticism in the minutes about whether financial conditions at the beginning of this year were tight in an absolute sense.

There were also some inconsistencies in the discussion of financial conditions and the stance of policy as it related to inflation risks. The Financial Conditions section of the minutes pointed to the pick-up in inflation as a sign that policy was no longer restrictive, because it implies demand is outstripping supply. In the Economic Conditions section, though, it was stated that "the larger part of the increase had reflected less-persistent factors, including price volatility in categories such as electricity, travel and groceries," none of which provides information about demand pressures. Of the factors mentioned in that passage, only durable goods inflation would normally be thought of as signalling demand pressures rather than transitory supply shocks or seasonality. Some of the pick-up in inflation is seen as indicating demand and capacity pressures, but not "the larger part". This nuance was missing from the discussion of the policy stance, which could either be a (rare) drafting oversight or a hint at differences in opinion within the RBA staff (and possibly also Board members).

"RBA Minutes reprise inflation and capacity concerns but downplay the USD sell-off's role in the AUD's appreciation."

In welcome news, the minutes really tried to hose down excessive focus on model-based measures of the so-called 'neutral interest rate'. This should resolve some confusion among observers. A comment about these measures being regarded as a "misleading signal of the stance of monetary policy prior to the pandemic" was new information. It should be noted that most major central banks have not come to the same view.

More concerningly, the minutes were dismissive of the idea that there has been any exogenous element to the recent exchange rate appreciation. According to the minutes, essentially all the exchange rate move has been the result of higher interest rates and commodity prices, and so the currency is assessed to have had no independent effect on imported prices beyond the interest rate impulse response, for example as traced out in Figure 12 of this RBA research paper. In the 'Considerations' section, it was stated "the appreciation had been in response to expectations for tighter monetary policy, not independent of it." The minutes also stated that "The forecasts also accounted for the 5 per cent appreciation of the exchange rate since November, which was assumed to dampen import prices and net exports." Observant readers will notice that the AUD appreciation over the past month has been at least double the amount implied by that research paper figure across two different models, for a similar shift in (expected) interest rates.

As we noted last week, we think that some part of the AUD appreciation is in fact the result of the USD selloff (and CNY counterpart), amplified by hedging activity, making it independent of the response to rates and commodity prices. Timing issues might have contributed to the RBA's judgement on this point, given how close the sharpest part of the appreciation was to the 28 January deadline for finalising forecasts. However, there is also an analytical point here that the RBA's assessment in the minutes explicitly rules out. If it had just been a deadline issue, the language in the minutes would have been more circumspect.

This part of the appreciation is a source of downside risk for inflation over the next year or so that the RBA have clearly missed. We expect to have a more refined estimate of this impact soon but currently assess the potential impact as being similar to that of interest rates, i.e. of the order of 0.1–0.2ppt off trimmed mean inflation over the next year or so.

The bulk of the minutes was dedicated to the changed assessment of demand and capacity pressures in the economy, and the resulting inflationary impact. Much was made of the staff's model-based measures of spare capacity, which had been revised considerably since the previous meeting and now matched up better to the results in a leading business survey. (Unlike the models of the neutral rate, this variability was represented to be a good thing.)

Breadth-based measures of inflation were key to the RBA's concerns about renewed inflation, even as the "larger part" of the pick-up in inflation was seen as mostly temporary.

Like other recent RBA communication, the minutes were circumspect and agnostic about the outlook for the cash rate from here, with risks on both sides of a market path that the minutes seemed to broadly endorse. Some downside risks had abated, notably those concerning global growth. Weaker demand growth, stronger supply capacity growth, sector-specific shocks or a misreading of the stance of policy were all cited as downside risks. On the upside, most of the same factors applied in reverse, along with the question of whether longer-term inflation expectations remained anchored. It should be noted that the recent speech by Assistant Governor Hunter highlighted that the RBA's updated analytical framework for assessing the labour market assumes that inflation expectations are anchored, so there are some potential inconsistencies in the (low-probability) event that this risk is realised.

The broader strategy of "seeking to bring inflation back to target within a reasonable timeframe while preserving as many of the gains in employment as possible" is still seen as appropriate by the Board. We see this as signalling that the RBA is not pivoting to an inflation-only view. Rather, its policy decisions are better characterised as fine-tuning the setting of policy in light of what the Board sees as shifting risks. This adds weight to our base-case view that the next increase in the cash rate is coming in May, not March.

Cliff Notes: lingering concerns over capacity

Elliot Clarke, Head of International Economics
Ryan Wells, Economist

In Australia, the data release of the week was the January Labour Force Survey which reported a +17.8k lift in employment, in line with the market's expectation. While labour demand is still best characterised as 'soft', having slowed to a well below-average pace through 2025, it appears to be finding its footing. At the same time, labour force growth has been tracking a weaker trend, the participation rate falling 0.6ppts over the past year, keeping the unemployment rate steady at 4.1% in recent months.

This data is likely to raise some concern over a possible 're-tightening' in labour market conditions, and the risk of more persistent inflation – a key concern for the RBA's Monetary Policy Board. On the latter, Chief Economist Luci Ellis dissected the minutes from the February Board meeting earlier this week, including the apparent downplaying of the impact of exogenous exchange rate appreciation on the inflation outlook.

Coming back to the labour market, it is important to recognise that a lower unemployment rate has a very different flavour if it is being driven by weaker participation versus stronger hiring. The forces driving the current downswing in participation – namely an easing in cost-of-living pressures – may not persist for much longer given inflation's persistence. Combined with an underlying structural uptrend in labour supply, we could easily see a turnaround in labour force participation lift the unemployment rate again.

> **"...risks to inflation stemming from the labour market may prove transitory."**

This is all to say that the upside risks to inflation stemming from the labour market may prove transitory. This week's benign result for Q4 wages growth, up 0.8% (3.4%yr), supports this assertion. Today's note from Chief Economist Luci Ellis furthers the discussion around the relationship between the labour market and inflation.

Offshore, in a holiday shortened week, the focus was on the balance of risks in the US. Out last Friday, the market celebrated January's 0.2% headline gain for consumer prices against the 0.3% consensus expectation. However, the headline beat was primarily the result of a 1.5% decline in energy prices and a moderate 0.2% increase in food prices, along with a flat outcome for core goods prices. Services ex-energy in contrast rose 0.4% in January after a 0.3% increase in December – outcomes well in excess of the FOMC's target and consistent with broad-based capacity pressures across housing, transport and medical care.

While the January FOMC meeting occurred before this data release, the minutes recognised that inflation risks are now broadly balanced against labour market uncertainty, which has receded of late given evidence of stabilisation after a period of "gradual cooling".

Arguably, most of the Committee still believe policy can be eased further in time, but it is interesting to note that "Several participants indicated that they would have supported a two-sided description of the Committee's future interest rate decisions, reflecting the possibility that upward adjustments to the target range for the federal funds rate could be appropriate if inflation remains at above-target levels". So, if we see further persistence in services inflation, or businesses pass through more of the cost of tariffs, the FOMC may become more vocal in their concerns over inflation. This would trigger a resetting of market expectations from the current pricing of two or more cuts in 2026 to one or no cuts, with consequences for financial markets.

We currently view one fed funds rate cut as most probable in 2026, although this view is held with low conviction given the above risks to inflation. For the US dollar however, we continue to believe any rate reset is likely to be more than offset by a greater appreciation of growth opportunities elsewhere in the world, seeing the US dollar trend lower.

Across the Atlantic, Q4 GDP disappointed in the UK (0.1%, 1.0%yr) but showed resilience in the Euro Area (0.3%, 1.3%yr). Thankfully for the UK, the latest inflation data gave the BoE support to continue cutting through the first half of this year as annual headline inflation slowed to 3.0%yr, to be in line with core inflation at 3.1%yr. Importantly, services inflation looks to be abating as hoped, now 4.4%yr after being stuck around 5.0%yr through the first half of 2025.

Turning finally to Asia, we are yet to get a sense of how China's economy has begun 2026 given Lunar New Year Holidays but expect authorities will have to quickly shift to a pro-active stance for policy, else risk a structural deceleration in growth taking root. Across the rest of the region are a broad array of conditions and prospects, with countries such as Taiwan and Vietnam growing rapidly while those whose industry is concentrated more in services such as Thailand underperform. Politics are also very important at present and likely to remain so. As an example, the opportunity seen by many in Japan's economy and stock market depends on the Government taking action to support investment and consumption and, in doing so, spur private sector confidence. Highlighting the need for action, this week Japanese Q4 GDP surprised to the downside, rising just 0.1% after a 0.7% decline in Q3. Underlying the result, household consumption grew just 0.1%.

Reflecting on a dovish RBNZ

Kelly Eckhold
Chief Economist NZ

This week was dominated by Governor Breman's inaugural outing at the release of a Monetary Policy Statement (MPS). The general tone of the message was notably more dovish than market expectations, even though the RBNZ still sees a December initial hike as likely (but not certain). But the subtext was a bit pessimistic, indicating the bar for an early rate rise remains high. This implies the balance of risk has tilted away from an interest rate rise ahead of the General Election on 7 November. This also likely embeds a weak tone for the NZD for a while.

In many respects, this week's MPS was according to expectations. We had anticipated a cautiously optimistic view from the RBNZ on the economic recovery that culminated in a signalled first shift in the OCR towards the neutral zone right at the end of 2026. We didn't expect the RBNZ to signal any chance of further easing in the interim and we didn't expect the RBNZ to talk about a pre-election tightening. The RBNZ's messaging – which was notably much clearer than has sometimes been the case in the past – met those expectations.

However, there were aspects of the RBNZ's story that remain less optimistic – indeed, in our view, pessimistic given the current low level of interest rates. At a high level, the RBNZ presented picture of a solid recovery through the next couple of years. Growth is expected to be around 2.8% over each of 2026 and 2027, which is solidly above trend growth and sufficient to eat up excess capacity eventually. However, the pessimistic overlay is that these forecasts were not any stronger than presented late last year before we saw a run of stronger economic indicators, including Q3 GDP itself.

The stronger growth indications we saw late last year are reflected in the RBNZ's forecast of solid growth in the first half of 2026 (which was revised up marginally). But the RBNZ has scaled back its forecasts for growth in the second half of 2026 (from 1.5% to 1.2%). This means that although the output gap initially closes a bit more quickly in early 2026, it still doesn't close fully until the end of 2028. It also means the path to lower unemployment is much slower than previously expected, so that the unemployment rate ends 2026 at a still elevated 5.0%.

This less optimistic view of the future, even given low interest rates, means inflation pressures are not seen as pressing and the urgency to raise interest rates is not great. This is why Governor Breman emphasised that the market's pricing of at least one OCR increase in 2026 was too aggressive. Indeed, she noted that in the MPC's eyes, while a rate rise at the end of the year looks likely, it is hardly a done deal.

The key issue weighing on the MPC's mind is the role that house prices will play in shaping the economic recovery. And this is an area where again the RBNZ took a very pessimistic view. To be certain, house prices have been flat or have fallen in seven of the last eight months. But the RBNZ took the view that recent momentum can be extrapolated into the whole of 2026 with just a marginal improvement in 2027. And that softness in house prices is expected to be a drag on households spending. In a year where economic growth is forecast to run at an above-trend 2.8%, house prices are forecast to be flat in 2026. This is a remarkable assumption remembering that in late 2025 the RBNZ thought house prices would rise around 3.8% in 2026 – even though back then the short-term economic outlook seemed less positive.

If the RBNZ's scenario comes to pass it will be notable indeed as it's usually the case that an improving growth path prompted by low interest rates, reduces unemployment and lifts household incomes, increasing the demand for housing and house prices. Considering the trends post the Global Financial Crisis, a year of 2.8% GDP growth would usually see house prices rise at least somewhat. Or looking at it the other way around, zero house price growth would normally reflect a much slower economy and growth closer to 1.5% y/y. If we see another year of growth as weak at 1.5% then it's likely the output gap won't close and unemployment rate won't fall (indeed it could rise).

Such a scenario would ask hard questions of New Zealand's growth potential and the level of the "neutral" interest rate. We don't think that this would be consistent with neutral rates sitting in the 3-4% range (which covers the range of RBNZ's and private forecasters' assumptions) as it would be more likely that even a 2.25% interest rate isn't really that stimulatory.

All of this is of course assuming no exogenous shock drives another weak growth outcome in 2026. No such shock is currently forecast – and indeed the RBNZ expects global growth over 2026 will be similar to 2025. The Governor did present a laundry list of downside risks coming from global issues. But none of these are impacting on the New Zealand economic recovery right now. And we don't think they are weighing much on the policy outlook at the minute.

These pessimistic scenarios also ask hard questions of where the exchange rate is heading. As we have noted many times, foreign exchange is a relative game, and right now other countries are moving ahead of New Zealand. We shouldn't see a very strong exchange rate at all if these more pessimistic scenarios come to pass. The situation seems particularly pressing versus the currently strong Australian dollar where interest rate expectations are firming. We are slightly revising down our view of the NZD/AUD exchange rate for the next 6 months given the RBNZ's dovish views, to reflect the sense that that balance of risks for New Zealand interest rates have tilted away from a pre-election start to the tightening cycle. Ultimately, we remain optimistic the recovery will be stronger than the RBNZ fears. But this is not going to be settled until the second half of 2026 when the RBNZ and our forecasts start to significantly diverge.

In the meantime, the RBNZ's focus on housing and the implications for household consumption growth will place a premium on house price data and consumer spending indicators. As noted, this week's data on house prices confirm still flat prices and unchanged momentum. This week's electronic card spending data was weaker than expected – but the data appears a lot weaker than card spending data produced by the banks, including our own indicator. Hence, we wonder if the Stats NZ data is somehow missing something as retail trends and the payments marketplace evolve. Next week's Retail Trade Survey for the December quarter will be interesting in that regard.

This week also confirmed that the dairy industry remains in a strong position. The GlobalDairyTrade auction was again strong, and prices have retraced all the weakness since late September last year when concerns about strong global supply started to assert themselves. Fonterra has responded by lifting the midpoint of its 2025/26 milk price forecast to $9.50/kg, which is close to our forecast of $9.40. Demand appears to remain strong in line with the message of global growth projections.

Lastly, Stats NZ's latest monthly update on selected consumer prices was broadly in line with our expectation for a gradual easing in overall inflation this year. However, the underlying detail of the January update did deliver some surprises. On the upside, we saw another large increase in food prices (+2.5% mth / +4.6% yr) with strong gains in the prices for fresh produce, meat and groceries. Recall that increases in food prices were a key factor that pushed overall inflation above 3% over 2025, and these prices have been hotter than expected in the early part of 2026. However, balanced against that firmness has been ongoing softness in housing rents, with average rents flat in January. That's a particularly weak result given that the summer months are normally the peak season for rents. With low population growth and big increases in housing supply, we expect rental growth will remain soft over the remainder of the year. And with housing rents one of the largest components of the CPI, that will helpfully dampen overall inflation over the coming year. Putting that altogether, we continue to expect that annual inflation will ease back from the current elevated level of 3.1% over the course of this year. However, we still expect that inflation will remain above 2% for some time, with core inflation set to remain in the upper part of the RBNZ's target zone.

AUS: Jan CPI (%yr)

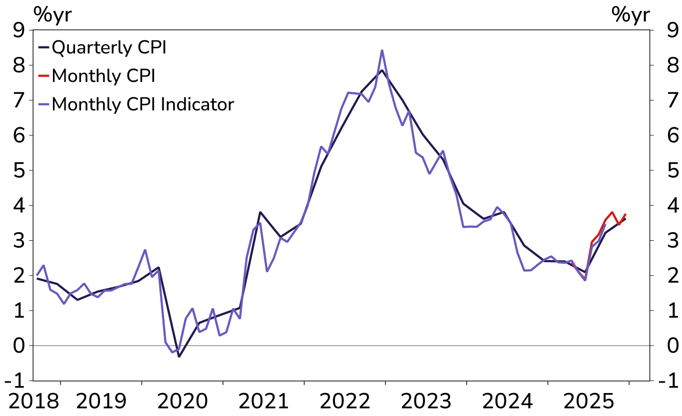
Feb 25, Last: 3.8, Westpac f/c: 3.6
Market f/c: 3.7, Range: 3.3 to 4.0

January is a seasonally softer month, our 0.1%mth estimate translates to 0.4% in seasonally adjusted terms. This is a step down from the 0.3% increase last January, easing the annual pace to 3.6%yr from 3.8%yr.

Food remains inflationary, led by a seasonal lift in fresh fruit & vegetables and non-alcoholic beverages. Health also adds to inflation but the stand-out is electricity as cost-of-living rebates fade and bills revert to underlying prices. These gains are partly offset by falling holiday travel & accommodation, automotive fuel, garments and communications.

We estimate a 0.3%mth rise in the Trimmed Mean, holding the annual pace steady at 3.3%yr. The the six-month annualised rate slows to 3.4%yr from 3.7%yr. For more details see our January CPI Preview.

Headline Inflation



Source: ABS, Macrobond, Westpac Economics

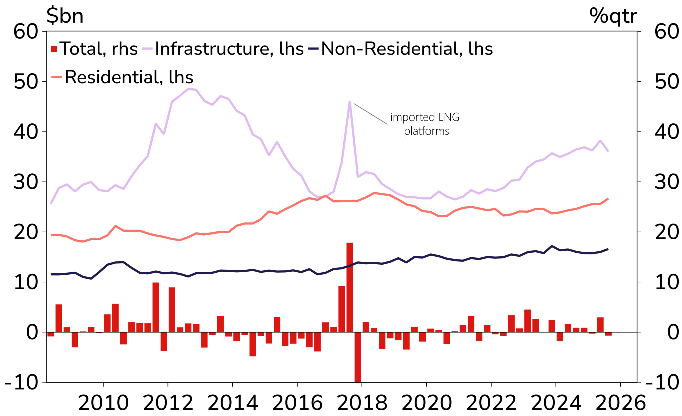
AUS: Q4 Construction Work Done (%qtr)

Feb 23, Last: –0.7, Westpac f/c: 1.3
Market f/c: 1.3 Range: 0.4 to 2.2

Construction activity declined 0.7% in Q3 but was 2.9% higher in year-ended terms. As we expected, the weakness in the aggregate number was driven by the unwind of a mining related spike, which in turn was driven by the ABS' practice of recognising installed imported structures on a cash basis. Outside of this, activity was solid, rising 3.6%qtr and 3.0% in annual terms – strongest quarterly growth rate since 2017 outside of the covid pandemic. Residential construction rose almost 9.0%yr; new buildings stabilised, up 3.7%qtr after falling in three of the last four quarters; and public infrastructure work grew 3.9%qtr after falling 7.5% over the past two quarters.

For Q4, we expect to see more of the same. Further strength in residential construction and modest gains in new buildings, private engineering construction and public infrastructure work.

Construction activity continues to recover



Source: ABS, Macrobond, Westpac Economics

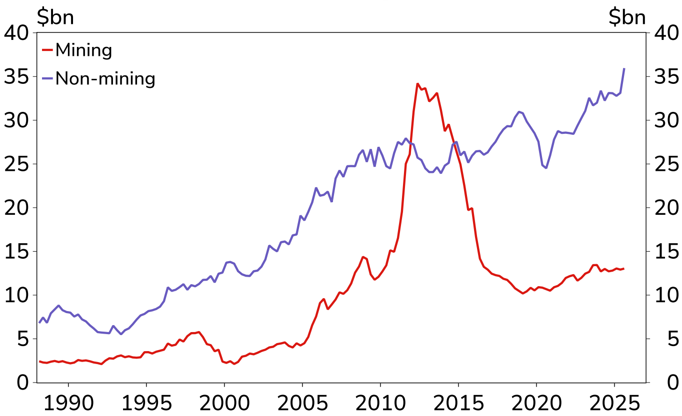
AUS: Q4 Private CAPEX (%qtr)

Feb 26, Last: 6.4, Westpac f/c: –0.5
Market f/c: 0.0 Range: –3.0 to 1.5

Private capex grew by a strong 6.4%qtr and 6.9%yr in the Q3 2025. The uplift was broad-based, led by civil aircraft and equipment for data centres. We expect capex to fall in Q4 as the spike in data centre equipment unwinds. That said, we will be closely monitoring whether the investment pipeline is sustained across key sectors. Weaker capital goods imports through the quarter, alongside a slowdown in short-term expected capex growth, point to a decline in capex growth to -0.5%.

Est 4 for 2025/26 capex plans, after our adjustment, is consistent with robust 8.2%yr nominal and 6.1%yr real growth. With the domestic recovery appearing to end the year on strong footing, and the global economic backdrop looking somewhat more resilient, we think that Est 5 will indicate firmer momentum. Our expectation for unadjusted plans is $199bn.

CAPEX to fall as data centre spike unwinds



Source: ABS, Macrobond, Westpac Economics

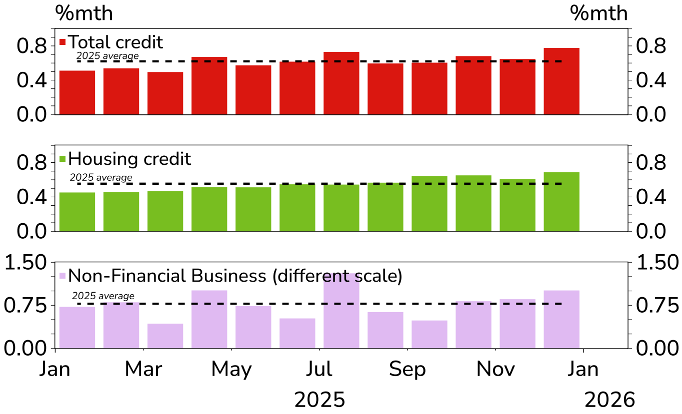
AUS: Jan Private Sector Credit (%mth)

Feb 27, Last: 0.8 Westpac f/c: 0.7
Market f/c: 0.7, Range: 0.4 to 0.8

Private sector credit growth exceeded expectations in December, rising by 0.8%mth, the steepest since mid-2022. All major components contributed to growth, with investor housing credit and business credit, both accelerating to 1%mth.

There is uncertainty regarding the higher anticipated interest rate path slowing credit growth in the near term. In the housing credit sector, where most borrowing rates closely follow the actual RBA cash rate, there will be no/little direct effect before February. However, slower house price growth around the turn of the year may influence outcomes. The outlook for business credit is less clear, but we expect only a modest moderation from the December pace, leaving overall credit growth at 0.7%mth.

Private sector credit growth



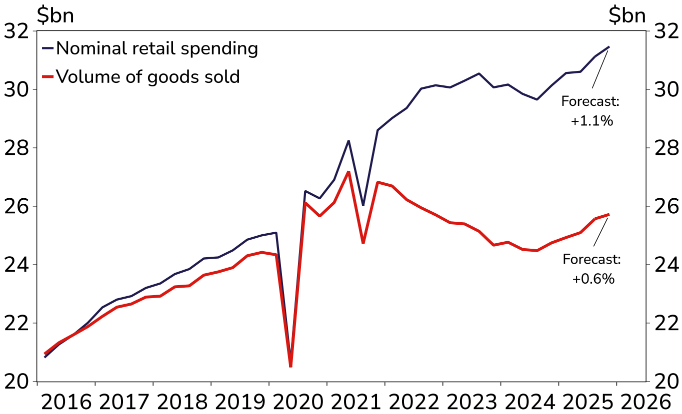
Source: RBA, Macrobond, Westpac Economics

NZ: Q4 Retail Trade Survey (%qtr)

Feb 23, Volumes, Last: 1.9, Westpac f/c: 0.6
Market f/c: 0.6, Range: 0.2 to 0.7

Since late 2024, nominal retail sales have been rising by around 1.2% per quarter, including a solid rise in the volume of goods sold. That corresponds to the period over which interest rates have been dropping, with increased spending in interest rates sensitive areas like durables and hospitality. With borrowers continuing to roll on to lower rates, we're forecasting another 1.3% rise in nominal spending. However, with a lift in inflation over the quarter, the volume of goods sold is only expected to be up 0.6%. Notably, quarterly retail sales have been growing much faster than the monthly spending updates have suggested for a year now. We think this will be the case again this quarter.

Retail spending



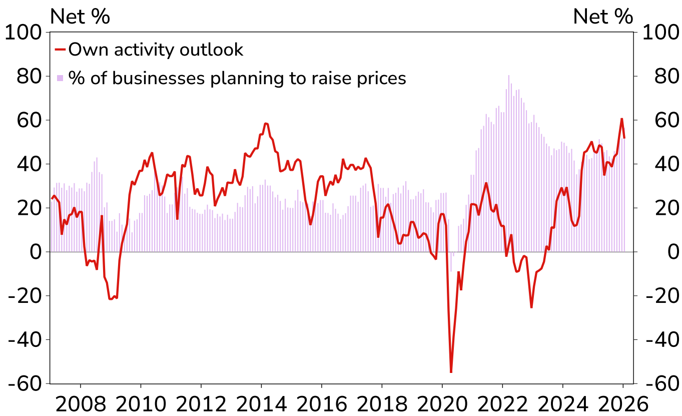
Source: Stats NZ, Macrobond, Westpac Economics

NZ: Feb ANZ Business Confidence (index)

Feb 26, Last: 64.1

Business confidence dropped back a bit in the January survey, after a strong run-up over the second half of 2025. Importantly, these still-high levels of confidence are now being backed by results, with more businesses reporting higher levels of activity and employment than a year ago. Less encouragingly for the RBNZ, firms' pricing intentions have also broken higher in recent months, as they look for an opportunity to reclaim their margins from the significant cost pressures that they've faced for several years.

Business confidence is running high



Source: ANZ, Macrobond, Westpac Economics

What to watch

	For	Data/Event	Unit	Last	Market f/c	Westpac f/c	Risk/Comment
Mon 23							
NZ	Q4	Real Retail Sales	%qtr	1.9	0.6	0.6	Uptrend in core spending to continue.
Ger	Feb	IFO Business Climate Survey	index	87.6	88.2	–	Marginal improvement expected.
US	Jan	Chicago Fed Activity	index	–0.04	–	–	Tentative sign that growth is moving closer to trend.
	Dec	Factory Orders	%mth	2.7	1.0	–	Trending positively since mid-year, good sign for investment.
	Feb	Dallas Fed Manufacturing	index	–1.2	–	–	Conditions are looking less subdued across Texas.
		Fedspeak	–	–	–	–	Waller.
Tue 24							
Aus		RBA Head of Economic Analysis	–	–	–	–	Plumb speaking in Sydney, 7:40am AEDT.
US	Dec	FHFA House Price Index	%mth	0.6	–	–	Recovering steadily against the backdrop of rate cuts.
	Feb	Richmond Fed Manufacturing	index	–6	–	–	Volatile and broadly weak across the South Atlantic states.
	Feb	Conf. Board Consumer Confidence	index	84.5	88.0	–	Jan collapse may be a head-fake given solid spending.
		Fedspeak	–	–	–	–	Goolsbee, Collins, Bostic, Waller, Cook.
Wed 25							
Aus		RBA Governor Bullock	–	–	–	–	Fireside chat in Melbourne, 7:40am AEDT.
	Jan	Headline CPI	%ann	3.8	3.7	3.6	Food, health and electricity are adding upside pressure…
	Jan	Trimmed Mean CPI	%ann	3.3	3.3	3.3	… partially offset by garments, communications and holidays.
	Q4	Construction Work Done	%qtr	–0.7	1.3	1.3	Further strength in residential construction expected.
Eur	Jan	CPI	%ann	1.7	1.7	–	Final estimate to provide full component detail.
US		Fedspeak	–	–	–	–	Barkin & Collins, Musalem.
Thu 26							
Aus	Q4	Private New Capital Expenditure	%qtr	6.4	0.0	–0.5	Last quarter's spike in data centre equipment to unwind.
NZ	Feb	ANZ Business Confidence	index	64.1	–	–	Confidence dipped in Jan but still high; pricing intentions up.
Eur	Jan	M3 Money Supply	%ann	2.8	2.9	–	Stabilising as banks see credit conditions as broadly 'neutral'.
	Feb	Economic Confidence	index	99.4	99.6	–	Recovering business sentiment supports a gradual uptrend.
US		Initial Jobless Claims	000s	206	–	–	Not indicative of widespread job losses.
	Feb	Kansas City Fed Manufacturing	index	0	–	–	Positive momentum evaporated at the turn of the year.
Fri 27							
Aus	Jan	Private Sector Credit	%mth	0.8	0.7	0.7	Near-term impact of a higher rate profile uncertain.
NZ	Feb	ANZ Consumer Confidence	index	107.2	–	–	Picked up in recent months, highest since Aug 2021.
Jpn	Feb	Tokyo CPI	%ann	1.5	1.4	–	Room for probably only one more rate hike this year.
	Jan	Industrial Production	%mth	–0.1	5.3	–	Still positive despite global disruptions.
UK	Feb	Gfk Consumer Sentiment	index	–16	–	–	Rate cuts to provide more support in 2026.
US	Jan	PPI	%mth	0.5	0.3	–	Little evidence of tariff pass-through at this stage.
	Feb	Chicago PMI	index	54.0	52.5	–	First positive read in two years likely noise.
	Dec	Construction Spending	%mth	–	0.3	–	Release of delayed data; last read pointed to weak trend.

Economic & financial forecasts

Interest rate forecasts

Australia	Latest (20 Feb)	Mar–26	Jun–26	Sep–26	Dec–26	Mar–27	Jun–27	Sep–27	Dec–27	Mar–28	Jun–28
Cash	3.85	3.85	4.10	4.10	4.10	4.10	4.10	4.10	3.85	3.60	3.60
90 Day BBSW	3.99	4.05	4.15	4.15	4.15	4.20	4.20	4.05	3.80	3.70	3.70
3 Year Swap	4.27	4.25	4.20	4.10	4.00	3.90	3.80	3.70	3.60	3.55	3.50
3 Year Bond	4.28	4.25	4.20	4.10	4.00	3.90	3.80	3.70	3.60	3.55	3.50
10 Year Bond	4.73	4.75	4.80	4.80	4.80	4.75	4.70	4.65	4.60	4.60	4.60
10 Year Spread to US (bps)	66	55	50	45	40	30	20	10	0	–5	–10
United States											
Fed Funds	3.625	3.625	3.375	3.375	3.375	3.375	3.375	3.375	3.375	3.375	3.375
US 10 Year Bond	4.07	4.20	4.30	4.35	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	3.25	3.75	4.00	4.25	4.25
90 Day Bill	2.49	2.35	2.35	2.40	2.70	3.20	3.65	3.90	4.20	4.35	4.35
2 Year Swap	2.91	3.25	3.50	3.75	4.00	4.20	4.30	4.30	4.30	4.25	4.20
10 Year Bond	4.34	4.70	4.75	4.80	4.85	4.95	5.00	5.00	5.00	5.00	5.00
10 Year Spread to US (bps)	27	45	45	45	45	50	50	45	40	35	30

Exchange rate forecasts

	Latest (20 Feb)	Mar–26	Jun–26	Sep–26	Dec–26	Mar–27	Jun–27	Sep–27	Dec–27	Mar–28	Jun–28
AUD/USD	0.7038	0.70	0.71	0.72	0.72	0.73	0.73	0.74	0.74	0.73	0.73
NZD/USD	0.5950	0.59	0.60	0.62	0.63	0.65	0.67	0.68	0.68	0.68	0.67
USD/JPY	155.22	151	149	147	145	144	143	142	141	140	139
EUR/USD	1.1754	1.19	1.20	1.20	1.21	1.21	1.22	1.22	1.21	1.21	1.21
GBP/USD	1.3443	1.37	1.38	1.38	1.39	1.39	1.40	1.41	1.41	1.40	1.40
USD/CNY	6.9049	6.90	6.85	6.80	6.70	6.60	6.50	6.45	6.40	6.35	6.35
AUD/NZD	1.1830	1.18	1.18	1.17	1.14	1.12	1.10	1.09	1.09	1.08	1.09

Australian economic forecasts

	2025		2026				2027		Calendar years			
% Change	**Q3**	**Q4f**	**Q1f**	**Q2f**	**Q3f**	**Q4f**	**Q1f**	**Q2f**	**2025f**	**2026f**	**2027f**	**2028f**
GDP %qtr	0.4	0.9	0.7	0.5	0.6	0.6	0.6	0.6	–	–	–	–
%yr end	2.1	2.4	2.8	2.6	2.7	2.5	2.3	2.3	2.4	2.5	2.3	2.8
Unemployment rate %	4.3	4.2	4.1	4.3	4.4	4.5	4.5	4.5	4.2	4.5	4.5	4.4
Wages (WPI) %qtr	0.8	0.8	0.8	0.7	0.7	0.8	0.7	0.8	–	–	–	–
%yr end	3.4	3.4	3.3	3.1	3.0	3.0	3.0	3.1	3.4	3.0	3.0	3.4
CPI Headline %qtr	1.3	0.6	1.1	0.7	1.0	0.5	0.6	0.5	–	–	–	–
%yr end	3.2	3.6	3.8	3.8	3.4	3.3	2.8	2.6	3.6	3.3	2.6	2.7
CPI Trimmed Mean %qtr	1.0	0.9	0.9	0.7	0.8	0.7	0.7	0.6	–	–	–	–
%yr end	3.0	3.4	3.5	3.5	3.4	3.2	2.9	2.8	3.4	3.2	2.6	2.5

New Zealand economic forecasts

	2025		2026				2027		Calendar years			
% Change	**Q3**	**Q4f**	**Q1f**	**Q2f**	**Q3f**	**Q4f**	**Q1f**	**Q2f**	**2025f**	**2026f**	**2027f**	**2028f**
GDP %qtr	1.1	0.6	1.0	0.5	0.9	0.9	1.1	0.5	–	–	–	–
Annual avg change	-0.5	0.4	0.9	2.0	2.5	2.8	3.3	3.3	-0.3	0.4	2.8	3.1
Unemployment rate %	5.3	5.4	5.3	5.1	4.9	4.7	4.6	4.5	5.1	5.4	4.7	4.4
CPI %qtr	1.0	0.6	0.5	0.5	0.9	0.4	0.4	0.4	–	–	–	–
Annual change	3.0	3.1	2.6	2.6	2.5	2.3	2.3	2.2	2.2	3.1	2.3	2.5

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