



# ECONOMIC BULLETIN

CPI preview, December quarter 2025 –  
Friday 23 January, 10:45am.



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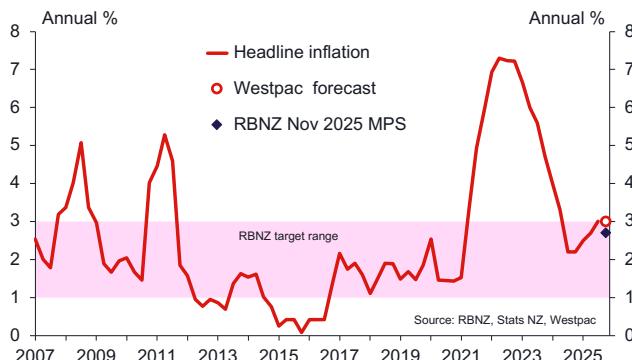
## Holding pattern

- We estimate that New Zealand consumer prices rose by 0.5% in the December quarter. That's higher than our previous forecast, reflecting updated information from Stats NZ's monthly prices reports.
- The annual inflation rate is expected to remain at 3.0%.
- December's lift in consumer prices is mainly due to higher prices for petrol, as well as seasonal increases in travel and accommodation costs. Balanced against those increases has been a seasonal fall in food prices.
- Under the surface, underlying inflation pressures have remained contained. Measures of core inflation have trended down over the past year, with most running at levels of around 2 to 3%. That's in part due to continued softness in housing costs.
- Our forecast is higher than the RBNZ's forecast for a 0.2% quarterly rise and 2.7% annual inflation rate from their November MPS.

### Consumer price inflation

	Sep-25 actual	Dec-25 forecast	
		Westpac	RBNZ (Aug MPS)
<b>Headline inflation</b>			
Quarterly	1.0%	0.5%	0.2%
Annual	3.0%	3.0%	2.7%
<b>Non-tradables inflation</b>			
Quarterly	1.1%	0.6%	0.4%
Annual	3.5%	3.4%	3.2%
<b>Tradables inflation</b>			
Quarterly	0.8%	0.5%	0.1%
Annual	2.2%	2.4%	2.0%

### Annual headline inflation



We expect the December quarter inflation report (out on 23 January) will show that consumer prices rose 0.5% over the past three months. That would leave the annual inflation rate unchanged at 3.0%.

Our updated forecast incorporates information from Stats NZ's monthly prices updates. Those updates have been firmer than we had expected, particularly in the

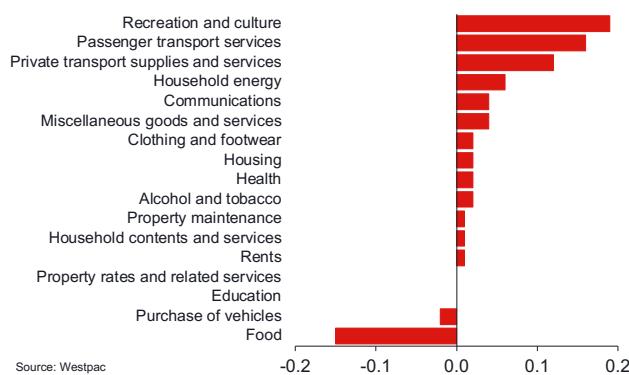
case of volatile categories like fuel and holiday travel and accommodation costs. As a result, we've revised our forecast for the quarterly CPI up from our earlier estimate of 0.3% to 0.5%.

Underpinning December's rise in consumer prices have been large increases in a few specific areas.

- Petrol prices were up 2.5% over the quarter, with prices for other fuels up 4.0%.
- December also saw seasonal increases in the costs of international airfares (up 7%) and holiday accommodation, along with prices for other recreational goods and services.

Offsetting some of those increases has been a 0.8% fall in food prices related to the seasonal fall in fresh vegetable prices.

#### Contributions to December quarter inflation forecast (percentage points)



While there have been large moves in a few areas, the underlying picture for inflation remains contained. Most measures of core inflation (which smooth through the quarter-to-quarter volatility in inflation and instead track the underlying trend in prices) have drifted back towards or inside the RBNZ's 1% to 3% target band over the past year. We expect that will remain the case this quarter. For instance, inflation excluding food, energy and fuel slowed to 2.5% in the year to September, and we expect it will drop to 2.4% in the year to December.

A key reason why underlying inflation has trended down over the past year has been softness in consumer spending. There has also been weakness in housing costs – rents and the cost of purchasing a newly built home – which together account for around 20% of the CPI, and which are set to remain subdued this quarter.

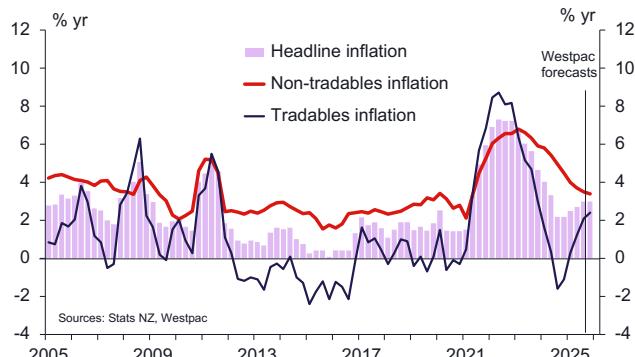
- Rental growth has been very subdued through the December quarter. Stats NZ's monthly updates point to a quarterly rise of just 0.1%. That would be the smallest December quarter increase since 2000. It comes against a backdrop of low population growth and increases in supply, with particularly weak growth in areas like Auckland and Wellington.

- We also expect a muted 0.2% rise in the cost of building a new home. That reflects the downturn in home building over the past year and related increases in competitive pressures.

In terms of the big CPI groups, we expect that domestically oriented non-tradables prices will rise 0.6% over the quarter. That would see annual non-tradables inflation slowing to 3.4%, down from 3.5% last quarter and the lowest level since 2021. Non-tradables inflation has been cooling over the past couple of years, reflecting the softness in economic activity and related easing in wage growth. Even so, the easing in non-tradables has been gradual due to the continued large increases in administered prices, like council rates and electricity charges.

On the imported front, we expect tradables prices will rise by 0.5% for the December quarter. That would see annual tradables inflation rising to 2.4%. Recent months have seen a stark turn around in tradable inflation. While it's not high, it's no longer running at the low levels that helped to pull overall inflation down over the past year.

#### Inflation components



#### How do our forecasts compare to the RBNZ's assumptions?

Our forecast for a 0.5% quarterly rise in consumer prices (+3.0% yr) is above the RBNZ's last published forecast of +0.2% qtr / +2.7% yr.

Much of that difference relates to tradables prices and reflects increases in the prices of volatile items like petrol since the RBNZ finalised its forecast. However, we also expect firmer non-tradables inflation.

A result in line with our forecast for a more gradual easing in inflation would reinforce our expectation that the RBNZ's easing cycle has come to a close.

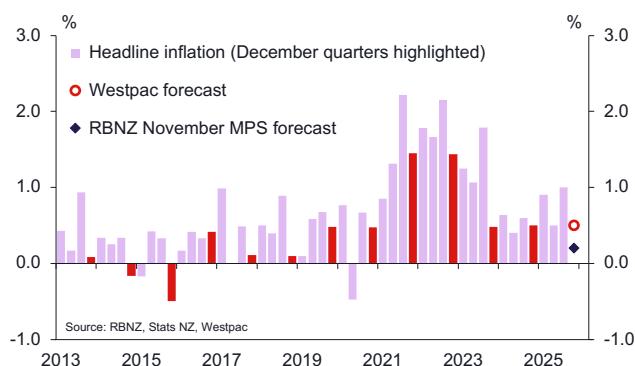
#### Where could we be surprised?

The main uncertainty around our forecast are prices for discretionary household items, like apparel, furnishings and other durable items. While household spending has

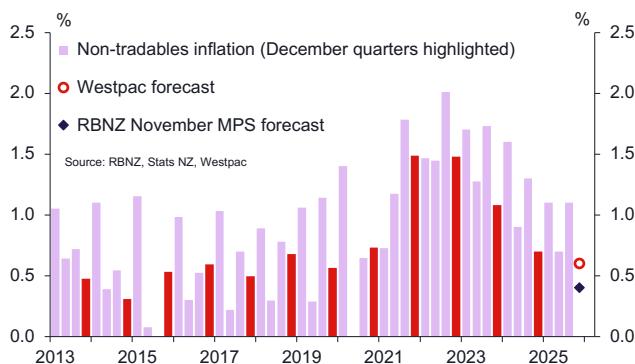
picked up in recent months, competitive pressures as retailers seek to capture their share of that increased spending could have a larger dampening impact on prices than we have assumed. Moreover, prices for some items like cars can have sizeable swings – both up and down – on a quarter-to-quarter basis.

The housing components will also be worth watching. Over the past year, the downturn in home building and related easing in construction costs was an important contributor to the easing in overall inflation. But we're now seeing early signs of a recovery in home building, and over time we'll likely see a lift in building cost inflation.

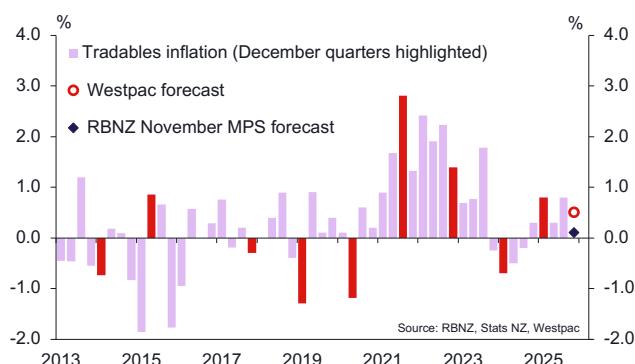
#### Quarterly CPI inflation



#### Quarterly non-tradables inflation



#### Quarterly tradables inflation



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