

Eco-Pulse

19 January 2026

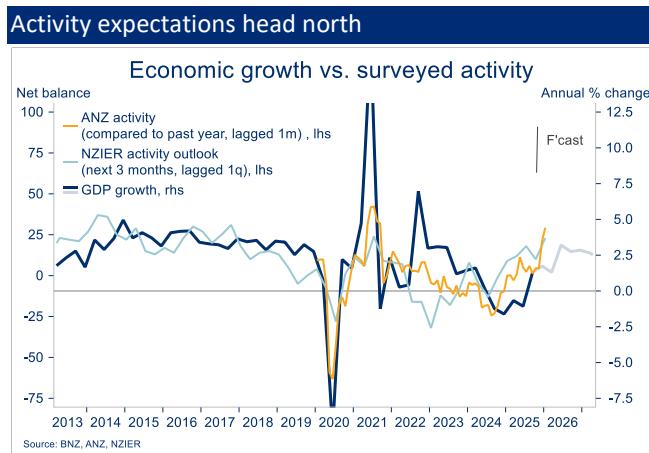
Don't Stop Believin'

- Businesses believe, as brighter signs accumulate
- Global news unsettles, but markets so far unperturbed
- Labour market stabilising
- House price inflation forecasts pared
- Consolidation expected for mortgage rates post December repricing

Welcome back and into 2026! Recall, last year ended with cracks of light beginning to appear in the economy. Not only did late December's GDP figures record a surprise 1.1% bounce for Q3 (overstated, but still), but a breezy read on ANZ business confidence appeared to validate expectations for the growth upturn to accelerate through 2026.

We've had only a smattering of eco numbers through the door so far this year. But the most influential of these – the NZIER's business survey – added important weight to the notion the economy is shifting into gear.

It may be happening a touch earlier than expected. Survey metrics are increasingly consistent in signalling a growth pick-up at least as strong as we're forecasting (chart below). Ditto the eye-catching jump in Friday's December Performance of Manufacturing Index (PMI).



A net 23% of surveyed businesses surveyed by the NZIER expect trading activity to lift over the coming three months – the highest in 4½ years. All sectors shared in the gains, but with the manufacturing sector the most optimistic, matching the PMI's better vibes.

It's often the nuts and bolts of these business surveys that can be more instructive for activity. The news here was

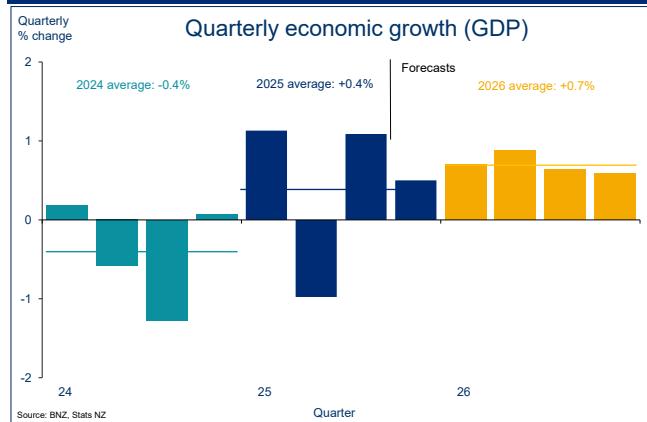
also encouraging. Firms are clearly signalling firmer intentions to invest and hire over the coming three months than was the case previously.

Even long beaten-down profitability expectations squeaked back above average for the first time since 2021. Profitability tends to lead investment, so this soothes a little of our concern about the impact of political uncertainty on investment this year.

The brighter hues of recent data of course don't guarantee a sustained recovery. But they are a tick in the 'what needed to happen' column given widespread expectations of a lift in trend output growth this year.

Our forecasts are consistent with an increase in the average quarterly run-rate from 2025's +0.4%/quarter to more like 0.7% this year. For many it will still take a while before it feels like a proper recovery. There's still a hole to climb out of. Indicative of such, even if the 2.5% GDP expansion we're forecasting for 2026 is realised, per-capita output would still finish the year about 1% below the 2022 peak.

Trend growth to lift in 2026



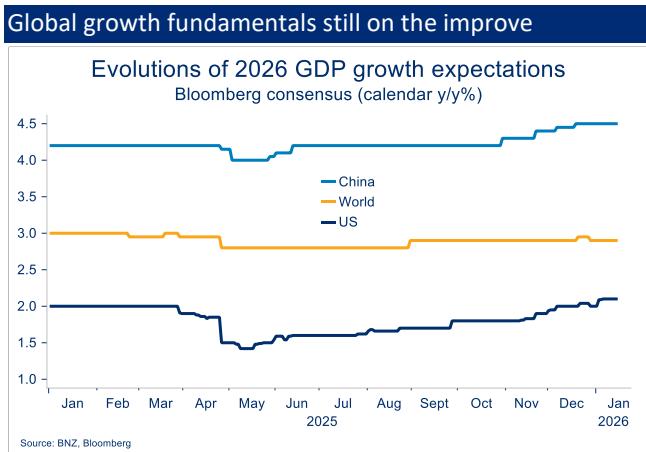
Below, we briefly run the ruler over some of the key sectors of the economy.

Global economy

Global news continues to surprise and unsettle but it so far hasn't materially shifted financial markets in a lasting way (outside of gold prices!) That's important, as a big jolt to offshore interest rate, commodity, exchange rate, or equity markets is a key transmission channel from global

events back to NZ. So, it remains a (nervous) watching brief for now.

Providing a modicum of comfort, global growth fundamentals continue to nudge in a positive direction. The global economy is gradually slowing, but 2026 consensus growth expectations for the US and China have been steadily upgraded over the past few months.



Nonetheless, the potential for geopolitical risk events to upset the applecart, or in the least introduce a few potholes, is so elevated that any confident predictions of the year ahead should be handled with even more care than usual.

Labour market and inflation

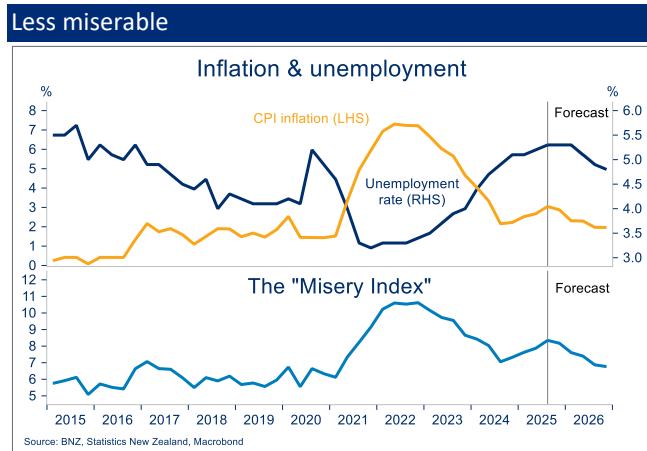
The developing momentum in activity does seem to be chipping away at some of the economy's – still ample – spare capacity. This was clear enough in the NZIER survey. Many more firms reported an intention to raise prices (a net +25% from +7% in Q3) and the reported difficulty finding labour increased to 'less easy' levels.

This mild tightening in labour market conditions aligns with the anecdote we've been hearing of recruiting firms finding the pool of available labour a little shallower than expected. It also supports our view the unemployment rate probably peaked at 5.3% in the third quarter of last year. We nevertheless still think it will take until the second half for it to start trending lower.

That's not to say the jobs market is completely flat. The message from job ads, firms' employment intentions, and filled jobs data seems to be that hiring has tentatively restarted. It's just that this extra labour demand may take some time to be fulfilled, and is more likely be absorbed, in the first instance, by growth in labour supply (population growth and a higher participation rate).

Friday's Selected Prices update from Stats NZ was, on net, a touch firmer than our expectations. We've thus nudged up our pick for Friday's Q4 annual CPI inflation figures to 2.9% (from 2.8%). We continue to expect more rapid declines over the next few quarters to deliver annual inflation nearer 2% by the end of the year.

Falling rates of both inflation and unemployment, if realised, would be well received by households still under the cosh from cost pressures. The so-called "misery index" (leave it to economists to coin something like that) is calculated as the simple sum of the unemployment and annual inflation rates. It increased in every quarter of 2025 (data to Q3). Our forecasts imply a trend decline this year.

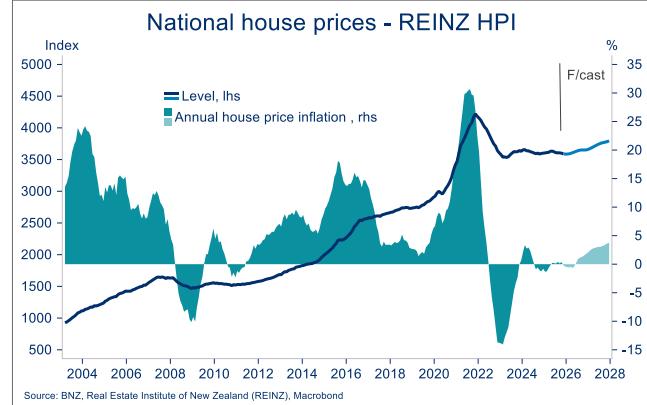


Housing market

A gradual improvement in labour market conditions should assist in the reflation of retail spending appetites that began last year. Less so the vibes coming out of the housing market, which looks set to remain flattish for longer.

We've nudged down our forecast for annual house price inflation to 2% for calendar 2026, from 4% previously. Error bounds around any sort of house price forecast are wide. But the shift plays to the grain of the downside risks we highlighted in our latest [Property Pulse](#), linked largely to the supply side.

Another flattish year for house prices?



As we said at the time: "the residential construction cycle seems to be turning at a time when population growth is yet to do so". Evidence of such has accumulated further since.

Surveyed building intentions are hitting highs not seen in either 4% or 11 years (depending on which survey you look at) and an upward trend in building consents looks increasingly dialled in. We learned on Wednesday that

about 36,000 consents were lodged in the year to November, 7% above the prior year.

There hasn't been anything in recent housing market statistics to suggest house prices are about to break out of their three-year long stasis. Unsold inventory remains around 10-year highs. Middling sales activity continues to track at a similar pace to the supply of new listings. It all points to a market still in a broad state of balance, a neutral signal for house prices.

What's the upshot for interest rates?

The welcome improvement in the eco-pulse hasn't prompted us to change our interest rate forecasts. But it does strongly suggest the next move in the Official Cash Rate is up, and perhaps earlier than Reserve Bank (RBNZ) and our own forecasts. Any change is still a long way off, and plenty can happen in the meantime.

We have the first OCR hike pencilled in for early 2027, but acknowledge markets' pricing of a 25bps lift by the end of this year is a fair assessment of where the risks lie.

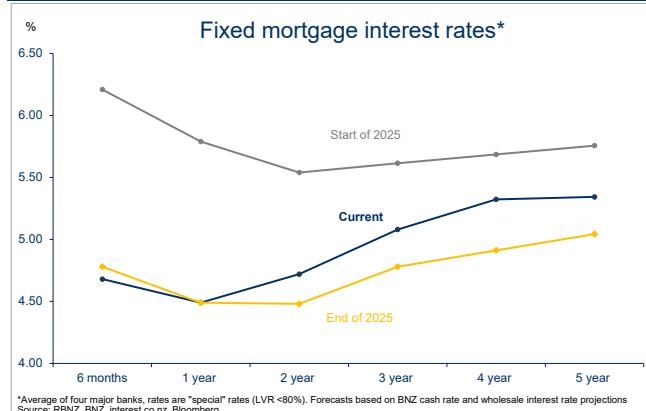
This pricing has seen December's big increases in wholesale interest rates largely sustained. The read across for mortgage rates is that, in the absence of any new shock turning up, we can draw a line under the downtrend.

Equally, we don't see mortgage rates moving a whole lot higher anytime soon, particularly given the RBNZ's – conditional – recommitment in December to keep the 2.25% OCR unchanged "for some time."

In short, after the flurry of activity in December, we suspect we're in for a period of consolidation in term mortgage rates. The current 'menu' of options is depicted in the chart below. As expected, the mortgage curve has ended up more clearly upward-sloping as the dust has settled on the RBNZ's declaration the cutting cycle is over.

That will dampen the appeal of longer-term (2+ year) fixed rates for the roughly 20% of fixed rate borrowings due to reprice over the next three months. Despite this, we maintain the view expressed last year that there's now more merit in looking to extend the term of mortgage borrowings.

A steeper mortgage curve



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Quarterly Forecasts

Forecasts as at 12 January 2026

Key Economic Forecasts

Quarterly % change unless otherwise specified

Forecasts

	Jun-25	Sept-25	Dec-25	Mar-26	Jun-26	Sept-26	Dec-26	Mar-27	Jun-27	Sept-27
GDP (production s.a.)	-1.0	1.1	0.5	0.7	0.9	0.6	0.6	0.5	0.5	0.5
Retail trade (real s.a.)	0.7	1.9	0.4	1.0	0.9	0.8	0.7	0.7	0.7	0.7
Current account (ann, % GDP)	-3.7	-3.5	-3.3	-3.4	-3.5	-3.7	-3.7	-3.7	-3.7	-3.7
CPI (q/q)	0.5	1.0	0.3	0.5	0.5	0.7	0.3	0.6	0.5	0.7
Employment	-0.2	0.0	0.3	0.5	0.7	0.8	0.7	0.6	0.5	0.5
Unemployment rate %	5.2	5.3	5.3	5.3	5.1	4.9	4.8	4.7	4.7	4.7
Pr. avg hourly earnings (ann %)	4.6	4.1	3.4	4.1	3.2	3.2	3.4	3.3	3.2	3.2
Trading partner GDP (ann %)	3.3	3.2	2.5	2.7	2.7	2.8	3.0	2.9	2.8	2.8
CPI (y/y)	2.7	3.0	2.8	2.3	2.3	2.0	2.0	2.1	2.1	2.1
GDP (production s.a., y/y)	-1.1	1.3	1.7	1.3	3.2	2.8	2.8	2.7	2.3	2.2

Interest Rates

Historical data - qtr average Forecast data - end quarter	Cash	Government Stock			Swaps		US Rates			Spread NZ-US Ten year
		90 Day Bank Bills	5 Year	10 Year	2 Year	5 Year	10 Year	SOFR 3 month	US 10 yr	
2025 Mar	3.92	3.84	3.99	4.58	3.47	3.71	4.15	4.30	4.45	0.13
	Jun	3.33	3.38	3.85	4.55	3.19	3.57	4.10	4.30	0.35
	Sep	3.08	3.09	3.67	4.42	2.99	3.40	3.95	4.20	0.25
	Dec	2.33	2.51	3.51	4.26	2.71	3.26	3.85	3.80	0.17
Forecasts										
2026 Mar	2.25	2.40	3.65	4.55	2.80	3.40	4.15	3.60	4.25	0.30
	Jun	2.25	2.40	3.65	4.65	2.85	3.40	4.25	3.35	0.30
	Sep	2.25	2.40	3.85	4.80	3.20	3.60	4.40	3.10	0.30
	Dec	2.25	2.55	4.10	4.80	3.60	3.90	4.45	3.10	0.30
2027 Mar	2.50	3.05	4.25	4.80	3.90	4.10	4.50	3.10	4.50	0.30
	Jun	3.00	3.50	4.30	4.80	4.00	4.20	4.55	3.10	0.30
	Sep	3.50	4.00	4.25	4.80	4.00	4.20	4.60	3.10	0.30
	Dec	4.00	4.15	4.25	4.80	4.00	4.25	4.65	3.10	0.30

Exchange Rates (End Period)

USD Forecasts

	NZD/USD	AUD/USD	EUR/USD	GBP/USD	USD/JPY
Current	0.57	0.67	1.16	1.34	158
Mar-26	0.60	0.69	1.20	1.35	144
Jun-26	0.62	0.71	1.21	1.36	140
Sept-26	0.63	0.72	1.23	1.38	135
Dec-26	0.63	0.71	1.22	1.37	135
Mar-27	0.63	0.70	1.21	1.36	135
Jun-27	0.62	0.69	1.20	1.35	135
Sept-27	0.62	0.69	1.20	1.34	133
Dec-27	0.62	0.69	1.20	1.32	133

NZD Forecasts

	NZD/USD	NZD/AUD	NZD/EUR	NZD/GBP	NZD/JPY	TWI-17
Current	0.57	0.86	0.49	0.43	90.5	66.0
Mar-26	0.60	0.87	0.50	0.44	86.4	68.1
Jun-26	0.62	0.87	0.51	0.46	86.4	69.3
Sept-26	0.63	0.88	0.51	0.46	85.1	69.9
Dec-26	0.63	0.89	0.52	0.46	85.1	69.9
Mar-27	0.63	0.90	0.52	0.46	85.1	70.1
Jun-27	0.62	0.90	0.52	0.46	83.7	69.2
Sept-27	0.62	0.90	0.52	0.46	82.5	69.2
Dec-27	0.62	0.90	0.52	0.47	82.5	69.3

TWI Weights

16.2% 17.8% 9.2% 4.0% 4.7%

Source for all tables: Stats NZ, Bloomberg, Reuters, RBNZ, BNZ

Annual Forecasts

Forecasts as at 12 January 2026	March Years				December Years				
	Actuals		Forecasts		Actuals		Forecasts		
	2024	2025	2026	2027	2023	2024	2025	2026	
GDP - annual average % change									
Private Consumption	1.1	0.0	1.7	2.3	1.1	-0.2	1.6	2.0	2.3
Government Consumption	1.1	-1.3	2.3	0.2	0.1	-0.9	1.9	0.7	-0.4
Total Investment	-1.1	-5.0	2.3	6.2	-0.3	-4.9	0.2	6.1	4.3
Stocks - ppts cont'n to growth	-1.4	0.4	0.2	0.4	-1.2	0.4	-0.2	0.6	0.0
GNE	-0.9	-1.1	2.2	3.2	-0.7	-1.1	1.1	3.4	2.3
Exports	8.6	3.4	2.9	4.9	11.5	4.7	2.7	4.9	3.8
Imports	-1.4	1.5	4.9	5.0	-0.7	1.7	3.4	5.5	3.4
Real Expenditure GDP	1.5	-0.7	1.3	3.1	2.1	-0.3	0.7	2.9	2.3
GDP (production)	1.8	-0.9	0.8	2.9	2.2	-0.3	0.3	2.5	2.3
GDP - annual % change (q/q)	1.6	-0.7	1.3	2.7	1.4	-1.6	1.7	2.8	2.2
Output Gap (ann avg, % dev)	1.2	-0.7	-1.3	-0.2	1.3	-0.2	-1.2	-0.4	0.1
Nominal Expenditure GDP - \$bn	417	431	449	472	413	427	445	466	489
Prices and Employment - annual % change									
CPI	4.0	2.5	2.3	2.1	4.7	2.2	2.8	2.0	2.1
Employment	0.9	-0.9	0.6	2.8	2.7	-1.2	-0.1	2.7	2.0
Unemployment Rate %	4.4	5.1	5.3	4.7	4.0	5.1	5.3	4.8	4.7
Wages - ave. hr. ord. time earnings (private sector)	4.8	3.8	4.1	3.3	6.6	4.0	3.4	3.4	3.2
Productivity (ann av %)	-0.6	0.1	1.2	0.5	-0.8	0.1	1.2	0.7	-0.1
Unit Labour Costs (ann av %)	6.6	4.4	2.2	2.7	7.1	4.7	2.6	2.4	3.3
House Prices (stratified, mth)	2.8	-0.6	-0.7	2.9	0.6	-0.8	-0.4	2.1	3.9
External Balance									
Current Account - \$bn	-23.8	-18.3	-15.3	-17.7	-25.8	-20.0	-14.8	-17.4	-17.2
Current Account - % of GDP	-5.7	-4.2	-3.4	-3.7	-6.3	-4.7	-3.3	-3.7	-3.5
Government Accounts - June Yr, % of GDP									
OBEGAL ex ACC (core op. balance) (Treasury forecasts)	-2.1	-2.1	-3.0	-2.2					
Net Core Crown Debt (ex NZS) (Treasury forecasts)	41.8	41.8	43.3	46.0					
Bond Programme - \$bn (Treasury forecasts)	39.3	42.6	35.0	34.0					
Bond Programme - % of GDP	9.4	9.9	7.8	7.2					
Financial Variables ⁽¹⁾									
NZD/USD	0.61	0.57	0.60	0.63	0.62	0.57	0.59	0.63	0.62
USD/JPY	150	149	144	135	144	154	146	135	133
EUR/USD	1.09	1.08	1.20	1.21	1.09	1.05	1.19	1.22	1.20
NZD/AUD	0.93	0.91	0.87	0.90	0.93	0.91	0.88	0.89	0.90
NZD/GBP	0.48	0.44	0.44	0.46	0.49	0.45	0.44	0.46	0.47
NZD/EUR	0.56	0.53	0.50	0.52	0.57	0.55	0.50	0.52	0.52
NZD/YEN	91.1	85.4	86.4	85.1	89.5	88.4	86.1	85.1	82.5
TWI	71.2	67.9	68.1	70.1	72.0	68.5	67.6	69.9	69.3
Overnight Cash Rate (end qtr)	5.50	3.75	2.25	2.50	5.50	4.25	2.25	2.25	4.00
90-day Bank Bill Rate	5.64	3.60	2.40	3.05	5.63	4.26	2.49	2.55	4.15
5-year Govt Bond	4.60	4.00	3.65	4.25	4.50	3.90	3.80	4.10	4.25
10-year Govt Bond	4.60	4.50	4.55	4.80	4.65	4.45	4.45	4.80	4.80
2-year Swap	4.91	3.35	2.80	3.90	4.93	3.53	2.98	3.60	4.00
5-year Swap	4.40	3.65	3.40	4.10	4.43	3.63	3.61	3.90	4.25
US 10-year Bonds	4.20	4.25	4.25	4.50	4.00	4.40	4.15	4.50	4.50
NZ-US 10-year Spread	0.40	0.25	0.30	0.30	0.65	0.05	0.30	0.30	0.30

⁽¹⁾ Average for the last month in the quarter

Source: Statistics NZ, BNZ, RBNZ, NZ Treasury