

Eco-Pulse

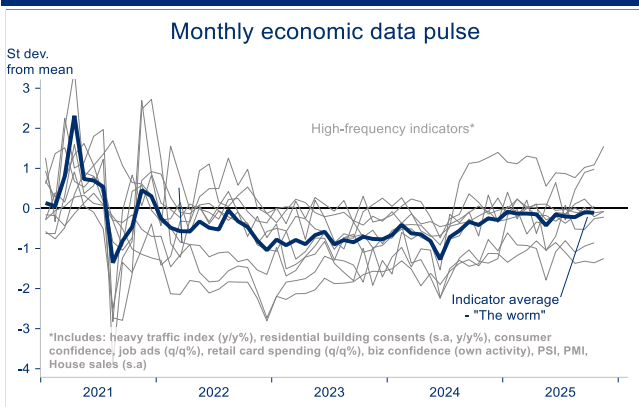
Retail, risks, rates and reflexes. Also, BBQs

- Economic recovery broadening
- Strong GDP bounce expected Thursday
- Still plenty of risks to juggle; we look at dairy, population growth, and the wholesale rates spike
- Upward pressure on mortgage rates
- BBQ cost inflation warms, but value remains

This is my final Eco-Pulse for 2025. Thanks for reading this year! Have a safe and restful holiday period.

The eco-worm continues to inch in an upwards direction. The various 'high-frequency' economic indicators we look at are still widely dispersed – per the chart below. But an improving trend is now evident across most. That extends even to the most weighed down of the lot – consumer confidence.

The worm inches upwards



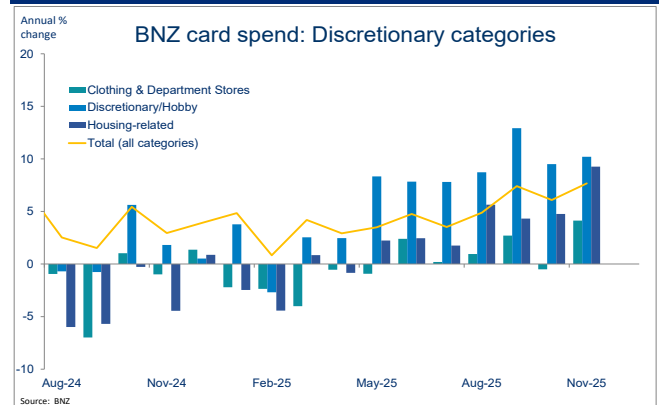
There have been wobbles and false dawns before, and we'd be silly to rule out another. But, to us, the fact the economic recovery appears to be broadening out to the important, and hitherto lagging, retail and construction sectors is a relatively new and important development:

- Third quarter **retail** sales volumes were reported at 1.9%, the strongest quarterly growth in just under four years and three times consensus expectations. The strength was a little hard to reconcile with some of the anecdote, and it was clear one-off purchases of cars and electronic goods overstated the headline stats. But it's hard to escape the conclusion the retail pulse has turned. That's been helped along by strong primary sector cash-flows, lower interest rates, and the renaissance in international tourism numbers.

More timely indicators like Stats' and our own card spend data point to the momentum continuing into Q4.

Annual growth in spending values on BNZ cards has averaged 7% over the past three months and rose to 7.7% in November. Amongst the detail, an increasingly broad-based reflation in discretionary spending categories has caught our eye.

Discretionary spend finding its feet



- Residential **construction** tends to punch above its 6-7% of GDP weight when it comes to influencing NZ's economic cycle. So signs the building cycle has turned are encouraging not just for the industry but also parts of the manufacturing and retail sectors. Friday's November manufacturing PMI rose to 51.4 and remains on an improving trend (an index reading above 50.0 denotes expansion).

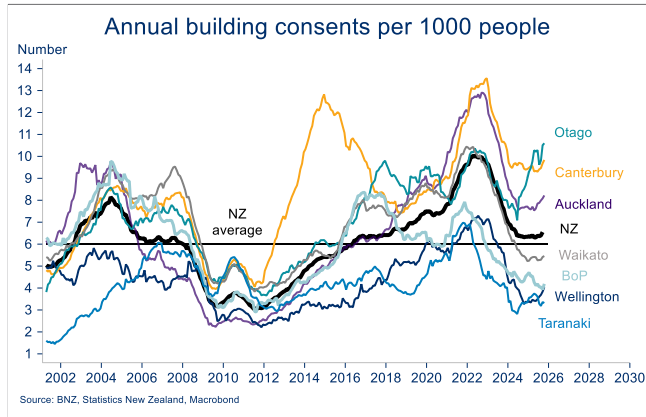
October building consent issuance managed to sustain the gains of the three prior months such that the level of consents is now 24% higher than April's low. That accords with our expectation residential building activity is poised to lift through next year, although we still think tepid [fundamentals](#) will limit the strength of the upturn (forecast chart below).

Building going up



Townhouse and apartment consents (up 27% and 52% respectively from April) have led the gains, but those for stand-alone houses are up a still respectable 17% (all data seasonally adjusted). By region, the signs of life have been most obvious in Auckland, Canterbury, and Wellington. Of course in Otago building work didn't slow very much to begin with.

Larger regions lead the gains



Strong GDP bounce expected

These more encouraging signs remove some but certainly not all of the risk (see below) on our expectations for a sustained economic recovery next year. We continue to forecast a pickup to trend-like annual growth of 2-3% by the second half.

Thursday's third quarter GDP figures will be an important way point on the journey back from Q2's -0.9% q/q shocker. We're expecting a strong 0.9% bounce which, if realised, would see annual growth jump back into the positives for the first time in 18 months (+1.3%/y/y expected).

Quarter-to-quarter volatility in these numbers remains problematic so overinterpret at your peril! Average quarterly growth this year of 0.3%/quarter feels closer to the 'truth.'

What are the curveballs?

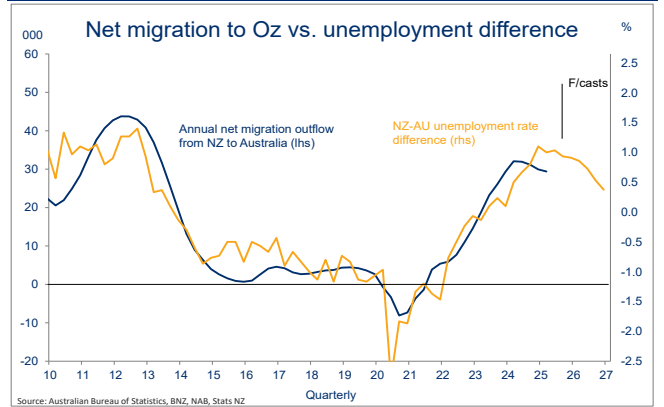
It may not be very festive, but back to those risks for a sec. There are a few more worth flagging based on what we've seen recently. That's in addition to some of the other big ones like domestic political uncertainty and the likelihood of one or two more global wobbles next year.

- Dynamics in **global dairy markets** are changing rapidly. Dairy auction prices have fallen 22% from the May peak as global milk supply has surged earlier than expected. Milk production growth out of the big four exporters (EU, US, Australia and NZ) is running at the highest level in over ten years. Fonterra has consequently lowered its Milk Price forecast for this season to \$9.50 per kgms. We've done the same but caution the risks are tilted heavily to the downside. Current season Milk Price futures for example are trading around \$9.15 kgms. It's important to note the still large supports for exporter

incomes from strong milk and horticulture production and very elevated beef prices. But the shifting state of the dairy cycle may well change the calculus around how next year's \$3.2b capital return to Fonterra suppliers is spent/invested/saved.

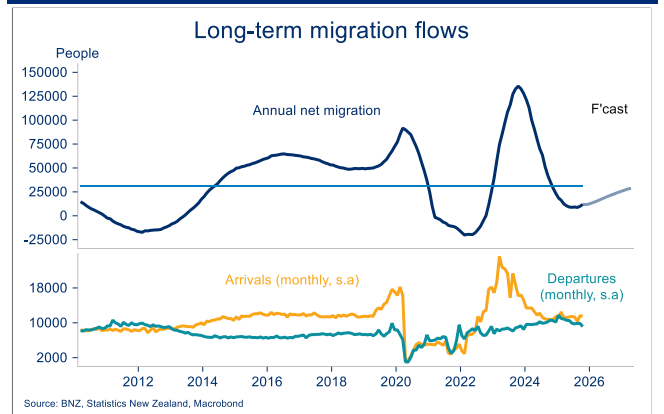
- **Population growth** could be slow in turning, something that would restrain momentum in a number of areas. This risk doesn't entirely hang on NZ's prospects but also on the relative appeal of alternative migration destinations. Essentially, Australia continues to look good. Not just in the cricket but also in possessing an economy and labour market that simply refuses to lie down. If NZ workers continue to be attracted across the Tasman in large numbers, it would lean against the anticipated recovery in NZ population growth next year.

Oz migration outflow peaking?



We'll file that in the risk dossier for now. We continue to expect some firming in economic and labour market conditions to support a slow lift in net migration next year. Helpful in this regard, the read-across from our NZ-AU unemployment rate forecasts points to some further slowing in westward outflows from here (chart above). Last week we got the latest (October) net migration figures showing numbers of departing migrants edging lower from an apparent peak back in March. That's been a key factor behind the stabilisation in total net migration at annual rates of 10,000-12,000.

Net migration stabilising at low levels



- Then there’s the question of whether the recent spike in **wholesale interest rates** is a risk to the recovery.

Since the Reserve Bank (RBNZ) lowered the official cash rate 25bps on 26 November, wholesale interest rates (swap yields) have, depending on term, increased 30-55bps. They’re up 35-75bps relative to the recent October lows. That’s as markets have moved to almost fully price a 25bps RBNZ hike by July next year.

Mortgage rates had, until recently, not moved over this time frame so upward pressure exists, and we saw a couple of banks act on this last week and lift mortgage rates for 2-5 year terms.

There had been some speculation new Reserve Bank Governor Breman might try and curb financial market enthusiasm for higher rates at a media engagement last week. It didn’t eventuate.

Implications for mortgage rates

So where are we left on the mortgage rate outlook? We make the following points:

- The lift in wholesale interest rates has not solely been driven by the RBNZ’s declaration the rate cutting cycle is over. It also reflects the improved tone of NZ economic data since that declaration, market positioning and liquidity, and the vibe blowing in from across the Tasman where markets are now pondering a first half rate hike from the Reserve Bank of Australia. The lift in NZ wholesale rates may well have got a little ahead of itself and some correction forthcoming. But in our view the spread of factors underlying the move limits how far any correction back down could extend.
- Accordingly, the prospects for additional declines in mortgage rates, other than for very short fixed terms, are now limited in the absence of another unexpected shock hitting the economy.

- Unless wholesale rates were to dramatically reverse course, the bigger risk is that we see upward adjustments in particularly longer-term fixed mortgage rates from here. A ‘steepening’ of the mortgage curve in other words.
- We’re left with more support for the view expressed in our recent *Property Pulse* that “there’s now more merit in looking to extend the term of mortgage borrowings”. Borrowers have been slowly doing so – the share of mortgage borrowings on terms of a year or less has fallen from 83% in February to 75% in October. It’s possible this process could accelerate.
- It’s important to remember that, even if fixed rates nudge up a little from here, the vast majority of mortgage borrowers soon to experience a rate reset will roll onto a lower rate than previously. About 37% of all fixed rate borrowings will reprice in the next six months. So the important macro support of mortgage refinancing boosting household disposable incomes remains intact. The effective or average paid mortgage rate, which RBNZ data put at 5.27% in October, is set to keep falling. We estimate it will move below 5.00% by March.

BBQ inflation warms

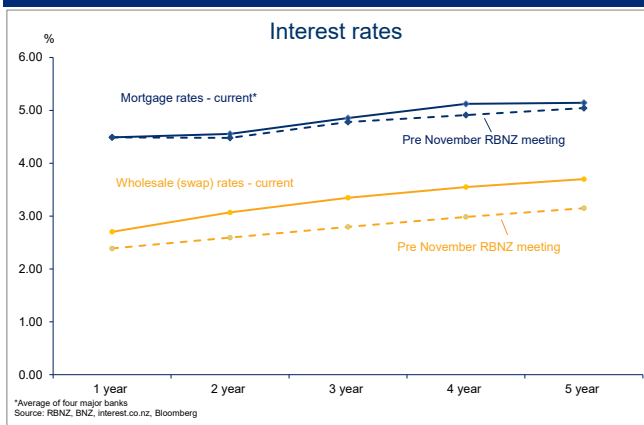
Finally, and on a lighter note, we finish with our traditional update of our summer BBQ cost index. The news here is troubling, if unsurprising, with grill-flation re-igniting after two years of relatively minor price changes.

Our selection of ingredients required to lay on a large BBQ has increased in price by 7.5% over the last 12 months.¹ Butter, cheese, and bread were the major upward contributors, partially offset by lower prices for tomatoes, chips, mayo, and chicken.

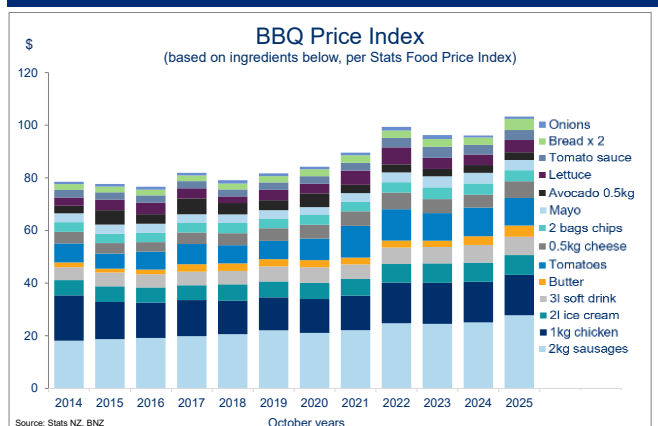
A BBQ nonetheless still offers relative value as a dinner option. The 23% increase in the BBQ cost index since 2020 is naturally unwelcome but comes in a little under the 25% increase in general prices (per the Consumers Price Index) over the same period, and the steeper 29% increase in Stats’ overall Food Price Index.

All the best for the holiday period and 2026.

Wholesale and mortgage rate curves



The chips are down



¹ Results sensitive to ingredients selection! Year to October 2025. BBQ fuel and labour costs not included.



Mike Jones
Chief Economist

bnz_chief_economist@bnz.co.nz

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Quarterly Forecasts

Forecasts as at 15 December 2025

Key Economic Forecasts

Quarterly % change unless otherwise specified

Forecasts

	Dec-24	Mar-25	Jun-25	Sept-25	Dec-25	Mar-26	Jun-26	Sept-26	Dec-26	Mar-27
GDP (production s.a.)	0.4	0.9	-0.9	0.6	0.7	0.8	0.9	0.7	0.6	0.6
Retail trade (real s.a.)	1.1	0.7	0.7	1.9	0.4	1.1	0.9	0.8	0.7	0.7
Current account (ann, % GDP)	-4.7	-4.2	-3.7	-3.4	-3.3	-3.3	-3.4	-3.6	-3.8	-3.9
CPI (q/q)	0.5	0.9	0.5	1.0	0.3	0.5	0.5	0.7	0.3	0.6
Employment	-0.3	-0.1	-0.2	0.0	0.3	0.5	0.7	0.8	0.7	0.6
Unemployment rate %	5.1	5.1	5.2	5.3	5.3	5.3	5.1	4.9	4.8	4.7
Pr. avg hourly earnings (ann %)	4.0	3.8	4.6	4.1	3.4	4.1	3.2	3.2	3.4	3.3
Trading partner GDP (ann %)	3.3	3.2	3.3	3.2	2.5	2.7	2.7	2.8	3.0	2.9
CPI (y/y)	2.2	2.5	2.7	3.0	2.8	2.3	2.3	2.0	2.0	2.1
GDP (production s.a., y/y)	-1.4	-0.6	-0.6	1.0	1.3	1.2	3.0	3.1	3.0	2.7

Interest Rates

Historical data - qtr average

Forecast data - end quarter

	Cash	Government Stock			Swaps			US Rates		Spread NZ-US
		90 Day	5 Year	10 Year	2 Year	5 Year	10 Year	SOFR 3 month	US 10 yr	
		Bank Bills								
2024 Mar	5.50	5.66	4.44	4.68	4.92	4.40	4.45	5.30	4.15	0.53
Jun	5.50	5.63	4.56	4.74	5.01	4.53	4.60	5.35	4.45	0.30
Sep	5.33	5.30	3.96	4.31	4.05	3.80	4.05	5.05	3.95	0.37
Dec	4.42	4.44	4.00	4.47	3.65	3.74	4.10	4.50	4.30	0.19
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	4.35	0.19
Sep	3.08	3.09	3.67	4.42	2.99	3.40	3.95	4.20	4.25	0.17
Forecasts										
Dec	2.25	2.40	3.35	4.25	2.60	3.10	3.85	3.75	4.15	0.10
2026 Mar	2.25	2.40	3.35	4.35	2.60	3.10	3.95	3.60	4.25	0.10
Jun	2.25	2.40	3.50	4.40	2.85	3.25	4.00	3.45	4.30	0.10
Sep	2.25	2.40	3.75	4.45	3.20	3.50	4.05	3.20	4.35	0.10
Dec	2.25	2.55	4.00	4.50	3.60	3.80	4.15	3.10	4.40	0.10

Exchange Rates (End Period)

USD Forecasts

	NZD/USD	AUD/USD	EUR/USD	GBP/USD	USD/JPY
Current	0.58	0.66	1.16	1.33	157
Dec-25	0.59	0.67	1.19	1.35	146
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

NZD Forecasts

	NZD/USD	NZD/AUD	NZD/EUR	NZD/GBP	NZD/JPY	TWI-17
Current	0.58	0.87	0.50	0.43	90.7	66.9
Dec-25	0.59	0.88	0.50	0.44	86.1	67.6
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

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 15 December 2025	March Years					December Years				
	Actuals			Forecasts		Actuals		Forecasts		
	2023	2024	2025	2026	2027	2023	2024	2025	2026	2027
GDP - annual average % change										
Private Consumption	3.4	0.9	-0.1	2.2	2.7	0.9	-0.3	1.9	2.6	2.4
Government Consumption	2.7	1.3	0.3	0.4	-0.4	0.1	0.4	1.3	-0.9	0.4
Total Investment	3.3	-1.1	-5.2	1.5	6.7	-0.4	-5.1	-0.5	6.5	4.3
Stocks - pts cont'n to growth	0.3	-1.5	0.2	0.6	0.2	-1.3	0.2	0.3	0.4	0.0
GNE	3.7	-1.1	-1.1	1.9	3.2	-1.0	-1.2	1.2	3.2	2.5
Exports	5.7	8.6	3.3	4.0	4.9	11.5	4.7	3.5	5.3	3.7
Imports	4.2	-1.4	1.5	4.8	5.1	-0.7	1.6	3.3	5.6	3.4
Real Expenditure GDP	4.0	1.3	-0.7	1.3	3.0	1.8	-0.4	1.0	2.7	2.5
GDP (production)	3.5	1.4	-1.1	0.7	3.0	1.8	-0.6	0.3	2.6	2.5
<i>GDP - annual % change (q/q)</i>	3.0	1.2	-0.6	1.2	2.7	0.9	-1.4	1.3	3.0	2.4
Output Gap (ann avg, % dev)	2.1	1.1	-0.8	-1.5	-0.4	1.3	-0.4	-1.4	-0.6	-0.2
Nominal Expenditure GDP - \$bn	394	417	432	453	477	412	427	447	472	493
Prices and Employment - annual % change										
CPI	6.7	4.0	2.5	2.3	2.1	4.7	2.2	2.8	2.0	2.1
Employment	2.9	0.9	-0.9	0.6	2.8	2.7	-1.2	-0.1	2.7	2.0
Unemployment Rate %	3.5	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)	8.2	4.8	3.8	4.1	3.3	6.6	4.0	3.4	3.4	3.2
Productivity (ann av %)	1.4	-1.0	-0.1	1.0	0.6	-1.1	-0.3	1.1	0.7	0.1
Unit Labour Costs (ann av %)	5.5	7.0	4.6	2.4	2.7	7.5	5.0	2.7	2.4	3.2
House Prices (stratified, mth)	-12.8	2.8	-0.6	0.9	4.6	0.6	-0.8	0.5	4.4	4.3
External Balance										
Current Account - \$bn	-32.6	-23.8	-18.3	-14.9	-18.5	-25.8	-20.0	-14.6	-18.1	-18.0
Current Account - % of GDP	-8.3	-5.7	-4.2	-3.3	-3.9	-6.3	-4.7	-3.3	-3.8	-3.6
Government Accounts - June Yr, % of GDP										
OBEGAL ex ACC (core op. balance) (Treasury forecasts)	-1.8	-2.1	-2.1	-2.6	-1.7					
Net Core Crown Debt (ex NZS) (Treasury forecasts)	38.7	41.8	41.8	43.9	45.7					
Bond Programme - \$bn (Treasury forecasts)	28.0	39.3	43.0	38.0	36.0					
Bond Programme - % of GDP	7.1	9.4	10.0	8.4	7.5					
Financial Variables ⁽¹⁾										
NZD/USD	0.62	0.61	0.57	0.60	0.63	0.62	0.57	0.59	0.63	0.62
USD/JPY	134	150	149	144	135	144	154	146	135	133
EUR/USD	1.07	1.09	1.08	1.20	1.21	1.09	1.05	1.19	1.22	1.20
NZD/AUD	0.93	0.93	0.91	0.87	0.90	0.93	0.91	0.88	0.89	0.90
NZD/GBP	0.51	0.48	0.44	0.44	0.46	0.49	0.45	0.44	0.46	0.47
NZD/EUR	0.58	0.56	0.53	0.50	0.52	0.57	0.55	0.50	0.52	0.52
NZD/YEN	83.0	91.1	85.4	86.4	85.1	89.5	88.4	86.1	85.1	82.5
TWI	71.0	71.2	67.9	68.1	70.1	72.0	68.5	67.6	69.9	69.3
Overnight Cash Rate (end qtr)	4.75	5.50	3.75	2.25	2.50	5.50	4.25	2.25	2.25	4.00
90-day Bank Bill Rate	5.16	5.64	3.60	2.40	3.05	5.63	4.26	2.40	2.55	4.15
5-year Govt Bond	4.40	4.60	4.00	3.35	4.20	4.50	3.90	3.35	4.00	4.15
10-year Govt Bond	4.35	4.60	4.50	4.35	4.60	4.65	4.45	4.25	4.50	4.60
2-year Swap	5.15	4.91	3.35	2.60	3.90	4.93	3.53	2.60	3.60	4.00
5-year Swap	4.50	4.40	3.65	3.10	4.05	4.43	3.63	3.10	3.80	4.15
US 10-year Bonds	3.65	4.20	4.25	4.25	4.40	4.00	4.40	4.15	4.40	4.40
NZ-US 10-year Spread	0.70	0.40	0.25	0.10	0.20	0.65	0.05	0.10	0.10	0.20

⁽¹⁾ Average for the last month in the quarter

Source: Statistics NZ, BNZ, RBNZ, NZ Treasury