

# Research Economy Watch

26 November 2025

## RBNZ slices 25bps off OCR, signals done easing

- **RBNZ cuts cash rate to 2.25%**
- **Hurdle for further easing looks significant**
- **Rate track has minimal chance of further easing**
- **Near term forecasts likely to be surprised on upside**
- **No change to our forecasts: OCR on hold in 2026**

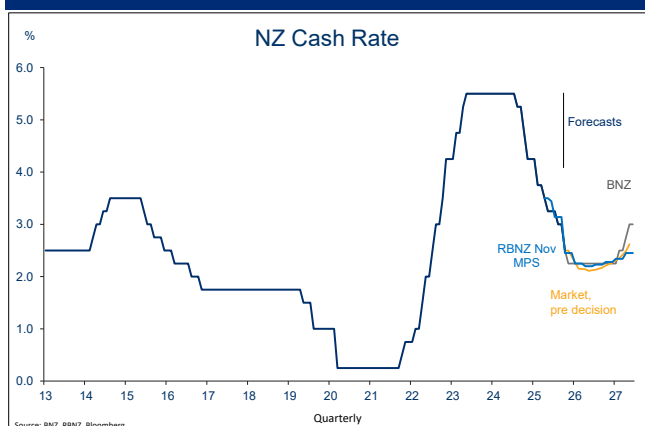
We thought the RBNZ would cut its cash rate 25 basis points today, leave the door open to further easing next year, while setting a significant hurdle for further action. That is exactly what the Bank delivered today as it cut its Official Cash Rate (OCR) 25 basis points, to 2.25%.

The hurdle to further action does look significant, with the door for further easing barely open. To the point that the main message appears to be that it is highly likely the easing cycle is done.

The Bank's interest rate projection revealed a terminal rate of 2.20% implying the central case sees minimal chance of further reduction in the OCR. Governor Hawksby confirmed as much in the press conference indicating that the track is consistent with the OCR on hold in 2026.

The data would have to surprise significantly on the downside to encourage the RBNZ to ease again.

### RBNZ cuts OCR to 2.25%

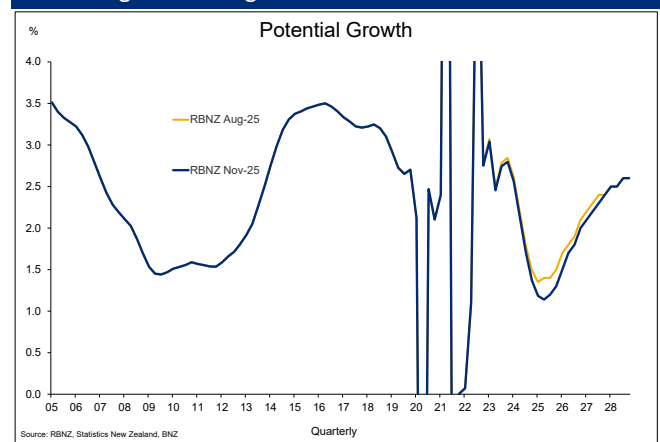


The decision to cut 25 basis points was by a vote of 5 to 1. While not explicitly recorded, it's implicit that the dissenter voted to hold rates.

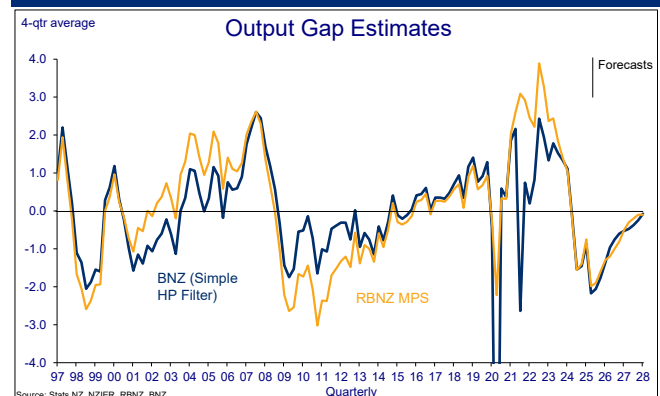
The RBNZ noted that 'economic activity was weak over mid-2025 but is picking up.' We thought that the Bank may also adjust down its estimate of potential growth. It did by a point or two over the coming two years lessening the

influence of the weaker activity data on the Bank's estimate of the output gap. That is important for the Bank's outlook for pressures on inflation over the medium term.

### Potential growth nudged lower



### Output gap wide, but forecast to close



The bank sees the inflation outlook as balanced. Noting greater caution among households and businesses could slow the pace of economic recovery. Alternatively, the recovery could be faster and stronger than expected if domestic demand proves more responsive to lower interest rates.

As we thought would be the case, the RBNZ has kept its options open noting 'Future moves in the OCR will depend on how the outlook for medium-term inflation and the economy evolve.'

This seems sensible on multiple counts. First, it is a long time between now and the next meeting on 18 February.

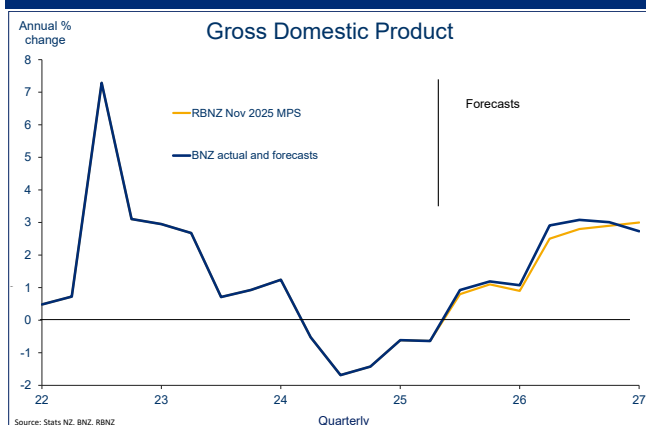
Second, there is a plethora of key data releases between now and then. In addition, it conveniently allows the new incoming Governor to take her seat at the MPC without being unnecessarily hemmed in by a precise view articulated three months earlier.

The new Governor, Dr Anna Breman, starts next Monday, well ahead of her first scheduled monetary policy decision at next February's meeting.

Today's decision by the Bank strongly supports our view that the OCR is now on hold. We see the Bank's near-term forecasts more likely to be beaten on the top side which would reinforce thinking that the Bank is done easing.

For example, the Bank sees +0.4% q/q for Q3 GDP on 18 December. Interestingly, that is lower than the RBNZ's KiwiGDP nowcast of 0.6% for that quarter. Our current pick for Q3 GDP is 0.5% with upside risk. For Q4 CPI on 23 January the Bank forecasts annual inflation at 2.7%. Our current view sits at 2.8%. And the Bank estimates the Q4 unemployment rate to be 5.3%, which matches our own view.

#### Growth forecast ahead

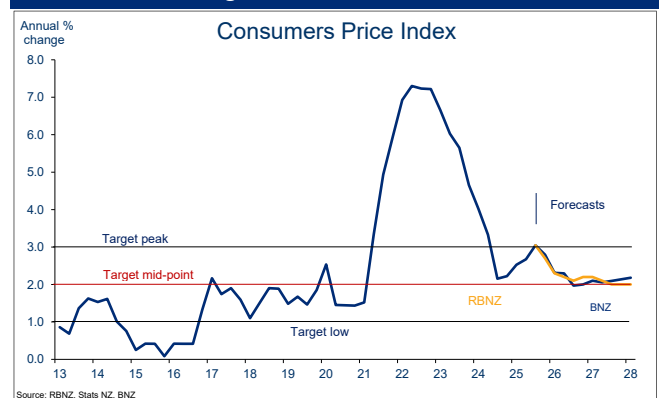


Of course, what happens ahead depends on how economic conditions and risks evolve from here.

The lack of an explicit policy bias in the press statement and minimal scope for easing implied by the projected rate track came as a hawkish surprise to the market, with short end yields up around 8 basis points and the NZD lifting around half a cent.

All things considered, the RBNZ statement was very much along the lines of what we expected. There is no reason to alter our view of the OCR, including it being on hold through 2026 with a first hike in early 2027. The RBNZ's rate track also looks consistent with a first hike in early 2027. However, it is a long way off. If the economic data continues to turn for the better and/or inflation is a bit sticky on the way down, the debate will intensify around when will be the first hike. There is a lot to monitor ahead.

#### Inflation seen easing



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#### Full text of today's RBNZ OCR Review:

Annual consumers price inflation increased to 3 percent in the September quarter. However, with spare capacity in the economy, inflation is expected to fall to around 2 percent by mid-2026.

Economic activity was weak over mid-2025 but is picking up. Lower interest rates are encouraging household spending, and the labour market is stabilising. The exchange rate has fallen, supporting exporters' incomes.

Global economic growth has benefited from strong AI-related investment but is expected to slow in 2026 as trade barriers weigh on activity.

Risks to the inflation outlook are balanced. Greater caution on the part of households and businesses could slow the pace of New Zealand's economic recovery. Alternatively, the recovery could be faster and stronger than expected if domestic demand proves more responsive to lower interest rates.

The Committee voted to reduce the OCR by 25 basis points to 2.25 percent. Future moves in the OCR will depend on how the outlook for medium-term inflation and the economy evolve.

#### Summary record of meeting – November 2025

Annual consumers price inflation increased to 3 percent in the September quarter, the top of the Monetary Policy Committee's 1 to 3 percent target band. Significant spare capacity remains in the economy and inflation is expected to fall

to around 2 percent by mid-2026. The significant reduction in the OCR since August 2024 is expected to support a recovery in economic activity.

#### **Annual inflation is at the top of the target band but expected to moderate**

The Committee noted that both core and non-tradables inflation have continued to decline. Annual tradables inflation increased in September due to petrol prices and high food inflation but is expected to decline over the medium term. Annual headline CPI inflation increased due to higher tradables inflation along with high inflation in household energy costs and local council rates. As these dissipate, this will support headline CPI inflation returning to near the 2 percent mid-point of the target range in mid-2026.

Household inflation expectations have fallen but remain high relative to recent history. The inflation expectations of professional forecasters and business leaders have remained stable at slightly above the 2 percent target midpoint.

#### **The economic recovery stalled in the June quarter**

Committee members considered how US tariff policy announcements and broader geoeconomic uncertainty disrupted New Zealand's nascent economic recovery. Greater uncertainty likely led to increased precautionary behaviour by households and businesses, dampening consumption and investment.

However, while measured GDP declined by 0.9 percent in the June quarter, this likely overstates the weakness in the economy through this period. The Committee noted that an unusually large seasonal balancing item contributed to the weakness in the headline figure. This is expected to be reversed over the next few data releases.

Some industry-specific factors may also have constrained supply. For example, high milk prices and unfavourable weather conditions likely contributed to higher livestock retention and lower meat production in the first half of 2025. Limited access to domestic energy sources and higher energy prices are likely to have weighed on manufacturing more generally.

#### **Significant spare capacity remains**

The Committee discussed the balance between supply capacity and demand. In addition to short-run factors, the economy's medium-term supply capacity has been reduced by weak growth in productivity and the working age population. Estimates suggest that annual potential output growth is currently around 1.5 percent.

Weak economic activity has resulted in significant spare capacity opening in the economy since mid-2024. Unemployment and measures of labour underutilisation have increased, and firms are reporting that it is now relatively easy to find workers. While job losses are not high compared to past economic downturns, job vacancies and job transitions have been low, so it has been relatively difficult for unemployed people to transition back to work.

Economic conditions have been variable across different sectors and regions of the economy. High prices for New Zealand's commodity exports have lifted incomes in the rural economy. This has supported economic activity in rural areas, although debt reduction by farmers has meant measures of on-farm investment have not yet increased to the extent seen in previous commodity price cycles. The level of economic activity remains low in industries reliant on domestic demand.

#### **Financial conditions have eased and the financial system remains stable**

The Committee discussed the easing in domestic financial conditions that has occurred. Wholesale interest rates have declined and the New Zealand dollar Trade Weighted Index has depreciated since August. Cuts to the OCR have reduced borrowing costs and mortgage rates. The average yield on mortgages has fallen to 5.4 percent. With close to 40 percent of fixed rate mortgages due to reprice over the December and March quarters, the average mortgage yield is expected to fall further to 4.7 percent by September 2026 based on current market pricing.

Measures of domestic financial stress have eased as lower interest rates reduce debt servicing pressures. Early arrears, which provide an early indicator of impaired lending, have declined. Non-performing housing loans have also declined, and banks expect further reductions in housing and commercial property impairments over 2026. Non-performing loans in the business sector remain elevated, although at lower levels than in previous downturns.

#### **Economic activity is recovering**

Committee members discussed an improvement in near-term indicators of economic activity from their lows in the June quarter, suggesting a return to modest GDP growth in the September quarter. Feedback from recent business visits also suggest that, while activity remains weak, demand has stabilised.

The Committee noted that there are also some early signs of stabilisation in labour demand, with job vacancies and total hours worked increasing in the September quarter. This is expected to broaden into a wider improvement in labour market conditions over coming quarters, which will support household confidence and spending.

Relative weakness in the labour market over the past two years has contributed to higher outward migration from New Zealand, particularly to Australia. Regional disparities in housing and labour markets have also likely encouraged higher internal migration. Outward migration is expected to reduce as the New Zealand economy and labour market recovers, with net migration expected to increase towards long-run trends.

#### **Future growth in house prices is expected to be moderate**

Members discussed that house prices, in aggregate, have remained stable to date despite lower mortgage interest rates and a modest pick-up in housing market activity. Stable house prices could reflect weak population growth and elevated long-term interest rates. Supply side reforms in the housing market, such as less restrictive zoning laws, may also be moderating the extent to which increases in housing demand contribute to house price inflation.

The Committee assessed that upcoming reductions in mortgage loan-to-value ratio requirements are unlikely to have a material effect on house prices, especially with debt-to-income restrictions now in place. House price growth is expected to be moderate over the projection period, broadly in line with growth in nominal incomes.

#### **Global growth has been resilient but is expected to slow**

Members noted that tariffs have had less impact on the global economy than initially expected, reflecting the imposition of lower tariff rates than originally envisaged, inventory management, and adjustments in global supply chains. Global growth has also been supported by higher investment in artificial intelligence technology, particularly in the US, which has boosted exports from Asia. Higher demand for exports has supported economic growth in China, despite weakness in domestic demand.

Global growth is expected to slow modestly in 2026. This reflects an anticipated weakening in global export demand as the pace of AI investment slows. The Committee still expects trade barriers to weigh on global economic activity and to have a modest disinflationary effect on New Zealand.

#### **Risks to the outlook for inflation are balanced**

The Committee discussed the risk that price setting behaviour by businesses may become more sensitive to upside inflation surprises, given recent high inflation and inflation expectations remaining above the target mid-point. Spare capacity in the economy has reduced business profit margins and some restoration in margins is expected as demand improves. This restoration in margins could occur more rapidly than anticipated, which would pose an upside inflation risk.

Members noted there are risks around the speed of the recovery. Some members highlighted the risk that continued caution on the part of households and businesses could further slow the recovery in domestic demand, which could see inflation fall below the target midpoint. Conversely, other members highlighted the possibility of a faster recovery if house prices and household spending increase more quickly than assumed given lower mortgage rates, leading to more persistence in medium-term inflation pressures. Members also discussed the possibility of a stronger increase in on-farm investment stemming from high export commodity prices and the expected return of capital to dairy farmers in 2026 from the sale of Fonterra's consumer brands business.

The Committee discussed risks to the global outlook. Investment in AI technologies has been a significant driver of global growth and equity returns over the past year. Uncertainty remains around the returns from AI adoption. There is a risk of a more significant correction in equity markets and reduced investment if heightened investor expectations are not met.

Inflation remains high in several advanced economies. Global policy uncertainty also remains high. The Committee noted downside risks to growth in China, as policy makers attempt to maintain growth in the face of weak domestic demand and an increasingly fragmented global trading environment. The Committee also noted uncertainty about US economic policy, and the associated risk of higher US inflation.

The Committee discussed the risk that unsustainable fiscal dynamics and increased politicisation of central banks globally could create the conditions for higher and more persistent inflation.

#### **The Committee voted to lower the OCR to 2.25 percent**

The Committee discussed the options of holding the OCR at 2.5 percent and lowering the OCR to 2.25 percent, noting low tolerance for prolonging the return of inflation to the target mid-point.

The case for holding the OCR emphasised the considerable reduction in the OCR to date, which is still working its way through the economy. Economic indicators are recovering, and economic activity is expected to strengthen through 2026. Particular emphasis was placed on the upside risks to inflation and output. Leaving the OCR unchanged at this meeting would provide the optionality to lower the OCR in the future if required.

The case for a further reduction in the OCR emphasised significant excess capacity in the economy. This provides confidence that medium-term inflation will return to, and remain around, the target midpoint. The economic recovery is at an early stage, and the inflation outlook provides scope to place more emphasis on avoiding unnecessary volatility in output and employment. With this context, retention of the easing in overall monetary conditions delivered to date would support an enduring recovery in economic activity.

The Committee discussed how to balance the achievement of their inflation mandate with the need to avoid unnecessary instability in output, employment, interest rates and the exchange rate.

On Wednesday 26 November the Committee voted by 5 to 1 to reduce the OCR by 25 basis points to 2.25 percent. The Committee noted that a reduction in the OCR would help to underpin consumer and business confidence and lean against the risk that the economy recovers more slowly than needed to meet the inflation objective.

Future moves in the OCR will depend on how the outlook for medium-term inflation and the economy evolves.

**Attendees:**

MPC members: Christian Hawkesby (Chair), Carl Hansen, Hayley Gourley, Karen Silk, Paul Conway, Prasanna Gai

Treasury Observer: James Beard

MPC Secretary: Chris Bloor

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