Reserve Bank of New Zealand
Te Pūtea Matua

Monetary Policy Statement.

February 2026

Policy assessment.
OCR on hold at 2.25% with inflation expected to fall

Annual consumers price inflation was slightly above the Monetary Policy Committee's 1 to 3 percent target band at the end of 2025. Increases in food and electricity prices and local council rates were the biggest contributors to above-target inflation.

The economy is at an early stage in its recovery. With ongoing strength in commodity prices, economic activity in the agricultural sector and regional New Zealand remains strong. Although residential and business investment is increasing, households remain cautious in their spending. The labour market is stabilising, but unemployment remains elevated. House price growth remains weak, dampening household wealth and inclination to spend.

In response to previous cuts in the OCR, economic growth is broadening across sectors of the economy, such as manufacturing, construction and some retail. Economic growth is expected to increase over 2026.

Inflation is most likely returning to within the Committee's 1 to 3 percent target band in the current quarter. The Committee is confident that inflation will fall to the 2 percent midpoint over the next 12 months due to spare capacity in the economy, modest wage growth, and core inflation within the target band.

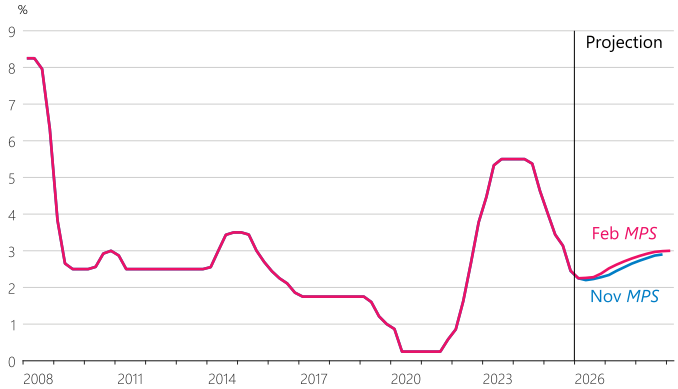
Risks to the inflation outlook are balanced. The global environment remains highly uncertain. Domestically, greater caution by households in their spending decisions could slow the pace of New Zealand's economic recovery, risking inflation falling below the target midpoint. But with demand increasing in the economy, businesses could try to increase prices faster than expected, leaving inflation above the target midpoint.

The Committee agreed to hold the OCR at 2.25 percent. If the economy evolves as expected, monetary policy is likely to remain accommodative for some time. The Committee will continue to assess incoming data carefully. As the recovery strengthens and inflation falls sustainably towards the target midpoint, monetary policy settings will gradually normalise.

Anna Breman

Anna Breman
Governor

Figure i.1
Official Cash Rate (OCR)
(quarterly average)



Source: RBNZ estimates.

Monetary Policy Framework

The Monetary Policy Committee operates and makes decisions under the Monetary Policy Framework that comprises the following key components:

- the *Remit*;
- the *Charter*;
- the *Code of Conduct*; and
- the monetary policy strategy.

The corresponding documents to these components and additional information can be accessed on our website under the Monetary Policy Framework.

Report and supporting notes published at:

www.rbnz.govt.nz/monetary-policy/monetary-policy-statement

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ISSN 1770-4829

Thank you to RBNZ staff for photography in this report.

Cover: Marlborough Sounds. Photo: Jamie Antwis

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February 2026

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The projections were finalised on 12 February 2026. The Official Cash Rate (OCR) projection incorporates an outlook for monetary policy that is consistent with the MPC's monetary policy assessment, which was finalised on 18 February 2026.

Chapter 01

Summary record of meeting

Abel Tasman National Park. Photo: Rebecca Williams

Chapter 1.
Summary record of meeting

A significant easing in monetary policy since August 2024 is supporting a recovery in economic activity. Annual consumers price inflation increased to 3.1 percent in the December 2025 quarter, slightly above the Monetary Policy Committee's 1 to 3 percent target range. The Committee is confident, however, that with significant excess capacity in the economy, inflation will fall to around the mid-point of the target range over the next 12 months.

Headline inflation is expected to fall to near the mid-point of the target band

The Committee noted that headline inflation is most likely returning to the target band in the March 2026 quarter. Recent increases in inflation have been driven by higher tradables inflation, partly due to larger increases in volatile items such as food, international airfares, and overseas accommodation. Tradables inflation is expected to fall back over the next 12 months due to relatively stable import prices and some support from the recent appreciation in the New Zealand dollar.

Inflation has also been held up by some components of non-tradables inflation that are less sensitive to monetary policy, particularly administered prices. These are prices that are set or heavily influenced by central or local government. Inflation in these components has been due to a lagged response to previous high inflation and a range of structural factors. The Committee expects there to be less inflation in some administered prices over the coming year, such as electricity lines fees, university fees and vehicle licensing fees.

Components of the non-tradables basket that are sensitive to monetary policy have declined to around historic average levels. Measures of core inflation have remained stable, albeit mostly above the target midpoint. Rates of wage inflation remain consistent with inflation trending back towards 2 percent.

The Committee emphasised the importance that higher near-term inflation not become embedded in longer-run expectations. Inflation expectations for professional forecasters and business leaders increased slightly across all tenors, but long-term expectations remain close to the target mid-point. Inflation expectations of households have continued to decline from elevated levels.

Significant spare capacity remains

The Committee noted that there is still significant spare capacity in the economy. The output gap is estimated to be -1.5 percent of potential GDP in the December 2025 quarter.

Spare capacity in the labour market is substantial but stabilising. While the unemployment rate increased to 5.4 percent, key measures of employment strengthened over the December quarter. The labour market is expected to continue to strengthen as the nascent recovery in economic activity broadens through 2026.

Continued spare capacity, subdued wage growth and measures of core inflation within the target band provide the Committee with confidence that the conditions are in place to return and sustain inflation at 2 percent over the medium term.

Economic activity is now recovering

Economic activity began recovering over the second half of last year in response to strong export prices and supportive monetary policy settings. GDP increased by 1.1 percent in the September quarter, after falling 1.0 percent in the June quarter. The Committee noted that measured GDP data has been more volatile than usual, in part due to a range of temporary factors and measurement issues.

There are signs that the recovery is broadening across the economy, although the September quarter GDP likely overstates the true level of momentum in the economy. Residential and business investment both increased from low levels, and measures of investment intentions and building consent issuance have all increased. More timely measures of economic activity such as the QSBO, PMI, and PSI suggest that growth has been maintained in 2025Q4 and 2026Q1.

The economic recovery has been uneven across sectors and regions. Stronger activity has been observed in the rural economy and in the primary sector. Consumer spending has been constrained by low growth in employment income and the negative effect of falling real house prices on household wealth.

House prices have continued to edge downwards despite lower mortgage rates and a modest pick-up in housing market activity. This possibly reflects weak population growth and elevated long-term interest rates. House price growth is expected to gradually increase over 2026 and then grow at around the rate of household income growth over the medium term.

Household consumption is projected to increase over the medium term as past reductions in the Official Cash Rate (OCR) continue to support demand. The Committee noted that labour market conditions are likely to become more important relative to house prices in influencing consumption.

Government expenditure is assumed to grow at a subdued pace over the medium term, consistent with the Half Year Economic and Fiscal Update 2025 projections.

Domestic financial conditions have tightened since November

The New Zealand dollar Trade Weighted Index has appreciated, reflecting higher domestic interest rates and a weakening US dollar. Wholesale interest rates beyond 12 months have increased due to higher global interest rates and investor expectations of future increases in the OCR. Banks have passed these increases through to fixed-term mortgage rates.

The flow of mortgage borrowing priced in the 1–2-year terms increased substantially since November. While the average mortgage rate has declined to 5.1 percent, further downward adjustments are expected to be less than assumed in November.

Global growth has been resilient but risks remain high

The Committee noted that the global economy was more resilient than expected in 2025. Tariffs have had less impact on global growth than previously expected, while strong investment in artificial intelligence technology has supported exports from our trading partners in Asia. Expansionary fiscal policy has also supported growth in a number of economies. The Committee continues to expect trade barriers to present a headwind to growth, with trading partner growth expected to weaken slightly over 2026.

On a trade-weighted basis, global inflation has declined, but there has been significant divergence across countries. Tariff policies have increased inflation pressure in some economies such as the US, but these have been offset by disinflationary pressure in China and the broader Asia region.

Geopolitical developments over recent months have led to continued high economic uncertainty and financial market volatility. The US dollar has declined, while the prices of oil and precious metals have risen, along with sovereign bond term premia.

The domestic financial system remains stable

The Committee was briefed on financial system stability. Measures of domestic financial stress have eased as lower interest rates reduce debt servicing pressures. Non-performing housing loans have also declined, and banks expect further reductions in housing and commercial property impairments over 2026. The Committee agreed that there is currently no material trade-off between meeting its inflation objectives and maintaining financial system stability.

Risks to the outlook for inflation are balanced

There are upside and downside risks to the near-term outlook for inflation. The Committee noted the contribution that administered price inflation had played in recent inflation outturns and the risk that this could remain high for longer than currently assumed. Conversely, the Committee discussed the risk that volatile components of tradable inflation could fall more rapidly.

The Committee discussed the risks around firms' price-setting behaviour. While weak demand has constrained the ability of firms to pass on higher costs, the Committee noted the risk that changing price setting behaviour could result in higher inflation. In this context the Committee also discussed the risk that the output gap could be smaller than currently estimated, accentuating the risk that firms raise prices as demand improves. This could lead to more persistence in domestically generated inflation pressure that would require tighter monetary policy than otherwise.

Members noted risks regarding the speed of the economic recovery. The Committee noted the risk that household spending could be slower to recover than currently assumed, particularly if house price growth remains subdued. This could lead to households continuing to maintain higher levels of precautionary saving. Conversely members noted a risk that higher export incomes and the return of capital to dairy farmers from the sale of Fonterra's consumer brands business could spur higher investment and consumer spending by farmers.

The global outlook is uncertain

The Committee noted that the global economic outlook continues to be highly uncertain. In the near-term, key uncertainties relate to the direction of global trade policy, market valuations of artificial intelligence investment and geopolitical tensions. Downside risks remain to growth in China as policy makers attempt to maintain growth targets in the face of weak domestic demand. Continued excess capacity and subdued demand in China could create greater disinflationary pressure.

Over the longer term, the Committee noted risks associated with unsustainable fiscal dynamics in several countries. This could put ongoing pressure on central bank independence and create conditions for more persistent global inflation. This could lead to higher long-term global real interest rates and create risks to global financial stability.

The Committee reached consensus to hold the OCR at 2.25 percent

The Committee discussed the monetary conditions required to achieve their medium-term inflation mandate.

The Committee agreed that the economic recovery remains nascent, and a premature normalisation of monetary conditions could dampen the recovery and lead inflation to undershoot the target. The Committee also considered the risk that policy remains accommodative for too long, leading inflation to persist above the mid-point of the target range for longer.

Members agreed that the monetary policy stance would need to remain accommodative for some time to support a sustained recovery in economic activity. There is a risk that prolonged caution on the part of households could slow the recovery in consumption activity, particularly in the context of a recent tightening in financial conditions. Members also noted global risks that could slow domestic economic recovery. Significant excess capacity, modest wage growth, and core inflation within the target band provides confidence that inflation will return to the midpoint of the target band.

Members noted the risk of inflation remaining more persistent, given surveys showing somewhat elevated inflation expectations and business pricing intentions. One member supported maintaining the OCR at current levels for now but noted that if economic activity recovers as expected, monetary stimulus could begin to be withdrawn somewhat earlier without compromising the economic recovery. Another member noted that responding too quickly to firms' pricing intentions could reinforce perceptions of strong demand and encourage firms to align on further price increases.

On Wednesday 18 February the Committee reached consensus to hold the OCR at 2.25 percent. The forward OCR path reflects a somewhat stronger economic outlook and balanced risks to inflation.

If the economy evolves as expected, monetary policy is likely to remain accommodative for some time. The Committee will continue to assess incoming data carefully. As the recovery strengthens and inflation falls sustainably towards the target midpoint, monetary policy settings will gradually normalise.

Attendees:

MPC members:

Anna Breman (Chair), Carl Hansen, Hayley Gourley, Karen Silk, Paul Conway, Prasanna Gai

Treasury Observer:

Struan Little

MPC Secretary:

Chris Bloor

Chapter 02

Economic assessment and monetary policy outlook

Tāmaki Makaurau. Photo: Jamie Antwis

Chapter 2.
Economic assessment and monetary policy outlook

Key points

Headline inflation is slightly above the top of the Monetary Policy Committee's 1 to 3 percent target range. Annual consumers price index (CPI) inflation increased to 3.1 percent in the year to the December 2025 quarter. Tradables inflation has been increasing since late 2024, partly due to larger increases in volatile prices such as food, international airfares, and overseas accommodation. Some components of non-tradables inflation, including household energy costs and local council rates, have remained elevated. Other components, such as housing costs, continued to decline through 2025. Measures of core inflation — which attempt to look through volatility — are all within the 1 to 3 percent target band. However, most measures remain above the 2 percent target mid-point.

Inflation is projected to return to within the target band in the first quarter of 2026. Some one-off price increases from a year ago will drop out of the annual calculation, and spare capacity is continuing to moderate price pressures. We expect annual CPI inflation to return to near the 2 percent mid-point of the target range over the next year as price setters continue to adapt to a low inflation environment.

Significant spare capacity is reducing underlying inflationary pressure in New Zealand. The output gap — the difference between GDP and the economy's potential output — is estimated to have been around 1.5 percent in the December 2025 quarter. Spare capacity is reducing domestic inflationary pressure, partly offsetting the upward pressure from global factors, administered price increases, and the persistent effects of past high inflation on price-setting behaviour.

Economic activity is recovering, supported by high export prices and past reductions in the OCR. The MPC reduced the OCR from 5.50 percent in mid-2024 to 2.25 percent in November 2025, resulting in significant easing in financial conditions for households and firms in New Zealand. We expect economic growth to continue as this easing contributes to stronger demand, even as export commodity prices moderate from recent highs and government spending shrinks as a share of domestic activity. Economic growth will reduce spare capacity over time.

Global and domestic risks could affect growth and inflation in New Zealand. The current international environment is characterised by elevated geopolitical and policy uncertainty and diverging economic conditions across countries. Domestically, inflationary pressure has been stronger than expected and could be more persistent than assumed. On the other hand, support for domestic demand from lower interest rates and high commodity prices has decreased in recent months, and momentum in economic growth could fade, reducing medium-term inflationary pressure.

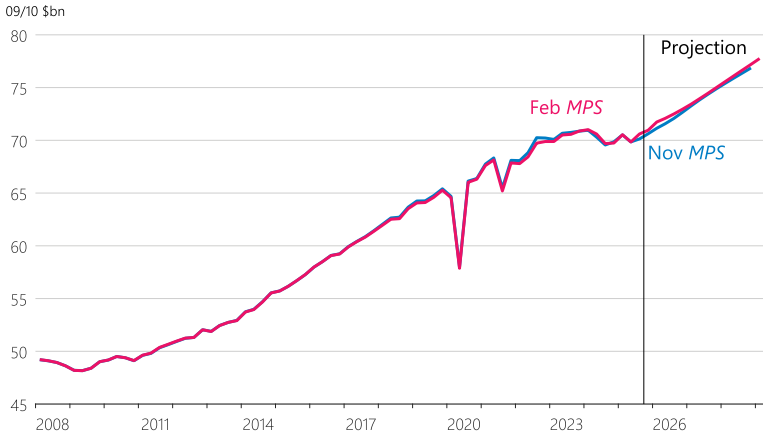
Conditional on the central economic outlook, we project that the OCR will remain around its current level in the near term, before gradually increasing from late 2026 as the economic recovery continues. Compared to the November *Statement*, the OCR is projected to increase slightly sooner. This reflects modestly more persistent inflationary pressure than previously assumed, and increasing confidence that economic growth will continue.

Economic assessment

Economic activity rebounded in September 2025 quarter

Real production GDP increased by 1.1 percent in the September 2025 quarter, following a 1.0 percent contraction in the June 2025 quarter (figure 2.1). September quarter growth was much stronger than the 0.4 percent expansion expected at the time of the November *Statement*. Growth was broad-based across sectors of the economy. However, reported quarterly GDP has been more volatile than usual. This, in part, reflects temporary factors that reduced economic activity in the June quarter and unwound in the September quarter. It also likely reflects changing seasonal patterns that may have caused official measures to overstate the volatility in underlying real economic activity in recent years.[1]

Figure 2.1
Production GDP
(seasonally adjusted)

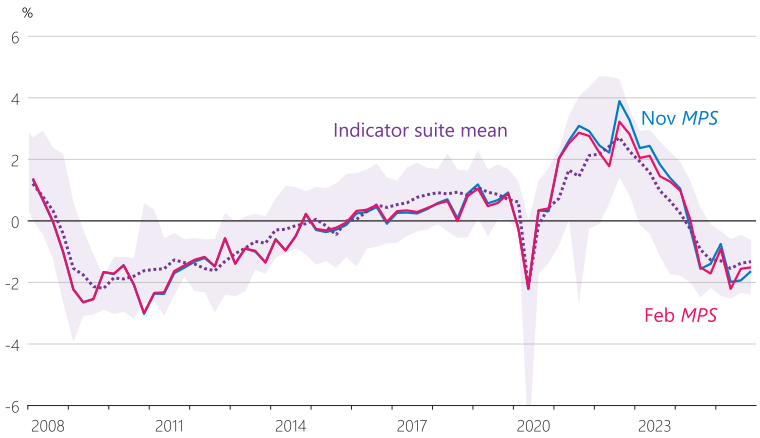


Source: Stats NZ, RBNZ estimates.

Note: Production GDP is a measure of the volume of production and is expressed in 2009/2010 prices.

Timely indicators of economic activity suggest the economy continued to grow in the December 2025 quarter. In the Quarterly Survey of Business Opinion (QSBO), firms reported improved sentiment and higher levels of activity than in the September 2025 quarter. The Performance of Manufacturing and Performance of Services Indices also improved, particularly in December. The Reserve Bank's GDP nowcasting model, Kiwi-GDP, incorporates information from these data and a broad range of other indicators. It suggests that GDP continued to grow in the December 2025 and March 2026 quarters.

Figure 2.2
Output gap and indicator suite
(share of potential, seasonally adjusted)



Source: Stats NZ, NZIER, MBIE, RBNZ estimates.

Note: The shaded area shows the range of indicators in the suite.

Significant spare capacity remains in the New Zealand economy

Significant spare capacity in the New Zealand economy is reducing inflationary pressure. Declining economic activity led to the emergence of significant spare capacity in the New Zealand economy in the middle of 2024. Since then, GDP growth has been volatile but low on average. The output gap is estimated to have been around -1.5 percent of potential GDP in the December 2025 quarter (figure 2.2). Spare capacity is reducing domestic inflationary pressure in New Zealand, partly offsetting the upward pressure from global factors, administered price increases, and the persistent effects of past high inflation on price-setting behaviour.

1 Although headline production GDP is seasonally adjusted, it currently appears to have a remaining predictable seasonal pattern. This results in reported GDP growth being overstated in March quarters and understated in June quarters (see chapter 5).

Global economic growth has been resilient to policy and geopolitical uncertainty

The global economy experienced steady growth in 2025, despite headwinds from US tariff policies and elevated uncertainty (see chapter 3). GDP growth in New Zealand's trading partners remained stable in 2025 (figure 2.3). The impact of tariffs on global growth has been smaller than initially expected when the US announced new tariffs in early April 2025. Global effective tariff rates have not increased as much as initially expected, and global trade networks have adapted quickly. Additionally, strong AI-related investment has supported demand in the US, which in turn has supported exports in several of New Zealand's trading partners in Asia. Bloomberg consensus forecasts estimate that annual New Zealand trading-partner growth was 3.1 percent in 2025.

Trading-partner growth is expected to decrease slightly in 2026. Trade barriers and geopolitical uncertainty are still expected to present headwinds to global growth. Bloomberg consensus forecasts project that annual New Zealand trade-weighted global growth will slow to 2.9 percent in 2026, close to historical average growth rates.

Geopolitical and policy uncertainty has contributed to volatility in global financial markets since the November *Statement*. Rising geopolitical tensions and extensive protests in Iran have contributed to higher global oil prices since January. In government bond markets, term premia have increased. Higher term premia may reflect investor concerns about debt sustainability, economic volatility, and central bank independence. These concerns have also had an influence in currency markets. The US dollar index has depreciated about 3 percent since the November *Statement*. Weakness in the US dollar and Japanese yen and increases in New Zealand interest rates have led the New Zealand dollar to appreciate since the November *Statement*.

Figure 2.3

Global GDP growth

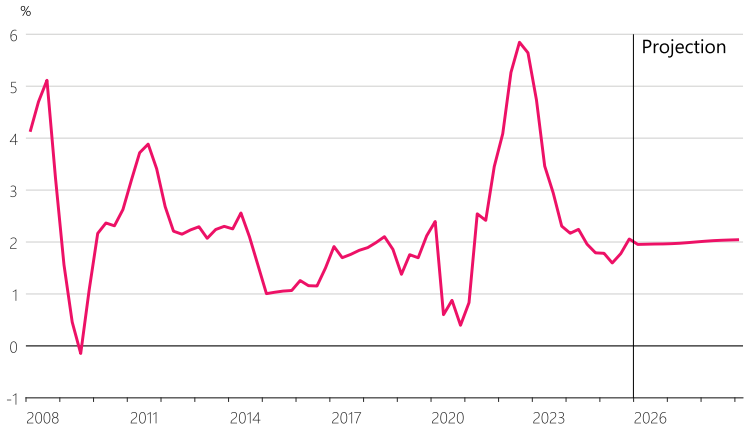
(annual, weighted by New Zealand trade)

Source: Stats NZ, Haver Analytics, Consensus Economics, Bloomberg, RBNZ estimates.
Note: Global GDP growth is based on 16 of New Zealand's largest trading partners.

Figure 2.4

Global CPI inflation

(annual, weighted by New Zealand trade)



Source: Stats NZ, Haver Analytics, Consensus Economics, Bloomberg, RBNZ estimates.
Note: Global CPI inflation is based on 17 of New Zealand's largest trading partners.

Trading partner inflation is projected to stabilise around 2 percent next year (figure 2.4). Annual New Zealand trade-weighted global inflation declined to 1.8 percent in 2025. Trends in inflationary pressure are diverging across our major trading partners. Inflation has remained low in emerging Asia, and very low in China. Inflation in the US is above target, but has continued to ease gradually despite some tariff-related price increases. Meanwhile, inflation in Australia has increased and is above the target range.

Risks to global growth remain elevated. Further escalation of geopolitical risks could weigh on global trade volumes and increase uncertainty, weighing on demand. Similarly, if the productivity benefits of AI technology are smaller than expected, investment could slow, reducing global trade and GDP. Concerns about fiscal sustainability in some economies, including Japan and the US, could put further upward pressure on government bond yields. Any of these events could lead to a weakening in risk appetite that may contribute to lower asset prices and tighter global funding conditions. If any materialised, these risks would dampen domestic economic activity in New Zealand, reducing inflationary pressure.

The global inflation outlook is also uncertain. The risks that could lead to lower global growth and risk appetite could also lead to either higher or lower inflation in New Zealand. Geopolitical events can lead to higher and more volatile oil prices, while shocks that reduce investor risk appetite could lead to a depreciation of the New Zealand dollar, putting upward pressure on tradables inflation, especially in the near term. Over the medium term, trade barriers could increase global prices through less efficient supply chains. Alternatively, trade barriers could put further downward pressure on prices in tariff-affected countries, especially China, resulting in lower import costs for New Zealand. Furthermore, many countries, including New Zealand, have entered into new trade agreements in 2025 and 2026 that could benefit trade and reduce inflation in the medium term.

Strong export performance has supported growth in New Zealand

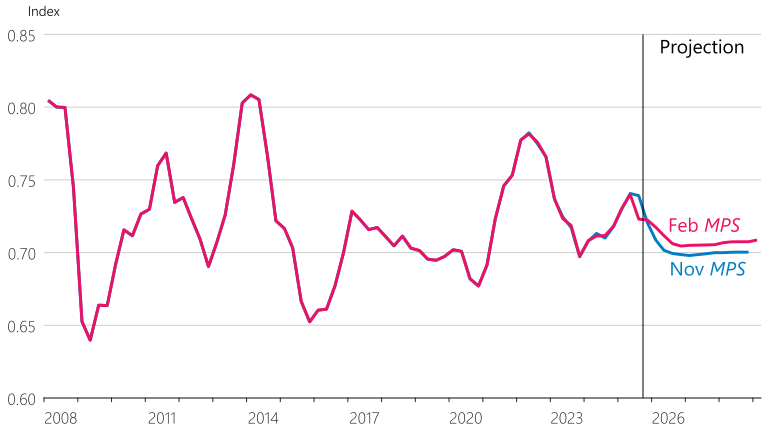
Prices for New Zealand's exports rose substantially from the middle of 2024 to the middle of 2025, supporting export sector incomes (figure 2.5). Dairy, meat, and horticulture prices accounted for most of the increase. Higher prices have reflected both resilient demand and reduced global supply for some of our key export commodities. High export prices and a depreciating New Zealand dollar exchange rate over the second half of 2025 have supported incomes and domestic spending. More recently, dairy prices have moderated, while some other export prices have continued to increase. Meat prices are expected to remain elevated in the near term, supported by constrained global supply and the reversal of additional US tariffs on a wide range of food items. Over the medium term, we assume that goods export prices decline, converging to around their 10-year average in real foreign currency terms.

Higher prices are contributing to increased agricultural production and exports. Goods export volumes increased by 3.8 percent in the September 2025 quarter. Timely production and trade data suggest that goods export volume growth will continue, particularly for meat and dairy.

Figure 2.5

New Zealand export prices

(real, foreign currency terms)



Source: Stats NZ, RBNZ estimates.

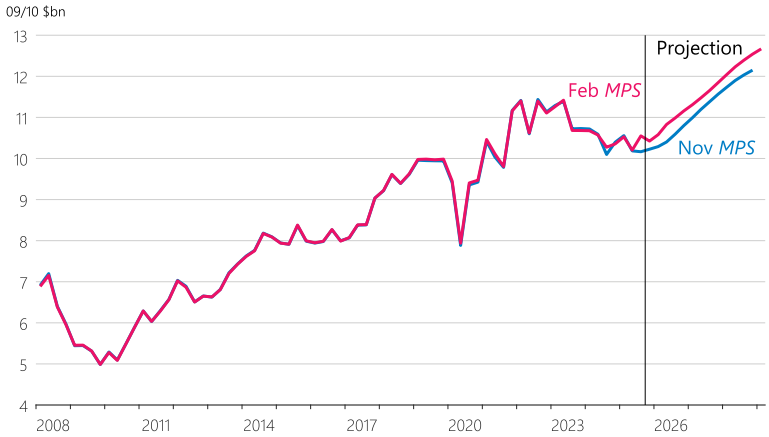
An ongoing recovery in exports of services has also contributed to GDP growth. Short-term visitor arrivals to New Zealand have increased compared to the previous year, reflecting increased airline capacity. The number of travellers on holiday or visiting friends and family has recently recovered to around pre-pandemic levels. However, business travel remains well below previous peaks, and visitors appear to be spending less per visit, on average. Exports of non-travel services have grown steadily since the COVID-19 pandemic as New Zealand businesses have expanded their IT, business, and technical services exports to Australia and the US. Over the medium term, exports of services are assumed to grow slightly faster than potential output, supported by resilient demand in these economies.

Private investment is showing early signs of recovering

Business investment has been cyclically low since the middle of 2024, as significant spare capacity and elevated global uncertainty have discouraged investment. However, business investment rebounded more strongly than expected in the September 2025 quarter. Business sentiment and investment intentions also improved in the December 2025 quarter. High export commodity prices in 2025 are likely to support business investment in the near term (see chapter 4.1 in the November *Statement*). Over the medium term, a gradual reduction in spare capacity is expected to drive growth in business investment (figure 2.6).

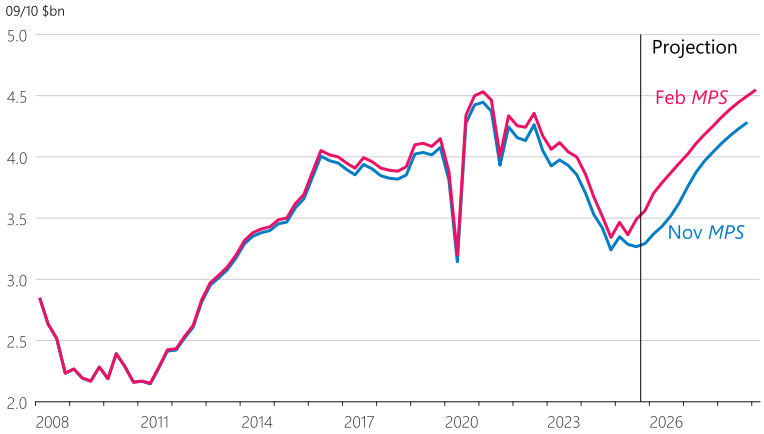
Residential investment increased in the September quarter from low levels, slightly earlier than expected. We expect growth in residential investment to accelerate from early 2026, supported by accommodative monetary policy and improving economic conditions (figure 2.7). This is consistent with strong growth in building consents over the second half of 2025 and other signs of increasing housing demand, including household credit growth.

Figure 2.6
Business investment
(seasonally adjusted)



Source: Stats NZ, RBNZ estimates.

Figure 2.7
Residential investment
(seasonally adjusted)



Source: Stats NZ, RBNZ estimates.

Household spending is growing modestly

Household consumption has increased broadly in line with population growth in recent quarters (figure 2.8). Consumption grew by 1.8 percent in the year to the September 2025 quarter. This rate of growth is faster than population growth, but below historical averages. Consumption has been constrained by low growth in employment income and falling real household wealth due to falling real house prices. Households have been saving, possibly in response to limited employment opportunities and uncertainty about the economic outlook.

Household consumption is projected to increase over the medium term, as past reductions in the OCR continue to support demand. Higher population growth, stabilising real wealth, and higher real incomes — including from higher primary sector revenue — are also assumed to support consumption.

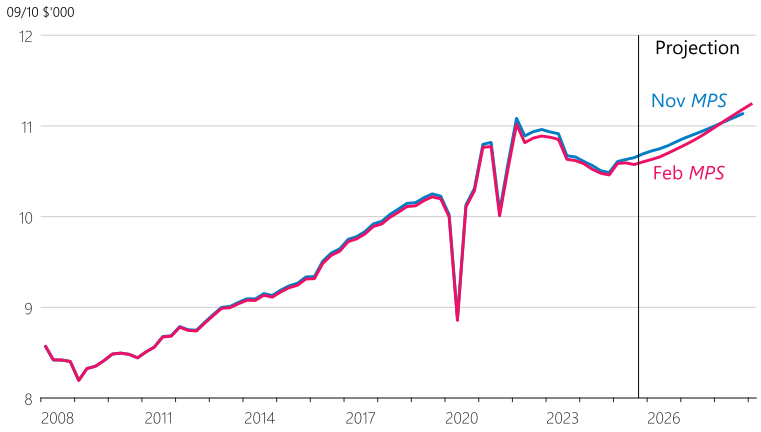
Government expenditure is expected to decline as a share of the economy

Government expenditure (consumption and investment) has declined as a share of the economy from its peak in 2021, but has increased over the last year. We assume that government expenditure grows at a subdued pace over the medium term, declining as a share of the economy (figure 2.9). Our projections are consistent with the *Half-Year Economic and Fiscal Update* 2025, adjusted for data revisions and the stronger-than-expected starting point in the September 2025 quarter.

Figure 2.8

Private consumption

(per working-age person, seasonally adjusted)

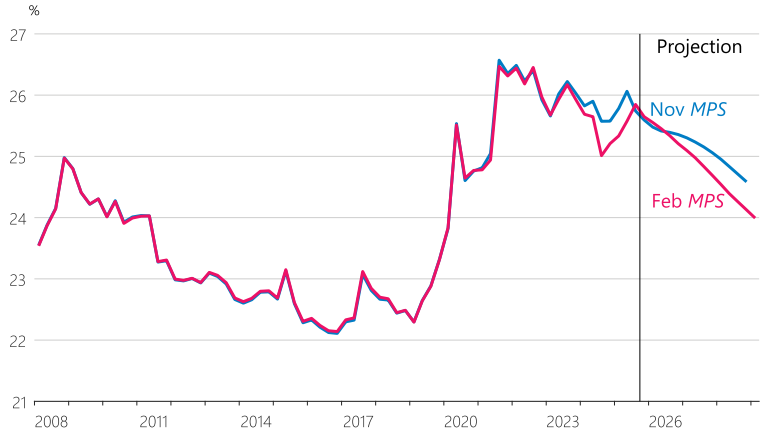


Source: Stats NZ, RBNZ estimates.

Figure 2.9

Government consumption and investment

(share of potential, seasonally adjusted)



Source: Stats NZ, NZ Treasury, RBNZ estimates.

Sustained economic growth will lead to a reduction in spare capacity

The output gap is projected to close over the medium term as GDP growth outpaces potential output growth. The MPC reduced the OCR from 5.50 percent in mid-2024 to 2.25 percent in November 2025, resulting in a significant easing in financial conditions for households and firms in New Zealand. Additionally, strong export revenues supported incomes and enabled some exporters to pay down debt. We expect economic growth to continue as past monetary easing and high export prices contribute to stronger domestic demand. This will reduce spare capacity gradually over time (figure 2.10).

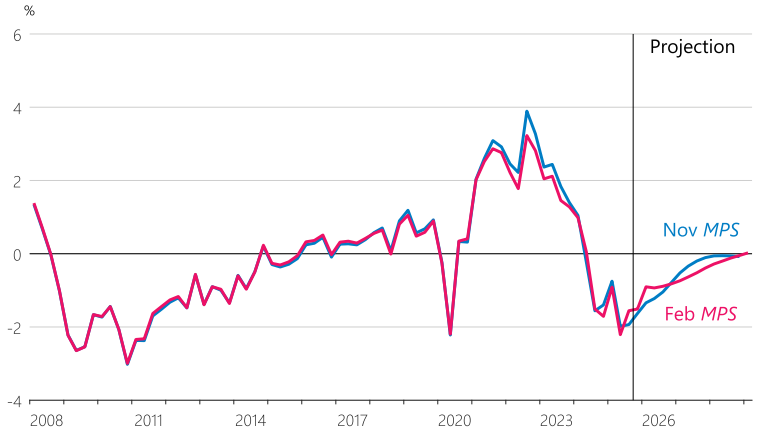
The labour market will take time to recover

Spare capacity in the labour market is substantial but stabilising. The unemployment rate increased to 5.4 percent, as growth in employment was outpaced by growth in the labour force (figure 2.11). Other measures of labour market capacity pressure were mixed — some measures of labour market capacity pressure that we monitor eased, while others tightened (figure 2.12). Most measures of labour market tightness remain at levels consistent with substantial spare capacity (see chapter 4.2 in the November *Statement*). However, labour market conditions are showing early signs of improvement. Total hours worked increased in the second half of 2025 and employment increased in the December 2025 quarter.

Figure 2.10

Output gap

(share of potential, seasonally adjusted)

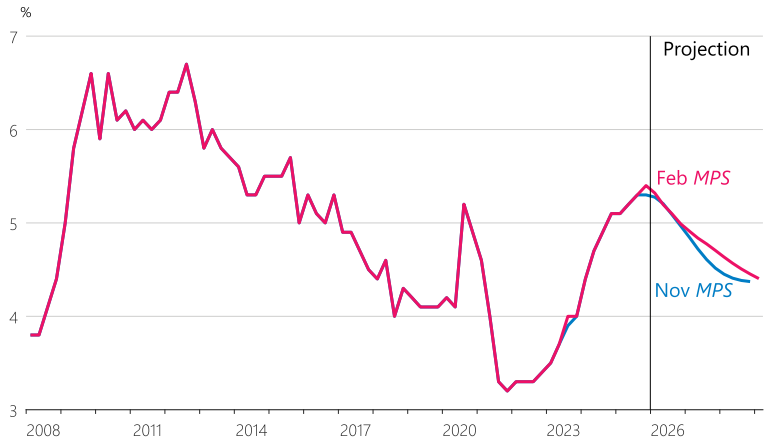


Source: Stats NZ, RBNZ estimates.

Figure 2.11

Unemployment rate

(unemployed people as a share of the labour force, seasonally adjusted)

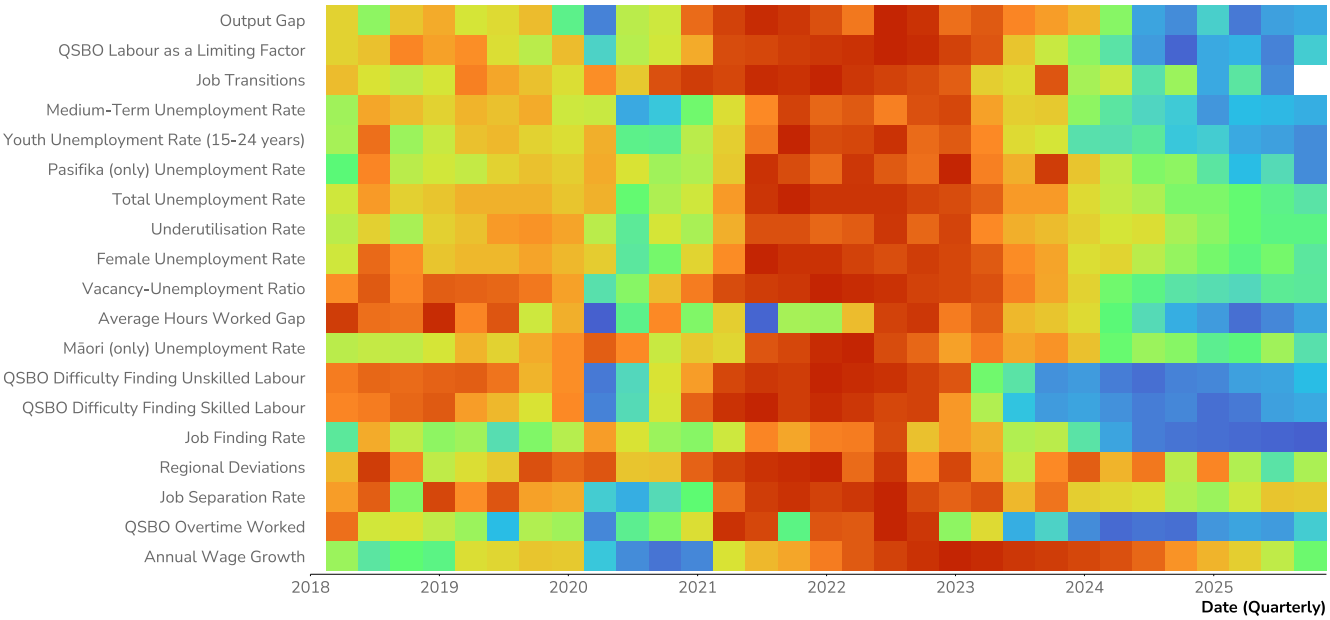


Source: Stats NZ, RBNZ estimates.

Figure 2.12

Labour market indicators

Fill colour shows the standardised value for each variable compared to the weakest, median & strongest since 2000.



Sorted by rank correlation with output gap, top (highest) to bottom (lowest).

Source: Stats NZ, NZIER, MBIE, RBNZ estimates.

Note: See Ball (2024), Assessing and communicating labour market indicators of inflationary pressure.

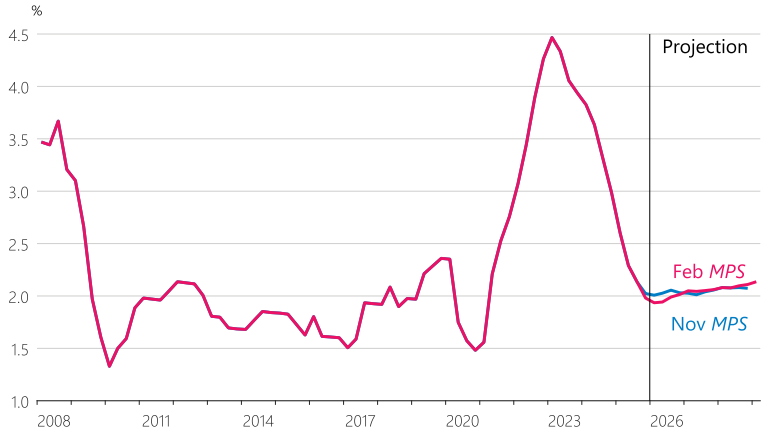
Over time, recovering economic activity will support growth in employment and a reduction in spare capacity in the labour market. Measures of labour market slack tend to lag broader measures of spare capacity and estimates of the output gap. Employment is expected to increase with a delay as economic activity increases, as firms may initially choose to offer more hours to existing workers to meet increasing demand, rather than hiring more workers. The projected decline in the unemployment rate is even more gradual, as greater employment opportunities are assumed to encourage more people to enter the labour force.

Spare capacity is contributing to slower nominal wage inflation. Wage inflation has declined substantially since its peak in 2023. Annual wage inflation, as measured by the labour cost index (LCI, ordinary and overtime, private sector) declined to 2.0 percent in the December 2025 quarter, consistent with the November *Statement* projection.

Figure 2.13

Private sector LCI wage inflation

(annual)



Source: Stats NZ, RBNZ estimates.

Wage inflation is assumed to remain around its current level over the medium term (figure 2.13). Slower wage inflation represents smaller cost increases for businesses and will help to reduce domestic inflationary pressure.

Inflation is temporarily above the MPC's target range, but is expected to return to near the target mid-point in early 2027

Headline inflation is slightly above the 1 to 3 percent target range. Annual CPI inflation increased to 3.1 percent in the December 2025 quarter (figure 2.14). This was more than the 2.7 percent expected at the time of the November *Statement*. Non-tradables inflation had been easing gradually before stabilising in the December 2025 quarter, whereas tradables inflation increased substantially over 2025.

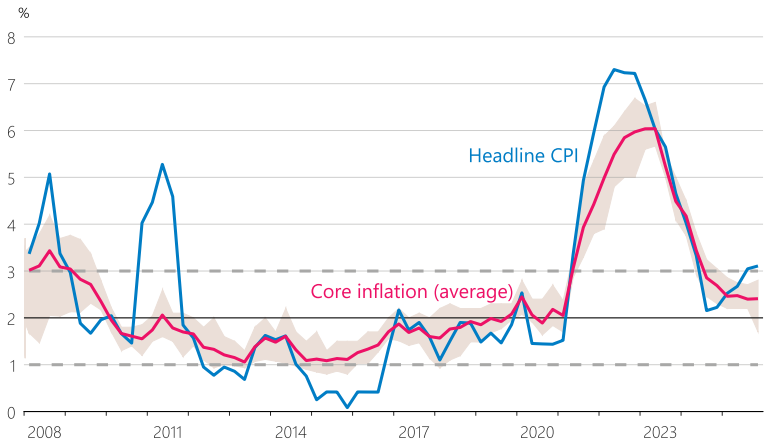
All measures of core inflation remain within the target range, but most are above the target mid-point. Core inflation measures use a variety of approaches to strip away temporary or volatile components of inflation, to give a sense of underlying inflationary pressure. They tend to be a better predictor of future inflation than the headline number. Movements across different annual core inflation measures were mixed in the December 2025 quarter, with some increasing and others decreasing. All measures remain within the 1 to 3 percent target range. However, the average of the five main measures we monitor remains above the target mid-point at 2.4 percent. Further declines in core inflation will be necessary to see inflation settle sustainably near 2 percent.

Annual non-tradables inflation remained at 3.5 percent in the December 2025 quarter (figure 2.15). This was stronger than expected in the November *Statement*. Inflation in sectors most sensitive to monetary policy, such as new housing construction, remains below historic averages. However, inflation in administered prices, such as electricity and local council rates, has remained elevated and is contributing significantly to non-tradables inflation.[2] Inflation increased in the December 2025 quarter in some more volatile non-tradables components, such as domestic airfares and accommodation.

Figure 2.14

Headline and core inflation measures

(annual)



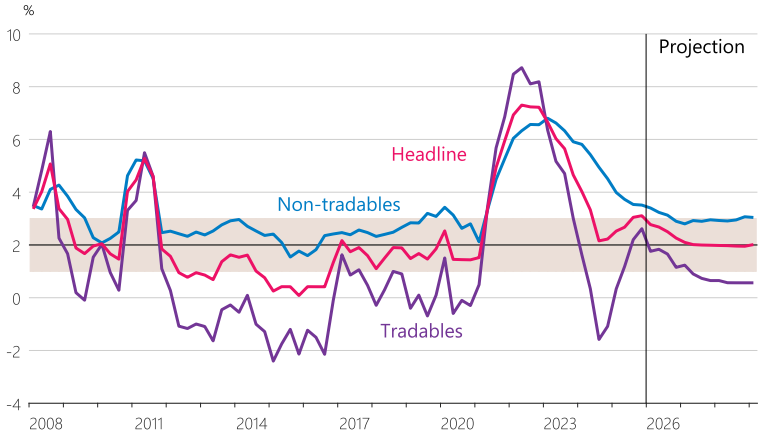
Source: Stats NZ, RBNZ estimates.

Note: The dashed lines represent the MPC's 1 to 3 percent target range for inflation over the medium term. The shaded area shows the range of core inflation measures. The core inflation measures include the sectoral factor model, factor model, trimmed mean (30%), weighted median, and CPI excluding food and energy.

Figure 2.15

Headline inflation, tradables inflation, and non-tradables inflation

(annual)



Source: Stats NZ, RBNZ estimates.

Note: The shaded area represents the MPC's 1 to 3 percent target range for annual CPI inflation over the medium term.

Annual tradables inflation increased to 2.6 percent. This was above our November *Statement* forecast of 2.0 percent. Much of the increase in tradables inflation was accounted for by international air transport and fuel prices, both of which are highly volatile components. However, there were also increases across a broad range of tradables items.

2 This is based on the 'central and local government charges' series produced by Stats NZ. It incorporates a wide range of prices set or heavily influenced by central or local government. Items contributing to high inflation in this series at present include local authority rates, electricity, university fees, and vehicle relicensing fees.

The depreciation in the New Zealand dollar exchange rate over 2025 likely contributed to stronger tradables inflation in the December quarter. Annual food price inflation declined in the December quarter and is expected to reduce further in the near term.

Inflation is projected to return to the target range in the March 2026 quarter (see chapter 4). Some significant one-off price changes during 2025 will fall out of the annual calculation in the coming year. For example, effective from 1 January 2025, the Government replaced the first-year Fees Free scheme with a final-year Fees Free policy, meaning that neither scheme applied to university fees due in 2025. That one-off increase in measured university fees will not be repeated in 2026 and will partially reverse as students under the new scheme reach their final year of study. Electricity lines charges increased significantly in April 2025. These charges are scheduled to increase further in each of the next few years, but by a smaller amount.

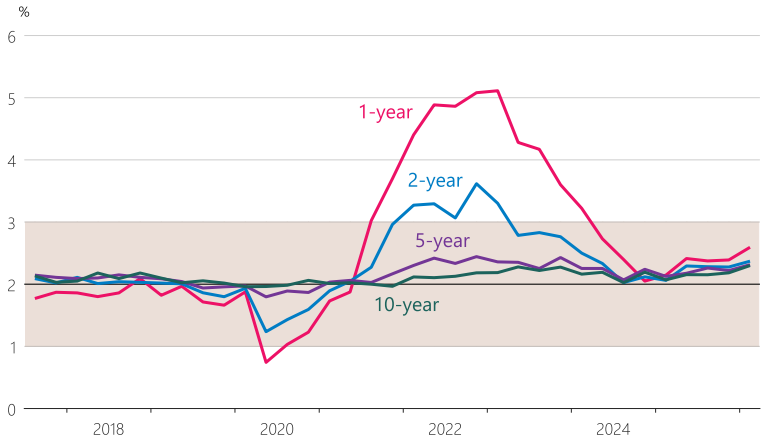
The effects of past high inflation continue to influence price-setting behaviour. In our Survey of Expectations, inflation expectations of professional forecasters and business leaders increased at all horizons (figure 2.16). In the Tara-ā-Umanga — Business Expectations Survey, which is based on a much larger and more representative sample of New Zealand businesses, inflation expectations have increased at the one- and two-years-ahead horizons but declined five years and ten years ahead. In the Tara-ā-Whare — Household Expectations Survey, inflation expectations declined (figure 2.17). One-year ahead household expectations remain elevated relative to history. Higher inflation expectations are consistent with higher experienced inflation, especially at shorter horizons (see chapter 4.2 in the August 2025 *Statement*). This can make inflation more persistent, and means, all else equal, that tighter monetary policy is required to ensure price stability in the medium term.

Spare capacity will continue to reduce underlying inflationary pressures and non-tradables inflation. Headline inflation is projected to converge to near the 2 percent target mid-point over the next year, as some one-off price increases drop out of the annual calculation, tradables inflation declines, and spare capacity and lower wage growth continue to moderate domestic price pressures. Over the medium term, price-setting behaviour is assumed to normalise as households and business continue to adapt to a low-inflation environment. This will enable continued economic growth and a reduction in spare capacity without upward pressure on inflation.

Figure 2.16

Inflation expectations of professional forecasters and business leaders

(annual, years ahead)



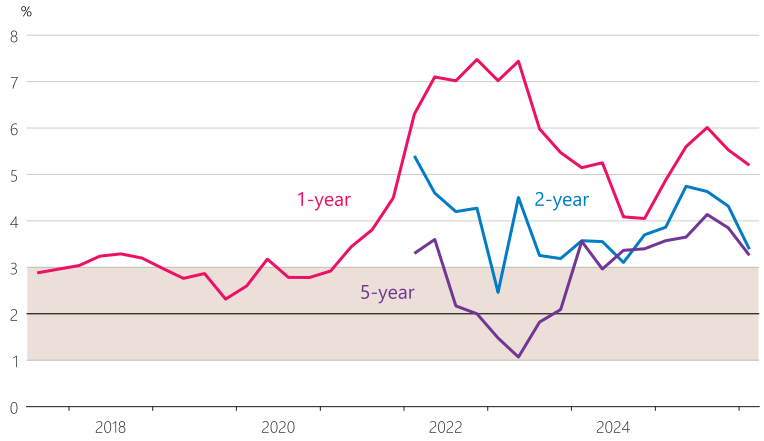
Source: RBNZ *Survey of Expectations*.

Note: The shaded area represents the MPC's 1 to 3 percent target range for annual CPI inflation over the medium term.

Figure 2.17

Inflation expectations of households

(annual, years ahead)



Source: RBNZ *Tara-ā-Whare — Household Expectations Survey*.

Note: The shaded area represents the MPC's 1 to 3 percent target range for annual CPI inflation over the medium term.

Monetary policy outlook

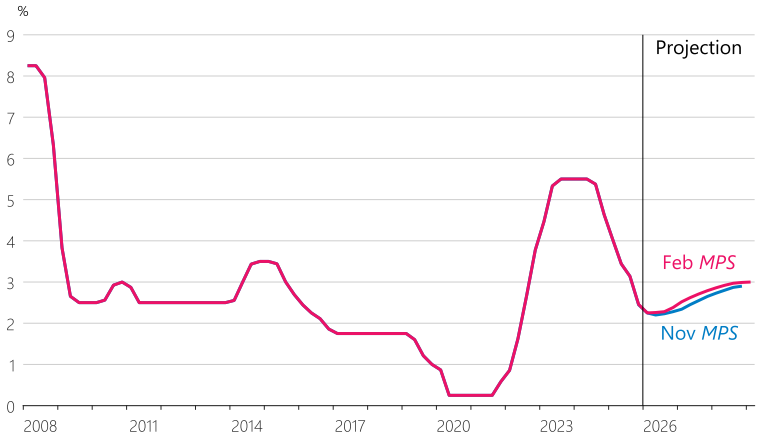
Conditional on the central economic outlook, we project that the OCR will remain around its current level in the near term, before gradually increasing from late 2026 (figure 2.18). We assume price-setting behaviour will continue to adapt to a low-inflation environment, easing inflationary pressure. We also expect that past reductions in the OCR will support an ongoing recovery in domestic activity and a reduction in spare capacity over time. As the economy recovers, the MPC expects to increase the OCR gradually as necessary to contain inflationary pressure and ensure that inflation settles sustainably near the target mid-point.

Compared to the November *Statement*, the OCR is projected to increase slightly sooner. This reflects modestly more persistent inflationary pressure than previously assumed, and increasing confidence that economic growth will continue.

Figure 2.18

OCR

(quarterly average)



Source: RBNZ estimates.

Chapter 03

Global economy and financial markets

Queenstown. Photo: Justine Lee

Chapter 3.
Global economy and financial markets

Key points

Global growth was resilient in 2025 but is expected to slow modestly in 2026. The effects of tariffs on the global economy have been less significant than initially anticipated. Strong investment in AI technology supported exports from our trading partners in Asia in 2025 and is expected to remain a growth driver through 2026. Trade barriers are still expected to present a headwind to global growth, with trading-partner growth expected to weaken slightly over 2026.

Inflation remains low in China, and this has spilt over to much of emerging Asia. Excess supply and weak domestic demand are keeping inflation low in China and weighing on inflation across the broader Asia region. Tariffs are adding to upward pressure on US inflation, though their impact has been smaller than expected so far, with lagged effects still expected to flow through over 2026. Domestic inflationary pressures have continued to increase in Australia.

Financial and economic conditions across advanced economies have diverged over the past year. Differences in monetary policy settings reflect varied outlooks for activity and inflation over the medium term. Global equity markets have increased since the start of 2026 despite recent volatility. The US dollar has weakened, as geopolitical events have reduced investor appetite to hold US dollars at the margin. Prices for oil and precious metals have increased significantly amid growing policy uncertainty and increased geopolitical tensions.

Domestic financial conditions have tightened since the November *Statement*. Financial market participants have lifted their expectation for the level of the OCR over 2026, and longer-term retail interest rates have increased. The New Zealand dollar has appreciated on a trade-weighted basis, reflecting higher domestic interest rates and a weak US dollar.

Global economic conditions

Global growth was resilient to headwinds in 2025

The global economy experienced steady growth in 2025, despite headwinds from US tariff policies and elevated uncertainty (figure 3.1). Bloomberg consensus forecasters estimate that New Zealand's trading-partner growth was 3.1 percent in 2025. This is well above the forecasts of 2.4 percent growth made in May following US tariff announcements in April 2025.

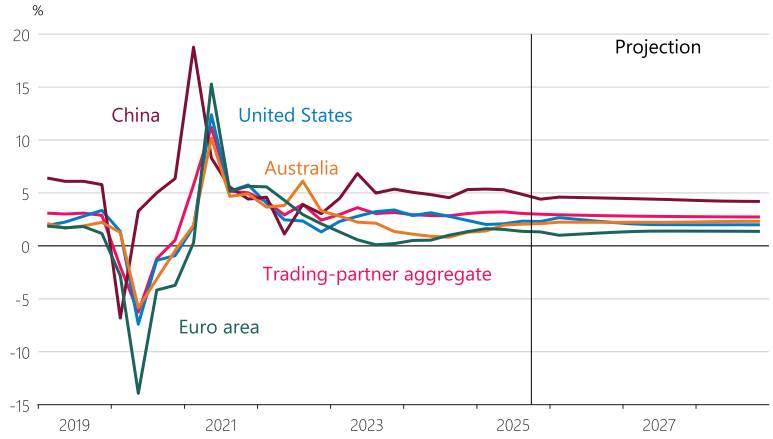
US GDP growth remained resilient in 2025, despite higher tariffs, moderately restrictive monetary policy, and a softening labour market. The US economy grew 2.3 percent in the year to the September 2025 quarter, and is expected to have grown by 2.2 percent over 2025. This resilience has been supported by strong private non-residential investment, as AI-related firms have invested heavily in building infrastructure. Household consumption has also remained firm, increasing 2.6 percent in the year to September 2025 despite subdued consumer confidence and heightened uncertainty. GDP growth in the US is expected to remain steady in 2026, with Bloomberg consensus forecasts suggesting a modest increase in growth to 2.4 percent in 2026.

Exports continue to support growth in China, while domestic demand remains historically weak. Recent activity data show that strong external sector performance has continued to offset weakness in the housing sector and subdued household and business confidence. Although China met its 5 percent GDP target in 2025, underlying domestic momentum remains soft. Growth in retail sales and private investment has been particularly weak. Retail sales increased just 0.9 percent year-on-year in December, while fixed asset investment declined 3.8 percent over the same time period. For both series, these are the lowest annual rates of growth in over three decades when excluding periods of lockdown due to the COVID-19 pandemic. The strength in the external sector in 2025 has reduced the need for additional broad-based stimulus. Instead, Chinese authorities have focused on targeted measures to support the domestic economy, aimed at stabilising stressed sectors rather than materially boosting aggregate demand.

Figure 3.1

Trading-partner growth

(annual)



Source: Haver Analytics, Bloomberg, Consensus Economics, RBNZ estimates.

Note: Projections show consensus forecasts from Bloomberg for 2025, 2026 and 2027, and Consensus Economics for 2028 and beyond. The trading-partner aggregate is based on 16 of New Zealand's largest trading partners.

Australian economic activity has continued to recover following years of below-trend growth. GDP growth in the year to the September 2025 quarter was 2.1 percent as growth continued to steadily increase across the year. Private investment supported growth in the September quarter as growth in household spending slowed. Earlier in the year, household spending had supported growth when private investment remained low. Labour market conditions also remain tight, with the unemployment rate falling 0.2 percentage points to 4.1 percent in December. The unemployment rate in Australia has risen just 0.7 percentage points since its lowest point this cycle in October 2022.

Trade-weighted global inflation has eased, led by disinflation in Asia

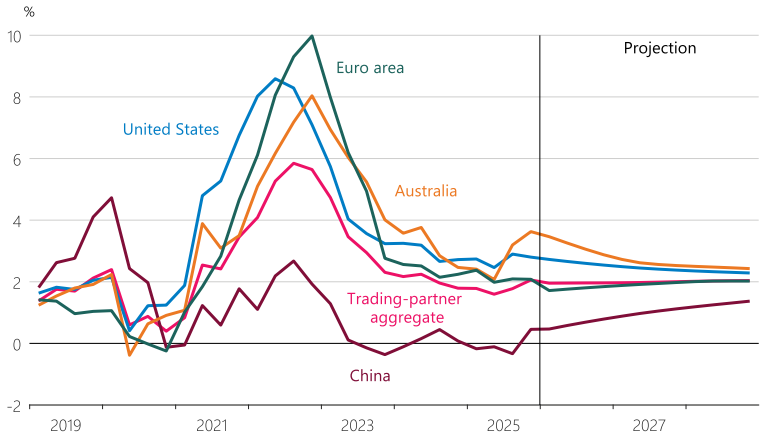
New Zealand trade-weighted global inflation is estimated to have been 1.8 percent in 2025 (figure 3.2). This is down from 2.0 percent in 2024 and below forecasts made at the start of 2025. While tariff policies increased inflationary pressure in some economies, notably the US, these effects have been more than offset by disinflationary pressures in China and the broader Asia region. Due to higher inflation in Asia, New Zealand trade-weighted global inflation is expected to increase modestly this year, to around 2.0 percent.

Inflation in China remained very low in 2025, reflecting excess supply and subdued domestic demand. Excess supply in several industries has placed downward pressure on prices. Authorities have looked to address this through targeted measures, including campaigns to support supply reductions. They have also tightened regulatory oversight across energy-intensive industries such as steel, cement, and coal, as well as selected manufacturing sectors linked to renewable energy equipment and electric vehicles. While these measures are expected to lift producer and consumer prices modestly, annual CPI inflation is still expected to remain low, at 0.7 percent in 2026.

Figure 3.2

Trading-partner inflation

(annual)



Source: Haver Analytics, Bloomberg, Consensus Economics, RBNZ estimates.

Note: Projections show consensus forecasts from Bloomberg for 2025, 2026 and 2027, and Consensus Economics for 2028 and beyond. The trading-partner aggregate is based on 17 of New Zealand's largest trading partners.

Inflationary pressures in the US have eased gradually over recent months. Higher goods inflation, partly reflecting tariff-related price increases, has been more than offset by a larger decrease in services inflation. Annual CPI inflation was 2.7 percent in December, down from 3.0 percent in September. Core inflation (excluding food and energy) eased to 2.6 percent in December, down from 3.3 percent at the start of 2025. Inflation is expected to remain above the Federal Reserve's target through 2026 as the lagged effect of tariff-related price increases continues to increase goods prices while services disinflation persists.

Australian inflation has increased over the second half of 2025. After a period of steady disinflation, annual headline inflation increased to 3.6 percent in the December 2025 quarter, with trimmed mean inflation at 3.4 percent. Inflation in Australia has been supported by stronger domestic demand and housing-related price pressures, amplified by high population growth and ongoing supply constraints. Bloomberg consensus forecasts indicate Australian inflation is expected to remain above the 2 to 3 percent target range of the Reserve Bank of Australia (RBA) in the first half of 2026.

Global financial conditions

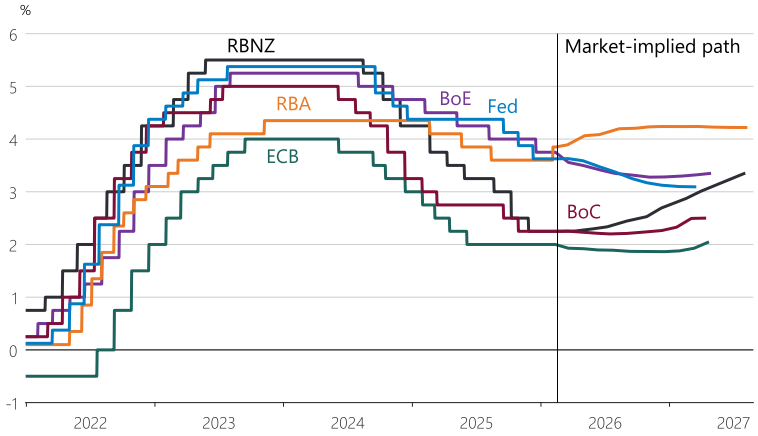
Divergent economic conditions have driven recent changes in global financial markets

Market pricing for central bank policy rates has continued to diverge across jurisdictions, reflecting differences in domestic economic conditions (figure 3.3). Since the November *Statement*, the Federal Reserve and Bank of England (BoE) have each lowered their policy rate by 25 basis points, whilst the European Central Bank (ECB) and the Bank of Canada (BoC) have left their policy rates unchanged. In contrast, the RBA increased its policy rate by 25 basis points in early February and is expected to tighten monetary policy further. Financial market participants now expect varying policy paths moving forward, with the Federal Reserve and BoE expected to ease further, while the BoC and ECB are expected to remain on hold. This reflects differences in current stances of monetary policy relative to estimates of neutral rates, as well as differing domestic economic conditions.

Policy rate expectations and short-term bond yields have increased across jurisdictions. A slightly stronger economic outlook since the November *Statement* has put upward pressure on short-term yields. This has been largest in Australia, Japan and New Zealand, with smaller increases across other jurisdictions.

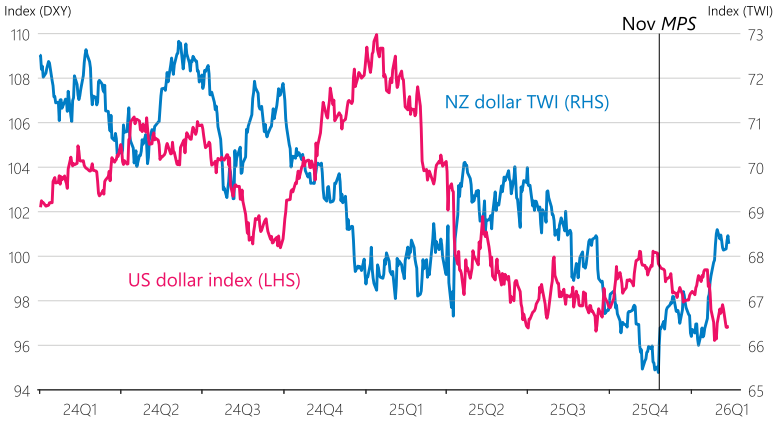
Longer-term bond yields have increased in most of our trading partners since the November *Statement*. This is most notable in Japan, where Prime Minister Takaichi's proposal for increased fiscal spending and a general election in early February heightened concerns for Japan's debt sustainability and inflation outlook. Changes elsewhere have been more moderate as term premia, which reflect the additional compensation demanded by investors for holding long-term assets, have continued to increase.

Figure 3.3
Policy rate expectations



Source: Bloomberg.

Figure 3.4
US dollar index and NZ dollar TWI
(nominal)



Source: Bloomberg, RBNZ.

Policy uncertainty and changes in near-term monetary policy expectations have driven moves in currency markets. The US dollar index is down 2.75 percent since the November *Statement* (figure 3.4). This reflects a similar dynamic that contributed to the US dollar depreciating after tariffs were announced in early April 2025, when investors became more cautious about their exposure to US dollars.

The Japanese yen has also depreciated materially and is now around 9 percent weaker on a trade-weighted basis than in mid-2025, driven by expectations of expansionary fiscal policy amidst already high debt levels and inflation. The Australian dollar has appreciated significantly due to expectations for higher policy rates.

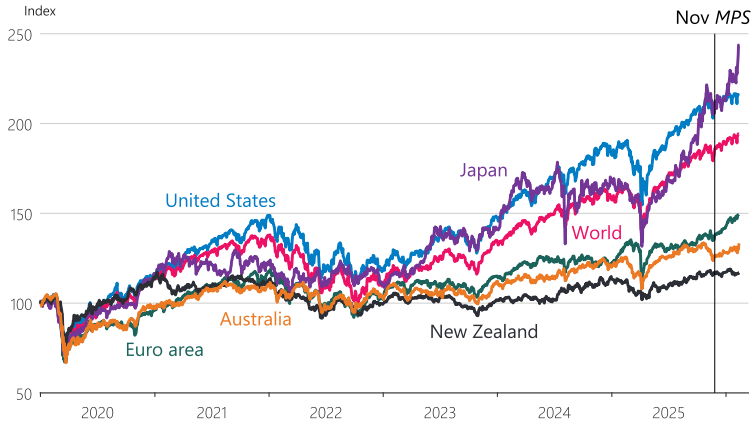
Global equity prices have continued their upward trend despite concerns about heightened geopolitical risk (figure 3.5). The MSCI World Index has increased 4.5 percent since the November *Statement,* despite some periods of short-lived declines in risk appetite in response to recent geopolitical events and AI-related uncertainty. Japanese equity prices have been particularly strong over this period due to expectations for additional fiscal stimulus, yen depreciation and rising inflation expectations, with the TOPIX increasing 15.7 percent since the November *Statement.* Although the US S&P 500 was higher over the same time period, prices in the technology sector have been volatile and have declined since the November *Statement*. These moves have come in response to concerns over future corporate earnings in AI-exposed companies, and more recent fears that software companies could be affected by increased AI integration.

Oil and precious metals prices have increased since the November *Statement*. Oil prices have increased 8.1 percent since the November *Statement* amid recent tensions in Iran, which raised concerns about oil supply. Brent crude oil prices have settled to levels broadly comparable with the average over 2025. Precious metals prices have increased sharply in recent months to new record highs. Uncertainty surrounding safe-haven assets in countries including the US, euro area, and Japan have contributed to higher metals prices over 2025.

Figure 3.5

Global equity prices

(index = 100 on 30 December 2019)



Source: Bloomberg.

Note: Daily closing values of headline equity price indices in local currency terms. Indices are S&P/NZX 50 (New Zealand), Euro Stoxx 50 (euro area), S&P 500 (United States), TOPIX (Japan), S&P/ASX 200 (Australia), and MSCI World (World).

Domestic financial conditions

Wholesale interest rates have increased

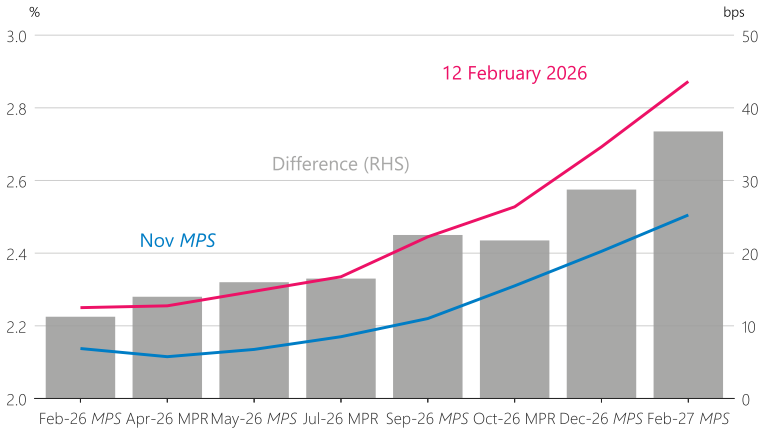
Financial market participants have increased their expectations for the level of the OCR over 2026 (figure 3.6). This increase occurred in the days immediately after the November *Statement*, and after a sequence of strong domestic data releases in January. Financial market participants expect the OCR to increase by around 30 basis points by October 2026, and around 40 basis points by February 2027.

Swap rates have increased by around 40 to 60 basis points for tenors of two years and further out (figure 3.7). Higher swap rates largely reflect increases in financial market participants' expectations for the OCR. Higher global interest rates since the November *Statement* – particularly in Australia – have also contributed to higher domestic interest rates, but to a lesser extent than domestic factors.

Recent longer-term mortgage fixing by households may have resulted in higher-than-otherwise swap rates since the November *Statement*. In addition to financial markets participants' expectations for the OCR, swap rates are likely to have been affected by longer-term mortgage-fixing behaviour in recent months. This is because commercial banks hedge the interest rate risk of a fixed-term mortgage.[3] Increased demand by commercial banks to hedge interest rate risk in the swap market can push swap rates higher. This effect can be larger in December and January, when liquidity in the swap market can be lower than usual.

Figure 3.6

Financial market participants' expectations for the OCR

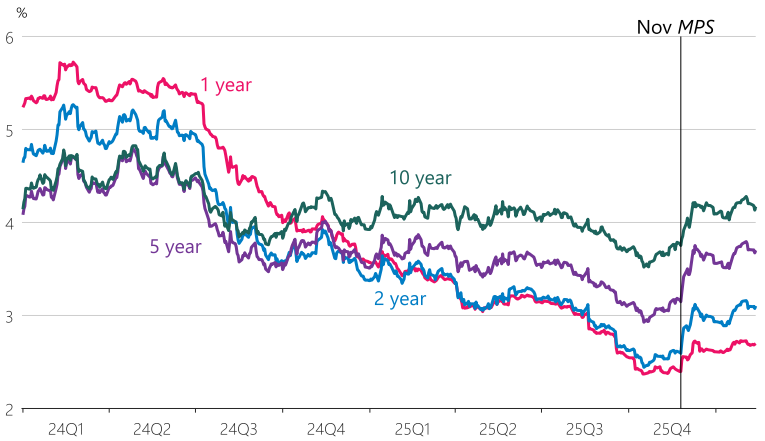


Source: Bloomberg.

Note: The blue line shows expectations for the OCR immediately before the November *Statement*. Each data point represents market expectations of the level of the OCR at a given point in the future, as measured by overnight indexed swap pricing.

Figure 3.7

New Zealand interest rate swaps



Source: Bloomberg.

3 For an overview of how interest rate swap rates relate to retail mortgage rates in New Zealand, see Wynands (2024), *Transmission accomplished? Monetary policy pass-through to bank funding costs and mortgage rates*.

A larger share of new mortgage lending was fixed for longer terms in December, which may have put further upward pressure on swap rates. In November, almost half of new mortgage lending had been set on floating mortgage rates, likely reflecting household expectations for lower mortgage rates after the November *Statement* (figure 3.8). The share of new mortgage lending being fixed for at least one year increased from around 40 percent in November to around 70 percent in December, likely due to households deciding to fix for longer terms in anticipation of higher interest rates in the future. Market participants reported that mortgage hedging demand had contributed to higher swap rates since the November *Statement*.

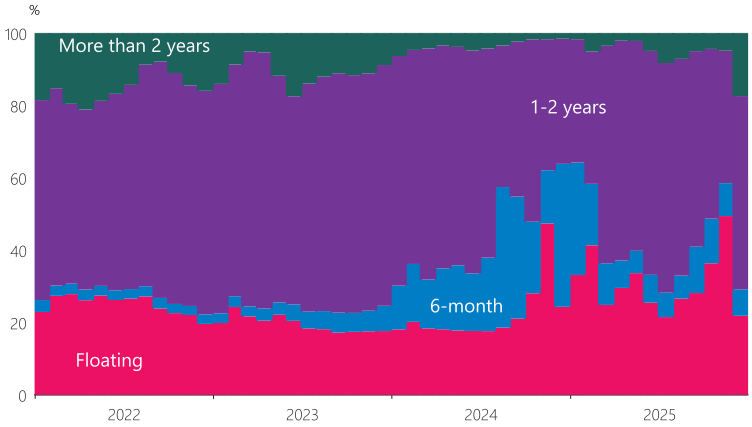
Retail interest rates have increased

Higher wholesale interest rates have transmitted to retail interest rates. Advertised fixed-term mortgage rates have increased by around 35 to 60 basis points for terms of two years and longer since the November *Statement* (figure 3.9). Term deposit rates for terms of two years and longer have increased by around 45 to 50 basis points over the same period. Retail interest rates with tenors of one year or shorter have changed by less than longer-term retail interest rates, consistent with movements in wholesale interest rates.

Close to 40 percent of fixed mortgage lending is estimated to be due to refix in the first half of 2026. The share of fixed mortgage lending that is being refixed each quarter remains elevated by historical standards, reflecting mortgage borrowers' recent preference for shorter-term mortgage rates.

Figure 3.8

Proportion of new mortgage lending volume by term

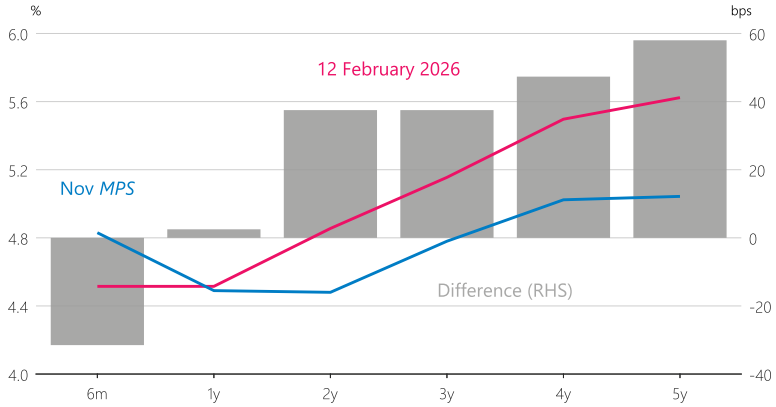


Source: RBNZ.

Figure 3.9

New Zealand mortgage rates

(terms in years)



Source: interest.co.nz.

Note: The 6-month to 3-year mortgage rates shown are the average of the latest advertised fixed-term rates on offer from ANZ, ASB, BNZ, and Westpac for mortgages with a loan-to value ratio of less than 80 percent. The 4- and 5-year mortgage rates are the average of the latest advertised fixed-term rates on offer from ASB, BNZ, and Westpac.

The average mortgage yield on residential mortgage loans declined to 5.1 percent in December 2025, from a peak of around 6.4 percent in October 2024. We estimate that the average mortgage yield may fall slightly further, despite recent increases in advertised mortgage rates. This is because the average mortgage holder is still estimated to be moving onto lower interest rates.

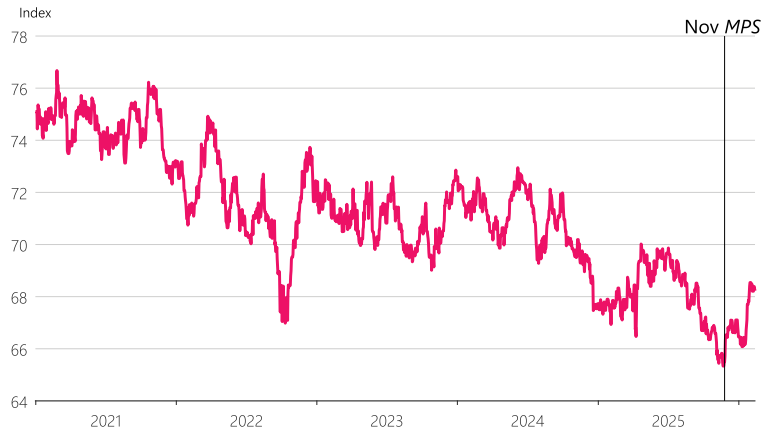
The exchange rate has appreciated

The New Zealand dollar trade-weighted index (TWI) has appreciated by 4.2 percent since the November *Statement* (figure 3.10). The appreciation partly reflects changes in interest rate differentials between New Zealand and our trading partners. New Zealand interest rates, such as the two-year swap rate, have increased by more than equivalent interest rates in many of our trading partners since the November *Statement*. Recent weakness in the US dollar has put further upward pressure on the New Zealand dollar TWI. The US dollar, along with currencies closely linked to it, specifically the Chinese yuan, the Hong Kong dollar, and the Vietnamese dong, accounts for 40 percent of New Zealand's TWI basket.

Figure 3.10

New Zealand dollar trade-weighted index

(nominal)



Source: RBNZ.

Chapter 04

Special topics

Waimarino. Photo: John Knowles

Chapter 4.
Special topics

Before the publication of each *Statement*, Reserve Bank staff provide analyses of some topical issues to the Monetary Policy Committee.

A topic for the February *Statement* was recent developments in inflation and the outlook for key drivers.

Special topics in the past 12 months

Topic	Date/publication
How are high commodity prices affecting the New Zealand economy?	November 2025 *Statement* (Chapter 4)
A closer look at our measures of labour market spare capacity	November 2025 *Statement* (Chapter 4)
Household sector developments and outlook	August 2025 Statement (Chapter 4)
Assessing developments in inflation expectations	August 2025 *Statement* (Chapter 4)
How does uncertainty affect the New Zealand economy?	May 2025 *Statement* (Chapter 4)
The transmission of higher global tariffs to the New Zealand economy	May 2025 *Statement* (Chapter 4)
The implications of global tariffs for the New Zealand economy	February 2025 *Statement* (Chapter 4)
Outlook for some of New Zealand's key commodity exports	February 2025 *Statement* (Chapter 4)

Recent developments in inflation and the outlook for key drivers

Summary

- **Annual headline inflation decreased steadily from its 2022 peak but began to increase again in 2025, reaching 3.1 percent in the December 2025 quarter.** The earlier decline reflected a combination of easing non-tradables inflation and very weak tradables inflation. The recent increase reflects stronger tradables inflation and a slowing in the decline of non-tradables inflation.
- **Annual tradables inflation increased from historically low levels in 2024 to elevated levels over 2025.** This increase was accounted for by several factors, including higher prices for food, international travel and accommodation, stabilising petrol prices following earlier declines, and a depreciation of the New Zealand dollar exchange rate. We forecast annual tradables inflation to decline to around its long-run trend of about 1 percent by mid-2027.
- **Annual non-tradables inflation continued to decrease over 2025 but remains elevated due to historically high administered price inflation.** We expect that annual non-tradables inflation will decline to around 3 percent by late 2026.
- **We expect spare capacity to reduce inflationary pressure.** Our central projections assume that price-setting behaviour continues to adapt to a low-inflation environment and administered price inflation declines. If any of these evolve differently to what we assume, this would result in either higher or lower non-tradables inflation than our forecast.
- **Our central projections assume that the New Zealand dollar exchange rate remains unchanged and that import price inflation is low.** There are risks in both directions to these assumptions, which would result in higher or lower tradables inflation than we assume.

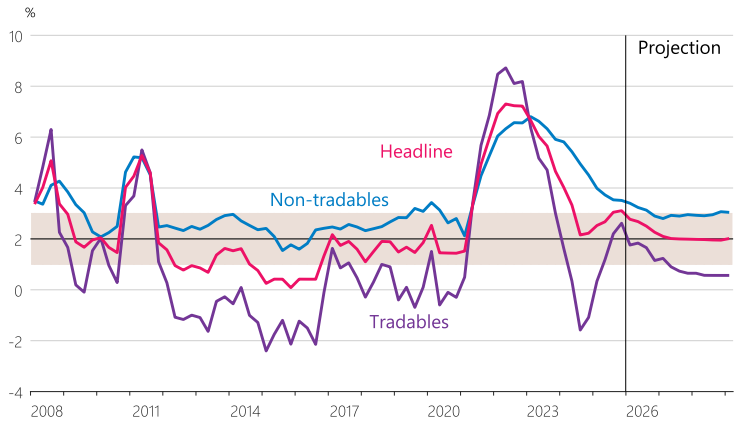
Recent inflation developments

Annual headline inflation declined from its peak in 2022 to around the target mid-point by late 2024 (figure 4.1). While headline inflation evolved broadly as we expected, non-tradables inflation declined more slowly than anticipated. The slower decline in non-tradables inflation is consistent with spare capacity in the economy taking longer to emerge than assumed. During this time, tradables inflation fell sharply to historically low levels, partly accounted for by declines in fuel prices.

Figure 4.1

Inflation components

(annual)



Source: Stats NZ, RBNZ estimates.

Note: The shaded area represents the MPC's 1 to 3 percent target range for annual CPI inflation over the medium term.

Annual non-tradables inflation continued to decline in 2025, albeit more gradually than we had initially expected. Significant spare capacity and price-setting behaviour adjusting to a low-inflation environment continued to reduce inflationary pressure. However, the decline was slower than expected, partly due to historically high inflation in administered prices. Administered prices refers to prices set or heavily influenced by central or local government.

Administered price inflation increased only slowly during the high-inflation period from 2021 to 2022, but then increased rapidly. This increase added significant upward pressure to non-tradables inflation over late 2024 and 2025. While some movements in administered prices are related to macroeconomic conditions, for instance increasing labour costs, many are not. Administered price changes are relatively less sensitive to monetary policy, because prices often reflect policy decisions rather than decisions by firms. Administered price changes may also reflect demand conditions and cost pressures in the economy, but often respond with a longer lag than prices set by firms.

Annual tradables inflation increased from very low to elevated levels over 2025. Increasing tradables inflation reflected several factors, including higher food prices, increasing overseas travel and accommodation costs, stabilising petrol prices following earlier declines, and a depreciation in the New Zealand dollar exchange rate. Monetary policy in New Zealand has less influence on tradables inflation, as tradables goods and services are more heavily affected by global conditions.

While headline inflation is above the 1 to 3 percent target range, all measures of core inflation have declined to be within the target range. To get a broader picture of underlying inflationary pressure, the Reserve Bank looks at a suite of core inflation measures, which excludes the impact of more volatile price movements and one-off price shifts. On average, core inflation measures have remained broadly flat at around 2.4 percent over 2025 (figure 4.2).

The outlook for key drivers of inflation

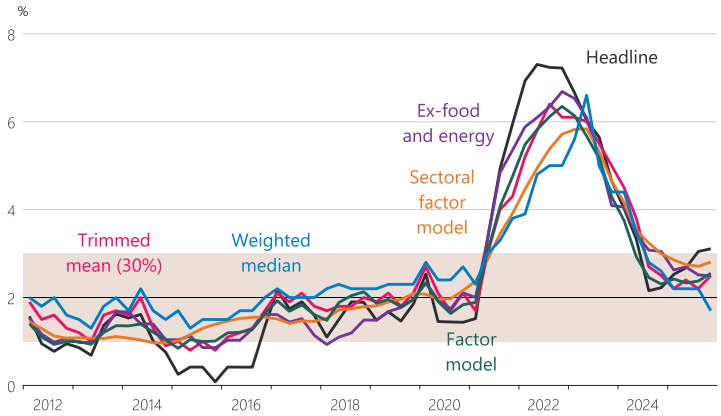
We expect headline inflation to return to around the 2 percent target mid-point by early 2027 as non-tradables inflation returns to around 3 percent and tradables inflation declines to around 1 percent. Underlying drivers for non-tradables and tradables inflation suggest that headline inflation will decline. However, this outlook depends on several key assumptions. If key drivers of inflation evolve differently to what we currently assume, this would result in a different outlook for inflation. Monetary policy may need to adjust accordingly to ensure we meet our inflation target.

Significant spare capacity in the economy is assumed to continue to reduce inflation. A negative output gap emerged from the middle of 2024, as economic activity contracted. The economy has been operating with significant spare capacity since then, which has reduced inflation, particularly for non-tradables goods and services.

Figure 4.2

Measures of core inflation

(annual)



Source: Stats NZ, RBNZ estimates.

Note: The shaded area represents the MPC's 1 to 3 percent target range for annual CPI inflation over the medium term.

We estimate that the output gap was around -1.5 percent of potential, seasonally adjusted GDP in the December 2025 quarter. We use a suite of indicators to assess the current output gap, but there is always significant uncertainty around this assumption (figure 4.3). We forecast the output gap to close over the medium term as lower interest rates continue to support stronger demand.

Given its key role in driving inflation, the pace at which the output gap closes is a key risk to the inflation outlook. If economic growth accelerates more quickly than we assume, this could place additional upward pressure on non-tradables inflation. However, if growth isn't as strong as we expect and spare capacity persists, this could result in lower non-tradables inflation and headline inflation declining below the 2 percent target mid-point.

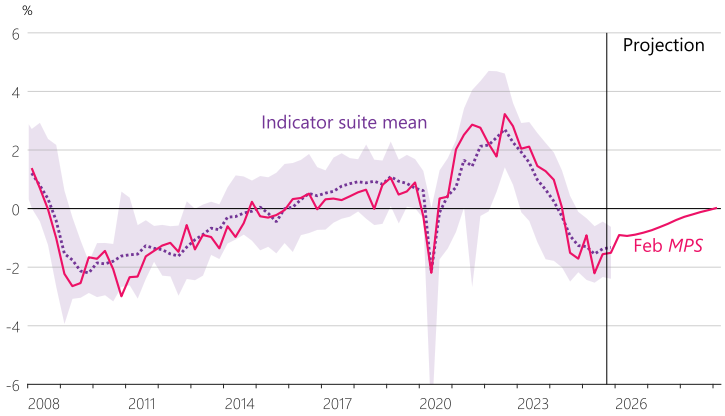
The experience of high inflation over 2021 to 2023 is resulting in persistent inflationary pressure, but we assume that this will fade over the medium term. Price-setting behaviour describes how firms adjust their prices based on past and expected future inflation.[4] We monitor a range of modelled and survey-based measures of price-setting behaviour to inform our judgements and assess risks to inflation persistence (see chapter 4.1 in the August 2024 *Statement*). Our projections assume that price-setting behaviour is adapting to a low inflation environment, and that this will continue to reduce inflationary pressure over the medium term (figure 4.4).

The range of measures we monitor suggest there is a risk of price-setting behaviour adjusting down either more quickly or more slowly than we assume. Higher non-tradables inflation than we had expected over 2025 could be a sign that price-setting behaviour is adapting more slowly than we have assumed. If this is the case, non-tradables inflation may remain high for longer than we anticipate, resulting in headline inflation taking longer to return to the 2 percent target mid-point.

Figure 4.3

Output gap and indicator suite

(share of potential, seasonally adjusted)



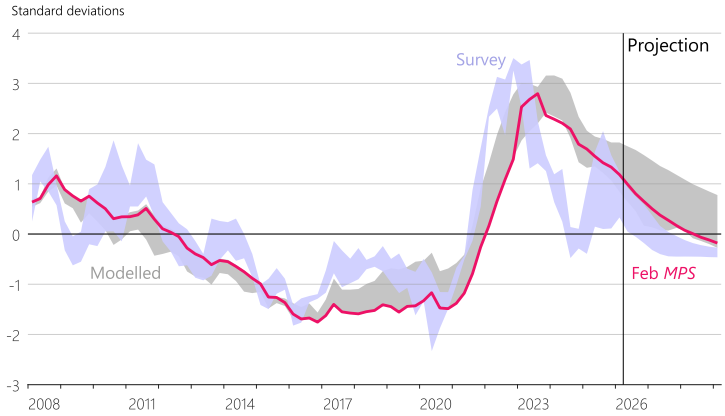
Source: Stats NZ, NZIER, MBIE, RBNZ estimates.

Note: The shaded area shows the range of indicators in the suite. The vertical line shows the final quarter of published GDP data.

Figure 4.4

Price-setting behaviour and range of measures

(standardised over history)



Source: RBNZ estimates.

Note: Measures have been standardised over history to make them comparable given differences in historical averages and degrees of variability between measures. The vertical axis shows how many standard deviations away from its historical average each measure is, where zero indicates the historical average. Survey measures include household expectations for inflation 1 year ahead and businesses' 1- and 2-year-ahead inflation expectations. Modelled measures include the measure from NZSIM, more flexible variations of the NZSIM measure that are more sensitive to inflation data, and a measure based on the simple average of headline inflation over the past 3 years. Projections are based on estimated historical relationships with headline inflation, and conditional on our current projection for inflation.

4 See Kendall and Sing (2025), How well do different measures of price-setting behaviour explain non-tradables inflation?

Administered price inflation remains high relative to its historical average (figure 4.5). When inflation increased sharply over 2021 to 2022, administered price inflation was slower to rise than other non-tradables components. However, administered price inflation then increased quickly over 2023 and 2024, and remained historically high in 2025, contributing to a slower reduction in the overall rate of non-tradables inflation.

Our projections assume that administered price inflation will decline over time. Inflation in some administered price components is likely to ease in 2026, for instance:

- electricity, as annual regulated lines charge increases are smaller than in 2025;
- university fees, which showed a large measured price increase in the March 2025 quarter due to a policy change from first-year to final-year free tertiary education, which is not repeated and expected to partially reverse; and
- vehicle licensing fees, which increased in the March 2025 quarter and March 2026 quarter and are not currently scheduled to increase further.[5]

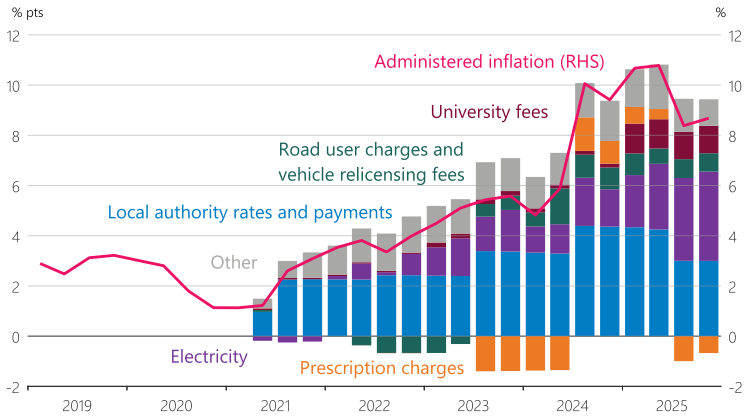
However, we are uncertain about the extent of decline in inflation in these categories, and about the likely trends in inflation for other administered prices. Higher than expected inflation in administered prices remains a key risk. For example, while local council rates increases slowed slightly in 2025, they remain historically elevated amidst ongoing local council funding pressures.

We assume that the New Zealand dollar exchange rate remains unchanged over the projection. The New Zealand dollar exchange rate is a key determinant of tradables inflation, influencing the price we pay for imported goods and services. The New Zealand dollar depreciated over 2025, contributing to higher import costs, but has appreciated since the beginning of the year.

Figure 4.5

Contributions to administered price inflation

(annual)



Source: Stats NZ, RBNZ estimates.

While we assume that the New Zealand dollar exchange rate remains unchanged over the projection period, it is likely that the exchange rate will move over time, contributing to variations in tradables inflation relative to our forecasts. A range of global and domestic risks could result in a higher or lower New Zealand dollar (see chapter 3).

We assume that the cost of New Zealand's imports evolves in line with historical trends, contributing to low tradables inflation. Our projections assume that New Zealand's import prices increase by about 1 percent per year in foreign currency terms, around their historical average. This follows several years of small declines in import prices, after a sharp increase during the COVID-19 pandemic. Import prices could fall further if trade is redirected and New Zealand receives cheaper imports from economies facing higher US tariffs (see chapter 4.2 of the May 2025 *Statement*). Conversely, deglobalisation or trade barriers could result in higher import prices, due to higher production costs for firms using tariffed inputs and less efficient supply chains.

5 Note that due to a measurement error, Stats NZ incorporated the price effect of the March 2025 quarter increase in vehicle licensing fees in the June 2025 quarter CPI.

Chapter 05

Economic projections

Matiu Island. Photo: Trent Lockyer

Chapter 5.
Economic projections

This chapter summarises the central economic projections that the MPC considered when making their policy assessment. The projections were finalised on 12 February 2026.

Inflation is slightly above the target range, but spare capacity in the economy is expected to continue to put downward pressure on inflation. Annual CPI inflation was 3.1 percent in the December 2025 quarter due to both high tradables inflation and administered price inflation, both of which are less responsive to monetary policy. The average of core inflation measures was 2.4 percent and has declined slightly over the past year.

We project annual CPI inflation to decrease to near the 2 percent target mid-point in the March 2027 quarter. Annual tradables inflation is projected to decline and annual non-tradables inflation is projected to decrease as spare capacity reduces inflationary pressure in the economy, price-setting behaviour adapts to a low-inflation environment, and administered price inflation normalises.

A recovery in economic activity has begun, and this is expected to reduce spare capacity over the next two years. The output gap is assumed to have been -1.5 percent of potential GDP in the December 2025 quarter. Timely indicators suggest that economic growth is now above potential growth, and we project the output gap to gradually close as past monetary easing continues to pass through to stronger demand.

The New Zealand labour market has remained weak. The unemployment rate increased to 5.4 percent in the December 2025 quarter. This was accounted for by more people entering the labour force. The employment and participation rates increased, which indicates an increase in both labour demand and labour supply. Same-job wage growth has decreased to a level consistent with headline inflation near the target mid-point. Spare capacity in the labour market is reducing inflationary pressure. We expect the unemployment rate to decrease over the projection in line with the recovering output gap.

This projection assumes the OCR remains at 2.25 percent until about late 2026, before gradually increasing towards 3 percent, consistent with our suite of indicators of the long-term nominal neutral OCR.

These projections represent what we believe to be the most likely path for the economy, conditional on a range of assumptions. However, it is only one of many possible paths. Global developments and the evolution of the domestic economy are likely to be different to our assumptions.

Table 5.1
Key projection assumptions

Economic growth and capacity pressure	
Production	• GDP increased 1.1 percent in the September 2025 quarter. Timely indicators suggest growth continued in the December 2025 quarter, especially in manufacturing and construction. Higher activity is consistent with the decreases in interest rates since August 2024. • We assume that GDP growth was 0.5 percent in the December 2025 quarter and will be 1.1 percent in the March 2026 quarter. Although the headline GDP growth measure is seasonally adjusted, it currently appears to have a remaining predictable seasonal pattern. Our March 2026 quarter assumption accounts for our estimate that residual seasonality will add 0.4 percentage points to Stats NZ's published numbers, and represents underlying growth of 0.7 percent. This residual seasonality is assumed to reverse in the June 2026 quarter, and does not affect the medium term of the projection. We have not accounted for residual seasonality in quarters after June 2026. • GDP is assumed to be increasing more quickly than potential GDP, supported by lower real interest rates, reduced uncertainty levels compared to mid-2025, and the lagged effect of high export revenue (figure 5.5).
Domestic capacity pressures	• The output gap is assumed to have been -1.5 percent of potential GDP in the December 2025 quarter. This is 0.1 percentage points less negative than at the November *Statement*. • The output gap is assumed to be narrowing in response to the lagged effect of reductions in real interest rates, reduced uncertainty, and relatively high export prices over the past 18 months. We assume the output gap will increase to -0.8 percent at the end of 2026, and -0.4 percent at the end of 2027.
Consumption	• Consumption growth continues to increase and contribute to narrowing the output gap. However, this growth remains modest as the population is only increasing gradually. Low consumption growth is consistent with low house price growth constraining household net wealth, and low real household income growth. • Over the medium term, consumption is assumed to strengthen, supported by lower interest rates, stabilising real wealth, and increasing real incomes. The household savings rate has been positive in the past year, which is consistent with a negative output gap and elevated unemployment. • House price growth is assumed to remain low in the near term due to a high stock of houses available for sale and low price momentum. Although house prices have been roughly unchanged in nominal terms for three years, they are still high relative to our estimates of sustainable house prices. We project our suite of sustainable house price indicators consistent with our forecasts for household income growth and population growth (figure 5.4). We assume that house prices will converge toward their sustainable level in the medium term, which results in a projection of modest real house price growth.
Business investment	• Business investment is projected to increase over the medium term, responding to lower interest rates and a narrowing negative output gap. Reduced spare capacity increases the incentives for firms to invest in capital. • Timely indicators show both investment intentions and general business sentiment improved over the December 2025 quarter. • The capital review is assumed to result in slightly higher business investment over the long term. See more information on the bank capital requirements below. The Investment Boost policy is also assumed to support business investment over the projection.

Residential investment	• Residential investment has decreased significantly over the past three years, but recent increases in new dwelling consents suggest that a recovery has begun. • Residential investment is projected to increase over the medium term, as lower interest rates strengthen developer balance sheets, support housing demand, and increase the incentive to build.
Government	• Government spending is assumed to be consistent with fiscal forecasts in the *Half Year Economic and Fiscal Update* 2025, updated for new September 2025 quarter GDP data. • Real government consumption is projected to decline as a percentage of potential GDP over the medium term.
Export and import volumes	• Export volumes are projected to grow quickly in the near term due to greater services exports, such as tourism. Over the medium term, we assume export volumes grow at a similar rate to potential GDP. • Import volumes are assumed to evolve in line with other components of GDP over the medium term.
Bank capital requirements	• In December 2025, the Reserve Bank announced it would reduce banks' requirements for Common Equity Tier 1 capital relative to the settings in the 2019 capital review. We use estimates of changes to banks' cost of funding as the basis for the assumed effect in this projection. • All else equal, the new bank capital requirements are expected to decrease bank lending rates by about 8 basis points compared to settings prior to the announcement. • We assume lower bank lending spreads lead to an increase in long-term GDP of 8 basis points. We implemented this in our forecast via an increase in business investment, which leads to a larger capital stock and higher potential GDP in the long term.
Global factors	
Global interest rates and exchange rate	• Expectations for global policy interest rates are about 15 basis points higher than our November *Statement* assumption. This is mostly accounted for by higher interest rate expectations in Australia following higher-than-expected CPI inflation (see chapter 3). All else equal, higher global interest rates would put downward pressure on the New Zealand dollar, which adds to inflationary pressure in New Zealand. • This projection assumes the New Zealand dollar TWI is about 3 percent higher than the November *Statement* assumption (68 vs 66 in the November *Statement*). Despite higher global interest rates, the New Zealand dollar TWI appreciated. This appreciation is broadly consistent with higher New Zealand interest rates and economic activity.
Export prices	• Export prices are expected to decrease toward their long-term average level in real foreign currency terms. Much of this decrease has already been observed in dairy auctions to date, but will take time to flow through to the national accounts measure of export prices. Prices for meat exports are expected to remain high, and prices for other export categories are assumed to increase in line with global inflation in the medium term.
Import prices	• Prices for imports to New Zealand have continued to decrease relative to global CPI. We assume import prices will increase broadly in line with historical average rates over the medium term.

Labour market	
Employment and wages	• The unemployment rate increased to 5.4 percent in the December 2025 quarter. This was accounted for by more people entering the labour force. The employment and participation rates along with total hours worked increased, which indicates an increase in both labour demand and labour supply. • Same-job wage growth has decreased to a level consistent with headline inflation near the target mid-point. • Spare capacity in the labour market is currently contributing disinflationary pressure. We expect the unemployment rate to decrease over the projection in line with the recovering output gap.
Migration	• Net working-age immigration has been gradually increasing over the past year, as New Zealand's labour market has begun to stabilise. We assume a gradual increase in net working-age immigration over the medium term, to an annual rate of about 30,000 people, as the labour market recovers.

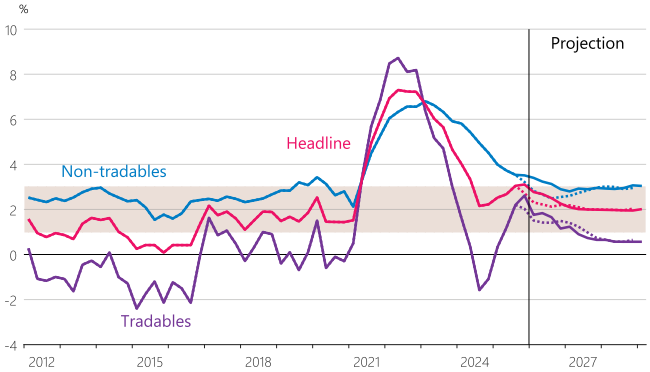
Inflation	
Headline CPI inflation	• Annual CPI inflation is forecast to decrease to 2.8 percent in the March 2026 quarter, down from 3.1 percent in the December 2025 quarter. In the medium term, inflation is projected to decrease as price-setting behaviour adapts to a low-inflation environment, and as administered price inflation and tradables inflation normalise. We project annual CPI inflation to return to near our 2 percent target mid-point in the March 2027 quarter. • The average of core inflation measures has declined slightly to 2.4 percent over the past year. We expect these to converge towards our 2 percent target mid-point over time.
Non-tradables	• Annual non-tradables inflation is forecast to decrease to 3.4 percent in the March 2026 quarter, down from 3.5 percent in the December 2025 quarter. • We expect non-tradables inflation to evolve according to a Phillips curve relationship, which is primarily a function of the output gap and price-setting behaviour. The negative output gap is putting downward pressure on non-tradables inflation, as price-setting behaviour continues to adapt to a low-inflation environment.
Tradables	• Annual tradables inflation is forecast to decrease to 1.7 percent in the March 2026 quarter, down from 2.6 percent in the December 2025 quarter. Lower petrol prices, easing food price inflation, and the base effect of a high quarterly rate one year earlier contribute to the lower near-term annual tradables forecast. • Relative to the November *Statement*, tradables inflation is slightly lower from late 2025 to late 2026 due to the pass-through of the higher New Zealand dollar exchange rate, and slightly lower import prices over recent quarters. We assume a similar end point for tradables inflation in line with its long-term trend.

Charts

Figure 5.1

Inflation components

(annual)



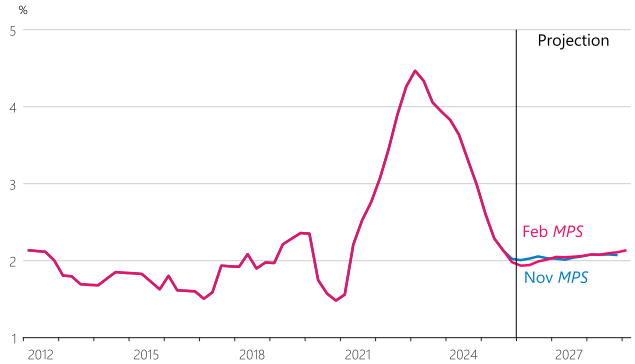
Source: Stats NZ, RBNZ estimates.

Note: Dotted lines show the projections from the November *Statement*. The shaded area represents the MPC's 1 to 3 percent target range for annual CPI inflation over the medium term.

Figure 5.2

Private sector LCI wage inflation

(annual)

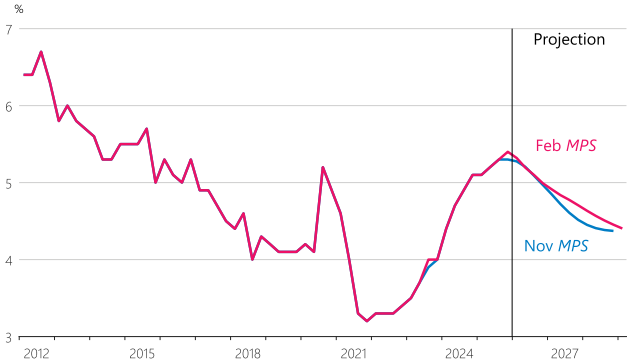


Source: Stats NZ, RBNZ estimates.

Figure 5.3

Unemployment rate

(unemployed people as a share of the labour force, seasonally adjusted)

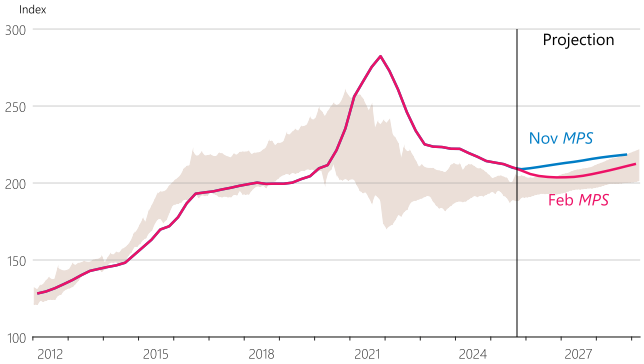


Source: Stats NZ, RBNZ estimates.

Figure 5.4

Real house prices and sustainable indicators

(index)



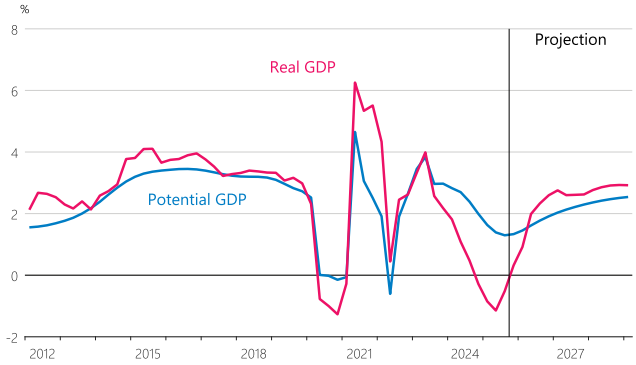
Source: Cotality, RBNZ estimates.

Note: See Brunton (2021), Measures for assessing the sustainability of house prices in New Zealand. The indicator range may be revised from time to time as certain assumptions change, such as neutral interest rates. The indicator range has been projected in line with our projections for wages and population growth. The projection assumes the neutral interest rate remains at its current level.

Figure 5.5

Production GDP growth

(annual average)



Source: Stats NZ, RBNZ estimates.

Figure 5.6

OCR

(quarterly average)

Source: RBNZ estimates.

Chapter 06

Appendices

Tunnel Beach. Photo: Cameron Grubb

Chapter 6.
Appendices

Appendix 1: Statistical tables

Table 6.1
Key forecast variables

		GDP growth Quarterly	CPI inflation Quarterly	CPI inflation Annual	Unemployment rate	TWI	OCR
2024	Mar	0.2	0.6	4.0	4.4	71.6	5.5
	Jun	-0.6	0.4	3.3	4.7	71.4	5.5
	Sep	-1.3	0.6	2.2	4.9	70.9	5.4
	Dec	0.1	0.5	2.2	5.1	69.5	4.6
2025	Mar	1.1	0.9	2.5	5.1	67.8	4.0
	Jun	-1.0	0.5	2.7	5.2	69.1	3.4
	Sep	1.1	1.0	3.0	5.3	68.4	3.1
	Dec	**0.5**	0.6	3.1	5.4	66.4	2.5
2026	Mar	**1.1**	**0.6**	**2.8**	**5.3**	**67.8**	**2.2**
	Jun	**0.5**	**0.4**	**2.7**	**5.2**	**68.0**	**2.3**
	Sep	**0.6**	**0.8**	**2.5**	**5.1**	**68.0**	**2.3**
	Dec	**0.6**	**0.4**	**2.3**	**5.0**	**68.0**	**2.4**
2027	Mar	**0.7**	**0.4**	**2.1**	**4.9**	**68.0**	**2.5**
	Jun	**0.7**	**0.4**	**2.0**	**4.8**	**68.0**	**2.6**
	Sep	**0.7**	**0.8**	**2.0**	**4.8**	**68.0**	**2.7**
	Dec	**0.7**	**0.4**	**2.0**	**4.7**	**68.0**	**2.8**
2028	Mar	**0.7**	**0.4**	**2.0**	**4.6**	**68.0**	**2.9**
	Jun	**0.7**	**0.4**	**2.0**	**4.6**	**68.0**	**2.9**
	Sep	**0.7**	**0.8**	**2.0**	**4.5**	**68.0**	**3.0**
	Dec	**0.7**	**0.4**	**2.0**	**4.5**	**68.0**	**3.0**
2029	Mar	**0.7**	**0.5**	**2.0**	**4.4**	**68.0**	**3.0**

Table 6.2

Measures of inflation and inflation expectations

	2024			2025				2026
	Jun	Sep	Dec	Mar	Jun	Sep	Dec	Mar
Inflation (annual rates)								
CPI	3.3	2.2	2.2	2.5	2.7	3.0	3.1	
CPI non-tradables	5.4	4.9	4.5	4.0	3.7	3.5	3.5	
CPI tradables	0.3	-1.6	-1.1	0.3	1.2	2.2	2.6	
Sectoral factor model estimate of core inflation	3.5	3.2	3.0	2.9	2.7	2.7	2.8	
CPI trimmed mean (30% measure)	3.8	2.7	2.5	2.2	2.4	2.2	2.5	
CPI weighted median	3.5	2.8	2.6	2.2	2.2	2.2	1.7	
GDP deflator (expenditure)	3.3	3.4	5.4	4.2	4.1	2.8		
Inflation expectations Survey of Expectations Tara-ā-Pūkenga (SOE)								
1 year ahead	2.7	2.4	2.0	2.1	2.4	2.4	2.4	2.6
2 years ahead	2.3	2.0	2.1	2.1	2.3	2.3	2.3	2.4
5 years ahead	2.3	2.1	2.2	2.1	2.2	2.3	2.2	2.3
10 years ahead	2.2	2.0	2.2	2.1	2.2	2.2	2.2	2.3
Inflation expectations RBNZ Business Expectations Survey Tara-ā-Umanga (BES)								
1 year ahead		2.2	2.1	2.3	2.4	2.5	2.4	2.6
2 years ahead		2.2	2.2	2.5	2.5	2.6	2.4	2.6
5 years ahead		2.8	2.8	3.0	3.1	3.2	2.8	2.7
10 years ahead		3.1	3.3	3.7	3.9	3.6	3.6	3.2
Inflation expectations RBNZ Household Expectations Survey Tara-ā-Whare (HES)								
1 year ahead	5.3	4.1	4.1	4.9	5.6	6.0	5.5	5.2
2 years ahead	3.6	3.1	3.7	3.9	4.7	4.6	4.3	3.4
5 years ahead	3.0	3.4	3.4	3.6	3.7	4.1	3.8	3.3

Table 6.3

Measures of labour market conditions

(seasonally adjusted, changes expressed in annual percent terms, unless specified otherwise)

	2024			2025			
	Jun	Sep	Dec	Mar	Jun	Sep	Dec
Household Labour Force Survey							
Unemployment rate	4.7	4.9	5.1	5.1	5.2	5.3	5.4
Underutilisation rate	11.9	11.7	12.2	12.4	12.8	13.0	13.0
Labour force participation rate	71.6	71.1	70.8	70.7	70.5	70.3	70.5
Employment rate (% of working-age population)	68.3	67.6	67.2	67.1	66.8	66.6	66.7
Employment growth	0.1	-0.6	-1.3	-0.9	-1.3	-0.7	0.2
Average weekly hours worked	33.3	33.3	33.1	33.0	32.7	33.1	33.2
Number unemployed (thousand people)	143	149	155	156	158	161	165
Number employed (million people)	2.91	2.89	2.88	2.88	2.87	2.87	2.89
Labour force (million people)	3.05	3.04	3.04	3.03	3.03	3.03	3.05
Extended labour force (million people)	3.16	3.14	3.13	3.14	3.14	3.14	3.16
Working-age population (million people, age 15+ years)	4.26	4.27	4.29	4.29	4.30	4.31	4.33
Quarterly Employment Survey — QES							
Filled jobs growth	-0.2	-1.4	-0.9	-1.8	-1.2	0.2	-0.1
Average hourly earnings growth (private sector, ordinary time)	3.9	3.2	4.0	3.9	4.6	4.1	3.5
Other data sources							
Labour cost index growth, adjusted (private sector, ordinary and overtime)	3.6	3.3	3.0	2.6	2.3	2.1	2.0
Labour cost index growth, unadjusted (private sector, ordinary time)	4.8	4.5	3.9	3.7	3.5	3.3	3.3
Estimated net working-age immigration (thousands, quarterly)	5.1	-0.2	-0.8	0.2	2.7	1.3	2.6
Change in all vacancies index*	-33.4	-31.4	-27.2	-21.7	-7.6	3.5	6.4

Note: The all vacancies index is produced by MBIE as part of the monthly Jobs Online report, which shows changes in job vacancies advertised by businesses on internet job boards. The unadjusted labour cost index (LCI) is an analytical index that reflects quality change in addition to price change (whereas the official LCI measures price changes only). For definitions of underutilisation, the extended labour force, and related concepts, see Statistics New Zealand (2016), *Introducing underutilisation in the labour market*.

* The all vacancies index is a non-seasonally adjusted series.

Table 6.4

Composition of real GDP growth

(annual average percent change, seasonally adjusted, March years, unless specified otherwise)

	Actuals							Projection			
March year	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**
Final consumption expenditure											
Private	4.5	2.5	0.2	6.0	3.2	1.1	0.0	**1.8**	**2.3**	**3.2**	**3.6**
Public authority	3.1	5.5	7.1	8.0	2.6	1.1	-1.3	**2.3**	**0.3**	**-0.4**	**-0.3**
Total	**4.2**	**3.2**	**1.8**	**6.5**	**3.1**	**1.1**	**-0.3**	**1.9**	**1.8**	**2.3**	**2.7**
Gross fixed capital formation											
Residential	0.1	2.7	2.1	3.0	-1.3	-4.8	-12.6	**0.9**	**10.7**	**8.0**	**6.0**
Other	7.0	3.0	-2.2	10.5	5.3	0.1	-2.8	**1.3**	**4.9**	**5.4**	**5.0**
Total	**5.2**	**2.9**	**-1.2**	**8.6**	**3.7**	**-1.1**	**-4.9**	**1.2**	**6.0**	**6.0**	**5.3**
Final domestic expenditure	4.4	3.1	1.1	7.0	3.2	0.6	-1.4	**1.8**	**2.8**	**3.2**	**3.3**
Stockbuilding*	-0.2	-0.2	-0.3	0.6	0.3	-1.4	0.4	**0.1**	**0.4**	**0.0**	**0.0**
Gross national expenditure	**4.3**	**2.8**	**-0.1**	**8.1**	**3.8**	**-0.8**	**-1.0**	**1.9**	**3.2**	**3.2**	**3.3**
Exports of goods and services	3.3	0.2	-17.9	2.5	5.6	8.3	3.3	**3.2**	**2.8**	**1.8**	**2.1**
Imports of goods and services	4.7	1.3	-15.7	16.8	4.3	-1.2	1.4	**4.4**	**3.9**	**3.7**	**3.8**
Expenditure on GDP	**3.8**	**2.5**	**0.2**	**4.4**	**4.0**	**1.5**	**-0.7**	**1.4**	**2.8**	**2.7**	**2.8**
GDP (production)	3.3	2.3	-0.3	4.3	3.3	1.8	-0.8	**0.9**	**2.8**	**2.8**	**2.9**
GDP (production, March qtr to March qtr)	3.4	0.8	4.7	0.3	3.1	1.6	-0.7	**1.7**	**2.4**	**2.9**	**2.9**

* Percentage point contribution to the growth rate of GDP.

Table 6.5

Summary of economic projections

(annual percent change, March years, unless specified otherwise)

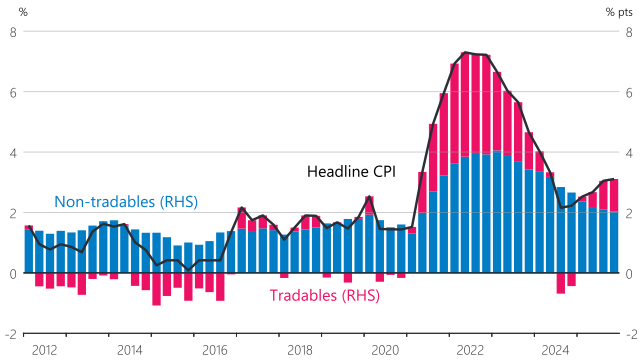
	Actuals							Projection			
March year	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**
Price measures											
CPI	1.5	2.5	1.5	6.9	6.7	4.0	2.5	**2.8**	**2.1**	**2.0**	**2.0**
Labour costs	2.0	2.4	1.6	3.1	4.5	3.8	2.6	**1.9**	**2.0**	**2.1**	**2.1**
Export prices (in New Zealand dollars)	1.3	7.0	-6.0	20.7	1.0	-2.2	10.9	**0.1**	**-0.1**	**2.2**	**2.3**
Import prices (in New Zealand dollars)	4.1	2.3	-2.9	18.7	8.0	-4.3	6.7	**-3.7**	**0.4**	**1.0**	**1.4**
Monetary conditions											
OCR (year average)	1.8	1.2	0.3	0.5	3.1	5.5	4.9	**2.8**	**2.4**	**2.7**	**3.0**
TWI (year average)	73.4	71.7	72.4	74.0	71.2	71.0	69.9	**67.9**	**68.0**	**68.0**	**68.0**
Output											
GDP (production, annual average % change)	3.3	2.3	-0.3	4.3	3.3	1.8	-0.8	**0.9**	**2.8**	**2.8**	**2.9**
Potential output (annual average % change)	3.1	2.5	-0.1	1.9	3.5	2.8	1.6	**1.5**	**2.0**	**2.4**	**2.5**
Output gap (% of potential GDP, year average)	0.6	0.4	0.1	2.6	2.5	1.5	-1.0	**-1.5**	**-0.8**	**-0.5**	**-0.1**
Labour market											
Total employment (seasonally adjusted)	1.3	2.4	0.0	2.3	2.9	0.9	-0.9	**0.7**	**2.4**	**2.1**	**2.0**
Unemployment rate (March qtr, seasonally adjusted)	4.2	4.2	4.6	3.3	3.5	4.4	5.1	**5.3**	**4.9**	**4.6**	**4.4**
Trend labour productivity	0.7	0.9	1.0	0.8	0.7	0.6	0.5	**0.5**	**0.5**	**0.5**	**0.6**
Key balances											
Current account balance (% of GDP)	-3.9	-2.4	-2.5	-6.5	-8.3	-5.7	-4.3	**-3.1**	**-3.4**	**-3.6**	**-3.8**
Terms of trade (SNA measure, annual average % change)	-2.1	2.1	-0.5	0.4	-5.0	-0.9	3.4	**5.4**	**-0.5**	**0.9**	**1.1**
Household saving rate (% of disposable income)	-1.1	1.3	7.5	2.5	-2.2	1.0	**2.3**	**3.7**	**1.7**	**-0.4**	
World economy											
Trading-partner GDP (annual average % change)	3.5	1.7	-0.3	6.3	3.1	3.2	3.0	**3.0**	**2.9**	**2.7**	**2.7**
Trading-partner CPI (TWI-weighted)	1.4	2.4	0.8	4.1	4.7	2.2	1.8	**2.0**	**2.0**	**2.0**	**2.0**

Appendix 2: Chart pack

Figure 6.1

Composition of CPI inflation

(annual)

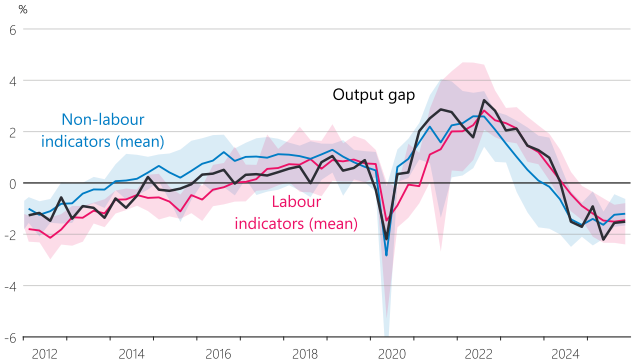


Source: Stats NZ.

Figure 6.2

Output gap and output gap indicators

(share of potential)



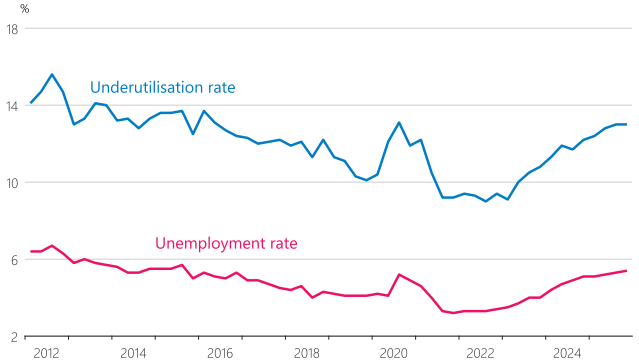
Source: NZIER, MBIE, Stats NZ, RBNZ estimates.

Note: The output gap indicators based on information from labour market surveys are shown separately from the other indicators. For each group of indicators, the shaded area shows the range of values and the line shows the mean value. The output gap estimate in the final quarter is based on our near-term GDP estimate.

Figure 6.3

Unemployment and underutilisation rates

(seasonally adjusted)

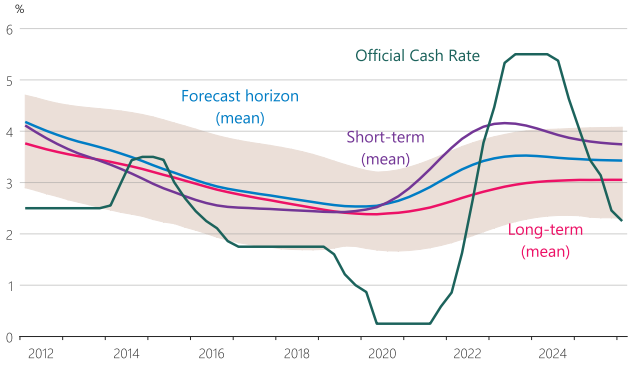


Source: Stats NZ.

Figure 6.4

OCR and nominal neutral OCR indicator suite

(quarterly average)



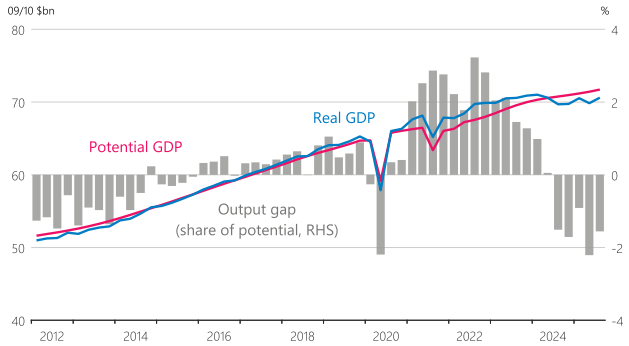
Source: RBNZ estimates.

Note: The shaded area indicates the range between the maximum and minimum values from our suite of long-run nominal neutral OCR indicators. See Castaing et al. (2024), *Estimates of New Zealand's nominal neutral interest rate*.

Figure 6.5

GDP and potential GDP

(seasonally adjusted)

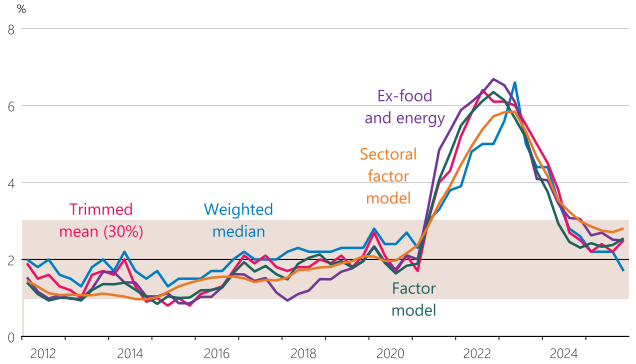


Source: Stats NZ, RBNZ estimates.

Figure 6.6

Measures of core inflation

(annual)



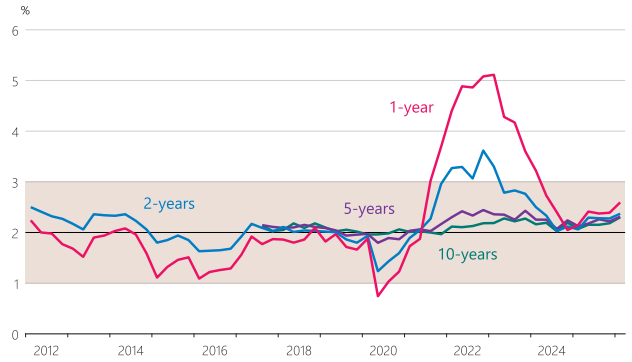
Source: Stats NZ, RBNZ estimates.

Note: The shaded area represents the MPC's 1 to 3 percent target range for annual CPI inflation over the medium term.

Figure 6.7

Inflation expectations

(annual, years ahead)



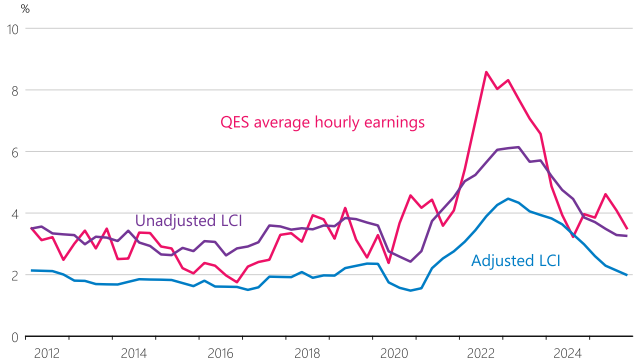
Source: RBNZ *Survey of Expectations*.

Note: The shaded area represents the MPC's 1 to 3 percent target range for annual CPI inflation over the medium term.

Figure 6.8

Private sector wage growth

(annual)

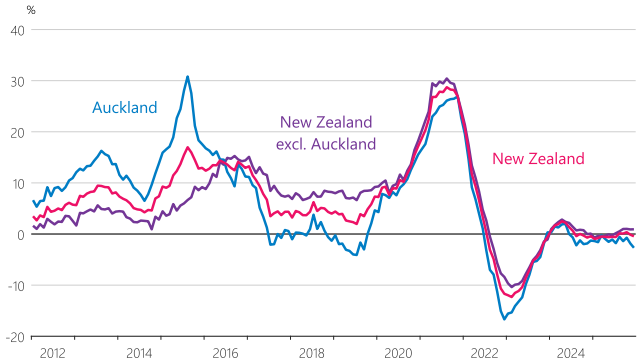


Source: Stats NZ.

Figure 6.9

House price inflation

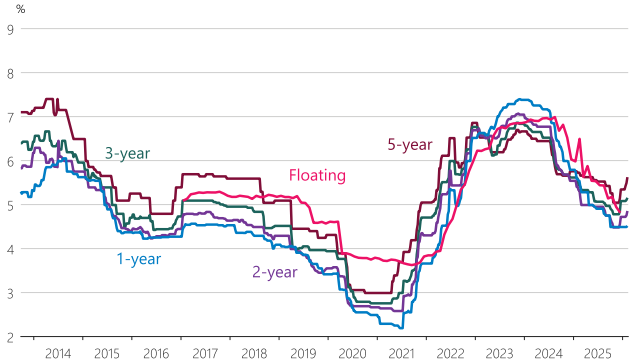
(annual)



Source: REINZ.

Figure 6.10

Mortgage interest rates



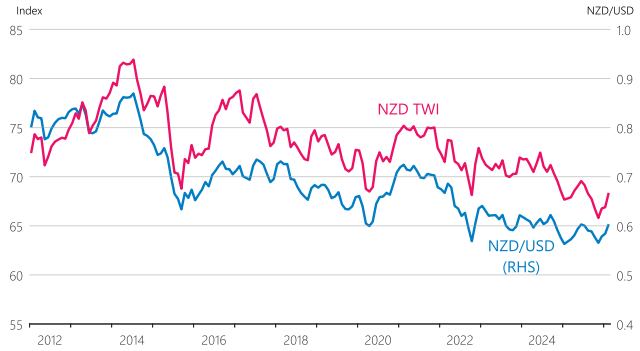
Source: interest.co.nz, RBNZ estimates.

Note: The rates shown for the fixed terms are the average of the advertised rates from ANZ, ASB, BNZ, and Westpac, shown as weekly data. The floating rate represents the monthly yield on floating housing debt from the RBNZ *Income Statement* survey.

Figure 6.11

New Zealand dollar exchange rates

(monthly average)

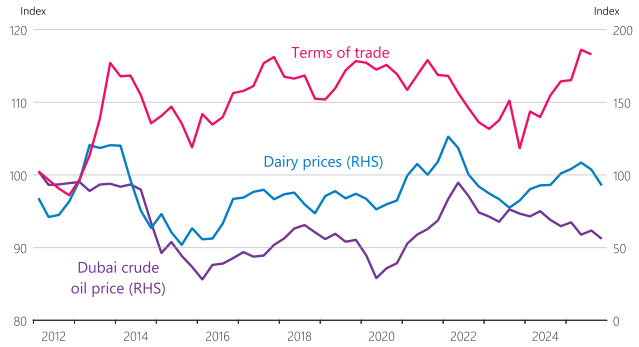


Source: NZFMA, RBNZ.

Figure 6.12

Terms of trade, dairy, and oil price indices

(index = 100 in the September 2008 quarter, quarterly average)



Source: Stats NZ, Global Dairy Trade, Bloomberg, RBNZ estimates.

Reserve Bank of New Zealand
Te Pūtea Matua