All Signal, No Noise

MARKET ANALYSIS

MNI RBNZ Review – November 2025

Meeting Date: Wednesday, 26 November 2026

Link To Decision: https://www.rbnz.govt.nz/monetary-policy/official-cash-rate-decisions

Link To MPS: https://www.rbnz.govt.nz/monetary-policy/monetary-policy-statement

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MNI POV (Point Of View): On Hold If Progress As Expected

The MPC voted 5-1 to cut rates 25bp to 2.25%, as was widely expected. The discussion was between a hold or 25bp of easing with no consideration for another 50bp cut. The dissenter voted to hold policy. The OCR path was revised lower as there was an additional 25bp of easing in Q4 than in the RBNZ's August projections. The Q1 OCR is now forecast at 2.25% and there is only one meeting in the quarter (18 February). Then Q2 is 2.20% and Q3 2.23%, suggesting that if the economy develops as expected then the RBNZ is now on hold. The profile helps the MPC to keep its options open though with outgoing Governor Hawkesby noting that the 2.20% OCR projection signals that if rates are to change they are more likely to fall than rise, if there is a downside miss. Therefore, the central bank retains its easing bias.

The RBNZ said "future moves in the OCR will depend on how the outlook for the medium-term inflation and the economy evolve". As it sees risks around its central case as balanced and rates at 2.25% as stimulatory, it is likely to be on hold now if the economy develops as it expects. Its OCR profile suggests a tightening bias from 2027, which was reiterated by Hawkesby in the press conference.

There were few changes to the CPI projections but the return to the 2% target mid-point was pushed out one quarter to Q3 2027 but Q2 is close at 2.1%. Q4 2025 CPI is still expected to moderate to 2.7% from Q3's 3.0% with it falling to 2.2% by Q4 2026. One of the main arguments to hold policy in November was the central bank's "low tolerance for prolonging the return of inflation to the target mid-point".

Other reasons to pause rate cuts included that its now 325bp of easing is still to fully feed through to the economy. Assistant Governor Silk said that around 40% of mortgages are expected to reprice to lower rates over the next 6-9 months. Also, activity is recovering and expected to strengthen and higher frequency data are making the RBNZ confident that the recovery "is happening right now" with signs from consumption, hours and the labour market data. The November ANZ business confidence survey was in line with this sentiment as firms were their most positive since 2014. Q3 retail sales volumes were also strong. Possible upside risks to inflation and output were also mentioned, as well as the "optionality" to ease later that a hold would allow.

The decision to cut in November was centred around supporting business and consumer sentiment, and the nascent recovery. Other reasons included "significant excess capacity", "confidence" inflation will return to the 2% mid-point over the medium-term, and concern a hold may see market moves tighten financial conditions. The hawkish cut did shift markets in that direction.

In terms of excess capacity, the RBNZ's negative output gap estimate doesn't close until towards the end of 2027 signalling ongoing spare supply. Hawkesby reiterated that Q2 GDP is expected to be revised higher from the initial -0.9% q/q print towards the RBNZ's August -0.3% forecast but still show that the recovery stalled. Q2 was negatively impacted by some one-off supply effects, seasonal factors and statistical anomalies. However, there is little payback in its Q3 projection for Q2's weakness with it projected to rise 0.4% q/q (revised up only 0.1pp). In terms of spare capacity in the labour market, it revised the unemployment rate higher with a delay of two quarters to Q2 2026 before it turns down with Q4 2025 steady at 5.3%. Q4 2026 is forecast at 5.0% (+0.1pp).

Hawkesby was asked at the press conference about sluggish investment and he said that businesses need to be confident in the durability of the recovery and not just see lower lending rates before investing. The improvement in ANZ business confidence and profit expectations should help drive a pickup in capex but likely with a lag. When they do invest, credit conditions won't be a constraint with "ease of credit" at its highest since 2009.

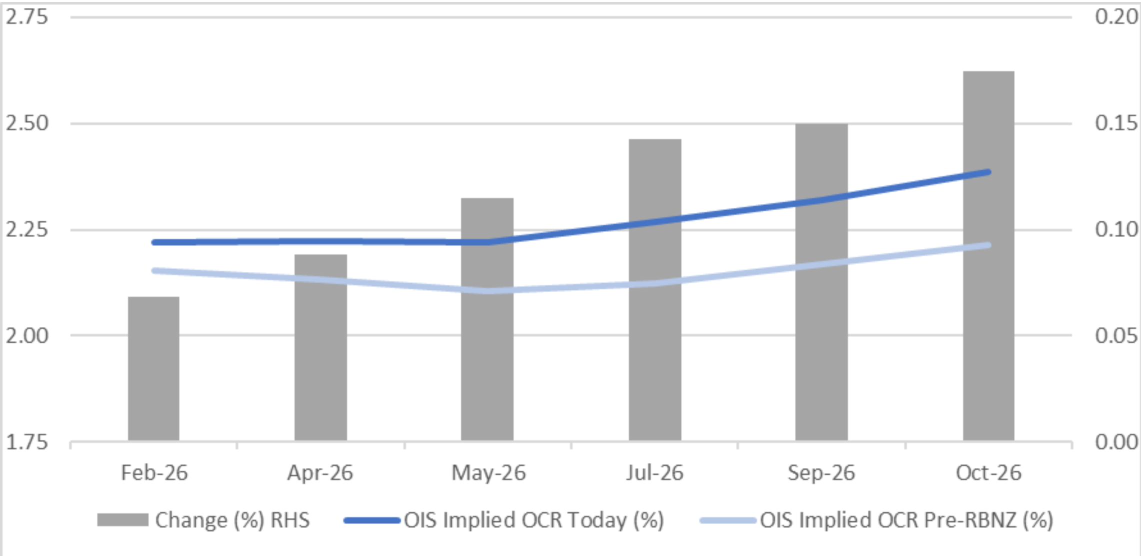
Hawkesby believes that the MPC is in a good position going into 2026 with inflation heading back towards the band mid-point and the economy recovering. In addition, the OCR track gives the MPC significant "optionality" to respond to unforeseen developments. With risks around the outlook balanced and the RBNZ signalling that it would now like to watch and wait for its substantial easing to be felt by the economy, speculation has begun regarding the timing of the first rate hike. With signs inflation is moderating again and the recovery still soft with risks elevated especially from the global economy, tightening looks a long way off.

RBNZ Dated OIS Pricing

RBNZ-dated OIS pricing is flat to 7bps firmer across meetings today, led by the late-2026 contracts, extending yesterday's post-policy decision firming.

- Compared with levels prior to yesterday's RBNZ decision, pricing is 7-17bps higher across meetings, again led by late-2026 contracts.
- Notably, September 2026 now assigns a 25bps hike a 21% probability.

Figure 1: RBNZ Dated OIS Current vs. Pre-RBNZ Meeting (%)



Source: Bloomberg Finance LP / MNI

RBNZ November Summary Record Of Meeting

Annual consumers price inflation increased to 3 percent in the September quarter, the top of the Monetary Policy Committee's 1 to 3 percent target band. Significant spare capacity remains in the economy and inflation is expected to fall to around 2 percent by mid-2026. The significant reduction in the OCR since August 2024 is expected to support a recovery in economic activity.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The Committee discussed risks to the global outlook. Investment in AI technologies has been a significant driver of global growth and equity returns over the past year. Uncertainty remains around the returns from AI adoption.

There is a risk of a more significant correction in equity markets and reduced investment if heightened investor expectations are not met.

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

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

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

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

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

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

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

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

RBNZ November MPS – Key Forecast Variables

Key forecast variables

		GDP growth Quarterly	CPI inflation Quarterly	CPI inflation Annual	Unemployment rate	TWI	OCR
2023	Mar	-0.2	1.2	6.7	3.5	71.3	4.5
	Jun	0.8	1.1	6.0	3.7	71.0	5.3
	Sep	0.1	1.8	5.6	3.9	70.6	5.5
	Dec	0.2	0.5	4.7	4.0	70.8	5.5
2024	Mar	0.1	0.6	4.0	4.4	71.6	5.5
	Jun	-0.9	0.4	3.3	4.7	71.4	5.5
	Sep	-1.1	0.6	2.2	4.9	70.9	5.4
	Dec	0.4	0.5	2.2	5.1	69.5	4.6
2025	Mar	0.9	0.9	2.5	5.1	67.8	4.0
	Jun	-0.9	0.5	2.7	5.2	69.1	3.4
	Sep	**0.4**	1.0	3.0	5.3	68.4	3.1
	Dec	**0.7**	**0.2**	**2.7**	**5.3**	**66.1**	**2.4**
2026	Mar	**0.7**	**0.5**	**2.3**	**5.3**	**66.0**	**2.2**
	Jun	**0.6**	**0.5**	**2.2**	**5.2**	**66.0**	**2.2**
	Sep	**0.7**	**0.9**	**2.1**	**5.1**	**66.0**	**2.2**
	Dec	**0.8**	**0.3**	**2.2**	**5.0**	**66.0**	**2.3**
2027	Mar	**0.8**	**0.5**	**2.2**	**4.8**	**66.0**	**2.3**
	Jun	**0.8**	**0.4**	**2.1**	**4.7**	**66.0**	**2.5**
	Sep	**0.7**	**0.8**	**2.0**	**4.6**	**66.0**	**2.6**
	Dec	**0.7**	**0.3**	**2.0**	**4.5**	**66.0**	**2.7**
2028	Mar	**0.7**	**0.5**	**2.0**	**4.5**	**66.0**	**2.7**
	Jun	**0.6**	**0.4**	**2.0**	**4.4**	**66.0**	**2.8**
	Sep	**0.6**	**0.8**	**2.0**	**4.4**	**66.0**	**2.9**
	Dec	**0.6**	**0.4**	**2.0**	**4.4**	**66.0**	**2.9**

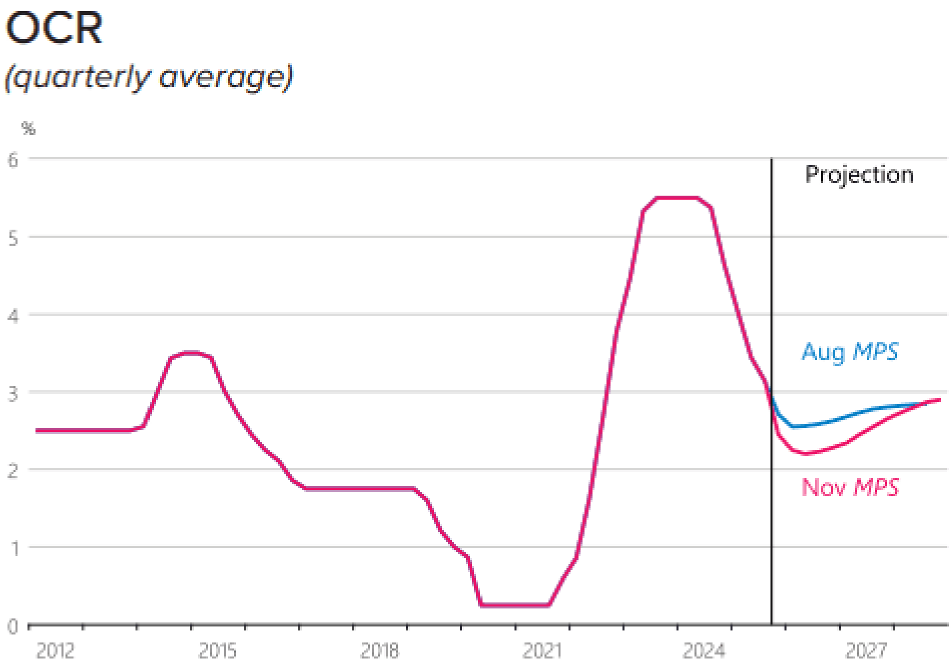
Source: RBNZ

MNI RBNZ Watch: Easing Bias Maintained, But 2026 Hold Likely

By Daniel O'Leary

MELBOURNE - The Reserve Bank of New Zealand maintained a slight easing bias at its November meeting after a widely-expected 25-basis-point cut, despite the largely hawkish tone of its latest Monetary Policy Statement, with acting Governor Christian Hawkesby noting that the Bank's updated forecasts show a modest preference for a further rate cut.

"You'll notice that in the track there's a very slight downward tilt," Hawkesby said, pointing to the updated OCR path showing a 2.2% rate. "That's just a nod to the likelihood that if the OCR was to change over the next three-to-six months, it might be more likely to go down than up, and then further out in that projection, chances are more likely to go up than down." (See chart)



Source: RBNZ estimates.

Hawkesby spoke at a press conference following the widely expected cut to 2.25%, a decision reached by a five–one vote after a discussion that included holding the rate. (See [MNI RBNZ WATCH: RBNZ To Cut 25bp, Signal Path Ahead](#))

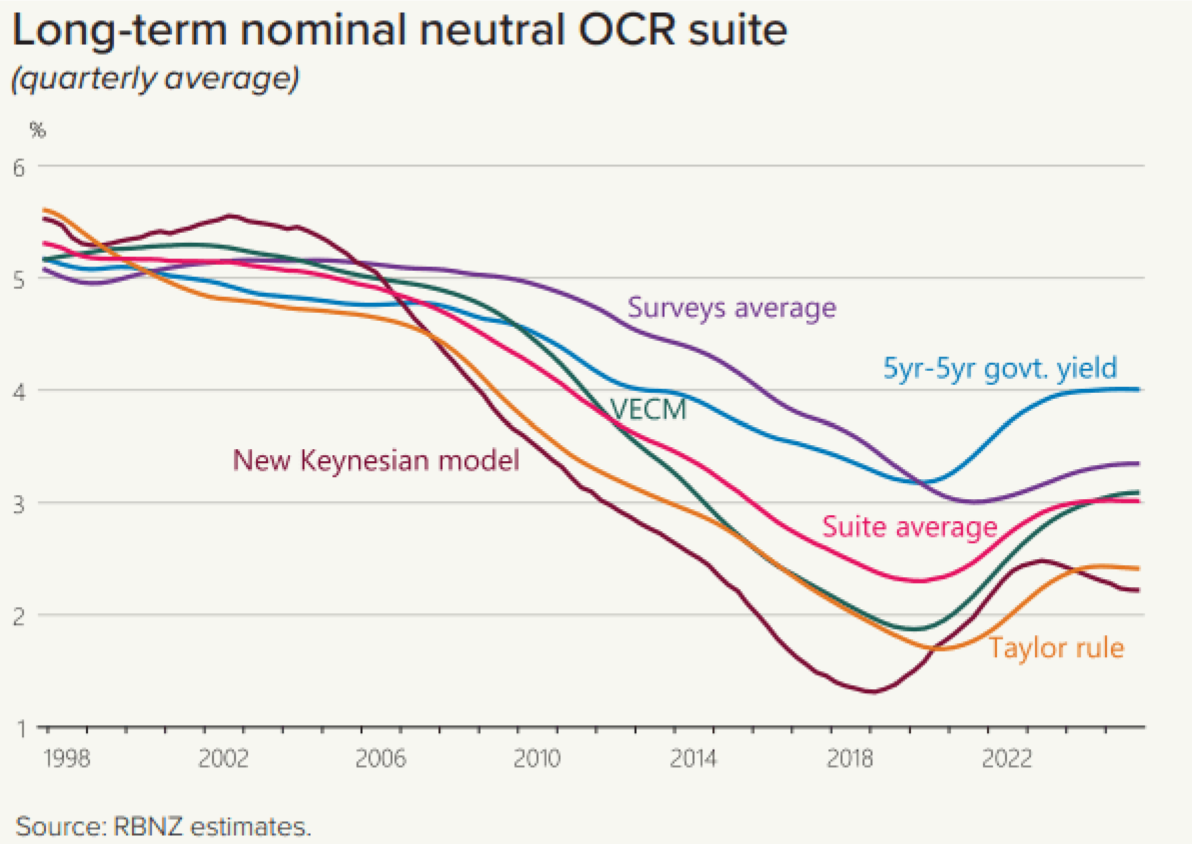
The Bank's central projection implied holding the OCR through 2026, Hawkesby noted. "We think it puts the committee in a really strong position into next year to have the time to see how the economy evolves … Shocks occur, and so the committee's in a great position to navigate that." The RBNZ retains "full optionality… every option is always on the table," he added.

RBNZ overnight index swaps closed 2-11bp stronger across meeting dates following the decision, with a 2.193% rate priced in by May.

RECOVERY EXPECTATIONS
Hawkesby said the large negative Q2 GDP number reflected one-off factors, seasonal quirks and supply constraints, and that activity was not as weak as the headline suggested. High-frequency indicators monitored through the Bank's GDP gauge now show activity picking up, he said, citing stronger consumer spending, stabilising labour market conditions, rising employment and hours worked. "We're not waiting for a recovery. It's happening right now through Q3 and Q4."

Chief Economist Paul Conway said labour market dynamics are at a low point but turning. Businesses have been reluctant to lay off workers after post-Covid hiring difficulties, while unemployed workers have struggled to find new jobs. "We think of it as a low-hire, low-fire labour market," he said. The unemployment rate, at 5.3%, is expected to hold around that level into summer before gradually improving, he added.

Hawkesby said the neutral interest rate remains between 2.5-3.5%, noting the OCR at 2.25% is "south of that range" and therefore stimulatory.



GLOBAL UNCERTAINTY
Global risks remain balanced, highlighting upside and downside pressures around the domestic outlook, according to Hawkesby. He noted that the effects of the U.S. trade war have been softened by an AI-driven investment boom, but warned that a disappointment in productivity gains would pose risks. He also flagged concerns about global inflation pressures linked to fiscal dynamics and the erosion of central bank independence abroad.

Conway added that policy cannot be set on the basis that a large shock might occur, but as confidence increases that a particular scenario is materialising, it can be incorporated into the central track. "There are real risks out there … but if they happen, we think we're in a good place to deal with it as it rolls through the New Zealand economy," he said.

The MPC next meets Feb 18.

Sell-Side Analyst Views

ASB: "The OCR reduced by 25bp as expected. The RBNZ's messaging about the way forward was what mattered today. On that front the RBNZ was a bit more cautious than generally expected. The RBNZ will cut again if needed, but only if the economy looks set to underperform its latest forecasts. And the RBNZ's GDP, CPI and unemployment rate forecasts look reasonable for the next batch of outcomes."

- "Our base case remains that the RBNZ will keep the OCR on hold now at 2.25% and watch closely for various lagged stimuli to work through with more effect. Remaining on hold is contingent on the economy picking up as expected. So, how the summer data flow pans out will be key. If the economic recovery underwhelms, then the RBNZ could cut again. But, barring nasty surprises, the RBNZ looks on hold now."
- "Early signs of economic recovery are showing up in labour market indicators, some consumer spending data, and – very tentatively – the housing market. Exports are proving resilient so far to the global environment and US tariffs. Various inflation gauges are pointing to inflation easing, but more likely to be hanging around in the top half of the inflation target than the bottom half."

CIBC: "The RBNZ cut by 25 bps as we and the market expected, meanwhile they signaled they are likely done easing as the OCR track suggested a low of 2.20%. The vote was 5-1, with one member voting for no cut. The RBNZ supported their guidance surrounding a likely end to the cycle by noting that high frequency indicators are now picking up across the board. This is something we have noted, as the PMI and Kiwi-GDP Nowcast were both suggestive that the RBNZ would have to revise up their Q3 GDP forecast (to 0.4% from 0.3%)."

- The RBNZ's forecasts imply a hike in mid 2027, which is roughly in line with the market. However, the summary of record still maintained a small easing bias, as it noted that leaving the OCR unchanged at the current meeting provides optionality to cut in the future if needed. This was likely done to satisfy the members of the committee that saw risks to growth on the downside should household and business continue to show caution. We expect the RBNZ on hold in the short-medium term."

Westpac: "As widely expected, the RBNZ cut the OCR by 25bps to 2.25%. The decision was reached following a 5 - 1 vote, with one MPC member voting in favour of leaving the OCR at 2.5%. The general tone of the Monetary Policy Statement seems more neutral than we expected. For example, there was no consideration of a 50bp cut, and one MPC member voted for no change in the OCR."

- "We continue to expect 2.25% to mark the nadir of the easing cycle. The RBNZ looks like it has a neutral bias looking forward and is certainly not signalling any intention to cut the OCR in February. Of course, much could change between then and now. Hence, we continue to expect the RBNZ to maintain a flexible data-dependent approach. We agree that the current OCR, left long enough, should be sufficient to support the recovery in the economy.
- The timing of the return of the OCR to higher, more neutral levels will depend on the pace of the eventual recovery. Hence while we continue to see the first hike as occurring in December 2026 (likely after the 2026 General Election), there are two-sided risks to that call. Should the economy pick up relatively quickly, the normalisation of the OCR could come before the election, closer to the middle of 2026. A disappointing recovery could mean the OCR on hold for longer."
- "The RBNZ's assessment that the economy is picking up is perhaps a little more confident that we might have thought. Fixing the March 2026 OCR average at 2.25% sends a neutral bias for February.
- As expected, the RBNZ's projected track for the OCR was revised lower: The terminal OCR is 2.20% (in Q2 2026), down from 2.55% in the August MPS. The projected OCR for Q4 2026 was revised to 2.28% from 2.62% previously. The projected OCR for Q4 2027 was revised to 2.65% from 2.80% previously. The RBNZ assumes the OCR reaches 2.90% in Q4 2028 (the final quarter of the new forecast).
- According to the RBNZ, the most important drivers of the reduction in the OCR track were a larger degree of spare capacity in the economy this year than assumed previously (reflecting the weak Q2 GDP outcome) and a lower outlook for export prices (due to recent falls in dairy product prices). The lower exchange rate supports exporter earnings and leans against disinflation in the short term.
- The RBNZ is presenting a neutral, but data-dependent outlook. The Governor noted some slight downside risk to the OCR in the short term, but upside risk in the medium term. The Governor noted that the OCR is now at stimulatory levels and should support growth in time. Up to now, the RBNZ has been less clear about whether interest rates are at stimulatory levels.
- The overall implication is that the MPC is now ready to send the nightwatchman in to see the innings through for the foreseeable future. The new Governor can reassess the situation next year in light of the data to come."