First View
Kiwibank economics.

Pressing pause on interest rate hikes. New Zealand isn't alone…

- The Reserve Bank decided to do the sensible thing and hold interest rates last week. Weak domestic demand has acted as a handbrake on inflation pass-through to date. We applause the pause, but continue to expect further data dependent rate hikes.
- Confidence data reveals a continued theme of cautious consumers and buoyant businesses. Inflation expectations remain relatively well anchored.
- The RBA is likely to hike this week, widening the rate differential with New Zealand to a whopping 210 basis points… if the RBA deliver on market expectations.



The Reserve Bank gave us an early Christmas present last week by keeping the cash rate on hold at 2.75%. It was an unexpected pause. Although we have been consistently singing from the dovish hymn sheet, urging the Reserve Bank to keep rates on hold, we thought they would hike last week. We continue to expect a 25 basis point hike to 3% before the year end. Their next decision is on the 9th of December. This view is echoed by Reserve Bank Governor Anna Breman, who attributes a "high" probability of a hike in December.

The Monetary Policy Review which accompanied the decision was nicely balanced. There was a mix of upside and downside risks acknowledged. And the decision was a 4-3 split vote. The committee did not differ in their ultimate view that rates need to go up. The disagreement was simply a matter of timing. They are keeping their options open to hike into restrictive territory if needed.

We don't believe the market reaction was especially strong. Yes, the Kiwi dollar tumbled after the initial shock. But some of those losses have been clawed back. And the implied market pricing for future interest rates did not pull back aggressively enough, in our opinion. If the Reserve Bank come out at their December decision and reiterate the same message for a third time, the market will need to unwind some of its pricing. A circa 4% OCR just doesn't seem probable based on the current messaging.

For a full breakdown of the Reserve Bank's decision, check out our review from last week.

Confidence data for October showed a continued divergence between businesses and consumers.

Business confidence ticked up by one point and reported past activity was up by four points. Expected future activity dropped, likely a reflection of fear and uncertainty around oil prices which continued their unrelenting rise over October. The manufacturing industry continues a stellar run, boasting the highest own activity outlook out of all industries surveyed.

Consumers aren't feeling quite as cheerful as businesses, again. Consumer confidence dropped to a chilly 96.2 (where 100 is neutral) but remains well above the April lows. Interestingly, two-year ahead inflation expectations dropped to their lowest levels since March 2025 and house price expectations went the same direction. The Reserve Bank will be pleased to see this, given that well anchored inflation expectations fed into their rationale for not hiking last week.

Over in Aussie, the latest inflation data printed a wee bit hotter than expected, reinforcing expectations for the RBA to hike interest rates to 4.85% at their next decision, which is on Tuesday. Markets are pricing in a roughly 80% probability of that outcome. On the other side of the Pacific, in the US, rates were kept on hold at the 3.75-4.00% range, as expected, after a split 10-2 vote. Forward guidance was limited, but a hike in December is still very much in play. The Bank of Canada hiked for the first time in three years to 2.5%, while the European Central Bank and Bank of Japan held at 2.5% and 1.25% respectively.

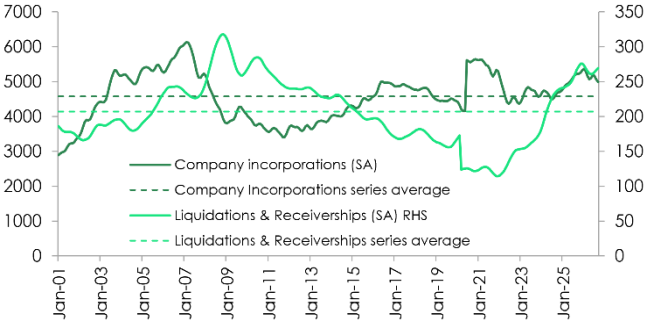
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Chart of the Week: The rise in business creation and cessation

The New Zealand economy is slowly recovering, but many businesses are still struggling to make it through the downturn.

Our chart this week compares new company incorporations against formal business failures, measured by company liquidations and receiverships. On one hand, entrepreneurial activity remains reasonably healthy, with company incorporations still sitting above their long-term average. On the other, insolvency activity continues to run well above normal levels, reflecting the lingering impact of weak demand, increased costs and squeezed cashflows.

Monthly company incorporations vs liquidations & receiverships



Source: Kiwibank; StatsNZ

Companies Office data shows liquidations and receiverships have been trending higher over the past two years and remain elevated relative to historical norms. Meanwhile, incorporations have begun to drift lower after the surge seen through the pandemic and immediate reopening period.

The divergence highlights a key feature of the current cycle. Businesses are still being created at a healthy rate, suggesting confidence in New Zealand's long-run prospects remains intact. But existing firms continue to experience a hangover from several years of tough economic conditions that have plagued us since 2023, alongside rising operating costs and subdued household spending. Formal insolvency processes typically lag the economic cycle, often occurring well after trading conditions have deteriorated. That lag is still playing out today.

Importantly, elevated liquidations should not be interpreted as an economy-wide collapse. New Zealand continues to record far more company incorporations than formal insolvencies each month, and the overall stock of registered companies remains near record highs. The latest Companies Office statistics show more than 750,000 companies on the register, with new incorporations comfortably exceeding liquidations and receiverships combined.

Still, the rise in failures is a reminder that economic recoveries are rarely smooth. Many firms are only now confronting accumulated tax arrears, tighter credit conditions, and weaker revenue growth. Cashflow pressures, Inland Revenue enforcement activity, and persistent weakness in certain sectors such as construction and hospitality have kept business failures elevated even as broader economic indicators stabilise.

A sectoral divide is emerging. The Labour cost index has been persistently elevated for retail trade and accommodation despite persistently weak domestic demand. Construction firms have also faced high labour costs locked in from the boom years, weak residential building activity, and pressure on margins for fixed-price contracts.

Meanwhile, exporters are servicing a completely different market and finding demand strong. Increased costs are more evenly balanced against increased commodity prices and a weak Kiwi dollar. So, it all depends on which way a business is facing and the two-speed economy is not going anywhere fast.

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“You’re off mute!”

Markets, Mystics, & Mayhem

Ep 95: Imported Prices Screech While Domestic Prices Sing (A Little Off-key)

Headline inflation eased back over the September quarter, but still remains high at 3.7%. But that's ancient history now. With petrol prices through the roof this quarter, we're more worried about what lies ahead.

Domestic price rises continued to ease, while lower oil prices in July and August softened imported prices too. We love to sing the praises of a cheap Kiwi dollar, but while it benefits our exporters and tourism operators, it doesn't help with inflation.

Measures of core inflation are mixed. While inflation excluding the transport group is sitting at a moderate 2.7%, other core measures are a bit too high for comfort.



RNZ Morning Report

Kiwibank economist Jarrod Kerr previews today's OCR decision | RNZ

If the prevailing attitudes from economists and financial markets are to be believed, we could be seeing another hike in the official cash rate today... just 10 sleeps from election day. Kiwibank chief economist Jarrod Kerr spoke to John Campbell.



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Financial Markets

The comments below were provided by Kiwibank traders. Trader comments may not reflect the view of the research team.

In Markets – Well, that was interesting

An eventful week dominated by central bank decisions, central banker speak, and top-tier data. Locally the focus was on the RBNZ OCR review midweek, though we had decisions also from the US Federal Reserve, the European Central Bank, the Bank of Canada and the Bank of Japan. We also saw inflation prints and growth data internationally, and reads on business and consumer confidence locally. For the week our rates curve ended lower and steeper, with the front of the curve supported by a lower implied cash rate path. Year-end OCR was seen at 2.95%, lower by 21bps, while year-ahead was around 10bps lower at 2.75%, the 2-year Interest Rate Swap closing at 3.90% (-15bp), 5-year 4.19% (-13bp), and 10-year (-11bp).

The key focus domestically was the RBNZ decision on Wednesday, though in the lead up to the 2pm decision we had the RBA Governor, Deputy Governor and Chief Economist appear before the Australian Senate Economics Legislation Committee at 1.15pm, with scheduled testimony that spanned the release of Australian Q3 CPI at 1.30pm. As would be expected by now the RBA stuck to recent themes providing for plenty of hawkish headlines, noting that upside inflation risks were materialising via a combination of global and domestic factors, including persistent domestic demand pressures. The CPI release that occurred midway through also attracted attention with the Deputy Governor remarking that this was too high. The CPI print was indeed high, with the headline Q3 print at 1.3% against a 1.2% expected, leaving the annual figure at 4.3%, also 0.1% higher than expectation. The Trimmed Mean core measure of inflation was seen in-line for the quarter at a stubbornly elevated +1.0%, with the annual figure at 3.7% also 0.1% higher than expectation. The rates market reaction was swift, with the implied probability of a Melbourne Cup Day RBA rate hike jumping to around 85% from 60% prior, while three-year bond futures traded around 9-points lower, i.e., higher in yield, in quick time.

Elsewhere, the US Federal Reserve held the target 3.75%-4.00% range unchanged in a 10-2 decision despite inflation remaining elevated and the economy continuing to show reasonable strength, albeit with some recent tech/AI-sector wobbles. Fed Chair Warsh again offered little in the way of forward guidance stating that they have made clear their readiness to act as circumstances require and the committee's preference for accumulating more data before deciding on future moves. Here too the composition of the FOMC in 2027 will warrant a look, with one of those voting for a hike rotating off the voting panel in 2027. Market reaction saw the front of the yield curve rally as tightening expectations were recalibrated, particularly Fed Funds futures which saw year-ahead implied having removed one 25-point tightening from the implied Fed path over the week. Other central bank moves saw the Bank of Canada tighten, lifting the overnight rate to 2.50% as concern that higher energy prices may pose upside risks to inflation, which is currently outside band. They noted that there could be more rate increases though they may need to proceed cautiously given heightened global uncertainty and weaker domestic growth. The ECB and BoJ also were out, both banks held rates at 2.50% and 1.25% as expected. The ECB elected to hold as they were not seeing evidence of higher energy prices causing second-round effects at this stage, while the BoJ announced that underlying inflation had reached the 2% target while indicating that the bank would continue to respond to price and economic developments.

The Wednesday OCR review by the RBNZ was the main event for our market. However, market pricing at around 24/25ths for a hike was at risk of overstating certainty. Particularly given some of the points we have noted over the prior weeks, including the recently enlarged committee, the previous remarks around their preference to pause and assess coming after the September MPS tightening, and that an October move may subsequently see a December meeting more live than wanted given long gap between meetings, which potentially would see four moves in succession when they had previously displayed some caution over two. The RBNZ did surprise the market with a hold at 2.75% in a 4-3 decision. They noted the lower-than-expected headline CPI, to-date subdued wage growth and anchored medium-term inflation expectations however did acknowledge a stubborn core measure and a broadening of price pressures. They continued to note the signs of recovery in the economy, although this was uneven. They added that while global growth has been resilient, this was becoming increasingly fragile given geopolitical tensions, high energy prices, financial stresses including around AI-related investment, with some members attaching material risk to the possibility that the global environment could shift abruptly.

Again, the medium-term outlook approach was emphasised with the committee noting that annual inflation is expected to lift to around 4.4% largely on fuel prices, with all members agreeing that further OCR increases were likely, conditional on the outlook. The unchanged decision did prompt a rates rally led by the front of the curve, unwinding the higher and flatter term yields saw the day before, with three-month bills lower by 19bp and 2-year IRS lower by 11bp, while 5-year and 10-year IRS were lower by 5bp and 2bp respectively. The move also saw an immediate reaction on the currency, and particularly so against the AUD where the contrasting

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approaches of the RBA and RNBZ saw the cross lower by around 100pts. The weekly RBNZ GDPNow predictor model continued to see Q3 and Q4 GDP expectations edge higher, while business confidence held up well with the survey period prior to the RBNZ decision.

Overall, it can be said that the RBNZ continues tread a careful path on the rates front remaining somewhat cautious as to the durability of the economy, sticking largely to the rate path presented in the May and September statements despite movements in markets. December will see another full set of projections, where given their recent track record and changes to the MPC composition with the departure of Assistant Governor Silk who had voted for a hike, and comments around proximity to the mid-point of the neutral range, may see the market forced to pare back their tightening expectations again. Such a scenario would potentially see the front of the curve underpinned at the expense of mid-to-long end, with the risk that the RBNZ may seek to fully utilise the 'medium-term' to bring inflation back to band. This week sees a degree of data and event risk, locally we receive unemployment data ahead of the general election, the RBA decision and Statement on Monetary Policy, while in the US we have mid-terms held Tuesday their time alongside another full data week including the ISM's and payrolls employment data. **Graham Hughes – Trader, Financial Markets**

In FX – Place your bets: RBA takes centre stage on Cup Day

Last week's big surprise came from the RBNZ, with its decision to hold the OCR at 2.75% catching the market firmly off guard and triggering an aggressive sell-off in the Kiwi. Volatility was already elevated heading into the decision, with higher-than-expected Australian CPI released just 30 minutes earlier, seeing the AUD rally and pushing NZD/AUD lower towards the psychological 0.8000 barrier. But it was the RBNZ shock that delivered the decisive blow, with NZD/AUD falling sharply from around 0.8040 to a low of 0.7936, breaking through 80 cents as markets rapidly repriced the growing RBNZ/RBA policy divergence. NZD/USD was similarly hit, closing in on a retest of the key 0.5580 support area. Across the US, the Federal Reserve left rates unchanged at 3.75%–4.00%, with the 10–2 decision accompanied by a relatively firm message on the economy and lingering inflation pressures. With the Fed offering little in the way of forward guidance, December remains data-dependent, keeping upcoming US inflation and labour-market data firmly in focus for the USD.

Looking ahead, the Kiwi faces another potentially volatile week, with several key event risks capable of driving some sharp moves. The domestic focus will be Wednesday's New Zealand labour-market data, which will be closely watched for what it means for the RBNZ's December decision. Across the Tasman, the RBA meeting on Melbourne Cup Day will be a key event for NZD/AUD. Following the higher-than-expected Australian inflation print and the consistently hawkish tone from RBA officials, with around 80% priced for a hike, the market is expecting the RBA to deliver a 25bp increase. That said, as the RBNZ reminded us of last week, nothing is certain until the decision crosses the screens. And with the Melbourne Cup running around the same time, perhaps there will be more than one market trying to pick the favourite on Tuesday.

Political risk will also add another layer of noise, with the US midterm elections on 3 November followed by the New Zealand General Election on 7 November. With geopolitical uncertainty remaining in the background, headline risk has the potential to generate some sharp intraday moves.

For NZD/USD, 0.5580 remains the key support level, while 0.5700/50 should provide resistance on any recovery. The Kiwi will likely need a meaningful shift in relative rate expectations or broader USD sentiment to break convincingly beyond these levels. As for NZD/AUD, last week's low of 0.7936 provides the first level of support, with 0.7896, as highlighted in our FX Tactical, the next key downside level to watch. On the topside, we would expect any gains above 0.8100 to run into resistance, unless of course the RBA decides to do an RBNZ on Tuesday and catch the market off guard. **Adrian Lodge – Senior Dealer, Financial Markets.**

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The Week's Key Events

- Domestically, they key datapoint out this week is labour market statistics. Our pick is for a 5.4% unemployment rate, a healthy albeit temporary improvement from the June quarter's 5.6%.
- The Reserve Bank of Australia will have an interest rate decision on Tuesday, with the probable outcome being another hike to take the cash rate to 4.85%. That would put the rate differential between Aussie and Aotearoa at more than 200 basis points.
- The Bank of England is also poised to hike rates, with the consensus view being that they will hike from 3.75% to 4.00% later in the week.

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