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New Zealand Fixed Income Monthly October 2025

Interest rate cuts and easing inflation concerns fuelling optimism

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Inflation concerns seen receding despite significant interest rate cut

When the Reserve Bank of New Zealand (RBNZ) announced it had cut interest rates by 50 basis points to 2.5% at its 8 October policy meeting, the large size of the reduction surprised most market participants. The cut is likely to be positive for New Zealand's economic recovery. However, it is also true that the consumers price index for the September 2025 quarter showed a quarterly rise of 1% and an annual rise of 3%[1], placing inflation at the top end of the RBNZ's medium-term target range of 1–3%. Even so, we do not see inflation as a major concern for 2026 in view of its two main drivers: administered prices (such as local authority rates, electricity prices and road user charges) and food prices. Administered prices have soared since the pandemic and they are particularly challenging for central banks as they tend to be unresponsive to domestic monetary policy. We therefore expect administered price inflation to remain elevated for most of 2026. However, we feel that food inflation may already have peaked. This is because a greater supply of domestic food is set to become available during 2026 in response to the higher prices; global food price inflation has also started to lose steam, and the base effect (from comparisons with the previous year) is likely to ease the annual rate in comparison with the elevated inflation seen in 2025. This is significant given the key role food prices have had in driving inflation this year.

Growth seen improving as New Zealand's recovery accelerates

We have an optimistic view on New Zealand's economic outlook for the coming year based on the four key engines that drive the country's cyclical growth: primary sector exports, net migration, tourism and housing. We expect the primary sector to continue performing well in 2026 on positives including ongoing strength in commodity prices. In addition, after a challenging year to date in which many New Zealanders have left the country for employment in Australia, we think that net migration may have bottomed out and expect the tide to turn next year on factors such as government measures to ease migration restrictions. Tourism was hit especially hard by the pandemic, but the sector has already rebounded almost to its 2019 level and we expect that momentum to continue. Positives for this sector include the current weakness in the New Zealand dollar. Finally, housing was flat for most of 2025, but easing mortgage rates and other factors are providing bright signs for the sector. In our view, as those four key growth drivers have largely stabilised or started to accelerate, they are well positioned to drive a recovery for New Zealand in 2026 and early 2027.

[1] https://www.stats.govt.nz/information-releases/consumers-price-index-september-2025-quarter/

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