NZ December 2025 Quarter CPI Review and OCR Call Change

23 January 2026

Contact
Sharon Zollner or Miles Workman
for more details.

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Data summary

	% qtr	% ann
Headline CPI	0.6%	3.1%
Tradable	0.7%	2.6%
Non-tradable	0.6%	3.5%

Breaching the band

Bottom line: Q4 CPI tips the balance to hikes this year

- **We are tweaking our OCR forecast to bring the first hike forward to December this year (from February 2027).**
- Annual CPI inflation accelerated 0.1 ppt to 3.1% in Q4 (+0.6% q/q), stronger than our expectation of 3.0% and well above the RBNZ's November MPS forecast of 2.7%.
- Non-tradable inflation (driven largely by domestic factors) was unchanged at 3.5% y/y, also stronger than our forecast (3.4%) and the RBNZ's forecast (3.2%).
- Measures of core inflation were mixed in the quarter. All main measures of core inflation remained in the 1-3% target band.
- Tradable inflation (largely determined by global factors, including movements in the NZD) accelerated 0.6 ppts to 2.6% y/y, also stronger than our expectation (2.4%) and the RBNZ's (2.0%).
- For the RBNZ, today's data will make for uncomfortable reading, but indicators of spare capacity suggest there is still some, albeit diminishing, underlying disinflation in the pipeline that should help return headline inflation to within the 1-3% target band. That said, when combined with the recent sharp improvement in the activity data, today's release tips the balance towards hikes this year being likelier than not. We are now forecasting the first 25bp hike in December, with two follow-up hikes at the February and April 2027 meetings taking the OCR back to an assumed neutral level of 3% as before.

Big picture and monetary policy implications

Headline inflation accelerated 0.1 ppt to 3.1% y/y in Q4 as higher tradable inflation (the more volatile side of the CPI basket) more than offset stable non-tradable inflation.

Looking through some of the more volatile parts of the basket, the signal on underlying disinflation was mixed:

- Annual non-tradable inflation was unchanged at a level that's still a little too high to call consistent with headline inflation stabilising around 2%
- Annualised seasonally adjusted non-tradable inflation was stable at 3.6% (0.9% q/q)
- Services inflation slowed a further 0.4% pts to 4.0% y/y
- The ex-food, fuel and energy measure was unchanged at 2.5% y/y
- The 30% trimmed mean measure rose 0.3% points to 2.5%
- The weighted median fell 0.5% pts to 1.7% (using the 2024 weights).

Completing the suite of core measures, the RBNZ's sectoral factor model will be released at 3pm.

Even though the core measures of inflation suggest underlying inflation did not accelerate in Q4, the fact that headline inflation has breached the RBNZ's 1-3% target band will not sit well with the Monetary Policy Committee (MPC). There is plenty for the MPC to weigh up at the February MPS: stronger-than-expected Q3 GDP, a sharp lift in the high-frequency activity indicators suggesting the same is in store for the Q4 data, and now a less disinflationary end to 2025 than anticipated. However, given the housing market remains lacklustre, fixed interest rates have started rising, indicators of spare capacity suggest the output gap is still negative, and it is still early days in the recovery, we think the hurdle to do anything other than hold the OCR at 2.25% at the February MPS and await more data is high.

The RBNZ will also be aware of the risk that while the data have turned sharply over summer, this is from a very weak base. In other words, it's no given that momentum will be maintained. The recent experience has been for momentum to soften over the colder months (even seasonally adjusted), so the MPC will be keen to see how the data evolve before drawing strong conclusions.

Boiling all that down into an OCR outlook, our previous forecast of hikes kicking off in February 2027 now looks improbably far off, and so we are bringing the kick-off forward to the December MPS. But the RBNZ will be aware that if it comes out too hawkish in February and thereby tightens monetary conditions before current green shoots have a chance to get established, those shoots could easily wither.

The details

Breaking down the details of the 0.6% q/q rise in the Q4 CPI:

- The **transport group** (typically one of the more volatile components of the CPI and 14.3% of the basket) lifted 2.3% q/q, adding 0.3 ppts to headline inflation. As expected, higher petrol prices (up 2.5% q/q) and international airfares (up 7.2% q/q) were the main drivers.

- The **recreation and culture group** (9.7% of the basket) rose 1.7% q/q, adding almost 0.2 ppts. As expected, this reflected seasonal strength in accommodation services (domestic up 8.6% q/q; international up 1.9% q/q) and other recreational and cultural equipment (up 0.9% q/q).

- The **communication group** (2.7% of the CPI basket) surprised our forecast to the upside, up 4.1% q/q, making a 0.1 ppt contribution to quarterly inflation. Underpinning this, telecommunication equipment rose 11.3% q/q.

- The **housing and household utilities group** (29.4% of the CPI basket) rose 0.5% q/q, making a 0.1 ppt contribution to quarterly inflation. It was driven by rents (up 0.2% q/q), home ownership (up 0.6% q/q), electricity (up 1.3% q/q) and gas (up 5.1% q/q). The main surprise here versus our forecast was stronger prices for home ownership, which appears to be driven by broad-based price pressures in input costs such as labour, components, and power.

- That said, generalised softness in housing is translating into dwelling insurance, which fell 0.4% q/q. This is part of the **Miscellaneous goods and services group** (7.2% of the basket), which lifted just 0.2% q/q.

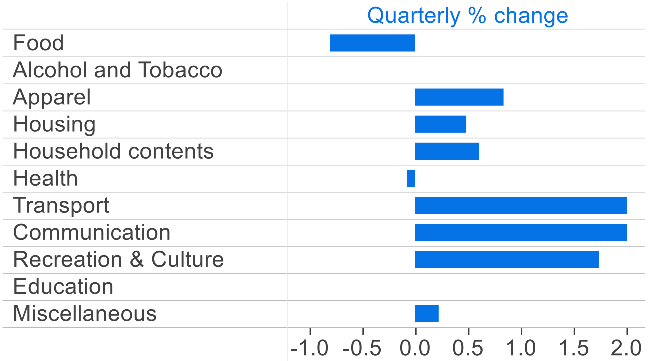
- The **food group** (18.45% of the CPI) fell 0.8%, subtracting 0.1 ppts from quarterly inflation, driven largely by seasonally lower vegetable prices.

- Other parts of the CPI were broadly as expected and didn't make significant contributions to quarterly inflation.

Overall, the main drivers of inflation in Q4 were close to forecast: seasonally stronger airfares and accommodation more than offset seasonally weak food prices. Meanwhile, price pressures across the interest-rate-sensitive pockets of the CPI basket appear contained, although less so for home ownership than we expected. While not a story in the quarterly Q4 figures, elevated administrative price pressures (like local council rates) are expected to dissipate only slowly from here. The RBNZ's balancing act is to compensate for that by maintaining a degree of excess capacity in the economy that weighs on the other parts of the CPI basket. In a big picture sense, that's exactly what's happening. But relative to the

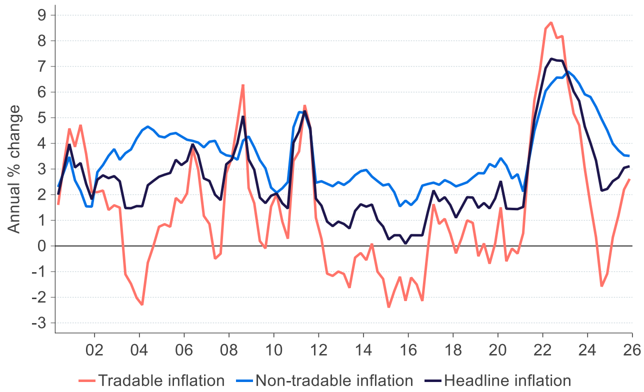
RBNZ's November MPS forecast (which we thought was on the low side at the time), it's not happening exactly as expected. But one data point does not make a trend. Capacity indicators will be more important for determining the outlook for underlying inflation this year than a higher-than-expected starting point (which is partly a volatile tradeable inflation story, though importantly, non-tradables was also higher than the RBNZ expected).

Figure 1. CPI groups – December 2025 quarter



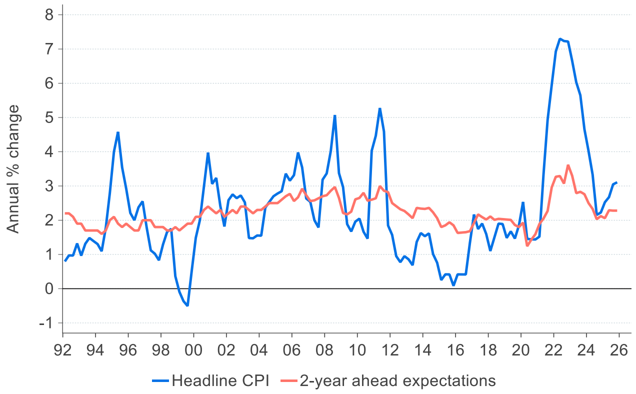
Source: Stats NZ, Macrobond, ANZ Research

Figure 3. CPI inflation components



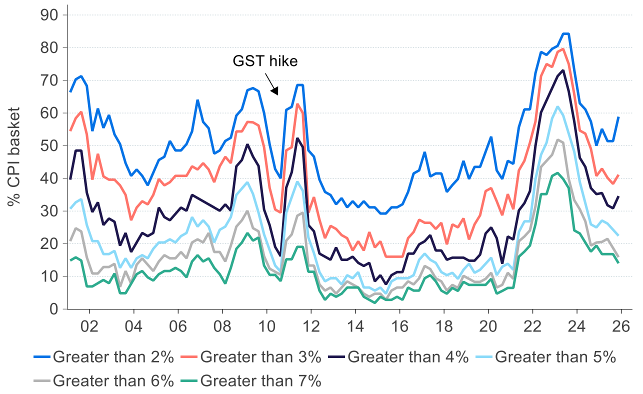
Source: Stats NZ, Macrobond, ANZ Research

Figure 2. Headline inflation vs inflation expectations



Source: Stats NZ, RBNZ, Macrobond, ANZ Research

Figure 4. Proportion of CPI basket running >X%



Source: Stats NZ, Macrobond, ANZ Research

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We welcome your questions and feedback. Click here for more information about our team.

Sharon Zollner
Chief Economist

Follow Sharon on Twitter
@sharon_zollner

Telephone: +64 9 357 4094
Email: sharon.zollner@anz.com

General enquiries:
research@anz.com

Follow ANZ Research
@ANZ_Research (global)

David Croy
Senior Strategist

Market developments, interest rates, FX, unconventional monetary policy, liaison with market participants.

Telephone: +64 4 576 1022
Email: david.croy@anz.com

Matthew Dilly
Agricultural Economist

Primary industry developments and outlook, structural change and regulation, liaison with industry.

Telephone: +64 21 221 6939
Email: matthew.dilly@anz.com

Miles Workman
Senior Economist

Macroeconomic forecast co-ordinator, economic developments, labour market dynamics, inflation, fiscal and monetary policy.

Telephone: +64 21 661 792
Email: miles.workman@anz.com

Matthew Galt
Senior Economist

Macroeconomic forecasting, economic developments, GDP, housing and credit dynamics.

Telephone: +64 21 633 469
Email: matthew.galt@anz.com

Natalie Denne
PA / Desktop Publisher

Business management, general enquiries, mailing lists, publications, chief economist's diary.

Telephone: +64 21 221 7438
Email: natalie.denne@anz.com

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