



# ECONOMIC BULLETIN

Forecast update, April 2025.



28 Mar 2025 | **Kelly Eckhold**, Chief Economist | +64 9 348 9382 | +64 21 786 758 | [kelly.eckhold@westpac.co.nz](mailto:kelly.eckhold@westpac.co.nz)

## Grinding higher

- Activity in the final quarter of last year was slightly firmer than expected. We have lifted our GDP growth forecasts very modestly due to firmer population growth.
- Consumer spending remained soft in the December quarter, but we continue to expect that it will gradually strengthen over the course of this year.
- Housing market momentum is building and is likely to be longer lived, supported by slightly firmer population growth.
- Exports of services are tracking above forecast. So, despite higher imports and investment income outflows, we still expect the current account deficit to narrow sharply this year.
- We continue to see eventual upside risks to the Government borrowing programme even as revenue runs ahead of the HYEPU forecast.
- The near-term outlook for inflation is firmer than previously anticipated due to strength in food prices. However, the medium-term outlook is largely unchanged, with inflation set to remain comfortably within the RBNZ's target band.
- We still see two further 25bp OCR cuts to a cycle low of 3.25% by May.

There have been several key data releases since we published our last *Economic Overview* in mid-February, together with other developments that impact the economic outlook. This note discusses the results of an interim update of our key economic forecasts and how the economy is tracking against our February forecasts. We also noted some of the issues that we will be considering when we undertake our next full forecast update in May.

The bottom line is that the outlook for the economy hasn't changed greatly, although the slightly better-than-expected GDP growth reported in the December quarter and improved tone to monthly activity indicators has provided clarity that the economy has improved since its nadir in Q3 2024.

Growth remains narrowly based for now and focused in sectors and regions most orientated to the improving tourism and export sectors. Consumer spending is improving as expected.

The latest migration data suggests that population growth is likely to be stronger than expected in our February update. As a result, we expect both actual and 'potential' GDP to be slightly higher than forecast previously.

The outlook for the labour market is little changed, with the unemployment rate expected to peak around the middle of this year. We continue to foresee a substantial narrowing of the current account deficit in coming quarters, largely due to the pass-through of the recent improvement in commodity prices.

The near-term outlook for CPI inflation is higher than in our February update, and headline inflation won't peak until Q4 2025. Our longer-term inflation outlook is not significantly different.

We continue to see two final 25bp cuts to the OCR at the April and May meetings and a trough in the OCR of 3.25%. Conditions will be modestly stimulatory at that point which will help growth to broaden into more interest-sensitive sectors of the economy.

## Aggregate activity.

Following stronger than expected growth at the end of 2024, we've made a modest upwards revision to our forecast for GDP growth over 2025. We now expect the economy to grow by 2.6% this year (previously we forecast a rise of 2.5%). Growth is likely to remain below trend in the near term. However, it's set to strengthen over the course of the year as the impact of interest rate reductions and increases in export earnings ripple through the economy.

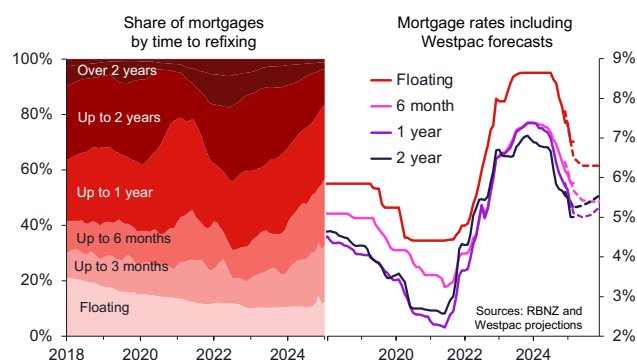
## Household spending.

Household spending growth was a little more modest than expected at the end of 2024 as financial pressures continued to restrain spending. Moving into 2025, recent spending figures point to firming demand, though the recovery is still likely to be gradual in the near term, consistent with the low level of consumer confidence and continued pressure on household finances.

The recovery in household spending is expected to firm through the latter part of the year. The full impact of interest rate reductions to date is yet to be felt. However, more than half of all mortgages will come up for refinancing over the coming months, and borrowers will be rolling on to lower rates, boosting their disposable incomes. In addition, increases in export commodity prices will support incomes and spending in many agriculturally focused regions.

In our May *Economic Overview* we will be examining whether lower interest rates and stronger export returns and income growth are consistent with our medium-term forecasts for consumer spending.

### Many mortgages will soon refix at lower interest rates



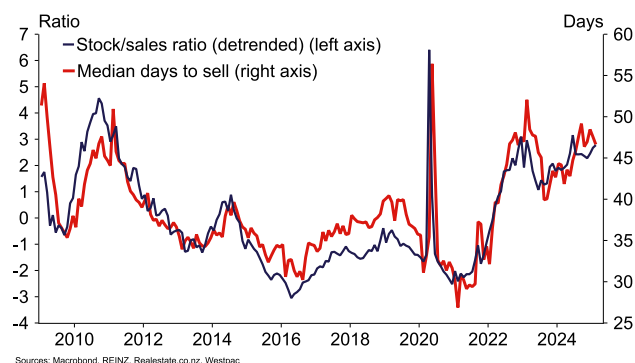
## House prices.

House prices have been rising again in recent months, though they look set to modestly undershoot our earlier forecast for a 1% rise in the March quarter. For now, the market remains well supplied in terms of inventory, but sales volumes are building. Interest rates remain at cyclical lows which seems to be driving strong refinancing activity, as well as increasing demand from first home buyers and investors. Credit growth remains modest but is strengthening. Days to sell is at a cyclical high and is yet to significantly fall.

We've slightly softened our forecast for house price growth in 2025 and now forecast prices to rise by 6.5% this year (previously we forecast a rise of 7%) reflecting a view that prices will likely rise more gradually in the first half of 2025. However, momentum will likely build causing a stronger pickup later in the year and through 2026. By the end of the year, interest rates will have been at their trough for several months and the labour market should be strengthening.

We've scaled up our forecasts for house price growth in 2026 by 0.25% a quarter to reflect an increase in forecast population growth through 2025 and 2026. The result is an upgrade to our year-end forecast for house price growth in 2026 to around 6%, which is still somewhat below the 2010-19 average.

### Stock/sales ratio & median days to sell both still elevated



## Residential construction.

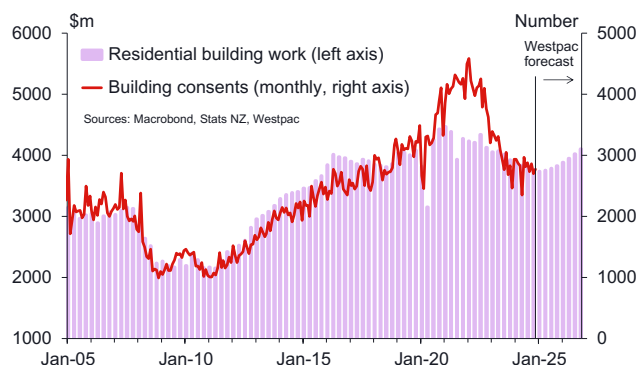
Residential construction was weaker than expected in Q4 2024 as the weak housing market and earlier high financing and build costs weighed on both homeowner demand and developer activity.

We continue to expect building activity to remain subdued through early 2025, but it looks like we are close to the bottom of the residential construction cycle. Much of the large pipeline of projects in recent years has now been worked through. In addition, the number of new dwellings being consented has found a base.

New development activity is expected to remain limited over the coming months but is expected to lift through

the back part of the year as lower borrowing costs support a recovery in the housing market. A gradual lift in building activity is expected to follow.

### Residential building close to a trough



## Business investment.

Non-residential building activity was close to expectation at the end of 2024. We expect commercial construction will continue to moderate over 2025 as current softness in business conditions and uncertainty about the outlook continue to dampen plans for investment spending. Development activity is expected to firm further ahead as the recovery becomes more established. Infrastructure work is continuing to rise with a large pipeline of planned projects. Spending on plant and machinery and intangible investment were stronger than expected in the December quarter. With data for early 2025 not pointing to any obvious pull-back in imports of capital goods, we have slightly lifted our forecast for other business investment.

## Export volumes.

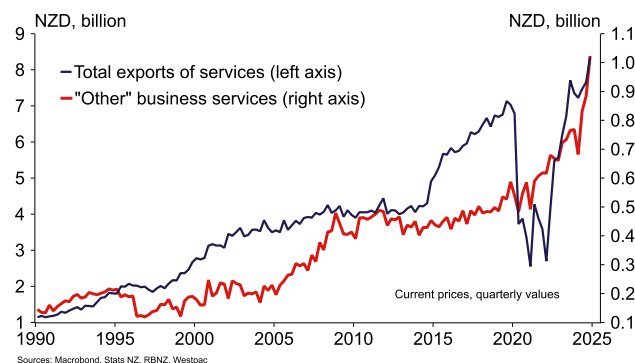
Goods exports in the December quarter were in line with our expectations. By contrast, services exports were much higher than expected. Travel exports surprised on the upside, mainly due to a much larger than estimated spend-per-tourist than we had assumed. It is possible that this spend has been overestimated in the latest survey (in which case growth in household consumption will have been underestimated). Exports of business services also surprised strongly, which appears to reflect an increase in management fees paid to New Zealand owned corporates by their offshore subsidiaries and a notable increase in receipts from R&D services. Our revised forecast builds some of the upside surprise in services exports into our baseline forecast.

Looking ahead, we will undertake a more comprehensive assessment of the outlook for exports in May. Forecasts for trading partner growth have been revised down modestly since February, and it is possible that there will be further downgrades depending on how US tariff policy evolves over coming weeks (including possible retaliation by impacted countries). Our forecast for the exchange

rate over the coming year or so is also slightly higher than that assumed in our February update.

Finally, if they persist, drought conditions in parts of the country may have implications for the primary sector outlook.

### Services exports growing strongly

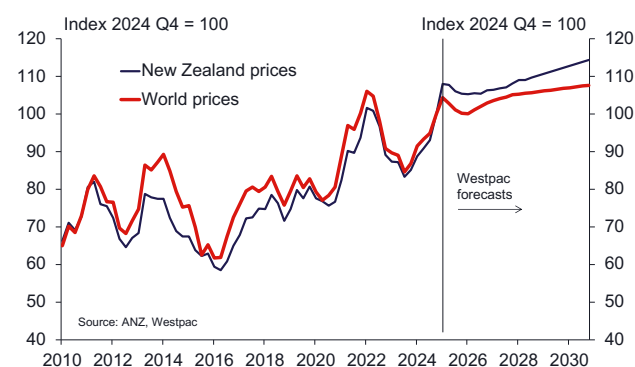


## Terms of trade.

The export commodity story has remained positive with prices for many key products surprising on the upside. That was particularly true for beef export prices, which were supported by ongoing shortfalls in the US market and less production coming out of key producing regions. At the same time lamb export prices rose off the back of stronger demand in key export markets and less production coming out of Australia and New Zealand. Dairy prices have remained strong, much as we had expected, and so our forecasts for the dairy payout are unchanged.

We have upgraded several of our commodity price forecasts, however. For beef exports, that's about a higher starting point. The ongoing structural shortfall in the US will continue to support beef export prices over the coming year. In the case of lamb, prices will continue to rise from a higher starting point, although future gains could well be limited by an increase in export volumes out of Australia and more production coming on-stream in the UK. We have also raised our forecast for horticulture prices, with both apple and kiwifruit orchardists set to see elevated prices and higher orchard gate returns.

### The trend for commodity export prices remains positive

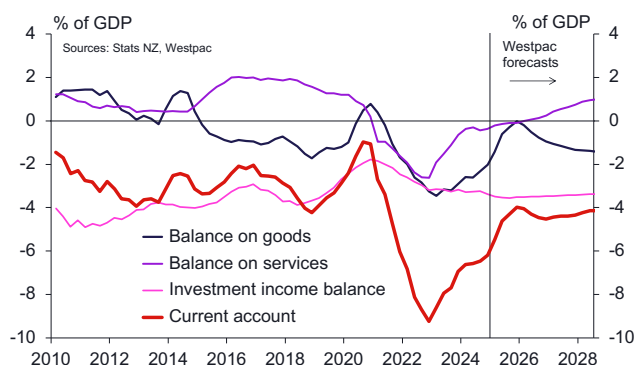


## Current account.

The current account deficit was slightly wider than expected in the December quarter. The full-year deficit of 6.2% of GDP for 2024 compared with our earlier forecast of 5.9% of GDP. Part of the surprise was due to higher-than-expected investment income outflows, which were also revised higher in the September quarter. In addition, nominal imports were higher than expected in the December quarter, leading to a slightly wider goods trade deficit.

Our revised forecast envisages a slightly wider current account deficit this year than forecast in February, although the full-year deficit is still forecast to narrow significantly to around 4% of GDP.

### The current account deficit is expected to narrow

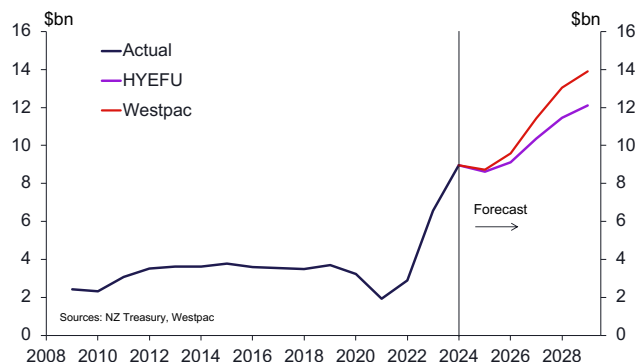


## Government finances.

Tax revenues are running slightly above the Half Year Economic and Fiscal Update (HYEFU) forecast, while spending is running slightly behind forecast. However, the Minister of Finance has indicated that she does not expect to reveal an improvement in the fiscal outlook in Budget 2025, with higher-than-expected finance costs cited as an additional pressure on the public finances. Our February Economic Overview already built in a higher track for bond rates and thus finance costs than anticipated in the HYEFU, and so at this stage our forecasts for the Government's finances are little changed from February.

Ahead of our May update and the Budget, one issue to be resolved is how the Government's intention to spend more on defence ("as close to 2% of GDP as possible", according to the Prime Minister) will impact the overall capital spending budget, operational defence spending and the government borrowing programme. It seems likely that any increase in spending will be gradual so the near-term impact on bond issuance seems likely to be gradual too. Even so, the transition could easily add \$10bn to defence spending over the next four years (and around \$4-5bn per year once fully implemented). In May we will also take a closer look at our forecasts for local government spending, which has grown very strongly in recent quarters.

## Higher financing costs hinder fiscal improvement



## Migration and the labour market.

Net migrant flows have stabilised at low but positive levels in recent months, with arrivals holding steady and departures of Kiwis easing from their peaks. Recent revisions also show around 6,000 fewer foreign departures over the last year than initially reported. We now expect the annual balance to bottom out at around its current level of 32,000 people, lifting slightly to 35,000 over this year and 40,000 next year. Compared to our February forecasts, this provides a 0.3ppt lift to our population growth forecast over 2025.

### Annual net migration is stabilising



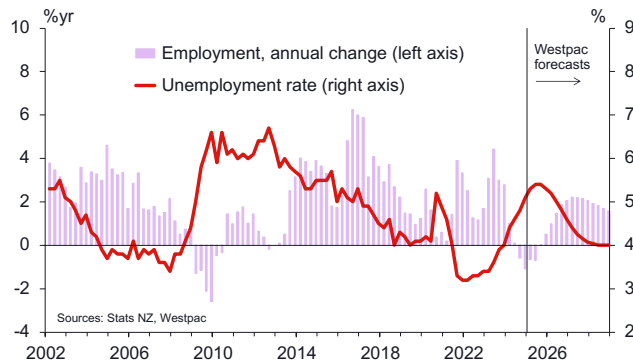
The outlook for net migration will depend in part on policy settings, which are intended to shift towards attracting more high-skilled workers in particular. But relative job prospects are likely to be the biggest constraint. New Zealand's jobs market remains subdued, with businesses not immediately looking to hire even as activity starts to pick up. In contrast, the Australian market remains relatively vibrant, with the unemployment rate holding at around 4% – though we expect this to soften over the year ahead.

Our labour market forecasts are broadly unchanged at this stage. We expect the unemployment rate to rise from the current 5.1% to a peak of 5.4% in the middle of this year, before jobs growth improves by enough to outstrip population growth. The March quarter employment surveys (to be released in early May) will provide some important guidance on this ahead of our next forecast



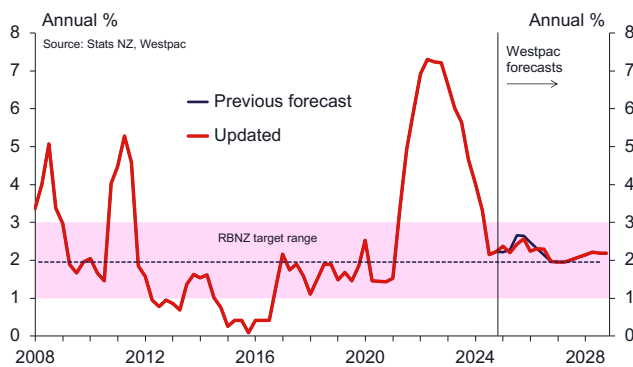
update – they may prove to be more of a challenge to the RBNZ’s views, given their forecast that the unemployment rate would soon peak at 5.2% for this cycle.

#### Unemployment rate should peak in mid 2025



## Inflation.

#### Inflation to rise over 2025, but still well within the target range



Our forecast for inflation in the early part of 2025 has been revised higher. We now expect consumer prices to rise by 0.8% in the March quarter (vs. our previous forecast of 0.6%). That would see the annual inflation rate rising to 2.4%, in line with the RBNZ’s February MPS forecast. This stronger near-term outlook for inflation reflects the recent large increases in grocery food prices

(particularly for dairy products) which have more than offset the impact of lower transport costs.

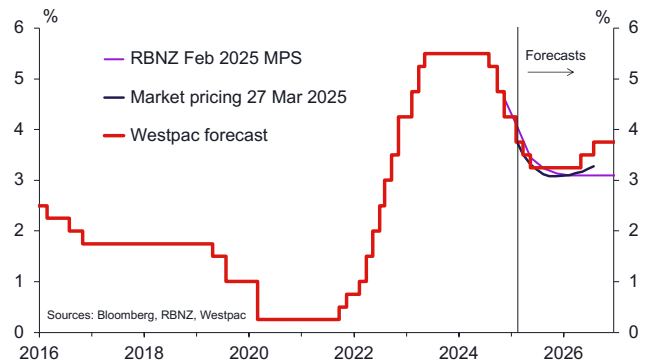
Despite the stronger than expected price gains in recent months, our longer-term forecasts for inflation are largely unchanged, peaking at 2.6%, with a softer outlook for oil prices and resilience in the NZ dollar expected to dampen imported inflation.

## Monetary policy outlook.

The overall picture of rising inflation and a strengthening economy seems consistent with our view that the end of the easing cycle is coming soon once the OCR reaches 3.25%. We don’t think the RBNZ will act on the last 25bp cut to 3% that had been partially indicated in their February forecasts – and recent stronger activity and inflation indicators only make the case for that view stronger.

Plenty of risks remain around that outlook given trade policy uncertainties, the growth path of the economy and of course the transition of leadership at the RBNZ. In May we expect to know more on the trade outlook and how the economy and labour market was travelling over Q1 2025. The RBNZ’s April Monetary Policy Review may shed light on how the RBNZ might respond to the evolving risks to the growth and inflation outlook – both positive and negative.

#### RBNZ easing cycle nearing an end



#### Key forecast tables

Economic indicators	Quarterly % change				Annual % change			
	Dec-24	Mar-25	Jun-25	Sep-25	2023	2024	2025	2026
GDP	0.7	0.4	0.4	0.8	0.9	-1.1	2.6	3.0
GDP (annual average)	-	-	-	-	1.8	-0.5	1.0	3.2
Consumer price index	0.5	0.8	0.2	0.8	4.7	2.2	2.6	2.0
Employment change	-0.1	-0.1	0.1	0.1	2.8	-1.1	0.5	2.1
Unemployment rate	5.1	5.3	5.4	5.4	4.0	5.1	5.3	4.6
Labour cost index (all sectors)	0.6	0.6	0.5	0.5	4.3	3.3	2.2	1.8
Current account balance (% of GDP)	-6.2	-5.5	-4.6	-4.3	-6.9	-6.2	-4.0	-4.5
Terms of trade	3.1	7.1	2.6	-1.1	-10.7	13.6	8.0	1.4
House price index	-0.2	0.8	1.5	2.0	-0.6	-1.1	6.5	6.1

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