ECONOMIC OVERVIEW

Turning the corner.

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A NOTE FROM KELLY

Turning the corner.

2024 was a rough year. While inflation came down towards 2%, the economy took a very sharp dip mid-year. We are now turning the corner towards growth and there are promising signs of recovery for 2025.

As is often the case at turning points, conditions are mixed. Positively, we see household spending growing again, strengthening tourism, and stabilising house prices. Other sectors remain weak - for example manufacturing and construction.

The primary sector shows signs of better times ahead. Dairy incomes look set to hit record highs in nominal and perhaps even real terms. The combination of lower interest rates and on-farm costs, a lower NZ dollar and high world prices is serendipitous for farmers. We expect stronger on-farm investment, and spending in the regions should lead that in major urban centres.

However, storm clouds are on the horizon. A trade war has erupted as the new US president delivers his well-signalled policy agenda. There's much uncertainty on how this will play out, but it won't be good for New Zealand. Looking ahead, our baseline view is for gradual recovery assuming trade uncertainties don't disturb either economic activity or our terms of trade too much. There are likely downside risks to this sanguine view. But a lower New Zealand dollar will likely help shield us from the fallout.

Lower interest rates will support housing, household incomes, spending and investment. Net migration won't fall as far as previously thought, providing some support.

Inflation looks set to remain between 2-3% as higher soft commodity prices and the weak exchange rate keep inflation up. Further OCR cuts are expected, but the RBNZ should move more cautiously after February. The fortunes of the labour market and the ultimate peak in the unemployment rate will be an important driver of the amount of easing the RBNZ delivers.

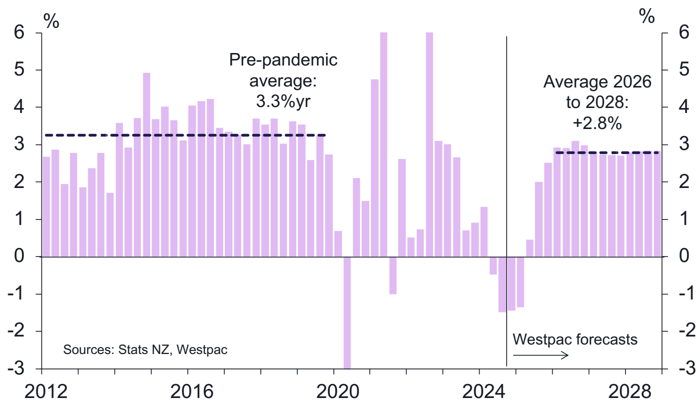
OVERVIEW

> "A recovery in economic activity is expected to take hold over 2025, though the increasingly rocky global landscape could cause significant ructions."

Easing financial conditions, but a rocky global landscape.

- Economic growth is forecast to accelerate to 2.5% in 2025 and 3.0% in 2026, with gradual increases in household spending and capital expenditure by businesses. The housing market is also expected to strengthen, supporting an eventual recovery in residential construction.
- Easier financial conditions are expected to underpin growth – with inflation now close to 2%, the RBNZ delivered 125bps of cuts in 2024, and a further 100bps of cuts is expected in 2025. Stronger primary sector earnings will also help to boost incomes and spending.
- The fiscal stance is likely to be a drag on growth as consolidation begins.
- The recovery in activity is likely to be gradual, with growth only modestly above trend. Borrowing costs are dropping, but are returning to around average levels, rather than the very low levels we saw in the wake of the pandemic.
- The labour market is set to remain soft in the near term, with unemployment to rise to a peak of 5.4% in mid-2025, before dropping back again.
- The global landscape has become rockier and uncertain. Changes in US trade policy and related retaliatory actions in other regions could disrupt global trade and financial markets. That could impact New Zealand in complex ways and is likely to be especially reflected in a weak NZ dollar.

Annual GDP growth



Key economic forecasts (Dec quarters)

	2023	2024f	2025f	2026f
GDP growth (% year)	0.9	-1.4	2.5	3.0
Inflation (% year end)	4.7	2.2	2.6	2.0
Unemployment rate (%)	4.0	5.1	5.3	4.6
House prices (% year end)	-0.6	-1.2	7.2	5.1
Official Cash Rate (%)	5.50	4.25	3.25	3.75

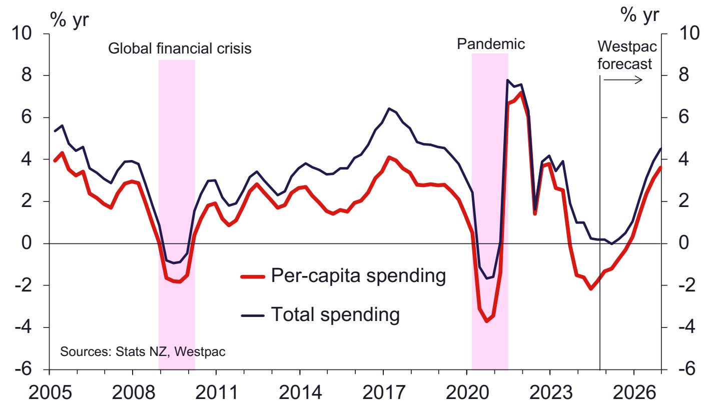
HOUSEHOLDS

> "Close to half of all fixed-rate mortgages will come up for repricing over the next six months, and most borrowers will be rolling on to lower rates."

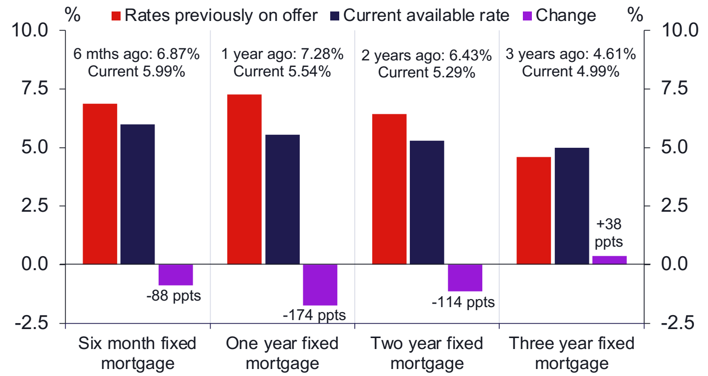
The squeeze is set to ease.

- The pressure on household finances seen in recent years is now easing as inflation and borrowing costs fall. That will support a gradual rise in economic activity and household spending over the coming year.
- Spending has already been trending higher in recent months and consumer confidence has stepped up from its lows.
- The impact of mortgage rate reductions has been limited thus far as many mortgages are yet to come up for refixing. Also, many borrowers have opted to roll onto relatively higher floating rate or shorter-term mortgages in anticipation of further rate cuts. However, around 54% of mortgages will reprice over the next six months, giving borrowers the opportunity to secure a lower rate.
- While borrowing costs have fallen, they are merely returning to long-run average levels, in contrast to the very low pandemic-era rates.
- Rising unemployment will be a brake on spending for some households. However, unemployment should drop back again as economic growth strengthens over the coming years.

Household spending growth



How much relief could borrowers see?



Source: RBNZ data for borrowers with over 20% equity. Current rates on offer from Westpac as at 7 February 2025.

HOUSING

"Stabilisation should give way to strengthening house prices as 2025 proceeds."

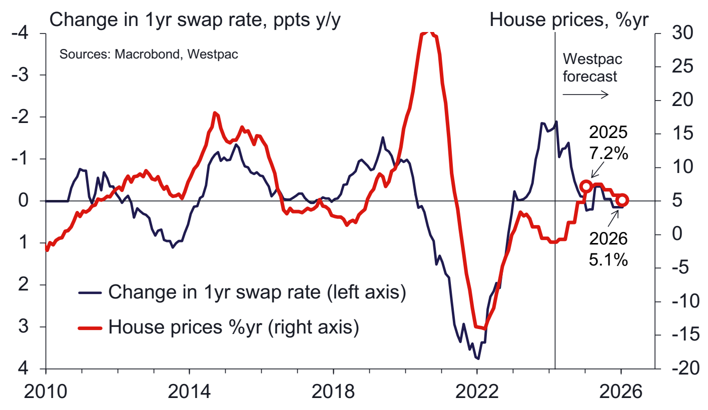
The market is starting to find a better footing...

- Activity has picked up as mortgage rates have fallen.
- House prices have stabilised and made small gains in three of the last four months. Prices are up 0.3% since October.
- Nevertheless, there remains a good balance between housing demand and supply – new listings have increased as demand has picked up.
- The median time to sell is at cyclical highs at around 50 days. This doesn't suggest rampant price growth any time soon.

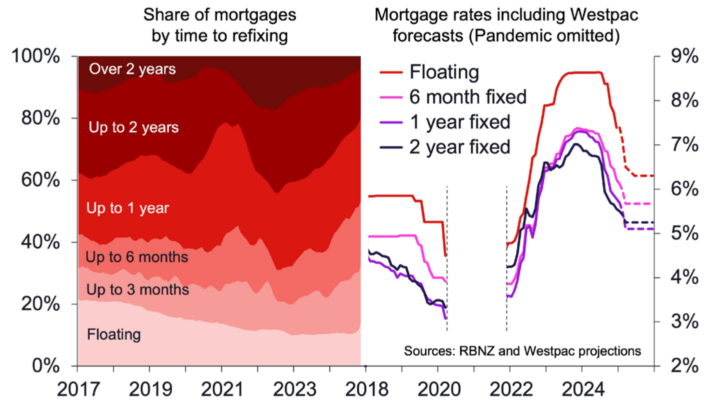
... and should strengthen over 2025.

- Credit growth remains low, although mortgage approvals data are strong indicating a future pick-up.
- House prices and sales volumes should pick up over the coming year supported by lower mortgage rates.
- We expect prices to grow around 7% over 2025 and 5% in 2026.
- Increase in home building should prevent growth in house prices running too far ahead of the growth in nominal incomes.

House price growth vs interest rates



Time to mortgage re-fixing vs mortgage rates



CONSTRUCTION

> "The annual number of homes being consented is expected to gradually rise from around 34,000 currently to close to 40,000 over 2027."

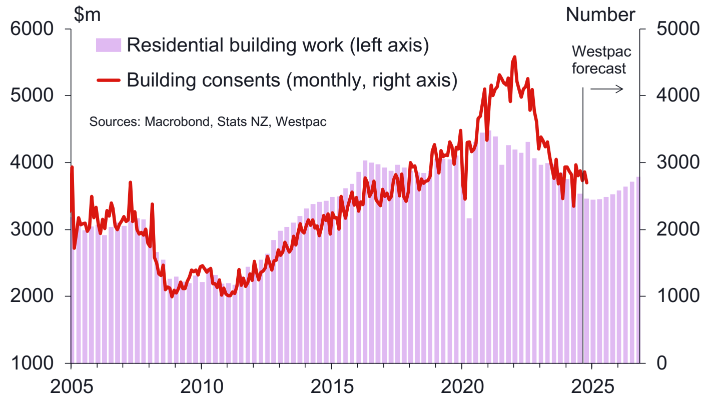
A floor in home building.

- The residential development cycle looks like it has found a floor with dwelling consent numbers flattening off in recent months. The combination of lower borrowing costs and a strengthening housing market will underpin a lift in new housing development over time. However, the recovery is expected to be gradual – we don't expect consent numbers to turn materially higher until the second half of 2025, with a lift in construction activity to follow after that.

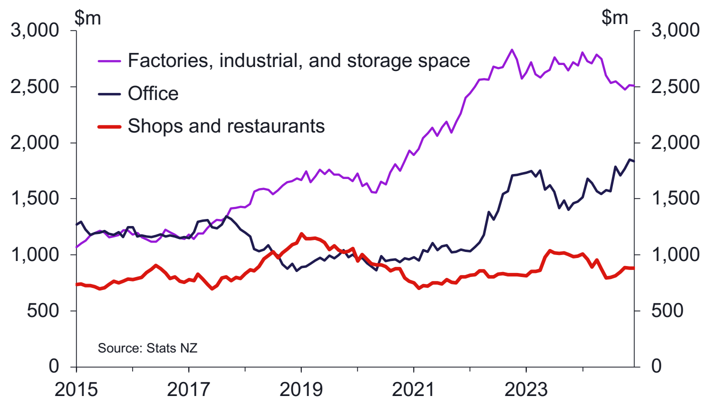
Commercial conditions mixed, large infrastructure pipeline.

- There continues to be a large amount of office space in development (including refurbishments), and spending on industrial buildings is holding up. In contrast, softness in economic activity has seen the amount of retail and hospitality space in development remaining low.
- While developers and occupiers are likely to remain cautious about significant new capital expenditure in the near term, non-residential building activity is expected to gradually rise over coming years as economic activity recovers.
- Infrastructure spending has continued to trend higher, though much of that rise has been due to cost increases. There is a large amount of spending planned by central and local government over the coming years, including work that is necessary to maintain existing assets.

Residential building and dwelling consent numbers



Value of commercial building consents (annual)



MIGRATION

> "Net migrant inflows are stabilising at a low but positive level, though the Australian jobs market continues to hold more appeal for now."

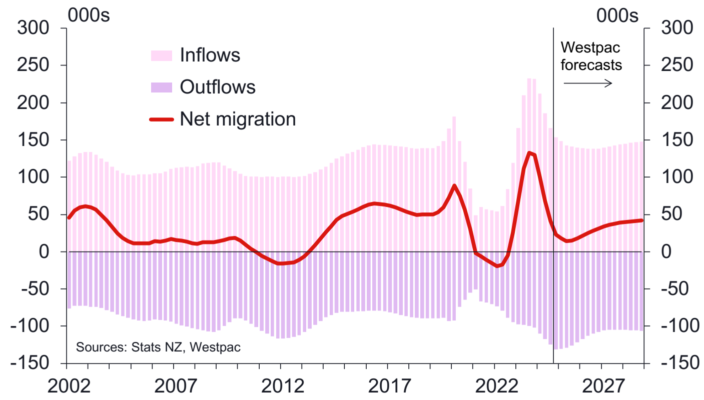
Net migrant inflows starting to stabilise.

- Net migration appears to have settled into a low but still positive balance over 2024. Within this, some of the key drivers of recent years have been evolving.
- Foreign arrivals are well down from their 2022-23 highs, but have steadied in recent months and remain above pre-Covid levels. Against this, foreign departures are now trending higher, an echo of the surge in arrivals over the past couple of years.
- Departures of New Zealanders remain well above pre-Covid levels, but appear to be peaking. Relatively stronger job prospects elsewhere, particularly Australia, are likely to drive continued outflows in the year ahead. However, an improving labour market should reduce these outflows over 2026.
- While we previously forecast net migration to slow to zero over 2025, recent trends make that outcome less likely. We now expect a net inflow of around 15,000 people for this year, rising to around the long-term average of 30,000 next year.

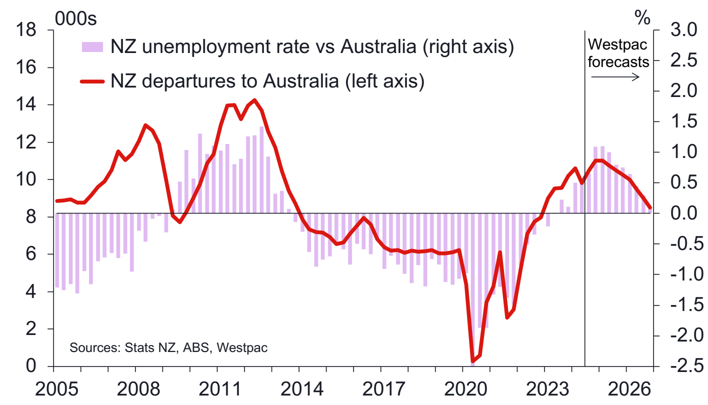
Risks now appear more balanced.

- To the downside, outflows of migrants and New Zealanders could accelerate if job prospects remain weak. On the other hand, government policy is starting to turn back towards attracting skilled migrants.

Migration flows, annual total



Migration by New Zealanders to Australia



LABOUR MARKET

> "Unemployment is likely to rise a little further even as the economy gets back on its feet, with jobs growth initially not enough to absorb the growth in the population."

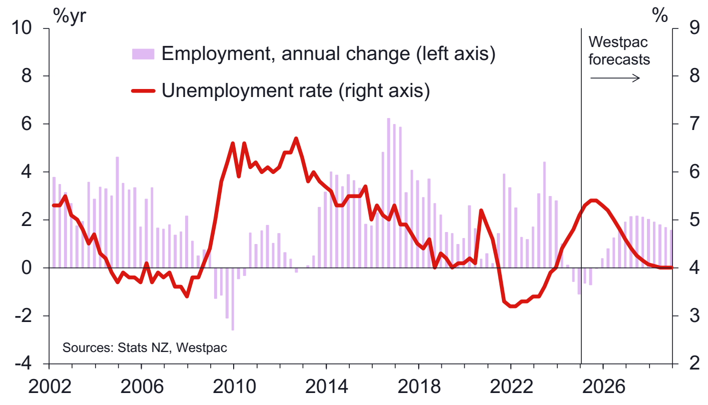
Signs that employment stabilised at the end of a tough 2024.

- The economy's prolonged slowdown finally came home to roost for the labour market in 2024, with employment falling by more than 1%. However, high-frequency data suggests that jobs were levelling out again by the end of the year. Business surveys show a lift in hiring intentions over the coming months, although actual job advertisements remain low for now.
- The unemployment rate reached 5.1% at the end of last year. We expect it to rise further to a peak of 5.4% in mid-2025, with jobs growth initially tentative and not fast enough to absorb the growth in the working-age population until later in the year.
- With the economy set for modestly above-trend growth in the coming years, we expect to see the unemployment rate drift back down to 'neutral' levels of around 4.0-4.5%.

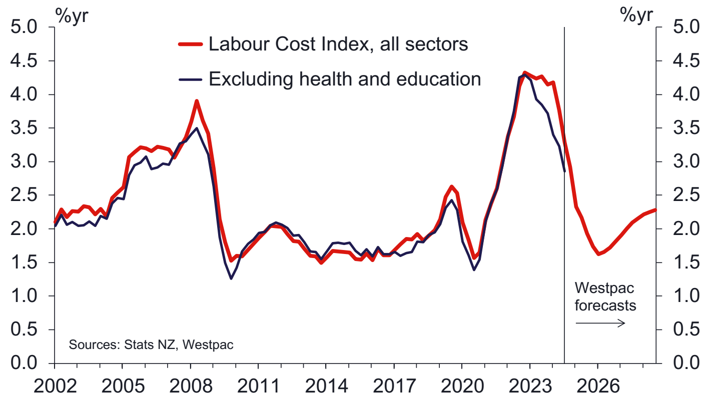
Wage growth moderating as the inflation surge has passed.

- Wage inflation has slowed substantially from its highs, especially in the private sector. Public sector pay agreements have held up total wage growth until recently, but have now run their course. The greater slack in the labour market, and reduced pressure on cost-of-living increases, mean that wage growth is likely to be subdued through 2025, with a modest lift in later years.

Employment growth and unemployment rate



Wage growth forecasts



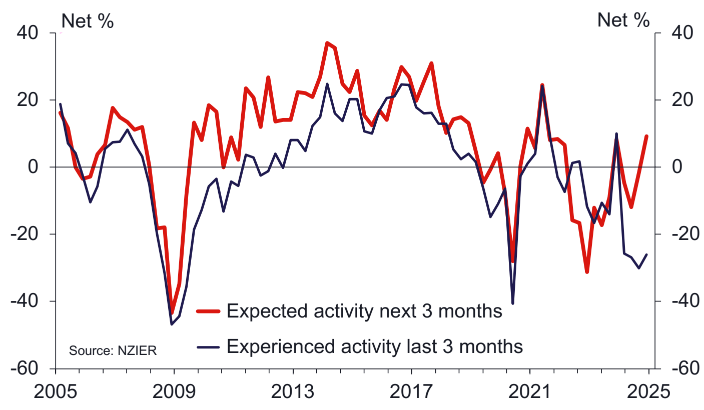
BUSINESS SECTOR

> "Businesses are more upbeat about the year ahead now that interest rates are dropping, though current conditions remain soft."

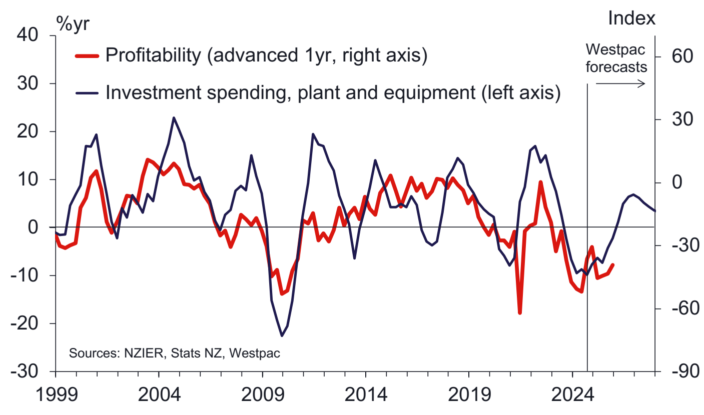
Optimism lifting, but slower to be reflected in performance.

- Business confidence lifted strongly in the second half of 2024, spurred on by actual and expected interest rate cuts and an easing in cost pressures.
- However, that optimism has run well ahead of current conditions. Firms reported a modest improvement in their performance at the end of 2024, but it remained soft compared to history.
- Jobs figures show a more noticeable improvement in sectors that have links to the recovery in international tourism, such as transport and recreational services. Conditions remain tough in more domestically-focused sectors such as construction and manufacturing, and also in professional services.
- Soft current conditions and weak profitability mean that firms' expansion plans are likely to stay tentative in the near term. That said, there are some signs of confidence emerging, such as a pickup in imports of capital equipment compared to a year ago. Job vacancies remain low but have stabilised in recent months.
- We expect to see a lift in business investment over 2026, as improving demand prompts firms to invest in capacity. However, a lower exchange rate will make imported vehicles and machinery more expensive.

Business sentiment



Business profitability and investment



FISCAL

> "Tight control of spending will be required to deliver an operating surplus by around the turn of the decade."

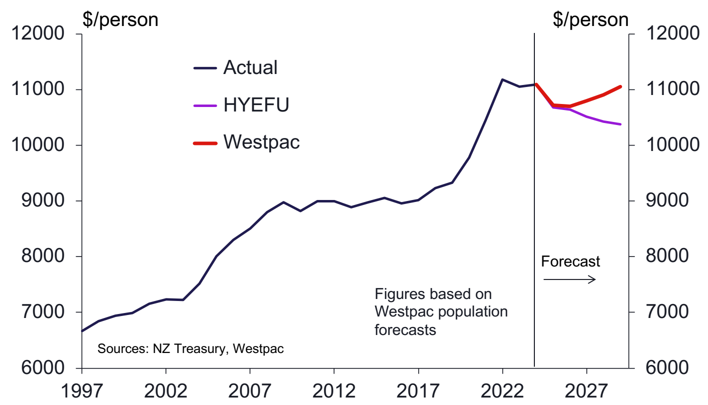
It will take time to eliminate a large structural fiscal deficit.

- The December fiscal update (HYEFU) revealed a much larger than expected weakening of the fiscal position, reflecting higher than expected spending outside the core Crown sector and a structural deterioration in tax revenues.
- In the near term, our outlook for nominal GDP – and thus tax revenue – is not materially different to that depicted in the HYEFU. In 2025/26, we assume that government consumption will be broadly in line with the HYEFU forecast.
- Beyond 2025/26, we assume that per-capita spending trends modestly higher, relative to the ongoing restraint forecast in the HYEFU. Our forecast for bond yields implies higher debt financing costs. As a partial offset, our forecast for nominal GDP points to slightly higher tax revenue than forecast in the HYEFU.
- The bottom line is that we expect the operating deficit (OBEGAL) to gradually decline but remain in deficit in 2028/29. The Government's new measure (OBEGALx) will likely also remain in deficit, in contrast to the HYEFU forecast.

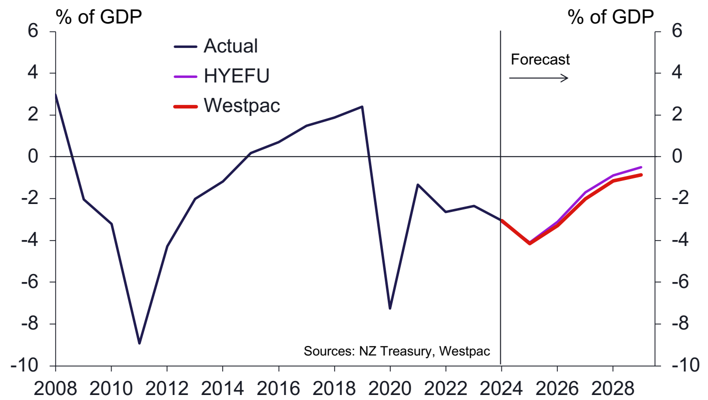
Debt-to-GDP likely to peak in 2026/27, then decline slowly.

- Our forecasts imply that net core Crown debt will peak at around 47% of GDP in 2026/27 and decline gradually thereafter.
- Total government bond issuance in the 5 years to 2028/29 would be around $174bn – about $6bn above the HYEFU forecast.

Real government consumption per capita



Operating balance (OBEGAL), % of GDP



GLOBAL OUTLOOK

> "The final shape of US tariff policy and its impact on the economic outlook is uncertain. Our baseline forecast is for decent but still subpar trading partner growth."

US tariff policy is expected to weigh on global growth.

- We assume the US will impose tariffs of 25% on Canada and Mexico, 20% on China and 10% on the euro area. At this stage, we assume other countries (including New Zealand) will not be subject to broad-based tariffs.
- We have made a slight downward revision to our growth forecasts in tariff-impacted countries. Even so, supported by easier financial conditions, we expect average trading partner growth to nudge higher this year, before slowing in 2026. Growth will be decent, but still below the pre-pandemic trend.

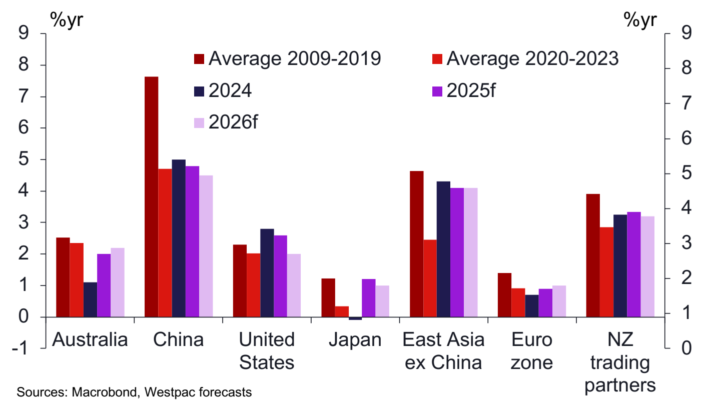
We expect more divergence in global monetary policy this year.

- Worries about inflation effects from tariffs are likely to keep the Fed on hold this year. And the BoJ is likely to continue to edge up its policy rate from current very low levels. However, growth worries are likely to reinforce further policy easing in Europe, while the RBA is set to finally begin a modest easing cycle this year.

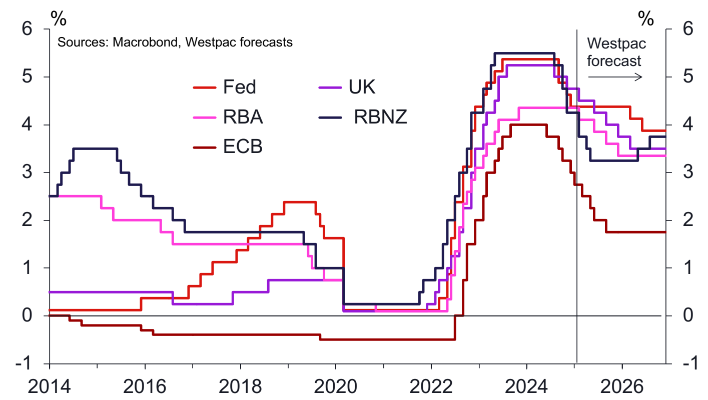
The balance of risks to the global outlook is skewed downwards.

- Our sense is that the risks to global growth from US tariff policy are skewed to the downside which would exacerbate the impact on NZ, especially if imports from NZ are also subject to tariffs. A lower NZD would buffer to some extent.
- Geopolitical risks to the economic outlook also remain prominent.

Trading partner growth



Global central bank policy rates



TARIFF IMPACTS ON NEW ZEALAND

> "The impact of a tariff on NZ exports to the US will depend on numerous factors, including how the NZ dollar reacts."

The macro impact of US tariffs on NZ remains uncertain.

- At this stage it is unclear whether the US will impose tariffs on imports from NZ. The macro impact of such a tariff would depend on many factors:
  - The size of the tariff imposed; how it compares with tariffs imposed on competing exporters to the US; whether affected countries impose retaliatory tariffs on the US.
  - How the burden of the tariff is shared between US consumers, importers and exporters, and how US consumer demand responds.
  - How tariffs impact the global structure of interest rates and the NZ dollar.
  - The extent of flow-on effects to foreign import and export prices, hence lowering returns to NZ exporters and lowering NZ import prices.
- US tariffs are most likely to result in:
  - Lower global demand and incomes, lower demand for NZ exports and higher inflation in markets subject to tariffs (at least temporarily).
  - A lower NZ dollar – which will reduce the impact on NZ exporters but increase import prices for NZ households.
- The impact on RBNZ interest rate policy will depend on how much NZ inflation rises, how disinflationary the impact of weaker GDP growth is; and crucially, the overall impact on inflation expectations.

Micro impact of tariff imposition

Time

US imposes an X% tariff on an imported good

↓

US importer and foreign exporter negotiate landed price in the US taking into account:

- Price elasticity of US consumer demand
- The change in the USD exchange rate
- Relative strength of negotiating positions, in part reflecting the availability of substitute supply

↓

Given constant US retail margins:

- Retail price of the good in the US rises by Y%
- Landed (exporter) price falls by X%-Y%

↓

Assuming Y% > 0, in the near term:

- US demand for the good falls, reducing imports
- Goods previously destined to the US are diverted elsewhere, reducing world prices.

↓

Second-round impacts as markets adjust:

- US monetary policy tightens to offset inflation, further reducing demand
- Some US producers may boost output as import substitution occurs
- Foreign producers scale back production, causing prices outside the US to begin to rise

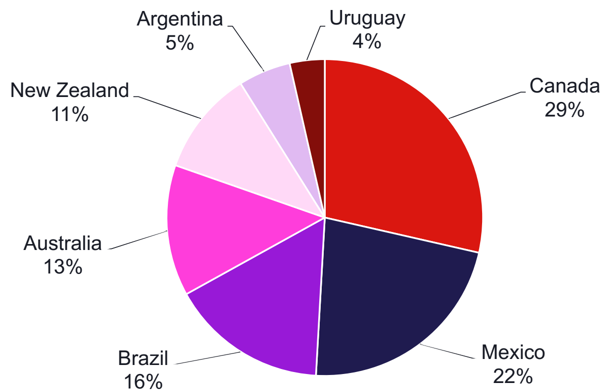
TARIFF IMPACT ON COMPETITIVENESS

> "US tariffs will reduce exporter incomes, with the wine and beef sectors potentially being key losers as NZ exports represent an important share of US import demand."

Impacts depend on the relative size of tariffs applied to NZ exports and the response of our competitors.

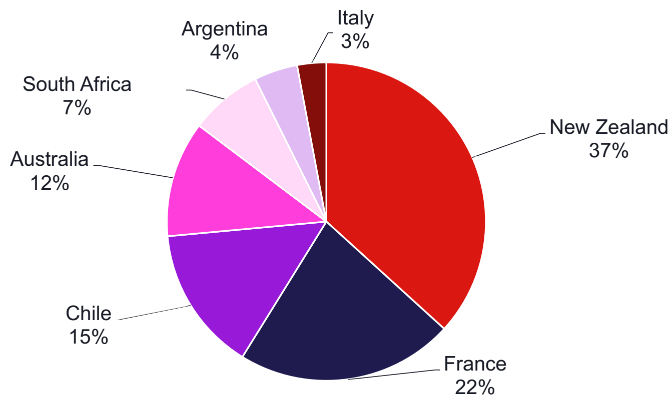
- Tariffs are negative for NZ exporter incomes as the exchange rate will likely not fully offset the tariff loss.
- If tariffs applied to NZ exports are lower than those applied to our competitors, this income loss might be attenuated.
- NZ's key exports to the US include beef, lamb, dairy and wine. NZ's wine and beef exports form a significant share of total US imports of those products.
- Our key competitors in the US beef and wine markets include Australia, Canada, Mexico, Brazil, Chile and France.
- NZ's beef exports to the US are mostly 'lean trimmings' and are an input into other food products (e.g. burger patties). Demand is likely to be less price sensitive than the higher value products sent by our competitors.
- Our competitors in the US market may seek to divert exports to other jurisdictions we also export to, which would reduce prices.
- NZ's wine exporters may see increased competition from French, Chilean and Australian producers in other key export markets (such as the UK and Australia).

Major beef exporting countries to the US by volume



Source: USDA

Sauvignon Blanc exporting countries to the US by value



Source: USDA

EXPORT VOLUMES

> "Exports supported the economy in 2024. However, the outlook is clouded by uncertainty related to US tariff policy and how it will impact global growth and the exchange rate."

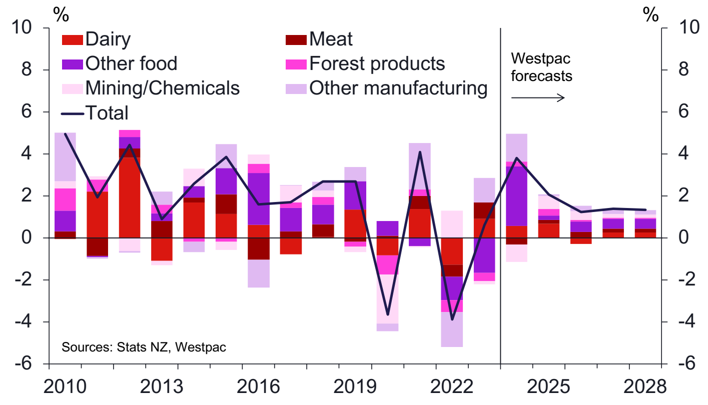
Beyond the near term the outlook for exports is clouded.

- We estimate that merchandise export volumes grew by around 4% in 2024. This is well above the longer term trend, in large part due to a post-storm recovery in the horticulture sector.
- Mostly positive climatic conditions, boosting dairy sector output, should help export volumes grow 2% this year. Thereafter, growth in primary sector exports will be constrained by land availability and environmental considerations.
- If sustained, the recent decline in the exchange rate should assist some exporters. However, an escalating trade war could undermine trading partner growth, offsetting any positive impact on demand.

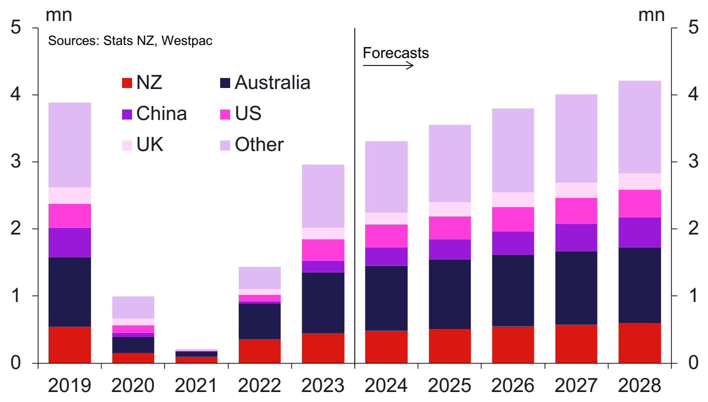
Tourist inflows to continue to post gradual growth.

- We estimate that NZ received around 3.3m short-term visitors in 2024, up 12% from 2023 but still just 85% of the 2019 pre-Covid level. China remains a significant drag, with arrivals in 2024 estimated to be just 63% of their pre-Covid level. Arrivals from Europe also remain relatively subdued.
- Looking ahead, easier global household financial conditions and a more favourable exchange rate (at least in some markets) should support a continued recovery in tourist inflows. We expect around arrivals to increase to 4.0m in 2027, thus surpassing the previous 2019 peak.

Goods exports – contributions to growth



Tourist arrivals by citizenship



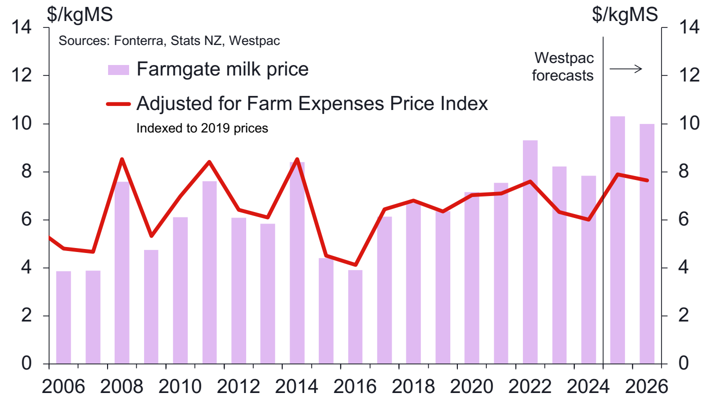
AGRICULTURE

> "More favourable supply and demand fundamentals mean we see the milk price at $10.30/kgMS this season and $10.00/kgMS next season."

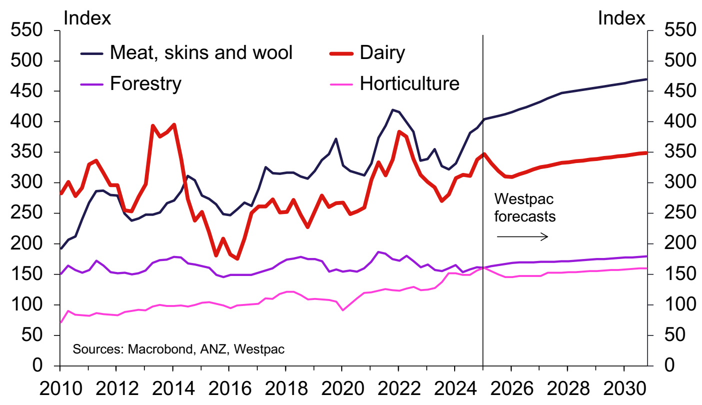
Commodity prices to edge higher, bolstered by a softer NZ dollar.

- We expect commodity prices in world price terms to moderate slightly in the near term, with favourable supply and demand fundamentals to support prices in the medium term. Currency weakness in 2025 will support NZ dollar prices.
- We have lifted our farmgate milk price forecast to $10.30/kgMS for this season, reflecting the resilience in world dairy prices and a lower NZ dollar. The recent strength in demand has been partly driven by China's need to rebuild its inventories, which will eventually run its course. However, it is unclear to what extent this will continue to boost prices in the near term.
- Our opening forecast for the 2025/26 season is $10/kgMS. While world dairy prices are assumed to ease from current levels as global milk production picks up, this is partly offset by a lower average exchange rate over the season.
- Beef prices should edge higher this year, with production constrained in the US, EU and China. Sheep meat prices are set to lift on lower supply out of NZ and Australia as well as strong demand in the key EU, UK and US markets.
- Meanwhile, prices for apples and kiwifruit are set to remain elevated on the back of favourable supply and demand fundamentals.
- Subdued Chinese demand suggest flat log prices in the near term. An increase in building activity in China will help to support prices thereafter.

Farmgate milk prices



Commodity prices by category



CURRENT ACCOUNT

> "The current account deficit is narrowing but is likely to remain wider than its pre-pandemic level, partially reflecting the Government's structural fiscal deficit."

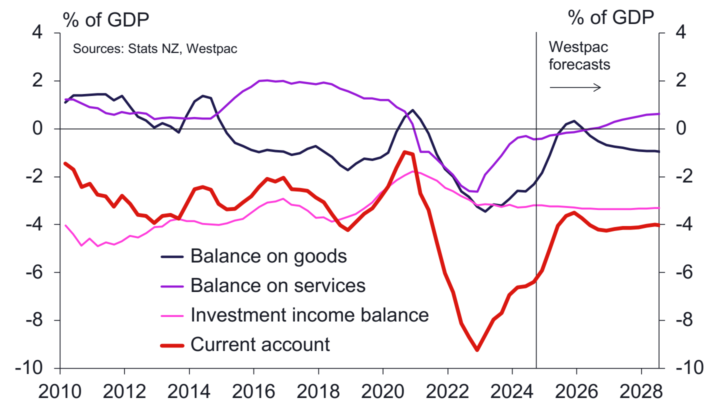
The current account deficit is expected to narrow.

- We estimate that NZ's current account deficit was around 6% of GDP in 2024. While down from 7% of GDP in 2023, the deficit remains much wider than prior to the pandemic, when a deficit of around 3% of GDP was more typical.
- Increased export volumes and a sharp lift in the terms of trade should narrow the deficit to around 3.5% of GDP this year. Thereafter, the deficit is likely to widen slightly as the economic recovery gathers pace and import volumes rise. However, our forecast for the deficit remains narrower than in our last update.
- Given the growing net external liabilities generated by accumulating deficits, the investment income deficit is likely to remain over 3% of GDP.

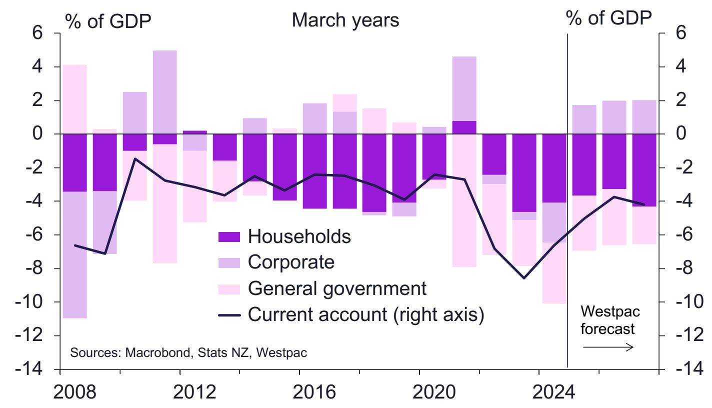
Increased savings are required to lower the deficit sustainably.

- As is usually the case, households are responsible for the bulk of the current account deficit. Households' savings are inadequate to fund house building, and thus they are dependent on foreign savings. More unusually, at present the Government's savings are also insufficient to fund its investment. Eliminating the structural fiscal deficit would likely narrow the current account deficit.
- Large and persistent fiscal and current account deficits reduce New Zealand's options in how it responds in the event of a large negative shock. Relatedly, it also leaves New Zealand exposed to a potential credit rating downgrade.

Current account balance, % of GDP



Net lending by major sector



FOREIGN EXCHANGE

> "A weak fiscal and current account, strong US dollar, low interest rates and the threat of tariffs implies risks of a weak NZD over the next year or so."

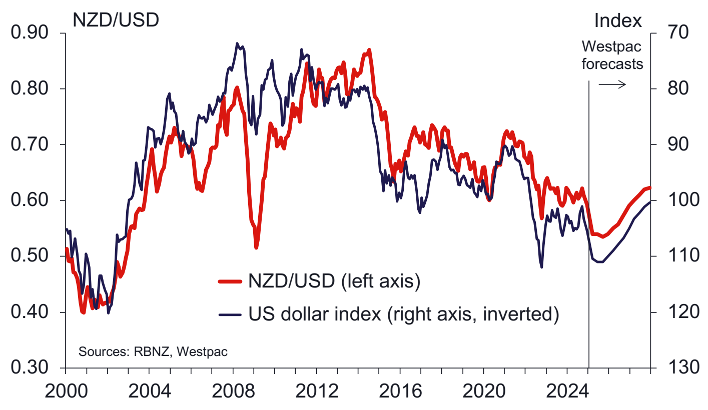
The NZ dollar is weak and now looks undervalued on a PPP basis.

- The strong US dollar, low NZ interest rates and twin deficits have weighed heavily on the NZ dollar (NZD).
- The NZD is now undervalued on a Purchasing Power Parity (PPP) basis implying eventual appreciation.
- But for the foreseeable future, tariff and cyclical risks suggest the NZD will remain weak.
- The NZD should fall versus the AUD and many non-USD crosses.

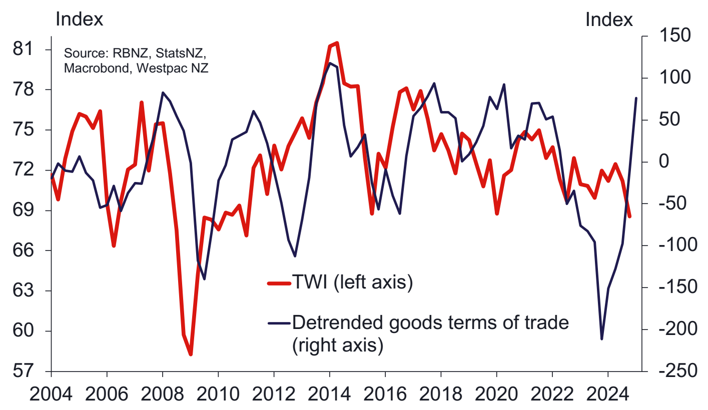
The risk profile reflects chances of a much lower NZD.

- Upside risks stem from the strong terms of trade and its potential to continue to support the external sector. The economy is expected to recover in 2025 which should also provide support.
- But downside risks look prevalent and the NZD looks vulnerable to shocks given the large twin current account and fiscal deficits.
- US tariffs, if sustained, are likely to keep the USD strong and the NZD weak. If the trade war deepens, risks of a significant further depreciation increase.
- Further downside risks could emerge if the RBNZ cuts interest rates significantly while the USD remains strong and US interest rates remain high.

NZD/USD and US dollar index



Trade weighted index vs de-trended terms of trade



INFLATION

> "The inflation dragon is back in its cave... but it is growling, with the fall in the NZ dollar likely to see imported inflation pressures on the rise again in 2025."

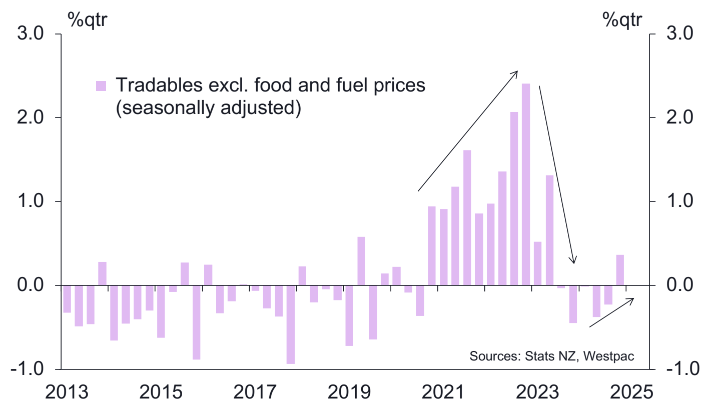
Inflation is now comfortably within the RBNZ's target band.

- Headline inflation remained at 2.2% in the year to December. Importantly, key measures of core inflation have continued to trend down and are now back inside the RBNZ's target band.
- The drop in inflation over the past year has largely been due to lower tradables inflation, reflecting both declines in import prices and weakness in discretionary spending by households. However, those declines may be coming to an end.
- Domestic (non-tradables) inflation remains elevated due to ongoing large increases in costs such as local council rates and insurance premiums. However, price and cost pressures have normalised in parts of the domestic economy that were sensitive to the high level of interest rates seen in recent years.

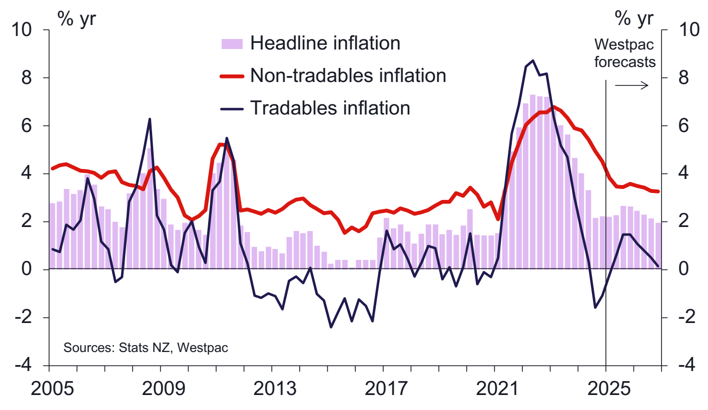
Inflation to pick up again temporarily over 2025.

- Inflation is set to reaccelerate to 2.7% through the middle of this year due to the NZ dollar's sharp fall and the related increases in import costs (especially petrol).
- We expect the rise in inflation will be temporary, with inflation dropping back toward 2% over 2026. However, the duration and extent of the rise in inflation will be a concern for the RBNZ after the hard fight to get inflation back to target.
- Domestic inflation pressures will continue to ease gradually.

Tradables inflation (seasonally adjusted)



Inflation components



MONETARY POLICY

"The case for a 50bp cut in February remains compelling, but the pace of easing should slow from then."

The OCR can continue the path to neutral levels.

- Headline CPI inflation remains well contained and close to target.
- A negative output gap will encourage inflation pressures to rebalance while keeping inflation close to 2%.
- A 50bp cut remains the best bet for the 19 February RBNZ meeting.

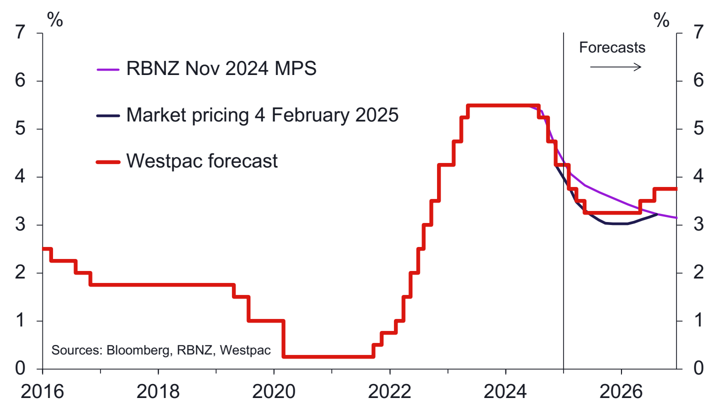
A more cautious path lies ahead for interest rates.

- After February, the OCR may be in stimulatory territory.
- Inflation is forecast to remain in the top half of the 1-3% target range.
- Shocks from here could be in either direction, suggesting a slowing in the pace of easing and the easing cycle terminating at a 3.25% OCR.

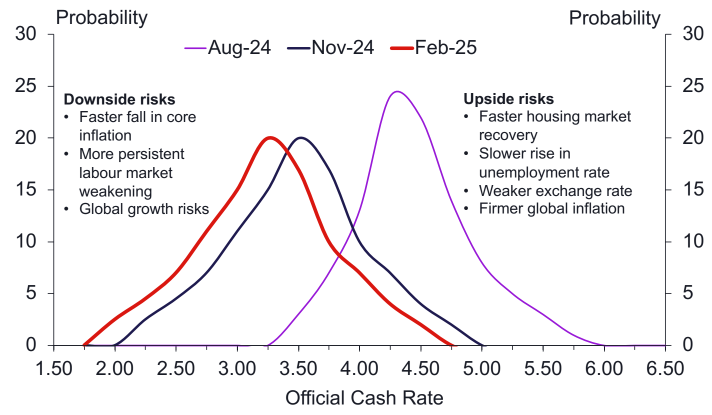
The risks are significant but balanced.

- Upside risks for inflation from the exchange rate are now significant, and could threaten inflation expectations if domestic activity picks as lower interest rates and a stronger terms of trade have their impact.
- The parlous global trade environment could easily derail economic recovery and push down inflation.

Official Cash Rate forecasts

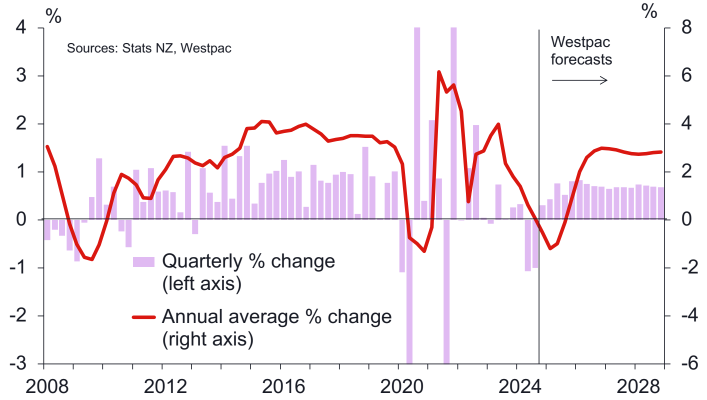


Risk distribution for the OCR in 12 months' time

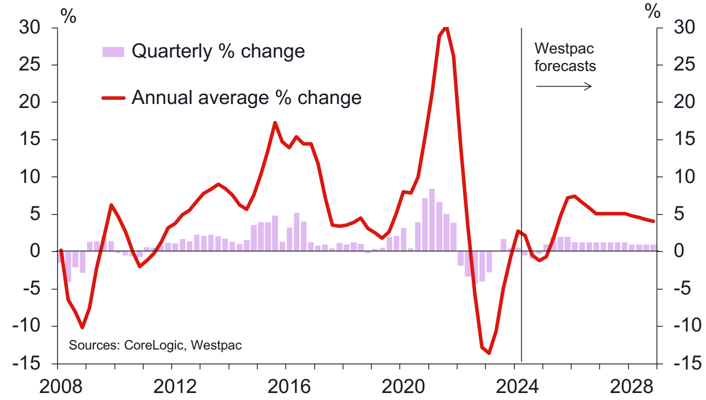


THE ECONOMY IN EIGHT CHARTS

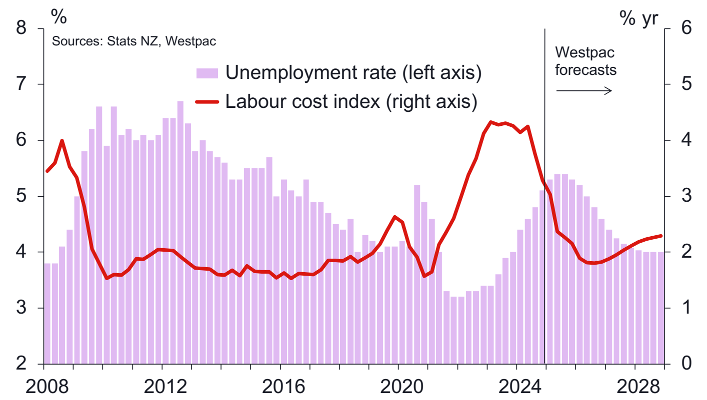
GDP growth



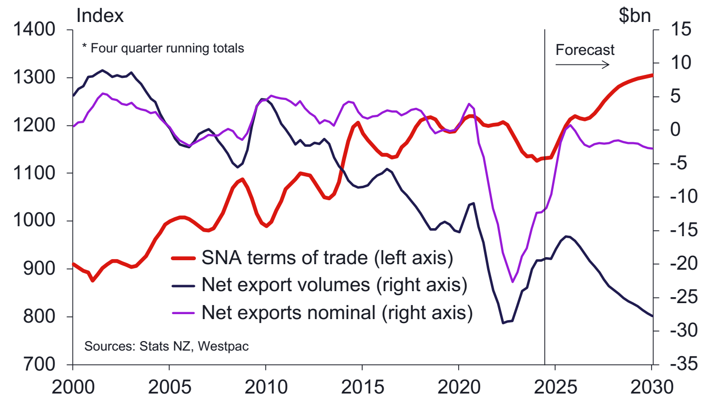
House prices



Employment and wage growth

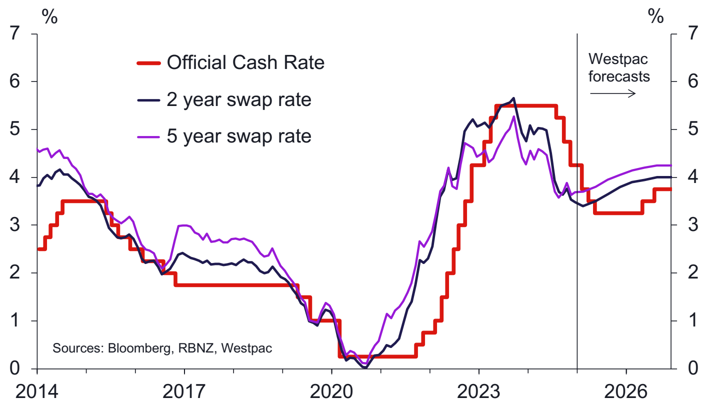


Terms of trade and net exports*

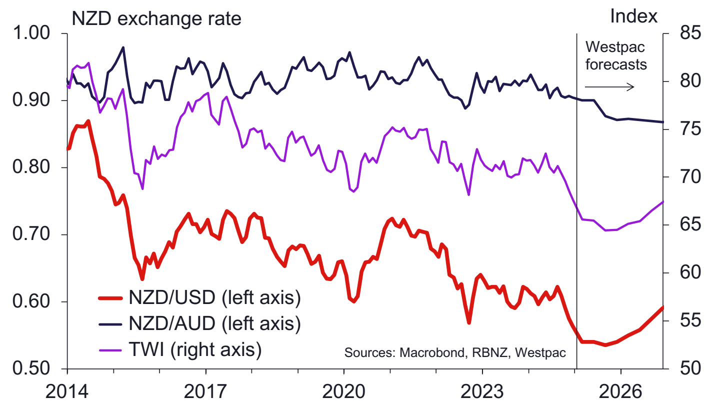


THE ECONOMY IN EIGHT CHARTS CONT.

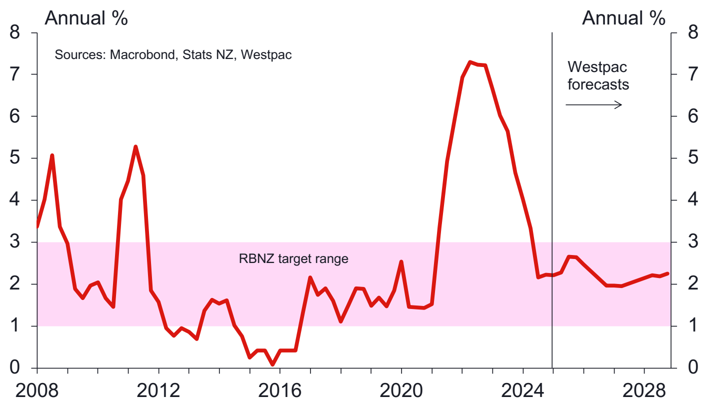
Official Cash Rate, 2-year and 5-year swap rates



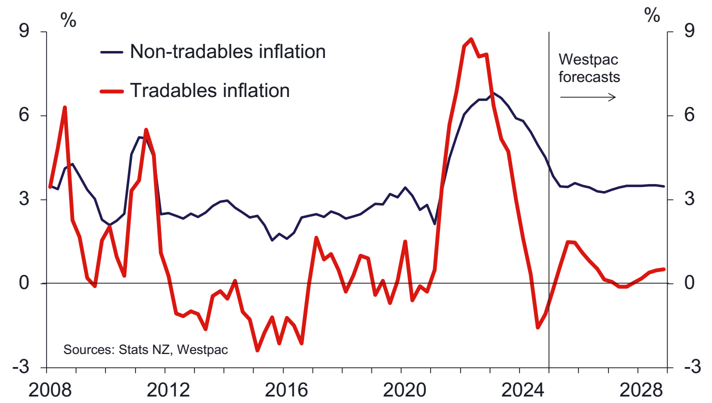
Exchange rates



Consumer price inflation



Inflation components



ECONOMIC AND FINANCIAL FORECASTS

New Zealand forecasts

Economic indicators	Quarterly % change				Annual % change			
	Sep-24	Dec-24	Mar-25	Jun-25	2023	2024	2025	2026
GDP	-1.0	0.3	0.4	0.8	0.9	-1.4	2.5	3.0
GDP (annual average)	-	-	-	-	1.8	-0.5	0.9	3.0
Consumer price index	0.6	0.5	0.6	0.5	4.7	2.2	2.6	2.0
Employment change	-0.6	-0.1	-0.1	0.0	2.8	-1.1	0.4	1.9
Unemployment rate	4.8	5.1	5.3	5.4	4.0	5.1	5.3	4.6
Labour cost index (all sectors)	0.6	0.6	0.6	0.5	4.3	3.3	2.2	1.8
Current account balance (% of GDP)	-6.4	-5.9	-5.0	-4.1	-6.9	-5.9	-3.5	-4.3
Terms of trade	2.5	6.5	5.9	0.7	-10.7	17.2	4.2	2.1
House price index	-0.9	-0.2	1.0	2.0	-0.6	-1.2	7.2	5.1
Financial forecasts	**End of quarter**				**End of year**			
	Sep-24	Dec-24	Mar-25	Jun-25	2023	2024	2025	2026
90 day bank bill	5.31	4.45	3.55	3.35	5.65	4.45	3.35	3.85
2 year swap	4.06	3.64	3.40	3.50	5.28	3.64	3.80	4.00
5 year swap	3.81	3.73	3.70	3.80	4.85	3.73	4.05	4.25
10 year bond	4.31	4.51	4.60	4.70	5.09	4.51	4.90	4.95
TWI	70.9	69.5	65.7	65.5	70.8	69.5	64.5	67.4
NZD/USD	0.61	0.59	0.54	0.54	0.60	0.59	0.54	0.59
NZD/AUD	0.91	0.91	0.90	0.90	0.93	0.91	0.87	0.87
NZD/EUR	0.56	0.55	0.54	0.54	0.56	0.55	0.53	0.56
NZD/GBP	0.47	0.46	0.44	0.44	0.49	0.46	0.44	0.46

ECONOMIC AND FINANCIAL FORECASTS CONT.

New Zealand forecasts

Fiscal indicators				June years			
	2023	2024	2025	2026	2027	2028	2029
Total government revenue ($bn)	112	121	121	128	138	147	156
- % of GDP	29.8	28.5	29.2	27.8	28.1	28.5	28.7
Total government spending ($bn)	128	139	145	151	155	162	170
- % of GDP	34.3	31.8	33.1	33.3	32.9	31.7	30.9
Operating balance excl. gains and losses ($bn)	-9.7	-9.4	-12.9	-18.0	-14.9	-9.6	-5.9
- % of GDP	-2.4	-3.1	-4.1	-3.3	-2.0	-1.1	-0.9
Net core Crown debt ($bn)	155	175	193	204	223	233	241
- % of GDP	38.7	41.8	44.6	44.9	46.3	45.7	45.0

International economic forecasts

Real GDP (calendar years)			Annual average % change			
	2021	2022	2023	2024f	2025f	2026f
Australia	5.5	3.9	2.1	1.1	2.0	2.2
China	8.4	3.0	5.2	5.0	4.8	4.5
United States	5.8	1.9	2.5	2.8	2.6	2.0
Japan	2.6	1.0	1.9	-0.1	1.2	1.0
East Asia ex China	4.3	4.5	3.3	4.3	4.1	4.1
India	9.7	7.0	7.8	6.6	6.6	6.5
Euro zone	5.9	3.4	0.4	0.7	0.9	1.0
United Kingdom	8.7	4.3	0.1	0.7	0.6	1.2
NZ trading partners	**6.3**	**3.2**	**3.3**	**3.3**	**3.3**	**3.2**
World	**6.5**	**3.5**	**3.2**	**3.3**	**3.3**	**3.2**

ECONOMIC AND FINANCIAL FORECASTS CONT.

Interest rates and exchange rates

	CPI	Interest rates				Exchange rates							
	Annual %	OCR	90-day bill	2 year swap	5 year swap	USD Index	NZ TWI	NZD/USD	NZD/AUD	NZD/GBP	NZD/EUR	NZD/CNY	NZD/JPY
Dec-24	2.2	4.25	4.45	3.64	3.73	105.4	69.5	0.59	0.91	0.46	0.55	4.25	90.1
Mar-25	2.2	3.75	3.55	3.40	3.70	110.4	65.7	0.54	0.90	0.44	0.54	3.96	83.7
Jun-25	2.3	3.25	3.35	3.50	3.80	111.0	65.5	0.54	0.90	0.44	0.54	3.94	83.2
Sep-25	2.7	3.25	3.35	3.65	3.95	111.0	64.4	0.54	0.88	0.43	0.54	3.88	81.9
Dec-25	2.6	3.25	3.35	3.80	4.05	110.0	64.5	0.54	0.87	0.44	0.53	3.92	82.1
Mar-26	2.5	3.25	3.45	3.90	4.15	109.0	65.1	0.55	0.87	0.44	0.54	3.96	82.5
Jun-26	2.3	3.50	3.70	3.95	4.20	107.9	65.4	0.56	0.87	0.44	0.54	3.99	82.5
Sep-26	2.1	3.75	3.85	4.00	4.25	106.7	66.5	0.57	0.87	0.45	0.55	4.07	83.8
Dec-26	2.0	3.75	3.85	4.00	4.25	105.0	67.4	0.59	0.87	0.46	0.56	4.13	85.0
Mar-27	2.0	3.75	3.85	4.00	4.25	103.3	67.8	0.60	0.87	0.47	0.56	4.14	85.2
Jun-27	2.0	3.75	3.85	4.00	4.25	102.2	68.4	0.61	0.87	0.47	0.56	4.15	85.4
Sep-27	2.0	3.75	3.85	4.00	4.25	101.2	68.9	0.62	0.87	0.47	0.56	4.15	85.6

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