



WEEKLY ECONOMIC COMMENTARY



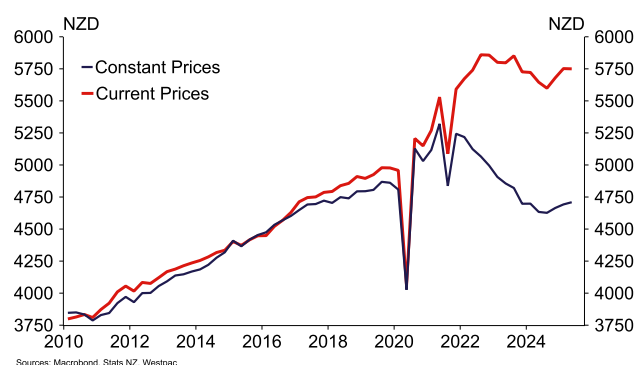
1 Sep 2025 | Westpac Economics Team | westpac.co.nz/economics | economics@westpac.co.nz

Discounting boosts retail volumes

Following the surprising dovish pivot by the RBNZ, the focus last week turned back to the local data flow, which included the first major indicator to be released ahead of the Q2 national accounts (due 18 September) and the updates on business and consumer sentiment.

As it happens, the week began with another surprise for the market, this time in the form of the Retail Trade Survey for the June quarter. Given soft indications from the monthly Electronic Card Transactions Survey, we and the market were braced for a soft outcome. As it turns out, the nominal value of spending increased just 0.1%q/q in the June quarter, equating to a flat quarter in per capita terms. However, with the retail trade deflator declining despite upward pressure on food prices, the volume of sales rose a quite respectable 0.5%q/q. This contrasted with the decline in volumes that we and others had expected.

Retail sales per capita

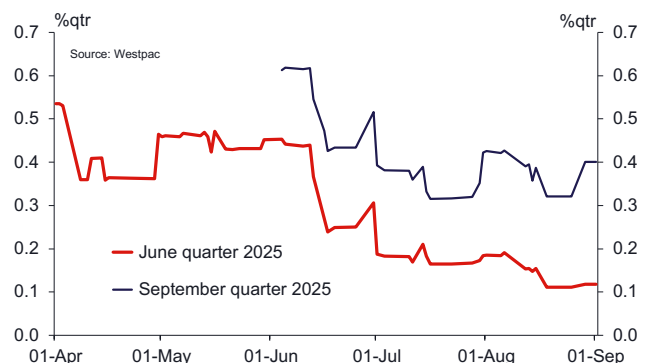


Interestingly, by far the largest contribution to growth in volumes was made by electrical and electronic goods retailing, which increased 4.6%q/q. Indeed, this one sector – which accounts for less than 10% of total sales

Key views

	Last 3 months	Next 3 months	Next year
Global economy	→	↘	→
NZ economy	↘	↗	↗
Inflation	↗	↗	↘
2 year swap	↘	→	↗
10 year swap	↘	→	↗
NZD/USD	→	→	↗
NZD/AUD	↘	↘	↘

Westpac GDP nowcasts



Key data and event outlook

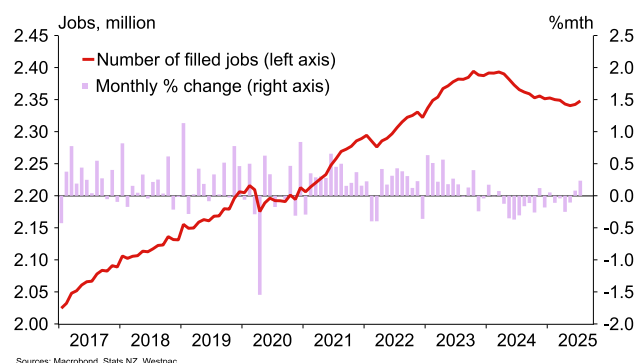
Date	Event
16 Sep 25	NZ Selected price indexes, August
17 Sep 25	FOMC meeting (18 Sep NZT)
18 Sep 25	NZ GDP, June quarter
30 Sep 25	RBA Monetary Policy Decision
7 Oct 25	NZ QSBO Business Survey, September quarter
8 Oct 25	RBNZ OCR Review
16 Oct 25	NZ Selected price indexes, September
20 Oct 25	NZ CPI, September quarter
29 Oct 25	FOMC meeting (30 Oct NZT)
4 Nov 25	RBA Monetary Policy Decision

– explained 80% of the growth in spending during the quarter. Discounting appears to have been a large part of the explanation. After adjusting for seasonal influences, the deflator for this sector fell almost 3%q/q and was down more than 6%/y. That said, we think that the trend uplift in house sales and the gradual pass-through of lower interest rates probably also acted to encourage greater spending on household durables. While not as strong, spending on furniture and other household goods also grew in the June quarter.

At face value, the retail sales report suggests that the economy may not have been as weak in the June quarter as suggested by last week's updated RBNZ estimates (recall that the Bank estimated a 0.3%q/q decline in GDP, while Westpac estimates a flat quarter – in both cases dampened by residual seasonal effects in the GDP data). That said, at this stage little is known about non-retail consumer spending and about activity in other sectors of the economy. On that score, more will be revealed this week with Stats NZ releasing construction and foreign trade data for the June quarter.

The rest of last week's data contained no real surprises. Stats NZ's Monthly Employment Indicator (MEI) pointed to a 0.2%*mt* increase in filled jobs in July, in line with our expectations. This measure tends to be overstated on its initial release, and June employment was revised lower (but still rounds up to 0.1%*mt*). Allowing for likely future revisions, the MEI is tracking consistent with our forecast of a broadly stable level of Household Labour Force Survey (HLFS) employment in the September quarter. And given current weak population growth, this should be sufficient to prevent more than a modest rise in the unemployment rate.

Monthly Employment Indicator

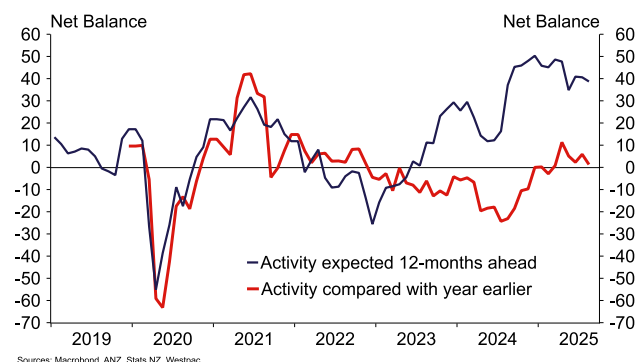


The industry detail also contained no surprises. While the Government has been pruning the bureaucracy, it continues to support growth in front line services. Almost half of the estimated job gains in July occurred in industries dominated by the public sector (especially public administration and safety). And employment in these industries is running around 1% higher than a year earlier. In the private sector, further job losses were evident in the construction sector, but growth was

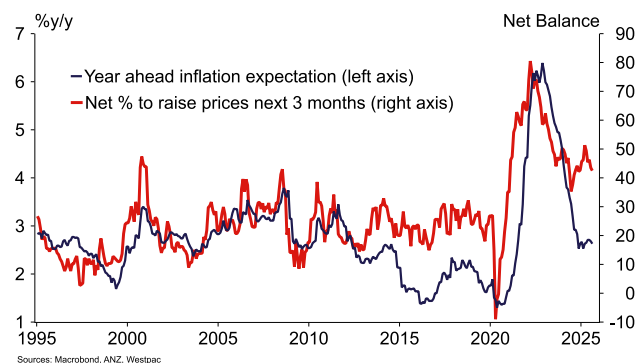
recorded in the agriculture sector, retail trade, finance sector and professional services. In contrast with the growth seen in the public sector, employment in the private sector has declined around 2% over the past year. Outside of the large urban centres of Auckland and Wellington, jobs trends look noticeably stronger. Jobs growth in most South Island regions has been positive in the last few months.

In other news, the key forward-looking indicators of business confidence and activity were little changed in the August ANZ Business Outlook survey, thus remaining below the cyclical peaks reached late last year but still well above average levels. There was little change in indicators of investment or hiring intentions, which also remain at firmer-than-average levels. It is worth noting that this survey was in the field well before last week's unexpected RBNZ pivot. A little surprisingly, the ANZ commented that there was no generalised improvement in those responses that came in following the RBNZ's meeting. Despite unfettered optimism for the year ahead, firms continued to report that current conditions are tough. A net 1% of firms said that their activity was up on the same time last year, compared to 6% in July – the weakest reading since March.

Activity past year vs expected year ahead



Business inflation expectations

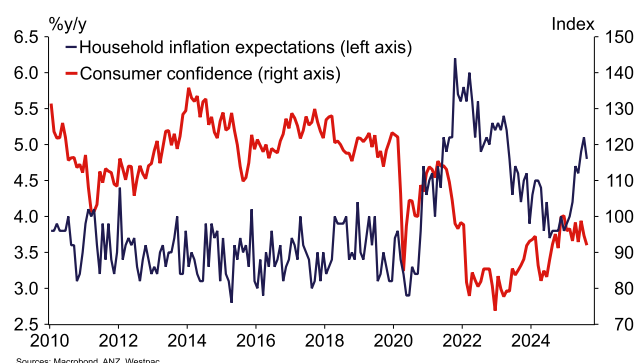


The RBNZ will have been pleased to see the survey's pricing indicators reduce slightly this month – although in the case of pricing intentions they remain very elevated. Firms' year-ahead inflation expectations edged down slightly to 2.63% (below average for this series).

Firms reported slightly less intense cost pressure, with reported wage growth (2.1%/y) at the slowest pace since the question was first asked in 2022. Muted wage growth will be key in ensuring inflation moves back to 2% from the 3% level that seems likely to be registered in coming reports.

Turning back to the consumer, the ANZ index of consumer confidence posted a 2.9%mt decline in August to a 10-month low. In contrast to business sentiment, consumer sentiment remains below its historic average (as it has for most of the past five years). This month consumers grew more pessimistic about the near-term outlook for the economy, despite their forecast for two-year-ahead inflation dropping back to 4.8% from the two-year high reported of 5.1% seen in the previous month. Ongoing weakness in the labour market – including the reported increase in the unemployment rate in early August – likely goes some way to explaining the pessimism that continues to pervade the household sector.

Consumer confidence and inflation expectations



How is NZ shaping up against Australia?

Finally, this week my colleague Satish Ranchhod released a report looking at **how economic conditions in New Zealand compare to those in Australia.**

New Zealand's economy is gradually strengthening following significant interest rate cuts. GDP growth is forecast to reach 2.4% in 2025 and 3.1% in 2026, outpacing Australia's expected growth of 2.0% and 2.2% respectively. However, this recovery follows a sharper downturn in New Zealand, which has left its labour market softer than Australia's. The unemployment rate in New Zealand has risen to 5.2%, with a further increase to 5.3% expected – above the long-run trend of around 4.0-4.5%. In contrast, the unemployment rate in Australia is forecast to rise from 4.2% to 4.5%, which would leave it a little above trend levels.

Much of the differences in economic conditions on either side of the Tasman reflect differences in monetary policy. The RBNZ's earlier and more aggressive tightening of policy meant that we experienced a sharper downturn in

growth. However, now that inflation has dropped back, the RBNZ has also been able to cut rates faster. The OCR has already been cut 250bps, and we expect two more 25bp cuts before the end of this year.

In contrast, the RBA adopted a more gradual approach to both tightening and easing. While this helped support growth and employment earlier, its slower rate cuts – just 75bps so far – mean that interest rates remain mildly restrictive.

This raises questions about whether the RBNZ or RBA had the better approach in recent years. But it's not a cut-and-dry argument. New Zealand has had larger swings in activity and in our labour market. But we've also had higher inflation. A more gradual approach to interest rate adjustments in New Zealand might have meant more modest swings in activity. But that might also have meant that the large cost of living increases in recent years could have been even more protracted.

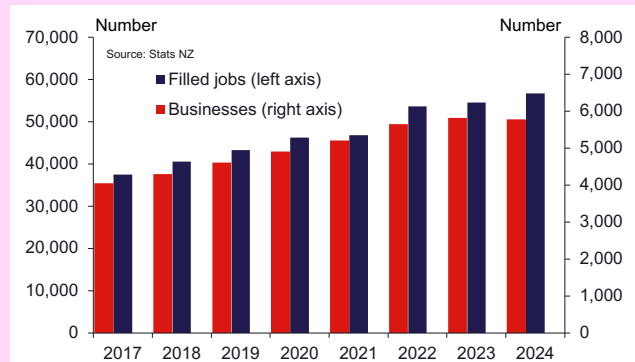
Darren Gibbs, Senior Economist

Chart of the week.

Last week Stats NZ published updated statistics highlighting the success of Māori businesses – Māori authorities and other Māori enterprises (Māori businesses that are economically significant but are not Māori authorities).

The number of Māori businesses in 2024 was fractionally lower than a year earlier but has grown 43% since 2017. Those businesses grew their headcount by 4% in 2024 and by 51% since 2017 – far above the growth rates achieved by the overall economy. Focusing on Māori authorities, total assets grew to \$31.6bn in 2024 – up 7% since 2023 and 53% since 2017. Their goods exports grew 43% between 2017 and 2024. By contrast, over the same period, New Zealand's total goods exports increased by 32%.

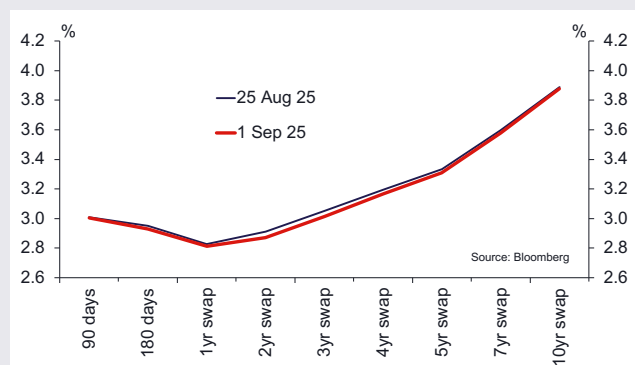
Māori business count and filled jobs



Fixed versus floating for mortgages.

The RBNZ has signalled the likelihood of further rate cuts and we're forecasting the cash rate to bottom at 2.5% later this year. Most fixed-term mortgage rates are now under 5%, reflecting the recent falls in wholesale rates. Very short-term mortgage rates may fall slightly if the RBNZ cuts the OCR again, but they remain above current longer term fixed rates. At current rates, fixing for longer periods of two to three years looks attractive.

NZ interest rates



Global wrap

North America.

Markets were abuzz with the emerging drama associated with the potential removal of Fed Governor Cook from the Fed (which Cook is now challenging in the courts). Removal of Cook would allow the President to appoint another member to the Board who could help the push for lower interest rates. Data wise, the final estimate of Q2 GDP was revised up to 3.3% annualized after Q1's 0.5% fall. Real final sales appear to have bounced back in Q2 while consumer demand remains less than half of that seen pre the Liberation Day tariff announcements. The core PCE deflator offered no surprises, rising 0.3% m/m in July and so nudging annual inflation up to 2.9% y/y. Initial jobless claims edged down 229k from 234k the prior week. Continuing claims also fell slightly. None of this suggests any marked deterioration in US jobs losses recently. Nevertheless, following today's Labor Day holiday, this week the key focus will be on Friday's the August Non-Farm Payrolls report. The market expects a 0.1ppt rise in the unemployment rate to 4.3%, perhaps locking in a September Fed rate cut.

Europe.

The data calendar in the Euro area was uneventful. The most interesting development was a bid by French prime minister Bayrou to call for a confidence vote on 8 September. Indications are Bayrou will lose the vote forcing the President to appoint someone new, who will likely continue to face challenges in promoting the austerity measures required in France. The Euro saw volatility as this saga unfolded.

Asia-Pacific.

The highlight of the week was the **Australian monthly CPI indicator** for July. It was a doozy coming out substantially higher than market expectations at 0.9% for the month, lifting the annual inflation rate to 2.8% from 2.1%. The more closely watched trimmed mean measure also lifted sharply to 2.7% y/y. Electricity prices increased sharply as government subsidies wore off driving a lot of the move in the total CPI. But underneath the hood there were signs of a broader based lift in inflation pressures that left our Australian colleagues eyeing upside risks to their September quarter CPI forecasts of 0.8% qtr/2.7% yr for headline CPI and 0.6% qtr/2.4% yr for the trimmed mean. Markets don't expect a cut in the cash rate in September and will consider the case for a further cut after receiving the full September quarter CPI in the last week of October. Chinese PMI data continued to show the manufacturing sector under pressure from tariffs, remaining below the crucial 50 mark for a fifth consecutive month in August.

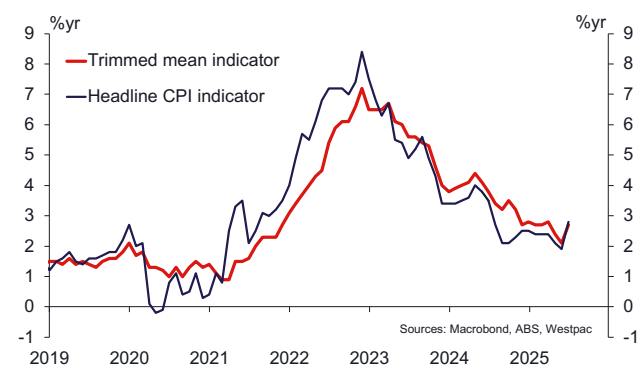
Trading partner real GDP (calendar years)

	Annual average % change			
	2024	2025	2026	2027
Australia	1.0	1.6	2.1	2.4
China	5.0	5.0	4.6	4.5
United States	2.6	1.7	1.0	1.5
Japan	0.1	0.8	0.8	0.8
East Asia ex China	4.3	3.6	3.8	4.0
India	6.5	6.3	6.4	6.3
Euro Zone	0.9	1.2	1.1	1.5
United Kingdom	1.1	1.3	1.3	1.5
NZ trading partners	2.9	2.7	2.6	2.8
World	3.3	3.1	3.0	3.2

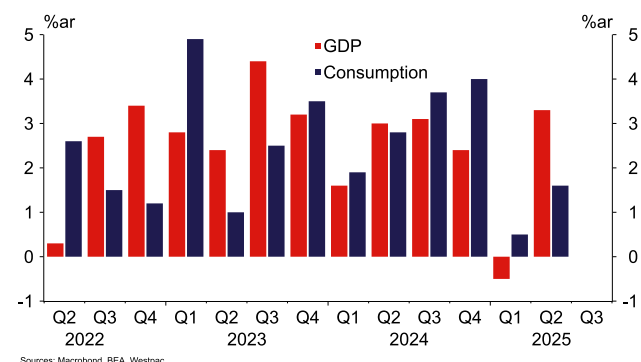
Australian & US interest rate outlook

	29 Aug	Sep-25	Dec-25	Dec-26
Australia				
Cash	3.60	3.60	3.35	2.85
90 Day BBSW	3.57	3.55	3.30	2.95
3 Year Swap	3.32	3.35	3.45	3.85
3 Year Bond	3.41	3.40	3.50	3.90
10 Year Bond	4.29	4.25	4.30	4.60
10 Year Spread to US (bps)	8	-10	-10	-15
US				
Fed Funds	4.375	4.125	3.875	3.875
US 10 Year Bond	4.21	4.35	4.40	4.75

Australian monthly CPI inflation



US GDP and consumption



Financial markets wrap

Foreign exchange.

NZD/USD last week broke back inside its 0.5850-0.6100 range which had prevailed since April. The broad US dollar weakened slightly amid expectations the Fed will cut its policy rate at the September meeting and due to concerns about the independence of the Fed as Trump fired Governor Cook.

There are no top-tier events in NZ this week, but in the US, payrolls data on Friday will be important. It will also be interesting how US markets, when they return from a Monday holiday, react to the weekend's news that Trump's tariffs have been ruled to be illegal (but levies may remain while the case proceeds).

We expect NZD/USD will rise further during the next few days, towards 0.5950. But 1-2 months ahead, we remain slightly bearish, seeing potential for 0.5800 to be retested as the RBNZ's projected rate cuts occur.

NZD/AUD remains in a downtrend which started in April, mostly reflecting the contrasting stances of the RBA and RBNZ – the former measured, the latter more emphatic. In addition, China developments have been constructive and there's likely more in the pipeline, with housing market stimulus expected near term. The downtrend in the cross has stalled at 0.90, but we see potential for 0.89 during the month ahead.

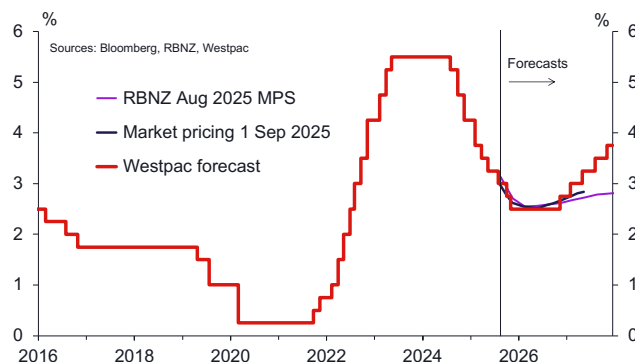
Interest rates.

The two-year downward trend in the NZ 2yr swap rate remains intact, last week making a fresh cycle low of 2.85%. We expect slightly further downside to around 2.80% during the weeks ahead because the October and November meetings are not yet fully priced, despite the RBNZ forecasting a 25bp cut at each of the next two meetings in October and November.

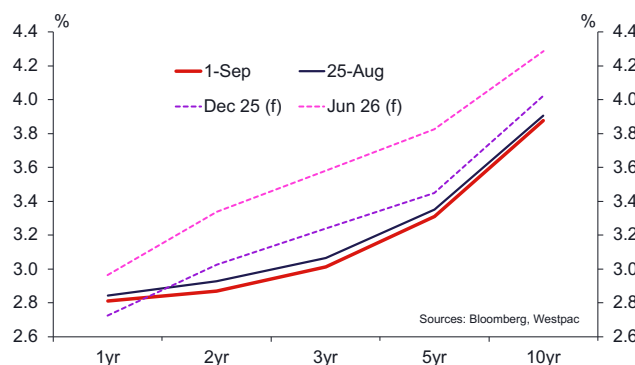
OIS prices imply an 85% chance of a rate cut at the next meeting in October, and a 70% chance at the November meeting. Although the OIS market does price a 2.50% OCR low, it's not until May 2026. Thus, we see potential for short maturity rates to drift lower.

The NZ yield curve continues to steepen, partly due to the dovish RBNZ and partly due to the US steepening trend. The 2-10yr swap is now at 101bp, and vulnerable to testing the 105bp cycle peak (set in April) if markets do fully price the October and November meetings. Further ahead, we expect some flattening to occur by year end in anticipation of an eventual RBNZ tightening cycle and are watching for signs of a top.

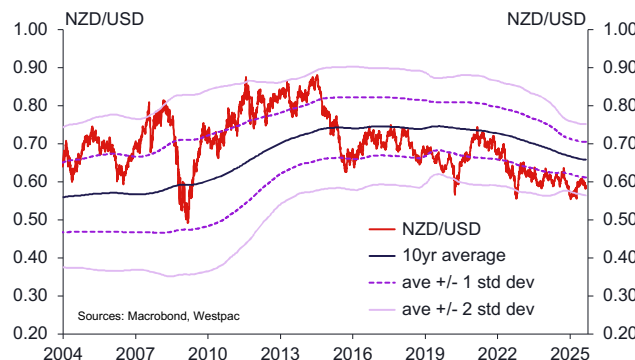
Official Cash Rate forecasts



Swap rates



NZD/USD vs rolling 10yr average



FX recent developments

	Historical data				F'cast
	Spot	3mth range	5yr range	5yr avg	Dec-25
USD	0.589	0.581-0.609	0.553-0.743	0.636	0.61
AUD	0.901	0.899-0.931	0.873-0.971	0.923	0.90
EUR	0.504	0.500-0.529	0.500-0.637	0.574	0.52
GBP	0.437	0.433-0.448	0.431-0.535	0.493	0.45
JPY	86.7	85.8-88.9	68.9-98.6	84.0	87.7

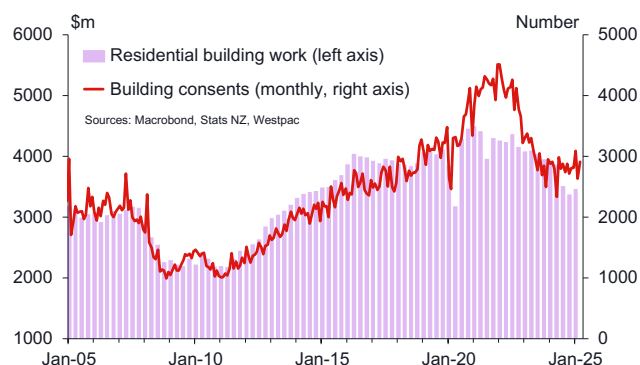
The week ahead

NZ June Building Consents

Sep 1, last -6.4%, Westpac f/c: +1.0%

We're forecasting a modest 1% rise in consent issuance in July. However, more important than the normal monthly swings in consent numbers, the annual total is expected to remain around 34,000, where it has sat for a year now. That's consistent with a stabilisation in home building activity after it trended down over the past year. A turn higher is still some way off. On the non-residential front, softness in public sector projects is continuing, while planned private sector projects are holding up, mainly due to office and industrial projects.

Residential building and consent numbers

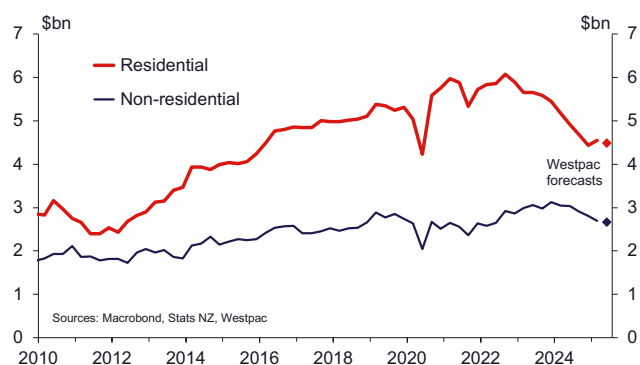


NZ Q2 Building Work Put in Place

Sep 4, Last: 0.0%, Westpac f/c: -1.2%

Total construction activity was flat over the March quarter, with a pickup in residential construction balanced against a drop in the amount of non-residential building work completed. While the current protracted downturn in building is approaching a base, some further softness is likely in the near term. We're forecasting a 1% decline in total construction activity in the June quarter, with a modest decline in residential work and continued softness in non-residential building.

Real building work put in place

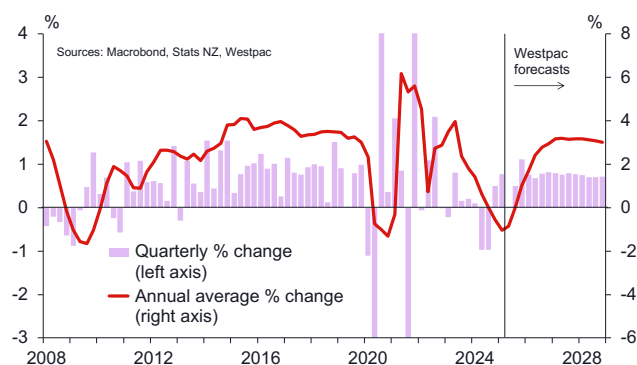


Economic and financial forecasts

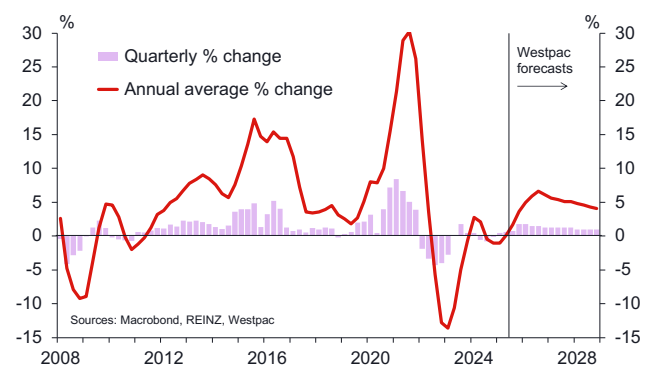
Economic indicators	Quarterly % change				Annual % change			
	Mar-25	Jun-25	Sep-25	Dec-25	2024	2025	2026	2027
GDP (production)	0.8	0.0	0.5	1.1	-1.3	2.4	3.1	3.2
Consumer price index	0.9	0.5	1.1	0.5	2.2	3.1	2.0	2.1
Employment change	0.0	-0.1	0.0	0.2	-1.2	0.2	2.5	1.9
Unemployment rate	5.1	5.2	5.3	5.3	5.1	5.3	4.6	4.2
Labour cost index (all sectors)	0.5	0.6	0.6	0.5	3.3	2.2	2.2	2.2
Current account balance (% of GDP)	-5.7	-5.1	-4.6	-4.5	-6.1	-4.5	-5.0	-4.8
Terms of trade	1.9	8.0	-0.9	-1.4	13.7	7.5	0.7	1.4
House price index	0.4	0.6	0.8	1.8	-1.1	3.6	6.1	5.1

Financial forecasts	End of quarter				End of year			
	Mar-25	Jun-25	Sep-25	Dec-25	2024	2025	2026	2027
OCR	3.75	3.25	3.00	2.50	4.25	2.50	2.75	3.75
90 day bank bill	3.86	3.38	2.80	2.60	4.45	2.60	2.95	3.85
2 year swap	3.46	3.18	2.90	3.00	3.64	3.00	3.70	4.00
5 year swap	3.71	3.56	3.30	3.45	3.73	3.45	4.15	4.25
10 year bond	4.63	4.57	4.40	4.50	4.51	4.50	4.85	4.95
TWI	67.8	69.1	69.1	69.2	69.5	69.2	69.1	68.9
NZD/USD	0.57	0.59	0.60	0.61	0.59	0.61	0.62	0.64
NZD/AUD	0.90	0.93	0.91	0.90	0.91	0.90	0.88	0.88
NZD/EUR	0.54	0.52	0.51	0.52	0.55	0.52	0.52	0.53
NZD/GBP	0.45	0.44	0.45	0.45	0.46	0.45	0.46	0.46

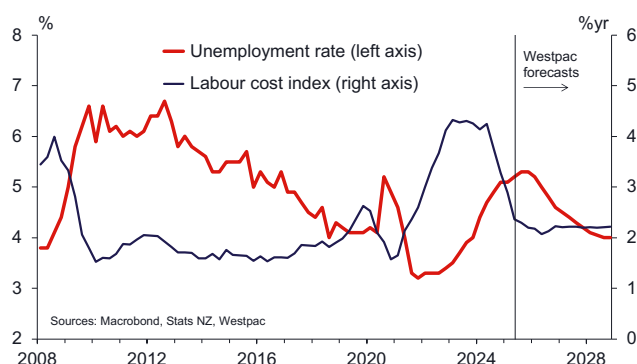
GDP growth



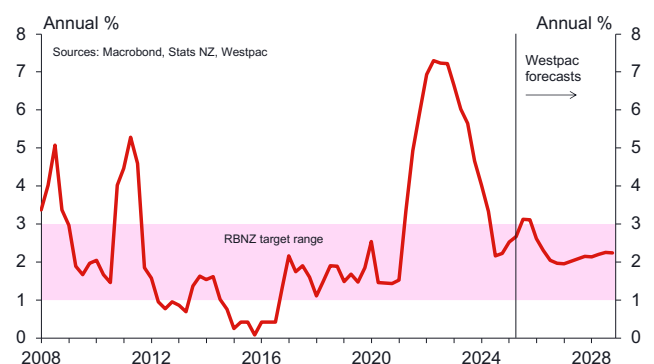
House prices



Unemployment and wage growth



Consumer price inflation



Data calendar

		Last	Market median	Westpac forecast	Risk/Comment
Mon 01					
Aus	Aug Cotality Home Value Index, %mth	0.6	–	0.8	Daily measures point to a slight quickening in August.
	Aug MI Inflation Gauge, %ann	2.9	–	–	Provides a general view around risks.
	Q2 Company Profits, %qtr	–0.5	1.1	1.5	Mining rebound set to drive profit growth in Q2.
	Q2 Inventories, %qtr	0.8	0.2	0.5	Strong import growth signals inventory rebuild.
	Aug ANZ–Indeed Job Ads, %mth	–1.0	–	–	Pointing to a gradual easing in labour demand.
	Jul Dwelling Approvals, %mth	11.9	–5.1	–4.0	Lumpy unit-led surge likely to unwind in July.
NZ	Jul Building Permits, %mth	–6.4	–	1	Annual consents insurance remains steady around 34,000.
Chn	Aug RatingDog Manufacturing PMI, index	49.5	49.8	–	Manufacturing weathering the storm.
Eur	Jul Unemployment Rate, %	6.2	–	–	Structural factors are keeping the labour market tight.
US	Labor Day	–	–	–	Markets closed.
Tue 02					
NZ	Q2 Terms Of Trade, index	1.9	1.9	8	Export prices rising; NZD rebound lowers import costs.
Aus	Q2 Current Account Balance, \$bn	–14.7	–16.0	–17.5	Deficit widening on weaker goods trade.
	Q2 Net Exports Contribution, ppts	–0.1	0.1	0	Net exports set to be broadly neutral for growth.
Eur	Aug HICP Inflation, %ann	2	2.1	–	Holding at target, but risks remain.
US	Aug ISM Manufacturing PMI, index	48	48.8	–	Manufacturers slowly coming to terms with tariffs.
Wed 03					
NZ	Aug ANZ Commodity Prices, %mth	–1.8	–	0.4	Dairy and meat prices have continued to rise.
Aus	Q2 GDP, %qtr	0.2	0.5	0.4	Recovery stalled over H1 2025, risk of a 'shaky handover' ...
	Q2 GDP, %ann	1.3	1.7	1.5	... from public to private demand remains at the fore.
	RBA Governor Bullock	–	–	–	Shann Memorial Lecture in Perth, 6:00pm AEST.
Chn	Aug RatingDog Services PMI, index	52.6	52.5	–	Stimulus is supporting the services sector.
Eur	Jul PPI, %ann	0.6	–	–	Prices remain contained despite tariffs.
US	Jul JOLTS Job Openings, 000s	7437	–	–	Volatile but pointing to a gradual easing in labour demand.
	Jul Factory Orders, %mth	–4.8	–1.4	–	Weak headline durable goods point to a decline.
	Fedspeak	–	–	–	Musalem.
	Federal Reserve's Beige Book	–	–	–	An update on economic conditions across the regions.
Thu 04					
NZ	Q2 Building Work Put in Place, %qtr	0	–	–1.2	Continue to ease, but approaching a base.
Aus	Jul Trade Balance, \$bn	5.4	4.9	4.5	More volatility in trade data to be expected.
	Jul Household Spending Indicator, %mth	0.5	0.5	0.5	Consumer recovery looking a little better shaped.
	RBA Deputy Governor Hauser	–	–	–	Interview with Reuters News.
Eur	Jul Retail Sales, %mth	0.3	–	–	Momentum is building as sentiment improves.
US	Initial Jobless Claims	–	–	–	To remain low for now.
	Aug ISM Services, index	50.1	50.5	–	Consumers remain surprisingly resilient.
	Jul Trade Balance, US\$bn	–60.2	–62.6	–	Tariff uncertainty keeps importers in a scarcity mindset.
	Fedspeak	–	–	–	Williams.
Fri 05					
Jpn	Jul Household Spending, %mth	1.3	2.3	–	Real spending recovery continues to lag.
Eur	Q2 GDP, %qtr	0.1	–	–	Final estimate.
US	Aug Nonfarm Payrolls, 000s	73	78	90	Despite a strong monthly result anticipated, data on the...
	Aug Average Hourly Earnings, %mth	0.3	0.3	0.3	... whole should point to an easing labour market ...
	Aug Unemployment Rate, %	4.2	4.3	4.3	... consistent with at-target inflation.
	Fedspeak	–	–	–	Goolsbee.

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