WEEKLY ECONOMIC COMMENTARY

3 Mar 2025 | **Westpac Economics Team** | **westpac.co.nz/economics** | economics@westpac.co.nz

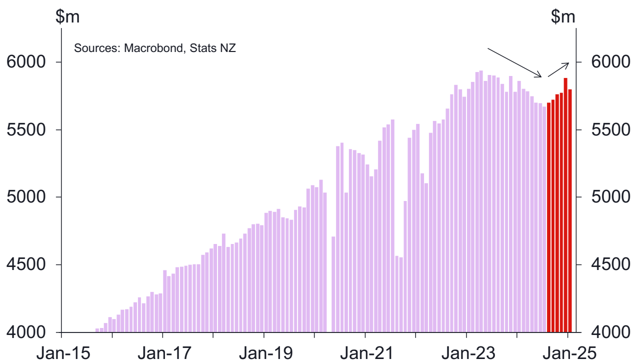
On firmer footing

The latest updates on the New Zealand economy have been encouraging. While we are still seeing softness in some areas, signs of recovery are building, and we expect conditions will continue to firm over the coming months.

Household spending appetites on the rise.

Looking first at the household sector, consumer confidence has been trending higher since late last year, and that lift in sentiment has been accompanied by a recovery in spending appetites. The latest update from Stats NZ showed that retail spending was up a solid 0.9% in the December quarter, and our own tracker of spending on Westpac issued debit and credit cards indicates that spending has continued to rise in the early part of 2025. Underpinning the rise in sales has been increased spending in discretionary areas, like household furnishings and electronics.

Monthly retail spending

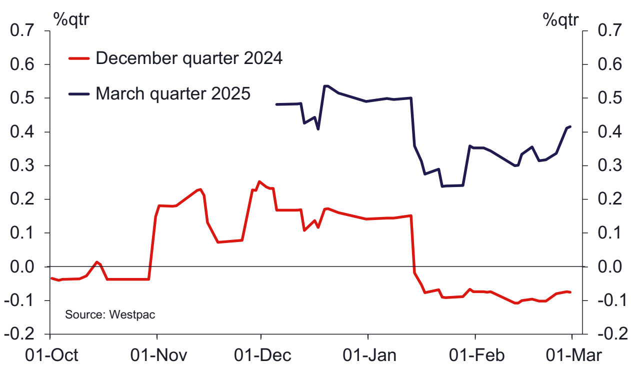


We expect spending will continue trending higher over the coming year. Interest rates have been dropping back. Importantly, the full impact of those declines is yet to be felt, as many mortgages are still on the relatively high interest rates from recent years. However, over the next six months, around half of all mortgages will come up for

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

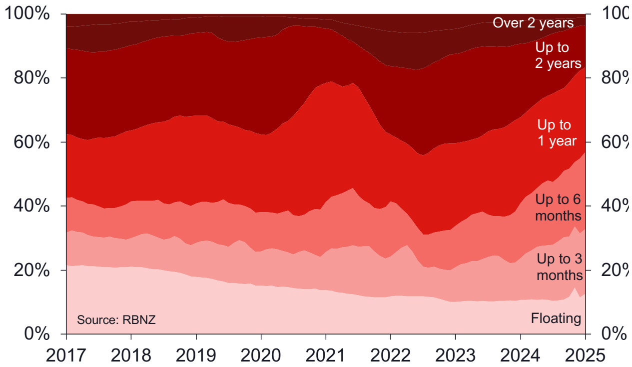


Key data and event outlook

Date	Event
6 Mar 25	Govt Financial Statements, 7 mths to January
14 Mar 25	NZ Selected price indexes, February
19 Mar 25	FOMC Meeting (Announced 20 Mar NZT)
20 Mar 25	NZ GDP, December quarter
1 Apr 25	RBA Monetary Policy Decision
8 Apr 25	NZIER QSBO Business Survey, March quarter
9 Apr 25	RBNZ OCR Review
15 Apr 25	NZ Selected price indexes, March
17 Apr 25	NZ CPI, March quarter
7 May 25	Labour market statistics, March quarter
7 May 25	RBNZ Financial Stability Report

re-fixing, and many borrowers will have the opportunity to re-fix at lower rates. That will give disposable incomes and spending a boost through the second half of the year.

Share of mortgages by time to refixing



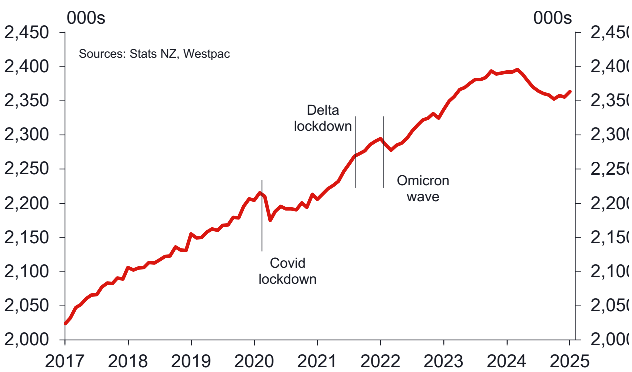
Many households are still dealing with some significant pressures on their finances. Notably, we're continuing to see large increases in the costs of necessities, like food, rates, utilities and insurance. On top of that, the fall in the NZ dollar is likely to push up the price of some imported goods. But even with those pressures, household spending is likely to continue firming over 2025.

Business conditions have stabilised, with a lift on the horizon.

Turning to the business sector, we've been speaking with businesses around the country over the past few weeks. The feedback we've received is that trading conditions have remained tough in the early part of 2025, especially in sectors like retail, hospitality and construction. Many businesses also told us that they expect conditions to remain soft in the near term, and as a result they remain hesitant about significant capital expenditure for now.

But while activity levels remained soft, most of the businesses we spoke to told us that conditions had stabilised in recent months (rather than continuing to weaken). That's been reflected in the latest monthly jobs figures, which have been gradually ticking up over the last three months, after having consistently fallen between April and October last year.

NZ monthly filled jobs



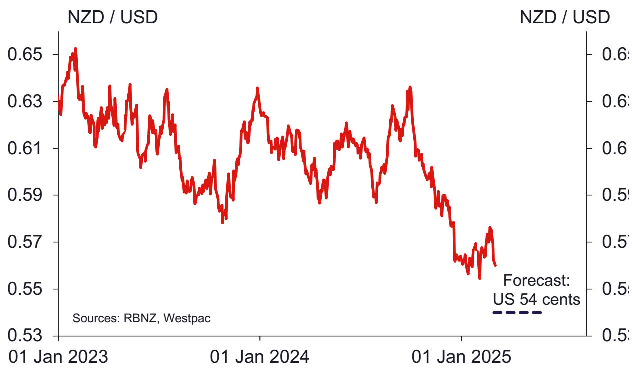
Businesses are also feeling more optimistic about the trajectory of the economy further ahead, with interest rate reductions expected to support a gradual recovery in demand. However, they were conscious that the recovery is likely to be gradual, with most not expecting a material lift in activity until the second half of the year.

Rural confidence continuing to improve.

Confidence is also up in the agricultural sector. As we discuss in our latest **Agri Bites report**, a lot of that is due to the rise in soft commodity prices. Dairy prices especially have been on a tear lately, so much so that we are predicting a record high average farmgate milk price of $10.30/kgMS for the current season. Built into this forecast is an expectation that the rebuilding of whole milk powder inventories in China will come to an end. If it doesn't, we could see upward pressure on our milk price forecasts, particularly if Chinese restocking extends into the 2025/26 season.

But the gains in prices aren't just limited to dairy. Export meat prices are on the up. In the case of beef much of that has to do with the strength in demand out of the US and production declines in most key beef producing countries. For lamb, rising export prices mostly reflect constrained supply out of Australia and New Zealand, the world's largest exporters of sheep meat. What's more, we expect these trends to continue in 2025, which suggests further price rises in the year ahead. The weaker New Zealand dollar over the coming year, is likely to add some impetus in this regard.

New Zealand dollar



The good news on prices extends to the horticultural sector. Demand for kiwifruit in export markets, particularly in South-East Asia continues to grow and is easily able to keep pace with additional supply coming out of New Zealand. That is not only helping to keep prices at elevated levels, but also deliver better orchard gate returns. A bumper harvest projected for the coming year together with a weaker New Zealand dollar should ensure more of the same over 2025.

That strengthening outlook for commodity prices bodes well for incomes in agricultural regions over the year ahead. To date, farmers and other producers are taking a cautious approach, using the lift in returns to retire debt. Even so, spending in regional centres is already outpacing centres like Auckland and Wellington, and we expect that pattern will continue over 2025.

Cost inflation has eased, but pressures haven't fully abated.

A particularly welcome development for businesses in both the agriculture sector and other parts of the economy has been the easing in input cost pressures over the past year. The big one has been the fall in interest rates. We've also seen falls in fuel costs, as well as a more general easing in cost pressures following the large increases over the past few years.

But even though costs aren't rising at the rapid pace we saw in the wake of the pandemic, we're still hearing reports of some strong cost pressures, including compliance costs. We've also seen the NZ dollar taking a step down since the start of this year, and that's likely to push up the cost of some imported goods over the coming months (though it is welcome news for our exporters). Consistent with those pressures, recent months have seen a lift in the number of businesses who are planning on raising their prices, after it had trended down over the past couple of years.

Number of businesses who plan to raise or lower prices in the next three months

A brighter outlook, but there are still some clouds on the horizon.

Putting this all together, recent economic news and the feedback we've received around the country is consistent with a pick-up in economic conditions over the year ahead. However, the recovery still looks like it will be gradual, with many businesses likely to face tough trading conditions over the next few months. In addition, economic conditions are likely to be uneven – parts of the country with a strong rural backbone are like to be stronger than centres like Auckland or (especially) Wellington.

A remaining downside risk is changes in global trade policy and simmering geopolitical tensions. Global data this week highlighted those risks to both foreign demand and also FX markets. The NZD took a big leg down this week reflecting these factors even as domestic data looked a bit brighter. The Trump administration's tariffs took a large step closer with the apparent confirmation of them taking effect in coming days. US imports have spiked higher as importers front-run the tariffs. These factors are likely to lead to volatility in global production estimates for a while. We also saw the remarkable display of anti-diplomacy between the US and Ukraine on displace with consequential implications for the global economic order and financial markets.

And of course, finally, we saw the progression of the Republican tax and spending bill through the House. If anything like that bill clears the Senate, then there will be a substantial positive fiscal impulse to the US economy. The emerging outlook is complex with factors running in different directions.

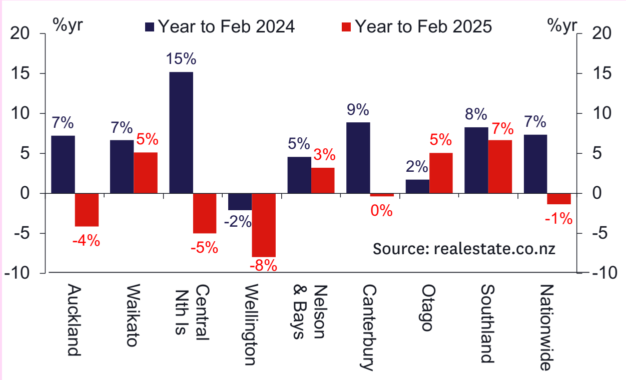
Satish Ranchhod, Senior Economist

Paul Clark, Industry Economist

Chart of the week.

Large increases in housing rents were a significant contributor to the rise in household living costs in recent years. However, rental growth has now slowed sharply. Data from realestate.co.nz shows that average advertised rents fell 1% over the past year, with rents in Auckland down 4% and Wellington down 8%. Those declines only offset a portion of the large increases in rents seen over the past few years, and they follow both a sharp slowdown in net migration and a large increase in the housing stock over the past year. Looking ahead, we don't expect to see large declines in rents, as ongoing increases in operating costs like insurance and rates are likely to persist. But importantly, the housing cycle is likely to pick up as the economy recovers and population growth rises again. However, it's likely that rental growth will be more muted in the year ahead than in recent years given the current weak demand environment.

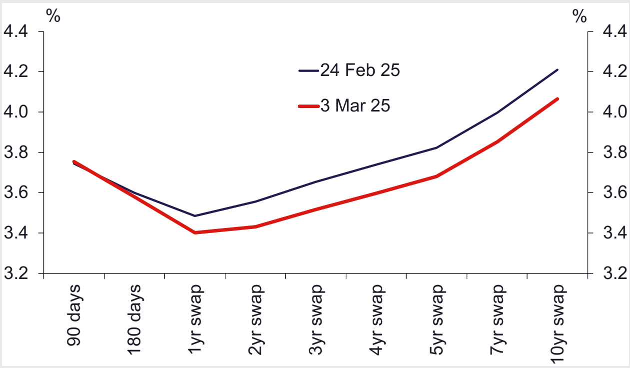
Housing rent inflation



Fixed versus floating for mortgages.

We're forecasting the cash rate to bottom at 3.25% in mid-2025 and see balanced risks around that forecast. Markets have factored more easing than this into mortgage rates and suggest the OCR will bottom closer to 3%. Longer term mortgage rates have fallen – in some cases significantly – and now look attractive to fix for longer periods, particularly in the two- to three-year space. Shorter-term mortgage rates are likely to fall in the near term as the RBNZ delivers further smaller OCR cuts, but would still likely remain above current longer term fixed rates. Fixing shorter than a year is a bet that the OCR bottoms somewhat lower than 3%.

NZ interest rates



Global wrap

North America.

The Fed's preferred indicator of inflation – the core PCE deflator – stood at 2.6%y/y in January, down 0.2ppts from last month and matching the cycle low. Activity and sentiment data had a softer tone last week. The Conference Board's consumer confidence index slumped 7pts to an 8-month low of 98.3, amidst a sharp drop in expectations regarding the forward outlook. Real consumer spending fell a steeper than expected 0.5%m/m in January, pending home sales fell 4.6%m/m in January and initial jobless claims rose to a two-month high. The second estimate of Q4 GDP saw growth unrevised at 2.3% (annualised). In tariff news, President Trump reiterated his intention to impose tariffs on Canada and Mexico from 4 March. He also announced a further 10% increase in China's tariff on top of the 10% increase announced previously. Turning to the week ahead, the focus will be on Friday's employment report for February, with the consensus expecting the unemployment rate to remain steady at 4.0%. The manufacturing (today) and services (Wednesday) reports from the ISM will also attract attention. A busy week of Fedspeak includes Chair Powell, who will speak on Friday shortly after the release of the employment report.

Europe.

This week's European economic diary kicks off today with the release of the flash HICP reading for the euro area and final March manufacturing PMI readings for the euro area and the UK. Later in the week attention will turn to Thursday's ECB meeting, which is likely to deliver a further 25bp cut the deposit rate to 2.75%.

Asia-Pacific.

China's official manufacturing PMI rebounded to 50.2 in February following the LNY holiday. The Caixin PMI, which has a greater weighting towards private SME's, will be released today. The focus this week will be the National People's Congress, at which Premier Li will present the Government's economic targets for 2025 on Wednesday. Given China's very large trade deficits with the US, Friday's February's trade report will also be of interest. Meanwhile, China will also release February producer and consumer price data on Sunday. Elsewhere in Asia, on Tuesday's Japan's MoF corporate survey will cast light on potential revisions to the stronger-than-expected lift in GDP initially reported for Q4. In Australia, the monthly CPI held steady at 2.5%y/y in January. The focus of the coming week will be Wednesday's Q4 GDP report. Ahead of the final partials that will be released over the next two days, Westpac estimates that the economy grew 0.4%q/q. Monthly reports for January on trade, building approvals and household spending will follow later in the week.

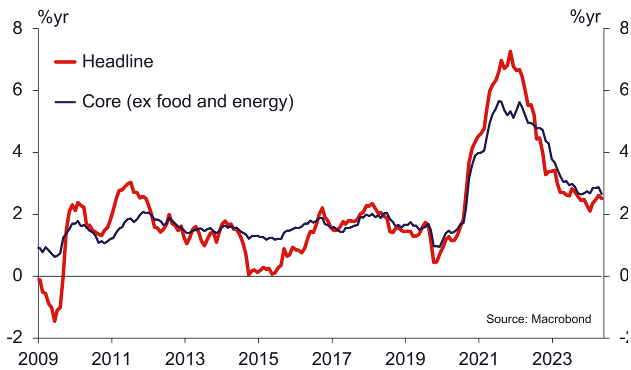
Trading partner real GDP (calendar years)

	Annual average % change			
	2023	**2024**	**2025**	**2026**
Australia	2.1	1.1	2.0	2.2
China	5.2	5.0	4.8	4.5
United States	2.5	2.8	2.6	2.0
Japan	1.9	-0.1	1.2	1.0
East Asia ex China	3.3	4.3	4.1	4.1
India	7.8	6.6	6.6	6.5
Euro Zone	0.4	0.7	0.9	1.0
United Kingdom	0.1	0.7	0.6	1.2
NZ trading partners	3.3	3.3	3.3	3.2
World	3.2	3.3	3.3	3.2

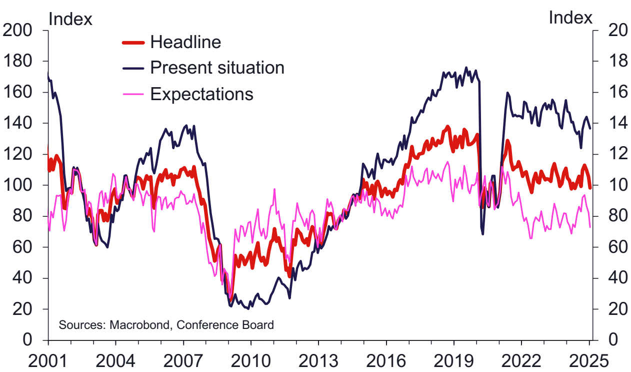
Australian & US interest rate outlook

	03-Mar-25	Mar-25	Dec-25	Dec-26
Australia				
Cash	4.10	4.10	3.35	3.35
90 Day BBSW	4.12	4.20	3.50	3.55
3 Year Swap	3.71	3.75	3.80	4.00
3 Year Bond	3.74	3.75	3.75	3.85
10 Year Bond	4.29	4.45	4.70	4.65
10 Year Spread to US (bps)	6	-15	-25	-15
US				
Fed Funds	4.375	4.375	4.375	3.875
US 10 Year Bond	4.23	4.60	4.95	4.80

US PCE deflator



US Conference Board consumer confidence index



Financial markets wrap

Foreign exchange.

NZD/USD reversed lower last week, driven by the upward reversal in the US dollar. The latter was boosted by bouts of risk aversion and adverse geopolitical and tariff developments.

During the week ahead, NZD/USD has potential to test the 0.5500 area. There's a major support level at 0.5470, which if broken would signal much lower levels during the months ahead.

The US dollar will be the dominant driver during the week ahead, with little in the NZ calendar to ruffle markets (the next major event will be the Q4 GDP data on 23 March). The main US events this week will be the US payrolls data (Fri), Fed chair Powell's speech on the economic outlook (Fri), and tariff implementation on 4 March.

There are NZD-supportive factors such as extreme short speculative NZD/USD positioning and an arguably fully-priced RBNZ easing cycle. But these are currently dominated by factors driving the US dollar (geopolitical and tariff news).

Our long-held medium-term bearish view is based on the expectation that the US dollar will remain strong, supported by the performance of the US economy vs other G10 economies, a lengthy pause in the Fed's easing cycle, and clarity on US import tariffs by April.

Interest rates.

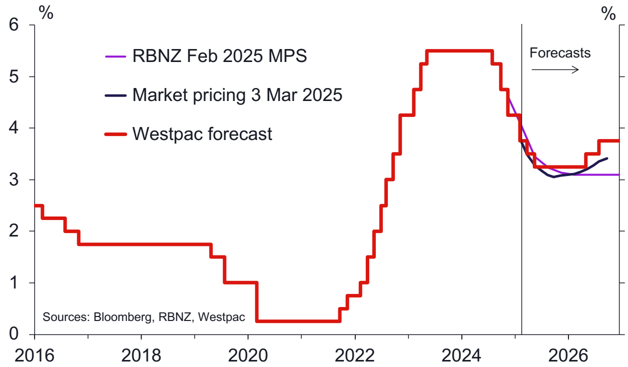
The NZ 2yr swap rate remains stuck inside a two-month old range of 3.33%-3.65%, and that is expected to be the case during the week ahead. Multi-month, we expect to see it higher.

The RBNZ's February MPS clearly signalled the trajectory of the remainder of the easing cycle, being 25bp OCR cuts in April and May, and a final one sometime this year. Markets agree, OIS pricing having a similar trajectory, and will only shift if there are major surprises from the NZ or global economy (Westpac's forecast is for only two more OCR 25bp cuts in April and May, taking it to 3.25%).

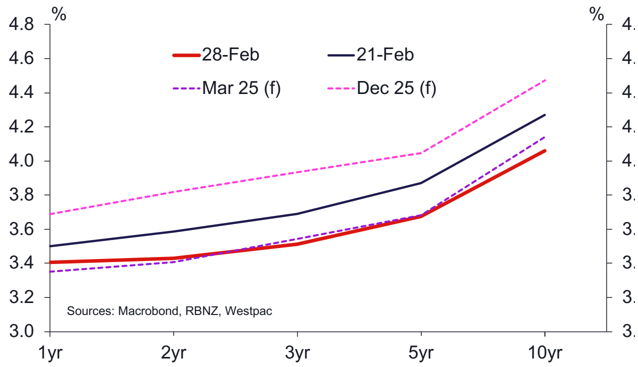
Our outlook for higher swap rates later this year is driven by expectations of an increase in mortgage fixing, and markets increasingly looking ahead to the next cycle – a tightening one.

If swap rates do increase as we expect, the yield curve's slope is likely to flatten as shorter maturities such as the 2yr will rise more than longer maturities such as the 10yr.

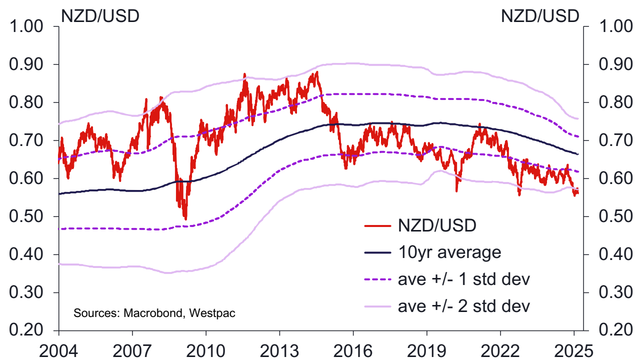
Official Cash Rate forecasts



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	0.560	0.554-0.590	0.554-0.743	0.640	0.54
AUD	0.901	0.897-0.912	0.873-0.992	0.926	0.87
EUR	0.539	0.539-0.560	0.517-0.637	0.578	0.53
GBP	0.445	0.445-0.465	0.445-0.535	0.499	0.44
JPY	84.3	84.0-89.4	61.3-98.6	82.1	82.1

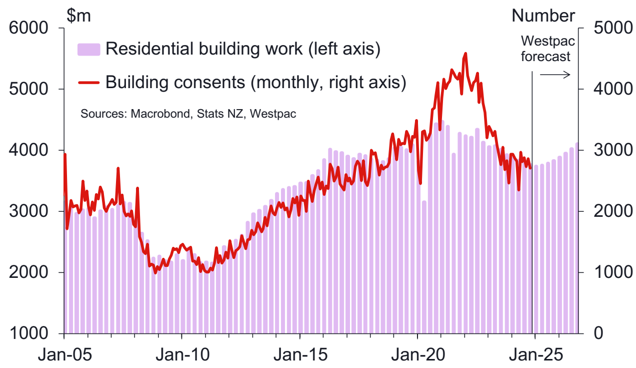
The week ahead

Jan building consents.

Mar 4, Last: -5.6%, Westpac f/c: +5.0%

The number of residential building consents dropped 6% in December as earlier increases in the 'lumpy' multi-unit categories reversed. However, more important than the month-to-month swings, the longer-term trend in consent numbers looks has found a floor after earlier sharp declines. Annual consent issuance has been running at a little over 33,000 for several months now. We expect that consent issuance will remain around current levels for the next few months before beginning to turn higher through the latter part of the year as the impact of lower interest rates ripples through the housing market. In the non-residential space, softness in economic activity is expected to continue weighing on new developments.

Residential building and consent numbers

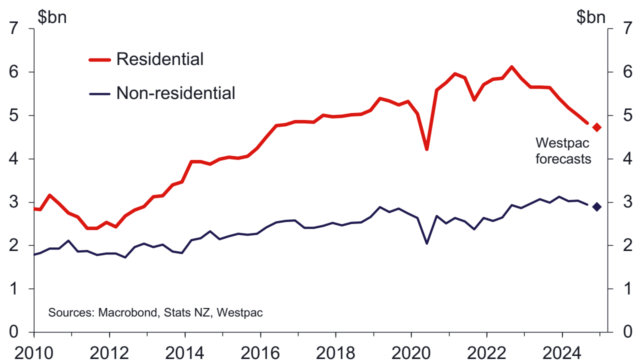


Q4 building work put in place.

Mar 6, Last: -3.2%, Westpac f/c: -2.0%

Construction activity fell 3% in the September quarter, with falls in both residential and commercial activity. We expect further declines in both areas in the December quarter. Earlier high interest rates, as well as subdued economic activity and low confidence over the past few years have all dampened development activity. The key area of uncertainty is non-residential construction which can be volatile on a quarter-to-quarter basis. But smoothing through such quarterly noise, the direction for building activity remains down through the latter part of 2024, with a stabilisation expected over 2025.

Real building work put in place

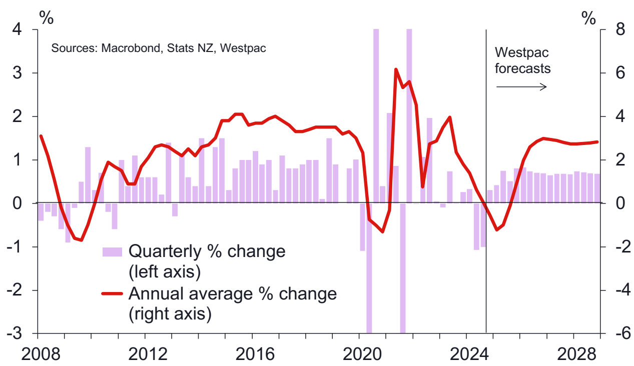


Economic and financial forecasts

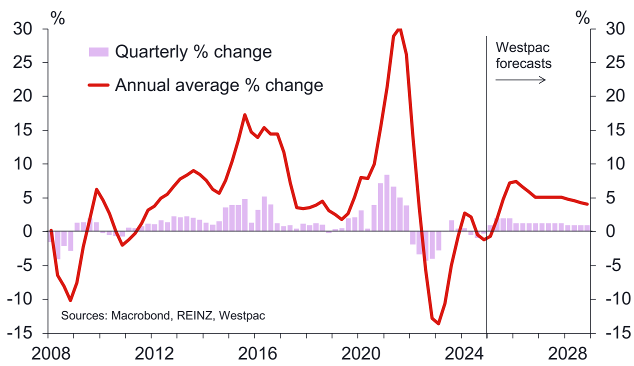
Economic indicators	Quarterly % change				Annual % change			
	Sep-24	Dec-24	Mar-25	Jun-25	2023	2024	2025	2026
GDP (production)	-1.0	0.3	0.4	0.8	1.8	-0.5	0.9	3.0
Consumer price index	0.6	0.5	0.6	0.5	4.7	2.2	2.6	2.0
Employment change	-0.6	-0.1	-0.1	0.0	2.8	-1.1	0.4	1.9
Unemployment rate	4.8	5.1	5.3	5.4	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
OCR	5.25	4.25	3.75	3.25	5.50	4.25	3.25	3.75
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

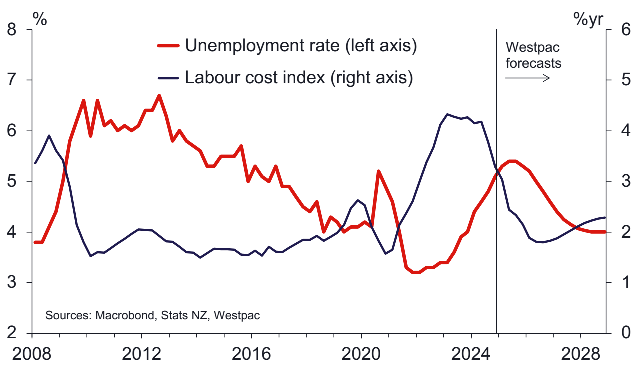
GDP growth



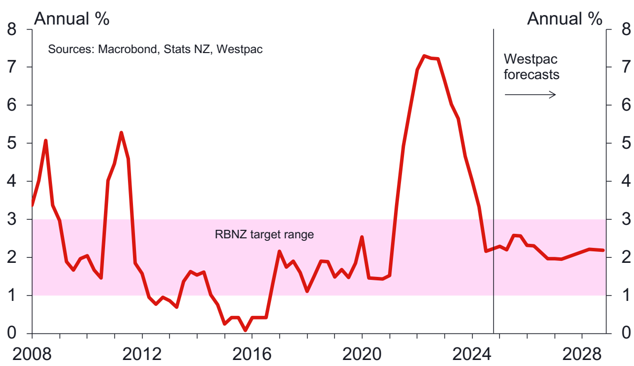
House prices



Unemployment and wage growth



Consumer price inflation



Data calendar

		Last	Market median	Westpac forecast	Risk/Comment
Mon 03					
NZ	Q4 Terms Of Trade, %qtr	2.4	–	6.5	Strong gains in meat and dairy export prices.
Aus	Feb Corelogic Home Value Index, %mth	–0.2	–	0.3	Daily measures point to a pick-up following Feb's rate cut.
	Feb MI Inflation Gauge, %ann	2.3	–	–	Provides a general view of risks.
	Q4 Company Operating Profit, %qtr	–4.6	1.8	1	Non-mining sector to drive recovery in profits.
	Q4 Inventories, %qtr	–0.9	flat	–0.8	Businesses are using up inventories to meet demand.
Chn	Feb Caixin Manufacturing PMI, index	50.1	50.4	–	Sentiment is holding around a neutral level.
Eur	Feb CPI, %ann	2.5	2.3	–	Likely to continue following an upward trend.
US	Jan Construction Spending, %mth	0.5	–0.1	–	Weaker growth at the start of the year.
	Feb ISM Manufacturing PMI, index	50.9	50.5	–	Returned to expansionary territory last month.
	Fedspeak	–	–	–	Musalem.
Tue 04					
NZ	Jan Building Permits, %mth	–5.6	–	5.0	Annual issuance continuing to run at just over 33k.
Aus	Q4 Current Account Balance, $bn	–14.1	–12.0	–10.3	Improvements in trade and primary income balance expected.
	Q4 Net Exports Contribution, ppt	0.1	–0.1	–0.2	Both G&S likely detracted from growth at similar scale.
	Feb RBA Minutes	–	–	–	To provide more colour around balance of risks.
	Jan Retail Sales, %mth	–0.1	0.3	0.4	Westpac card data points to firm underlying trend.
Jpn	Jan Unemployment Rate, %	2.4	2.4	–	Labour market to remain tight for foreseeable future.
Eur	Jan Unemployment Rate, %	6.3	6.3	–	Ticked higher in December from a record low in November.
US	Fedspeak	–	–	–	Williams.
Wed 05					
NZ	Feb ANZ Commodity Prices, %mth	1.8	–	1.0	World dairy prices up over the month.
Aus	RBA Deputy Governor Hauser	–	–	–	Speaking at the AFR Business Summit at 8:45am AEDT.
	Q4 GDP, %qtr	0.3	0.5	0.4	Moderating inflation and tax cuts to support gradual recovery.
Chn	Feb Caixin Services PMI, index	51.0	50.8	–	Pointing to downside risk to China GDP this quarter.
	National People's Congress	–	–	–	To reiterate priorities for 2025.
US	Feb ADP Employment Change, 000s	183	148	–	Noisy indicator for non-farm payrolls.
	Jan Factory Orders, %mth	–0.9	1.4	–	Includes durable and non-durable goods orders.
	Jan Durable Goods Orders, %mth	3.1	–	–	Preliminary data showed a steep increase in headline growth
	Feb ISM Services PMI, index	52.8	53	–	Expected to be little changed after a few volatile months.
Thu 06					
NZ	Q4 Building Work, %qtr	–3.2	–	–2.0	Softness in both residential and commercial building.
Aus	Jan Dwelling Approvals, %mth	0.7	flat	0.5	Uptrend becoming more centred on high-rise units.
	Jan Goods Trade Balance, $bn	5.1	5.7	6.2	Higher exports and weaker imports to see balance improve.
Eur	Jan Retail Sales, %mth	–0.2	–	–	Has not grown for the past three months.
	ECB Policy Decision (Deposit Rate)	2.75	2.50	2.5	Another rate cut expected as growth outlook weakens.
US	Jan Trade Balance, $bn	–98.4	–91.3	–	Latest insights into the US trade before new tariffs took effect.
	Initial Jobless Claims	242	–	–	Will be watched closely after an increase in the prior week
	Fedspeak	–	–	–	Waller.
Fri 07					
Aus	Jan Household Spending Indicator, %mth	0.4	0.5	0.3	Vehicle sales look to have weighed on spending.
Eur	Q4 GDP, %qtr	0.1	0.1	–	No change anticipated in the final estimate.
US	Feb Non-Farm Payrolls, 000s	143	158	170	Current pace of growth in payrolls…
	Feb Average Hourly Earnings, %mth	0.5	0.3	–	… and stabilising wages growth is consistent with…
	Feb Unemployment Rate, %	4.0	4.0	4.0	… labour demand and supply being in balance.
	Jan Consumer Credit, $bn	40.8	–	–	Will provide new insights into the state of the US consumers

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