



# WEEKLY ECONOMIC COMMENTARY



3 Jun 2025 | Westpac Economics Team | [westpac.co.nz/economics](https://westpac.co.nz/economics) | [economics@westpac.co.nz](mailto:economics@westpac.co.nz)

## RBNZ slowing its roll

As was widely expected and fully priced by the market, the RBNZ announced a further 25bps reduction in the OCR to 3.25% last week. While the RBNZ downgraded its economic forecasts compared to February and emphasised the high degree of uncertainty around global conditions, there was a surprising amount of caution around the timing and extent of further OCR cuts. We now think that the policy committee will take a pause at its 9 July meeting, with the next rate cut more likely to come at the August MPS.

The most surprising aspect of the OCR decision is that it was reached by a split vote, only the second time this has happened since the Monetary Policy Committee was established (their standard procedure is to seek a consensus, with a vote taken only as a last resort). One member voted to leave the OCR unchanged, seeking to consolidate inflation expectations near the target midpoint and allowing more time to judge the impact of US policy uncertainty on household and business behaviour.

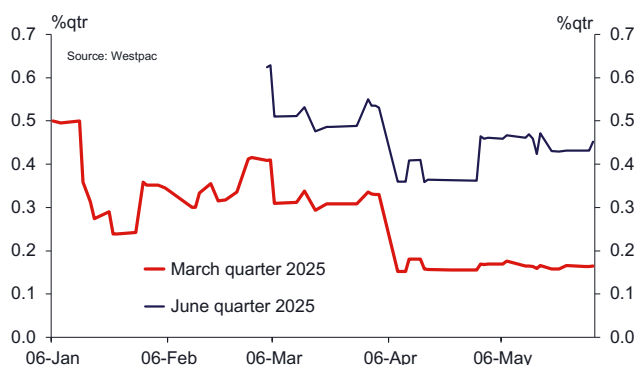
It's entirely reasonable to expect a greater range of views as policy nears the end of a cycle, and it becomes less obvious what or when the next move should be. Indeed, **as we noted in our MPS preview**, we thought that the Summary Record of Meeting would show more evidence of debate among the MPC about how much weight should be placed on the uncomfortably high near-term inflation outlook versus hopes for lower inflation in 2026 and beyond.

RBNZ Governor Hawkesby noted that the split vote reflected a consensus regarding the medium-term OCR projection, but differences in view regarding the timing of how to get there. Those OCR projections showed a low point of 2.85% by early next year, compared to the February MPS track which settled at 3.1%. The profile implies another 25bp cut in the September quarter (with

### 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

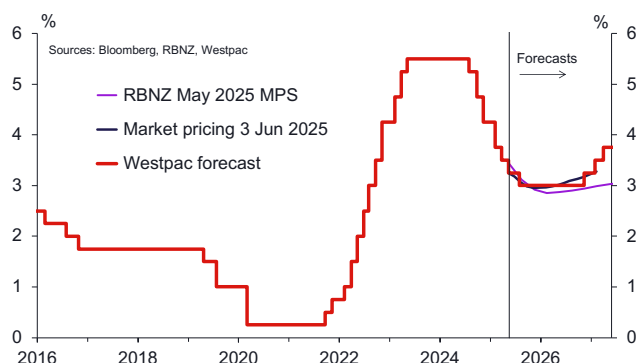


### Key data and event outlook

Date	Event
5 Jun 25	Govt financial statements, 10 months to April
17 Jun 25	NZ Selected price indexes, May
18 Jun 25	FOMC Meeting (Announced 19 Jun NZT)
20 Jun 25	NZ GDP, March quarter
1 Jul 25	NZIER QSBO Business Survey, June quarter
3 Jul 25	Govt financial statements, 11 months to May
8 Jul 25	RBA Monetary Policy Decision
8 Jul 25	US 90-day tariff pause due to expire
9 Jul 25	RBNZ OCR Review
17 Jul 25	NZ Selected price indexes, June

a close inspection suggesting this is more likely to occur at the August meeting than in July), and the possibility of one further cut in this cycle.

#### Official Cash Rate forecasts



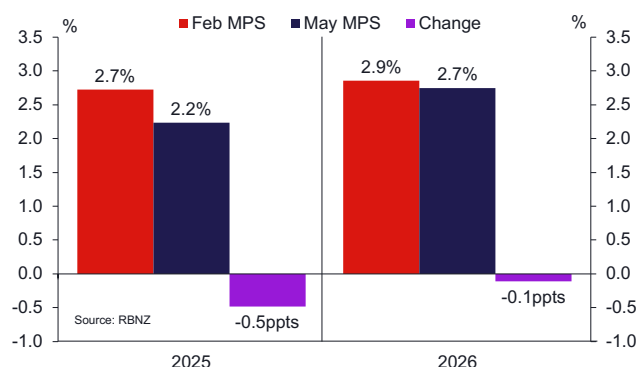
Hawkesby also noted the committee has “no bias” regarding the outcome of the July meeting, and that a July cut was “not a done deal”. This is consistent with the OCR no longer being above the ‘neutral-ish’ range that the RBNZ was angling towards, making the next move less obvious and more data-dependent.

There’s plenty of water to go under the bridge in the next few months, both domestically and internationally. We suspect that it will be easier to make the case for another easing in August than July, given the pending negotiation dates set by the US authorities on trade agreements, as well as the timing of the Q2 CPI release.

### RBNZ has lowered its growth forecasts, but inflation concerns linger.

The RBNZ has reduced its near-term growth forecasts quite noticeably. GDP is expected to grow by just 0.2-0.4% per quarter in the first three quarters of this year, before accelerating to 0.9% growth in the December quarter. This profile reflects an allowance for some seasonality that has crept into the GDP figures, as we’ve discussed in [our reviews of the data](#). But smoothing through this, their forecast of 1.8% annual growth over 2025 is down substantially from the 2.4% that they expected in February.

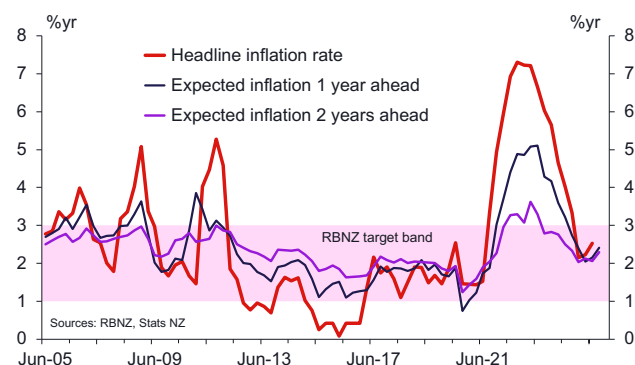
#### RBNZ trading partner growth forecasts



A key reason for this is the weaker outlook for global growth as a result of increased trade protectionism. The RBNZ has revised down its forecasts for global GDP growth in 2025 by 0.5ppts (year total basis). The related reductions in demand and increases in economic uncertainty are expected to be a drag on investment appetites. We haven’t lowered our world growth forecasts to the same degree – we’ve tended to be more positive than most on China’s ability to stimulate its domestic economy to counter some of the effects of tariffs.

Annual CPI inflation was forecast to peak at 2.7% in the September quarter, before dipping as low as 1.9% by early next year. However, the MPC noted that inflation expectations are lingering on the higher side of the target midpoint and have picked up again on many measures. Evidence these are falling back will likely be important in making the hawks on the MPC more comfortable with getting back on the easing track.

#### Inflation expectations



### Uncertainty is the only constant.

Discussion of uncertainty around the economic outlook was prominent throughout the MPS. The RBNZ noted that the risks surrounding the economic outlook are “heightened”, reflecting some uncertainty about whether the global trade shock will ultimately prove to be a net negative demand shock (thus disinflationary) or net negative supply shock (thus inflationary).

To illustrate these risks, the RBNZ published two alternative scenarios. The downside demand scenario portrays a decline in the OCR to 2.55%. The supply shock scenario continues to forecast a decline in the OCR to 2.9%, but then a lift in the OCR to 3.5% later in the forecast period.

Notably, the RBNZ didn’t explore a scenario where the impact of the tariffs turns out to be less than in their central view – though they did acknowledge that that is in the range of possibilities that “uncertainty” implies. To that end, any evidence of whether US tariff policy is actually having an impact on New Zealand businesses’ investment decisions or households’ precautionary saving could be critical to future OCR decisions.

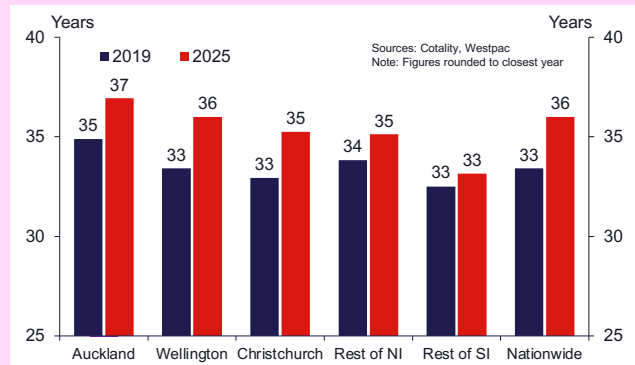
**Michael Gordon**, Senior Economist

## Chart of the week.

The number of first home buyers has picked up in recent years. As we discuss in our inaugural [Cotality-Westpac NZ First Home Buyer Report](#), a key reason for that has been the sharp falls in borrowing costs. Fixed mortgage interest rates are now around 170 to 200 basis points lower than this time last year. For those buying an averaged priced first home, those lower interest rates could cut their monthly mortgage costs by around \$800.

But while lower borrowing costs have improved affordability, getting into the housing market still isn't easy. And over time, the average age of buyers has been creeping upwards. In Auckland first home buyers now average 37 years old, 36 in Wellington, and 35 in Christchurch – each around two to three years older than in 2019.

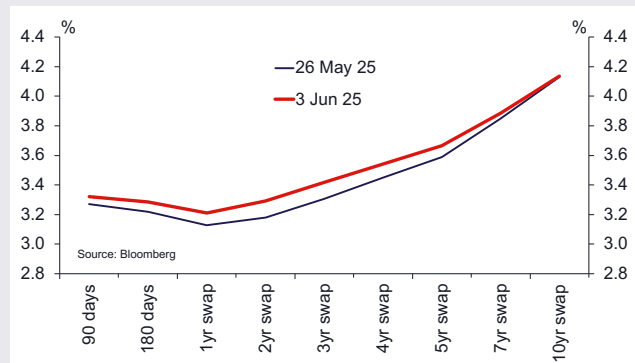
## Average age of New Zealand first home buyers



## Fixed versus floating for mortgages.

We're forecasting the cash rate to bottom at 3% in mid-2025, but with downside risks to that forecast given global events. Market pricing is broadly in line with our view, sitting slightly above the RBNZ's projected OCR track which bottoms out at 2.85%. Mortgage rates now uniformly sit just under 5%, reflecting the recent falls in wholesale rates, and even longer-term mortgage rates have fallen a touch. There could be some further scope for mortgage rates to fall further should wholesale rates settle around current levels. But fixing for longer periods still looks attractive now mortgage rates are either below or close to 5%. Very short-term mortgage rates are likely to fall in the near term as the RBNZ delivers further OCR cuts, but they may remain above current longer term fixed rates. Fixing shorter than a year is a bet that the OCR bottoms somewhat lower than 2.75%.

## NZ interest rates



# Global wrap

## North America.

Predictably, tariff news remained the focus for markets last week. Of note, the US Court of International Trade ruled that President Trump had illegally invoked emergency law to justify some of his tariffs. That ruling has now been stayed pending a hearing by the Court of Appeal and may ultimately be tested in the Supreme Court. Meanwhile, tensions re-emerged late in the week with Trump announcing a doubling of the tariff rate on steel and aluminium (to 50%) and accusing China of not honouring the terms of last month's interim trade deal. According to the White House, President Trump and President Xi will speak later this week.

On the data front, the Conference Board's consumer confidence index rebounded strongly in May, likely reflecting the rebound in US equity markets. However, core durable goods orders fell 1.3%/m in April, while pending home sales fell 6%/m and real personal spending rose just 0.1%/m. The second estimate of Q1 GDP reported an 0.2% (annualised rate) contraction in activity. On the inflation front, despite the impact of tariffs, the core PCE deflator rose just 0.1%/m in April, lowering annual inflation to a new cyclical low of 2.5%. This week we've already seen the manufacturing ISM index fall to a 6-month low of 48.5 in May. Looking ahead, attention will be focused on the labour market, culminating in Friday's non-farm payrolls report. Westpac expects a 150k lift in jobs and a steady unemployment rate of 4.2%.

## Europe.

The European Commission's economic sentiment index rebounded to 94.8 in May, thus retracing most of its post "Liberation Day" decline. An ECB survey pointed to a lift in 1-year ahead inflation expectations to a 14-month high of 3.1% in April, while 3-year ahead expectations were steady at 2.5%/y. The ECB meets this Thursday, with a further 25bps cut in the policy rate almost fully priced by markets. Industrial and services sector activity indicators are also due this week.

## Asia-Pacific.

Australia reported unexpected declines in both retail sales in building approvals in April. This week most interest will centre on Wednesday's Q1 GDP report. In advance of today's final partial indicators, Westpac estimates that the economy grew 0.4%/q/q. Trade and household spending data for April will be released later in the week. In Asia, China's official PMIs were little changed in May, with the manufacturing index rising 0.5pts to 49.5 and the non-manufacturing index falling 0.1pts to 50.3. Japan's jobless rate was steady at 2.5% in April.

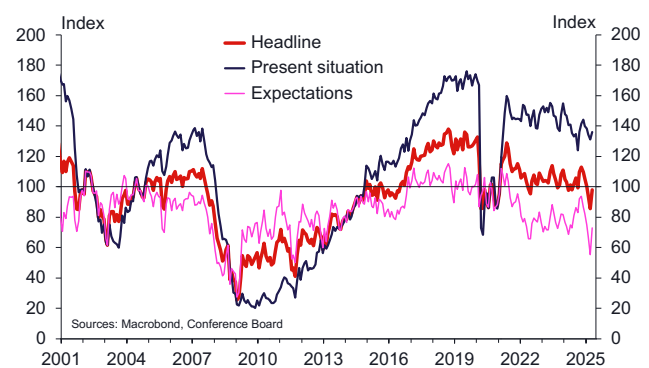
Trading partner real GDP (calendar years)

	Annual average % change			
	2023	2024	2025	2026
Australia	2.1	1.3	2.0	2.2
China	5.4	5.0	5.0	4.6
United States	2.9	2.8	0.9	0.9
Japan	1.5	0.1	1.0	0.8
East Asia ex China	3.3	4.3	3.7	3.8
India	9.2	6.5	6.2	6.2
Euro Zone	0.4	0.9	0.9	1.3
United Kingdom	0.4	1.1	1.0	1.2
NZ trading partners	3.1	3.0	2.6	2.6
World	3.5	3.3	2.9	3.0

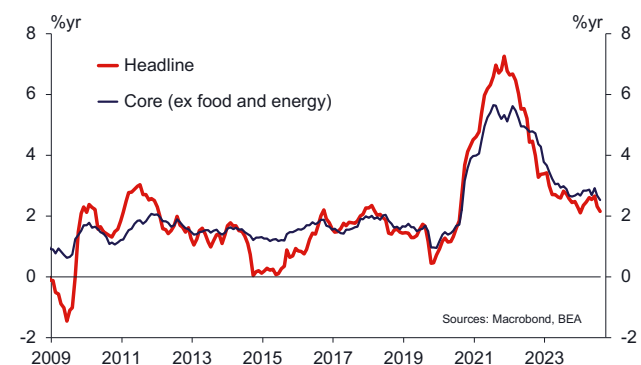
Australian & US interest rate outlook

	30 May	Jun-25	Dec-25	Dec-26
<b>Australia</b>				
Cash	3.85	3.85	3.35	3.35
90 Day BBSW	3.73	3.90	3.45	3.55
3 Year Swap	3.30	3.35	3.50	3.90
3 Year Bond	3.36	3.40	3.55	3.95
10 Year Bond	3.29	4.35	4.45	4.70
10 Year Spread to US (bps)	13	5	5	0
<b>US</b>				
Fed Funds	4.375	4.375	3.875	3.875
US 10 Year Bond	4.43	4.30	4.40	4.70

US Conference Board consumer confidence index



US PCE deflator



# Financial markets wrap

## Foreign exchange.

We remain bullish NZD/USD for the weeks ahead. If the break above the two-month range at 0.6030 is sustained, then a new range of 0.6000-0.6200 could eventuate. Yield spreads post-RBNZ have been helpful, but the main driver remains the weakening USD, its safe-haven credentials damaged for the medium term.

There's little NZ event risk this week, but plenty of US economic data on tap, culminating with the always important monthly payrolls release where markets expect a softer outcome.

The NZD/AUD cross fell over 2c since in April and May, and is now correcting that move, targeting 0.9330 this week. The hawkish RBNZ outcome (and before that the dovish RBA outcome) should continue to resonate via yield spreads, while global sentiment remains shrouded in tariff uncertainty.

## Interest rates.

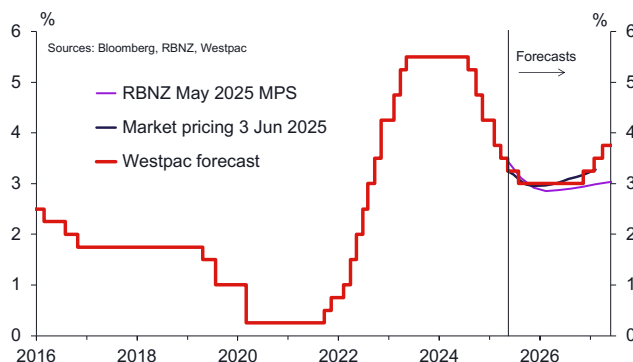
Last week's RBNZ MPS was more hawkish than the market had expected, causing swap rates to break above two-month old ranges. The 2yr swap is likely to trade a higher 3.20%-3.50% range during the weeks ahead.

While the MPS did lower the terminal rate forecast, from 3.10% to 2.85%, there were several hawkish surprises for markets: a (rare) MPC dissent in favour of holding, a shift from an easing bias to "no bias" for the July meeting, and the OCR track's implication that July is more likely to see a hold than a cut. The overall impression is that the easing cycle is near an end, and fine-tuning the latter stage will largely depend on global developments.

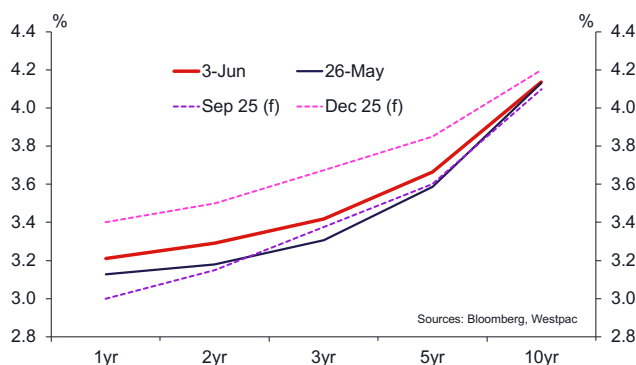
That backdrop suggests NZ yield curves are likely to continue flattening near term. albeit clouded by the volatile global outlook. The 2-10yr swap differential, at 85bp currently, is likely to fall back into the 60bp-80bp range which prevailed prior to the US bond market panic in April.

Globally, the US payrolls report and policy meetings at both the ECB and Bank of Canada are of note this week.

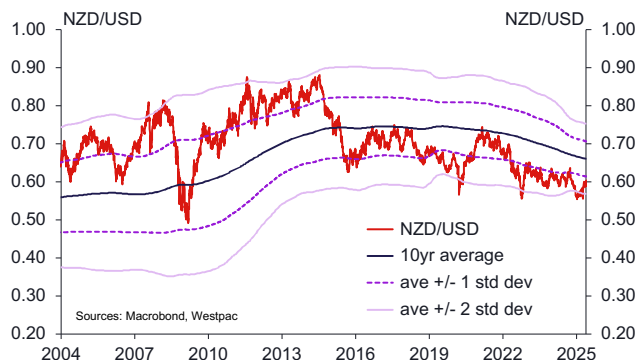
### Official Cash Rate forecasts



### 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	0.604	0.553-0.604	0.553-0.743	0.639	0.59
AUD	0.930	0.901-0.936	0.873-0.971	0.924	0.89
EUR	0.528	0.502-0.543	0.502-0.637	0.577	0.52
GBP	0.446	0.431-0.449	0.431-0.535	0.497	0.45
JPY	86.2	80.5-87.5	67.6-98.6	83.2	83.9

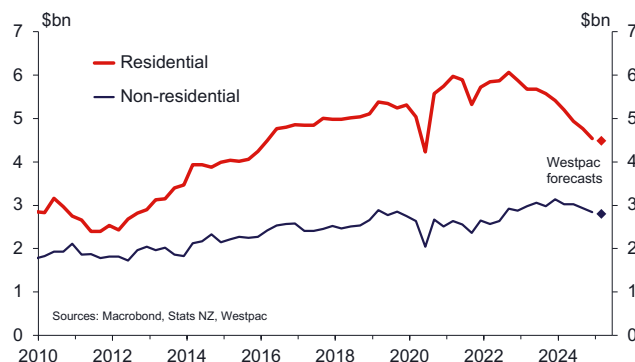
# The week ahead

## Q1 building work put in place

**Jun 5, Last: -4.4%, Westpac f/c: -1.2%**

Construction activity fell another 4% in the December quarter, with falls in both residential and commercial activity. That followed two straight years of decline. We expect further declines in both areas in the March quarter as a result of earlier high interest rates, as well as subdued economic activity and low confidence over the past few years. As is often the case, we could see some volatility in the lumpy non-residential construction categories. But smoothing through such quarterly noise, most indicators suggest that conditions in the construction sector have remained subdued in the early part of the year.

Real building work put in place



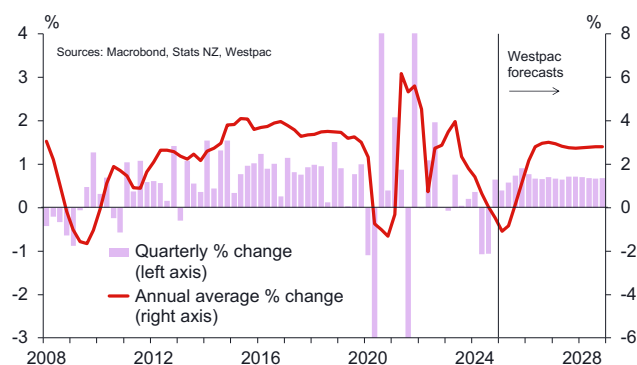


# Economic and financial forecasts

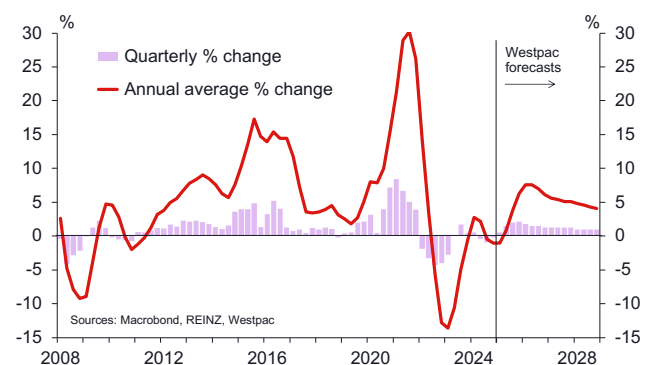
Economic indicators	Quarterly % change				Annual % change			
	Dec-24	Mar-25	Jun-25	Sep-25	2024	2025	2026	2027
GDP (production)	0.7	0.4	0.6	0.7	-0.5	1.1	3.0	2.7
Consumer price index	0.5	0.9	0.4	0.8	2.2	2.8	2.3	2.0
Employment change	-0.2	0.1	0.1	0.2	-1.2	0.8	2.3	1.9
Unemployment rate	5.1	5.1	5.3	5.3	5.1	5.2	4.4	4.0
Labour cost index (all sectors)	0.6	0.5	0.5	0.5	3.3	2.0	2.2	2.2
Current account balance (% of GDP)	-6.2	-5.5	-4.4	-3.8	-6.2	-3.3	-3.9	-3.8
Terms of trade	3.1	6.7	7.8	-1.6	13.6	12.3	0.3	1.7
House price index	-0.2	0.5	1.5	2.0	-1.1	6.2	6.1	5.1

Financial forecasts	End of quarter				End of year			
	Dec-24	Mar-25	Jun-25	Sep-25	2024	2025	2026	2027
OCR	4.25	3.75	3.25	3.00	4.25	3.00	3.25	3.75
90 day bank bill	4.45	3.86	3.15	3.10	4.45	3.10	3.45	3.85
2 year swap	3.64	3.46	3.10	3.15	3.64	3.30	3.90	4.00
5 year swap	3.73	3.71	3.50	3.60	3.73	3.70	4.20	4.25
10 year bond	4.51	4.63	4.55	4.60	4.51	4.70	4.90	4.95
TWI	69.5	67.8	68.9	68.5	69.5	68.1	68.5	69.4
NZD/USD	0.59	0.57	0.59	0.59	0.59	0.59	0.62	0.64
NZD/AUD	0.91	0.90	0.92	0.91	0.91	0.89	0.87	0.87
NZD/EUR	0.55	0.54	0.53	0.52	0.55	0.52	0.53	0.55
NZD/GBP	0.46	0.45	0.45	0.45	0.46	0.45	0.46	0.47

GDP growth



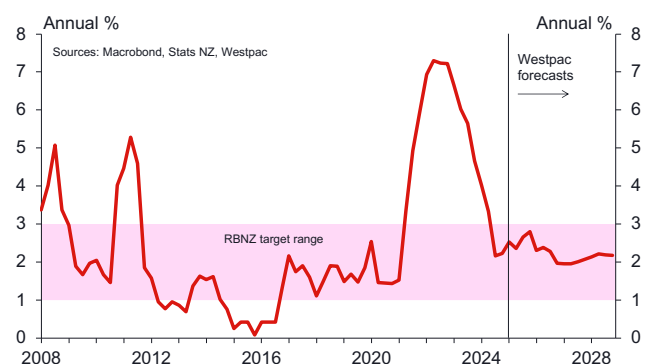
House prices



Unemployment and wage growth



Consumer price inflation



# Data calendar

		Last	Market median	Westpac forecast	Risk/Comment
<b>Tue 3</b>					
<b>NZ</b>	Q1 Terms Of Trade, %qtr	3.1	3.5	6.3	New highs due to a sharp lift in commodity export prices
<b>Aus</b>	Q1 Company Profits, %qtr	5.9	1.3	1.8	Mining sector driving an increase in corporate profits ...
	Q1 Inventories, %qtr	0.1	0.2	-0.7	... and a fall in inventories.
	Q1 Current Account Balance, \$bn	-12.5	-12.5	-14	Deficit widening back to the levels seen in September quarter.
	Q1 Net Exports Contribution, ppts	0.2	0	0.4	Net exports to support GDP growth
	May RBA Minutes	-	-	-	To offer more insights around the balance of risks.
	RBA Assistant Governor (Economic)	-	-	-	Hunter speaking at ESA lunch in Brisbane.
<b>Chn</b>	May Caixin Manufacturing PMI, index	50.4	50.8	-	An improvement expected amid temporary tariff relief.
<b>Eur</b>	May HICP, %yr	2.2	-	-	Temporary holiday boost to prices to drop out ...
	Apr Unemployment Rate, %	6.2	-	-	... meanwhile, unemployment holds at record lows.
<b>US</b>	Apr Factory Orders, %mth	3.4	-3.1	-	Has risen for three consecutive months.
	Apr JOLTS Job Openings, 000s	7192	7100	-	Labour demand softening, though layoffs remain low.
	Jun Federal Reserve's Beige Book	-	-	-	An update on economic conditions across the regions.
	Fedspeak	-	-	-	Goolsbee, Logan.
<b>Wed 4</b>					
<b>Aus</b>	Q1 GDP, %qtr	0.6	0.4	0.4	Quarterly pace expected to ease in Q1 on the back of weak ...
	Q1 GDP, %yr	1.3	1.5	1.5	... domestic demand impacted by natural disasters.
<b>US</b>	May ISM Services, index	51.6	52	-	Regional surveys signal downside risks to services activity.
	May ADP Employment Change, 000s	62	110	-	Private sector hiring slowing since late-2024.
<b>Can</b>	BoC Policy Decision	2.75	2.50	-	Labour market troubles eclipse inflation risks.
<b>World</b>	May S&P Global Services PMI, index	-	-	-	Final estimate for Japan, Europe, UK and US.
<b>Thu 5</b>					
<b>NZ</b>	May ANZ Commodity Prices, %mth	0	-	-	Agri prices offset lower log and aluminium prices
	Q1 Building Work Volumes, %qtr	-4.4	-0.8	-1.2	Continued falls in residential and commercial activity.
<b>Aus</b>	Apr Goods Trade Balance, \$bn	6.9	6	7.6	Stronger exports to drive an improvement in trade balance.
	Apr Household Spending, %mth	-0.3	0.2	-0.2	Holiday-related disruptions, weak vehicle sales.
<b>Chn</b>	May Caixin Services PMI, index	50.7	51	-	National holiday to spark services activity.
<b>Eur</b>	ECB Policy Decision (Deposit Rate)	2.25	2	-	A 25bp cut almost fully priced in.
<b>US</b>	Apr Trade Balance, US\$bn	-140.5	-117.3	-	Trade flows should start to normalise after a record deficit.
	Initial Jobless Claims	240	-	-	Slowly rising, material increase unlikely.
	Fedspeak	-	-	-	Kugler, Harker.
<b>Fri 6</b>					
<b>Jpn</b>	Apr Household Spending, %yr	2.1	1.4	-	Spending firming.
<b>Eur</b>	Apr Retail Sales, %mth	-0.1	-	-	The recent uptrend has flattened.
	Q1 GDP, %qtr	0.3	0.4	-	Final estimate.
<b>US</b>	May Nonfarm Payrolls, 000s	177	130	150	The US labour market remains in good health.
	May Unemployment Rate, %	4.2	4.2	4.2	Jobs growth should be sufficient to keep the unemployment ...
	May Average Hourly Earnings, %mth	0.2	0.3	-	... and earnings growth stable.
	Apr Consumer Credit, \$bn	10.2	-	-	Credit broadly stable despite deep consumer pessimism.



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