WEEKLY ECONOMIC COMMENTARY

4 Aug 2025 | **Westpac Economics Team** | **westpac.co.nz/economics** | economics@westpac.co.nz

Key labour market reports loom

For the most part Kiwi financial markets remained subdued last week, with the focus for local investors mostly on a busy diary of central bank meetings and important data releases across the globe. The run of domestic data did not shift the dial as far as market pricing for the next RBNZ meeting is concerned. The market continues to assess an 85% probability of a 25bp cut in the OCR on 20 August – in line with Westpac's view – and a better-than-even chance of a final 25bp cut early next year.

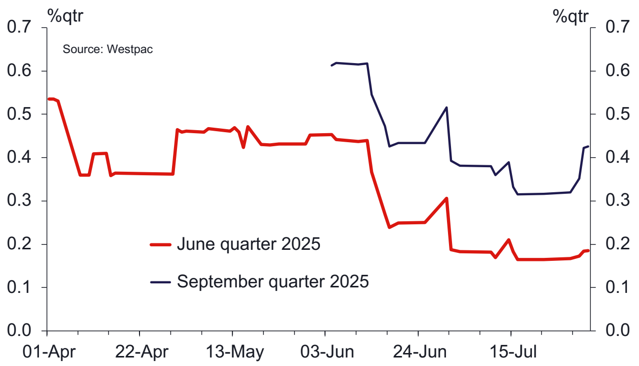
One piece of international news last week of direct relevance to New Zealand was President Trump's announcement that goods from New Zealand will face a tariff of 15% from 7 August, up from the 10% tariff that had been announced originally on 2 April. This is also higher than the tariff that will be faced by Australian exporters, which was confirmed at 10%, putting New Zealand at a slight competitive disadvantage in key exports such as beef and lamb. While this additional tariff is clearly disappointing and unhelpful, we continue to think that the tariff will be manageable for most commodity exporters given the high prices that are currently being achieved. The level of the exchange rate also continues to be supportive of the export sector. And in many cases these tariffs – should they not be reversed by legal challenge – will likely ultimately be paid by the US consumer. But for some, such as those operating in the wine industry, a 15% tariff will likely be challenging.

Turning to last week's local data, the ANZ business survey for July portrayed a broadly similar picture to the June survey. Both general confidence and firms' outlook for year ahead activity remained at historically high levels, led by optimism in the agriculture sector. By contrast, the retail, construction and manufacturing sectors

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

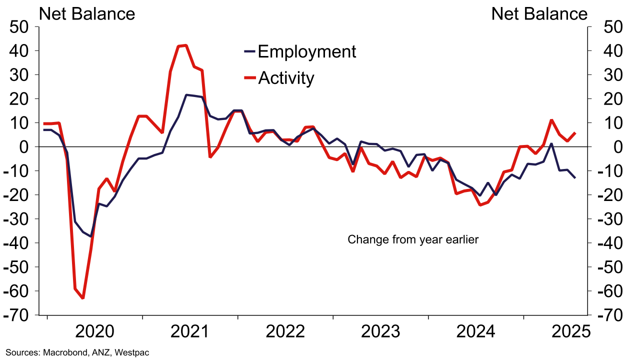


Key data and event outlook

Date	Event
6 Aug 25	NZ Labour Market Statistics, June quarter
7 Aug 25	NZ RBNZ Survey of Expectations, June quarter
12 Aug 25	RBA Monetary Policy Decision
15 Aug 25	NZ Selected price indexes, July
20 Aug 25	RBNZ OCR Review & Monetary Policy Statement
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

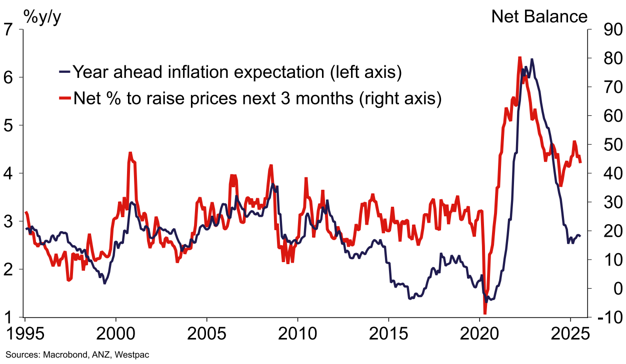
continued to report lower activity than a year earlier, and all sectors reported weaker employment than a year earlier. Somewhat surprisingly, expectations regarding the outlook for residential construction slumped to the lowest reading in a year. However, this indicator is volatile from month to month and so we would not read much into a single month's outcome.

Activity/employment compared with year earlier



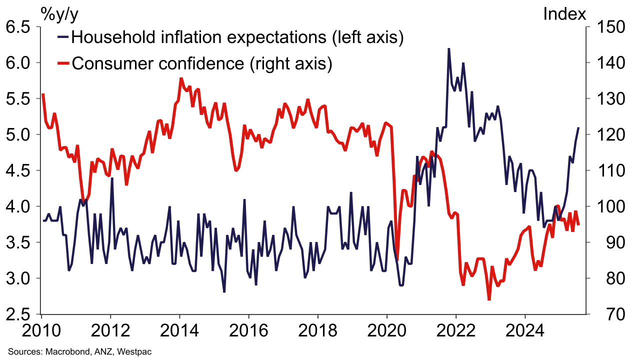
Regarding inflation, the net proportion of respondents expecting to raise their selling prices over the next three months fell to the lowest level since December last year, led by softening expectations in the manufacturing and services sector. Even so, it remains higher than historically consistent with annual inflation remaining in the 1-3% target band. By contrast, firms' forecasts of annual inflation a year ahead remained steady at 2.7%. This is in line with the average reading in the low inflation era, but above where it stood in the years leading up to the pandemic when CPI inflation was running below 2%.

Business inflation expectations



Turning to the consumer, confidence appears to have stepped back in July with the ANZ's index falling 4pts to 94.7, thus remaining within the choppy range seen this year and at a level that is well below the long-term average – although closer to trend considering consumer confidence has been trending down for several years. At least part of the discontent felt by households likely owes to the recent uplift in food price inflation, with year-ahead expectations of CPI inflation nudging up to a fresh 2-year high of 5.1%. Perceptions regarding the current state of the labour market and the economy also continue to weigh heavily, with the current conditions index sitting at just 85.4 in July. Meanwhile, respondents' expectations regarding house prices also moderated in July, with the expected price increase over the coming year falling to a more than 1-year low of 2.9%.

Consumer confidence and inflation expectations

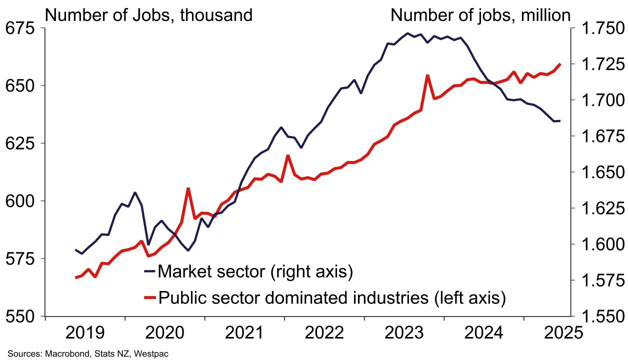


Staying with the housing market, dwelling consent issuance also remained in a choppy sideways trend in June, falling 6%m/m following a 10%m/m increase in May. Over the June quarter the number of consents issued was almost identical to a year earlier, and consistent with annual building levels remained at around 33,000 to 34,000 per year. This is down sharply from the peak but still a historically robust level of building considering the present rate of population growth and the stage of the construction cycle. That activity has contributed to the stability seen in house prices even as the number of house sales has increased from previous low levels.

The final data release of note last week was the Monthly Employment Indicator for June. According to Stats NZ, the number of filled jobs – as measured by tax records – rose 0.1%m/m. Unfortunately, as is usually the case, the previous month was revised down to show a 0.1%m/m decline compared to the 0.1%m/m increase reported earlier. It seems very likely that the June estimate will face a similar revision when the July figures are released later this month.

As currently reported, the number of filled jobs declined 0.3% in the June quarter – the fifth consecutive quarterly decline. The industry detail pointed to continued growth in areas dominated by the public sector. Specifically, the number of people working in public administration and safety, education and training, and the healthcare and social assistance industries rose 0.3% in the June quarter and was 0.7% higher than a year earlier. By contrast, the number of jobs elsewhere in the economy fell 0.5% in the quarter and by 2.4% over the past year. Jobs growth is noticeably stronger in the South Island than the North Island (where urban areas predominate).

Monthly Employment Indicator



In the week ahead, the focus will remain on the labour market with the release on Wednesday of the Household Labour Force Survey (HLFS) and Labour Cost Index (LCI) for the June quarter. As my colleague Michael Gordon writes in his preview, in line with the Monthly Employment Indicator, we expect that the HLFS will report a 0.3% decline in employment in the June quarter, in contrast with the 0.2%q/q increase that the RBNZ had forecast in the May Monetary Policy Statement. We expect that job losses will likely continue to be concentrated amongst younger people, some of whom may have simply exited the labour force and returned to education and other training. But while the labour force participation rate is likely to have declined, dampening the impact on the official measure of unemployment, we still expect the unemployment rate to have increased to 5.3% from 5.1% in the March quarter – a tenth higher than the RBNZ's May forecast.

We also expect to see further evidence of wage inflation dropping back to levels consistent with low and stable inflation. We forecast a 0.5%q/q lift in the LCI in the June quarter following a 0.4%q/q increase in the March quarter. If we are correct, annual growth will slow to 2.3% from 2.9% previously, helped by the dropping out of earlier large settlements in the public sector.

Darren Gibbs, Senior Economist

Chart of the week.

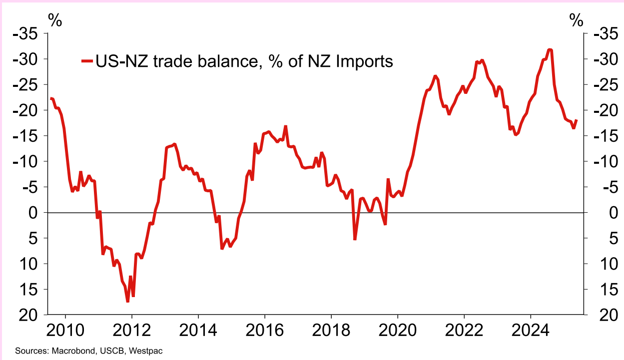
Confirmation on Friday that New Zealand exports to the US would be subject to a 15% tariff from 7 August 2025, was disappointing, but not totally unexpected.

These tariffs are reciprocal in nature, with rates generally influenced by the size of a country's trade surplus with the US. However, that's only part of the story—countries like Australia, which consistently run trade deficits with the US, have still been hit with a 10% tariff.

As the chart shows, New Zealand hasn't always run a surplus with the US. The recent surplus partly reflects the strong performance of our exports, particularly of beef, lamb and wine, all gaining favour with the US consumer. At the same time, comparatively weak domestic spending in New Zealand has curbed import demand, particularly for the big-ticket investment items we typically buy from the US.

Looking ahead, New Zealand's surplus with the US is likely to decline as domestic economic growth gathers momentum.

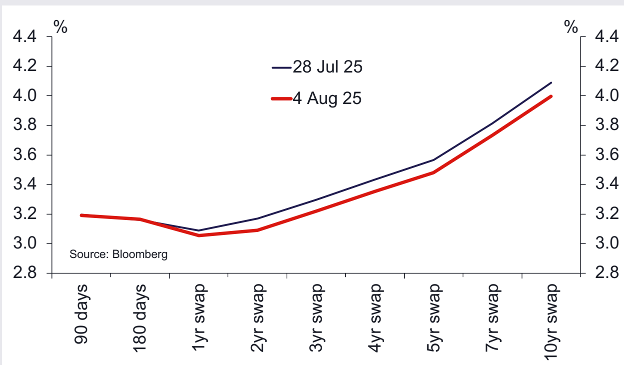
US-NZ trade balance



Fixed versus floating for mortgages.

We're forecasting the cash rate to bottom at 3% in mid-2025. Market pricing suggests there is some chance of a further cut after that by February 2026. Most fixed-term mortgage rates now sit just under 5%, reflecting the recent falls in wholesale rates, and even longer-term mortgage rates have fallen a touch. Mortgage rates might fall slightly further if wholesale rates remain at current levels or especially if competition increases among banks. But fixing for longer periods still looks attractive – especially now 2–3- year mortgage rates are below 5%. Very short-term mortgage rates may fall slightly if the RBNZ cuts the OCR again, 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 3%.

NZ interest rates



Global wrap

North America.

As expected, the FOMC left rates on hold at their July policy meeting. Unusually, there were two dissenters – Waller and Bowman – both of whom voted for a 25bp cut. The Fed's tone was neutral and data dependent, in contrast to market expectations for a more dovish signal. However, in the wake of the Fed meeting, expectations for rate cuts have been dialled up following July's weaker than expected non-farm payrolls report. Job numbers increased just 73k in July and there was a sizeable 258k downward revisions to job growth over the previous two months. On the activity front, GDP rose a stronger than expected 3.0% annualised in the June quarter, but final sales to domestic private purchasers rose just 1.2%. On the prices front, the core PCE deflator rose to 2.8% in the year to June. Finally, President Trump announced updated levels of the Liberation Day tariffs. The minimum tariff level for all countries was set at 10%, with countries with which the US has a trade deficit (including New Zealand) subject to higher levels. Negotiations between nations are continuing. Across in Canada, the BoC left its policy rate at 2.75% while it awaits greater clarity on US trade policy. The BoC noted that the policy rate may be cut again if the economy weakens further with a related easing in inflation pressures. This week's calendar includes updates on US factory orders (Monday) and the ISM Services gauge (Tuesday).

Australia.

Australia's June inflation report was slightly softer than expected. Consumer prices rose 1.9% yr and trimmed core inflation was 2.1% yr. With inflation tracking inside the RBA's target, **we expect a 25bp rate cut in August**, and three further cuts beyond. On the activity front, retail spending was a little firmer than expected in June, rising 1.2%. However, much of that rise was due to increases in prices, with the volume of goods sold only up 0.3% and per-capita spending levels flat.

Asia.

The Bank of Japan kept its policy rate on hold at 0.50% in July against a backdrop of continued tariff uncertainties. The BOJ has signalled that they plan to continue raising rates over time if activity and inflation evolve in line with forecasts. Across in China, there continues to be softness in business sector conditions with both the manufacturing and non-manufacturing PMIs losing ground over the past month. This week we'll get updates on Chinese consumer and business sector prices, which are expected to remain very soft.

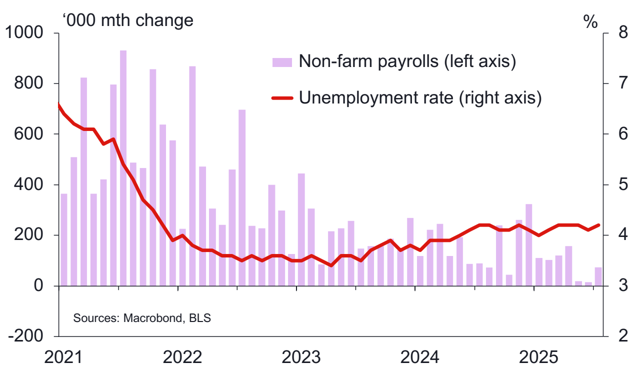
Trading partner real GDP (calendar years)

	Annual average % change			
	2023	**2024**	**2025**	**2026**
Australia	2.1	1.0	1.6	2.1
China	5.4	5.0	5.0	4.6
United States	2.9	2.8	1.5	0.8
Japan	1.5	0.1	0.8	0.8
East Asia ex China	3.3	4.3	3.6	3.8
India	9.2	6.5	6.3	6.4
Euro Zone	0.4	0.9	1.3	1.2
United Kingdom	0.4	1.1	1.2	1.2
NZ trading partners	3.1	2.9	2.7	2.6
World	3.5	3.3	3.0	3.0

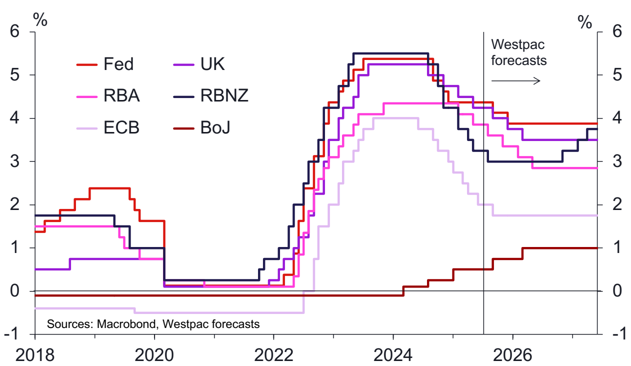
Australian & US interest rate outlook

	1 Aug	**Sep-25**	**Dec-25**	**Dec-26**
Australia				
Cash	3.85	3.60	3.35	2.85
90 Day BBSW	3.69	3.55	3.30	2.95
3 Year Swap	3.39	3.35	3.45	3.85
3 Year Bond	3.47	3.40	3.50	3.90
10 Year Bond	4.32	4.35	4.40	4.55
10 Year Spread to US (bps)	-6	-15	-15	-20
US				
Fed Funds	4.375	4.125	3.875	3.875
US 10 Year Bond	4.38	4.50	4.55	4.75

US non-farm payrolls and unemployment rate



Global central bank policy rates



Financial markets wrap

Foreign exchange.

NZD/USD retains near-term bearish momentum, with potential to break below 0.5845 during the weeks ahead. Last week it broke below a three-month old ascending range, technically signalling a possible fall towards 0.5700. That move has been driven by a firmer US dollar, the Fed surprising markets with its reluctance to cut rates due to an uncertain inflation outlook. That said, a sharp fall in the US dollar on Friday (due to weaker jobs data) has likely stalled its recovery for a few days, allowing NZD/USD to rebound to the low 0.59s. A key event this week will be the NZ Q2 labour data, where a rise in unemployment from 5.1% to 5.3% is widely expected (a higher outcome would likely weaken NZD/USD). There's little of major consequence in the US event calendar this week.

NZD/AUD continues to consolidate around the mid-0.91s, but we see risks of an eventual decline below 0.9100. The tone of US-China negotiations for an extended tariff truce is reportedly constructive, and markets have recognised China's domestic rebalancing intentions with the Shanghai Composite and iron ore prices posting large gains over the past month – more supportive of the AUD than the NZD.

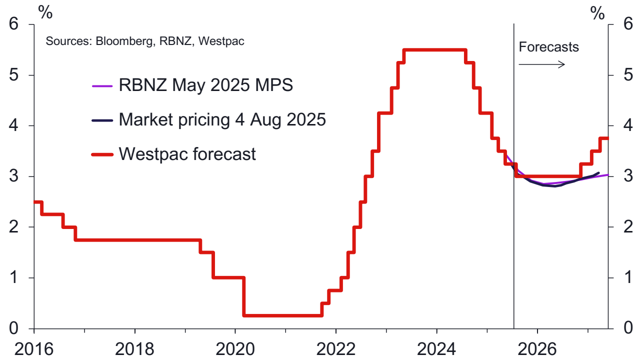
Interest rates.

The NZ 2yr swap rate has displayed moderate volatility in a declining trend since late May and has potential to test the 1 May cycle low of 3.05%. Markets remain biased to receiving swaps on any bounces, expecting a high chance of two more OCR cuts. Slightly softer NZ CPI data for Q2, as well as declines in the US and AU swap markets, have been influential in this regard. Notably, Friday's weak US jobs data caused a plunge in US yields, and that has spilled over to NZ this morning.

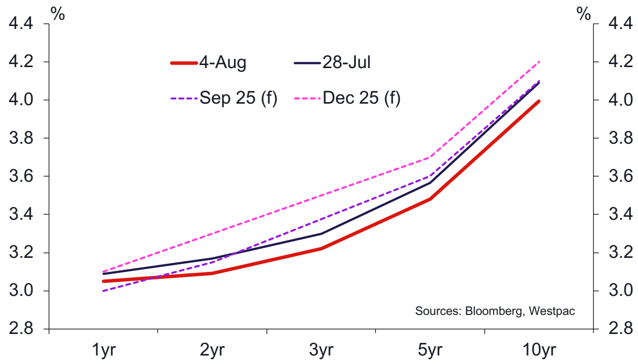
During the week ahead, the key risk event is Wednesday's NZ Q2 labour data. The median economist estimate is a 5.3% unemployment rate – a higher outturn would cause swap rates to fall further. OIS prices imply a 90% chance of a rate cut at the RBNZ's 20 August meeting, and beyond that, a 100% chance of another cut by February 2026 to complete the easing cycle. Westpac's economists forecast just one more cut in August.

NZ yield curve slopes have been rangebound since the (so far) cycle peaks in April. The NZ 2-10yr swap curve is currently at 91bp and could steepen further to 100bp during the months ahead if global concerns about rising major country debt levels intensify, or if markets believe countries' easing cycles will be even deeper than is currently priced. But by year end, we would expect some NZ curve flattening if markets become more confident that the RBNZ's easing cycle is nearing completion.

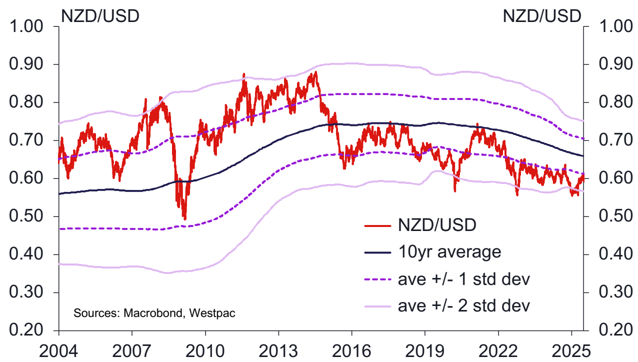
Official Cash Rate forecasts



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	0.592	0.585-0.609	0.553-0.743	0.637	0.61
AUD	0.915	0.912-0.931	0.873-0.971	0.924	0.90
EUR	0.511	0.509-0.531	0.502-0.637	0.575	0.51
GBP	0.445	0.439-0.449	0.431-0.535	0.494	0.44
JPY	87.2	84.8-88.9	68.9-98.6	83.8	85.9

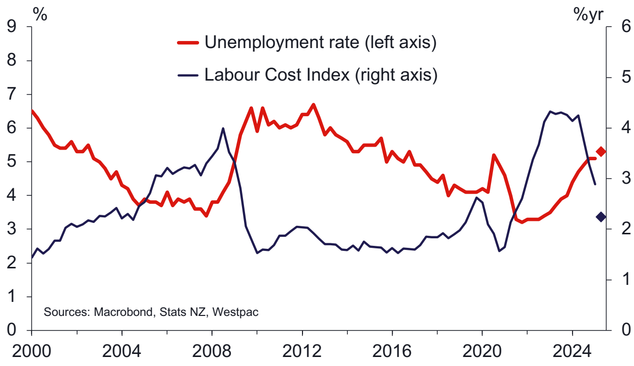
The week ahead

Q2 Labour Market Surveys

Aug 6, Unemployment rate – Last: 5.1%, Westpac f/c: 5.3% | Labour Cost Index, private sector – Last: +0.4%, Westpac f/c: +0.5%

We expect the unemployment rate to rise from 5.1% to 5.3% for the June quarter. Monthly data has pointed to further job losses, particularly among younger people. We expect that many of these people will have exited the workforce altogether, dampening the extent of the rise in the unemployment rate. Our expectations for employment and wage growth are softer than the Reserve Bank's last published forecasts in May, though more in line with the information it would have had at its 9 July policy review.

Labour market indicators

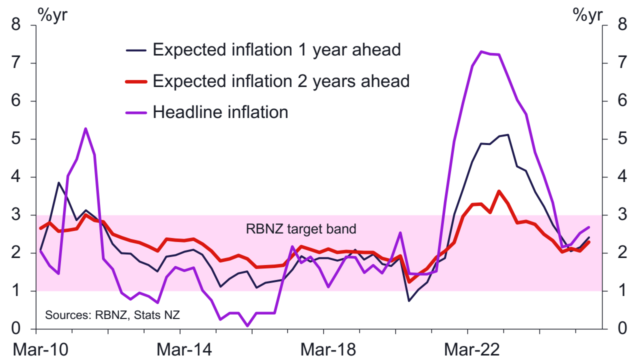


Q3 RBNZ Survey of Expectations

7 Aug, Expected inflation two years ahead, last: 2.29%

Inflation expectations will be a key focus for the RBNZ ahead of its August policy meeting. While the RBNZ maintains an easing bias, inflation is pushing higher, raising questions about the extent and pace of further rate cuts. If longer-term expectations remain contained, it will be easier for the RBNZ to look through the recent uplift in inflation. Expectations of inflation have been pushing higher in recent months at all horizons, and we expect that trend will continue in the September quarter survey. Even so, longer-term expectations are likely to remain close to 2%.

RBNZ Survey of Expectations

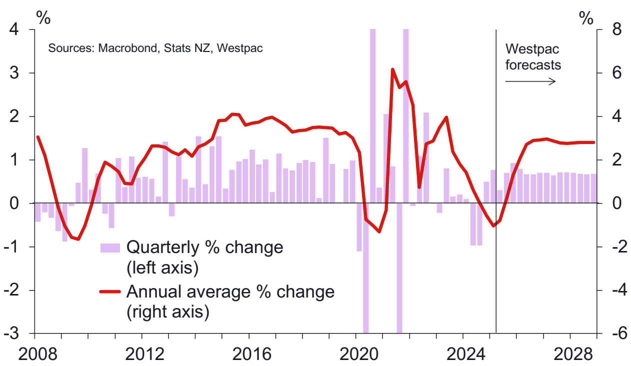


Economic and financial forecasts

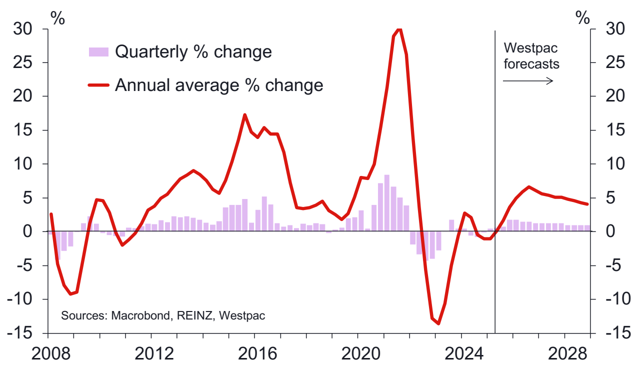
Economic indicators	Quarterly % change				Annual % change			
	Mar-25	Jun-25	Sep-25	Dec-25	2024	2025	2026	2027
GDP (production)	0.8	0.3	0.7	0.9	-1.3	2.7	2.9	2.8
Consumer price index	0.9	0.5	0.9	0.5	2.2	3.0	2.1	2.0
Employment change	0.1	-0.1	0.2	0.5	-1.2	0.7	2.3	1.9
Unemployment rate	5.1	5.3	5.3	5.2	5.1	5.2	4.4	4.1
Labour cost index (all sectors)	0.5	0.5	0.5	0.5	3.3	2.0	2.2	2.2
Current account balance (% of GDP)	-5.7	-4.4	-3.8	-3.3	-6.1	-3.3	-3.9	-3.8
Terms of trade	1.9	10.6	-0.4	-1.5	13.7	10.6	-0.9	-0.1
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	3.00	4.25	3.00	3.25	3.75
90 day bank bill	3.86	3.38	3.10	3.10	4.45	3.10	3.45	3.85
2 year swap	3.46	3.18	3.30	3.35	3.64	3.35	3.90	4.00
5 year swap	3.71	3.56	3.60	3.70	3.73	3.70	4.20	4.25
10 year bond	4.63	4.57	4.65	4.70	4.51	4.70	4.90	4.95
TWI	67.8	69.1	69.0	69.0	69.5	69.0	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	0.51	0.55	0.51	0.52	0.53
NZD/GBP	0.45	0.44	0.44	0.44	0.46	0.44	0.46	0.46

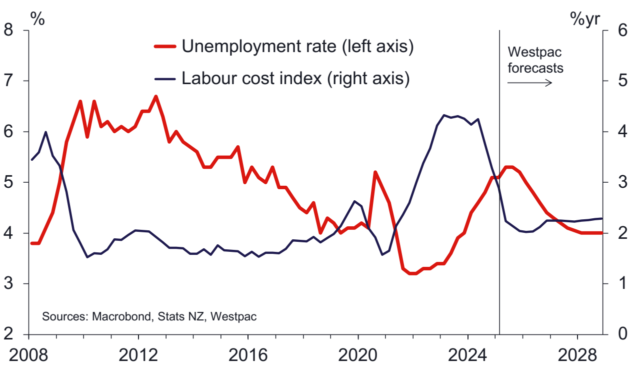
GDP growth



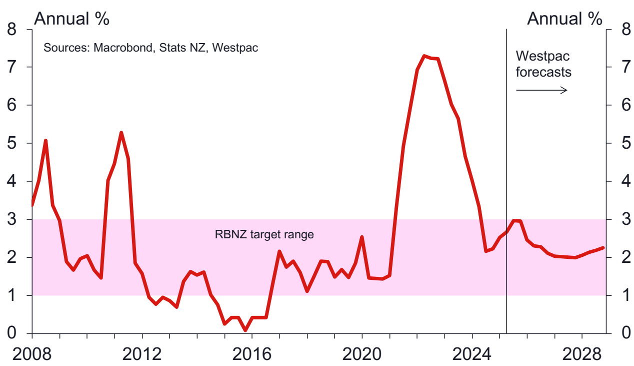
House prices



Unemployment and wage growth



Consumer price inflation



Data calendar

		Last	Market median	Westpac forecast	Risk/Comment
Mon 04					
Aus	Bank Holiday	–	–	–	NSW only. Markets still open.
	Jul MI Inflation Gauge, %ann	2.4	–	–	Consistent with inflation at mid-point of target range.
Eur	Aug Sentix Investor Confidence, index	4.5	8	–	Confidence remains shaky as trade uncertainties loom.
US	Jun Factory Orders, %mth	8.2	–5.0	–	Weakness in durable goods orders to drive decline.
Tue 05					
NZ	Jul ANZ Commodity Prices, %mth	–2.3	–	–1.5	Softer dairy, stronger meat prices.
Aus	Jul ANZ–Indeed Job Ads, %mth	1.8	–	–	Foreshadowed the stabilisation in official job vacancies.
	Jun Household Spending, %mth	0.9	0.8	0.7	Another solid gain likely in June, with vols up over the quarter.
Chn	Jul Caixin Services PMI, index	50.6	–	–	Services is lagging as consumers build confidence
Eur	Jun PPI, %ann	0.3	–	–	Greater trade with China could see producer prices decline.
US	Jun Trade Balance, USDbn	–71.5	–62.0	–	Imports of critical inputs still driving a widening trade deficit.
	Jul ISM Services, index	50.8	51.5	–	Consumers remain resilient thus far.
World	Jul S&P Global Services PMI, index	–	–	–	Final estimate.
Wed 06					
NZ	Q2 Unemployment Rate, %	5.1	5.3	5.3	Rise in unemployment rate dampened by falling participation...
	Q2 Employment, %qtr	0.1	–0.2	–0.3	... with job losses most prominent among youth.
	Q2 LCI Wage Inflation (Pvte, Ord. Time), %qtr	0.4	0.6	0.5	Labour costs back in line with 2% overall inflation.
Eur	Jun Retail Sales, %mth	–0.7	0.4	–	Pace of consumer spending starting to slow.
Thu 07					
NZ	Q3 RBNZ Inflation Expectations, %ann	2.3	–	–	Has picked up, but remains contained in target range.
Aus	Jun Goods Trade Balance, AUDbn	2.2	5.4	3.5	Port data points to solid growth in export volumes.
Chn	Jul Foreign Reserves, USDbn	3317	–	–	Downside risk as China continues to unwind its UST portfolio.
UK	BoE Policy Decision	4.25	4	4	Cautious cut amid lasting inflation and weaker labour market.
US	Q2 Productivity, %qtr	–1.5	2.5	–	US bucking the longer-term global trend of weak productivity.
	Initial Jobless Claims	218	–	–	Remains low compared to history.
	Jun Wholesale Inventories, %mth	0.2	–	–	Final estimate
	Jun Consumer Credit, USDbn	5.1	7.2	–	Growth pace remains weak.
	Jul NY Fed 1-Yr Inflation Expectations, %ann	3.02	–	–	Back to pre 'Liberation Day' levels.
Fri 08					
Jpn	Jun Household Spending, %ann	4.7	2.7	–	Rice prices are weighing on consumer sentiment.
	Jun Current Account Balance, ¥bn	3436.4	1598.4	–	Pull-back in purchases of foreign securities buoys surplus.
Chn	Q2 Current Account Balance, USDbn	165.4	–	–	Surplus widening on firm global export demand.
Sat 09					
Chn	Jul CPI, %ann	0.1	–	–	Excess capacity weighs on producer prices, which coupled...
	Jul PPI, %ann	–3.6	–	–	... with soft demand is keeping consumer prices low.

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