WEEKLY ECONOMIC COMMENTARY

7 Jul 2025 | **Westpac Economics Team** | **westpac.co.nz/economics** | economics@westpac.co.nz

Time for a cup of tea

The RBNZ will likely leave the OCR unchanged at this week's meeting and take a wait-and-see attitude to the outlook for the OCR. While we expect the RBNZ to retain the easing bias it showed in its May Monetary Policy Statement communications, we don't expect the RBNZ will give a strong guide on the timing on when it might cut the OCR further. CPI data due later in July should provide a firmer guide.

In May, the RBNZ cut rates as expected, but didn't give a firm steer on the likely decision that would be reached at the July meeting. Indeed, the Governor in subsequent media events indicated the Monetary Policy Committee (MPC) had no bias in terms of what might occur at this meeting. The Governor affirmed the RBNZ maintained a modestly dovish bias on the medium-term direction of the OCR. The RBNZ's forecasts indicated one further 25bp cut – likely in late 2025 – and some chance of a further cut in 2026 depending on how events unfolded, especially globally. It certainly looked like the RBNZ MPC was ready to take a break and "have a cup of tea" to use David Lange's famous January 1988 quote, and start moving in a much slower, more deliberate and data-dependent fashion.

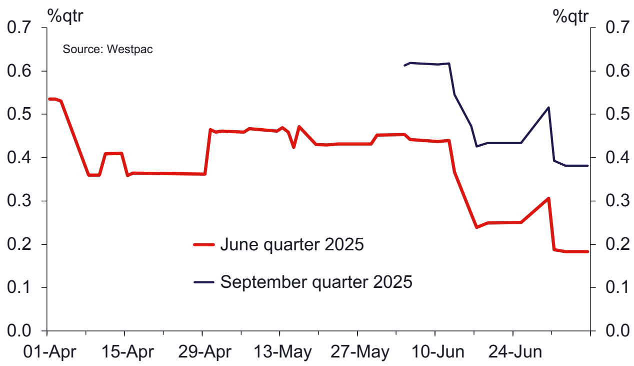
Since May, we have seen some highly divergent data that reinforce that the way ahead for interest rates is unclear. This is why we expect the RBNZ to continue to give the market room to determine for itself, based on data released up until the August Monetary Policy Statement, whether a cut to 3% will happen in August, be delayed until later in the year, or be cancelled altogether. We don't expect a statement that locks in an August cut or an August pause. And we certainly don't expect the RBNZ to formally call time on the easing cycle just yet – even though that could well be what ultimately happens.

On the activity front the divergences in the data are especially prominent. On one hand Q1 2025 GDP growth

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

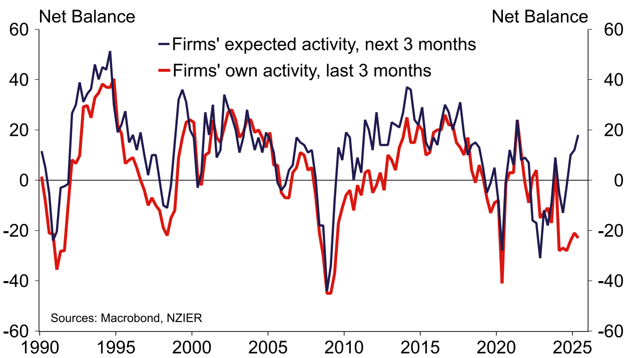
Date	Event
8 Jul 25	RBA Monetary Policy Decision
8 Jul 25	US 90-day tariff pause due to expire
9 Jul 25	RBNZ OCR Review
17 Jul 25	NZ Selected price indexes, June
21 Jul 25	NZ CPI, June quarter
30 Jul 25	FOMC meeting (31 Jul NZT)
6 Aug 25	NZ Labour Market Statistics, June quarter
7 Aug 25	NZ RBNZ Survey of Expectations, June quarter
12 Aug 25	RBA Monetary Policy Decision
15 Aug 25	NZ Selected price indexes, July

was notably stronger than expected at 0.8%q/q vs the 0.4%q/q the RBNZ expected back in May. While there were downward revisions to past quarters' growth, the GDP report implied that up until March the economy was displaying stronger economic momentum and a slightly lower level of excess capacity than previously appreciated.

Balancing this better news though are signs that Q2 didn't go so well. High frequency activity indicators for the May month (PMIs, filled jobs, house prices and days to sell, consumer spending, business confidence) look consistent with weaker activity in Q2. Nowcasts have accordingly been revised down in recent weeks. That said, we need to remember the RBNZ already has soft expectations for growth in Q2 and Q3, reflecting the expected impact of uncertainty about the global outlook on domestic households and businesses (0.3% and 0.2% respectively). Our own Q2 forecast is for 0.3%q/q growth.

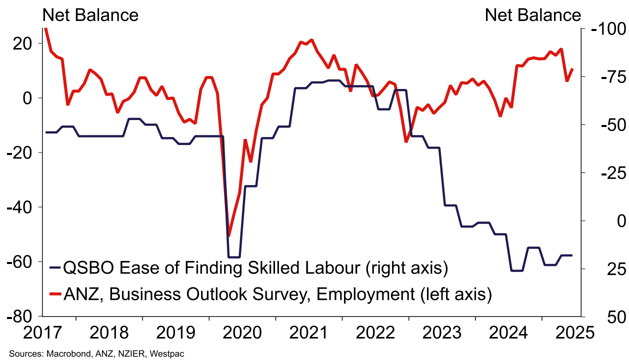
Nowhere is the divergence in views about the current position of the economy more evident than in the mixed messages from the business surveys. The June quarter NZIER Quarterly Survey of Business Opinion is a case in point as it showed that businesses were both downbeat on the current situation but also optimistic about the future. Firms perceive they experienced weak activity in Q2 even as optimism about the future improved from what was already relatively optimistic levels. It's very much in the eye of the beholder which of these indicators best represents the underlying activity outlook – although recent experience suggests that the more positive forward-looking indicator has been closer to the mark.

QSBO Domestic Trading Activity



We can see this in terms of attitudes to employment and the extent of spare capacity in the labour market. Recent high-frequency trends in filled jobs have been on a weakening, albeit volatile trend. Comparing business surveys, we can see the monthly ANZ survey pointing to positive attitudes to hiring whereas the NZIER survey looks cyclically weak. Perhaps some of the difference reflects the NZIER survey missing the agricultural sector, where employment trends have been stronger.

QSBO vs ANZBO Employment

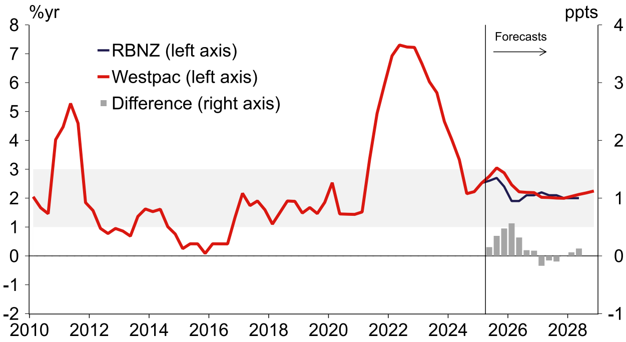


The upshot of all this is that the RBNZ will likely note that economic activity was stronger than expected in the first quarter of 2025, but that activity indicators since then have pointed to the slowdown foreshadowed in its May forecasts. We doubt it will judge recent economic momentum as materially weaker than previously expected, but it may well point to risks that such evidence might accumulate in coming months.

The other news has been a reduction in uncertainty about the global growth and trade environment since the May Monetary Policy Statement. High on the MPC's mind in May was global uncertainty and the potential for weak global growth, leading to a fall in New Zealand's terms of trade. More recently, the outlook has improved as the US has progressed trade negotiations. The risks of very high and retaliatory tariffs look lower than in early April. And of course, the US Congress has passed the One Big Beautiful Bill Act, which should significantly reduce uncertainty about the US fiscal stance for the immediate future. Importantly, risks to global security coming from Middle East tensions look at least a bit lower. This improved global macro backdrop has meant that the US equity market is now at a record high (at least in US dollar terms) and consensus forecasts for global growth have increased in the last six weeks (while still lower than pre-April levels). These factors should go some way to assuage the MPC's concerns about downside risks to New Zealand from the global environment.

Perhaps though the biggest factor that may reduce the MPC's appetite for further and front-loaded policy easing is the near-term inflation outlook. The monthly selected price indices suggest higher inflation than the RBNZ anticipated in May when it forecasted a 0.5%q/q and 2/6%y/y CPI outcome for the June quarter. Since late May we have revised up our own CPI forecast from 0.4%q/q to 0.6%q/q, especially reflecting strong food prices. It's likely the RBNZ will have made a similar-sized adjustment. Our forecast suggests that annual headline inflation will rise to 3.0% in Q3 and be at 2.9% in Q4 2025. Meanwhile, inflation expectations continued to track higher in the June ANZ consumer survey.

Inflation (annual) Westpac vs RBNZ



Sources: Macrobond, RBNZ, Westpac

We think the RBNZ will note this uncomfortable near-term inflation outlook, while still retaining confidence that medium-term inflation will recede through 2026. But we see the RBNZ expressing uncertainty around how high and for how long the peak in inflation will last, as well as about how it might impact inflation expectations. It's likely that the key in determining the timing of when (or if) the next 25bp rate cut occurs will be the relative weight the RBNZ places on the degree of concern about the near-term activity outlook versus the short-term inflation picture. Given the single mandate the MPC is working to, we assume a greater weight will be placed on the inflation outlook. The RBNZ may have a better idea about underlying inflation momentum after the release of the Q2 CPI on 21 July.

Looking at alternative scenarios, a hawkish scenario would be one where the RBNZ said nothing about the potential for further easing. We don't think the RBNZ will want to call time on the easing cycle just yet. But if the RBNZ were not to mention the potential for future easing at all, this would likely be interpreted as a hawkish signal by the market. A dovish scenario would be one where the RBNZ plays down concern about the near-term inflation outlook and instead expresses comfort with the medium-term inflation outlook. In this scenario, the RBNZ would likely place more emphasis on the weaker short-term activity outlook and leave the impression that further policy easing is more likely than not at the August meeting provided that upcoming data meets expectations.

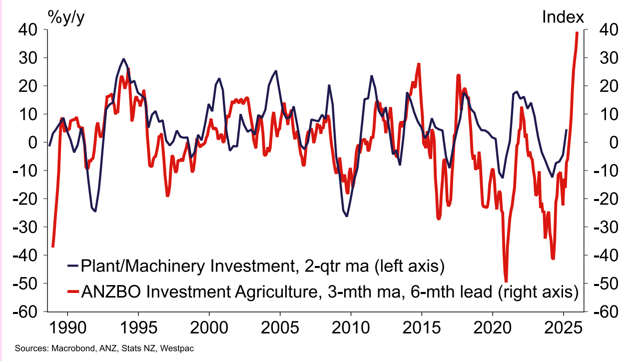
In this author's view, a pause at the upcoming meeting is appropriate. There seems little risk of inflation moving very far into the bottom half of the target range in the next year or two. The global economic environment looks less threatening than might have been feared a month or two ago. And importantly, it's not clear when inflation will peak and at what level. There has been volatility in high-frequency activity indicators, but also plenty of short-term news that might have driven sentiment in ways that may not prove to be long-lived. Growth has been more solid than expected in the last couple of quarters and there are tangible signs of higher commodity prices and lower interest rates supporting the economy. Examples include strong agriculture sentiment and increased borrowing as well as rising demand for credit from housing investors. Strong commodity markets and the current level of interest rates will likely deliver above-trend growth outcomes with time. This should be especially evident as global uncertainties continue to recede. The relatively high level of near-term inflation imparts risk in delivering further stimulus now. Should matters change, the RBNZ would be well placed to shift stance given the OCR is in the "neutral zone".

Kelly Eckhold, Chief Economist

Chart of the week.

Last week's ANZ Business Outlook survey continued to paint a fairly optimistic picture, none more so than in the agriculture sector. Of particular note was a further lift in investment intentions in that sector, which now sit at the highest level recorded in the history of the survey. In large part, the general strength seen in investment intentions likely reflects the high export prices currently being achieved across the dairy, red meat and horticulture industries. But the most recent lift to record levels likely owes to the positive reception to the "Investment Boost" policy announced in Budget 2025. This policy is likely to encourage farmers to bring forward investment plans. This suggests that the broader cycle in plant and machinery investment will likely continue to turn higher, at least in the near term, notwithstanding ongoing uncertainty about the global economic outlook.

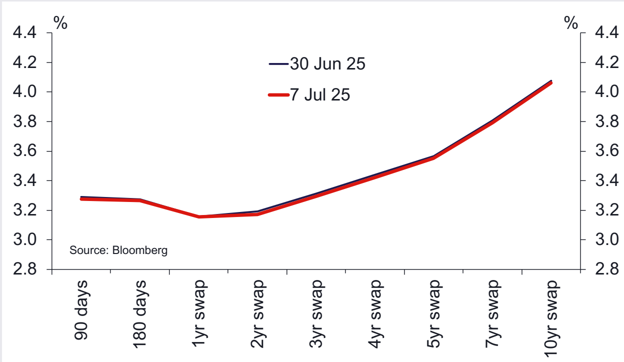
Investment and agriculture sector investment intentions



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 of 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.

Last week's US dataflow was a mixed bag. Non-farm payrolls rose a greater than expected 147k in June and the unemployment rate unexpectedly nudged down to 4.1%. At the same time, private payrolls rose a less than expected 74k, the workweek shortened, and wage growth slowed. In other news, the ISM's manufacturing index nudged up in June, even as the new orders index fell to a 3-month low of 46.4. The ISM's services index also nudged higher in June, this time with the new orders index rising to 51.3. Elsewhere, Congress passed a bill extending Trump's first term tax cuts, locking in unsustainably large deficits and increasing federal debt. Meanwhile, Fed Chair Powell reiterated that he expects tariffs to show up in inflation data over the coming months, and that the Fed would have probably eased policy already this year were it not for Trump's tariff policy. With no top tier releases on the docket this week, the dataflow will likely take a backseat to a small amount of Fed commentary (including the release of the FOMC minutes) and any further news on tariff settings ahead of the scheduled 9 July deadline.

Europe.

Speaking at the ECB's conference, President Lagarde took heart from flash June CPI data, which showed headline inflation at 2.0%y/y – bang in line with the ECB's target. Meanwhile, an ECB survey reported a fall in inflation expectations, which had nudged higher in the wake of Trump's tariff announcements. In the UK, the composite PMI was revised up to a 9-mth high of 52.0 in June. This week the focus in the UK will be on Thursday's GDP estimate for May, especially following a disappointing April reading.

Asia-Pacific.

Tuesday's RBA policy announcement will be the focus in Australia this week. Westpac expects a 25bp rate cut, although the outcome is less certain than the near 100% probability implied by market pricing. Governor Bullock's post-meeting press conference will also be of interest, especially with the market currently pricing a high likelihood of a follow-up rate cut next month. The latest NAB business survey is the other diary entry of note this week. China's PMI readings for June pointed to some improvement since May, with the official composite PMI rising to a 3-month high of 50.7 and the Caixin composite PMI rising 1.7pts to 51.3. This week June inflation data will be released on Tuesday. In Japan, May IP and housing data disappointed expectations. However, the BoJ's Tankan survey was on balance slightly firmer than expected, with firms also anticipating that annual inflation 5-years hence will be slightly above the BoJ's 2% target.

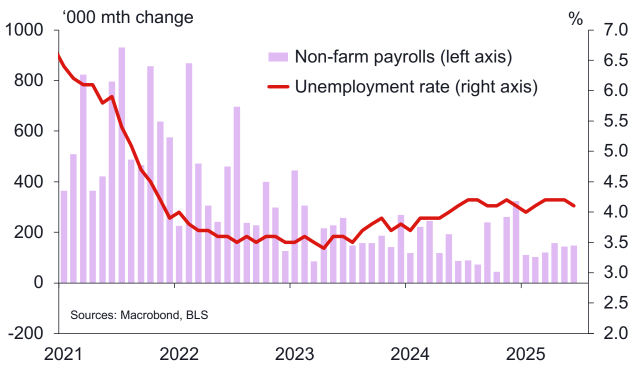
Trading partner real GDP (calendar years)

	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	1.6	0.9
Japan	1.5	0.1	0.8	0.9
East Asia ex China	3.3	4.3	3.6	3.8
India	9.2	6.5	6.1	6.2
Euro Zone	0.4	0.9	1.2	1.3
United Kingdom	0.4	1.1	1.0	1.2
NZ trading partners	3.1	3.0	2.8	2.6
World	3.5	3.3	3.0	3.0

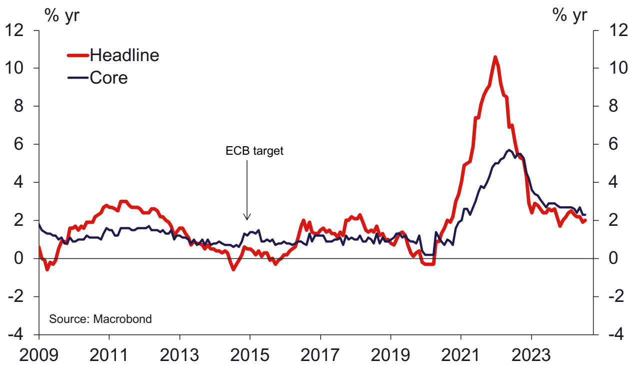
Australian & US interest rate outlook

	4 Jul	Jun-25	Dec-25	Dec-26
Australia				
Cash	3.85	3.60	3.35	2.85
90 Day BBSW	3.57	3.65	3.45	3.05
3 Year Swap	3.25	3.40	3.50	3.90
3 Year Bond	3.35	3.45	3.55	3.95
10 Year Bond	4.21	4.30	4.35	4.60
10 Year Spread to US (bps)	-14	-20	-20	-15
US				
Fed Funds	4.375	4.125	3.875	3.875
US 10 Year Bond	4.35	4.50	4.55	4.75

US non-farm payrolls and unemployment rate



Euro area inflation



Financial markets wrap

Foreign exchange.

NZD/USD reversed from last week's high of 0.6120, and could slip further this week to around 0.6000.

Global risk sentiment has weakened slightly ahead of the 9 July end of the US tariff pause. That event could cause some volatility in markets. A scenario where pauses are extended for some, but harsh tariffs are re-imposed on others, could cause a slight decline in NZD/USD once the initial volatility has settled.

Locally, the main risk event will be the RBNZ MPR on Wednesday. A hold is widely expected. If that proves to be the case, any market reaction will depend on the implied guidance in the media release and minutes, and a surprise on that score in either direction is possible.

Our multi-month outlook for NZD/USD remains moderately bullish, with the Kiwi expected to trade in a range of 0.6000-0.6200. The main rationale is that the US dollar appears to be overvalued, and there remains debate over its standing as the world's reserve currency.

NZD/AUD looks bearish for the week ahead. A break below 0.9220 support would then target the 0.9175 area. The RBA decision on Tuesday will be important for the cross. While a cut is fully priced by markets, it could be a "hawkish" one, with guidance regarding further cuts more restrained than expected.

Interest rates.

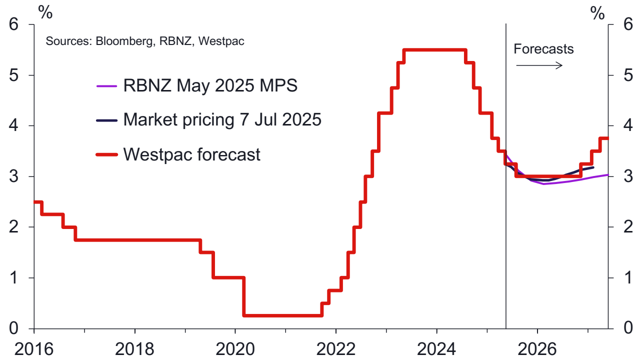
The NZ 2yr swap rate last week traded above yield support at 3.15%. Whether it does so this week will largely depend on the outcome of the RBNZ MPR on Wednesday, and to some extent, on the RBA outcome on Tuesday.

An RBNZ hold is widely expected, and priced, so that any market reaction will depend on the implied guidance in the media release and minutes. On that score, a surprise in either direction is possible.

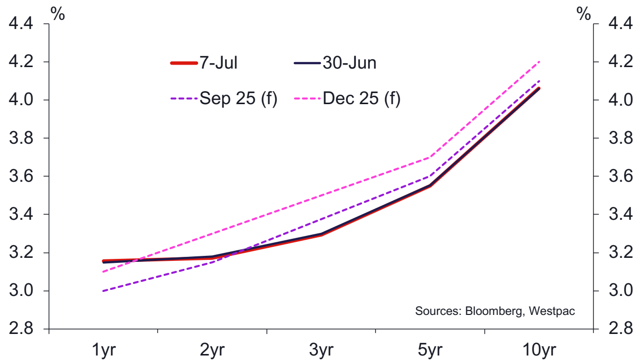
Market pricing for the RBNZ OCR implies only a 15% chance of a rate cut on Wednesday, but rough one-and-a-half more cuts in this easing cycle (by February 2026).

NZ yield curves have been rangebound over the past month, but should extend the flattening trend visible since the peak in April. The 2-10yr swap curve, currently at 89bp, could flatten back into the 60bp-80bp range which prevailed in Q1. That could occur if market pricing for RBNZ rate cuts does not extend further, and/or offshore bond yields fall if issuance concerns wane.

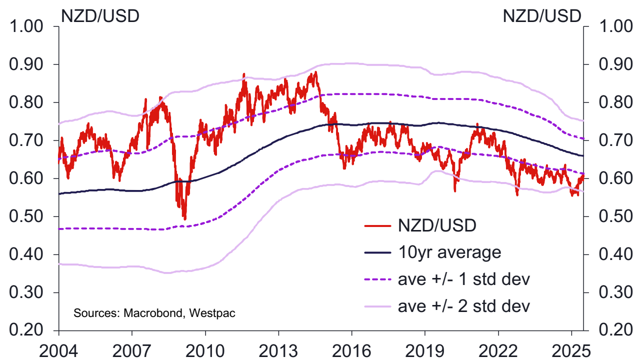
Official Cash Rate forecasts



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	0.606	0.553-0.609	0.553-0.743	0.638	0.61
AUD	0.923	0.915-0.936	0.873-0.971	0.924	0.89
EUR	0.514	0.502-0.531	0.502-0.637	0.576	0.52
GBP	0.444	0.431-0.449	0.431-0.535	0.495	0.45
JPY	87.6	80.5-87.8	68.9-98.6	83.5	85.7

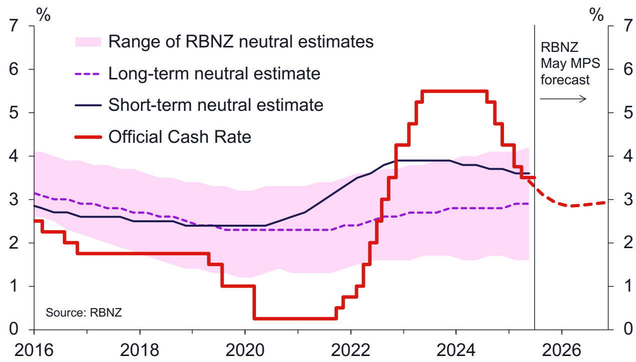
The week ahead

RBNZ Official Cash Rate Review

Jul 9, last: 3.25%, Westpac f/c: 3.25%, Market: 3.25%

The RBNZ will likely leave the OCR unchanged at its July meeting and take a wait-and-see attitude to the outlook for the OCR. While we expect it to retain the easing bias it showed in its May Monetary Policy Statement communications, we don't expect that it will give a strong guide on the timing of when it might cut the OCR further. Instead, we expect the RBNZ will give the market room to determine for itself, based on data released up until the August Monetary Policy Statement, whether a cut to 3% will happen in August, be delayed until later in the year, or be cancelled altogether.

Official Cash Rate and RBNZ estimates of neutral

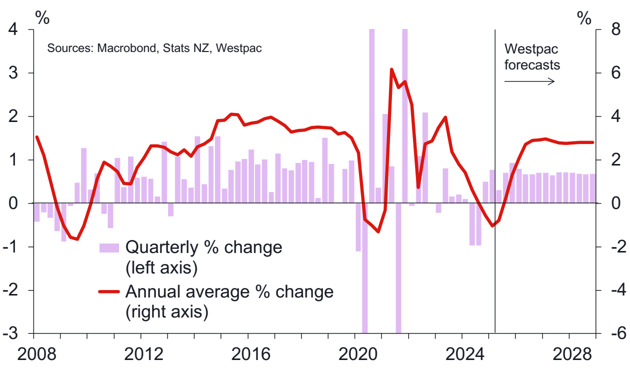


Economic and financial forecasts

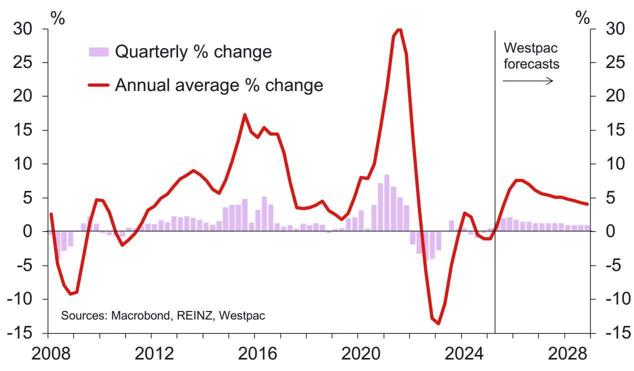
Economic indicators	Quarterly % change				Annual % change			
	Mar-25	Jun-25	Sep-25	Dec-25	2024	2025	2026	2027
GDP (production)	0.8	0.3	0.7	0.9	-1.3	2.7	2.9	2.8
Consumer price index	0.9	0.6	0.8	0.5	2.2	2.9	2.2	2.0
Employment change	0.1	-0.1	0.2	0.5	-1.2	0.7	2.3	1.9
Unemployment rate	5.1	5.3	5.3	5.2	5.1	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	0.5	1.5	2.0	2.1	-1.1	6.2	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	69.3	69.3	69.5	69.3	69.3	69.4
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	0.89	0.91	0.89	0.88	0.88
NZD/EUR	0.54	0.52	0.52	0.52	0.55	0.52	0.53	0.54
NZD/GBP	0.45	0.44	0.44	0.45	0.46	0.45	0.46	0.46

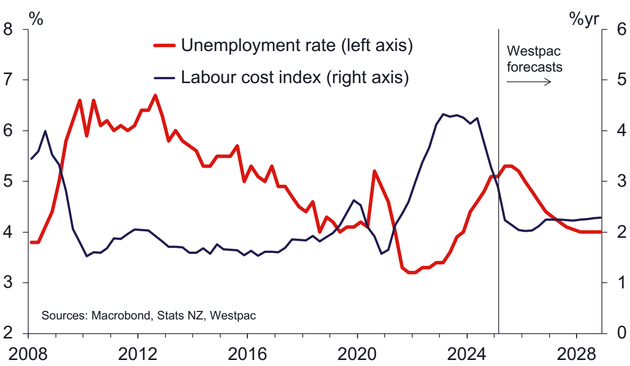
GDP growth



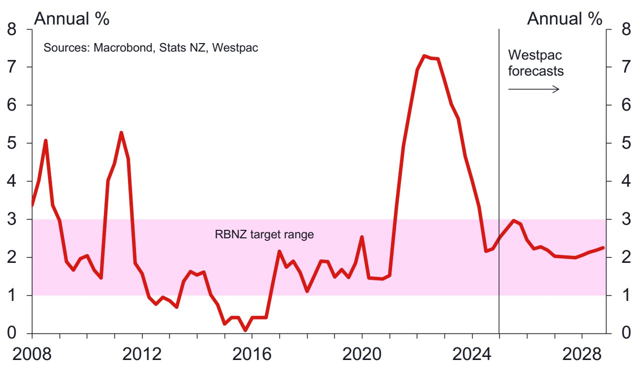
House prices



Unemployment and wage growth



Consumer price inflation



Data calendar

		Last	Market median	Westpac forecast	Risk/Comment
Mon 7					
Aus	Jun ANZ-Indeed Job Ads, %mth	–1.2	–	–	Tracking broadly flat for a year, reflects labour market strength.
Chn	Jun Foreign Reserves, US$bn	3285	3313	–	Ample and able to withstand external risks.
Eur	Jul Sentix Investor Confidence, index	0.2	1	–	Positive but only marginally so; highly sensitive to trade risks.
	May Retail Sales, %mth	0.1	–0.8	–	Growth pulse steadily marches higher.
Ger	May Industrial Production, %mth	–1.4	–0.5	–	Factory output remains lacklustre as headwinds linger.
Tue 8					
Aus	Jun NAB Business Conditions, index	0	–	–	Highlights risks of a slow recovery in private demand.
	RBA Policy Decision	3.85	3.6	3.6	In store for a back-to-back rate cut, but no 'slam dunk'.
Jpn	May Current Account Balance, ¥bn	2258	2936.9	–	Surplus remains elevated from higher investment returns.
US	Jun NFIB Small Business Optimism, index	98.8	98.7	–	Sentiment is rising, but so too uncertainty.
	Jun NY Fed 1-Yr Inflation Expectations, %ann	3.2	–	–	Above-average, but 'Liberation Day' spike mostly abated.
	May Consumer Credit, US$bn	17.9	10.5	–	Borrowing behaviour more erratic amid policy shifts.
Wed 9					
NZ	RBNZ Policy Decision	3.25	3.25	3.25	Likely to retain an easing bias but noncommittal on timing.
Aus	RBA Deputy Governor Hauser	–	–	–	Speaking at Australian Conference of Economists.
Chn	Jun CPI, %ann	–0.1	flat	–	Discounting and excess capacity drives prices lower ...
	Jun PPI, %ann	–3.3	–3.2	–	... but spending is difficult to entice amid uncertainties.
	Jun New YTD Loans, CNYbn	10682	12745.6	–	Authorities eager to lift credit growth and kick-start ...
	Jun M2 Money Supply, %ann	7.9	8.3	–	... a consumer recovery. Data due July 9-15.
US	May Wholesale Inventories, %mth	–0.3	–0.3	–	Final estimate.
	Jun FOMC Minutes	–	–	–	Assessment on the balance of risks is key.
Thu 10					
NZ	May Net Migration, no.	1810	–	–	Has been steady at low but positive levels.
US	Wkly Initial Jobless Claims, 000s	233	–	–	Firms slowing hiring; no sign of significant layoffs yet.
	Fedspeak	–	–	–	Daly.
Fri 11					
NZ	Jun Manufacturing PMI, index	47.5	–	–	Slumped again in May after a solid pickup in early 2025.
UK	May Monthly GDP, %mth	–0.3	–	–	Growth pulse slowing after a strong start to the year.

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