



# WEEKLY ECONOMIC COMMENTARY



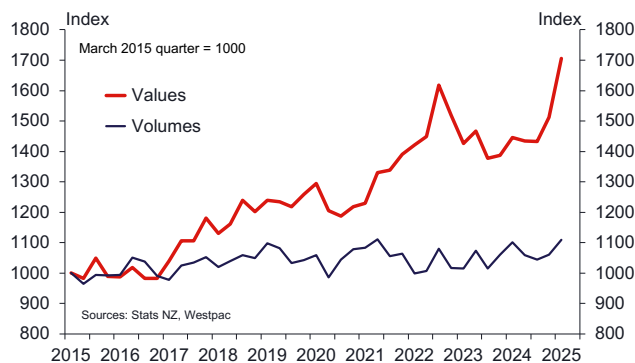
9 Jun 2025 | Westpac Economics Team | [westpac.co.nz/economics](https://westpac.co.nz/economics) | [economics@westpac.co.nz](mailto:economics@westpac.co.nz)

## Back to data watching

Following the previous week's eventful RBNZ meeting and associated commentary, the local news last week was much less impactful for market pricing. Nonetheless, it has provided some useful insights into the recent performance of the New Zealand economy.

The release of international trade data for the March quarter revealed the relative contribution of price and volume to the significant uplift in goods export values captured by the monthly merchandise trade reports. In aggregate, export prices rose 7.1%q/q, with dairy product prices up more than 10%q/q. Around a third of that increase reflects a weakening of the NZ dollar (since reversed), while the remainder is due to higher world prices. It is worth noting that while dairy prices moved lower at last week's GDT auction – the first of the new 2025/26 season – they remain well above the average seen through the March quarter. Therefore, export prices are likely to increase further in the current quarter.

### Goods exports values and volumes

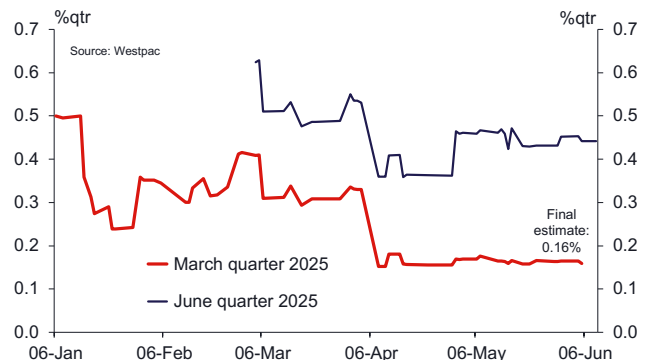


While lifting strongly, the increase in export prices was slightly smaller than we had estimated. Consequently, goods export volumes increased by 4.6%q/q in the March quarter – more than we had estimated. The volume

### 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
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
21 Jul 25	NZ CPI, June quarter

of dairy exports increased 7%q/q, while exports of other food and beverages (especially fruit) and forestry products also had a strong quarter. Even so, total export volumes were just 1% higher than a year earlier, with higher prices explaining the bulk of the 18%y/y increase in export values.

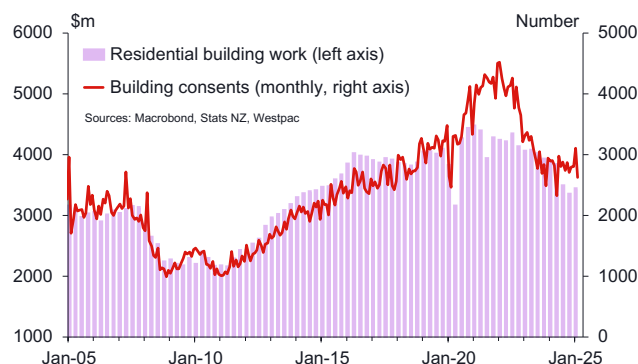
The news regarding services exports was more disappointing. As was always the risk, the large increase in exports of business services reported in the December quarter was more than reversed in the March quarter. And after allowing for the usual seasonal variation, travel spending also appears to have declined in the March quarter, with slight growth in the number of tourist arrivals but a reduction in the average spend per visitor from the high levels reported in the December quarter. We estimate that real exports of services contracted 7%q/q in the March quarter, reversing most of the 8%q/q growth recorded in the December quarter.

With the downside surprise to services outweighing the upside surprise to goods, total export volumes now appear to have increased around 2%q/q in the March quarter – a positive result, but not quite as firm as we had estimated earlier. Combined with slightly higher than expected import values, this outcome means that the current account deficit (to be reported on 18 June) will likely show less improvement than we had previously expected. Even so, we estimate a deficit of 5.8% of GDP over the year to March, down from 6.2% of GDP in the 2024 calendar year.

Turning to domestic news, the Cotality hedonic house price index pointed to a 0.1%*m/m* decline in nationwide prices in May following a 0.1%*m/m* decline in April. REINZ will publish the May edition of its house price index around the middle of this month. In other housing news, Barfoot and Thompson – Auckland’s largest real estate agent – reported a 17%y/y lift in house sales in May. This is broadly in line with the growth rate seen in mortgage applications over recent months. However, with the stock of outstanding listings up 6%y/y despite the lift in sales, and given the preponderance of cheaper town houses and apartments currently on the market, the median sales price fell 8.3%y/y.

Continuing the countdown to the release of the March quarter GDP report, Stats NZ reported that the volume of building work was unchanged during the quarter, following a revised 5.0% decline in the December quarter. This left activity down 12% from a year earlier and almost 20% below its 2022 peak. In the detail, following six consecutive quarters of decline, residential construction increased 2.6%q/q. A meaningful turnaround in residential activity is probably still some way off given that the trend in building consents remains roughly flat. However, the seeds of a recovery are in place, with a gradual firming in the housing market taking shape in response to falls in interest rates over the past year.

**Residential building and consent numbers**



Non-residential construction, which tends to lag the economic cycle, fell a further 3.9%q/q during the March quarter – the fifth consecutive decline. Some of the fall in spending has been due to fewer public sector projects. However, weak economic activity has also discouraged the development of new commercial space. Given the trend in consents, some further softness seems likely over the next quarter or two.

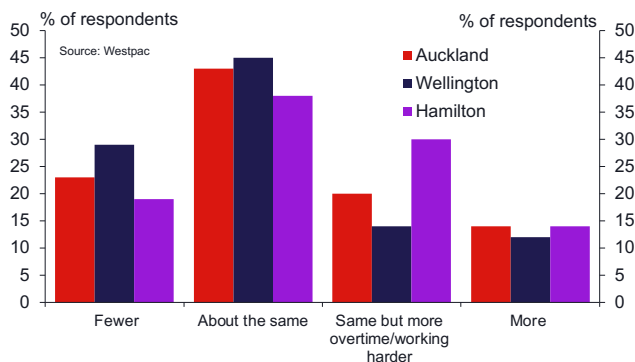
Looking ahead, today’s release of business financial data will allow us to finalise our estimate of Q1 GDP growth (we currently estimate a 0.4%q/q lift in activity). Wednesday will bring tourism and migration data for April, while Thursday will see the release of the Electronic Card Transactions survey for May. Given disappointing readings over the past couple of months, we will be looking for further signs that falling interest rates and surging export incomes are combining to lift consumer spending. The Business NZ manufacturing PMI and MBIE job advertising index for May round out the diary on Friday.

## Client feedback survey.

In the last few weeks, we have been holding customer presentations discussing the economic outlook. We took the opportunity to gauge the views of the client groups in Auckland, Wellington and Hamilton to see how they thought on some topical issues. Generally, the mood of the crowd was subdued – although things seemed more upbeat in Hamilton given its proximity to the “white gold” that is dairy right now.

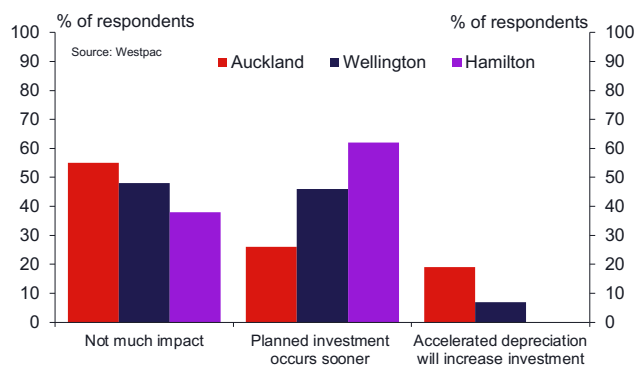
We asked clients on their views on how many employees they expected to have at the end of 2025. The single biggest group of clients didn’t expect to hire more people this year. However, of those who did expect to change staffing or overtime levels, most expect to either hire more people or increase overtime – especially in Auckland and Hamilton. Hamiltonians seem the most optimistic on employment prospects while Wellingtonians the most pessimistic. We would say that this result is consistent with the view we won’t have another big leg down in employment in 2025.

### How many employees do you expect to have in a year?



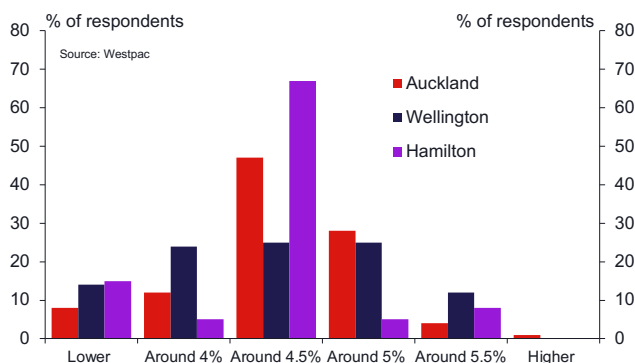
The Government's new Investment Boost scheme was perhaps the main surprise of the Budget. We asked clients how much impact they expect it would have on investment. The results were encouraging in that it seems more likely that firms that plan investment will bring that spending forward. There's still a large share of firms that don't expect to raise investment as conditions remain tough. But in Hamilton we can see the potential for increased on-farm investment this year. That makes sense given returns are very strong in the primary sector right now. Let's see what the mood is like at Fieldays this week!

### What impact will the Budget have on investment?



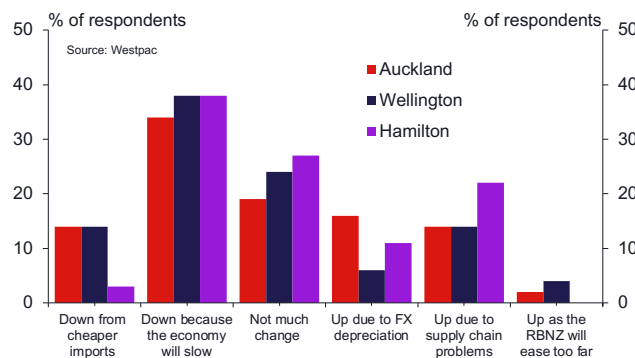
When asked about where interest rates will settle, clients see the potential for the 2-year mortgage rate to move a little lower yet – with a low of around 4.5% seen as most likely in a year. This is perhaps consistent with the view the OCR may move a little lower yet.

### Where do you expect the 2 year mortgage rate to be in a year?



We also asked how clients see the trade war impacting on NZ inflation. Most think it will either reduce inflation as the economy will slow or not have much impact. There's a rough balance between those who think inflation will drop because of all those cheap manufactured imports and those who see the potential for supply chain issues pushing up costs. Interestingly, the exchange rate is not seen as a huge driver – perhaps because the NZD has been moving up of late.

### What main impact will the trade war have on NZ inflation?

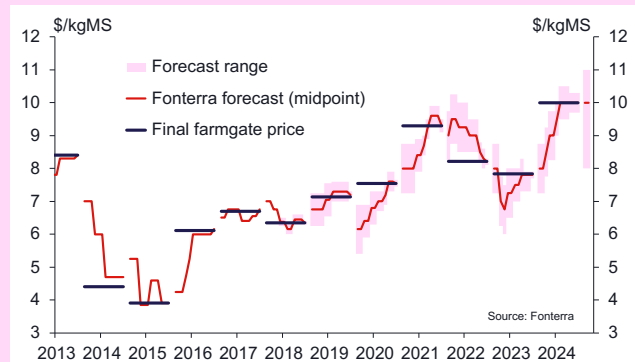


Darren Gibbs, Senior Economist

## Chart of the week.

Dairy farmers will be heading to Fieldays this week with a spring in their step, after Fonterra announced its highest opening milk price forecast for the new season. Fonterra's central forecast is for \$10 per kilo of milksolids, with a range of uncertainty between \$8 and \$11. While this range is much wider than what they've provided in the past, that's not a sign that things are more uncertain than usual. Since they started to provide forecast ranges in October 2018, the final milk price for the season has often ended up outside the starting range. Indeed, in our own forecast update back in February we noted that, given the typical variation in world dairy prices and the New Zealand dollar over the course of a year, a \$3/kg forecast range would be more appropriate at the start of a season.

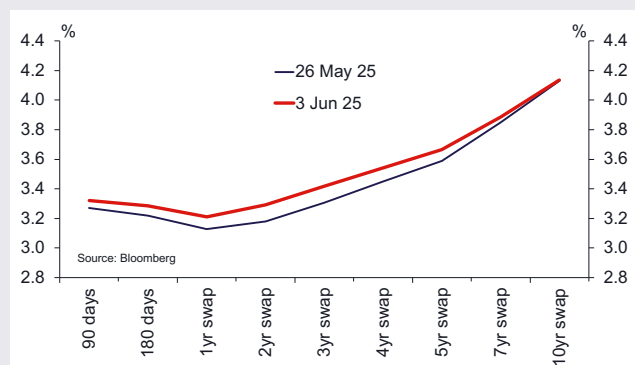
Evolution of farmgate milk price forecasts



## Fixed versus floating for mortgages.

We're forecasting the cash rate to bottom at 3% in mid-2025. 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. 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.

May's non-farm payrolls report was close to expectations with a 139k gain over the month (though there was a substantial downward revision of 95k to growth over the previous two months). The unemployment rate remained at 4.2%. The report helped to assuage concerns about a sharp downturn in activity and saw a trimming of expectations for rate cuts from the Fed. But while the US economy is holding up better than may have been feared in the face of trade and tariff uncertainty, recent surveys have still pointed to a cooling in business sector activity. That includes drops in the manufacturing and services ISMs, factory orders and job openings. That softer tone was echoed in the latest Beige Book summary of economic conditions, with businesses reporting a softening in activity in sectors like retail and manufacturing. Firms also reported an expectation that tariffs would place upward pressure on prices over coming months. On the trade front, President Trump noted that conversations with Chinese President Xi had "resulted in a very positive conclusion for both countries," though no details of new trading arrangements have been announced. Talks will continue this week. This week's calendar includes updates on the CPI (Tuesday), producer prices (Wednesday) and consumer confidence (Friday).

## Europe.

As expected, the ECB delivered a 25bp cut at its June meeting, taking the deposit rate to 2.00%. While markets are pricing in further rate reductions, rate cut expectations were trimmed following the meeting. Notably, ECB President Lagarde's stated "We are getting to the end of a monetary-policy cycle that was responding to compounded shocks," and that the ECB is now "in a good position to navigate the uncertain conditions." One member voted for a pause at the June meeting.

## Asia-Pacific.

Australia's GDP rose by just 0.2% in the March quarter, with the annual growth rate remaining at 1.3%/y/y (on par with the weakest reads since the early 1990s recession, excluding the Covid period). Both household consumption and business investment spending slowed. Public spending remains elevated but has started to ease back. Across in China, the Caixin manufacturing PMI fell to 48.3 in May, with weak external demand weighing. Service sector conditions were firmer, but confidence remains below average. This week's calendar includes updates on Chinese inflation and trade data (today), as well as Australian consumer and business confidence (Tuesday).

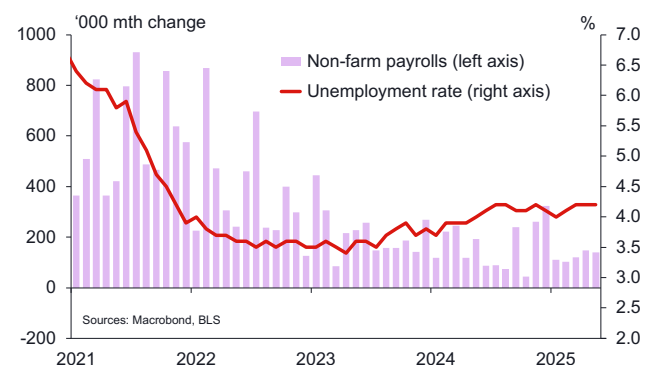
Trading partner real GDP (calendar years)

	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

	6 Jun	Jun-25	Dec-25	Dec-26
<b>Australia</b>				
Cash	3.85	3.85	3.35	3.35
90 Day BBSW	3.71	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	4.26	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	4.39	4.30	4.40	4.70

US non-farm payrolls and unemployment rate



Australian GDP growth



# Financial markets wrap

## Foreign exchange.

We remain bullish NZD/USD for the week ahead, with potential for the recent 0.6080 high to be retested. Multiweek, a higher range of 0.6000-0.6200 is possible.

The US dollar is approaching a three-year low, its safe-haven credentials tarnished, although some consolidation is warranted near term. US CPI data this week will be influential.

NZ economic data this week will be low key, although retail sales and manufacturing PMI will be worth watching. RBNZ Chief Economist Conway's interview with Radio NZ this morning provided little fresh information to markets, reiterating near term uncertainty due to US tariff developments.

The NZD/AUD cross has risen almost 2c since mid-May, to 0.9323, but it could be on the cusp of a reversal to below 0.9150 multi-week. That will largely depend on whether the recent improvement in global risk sentiment is sustained (AUD is more risk-sensitive than NZD).

## Interest rates.

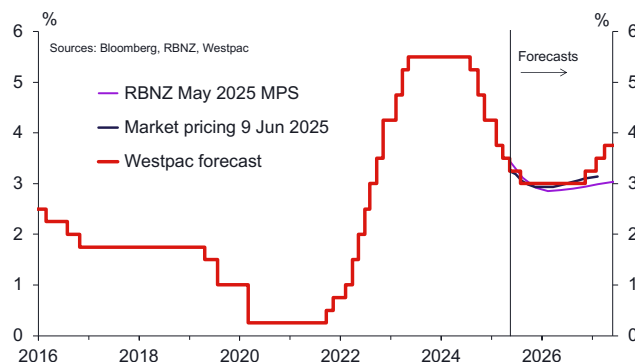
The market's hawkish response to the RBNZ MPS has run its course for now, leaving global developments to lead the way during the week ahead. US payrolls data on Friday pushed US yields higher, and there will be much interest in US CPI data later this week.

The NZ 2yr swap rate retains upward momentum, targeting 3.40% during the week ahead. For the month ahead, a range of 3.20%-3.50% is plausible.

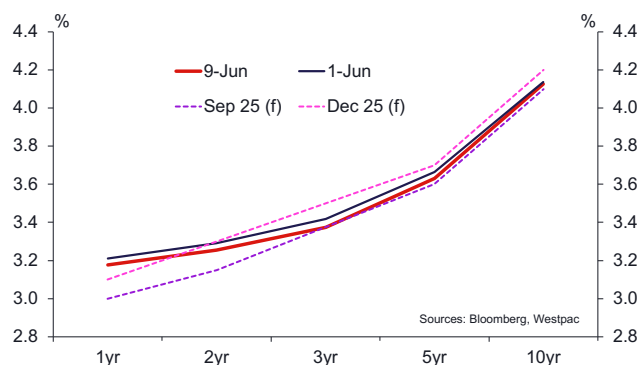
Market pricing for the RBNZ OCR implies only a 25% chance of a rate cut at the next meeting on 9 July, and only one more cut in this easing cycle (sometime between August and November).

This backdrop suggests NZ yield curves are unlikely to steepen beyond the cycle peak seen in April. Over the next few months, the 2-10yr swap curve could flatten back into the 60bp-80bp range which prevailed in Q1.

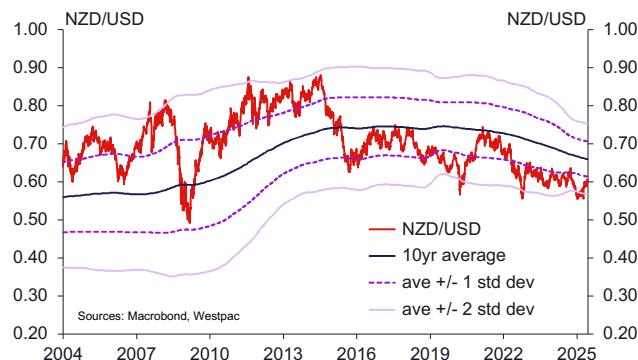
## Official Cash Rate forecasts



## 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	0.602	0.553-0.604	0.553-0.743	0.639	0.59
AUD	0.927	0.903-0.936	0.873-0.971	0.924	0.89
EUR	0.528	0.502-0.533	0.502-0.637	0.577	0.52
GBP	0.445	0.431-0.449	0.431-0.535	0.496	0.45
JPY	87.2	80.5-87.5	68.4-98.6	83.2	83.9



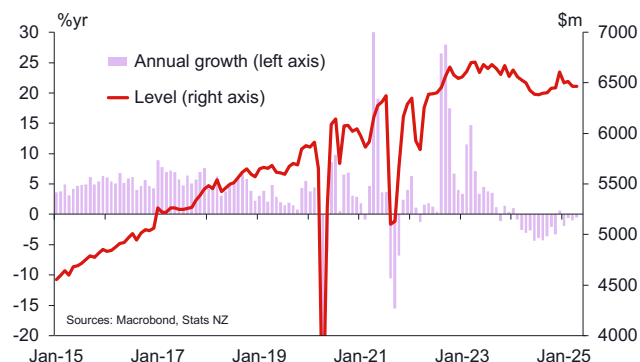
# The week ahead

## May retail card spending

**Jun 12, last: Flat, Westpac f/c: +0.2%**

Retail spending was flat in April, with a fall in fuel spending offset by a 0.2% rise in core (ex-fuel) categories. We expect a modest 0.2% gain in spending in May, underpinned by a 0.3% rise in core categories. Discretionary spending appetites remain modest for now, but are slowly starting to increase. Spending looks set to strengthen through the back half of the year as increasing numbers of households roll on to lower interest rates.

Monthly retail card spending

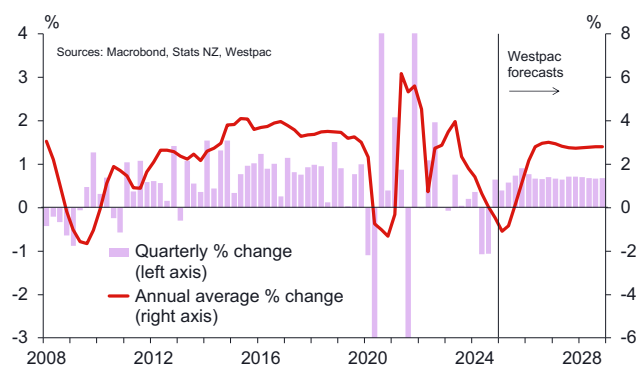


# Economic and financial forecasts

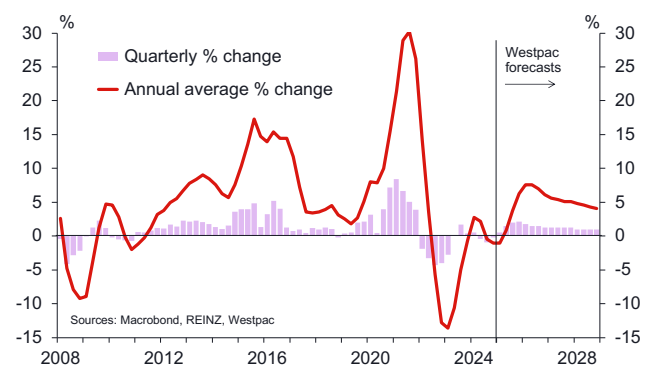
Economic indicators	Quarterly % change				Annual % change			
	Dec-24	Mar-25	Jun-25	Sep-25	2024	2025	2026	2027
GDP (production)	0.7	0.4	0.6	0.7	-0.5	1.1	3.0	2.7
Consumer price index	0.5	0.9	0.4	0.8	2.2	2.8	2.3	2.0
Employment change	-0.2	0.1	0.1	0.2	-1.2	0.8	2.3	1.9
Unemployment rate	5.1	5.1	5.3	5.3	5.1	5.2	4.4	4.1
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	-5.8	-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	3.25	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

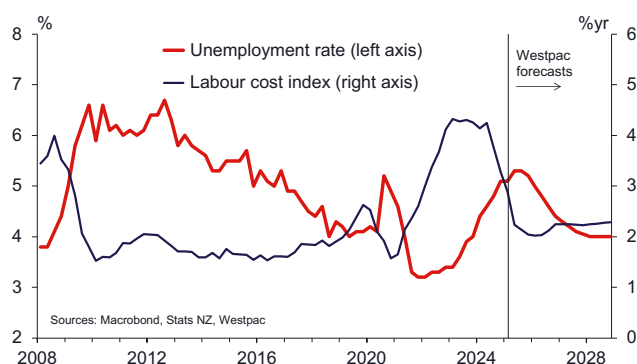
GDP growth



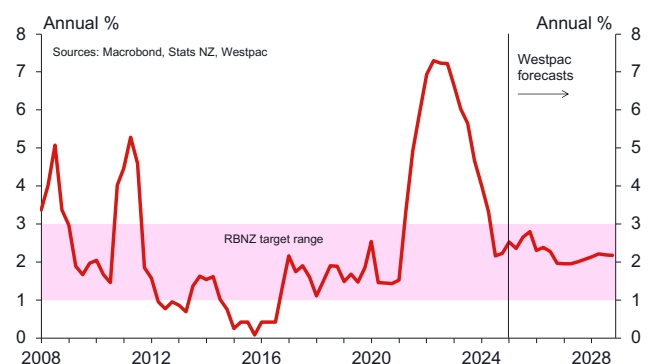
House prices



Unemployment and wage growth



Consumer price inflation





# Data calendar

		Last	Market median	Westpac forecast	Risk/Comment
<b>Mon 9</b>					
<b>Aus</b>	King's Birthday	–	–	–	Markets closed.
<b>Jpn</b>	Q1 GDP, %qtr	–0.2	–0.2	–	Final estimate.
	Apr Current Account Balance, ¥bn	3678.1	2573.3	–	Drop off in tourism will narrow surplus.
<b>Chn</b>	May CPI, %ann	–0.1	–0.2	–	Excess capacity to keep prices weak ...
	May PPI, %ann	–2.7	–3.0	–	... helping support the global deflationary pulse.
	May Trade Balance, US\$bn	96.2	100.6	–	Strong export growth from tariff front-running to widen surplus.
	May New YTD Loans, CNYbn	10060	10960	–	Easier monetary policy and authorities encouragement to ...
	May M2 Money Supply, %ann	8	8.1	–	... borrow to entice credit growth. Due June 9-15.
<b>US</b>	Apr Wholesale Inventories, %mth	0	–	–	Final estimate.
	May NY Fed 1yr Infl. Expectations, %ann	3.63	–	–	Participants will factor in the impact of tariffs.
<b>Tue 10</b>					
<b>Aus</b>	Jun Westpac-MI Cons. Sentiment, index	92.1	–	–	Reaction to RBA rate cut in focus.
	May NAB Business Conditions, index	2	–	–	Tariff mayhem has not derailed confidence thus far.
<b>Eur</b>	Jun Sentix Investor Confidence, index	–8.1	–	–	Indicator is finding a base as investors navigate extremes.
<b>UK</b>	Apr ILO Unemployment Rate, %	4.5	–	–	The BoE will feel more confident on the path ahead after ...
	Apr Average Weekly Earnings, %ann	5.5	–	–	... seeing weaker labour market outcomes.
<b>US</b>	May NFIB Small Business Optimism, index	95.8	95.9	–	Prices increases to see small business optimism wane.
<b>Wed 11</b>					
<b>NZ</b>	Apr Net Migration, no.	2480	–	–	Stabilising at low but positive levels.
<b>US</b>	May CPI, %mth	0.2	0.2	–	Import component likely to add pressure on headline CPI.
	May Federal Budget Balance, US\$bn	258.4	–	–	Deficit will only widen further from here.
<b>Thu 12</b>					
<b>NZ</b>	May Retail Card Spending, %mth	0	–	0.2	Discretionary spending appetites remain modest.
<b>Aus</b>	Jun MI Inflation Expectations, %ann	4.1	–	–	Still well-anchored, consistent with at-target inflation.
<b>UK</b>	Apr Monthly GDP, %mth	0.2	–	–	Weaker growth on the cards as confidence wanes.
<b>US</b>	May PPI, %mth	–0.5	0.2	–	Tariffs to life input prices.
	Initial Jobless Claims	247k	–	–	Some pick in recent time but claims to remain low for now.
<b>Fri 13</b>					
<b>NZ</b>	May Manufacturing PMI, index	53.9	–	–	Strong lift so far in 2025.
<b>Jpn</b>	Apr Industrial Production, %mth	–0.9	–	–	Final estimate.
<b>Eur</b>	Apr Trade Balance, €bn	27.9	–	–	Surplus to widen as tariff front-running supercharges imports.
	Apr Industrial Production, %mth	2.6	–	–	Uncertainty could see production pull back.
<b>US</b>	Jun Uni. of Michigan Sentiment, index	52.2	52	–	Polarised views present a sanguine average.

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