



WEEKLY ECONOMIC COMMENTARY



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

A change at the top at the RBNZ

Last week Adrian Orr announced that he is stepping down as the Governor of the Reserve Bank of New Zealand. Orr was in his second term as Governor, which was not due to finish until 2028. Deputy Governor Christian Hawkesby will be Acting Governor until 31 March. From 1 April the Minister of Finance will appoint a temporary Governor (based on recommendations from the RBNZ's Board) for a period of up to six months, and given the short timeframe, an internal candidate such as Hawkesby seems likely.

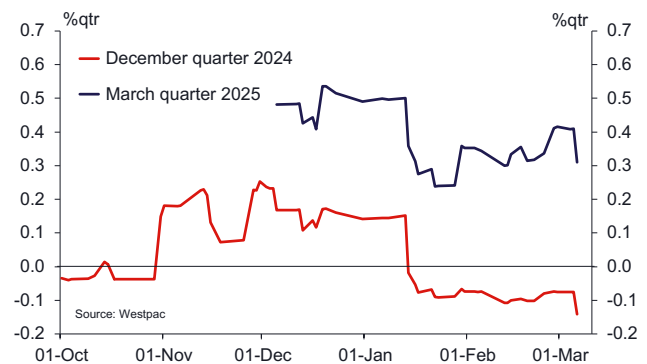
We don't think Orr's early departure will have much of an impact on monetary policy over the next couple of meetings. Official Cash Rate decisions are made by the RBNZ's Monetary Policy Committee (MPC) of which the Governor is one of seven members. At the time of the February policy statement, Orr signalled that the MPC planned to cut the cash rate 25bps at both the April and May meetings. The MPC's policy decisions are almost always made by consensus, and there was no indication of a split in views at the time of the RBNZ's last policy announcement. Of course, that path for policy is still dependent on how economic conditions evolve.

Longer term, the change at the top of the RBNZ could have implications for other aspects of New Zealand's economic and financial landscape. In particular, we could see a change in the RBNZ's stance in relation to issues such as how much capital banks need to hold. During his tenure Orr introduced policies that required major banks to hold more capital. On this front, there are **reports that the Minister of Finance is seeking advice** on changing those rules. There could also be changes in the RBNZ's approach to prudential policies, such as the debt-to-income or loan-to-value restrictions.

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
14 Mar 25	NZ Selected price indexes, February
19 Mar 25	FOMC Meeting (Announced 20 Mar NZT)
20 Mar 25	NZ GDP, December quarter
1 Apr 25	RBA Monetary Policy Decision
8 Apr 25	NZIER QSBO Business Survey, March quarter
9 Apr 25	RBNZ OCR Review
15 Apr 25	NZ Selected price indexes, March
17 Apr 25	NZ CPI, March quarter
7 May 25	Labour market statistics, March quarter
7 May 25	RBNZ Financial Stability Report
22 May 25	Government releases Budget 2025

The rocky global backdrop keeps getting rockier.

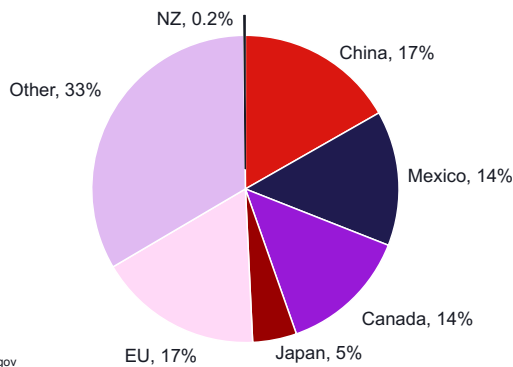
Offshore, the increasingly rocky trade environment came into sharp focus as the Trump administration rolled out new tariffs on Canada, Mexico and China, and the process of retaliatory actions and negotiations with other nations stepped up.

We currently export slightly more to the US than we import, giving us a trade surplus with the US of \$920m in the year to January 2025. Our major exports include meat, dairy products and beverages (including wine).

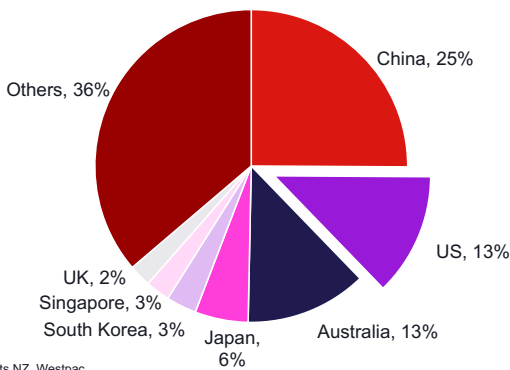
At this stage New Zealand has not been directly targeted by increases in US tariffs. However, there is a clear risk that we get caught up in the Trump administration's broader tariff programme, especially given recent comments from President Trump that he is looking at tariffs on imports of agricultural goods.

Direct tariffs or other restrictions on our exports would clearly be a negative for New Zealand's export sector. However, New Zealand is also indirectly exposed to the changing trade environment through a range of other channels, including the impact that tariffs might have on other economies. For instance, large US tariffs on economies who are major trading partners for New Zealand, like China, could affect demand for our exports. Similarly, if other countries who produce similar products to us are subject to US tariffs, their exports could end up being re-directed to markets we compete in.

US imports by region

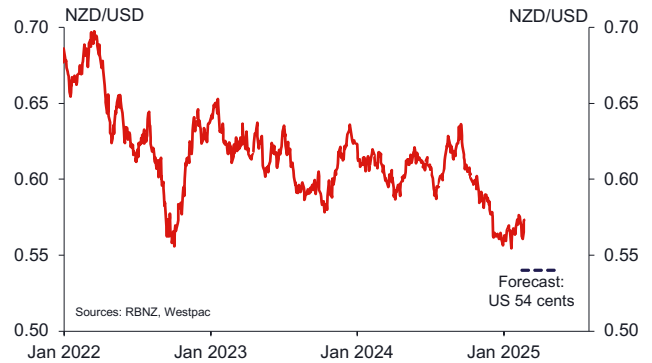


NZ exports by region



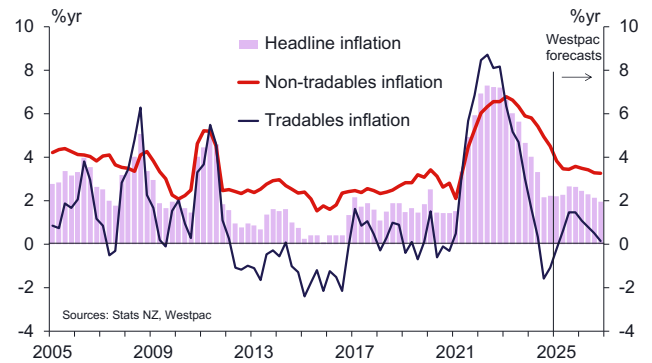
An important buffer for New Zealand exporters will be the lower New Zealand dollar, which has taken a sizeable step down since late last year when concerns about a trade war started to mount. Combined with firmness in the prices for many key commodity exports (including dairy products), this will generate a large boost to export earnings and incomes in our rural regions. Consistent with that, we've already seen spending growth in those parts of the country with strong exposure to agriculture outpace spending in urban centres like Auckland and Wellington.

New Zealand dollar



However, the lower New Zealand dollar also means that imported inflation pressures aren't looking as benign as they did at the end of last year, and the impact of those stronger price pressures will be felt right across the economy. We're currently forecasting that the lower New Zealand dollar and related lift in import prices will see overall inflation rising from 2.2% at the end of last year to 2.7% in the second half of 2025. And the risks on this front are to the upside, with large increases in prices of a number of food items in recent months. That's offsetting a continued easing in domestic cost pressures. With those risks in mind, Stats NZ's upcoming monthly prices update (out on 14 March) will warrant close attention.

Lower NZD to boost imported inflation



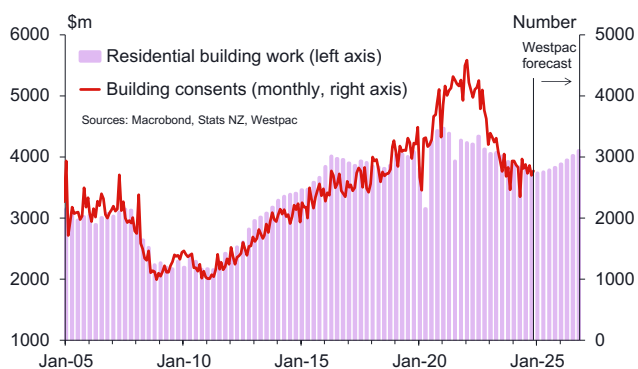
A floor in the building cycle.

The local data flow was limited over the past week, but did highlight the changing conditions in New Zealand's construction sector.

Looking first at residential building, the past few years have been tough for builders and other firms linked to the sector. Tough financial conditions in recent years, including high build costs and a sharp rise in interest rates, have led to a sharp fall in homebuilding activity by both occupiers and developers. That's seen residential building activity falling 25% since mid-2022, with falls seen right across the country.

But it looks like we are now close to a floor in the building cycle. The earlier sharp falls in the number of new projects being consented have now been arrested. In addition, with a drop in interest rates, we're seeing a lift in activity in the housing market. We expect house sales and prices will trend higher over the course of this year. And combined with lower financing costs, that will encourage a rise in new housing development. However, the recovery in building activity is likely to be gradual – we don't expect a material lift in consents until late in 2025, with building activity to follow after that.

Residential building and consent numbers



It's a more nuanced picture in the non-residential sector. Weak economic activity has seen businesses winding back their capital expenditure. That has seen commercial building activity begin to decline over the past year. Given the long lead times on many commercial projects, commercial construction tends to lag the broader economic cycle. As a result, we're likely to see some further softness over this year before commercial construction begins to turn higher.

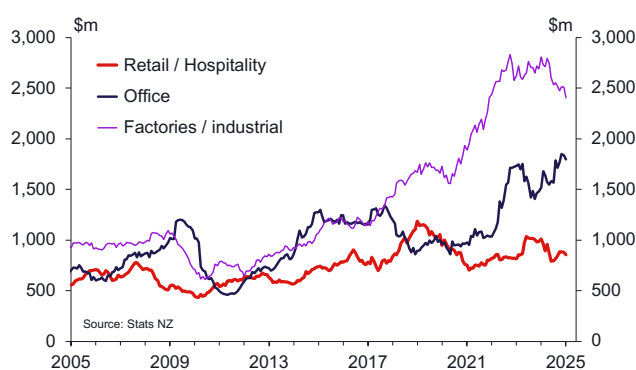
Over time, lower interest rates and firming economic activity will help to boost both investor appetites and development activity. However, conditions are likely to be mixed across market segments.

- We're seeing large amounts of office space being built or refurbished. That's in part due to ongoing changes in the use of office space as workplaces adjust to balance both flexible working arrangements and more workers coming into the office on a regular basis. However, this is also resulting in a two-tier market, with strong demand for premium and A-grade space, and less demand for lower grade offerings. That split in occupier preference has resulted in a growing wedge in rents between higher grade properties (which are able

to command higher rents) and lower grade ones. It's also resulted in increased vacancy rates among lower grade properties.

- There continues to be strong demand for industrial and storage space. However, after a large amount of space was built in recent years, new development is now slowing.
- Softer conditions in the retail and hospitality sectors have been weighing on the amount of space being developed. Although we are starting to see demand in these sectors improving, new development activity is likely to remain limited some time. That's in part due to ongoing shifts in retail distribution models to online platforms.

Commercial consents (annual value)



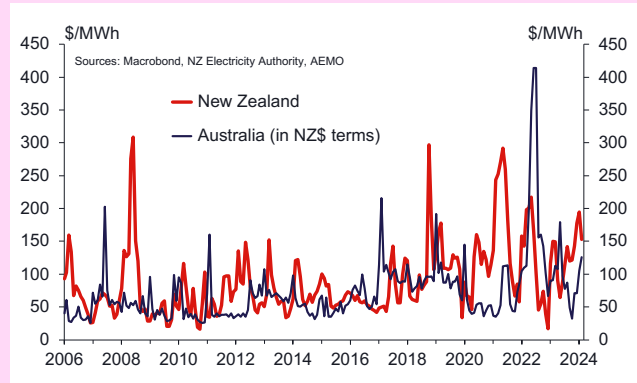
Satish Ranchhod, Senior Economist

Chart of the week.

There have been a few interesting developments in the wholesale electricity market recently. Rumbblings have begun on the potential for another dry year in the southern lakes which are low for the time of year. This could mean higher wholesale prices in the coming winter and potentially disruption for large industrial users.

Last week a proposal was initiated to build a high voltage trans-Tasman cable that might allow power sharing with Australia. The time difference between countries could help smooth out intraday volatility in prices that occurs at peak load. There could be some medium-term benefit to NZ from such a cable in dry years. It's interesting to note that while trans-Tasman prices are roughly similar, NZ wholesale prices are much more volatile reflecting our greater reliance on hydro power with limited lake storage. We note that Australia has its own challenges in this area due to their higher reliance on coal and gas generation which will likely be phased out over time. Perhaps the linkage of the trans-Tasman wholesale markets could generate synergies.

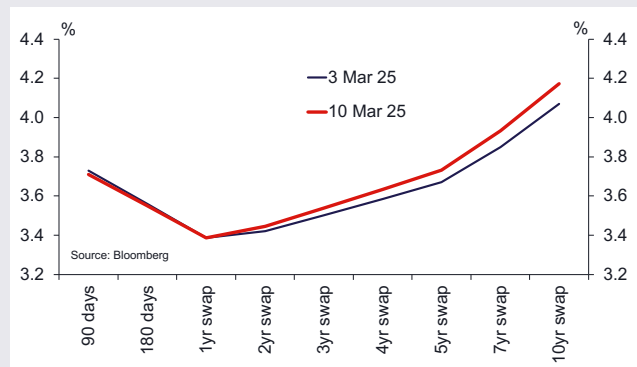
Wholesale electricity prices



Fixed versus floating for mortgages.

We're forecasting the cash rate to bottom at 3.25% in mid2025 and see balanced risks around that forecast. Markets have factored more easing than this into mortgage rates and suggest the OCR will bottom closer to 3%. Longer term mortgage rates have fallen – in some cases significantly – and now look attractive to fix for longer periods, particularly in the two- to three-year space. Shorter-term mortgage rates are likely to fall in the near term as the RBNZ delivers further smaller OCR cuts, but would still likely remain above current longer term fixed rates. Fixing shorter than a year is a bet that the OCR bottoms somewhat lower than 3%.

NZ interest rates



Global wrap

North America.

US markets saw some further jitters last week, driven by worries about US tariff policy and mixed economic data. This led to weaker equity markets and a lower US dollar and contributed to a further fall in oil prices. On 4 March the US implemented a 25% tariff on most imports from Canada and Mexico and an additional 10% tariff on imports from China. Subsequently, tariffs on some imports from Mexico and Canada have been paused for one month. On the data front, non-farm payrolls grew a slightly less than expected 151k in February and the unemployment rate edged up to 4.1%. The ISM manufacturing index fell 0.6pts to 50.3 in February, but the ISM services index rose 0.7pts to a 3-year high of 53.5. Ahead of the blackout period for this month's meeting, Chair Powell stated that the economy remains "in a good place" despite elevated uncertainty. This week the focus will be on inflation, with the CPI released on Wednesday, the PPI on Thursday and the University of Michigan consumer survey on Friday (the inflation expectations readings will be of interest following a large lift last month). North of the border, US tariffs will likely prompt the Bank of Canada to ease policy further on Thursday.

Europe.

The ECB eased a further 25bps last week, as expected, but noted that future policy action would depend on how the economic outlook evolves. European bond yields moved sharply higher, reacting to Germany's announcement that it would reform its "debt brake" to permit a large increase in defence spending over coming years. In addition, the EU said it plans to allow member countries to spend more on defence spending without triggering budgetary penalties, potentially adding up to €800bn (around 5% of GDP) more to spending over the next four years if the leeway was fully used. On the data front, core CPI inflation in the euro area eased to 2.6%/y.

Asia-Pacific.

The National Peoples' Congress saw the Chinese Government confirm that it will again seek to achieve 5% GDP growth this year. However, reflecting pressures on the economy, China's inflation target was lowered by 1ppt to 2%, while its target for the budget deficit was raised 1ppt to 4% of GDP. On the data front, China's exports and imports were both weaker than expected in February, while the CPI fell a greater than expected 0.7%/y. In Australia, GDP increased 0.6%/q in Q4 – the most in two years – lifting annual growth to a still tepid 1.3%/y. Given still rapid population growth, per capita output increased just 0.1%/q. The coming week will bring updates on both consumer and business confidence.

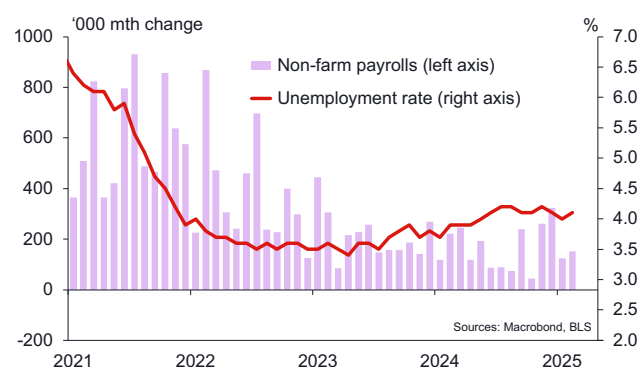
Trading partner real GDP (calendar years)

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

Australian & US interest rate outlook

	7 Mar	Mar-25	Dec-25	Dec-26
Australia				
Cash	4.10	4.10	3.35	3.35
90 Day BBSW	4.11	4.20	3.50	3.55
3 Year Swap	3.72	3.75	3.80	4.00
3 Year Bond	3.78	3.75	3.75	3.85
10 Year Bond	4.40	4.45	4.70	4.65
10 Year Spread to US (bps)	16	-15	-25	-15
US				
Fed Funds	4.375	4.375	4.375	3.875
US 10 Year Bond	4.24	4.60	4.95	4.80

US non-farm payrolls and unemployment rate



Australian GDP growth



Financial markets wrap

Interest rates.

NZD/USD remains contained by a two-month old range, approximately 0.5600-0.5800, with a glimmer of upside potential during the week ahead.

The dominant driver has been the US dollar, and that is unlikely to alter during the week ahead, given little NZ event risk (monthly CPI indicators will be worth watching though). In the US, Wednesday's CPI data will be important.

US tariff headlines will continue apace, but with diminishing effects on markets which are becoming more focussed on economic growth outlooks.

Meanwhile, some NZD-supportive factors remain intact, such as extreme short speculative NZD/USD positioning and an arguably fully priced RBNZ easing cycle.

We do continue to hold a medium-term bearish view based on the expectation that the US dollar will resume its October-January uptrend, but it's a low-confidence view given the heightened uncertainty relating to the Trump administration. Possible contributors to that resumption would include a Fed pause, eventual clarity on tariff implementation, and relatively strong US growth. On the latter, the USD would likely also strengthen on extremely weak US growth, due to the USD's safe-haven identity. It is the middle ground – moderately disappointing growth – which would hurt the USD.

Interest rates.

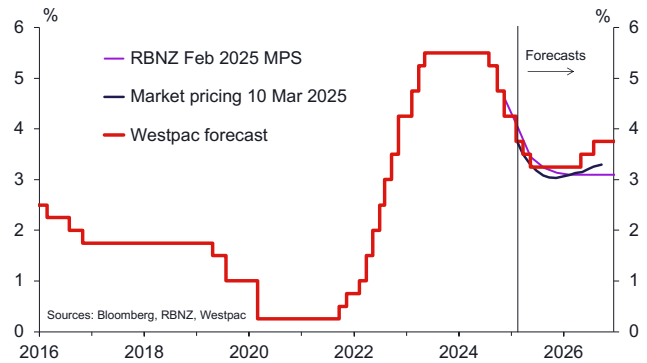
The NZ 2yr swap rate remains stuck inside a two-month old range of 3.33%-3.65%, and that is expected to be the case during the week ahead. Multi-month, we see potential for a break higher.

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

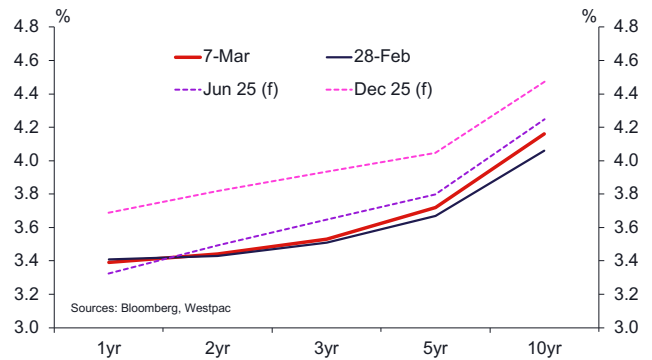
Our outlook for higher swap rates later this year is driven by an expectation that markets have fully priced the remnants of this RBNZ easing cycle and will eventually turn attention to the next cycle – a tightening one. In addition, there's a large pipeline of mortgages due for refixing over the next six months.

If swap rates do increase as we expect, the yield curve's slope is likely to flatten as shorter maturities such as the 2yr rise more than longer maturities. A flatter curve may incentivise borrowers to hedge/fix for longer terms, but that's probably a story for Q2/Q3.

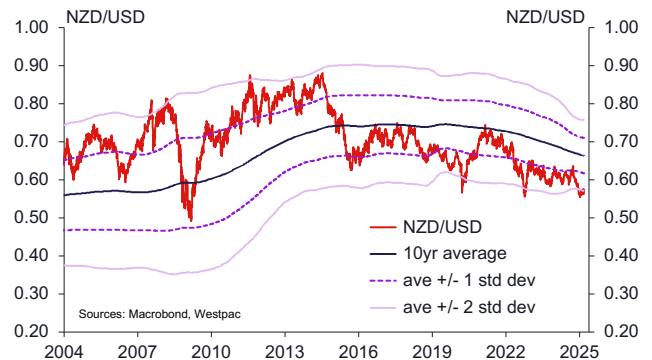
Official Cash Rate forecasts



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	0.571	0.554-0.587	0.554-0.743	0.640	0.54
AUD	0.904	0.897-0.912	0.873-0.992	0.925	0.87
EUR	0.527	0.530-0.556	0.517-0.637	0.578	0.53
GBP	0.441	0.441-0.461	0.441-0.535	0.499	0.44
JPY	84.4	83.6-89.2	61.3-98.6	82.2	82.1

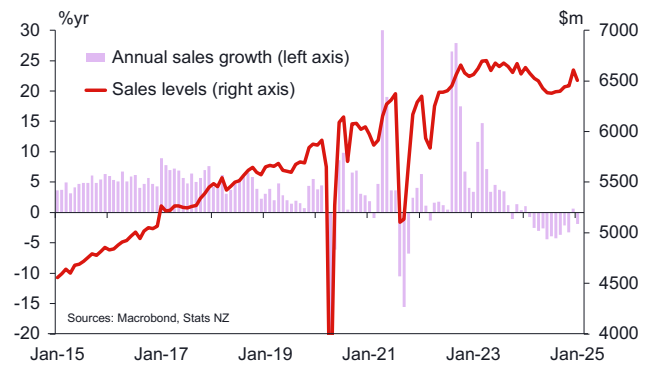
The week ahead

Feb Retail Card Spending

12 Mar, last: -1.6%, Westpac f/c: +0.3%

Retail sales fell sharply in January, dropping 1.6%. However, January's fall followed a very large rise in spending over December, which was in part related to 'lumpy' spending categories, like household furnishings. Stepping back from the normal month-to-month volatility, spending has been trending higher since July, including increases in discretionary areas (like durables, apparel and hospitality). We expect that uptrend will have continued in February, supported by the continuing passthrough of interest rate reductions, as well as recent falls in petrol prices.

Monthly retail card spending

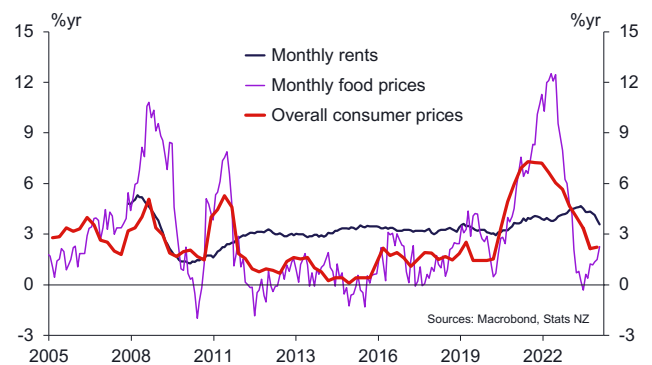


Feb Selected Price Indices

14 Mar

Stats NZ's monthly price data covers around 45% of the CPI. Last month's update pointed to stronger than expected price increases for many items, including groceries like chocolate and dairy products. While price swings in those sorts of categories are not normally the main focus for monetary policy, we're not seeing any sign that that pressure on food prices is easing off. That signals upside risk to our overall forecast for inflation in the March quarter. However, under the surface, we are seeing softer prices for services like rents and in the hospitality sector. That could leave us with a picture of stronger than expected overall inflation, but softness in non-tradables prices.

Selected consumer prices

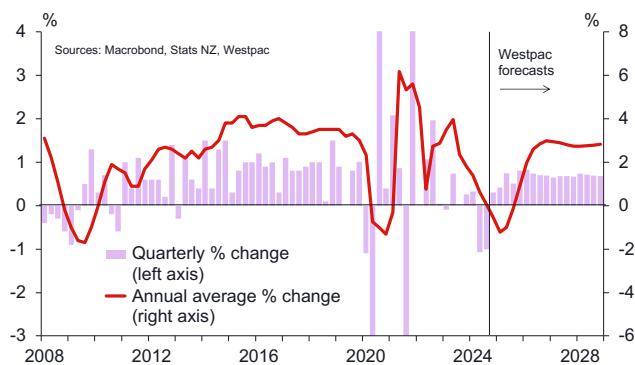


Economic and financial forecasts

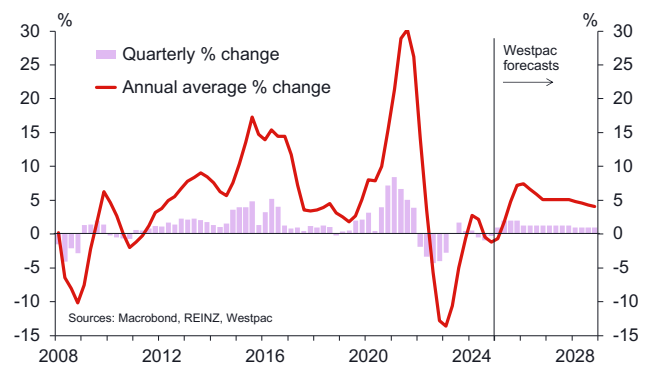
Economic indicators	Quarterly % change				Annual % change			
	Sep-24	Dec-24	Mar-25	Jun-25	2023	2024	2025	2026
GDP (production)	-1.0	0.3	0.4	0.8	1.8	-0.5	0.9	3.0
Consumer price index	0.6	0.5	0.6	0.5	4.7	2.2	2.6	2.0
Employment change	-0.6	-0.1	-0.1	0.0	2.8	-1.1	0.4	1.9
Unemployment rate	4.8	5.1	5.3	5.4	4.0	5.1	5.3	4.6
Labour cost index (all sectors)	0.6	0.6	0.6	0.5	4.3	3.3	2.2	1.8
Current account balance (% of GDP)	-6.4	-5.9	-5.0	-4.1	-6.9	-5.9	-3.5	-4.3
Terms of trade	2.5	6.5	5.9	0.7	-10.7	17.2	4.2	2.1
House price index	-0.9	-0.2	1.0	2.0	-0.6	-1.2	7.2	5.1

Financial forecasts	End of quarter				End of year			
	Sep-24	Dec-24	Mar-25	Jun-25	2023	2024	2025	2026
OCR	5.25	4.25	3.75	3.25	5.50	4.25	3.25	3.75
90 day bank bill	5.31	4.45	3.55	3.35	5.65	4.45	3.35	3.85
2 year swap	4.06	3.64	3.40	3.50	5.28	3.64	3.80	4.00
5 year swap	3.81	3.73	3.70	3.80	4.85	3.73	4.05	4.25
10 year bond	4.31	4.51	4.60	4.70	5.09	4.51	4.90	4.95
TWI	70.9	69.5	65.7	65.5	70.8	69.5	64.5	67.4
NZD/USD	0.61	0.59	0.54	0.54	0.60	0.59	0.54	0.59
NZD/AUD	0.91	0.91	0.90	0.90	0.93	0.91	0.87	0.87
NZD/EUR	0.56	0.55	0.54	0.54	0.56	0.55	0.53	0.56
NZD/GBP	0.47	0.46	0.44	0.44	0.49	0.46	0.44	0.46

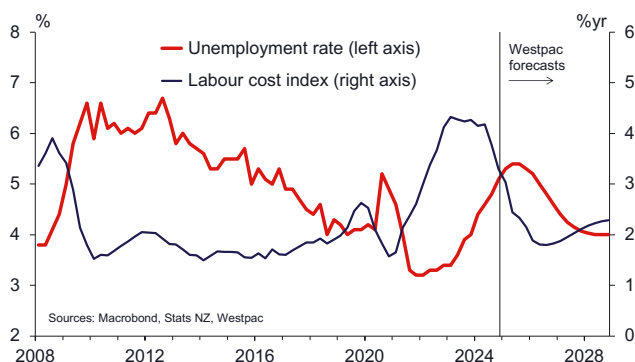
GDP growth



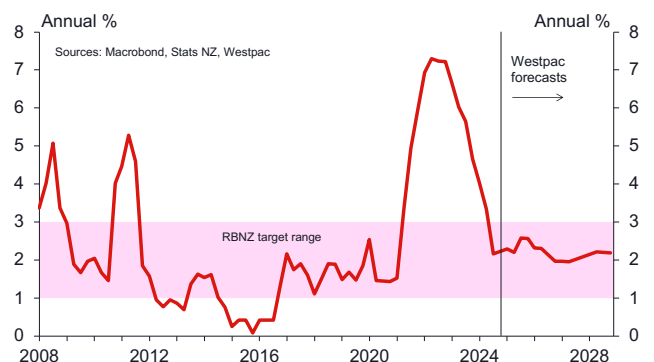
House prices



Unemployment and wage growth



Consumer price inflation



Data calendar

		Last	Market median	Westpac forecast	Risk/Comment
Mon 10					
Jpn	Jan Current Account Balance, ¥bn	1077	152	-	Current account balance reached a record high in 2024.
Eur	Mar Sentix Investor Confidence, index	-12.7	-10.0	-	More investors optimistic about the outlook than not.
Ger	Jan Industrial Production, %mth	-2.4	1.5	-	A lift, followed by a fall, occurring since mid-2024.
Tue 11					
Aus	Mar Westpac-MI Cons. Sentiment, index	92.2	-	-	Will capture reactions to the RBA's rate cut.
	Feb NAB Business Survey, index	3	-	-	Business reaction to US tariffs and global uncertainty.
Jpn	Jan Household Spending, %yr	2.7	3.6	-	Spending on the rise as real wages increase.
	Q4 GDP, %qtr	0.7	0.7	-	Final estimate.
US	Feb NFIB Small Business Optimism, index	102.8	100.9	-	Normalising after post-election surge.
	Jan Jolts Job Openings, 000s	7600	-	-	Consistent with a healthy labour market.
Wed 12					
NZ	Feb Retail Card Spending, %mth	-1.6	-	0.3	Spending levels are trending higher.
US	Feb CPI, %mth	0.5	0.3	0.3	Persistence in services CPI and goods inflation adding.
	Feb Monthly Budget Statement, \$bn	-128.6	-	-	Deficit totalled \$840b in the first 4 months of the fiscal year.
Can	Bank of Canada policy decision	3	2.75	-	Rate cut to support economy as tariffs come into effect.
Thu 13					
NZ	Jan Net Migration, no.	3810	-	-	Stabilising at low but positive levels.
Aus	Mar MI Inflation Expectations, %ann	4.6	-	-	Global trade disputes likely on the mind of consumers.
	RBA Speak	-	-	-	RBA's Jones-Fireside Chat.
Eur	Jan Industrial Production, %mth	-1.1	1.0	-	Failing to sustain an uplift.
US	Feb PPI, %mth	0.4	0.2	-	Expected to ease.
	Initial Jobless Claims	221	-	-	Remaining steady.
Fri 14					
NZ	Feb Manufacturing PMI, index	51.4	-	-	Above 50 for the first time in almost 2 years.
	Feb Food Price Index, %mth	1.9	-	-0.7	Seasonal fall, but underlying trend firm.
	Feb Housing Rents (Stock), %mth	0.1	-	0.2	Rental pressures have been softening.
Ger	Feb CPI, %mth	0.4	0.4	-	Final estimate.
UK	Jan Trade Balance, £bn	-2816	-	-	Holds a broadly balanced trade relationship with the US.
	Jan Monthly GDP Estimate, %mth	0.4	-	-	First look into 2025 after a subdued 2024 final quarter.
	Jan Industrial Production, %mth	0.5	-	-	Underlying momentum supported by durables.
US	Mar Uni. Of Michigan Sentiment, index	64.7	64	-	Consumers becoming more pessimistic on financial outlook.

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