WEEKLY ECONOMIC COMMENTARY

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

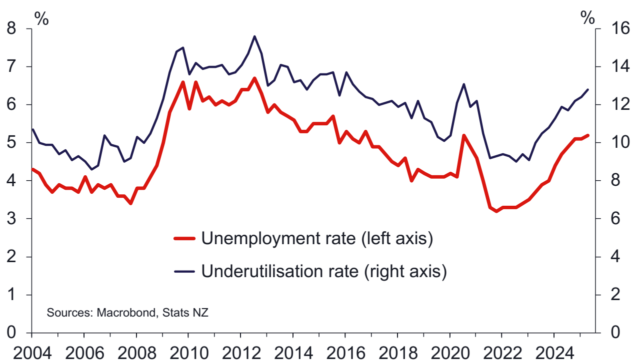
Labour market remains soft, but no surprises.

The June quarter labour market surveys showed that conditions remain tough for jobseekers, with the unemployment rate rising to match its Covid-era peak. While undoubtedly soft, we suspect this data won't have delivered any surprises to the Reserve Bank in terms of how much spare capacity there is in the economy. As such, it's unlikely to sway the Monetary Policy Committee's existing thinking as it heads towards its next decision later this month.

The unemployment rate rose from 5.1% to 5.2% in the June quarter, matching the peak that it reached during the 2020 Covid lockdown. Going back further, this was the highest reading since 2016. By comparison, unemployment peaked at 6.7% in the wake of the Global Financial Crisis and the Canterbury earthquakes.

The June quarter unemployment rate was a little below the 5.3% outcome that we and the majority of market forecasters were expecting, though it was in line with what the RBNZ had forecast in its May *Monetary Policy Statement*.

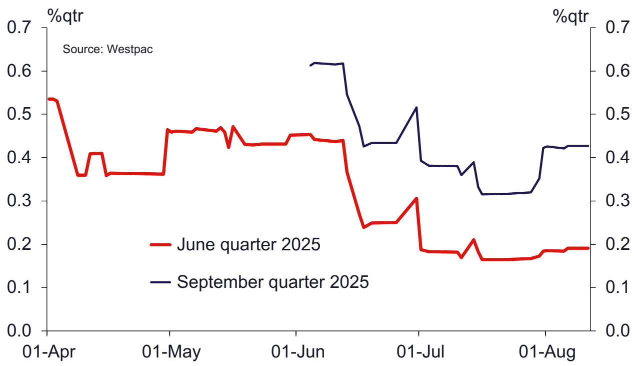
Unemployment and underutilisation rates



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
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
8 Oct 25	RBNZ OCR Review
16 Oct 25	NZ Selected price indexes, September

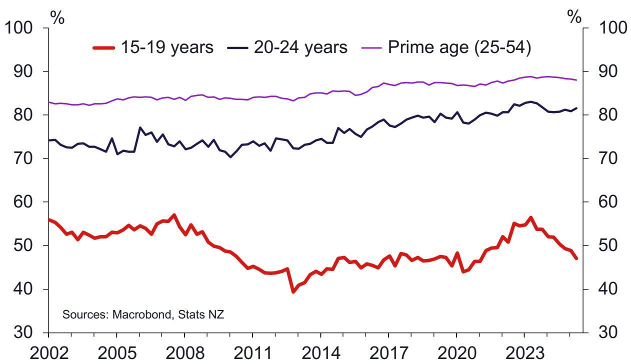
Broader measures of labour market capacity told a similar story. The underutilisation rate (which includes groups such as discouraged workers and those who would like to work more hours) rose from 12.4% to 12.8% in the June quarter. This measure is obviously higher but also more variable than the unemployment rate, with the two sometimes even going in opposite directions. Looking past this volatility, the message is the same: both measures are near their post-Covid highs, and around the levels seen back in 2016.

The June quarter results included a 0.1% fall in the number of people employed. This was in line with market forecasts, though it was less weak than we had expected based on the Monthly Employment Indicator (MEI), which was down by 0.3% on average over the quarter. (Really more like -0.4%, since past performance suggests that the June month will be revised down at the next release.)

While there are some conceptual differences between the MEI and the Household Labour Force Survey (HLFS), the major one is in terms of coverage. The MEI is drawn from income tax data, making it a near-complete record of employment within the country, whereas the HLFS is a survey of less than 1% of households. Hence, any significant difference between the two is most likely due to sampling error in the HLFS. For this reason, we generally advise putting more stock in the proportionate measures of the HLFS, such as the unemployment rate, rather than the levels of employment.

The drop in employment was accompanied by a further fall in the labour force participation rate, as we had expected. While falling participation is sometimes painted as 'masking' the true extent of weakness, it is a normal part of how the labour market adjusts throughout the cycle. When demand for workers is strong, there are always some people on the margin who can be induced into the workforce. And when things turn down again, some people will exit the labour force rather than actively seeking work (which is the standard definition of 'unemployed').

Labour force participation by age groups



What has been unusual through the current cycle is the extent to which this 'flex' in the labour force has been provided by teenagers. During the post-Covid boom in 2021-2022, the demand for workers was running hot, and the border closure meant that employers were unable to fill those roles using migrant workers. Instead, there was a sharp rise in the hiring of teens – from university students working part-time, right down to 15-year olds dropping out of high school to earn some money.

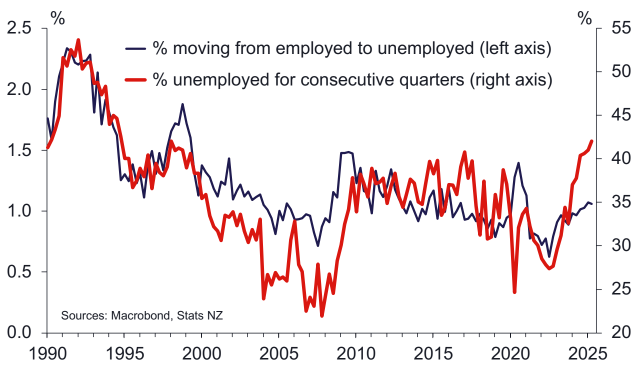
Once the economy started cooling down and the border was reopened, businesses no longer needed to hire from this pool. That has seen the rate of teen unemployment rise sharply from its lows, but also many of them are choosing to focus on their studies full-time rather than actively looking for work. The result is that the teen participation rate has been steadily returning to its previous, arguably more sustainable, levels.

Outside of this age group, there is nothing in the participation rates that suggests a 'hidden' degree of slack in the labour market. Indeed, among the 20-24 year olds, who would more usually make up the new entrants to the jobs market, participation has been steady and even rising a little in recent quarters.

One other notable feature of the current cycle is that hiring has remained very weak relative to the pickup in the economy to date. Job advertisements have stabilised over the last year, but they remain well below their pre-Covid trends. Some businesses have told us that they tried to hold on to workers to the extent that they could during the downturn, as they were wary of being burned again by the severe labour shortages that were apparent over 2021-2022. As a result, some may still find themselves overstaffed relative the level of work that they have on, even as that level starts to pick up again.

We can see this in, for instance, the transition rates between labour force status in the HLFS. If you're currently employed, the chance of losing your job has certainly risen from its lows, but is not particularly high compared to history. However, if you're out of work, the likelihood that you'll still be unemployed in three months' time has risen significantly.

Labour force transition rates



This element of 'labour hoarding' doesn't necessarily mean that there is a significant wave of jobs cuts still to come, as employers capitulate in the face of a still-subdued economy. (Arguably that capitulation already began last year, when the tide turned from slow growth in employment to an outright decline.) However, it does suggest that the labour market will continue to lag behind the broader economy cycle, perhaps to an even greater degree than normal.

Putting it all together, our view is that we're approaching the peak in the unemployment rate for this cycle, but perhaps not there yet – we expect it to peak at around 5.3% by the end of this year. Bear in mind that for the unemployment rate to start falling again, we need to see GDP not just growing, but meaningfully outpacing the growth in the working-age population (currently running at about 1.2% annualised). We see that as more of a story for next year.

Turning to the measures of wage growth, the Labour Cost Index (LCI) rose by 0.6% for the private sector, following a 0.4% rise in the March quarter. This was a little higher than the 0.5% that we expected, but was in line with the RBNZ's forecast. On an annual basis, growth in the private sector LCI slowed from 2.5% to 2.2%, the slowest pace since June 2021. That effectively puts it in the 'Goldilocks' zone – much lower than during the recent surge of inflation, but higher than it was during much of the 2010s when inflation was stubbornly on the low side of the RBNZ's target.

With the unemployment rate and wage growth in line with the RBNZ's most recent forecasts, it seems unlikely that they would sway the Committee's existing thinking ahead of its 20 August policy review. The record of the July meeting suggests that a 25bp OCR cut is highly likely this time, and we think the RBNZ will want to leave the door open to the possibility of further easing.

That said, there will no doubt be a vigorous debate around the table about the path ahead – last week we published **our latest Hawks, doves and kiwis report** that considers the arguments that might be made on both sides of the debate. And we'll delve further into our expectations for monetary policy and the wider economy when we release our quarterly *Economic Overview* on Tuesday.

Michael Gordon, Senior Economist

Chart of the week.

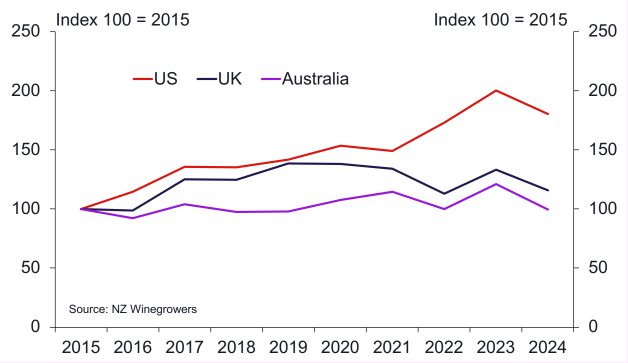
The global wine sector has been hanging tough in recent years. Global consumption declined for the third successive year, falling to 21.4bn litres in 2024 - the lowest since 1961.

This dynamic has also impacted New Zealand's wine sector. New Zealand produces about 300m litres annually, of which 220m litres is sold into the export market, generating about $2bn in export earnings every year. Most of this goes to the US, the UK and Australia. The US, which consumes about 3.3bn litres annually, has been a particularly happy hunting ground for New Zealand wine exporters.

This changed though in 2024. Exports to the US tumbled from about 110m litres of wine in 2023 to just 98m litres a year later. A similar story was evident in the UK and Australia. Impacts were exacerbated by New Zealand having a bumper grape season, which resulted in losses with grapes being left on the vine.

US tariffs may be a further challenge given US consumers may be sensitive to increased retail prices. At the margin, NZ's higher tariff compared to Australia, Chile and Argentina may also be unhelpful.

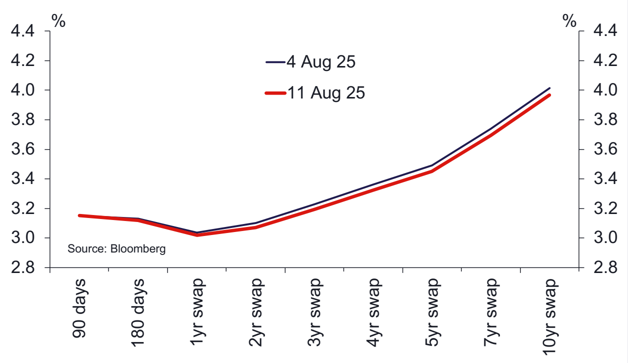
NZ wine exports to key markets



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.

A quiet week in the US brought further mixed data. Highlighting the competing pressures facing the Fed, the ISM services index fell to 50.1 in July, with the employment index falling to 46.4 while the prices paid index rose to 69.9. In other news, pending a permanent appointment of a successor to Chair Powell, President Trump nominated Council of Economic Advisers Chair, Stephen Miran to serve as a Fed Governor until January. The coming week's diary is much busier. Initially, the focus will be squarely on inflation, with the release of the July CPI on Tuesday, followed by the PPI on Thursday. The market expects to see more evidence of tariffs passing through to the consumer, with core CPI inflation expected to lift to 3.0%y/y. On Friday, attention will focus on activity, with the release of the retail sales and factory production reports for July, and the preliminary University of Michigan consumer survey results for August. This week there are also several Fed speakers scheduled to opine on the economy.

Europe.

In the UK, as widely expected, the BoE cut its policy rate by 25bps to 4.0%, albeit with four of the nine MPC members voting for no change. Looking ahead, the BoE stated that a "gradual and careful" approach to the further easing remained appropriate, with the timing and pace to depend on the extent to which underlying inflationary pressures continue to ease. The coming week will see the release of labour market data and the first estimate of Q2 GDP (growth of 0.1%q/q is expected). The euro area diary is again light this week.

Asia-Pacific.

The focus in Australia initially this week will be Tuesday's RBA Board meeting. We expect the RBA will reduce its policy rate by 25bps to 3.6%. This outcome is fully priced by the market, so most interest will centre on the RBA's commentary to see whether it is consistent with the 40bps of further policy easing priced by the end of this year. The prospect of further easing will also be informed by Tuesday's NAB business survey, Wednesday's Wage Price Index and Thursday's labour force survey. Over in China, deflationary pressures continued in July, especially at the producer level with the PPI down 3.6%y/y. Meanwhile, China's exports remain resilient in July, rising 7.5%y/y despite a 22%y/y slump in shipments to the US. This coming Friday will bring the release of the key domestic activity indicators for July, together with news on developments in Chinese house prices. Friday will also see the release of preliminary Q2 GDP data in Japan, with the market looking for modest growth of 0.1%q/q.

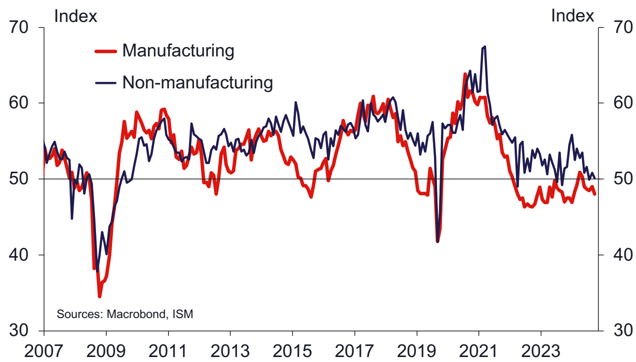
Trading partner real GDP (calendar years)

	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

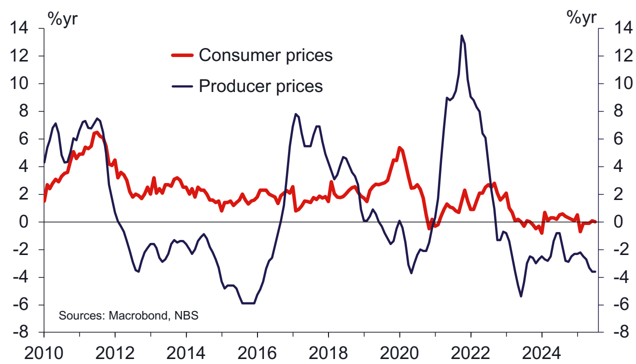
Australian & US interest rate outlook

	8 Aug	**Sep-25**	**Dec-25**	**Dec-26**
Australia				
Cash	3.85	3.60	3.35	2.85
90 Day BBSW	3.67	3.55	3.30	2.95
3 Year Swap	3.33	3.35	3.45	3.85
3 Year Bond	3.41	3.40	3.50	3.90
10 Year Bond	4.25	4.35	4.40	4.55
10 Year Spread to US (bps)	0	-15	-15	-20
US				
Fed Funds	4.375	4.125	3.875	3.875
US 10 Year Bond	4.25	4.50	4.55	4.75

US ISM manufacturing and non-manufacturing



Chinese inflation



Financial markets wrap

Foreign exchange.

The moderate rising trend since May was broken two weeks ago, but only temporarily, indicating further ranging between 0.5900 and 0.6100 multi-week. There's only minor data out before the 20 August RBNZ MPS. This week we have retail spending (Wednesday), as well as the manufacturing PMI, monthly inflation figures, and migration (all on Friday). The RBNZ's August decision will almost certainly be a 25bp cut, but guidance beyond that remains uncertain, with economic developments since the May MPS about as expected. Longer term, it's hard to get too bearish on NZD/USD given that structural negative USD risks (overvaluation, and the erosion of the US dollar's safe-haven identity due to fiscal risks and economic policy uncertainty) may have waned but not disappeared.

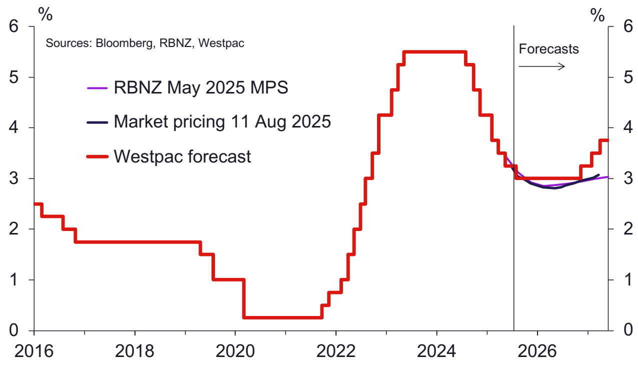
Any rallies in NZD/AUD this week should be limited to 0.9200. The RBA decision is widely expected to be a 25bp rate cut, and that is fully priced by markets. Multi-week, we expect the cross to fall below 0.9100. AUD-supportive factors include China developments which have been encouraging - the tone of US-China negotiations for an extended tariff truce has reportedly been constructive, and markets have recognised China's domestic rebalancing intentions with the Shanghai Composite up 14% this year.

Interest rates.

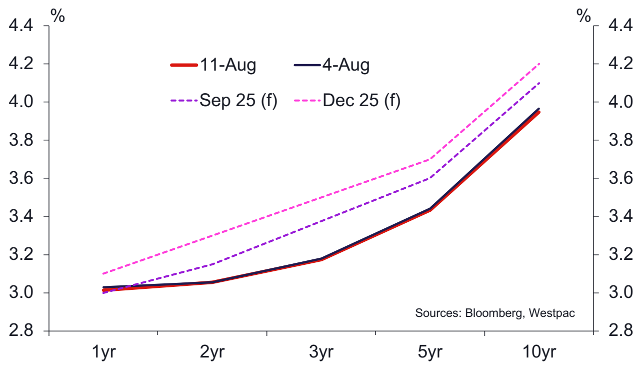
The NZ 2yr swap rate remains under downward pressure, with potential to test the cycle low at 3.05% (set on 1 May). Markets remain biased to receiving swaps, expecting two more OCR cuts from the RBNZ. Those market expectations are partly driven by subdued NZ economic data, and partly by US yields which have responded to softer labour data and dovish Fedspeak. OIS prices imply a 95% chance of a rate cut at the next meeting on 20 August, and beyond that, a 100% chance of another cut by February 2026 to complete the easing cycle. Westpac's economists forecast one more cut in August. During the week ahead, offshore events will be influential, notably US CPI data, the RBA decision and guidance, and AU labour data.

NZ yield curve slopes remain rangebound, as they have been since the cycle peaks in April. The NZ 2-10yr swap curve is currently mid-range at 89bp but could steepen further to 100bp during the months ahead if concerns about rising debt levels among major countries intensify, or if markets believe countries' easing cycles will be even deeper than what 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.

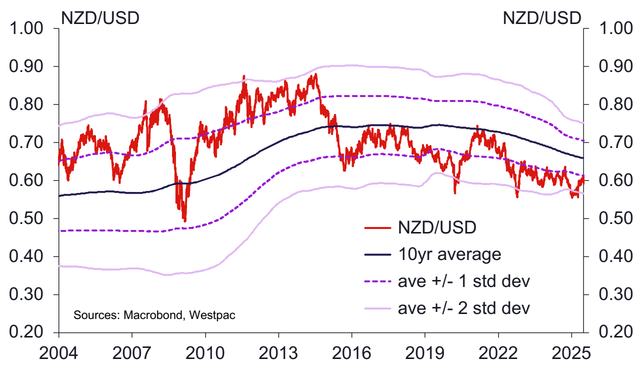
Official Cash Rate forecasts



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	0.596	0.585-0.609	0.553-0.743	0.637	0.61
AUD	0.913	0.912-0.931	0.873-0.971	0.923	0.90
EUR	0.512	0.509-0.531	0.502-0.637	0.575	0.51
GBP	0.443	0.439-0.448	0.431-0.535	0.494	0.44
JPY	87.9	84.8-88.9	68.9-98.6	83.8	85.9

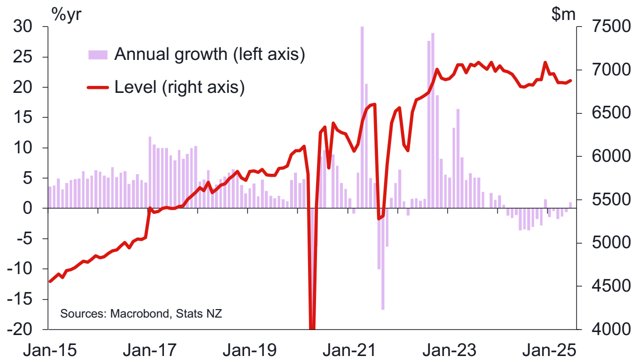
The week ahead

Jul Retail Card Spending

Aug 13, last: +0.5%, Westpac f/c: +0.2%

Retail spending was stronger than expected in June, with sales up 0.5%. Though much of that gain was related to increased spending on groceries (prices for which have been pushing higher), we also saw some lift in discretionary spending areas like furnishings. We're forecasting a modest 0.2% increase in spending in July, underpinned by higher food and fuel prices. Spending growth in discretionary areas is expected to be more restrained.

Monthly retail card spending

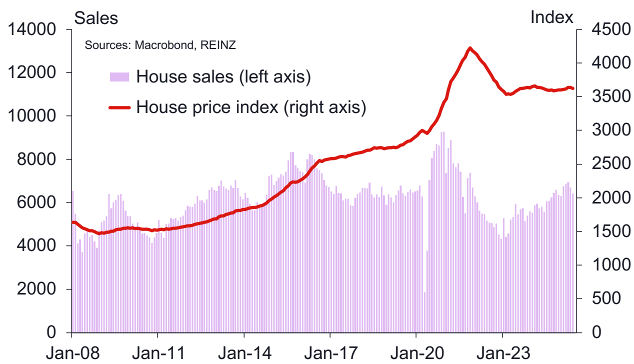


Jul REINZ House Sales and Prices

Aug 14, Prices last: +0.3%yr; Sales last: +20.3%yr

After showing some renewed strength in the early part of this year, the New Zealand housing market appears to have settled back into a more balanced position. Lower mortgage rates are continuing to spur interest among buyers, but an ample supply of both new and existing homes on the market means that there has been little upward pressure on prices to date.

REINZ house prices and sales

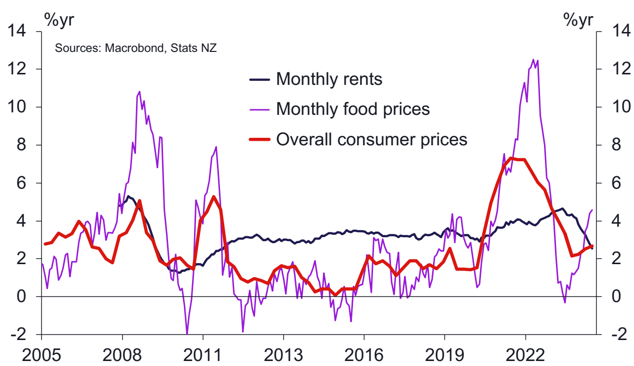


Jul Monthly Selected Prices

Aug 15

With headline inflation set to test 3% over the coming months, there will be a lot to unpack in the July prices update. A key factor that has boosted inflation in recent months has been higher food prices (around 20% of the CPI). And with poor weather in recent months and firm demand for commodities, we're expecting another firm rise in food prices in July of 0.7%. It'll also be worth watching to see if there are continued large increases in household energy prices, while domestic airfares are likely to drive a seasonal lift in travel costs. On the downside, the key area to watch is household rents (close to 10% of the CPI) which have been very subdued recently. We've pencilled in a muted rise of 0.2% in rents in July.

Selected consumer prices

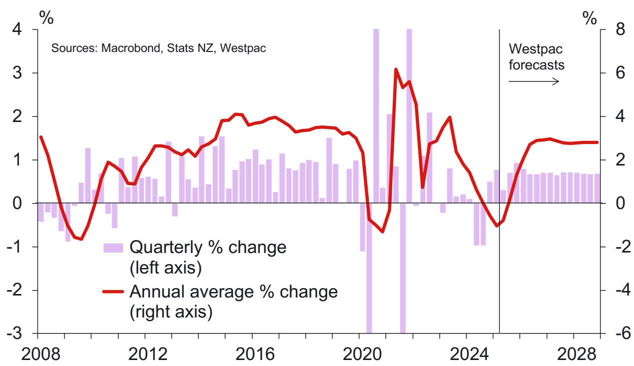


Economic and financial forecasts

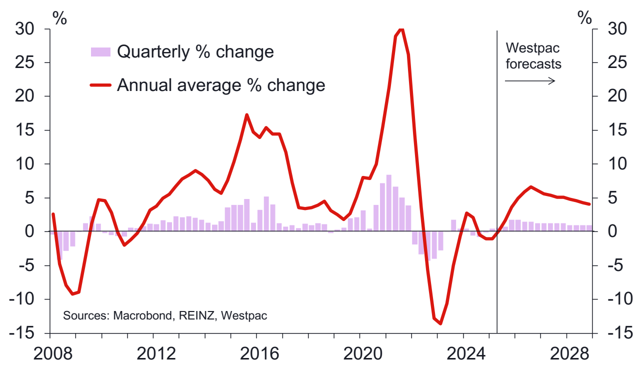
Economic indicators	Quarterly % change				Annual % change			
	Mar-25	Jun-25	Sep-25	Dec-25	2024	2025	2026	2027
GDP (production)	0.8	0.3	0.7	0.9	-1.3	2.7	2.9	2.8
Consumer price index	0.9	0.5	0.9	0.5	2.2	3.0	2.1	2.0
Employment change	0.0	-0.1	0.0	0.2	-1.2	0.2	2.5	1.9
Unemployment rate	5.1	5.2	5.3	5.3	5.1	5.3	4.6	4.2
Labour cost index (all sectors)	0.5	0.6	0.6	0.5	3.3	2.2	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

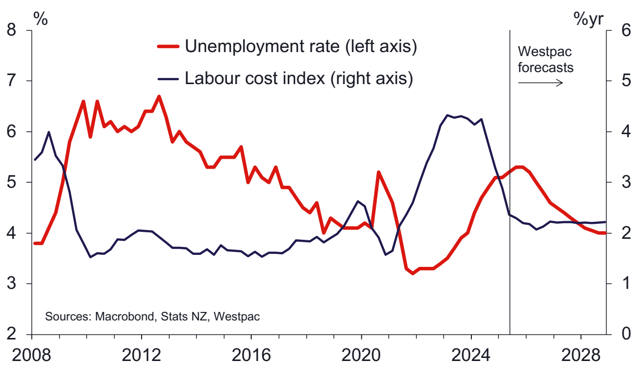
GDP growth



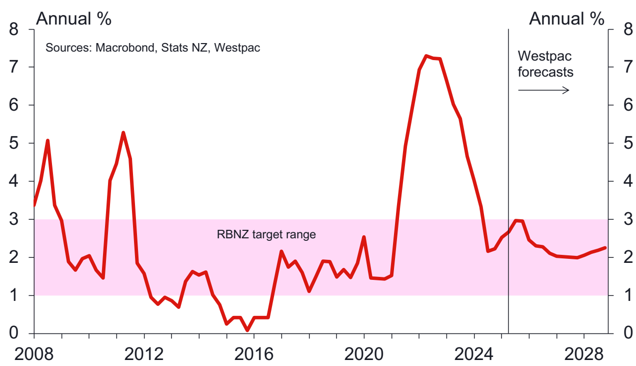
House prices



Unemployment and wage growth



Consumer price inflation



Data calendar

		Last	Market median	Westpac forecast	Risk/Comment
Mon 11					
		- No major data releases -			
Tue 12					
Aus	Jul NAB Business Conditions, index	9	–	–	Holding the line as cost pressures get absorbed into margins.
	RBA Policy Decision	3.85	3.6	3.6	Inflation on track to return sustainably to the target mid-point.
Eur	Aug ZEW Survey Of Expectations, index	36.1	–	–	Investor sentiment whipsaws as trade jitters persist.
UK	Jun ILO Unemployment Rate, %	4.7	–	–	Labour market slack showing in highest jobless rate in 4yrs.
US	Jul NFIB Small Business Optimism, index	98.6	98.6	–	Passing of the 'one, big, beautiful bill' should lift the mood.
	Jul CPI, %mth	0.3	0.2	0.2	Core goods is the main component to watch for tariff impact.
	Jul Monthly Budget Statement, $bn	27	–	–	Surplus propped up by shifts in payment and receipt timing.
Wed 13					
NZ	Jul Retail Card Spending, %mth	0.5	–	0.2	Discretionary spending still subdued.
Aus	Q2 Wage Price Index, %qtr	0.9	0.8	0.9	No significant change in the current momentum.
	Q2 Housing Finance Approvals, %qtr	–1.6	2	3	A solid recovery on the cards.
Thu 14					
NZ	Jul REINZ House Prices, %yr	0.3	–	–	House price trends remain subdued…
	Jul REINZ House Sales, %yr	20.3	–	–	… even as lower mortgage rates spur higher turnover.
Aus	Jul Employment Change, 000s	2	25	25	Employment growth has weakened over last two months...
	Jul Unemployment Rate, %	4.3	4.2	4.2	... suggesting a resumption of a gradual softening trend.
Eur	Q2 GDP, %qtr	0.1	0.1	–	Second estimate.
	Jun Industrial Production, %mth	1.7	–0.5	–	Manufacturing faces pressure as global demand drags.
UK	Q2 GDP, %qtr	0.7	–	0.1	Q2 pulse weak, with negative monthly reads for Apr and May.
	Jun Trade Balance, £bn	–5.7	–	–	Persistent and widening trade deficits since Q4 2024.
US	Jul PPI, %mth	0.0	0.2	–	Tariffs trickling cautiously into wholesale prices so far.
	Initial Jobless Claims	226	–	–	Despite signs of weakness, jobless claims keep relatively low.
	Fedspeak	–	–	–	Goolsbee.
Fri 15					
NZ	Jul Manufacturing PMI, index	48.8	–	–	Has softened again after a solid pickup in early 2025.
	Jul Selected Price Indices - Food, %mth	1.2	–	0.7	Continuing to see firm gains.
	Jul Selected Price Indices - Rents, %mth	0.1	–	0.2	Rental growth is remaining limited.
	Jun Net Migration, no.	1530	–	–	Holding at low but positive levels.
Jpn	Q2 GDP, %qtr	0.0	0.1	–	Economy expected to avert a technical recession...
	Jun Industrial Production, %mth	1.7	–	–	... underscored by resilience in its mfg sector, final estimate.
Chn	Jul Retail Sales, ytd %yr	4.8	4.6	–	The consumer backdrop looks to be on a gradual mend...
	Jul Fixed Asset Investment, ytd %yr	2.8	2.8	–	... but it seems businesses appear reluctant to invest.
	Jul Industrial Production , ytd %yr	6.4	–	–	Proving resilient to tariff headwinds.
US	Jul Retail Sales, %mth	0.6	0.5	–	Set for back-to-back rises, but demand doubts linger.
	Aug Fed Empire State, index	5.5	–1.0	–	Manufacturing activity expanded for the first time in 5 months.
	Jul Import Price Index, %mth	0.1	0.0	–	Closely monitored.
	Jul Industrial Production, %mth	0.3	0.0	–	Annual growth pace gradually slowing over last few months.
	Jun Business Inventories, %mth	0.0	0.2	–	Retail inventories have slowed considerably since Jan.
	Aug Uni. Of Michigan Sentiment, index	61.7	62.1	–	Has clawed back around half of the tariff-hit decline.

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