



WEEKLY ECONOMIC COMMENTARY



12 May 2025 | Westpac Economics Team | westpac.co.nz/economics | economics@westpac.co.nz

Pencilling in an extra OCR cut to 3% while risks persist

On Tuesday we will be releasing updated economic forecasts in our May *Economic Overview*. These forecasts will update for the evolution of the economy since February as well as making a first cut at quantifying the downside risks to the domestic economy stemming from the potentially weaker and more uncertain global trade environment. It's entirely unclear what state the global the economy will be in 3-6 months from now and what that could mean here in New Zealand. Some weakness in global trading partner growth looks inevitable but the extent of that weakness and the ultimate impact on New Zealand is totally up for grabs.

We have tried to balance between two scenarios: a baseline scenario of a continued economic recovery; and an alternative scenario of a decent sized global downturn that slows the domestic recovery. That latter scenario if realised would imply further cuts to the OCR into what would be quite stimulatory territory (remembering our view of the neutral OCR remains at 3.75%).

In practice, we don't think the RBNZ will be able to see its way through the fog of war by July or even August. Hence, it's likely they will continue to cut the OCR beyond the 3.25% trough in the OCR we previously forecast. **We have pencilled in an additional 25bp cut to 3% in July** (noting that August is also a real possibility) to reflect that the RBNZ will likely continue to perceive downside risks for a while after May.

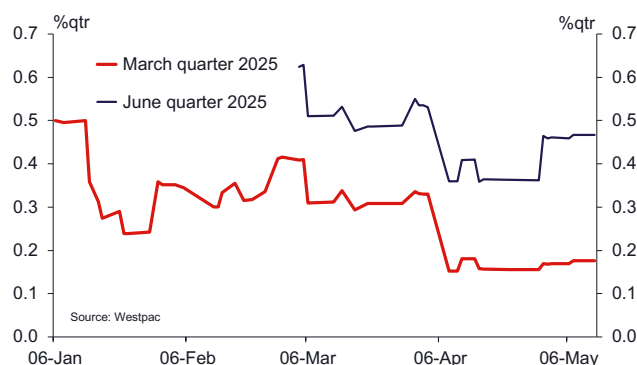
The baseline view – continued recovery.

The New Zealand economy continued its slow-but-steady recovery up until the trade shock hit. Data in April generally confirmed the view that growth was continuing – albeit with some normal month-to-month volatility. Consumer confidence picked up, business confidence remained robust, the manufacturing and composite

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

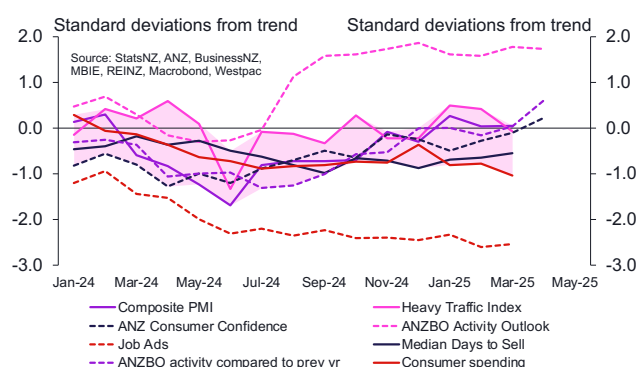


Key data and event outlook

Date	Event
15 May 25	NZ Selected price indexes, April
20 May 25	RBA Monetary Policy Decision
22 May 25	Government releases Budget 2025
28 May 25	RBNZ OCR Review & Monetary Policy Statement
5 Jun 25	Govt financial statements, 10 months to April
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

PMIs remained in expansionary territory, while activity in the housing market has continued to gradually rise. Economic indicators haven't all been positive, however. For instance, consumer spending took a step back in March. At the same time, labour market conditions have been more mixed – the March quarter saw a modest gain in employment and the unemployment rate remained unchanged at 5.1%, but wage growth continued to cool, and the number of hours worked declined.

Recent developments in economic indicators



This picture of gradually improving economic activity has been in line with our expectations from earlier this year. Given that inflation pressures show no signs of undershooting the RBNZ's 2% target mid-point, it's likely we would have been nearing the end of the easing cycle in the absence of current trade shock.

Interest rates have fallen a long way and are delivering significant stimulus that's just hitting the bloodstream right now. The RBNZ delivered the expected 25bp cut to 3.5% at its April meeting as had been signalled in the February Monetary Policy Statement. That brings the total amount of OCR cuts delivered this cycle to 200bps. With large numbers of borrowers due to re-fix their mortgages over the next few months, the associated cuts in mortgage costs will generate a significant increase in monthly disposable income for many households. In fact, for the average household with a mortgage, that fall in their minimum repayments would be equivalent to roughly 4% of their annual income. That compares favourably with other periods of monetary easing in the last 30 years. Indeed, it was only the large reduction seen in the wake of the Global Financial Crisis that has been larger.

Lower interest rates have come at a time when commodity markets are delivering the key NZ primary sector a boom in incomes that's helping underpin growth. **Spending in the regions** where the primary sector and tourism gains have a higher weight shows strength compared to the major urban areas.

The downside risks.

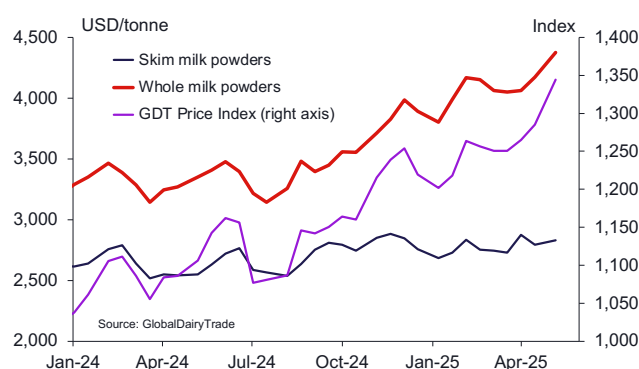
But nevertheless, growth remains narrowly based and remains vulnerable to a setback. Concerns that such a setback could be upon us have arrived now, with threats

to the global outlook coming from record high levels of trade policy uncertainty amidst the wildly fluctuating trade policy and tariff outlook. The direct impact of New Zealand's 10% tariff is unwelcome but, in the end, manageable. It's the possible indirect effects that are of greater importance.

Markets will remain alert for the potential that the uncertain operating environment is impinging on the nascent recovery in consumption and investment. Businesses indicated some risks here in the ANZ's April business confidence survey where firms that responded later in April took a much more pessimistic view on the outlook for investment and employment than those who answered earlier in the month.

But critical will be the extent to which weaker global growth reduces the terms of trade that's contributing to the recovery thus far. News to date has been encouraging. Export prices haven't fallen and by and large orders have not been cancelled. While damage has been done in some areas (for example, for some local manufacturers with facilities based in Asia but exporting to the United States), opportunities beckon for others. For example, suppliers of beef and dairy products to China may see increased demand, replacing highly-tariffed exports from the US.

GlobalDairyTrade auction prices – recent trends



The behaviour of the exchange rate will be critical in managing the damage done by the indirect tariff effects. The volatility in the exchange rate in the last month is testament to the uncertainty on the outlook. The NZD/USD exchange rate fell below 55 cents in early April on the tariff announcements but recovered to just above 60 cents as sentiment regarding the US dollar soured and as better news emerged on the tariff front. On a trade weighted basis, the NZD has traded in a 6% range in the last month. While our forecast is for the NZD to track around current levels versus the USD for the remainder of this year, there is a risk of further weakness and volatility. We see further trend weakness in the NZD on a trade weighted basis around a volatile path as views wax and wane on the US dollar and global uncertainty.

We have considered a downside scenario for the global economy that is perhaps around a quarter of the intensity

seen during the GFC, which would slow growth and push inflation somewhat lower in New Zealand. That scenario is less positive than our baseline view in that the total downgrade to trading partner growth is larger with a greater impact on Chinese and Asian trading partner growth. We would expect such a scenario to be more negative for New Zealand's terms of trade (which we marked down 5 percentage points) and would likely have more pronounced confidence and uncertainty impacts on the most cyclical elements of the economy – consumption and investment. Inflation would head towards 1.5% for a while, even though the exchange rate would fall. That downside scenario is realistic, but by no means certain, both in terms of likelihood and its composition. But we think it gives a realistic scalar in terms of the impact on the economy.

The starting point for inflation is still uncomfortably high for the RBNZ. For various reasons, domestic inflation continues to fall more slowly than expected given past weakness in the economy. While we see cyclical elements of inflation moving lower, there are plenty of other sources of inflation that are more persistent – for example in less competitive parts of the economy including in areas dominated by central and local government. On its own, that persistence in domestic inflation pressures would not argue for further cuts into more stimulatory territory, especially when compounded by the rise in prices for food and other commodities.

The implications for monetary policy now.

We should consider and put some weight on the downside risks for global growth. It's those risks that markets have responded to recently and which the RBNZ MPC will likely act on when cutting the OCR a further 25bp at their May meeting.

We had thought that the easing cycle would be over by mid-2025. But trade uncertainty is likely to persist for longer than that, which means the downside risks will be with us until at least August and possibly longer. A corollary is that once reaching this new lower trough, the OCR could remain there for longer. Given a General Election is likely in late 2026 it seems prudent to assume at this point the tightening cycle might begin at the end of 2026 as opposed to mid-2026 as previously assumed. We also note that Treasury and the Minister of Finance have been vocal in suggesting that interest rates should be cut in the event of the downside risks crystallising. It's likely the interim RBNZ Governor and the MPC will have that in mind when determining the best path forward.

It's by no means clear that the downside risks will eventuate, but we expect the RBNZ to continue to move methodically in the easing direction while those downside risks remain. A move in the OCR to 3% now seems likely by August. We don't expect a lurch lower – it would take tangible signs of a more significant impact on the NZ

economy and critically the inflation outlook to cause the MPC to move more quickly. It will be important to ensure the MPC's actions now don't necessitate the need for an aggressive rise in interest rates down the track should conditions not prove as weak as feared by markets. Policy is likely stimulatory now.

New Zealand dollar forecast updates.

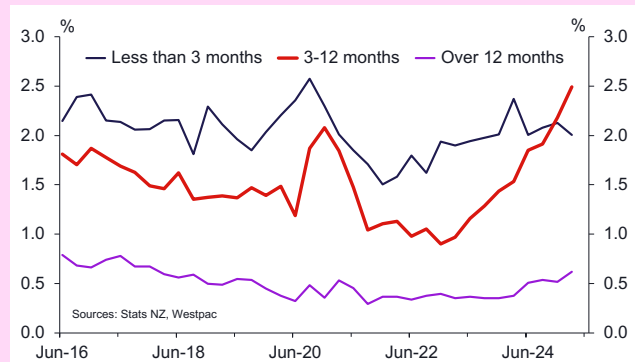
We've updated our forecast for the NZ dollar reflecting recent global developments and other changes to our forecasts. We now expect the NZD/USD will remain near 59 cents in 2025, before rising to 60-62 cents in 2026. Against the AUD, the NZD is expected to gradually ease back from 92 cents currently to 89 cents by the end of the year, before falling to 87 cents by the end of 2026. We also expect the NZD to underperform on the other crosses. This implies a broadly stable NZD on a trade weighted basis.

Kelly Eckhold, Chief Economist

Chart of the week.

The gradual rise in New Zealand's unemployment rate over the last couple of years has been the result of an effective hiring freeze. The HLFS shows that the number of people who have become unemployed since the last survey has risen from its lows, but is not particularly high by historic standards. What has changed is that once people enter unemployment, they're finding it harder to get out again – more of them are remaining out of work for periods of up to a year, or even longer. The still-low level of job advertisements at the moment indicates that businesses are looking to get by with existing staff numbers even as they see signs of activity picking up again.

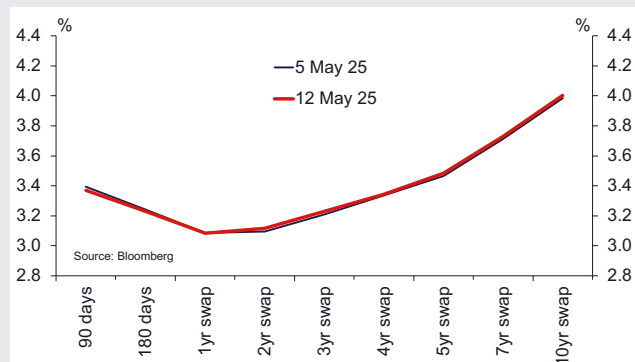
Unemployment rate by duration



Fixed versus floating for mortgages.

We're forecasting the cash rate to bottom at 3% in mid-2025, but with downside risks to that forecast given global events. Markets now factor in an OCR that bottoms closer to 2.75%. Mortgage rates now uniformly sit just under 5% reflecting the recent fall in wholesale rates, and even longer-term mortgage rates have fallen a touch. There could be some further scope for mortgage rates to fall further should wholesale rates settle around current levels. But fixing for longer periods still looks attractive now mortgage rates are either below or close to 5%. Very short-term mortgage rates are likely to fall in the near term as the RBNZ delivers further OCR cuts, 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 2.75%.

NZ interest rates



Global wrap

US.

The FOMC left policy settings unchanged last week in a unanimous decision. The accompanying statement characterised the economy and labour market as ‘solid’, while inflation remained somewhat elevated. It also noted uncertainty about the outlook has increased. Against that backdrop the Fed has taken a wait-and-see approach and market pricing for Fed rate cuts has been wound back. On the trade front, the US announced that a deal has been reached with the UK, though details on the deal are limited at this stage. In terms of what was announced, the 10% minimum Liberation Day tariff will remain in place for most UK exports, but it has been lowered for some items like cars. In exchange, the US has gained concessions such as improved access for some agricultural exports. The key focus over the coming week will be progress on US-China trade talks. On the data front, there will be updates on the CPI (Tuesday), retail sales and industrial production (Thursday), and consumer confidence (Friday). Fed Chair Powell will also be speaking on Thursday, with other Fed speakers throughout the week.

Europe.

The Bank of England delivered the expected 25bp cut last week. However, there was an unexpected split in the MPC’s vote. While five members voted for a 25bp cut, two voted for a 50bp cut highlighting emerging domestic slack and concern about the global outlook. The remaining members voted for a pause, noting the persistence in the labour market and inflation. In Europe, both Norway’s Norges Bank and Sweden’s Riksbank remained on hold (as expected), but comments from both point to an easing bias.

Asia-Pacific.

In Australia, monthly household spending was weaker than expected in March, falling 0.3%, leaving us with a picture of flat retail volumes through the first quarter of the year. Dwelling consent issuance was also weaker than expected in March, with earlier gains in the multi-units category reversing. However, that still leaves approvals at firm levels. This week’s Australian calendar includes updates on consumer and business confidence on Tuesday and the labour market on Wednesday, with unemployment expected to hold steady at 4.1%.

Across in China, consumer prices fell 0.1% in the year to April, and while factory prices also continued to decline. In response to ongoing concerns about the strength of demand, China’s central bank last week cut its policy rate and lowered the reserve requirement ratio, as well as loosening other financial conditions.

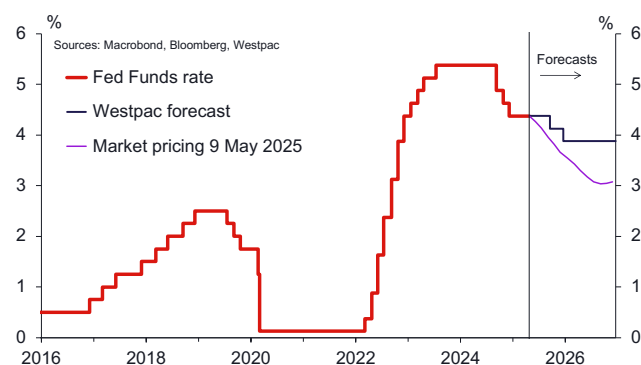
Trading partner real GDP (calendar years)

	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	3.3	3.2	3.0	3.0
World	3.5	3.3	2.9	3.0

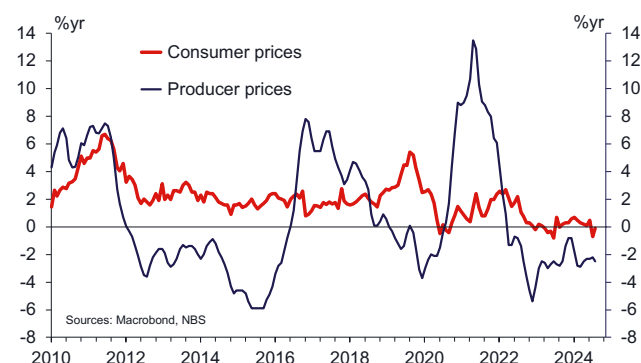
Australian & US interest rate outlook

	9 May	Jun-25	Dec-25	Dec-26
Australia				
Cash	4.10	3.85	3.35	3.35
90 Day BBSW	3.82	3.90	3.45	3.55
3 Year Swap	3.33	3.35	3.50	3.90
3 Year Bond	3.41	3.40	3.55	3.95
10 Year Bond	4.29	4.35	4.45	4.70
10 Year Spread to US (bps)	-8	5	5	0
US				
Fed Funds	4.375	4.375	3.875	3.875
US 10 Year Bond	4.37	4.30	4.40	4.70

US Fed Funds rate



Chinese inflation



Financial markets wrap

Foreign exchange.

NZD/USD remains in its consolidative range, 0.5870-0.6030, although the risks have shifted to the downside for the week ahead, with potential for 0.5800.

The US dollar had become stretched after a large multi-month selloff, warning of at least a moderate rebound. More fundamentally, the news flow regarding tariff agreements has been less confrontational recently, supporting the US dollar. Notably, US-China trade talks on Sunday were described as constructive, and while any agreement is probably some way off, the direction is supportive of risk sentiment.

Datavise this week, the key events will be US CPI inflation, retail sales, inflation expectations, and NZ inflation expectations. Markets continue to price around four more cuts in the US and three more cuts in NZ.

The NZD/AUD cross fell slightly further last week, making a one-month low at 0.9199 on Friday. We expect the downward momentum to persist, targeting 0.9150 this week. Confirmation that US-China trade talks are trending positively would be AUD-supportive. AU jobs data provides event risk.

Interest rates.

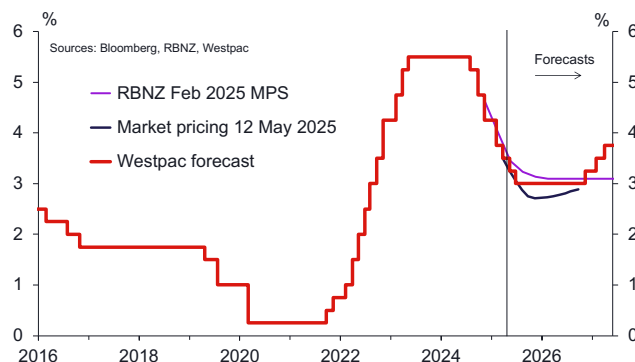
The NZ 2yr swap rate has continued to hover above tentative support at 3.03% during the past few weeks, following US and AU rates. Local fundamental drivers haven't added much to the mix, NZ economic data momentum largely matching expectations.

The next major NZ event will be the RBNZ MPS on 28 May. A 25bp cut is widely expected, so that the market's focus will be on the updated OCR forecast. A moderate reduction in the forecast terminal rate to the high 2s (from 3.10% currently) is probably market consensus.

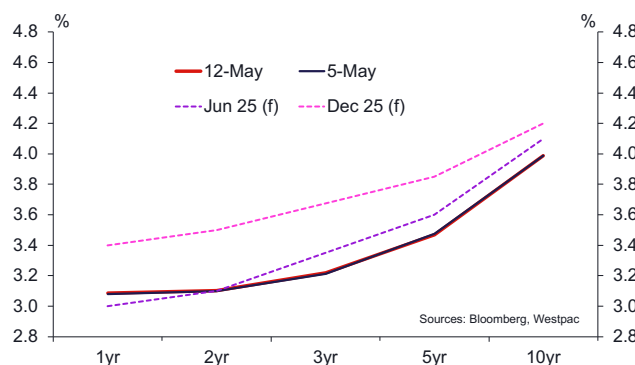
OIS pricing has stabilised during the past few weeks, stuck on three more 25bp cuts in this cycle to 2.75% (and ruling out any chance of a larger 50bp cut). Westpac forecasts two more cuts, as does the RBNZ's OCR forecast from the February MPS.

The NZ yield curve has been stable over the past few weeks, following a brief US- spike steeper in April. A slight flattening is possible during the next few weeks if sentiment regarding the US economy improves.

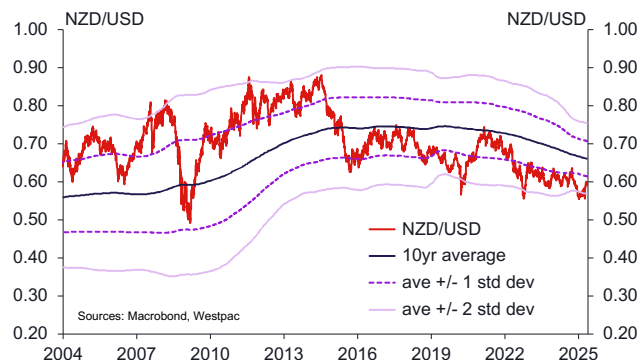
Official Cash Rate forecasts



Swap rates



NZD/USD vs rolling 10yr average



FX recent developments

	Historical data				F'cast
	Spot	3mth range	5yr range	5yr avg	Dec-25
USD	0.592	0.553-0.599	0.553-0.743	0.639	0.59
AUD	0.923	0.897-0.936	0.873-0.971	0.924	0.89
EUR	0.529	0.502-0.549	0.502-0.637	0.577	0.52
GBP	0.447	0.431-0.456	0.431-0.535	0.498	0.45
JPY	86.6	80.5-87.6	63.7-98.6	82.8	83.9

The week ahead

Apr Retail Card Spending

May 14, last: -0.8%, Westpac f/c: +0.2%

Retail spending fell 0.8% in March with weakness spread across discretionary spending categories, like furnishing and apparel. That was despite falls in petrol prices putting money back into people's pockets. We expect spending levels will push higher again in April. However, for now the recovery remains gradual. In addition, poor weather over the past month is likely to have been a drag on hospitality spending. We expect the recovery will gain pace over the coming months as increasing numbers of borrowers roll on to lower mortgage rates.

Monthly retail card spending

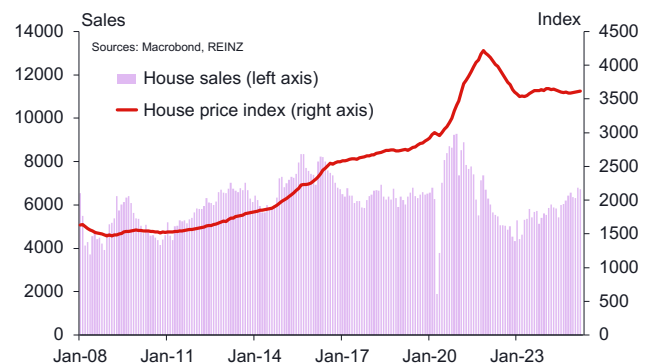


Apr REINZ House Prices and Sales

May 15 (TBC), Prices last: -0.7%/yr; Sales last: +12.8%/yr

The housing market continued to gradually pick up in the early part of this year. The REINZ house price index has risen, albeit marginally, for the last five months straight, and loan demand has risen strongly. The close proximity of Easter and Anzac Day may have ended up weighing on activity in April, but otherwise we expect sales to maintain their upward trend. As the stock of unsold homes on the market is worked through, we expect to see further upward pressure on prices over 2025.

REINZ house prices and sales

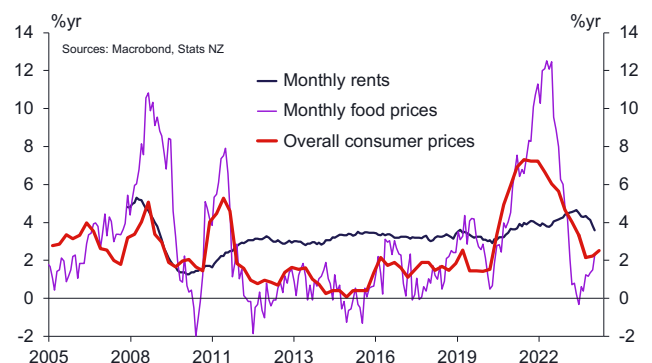


Apr Selected prices

May 15

Stats NZ's monthly price data covers around 45% of the CPI. In terms of the big categories, we expect that food prices will be broadly flat with continued increases in grocery prices balanced against the usual seasonal fall in produce prices. Strength in food prices is upside risk to overall inflation over the coming months. On the domestic front, we're watching for continued softness in hospitality prices and only modest gains in rents. That would be consistent with a continued gradual easing in non-tradables inflation through the middle part of the year.

Selected consumer prices



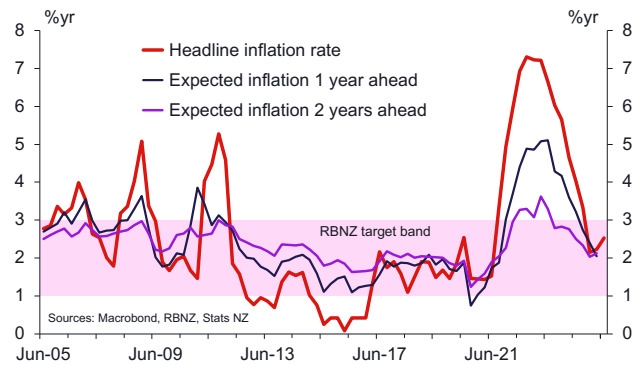
The week ahead

Q2 RBNZ Survey of Expectations

16 May, Expected inflation two years ahead, last: 2.06%

Inflation expectations remained well contained in the RBNZ's previous Survey of Expectations. Since the last survey, annual inflation has picked up from 2.2% to 2.5%. In addition, this will be the first survey since the US Liberation Day announcements. Those developments suggest some upside risk for near term inflation expectations. However, the bigger focus for the RBNZ concerns whether longer term expectations have been impacted, which we expect will remain close to 2%.

RBNZ Survey of Expectations



Economic and financial forecasts

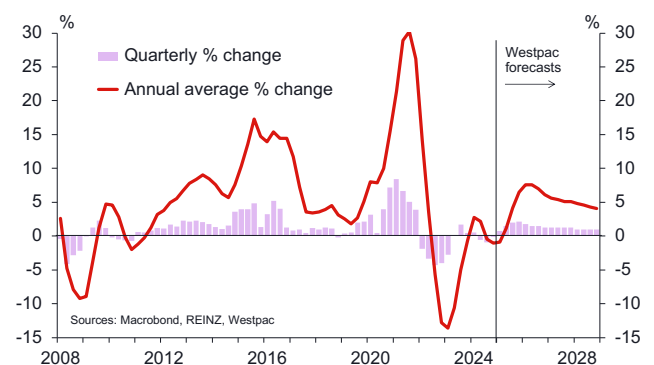
Economic indicators	Quarterly % change				Annual % change			
	Dec-24	Mar-25	Jun-25	Sep-25	2024	2025	2026	2027
GDP (production)	0.7	0.4	0.4	0.8	-0.5	1.0	3.2	2.8
Consumer price index	0.5	0.9	0.2	0.9	2.2	2.8	2.0	2.1
Employment change	-0.1	-0.1	0.1	0.1	-1.1	0.5	2.1	2.0
Unemployment rate	5.1	5.1	5.3	5.3	5.1	5.2	4.4	4.0
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	-5.5	-4.6	-4.3	-6.2	-4.0	-4.5	-4.4
Terms of trade	3.1	7.1	2.6	-1.1	13.6	8.0	1.4	2.3
House price index	-0.2	0.8	1.5	2.0	-1.1	6.5	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	3.15	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



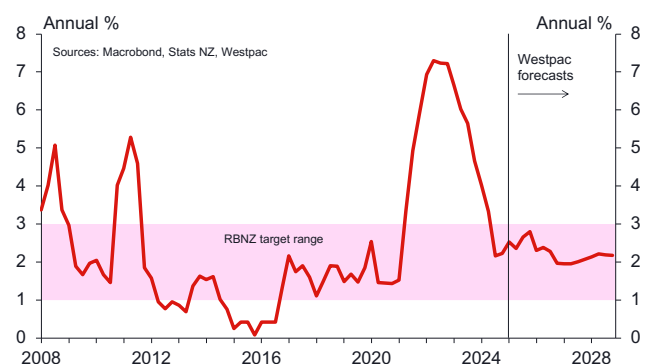
House prices



Unemployment and wage growth



Consumer price inflation



Data calendar

		Last	Market median	Westpac forecast	Risk/Comment
Mon 12					
Jpn	Mar Current Account Balance, ¥bn	4061	3787	–	Surplus to persist on foreign investment returns.
US	Fedspeak	–	–	–	Kugler.
Tue 13					
Aus	May Westpac-MI Cons. Sentiment, index	90.1	–	–	Federal election response and tariff reactions in focus.
	Apr NAB Business Conditions, index	4	–	–	Little-changed thus far, but uncertainty might start to show.
Eur	May ZEW Survey Of Expectations, index	–18.5	–	–	Trade and fiscal policy see sentiment seesaw.
UK	Mar ILO Unemployment Rate, %	4.4	–	–	The labour market is showing signs of slack ...
	Mar Average Weekly Earnings, %yr	5.6	–	–	... surveys suggest wage growth too will ease.
US	Apr NFIB Small Business Optimism, index	97.4	94.7	–	Increasing costs dampen outlook for small businesses.
	Apr CPI, %mth	–0.1	0.3	0.3	April too early to see the full effect of tariffs.
Wed 14					
NZ	Apr Retail Card Spending, %mth	–0.8	–	0.3	The pace of the recovery remains gradual.
	Mar Net Migration, no.	5430	–	–	Balance is stabilising, Feb was boosted by students.
Aus	Q1 Wage Price Index, %qtr	0.7	0.8	0.8	Individual Arrangements present downside risk to our estimate.
	Q1 Housing Finance Approvals, %qtr	1.4	flat	–1.5	Lower transaction volumes points to softer outcome.
US	Fedspeak	–	–	–	Waller, Jefferson, Daly.
Thu 15					
NZ	Apr REINZ House Prices, %yr	–0.7	–	–	Expected date. Prices are gradually picking up ...
	Apr REINZ House Sales, %yr	12.8	–	–	... though public holidays may weigh on April activity.
	Apr Food Price Index, %mth	0.5	–	0	Seasonal fall in produce prices, grocery prices rising.
	Apr Housing Rents, %mth	0.3	–	0.2	Rental growth has been modest.
Aus	May MI Inflation Expectations, %ann	4.2	–	–	Expectations remain anchored.
	Apr Employment Change, 000s	32.2	22.5	20	Employment barely grew over Q1 ...
	Apr Unemployment Rate, %	4.1	4.1	4.1	... while the unemployment rate held steady.
Eur	Q1 GDP, %qtr	0.4	–	–	Second estimate to provide more colour.
	Mar Industrial Production, %mth	1.1	–	–	Uncertainty around demand will weigh on production.
UK	Q1 GDP, %qtr	0.1	–	–	Monthly data points to a solid turnout for Q1 ...
	Mar Trade Balance, £bn	–1956	–	–	... with solid exports doing some of the heavy lifting.
US	Apr Retail Sales, %mth	1.5	0	–	Consumers pre-purchase ahead of tariff-induced price hikes.
	Apr PPI, %mth	–0.4	0.3	–	Still too early to see the impacts of tariffs.
	Apr Industrial Production, %mth	–0.3	0.3	–	Factory output treading water ...
	May Fed Empire State, index	–8.1	–8.0	–	... as manufacturing sentiment plummets ...
	May Philly Fed, index	–26.4	–9.6	–	... across the regions.
	Initial Jobless Claims	228	–	–	Ticked up slightly, but still very low.
	FOMC Chair Powell	–	–	–	Speaking on the central bank's monetary policy review.
Fri 16					
NZ	Apr Manufacturing PMI, index	53.2	–	–	Solid lift so far in 2025.
	Q2 RBNZ Inflation Expectations, %ann	2.1	–	–	Close to 2%, but upside risk from global tensions.
Jpn	Q1 GDP, %qtr	0.6	–0.1	–	Drag from imports to hamper growth.
	Mar Industrial Production, %mth	–1.1	–	–	Final estimate; under pressure from a foggy trade outlook.
Eur	Mar Trade Balance, €bn	21	–	–	Strong exports ahead of tariffs will see a wide trade surplus.
US	Apr Housing Starts, %mth	–11.4	3.3	–	Elevated lending costs and uncertainty making housing ...
	Apr Building Permits, %mth	0.5	0	–	... projects an unattractive bet for builders.
	May Uni. of Michigan Sentiment, index	52.2	53	–	Confidence plummets, inflation expectations skyrocket.

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