



# WEEKLY ECONOMIC COMMENTARY

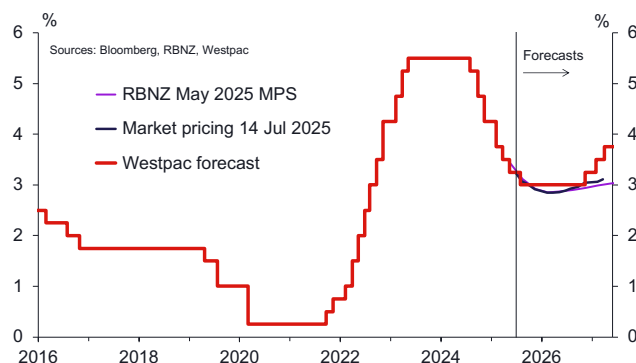


14 Jul 2025 | Westpac Economics Team | [westpac.co.nz/economics](https://westpac.co.nz/economics) | [economics@westpac.co.nz](mailto:economics@westpac.co.nz)

## Pausing for breath

As expected, the RBNZ left the Official Cash Rate on hold at 3.25% at its July policy review. That was its first pause since the RBNZ began easing policy in August last year. The RBNZ still expects to lower the cash rate further this cycle. However, with the cash rate having already fallen 225bps from its peak, the pace and extent of any further easing will be dependent on economic conditions, especially inflation. We continue to expect one more 25bp cut to 3.00% at the August policy meeting.

### Official Cash Rate forecasts



The RBNZ's July pause reflected a balancing of several concerns. On the downside, although GDP growth has been a bit firmer than expected in the past couple of quarters, economic conditions are still soggy. The economy continues to operate with spare capacity, with unemployment sitting at 5.1% in the March quarter. In addition, the past few months have seen softness in a number of economic indicators, like the PMIs, house sales, retail card spending, and filled jobs – all of which points to weaker demand and more sluggish growth through the middle part of the year. That's consistent with our own recent talks around the country, with many businesses continuing to report tough trading

### 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 Jul 25	NZ Selected price indexes, June
21 Jul 25	NZ CPI, June quarter
30 Jul 25	FOMC meeting (31 Jul NZT)
6 Aug 25	NZ Labour Market Statistics, June quarter
7 Aug 25	NZ RBNZ Survey of Expectations, June quarter
12 Aug 25	RBA Monetary Policy Decision
15 Aug 25	NZ Selected price indexes, July
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)

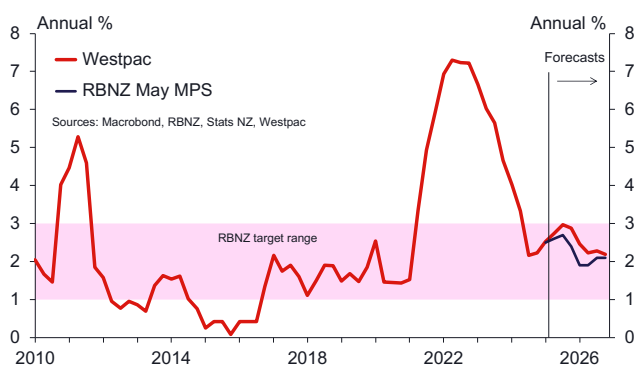
conditions, especially in sectors like construction, retail and hospitality.

Adding to the concerns about the economic outlook are ongoing uncertainties about changes in US trade policy, including what level of tariffs may be imposed on New Zealand and its major trading partners.

But while we are still seeing some softness in economic activity, the pace and extent of any further easing in the OCR will still be dependent on the inflation outlook. And on this front, conditions aren't looking as benign as they did earlier in the year. Inflation has already picked up to 2.5% in the year to March. And it's likely that it will rise back up to the top of the RBNZ's target band before the end of this year – something that the RBNZ acknowledged in the media release accompanying this week's policy decision.

Much of the pickup in inflation now in train is due to increases in food and energy prices that have occurred since the RBNZ last published forecasts back in May. That lift in inflation doesn't necessarily mean that the easing cycle has come to an end. But the RBNZ still needs to be confident that inflation will trend back to target over time. To assess this, the RBNZ will pay close attention to various measures of core inflation (which smooth through temporary swings in prices and instead track the underlying trend in inflation). In recent months, these various measures have generally been trending down, but some are still lingering in the upper part of the target range. This will be a key area to watch ahead of the 20 August policy meeting.

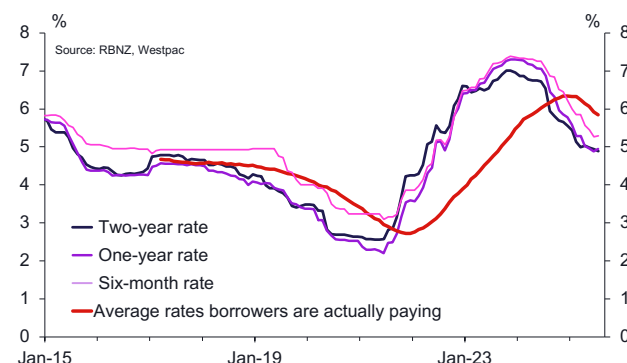
#### Consumer price inflation forecasts



Also adding to the RBNZ's cautious approach, the full impact of the large interest rate reductions over the past year is yet to be felt. In fact, although the OCR has fallen 225bps since August, as of May (the latest data currently available) the average rate that borrowers were actually paying had only fallen around 50bps. That's because, with around 90% of New Zealand mortgages fixed for a period, many borrowers are still on the relatively high interest rates that were on offer in recent years. In addition, the past few months saw many borrowers rolling on to shorter term fixed rates (up to six months) while they waited to see if longer term interest rates

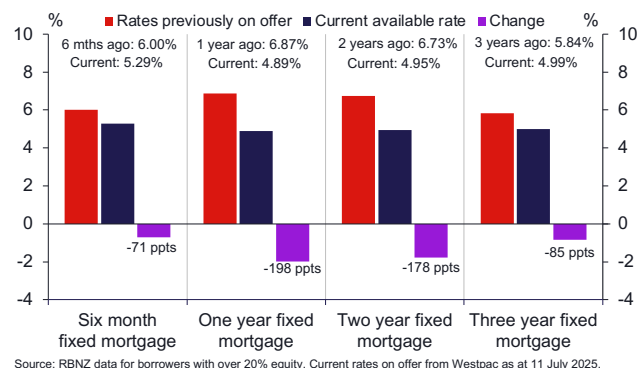
would continue to fall further. As shorter term rates have tended to be more expensive, that's delayed the full impact of rate cuts for many borrowers.

#### Mortgage rates



While the passthrough of rate cuts has been gradual to date, it will pick up through the back part of the year. Over the next six months close to half of all fixed-rate mortgages will come up for re-fixing. That will give many borrowers the opportunity to shift to a much lower mortgage rate. Compared to this time last year, the one-year fixed mortgage rate is around 200bps lower, while the two-year fixed mortgage rate is around 180bps lower than in 2023.

#### Change in borrowing rates



Before deciding whether to cut rates further, the RBNZ will want to see how demand in the economy is shaping up as increasing numbers of borrowers refix their mortgages. Not all of the reduction in interest costs will be spent – some households will increase their savings and others may choose to paydown debt faster. Even so, the fall in borrowing costs still signals a significant lift in many households' disposable incomes over the coming months, and we expect that will help to boost sentiment and spending through the back part of the year.

Balancing these competing concerns, the RBNZ left the OCR unchanged. While the decision was not taken to a vote, the record of the meeting clearly showed a split in views among the Committee members, with both a 25bp cut and a pause discussed. The 'no change' view seems to have won out on the understanding that it would only be

a pause until August, when more information about the economy would be available.

There remains a sense that one to two more 25bp cuts is still high in the minds of the MPC. Perhaps the hawks would see the risks as being in the zero to one cut range, while the doves might see at least one and perhaps two 25bps cut by early next year.

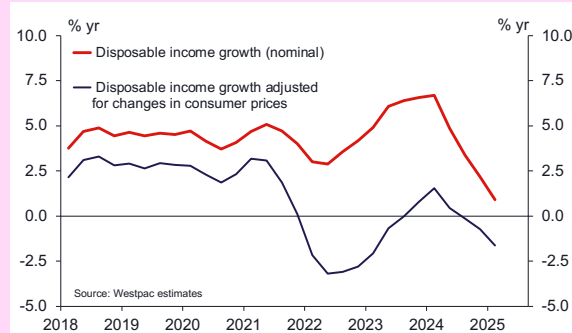
We continue to expect one further 25bp cut in this cycle, delivered at the 20 August Monetary Policy Statement. However, the extent and pace of any further reduction will be dependent on the evolution of economic data. The key factors to watch ahead of that review will be the strength of core inflation in the CPI (21 July), and any pickup in surveyed inflation expectations (first half of August). We expect the unemployment rate (6 August) to rise a bit more than the RBNZ was forecasting in May, though this softness has already been foreshadowed by higher-frequency data.

**Satish Ranchhod**, Senior Economist

## Chart of the week.

With softness in the jobs market and cooling wage growth, income growth has slowed sharply. Households' after-tax disposable incomes have increased just 0.9% over the past year despite last year's income tax cuts. Over the same period, consumer prices have risen by around 2.5%. The resulting squeeze on purchasing power has been a drag on retail spending, especially in discretionary areas like hospitality and furnishings. We've also seen savings levels continuing to decline. Providing some relief from those pressures has been the sharp fall in mortgage rates. But with 90% of New Zealand mortgages fixed for a period, the pass through of mortgage rate reductions to households' back pockets has been gradual. And for some households without mortgages, lower interest rates have led to a reduction in incomes. However, increasing numbers of mortgage borrowers are now rolling on to lower rates, and that's likely to boost spending in the back part of this year.

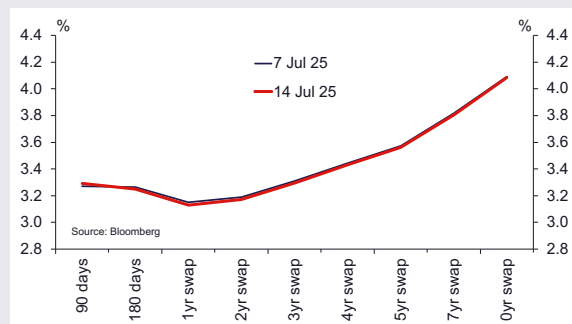
### Average household's disposable income (annual, after tax)



## 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.

US President Trump began to outline the tariff rates that will be imposed on US imports from individual countries beginning 1 August. The proposed rates are in many cases similar to the "reciprocal" tariffs announced in April, but with some notable departures. Brazil has been hit with a 50% tariff and the European Union faces 30%, both from 10% previously. China's final rate has yet to be determined, and Trump has indicated that most remaining tariff letters will be in the 15-20% range (this presumably includes New Zealand and Australia, which would be up from their initial 10% rates).

The minutes of the FOMC's June meeting showed Committee members were positive on the outlook for the economy at the time, believing "the risks of higher inflation and weaker labour market conditions had diminished... citing a lower expected path of tariffs". More members currently believe that risks to inflation are of greater concern than those for the labour market, and while the consensus view is that the impact of tariffs on inflation is likely to be temporary, it could still take several months to show clearly in the data. June CPI (Tues) is expected to show a 0.3% rise on both headline and core measures, which would see the annual inflation rates tick higher.

## Asia-Pacific.

The RBA's decision to leave the cash rate unchanged at 3.85% came as a surprise to most market participants and economists who were anticipating a 25bp cut. Notably, the first-ever release of unattributed votes showed it was a split decision, with 6 members in favour of holding and 3 against. In opting to delay rate relief, the Board is looking to confirm inflation is continuing to track towards the midpoint of the target range via the detailed quarterly inflation data on 30 July. The key data release this week is the June labour force survey (Thurs), where we expect a rebound in both jobs and participation and a steady unemployment rate. In China, June quarter GDP (Tues) is expected to show a 5.3% rise for the year to date, holding above the government's 5% target for the year.

## Europe.

UK monthly GDP fell 0.1% in May, softer than expected and a second straight fall. The decline is partly the result of activity being brought forward into the March quarter, ahead of US tariffs and an increase in transaction taxes for house purchases. The week ahead sees CPI releases for both the UK and the euro area; while the latter has returned to the 2% target, services inflation remains stubborn in the UK.

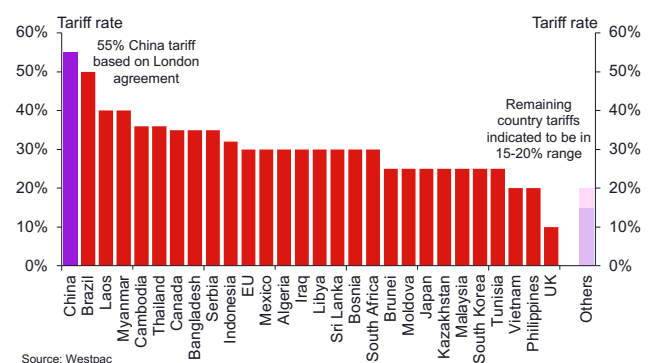
Trading partner real GDP (calendar years)

	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

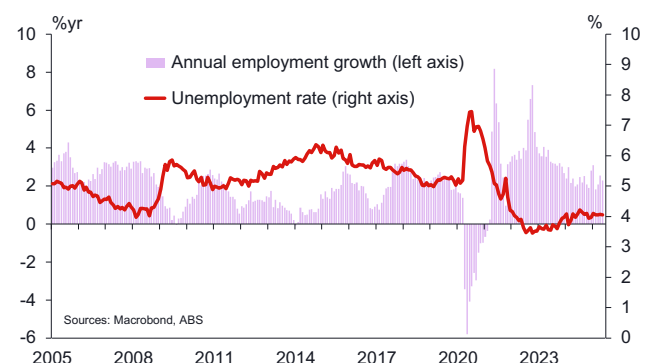
Australian & US interest rate outlook

	11 Jul	Jun-25	Dec-25	Dec-26
<b>Australia</b>				
Cash	3.85	3.60	3.35	2.85
90 Day BBSW	3.74	3.55	3.30	2.95
3 Year Swap	3.36	3.35	3.45	3.85
3 Year Bond	3.46	3.40	3.50	3.90
10 Year Bond	4.32	4.35	4.40	4.55
10 Year Spread to US (bps)	-3	-15	-15	-20
<b>US</b>				
Fed Funds	4.375	4.125	3.875	3.875
US 10 Year Bond	4.35	4.50	4.55	4.75

US tariff letters



Australian labour market



# Financial markets wrap

## Foreign exchange.

NZD/USD remains in a three-month old ascending range, with boundaries currently at around 0.5900 and 0.6120. Within the range, minor support at around 0.6000 is holding for now but it does look vulnerable.

The latest round of tariff notifications by the US on trading partners has caused risk sentiment to weaken, but only slightly, and this is weighing (slightly) on risk-sensitive currencies like the NZD.

The key event this week for the pair will be the US CPI data on Tuesday. NZ data is second-tier this week, but next week we have the important Q2 CPI release.

Multi-month, we expect NZD/USD to remain in its moderately bullish range between 0.6000-0.6200. The main rationale is that the US dollar appears to be overvalued, and debate over its standing as the world's reserve currency is unlikely to dissipate soon.

NZD/AUD could fall further this week, to around 0.9070. Last week's surprising on-hold decision by the RBA catalysed a sharp fall, which the RBNZ's as-expected hold decision did not deter. Further ahead, another factor to watch will be the trade agreements ultimately agreed to by the US and China.

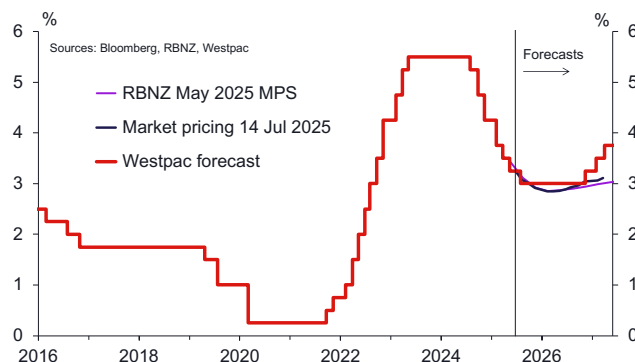
## Interest rates.

The NZ 2yr swap rate has eked a tight range over the past two weeks, mostly between 3.15% and 3.21%. For the week ahead, we see the downside as being more vulnerable, given the persistent bias in markets to receive the NZ short end. That bias mainly reflects the little priced into NZ OIS rates compared to other countries (e.g. NZ has 1.5 cuts priced, the US has 4.5).

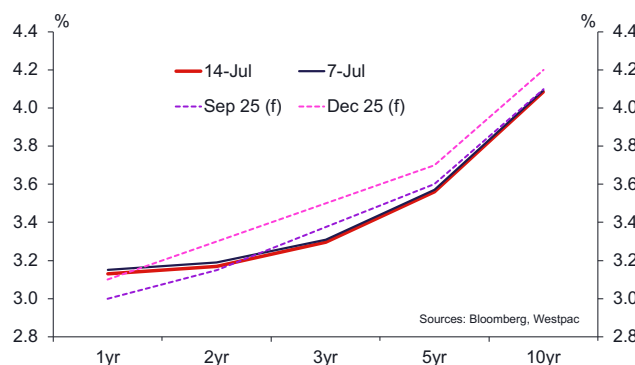
OIS prices imply a 70% chance of a rate cut at the next meeting in August, and beyond that, 50% chance of another cut by February 2026 to complete the easing cycle. Westpac's economists forecast one more cut in August.

NZ yield curves have steepened slightly over the past two weeks, mostly following global yield curves which have reacted to the latest round of tariff notifications. Markets expect the tariffs to ultimately be inflationary in the US, and that is pushing longer maturity yields higher. Given this backdrop, the NZ 2-10yr swap curve, currently at 95bp, could steepen to 100bp during the weeks ahead, but multi-month should reverse the move if tariff angst dissipates.

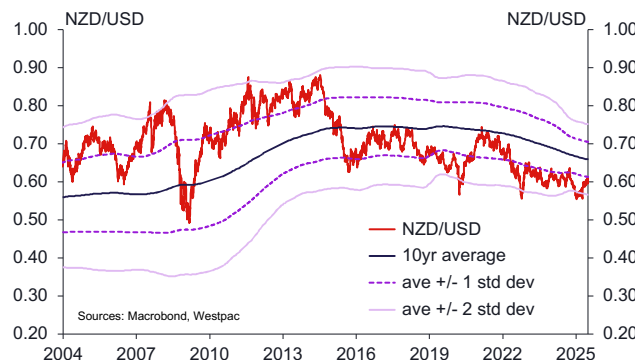
## Official Cash Rate forecasts



## 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	0.600	0.577-0.609	0.553-0.743	0.638	0.61
AUD	0.915	0.915-0.936	0.873-0.971	0.924	0.90
EUR	0.514	0.511-0.531	0.502-0.637	0.576	0.51
GBP	0.445	0.439-0.449	0.431-0.535	0.495	0.44
JPY	88.3	82.9-88.5	68.9-98.6	83.6	85.9

# The week ahead

## Jun retail card spending

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

Retail card spending fell 0.2% in May, with spending levels effectively tracking sideways for the past three months now. We expect a modest 0.2% gain in spending in June, underpinned by a 0.3% rise in core categories. Uncertainty about the outlook and softness in the labour market are continuing to weigh on discretionary spending appetites. Spending is expected to strengthen through the back half of the year as increasing numbers of households roll on to lower interest rates.

## Monthly retail card spending

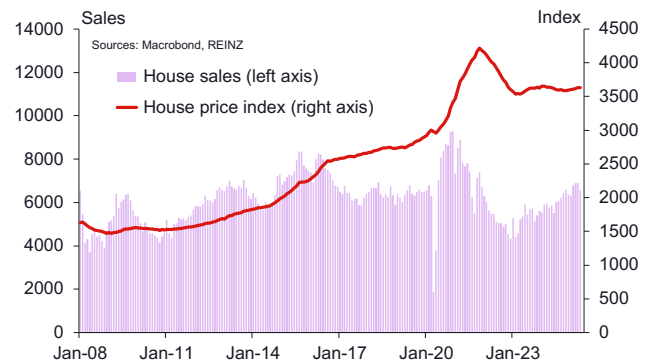


## Jun REINZ house prices and sales

Jul 15 (TBC), Prices last: +0.1%yr; Sales last: +8.9%yr

The signs of improving momentum in the New Zealand housing market in April didn't carry through into May, with slower turnover and only a slight uptick in prices. It's possible that public holidays had a lingering impact on sales, given that fewer than usual properties were brought to market in April. Buyer interest is clearly running high, with mortgage applications still far above last year's levels. But with a sizeable stock of unsold homes on the market, there has been limited upward pressure on prices to date.

## REINZ house prices and sales

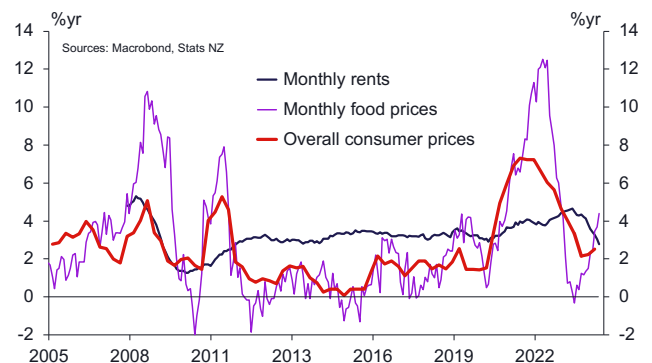


## Jun selected price indices

Jul 17

The June selected prices will be the last monthly update before the full CPI is released on 21 July. The past few months have seen strong increases in food prices, as well as a large increase in household energy prices. Those increases prompted us to revise up our forecast for June quarter inflation to 0.6%qtr / 2.8%yr. We expect the June month update will show ongoing increases in grocery prices (in part reflecting the strength of export prices for dairy products) along with a seasonal lift in fresh produce prices. Balanced against those increases, we're likely to see continued softness in housing rents and a fall in petrol prices.

## Selected consumer prices

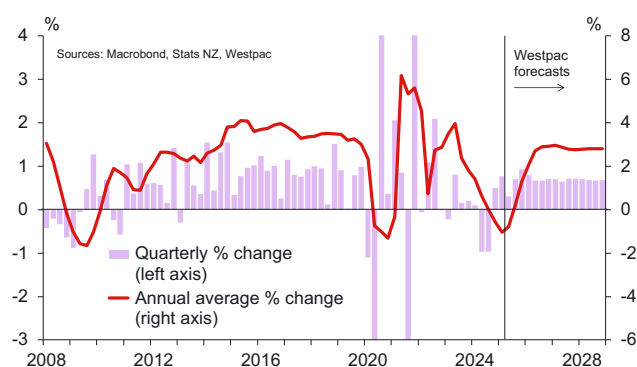


# Economic and financial forecasts

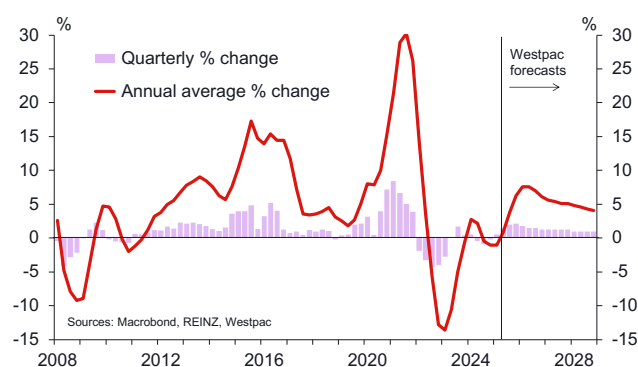
Economic indicators	Quarterly % change				Annual % change			
	Mar-25	Jun-25	Sep-25	Dec-25	2024	2025	2026	2027
GDP (production)	0.8	0.3	0.7	0.9	-1.3	2.7	2.9	2.8
Consumer price index	0.9	0.6	0.8	0.5	2.2	2.9	2.2	2.0
Employment change	0.1	-0.1	0.2	0.5	-1.2	0.7	2.3	1.9
Unemployment rate	5.1	5.3	5.3	5.2	5.1	5.2	4.4	4.1
Labour cost index (all sectors)	0.5	0.5	0.5	0.5	3.3	2.0	2.2	2.2
Current account balance (% of GDP)	-5.7	-4.4	-3.8	-3.3	-6.1	-3.3	-3.9	-3.8
Terms of trade	1.9	10.6	-0.4	-1.5	13.7	10.6	-0.9	-0.1
House price index	0.5	1.5	2.0	2.1	-1.1	6.2	6.1	5.1

Financial forecasts	End of quarter				End of year			
	Mar-25	Jun-25	Sep-25	Dec-25	2024	2025	2026	2027
OCR	3.75	3.25	3.00	3.00	4.25	3.00	3.25	3.75
90 day bank bill	3.86	3.38	3.10	3.10	4.45	3.10	3.45	3.85
2 year swap	3.46	3.18	3.30	3.35	3.64	3.35	3.90	4.00
5 year swap	3.71	3.56	3.60	3.70	3.73	3.70	4.20	4.25
10 year bond	4.63	4.57	4.65	4.70	4.51	4.70	4.90	4.95
TWI	67.8	69.1	69.0	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

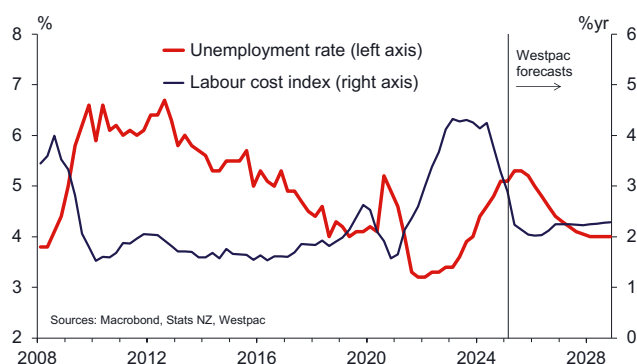
GDP growth



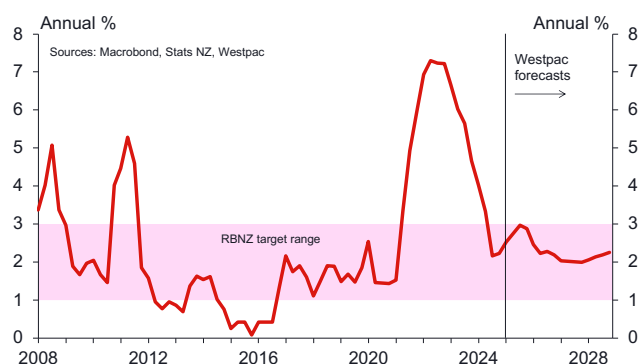
House prices



Unemployment and wage growth



Consumer price inflation



# Data calendar

		Last	Market median	Westpac forecast	Risk/Comment
<b>Mon 14</b>					
<b>NZ</b>	Jun BusinessNZ PSI, index	44	–	–	Fell sharply in May.
	Jun Retail Card Spending, %mth	–0.2	–	0.2	Spending appetite remains limited for now.
<b>Chn</b>	Jun Trade Balance, US\$bn	103.2	111.5		So far exports have remained resilient.
<b>Jpn</b>	May Core Machinery Orders, %mth	–9.1	–1.5	–	Particularly volatile in the last couple of months.
	May Industrial Production, %mth	0.5	–	–	Final estimate.
<b>Tue 15</b>					
<b>NZ</b>	Jun REINZ House Prices, %yr	0.1	–	–	Expected date. House prices are gradually picking up...
	Jun REINZ House Sales, %yr	8.9	–	–	...as lower mortgage rates spur higher turnover.
<b>Aus</b>	Jul Westpac-MI Cons. Sentiment, index	92.6	–	–	Will capture reactions to the July RBA rate decision.
<b>Chn</b>	Q2 GDP, ytd %yr	5.4	5.3	5.3	Growth is set to remain above the 5% target.
	Jun Retail Sales, ytd %yr	5	5.1	–	In May, growth accelerated to the highest pace in over a year.
	Jun Industrial Production, ytd %yr	6.3	6.2	–	Looking for signs of tariff impact.
	Jun Fixed Asset Investment, ytd %yr	3.7	3.6	–	Remains broadly stable, despite falling property investment.
<b>Eur</b>	Jul ZEW Survey Of Expectations, index	35.3	–	–	More positive sentiment, despite higher US tariffs.
	May Industrial Production, %mth	–2.4	0.6	–	A pick up is on the cards after a drop in April.
<b>UK</b>	BoE Governor Andrew Bailey	–	–	–	Annual speech at Mansion House.
<b>US</b>	Jun CPI, %mth	0.1	0.3	0.3	Won't see a meaningful tariff impact until at least July.
	Jul Fed Empire State Manufacturing, index	–16	–10	–	US manufacturers remain downbeat.
	Fedspeak	–	–	–	Bowman, Collins and Barr.
<b>Wed 16</b>					
<b>Eur</b>	May Trade Balance, €bn	14	–	–	Normalised in April after a February-March spike.
<b>UK</b>	Jun CPI, %ann	3.4	–	–	Focus on persistent services inflation.
<b>US</b>	Jun PPI, %mth	0.1	0.2	–	Further evidence of inflationary pressures from higher tariffs.
	Jun Industrial Production, %mth	–0.2	0.1	–	Weak momentum as tariffs rise.
	Jul Fed Beige Book	–	–	–	Anecdotal information on current economic conditions.
	Fedspeak	–	–	–	Logan, Hammack and Barr.
<b>Thu 17</b>					
<b>NZ</b>	Jun Selected Price Indices - Food, %mth	0.5	–	0.8	Seasonal lift in produce along with firmness in grocery prices.
	Jun Selected Price Indices - Rents, %mth	0.1	–	0.2	Seasonal softness compounding broader weakness.
<b>Aus</b>	Jul MI Inflation Expectations, %ann	5	–	–	In June, spiked to the highest level since July 2023.
	Jun Employment Change, 000s	–2.5	20	30	Employment to rise after May's decline ...
	Jun Unemployment Rate, %	4.1	4.1	4.1	... with higher participation seeing U/E hold steady.
<b>Eur</b>	Jun HICP Inflation, %yr	2.0	2.0	–	Final estimate. Inflation at the ECB target.
<b>UK</b>	May Average Weekly Earnings, %yr	5.3	–	–	Pay growth is easing ...
	May ILO Unemployment Rate, %	4.6	–	–	... as labour market conditions are loosening gradually.
<b>US</b>	Jun Retail Sales, %mth	–0.9	0.2	–	A meaningful recovery unlikely after weak sales in Apr-May.
	Jun Import Price Index, %mth	0	0.2	–	Has not showed a tariff impact so far.
	Jul Philly Fed Business Outlook, index	–4.0	–0.5	–	Subdued outlook for US manufacturers.
	Wkly Initial Jobless Claims, 000s	227	–	–	Remains consistent with stable labour market conditions.
	Jul NAHB Housing Market Survey, Index	32	33		Survey of single-family house builders.
	Fedspeak	–	–	–	Williams, Kugler, Daly and Cook.
<b>Fri 18</b>					
<b>Jpn</b>	Jun CPI, %yr	3.5	3.3	–	Headline rate easing very gradually from 4% in January.
<b>US</b>	Jun Housing Starts, 000s	1256	1300	–	In May, fell to a post-pandemic low ...
	Jun Building Permits, 000s	1394	1390	–	... as high mortgage rates and uncertainty depressed activity.
	Jul Uni. of Michigan Sentiment, index	60.7	61.4	–	Despite June's improvement, remains at historical lows.

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