



WEEKLY ECONOMIC COMMENTARY



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From high to low

This week brings the final data points for the June quarter, with the balance of payments on Wednesday and GDP on Thursday. The latter is likely to show a slowdown compared to the strong start to the year, but we warn that seasonal distortions will mean that the headline result will overstate the case. From here, the attention will turn to whether the economy has been able to regain its momentum again.

For the balance of payments, we expect a narrowing in the current account deficit to 4.7% of GDP for the year to June. **International trade figures released earlier this month** have already revealed an improvement in the goods and services balance on an annual basis, so the remaining details will be around the investment income flows. Note that the quarterly trade figures don't factor into our GDP forecast – there was a sharp fall in export volumes and a rise in import volumes compared to last quarter, but a lot of the volatility in these categories tends to reflect the buildup or rundown of inventories, rather than changes in production.

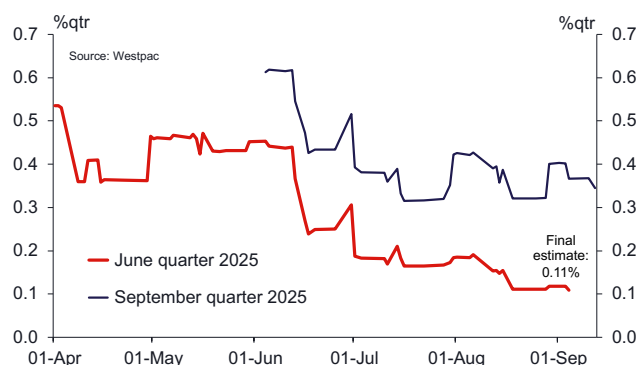
One thing to note is that Stats NZ has revealed a sizeable downward revision to the country's import bill for the last few years. Since the likes of Temu entered the New Zealand market in 2023, there has been a surge in the number of parcel deliveries from overseas. But until now, Stats NZ had not accounted for the fact that the average value of each parcel has been much lower. With better information now on the value of these imports, these revisions will reduce the reported current account deficit by around 0.5ppts of GDP.

Turning to the GDP release, we expect a 0.4% fall in GDP for the June quarter. There is ample evidence that the New Zealand economy lost some momentum again in recent months, after a strong start to the year which saw a 0.8% lift in March quarter GDP. Our GDP Nowcast model, which captures the balance of a wide range

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
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
20 Oct 25	NZ CPI, September quarter
29 Oct 25	FOMC meeting (30 Oct NZT)
4 Nov 25	RBA Monetary Policy Decision

of high-frequency indicators, ended at 0.1% growth for the June quarter, down from earlier estimates of around 0.4%.

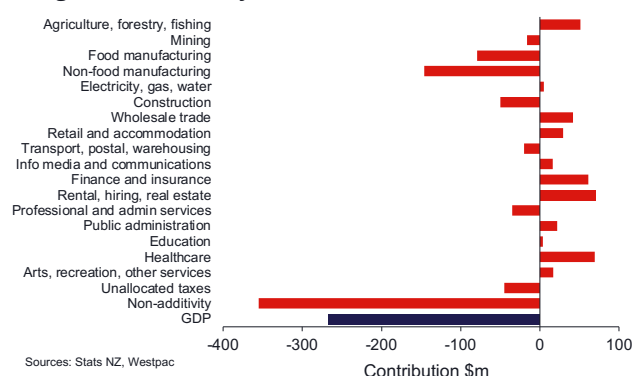
However, **as we detailed in our preview**, the decline that we expect for the quarter is entirely due to some residual seasonality that has crept into the GDP calculations. We estimate that this currently detracts around 0.5 percentage points from growth in June quarters (and adds about the same amount to growth in December quarters).

It's not entirely clear why this seasonality issue has emerged. It appears to stem from an increase in the weightings of industries with large seasonal patterns, such as dairying. This in turn has imparted a greater seasonal pattern to total GDP, which the adjustment process hasn't caught up with yet. So it's something that we may have to contend with in the quarterly releases for another few years – unless Stats NZ makes some changes in the GDP calculations to compensate for it. (There may be some details on this coming later this morning.)

A negative result shouldn't come as a surprise to the market, as this seasonal distortion is by now well recognised. The Reserve Bank estimated a 0.3% fall in its August *Monetary Policy Statement*, and other market forecasts are in the same ballpark.

Looking beyond this issue, what will the June quarter figures tell us? We're expecting a mixed picture, with strong conditions for the agricultural sector on the back of rising export prices, and some modest signs of households benefiting from the fall in mortgage rates. But overall, we're yet to see a sustained return to trend growth.

GDP growth forecasts by sector



Once the June quarter reports are out of the way, the market's attention will turn to whether the economy can regain its footing again. It's still early days in terms of September quarter indicators, but we're seeing some reasonably positive growth signals in areas like agriculture, electricity and retailing. So far, we think that things are tracking stronger than the 0.3% rise in GDP that the RBNZ assumed in its August statement.

The high-frequency data last week was mixed. The ANZ Truckometer, a measure of traffic volumes, saw a rise in light vehicles but a dip in heavy vehicles in August. Both measures are ahead of their year-ago levels. Migration in July continued its recent trend of small positive net balances, with some tentative signs that departures are coming off their highs. Overseas tourist numbers were up in seasonally adjusted terms in July.

The manufacturing PMI edged below 50 again in August. This measure has generally been stronger in 2025 than it was in 2024, but it has been choppy in recent months. However, retail card spending rose by 0.7% in August, ahead of our estimate of a 0.3% rise. Consumer spending has shown a bit more momentum again in recent months, notwithstanding that some of the rise in nominal spending will reflect a re-acceleration in prices for some categories like food. Finally, MBIE's job ad index nudged higher in August following a small gain in July. While still sitting at very low levels, there are signs that a modest uptrend in advertising has taken hold over recent months.

Housing market update.

One factor that may have held consumer spending back this year is the lack of a 'wealth effect' from rising house prices, despite the ongoing fall in interest rates. Last week we provided **an update on our outlook for the housing market**, in light of the developments to date.

House sales have increased over the past year, and the median time to sell has been stable to falling. Housing-related credit demand continues to lift, growing 5.1% in the year to July. Investors and existing owner-occupiers have led growth in credit demand. There are signs that more marginal borrowers are being drawn into the market as lending to borrowers on lower incomes appears to be rising, as is lending on properties at higher loan-to-value ratios.

However, new housing demand has been balanced by increased supply – including that provided by new construction – so that the inventory of unsold homes has remained at around a decade high. Given the balance in the market, there has been little need for buyers to bid prices higher. The REINZ house price index is basically unchanged for the year to date.

As a result, our previous forecast of a 3.6% rise in prices this year is now looking out of reach. Lower interest rates should eventually support increased demand, but it will take time for momentum to shift. With the RBNZ's recent dovish pivot likely to support housing market sentiment into year end, we forecast small positive increases in house prices over the final three months of 2025. This will mean prices will rise by around 0.6% for the year.

Looking ahead to 2026, we expect a gradual lift in momentum to deliver house price growth of around 5.4%. Demand for both owner-occupier and investor housing

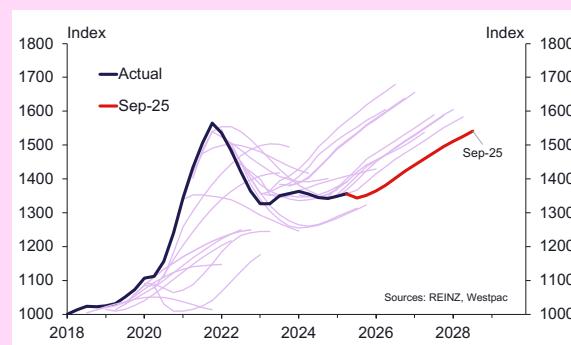
should strengthen as the broadening economic recovery – and crucially an upturn in the labour market – encourages the formation of new households, including migrant households. Over time, this should eat into the current stock of unsold inventory and so reduce the current downward pressure on real house prices.

Michael Gordon, Senior Economist

Chart of the week.

Today's chart of the week shows the wild ride that our housing market forecasts have taken in recent years. Back in 2019 forecasts tended to wildly underestimate the impact that interest rate cuts and policy stimulus would have on the housing market. By 2021 the forecasts had caught up and pointed to some fall in prices after the bubble that formed in 2020 and 2021. The reality was more savage, and it wasn't until mid-2023 – when the housing market started to turn up – that this was recognised. Since then, forecasts have been too optimistic. Prices have remained flat despite strong migration in 2023 and then large interest rate cuts in 2024 and 2025. Our most recent update retains an optimistic tone given the low level of interest rates. But the projected recovery has been pushed out a bit given low recent momentum amidst ongoing increases in housing supply. We now expect prices to rise by just 0.6% this year (essentially flat), with growth of around 5% forecast for 2026.

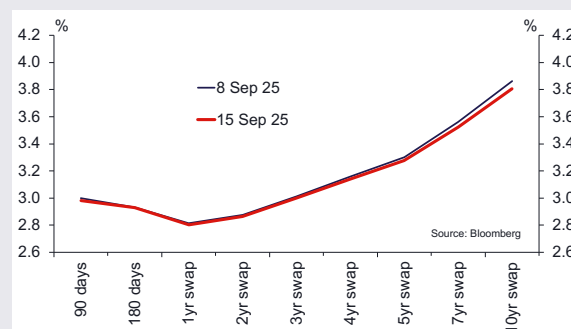
Westpac house price forecasts since 2019



Fixed versus floating for mortgages.

The RBNZ has signalled the likelihood of further rate cuts and we're forecasting the cash rate to bottom at 2.5% later this year. Most fixed-term mortgage rates are now under 5%, reflecting the recent falls in wholesale rates. Very short-term mortgage rates may fall slightly if the RBNZ cuts the OCR again, but they remain above current longer term fixed rates. At current rates, fixing for longer periods of two to three years looks attractive.

NZ interest rates



Global wrap

North America.

The core CPI met expectations with a 0.3%*mth*/3.1%*yr* increase in August, with muted evidence of tariff impacts balanced by some firmer readings in the service sector. Meanwhile, the core PPI unexpectedly fell 0.1%*mth* in August, while downward revisions also contributed as annual inflation fell to 2.8%. Given the recent focus on the slowing jobs market, a surprise lift in initial jobless claims to a 4-year high also grabbed attention (albeit the lift in claims was highly concentrated in the state of Texas), as did a record 911k preliminary downward revision to estimated growth in non-farm payrolls over the year to March 2025. Given worries about the household sector, Tuesday's retail sales report for August will be an early focus this week. Once that is out of the way, attention will quickly turn to the FOMC's latest policy meeting (Thursday morning NZT). A 25bp rate cut is fully priced, but arguments for a 50bp cut and a hold are also likely to be debated. Assuming the policy decision provides no surprises, markets will quickly focus on the new Summary of Economic Projections (SEP), and especially the "dot plot", to see how FOMC participants' expectations align with the market's pricing of at least four subsequent 25bp easings. The Bank of Canada will meet a matter of hours before the Fed, with market pricing and economist opinion favouring a 25bp cut in its policy rate to 2.5%.

Europe.

As widely expected, the ECB left its policy settings unchanged last week. President Lagarde celebrated the recent resilience of the euro area economy and noted the risks to growth have become more balanced, largely due to the EU-US trade agreement. On the inflation front, Lagarde discounted the importance of below-target inflation in 2027 and continued to emphasise that the euro area economy is in a good place. We still expect one more rate cut from the ECB before year end. In the UK, labour market and CPI reports are due early this week. On Thursday, after easing policy last month, the BoE is likely to leave policy settings unchanged.

Asia-Pacific.

Following recent soft trade and inflation readings, a key focus today will be the dump of key domestic activity indicators for August in China. In Australia, the latest NAB business survey remained broadly consistent with a gradual recovery in growth. This week the focus will be on the labour market, with Westpac expecting Thursday's report to reveal a nudge up in the unemployment rate to 4.3%. On Friday, the BoJ is expected to leave policy unchanged, with current above-target inflation countered by perceived downside risks to growth.

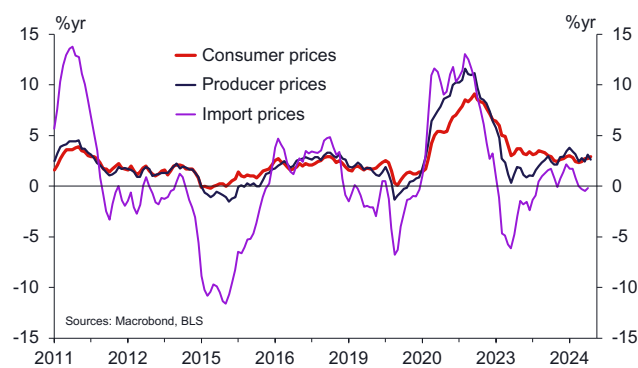
Trading partner real GDP (calendar years)

	Annual average % change			
	2024	2025	2026	2027
Australia	1.0	1.7	2.3	2.5
China	5.0	5.0	4.6	4.5
United States	2.8	1.9	1.3	1.6
Japan	0.1	0.9	0.8	0.8
East Asia ex China	4.3	3.7	3.8	4.0
India	6.5	6.7	6.4	6.3
Euro Zone	0.9	1.2	1.1	1.5
United Kingdom	1.1	1.3	1.3	1.5
NZ trading partners	2.9	2.8	2.7	2.8
World	3.3	3.2	3.1	3.2

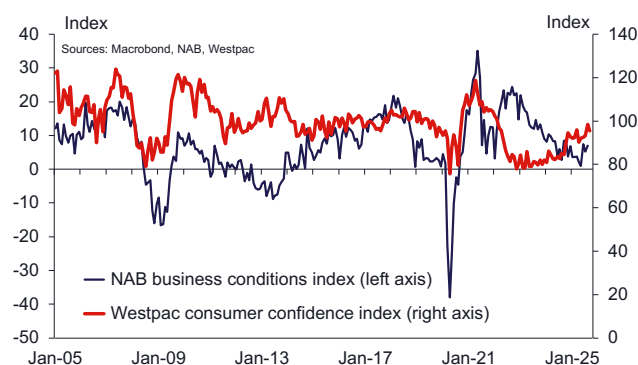
Australian & US interest rate outlook

	12 Sep	Sep-25	Dec-25	Dec-26
Australia				
Cash	3.60	3.35	2.85	2.85
90 Day BBSW	3.58	3.30	2.95	2.95
3 Year Swap	3.35	3.40	3.70	4.00
3 Year Bond	3.43	3.45	3.75	4.00
10 Year Bond	4.20	4.35	4.65	4.85
10 Year Spread to US (bps)	18	15	5	-5
US				
Fed Funds	4.375	4.125	3.875	3.875
US 10 Year Bond	4.03	4.20	4.60	4.90

US price indices



Australian consumer & business confidence



Financial markets wrap

Foreign exchange.

NZD/USD has ground higher over the past month, from 0.5800 to 0.5980, and retains upward momentum for the week ahead. We see potential for 0.6000 to be tested this week, and beyond that, 0.6060 – the late July peak.

The main driver of the rally has been slippage in the broad US dollar. US economic data, particularly relating to the labour market, has softened, and that allows the Fed to cut its policy rate at its meeting this week (6am Thursday NZT). While that is fully priced, markets will be sensitive to the implications for further easing, with clues to that provided by the “dot plot” of rate projections, economic forecasts, and Chair Powell’s press conference.

The Fed decision will be the most important event for markets this week, but locally, and occurring later the same day, NZ GDP for Q2 will also be closely watched. The median expectation is for a decline of 0.3%q/q (Westpac at -0.4%). Australian employment data for August is also released on Thursday. Given three major events will occur within hours of each other, market volatility is almost assured, particularly in the NZD/AUD cross.

NZD/AUD has fallen from 0.9400 to 0.8950 over the past five months. While there is scope for slightly further downside this week, to 0.8900, the large move has left it technically stretched and in need of a correction. The main driver has been the contrast in guidance from the RBA and RBNZ – the former measured, the latter more emphatic - but these are now mostly priced in.

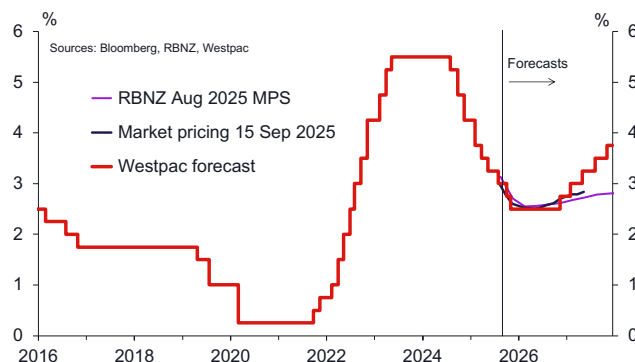
Interest rates.

The downward trend in the NZ 2yr swap rate, which started in 2023, likely has only slightly further to run. The cycle low so far is 2.84%, and it could extend to 2.80% during the weeks ahead if the October and November meetings become fully priced.

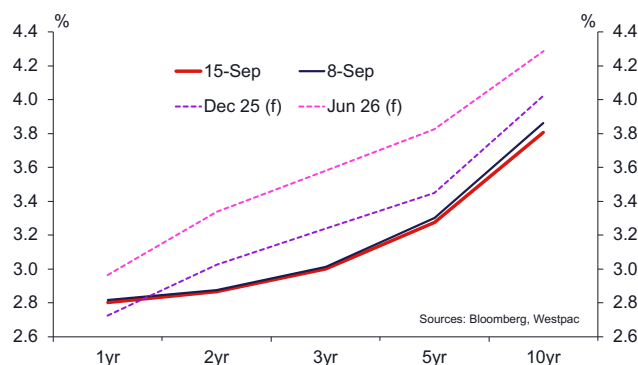
The RBNZ in August forecast a 25bp cut at each of the next two meetings, taking the OCR to a cycle low of 2.50%. OIS prices imply a 90% chance of a rate cut at the next meeting in October, and a 70% chance at the November meeting, suggesting the latter has room to move lower. The OIS market does price a 2.50% OCR low, but not until May 2026.

The NZ yield curve has flattened slightly from cycle highs over the last week, markets sensing the RBNZ easing cycle is nearing completion. However, there remains a risk that global bond yields rise further due to rising debt levels, and that could spill over to NZ and re-steepen the curve. Absent that risk, our longer-term expectation is for a flattening trend to start by year end in anticipation of the next RBNZ cycle.

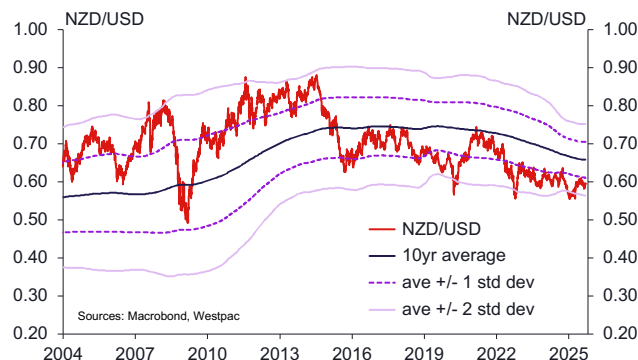
Official Cash Rate forecasts



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	0.595	0.581-0.609	0.553-0.743	0.635	0.61
AUD	0.896	0.896-0.930	0.873-0.971	0.923	0.89
EUR	0.507	0.500-0.524	0.500-0.637	0.574	0.52
GBP	0.439	0.433-0.448	0.431-0.535	0.493	0.45
JPY	87.8	85.9-88.9	68.9-98.6	84.1	88.0

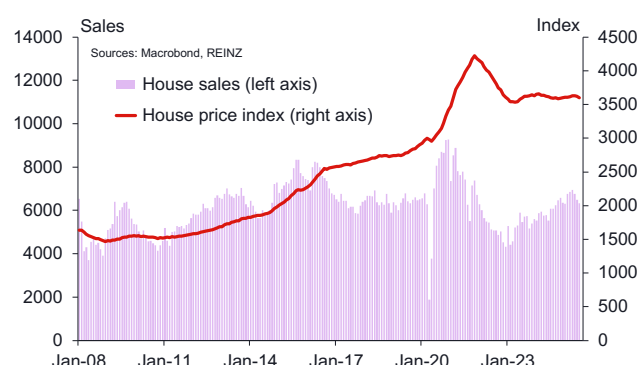
The week ahead

Aug REINZ House Prices and Sales

Sep 16, Prices last: 0.1%/yr; Sales last: 4.0%/yr

July was another subdued month for the New Zealand housing market, with prices and sales edging lower. While lower mortgage rates have helped to spur higher levels of activity compared to a year ago, demand is being matched by an ample supply of homes hitting the market. As a result, there has been little upward pressure on sale prices. Performance has varied across the country however, with the more dairying-intensive regions tending to fare best, while the main centres of Auckland and Wellington have softened.

REINZ house prices and sales

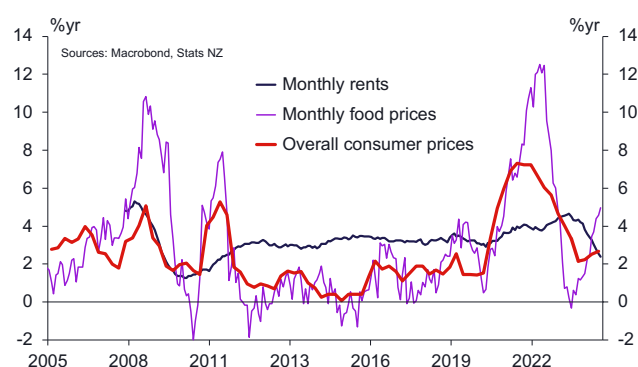


Aug Selected Price Indices

Sep 16

Headline inflation is pushing higher again, and the August prices update will be closely watched to assess just how far inflation will rise. Much of the lift now in train is due to higher food prices (around 20% of the CPI), and we're forecasting a further 0.2% rise. We'll also be watching to see if there are continued increases in household energy prices after recent large rises (we expect they will be more limited this month). On the downside, the key area to watch are household rents (close to 10% of the CPI) which have been very subdued recently. We've pencilled in a muted rise of 0.1%.

Selected consumer prices



Q3 Westpac-McDermott Miller Consumer Confidence

Sep 17, Last: 91.2

The Westpac-McDermott Miller Consumer Confidence index rose two points in June, taking it to a level of 91.2. That was a fairly modest rise after the sharp fall in the previous quarter, and left consumer confidence a fair bit below average levels. Our latest survey was in the field in the early weeks of September. Recent months have seen a downturn in economic conditions, along with renewed cost of living concerns and signs of softness in the labour market. On the upside, interest rates have continued to fall.

Consumer Confidence Index



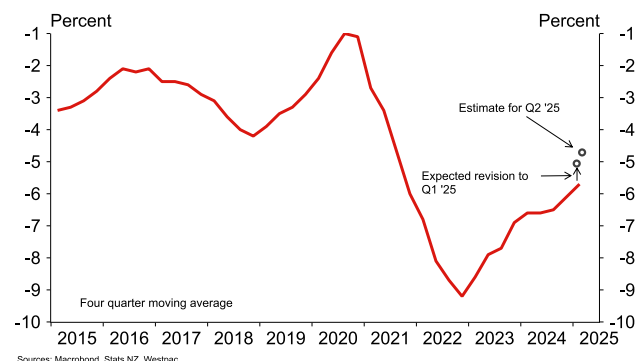
The week ahead

Q2 Current Account Balance, % of GDP

Sep 17, Last: -5.7%, Westpac f/c: -4.7%, Mkt f/c: -4.8%

This quarter's release will include benchmark revisions to historical data, as well as the first estimate of developments in Q2. Stats NZ have already released data indicating a large downward revision to goods imports and a small upward revision to net exports of services. This data suggests that the deficit for the year to Q1 2025 will be revised down 0.6ppts to 5.1% of GDP, although revisions to investment income flows will also have a bearing. Assuming that investment income revisions are minor, we expect the annual current account deficit to narrow further to a 4-year low of 4.7% of GDP in Q2. This will be driven by a smaller merchandise trade deficit, on the back of lofty export commodity prices.

Current account

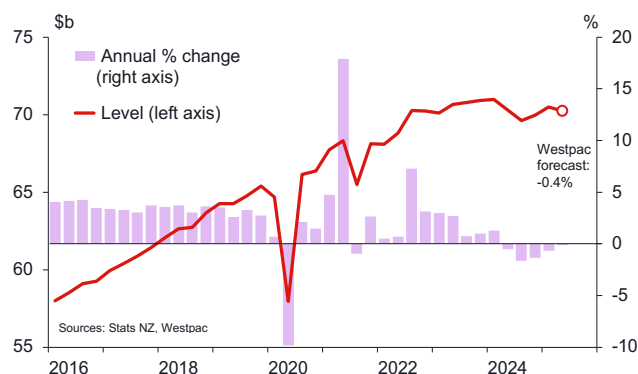


Q2 GDP

Sep 18, Last: +0.8%, Westpac: -0.4%, Mkt: -0.3%

We're expecting a 0.4% fall in GDP for the June quarter. However, all of this decline is due to some residual seasonality that has crept into the GDP calculations – we estimate that this is currently knocking about 0.5ppts off growth in June quarters, while adding about the same amount in December quarters. Looking beyond this distortion, we expect a mixed growth picture, with evidence that the economy has lost some momentum compared to the strong start to this year.

GDP



Economic and financial forecasts

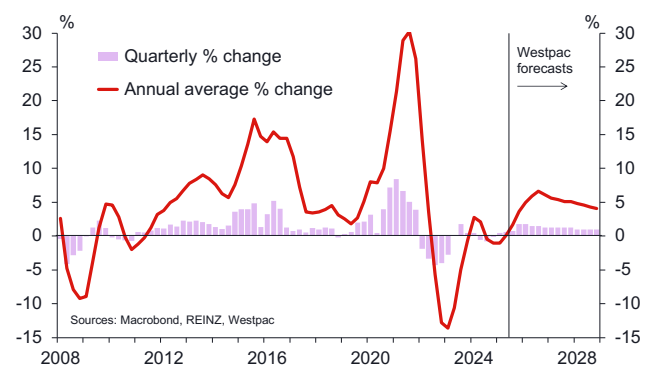
Economic indicators	Quarterly % change				Annual % change			
	Mar-25	Jun-25	Sep-25	Dec-25	2024	2025	2026	2027
GDP (production)	0.8	-0.4	0.6	1.1	-1.3	2.1	3.1	3.2
Consumer price index	0.9	0.5	1.1	0.5	2.2	3.1	2.0	2.1
Employment change	0.0	-0.1	0.0	0.2	-1.2	0.2	2.5	2.0
Unemployment rate	5.1	5.2	5.3	5.3	5.1	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)	-5.1	-4.7	-4.4	-4.4	-5.6	-4.4	-5.1	-4.9
Terms of trade	2.0	4.1	-0.5	-2.2	13.7	3.3	0.5	1.5
House price index	0.4	0.5	-0.8	0.5	-1.0	0.6	5.4	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	2.50	4.25	2.50	2.75	3.75
90 day bank bill	3.86	3.38	2.80	2.60	4.45	2.60	2.95	3.85
2 year swap	3.46	3.18	2.90	3.00	3.64	3.00	3.70	4.00
5 year swap	3.71	3.56	3.30	3.45	3.73	3.45	4.15	4.25
10 year bond	4.62	4.57	4.35	4.45	4.50	4.45	4.85	4.95
TWI	67.8	69.1	68.3	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	0.90	0.89	0.91	0.89	0.88	0.88
NZD/EUR	0.54	0.52	0.51	0.52	0.55	0.52	0.52	0.53
NZD/GBP	0.45	0.44	0.44	0.45	0.46	0.45	0.46	0.46

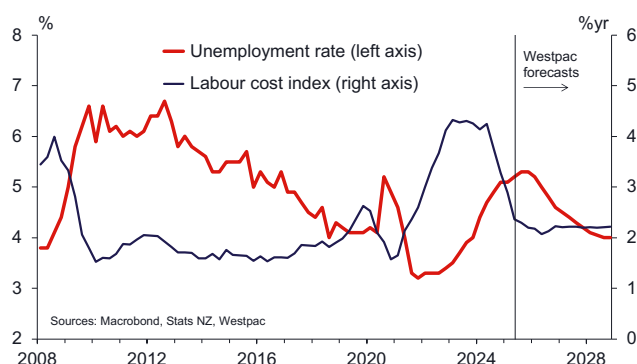
GDP growth



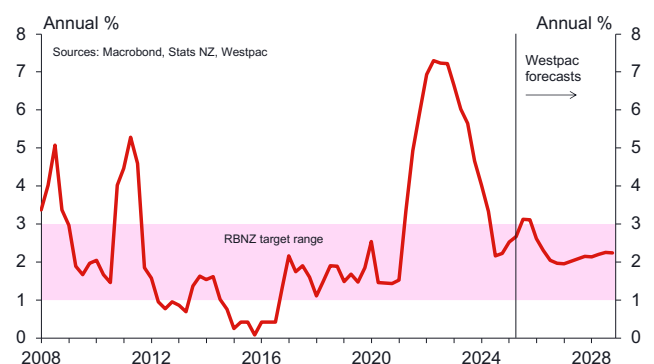
House prices



Unemployment and wage growth



Consumer price inflation



Data calendar

		Last	Market median	Westpac forecast	Risk/Comment
Mon 15					
NZ	Aug BusinessNZ PSI, index	48.9	–	–	Improved in the last two months but still weak.
Chn	Aug Retail Sales, ytd %yr	4.8	4.7	–	July data revealed a rapid slowdown in economic activity...
	Aug Industrial Production, ytd %yr	6.3	6.2	–	... while the weakness may have been heightened by weather...
	Aug Fixed Asset Investment, ytd %yr	1.6	1.5	–	... calls for additional stimulus are growing louder.
Eur	Jul Trade Balance, €bn	2.8	–	–	External sector under pressure in propping the economy.
US	Sep Fed Empire State Manuf. survey, index	11.9	4.3	–	Nine month high but sentiment on future conditions fades.
Tue 16					
NZ	Aug REINZ House Prices, %yr	0.1	–	–	House price trends remain subdued...
	Aug REINZ House Sales, %yr	4	–	–	... even as lower mortgage rates spur higher turnover.
	Aug Selected Price Indices – Food, %mth	0.7	–	0.2	Continued gains in most areas.
	Aug Selected Price Indices – Rents, %mth	0.1	–	0.1	The rental market remains very soft.
Aus	RBA Speak	–	–	–	RBA's Hunter fireside chat in Sydney.
Eur	Sep ZEW Survey Of Expectations, index	25.1	–	–	Certainty of a 15% tariff sank investor confidence...
	Jul Industrial Production, %mth	–1.3	0.5	–	... and will likely be a drag on industrial output going forward.
UK	Jul ILO Unemployment Rate, %	4.7	–	–	Upward run since mid-2022 takes it to a four year high.
US	Aug Retail Sales, %mth	0.5	0.2	–	Sustainability of the uplift questionable as sentiment slumps.
	Aug Import Price Index, %mth	0.4	–0.3	–	Index will be keenly watched; data is exclusive of tariffs.
	Jul Business Inventories, %mth	0.2	0.2	–	Inventories holding in a range of 1.38-1.40 months of sales.
	Sep NAHB Housing Market, index	32	33	–	Builders' use of sales incentives hits post-Covid high.
	Aug Industrial Production, %mth	–0.1	0	–	Flat result expected.
Wed 17					
NZ	Q3 Westpac-MM Consumer Conf., index	91.2	–	–	Has lingered at below average levels in 2025 to date.
	Q2 Current Account Balance, % of GDP	–5.7	–4.8	–4.7	Revisions likely to help narrow the deficit to a 4-year low.
Aus	Aug Westpac-MI Leading Index, %mth	0.12	–	–	Mixed batch of component updates, with opposing forces.
	RBA Speak	–	–	–	RBA's Jones fireside chat in Melbourne.
Eur	Aug HICP Inflation, %yr	2.1	2.1	–	Final estimate.
UK	Aug CPI Inflation, %yr	3.8	–	–	Inflation expectations at risk of slipping anchor.
US	Aug Housing Starts, %mth	5.2	–4.1	–	Multifamily units have driven recent gains ...
	Aug Building Permits, %mth	–2.2	0.6	–	... though they can swing widely month-to-month.
	FOMC Policy Decision	4.375	4.125	4.125	Given the labour market deterioration, a 25bp cut is expected.
Can	BoC Policy Decision	2.75	2.5	–	Slowing activity and labour market to set stage for rate cut.
Thu 18					
NZ	Q2 GDP, %qtr	0.8	–0.3	–0.4	Residual seasonality will overstate weakness.
Aus	Aug Employment Change, 000s	24.5	22	15	Growth consistent with continued gradual softening.
	Aug Unemployment Rate, %	4.2	4.2	4.3	Gradual uptrend from around 4.0% late last year.
Jpn	Jul Core Machinery Orders, %mth	3	–1.7	–	A fall expected, following an unexpected rise last month.
UK	BoE Policy Decision	4	4	–	Testing times amid a cooling jobs market but rising inflation.
US	Initial Jobless Claims	263	–	–	Seasonally adjusted series is trending higher.
	Sep Philly Fed Business confidence, index	–0.3	3	–	Soft relative to the long-term average of 9pts.
Fri 19					
NZ	Aug Trade Balance, \$mn	–578	–	–1685	Deficit to widen sharply as primary exports hit seasonal lull.
Jpn	Aug CPI, %yr	3.1	2.8	–	Core inflation expected to slow but remain above target.
	Sep BoJ Policy Decision, %	0.5	0.5	0.5	Policymakers to provide a neutral assessment on the outlook.
UK	Sep Gfk Consumer Sentiment, index	–17	–	–	Sentiment on economic situation key driver of pessimism.
	Aug Retail Sales, %mth	0.6	–	–	Improvements look to have largely plateaued since late-2024.

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