



# WEEKLY ECONOMIC COMMENTARY



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

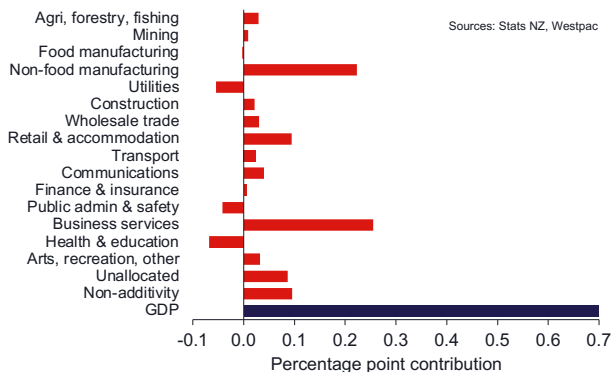
## Growth here and there, but not quite everywhere.

Thursday's GDP report is expected to show some green shoots taking hold in the New Zealand economy in the early part of this year. We're expecting a 0.7% rise for the March quarter, with evidence of broader-based growth than what we saw in the December quarter.

Our 0.7% growth forecast is an upgrade from our previous estimate of 0.4%, following the final batch of sectoral data that was released last Monday. Other market forecasts have also shifted in this direction, and the RBNZ (which forecast a 0.4% rise in its May *Monetary Policy Statement*) will likely take the same interpretation.

The signs of strength in the sectoral data were something of a surprise for us, as they hadn't been foreshadowed by the higher-frequency data releases up to that point. **Our GDP nowcast model** ended on an estimate of 0.2%; it had more or less settled at that level after the soft NZIER business survey in April, and subsequent data releases hadn't deviated from this story.

### GDP growth forecasts by sector

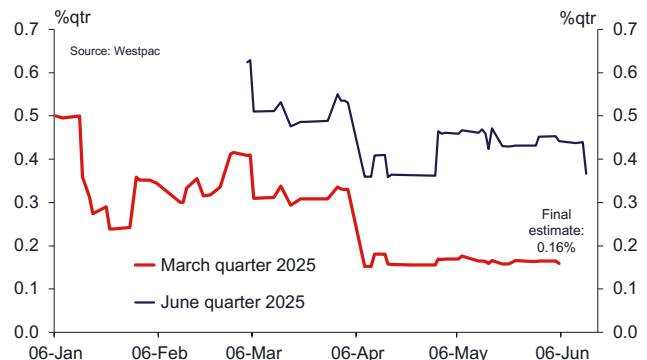


Nevertheless, what we found encouraging in the sectoral data was the breadth of the upturn. While there were a

### 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 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
8 Jul 25	US 90-day tariff pause due to expire
9 Jul 25	RBNZ OCR Review
17 Jul 25	NZ Selected price indexes, June
21 Jul 25	NZ CPI, June quarter

couple of standout contributions that won't necessarily be sustained, we expect that most sectors will report at least some modest growth. That suggests there isn't one single thing driving the recovery, but a range of factors working together.

Firstly, a bit of lower interest rates doing their work. New Zealand's easing cycle is further advanced than most other developed economies, and that interest rate relief is gradually working its way through to households and businesses.

Second, a bit of the improving fortunes of the primary sector. That won't be directly captured in the GDP figures, which measure volumes – agricultural output has been broadly flat in the last couple of quarters. Rather, the effect has been through higher commodity prices boosting farm incomes, which in turn will drive a lift in spending and investment in a broader range of sectors.

There's also a bit of the sustained recovery in international tourism. While overseas visitor spending appears to have been down in the March quarter (compared to a sharp rise in the December quarter), it's an industry with some momentum that has been otherwise lacking in the domestic economy.

And finally, there may be a bit of last year's downturn simply not being as bad as reported. The GDP data can be subject to revisions for several years after the initial release (and on average the revisions to growth have been upward). What's more, **as we noted in the previous GDP release**, there is some residual seasonality that has crept into the figures, making it harder to be confident about the quarter-to-quarter pattern of growth. There's no doubt that things have slowed compared to a year ago (as evident in the employment figures for instance); the question is around the magnitude.

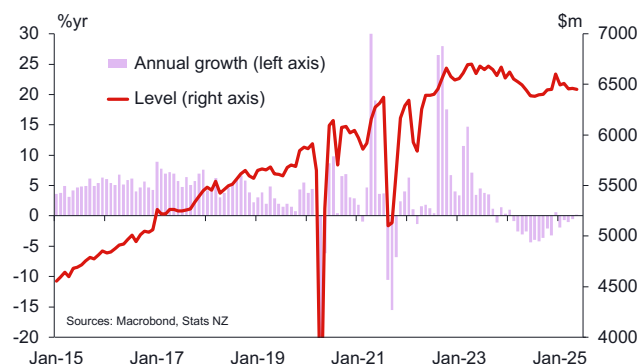
The usual criticism levelled at GDP is that it's a dated measure of how the economy is performing. (The reason we publish GDP nowcasts for two quarters ahead, rather than one, is that much of the 'action' in the June quarter nowcast will have already happened by the time we get the March quarter outcome.) More timely data, including over the past week, has highlighted how the economy's recovery still faces a few headwinds.

The BusinessNZ manufacturing PMI fell sharply to 47.5 in May, from 53.3 in April. The PMI had been notably perkier so far this year, rising above the 50 mark for the first time in two years. That result was borne out in Monday's sectoral data, with the March quarter manufacturing survey (which directly enters the GDP calculations) showing a strong rebound in activity. However, that momentum doesn't appear to have been sustained.

Retail card spending was softer than we expected in May, down by 0.2%. Spending has effectively been tracking sideways for the past three months, even on the 'core' retailing measure, despite falling petrol prices leaving

more money in people's pockets to spend elsewhere. We still expect to see a lift in spending over the rest of 2025, as homeowners continue to roll on to lower mortgage rates.

#### Monthly retail card spending



Finally, there was a net inflow of 1,800 migrants in April, broadly in line with our expectations. However, the net inflow over the past year was revised down by about 5,000 people, largely due to some recent arrivals being re-identified as short-term visitors. As a result, we're now below the run rate needed to meet our assumption of a net 35,000 arrivals for this year; we'll review our forecasts in the coming weeks.

Some of the recent data emphasises the uncertainty that remains around the path of the economy this year given global events. Even though we seem set to have seen two quarters of trend to above-trend growth, it may be unwise to extrapolate that performance too far. Time will tell.

**Michael Gordon**, Senior Economist

## Chart of the week.

The past week saw renewed hostilities between Iran and Israel. These events will have a significant human cost that cannot be calculated. They have also rattled financial markets. Major equity markets fell on Friday, and renewed risk-aversion saw currencies like the NZD losing ground (though such moves were tempered by the US dollar's diminished status as a safe haven). Oil prices spiked in the wake of the initial attacks, initially rising to over \$77/barrel, more than reversing the drop that we saw in April in the wake of the "Liberation Day" tariff announcements. Prices closed the week around \$73/barrel but remain well above the levels seen in recent months. And they may open higher this week with some of Iran's energy infrastructure targeted by Israel over the weekend. The situation is continuing to evolve and likely will continue to be an important driver of market conditions over the coming weeks.

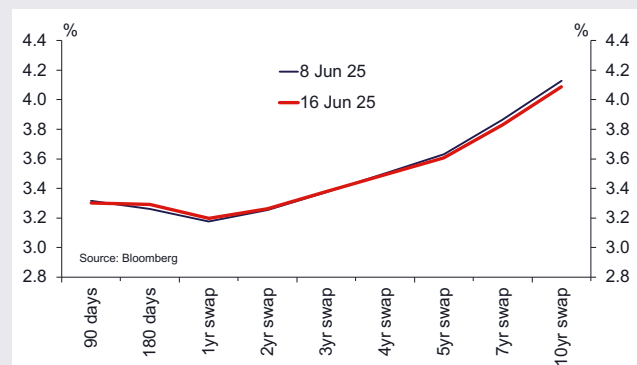
## Crude oil prices



## Fixed versus floating for mortgages.

We're forecasting the cash rate to bottom at 3% in mid-2025. Market pricing is broadly in line with our view, sitting slightly above the RBNZ's projected OCR track which bottoms out at 2.85%. Mortgage rates now uniformly 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-China trade talks concluded with China now facing a tariff of 55% (at least for now). President Trump said that he would announce final unilateral tariffs on other countries within the next 1-2 weeks. On the data front, the core CPI increased a less-than-expected 0.1% m/m in May, leaving annual inflation steady at 2.8% y/y. The PPI was similarly benign. In other inflation news, the New York Fed reported that the year-ahead inflation expectation fell to 3.20% in May from 3.63% in April, likely reflecting easing tariff worries. The University of Michigan survey reported a fall in inflation expectations. This week attention will centre on the Fed's policy meeting (Thursday morning NZT). There seems little prospect of a change in the policy rate. Given uncertainties about the tariff environment and economic outlook, Chair Powell is likely to repeat that the Fed remains "well positioned" to respond to whatever unfolds. The revised Summary of Projections (SEP) will be a point of focus, to see whether the median participant still expects two rate cuts this year. This week's key data release is Tuesday's retail sales. US markets will be closed for a holiday on Thursday.

## Europe/Middle East.

Geopolitical risk will take centre stage in the region this week given renewed hostilities between Israel and Iran. Previously, easing tariff tensions caused a rebound in the euro area's Sentix Investor Confidence Index in May. This week's diary brings further sentiment measures, including the ZEW survey (tomorrow), together with the release of the final CPI reading for May (Wednesday). In the UK, labour market data pointed to a large fall in payrolls in May, a rise in the unemployment rate and a greater than expected deceleration of wage growth. Further disappointment came with news of a 0.3% m/m decline in GDP in April. This week the focus will be on Thursday's BoE meeting, while CPI and retail sales reports are also due.

## Asia-Pacific.

Following last week's soft trade and inflation reports, the focus in China will be today's batch of domestic activity indicators for May, together with news on home prices. In Japan, comments made by Governor Ueda last week reinforced our expectation that a further rate hike is off the table for Tuesday's meeting given uncertainties surrounding the economic outlook. One focus will be the BoJ's plans regarding the tapering of its bond purchases. In Australia, Westpac now expects the RBA to cut its policy rate by a further 100bps to 2.85% by May next year. Last week, the NAB business conditions index fell to its lowest level since 2020. This week's key diary entry is Thursday's labour force survey.

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	1.6	0.9
Japan	1.5	0.1	0.8	0.9
East Asia ex China	3.3	4.3	3.6	3.8
India	9.2	6.5	6.1	6.2
Euro Zone	0.4	0.9	1.2	1.3
United Kingdom	0.4	1.1	1.0	1.2
NZ trading partners	3.1	3.0	2.8	2.6
World	3.5	3.3	3.0	3.0

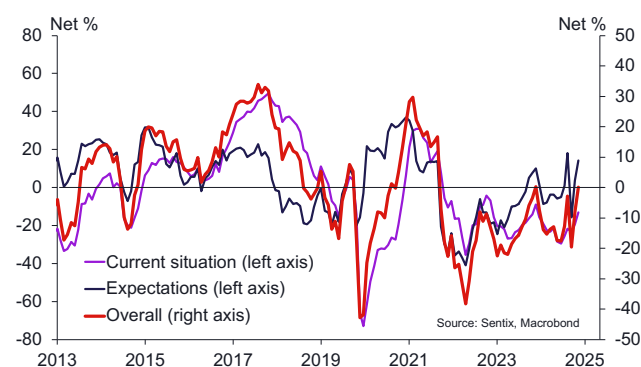
Australian & US interest rate outlook

	13 Jun	Jun-25	Dec-25	Dec-26
<b>Australia</b>				
Cash	3.85	3.60	3.35	2.85
90 Day BBSW	3.72	3.65	3.45	3.05
3 Year Swap	3.20	3.40	3.50	3.90
3 Year Bond	3.26	3.45	3.55	3.95
10 Year Bond	4.12	4.30	4.35	4.50
10 Year Spread to US (bps)	-20	-20	-20	-15
<b>US</b>				
Fed Funds	4.375	4.125	3.875	3.875
US 10 Year Bond	4.32	4.50	4.55	4.75

US New York Fed Inflation Expectations Survey



Sentix Investor Sentiment Index



# Financial markets wrap

## Foreign exchange.

From last week's bullish stance on NZD/USD, we shift to a neutral one this week given Friday's attack by Israel on Iran. How this conflict develops during the week ahead will likely be a major determinant in the near term outlooks for most exchange rates. That said, so far the impact has been more moderate than we would have expected, possibly due to the US dollar's tarnished safe-haven credentials. Absent a significant escalation, NZD/USD could find support in the 0.5900-0.5950 area.

Other events which could be influential this week include NZ GDP data and the Federal Reserve's rate decision (a hold is expected).

Multi-month, we retain our moderately bullish target of 0.6200, the main rationale being expectations of further weakness in an overvalued US dollar.

NZD/AUD has been rangebound between 0.9255 and 0.9325 during the past two weeks, and we await a break for near term directional clues. Risk sentiment (AUD is more sensitive than NZD) and yield spreads will be the main drivers multi-week. On the latter, NZ-AU swap spreads have risen sharply over the past month, suggesting upside potential for the cross, towards 0.9350 multi-week.

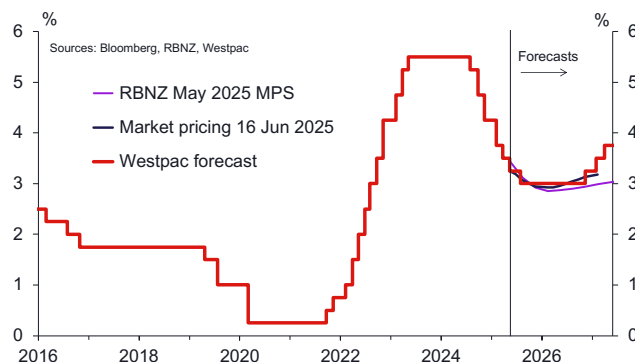
## Interest rates.

The NZ 2yr swap rate retains a glimmer of upward momentum, but is likely to remain in a 3.15%-3.35% range during the week ahead. The RBNZ MPS in May was less dovish than expected, but recent NZ economic data momentum has slowed.

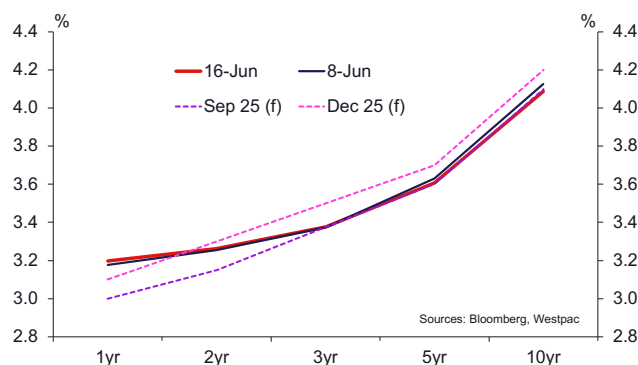
Market pricing for the RBNZ OCR implies only a 25% chance of a rate cut at the next meeting on 9 July, but one more cut in this easing cycle (by November 2025).

NZ yield curves are unlikely to steepen beyond the cycle peaks seen in April. Over the next few months, the 2-10yr swap curve could flatten back into the 60bp-80bp range which prevailed in Q1.

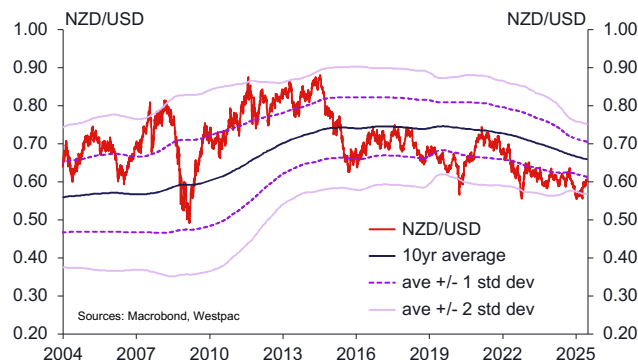
## Official Cash Rate forecasts



## 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	0.601	0.553-0.604	0.553-0.743	0.638	0.61
AUD	0.927	0.906-0.936	0.873-0.971	0.924	0.89
EUR	0.521	0.502-0.533	0.502-0.637	0.576	0.52
GBP	0.443	0.431-0.449	0.431-0.535	0.496	0.45
JPY	86.8	80.5-87.5	68.5-98.6	83.3	85.7

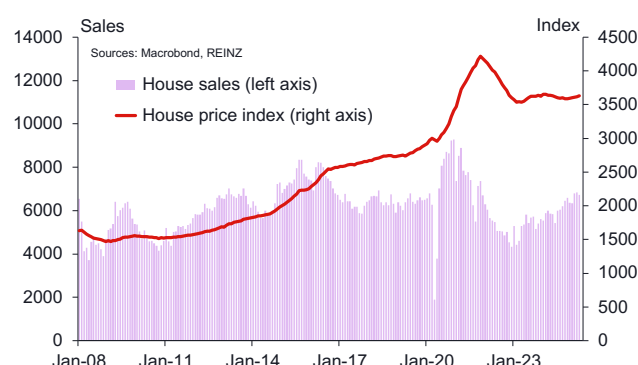
# The week ahead

## May REINZ House Prices and Sales

**Jun 17 (TBC), Prices last: -0.3%/yr; Sales last: +9.5%/yr**

Falling mortgage rates have been helping to revive interest among potential homebuyers since late last year. The REINZ report for April showed a 0.4% rise in house prices, still a modest pace but a pickup from the 0.1-0.2% gains in each of the previous five months. Sales have been gradually trending higher over the last two years and are back to around their long-run average levels. As the stock of unsold homes on the market is worked through, we expect to see further house price gains over 2025.

REINZ house prices and sales

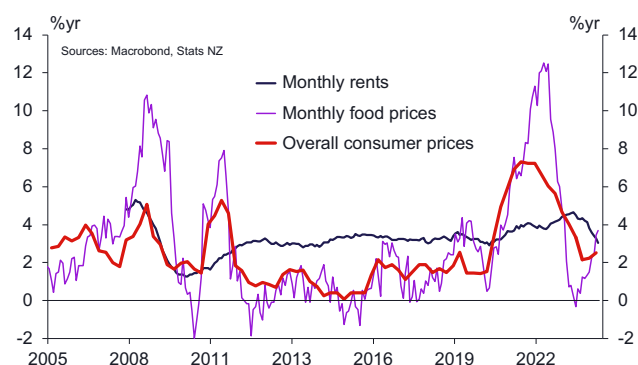


## May Selected Price Indices

**Jun 17**

April's update on consumer prices was stronger than expected with continued large increases in food prices and a sharp rise in airfares. Regulated prices such as household energy also recorded solid increases. Some of the gains seen in April were seasonal (e.g. international airfares), and consequently some give back is likely in May. However, we're continuing to see gains in areas like grocery prices, with overall food prices expected to be up another 0.2%. It'll also be worth watching what happens to rents (the largest component of the CPI) which have recorded relatively small increases in recent months.

Selected consumer prices

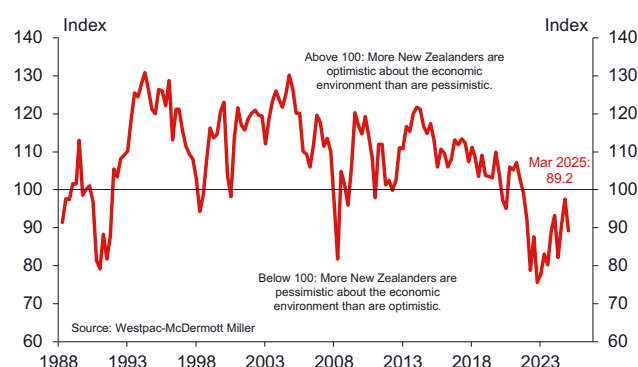


## Q2 Westpac-McDermott Miller Consumer Confidence Index

**Jun 18, Last: 89.2**

The Westpac-McDermott Miller Consumer Confidence Index fell 8 points in March to a level of 89.2. While consumer confidence has picked up from the lows we saw in recent years, there are a range of concerns that are still worrying New Zealand households, and that's likely to be a brake on spending for a few more months at least. Our latest survey was in the field in the early weeks of June. Recent months have seen mixed economic news, along with continued uncertainty about the impact of US tariffs. We've also seen renewed cost of living concerns as food prices have pushed higher.

Consumer Confidence Index





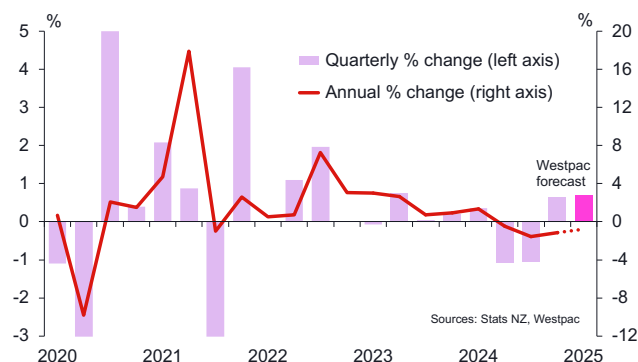
# The week ahead

## Q1 GDP

**Jun 19, Last: +0.7%, Westpac: +0.7%, Mkt: +0.7%**

We expect a 0.7% rise in GDP for the March quarter, following a similar rise in the December quarter. However, the sectoral details suggest more genuine and broad-based growth this time, whereas the previous quarter's result was driven by some undesirable seasonality that has crept into the GDP figures. The economy is still clawing its way back from a sharp downturn in the middle part of 2024, and activity likely remains below year-ago levels, but the direction of travel is encouraging.

Quarterly GDP growth



# Economic and financial forecasts

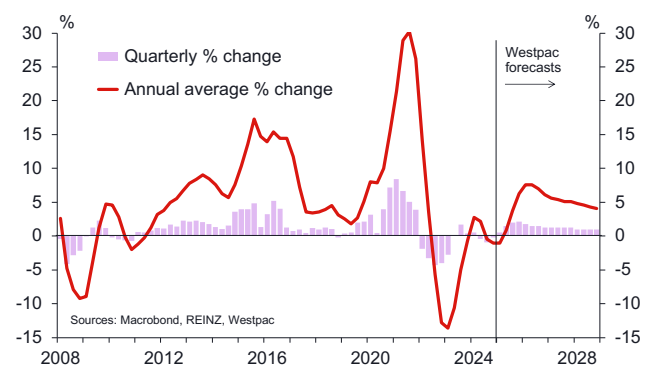
Economic indicators	Quarterly % change				Annual % change			
	Dec-24	Mar-25	Jun-25	Sep-25	2024	2025	2026	2027
GDP (production)	0.7	0.7	0.6	0.7	-0.5	1.4	3.0	2.7
Consumer price index	0.5	0.9	0.4	0.8	2.2	2.8	2.3	2.0
Employment change	-0.2	0.1	0.1	0.2	-1.2	0.8	2.3	1.9
Unemployment rate	5.1	5.1	5.3	5.3	5.1	5.2	4.4	4.1
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	-4.4	-3.8	-6.2	-3.3	-3.9	-3.8
Terms of trade	3.1	6.7	7.8	-1.6	13.6	12.3	0.3	1.7
House price index	-0.2	0.5	1.5	2.0	-1.1	6.2	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	3.25	3.10	4.45	3.10	3.45	3.85
2 year swap	3.64	3.46	3.20	3.30	3.64	3.35	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	4.65	4.51	4.70	4.90	4.95
TWI	69.5	67.8	68.8	69.3	69.5	69.3	69.3	69.4
NZD/USD	0.59	0.57	0.59	0.60	0.59	0.61	0.62	0.64
NZD/AUD	0.91	0.90	0.92	0.91	0.91	0.89	0.88	0.88
NZD/EUR	0.55	0.54	0.52	0.52	0.55	0.52	0.53	0.54
NZD/GBP	0.46	0.45	0.44	0.44	0.46	0.45	0.46	0.46

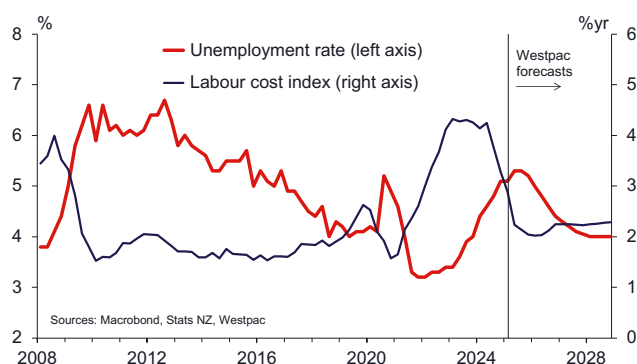
GDP growth



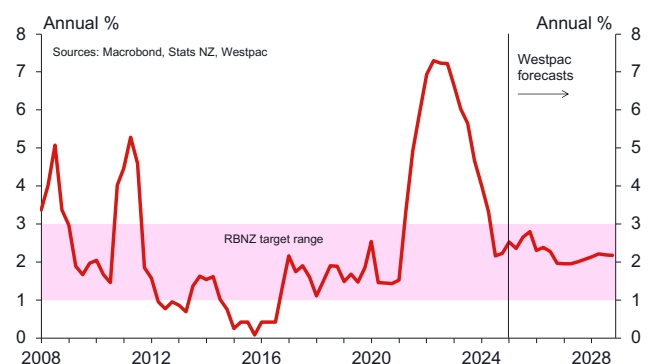
House prices



Unemployment and wage growth



Consumer price inflation





# Data calendar

		Last	Market median	Westpac forecast	Risk/Comment
<b>Mon 16</b>					
<b>NZ</b>	May BusinessNZ PSI, index	48.5	–	–	Has softened again in recent months.
<b>Chn</b>	May Retail Sales, ytd %yr	4.7	4.8	–	Consumption still weak versus pre-pandemic average.
	May Industrial Production, ytd %yr	6.4	6.4	–	Prospects for trade resolution alleviate downside risks ...
	May Fixed Asset Investment, ytd %yr	4	4	–	... China remains well-placed to hit growth target.
<b>US</b>	Jun Fed Empire State, index	–9.2	–7.0	–	Manufacturing outlook remains soft across the regions.
<b>Tue 17</b>					
<b>NZ</b>	May REINZ House Prices, %yr	–0.3	–	–	Expected date. Prices are gradually picking up ...
	May REINZ House Sales, %yr	9.5	–	–	... as lower mortgage rates spur higher turnover.
	May Selected Price Indices – food prices, %mth	0.8	–	0.2	Dairy and other grocery prices continuing to rise.
	May Selected Price Indices – rents, %mth	0.2	–	0.2	Rental growth has taken a step down this year.
<b>Jpn</b>	Jun BoJ Policy Decision, %	0.5	0.5	0.5	On hold for now; balance of growth and inflation risks key.
<b>Eur</b>	Jun ZEW Survey Of Expectations, index	11.6	–	–	Recovered about half the collapse from 'Liberation Day'.
<b>US</b>	May Retail Sales, %mth	0.1	–0.7	–	Consumers saving rather than spending.
	May Import Price Index, %mth	0.1	–0.3	–	Underlying prices (excluding tariffs) are little-changed.
	May Industrial Production, %mth	0	0	–	Subdued regional manufacturing points to downside risk.
	Apr Business Inventories, %mth	0.1	0	–	Inventory-to-sales ticking down, but both are subdued.
<b>Wed 18</b>					
<b>NZ</b>	Q2 Westpac-MM Cons. Confidence, index	89.2	–	–	Lost ground earlier in the year, still below average.
	Q1 Current Account Balance, NZ\$bn	–7.0	–5.8	–5.8	High export commodity prices are narrowing the deficit.
<b>Aus</b>	May Westpac-MI Leading Index, %ann'd	0.2	–	–	Underlying components are on the softer side.
<b>Jpn</b>	Apr Core Machinery Orders, %mth	13	–9.5	–	Positive for investment, albeit lumpy and subject to revision.
<b>Eur</b>	May CPI, %ann	2.2	1.9	–	Final estimate to provide more colour on component detail.
<b>UK</b>	May CPI, %ann	3.5	–	–	Up-tick in services inflation bears close monitoring.
<b>US</b>	Jun NAHB Housing Market, index	34	36	–	Homebuilders deeply pessimistic; tariff concerns linger.
	May Housing Starts, %mth	1.6	–0.1	–	Elevated lending costs and uncertainty making housing ...
	May Building Permits, %mth	–4.0	0.6	–	... projects an unattractive bet for builders.
	Initial Jobless Claims	248	–	–	Still low versus history.
	Jun FOMC Policy Decision, %	4.375	4.375	4.375	Patient as employment and inflation risks are assessed.
<b>Thu 19</b>					
<b>NZ</b>	Q1 GDP, %qtr	0.7	0.7	0.7	Gradual recovery from the sharp 2024 slowdown.
<b>Aus</b>	May Employment Change, 000s	89	20	15	Smaller gain following a bumper April ...
	May Unemployment Rate, %	4.1	4.1	4.2	... risks tilted toward unemployment rate rounding up.
<b>UK</b>	BoE Policy Decision	4.25	4.25	4.25	Upside inflation surprise reinforces gradual easing approach.
<b>US</b>	Juneteenth	–	–	–	Markets closed.
<b>Fri 20</b>					
<b>NZ</b>	Matariki public holiday	–	–	–	Markets closed.
<b>Jpn</b>	May CPI, %ann	3.6	3.5	–	BoJ keeping a close eye, but not enough to budge policy yet.
	BoJ Governor Ueda	–	–	–	Speaking at National Shinkin Bank Convention.
<b>Eur</b>	Jun Consumer Confidence, index	–15.2	–14.9	–	Trade talks offer hope on the future economic landscape.
<b>UK</b>	Jun Gfk Consumer Sentiment, index	–20	–	–	Surprisingly resilient to external turmoil ...
	May Retail Sales, %mth	1.2	–	–	... as retail spending tracks a positive uptrend.
<b>US</b>	Jun Philly Fed, index	–4.0	0	–	Manufacturing outlook remains soft across the regions.
	May Leading Index, %mth	–1.0	–0.1	–	Likely to rebound following stock market recovery.

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