



WEEKLY ECONOMIC COMMENTARY



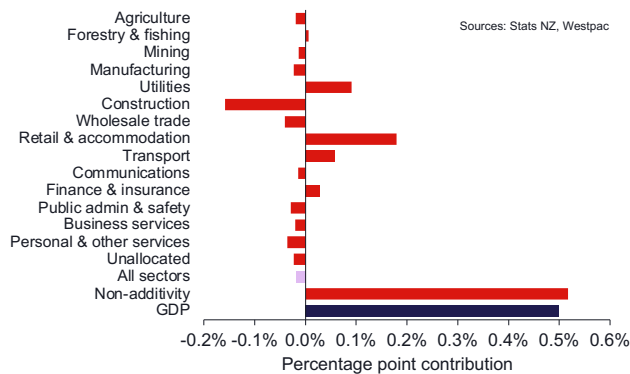
17 Mar 2025 | Westpac Economics Team | westpac.co.nz/economics | economics@westpac.co.nz

Goodbye to 2024, and good riddance.

This week brings the last major economic data release relating to 2024. After a sharp downward lurch in GDP in the June and September quarters, we’re expecting a 0.5% lift for the December quarter – though we think that will overstate the true growth impulse at the time. Things are looking better for 2025 though, with more encouraging signs of a genuine return to growth over the last week.

Our forecast for December quarter GDP reflects a mixed performance across sectors. We expect the most positive contribution to come from retailing, with the retail trade survey showing a 0.9% rise in volumes. Hospitality was particularly strong (and this gets upweighted in the GDP calculations), reflecting the strong lift in overseas visitor numbers towards the end of the year. The latter also contributes to our estimate of a 1.5% lift in the transport sector for the quarter.

December quarter GDP growth forecast

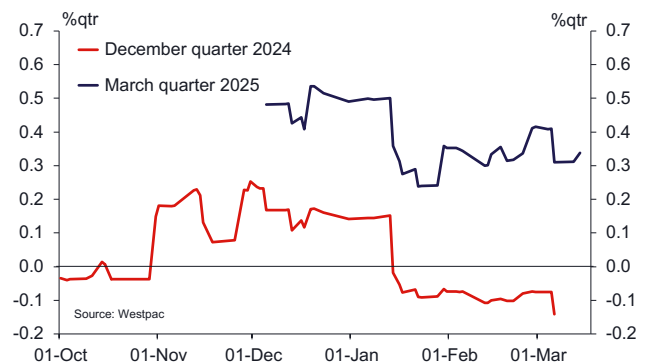


The other major gain is likely to be in electricity, reversing a large 3.7% drop in the previous quarter. Hydro lake levels were running very low in the September quarter, forcing a shift to more expensive fuels such as coal,

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
19 Mar 25	FOMC Meeting (Announced 20 Mar NZT)
20 Mar 25	NZ GDP, December quarter
1 Apr 25	RBA Monetary Policy Decision
8 Apr 25	NZIER QSBO Business Survey, March quarter
9 Apr 25	RBNZ OCR Review
15 Apr 25	NZ Selected price indexes, March
17 Apr 25	NZ CPI, March quarter
7 May 25	Labour market statistics, March quarter
7 May 25	RBNZ Financial Stability Report
7 May 25	FOMC Meeting (Announced 8 May NZT)
15 May 25	NZ Selected price indexes, April

and hence reducing the value-added from electricity generation. That situation was remedied in the December quarter – while total generation was lower, the renewables share was very high.

The biggest negative that we see is in the construction sector, where we expect a sixth straight quarter of decline. While the post-Covid surge in building consents peaked in 2022, it has taken some time for the pipeline of consented work to run down. It's likely that we will see a similar lag in the other direction – although consents appear to have stabilised over the last year, we don't expect to see a pickup in building activity until later this year.

Aside from construction, we expect to see modest declines across a broad range of sectors, including manufacturing, wholesale trade, public administration, and business and personal services. Adding up across sectors, we expect to see something close to zero. Our GDP nowcast model has been pointing in this direction for some time – the December estimate closed at -0.14%, following the release of the building work survey last week.

So where does our +0.5% forecast come from? Unfortunately it all stems from technical issues around the seasonal adjustment of the data, which emerged in the previous GDP release at the end of last year. If this issue persists, we estimate that it would add around 0.5 percentage points to growth in December quarters (and detract this much in June quarters).

Of course, we can't be certain that it will persist – Stats NZ recalculates its seasonal adjustments at every release. In that case, December quarter growth could come in below our forecast, but as the product of upward revisions to previous quarters.

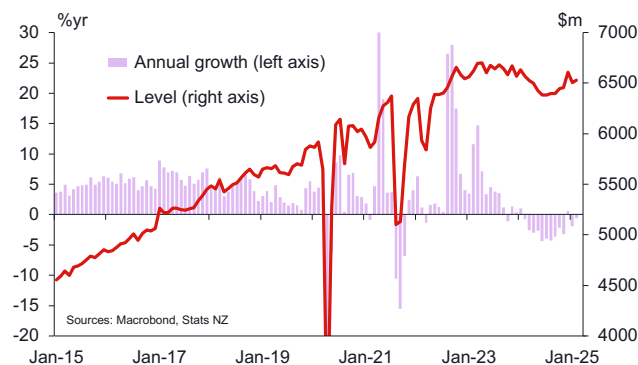
Seasonal adjustments only affect the reported timing of activity, not the overall trend. Focusing on the annual growth rate helps to get around this issue – we're forecasting a 1.3% annual decline for the December quarter, which would be a modest improvement from -1.5% in the September quarter.

We're certainly not alone in picking a positive result for the quarter. The Reserve Bank estimated a 0.3% rise in its February Monetary Policy Statement, and market forecasts so far are averaging around 0.4%. But even if our forecast is on the right side of things, it's likely that the details will need careful interpretation.

Whatever the final verdict on 2024 turns out to be, it's becoming clear that this year has made a much stronger start. The first update this week was for card spending at retail stores, which rose by 0.3% in February. Nominal spending saw a marked decline through 2023 and much of 2024 (and it was even softer after accounting for inflation), but has been steadily trending higher for the last seven months.

Importantly, even though interest rates have been falling for several months, most of their impact is yet to be felt. With around half of all mortgages due to reprice over the next six months, borrowers will soon have the opportunity to secure a lower rate. That could see sizeable falls in households' debt servicing costs and boost their disposable incomes. As those lower borrowing costs ripple through the economy, we expect to see a further pick-up in spending over the coming months.

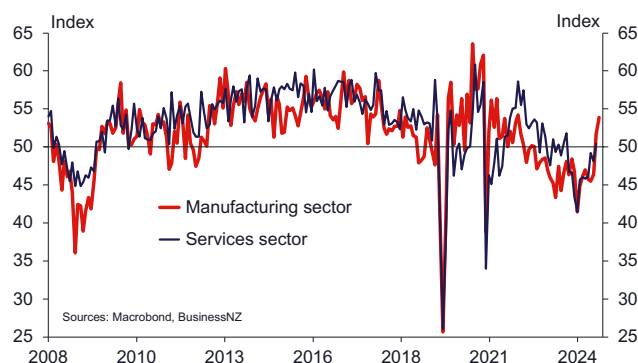
Monthly retail card spending



Secondly, the manufacturing PMI rose 2.2pts in February to 53.9. January had been the first reading in two years that was above the 50 mark (indicating positive growth), and February saw further gains. We should note that the PMI has tended to overstate the degree of weakness in the sector over the last couple of years, compared to the quarterly manufacturing survey that goes into GDP. Nevertheless, the direction of change is another positive sign.

The equivalent survey for the services sector will be released this morning. The PSI also rose above 50 in January (a one-year high in this case), so we will be watching to see if this momentum continues.

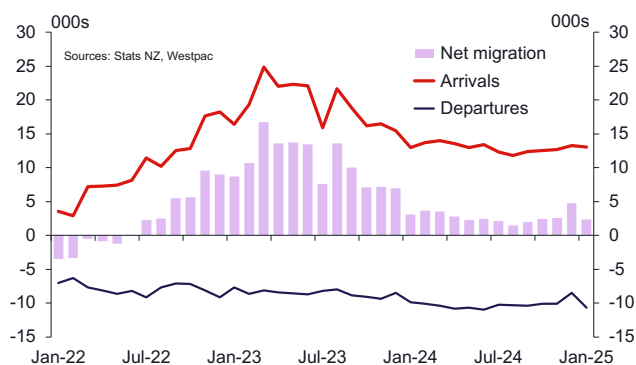
BusinessNZ PMI and PSI



Migration remained positive in January, with a net inflow of around 2,400 people. The monthly balance has stabilised over the last year and even picked up a little in recent months. Notably, revisions also showed that around 6,000 fewer people have left the country over the last year than was previously estimated.

The annual balance has now slowed to around 32,000 people, a long way from the peak of 135,000 that was reached in 2023. However, base effects suggest that it is unlikely to decline much further from here – and if that’s as low as it gets in this cycle, that would actually be pretty strong. It’s certainly an upside risk to think about in terms of the country’s need for housing, infrastructure and social services in the years ahead.

Monthly migration, seasonally adjusted



Finally, the REINZ report for February showed that the housing market is gradually getting back on its feet. House sales rose 6% in seasonally adjusted terms, reaching their highest level since December 2021. Prices inched higher for a fourth straight month, though they remain down on the same time last year. Lower mortgage rates have been bringing prospective buyers back to the table, but with plenty of unsold homes on the market, there hasn’t been a great deal of upward pressure on prices just yet.

Forecast updates.

On Friday we published our latest monthly Market Outlook, which sets out Westpac Economics’ view on prospects for the global economy and financial markets. The most important change from last month is that our Australian colleagues have significantly downgraded their view of the outlook for US economic growth, which is now pegged at 1.7% both this year and next (down from 2.6% and 2.0% respectively). As a partial offset, they have upgraded our forecast for growth in China this year to 5.0% from 4.8% previously. This reflects their expectation that the Chinese Government will provide additional support as needed to hit the 5% growth target articulated at the National People’s Congress.

Given the revision to the US growth outlook, two 25bp cuts are expected during the second half of this year – which brings forward the easings previously expected in 2026. Our forecasts for the US dollar have been revised downwards against most major currencies and forecasts for oil prices reduced.

It’s important to note that the global economic outlook is in a state of flux right now. This means we need to take precise views of global growth and inflation with a pinch of salt as these are likely to vary widely as events unfold. This update is likely subject to considerable uncertainty right now and we haven’t made encompassing changes to the economic outlook outside of the US. And US data itself is very variable right now as key views on aspects of the economy are starkly different depending on who is asked and their political allegiances.

In this update we have made no changes to our forecasts for New Zealand interest rates (swaps or bonds). But the NZ dollar has held up a little better than we had expected last month, and this resilience may continue until at least early April when further details of US tariff policy are scheduled to be released. Consequently, and reflecting adjustments to our broad US dollar view, our baseline expectation for NZD/USD envisages a low of 0.56 this year – 2 cents higher than forecast previously. Our sense is that the skew of risks around our new forecast remains to the downside, however.

Michael Gordon, Senior Economist

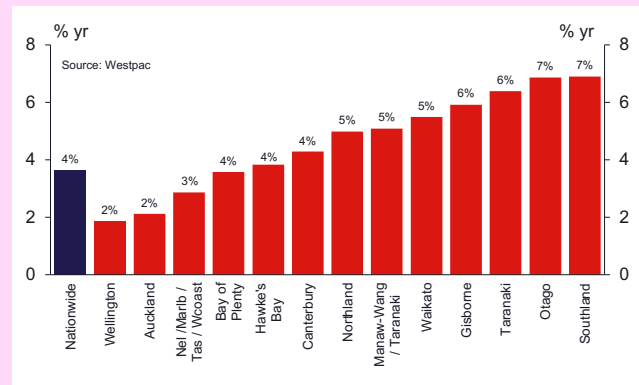
Chart of the week.

Our Retail Spending Pulse tracks spending on Westpac issued credit and debit cards, and allows us to take a closer look at what's happening to spending around the country. Looking at the country as a whole, spending in February is up 3.7% on this time last year. However, we're seeing some big differences across the country.

Spending growth remains fastest in those regions with a strong rural backbone, like Southland and Otago, with the lift in tourist numbers also providing a boost to areas like Queenstown.

It's a different story in metro areas, with spending in Auckland and Wellington only up 2% over the past year, a little below the rate of inflation. Businesses we've spoken to in those regions have continued to tell us of tough trading conditions, especially in the Capital. However, most of the businesses we spoke to told us that conditions had stabilised in recent months (rather than continuing to weaken). They're also feeling more optimistic about where the economy is heading over the course of this year. However, the recovery is expected to be gradual, with most businesses not expecting a material lift in demand until the second half of this year.

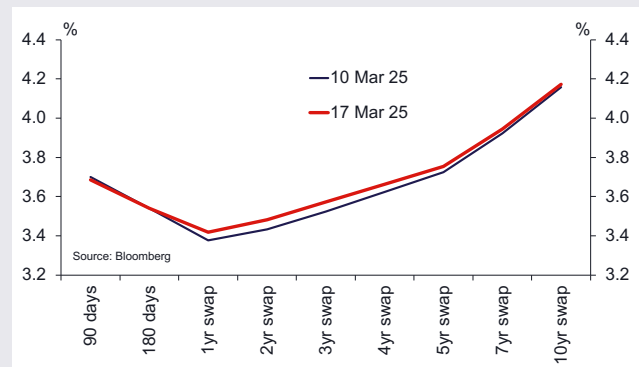
New Zealand spending growth by region (February vs same time last year)



Fixed versus floating for mortgages.

We're forecasting the cash rate to bottom at 3.25% in mid-2025 and see balanced risks around that forecast. Markets have factored more easing than this into mortgage rates and suggest the OCR will bottom closer to 3%. Longer term mortgage rates have fallen – in some cases significantly – and now look attractive to fix for longer periods, particularly in the two- to three-year space. Shorter-term mortgage rates are likely to fall in the near term as the RBNZ delivers further smaller OCR cuts, but would still likely 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.

Last week the US introduced a 25% tariff on all imports of aluminium and steel. That prompted retaliatory measures from Canada and Europe, which in turn saw President Trump threaten a further 200% tariff on imports of alcohol from the EU. Those developments overshadowed economic data, including softer than expected headline outturns for both CPI and PPI. Trade tensions contributed to a fall in consumer confidence and lift in expectations for inflation. Westpac has downgraded its forecast for US GDP growth to 1.7% for both this year and next and now expects the Fed to cut its policy rate by 50bps this year. On that score, attention this week will be centred on the FOMC's policy statement (Thursday). While no change in policy is expected, the dot plot will be closely watched to see how the Fed is balancing concerns about the downside risks for activity and upside risks for inflation. This week we'll also get updates on retail sales (Monday), industrial production (Tuesday) and house sales (Friday). Across in Canada, increased uncertainty stemming from the trade war contributed to the BoC's decision to cut the overnight cash rate 25bps to 2.75% despite inflation being near target and resilient economic growth.

Europe.

EU leaders announced that they will impose tariffs on up to €26bn worth of US goods in response to US tariffs. At the same time, EU nations, including Germany, are looking at increases in defence spending as the continent re-thinks its security arrangements (Germany's parliament will vote on a spending package on Tuesday). Against that backdrop, ECB speakers have noted challenges in meeting the inflation target in the face of trade disruptions and increases in public borrowing to fund defence and infrastructure spending. Those factors won't necessarily prevent further rate cuts, but they do mean that the outlook for policy is more uncertain. The BOE is expected to leave its policy rate steady on Thursday.

Asia-Pacific.

Consumer sentiment in Australia has improved, supported by falls in inflation and borrowing costs, but the latest NAB survey pointed to a continued easing in business activity. This week's focus will be on the labour market, with Thursday's report expected to reveal a dip in unemployment to 4.0%. In China, the government has signalled it will take measures to safeguard its economy in response to the ramping up of US tariffs, and the related negotiations will be a key area to watch over the week ahead. We'll also get updates on China's retail sales and IP (both today). Over in Japan, the BOJ meets on Wednesday with no change in policy expected.

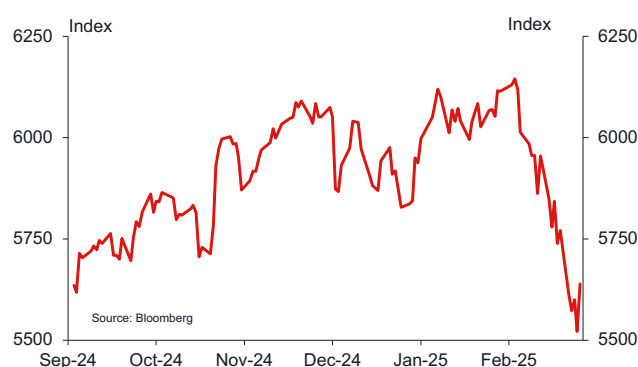
Trading partner real GDP (calendar years)

	Annual average % change			
	2023	2024	2025	2026
Australia	2.1	1.0	2.0	2.2
China	5.2	5.0	5.0	4.7
United States	2.5	2.8	1.7	1.7
Japan	1.9	-0.1	1.2	1.0
East Asia ex China	3.3	4.3	4.1	4.1
India	7.8	6.6	6.5	6.5
Euro Zone	0.4	0.7	0.9	1.3
United Kingdom	0.1	0.7	0.7	1.2
NZ trading partners	3.4	3.2	3.3	3.2
World	3.2	3.3	3.2	3.2

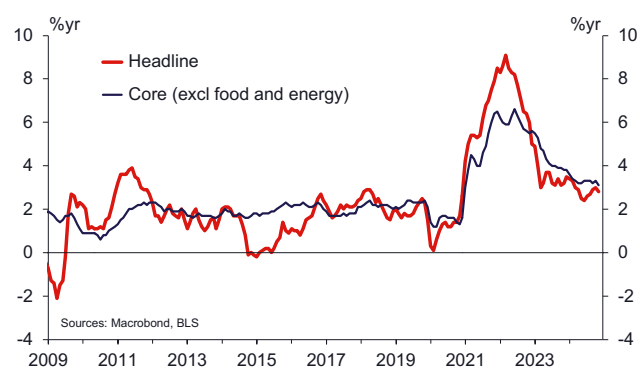
Australian & US interest rate outlook

	14 Mar	Jun-25	Dec-25	Dec-26
Australia				
Cash	4.10	3.85	3.35	3.35
90 Day BBSW	4.12	3.90	3.45	3.55
3 Year Swap	3.69	3.75	3.80	4.00
3 Year Bond	3.76	3.85	3.90	4.05
10 Year Bond	4.39	4.65	4.75	4.80
10 Year Spread to US (bps)	12	15	5	0
US				
Fed Funds	4.375	4.375	3.875	3.875
US 10 Year Bond	4.27	4.50	4.70	4.80

S&P-500



US CPI inflation



Financial markets wrap

Interest rates.

NZD/USD remains contained by an expanding three-month old range, bounded approximately by 0.5600 and 0.5800, with upside potential during the week ahead. If 0.5800 gave way, we'd be targeting the 0.5850-0.5950 area. The US dollar has lost its lustre, markets becoming increasingly concerned with the adverse economic effects of the Trump administration's policies on trade and other areas. In turn, the chances of rate cuts from the Fed this year have risen, with June seen as the likely month for a resumption of the easing cycle.

Meanwhile, NZD-supportive factors, such as extreme short speculative NZD/USD positioning and an arguably fully priced RBNZ easing cycle, remain intact. The medium-term outlook remains unclear, with considerable uncertainty regarding which US policies will be implemented and how they will affect the US economy.

Some of the NZD crosses which had experienced significant falls this year, such as NZD/EUR and NZD/GBP, are looking quite stretched and could rebound during the week ahead. NZD/AUD has looked more constructive over the past month and could extend to 0.9150, helped by NZ-AU yield spreads.

Interest rates.

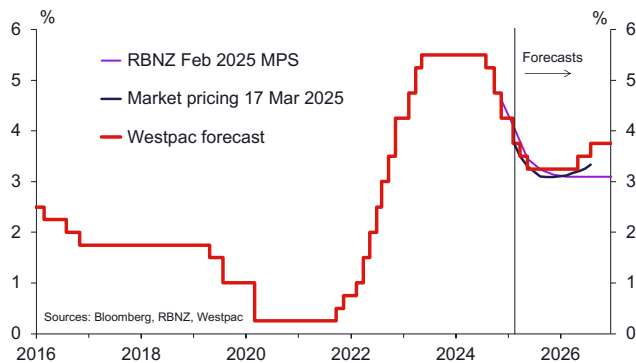
The NZ 2yr swap rate remains stuck inside a three-month old range of 3.33%-3.65%, a theme which is expected to continue during the week ahead. Multi-month, though, we see potential for a break higher.

The RBNZ's February MPS clearly signalled the trajectory of the remainder of the easing cycle, being 25bp OCR cuts in April and May, and the chance of one further cut in the latter part of the year. However, given RBNZ Governor Orr's abrupt and surprising resignation, the next meeting in April will be closely watched by markets for any subtle shifts in guidance. OIS pricing continues to predict three more 25bp cuts this year to end the cycle at 3.00%. Westpac's forecast is for only two more OCR 25bp cuts in April and May, taking it to 3.25%.

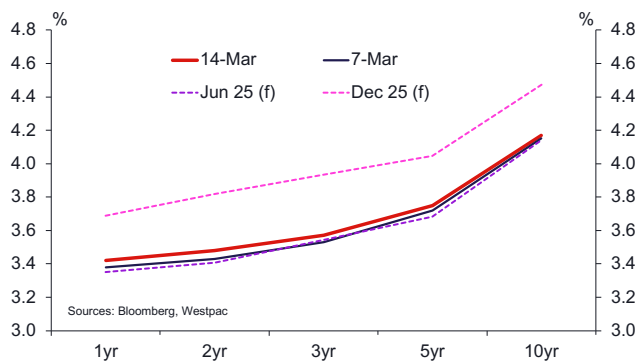
Our outlook for higher swap rates later this year is driven by an observation that markets have fully priced the remnants of this RBNZ easing cycle and will eventually turn attention to the next cycle – a tightening one. In addition, there's a large pipeline of mortgages due for refinancing over the next six months.

If swap rates do increase as we expect, the yield curve's slope is likely to flatten as shorter maturities, such as the 2yr, rise more than longer maturities. A flatter curve, on its own, would incentivise borrowers to hedge/fix for longer terms, but against that, all yields will likely be at higher levels when the flattening does occur.

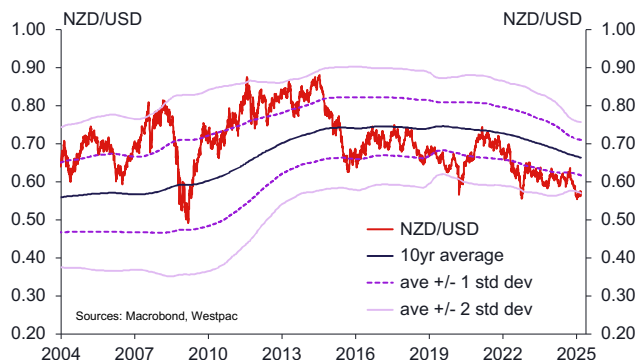
Official Cash Rate forecasts



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	0.575	0.554-0.579	0.554-0.743	0.639	0.57
AUD	0.909	0.897-0.909	0.873-0.992	0.925	0.87
EUR	0.528	0.523-0.552	0.517-0.637	0.578	0.52
GBP	0.444	0.440-0.459	0.440-0.535	0.499	0.44
JPY	85.4	83.5-89.2	61.3-98.6	82.3	79.4

The week ahead

Q1 Westpac-McDermott Miller Consumer Confidence Index

19 Mar, Last: 97.5

Our latest consumer confidence survey was in the field March 1-12. At the end of last year, we saw consumer confidence trending upwards as the pressure on household finances eased. Since that time, interest rates have continued to ease and commodity prices have been pushing upwards. However, uncertainty around the global backdrop has increased as the tariff war has heated up.

Consumer Confidence Index

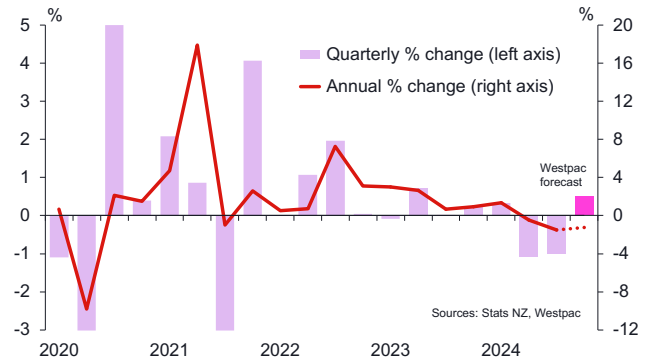


Q4 GDP

20 Mar, Last: -1.0%, Westpac: +0.5%, Mkt: +0.4%

We expect a 0.5% rise in GDP for the December 2024 quarter, following sharp declines in the two previous quarters. However, this is entirely due to issues that we have identified with the seasonal adjustment of the data; our sector-by-sector forecasts suggest effectively zero growth in activity. Given the potential for revisions to recent history as well, the Q4 figures will need to be read with caution.

Quarterly GDP growth

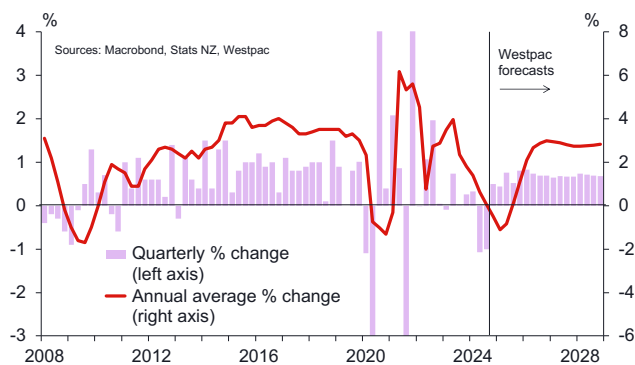


Economic and financial forecasts

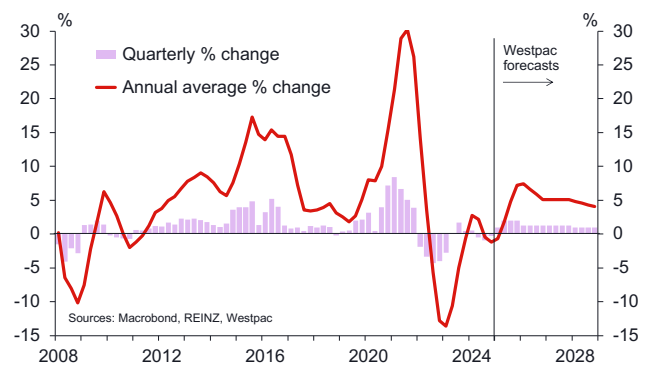
Economic indicators	Quarterly % change				Annual % change			
	Sep-24	Dec-24	Mar-25	Jun-25	2023	2024	2025	2026
GDP (production)	-1.0	0.5	0.4	0.8	1.8	-0.5	1.1	3.0
Consumer price index	0.6	0.5	0.6	0.5	4.7	2.2	2.6	2.0
Employment change	-0.6	-0.1	-0.1	0.0	2.8	-1.1	0.4	1.9
Unemployment rate	4.8	5.1	5.3	5.4	4.0	5.1	5.3	4.6
Labour cost index (all sectors)	0.6	0.6	0.6	0.5	4.3	3.3	2.2	1.8
Current account balance (% of GDP)	-6.4	-5.9	-5.0	-4.1	-6.9	-5.9	-3.5	-4.3
Terms of trade	2.5	6.5	5.9	0.7	-10.7	17.2	4.2	2.1
House price index	-0.9	-0.2	1.0	2.0	-0.6	-1.2	7.2	5.1

Financial forecasts	End of quarter				End of year			
	Sep-24	Dec-24	Mar-25	Jun-25	2023	2024	2025	2026
OCR	5.25	4.25	3.75	3.25	5.50	4.25	3.25	3.75
90 day bank bill	5.31	4.45	3.55	3.35	5.65	4.45	3.35	3.85
2 year swap	4.06	3.64	3.40	3.50	5.28	3.64	3.80	4.00
5 year swap	3.81	3.73	3.70	3.80	4.85	3.73	4.05	4.25
10 year bond	4.31	4.51	4.60	4.70	5.09	4.51	4.90	4.95
TWI	70.9	69.5	67.1	66.2	70.8	69.5	66.1	67.3
NZD/USD	0.61	0.59	0.56	0.56	0.60	0.59	0.57	0.60
NZD/AUD	0.91	0.91	0.91	0.90	0.93	0.91	0.87	0.87
NZD/EUR	0.56	0.55	0.52	0.52	0.56	0.55	0.52	0.53
NZD/GBP	0.47	0.46	0.44	0.44	0.49	0.46	0.44	0.45

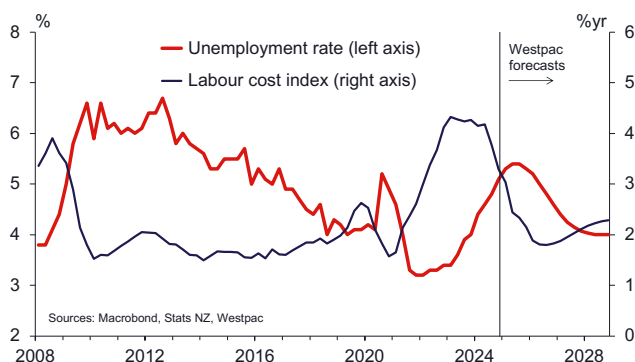
GDP growth



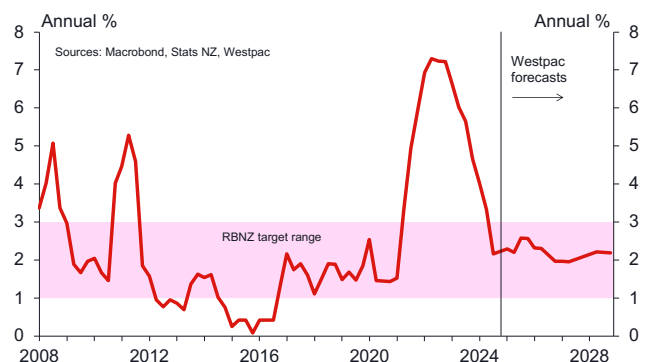
House prices



Unemployment and wage growth



Consumer price inflation



Data calendar

		Last	Market median	Westpac forecast	Risk/Comment
Mon 17					
NZ	Feb BusinessNZ PSI, index	50.4	-	-	Followed the manufacturing survey above 50 in Jan.
Chn	Feb Retail Sales, %yr ytd	3.5	3.8	-	Spending likely to bounce on Lunar New Year strength...
	Feb Industrial Production, %yr ytd	5.8	5.3	-	... but sustainability of the upturn will require policy support...
	Feb Fixed Asset Investment, %yr ytd	3.2	3.2	-	... for consumers/housing, as already flagged by authorities.
US	Feb Retail Sales, %mth	-0.9	0.7	-	Will provide a better gauge of spending pulse post holidays.
	Mar Fed Empire State, index	5.7	-2.0	-	Forward-looking indicators of great interest.
	Jan Business Inventories, %mth	-0.2	0.3	-	Seasonal bump likely, but ratio to sales holding steady.
	Mar NAHB Housing Market, index	42	42	-	Tariff uncertainty clearly weighing on homebuilder sentiment.
Tue 18					
Aus	RBA Assistant Governor (Economic)	-	-	-	Hunter speaking at the AFR Banking Summit.
Eur	Mar ZEW Survey Of Expectations, index	24.2	-	-	Tariff whiplash muddies the view on growth prospects.
	Jan Trade Balance, €bn	14.6	-	-	Pre-tariff surge in US exports likely, as seen in other countries.
US	Feb Housing Starts, %mth	-9.8	1	-	High rates and building costs remain as hurdles ...
	Feb Building Permits, %mth	-0.6	-1.6	-	... putting downward pressure on wages.
	Feb Import Price Index, %mth	0.3	-0.1	-	To become a very important indicator over the months ahead.
	Feb Industrial Production, %mth	0.5	0.2	-	Solid start to 2025; sustainability in question given investment.
Wed 19					
NZ	Q1 Westpac-MM Consumer Conf., index	97.5	-	-	The latest survey was conducted in early March.
	Q4 Current Account Balance, %of GDP	-6.4	-6.1	-6.1	Improving terms of trade to drive a narrower deficit
Aus	Feb Westpac-MI Leading Index, %ann'd	0.58	-	-	
Jpn	Jan Core Machinery Orders, %mth	-1.2	-0.1	-	Solid year-on-year growth a positive sign for investment.
	Mar BoJ Policy Decision, %	0.5	0.5	0.5	Reaction to RENGO wage negotiations a key focus.
Eur	Feb CPI, %mth	2.4	-	-	Final estimate to provide more colour on component detail.
US	FOMC Policy Decision	4.375	4.375	4.375	Uncertainty begets patience for policy.
Thu 20					
NZ	Q4 GDP, %qtr	-1.0	0.4	0.5	Unwinding factors that drove weakness in Q2-Q3.
Aus	Feb Employment Change, 000s	44	30	30	Employment growth remained strong heading into 2025...
	Feb Unemployment Rate, %	4.1	4.1	4	... shifting seasonal patterns could see U/E tick lower in Feb.
UK	Jan ILO Unemployment Rate, %	4.4	-	-	Data quality an issue, but payrolls point to easing conditions...
	Jan Average Weekly Earnings, %yr	6	-	-	... but reacceleration in wages growth poses upside risk...
	BoE Policy Decision	4.5	4.5	-	... leading policymakers to be patient with any further easing.
US	Initial Jobless Claims	220	-	-	Not yet indicative of wide-spread job losses.
	Mar Philly Fed, index	18.1	12	-	Forward-looking indicators of great interest.
	Feb Leading Index, %mth	-0.3	-0.2	-	Various gauges of growth prospects being closely scrutinised.
	Feb Existing Home Sales, %mth	-4.9	-3.7	-	Noisy data, but weaker sentiment flags downside risks.
Fri 21					
NZ	Feb Trade Balance, \$m	-486	-	280	Seasonal lift in export volumes and improved prices
Jpn	Feb CPI, %ann	4	3.5	-	Authorities slowly becoming confident on sustainable inflation.
Eur	Mar Consumer Confidence, index	-13.6	-	-	Confidence recovery likely bumpy as global outlook sways...
UK	Mar Gfk Consumer Sentiment, index	-20	-	-	... but local inflation and policy response just as important.

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