



WEEKLY ECONOMIC COMMENTARY



18 Aug 2025 | Westpac Economics Team | westpac.co.nz/economics | economics@westpac.co.nz

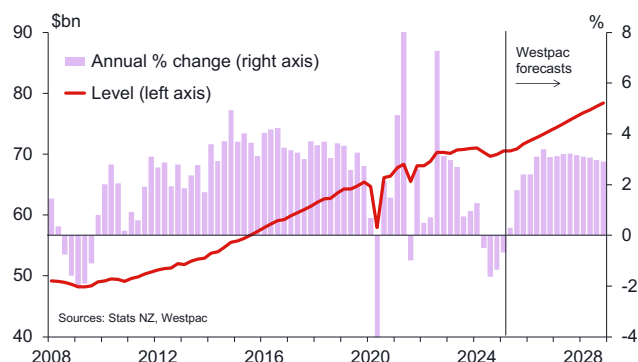
Are we there yet?

Last week we published our latest Economic Overview. The report was titled “Are we there yet?” The cover page featured a picture of a bored child sitting in the back of a car, gazing out of the window, on what we imagine to be a long road trip. This experience – including the constantly repeated refrain “Are we there yet?” from the back seat, will be familiar to many parents.

A bit like the child in the picture, the New Zealand economy has been on a road trip in recent years, and households and businesses are similarly anxious – and increasingly impatient – to reach the destination. In this case, the hoped-for endpoint – sustained solid rates of growth with low inflation – is coming into view, but there's still some distance to travel.

Our updated forecasts continue to paint a picture of cautious optimism for New Zealand's economy. While growth has slowed in the middle of the year, the outlook for 2026 is more promising, with GDP growth expected to rise from 2.4% in 2025 to 3.1% in 2026. This improvement is underpinned by the cumulative effects of the RBNZ's monetary easing, resilient export performance, and a gradual recovery in household and business demand.

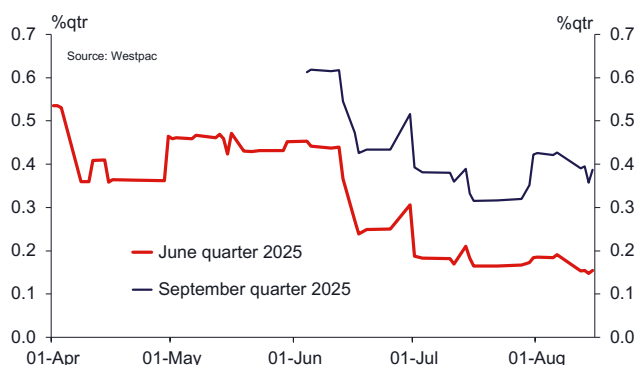
Quarterly GDP



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



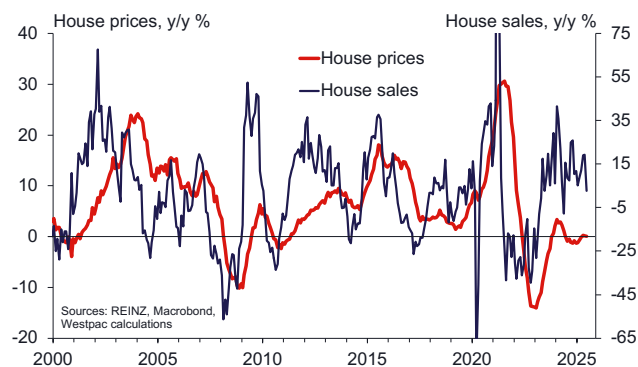
Key data and event outlook

Date	Event
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)
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

It's still very much a two-speed economy. Household finances remain under pressure due to high living costs and a weak labour market. Hence consumer spending remains modest, especially for discretionary items. This was again evident in last week's electronic card transactions data, which showed spending at retail stores rising just 0.2% m/m in July. Growth was led by spending on groceries, where prices have been rising (food prices increased 5.0% y/y in July). By contrast, discretionary spending (e.g. hospitality and durables) has essentially been flat over the past four months.

The housing market appears well-balanced. Demand has picked up a bit, although last week's REINZ report did suggest that growth in house sales had slowed to 4% y/y in July. At the same time, house prices have remained broadly stable (rising earlier in the year but falling over the last couple of months). We are still expecting a stronger finish to the year so that house prices grow 3-4% in 2025, increasing to 6% growth in 2026. That said, housing supply has been unusually responsive to rising demand as more properties have come to market, while the level of new home building has remained firm despite declining sharply from its previously highs. And with population growth also slowing (net migration stood at less than 14,000 in the year to June), it is possible that house prices will remain more subdued than we had earlier anticipated.

House prices versus number of sales

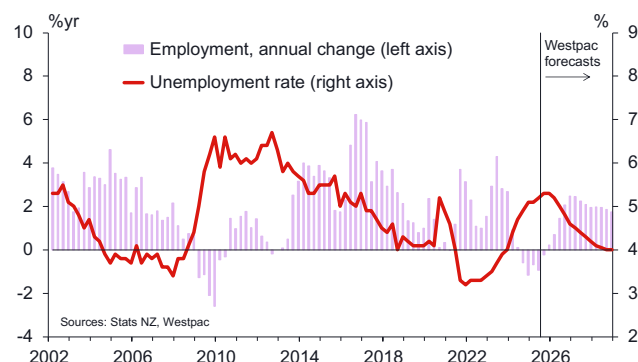


Business sentiment remains cautious, and many businesses say the going has been tough. While activity lifted earlier in the year, indicators point to a softer June quarter. Firms are optimistic about future conditions as they look forward to lower interest rates and government initiatives like the Investment Boost scheme. But in the here and now, firms remain in hunker-down mode. That said, it was heartening to see the Business NZ manufacturing index rise to a 3-month high of 52.8 in July (after spending two months back below 50), with the new orders index rising to its highest level in almost three years. Today's BusinessNZ services index also recorded a modest gain in July, although it remained below the 50 mark.

The labour market remains weak. Some firms are still letting staff go, and all firms are trying to do more

with their existing workforce for now. Even so, the unemployment rate is only rising gently. It reached 5.2% in the June quarter and is expected to peak at 5.3% by year-end. That's just above the RBNZ's most recent forecast, but in line with where its expectations have ranged over most of the last couple of years. The labour market always lags the cycle, hence job advertisements remain well below pre-Covid levels (and as of last week's MBIE report for July, is yet to exhibit a discernible uptrend). When the labour market decisively turns, this will likely boost consumer sentiment, spending and demand, and elicit a virtuous cycle from businesses.

Employment growth and unemployment rate



The strong point in the economy remains the agricultural sector, and this strength is expected to continue. Export prices remain high, and we expect to retain those gains for the foreseeable future. The farmgate milk price is forecast to remain at a historically high \$10/kg. Beef and lamb prices are elevated due to global supply constraints that seem unlikely to be alleviated in the near term. Kiwifruit and apple prices are also strong, supported by demand and quality improvements. Export log prices are set to rise slightly, aided by China's recovery. The most vulnerable area in the primary sector is the wine industry, where global supply is ample and where tariffs might blunt consumer appetites and promote diversion of product into markets we already rely on. But for most of our commodity exporters, the still-supportive level of the New Zealand dollar and global supply constraints mean that we think that returns can remain robust, even with tariffs and weaker global growth.

A generally supportive factor has been the stabilisation and improvement in the global outlook in recent months. Risks of a full-blown trade war have diminished, and the US tariff framework is now clearer. New Zealand's 15% tariff is manageable for most, and exporters seem to be adapting well even though trading partner growth is forecast at 2.7% in 2025, below pre-pandemic averages.

Given the need to address the structural deficit, fiscal policy is unlikely to contribute much to growth in the near term, but there are reasons to expect a greater contribution looking forward. For now, the budget is tight, but our forecasts suggest tax revenue will eventually outstrip Budget 2025's relatively pessimistic

forecasts. There may be scope for promises of increased discretionary spending or modest tax cuts in Budget 2026 – which may be well timed ahead of next year’s General Election. We think the Government will stick with the objective of returning to a small OBEGALx surplus by 2028/29 which will leave net debt peaking at around 44% of GDP in 2026/27 and gradually declining thereafter. The Minister of Finance noted this week that there will be limited tolerance for shifting the timeframe to achieve surplus beyond 2028/29.

The Government’s efforts to boost infrastructure development, ease regulatory constraints on building and agriculture and, critically, the new Investment Boost policy should add to growth over the medium term. At least in the near term, the Investment Boost policy should have its greatest impact in the agriculture-linked sectors (where incomes are strongest) and in the commercial property sector (where accelerated depreciation on long-lived assets will be more significant).

It’s possible that credit rating agencies may become impatient with the long period of fiscal deficits and rising net debt. Investors should be alert for risks that any signs of further slippage in fiscal discipline prompts a sovereign credit rating downgrade. These risks might be elevated by New Zealand’s generally weak productivity performance and still-wide current account deficit. We see the current account deficit narrowing further reflecting the full-year flow through of strong export returns, but it’s likely to remain wider than historical norms at around 4.5% of GDP.

The inflation outlook will be a key factor driving interest rates. Consumer price inflation rose to 2.7% in the year to June and core inflation is contained but not low. Looking ahead, inflation is expected to push higher over the coming months. In fact, with continued increases in the costs of food, electricity and other items in Stats NZ’s July Selected Prices update, we’re now forecasting that inflation will rise back up to 3.1% in the September and December quarters (both 0.1ppts higher than we previously assumed). That rise in inflation is a key concern for the RBNZ, particularly with some measures of inflation expectations lifting in recent months.

This brings us to the outlook for monetary policy. Last week we also **published our preview** of the RBNZ’s upcoming 20 August meeting, which will also see the RBNZ provide updated forecasts in the accompanying Monetary Policy Statement. In that preview we ran through developments since the May meeting and how these are likely to be interpreted by the RBNZ’s Monetary Policy Committee (MPC). On balance, we think that the MPC are likely to view the economy as broadly tracking in line with expectations. Therefore, we concluded that the MPC is very likely to deliver the further 25bps easing that it signalled in May, and again at last month’s meeting. This would take the OCR to 3%.

More interesting for markets will be what the RBNZ signals about the outlook for policy at subsequent meetings – once again, in the RBNZ’s view, “Are we there yet”. Our forecast remains that next week’s easing will most likely be the last for this cycle. However, we expect the RBNZ will communicate a data-dependent easing bias that implies some chance – similar to the roughly 50/50 chance communicated in May – of a further 25bp easing towards the end of the year (most likely at the November MPS – we think the bar to easing in October is higher). It is worth noting that we may well have a new RBNZ Governor by the November meeting (as well as a new external member of the MPC) which will also have a bearing on the policy outlook.

Kelly Eckhold, Chief Economist

Headline inflation

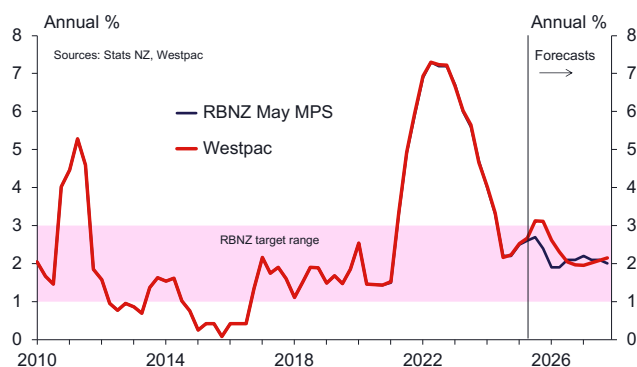
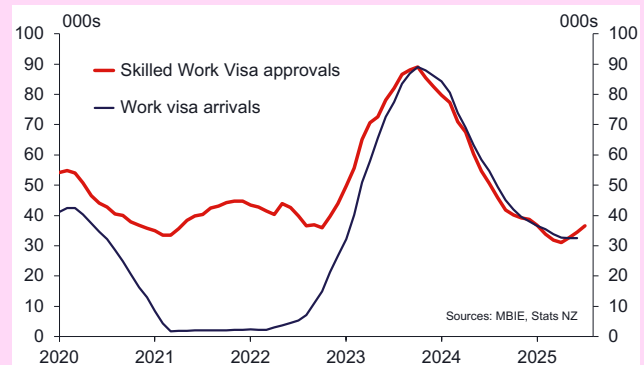


Chart of the week.

Net migration has settled into a low positive balance over the last year or so, with foreign inflows outweighing the still-high number of departing New Zealanders. While foreign arrivals have been flat in recent months, the pipeline of visa approvals suggests that a pickup could be on the way. Accredited Employer Work Visas are running ahead of year-ago levels, which likely reflects the easing of the application criteria that have been phased in since the start of the year. Student visa approvals are also running ahead of last year's levels. And next year we should see the impact of the Parent Boost Visa, which allows the parents of New Zealand residents to visit for up to five years. Estimates are for an initial wave of around 10,000 applications in the first year.

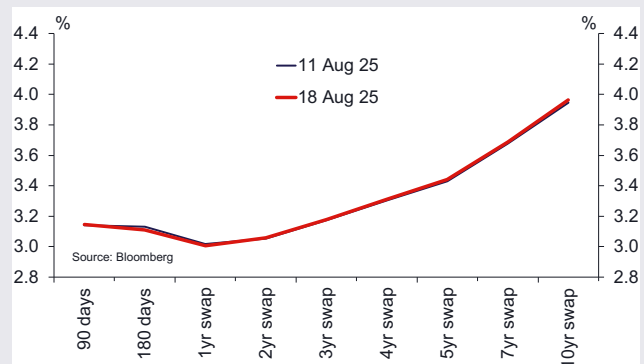
Work visa approvals and arrivals, 12-month sum



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

US.

The US July CPI inflation report largely tracked expectations, with prices up 0.2%*mtm* / 2.7%*yr*. However, core inflation stepped up to 0.3%*mtm* / 3.1%*yr* with firmness in service sector prices offsetting more modest goods sector inflation. Producer prices were also stronger than expected (+0.9% *mtm* vs +0.2% expected). Other US data were mixed. As expected, retail sales rose 0.5% in July, with spending in core categories up 0.3%. However, consumer confidence declined, raising questions about whether the strength in demand would be sustained. We also saw industrial production surprising to the downside, with a 0.1% fall in July. On the trade front, President Trump has announced a further 90-day pause on the imposition of higher tariffs on China while negotiations continue. This week's calendar is mostly second-tier releases, including updates on the housing market and business conditions. We'll also have the FOMC minutes out on Wednesday. The Fed's annual Jackson Hole symposium gets under way on Thursday. This year's focus will be on labour markets, and Powell's keynote speech (Friday) will be the highlight as always.

Australia.

As expected, the RBA cut its cash rate 25bps at its August meeting. Core inflation is inside the target range. Governor Bullock highlighted that a couple more rate cuts were necessary to keep inflation at target. She also noted that holding rates constant from here would result in inflation falling below the target midpoint. The Governor did not rule out back-to-back cuts and emphasised that the Board would take things meeting by meeting. On the data front, the July labour market reports largely tracked expectations, with employment rising 24.5k and unemployment easing back to 4.2% (from 4.3%). Smoothing through the month-to-month swings, the labour market appears to be softening gradually. In the business sector, while the latest NAB survey pointed to some easing in trading conditions in July, the underlying trend points to signs of a firming in private demand.

Asia.

The latest batch of Chinese activity data pointed to a further loss of momentum in July. Retail sales growth slowed to 3.7%*yr* (down from 4.8%*yr* in June) and industrial production growth slowed to 5.7%*yr* (down from 6.8%*yr*). While poor weather may have played some role in the recent slowdown, the data still point to softness in underlying demand and the need for continued government support for households. In Japan, GDP rose 0.3% in the June quarter, beating forecasts and reinforcing expectations for rate hikes from the BOJ.

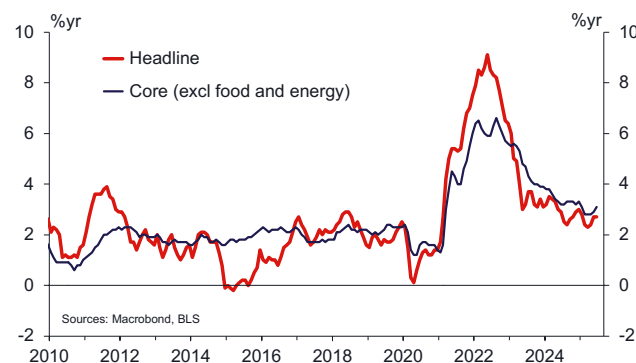
Trading partner real GDP (calendar years)

	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	2.6	1.7	1.0
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
Eurozone	0.4	0.9	1.2	1.1
United Kingdom	0.4	1.1	1.3	1.3
NZ trading partners	3.1	2.9	2.7	2.6
World	3.5	3.3	3.1	3.0

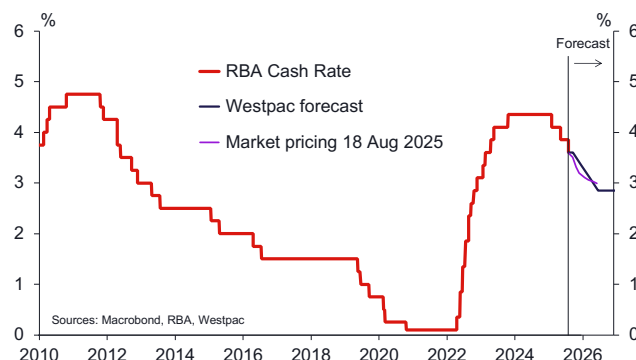
Australian & US interest rate outlook

	15 Aug	Sep-25	Dec-25	Dec-26
Australia				
Cash	3.60	3.60	3.35	2.85
90 Day BBSW	3.61	3.55	3.30	2.95
3 Year Swap	3.29	3.35	3.45	3.85
3 Year Bond	3.38	3.40	3.50	3.90
10 Year Bond	4.24	4.25	4.30	4.60
10 Year Bond Spread to US (bps)	-5	-10	-10	-15
US				
Fed Funds	4.375	4.125	3.875	3.875
US 10 Year Bond	4.28	4.35	4.40	4.75

US CPI inflationx



RBA Cash Rate



Financial markets wrap

Foreign exchange.

NZD/USD remains within a 0.5850-0.6100 range which has prevailed since April. Near term, there's a glimmer of downside momentum, so we'll be watching whether support levels at 0.5900 and then 0.5850 hold.

The key events this week for the pair will be the RBNZ MPS on Wednesday, Fed Chair Powell's speech at the annual Jackson Hole symposium on Friday, and developments in the US-Ukraine-EU-Russia talks. The RBNZ's August decision will almost certainly be a 25bp cut to 3.00%, so that guidance will be key for markets, in particular any shift in the RBNZ's OCR forecast. In the US, Powell's speech will be closely watched for any implicit endorsement of a September rate cut.

Longer term, it's hard to get too bearish on NZD/USD given the US dollar's long-term negatives (overvaluation, and the erosion of the US dollar's safe-haven identity due to fiscal risks and economic policy uncertainty). Accordingly, we'd expect a range of 0.5800-0.6100 during the month ahead.

NZD/AUD's downward trend since April persists and has potential to extend to 0.90 during the month ahead. China developments (e.g. loan subsidies for consumers, a mega dam project in Tibet) have been AUD-supportive, and more stimulus is in the pipeline (possible rate cuts, and infrastructure spending).

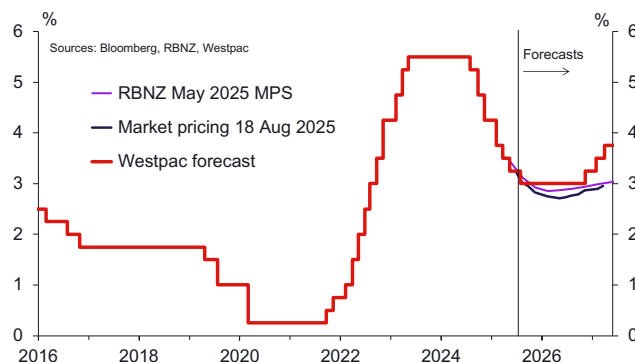
Interest rates.

The downward trend in the NZ 2yr swap rate, which started in 2023, remains intact, last week making a fresh cycle low of 3.01%. Much of the recent decline has been driven by US developments (softening labour market, increasingly dovish Fed bias), but the subdued NZ economy has also played a part, encouraging speculators to receive NZ swaps ahead of the August MPS.

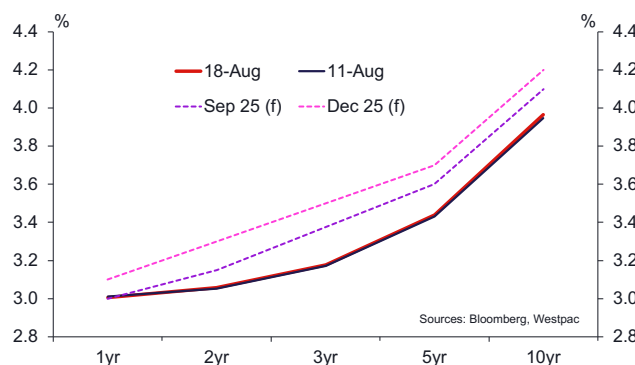
OIS prices imply a 95% chance of a rate cut at Wednesday's meeting, and beyond that, a 100% chance of another cut by February 2026, with a 20% chance of a third cut to complete the easing cycle. Westpac's economists forecast that this week's cut will be the last.

Market reaction to the MPS will largely be driven by any changes in the RBNZ's OCR forecast, but guidance in the media statement and verbal clues in the press conference will also be important. On their own, economic developments since the May MPS are roughly as the RBNZ had forecast and thus imply little change to its OCR forecast. But one possible scenario is its forward-looking views could result in a downward shift, taking the terminal rate from 2.85% to 2.75% (or lower).

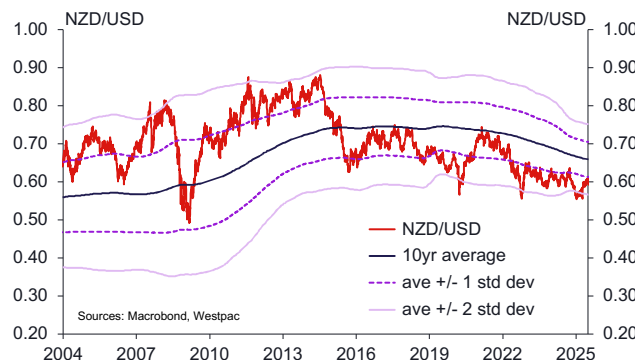
Official Cash Rate forecasts



Swap rates



NZD/USD vs rolling 10yr average



FX recent developments

	Historical data				F'cast
	Spot	3mth range	5yr range	5yr avg	Dec-25
USD	0.592	0.587-0.609	0.553-0.743	0.636	0.61
AUD	0.910	0.910-0.931	0.873-0.971	0.923	0.90
EUR	0.506	0.506-0.529	0.502-0.637	0.574	0.52
GBP	0.437	0.437-0.448	0.431-0.535	0.494	0.45
JPY	87.2	84.8-88.9	68.9-98.6	83.9	87.7

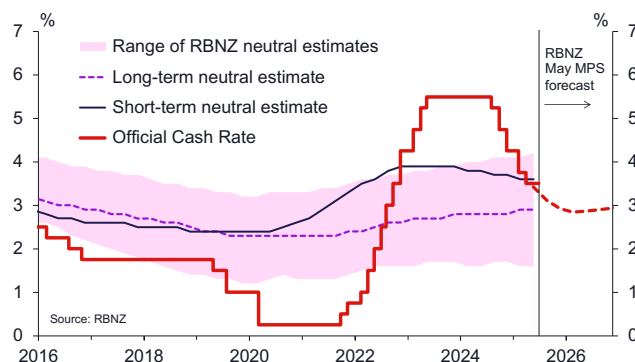
The week ahead

RBNZ Monetary Policy Statement

**Aug 20, Last: 3.25%, Westpac f/c: 3.00%,
Market: 3.00%**

We expect the RBNZ will cut the OCR 25bps at this week's meeting, taking the OCR to 3.00%. The RBNZ's previous communications indicated that, provided economic conditions evolved as expected, they were likely to cut the OCR again after the pause in July. And on balance recent data have not delivered major surprises. Importantly, while the near-term inflation outlook has firmed, much of that is due to higher food prices. Inflation in more interest rate-sensitive areas continues to cool as expected, and the longer-term outlook remains contained. The RBNZ is likely to retain a cautious and data-dependent easing bias, with the forward path expected to signal a 50% chance of the OCR being cut to 2.75%.

Official Cash Rate and RBNZ estimates of neutral

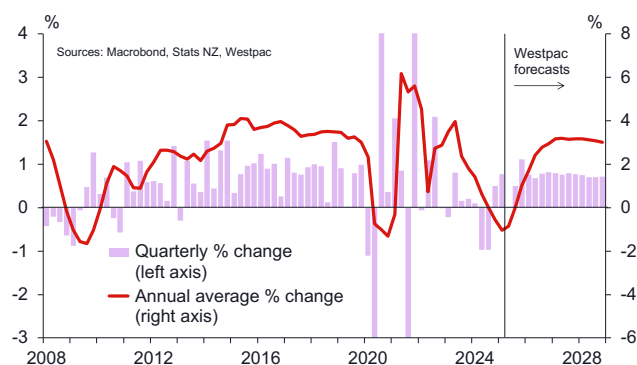


Economic and financial forecasts

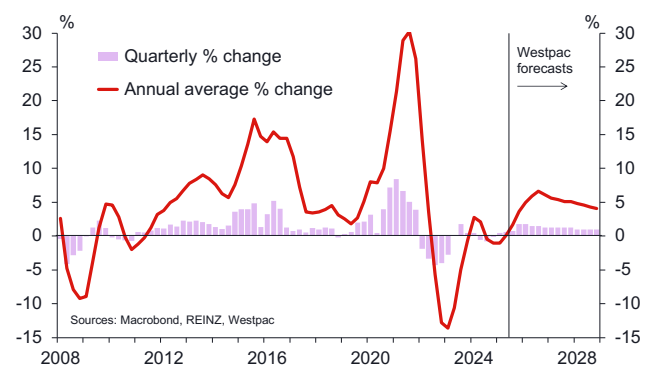
Economic indicators	Quarterly % change				Annual % change			
	Mar-25	Jun-25	Sep-25	Dec-25	2024	2025	2026	2027
GDP (production)	0.8	0.0	0.5	1.1	-1.3	2.4	3.1	3.2
Consumer price index	0.9	0.5	1.1	0.5	2.2	3.1	2.0	2.1
Employment change	0.0	-0.1	0.0	0.2	-1.2	0.2	2.5	1.9
Unemployment rate	5.1	5.2	5.3	5.3	5.1	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)	-5.7	-5.1	-4.6	-4.5	-6.1	-4.5	-5.0	-4.8
Terms of trade	1.9	8.0	-0.9	-1.4	13.7	7.5	0.7	1.4
House price index	0.4	0.6	0.8	1.8	-1.1	3.6	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	3.20	3.35	3.64	3.35	3.90	4.00
5 year swap	3.71	3.56	3.50	3.65	3.73	3.65	4.20	4.25
10 year bond	4.63	4.57	4.50	4.60	4.51	4.60	4.90	4.95
TWI	67.8	69.1	69.1	69.2	69.5	69.2	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	0.52	0.55	0.52	0.52	0.53
NZD/GBP	0.45	0.44	0.45	0.45	0.46	0.45	0.46	0.46

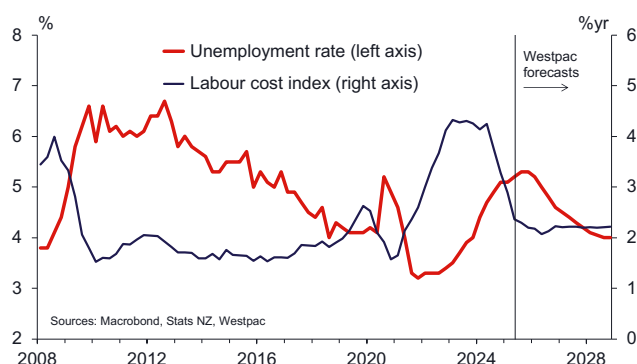
GDP growth



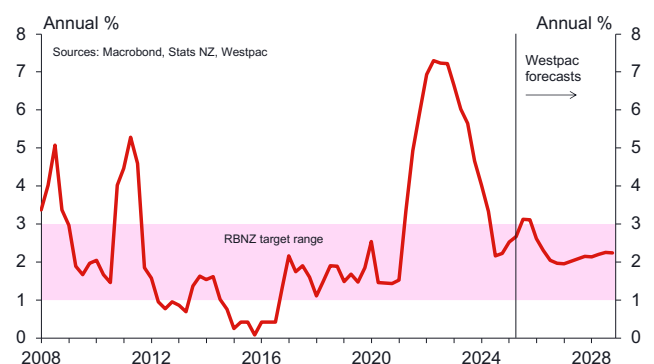
House prices



Unemployment and wage growth



Consumer price inflation



Data calendar

		Last	Market median	Westpac forecast	Risk/Comment
Mon 18					
NZ	Jul BusinessNZ PSI, Index	47.3	–	–	Businesses continue to report soft trading conditions.
Eur	Jun Trade Balance, €bn	16.2	–	–	Imports have been soft recently.
US	Aug NAHB Housing Market, index	33	34	–	Homebuilder sentiment wallows as rate pressure holds
Tue 19					
Aus	Aug Westpac–MI Consumer Sentiment, index	93.1	–	–	Positive reaction to the latest RBA cut expected.
US	Jul Housing Starts, %mth	4.6	-2.4	–	Affordability issues shifts focus to lower-cost projects.
	Jul Building Permits, %mth	-0.1	-0.2	–	A fourth consecutive decline expected.
Wed 20					
NZ	RBNZ Policy Decision, %	3.25	3.00	3.00	RBNZ to maintain data dependent easing bias.
Jpn	Jun Core Machinery Orders, %mth	-0.6	–	–	Closely watched as a leading indicator of capital spending.
Eur	Jul HICP Inflation, %ann	2.0	–	–	Final estimate.
UK	Jul CPI, %ann	3.6	–	–	Business tax hikes look to be passing through to consumers.
US	FOMC Meeting Minutes	–	–	–	More colour on how members view the balance of risks.
	Fedspeak	–	–	–	Bostic, Waller
Thu 21					
Aus	Aug MI Inflation Expectations, \$ann	4.7	–	–	Some certainty around tariffs should drive a further easing.
NZ	Jul Trade Balance, \$mn	142	–	-436	Seasonal pickup in imports, flat exports.
Jpn	Aug S&P Global Manufacturing PMI, index	48.9	–	–	Trade uncertainty causing reluctance for new orders.
	Aug S&P Global Services PMI, index	53.6	–	–	Domestic economy supporting the services sector.
Eur	Aug HCOB Manufacturing PMI, index	49.8	–	–	Manufacturing activity cautiously regaining momentum.
	Aug HCOB Services PMI index, index	51.0	–	–	Businesses work through backlog as incoming works soften.
UK	Aug S&P Global Manufacturing, index	48.0	–	–	Manufacturing production in its ninth month of contraction.
	Aug S&P Global Services PMI, index	51.8	–	–	Firms becoming more optimistic on the services outlook.
US	Wkly Initial Jobless Claims	224	–	–	Closely watched for signs of strain in the labour market.
	Aug Philly Fed Business Outlook Survey, index	15.9	8.0	–	Expected prices paid index at its highest level in over 3yrs...
	Aug S&P Global Manufacturing PMI, index	49.8	–	–	...while the PMI showed selling prices near late-2022 levels.
	Aug S&P Global Services PMI index, index	55.7	–	–	At a 7 month high, with continuous expansion for 2.5 years.
	Jackson Hole Conference Aug 21 to 23	–	–	–	Focus on labour markets and macropolicy.
Fri 22					
Jpn	Jul CPI, %ann	3.3	3.1	–	Inflation expectations on a firm path up.
Eur	Aug Consumer Confidence index, index	-14.7	–	–	Consumers lean towards building savings over the next year.
UK	Aug Gfk Consumer Sentiment index, index	-19	–	–	Sentiment stuck in pessimism and going nowhere ...
	Jul Retail Sales, %mth	0.9%	–	–	...which is showing through to cautious consumer spending.
US	Jul Leading Index, pts	-0.3%	-0.1	–	A lift has not been recorded since last December.
	Jul Existing Home Sales, %mth	-2.7%	-0.8	–	Record high prices appear to be deterring buyers.

CONTACT

Westpac Economics Team | westpac.co.nz/economics | economics@westpac.co.nz

Kelly Eckhold, Chief Economist | +64 9 348 9382 | +64 21 786 758 | kelly.eckhold@westpac.co.nz

Satish Ranchhod, Senior Economist | +64 9 336 5668 | +64 21 710 852 | satish.ranchhod@westpac.co.nz

Darren Gibbs, Senior Economist | +64 9 367 3368 | +64 21 794 292 | darren.gibbs@westpac.co.nz

Michael Gordon, Senior Economist | +64 9 336 5670 | +64 21 749 506 | michael.gordon@westpac.co.nz

Paul Clark, Industry Economist | +64 9 336 5656 | +64 21 713 704 | paul.clark@westpac.co.nz

Imre Speizer, Market Strategist | +64 9 336 9929 | +64 21 769 968 | imre.speizer@westpac.co.nz

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