



WEEKLY ECONOMIC COMMENTARY



19 May 2025 | Westpac Economics Team | westpac.co.nz/economics | economics@westpac.co.nz

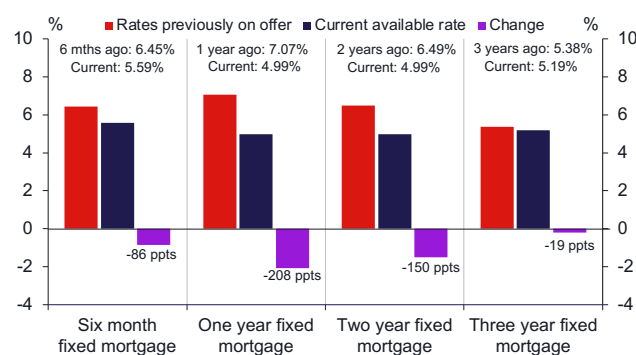
Economic data nothing to trumpet about... yet.

To quote a great New Zealander “It won’t happen overnight... but it will happen.” That seems like an apt description of New Zealand’s position in its monetary policy cycle and the current trends in economic data.

Since late last year, the RBNZ has delivered a significant easing in monetary conditions. The OCR has been cut by 200bps since August, and we’re forecasting it will fall to a low of 3% over the coming months.

The resulting drop in borrowing costs has helped to lift sentiment in the economy, especially in the business sector where confidence has risen to firm levels. We’ve also seen a pick-up in some activity indicators like the PMIs, along with a stabilisation in building consents.

Change in borrowing rates



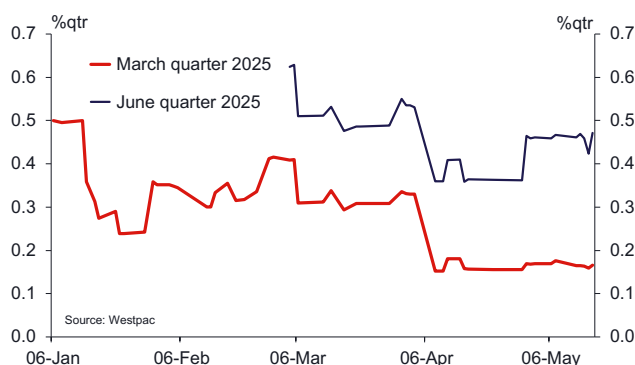
Source: RBNZ data for borrowers with over 20% equity. Current rates on offer from Westpac as at 19 May 2025.

Lower borrowing rates have also helped to boost the housing market. Improved affordability has seen increased demand from first home buyers and other owner occupiers. We’ve also seen investors returning to the market (though they remain a smaller presence than they were in the years prior to the pandemic). Combined, that’s seen house sales trending back towards average levels.

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	↗	↘	↘

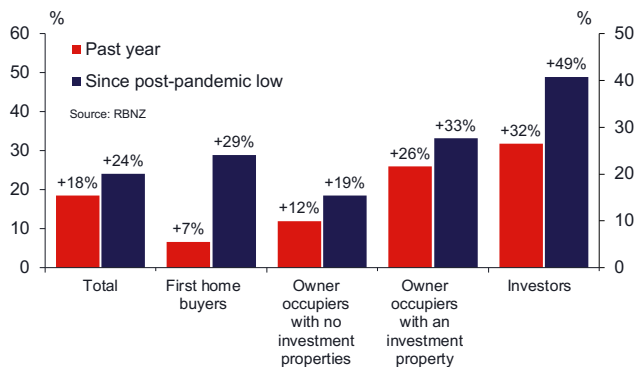
Westpac GDP nowcasts



Key data and event outlook

Date	Event
20 May 25	RBA Monetary Policy Decision
22 May 25	Government releases Budget 2025
28 May 25	RBNZ OCR Review & Monetary Policy Statement
5 Jun 25	Govt financial statements, 10 months to April
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

Growth in the number of new home loans



House price growth has remained gradual to date, with the lift in buyer activity matched by a rise in the number of homes available for sale. Even so, the past six months have seen modest-but-steady increases in house prices, and April actually saw a small acceleration in the rate of price growth to 0.4% mth (vs. rates of around 0.2% in previous months). We expect the housing market will continue gradually strengthening over the coming months, with house price growth to lift back to average rates of around 6% per annum over the coming year or so.

But despite the firming in those areas, the overall pace of economic growth has remained gradual through the first half of 2025. That's in large part due to softness in household demand. Growth in retail spending has flattened off a bit in recent months, with particular softness in discretionary spending categories like hospitality and household durables.

The labour market has remained soft in recent months – which will be an ongoing handbrake on spending attitudes for a while. Households are also dealing with continued increases in living costs (on that latter point, Stats NZ's latest prices update showed that food price inflation has picked up again, rising to 3.7% in the year to April) while wage growth continues to moderate.

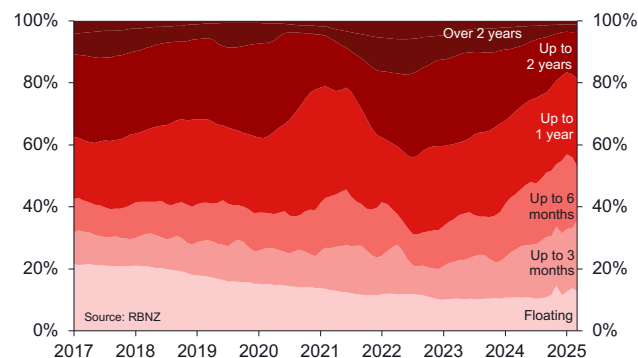
Crucially, it's early days in the household sector recovery with many borrowers yet to feel the full impact of interest rate reductions. Total interest costs for households have started to fall as borrowers transition from the higher interest rates of a year ago. But this refinancing process still has a long way to go. To the extent that borrowers are choosing relatively more expensive shorter-term rates in anticipation of further rate cuts, then the flow through of lower interest rates will be delayed – but not cancelled.

However, as we discuss in our latest [Economic Overview](#), that picture is now changing with the easing in interest rates starting to hit the economy's bloodstream. Around half of all mortgages will come up for repricing over the next six months, giving many borrowers the chance to refix at substantially lower rates. For instance, over the past year the one-year mortgage rate has fallen 208bps, while the two-year rate has fallen 150bps since 2023. Those are some of the largest falls in mortgage rates

seen over the past 30 years, and for a household with an average mortgage it could put around \$400 month back into their wallets.

As increasing numbers of mortgages come up for refinancing, we expect to see household demand turning higher from midyear. Over time the resulting increase in demand will also help to support a lift in business investment spending and construction activity.

Share of mortgages by time to refinancing



The delayed pass through of interest rate cuts will also be important for the RBNZ when considering how much further the OCR needs to fall. When [we revised our OCR forecast down](#) last week, a key concern was the strength of the global backdrop. While uncertainties remain, the recent cooling in trade tensions between the US, China and other nations are encouraging signs that a sharp and disruptive downturn in global growth may be avoided.

Back home, inflation is set to rise back towards the top of the RBNZ's target band. Following last week's Selected Prices update from Stats NZ (which provided monthly prices for 45% of the CPI) we've revised our forecast for June quarter CPI up to +0.4% qtr / +2.5% yr (previously: +0.3% yr / +2.4 yr). And we expect inflation to peak at 2.8% at the end of the year.

An area of concern on the inflation front was another decent step up in inflation expectations in the RBNZ's Q2 Business expectations survey. Both 1- and 2-year inflation expectations took a step up (to 2.41 and 2.29% respectively). And while both those measures remain inside the 1-3% target range, it's unusual for inflation expectations to be rising while the OCR is being cut. We did see a step up in inflation expectations in the ANZ/ Roy Morgan Consumer confidence survey last month and there was an increase in household inflation expectations in the RBNZ's Q1 survey (Q2 is due out Friday). The MPC is likely to be very mindful of these trends as they chart the path forward – particularly since we expect headline inflation to remain close to 3% over the balance of 2025 given current forecasts.

Given those shifting risks, and with a large amount of stimulus already working its way through the economy, the RBNZ faces a delicate balancing act. Larger cuts now

could mean the RBNZ has to raise rates faster and further longer term.

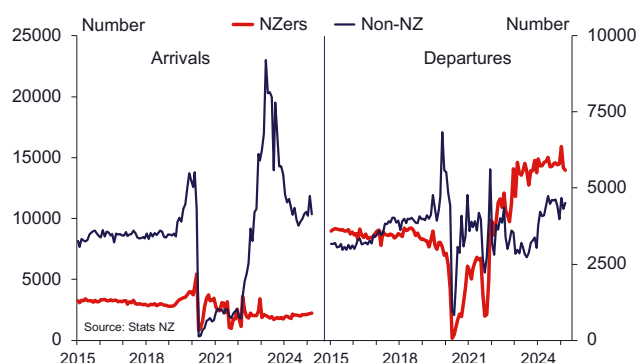
A floor in the migration cycle.

Migration has taken a sizeable step down over the past year, dropping to a net inflow of 26,000 people in the year to March. However, in part the slowdown over the past year reflects a normalisation of post-pandemic disruptions which have had a long tail.

Taking a closer look at the monthly movements of people across the border, it looks like the migration cycle has reached a floor. The number of returning New Zealanders has been gradually trending higher since mid-2024. There's also been a modest lift in arrivals from other nations, which remains comfortably above pre-pandemic averages. On the departures side of the equation, both the number of New Zealanders and others leaving our shore has flattened off over the past year.

We expect annual net migration will lift to 35,000 this year and 40,000 next year. Relative job prospects will be a key determinant here. The Australian jobs market remains more vibrant compared to New Zealand, with the unemployment rate holding at around 4%, but we expect this to soften in the year ahead.

Migrant arrivals have stabilised, departures have flattened off



Budget 2025.

The coming week will see the release of the Government's 2025 Budget. The Minister of Finance has already stated that the Budget will reaffirm the medium-term fiscal strategy outlined in the HYEPU. A weaker outlook for trading partner growth will weigh on forecast tax revenues, but the impact should be largely offset by the Minister's decision to reduce this year's operating allowance, together with other savings initiatives. As a result, consistent with the Minister's comments, **we expect the Government will continue to forecast a return to surplus in 2028/29** (based on its preferred OBEGALx measure).

While deficits from 2025/26 onwards will likely slightly exceed the HYEPU forecast, this year's deficit is on

track to print slightly below expectations and NZDM are on track to overfund relative to the HYEPU forecast. As a result, on net, overall revisions to the outlook for the operating balance will likely not be a driver of large changes to the outlook for the government borrowing programme.

There is more uncertainty about the Government's plans for capex: in particular, how much of foreshadowed new spending on defence will be met within existing unallocated capital allowances, as opposed to additional borrowing. On balance, we think that the cumulative four-year financing requirement will likely be around \$4bn larger than forecast in the HYEPU, with the programme for 2025/26 likely unchanged given the overfunding in 2024/25.

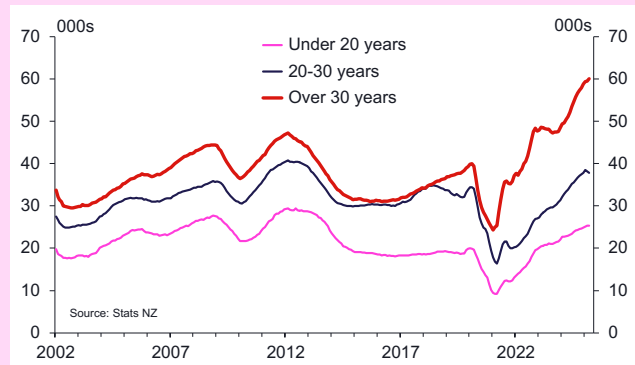
The sustained spending restraint that is likely to be depicted in the Budget will require significant discipline and ongoing tough choices. That said, it is possible that the economy – and tax revenues – could surprise to the upside, allowing an easier return to surplus.

Satish Ranchhod, Senior Economist

Chart of the week.

There has been some recent commentary that New Zealand's more productive workers are fleeing our shores as the average age of outward migrants has increased. However, this is to some degree an echo of history rather than a sustained trend. The most notable increase in departures in the last year or so has been non-New Zealand citizens – an expected result of the surge in inward migration 2-3 years ago once the border was reopened. Those arrivals were on average older than we've tended to see in past cycles, and that's being reflected in the age mix of the departures today. It's true that departures of New Zealand citizens remain high compared to pre-Covid levels, but on a monthly basis the outflow appears to have peaked more than a year ago.

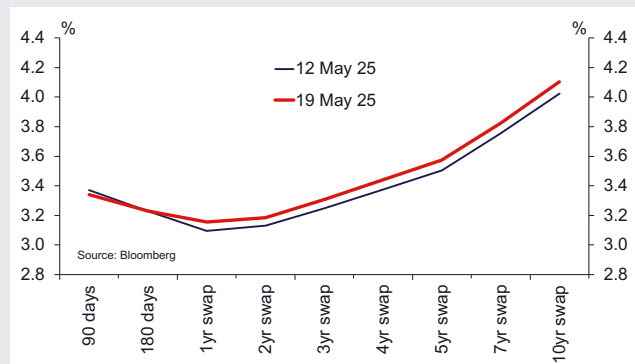
Migrant departures by age, 12mth rolling sum



Fixed versus floating for mortgages.

We're forecasting the cash rate to bottom at 3% in mid-2025, but with downside risks to that forecast given global events. Markets now factor in an OCR that bottoms closer to 2.75%. Mortgage rates now uniformly sit just under 5% reflecting the recent fall in wholesale rates, and even longer-term mortgage rates have fallen a touch. There could be some further scope for mortgage rates to fall further should wholesale rates settle around current levels. But fixing for longer periods still looks attractive now mortgage rates are either below or close to 5%. Very short-term mortgage rates are likely to fall in the near term as the RBNZ delivers further OCR cuts, 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 2.75%.

NZ interest rates



Global wrap

North America.

News on the tariff front continued to dominate market attention last week. Of note, risk sentiment received a significant boost after the US and China agreed to significantly lower their punitive bilateral tariffs to 30% and 10% respectively for a period of 90 days. Less positively, late in the week, Moody's Ratings became the last of the major agencies to strip the US of its top credit rating, citing the ongoing decline in US fiscal metrics. On the data front, retail sales and manufacturing activity slightly disappointed in April, and the NAHB homebuilders index fell to the lowest level since November 2023. Inflation news was softer than expected, with headline CPI inflation unexpectedly falling to 2.3%/y/y in April (core inflation was steady at 2.8%/y/y) and PPI inflation falling a fullppt to 2.4%/y/y. The University of Michigan reported a further lift in inflation while consumer sentiment fell to the second lowest reading on record. Turning to the week ahead, a relatively quiet economic diary features the flash PMIs for May and home sales data for April. There are also several Fed speeches scattered through the week.

Europe.

Attention in the euro area this week will be on a plethora of business activity and sentiment surveys. In particular, analysts will scrutinise Thursday's flash PMI readings for May for any impact on activity and prices from recent tariff-related uncertainty. The UK economy grew 0.7%q/q in Q1, beating expectations, with soft consumer spending offset by a surge in business investment and a lift in net exports. This week will bring news on inflation and retail spending, together with the flash PMI readings for May.

Asia-Pacific.

Business and consumer confidence measures remained resilient in Australia last week, seemingly shrugging off any worries about tariffs. News from the labour market was also more robust than expected. Employment rose a surprising 89k in April, so that the unemployment rate remained at 4.1% despite a large increase in the labour force. Meanwhile, the Wage Price Index increased 0.9%q/q, lifting annual growth to 3.4%. Westpac continues to expect the RBA to cut its policy rate by 25bps at tomorrow's Board meeting, but last week's data will likely have a bearing on the Bank's sense of the risks to the medium-term inflation outlook. The focus in China this week will be on today's download of key activity indicators for April, although it may be too soon to detect the full impact from the US-China trade war. In Japan, last week's preliminary data pointed to a 0.2%q/q contraction in GDP in Q1. This week's diary includes trade and CPI reports, together with the flash PMI readings for May.

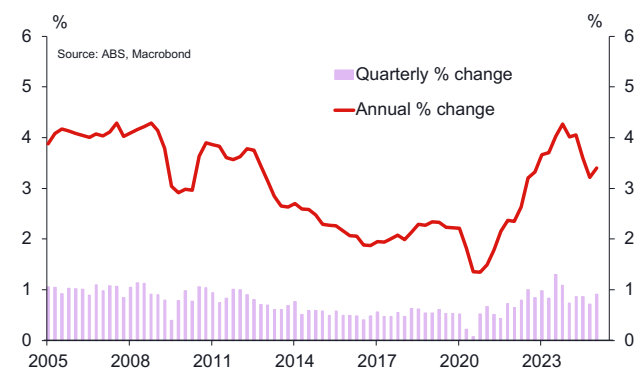
Trading partner real GDP (calendar years)

	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	0.9	0.9
Japan	1.5	0.1	1.0	0.8
East Asia ex China	3.3	4.3	3.7	3.8
India	9.2	6.5	6.2	6.2
Euro Zone	0.4	0.9	0.9	1.3
United Kingdom	0.4	1.1	1.0	1.2
NZ trading partners	3.3	3.2	3.0	3.0
World	3.5	3.3	2.9	3.0

Australian & US interest rate outlook

	16 May	Jun-25	Dec-25	Dec-26
Australia				
Cash	4.10	3.85	3.35	3.35
90 Day BBSW	3.80	3.90	3.45	3.55
3 Year Swap	3.55	3.35	3.50	3.90
3 Year Bond	3.63	3.40	3.55	3.95
10 Year Bond	4.48	4.35	4.45	4.70
10 Year Spread to US (bps)	6	5	5	0
US				
Fed Funds	4.375	4.375	3.875	3.875
US 10 Year Bond	4.42	4.30	4.40	4.70

Australian wage price index



Japan GDP growth



Financial markets wrap

Interest rates.

The NZ 2yr swap rate has traded in narrow 3.03%-3.22% range over the past six weeks, driven mostly by offshore rate moves but with lower sensitivity than usual. That inertia likely reflects higher market confidence in the RBNZ's easing path relative to that for other major central banks.

The next major NZ event will be the RBNZ MPS on 28 May, where a 25bp cut is widely expected. Much attention will be on the updated OCR forecast, a moderate reduction in the forecast terminal rate to the high 2s (from 3.10% currently) probably market consensus. OIS pricing has firmed slightly during the past few weeks, fully pricing two more 25bp cuts in this cycle to 3.00%, but reducing the chances of a third to 60%. Westpac forecasts two more cuts, as does the RBNZ's OCR forecast from the February MPS.

The NZ yield curve has steepened slightly this month but remains below the US-led April spike high. The Moody's downgrade of the US from Aaa to Aa1 could cause further steepening in the US, which could spill over to NZ this week. NZ's Budget this week will be mostly of NZGB market interest, a modest increase in issuance probably market-neutral.

Foreign exchange.

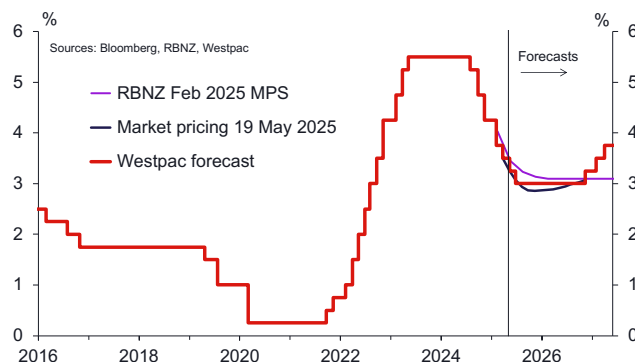
NZD/USD remains rangebound inside 0.5845-0.6030, with risks still to the downside for the week ahead. We target 0.5820, with potential for 0.5760 this week, the main rationale being a US dollar rebound still in progress.

The US dollar had become stretched after a large decline in Jan-Apr, warning of at least a moderate rebound. More fundamentally, the news flow regarding tariff agreements has become more constructive, supporting the US dollar near term. Against that, though, the Moody's downgrade late Friday could elicit further reaction today.

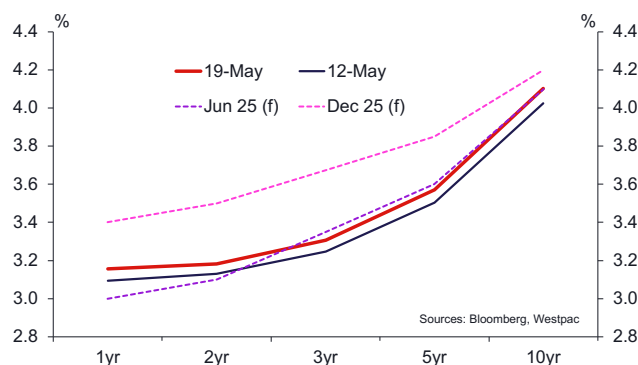
The event calendar for NZD/USD this week is low key, with NZ real retail sales, trade and the Budget of minor interest to FX markets, but US PMIs will be worth watching.

The NZD/AUD cross has fallen over 2cents since early April, from 0.9388 to 0.9156, and could extend that to 0.9100 this week. The backdrop of an improved tone to US-China trade talks is supportive, as is the fall in NZ-AU yield spreads this month. That said, the RBA decision this week poses major event risk. A 25bp cut is fully priced but guidance is less certain and could surprise markets in either direction.

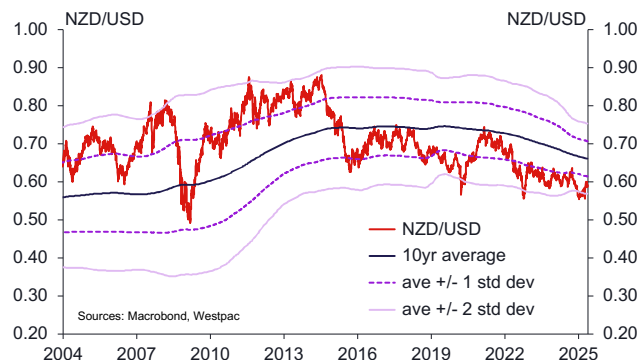
Official Cash Rate forecasts



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	0.588	0.553-0.600	0.553-0.743	0.639	0.59
AUD	0.918	0.897-0.936	0.873-0.971	0.924	0.89
EUR	0.526	0.502-0.549	0.502-0.637	0.577	0.52
GBP	0.443	0.431-0.456	0.431-0.535	0.497	0.45
JPY	85.5	80.5-87.1	63.7-98.6	82.9	83.9

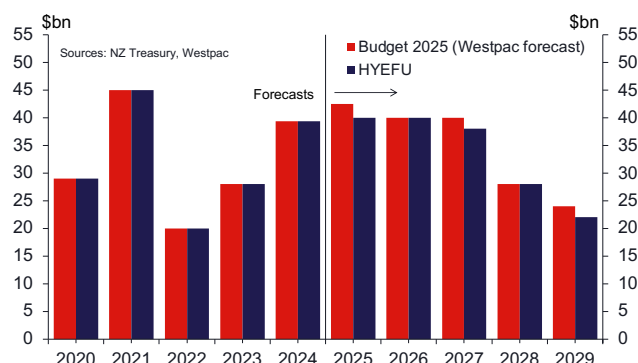
The week ahead

Budget 2025

22 May

Downward revisions to trading partner growth forecasts mean that the Treasury's forecasts for GDP growth and tax revenue are expected to be revised down in Budget 2025. However, with the Minister of Finance indicating that new spending will be cut to the lowest level since 2015, Budget 2025 is expected to reaffirm the Government's intention to achieve an OBEGALx surplus by 2028/29. However, cumulative deficits over the period will still likely be higher than forecast in December's HYEFU. And together with a lift in capital spending, this points to the likelihood of a modest increase in the bond financing programme (about \$4bn) despite the overfunding of this year's deficit.

Bond programme

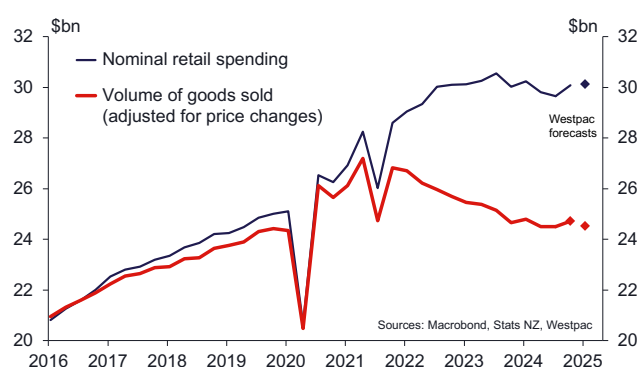


NZ Q1 retail spending

23 May, volumes – last: +0.9%, Westpac f/c: -0.8%

Increased spending on household durables boosted retail sales in the final quarter of last year. However, that momentum has not been sustained in the early part of 2025, with monthly nominal retail sales flat-to-down in recent months. Combined with increases in retail prices, we expect the March quarter retail sales report will show that the volume of goods sold fell 0.8% in the early part of this year, with a 1.1% fall in 'core' spending (which excludes the volatile vehicle and fuel categories). We expect spending will firm over the latter part of the year as the impact of interest rate reductions ripples through the economy.

Retail trade survey

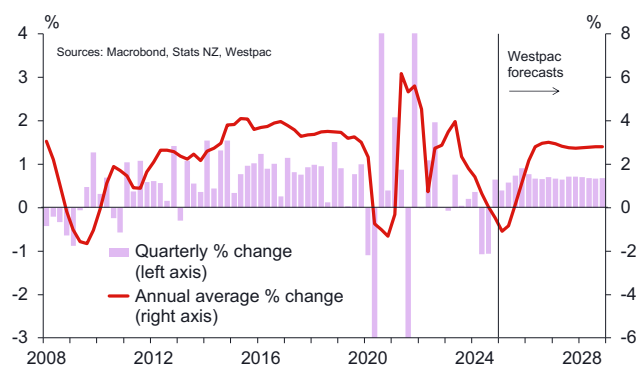


Economic and financial forecasts

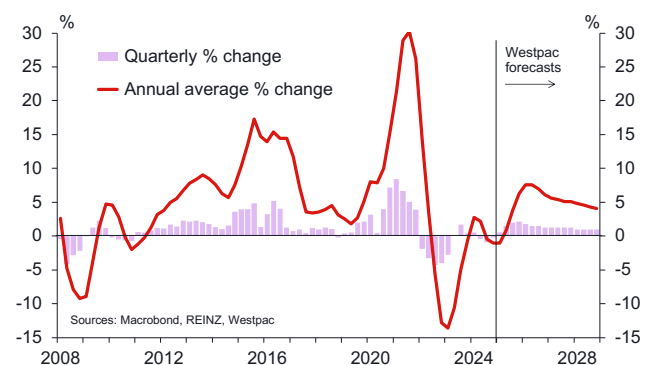
Economic indicators	Quarterly % change				Annual % change			
	Dec-24	Mar-25	Jun-25	Sep-25	2024	2025	2026	2027
GDP (production)	0.7	0.4	0.6	0.7	-0.5	1.1	3.0	2.7
Consumer price index	0.5	0.9	0.4	0.8	2.2	2.8	2.3	2.0
Employment change	-0.2	0.1	0.1	0.2	-1.2	0.8	2.3	1.9
Unemployment rate	5.1	5.1	5.3	5.3	5.1	5.2	4.4	4.0
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	2026
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	3.15	3.10	4.45	3.10	3.45	3.85
2 year swap	3.64	3.46	3.10	3.15	3.64	3.30	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	4.60	4.51	4.70	4.90	4.95
TWI	69.5	67.8	68.9	68.5	69.5	68.1	68.5	69.4
NZD/USD	0.59	0.57	0.59	0.59	0.59	0.59	0.62	0.64
NZD/AUD	0.91	0.90	0.92	0.91	0.91	0.89	0.87	0.87
NZD/EUR	0.55	0.54	0.53	0.52	0.55	0.52	0.53	0.55
NZD/GBP	0.46	0.45	0.45	0.45	0.46	0.45	0.46	0.47

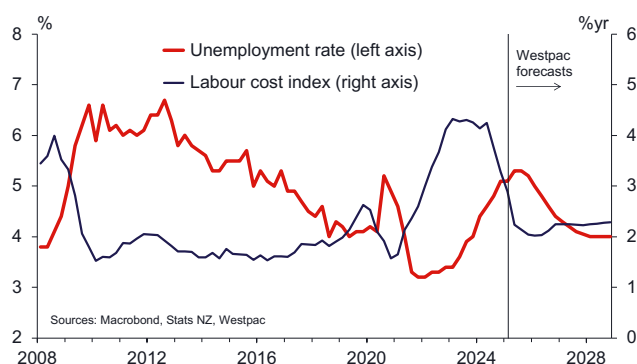
GDP growth



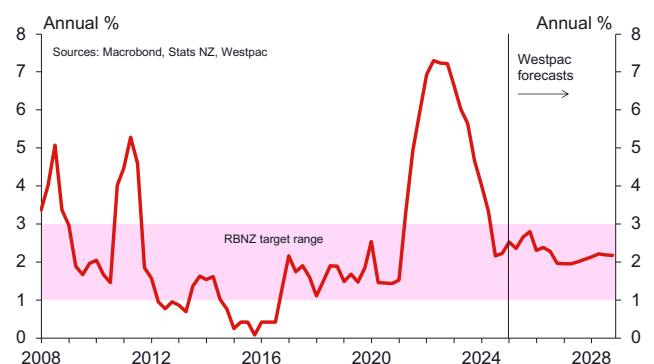
House prices



Unemployment and wage growth



Consumer price inflation



Data calendar

		Last	Market median	Westpac forecast	Risk/Comment
Mon 19					
NZ	Apr BusinessNZ PSI, index	49.1	–	–	Up from mid-2024 lows but remains subdued.
	Q1 PPI, %qtr	–0.1	–	–	Likely boosted by a resurgence in electricity prices.
Chn	Apr Retail Sales, ytd %yr	4.6	5	–	Consumption still weak versus pre-pandemic average ...
	Apr Industrial Production, ytd %yr	6.5	6.4	–	... but trade talks have lowered downside risks from tariffs ...
	Apr Fixed Asset Investment, ytd %yr	4.2	4.3	–	... leaving China still well positioned to hit its growth target.
Eur	Apr CPI, %ann	2.2	2.2	–	Final estimate to provide more colour around services up-tick.
US	Apr Leading Index, %mth	–0.7	–0.8	–	Remains comfortably above recession threshold.
	Fedspeak	–	–	–	Atlanta Fed Financial Markets Conference over May 18-22.
Tue 20					
Aus	May RBA Policy Decision, %	4.10	3.85	3.85	Rate cut fully priced in; focus on framing of risks.
US	Fedspeak	–	–	–	Atlanta Fed Financial Markets Conference over May 18-22.
Wed 21					
NZ	Apr Trade Balance, \$mn	970	–	1120	Strong dairy exports should drive another surplus
Aus	Apr Westpac–MI Leading Index, %ann'd	0.6	–	–	Tariff shock starting to roll through.
Eur	May Consumer Confidence, index	–16.7	–15.5	–	Weakening but not collapsing, unlike in the US.
UK	Apr CPI, %ann	2.6	–	–	Gradually approaching target, but services still high.
US	Fedspeak	–	–	–	Atlanta Fed Financial Markets Conference over May 18-22.
Thu 22					
NZ	Budget 2025	–	–	–	Spending restrained to hit OBEGALx surplus in '28/29.
Aus	RBA Deputy Governor	–	–	–	Hauser speaking at the Lowy Institute.
Jpn	Mar Core Machinery Orders, %mth	4.3	–1.6	–	Business investment robust through the start of the year.
	May Jibun Bank Manufacturing PMI, index	48.7	–	–	Manufacturers are circumspect on demand outlook...
	May Jibun Bank Services PMI, index	52.4	–	–	... while services provides a floor under activity.
Eur	May HCOB Manufacturing PMI, index	49	49.4	–	European firms are holding up relatively well...
	May HCOB Services PMI, index	50.1	50.6	–	... despite the uncertainty brought about by tariffs...
	May IFO Business Climate Survey, index	86.9	87.5	–	... expectations are little-changed versus last year.
UK	May S&P Global Manufacturing PMI, index	45.4	–	–	Highlighting downside risk to manufacturing...
	May S&P Global Services PMI, index	49	–	–	... though sudden services slump might prove temporary.
US	Apr Chicago Fed Activity Index, %mth	–0.03	–	–	Consistent with around-trend growth.
	Initial Jobless Claims	229	–	–	No signs of significant layoffs.
	May Kansas City Fed, index	–4	–	–	Outlook less negative following US-China trade deal...
	May S&P Global Manufacturing PMI, index	50.2	–	–	... but conditions on the ground still somewhat shaky...
	May S&P Global Services PMI, index	50.8	–	–	... while services provides some level of underlying support.
	Apr Existing Home Sales, %mth	–5.9	3.2	–	High mortgage rates restrain sales activity.
	Fedspeak	–	–	–	Williams.
Fri 23					
NZ	Q1 Real Retail Sales, %qtr	0.9	0.0	–0.8	Discretionary spending weak in early 2025.
Jpn	Apr CPI, %ann	3.6	3.5	–	Roll-back of energy subsidies are impacting.
UK	May Gfk Consumer Sentiment, index	–23	–	–	Not particularly flustered by tariff volatility.
	Apr Retail Sales, %mth	0.4	–	–	Continues to track a positive uptrend.
US	Apr New Home Sales, %mth	–7.4	–3.3	–	High mortgage rates restrain sales activity.

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