



WEEKLY ECONOMIC COMMENTARY



21 Jul 2025 | Westpac Economics Team | westpac.co.nz/economics | economics@westpac.co.nz

Economy patchy; attention turns to the CPI.

Last week brought the release of several second-tier domestic indicators. The Selected Price Indexes report for June has allowed us to finalise our pick for today's release of the June quarter CPI – likely the only thing standing in the way of the RBNZ reducing the OCR at its next meeting on 20 August. Meanwhile, the latest activity and sentiment indicators continued to point to a very patchy economy and so will probably have been viewed by the RBNZ's Monetary Policy Committee as supporting its predilection to cut the OCR next month.

Following the release of the Selected Prices Indexes we confirmed our earlier forecast that the CPI will increase 0.6% in the June quarter. If we are correct, this will lift annual inflation to 2.8% from 2.5% in the March quarter. Our pick for the quarter is 0.1pp firmer than the RBNZ forecast in its May Monetary Policy Statement. However, the RBNZ's July press release made clear that it has since revised up its near-term outlook for inflation, so that an outcome broadly in line with our expectations is unlikely to come as a surprise.

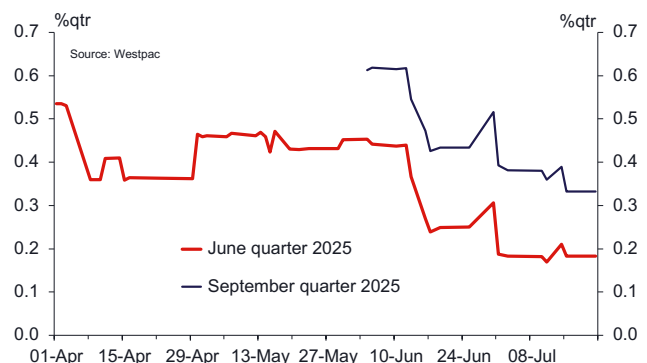
Our slightly firmer forecast is mainly driven by an expected 0.3%q/q lift in tradables prices – 0.2pps higher than the RBNZ's May forecast – with food prices lifting 1.6%q/q. Aside from the usual seasonal lift in vegetable prices, there has also been a large increase in the prices of dairy products and some other grocery items.

Importantly, non-tradables prices are forecast to have increased 0.7%q/q – in line with the RBNZ's May forecast. There continue to be large increases in administered prices – notably electricity prices, which increased 5% in the June quarter. However, some other previous inflation hotspots, such as rents, have continued to cool.

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

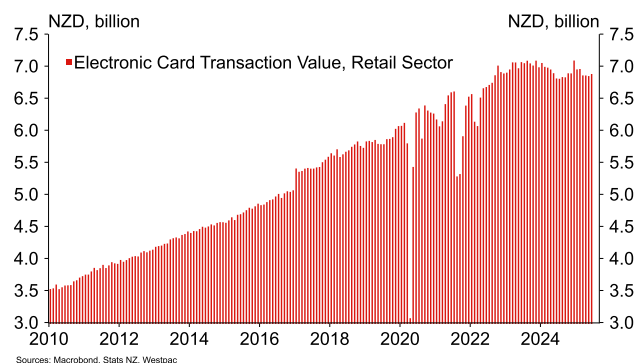
Date	Event
21 Jul 25	NZ CPI, June quarter
30 Jul 25	FOMC meeting (31 Jul NZT)
6 Aug 25	NZ Labour Market Statistics, June quarter
7 Aug 25	NZ RBNZ Survey of Expectations, June quarter
12 Aug 25	RBA Monetary Policy Decision
15 Aug 25	NZ Selected price indexes, July
20 Aug 25	RBNZ OCR Review & Monetary 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

Stepping back from the swings in specific prices, the underlying trend in inflation has been cooling. The various measures of core inflation have been trending down in recent months, and a further gradual easing is expected in the June figures. That reflects the general softness in domestic activity, as well as the related cooling in wage growth.

The main uncertainty around our forecast surrounds prices for discretionary household items, with the risks here on both sides. Those items are mostly imported and include products like apparel, furnishings and other durable items. Household spending has been subdued in recent months, and that could have an even larger dampening impact on prices than we had assumed. In addition, prices for some items, like cars, can have sizeable swings on a quarter-to-quarter basis.

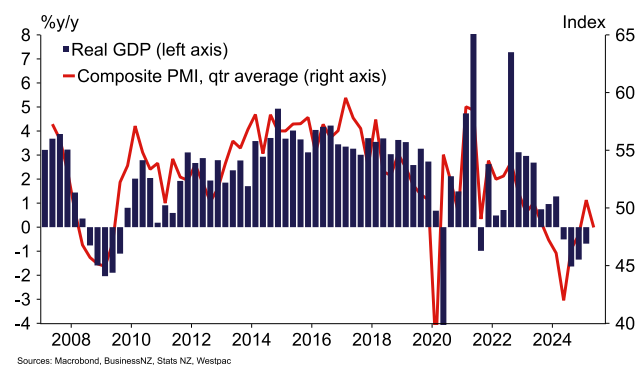
Turning to activity, total spending through the electronic payments system fell 0.2%*m/m* in June. However, spending at retail stores rose 0.5%*m/m* – remarkably, the first increase recorded this year. This outcome was driven by higher spending on consumables – at least in part reflecting higher food prices – and winter apparel. Despite the lift in June, spending was 0.4% lower than a year earlier. And spending in the June quarter fell 0.7%*q/q* following a flat outcome in the March quarter. Nonetheless, we still expect to see a more positive trend emerge during the second half of this year as significant numbers of mortgaged households continue to refix their mortgages at the lower interest rates currently on offer.

Consumer spending



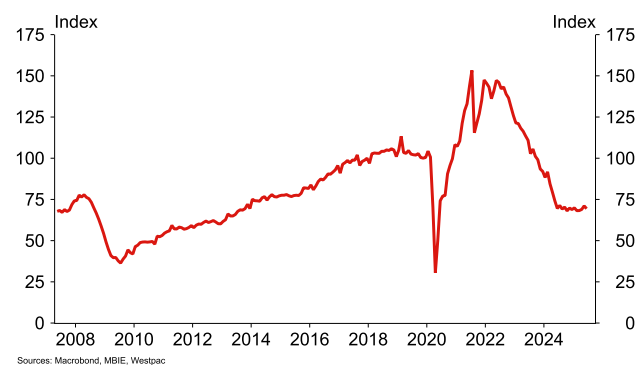
The BusinessNZ Performance of Services Index also showed some improvement in June following a very weak May reading, with the headline index rebounding 3.2pts to 47.3. That said, this remains the second weakest reading seen since October last year. In the detail, the activity/sales index improved to a still very soft 44.5 (the historical average is close to 53.8), while the new orders index improved to 48.8 (against a historical average of 56.4). The employment index was little changed at 47.4 and so has now been in contractionary territory for 19 consecutive months.

GDP growth and Composite PMI



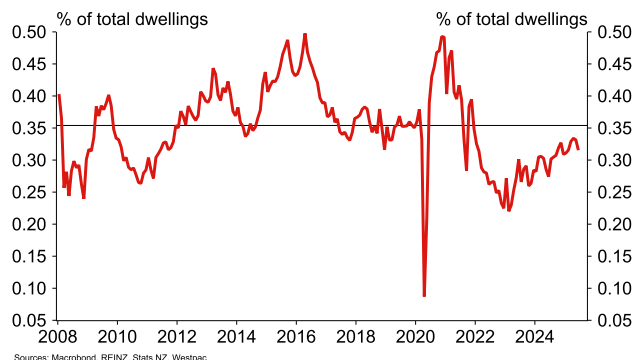
The weak state of the labour market was further demonstrated by the latest data on job advertisements. After adjusting for seasonal effects, MBIE's index of online job ads fell 2.7%*m/m* in June and was little changed from a year earlier. There appears to have been a modest lift in advertising for highly skilled positions, but this is being offset by lower levels of advertising for less skilled positions. Meanwhile, regional data points to an ongoing decline in advertising in some of the major cities – notably Auckland – which is offsetting a modest lift in advertising in the regions (where businesses are benefiting from high export commodity prices). There remains some uncertainty about how quickly firms will boost employment levels given pressures on firms' profitability and uncertainty about the global outlook.

MBIE job advertisements index (s.a.)



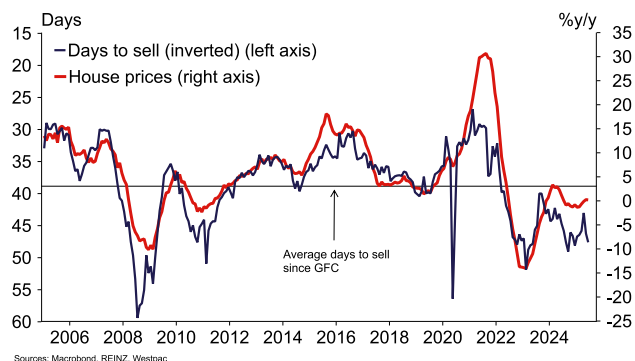
The latest news regarding housing suggested that it remained a buyers' market in June. Indeed, the number of house sales declined 4%*m/m*. And while the first estimate tends to undercount sales, this followed a 3%*m/m* decline in May. So, while sales were 20% higher than a year earlier, momentum does seem to have slowed of late. This slowdown coincides with the recent bottoming out of fixed-term mortgage rates and a flattening out of mortgage applications. Relative to the size of the housing stock, the level of turnover remains a little below its historical average.

Monthly house sales



Even with the lift in sales, the stock of unsold homes remains near a decade high and has barely budged over the past year. Meanwhile, the median time to sell rose to 48 days in June – the second consecutive increase. This is the slowest selling time recorded since December and about 9 days longer than the post-GFC average. Consistent with those developments, the REINZ house price index fell 0.3%/m/m in seasonally adjusted terms in June, while May was revised down slightly to a flat outturn. This ended a run of modest monthly price gains going back to last November, with prices just 0.3% higher than a year earlier. The soft outturns over the past couple of months suggest that our current forecast of 6% house price growth in 2025 is unlikely to be achieved, and we will be reviewing this forecast over coming weeks.

House prices and days to sell



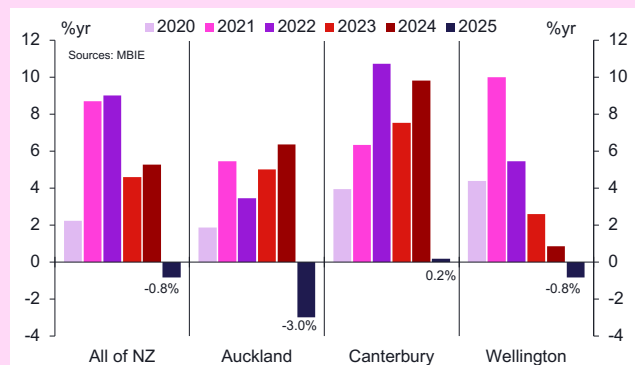
Looking ahead, aside from the CPI the only other report of interest this week concerns merchandise trade for the month of June. We expect the unadjusted surplus to remain above \$NZ1bn for a third consecutive month reflecting both seasonal factors and the strong returns currently being achieved across most of the primary sector. On that score, last week's GDT auction achieved a welcome 1.7% lift in the price of whole milk powder following declines in each of the previous four auctions. We continue to forecast a \$10/kgMS payout for the current season.

Darren Gibbs, Senior Economist

Chart of the week.

Lower interest rates are drawing increasing numbers of investors back into the property market, with lending to investors up 37% over the past year. But while interest rates are boosting demand for rental properties, investors are also weighing up a range of related considerations. First is a changing demand-and-supply balance that has contributed to downward pressure on rents, especially in larger regions. The past year has seen population growth turning down with large numbers of New Zealanders moving abroad. That's come at the same time as the number of available homes has been pushing higher. Although home building activity has turned down, that followed a large amount of building in recent years, meaning that growth in the housing stock is now outpacing increases in the population. At the same time, investors are also facing increasing compliance and operating costs, including large increases in rates and insurance. Lastly, investors no longer expect the steady – and often large – capital gains we saw in previous years. Residential property is still attractive for many investors, but changes in the economic landscape may mean different demand trends than we've seen in previous cycles.

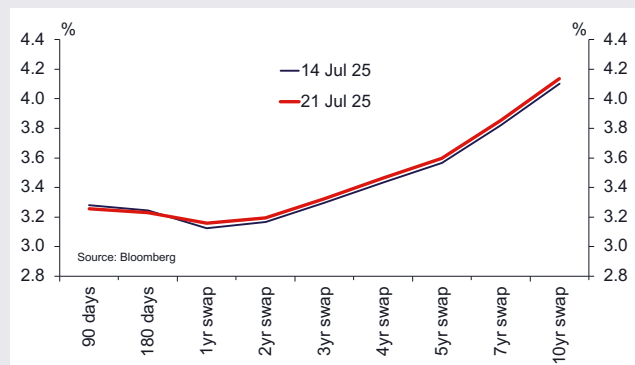
Rents (based on bond data), annual % change



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

North America.

US data offered an update on the impact to date of tariffs. The CPI rose 0.3% in June, lifting the annual inflation rate from 2.4% to 2.7%. Within the detail there was clear evidence of firms beginning to pass higher costs on where possible – durable goods prices, typically on a downward trend, have been ticking higher in recent months. The 0.3% gain for food was also likely supported by tariffs, given the proportion of US food imported from Mexico and Canada and its comparatively short shelf life. The import price index rose just 0.1% in June, and was a down 0.4% on a year ago; since this measures pre-tariff prices, it indicates that exporting countries are not reducing their prices to compensate, and that US importers are largely absorbing the cost themselves. With business margins coming under pressure and firms needing to invest to maintain capacity let alone expand it, it is inevitable that price increases at the wholesale level will feed through to end users.

Asia-Pacific.

Australian jobs data was softer than expected again in June, with just a 2k increase in employment following a 1k fall in May. Growth is still coming off a high base though, annual growth holding at 2.3%yr on a three-month average basis. The unemployment rate rose to 4.3% after five consecutive months at 4.1%. This data adds weight to the already-strong case for a 25bp rate cut at the RBA's August meeting, following July's surprise on-hold decision. The Westpac-MI Consumer Sentiment Index was up overall for the July month, but responses received after the RBA decision was noticeably softer than those before it. China's June quarter GDP was up 5.3% for the year to date. The composition of growth remains fragile, with consumers continuing to hold back on discretionary spending and unwilling to commit to new property investment. Overseas trade continues to provide support for aggregate growth, but this contribution will naturally fade, which means that further government support will likely be needed to achieve the authorities' 5% growth target for the calendar year.

Europe.

UK inflation accelerated to 3.6%yr in June, higher than expected. Persistently high services inflation was seen as the key risk factor, and that proved to be the case, holding at 4.7%yr. Against this, the UK labour market is softening, with the unemployment rate rising to 4.7% and weekly earnings growth slowing to 5.0%yr in May. The ECB is expected to leave its policy rate on hold this week, after the 25bp cut in June. Last week's CPI showed core inflation holding at 2.3%yr, above the 2% target.

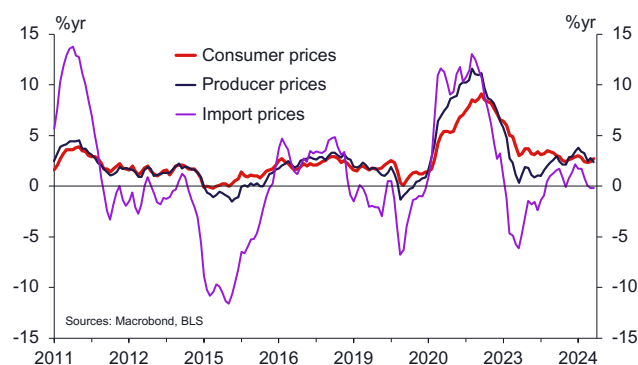
Trading partner real GDP (calendar years)

	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	2.8	1.5	0.8
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
Euro Zone	0.4	0.9	1.3	1.2
United Kingdom	0.4	1.1	1.2	1.2
NZ trading partners	3.1	2.9	2.7	2.6
World	3.5	3.3	3.0	3.0

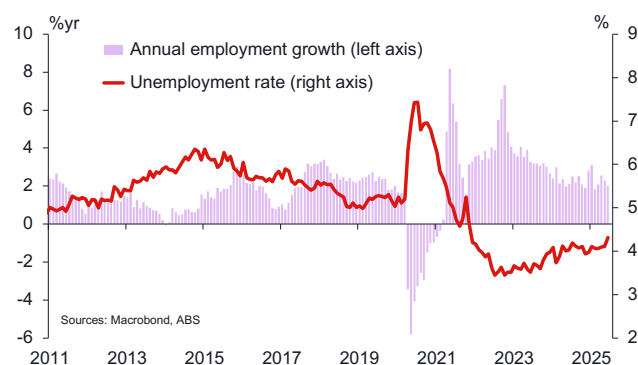
Australian & US interest rate outlook

	18 Jul	Jun-25	Dec-25	Dec-26
Australia				
Cash	3.85	3.60	3.35	2.85
90 Day BBSW	3.69	3.55	3.30	2.95
3 Year Swap	3.32	3.35	3.45	3.85
3 Year Bond	3.42	3.40	3.50	3.90
10 Year Bond	4.35	4.35	4.40	4.55
10 Year Spread to US (bps)	-9	-15	-15	-20
US				
Fed Funds	4.375	4.125	3.875	3.875
US 10 Year Bond	4.44	4.50	4.55	4.75

US price indices



Australian labour market



Financial markets wrap

Foreign exchange.

NZD/USD remains rangebound, last week bouncing off the bottom of a three-month old ascending range at 0.5900, the range top at around 0.6150. Our base case for this week is that the range holds, but it's worth noting the possibility of a downside break.

The key event this week for the pair will be the NZ Q2 CPI data on Monday morning. Markets will react to any surprise relative to the median expectation of 0.6%q/q and 2.8%/y/y, but they will also need to digest salient details such as the underlying core measures. Another local event worth watching will be RBNZ Chief Economist Conway's speech on tariffs and the economy on Thursday.

Aside from the above local events, NZD/USD will remain hostage to the US dollar's fortunes. Tariff angst has eased slightly, and the broad US dollar has started a recovery, though it remains hesitant at this stage. Fed easing expectations and speculation regarding the future of Fed Chair Powell remain short-term headwinds for the dollar, while longer term, it is overvalued.

NZD/AUD may have found a bottom at 0.9100. The "hawkish" RBA surprise two weeks ago (it held when the market expected a cut) appears to have run its course, with recent AU labour data arguing for a cut at the next meeting in August. The minutes from the July RBA meeting will be released on Tuesday, and Governor Bullock will speak on Thursday. As long as NZ CPI isn't softer than expected, the cross has potential to test 0.9200 this week.

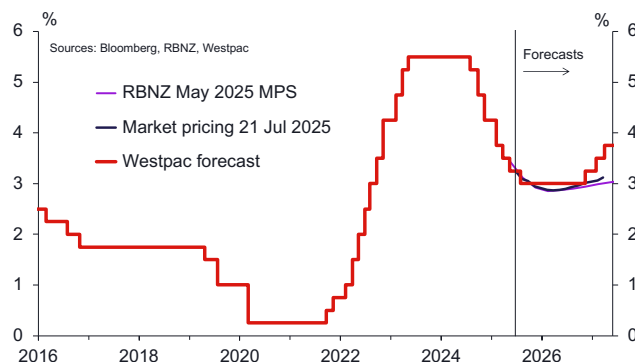
Interest rates.

The NZ 2yr swap rate remains rangebound, between 3.15% and 3.21%, awaiting key data on NZ inflation (Monday morning). Partial indicators released last week support Westpac Economics' forecast of a 0.6%q/q and 2.8%/y/y outturn, which should be unsurprising for the RBNZ. During the past few days, the persistent receiving bias evident since June has dissipated slightly, as swap markets feel enough RBNZ easing is priced in for now.

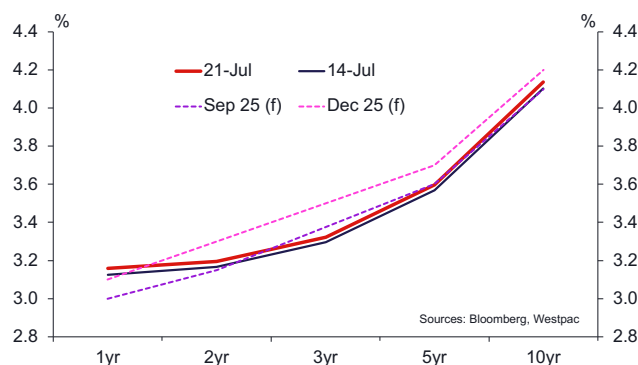
OIS prices imply a 70% chance of a rate cut at the next meeting in August, and beyond that, 50% chance of another cut by February 2026 to complete the easing cycle. Westpac's economists forecast one more cut in August.

NZ yield curves have steepened moderately over the past month, mostly following global yield curves. The NZ 2-10yr swap curve, currently at 94bp, could steepen to 100bp during the weeks ahead. The catalyst for that would most likely be increased concerns about debt levels rising in major economies, while locally, a soft CPI outturn would also steepen the curve, via the short end.

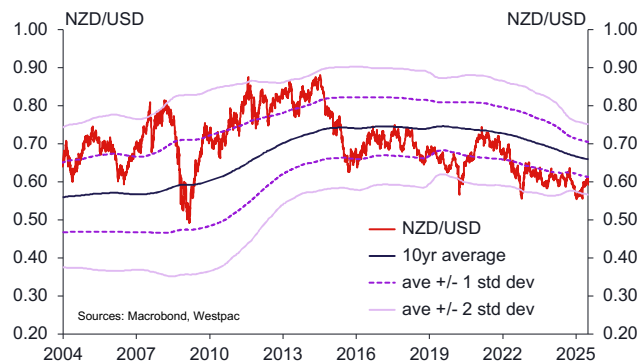
Official Cash Rate forecasts



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	0.596	0.585-0.609	0.553-0.743	0.638	0.61
AUD	0.915	0.912-0.936	0.873-0.971	0.924	0.90
EUR	0.513	0.510-0.531	0.502-0.637	0.575	0.51
GBP	0.444	0.439-0.449	0.431-0.535	0.495	0.44
JPY	88.3	84.3-88.6	68.9-98.6	83.6	85.9

The week ahead

Q2 Consumer Prices Index

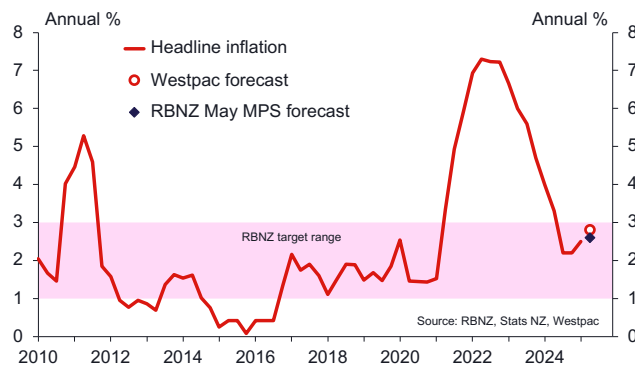
Jul 21

Last: +0.9%, Westpac f/c: +0.6%, RBNZ: +0.5%

Annual Last: +2.5%, Westpac: +2.8%

We estimate that New Zealand consumer prices rose by 0.6% in the June quarter, boosted by increases in food and energy prices. That would see the annual inflation rate rise to 2.8% (up from 2.5% in the year to March). But while large swings in some specific prices are boosting headline inflation, core inflation is expected to continue gradually easing, consistent with the softness in discretionary spending. Our forecast is slightly above the RBNZ's last published forecast from its May Monetary Policy Statement. However, since that forecast was published, the RBNZ has indicated that it is braced for a stronger result.

Annual headline inflation

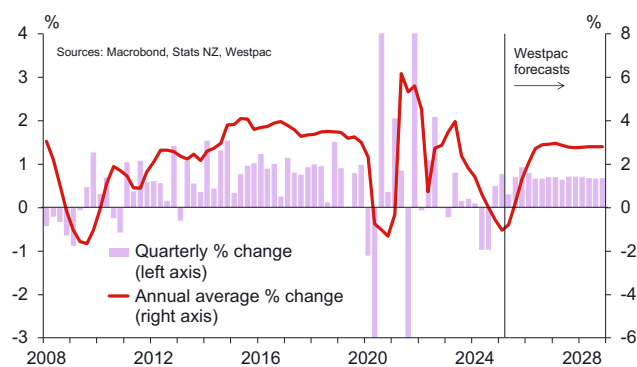


Economic and financial forecasts

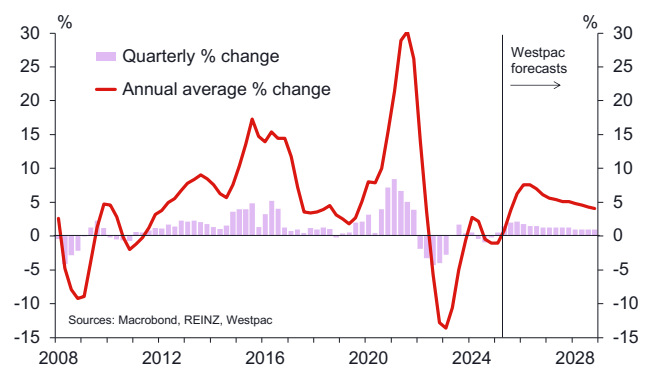
Economic indicators	Quarterly % change				Annual % change			
	Mar-25	Jun-25	Sep-25	Dec-25	2024	2025	2026	2027
GDP (production)	0.8	0.3	0.7	0.9	-1.3	2.7	2.9	2.8
Consumer price index	0.9	0.6	0.8	0.5	2.2	2.9	2.2	2.0
Employment change	0.1	-0.1	0.2	0.5	-1.2	0.7	2.3	1.9
Unemployment rate	5.1	5.3	5.3	5.2	5.1	5.2	4.4	4.1
Labour cost index (all sectors)	0.5	0.5	0.5	0.5	3.3	2.0	2.2	2.2
Current account balance (% of GDP)	-5.7	-4.4	-3.8	-3.3	-6.1	-3.3	-3.9	-3.8
Terms of trade	1.9	10.6	-0.4	-1.5	13.7	10.6	-0.9	-0.1
House price index	0.5	1.5	2.0	2.1	-1.1	6.2	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	3.30	3.35	3.64	3.35	3.90	4.00
5 year swap	3.71	3.56	3.60	3.70	3.73	3.70	4.20	4.25
10 year bond	4.63	4.57	4.65	4.70	4.51	4.70	4.90	4.95
TWI	67.8	69.1	69.0	69.0	69.5	69.0	69.1	68.9
NZD/USD	0.57	0.59	0.60	0.61	0.59	0.61	0.62	0.64
NZD/AUD	0.90	0.93	0.91	0.90	0.91	0.90	0.88	0.88
NZD/EUR	0.54	0.52	0.51	0.51	0.55	0.51	0.52	0.53
NZD/GBP	0.45	0.44	0.44	0.44	0.46	0.44	0.46	0.46

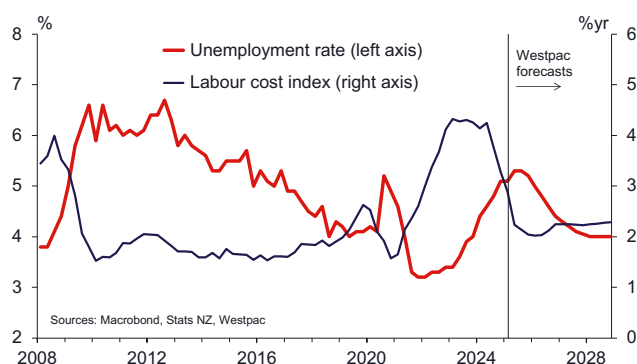
GDP growth



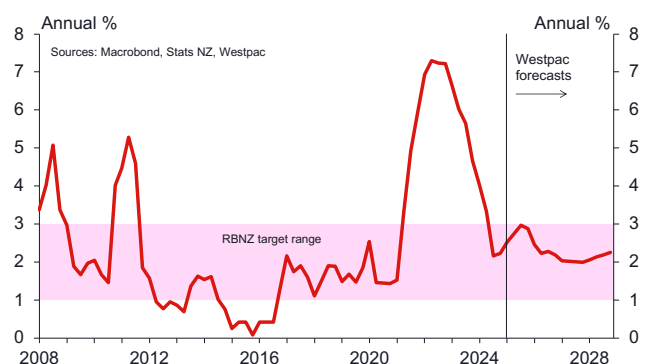
House prices



Unemployment and wage growth



Consumer price inflation



Data calendar

		Last	Market median	Westpac forecast	Risk/Comment
Mon 21					
NZ	Q2 CPI, %qtr	0.9	0.6	0.6	Increases in food and energy prices pushing inflation higher.
	Q2 CPI, %ann	2.5	2.8	2.8	Annual inflation pushing higher, core likely to remain contained.
US	Jun Leading Index, %mth	-0.1	-0.2	-	Early gauge of turning points in the business cycle.
Tue 22					
NZ	Jun Trade Balance, \$mn	1235	-	1060	High export prices and end of dairy season to deliver a surplus.
Aus	RBA Minutes	-	-	-	To offer further detail behind the surprise rate hold.
Eur	Q2 ECB Bank Lending Survey	-	-	-	Loan demand by firms decreased in Q1.
UK	Jun Public Sector Borrowing, £bn	17.7	-	-	Net debt has reached 96.4% of GDP.
US	Jul Richmond Fed, index	-7	-	-	Pace of contraction looks to have stabilised.
Wed 23					
Aus	Jun Westpac-MI Leading Index, %ann'd	-0.08	-	-	External drag becoming domestically focussed.
Eur	Jul Consumer Confidence, index	-15.3	-	-	Struggling to pick-up.
US	Jun Existing Home Sales, %mth	0.8	-0.7	-	Still restrictive rates limiting housing turnover.
Thu 24					
NZ	RBNZ Chief Economist Conway	-	-	-	Speech on the economic effects of tariffs in New Zealand.
Aus	RBA Governor Bullock	-	-	-	Annual speech to Anika Foundation.
Jpn	Jul Jibun Bank Manufacturing PMI, index	50.1	-	-	Has moved into expansionary for the first time in 11 months.
	Jul Jibun Bank Services PMI, index	51.7	-	-	Services activity remains solid.
Eur	Jul HCOB Manufacturing PMI, index	49.5	-	-	Manufacturing activity on an encouraging upward trend...
	Jul HCOB Services PMI, index	50.5	-	-	... while services barely treads water around neutral.
	ECB Policy Decision (Deposit Rate)	2	-	-	Disinflation progress stalls, clouding rate outlook.
UK	Jul S&P Global Manufacturing PMI, index	47.7	-	-	Recent slowdown looks to have troughed.
	Jul S&P Global Services PMI, index	52.8	-	-	Back into expansionary territory.
US	Jun Chicago Fed Activity, index	-0.28	-	-	Negative print for two consecutive months.
	Initial Jobless Claims	221	-	-	Remains consistent with stable labour market conditions.
	Jul S&P Global Manufacturing PMI, index	52.9	-	-	Showing firmer trends than results of the regional surveys.
	Jul S&P Global Services PMI, index	52.9	-	-	Continues its post-pandemic expansion run.
	Jun New Home Sales, %mth	-13.7	4.3	-	Increase likely after strongest monthly fall since mid-2022.
	Jul Kansas City Fed, index	-2	-	-	Manufacturing activity in contraction since 2023.
Fri 25					
Jpn	Jul Tokyo CPI, %ann	3.1	3	-	A slight easing expected in July.
Ger	Jul IFO Business Climate Survey, index	88.4	-	-	Boost in public spending lifting business sentiment.
UK	Jul Gfk Consumer Sentiment, index	-18	-	-	Moving sideways in 2025.
	Jun Retail Sales, %mth	-2.7	-	-	May saw the largest fall in nearly 1.5 years.
US	Jun Durable Goods Orders, %mth	16.4	-10.0	-	Month-to-month swings have been larger than usual.

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