



WEEKLY ECONOMIC COMMENTARY



22 Apr 2025 | **Westpac Economics Team** | westpac.co.nz/economics | economics@westpac.co.nz

Low risk of an inflation undershoot

Last week was largely free of fresh shocks on the global trade front, allowing the market's attention to turn back to the economic data. The March quarter inflation figures were always going to be the highlight, ticking up by slightly more than expected, but with the details generally in line with our forecasts. There was also a range of higher-frequency releases that provided some welcome colour on the economy, particularly as we look for any indications of how the US's trade war will hit home for New Zealand.

Consumer prices rose by 0.9% in the March quarter, slightly ahead of our final forecast of 0.8%. That saw the annual inflation rate rise to 2.5%, compared to 2.2% for the year to December.

Tradables prices rose by 0.8% for the quarter, close to our forecast. The biggest contribution came from volatile petrol prices, which were 4.6% higher on average over the quarter (but will likely be down again for the June quarter). There was also a lift in food prices, particularly for dairy products – the flipside of dairy farmers' good fortunes for this season.

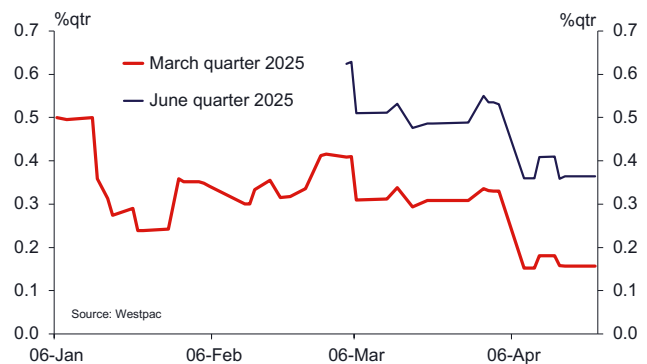
More generally, tradables prices are no longer falling in the way that they did through most of 2024. At that time, New Zealand was benefiting from an unwinding of Covid-era disruptions to global supply chains (and a reversal in local food prices after Cyclone Gabrielle had damaged some crops in 2023). Those disinflationary forces have now run their course – and with the fall in the NZ dollar since late last year, we expect to see tradables inflation pushing higher again over the coming months.

Non-tradables prices rose by 1.1% for the quarter, ahead of the 0.9% rise that we and the RBNZ were expecting. However, the main source of the upside surprise was a technical issue that doesn't have any implications for broader inflation pressures. This year the Government

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



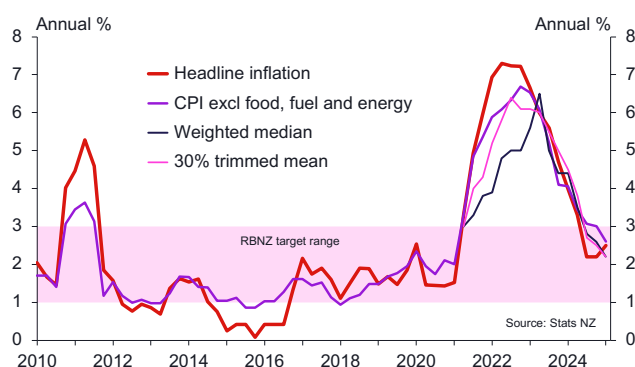
Key data and event outlook

Date	Event
7 May 25	Labour market statistics, March quarter
7 May 25	RBNZ Financial Stability Report
7 May 25	FOMC Meeting (Announced 8 May NZT)
8 May 25	Govt financial statements, 9 months to March
15 May 25	NZ Selected price indexes, April
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)

ended the Fees Free scheme for the first year of study or training, moving it to the final year of study instead. The result is that – for this year at least – few students qualified for the scheme, which meant that the average fees paid were 23% higher. This effect on the CPI should reverse in the following years, as today's students reach their final year of study.

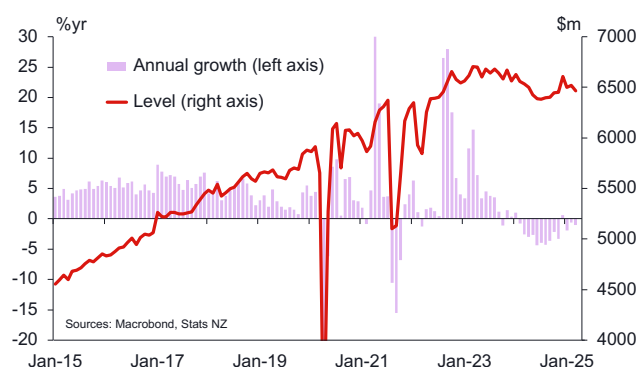
On an annual basis, non-tradables inflation continues to ease back from its earlier highs, slowing from 4.5% to 4.0% in March. The latest quarter included relatively more restrained increases in rents (up 0.7%), new home builds (up 0.6%) and insurance premiums (up 1.1%). In a similar vein, most measures of 'core' inflation (which are intended to capture the more persistent aspects of price pressures) have eased back to be within the RBNZ's 1-3% target range, albeit on the higher side.

Core inflation measures



We expect that headline inflation will remain within the target band over the year ahead, albeit on the higher side – we are forecasting a peak of 2.8% in the December 2025 quarter. We're now watching to see how the domestic economy responds to the easing in borrowing costs which is working its way through. And of course, we're keeping a close eye on global conditions and the New Zealand dollar, which are clouding the longer-term outlook for imported inflation.

Monthly retail card spending



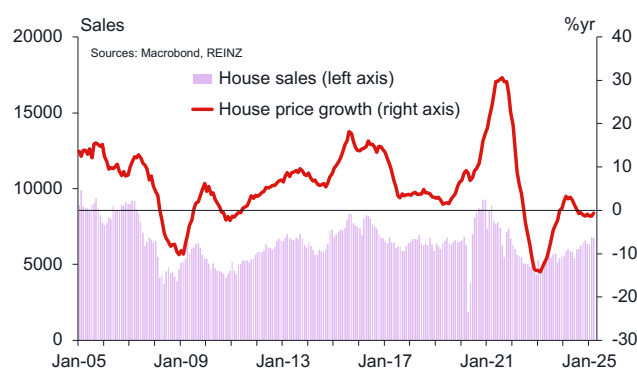
In terms of other data releases in the last week, it was a mixed bag. Firstly, retail spending was much weaker than expected in March, falling by 0.8%. Spending had been

picking up since late 2024, after a steep decline over the preceding year. But that recovery now looks like it has lost steam. That message was matched by the Performance of Services Index, which remained at around 49 in March. While it has picked up since the middle of last year, it has yet to move back into growth territory.

On a more positive note, the housing market has continued to pick up in recent months. House sales in March were about flat in seasonally adjusted terms, coming on top of a strong lift in February. Admittedly, the recovery in sales has only brought them back up to around their long-run levels, and there is still a sizeable stock of unsold homes on the market that is only gradually being worked through.

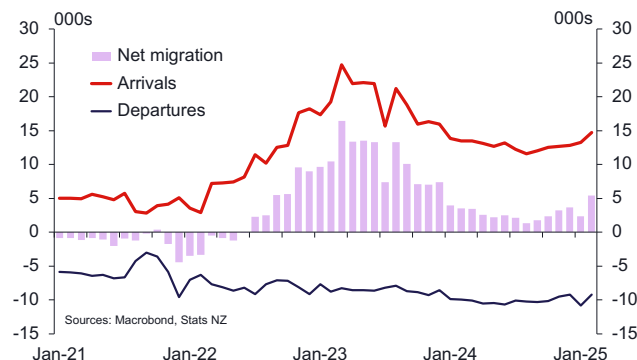
In that light, there hasn't been a great deal of upward pressure on prices yet. The REINZ house price index rose by 0.2% in March, the fifth straight month of similarly-sized gains. Nonetheless, it's clear that lower mortgage rates have helped to revive interest among house-hunters, and we expect to see further price gains over the course of 2025.

REINZ house prices and sales



In addition, New Zealand saw a net inflow of around 5400 migrants in February, the strongest monthly balance since December 2023. A surge in student arrivals boosted the figures for the month, but beyond this we continue to see foreign arrivals stabilising and the number of departing New Zealanders easing off their highs.

Monthly migration flows



On balance, the activity indicators last week were slightly on the softer side – our GDP nowcast for the March

quarter has nudged down from 0.18% to 0.16%. Notably, the RBNZ has now launched its own GDP nowcast model. While the methodology and inputs are similar to ours, the RBNZ's nowcast is feeling much more optimistic about the March quarter, currently picking a 0.77% rise. What this difference highlights is that no one model has a monopoly on forecast accuracy, and that nowcasts are most helpful for understanding the evolution of the data in between GDP releases.

On a final note, last week's GlobalDairyTrade auction was the first one since the "Liberation Day" tariff

announcement, making it a valuable early barometer of how the new trade war could end up roiling some of our key export markets. The result was not just benign but quite positive – overall dairy prices rose by 1.6%, taking them to their highest level in nearly three years. Our forecast for this season's farmgate milk price remains at \$10.30/kg, at the top end of Fonterra's guidance range, and we expect another solid price of \$10/kg for the next season starting in June.

Michael Gordon, Senior Economist

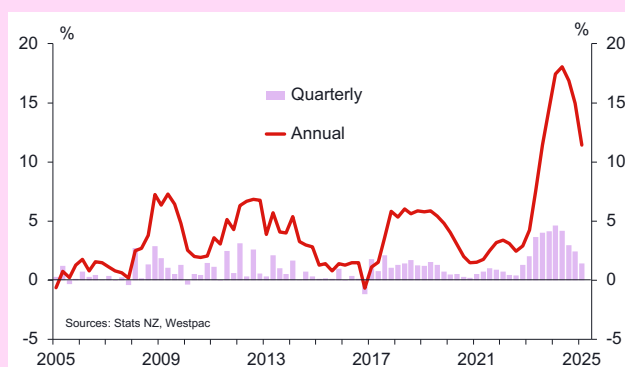
Chart of the week.

Increases in insurance premiums have been a pain-point for households and businesses in recent years, with large rises in the costs of cover for housing, contents, vehicles, and other forms of cover. Those increases were in part due to a reassessment of risks related to natural disasters like floods, as well as increases in global reinsurance costs.

However, the pressure on insurance premiums is now easing. In the March quarter, premiums increased by just 1.4% on average. That was the smallest increase since 2022, and well down from the increases of 3% to 4% per quarter that we had been seeing for much of the past two years. There's been a notable easing in relation to the costs of dwelling and content insurance.

This is an important development for the RBNZ. Over the past few years, increases in insurance premiums were key contributors to the continued high levels of domestic inflation. However, insurance premiums are not very responsive to changes in interest rates. The moderation in insurance premiums that's now occurring will help the RBNZ in its fight to get overall domestic inflation back to more average levels on a sustained basis.

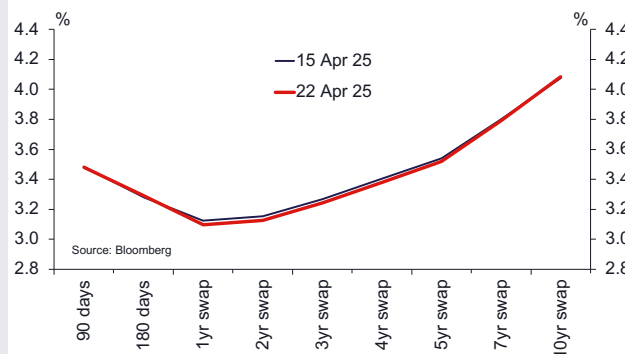
Insurance cost inflation cooling



Fixed versus floating for mortgages.

We're forecasting the cash rate to bottom at 3.25% 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.

Economic data has continued to play second fiddle, with financial market developments largely driven by swings in sentiment driven by tariff headlines and President Trump's attacks on Fed Chair Powell. Powell highlighted the importance of keeping longer term inflation expectations anchored, while noting that the Fed could find itself in a challenging scenario in which its dual-mandate goals are in tension. Powell's reluctance to cut rates has drawn the ire of Trump who has mooted his removal, stoking concerns about the Fed's independence. On the data front, we saw a jump in one-year ahead inflation expectations in the New York Fed's survey to 3.58% (from 3.13%), though longer term expectations remain stable. Retail sales beat expectations, rising 1.4% in March, with spending boosted by auto sales as buyers rushed to beat foreshadowed tariff-driven price increases. In contrast, business sector indicators were mixed, with the Empire State survey coming in above expectations, while the Philly Fed index plunged. This week's calendar includes the Beige Book (Wednesday), durable goods orders (Thursday) and consumer confidence (Friday). North of the border, the BoC left its policy rate at 2.75%. The Bank noted that monetary policy cannot resolve trade uncertainty, and so decisions will remain focused on achieving its medium-term inflation goal. We expect the RBNZ to take a similar approach.

Europe.

As expected, the ECB delivered a 25bp rate cut at its April meeting. The accompanying statement noted that the downside risks for growth have increased as a result of rising trade tensions. President Lagarde commented that a 50bp cut had been considered. Across the Channel, the UK's March inflation report was softer than expected, with the annual rate slowing to 2.6% from 2.8%. That included a cooling in core inflation, reinforcing the chances of another rate cut from the BoE in May.

Asia-Pacific.

China's economy grew a stronger than expected 5.4%y/y in Q1, with both industrial production and consumer spending likely brought forward in anticipation of the developing US-China trade war. House prices continued to decline in March, while property development fell 10% y/y. GDP growth will almost certainly slow in Q2, with the main uncertainty being the extent of that slowdown. PMI readings due at the end of this month will be awaited with great interest. Over in Australia, employment rose 32k in March, a little shy of expectations. Measures of labour market slack were largely unchanged, with the unemployment rate remaining at 4.1%.

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	1.1	0.9
Japan	1.9	-0.1	1.0	0.8
East Asia ex China	3.3	4.3	3.7	3.8
India	7.8	6.6	6.2	6.2
Euro Zone	0.4	0.7	0.7	1.2
United Kingdom	0.1	0.7	0.6	1.1
NZ trading partners	3.2	3.2	3.0	3.0
World	3.2	3.3	2.9	3.0

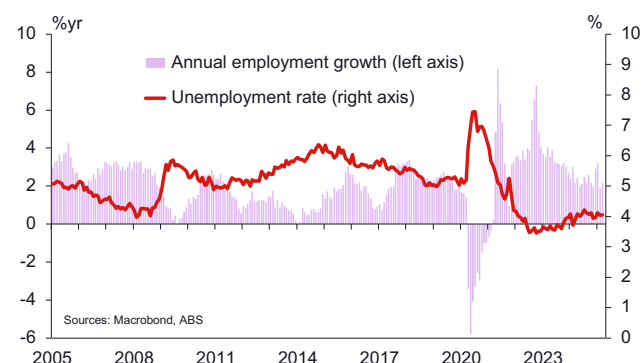
Australian & US interest rate outlook

	17 Apr	Jun-25	Dec-25	Dec-26
Australia				
Cash	4.10	3.85	3.35	3.35
90 Day BBSW	4.01	3.90	3.45	3.55
3 Year Swap	3.28	3.35	3.50	3.90
3 Year Bond	3.34	3.40	3.55	3.95
10 Year Bond	4.28	4.35	4.45	4.60
10 Year Spread to US (bps)	-3	5	5	0
US				
Fed Funds	4.375	4.375	3.875	3.875
US 10 Year Bond	4.31	4.30	4.40	4.70

Federal Reserve Bank of New York, inflation expectations



Australian labour market



Economic and financial forecasts

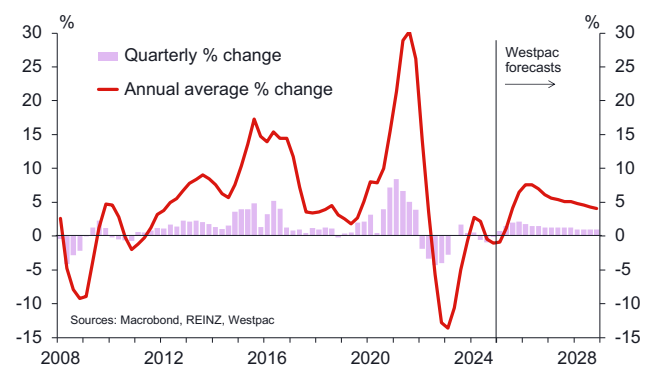
Economic indicators	Quarterly % change				Annual % change			
	Dec-24	Mar-25	Jun-25	Sep-25	2024	2025	2026	2027
GDP (production)	0.7	0.4	0.4	0.8	-0.5	1.0	3.2	2.8
Consumer price index	0.5	0.9	0.2	0.9	2.2	2.8	2.0	2.1
Employment change	-0.1	-0.1	0.1	0.1	-1.1	0.5	2.1	2.0
Unemployment rate	5.1	5.3	5.4	5.4	5.1	5.3	4.6	4.1
Labour cost index (all sectors)	0.6	0.6	0.5	0.5	3.3	2.2	1.8	2.1
Current account balance (% of GDP)	-6.2	-5.5	-4.6	-4.3	-6.2	-4.0	-4.5	-4.4
Terms of trade	3.1	7.1	2.6	-1.1	13.6	8.0	1.4	2.3
House price index	-0.2	0.8	1.5	2.0	-1.1	6.5	6.1	5.1

Financial forecasts	End of quarter				End of year			
	Dec-24	Mar-25	Jun-25	Sep-25	2024	2025	2026	2027
OCR	4.25	3.75	3.25	3.25	4.25	3.25	3.75	3.75
90 day bank bill	4.45	3.86	3.35	3.35	4.45	3.35	3.85	3.85
2 year swap	3.64	3.46	3.10	3.25	3.64	3.50	4.00	4.00
5 year swap	3.73	3.71	3.60	3.70	3.73	3.85	4.25	4.25
10 year bond	4.51	4.63	4.60	4.65	4.51	4.70	4.90	4.95
TWI	69.5	67.8	66.7	66.2	69.5	66.2	67.3	68.1
NZD/USD	0.59	0.57	0.56	0.56	0.59	0.57	0.60	0.62
NZD/AUD	0.91	0.90	0.90	0.89	0.91	0.87	0.87	0.87
NZD/EUR	0.55	0.54	0.51	0.51	0.55	0.51	0.52	0.54
NZD/GBP	0.46	0.45	0.44	0.43	0.46	0.44	0.45	0.46

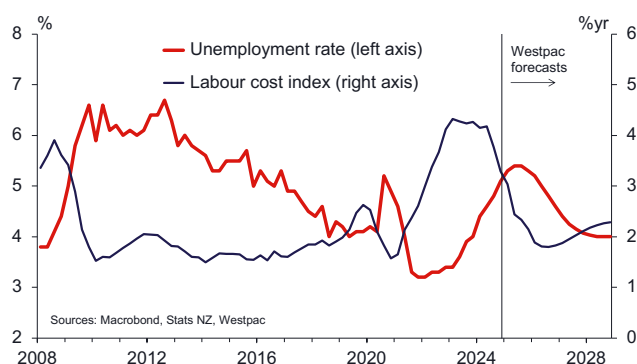
GDP growth



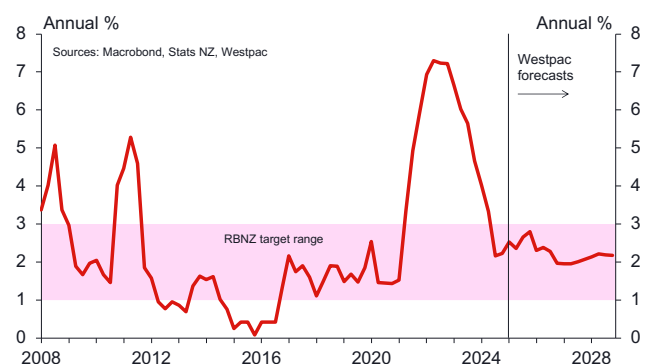
House prices



Unemployment and wage growth



Consumer price inflation



Data calendar

		Last	Market median	Westpac forecast	Risk/Comment
Tue 22					
NZ	Mar Trade Balance, \$mn	510	–	765	Surplus to expand as high prices boost exports.
Eur	Apr Consumer Confidence, index	–14.5	–15	–	Already on shaky footing ahead of tariff volatility.
US	Apr Richmond Fed, index	–4	–	–	Manufacturers very uncertain about the outlook.
	Fedspeak	–	–	–	Jefferson and Harker at Economic Mobility Summit.
Wed 23					
Jpn	Apr Nikkei Manufacturing PMI, index	48.4	–	–	Sliding further into contraction amid a gloomy outlook.
	Apr Nikkei Services PMI, index	50	–	–	Service providers reporting elevated cost and price pressures.
Eur	Apr HCOB Manufacturing PMI, index	48.6	47.5	–	Tariff front-running to only provide temporary reprieve ...
	Apr HCOB Services PMI, index	51	50.2	–	... while services sector barely registers a growth pulse.
	Feb Trade Balance, €bn	14	–	–	Tariff front-running effects still at play in the data.
UK	Apr S&P Global Manufacturing PMI, index	44.9	–	–	Manufacturing has fallen back into very weak territory ...
	Apr S&P Global Services PMI, index	52.5	–	–	... the narrow base to services growth provides little offset.
	Mar Public Sector Borrowing, £bn	10.7	–	–	Fiscal headspace remains a lingering concern.
	BoE Governor Bailey	–	–	–	Speaking in Washington DC.
US	Apr S&P Global Manufacturing PMI, index	50.2	–	–	Forward-looking indicators will be of particular interest...
	Apr S&P Global Services PMI, index	54.4	–	–	... as uncertainty spreads to all corners of the economy.
	Mar New Home Sales, %mth	1.8	1	–	Sales trending higher as supply continues to come online.
	Apr Federal Reserve's Beige Book	–	–	–	An update on conditions across the regions.
	Fedspeak	–	–	–	Goolsbee, Hammack.
Thu 24					
NZ	Apr ANZ Consumer Confidence, index	93.2	–	–	First survey since US tariff announcement.
US	Mar Chicago Fed Activity Index, %mth	0.18	–	–	Fog of tariff war raises questions on where growth will land.
	Mar Durable Goods Orders, %mth	1	1.5	–	Risk of weakening after tariff front-running impact fades.
	Apr Kansas City Fed, index	–2	–	–	Manufacturers very uncertain about the outlook.
	Initial Jobless Claims	–	–	–	Timely indicator of labour market conditions.
Fri 25					
Aus/NZ	ANZAC Day	–	–	–	Markets closed.
Jpn	Apr Tokyo CPI, %ann	2.9	3.5	–	Sustainable inflation gives green light for rate hikes this year.
Ger	Apr IFO Business Climate Survey, index	86.7	85.2	–	In store for a sharp loss of confidence ...
UK	Apr GfK Consumer Sentiment, index	–19	–	–	... across many jurisdictions and sectors.
	Mar Retail Sales, %mth	1	–	–	Real incomes buffered impact from weaker sentiment to date.
US	Apr Uni. of Michigan Cons. Sentiment, index	50.8	–	–	Revisions could see confidence drop another leg lower.

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