WEEKLY ECONOMIC COMMENTARY

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

Kiwi economy moves out of recession.

The past week saw a relatively heavy data flow in New Zealand. The highlight was the release of the National Accounts for the December quarter – a report awaited with some trepidation considering the sizeable revisions and large negative surprise seen in the September data. As it turns out, the headline production-based measure of GDP expanded 0.7%q/q, slightly above our estimate of 0.5%q/q, while revisions were thankfully minor. Output was down 1.1%y/y, compared with a 1.6%y/y decline in September. As **Michael Gordon notes in his full review of the GDP data**, technical issues mean that the headline growth rate likely overstates the strength of the economy's rebound, just as it likely overstated the extent of the decline in the middle of last year. After all, measures of labour input were uniformly weak during the December quarter.

This outcome represented a larger upside surprise for the RBNZ, which had forecast growth of 0.3%q/q in the February Monetary Policy Statement (MPS). Given the RBNZ's normal approach, some of the surprise will likely be attributed to greater underlying productive potential in the economy, while some will flow through to a slightly less negative assessment of the output gap (estimated at -1.7% of GDP in the February MPS). But the RBNZ will likely continue to treat the GDP data with caution, and so we don't expect that this upside surprise will have much impact on the near-term policy outlook i.e., we continue to expect a 25bp cut in the OCR at the April and May meetings. However, the firmer outcome does increase the likelihood that the easing we expect in May proves to be the last for this cycle. If the post-Orr MPC is of a mind to slow down the pace of easing, then this is a piece of data they might point to.

Key views

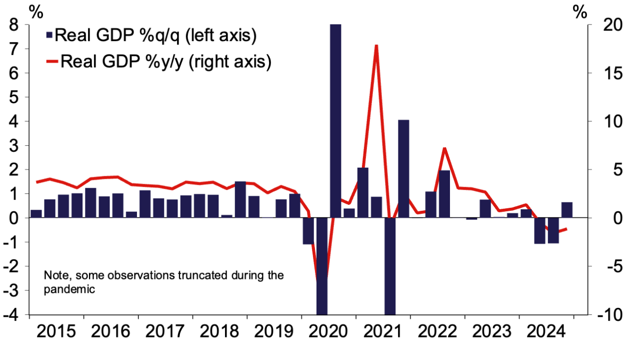
	Last 3 months	Next 3 months	Next year
Global economy	→	→	→
NZ economy	↗	↗	↑
Inflation	→	→	↗
2 year swap	→	→	↗
10 year swap	→	→	↗
NZD/USD	→	↘	↘
NZD/AUD	↗	→	↘

Westpac GDP nowcasts

Key data and event outlook

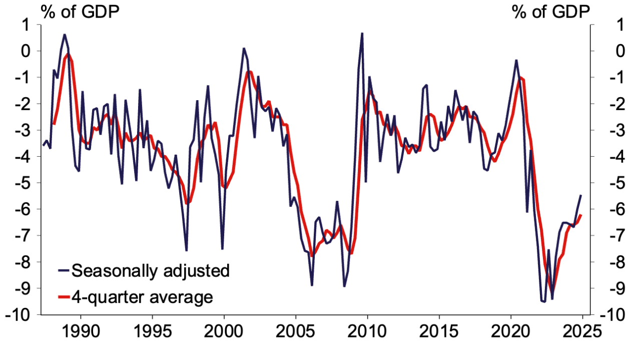
Date	Event
1 Apr 25	RBA Monetary Policy Decision
3 Apr 25	Govt financial statements, 8 months to February
8 Apr 25	NZIER QSBO Business Survey, March quarter
9 Apr 25	RBNZ OCR Review
15 Apr 25	NZ Selected price indexes, March
17 Apr 25	NZ CPI, March quarter
7 May 25	Labour market statistics, March quarter
7 May 25	RBNZ Financial Stability Report
7 May 25	FOMC Meeting (Announced 8 May NZT)
8 May 25	Govt financial statements, 9 months to March
15 May 25	NZ Selected price indexes, April

NZ economy moves out of recession



Sources: Macrobond, Stats NZ, Westpac

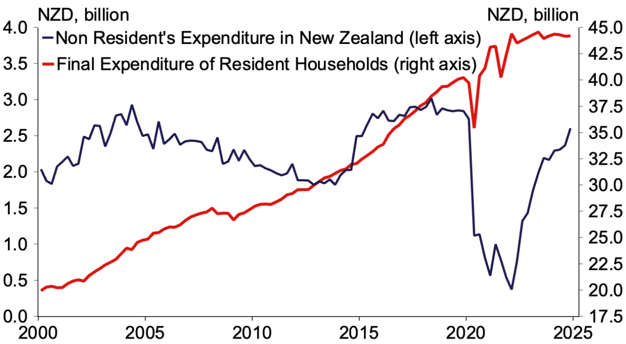
The current account deficit is narrowing



Sources: Macrobond, Stats NZ, Westpac

The expenditure measure of GDP grew a similar 0.8%q/q in the December quarter. In the detail, private consumption spending remained muted, rising just 0.1%q/q and so continuing to decline in per capita terms. This result was not too surprising considering that lower mortgage interest rates are yet to be experienced by most households (this will change in coming months as households refix their mortgages at lower interest rates). By contrast, a 10%q/q lift in spending by tourists helped drive a very strong 8.2%q/q increase in exports of services, which accounted for around half of the overall growth in GDP. It seems unlikely this contribution will be matched in the current quarter. Elsewhere in the accounts, despite a sharp fall in construction activity, a rebound in plant and machinery and intangibles spending led to a 1.5%q/q lift in overall business investment during the quarter.

Resident spending muted; but tourist spending lifting

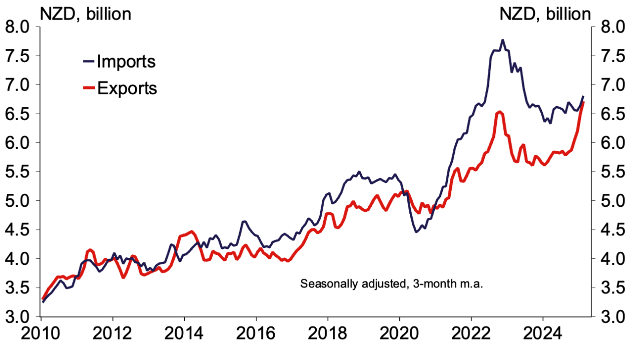


Sources: Macrobond, Stats NZ, Westpac

Turning to the rest of last week's data, New Zealand's current account deficit narrowed to 6.2% of GDP in 2024, down from 6.9% of GDP in 2023. This outcome was slightly wider than expected, reflecting higher-than-forecast investment income outflows (these were revised higher for the for September quarter, with the higher level maintained in the December quarter). Almost all the narrowing of deficit over the year was explained by the goods balance, reflecting both slightly higher exports and slightly lower imports. Despite the sizeable deficit, New Zealand's net external liabilities ended the year at 49.4% of GDP – down from 51.3% of GDP a year earlier thanks to favourable changes in asset valuations.

Looking ahead, we expect the deficit to narrow significantly this year as the recent sharp uplift in export commodity prices feeds through to export receipts. The seasonally-adjusted deficit fell to 5.5% of GDP in the December quarter. Since then, merchandise exports have continued to lift sharply, with annual growth rising to 17%y/y for the three months to February (including a 34%y/y lift in exports of milk powder, butter and cheese). This compares to a 7%y/y lift in imports over this period. The improving trade balance means that the seasonally-adjusted current account deficit is likely to decline to around 4% of GDP this quarter.

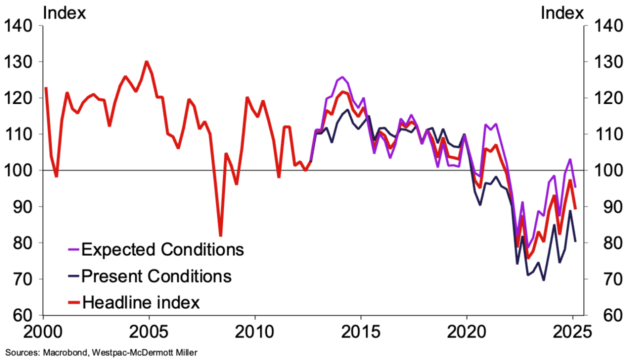
Rising export revenue is closing the trade deficit



Sources: Macrobond, Stats NZ, Westpac

Less positively, the Westpac-McDermott Miller Consumer Confidence Index fell 8pts to 89.2 in the March quarter. This movement unwound the improvement seen in the December quarter and leaves the index about 19pts below the long-term average. Both present conditions and expected future conditions weakened similarly in the March quarter. Considering the reduction in mortgage interest rates in recent months, developments offshore may have been a key driver of the pullback in sentiment. News coverage of US tariff policy and weaker equity markets – including in New Zealand – will have been noticed by households. That said, it is probable that there may also be lingering concerns about the labour market, with the unemployment rate having moved above 5% since the prior survey. And worries about potential inflation effects associated with a weaker exchange rate may also have been a factor. There has been a steady uptrend in retail spending in recent months so it will be interesting to see whether this has been interrupted when March spending data is released next month.

Consumer confidence: a choppy uptrend



In a similar vein, last week's improvement in the BusinessNZ manufacturing PMI did not carry through to its service sector counterpart, with the headline services index falling 1.3pts to 49.1 in February. The largest decline was in the activity/sales index, which fell 4.6pts to 49.2. The PMI readings can be choppy from month to month, and so we think that service sector activity remains in an uptrend despite this month's softer reading. However, this outcome does emphasise the still patchy nature of the recovery at present, as reflected in other business surveys and general business sector anecdote.

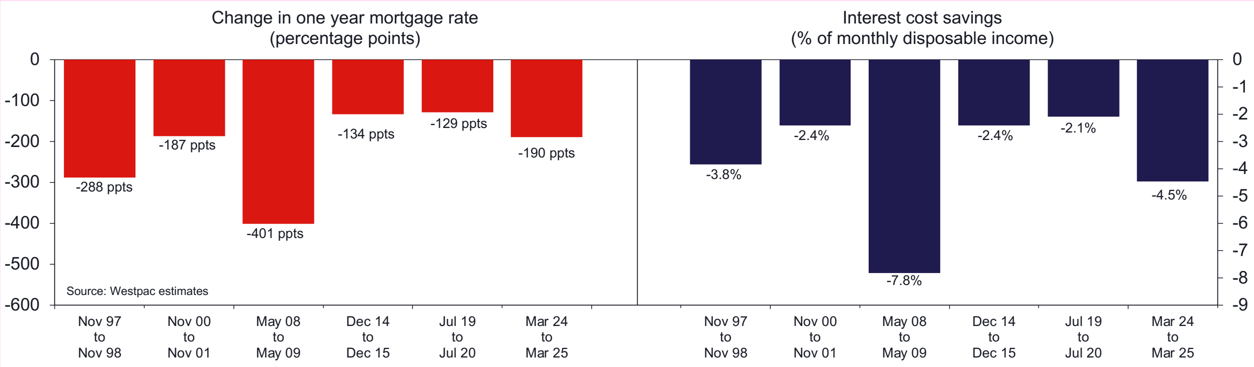
The domestic dataflow is very light this week. On Friday the ANZ will release its consumer confidence survey for March. The only notable official release is the Monthly Employment Indicator for February. Last month this pointed to a healthy 0.3%m/m increase in filled jobs, but there has been a persistent tendency for the first estimate to be revised down (e.g., last month the initially reported 0.1%m/m increase in December was revised to a 0.1%m/m decline). Tomorrow we will release our Employment Confidence Survey for Q1, providing additional insight into recent labour market trends.

Darren Gibbs, Senior Economist

Chart of the week.

Recent interest rate cuts will put a lot of money back into many borrowers' pockets. To put it in context, if you have an average priced home and 50% mortgage, the 190bp drop in the one-year mortgage rate over the past year could reduce your minimum monthly mortgage payments by about $400. That's equivalent to roughly 5% of the average households' disposable income. That sort of fall would be one of the biggest drops in debt servicing costs that we've seen in the last 30 years. In fact, relative to the level of disposable income, the only time we saw a larger fall in interest costs was during the 2008/09 financial crisis. During that time, average house prices were around 50% lower than they are now. However, the OCR was cut by a massive 575bps in less than one year (compared to the fall of 175bps in the current cycle).

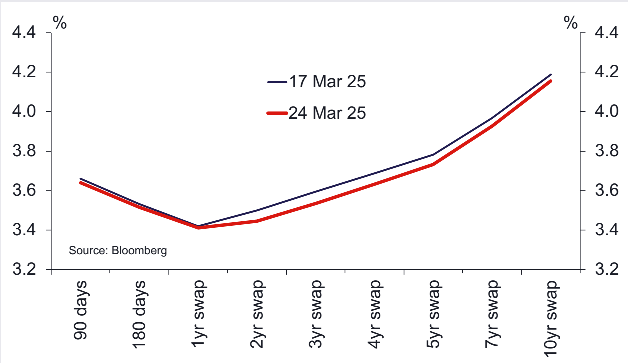
Change in minimum monthly mortgage payments (nationwide average)



Fixed versus floating for mortgages.

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

NZ interest rates



Global wrap

North America.

The FOMC kept the Fed Funds rate on hold as expected. The economic forecasts highlighted the uncertain effects of the Trump administration's policy changes across trade, immigration and regulation. For GDP, the forecast for this year was revised down from 2.1% at the December review to 1.7% in March, and the range of Committee forecasts was heavily skewed to the downside. Tariffs were seen as temporarily boosting core inflation this year (with the range of forecasts skewed to the upside) but the outlook for the following years remained close to the 2% target. We expect two further rate cuts by the FOMC this year, but with rates on hold beyond that as the inflationary effects of tariffs linger and capacity constraints buoy consumer inflation.

Asia-Pacific.

Australian labour market data for February provided some unusual surprises. Employment fell by 53k, but with a sharp fall in participation, the unemployment rate actually fell slightly to 4.0%. The ABS noted "fewer older workers returning to work" and "higher levels of retirement over recent months", though the scale of the decline in the month suggests some one-off factors are at play. Tuesday's Federal Budget will have been prepared on short notice – until recently it seemed there may not be one due to the proximity of the election – and key spending plans are likely to be held back for the campaign period. Chinese data for February was the first major release for the calendar year, given the variable timing of the lunar new year holidays. Growth in retail sales and fixed asset investment accelerated, but house prices continued to decline. The latter points to the need for support measures by authorities, which look to be in development.

Europe.

Germany's parliament approved a €500bn infrastructure fund and changes to the 'debt brake', which will allow for higher defence spending and more fiscal space for state governments. As we noted last week, more fiscal stimulus doesn't necessarily preclude further easing by the ECB, but it does make the outlook for rates more uncertain. Central banks were busy across the region last week. The Bank of England kept its policy rate on hold at 4.50% in an 8-1 vote, with the dissenter favouring a 25bp cut. Governor Bailey noted afterwards that: "We have to be quite careful at this point in how we calibrate our response because we're still seeing a very gradual fall in inflation". The Swiss National Bank cut its policy rate by 25bp to 0.25% while Sweden's Riksbank held its policy rate at 2.25%, with both signalling that further easing is unlikely.

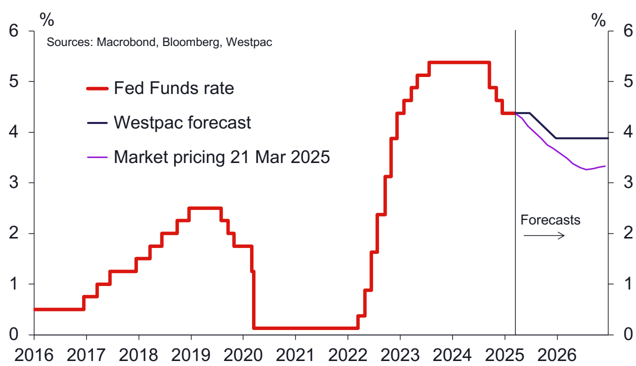
Trading partner real GDP (calendar years)

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

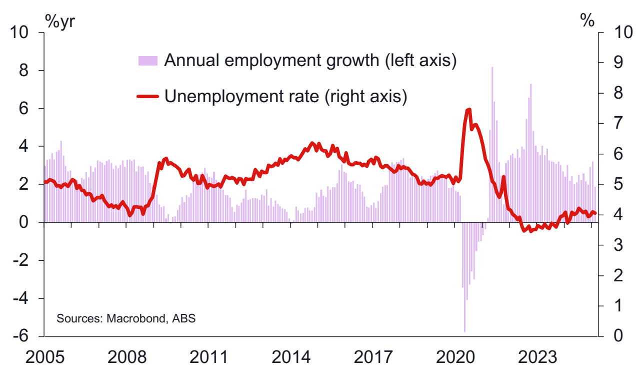
Australian & US interest rate outlook

	21 Mar	Jun-25	Dec-25	Dec-26
Australia				
Cash	4.10	3.85	3.35	3.35
90 Day BBSW	4.11	3.90	3.45	3.55
3 Year Swap	3.67	3.75	3.80	4.00
3 Year Bond	3.76	3.85	3.90	4.05
10 Year Bond	4.40	4.65	4.75	4.80
10 Year Spread to US (bps)	15	15	5	0
US				
Fed Funds	4.375	4.375	3.875	3.875
US 10 Year Bond	4.25	4.50	4.70	4.80

US Fed Funds rate



Australian labour market



Financial markets wrap

Interest rates.

NZD/USD remains inside a three-month old range. There's minor support on the day, in the 0.5680-0.5725 area, which if broken would signal a move to 0.5600 during the week ahead.

Intraday and intraweek volatility has been heightened due to the looming US tariff regime change. The promised start date is 2 April, and it could in turn ignite a trade war which would probably affect risk sentiment. Risk sensitive currencies such as the NZD, AUD, and CAD would likely be most affected.

Alternatively, if trade frictions are less severe than has been priced into currencies, the NZD could benefit, given positive NZ economic data momentum, extreme short speculative NZD/USD positioning, and an arguably fully priced RBNZ easing cycle. In this scenario, NZD/USD could break above its multi-month range at 0.5825.

Looking at the quarter ahead, we hold a bearish bias and target 0.5500. While the impact of US trade policies is unclear, the most likely outcome will be that global growth will weaken, which should negatively affect externally-exposed economies such as NZ.

Interest rates.

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

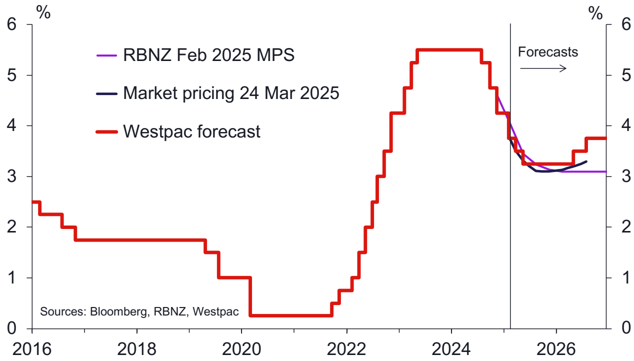
The RBNZ's February MPS clearly signalled the trajectory of the remainder of the easing cycle, being 25bp OCR cuts in April and May, and a 60% chance of a final one before year end. However, RBNZ Governor Orr's abrupt resignation means that the next meeting on 9 April will be watched by markets for any subtle shifts in bias.

OIS pricing matches the RBNZ's OCR forecast, while Westpac forecasts only two more OCR 25bp cuts in April and May.

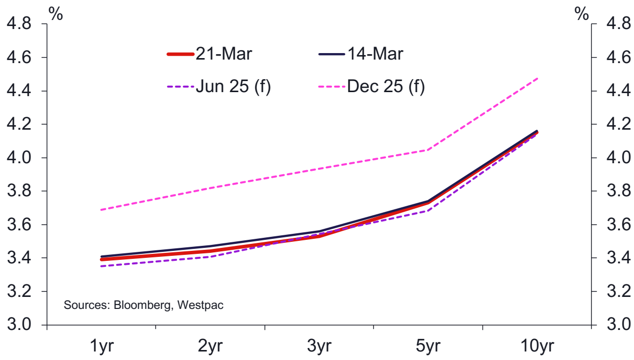
We expect higher swap rates later this year, since markets have fully priced the remnants of this RBNZ easing cycle and will eventually turn attention to the next cycle – a tightening one. In addition, there's a large pipeline of mortgages due for refixing over the next six months. The main risk to this view is an economic shock offshore, which could require a lower OCR than is forecast.

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

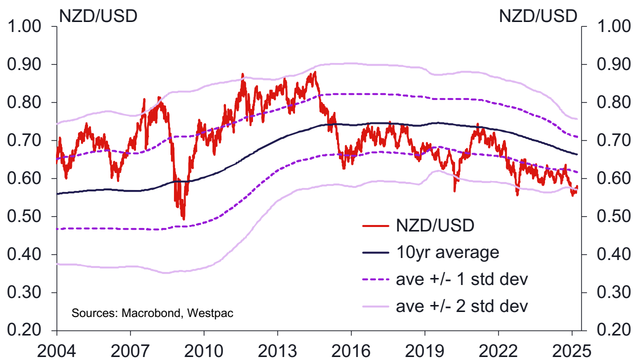
Official Cash Rate forecasts



Swap rates



NZD/USD vs rolling 10yr average



FX recent developments

	Historical data				F'cast
	Spot	3mth range	5yr range	5yr avg	Dec-25
USD	0.574	0.554-0.582	0.554-0.743	0.639	0.57
AUD	0.915	0.897-0.915	0.873-0.984	0.925	0.87
EUR	0.531	0.523-0.549	0.523-0.637	0.578	0.52
GBP	0.445	0.440-0.459	0.440-0.535	0.498	0.44
JPY	85.7	83.5-89.2	62.0-98.6	82.4	79.4

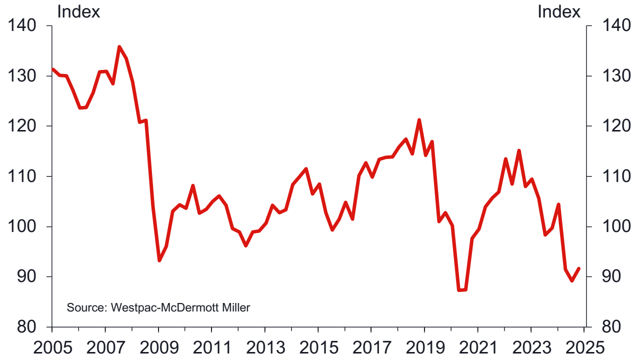
The week ahead

Q1 Westpac-McDermott Miller Employment Confidence Index

Mar 25, Last: 91.6

The Employment Confidence Index rose slightly in December, after having fallen sharply in the previous two quarters. Perceptions about job availability improved for the first time in two years, suggesting that the rise in the unemployment rate could be nearing its peak. However, other measures relating to earnings growth and job security were softer. The latest survey was conducted in early March.

Employment Confidence Index



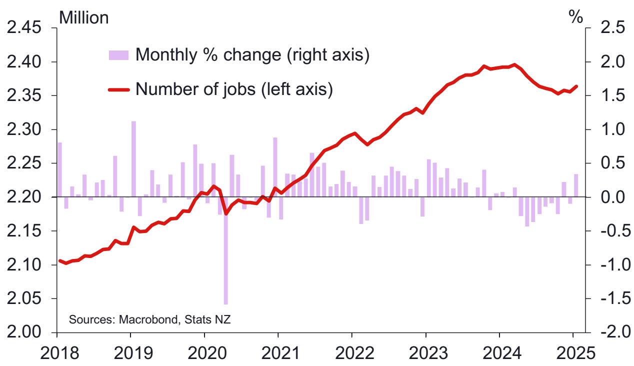
Feb Monthly Employment Indicator

Mar 28, Last: +0.3%, Westpac f/c: flat

The Monthly Employment Indicator (MEI) rose by 0.3% in January, adding to the sense that the jobs market is stabilising after a steep drop through the middle of 2024. This measure is typically revised down from its initial release, though we think it's unlikely to turn into a minus.

The weekly snapshots provided by Stats NZ suggest a broadly flat result for February. An emerging pickup in tourism-related sectors is balanced against ongoing weakness in areas such as manufacturing and construction.

Monthly Employment Indicator filled jobs

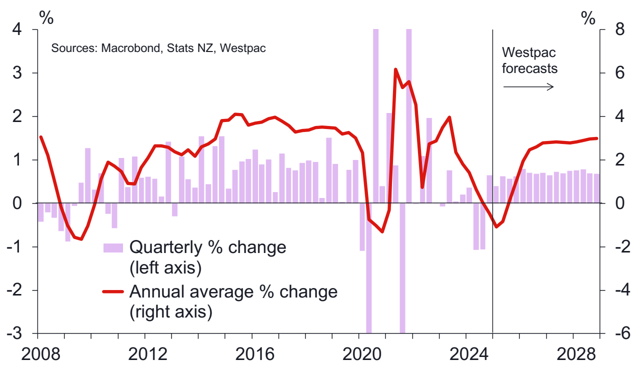


Economic and financial forecasts

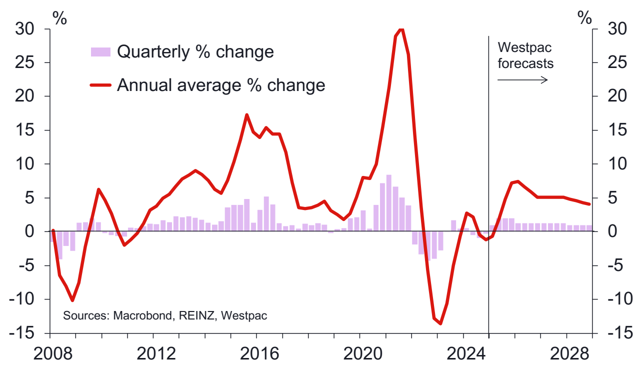
Economic indicators	Quarterly % change				Annual % change			
	Sep-24	Dec-24	Mar-25	Jun-25	2023	2024	2025	2026
GDP (production)	-1.1	0.7	0.4	0.7	1.8	-0.5	1.1	2.9
Consumer price index	0.6	0.5	0.6	0.5	4.7	2.2	2.6	2.0
Employment change	-0.6	-0.1	-0.1	0.0	2.8	-1.1	0.4	1.9
Unemployment rate	4.8	5.1	5.3	5.4	4.0	5.1	5.3	4.6
Labour cost index (all sectors)	0.6	0.6	0.6	0.5	4.3	3.3	2.2	1.8
Current account balance (% of GDP)	-6.5	-6.2	-5.4	-4.6	-6.9	-6.2	-4.0	-4.6
Terms of trade	2.5	3.1	6.5	1.8	-10.7	13.6	5.8	1.9
House price index	-0.9	-0.2	1.0	2.0	-0.6	-1.2	7.2	5.1

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

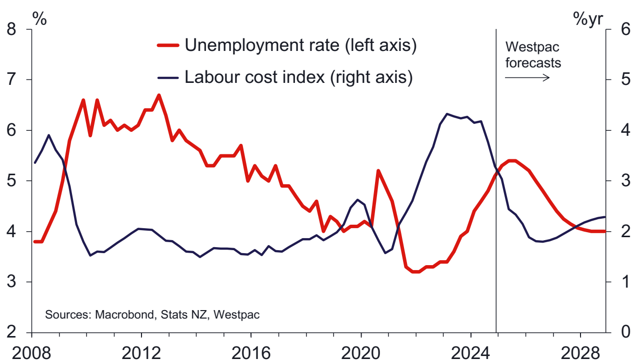
GDP growth



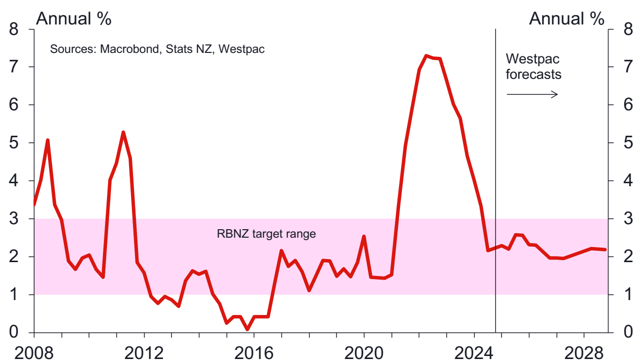
House prices



Unemployment and wage growth



Consumer price inflation



Data calendar

		Last	Market median	Westpac forecast	Risk/Comment
Mon 24					
Jpn	Mar Nikkei Manufacturing PMI, index	49	–	–	Manufacturing outlook shaky amid volatile trade landscape ...
	Mar Nikkei Services PMI, index	53.7	–	–	... but at least solid activity in services is providing a support.
Eur	Mar HCOB Manufacturing PMI, index	47.6	–	–	European manufacturing in contraction since mid-2022 ...
	Mar HCOB Services PMI, index	50.6	–	–	... offsetting most of the gains in services to date.
UK	Mar S&P Global Manufacturing PMI, index	46.9	–	–	Trading environment unfavourable on most fronts ...
	Mar S&P Global Services PMI, index	51	51.4	–	... uncertainty permeating across the broader economy.
US	Feb Chicago Fed Activity Index, %mth	–0.03	–0.14	–	Fog of tariff war raises questions on where growth will land.
	Mar S&P Global Manufacturing PMI, index	52.7	51.8	–	Manufacturers reactions to tariffs will be a focus ...
	Mar S&P Global Services PMI, index	51	51.2	–	... the slide in services activity is also a notable development.
Tue 25					
NZ	Q1 Westpac-MM Empl. Confidence, index	91.6	–	–	Small lift in Q4 on improved job opportunities.
Aus	RBA Assist' Gov. (Fin System)	–	–	–	Jones participating in fireside chat.
	2025-26 Federal Budget	–	–	–	Some pre-election sweeteners but no lolly scramble.
Ger	Mar IFO Business Climate Survey, index	85.2	–	–	Reaction to election outcome will be of interest.
US	Jan S&P/CS Home Price Index, %mth	0.5	–	–	Push-back in rate cuts keeps affordability front-of-mind.
	Feb New Home Sales, %mth	–10.5	3.5	–	Sales gradually trending higher as supply comes online.
	Mar CB Consumer Confidence, index	98.3	94	–	Consumers lose confidence as tariffs are delivered...
	Mar Richmond Fed, index	6	–	–	... outlook for business is similarly uncertain.
Wed 26					
Aus	Feb Monthly CPI Indicator, %ann	2.5	2.5	2.5	Critical update on services prices.
UK	Feb CPI, %ann	3	2.9	–	Services inflation still a concern.
US	Feb Durable Goods Orders, %mth	3.2	–0.7	–	Potential slowdown looms as firms delay investment plans.
Thu 27					
Chn	Feb Industrial Profits, %yr ytd	–3.3	–	–	Lunar New Year and tariff front-loading at play.
US	Q4 GDP, %ann'd	2.3	2.4	–	Slight downward revision anticipated in final estimate.
	Feb Wholesale Inventories, %mth	0.8	–	–	Tariff front-running sees inventories surge.
	Initial Jobless Claims	223	–	–	Still low by historical standards.
	Mar Kansas City Fed, index	–5	–	–	Fragile outlook, even before tariff announcements.
Fri 28					
NZ	Mar ANZ Consumer Confidence, index	96.6	–	–	Global uncertainty and inflation dampening confidence.
	Feb Employment Indicator, %mth	0.3	–	0	Jobs are flattening out after declines in mid-2024.
Jpn	Mar Tokyo CPI, %ann	2.9	2.8	–	Authorities growing confident on sustainable inflation.
Chn	Q4 Current Account Balance, US$bn	180.7	–	–	Final estimate.
Eur	Mar Economic Confidence, index	96.3	–	–	Confidence shaky across consumer and business.
UK	Q4 GDP, %yr	1.4	–	–	Final estimate.
	Feb Retail Sales, %mth	1.7	–0.1	–	Recovery is slow but steady, cost-of-living still a concern.
US	Feb Personal Income, %mth	0.9	0.4	–	Income growth has firmed over recent months but ...
	Feb Personal Spending, %mth	–0.2	0.6	–	... it has not driven a commensurate lift in spending ...
	Feb PCE Deflator, %mth	0.3	0.3	–	... suggesting little risk to inflation, at least from this front.
	Mar Uni. Of Michigan Sentiment, index	57.9	–	–	All eyes on inflation expectations.

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