



# WEEKLY ECONOMIC COMMENTARY



25 Aug 2025 | Westpac Economics Team | [westpac.co.nz/economics](https://westpac.co.nz/economics) | [economics@westpac.co.nz](mailto:economics@westpac.co.nz)

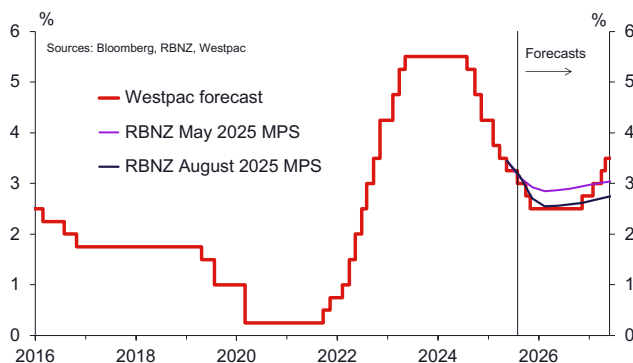
## There's more where that came from.

As we had expected, the RBNZ cut the Official Cash Rate 25bps to 3.00% at its August policy meeting. However, the MPC also made an unexpected and sizeable downward revision to its projections for the OCR over the coming year. Given the RBNZ's clear intent, we now expect two further rate cuts this year, which would take the OCR to 2.50% (previously we forecast 3% would be the low point).

### This is what it sounds like when doves fly.

As was widely expected and almost fully priced by the market, the RBNZ announced a further 25bps reduction in the OCR to 3.00% at its August policy meeting. However, in a dovish surprise to markets, two of the six committee members voted for a 50bps cut, and the projected low point for the OCR was pulled down by 30bps to 2.55% (versus 2.85% in their previous forecasts) – a larger reduction than markets had anticipated.

#### Official Cash Rate forecasts

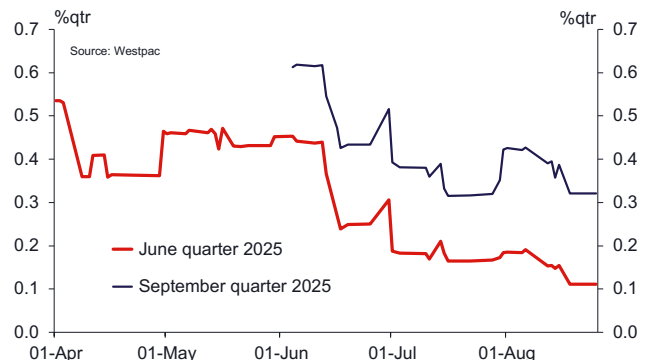


The downward revision to the RBNZ's interest rate projections came despite an upward revision to its

#### 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



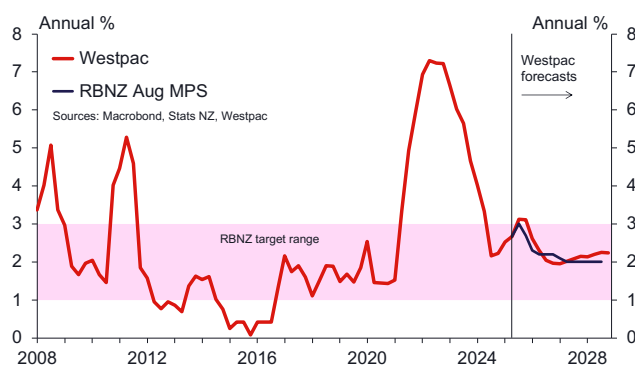
#### Key data and event outlook

Date	Event
16 Sep 25	NZ Selected price indexes, August
17 Sep 25	FOMC meeting (18 Sep NZT)
18 Sep 25	NZ GDP, June quarter
30 Sep 25	RBA Monetary Policy Decision
7 Oct 25	NZ QSBO Business Survey, September quarter
8 Oct 25	RBNZ OCR Review
16 Oct 25	NZ Selected price indexes, September
20 Oct 25	NZ CPI, September quarter
29 Oct 25	FOMC meeting (30 Oct NZT)
4 Nov 25	RBA Monetary Policy Decision

near-term inflation forecast. The RBNZ now expects that inflation will rise back up to 3% in the September quarter. And we think there is a risk it will rise even further – we’re forecasting annual inflation to rise to 3.1% for both the September and December quarters.

That rise in inflation is certainly unwelcome news for the RBNZ (and of course, households). But importantly, it is expected to be temporary. Much of the rise in inflation currently in train is a result of higher food prices. And with at least some of that related to constrained supply, inflation in some categories will likely drop back again next year.

### Inflation forecasts



Near-term increases in inflation, especially those related to temporary supply disruptions or volatile categories, aren’t the focus for monetary policy. The RBNZ can’t offset a lift in food prices that’s already occurred. Instead, they are focused on whether inflation is likely to remain contained over the longer term. And on this front, the RBNZ is balancing up several concerns.

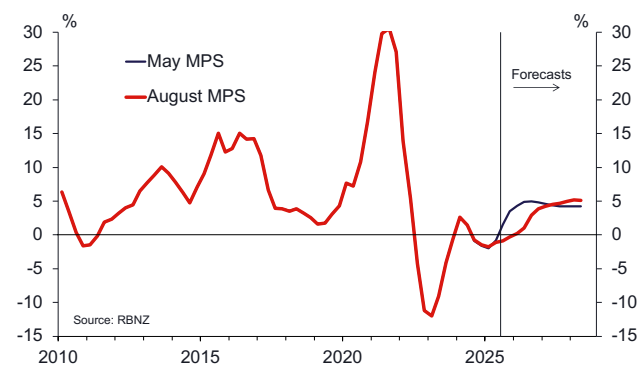
First are the risks for inflation expectations. Expectations for inflation over the coming year have been pushing higher, especially among households who have been squeezed by the rising cost of essentials. However, expectations for inflation at longer horizons have been more stable and remain contained within the 1 to 3% target range.

This gives the RBNZ some breathing room to look through the current rise in inflation and instead focus on the prospect that spare capacity in the economy might linger longer than desired, adding downside risks to medium-term inflation. That’s despite the significant easing in borrowing costs over the past year. The RBNZ is conscious that the full impact of rate cuts to date is yet to be felt, but is still concerned about the lack of momentum in some areas.

Of note, the RBNZ has recognised the recent weakness in house prices and so made a sizeable downward revision to its forecast for house price growth. The RBNZ has highlighted the importance of house prices in relation to prospects for an uplift in residential investment (the forecast for which has also been revised down).

Softness in house prices is also expected to be a drag on household spending, with New Zealanders holding a significant proportion of their wealth in housing assets. Looking at households more generally, the RBNZ also noted the weak state of the labour market and continued pressure on household finances from rises in administered prices (such as council rates and utility prices) as being further drags on spending appetites.

### RBNZ house price forecasts



A lack of momentum in the business sector was also highlighted, with subdued domestic trading conditions and uncertainty about global conditions thought to be acting as a drag on business spending.

With that softness in activity, the RBNZ’s forecasts for longer-term inflation remain benign, even with the revised projections now incorporating a move into stimulatory territory for monetary policy. This reflects a weaker starting point for the economy (the RBNZ estimates a 0.3%q/q contraction in the June quarter), which means that the negative output gap and rise in the unemployment rate are expected to be more persistent than forecast previously. The record of meeting highlighted that “non-tradables inflation excluding central and local government charges is consistent with inflation at or below the target mid-point. Some members suggested that this may represent a downside risk to medium-term inflation.”

### Updated OCR forecast – two more 25bp rate cuts this year.

Relative to the more measured approach in July when the OCR was left on hold, the August Monetary Policy Statement signalled a clear shift in strategy from the RBNZ. Concerns about a lack of momentum in domestic demand and related softness in the medium-term inflation outlook are clearly front of mind for the RBNZ.

The RBNZ’s formal projection for the low point of the OCR was lowered by 30bps to 2.55%. In a subsequent interview, the Governor described the projected path as consistent with 25bp policy easings at each of this year’s two remaining meetings (8 October and 26 November).

While this baseline forecast is conditional on incoming data meeting expectations, the RBNZ likely won't move away from this insurance strategy unless it suddenly becomes comfortable that the economy is on track to grow at rates that will eliminate the current spare capacity. And on this front, it's unlikely that the June quarter GDP report (out 18 September, ahead of the next policy meeting in October) will show signs of recovery back to trend. The more forward-looking measures contained within the September quarter QSBO business survey (released 7 October) will likely respond positively to the RBNZ's latest messaging, but this is something that the RBNZ will welcome. The August Selected Price Indexes (16 September) will provide some further indication of whether annual CPI inflation will surpass 3% in the September quarter but won't cast any light on the medium-term inflation outlook.

Against that backdrop, given the clear intent of the RBNZ, we've revised our own forecast for the OCR. We now forecast two more 25bp rate cuts at both the October and November policy meetings. That would take the OCR to 2.50%.

There are risks on both sides. On the downside, we certainly are hearing about softness in some key parts of the economy, including the retail, hospitality and construction sectors. But at the same time, we're less sanguine than the RBNZ about the longer-term inflation outlook, especially given the likelihood of continued large increases in administered costs, like rates and electricity prices (a risk that the RBNZ itself has acknowledged). However, it will take time for that longer-term outlook to play out.

Crucially, one of the big lessons of the past few years is that interest rate changes work. And with big reductions in interest rates already and more to come, the current softness in house prices is likely to give way to a stronger period over the coming year (as the RBNZ also forecasts). Fixed-term mortgage rates had already been moving down ahead of the RBNZ's policy announcement.

Given those concerns, we continue to expect that interest rates will rise from at least the end of 2026, but we will review the timing further in coming months as we get a better sense of how the economy is likely to respond to more supportive monetary policy.

## White gold.

While overall GDP growth has been subdued, the New Zealand economy has been very two-speed over the past year. Firmness in commodity export earnings has boosted incomes and demand in rural regions, with dairying regions in the south at the front of the pack. On this front, Fonterra has lifted its farmgate forecast for FY25 to \$10.15/kg. The forecast payout for FY26 has been maintained at \$10/kg. However, the range around that figure has narrowed, with the risks no longer seen as

skewed to the downside. Fonterra has also agreed to sell its consumer business to Lactalis, and has indicated that shareholders could receive a tax-free capital return of around \$2/share (probably late next year). This equates to a payout of just over \$3bn or about 0.7% of GDP. Future dividends will be slightly lower as a result of the sale, however.

## Making power while the sun shines.

New Zealand will need to dramatically upscale its electricity generation capacity in coming years, with solar set to play a starring role. Solar is clean, adaptable, and increasingly cost-effective, with falling capital costs and minimal operating expenses. It also boosts energy self-sufficiency and resilience, and offers co-investment opportunities for landowners and businesses, including Māori and Iwi.

As industry economist Paul Clark has recently highlighted, **we think the outlook for solar is promising**. MBIE projects a ten-fold increase in solar generation by 2050, making it comparable to geothermal and wind. However, challenges remain. Regulatory reform is needed to encourage investment, and solar's intermittency needs to be managed. Battery costs, though declining, still pose a barrier, and community opposition to solar farms is a concern.

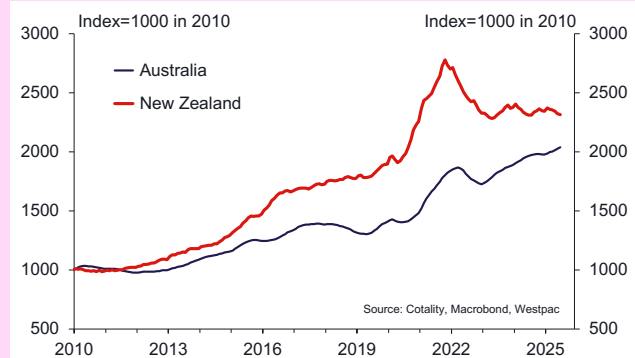
Despite these hurdles, solar power could reshape New Zealand's energy future, offering lower costs, reduced emissions, and more reliable energy.

**Satish Ranchhod**, Senior Economist

## Chart of the week.

Later this week we'll be releasing a report comparing economic conditions in New Zealand and Australia, including our housing markets. Both countries saw sharp house price increases during 2020-2021 due to low interest rates—up 40% in New Zealand and 30% in Australia. However, since then housing market trends have diverged. In New Zealand, prices fell about 17% from their peak as interest rates rose, and for the past few years prices have been tracking sideways. While lower interest rates have boosted affordability and sales, increases in the number of properties for sale have weighed on prices. We've also seen a weakening of New Zealand's labour market and slower population growth. In contrast, Australia's housing market has been more resilient, with smaller price declines in the wake of the pandemic and firmer growth over the past year, although conditions vary by state. Despite this, Australia has also experienced subdued market activity recently, with limited house price growth and turnover. Affordability remains constrained for many potential buyers.

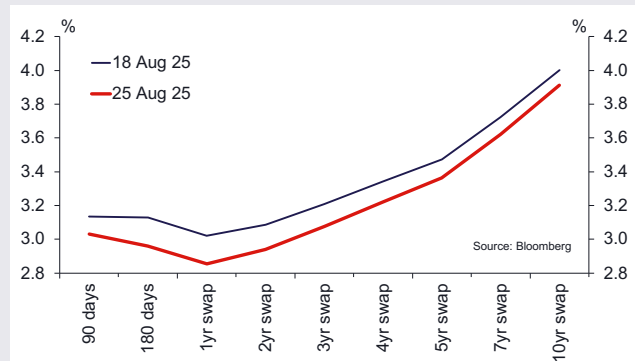
## House prices in New Zealand and Australia (nationwide averages)



## Fixed versus floating for mortgages.

The RBNZ has signalled the likelihood of further rate cuts and we're forecasting the cash rate to bottom at 2.5% later this year. Most fixed-term mortgage rates are now under 5%, reflecting the recent falls in wholesale rates. Very short-term mortgage rates may fall slightly if the RBNZ cuts the OCR again, but they remain above current longer term fixed rates. At current rates, fixing for longer periods of two to three years looks attractive.

## NZ interest rates



# Global wrap

## North America.

Speaking in Jackson Hole, Fed Chair Powell noted both near-term upside risks to inflation and downside risks to employment. However, on balance, his comments struck a dovish tone, concluding that "... the baseline outlook and the shifting balance of risks may warrant adjusting our policy stance." Minutes from the last FOMC meeting, which was prior to the weak July labour market report, had noted that "a majority of participants judged the upside risk to inflation as the greater of these two risks". The FOMC also discussed financial stability, with several participants expressing "concerns about elevated asset valuation pressures." On the data front, the flash manufacturing PMI rose to 3.5pts to 53.3 in August while the flash services PMI nudged down 0.3pts to 55.4. Weekly initial jobless claims rose 11k to 235k, while continuing claims rose 30k to 1.972m. Looking ahead, this week kicks off with news on consumer confidence, the housing market and capital goods orders. Thursday's second Q2 GDP reading should bring only modest revisions. Friday brings news on consumer spending and external trade data for July. Core PCE inflation is expected to have nudged higher to 2.9%/y/y. There are a small number of Fed speeches scattered through the week.

## Europe.

The flash euro area manufacturing PMI edged up 50.5 in August, while the flash services PMI nudged down to 50.7 (mkt 50.8, prev. 51.0). ECB President Lagarde noted that the 15% tariff on exports to the US was higher than the ECB had assumed in its June forecast and will be factored into next month's revised forecasts and policy meeting. She gave no hints on the outcome of that meeting. In the UK, CPI inflation jumped to 3.8%/y/y in July, above expectations, and core inflation also unexpectedly nudged up to 3.8%/y/y. Meanwhile, the flash UK manufacturing PMI fell to 47.3 in August while the flash services PMI improved to 53.6. This week euro area diary features a range of national business and consumer confidence reports, together with some preliminary inflation data for August.

## Asia-Pacific.

In Australia, the Westpac Consumer Sentiment Index jumped 5.7% to a three and a half year high of 98.5 in August. While the RBA's third rate cut clearly contributed, the lift in sentiment was broad-based and not just confined to mortgage holders. The focus in Australia this week will be Wednesday's July CPI report. In China, following the release of some disappointing domestic activity data for July, there will be some interest in Sunday's release of official PMI data for August.

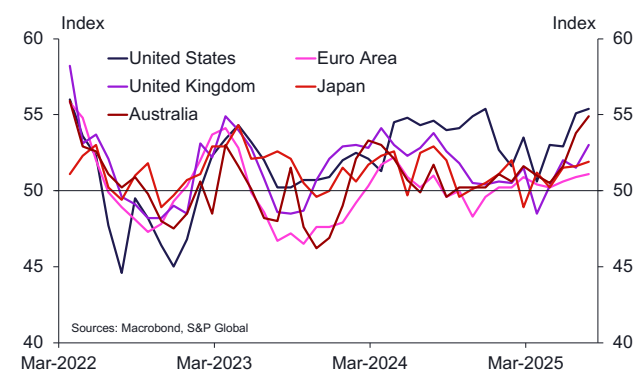
Trading partner real GDP (calendar years)

	Annual average % change			
	2023	2024	2025	2026
Australia	2.1	1.0	1.6	2.1
China	5.4	5.0	5.0	4.6
United States	2.9	2.6	1.7	1.0
Japan	1.5	0.1	0.8	0.8
East Asia ex China	3.3	4.3	3.6	3.8
India	9.2	6.5	6.3	6.4
Euro Zone	0.4	0.9	1.2	1.1
United Kingdom	0.4	1.1	1.3	1.3
NZ trading partners	3.1	2.9	2.7	2.6
World	3.5	3.3	3.1	3.0

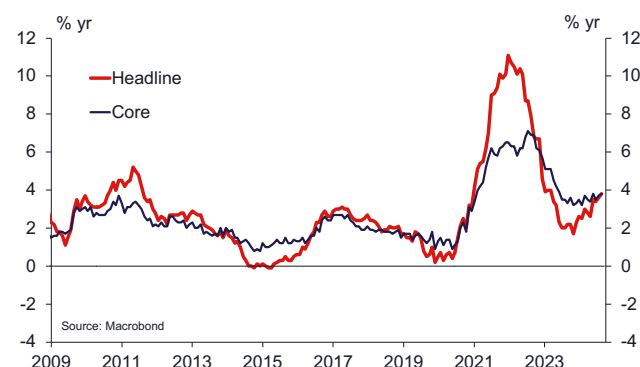
Australian & US interest rate outlook

	22 Aug	Sep-25	Dec-25	Dec-26
<b>Australia</b>				
Cash	3.60	3.60	3.35	2.85
90 Day BBSW	3.56	3.55	3.30	2.95
3 Year Swap	3.32	3.35	3.45	3.85
3 Year Bond	3.41	3.40	3.50	3.90
10 Year Bond	4.31	4.25	4.30	4.60
10 Year Spread to US (bps)	-2	-10	-10	-15
<b>US</b>				
Fed Funds	4.375	4.125	3.875	3.875
US 10 Year Bond	4.33	4.35	4.40	4.75

S&P Global composite PMI readings



UK CPI inflation





# Financial markets wrap

## Foreign exchange.

NZD/USD last week broke below its 0.5850-0.6100 range which had prevailed since April. The catalyst was the RBNZ MPS, which was more dovish than expected, pushing the pair as low as 0.5800 in the aftermath. It has since rebounded to around 0.5870, following a dovish Fed Chair speech which hurt the US dollar. The net effect of the two events leaves NZD/USD in a neutral state for the week ahead, albeit with downside risks given the magnitude of RBNZ surprise vs the Fed surprise. We target 0.5750 for the month ahead.

There are no top-tier events in NZ or the US this week, but markets will be vulnerable to surprises from NZ retail sales data (today) and the monthly business and consumer confidence surveys later in the week. In the US, there's GDP's second revision, plus PCE inflation and inflation expectations, to watch.

NZD/AUD remains in the downtrend which started in April. It captures the contrasting easing stances of the RBA and RBNZ – the former more measured, the latter more emphatic and faster. In addition, China developments have been constructive and there's more in the pipeline, with housing market stimulus expected near term. A break below 0.90 looks likely during the month ahead, with 0.89 possible.

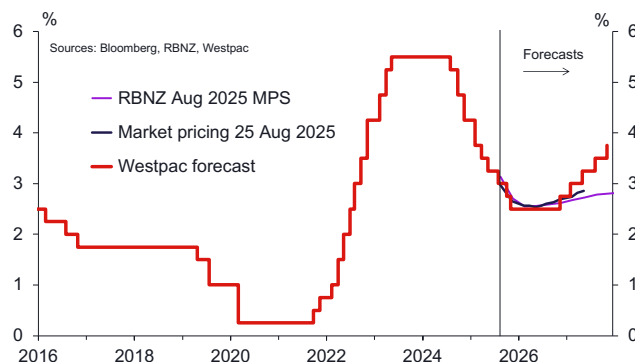
## Interest rates.

The downward trend in the NZ 2yr swap rate, which started in 2023, remains intact, this morning making a fresh cycle low of 2.90%. We expect further downside to 2.80% during the month ahead.

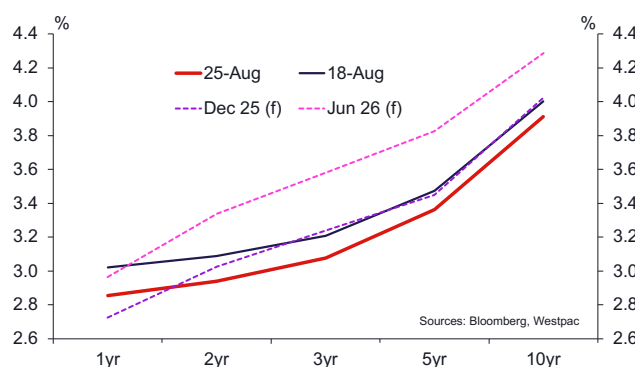
The decline accelerated last week following a dovish surprise from the RBNZ. While the 25bp cut it delivered was fully expected and priced, it surprised economists and markets by signalling another two cuts, at the next meetings in October and November, which would take the OCR to 2.50%. The RBNZ appears to have placed more weight on the subdued economy, than the expected uptick in inflation. OIS prices imply a 75% chance of a rate cut at the next meeting in October, and a similar chance at the November meeting. Thus, there is scope to more fully price these meetings, and in turn, lower swap rates slightly further.

The NZ yield curve steepened after the RBNZ surprise, almost reaching 100bp for the 2-10yr swap. It remains vulnerable to steepening slightly further, to around 105bp, if markets fully price the October and November meetings. That should then be the cycle high, and we would expect some flattening to occur by year end, in anticipation of the next RBNZ cycle which is likely to be a tightening one.

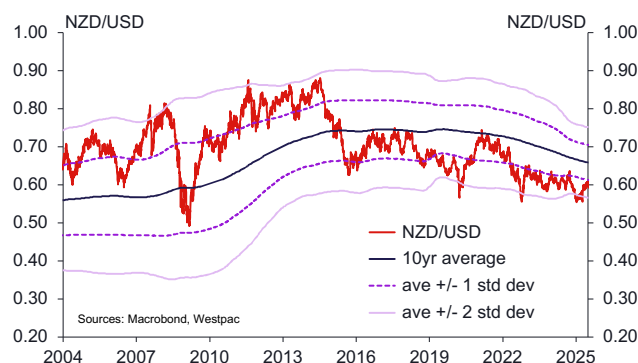
## Official Cash Rate forecasts



## 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	0.587	0.581-0.609	0.553-0.743	0.636	0.61
AUD	0.904	0.904-0.931	0.873-0.971	0.923	0.90
EUR	0.506	0.500-0.529	0.500-0.637	0.574	0.52
GBP	0.434	0.433-0.448	0.431-0.535	0.494	0.45
JPY	86.2	84.8-88.9	68.9-98.6	84.0	87.7

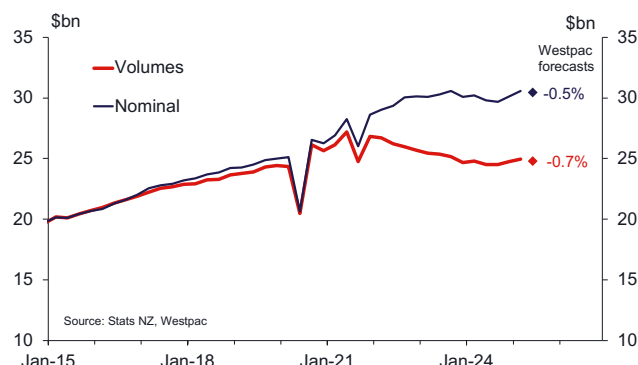
# The week ahead

## Q2 Retail Spending

**Aug 25, volumes – last: +0.8%, Westpac f/c: -0.7%**

After solid increases in the past two quarters, retail spending appears to have hit an air pocket in recent months. We're forecasting that the June quarter update will show that the volume of goods sold fell 0.7%. In part, that's due to a pullback in the lumpy vehicle spending category after its strong rise last quarter. However, spending in other discretionary categories has been soggy in recent months. Nominal spending levels have been more resilient, but much of that is due to higher prices for essentials like food. The longer-term trend in spending remains subdued for now.

**NZ retail spending volumes**

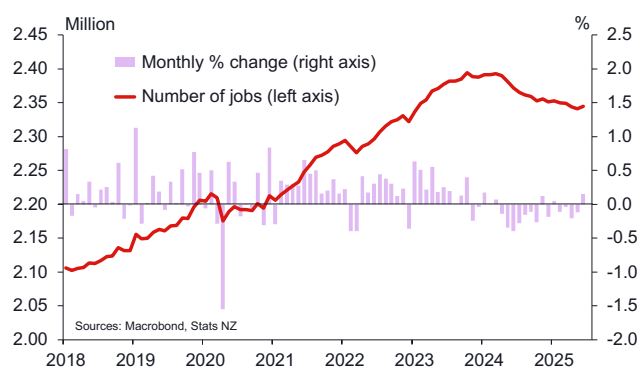


## Jul Monthly Employment Indicator

**Aug 28, Last: +0.1%, Westpac f/c: +0.2%**

The Monthly Employment Indicator (MEI) is drawn from income tax data, making it a comprehensive record of the number of people in work. However, it tends to be overstated on the first release due to incomplete information at the end of the month. We suspect the reported 0.1% rise in filled jobs for June will be revised to a small negative, continuing the soft trend of recent months. The weekly snapshots provided by Stats NZ have shown some signs of stabilisation more recently, suggesting a flat result for July in seasonally adjusted terms – though we expect the initial print to be closer to a 0.2% rise.

**Monthly Employment Indicator filled jobs**

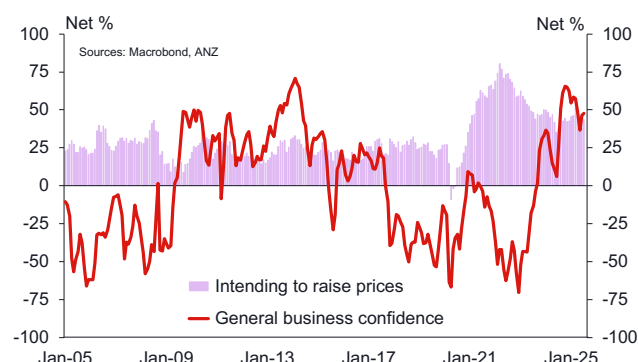


## Aug ANZ Business Confidence

**Aug 28, Last: 47.8**

Business confidence has remained high throughout this year, with a small dip after the initial shock of the “Liberation Day” tariffs which has since been partially unwound. Despite this continued optimism about the outlook, current conditions remain tough. Firms on balance are now reporting stronger activity than a year ago, but this is a low bar given the marked downturn that we saw in mid-2024. The agriculture sector has been the standout, reflecting the strong export prices for dairy and meat this year. We'll also be keeping an eye on the inflation gauges in the survey: firms continue to report significant cost pressures, and their pricing intentions remain above average.

**Business confidence and pricing intentions**

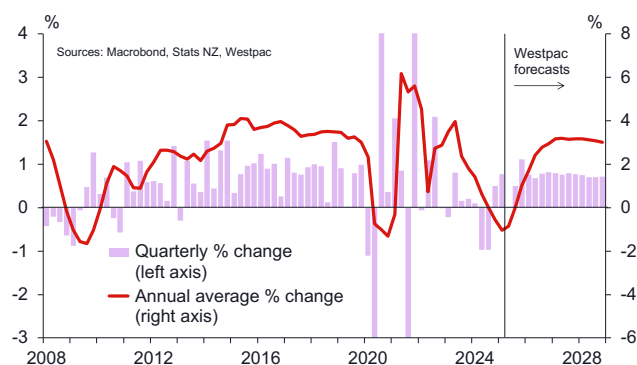


# Economic and financial forecasts

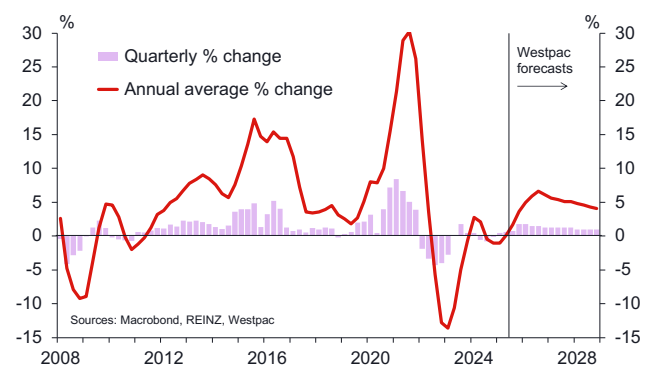
Economic indicators	Quarterly % change				Annual % change			
	Mar-25	Jun-25	Sep-25	Dec-25	2024	2025	2026	2027
GDP (production)	0.8	0.0	0.5	1.1	-1.3	2.4	3.1	3.2
Consumer price index	0.9	0.5	1.1	0.5	2.2	3.1	2.0	2.1
Employment change	0.0	-0.1	0.0	0.2	-1.2	0.2	2.5	1.9
Unemployment rate	5.1	5.2	5.3	5.3	5.1	5.3	4.6	4.2
Labour cost index (all sectors)	0.5	0.6	0.6	0.5	3.3	2.2	2.2	2.2
Current account balance (% of GDP)	-5.7	-5.1	-4.6	-4.5	-6.1	-4.5	-5.0	-4.8
Terms of trade	1.9	8.0	-0.9	-1.4	13.7	7.5	0.7	1.4
House price index	0.4	0.6	0.8	1.8	-1.1	3.6	6.1	5.1

Financial forecasts	End of quarter				End of year			
	Mar-25	Jun-25	Sep-25	Dec-25	2024	2025	2026	2027
OCR	3.75	3.25	3.00	2.50	4.25	2.50	2.75	3.75
90 day bank bill	3.86	3.38	2.80	2.60	4.45	2.60	2.95	3.85
2 year swap	3.46	3.18	2.90	3.00	3.64	3.00	3.70	4.00
5 year swap	3.71	3.56	3.30	3.45	3.73	3.45	4.15	4.25
10 year bond	4.63	4.57	4.40	4.50	4.51	4.50	4.85	4.95
TWI	67.8	69.1	69.1	69.2	69.5	69.2	69.1	68.9
NZD/USD	0.57	0.59	0.60	0.61	0.59	0.61	0.62	0.64
NZD/AUD	0.90	0.93	0.91	0.90	0.91	0.90	0.88	0.88
NZD/EUR	0.54	0.52	0.51	0.52	0.55	0.52	0.52	0.53
NZD/GBP	0.45	0.44	0.45	0.45	0.46	0.45	0.46	0.46

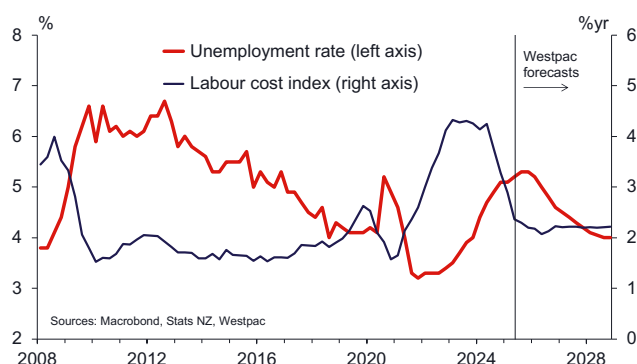
GDP growth



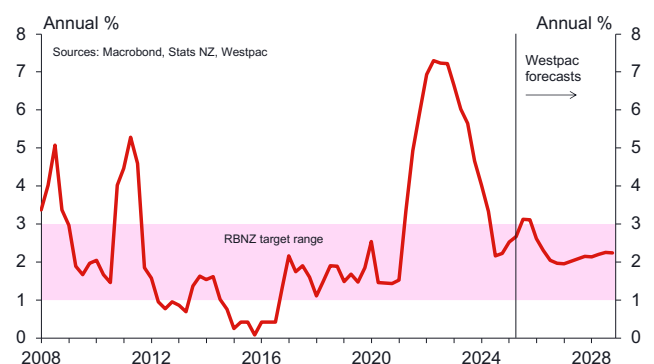
House prices



Unemployment and wage growth



Consumer price inflation





# Data calendar

		Last	Market median	Westpac forecast	Risk/Comment
<b>Mon 25</b>					
<b>NZ</b>	Q2 Real Retail Sales, %qtr	0.8	-0.3	-0.7	Softness spread across discretionary categories.
<b>Ger</b>	Aug IFO Business Climate Survey, index	88.6	88.5	-	Efforts to boost investment lifting business sentiment.
<b>US</b>	Jul Chicago Fed Activity Index, index	-0.1	-	-	Production indicators improving; labour market ones worsen.
	Jul New Home Sales, %mth	0.6	0.2	-	Rising inventories; can satisfy almost 10 months of sales.
	Aug Dallas Fed Manuf. Survey, index	0.9	-	-	Has regained three-quarters of its tariff related loss.
<b>Tue 26</b>					
<b>Aus</b>	RBA Minutes	-	-	-	Will give additional colour around Board deliberations.
<b>US</b>	Jul Durable Goods Orders, %mth	-9.4	-4.0	-	Another fall on the cards.
	Jun FHFA House Prices, %mth	-0.2	-	-	Housing affordability a key pressure on home prices...
	Jun S&P/Cs Home Price Index, %mth	-0.3	-	-	... as builders turn to aggressive markdowns to attract buyers.
	Aug Richmond Fed Manuf., index	-20	-	-	Softening activity in the region at odds with trend elsewhere.
	Aug Consumer Confidence, index	97.2	96.4	-	The improvement in consumer confidence looks to be stalling.
<b>Wed 27</b>					
<b>Aus</b>	Jul Westpac-MI Leading Index, %ann'd	0	-	-	Recovery stalled flat in H1 2025; July should be promising.
	Jul Monthly CPI Indicator, %ann	1.9	2.3	2.3	Base effects to push annual pace higher, risks skew upward.
	Q2 Construction Work Done, %qtr	0	1	0.5	Rise in approvals will drive a lift in resi construction activity.
<b>Chn</b>	Jul Industrial Profits, %ann	-4.3	-	-	Profits look to be under pressure.
<b>Thu 28</b>					
<b>NZ</b>	Jul Employment Indicator, %mth	0.1	-	0.2	Some signs of stabilising, but overstated on the first release.
	Aug ANZ Business Confidence, index	47.8	-	-	Confidence has generally remained high through tariff turmoil.
<b>Aus</b>	Q2 Private New Capital Expenditure, %qtr	-0.1	0.9	0.8	Partial monthly indicators suggest capex firmed in Q2.
<b>Eur</b>	Aug EC Consumer Confidence, index	-15.5	-	-	Final estimate.
	Aug EC Economic Confidence, index	95.8	-	-	Moving sideways for the better part of 1.5 years.
<b>US</b>	Q2 GDP, %ann'd	3	3.1	-	Second estimate.
	Wkly Initial Jobless Claims, 000s	235	-	-	Closely watched for signs of strain in the labour market.
	Jul Pending Home Sales, %mth	-0.8	0.2	-	Lead indicator of existing home sales.
	Aug Kansas City Fed Manuf., index	1	-	-	Index turns positive for the first time since late-2022.
<b>Fri 29</b>					
<b>NZ</b>	Aug ANZ Consumer Confidence, index	94.7	-	-	Rising inflation and a soft jobs market weighing on sentiment.
<b>Aus</b>	Jul Private Sector Credit, %mth	0.6	0.6	0.6	Upside risks increasing for housing credit.
<b>Jpn</b>	Jul Jobless Rate, %	2.5	2.5	-	Labour market is tight and expected to support wage gains.
	Aug Tokyo CPI, %ann	2.9	2.6	-	High rice prices another challenge for the BoJ.
	Jul Industrial Production, %mth	2.1	-1.2	-	Tariff impact starting to show with car exports to US falling.
<b>US</b>	Jul Personal Income, %mth	0.3	0.5	-	Pace of wages growth is expected to pick-up...
	Jul Personal Spending, %mth	0.3	0.5	-	... which looks to be partly supporting a lift in spending...
	Jul PCE Deflator, %mth	0.3	0.2	-	... as inflation remains at benign levels.
	Aug Chicago PMI, index	47.1	45.2	-	Activity gauge has seen large swings month-to-month.
	Aug Uni. of Michigan Sentiment, index	58.6	58.6	-	Final estimate.
	Fedspeak	-	-	-	Waller speaks on monetary policy.

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