



WEEKLY ECONOMIC COMMENTARY

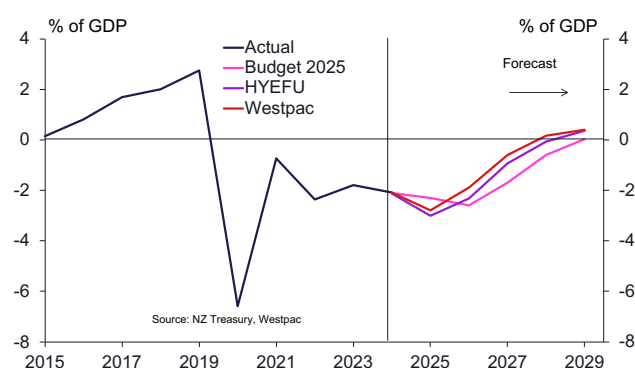


26 May 2025 | Westpac Economics Team | westpac.co.nz/economics | economics@westpac.co.nz

No surprise Budget; attention now turns to the RBNZ

The key domestic focus for local markets last week was the tabling of Budget 2025. At the macro level the Budget provided no great surprises, with the profile for the operating balance and debt about as expected given the guidance given by the Minister in pre-Budget speeches. Specifically, despite coming off a more favourable starting point than had been expected at the time of the December update, the path for the operating balance is less favourable in Budget 2025. While the Government still projects a surplus in 2028/29 on its favoured OBEGALx measure, accumulated deficits across the period are expected to be around \$7bn larger than forecast previously.

Operating balance (OBEGALx), % of GDP

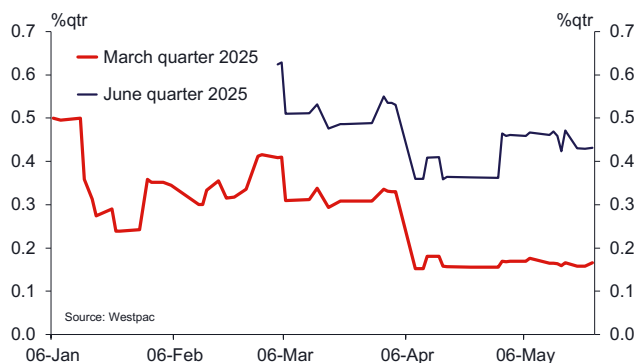


With the Government on-track to issue around \$3bn more bonds this year than forecast in December, the revisions to the outlook for the operating balance mean that the Government has raised its forecast for debt issuance over the next four years by \$4bn, matching our expectations. The increase in issuance was even more backloaded than we had expected, however, with forecast issuance in the coming two years reduced by \$2bn compared with the December update. The new profile implies that net Core Crown debt will rise to a peak

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

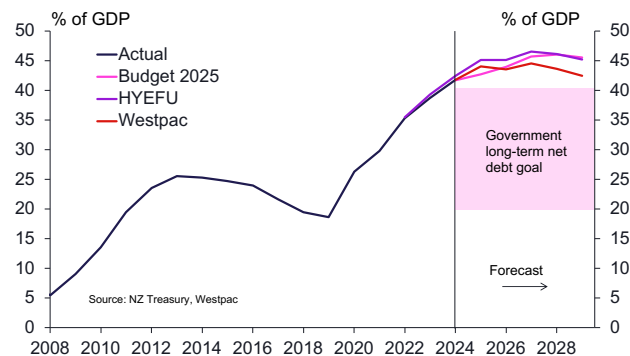


Key data and event outlook

Date	Event
28 May 25	RBNZ OCR Review & Monetary Policy Statement
5 Jun 25	Govt financial statements, 10 months to April
17 Jun 25	NZ Selected price indexes, May
18 Jun 25	FOMC Meeting (Announced 19 Jun NZT)
20 Jun 25	NZ GDP, March quarter
1 Jul 25	NZIER QSBO Business Survey, June quarter
3 Jul 25	Govt financial statements, 11 months to May
8 Jul 25	RBA Monetary Policy Decision
8 Jul 25	US 90-day tariff pause due to expire
9 Jul 25	RBNZ OCR Review
17 Jul 25	NZ Selected price indexes, June
21 Jul 25	NZ CPI, June quarter

of 46.0% of GDP in 2027/28, before declining to 45.5% of GDP in 2028/29. The Government aims to move debt back inside a 20-40% range over time, but such levels seem unlikely to be seen this decade (indeed, not even in an upside economic scenario that was contained in the Budget documentation).

Net core Crown debt, % of GDP



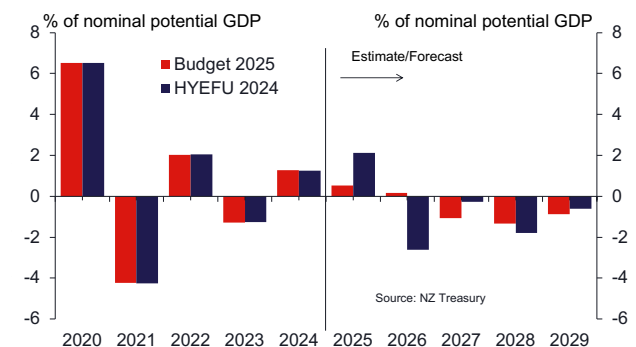
As we had expected, downward revisions to the outlook for trading partner growth have weighed on the Treasury's forecast for tax revenue. In addition, the centrepiece of the Budget 2025 announcements was an accelerated depreciation policy ("Investment Boost") to encourage the bringing forward of investment spending. This tax credit will cost the Government \$6.7bn over a four-year period. These revenue losses have been partly mitigated by the Government's decision to limit this year's operating allowance for new spending to just \$1.3bn and by substantial savings stemming from recent changes in pay equity legislation and reduced Government contributions to KiwiSaver.

On the day, the local bond market was pleased to see that the recent trend of large upward revisions to the bond programme had not continued in Budget 2025. But looking ahead, the risks around the bond programme still appear one-sided. While we view the "Investment Boost" policy positively, the Government's willingness to redeploy any savings on expenditure does suggest little appetite to pursue more aggressive fiscal consolidation. And that appetite certainly won't grow in Budget 2026, with a General Election due later in the year. There are also questions regarding whether the uncommitted capital spending allowances in Budget 2025 will be sufficient to finance the capital spending outlined in the Government's Defence Capability Plan, while also providing for other investment priorities. Finally, a change in Government at next year's General Election could lead to a change in fiscal strategy. We note that recent comments made by spokespeople have offered contradictory positions regarding the Opposition's stance on fiscal policy.

We don't think that Budget 2025 will have too many implications for the RBNZ, notwithstanding the Treasury's claim that the disinflationary impact of the Budget 2025

package would generate a 30bps decline in short-term interest rates. The Treasury's estimate of the first-round "fiscal impulse" associated with the Government's spending and revenue remains negative, although at the margin slightly less negative than forecast previously. Forthcoming changes to the KiwiSaver programme to encourage greater employee and employer contributions will probably be viewed as likely to lead to slightly slower growth in consumer spending for some people – mostly those for which KiwiSaver is their primary form of saving – while also encouraging firms to offer smaller-than-otherwise wage increases during the transition.

Fiscal Impulse



Turning to this week's RBNZ meeting, on Wednesday we expect the RBNZ to cut the OCR by 25bp to 3.25% and signal a data dependent easing bias looking ahead. We see the RBNZ's OCR profile being revised down by around 20bp to around 2.9% by the end of 2025. A broadly flat profile beyond 2025 seems likely. The very short-term assumption for Q3 2025 is likely to leave the RBNZ the option to cut the OCR in either of July or August. Arithmetically, a 3.1% OCR projection for Q3 would split the difference between the two meetings and signal the intention to assess the next move carefully with reference to emerging data and global developments.

We don't see either an unchanged OCR or a 50bp cut as likely outcomes and put around 5% probabilities on each (although there is debate among the team on whether one is slightly more likely than the other).

The RBNZ will likely emphasize the uncertainty and downside risks associated with global economic developments. We expect the RBNZ to present an alternative scenario based on an outlook where the world steps back to global tariffs closer to those presented by the US authorities on "Liberation Day" with some escalation on some bilateral tariff rates (although not to the full extent reached in the aftermath of April 8). We expect this scenario to assume at least a degree of retaliation – although not to the extremes assumed by the Reserve Bank of Australia in their Statement on Monetary Policy this week.

This downside scenario may also feature heightened uncertainty over a longer period. The implication would be downward adjustments to investment and

consumption and a higher unemployment rate. The presented scenario may not include an implied OCR profile but might focus on the implications for key variables such as GDP growth, the unemployment rate and CPI inflation. It's hard to be definitive on the size of the scenario shock, but it will likely leave the implication that in a downside scenario the OCR could move down towards 2-2.5%.

The RBNZ's commentary will likely emphasize that it is navigating difficult waters between an uncomfortably high short term inflation outlook and downside medium term growth and inflation risks. We expect them to signal

a data dependent easing bias that leaves open the option to pause in future meetings. The Summary Record of Meeting is likely to reflect a potentially vigorous debate on the weight the MPC should put on the uncomfortably high near-term inflation outlook versus hopes for lower inflation in 2026 and beyond. Some members are likely to argue for a much slower and more data dependent pace of easing going forward.

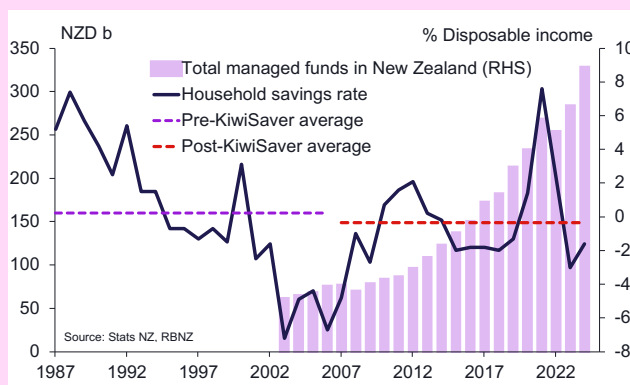
Kelly Eckhold, Chief Economist

Darren Gibbs, Senior Economist

Chart of the week.

A feature of Budget 2025 was some important changes to KiwiSaver. As was a theme through most of the Budget, trade-offs were prominent. On the one hand, the Government contribution to KiwiSaver was reduced (eliminated for those earning over \$180,000 per annum) and means tested, but on the other the minimum contribution was scheduled to increase from 3 to 3.5% in April 2026 and then from 3.5% to 4% in April 2028. Our chart of the week looks at how New Zealand's household savings rate has changed before and after the introduction of KiwiSaver in 2007. Household savings have not increased in aggregate since KiwiSaver was introduced, even though the domestic funds management industry has grown – in large part reflecting the inflow of funds from KiwiSaver. This tells us that in aggregate KiwiSaver has substituted for other forms of saving that might have otherwise occurred for the population overall. There has likely been an increase in savings for lower income groups, although these groups also may have used their KiwiSaver balances to fund house purchases. Hence it may not be the case that the increase in the minimum contribution will increase aggregate savings – although there may be benefits to the capital markets.

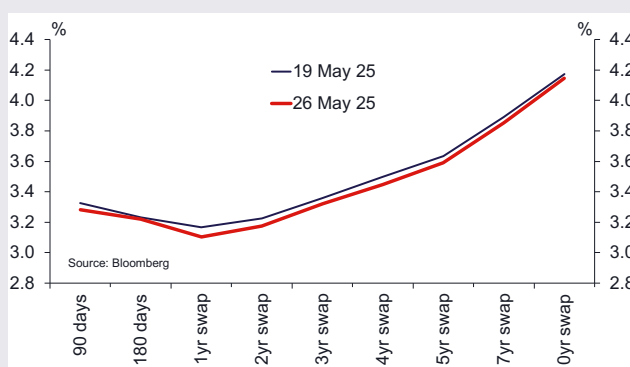
NZ household savings rate pre- and post-KiwiSaver introduction



Fixed versus floating for mortgages.

We're forecasting the cash rate to bottom at 3% in mid-2025, but with downside risks to that forecast given global events. Markets now factor in an OCR that bottoms closer to 2.75%. Mortgage rates have dropped 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 many 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.

Citing a lack of progress on trade talks, President Trump has threatened a 50% tariff on the EU from 1 June and has said he is no longer looking for a deal. While likely a negotiating tactic, Trump's comments prompted fresh market volatility late last week. On the political front, Trump's "Big, Beautiful" tax and spending bill passed in the House of Representatives by one vote, and now heads to the Senate. If approved, the bill would extend the tax cuts from his first presidency, and in doing so add and estimated US\$3.8b to federal debt levels. It was a quiet week in terms of data, with business surveys pointing to mixed conditions across the manufacturing sector. Meanwhile, Fed speakers mostly repeated that the stance of policy remains dependent on data and that it will take time for the impact of recent policy changes to become evident. Following today's Memorial Day holiday, this week's calendar includes the second estimate of Q1 GDP growth (Thursday), as well as consumer confidence, personal income/spending, and the PCE deflator (all out Friday). We'll also get the latest Fed minutes on Thursday.

Europe.

PMIs for Europe pointed to softening service sector conditions in May. While manufacturing activity has been more resilient, that may be due to US customers rushing to beat tariff increases. Across in the UK, rate cut expectations were scaled back following the stronger than expected April CPI report, with annual inflation rising to 3.5% in April.

Asia-Pacific.

As expected, last week the RBA cut its cash rate by 25bps to 3.85%. The commentary at the media conference was more dovish than previous missives, consistent with the better contained inflation outlook and downside risks for consumption. Offshore risks were also a key influence on the RBA's thinking. The Board saw scope to cut further to support the economy should that become necessary. We continue to expect the cash rate will be cut twice more this year (in August and November), taking it to 3.35% by year-end. Across in China, industrial production was better than expected in April, rising 6.1%yr over the past year. However, domestic demand has been softer, with weaker than expected retail sales (+5.1% vs +5.8% exp) and a slowdown in investment spending (including still weakening property development and house prices). With sluggish domestic demand, the PBoC cut some lending rates last week, adding to measures aiming to boost consumption spending. This week's calendar in Australia includes the CPI (Wednesday) and retail sales (Friday). China's PMIs are out on Saturday.

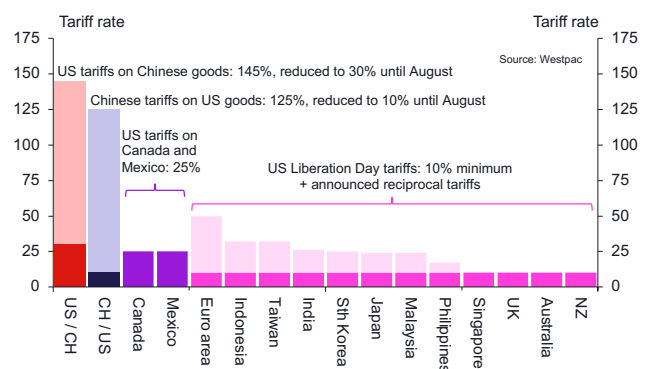
Trading partner real GDP (calendar years)

	Annual average % change			
	2023	2024	2025	2026
Australia	2.1	1.3	2.0	2.2
China	5.4	5.0	5.0	4.6
United States	2.9	2.8	0.9	0.9
Japan	1.5	0.1	1.0	0.8
East Asia ex China	3.3	4.3	3.7	3.8
India	9.2	6.5	6.2	6.2
Euro Zone	0.4	0.9	0.9	1.3
United Kingdom	0.4	1.1	1.0	1.2
NZ trading partners	3.3	3.2	3.0	3.0
World	3.5	3.3	2.9	3.0

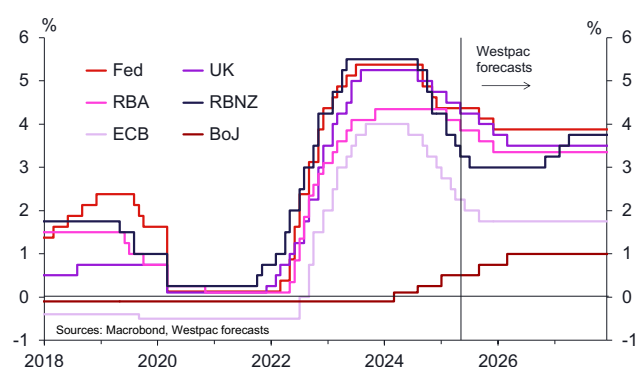
Australian & US interest rate outlook

	03-Mar-25	Mar-25	Dec-25	Dec-26
Australia				
Cash	3.85	3.85	3.35	3.35
90 Day BBSW	3.72	3.90	3.45	3.55
3 Year Swap	3.41	3.35	3.50	3.90
3 Year Bond	3.49	3.40	3.55	3.95
10 Year Bond	4.45	4.35	4.45	4.70
10 Year Spread to US (bps)	-9	5	5	0
US				
Fed Funds	4.375	4.375	3.875	3.875
US 10 Year Bond	4.53	4.30	4.40	4.70

The tariff landscape



Global central bank policy rates



Financial markets wrap

Foreign exchange.

NZD/USD has been stuck in a 0.5845-0.6030 range since mid-April, but looks poised to test the upside this week. A break would likely take it to at least 0.6100. The main driver remains the US dollar, which has recently resumed its multi-month trend decline. The US dollar has lost some of its safe-haven status since the Trump Administration unveiled its various trade and fiscal policies. Recent events which have extended this theme include the Moody's ratings downgrade, and last Friday's threatened aggressive tariffs on the EU. Also worth noting is that month-end rebalancing of FX hedges will result in moderate US dollar selling on Friday.

There's plenty of event risk this week. Aside from ongoing US policy announcements, we have the RBNZ MPS. It is widely expected to cut the OCR by 25bp to 3.25%, so any market surprise will depend on guidance, in particular the magnitude of change to the forecast of the terminal OCR. US data will also be important, with GDP revisions and the PCE deflator closely watched.

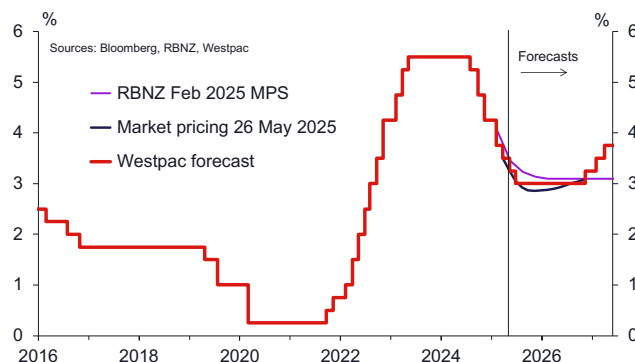
The NZD/AUD cross fell over 2c since in April and May, and is now correcting that move, targeting the 0.9250-0.9275 area this week. A slight increase in risk aversion and the RBA's dovish rate cut last week have weighed on the AUD

Interest rates.

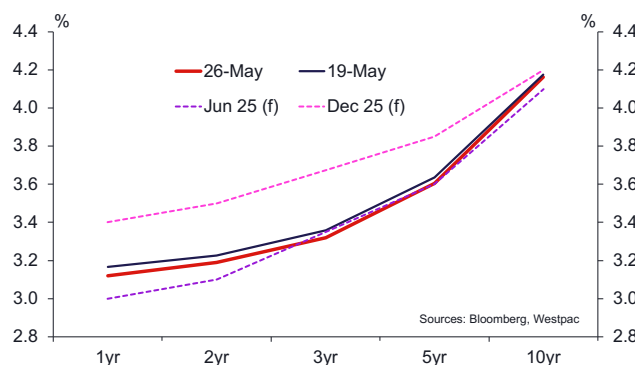
The NZ 2yr swap rate formed a tentative cycle low of 3.03% in April. Its trading range since then has been fairly narrow, caught between the forces pushing US bond yields higher and confidence in the RBNZ's projected easing cycle. That makes the RBNZ MPS on Wednesday an important event for markets. With a 25bp cut almost assured, the focus will be on the extent to which the OCR forecast changes – a lowered terminal rate, from 3.10% to 2.90%, would probably be market neutral (OIS pricing is at 2.85%).

The NZ yield curve steepened slightly in May, following the US bond market's reassessment of the safe-haven value of US Treasury bonds. While the steepness of the curve at present makes it more expensive to hedge into fixed rates, near-cycle low rates are an attractive offset.

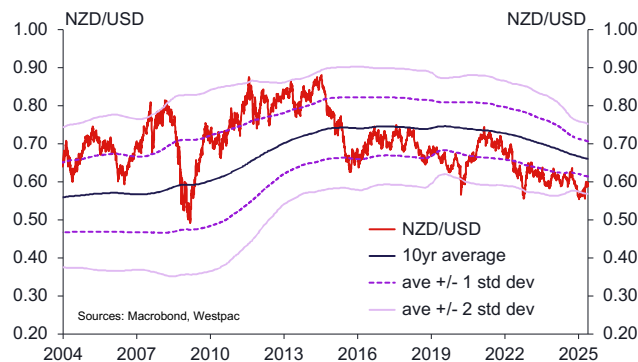
Official Cash Rate forecasts



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	0.598	0.553-0.600	0.553-0.743	0.639	0.59
AUD	0.922	0.897-0.936	0.873-0.971	0.924	0.89
EUR	0.527	0.502-0.549	0.502-0.637	0.577	0.52
GBP	0.442	0.431-0.455	0.431-0.535	0.497	0.45
JPY	85.3	80.5-87.5	63.7-98.6	83.0	83.9

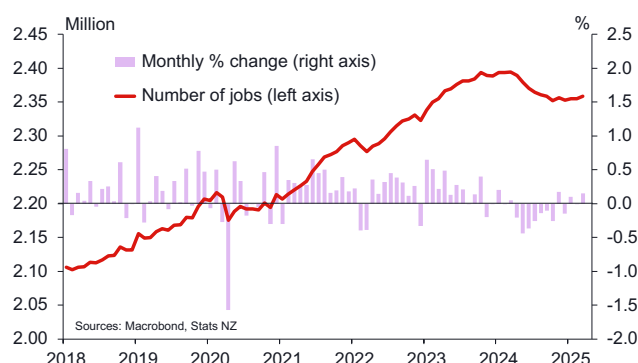
The week ahead

Apr Monthly Employment Indicator.

May 28, Last: +0.2%, Westpac f/c: -0.2%

The Monthly Employment Indicator has shown a broadly sideways trend in filled jobs in recent months, following a substantial fall through mid-2024. While there was a modest rise in March, this series tends to be overstated on its initial release; we expect it will be revised closer to flat. The weekly snapshots provided by Stats NZ have been noticeably softer for April, though it's not clear yet whether this was affected by the timing of public holidays – with Easter Monday and Anzac Day falling in the same week this year, many people took the opportunity for an extended break.

Monthly Employment Indicator filled jobs

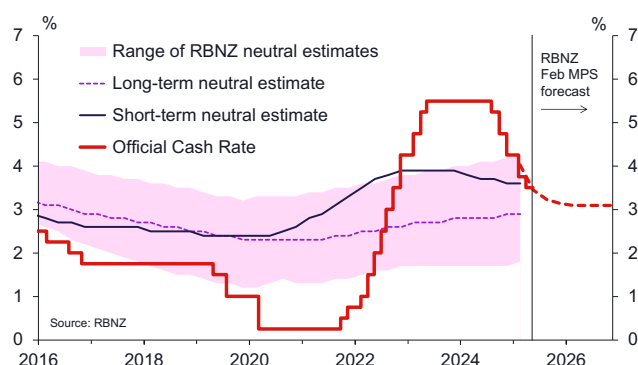


RBNZ May Monetary Policy Statement.

M28 May, Official Cash Rate - Last: 3.50%, Westpac f/c: 3.25%, Market 3.25%

We expect the RBNZ will cut the OCR by 25bp to 3.25% at the upcoming May Monetary Policy Statement. We also expect that the accompanying OCR profile will be revised down by around 20bp to around 2.9% by the end of 2025. Beyond this meeting a data dependent easing bias seems likely, and the RBNZ may be open to a pause in July depending on how conditions evolve. Consistent with that, we expect to see evidence of increased debate among MPC members, particularly in relation to the amount of weight placed on high near-term inflation and rising expectations, versus lower medium-term forecasts. Global developments will be a key area of concern, and we expect downside and upside scenarios to be canvassed.

Official Cash Rate and RBNZ estimates of neutral

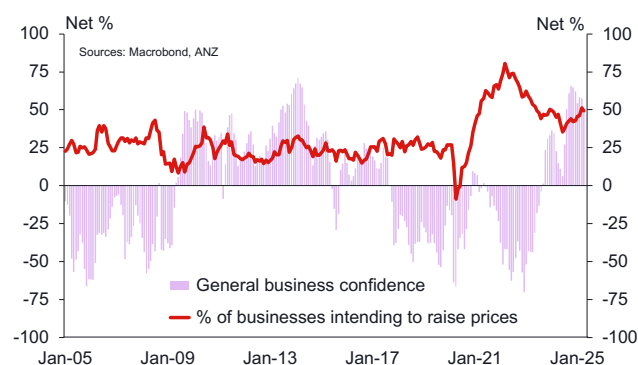


May ANZ Business Confidence.

May 29, Last: 49.3

Business confidence slipped a little in April but remained at high levels in the wake of the US “Liberation Day” tariff announcement. Responses in the second half of the month were noticeably weaker, though that was a relatively small subset and coincided with the most negative commentary and market reaction to the tariffs. The May survey will have allowed for a more considered response to events, including the pause on some tariff increases and a rebound in equity prices and market sentiment. We’ll also be watching the measures of how activity is tracking compared to a year ago, and whether firms are facing more pressure on their costs and prices.

Business confidence and pricing intentions



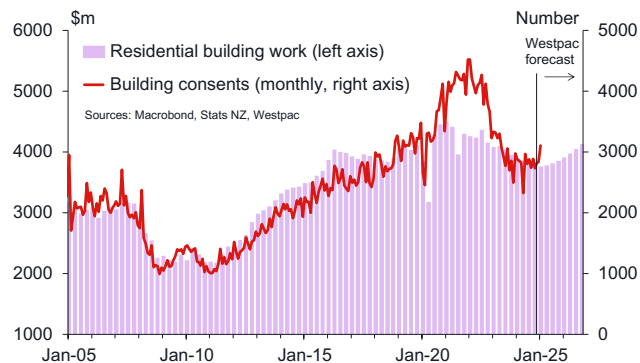
The week ahead

Apr Building Consents.

30 May, last +9.6%, Westpac f/c: -10%

We expect a 10% drop in residential building consents in April, reversing March's surge in apartment and other multi-unit numbers. Smoothing through such month-to-month volatility, the longer-term trend in consent numbers has flattened off. Annual consent issuance has been running at around 33,000 to 34,000 for close to a year now. We expect that consent issuance will remain around those levels for the next few months before beginning to turn higher through the latter part of the year as the impact of lower interest rates ripples through the housing market. Conditions in the non-residential sector remain mixed, with businesses still cautious about significant new capital expenditure for now. We've also seen a drop off in the number of Government related projects.

Residential building and consent numbers

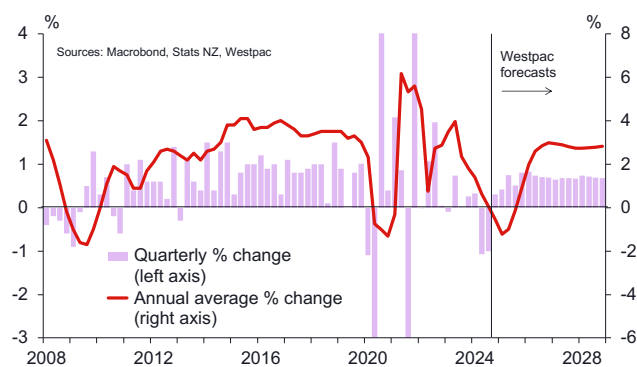


Economic and financial forecasts

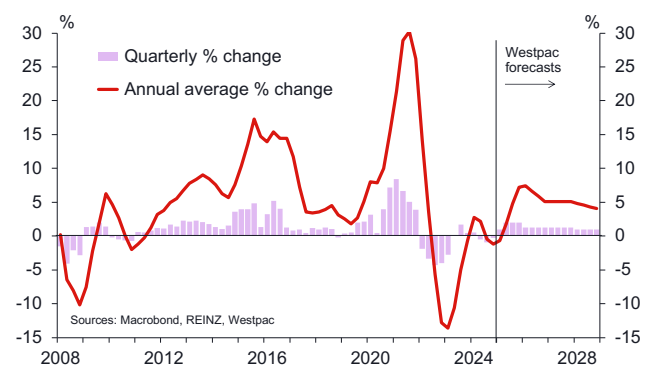
Economic indicators	Quarterly % change				Annual % change			
	Sep-24	Dec-24	Mar-25	Jun-25	2023	2024	2025	2026
GDP (production)	0.7	0.4	0.6	0.7	-0.5	1.1	3.0	2.7
Consumer price index	0.5	0.9	0.4	0.8	2.2	2.8	2.3	2.0
Employment change	-0.2	0.1	0.1	0.2	-1.2	0.8	2.3	1.9
Unemployment rate	5.1	5.1	5.3	5.3	5.1	5.2	4.4	4.0
Labour cost index (all sectors)	0.6	0.5	0.5	0.5	3.3	2.0	2.2	2.2
Current account balance (% of GDP)	-6.2	-5.5	-4.4	-3.8	-6.2	-3.3	-3.9	-3.8
Terms of trade	3.1	6.7	7.8	-1.6	13.6	12.3	0.3	1.7
House price index	-0.2	0.5	1.5	2.0	-1.1	6.2	6.1	5.1

Financial forecasts	End of quarter				End of year			
	Sep-24	Dec-24	Mar-25	Jun-25	2023	2024	2025	2026
OCR	4.25	3.75	3.25	3.00	4.25	3.00	3.25	3.75
90 day bank bill	4.45	3.86	3.15	3.10	4.45	3.10	3.45	3.85
2 year swap	3.64	3.46	3.10	3.15	3.64	3.30	3.90	4.00
5 year swap	3.73	3.71	3.50	3.60	3.73	3.70	4.20	4.25
10 year bond	4.51	4.63	4.55	4.60	4.51	4.70	4.90	4.95
TWI	69.5	67.8	68.9	68.5	69.5	68.1	68.5	69.4
NZD/USD	0.59	0.57	0.59	0.59	0.59	0.59	0.62	0.64
NZD/AUD	0.91	0.90	0.92	0.91	0.91	0.89	0.87	0.87
NZD/EUR	0.55	0.54	0.53	0.52	0.55	0.52	0.53	0.55
NZD/GBP	0.46	0.45	0.45	0.45	0.46	0.45	0.46	0.47

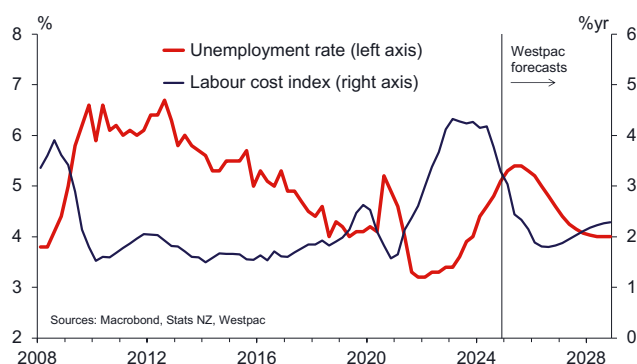
GDP growth



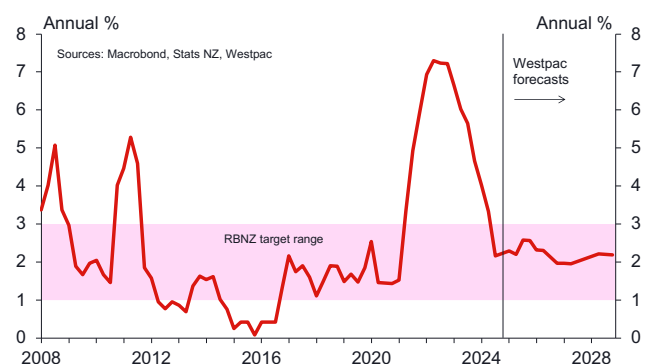
House prices



Unemployment and wage growth



Consumer price inflation



Data calendar

		Last	Market median	Westpac forecast	Risk/Comment
Mon 26					
US	- Memorial Day	-	-1	-	US Public Holiday
Tue 27					
Chn	Apr Industrial Profits, %ann	2.6	-	-	Lower production growth likely impacted profits.
Eur	May Consumer Confidence, index	-15.2	-	-	Final estimate, flash reading reported an impoverishment.
	May Economic Confidence, index	93.6	94.2	-	In contrast to May PMIs, expected to improve.
	ECB Speak	-	-	-	ECB President Christine Lagarde scheduled to speak in Berlin.
US	Fed Speak	-	-	-	Minneapolis Fed President Kashakri speaks in Japan.
	Apr Durable Goods Orders, %mth	7.5	-8.2	-	Monthly volatility driven by aircraft orders.
	May Consumer Confidence, index	86	87	-	Signs of stabilization after a sharp decline.
	Mar FHFA House Price Index, %mth	0.1	-	-	House prices maintain upward trend...
	Mar S&P/Cs Home Price Index, %mth	0.4	0.35	-	...despite high uncertainty
	May Dallas Fed Manufacturing Activity, index	-35.8	-	-	A survey of business executives in Texas area.
Wed 28					
NZ	Apr Employment indicator, %mth	0.2	-	-0.2	Public holidays may have been a drag this month.
	RBNZ Policy Decision	3.50	3.25	3.25	RBNZ set to become increasingly data-dependent.
Aus	Apr Monthly CPI, %ann	2.4	2.3	1.9	First month of the quarter focused on goods prices.
	Q1 Construction Work Done, %qtr	0.5	0.6	0.6	Strong project pipeline to feed through to activity.
US	Fed Speak	-	-	-	Regional Fed Presidents Kashakri and Williams speak in Japan.
	May Richmond Fed Manufacturing Index, index	-13	-	-	Manufacturing sentiment after the initial tariff shock.
	FOMC minutes	-	-	-	Fed releases minutes of the 7-May policy meeting.
Thu 29					
NZ	May ANZ Business Confidence, index	49.3	-	-	More time to consider the impact of US tariffs.
Aus	Q1 Private New Capital Expenditure, %qtr	-0.2	0.5	0.5	Growth to recover, but remain relatively subdued.
US	Fed Speak	-	-	-	Regional Fed Presidents Barkin, Goolsbee and Daly.
	Q1 GDP, %ann'd	-0.3	-0.3	-	Second estimate is likely to confirm GDP drop in Q1.
	Apr Pending Home Sales, %mth	6.1	-1.1	-	Reaction to higher uncertainty in April.
	Initial Jobless Claims	227	-	-	Remained stable so far.
Fri 30					
NZ	May ANZ Consumer Confidence, index	98.3	-	-	Gradually trending higher from earlier low levels.
	Apr Building Permits, %mth	9.6	-	-10.0	Pull-back after last month's surge in multi-units.
Aus	Apr Dwelling Approvals, %mth	-8.8	2.8	-1.0	Still tracking above where we expect them to land for 2025.
	Apr Retail Sales, %mth	0.3	0.3	0.1	Weather disruptions drop out; holiday volatility drops in.
	Apr Private Sector Credit, %mth	0.5	0.5	0.4	Slower housing credit growth, NFC borrowing uncertain
Jpn	Apr Jobless Rate, %	2.5	2.5	-	Labour market conditions remain little changed.
	May Tokyo CPI, %ann	3.4	3.4	-	A leading indicator for a national CPI.
	Apr Industrial Production, %mth	0.2	-1.5	-	Payback after two stronger months.
US	Apr Personal Income, %mth	0.5	0.3	-	Income growth remains relatively robust...
	Apr Personal Spending, %mth	0.7	0.2	-	...supporting consumer spending
	Apr PCE Deflator, %mth	0	0.1	-	Inflation easing towards the target...
	Apr Core PCE Deflator, %mth	0	0.1	-	...but tariffs might have impacted certain categories.
	May U of Michigan Consumer Confidence, index	50.8	50.8	-	Final estimate.
	May Chicago PMI, index	44.6	45	-	Weak sentiment to persist in May.

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