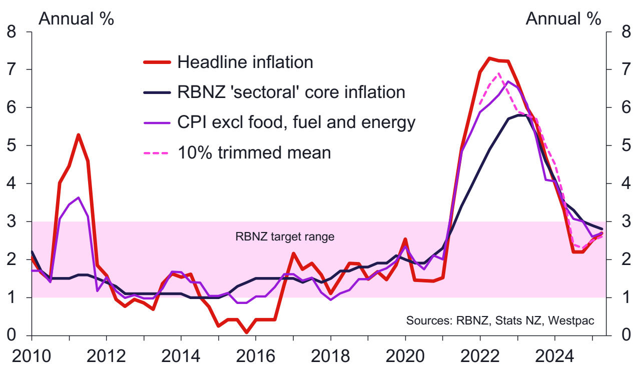
WEEKLY ECONOMIC COMMENTARY

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

Inflation's contained, but not soft.

Inflation in New Zealand is pushing higher again and will threaten the top of the RBNZ's target band before the end of the year. Much of that rise is due to increases in food prices. In contrast, core inflation is better contained, but it's not low and continues to linger above 2%. The current pickup in inflation may not itself prevent the RBNZ from cutting the Official Cash Rate again later this year. However, the RBNZ will be cautious about the extent and timing of any OCR cuts from here, with any further easing likely to be at the more modest end of market expectations.

Headline inflation up, core inflation lingering above 2%



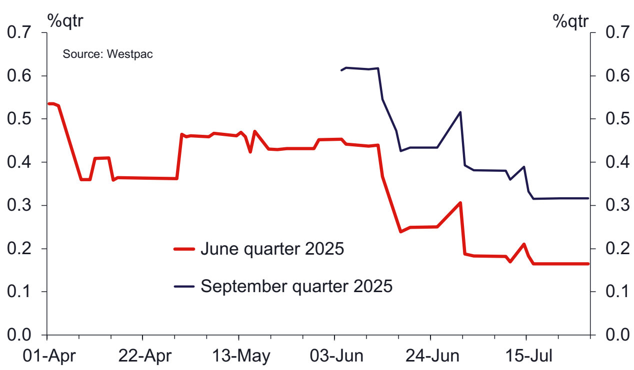
New Zealand consumer prices rose 0.5% in the June quarter. That saw annual inflation rising to 2.7%, up from 2.5% in the year to March and the highest inflation has been in a year. The June quarter result was just slightly lower than our forecast for a 0.6% rise.

Driving much of the recent upswing in inflation have been increases in food prices, as well as a large increase in household energy prices (in part due to higher lines and transmission charges). And with continued strength in

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
30 Jul 25	FOMC meeting (31 Jul NZT)
6 Aug 25	NZ Labour Market Statistics, June quarter
7 Aug 25	NZ RBNZ Survey of Expectations, June quarter
12 Aug 25	RBA Monetary Policy Decision
15 Aug 25	NZ Selected price indexes, July
20 Aug 25	RBNZ OCR Review & Monetary Policy Statement
16 Sep 25	NZ Selected price indexes, August
17 Sep 25	FOMC meeting (18 Sep NZT)
18 Sep 25	NZ GDP, June quarter
30 Sep 25	RBA Monetary Policy Decision

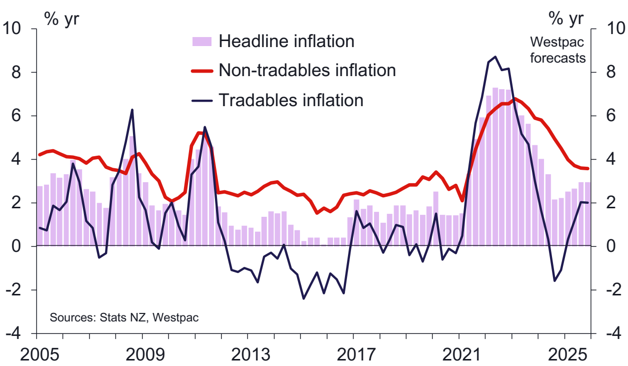
areas like food prices, we think that overall inflation will rise to around 3% through the latter part of the year.

Stepping back from the swings in the prices of volatile items like food, the underlying trend in inflation is looking 'contained' rather than 'soft'. The various measures of core inflation (which smooth through volatile quarter-to-quarter movements in prices and instead track the underlying trend in inflation) remained within the RBNZ's target band. However, the decline in core inflation seen over the past year came to a halt this quarter, with most core inflation measures lingering a bit above 2%.

Under the surface, inflation in interest rate-sensitive parts of the domestic economy has been cooling, with softness in service sector prices, as well as an easing in housing costs. Even so, overall domestic inflation (aka non-tradables) is easing only gradually, softening to a still-above-average level of 3.7% in the year to June (vs. 4.0% in the year to March). That continued firmness is largely due to increases in administered costs, like local council rates, which are set to continue rising over the coming year.

At the same time, tradables inflation (items that can be imported or exported) has picked up to 1.2% in the year to June. That's a stark change from last year when import prices had been flat or falling. The earlier weakness in tradable prices was a key driver of the downtrend in inflation last year. While we don't expect high rates of tradables inflation going forward, it won't have the same dampening impact on inflation that it previously did. That's important as it will limit the downside for overall inflation.

Inflation to push back up towards 3% later this year



RBNZ policy changes to be measured.

In a speech last week, RBNZ Chief Economist Paul Conway noted that the recent pickup in inflation was consistent with the RBNZ's expectations. As a result, the June quarter inflation report is unlikely to have changed the RBNZ's thinking relative to the cautious easing bias it signalled at its 9 July policy review, especially given the continued (albeit gradual) easing in non-tradables inflation.

We continue to expect a 25bp cut in August, which would take the OCR to 3.00%.

Beyond that, we suspect the RBNZ will be cautious about the extent and timing of any further rate cuts (we think 3.00% will be the low for this cycle). While much of the uplift in inflation now in train is due to volatile items like food prices that the RBNZ might look through, the more general downtrend in underlying inflation over the past year is also showing signs of flattening off. Indeed, measures of core inflation have been stabilising above 2%, rather than continuing to ease.

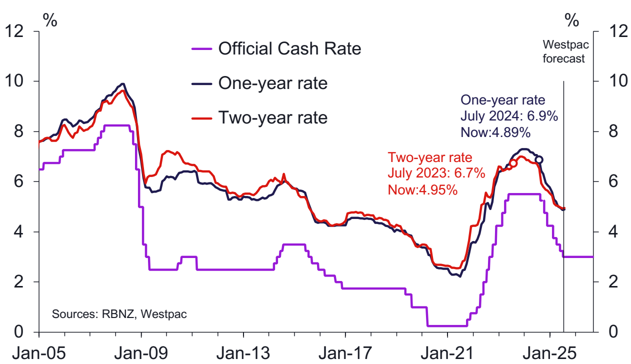
In addition, the RBNZ will be mindful that inflation is already showing signs of firming even before the full impact of the 225bp of rate cuts over the past year has been felt. Many borrowers are still on the relatively high fixed-term mortgage rates that were on offer in recent years. However, around half of all mortgages will come up for refixing over the next six months, and many borrowers could see sizeable falls in their interest costs through the latter part of the year. Compared to this time last year, the one-year fixed mortgage rate is around 200bps lower, while the two-year fixed mortgage rate is around 180bps lower than in 2023.

Such concerns won't necessarily prevent the RBNZ from cutting rates. But any further easing is likely to be gradual and at the modest end of market expectations.

The RBNZ will be watching how inflation expectations track over the coming months. If these remain contained, it will be easier to look through the pickup in inflation now in train. With that in mind, the inflation and pricing gauges in this week's ANZBO survey will be closely watched, as will the RBNZ's own inflation expectations survey (out 7 August).

Looking to the rest of the data calendar over the coming week, in addition to Wednesday's ANZBO business expectations survey, we'll also get the June labour market update on Monday, as well as consumer confidence and building consents on Friday. Offshore, we'll be watching for news about US trade negotiations, including any changes to the proposed tariff rate on New Zealand's exports. We'll also get updates on inflation in Australia, non-farm payrolls in the US, and policy decisions from the FOMC, BoC and BOJ.

Official Cash Rate and mortgage rates

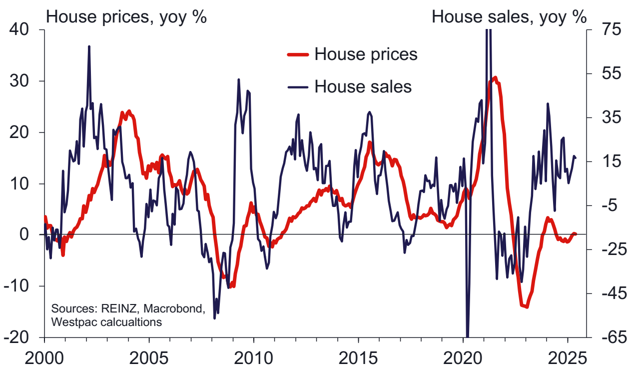


The housing market is well-balanced.

We've revised our forecasts for house price growth over 2025 to around 4% (from 6% previously). We continue to expect a return to average rates of growth next year.

The large interest rate reductions over the past year have helped to boost demand in the housing market, with sales up 17% over the past year. That includes a lift in purchases by first home buyers and other owner-occupiers, along with increased demand from investors. But despite the lift in sales, house prices increased by just 1% over the first half of 2025.

House prices vs number of sales



That subdued price growth reflects a couple of factors. On the supply side, many potential sellers sat on the sidelines in recent years, and those properties are now being brought to market. At the same time, even though construction activity has been slowing, there has still been a reasonable volume of new housing being built, especially townhouses and apartments.

Demand has improved as expected in a falling interest rate environment. However, it has been more uneven and in aggregate more muted. In part, that reflects broader softness in the economy and the labour market, which has dampened consumer confidence. Such nervousness about the economic outlook has likely been compounded by uncertainty about the global outlook given the trade war situation and Middle East tensions.

Investor demand has been a strong point, with the combination of lower interest rates and more favourable tax arrangements making rental property a more attractive investment. However, investor demand has been tempered to some degree by the downturn in population growth and related softness in rents, as well as increases in compliance and operating costs. Importantly, investors no longer expect the steady – and often large – capital gains we saw in previous years, which is an important influence on their willingness to pay.

Balancing those conditions, it's likely that price growth will remain relatively muted in the winter months – we expect only 0.75% price growth over the September quarter. Stronger trends should be evident as the peak selling season begins, with 1.75% growth forecast, in the December quarter. That would see house prices rising by around 4% over 2025 (lower than our previous forecast for a 6% increase).

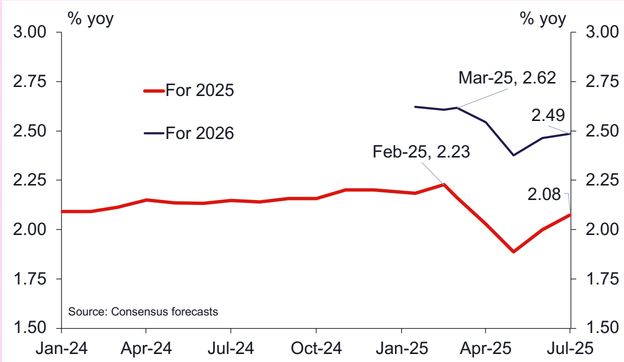
We continue to expect house price growth will pick back up to around average levels of 6% per annum next year. Interest rates are now low, with mortgage interest rates under 5% expected to underpin demand. And we still have a fair way to go before past mortgage rate reductions flow through to household budgets. An improved labour market from later this year should also lead to further growth in house sales, and that should help eat into accumulated inventory.

Satish Ranchhod, Senior Economist

Chart of the week.

Uncertainty around the global trade environment is reducing quickly. Recent weeks have seen the announcement of US trade deals with Indonesia, Japan, the euro area and the Philippines. In aggregate, the US have announced deals with around 60% of our trading partners (and many of the others are subject to standard "tariff letters" issued by the US). Tariffs are settling around a norm of 15-20% for most partners with add-ons for sectoral strategic items and countries perceived to have especially unbalanced trade relations with the US (e.g. China and Vietnam). New Zealand's announced tariff of 10% compares favourably with the global norms (though there is a risk this could rise to 15%, similar to what's occurred in other regions). As this uncertainty has reduced, and especially as the risks of damaging retaliatory actions have diminished, global growth forecasts have recovered from the nadir touched back in April. These improving trends seem likely to continue as the most recent announcements are incorporated into economists' forecasts. In aggregate, it does not seem as if global growth will be seriously undermined by the tariff war, although the impact on global inflation and the composition of trade flows is not yet clear.

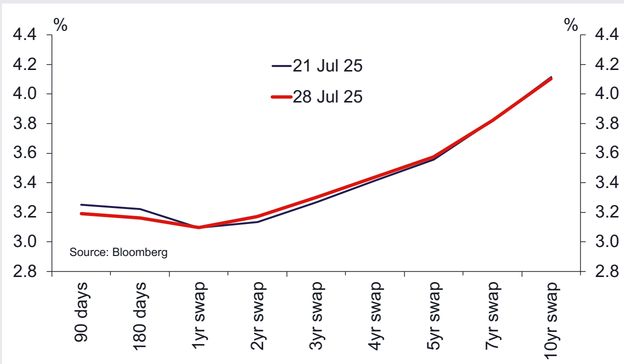
Consensus forecasts for trading partner growth



Fixed versus floating for mortgages.

We're forecasting the cash rate to bottom at 3% in mid-2025. Market pricing suggests there is some chance of a further cut after that by February 2026. Most fixed-term mortgage rates now sit just under 5%, reflecting the recent falls in wholesale rates, and even longer-term mortgage rates have fallen a touch. Mortgage rates might fall slightly further of wholesale rates remain at current levels or especially if competition increases among banks. But fixing for longer periods still looks attractive – especially now 2–3- year mortgage rates are below 5%. Very short-term mortgage rates may fall slightly if the RBNZ cuts the OCR again, but they may remain above current longer term fixed rates. Fixing shorter than a year is a bet that the OCR bottoms somewhat lower than 3%.

NZ interest rates



Global wrap

North America.

The US manufacturing PMI fell to 49.5 in July – the first sub-50 reading since December – but the services index rose to a 7-month high of 55.2. Existing home sales fell 3%m/m in June, but new home sales edged up 1%m/m following a sharp fall in May. Initial jobless claims fell to a 3-month low, but core capex orders fell in June. Looking ahead, the highlights of a very busy week will be Wednesday's FOMC meeting and Friday's non-farm payrolls report. The Fed's policy rate will very likely remain unchanged so the focus will be on prospects for policy easing at the next meeting in September. Meanwhile, the latest jobs data will also be of interest, especially after an unexpected decline in the unemployment rate in June. Friday also marks the scheduled end of the pause on the full impact of President Trump's so-called "reciprocal" tariffs. Other key diary entries this week are Tuesday's JOLTS job openings report, Wednesday's advance Q2 GDP report (growth of about 2.5%AR expected), Thursday's release of the June PCE deflator and Friday's July ISM Manufacturing survey.

Europe.

As widely expected, the ECB held its policy rate steady last week. President Lagarde indicated that policy settings were "in a good place", leaving markets with the impression that a further hold is most likely at the next meeting in September. With the US and EU reaching a trade deal over the weekend (EU exports to be subject to a 15% tariffs) a possible trade war has been diverted for now. On that data front, the flash euro area composite PMI nudged up to 51.0 in July, whereas the UK's composite PMI fell 1pt to 51.0. Over the coming week the highlights in the euro area will be Wednesday's advance euro area GDP reading for Q2 and Friday's flash CPI report for July.

Asia-Pacific.

The focus in Australia this week will be Wednesday's Q2 CPI reading. Westpac expects a 0.9%q/q lift in the headline index and a 0.7%q/q lift in the trimmed mean. Japan reached a trade deal with the US last week, agreeing to pay a 15% tariff – lower than had earlier been mooted – while granting increased market access to some US goods. This week the highlight in Japan will be Thursday's BoJ meeting. No policy change is expected so the focus will be on the updated Outlook Report and associated commentary and what that suggests about future policy settings. In China, the main point of interest will be Thursday's release of the official PMI reports for July, with the Caixin Manufacturing PMI (mainly covering private SMEs) to follow on Friday.

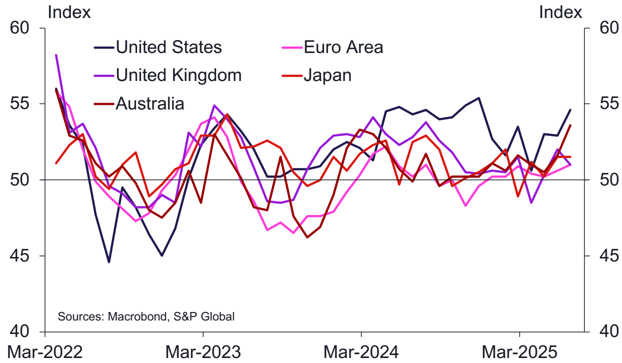
Trading partner real GDP (calendar years)

	Annual average % change			
	2023	2024	2025	2026
Australia	2.1	1.0	1.6	2.1
China	5.4	5.0	5.0	4.6
United States	2.9	2.8	1.5	0.8
Japan	1.5	0.1	0.8	0.8
East Asia ex China	3.3	4.3	3.6	3.8
India	9.2	6.5	6.3	6.4
Euro Zone	0.4	0.9	1.3	1.2
United Kingdom	0.4	1.1	1.2	1.2
NZ trading partners	3.1	2.9	2.7	2.6
World	3.5	3.3	3.0	3.0

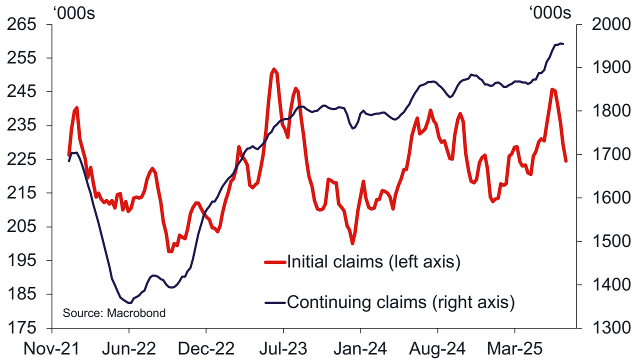
Australian & US interest rate outlook

	25 Jul	Jun-25	Dec-25	Dec-26
Australia				
Cash	3.85	3.60	3.35	2.85
90 Day BBSW	3.72	3.55	3.30	2.95
3 Year Swap	3.39	3.35	3.45	3.85
3 Year Bond	3.48	3.40	3.50	3.90
10 Year Bond	4.34	4.35	4.40	4.55
10 Year Spread to US (bps)	-5	-15	-15	-20
US				
Fed Funds	4.375	4.125	3.875	3.875
US 10 Year Bond	4.39	4.50	4.55	4.75

S&P Global composite PMI readings



US Jobless claims



Financial markets wrap

Foreign exchange.

NZD/USD stalled last week in the middle of a three-month old ascending range. It displays a glimmer of upward momentum, and has potential to retest last week's high of 0.6060 this week. Multi-week, there's potential to reach the range high at around 0.6150.

Tariff agreements will be very much at the fore this week, and are likely to result in increased volatility in currency markets. On Sunday, an agreement was reached between the US and EU, and that has caused some currencies (notably EUR and AUD) to rally slightly this morning. If the reactions continue, some spillover to the NZD is likely. Agreements with other countries are likely to be announced during the week ahead.

Also influential on NZD/USD this week will be the Fed decision (a hold is expected but guidance for September could be dovish), as well as US payrolls and PCE inflation data.

NZD/AUD spent last week consolidating in the mid-0.91s. We see risks of a decline this week, to test 0.9100, if risk sentiment becomes more positive (the AUD being the more risk-sensitive of the pair). In the wake of the US-EU tariff agreement, markets will be watching for clues regarding a US-China agreement. Also influential on the cross this week will be AU Q2 CPI data, with implications for the August RBA meeting where a cut is widely expected.

Interest rates.

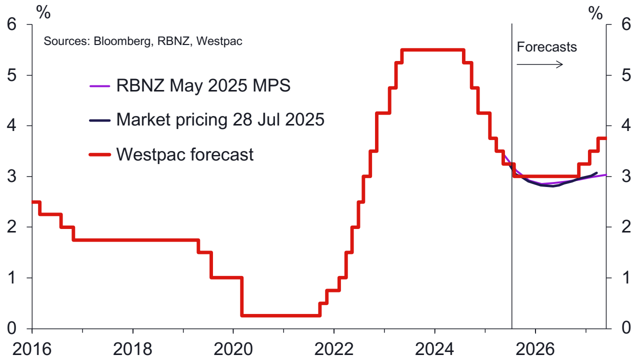
The NZ 2yr swap rate fell last week to a two-month low of 3.12% in response to slightly softer than expected NZ CPI data. However, it has rebounded to 3.19%, mostly reflecting improved global risk sentiment.

There's little in the NZ event calendar to ruffle local rates markets this week, but the US and AU events noted above will be influential.

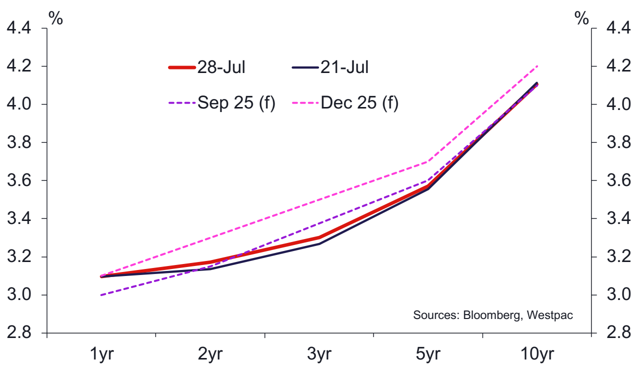
OIS prices imply an 85% chance of a rate cut at the next meeting in August, and beyond that, 80% chance of another cut by February 2026 to complete the easing cycle. Westpac's economists forecast one more cut in August.

NZ yield curve slopes have been fairly stable over the past two weeks, having steepened from mid-June, mostly due to global concerns about rising debt levels. The NZ 2-10yr swap curve, currently at 94bp, could yet steepen further to 100bp during the months ahead if those concerns intensify, but longer term, we would expect some flattening if markets become more confident that the RBNZ's easing cycle is nearing completion.

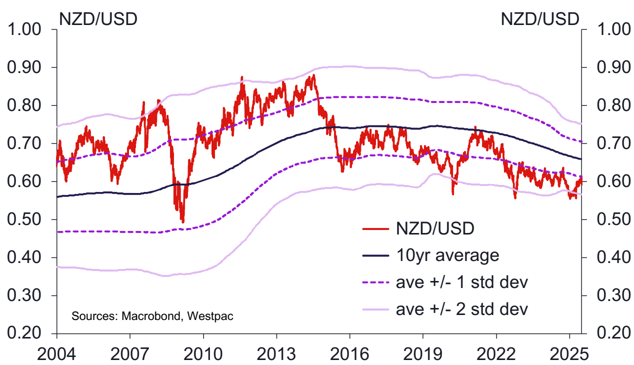
Official Cash Rate forecasts



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	0.602	0.585-0.609	0.553-0.743	0.637	0.61
AUD	0.915	0.912-0.936	0.873-0.971	0.924	0.90
EUR	0.512	0.509-0.531	0.502-0.637	0.575	0.51
GBP	0.448	0.439-0.449	0.431-0.535	0.494	0.44
JPY	88.9	84.4-88.8	68.9-98.6	83.7	85.9

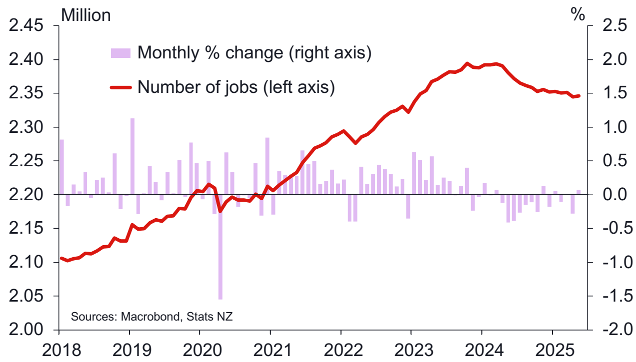
The week ahead

Jun Monthly Employment Indicator

Jul 28, Last: +0.1%, Westpac f/c: flat

The number of filled jobs rose 0.1% in May. That was a little stronger than we expected, although history suggests that this will be revised down from its initial release to become a small negative. Jobs also fell by 0.3% in April, amongst a range of indicators that pointed to renewed softness in the economy in Q2. However, the weekly snapshots provided by Stats NZ have been steadier for June. We expect a flat result for the month – though again the initial print could be higher.

Monthly Employment Indicator filled jobs

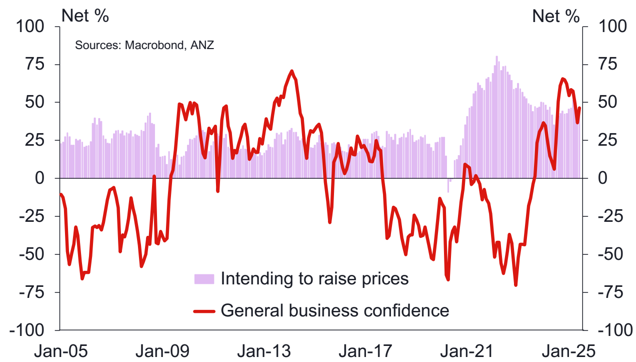


Jul ANZ Business Confidence

Jul 30, Last: 46.3

Business confidence remains high overall, though it has been thrown around by US tariff announcements – initially falling after "Liberation Day" in April, then partially recovering in May. Despite the optimism for the year ahead, firms continue to report that current conditions are tough, with activity little changed on the same time last year. We'll also be keeping an eye on the inflation gauges in the survey, where firms' pricing intentions have remained elevated despite the soft domestic economy.

Business confidence and pricing intentions

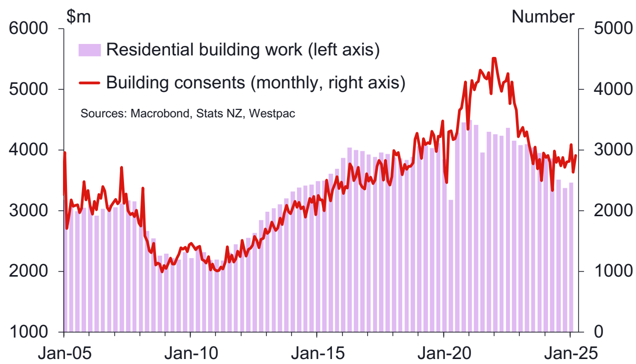


Jun Building Consents

Aug 1, Last 10.4%, Westpac f/c: -1.0%

Residential building consents rose 10% in May as earlier softness in multi-unit consents reversed. June could see a small decline in total residential consents following the large number of retirement homes consented in May (we've pencilled in a 1% overall decline). More importantly than the month-to-month volatility in consents, the annual total is expected to remain around 34,000, where it has sat for a year now. That's consistent with a stabilisation in home building activity after it trended down over the past year. On the non-residential front, softness in public sector projects is continuing, while planned private sector projects are holding up, mainly due to office and industrial projects.

Residential building and consent numbers

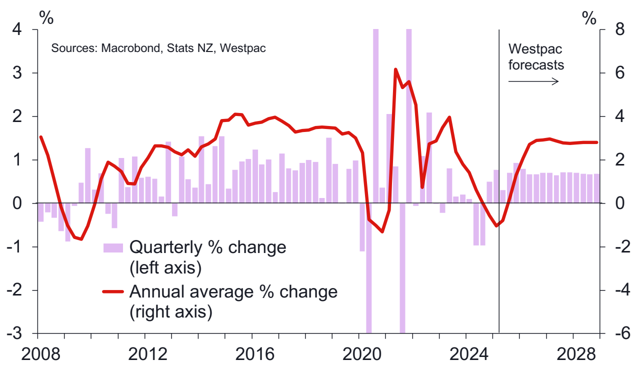


Economic and financial forecasts

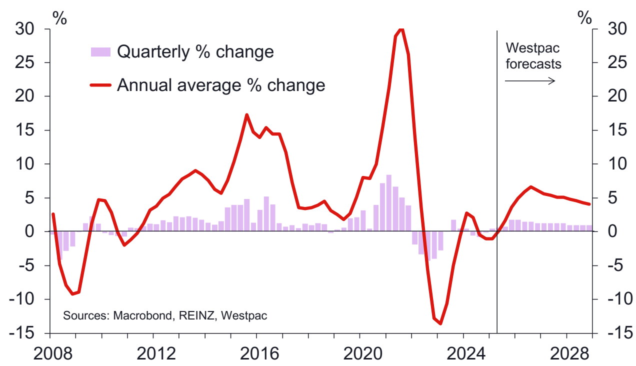
Economic indicators	Quarterly % change				Annual % change			
	Mar-25	Jun-25	Sep-25	Dec-25	2024	2025	2026	2027
GDP (production)	0.8	0.3	0.7	0.9	-1.3	2.7	2.9	2.8
Consumer price index	0.9	0.5	0.9	0.5	2.2	3.0	2.1	2.0
Employment change	0.1	-0.1	0.2	0.5	-1.2	0.7	2.3	1.9
Unemployment rate	5.1	5.3	5.3	5.2	5.1	5.2	4.4	4.1
Labour cost index (all sectors)	0.5	0.5	0.5	0.5	3.3	2.0	2.2	2.2
Current account balance (% of GDP)	-5.7	-4.4	-3.8	-3.3	-6.1	-3.3	-3.9	-3.8
Terms of trade	1.9	10.6	-0.4	-1.5	13.7	10.6	-0.9	-0.1
House price index	0.4	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	3.00	4.25	3.00	3.25	3.75
90 day bank bill	3.86	3.38	3.10	3.10	4.45	3.10	3.45	3.85
2 year swap	3.46	3.18	3.30	3.35	3.64	3.35	3.90	4.00
5 year swap	3.71	3.56	3.60	3.70	3.73	3.70	4.20	4.25
10 year bond	4.63	4.57	4.65	4.70	4.51	4.70	4.90	4.95
TWI	67.8	69.1	69.0	69.0	69.5	69.0	69.1	68.9
NZD/USD	0.57	0.59	0.60	0.61	0.59	0.61	0.62	0.64
NZD/AUD	0.90	0.93	0.91	0.90	0.91	0.90	0.88	0.88
NZD/EUR	0.54	0.52	0.51	0.51	0.55	0.51	0.52	0.53
NZD/GBP	0.45	0.44	0.44	0.44	0.46	0.44	0.46	0.46

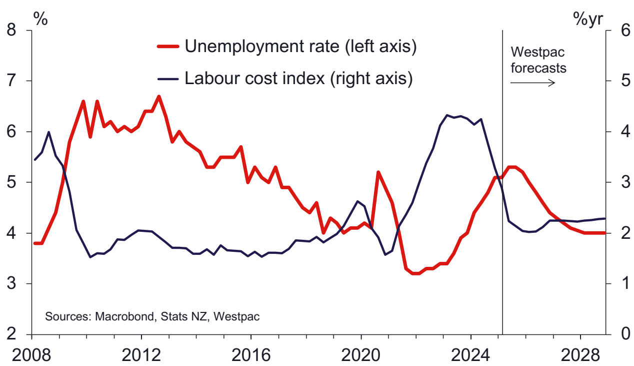
GDP growth



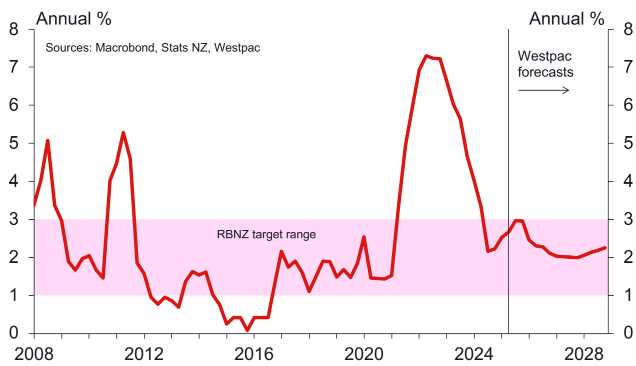
House prices



Unemployment and wage growth



Consumer price inflation



Data calendar

		Last	Market median	Westpac forecast	Risk/Comment
Mon 28					
NZ	Jun Employment Indicator, %mth	0.1	–	0.0	Jobs market remains flat.
US	Jul Dallas Fed, index	–12.7	–	–	Regional surveys very volatile, often at odds with each other.
Tue 29					
US	Jun JOLTS Job Openings, 000s	7769	7350	–	Broadly stabilising; low response rates muddy monthly reads.
	Jul CB Consumer Confidence, index	93	95.9	–	Consumers remain circumspect on economy and jobs.
Wed 30					
NZ	Jul ANZ Business Confidence, index	46.3	–	–	Confidence has generally remained high through tariff turmoil.
Aus	Jun Monthly CPI Indicator, %yr	2.1	2.1	2.3	Monthly inflation below the midpoint of the target band.
	Q2 Headline CPI, %qtr	0.9	0.8	0.9	Headline inflation to push higher as energy rebates unwind...
	Q2 Headline CPI, %yr	2.4	2.2	2.3	... with Q1 detail showing a 16.3% lift in electricity prices.
	Q2 Trimmed Mean CPI, %qtr	0.7	0.7	0.7	The trimmed mean has fallen within the RBA target band...
	Q2 Trimmed Mean CPI, %yr	2.9	2.7	2.7	... and is expected to move closer towards the midpoint.
Eur	Q2 GDP, %qtr	0.6	–0.1	–	The real test of Europe's resiliency after export-buoyed Q1.
US	Q2 GDP, %ann'd	–0.5	2.5	2.6	Risks heavily skewed to downside over near-to-medium term.
	Jul FOMC Policy Decision, %	4.375	4.375	4.375	Will remain patient as near-term inflation risks are assessed.
Can	Jul BoC Policy Decision, %	2.75	2.75	–	On hold amid intense uncertainty over tariff impacts.
Thu 31					
Aus	RBA Deputy Governor Hauser	–	–	–	Fireside chat at Barrenjoey Economic Forum.
	Jun Dwelling Approvals, %mth	3.2	1.8	3.0	Expect a clearer upturn forming for non high rise approvals.
	Jun Private Sector Credit, %mth	0.5	0.5	0.5	Maintaining a stable growth trend.
	Jun Retail Sales, %mth	0.2	0.5	1.0	Nominal sales set for one 'last hurrah'...
	Q2 Real Retail Sales, %qtr	0.0	0.1	0.0	... but volumes detail to remain sluggish.
	Q2 Trade Price Indices, %qtr	–	–	–	Bulk commodity prices have eased in AUD terms recently.
Jpn	Jun Industrial Production, %mth	–0.1	–0.8	–	Factory output sluggish while tariff uncertainty looms.
	Jun BoJ Policy Decision, %	0.5	0.5	0.5	BoJ to hold off until confident on sustained real wage gains.
Chn	Jul NBS Manufacturing PMI, index	49.7	49.6	–	Manufacturing activity broadly stable, placing emphasis on...
	Jul NBS Non-Manufacturing PMI, index	50.5	50.4	–	... the consumer spending recovery, which must be sustained.
Eur	Jun Unemployment Rate, %	6.3	6.3	–	Strong labour market remains a bright spot for Europe.
US	Jun Personal Income, %mth	–0.4	0.2	–	Despite May's drop in social security, wages remain solid...
	Jun Personal Spending, %mth	–0.1	0.4	–	... suggesting consumers are electing to pull-back spending...
	Jun PCE Deflator, %mth	0.1	0.3	–	... even with inflation back to relatively benign levels.
	Q2 Employment Cost Index, %qtr	0.9	0.8	–	Still tracking a modest downtrend from a robust pace...
	Initial Jobless Claims	–	–	–	... broadly consistent with labour market moving into balance.
Fri 1					
NZ	Jul ANZ Consumer Confidence, index	98.8	–	–	Watching for signs that the mid-year pessimism is easing.
	Jun Building Permits, %mth	10.4	–	–1.0	Annual total to remain around 34k, as it has for the past year.
Aus	Jul Cotality Home Value Index, %mth	0.6	–	0.6	Prices have shown steady gains since January.
	Q2 PPI, %qtr	0.9	–	–	Manufacturing still experiencing upstream price pressures.
Jpn	Jun Jobless Rate, %	2.5	2.5	–	Labour market conditions remain very stable in aggregate.
Chn	Jul Caixin Manufacturing PMI, index	50.4	–	–	Export-orientated survey understandably volatile of late.
Eur	Jul CPI, %ann	2.0	1.9	–	Headline inflation stabilising at target; core inflation on track.
US	Jul Nonfarm Payrolls, 000s	147	101	120	Consistent with balance between labour demand and supply...
	Jul Unemployment Rate, %	4.1	4.2	4.2	... but unemployment only steady due to falling participation.
	Jul Average Hourly Earnings, %mth	0.2	0.3	–	Wages growth remains robust for the time being.
	Jul ISM Manufacturing, index	49	49.5	–	Points to downside risks around demand and employment.
	Jul Uni. of Michigan Sentiment, index	61.8	–	–	Final estimate.
World	Jul S&P Global Manufacturing PMI, index	–	–	–	Final estimate for Japan, Europe, UK and US.

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