

28 July 2025

## Duck, dive...revive?

- Indicators partially correct May's stumble
- But sense of the recovery failing to launch remains, pushing back timing of labour market recovery
- Sluggish property market turns up in Q2 inflation figures
- Downtrend in rent inflation has further to run
- Runway to a sub-3% OCR looking clearer

Here's our take on the learnings and implications from the past few weeks' worth of econo-news.

### 1. Tariffs, but with happy markets

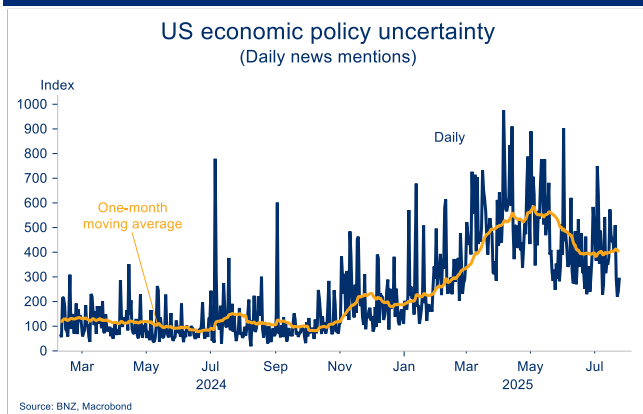
US tariffs and trade negotiations are back on the front page. That's dashed some hopes the prior 90-day tariff pause might slide into permanency. But a string of recent trade deals has helped produce a vastly different reception amongst financial market participants and forecasters this time around.

Indicators of global risk appetite remain healthy and global equity markets have blasted through record highs. That's helpful for confidence, to the extent it lasts. Alongside this and, most importantly for NZ's economic plight, the recent trend stabilisation in global growth expectations has held.

Consensus forecasts for global growth were even nudged up a touch this month, for both 2025 and 2026 (to 2.3%/y and 2.4% respectively). Continued resilience in the global economic data pulse, particularly in the US, has helped.

We won't add to speculation on whether this is all too optimistic ahead of another trade deal deadline on Friday, and the effective US tariff rate rising above 15%. Suffice to say, the dragging uncertainty associated with US trade policy, while lower than previously, looks set to stick around, a negative impost on investment particularly.

### New normal for policy uncertainty?

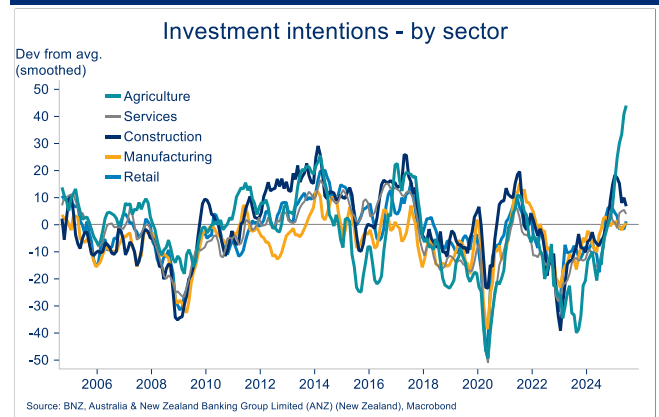


### 2. Investment appetites stirring?

Despite this uncertainty, we're encouraged by a sprinkling of indications NZ investment appetites may at least be stirring.

Surveyed investment intentions have not only established a foothold at above average levels but have pushed on further in recent months (ANZ survey, July edition out Wednesday). Admittedly, buoyant rural sector cash flows are having an outsized impact here, per the chart.

### Agriculture cash to be put to work



Boosting the odds these intentions are ultimately acted upon is anecdote suggestive of reasonable interest in the government's Investment Boost scheme. And perhaps also the lift in investment-related imports we noticed in last week's merchandise trade figures.

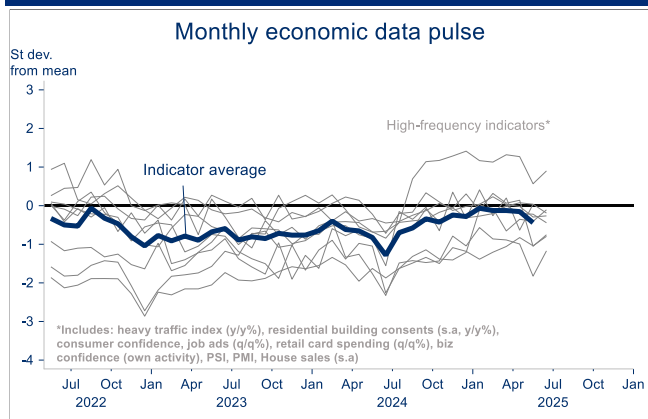
There's a heap of month-to-month volatility in these data, but in June we saw plant and machinery imports up 13%/y, imports of transport equipment rising 19%, and those for intermediate goods up 21%.

It's all partial stuff but, taken together, helps assuage some of our prior concerns sluggish business investment might be a dragging anchor for the broader recovery.

### 3. Steadying of the wobble

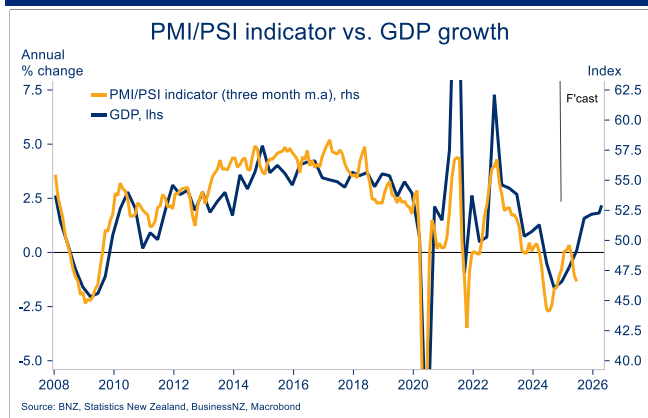
Other June economic data to hand paint a picture of a partial steadying from May's surprise and unwelcome wobble. Most 'high frequency' indicators have pulled back a bit from the brink (chart next page).

**Steadying in high frequency indicators**



The underlying sense of the recovery so far failing to launch remains though. Indicative of such, two of the better monthly indicators we watch – the Performance of Manufacturing and Performance of Services indices – continue to openly question the extent of growth uplift we’ve got on the board. And that’s even after our second quarter GDP forecast was pruned to -0.2%q/q. The Reserve Bank’s new Kiwi-GDP “nowcast” sits at -0.3%.

**Forward indicators still asking hard questions**



We still think the mid-year activity air-pocket will pass. The underlying drivers of the recovery remain in place and should reassert themselves in coming quarters.

But the recent weakness does push back the likely timing of the eventual labour market recovery. We doubt the current undershoot of firms’ labour requirements relative to worker availability will change appreciably this side of Christmas. Our forecast peak in unemployment has been shunted out to 5.4% in the final quarter of the year. Wage growth should thus continue to slow through to the middle of next year.

**4. Inflation (slightly) less threatening**

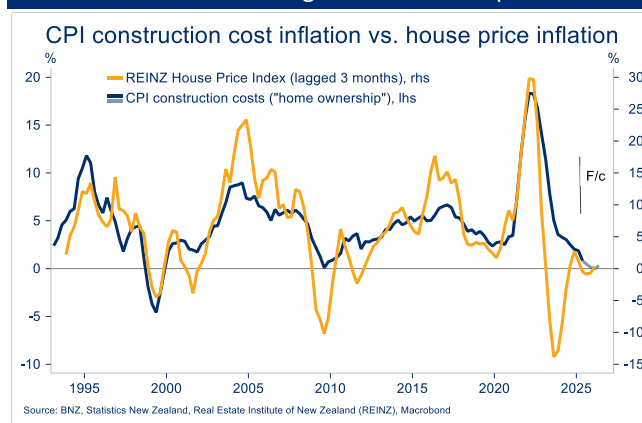
We think the supply overhang in the labour market is symptomatic of what’s going on in the broader economy. And it’s central to our expectation the current burst of inflation will peter out early next year.

Our updated forecasts have CPI inflation peaking at 2.9% y/y in the current (third) quarter (forecast table at back of document). That’s a touch lower than previously and follows the nudge up to 2.7% in Q2 revealed by Stats NZ last week. Hikes in food and energy prices are expected to feature prominently again in Q3, as well as this year’s annual rates increase. Thereafter, a brisk return to the mid-point of the Reserve Bank’s 1-3% target range is anticipated through the first half of 2026.

An eye-catching but perhaps not surprising feature amongst the detail of the June inflation numbers was the downward pressure on many of the components linked to the sluggish housing and construction markets.

Construction costs fell outright in Q2 for the first time since 2011. We’ve got additional declines pegged for the next two quarters, in part reflecting past weakness in house prices.

**Construction costs ‘catching down’ to house prices**



Annual inflation in property maintenance prices fell to 1.4%, with that for household supplies and services at 1.5%. Meanwhile, household appliances and domestic accommodation experienced annual deflation in Q2 of 0.9% and 6.3% and respectively. Notably, these CPI subgroups comprise five of the top ten most sensitive to interest rates, according to recent research by the Reserve Bank.

**5. Rent declines confirm excess supply**

Annual rent inflation was marked at a still robust 3.2%y/y in June. Rents in the CPI are measured on the stock of all rental properties. But note that rents for new tenancies – a flow measure collected by MBIE more closely aligned to market conditions – are now deflating at a (smoothed) annual rate of around 2%.

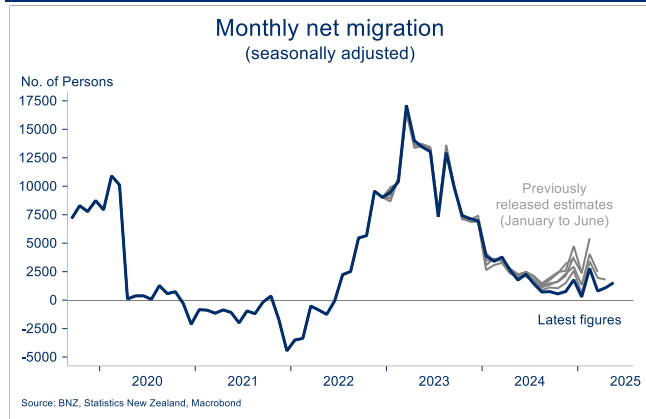
That’s around the weakest in the history of a series going back to the mid-90s. It puts the median new tenancy rent back at late 2023 levels around \$560/week.

It fits with the general state of rental market oversupply highlighted in our recent [research](#), a development noted as most obvious in Auckland and Wellington. Heightened supply, alongside the fact net migration remains, not only weak, but also subject to continued downward revisions,

points to the strong likelihood CPI rental (stock) inflation falls back towards 2% over the coming 12 months.

some gentle downward pressure, should the RBNZ resume Official Cash Rate cuts in August as we expect.

**Migration estimates subject to downward revisions**



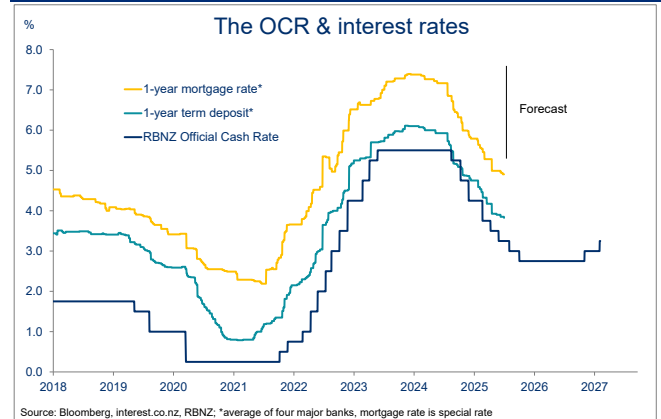
Still, one development worth highlighting is that available rental listings, according to the data we collect from Trademe, appear to have stopped rising. On our estimates, rental vacancy rates have tracked roughly sideways at 3.3% for the past two months. If sustained, this would cap a multi-year uptrend and mean rental supply capacity, while still large, is no longer expanding.

**6. Runway to a sub-3% OCR looking clearer**

It's been relatively quiet on the interest rate front recently. There's been a pause in the trend declines in most retail interest rates (chart opposite).

However, the net of recent growth and inflation goes on described above is sufficient in our view to reintroduce

**A little more 'down' to go**



A 25bps cut in August is as close to fully priced as it gets and we think the combination of sputtering demand and contained inflation supports the case for a follow up in October.

That is, there's no change to our long-held forecast for a 2.75% low in the OCR cycle. At a high level we still think the risks are falling evenly either side of this view but more recently there's probably been more of a skew to the downside.



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# Quarterly Forecasts

Forecasts as at 28 July 2025

## Key Economic Forecasts

Quarterly % change unless otherwise specified

Forecasts

	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27
GDP (production s.a.)	0.5	0.8	-0.2	0.5	0.7	0.8	0.8	0.6	0.6	0.5
Retail trade (real s.a.)	1.0	0.8	0.1	0.8	1.2	1.1	0.9	0.8	0.7	0.7
Current account (ann, % GDP)	-6.1	-5.7	-5.3	-5.1	-4.9	-4.9	-4.9	-4.9	-4.9	-4.8
CPI (q/q)	0.5	0.9	0.5	0.9	0.3	0.4	0.5	0.4	0.3	0.5
Employment	-0.2	0.1	-0.2	0.3	0.6	0.7	0.7	0.6	0.5	0.5
Unemployment rate %	5.1	5.1	5.3	5.4	5.4	5.3	5.1	5.0	4.9	4.9
Pr. avg hourly earnings (ann %)	4.0	3.8	3.5	3.0	2.3	3.0	3.1	3.2	3.4	3.3
Trading partner GDP (ann %)	3.2	3.2	3.0	2.5	2.2	2.3	2.5	2.7	2.9	2.9
CPI (y/y)	2.2	2.5	2.7	3.0	2.7	2.2	2.1	1.7	1.7	1.8
GDP (production s.a., y/y)	-1.3	-0.7	0.1	1.6	1.8	1.8	2.9	3.0	3.0	2.6

## Interest Rates

Historical data - qtr average

Forecast data - end quarter

	Cash	Government Stock			Swaps			US Rates		Spread
		90 Day	5 Year	10 Year	2 Year	5 Year	10 Year	SOFR	US 10 yr	NZ-US
		Bank Bills						3 month		Ten year
<b>2024 Mar</b>	5.50	5.66	4.44	4.68	4.92	4.40	4.45	5.30	4.15	0.53
<b>Jun</b>	5.50	5.63	4.56	4.74	5.01	4.53	4.60	5.35	4.45	0.30
<b>Sep</b>	5.33	5.30	3.96	4.31	4.05	3.80	4.05	5.05	3.95	0.37
<b>Dec</b>	4.42	4.44	4.00	4.47	3.65	3.74	4.10	4.50	4.30	0.19
<b>2025 Mar</b>	3.92	3.84	3.99	4.58	3.47	3.71	4.15	4.30	4.45	0.13
<b>Jun</b>	3.33	3.38	3.85	4.55	3.19	3.57	4.10	4.30	4.35	0.19
<b>Forecasts</b>										
<b>Sep</b>	3.00	2.90	3.65	4.50	3.00	3.40	4.10	4.10	4.30	0.20
<b>Dec</b>	2.75	2.90	3.65	4.50	3.05	3.45	4.15	3.70	4.25	0.25
<b>2026 Mar</b>	2.75	2.90	3.75	4.40	3.30	3.55	4.05	3.60	4.10	0.30
<b>Jun</b>	2.75	2.90	3.90	4.40	3.55	3.75	4.10	3.45	4.00	0.35
<b>Sep</b>	2.75	3.05	4.00	4.40	3.85	3.95	4.20	3.20	4.00	0.40
<b>Dec</b>	3.00	3.40	4.10	4.45	4.00	4.10	4.30	3.10	4.00	0.45

## Exchange Rates (End Period)

### USD Forecasts

	NZD/USD	AUD/USD	EUR/USD	GBP/USD	USD/JPY
Current	0.60	0.66	1.18	1.34	148
<b>Sep-25</b>	0.63	0.68	1.24	1.43	130
<b>Dec-25</b>	0.65	0.70	1.23	1.41	125
<b>Mar-26</b>	0.67	0.72	1.25	1.44	120
<b>Jun-26</b>	0.68	0.73	1.26	1.45	119
<b>Sep-26</b>	0.68	0.73	1.27	1.46	118
<b>Dec-26</b>	0.68	0.73	1.28	1.47	117
<b>Mar-27</b>	0.69	0.74	1.26	1.45	116
<b>Jun-27</b>	0.70	0.75	1.25	1.44	115

### NZD Forecasts

	NZD/USD	NZD/AUD	NZD/EUR	NZD/GBP	NZD/JPY	TWI-17
Current	0.60	0.92	0.51	0.45	89.0	69.3
<b>Sep-25</b>	0.63	0.93	0.51	0.44	81.9	71.0
<b>Dec-25</b>	0.65	0.93	0.53	0.46	81.3	72.3
<b>Mar-26</b>	0.67	0.93	0.54	0.47	80.4	73.4
<b>Jun-26</b>	0.68	0.93	0.54	0.47	80.9	73.9
<b>Sep-26</b>	0.68	0.93	0.54	0.47	80.2	73.7
<b>Dec-26</b>	0.68	0.93	0.53	0.46	79.6	73.6
<b>Mar-27</b>	0.69	0.93	0.55	0.48	80.0	74.5
<b>Jun-27</b>	0.70	0.93	0.56	0.49	80.5	75.3

### TWI Weights

15.6% 18.4% 9.2% 3.9% 5.5%

Source for all tables: Stats NZ, Bloomberg, Reuters, RBNZ, BNZ

# Annual Forecasts

Forecasts as at 28 July 2025	March Years					December Years				
	Actuals			Forecasts		Actuals		Forecasts		
	2023	2024	2025	2026	2027	2023	2024	2025	2026	2027
<b>GDP - annual average % change</b>										
Private Consumption	3.4	1.0	0.2	2.2	2.8	1.0	0.0	1.9	2.8	2.4
Government Consumption	2.7	2.0	-0.7	-0.5	-0.1	0.8	-0.1	0.0	-0.6	0.4
Total Investment	3.3	-1.1	-5.3	0.4	6.5	-0.1	-5.1	-1.6	6.2	4.1
Stocks - pts cont'n to growth	0.3	-1.5	0.2	0.6	0.1	-1.4	0.2	0.3	0.3	0.0
GNE	3.7	-0.9	-1.0	1.6	3.2	-0.7	-1.1	0.8	3.2	2.4
Exports	5.6	8.6	2.7	1.1	3.9	11.4	4.1	1.5	3.3	3.8
Imports	4.5	-1.3	1.7	3.0	4.8	-0.5	1.9	2.0	4.9	3.4
Real Expenditure GDP	3.9	1.5	-0.9	1.5	2.9	2.0	-0.5	1.0	2.7	2.4
<b>GDP (production)</b>	<b>3.5</b>	<b>1.4</b>	<b>-1.1</b>	<b>1.3</b>	<b>2.9</b>	<b>1.8</b>	<b>-0.6</b>	<b>0.7</b>	<b>2.7</b>	<b>2.4</b>
<i>GDP - annual % change (q/q)</i>	3.0	1.3	-0.7	1.8	2.6	1.0	-1.3	1.8	3.0	2.3
Output Gap (ann avg, % dev)	2.0	1.0	-1.0	-1.4	-0.5	1.2	-0.5	-1.4	-0.6	-0.3
Nominal Expenditure GDP - \$bn	394	418	431	456	479	413	427	450	474	495
<b>Prices and Employment - annual % change</b>										
CPI	6.7	4.0	2.5	2.2	1.8	4.7	2.2	2.7	1.7	2.1
Employment	2.9	0.9	-0.7	1.4	2.3	2.7	-1.2	0.8	2.5	1.9
Unemployment Rate %	3.5	4.4	5.1	5.3	4.9	4.0	5.1	5.4	4.9	4.8
Wages - ave. hr. ord. time earnings (private sector)	8.2	4.8	3.8	3.0	3.3	6.6	4.0	2.3	3.4	3.2
Productivity (ann av %)	1.4	-1.0	-0.2	1.3	0.4	-1.1	-0.2	1.3	0.4	0.3
Unit Labour Costs (ann av %)	5.5	7.0	4.7	2.3	2.9	7.5	5.0	2.7	2.8	2.9
House Prices (stratified, mth)	-12.8	2.8	-0.6	3.7	5.7	0.6	-0.9	3.2	5.0	5.4
<b>External Balance</b>										
Current Account - \$bn	-33.8	-27.6	-24.7	-22.1	-22.9	-28.6	-26.2	-22.1	-23.2	-22.2
Current Account - % of GDP	-8.6	-6.6	-5.7	-4.9	-4.8	-6.9	-6.1	-4.9	-4.9	-4.5
<b>Government Accounts - June Yr, % of GDP</b>										
OBEGAL ex ACC (core op. balance) (Treasury forecasts)	-7.2	-8.8	-2.3	-2.6	-1.7					
Net Core Crown Debt (ex NZS) (Treasury forecasts)	38.7	41.7	42.7	43.9	45.7					
Bond Programme - \$bn (Treasury forecasts)	28.0	39.3	43.0	38.0	36.0					
Bond Programme - % of GDP	7.1	9.4	10.0	8.3	7.5					
<b>Financial Variables <sup>(1)</sup></b>										
NZD/USD	0.62	0.61	0.57	0.67	0.69	0.62	0.57	0.65	0.68	0.69
USD/JPY	134	150	149	120	116	144	154	125	117	116
EUR/USD	1.07	1.09	1.08	1.25	1.26	1.09	1.05	1.23	1.28	1.23
NZD/AUD	0.93	0.93	0.91	0.93	0.93	0.93	0.91	0.93	0.93	0.93
NZD/GBP	0.51	0.48	0.44	0.47	0.48	0.49	0.45	0.46	0.46	0.49
NZD/EUR	0.58	0.56	0.53	0.54	0.55	0.57	0.55	0.53	0.53	0.56
NZD/YEN	83.0	91.1	85.4	80.4	80.0	89.5	88.4	81.3	79.6	80.0
TWI	71.0	71.2	67.9	73.4	74.5	72.0	68.5	72.3	73.6	74.7
Overnight Cash Rate (end qtr)	4.75	5.50	3.75	2.75	3.25	5.50	4.25	2.75	3.00	4.00
90-day Bank Bill Rate	5.16	5.64	3.60	2.90	3.90	5.63	4.26	2.90	3.40	4.15
5-year Govt Bond	4.40	4.60	4.00	3.75	4.10	4.50	3.90	3.65	4.10	4.05
10-year Govt Bond	4.35	4.60	4.50	4.40	4.50	4.65	4.45	4.50	4.45	4.60
2-year Swap	5.15	4.91	3.35	3.30	4.00	4.93	3.53	3.05	4.00	4.00
5-year Swap	4.50	4.40	3.65	3.55	4.15	4.43	3.63	3.45	4.10	4.20
US 10-year Bonds	3.65	4.20	4.25	4.10	4.00	4.00	4.40	4.25	4.00	4.00
NZ-US 10-year Spread	0.70	0.40	0.25	0.30	0.50	0.65	0.05	0.25	0.45	0.60

<sup>(1)</sup> Average for the last month in the quarter

Source: Statistics NZ, BNZ, RBNZ, NZ Treasury