

# New Zealand At A Glance

24 June 2025

## Overview

In theory the New Zealand economy should be on a sustainable upward path. But a weak starting point coupled with massive geopolitical uncertainty and a modicum of domestic political concerns is adversely impacting investment and hiring activity. In this environment the labour market will remain relatively weak for some time. We still think the positives will eventually outweigh the negatives but believe another nudge lower in interest rates would be beneficial even if short-term inflationary pressures look problematic. Even with lower rates it appears that medium-term inflation will be contained.

## International

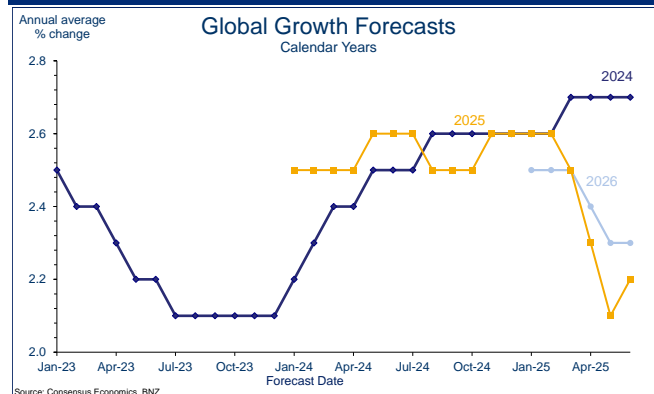
Expectations for 2025 and 2026 global growth have been slashed since the beginning of the year. This is primarily a reflection of the negative sentiment post the US “Liberation Day” tariff announcements. More recently, worst fears on this front seem to have moderated but now there’s a war in the Middle East to contend with. New Zealand is a small open economy so is vulnerable to global economic shifts. So far it seems to have negotiated the turmoil as well as can be expected but the risk of ongoing external ructions derailing the economy remains extremely elevated.

## Growth

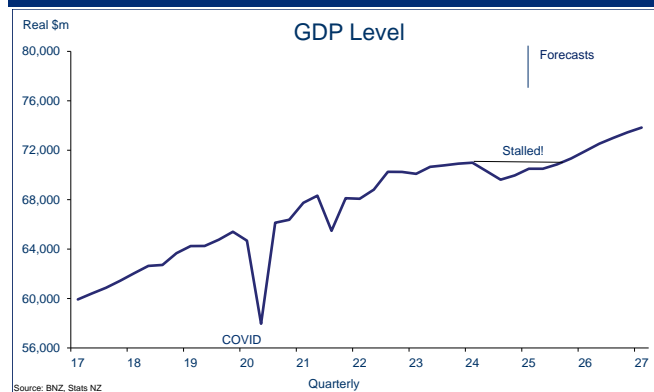
There had been high hopes the combination of rapidly easing monetary policy and a soaring terms of trade would see the New Zealand economy pick up a head of steam by the middle of this year. These factors are certainly providing strong tailwinds for the economy and will be further bolstered by recent government investment tax changes. However, uncertainty reigns. This is resulting in deferred investment activity, ongoing weakness in the labour market and an increased desire to pay down debt rather than increase expenditure. We still believe the economy will continue to expand but the pace of growth is likely to be slower than previously anticipated.

Key Indicators	December Years					
	2022	Actual 2023	2024	2025	2026	2027
GDP production (an avg %)	2.9	1.8	-0.6	0.8	2.7	2.4
Consumers Price Index (ann %)	7.2	4.7	2.2	3.0	1.7	2.0
Unemployment Rate (end qtr %)	3.4	4.0	5.1	5.3	4.9	4.9
Current Account (% of GDP)	-9.2	-6.9	-6.1	-4.4	-4.5	-4.4
Fiscal Balance (% GDP June Yr)	-2.4	-1.8	-2.1	-2.3	-2.6	-1.7
NZD/USD (Dec mth avg)	0.63	0.62	0.57	0.65	0.68	0.69
Overnight Cash Rate (Dec mth end %)	4.25	5.50	4.25	2.75	3.25	4.00
10 Year Govt Bond (Dec mth avg %)	4.20	4.70	4.40	4.50	4.50	4.60

## Downward revisions



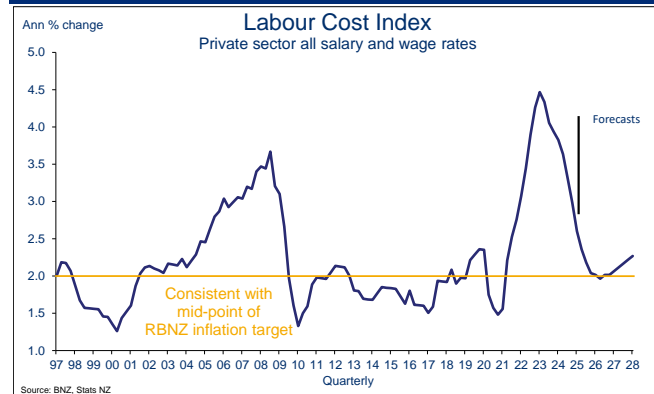
## A brighter future?



## Labour Market

The labour market continues to weaken. We would not expect any improvement in conditions until well into next year. The unemployment rate is expected to peak at 5.3% in H2 2025 but it could well have been much higher had it not been for the current weakness in net migration inflows. With the labour market as soft as it is, annual wage growth continues to fall helping to alleviate business cost pressures. Ironically, however, New Zealand still faces skill shortages in some key areas which could yet slow the recovery particularly in the infrastructure sector.

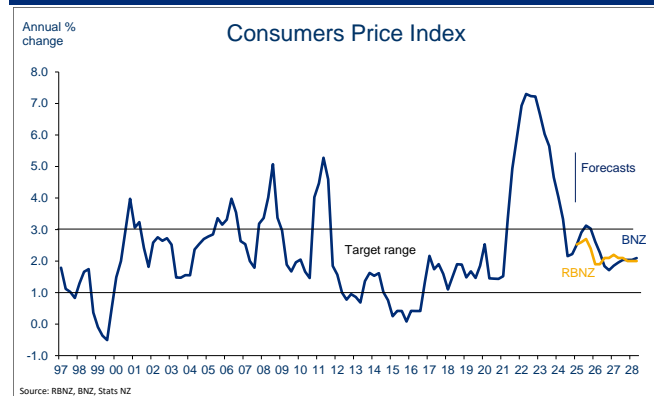
### Wage pressures diminishing



## Inflation

Consumer price inflation is relatively well behaved. However, short term pressure from rising electricity and fuel costs, and commodity driven food price inflation, is likely to see annual CPI inflation creep outside the Reserve Bank's 1 to 3% target range in the September quarter this year. We expect inflation to then diminish aided and abetted by continued spare capacity in the economy, relatively weak wage growth and an expected stalling in commodity price growth. Indeed, we expect inflation to be below the mid-point of the target band in H2 2026.

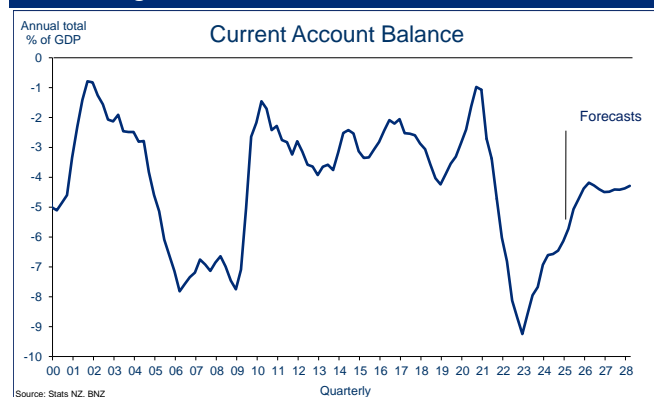
### Inflation blip



## External Accounts

New Zealand's annual current account deficit continues to shrink as a percentage of GDP. By March 2025 it had narrowed to 5.7%, miles below the 9.2% peak recorded in the year ended December 2022. In theory such progress should be music to the ears of the rating agencies, but they seem far from impressed. The concern is that with commodity prices at record highs, the terms of trade similarly strong, and weak domestic activity levels diminishing the demand for imports, there shouldn't be a deficit at all. They may well have a point.

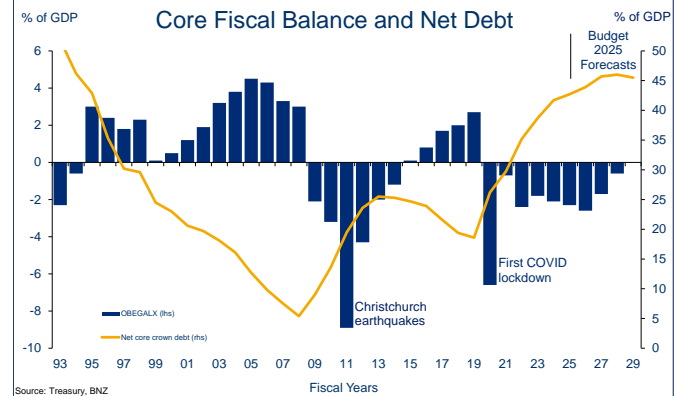
### Good enough?



## Fiscal Policy

New Zealand's fiscal stance remains broadly contractionary as the Government targets fiscal balance in the year ended June 2029. If successful, it would end a run of nine consecutive deficits starting with the outbreak of COVID and still sitting at an estimated 2.3% of GDP in the year ended June 2025. While reasonable by international comparison, there is concern that New Zealand's net core crown debt has risen from a low of 5.4% of GDP in fiscal 2008 to an estimated 42.7% in 2025. By 2029 net debt is forecast to still be 45.5% of GDP.

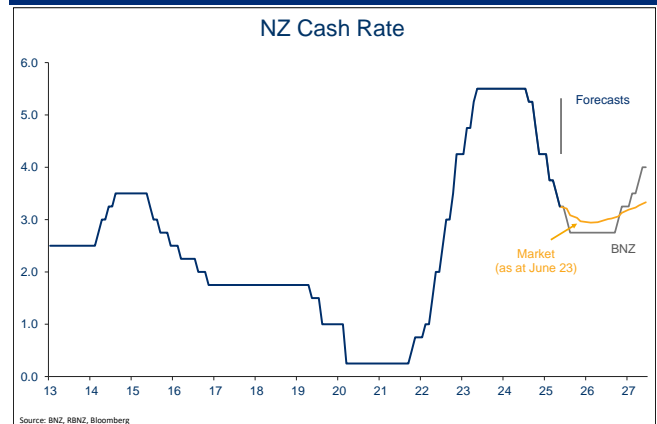
## Debt issues



## Interest Rates and RBNZ Policy

The Reserve Bank of New Zealand will be torn between the fear of rising short term inflation/rising inflation expectations on the one hand and consternation that medium term inflation could drop sharply under the weight of a soft economy with an already wide output gap on the other. Ultimately, we believe the cash rate, which has already been lowered from a peak of 5.50% to 3.25% can still be edged a smidgen lower to 2.75% but the timing of any such move(s) is open to debate given the uncertainty that abounds. Whatever the eventual outcome, it looks like the easing cycle is rapidly approaching its end.

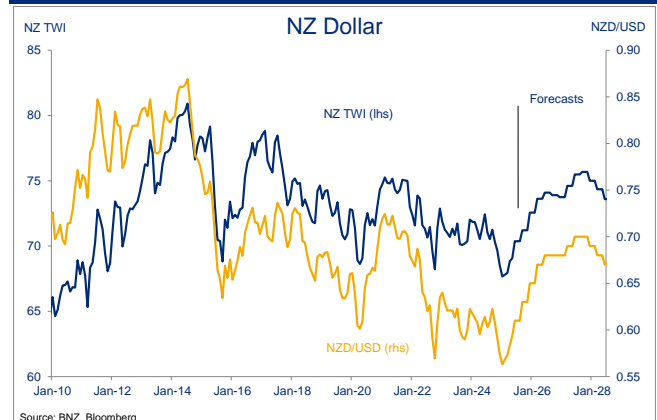
## More to come?



## Exchange Rates

Once the noise settles down (assuming, of course, that it does!), we believe the New Zealand dollar will find its feet. Our prospective relative growth rate, when compared with the United States, still looks supportive. And, with that, we expect the respective policy rates of the two countries to move in New Zealand's favour too. We are neutral with regard to the NZD/AUD and see modest upside pressure against the GBP and EUR. Expected JPY strength sees the NZD fall against the yen. Putting all this together portends some gain in the TWI, which should further help contain inflation.

## NZD headed higher



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# Quarterly Forecasts

Forecasts as at 24 June 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	0.0	0.5	0.7	0.8	0.8	0.6	0.6	0.5
Retail trade (real s.a.)	1.0	0.8	0.4	0.8	1.2	1.1	0.9	0.8	0.7	0.7
Current account (ann, % GDP)	-6.1	-5.7	-5.1	-4.7	-4.4	-4.2	-4.3	-4.4	-4.5	-4.5
CPI (q/q)	0.5	0.9	0.8	0.8	0.5	0.5	0.4	0.4	0.3	0.7
Employment	-0.2	0.1	0.0	0.3	0.6	0.7	0.7	0.6	0.5	0.5
Unemployment rate %	5.1	5.1	5.2	5.3	5.3	5.2	5.1	4.9	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 %)	3.3	3.2	2.8	2.4	2.1	2.1	2.5	2.7	2.9	2.9
CPI (y/y)	2.2	2.5	2.9	3.1	3.0	2.6	2.3	1.8	1.7	1.9
GDP (production s.a., y/y)	-1.3	-0.7	0.3	1.8	2.0	2.0	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
2024 Mar	5.50	5.66	4.44	4.68	4.92	4.40	4.45	5.30	4.15	0.53
Jun	5.50	5.63	4.56	4.74	5.01	4.53	4.60	5.35	4.45	0.30
Sep	5.33	5.30	3.96	4.31	4.05	3.80	4.05	5.05	3.95	0.37
Dec	4.42	4.44	4.00	4.47	3.65	3.74	4.10	4.50	4.30	0.19
2025 Mar	3.92	3.84	3.99	4.58	3.47	3.71	4.15	4.30	4.45	0.13
Forecasts										
Jun	3.25	3.00	3.60	4.60	3.00	3.40	4.20	4.35	4.40	0.20
Sep	2.75	2.90	3.60	4.50	3.00	3.40	4.10	4.10	4.30	0.20
Dec	2.75	2.90	3.65	4.50	3.15	3.50	4.15	3.70	4.25	0.25
2026 Mar	2.75	2.90	3.80	4.40	3.40	3.65	4.05	3.60	4.10	0.30
Jun	2.75	2.90	3.95	4.40	3.70	3.85	4.10	3.45	4.00	0.35
Sep	2.75	3.30	4.05	4.40	3.95	4.05	4.20	3.20	4.00	0.40
Dec	3.25	3.55	4.05	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	0.65	1.16	1.35	146
Jun-25	0.61	0.66	1.18	1.37	138
Sep-25	0.63	0.68	1.24	1.43	130
Dec-25	0.65	0.70	1.23	1.41	125
Mar-26	0.65	0.70	1.23	1.41	125
Jun-26	0.68	0.73	1.26	1.45	119
Sep-26	0.68	0.73	1.27	1.46	118
Dec-26	0.68	0.73	1.28	1.47	117
Mar-27	0.69	0.74	1.26	1.45	116

### NZD Forecasts

	NZD/USD	NZD/AUD	NZD/EUR	NZD/GBP	NZD/JPY	TWI-17
Current	0.60	0.93	0.52	0.44	87.3	69.2
Jun-25	0.61	0.92	0.52	0.45	84.2	70.4
Sep-25	0.63	0.93	0.51	0.44	81.9	71.2
Dec-25	0.65	0.93	0.53	0.46	81.3	72.6
Mar-26	0.65	0.93	0.53	0.46	81.3	72.6
Jun-26	0.68	0.93	0.54	0.47	80.9	74.1
Sep-26	0.68	0.93	0.54	0.47	80.2	73.9
Dec-26	0.68	0.93	0.53	0.46	79.6	73.7
Mar-27	0.69	0.93	0.55	0.48	80.0	74.6

### 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 24 June 2025	March Years					December Years				
	Actuals					Actuals				
	2023	2024	2025	2026	2027	2022	2023	2024	2025	2026
<b>GDP</b> - annual average % change										
Private Consumption	3.4	1.0	0.2	2.3	2.8	4.2	1.0	0.0	1.9	2.8
Government Consumption	2.7	2.0	-0.7	-0.4	-0.1	5.2	0.8	-0.1	0.1	-0.6
Total Investment	3.3	-1.1	-5.3	0.7	6.5	4.2	-0.1	-5.1	-1.4	6.2
Stocks - ppts cont'n to growth	0.3	-1.5	0.2	0.6	0.1	0.0	-1.4	0.2	0.3	0.3
GNE	3.7	-0.9	-1.0	1.7	3.2	4.5	-0.7	-1.1	0.9	3.3
Exports	5.6	8.6	2.7	2.3	3.9	-0.8	11.4	4.1	2.4	3.5
Imports	4.5	-1.3	1.7	3.6	4.8	4.7	-0.5	1.9	2.4	5.1
Real Expenditure GDP	3.9	1.5	-0.9	1.8	2.8	3.2	2.0	-0.5	1.2	2.7
<b>GDP (production)</b>	<b>3.5</b>	<b>1.4</b>	<b>-1.1</b>	<b>1.5</b>	<b>2.9</b>	<b>2.9</b>	<b>1.8</b>	<b>-0.6</b>	<b>0.8</b>	<b>2.7</b>
<i>GDP - annual % change (q/q)</i>	<i>3.0</i>	<i>1.3</i>	<i>-0.7</i>	<i>2.0</i>	<i>2.6</i>	<i>3.1</i>	<i>1.0</i>	<i>-1.3</i>	<i>2.0</i>	<i>3.0</i>
Output Gap (ann avg, % dev)	2.0	1.0	-1.0	-1.2	-0.3	1.9	1.2	-0.5	-1.3	-0.5
Nominal Expenditure GDP - \$bn	394	418	431	456	480	386	413	427	450	474
<b>Prices and Employment</b> - annual % change										
CPI	6.7	4.0	2.5	2.6	1.9	7.2	4.7	2.2	3.0	1.7
Employment	3.1	1.0	-0.7	1.6	2.3	1.7	2.8	-1.2	1.0	2.5
Unemployment Rate %	3.4	4.4	5.1	5.2	4.9	3.4	4.0	5.1	5.3	4.9
Wages - ave. hr. ord. time earnings (private sector)	8.2	4.8	3.8	3.0	3.3	8.1	6.6	4.0	2.3	3.4
Productivity (ann av %)	1.2	-1.1	-0.2	1.3	0.4	0.7	-1.2	-0.2	1.3	0.4
Unit Labour Costs (ann av %)	5.7	7.1	4.7	2.3	2.9	6.0	7.6	5.0	2.7	2.8
House Prices (stratified, qtr)	-12.8	2.8	-0.6	3.8	6.3	-13.8	0.6	-0.9	3.4	5.2
<b>External Balance</b>										
Current Account - \$bn	-33.8	-27.6	-24.7	-19.1	-21.5	-35.6	-28.6	-26.2	-19.7	-21.3
Current Account - % of GDP	-8.6	-6.6	-5.7	-4.2	-4.5	-9.2	-6.9	-6.1	-4.4	-4.5
<b>Government Accounts</b> - June Yr, % of GDP										
OBE GAL ex ACC (core op. balance) (Treasury forecasts)	-1.8	-2.1	-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</b> <sup>(1)</sup>										
NZD/USD	0.62	0.61	0.57	0.67	0.69	0.63	0.62	0.57	0.65	0.68
USD/JPY	134	150	149	120	116	135	144	154	125	117
EUR/USD	1.07	1.09	1.08	1.25	1.26	1.06	1.09	1.05	1.23	1.28
NZD/AUD	0.93	0.93	0.91	0.93	0.93	0.94	0.93	0.91	0.93	0.93
NZD/GBP	0.51	0.48	0.44	0.47	0.48	0.52	0.49	0.45	0.46	0.46
NZD/EUR	0.58	0.56	0.53	0.54	0.55	0.60	0.57	0.55	0.53	0.53
NZD/YEN	83.0	91.1	85.4	80.4	80.0	85.6	89.5	88.4	81.3	79.6
TWI	71.0	71.2	67.9	73.6	74.6	72.9	72.0	68.5	72.6	73.7
Overnight Cash Rate (end qtr)	4.75	5.50	3.75	2.75	3.50	4.25	5.50	4.25	2.75	3.25
90-day Bank Bill Rate	5.16	5.64	3.60	2.90	4.05	4.55	5.63	4.26	2.90	3.55
5-year Govt Bond	4.40	4.60	4.00	3.80	4.05	4.30	4.50	3.90	3.65	4.05
10-year Govt Bond	4.35	4.60	4.50	4.40	4.50	4.25	4.65	4.45	4.50	4.45
2-year Swap	5.15	4.91	3.35	3.40	4.00	5.21	4.93	3.53	3.15	4.00
5-year Swap	4.50	4.40	3.65	3.65	4.15	4.62	4.43	3.63	3.50	4.10
US 10-year Bonds	3.65	4.20	4.25	4.10	4.00	3.60	4.00	4.40	4.25	4.00
NZ-US 10-year Spread	0.70	0.40	0.25	0.30	0.50	0.65	0.65	0.05	0.25	0.45

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

Source: Statistics NZ, BNZ, RBNZ, NZ Treasury

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