Eco-Pulse

2 July 2025

The economy in 10 pics

- **A mid-year wobble**
- **But businesses keeping the faith**
- **No respite for retail, while dust settling on construction downtrend**
- **A nuanced inflation outlook**
- **RBNZ rate cut no longer expected next week, but forecast 2.75% low unchanged**

Chart 1: A slowdown born in the USA

And breathe. After yet another test, global risk sentiment is back in recovery mode.

But while Middle East tensions may have eased, the global economy is still grappling with erratic US trade policy, and what it means for the outlook.

Global growth perceptions for both 2025 and 2026 have been knocked back, with downgrades centred on the US.

Forecasts have stabilised more recently. But next week's expiry of the 90-day tariff pause looms as another test.

Chart 2: Trading places

The tariffs haven't had a noticeable impact on NZ trade patterns in the two months since 'liberation day'. It's obviously early days.

May merchandise trade figures put NZ export values 10% ahead of last year, helped along by very favourable commodity prices.

The US crept a little further ahead of Australia as our 2nd largest export destination. It accounted for 13% of merchandise export values in the year to May.

There's still daylight to China at #1.

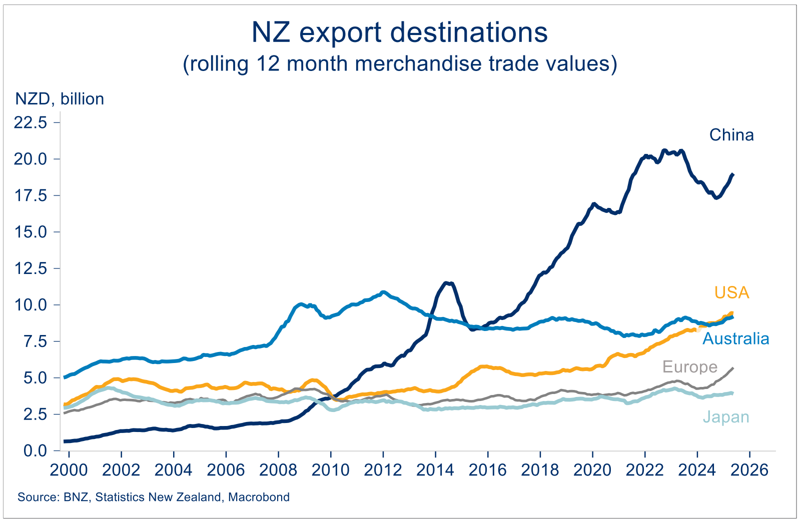


Chart 3: Mayday

It's fortunate exports and the primary sector are doing their best to drag the economy out of the mire. Because some of the more domestically orientated sectors appear to be faltering.

There was a clear wobble in a whole range of indicators in May. But none more so than the Performance of Services & Manufacturing Indices.

Their deeper decline into contractionary territory was not in 'the recovery' script. It also leaves NZ again standing out amongst our global peers, and not in a good way.

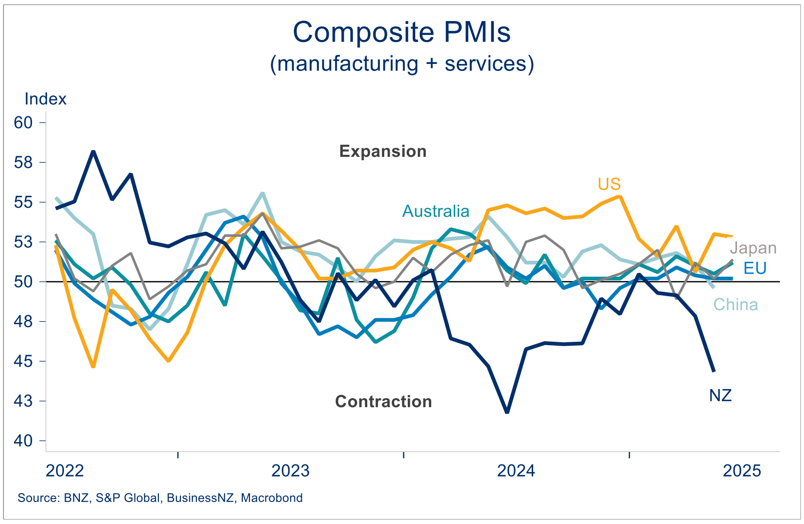


Chart 4: Retail therapy required

The failure of retail spending to fire has a lot to do with the stuttering nature of the recovery. Indeed, the retail sub-component was a clear underperformer in amongst the detail of the May PSI mentioned above.

To even say spending is flat may be overstating the case. The value of retail card spending in May was no higher than that of September 2022.

On a per-person basis, it's still 6% below the 2023 peak.

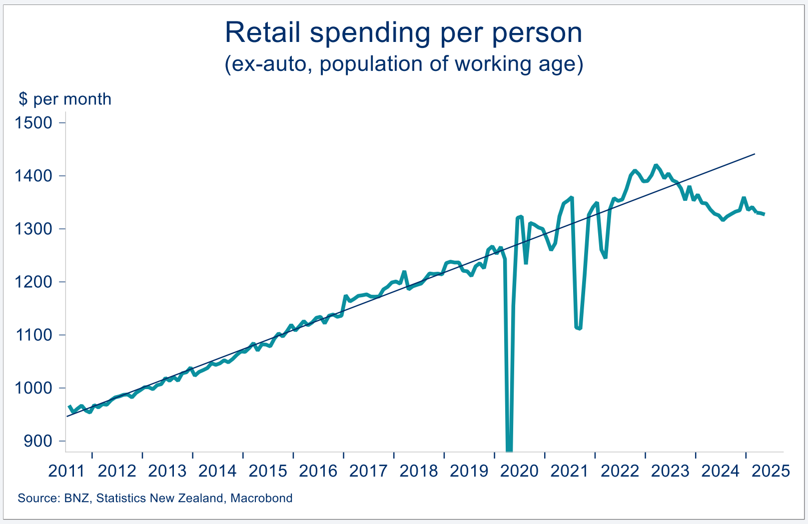


Chart 5: Dust settles on construction downturn

Construction is another important sector that's been hit harder than most. But it increasingly looks as if the downtrend is done.

Residential construction volumes eked out a 2% expansion in the March quarter GDP accounts. That was the first such increase in seven quarters.

Moreover, the guidance from monthly building consents figures, including Tuesday's reported 10.4% lift for May, is more sideways than down.

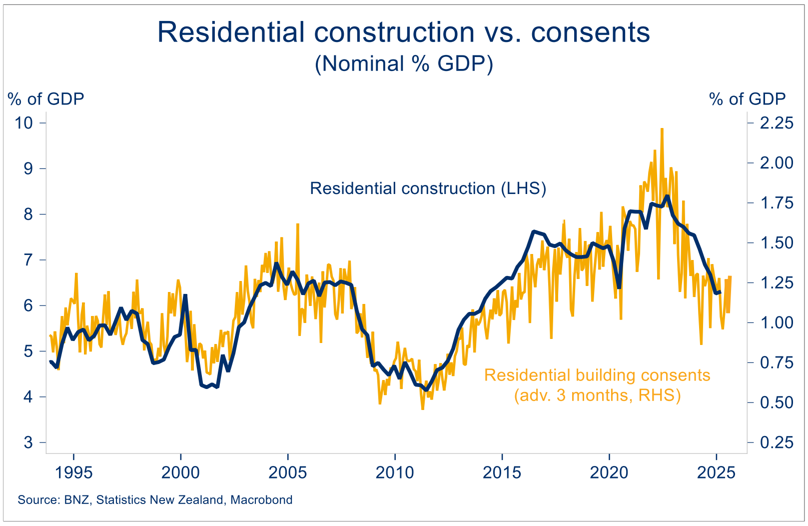


Chart 6: The only way is up

So it remains a multi-speed, fragile sort of upturn. Recent wobbles might dent the recovery, but they're unlikely to prevent it.

The business community appears to agree. Optimism that brighter times are just around the corner persists.

Two of the better business activity leads from this week's ANZ & NZIER confidence surveys held consistent with an implied lift in GDP growth to around 2.5% y/y.

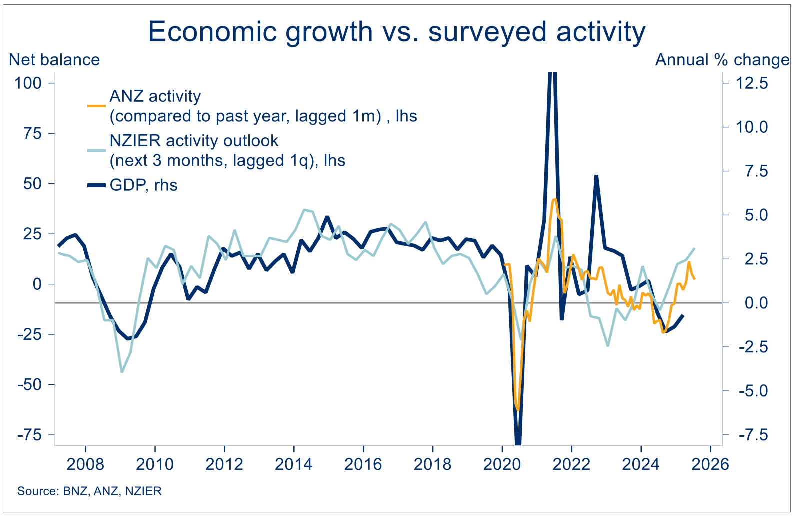


Chart 7: Hiring freeze

A steadying in economic momentum is the key precondition for firms to start acting on the positive employment intentions they've been reporting.

There have been scant signs of such to date. Filled jobs and job ads, for example, remain soft.

The latter are now at levels 50% below the 2022 peak and consistent with our forecast for a further lift in the unemployment rate to 5.3%.

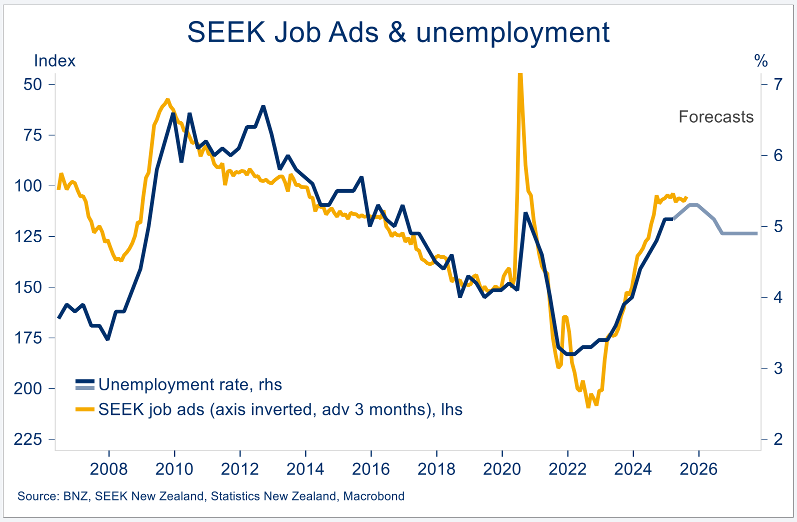


Chart 8: Pay slips

Fewer job vacancies spread across a growing population means competition for available jobs is intense. It's one of many symptoms of an oversupplied labour market, something that continues to sap wage pressure.

The SEEK Advertised Salary Index slipped to 2.3%y/y in June. That's lower than many of our trading partners and provides a strong signal next month's 'official' wages data will record a similar nudge down in annual growth.

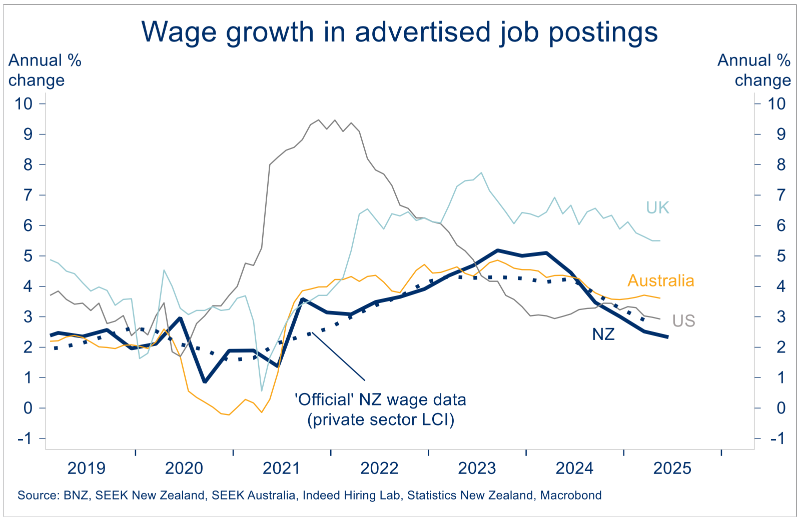


Chart 9: A nuanced inflation outlook

On our forecasts, inflation will soon threaten the top-end of the RBNZ's 1-3% target range. But far from symptomatic of an overheating economy, the major contributors are rates, food, and energy.

Stymied demand means the underlying inflation pulse is weak. Hence inflation's expected return to around 2% by mid-2026.

Two of the indicators from Tuesday's NZIER business survey support this view of a barely-there underlying inflation pulse.

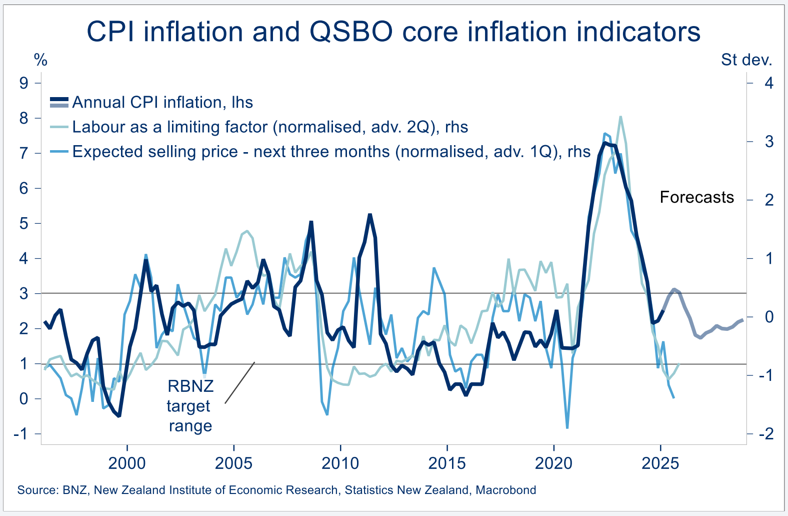
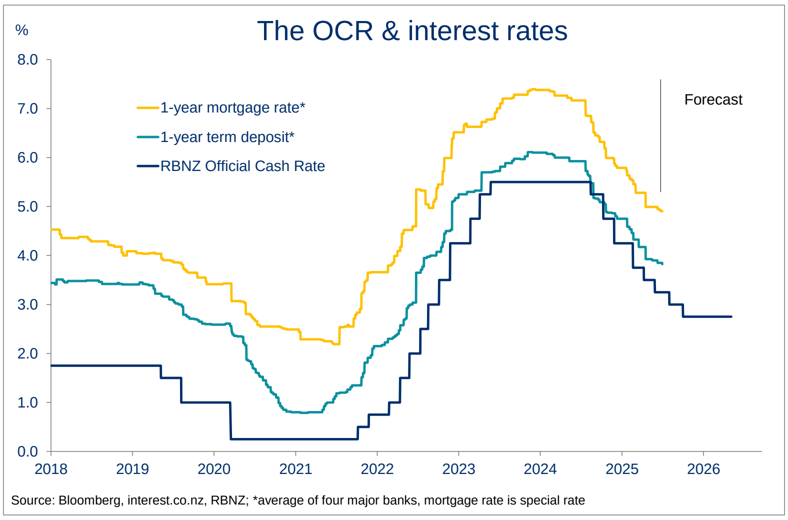


Chart 10: Downtrend's last dance

To summarise, the economy needs a bit more help. We've thus retained our view the RBNZ's Official Cash Rate will fall to a cycle low of 2.75%.

What we have changed is the phasing of the expected cuts. We now see a pause at next week's RBNZ meeting, and an October low point.

Our broader view hasn't changed: shorter-term retail interest rates have perhaps another 20-40bps of downside, but the bigger picture is we're into the last dance of the downtrend.



Mike Jones
Chief Economist

bnz_chief_economist@bnz.co.nz

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