

# Fortnightly Economic Update

4 July 2025

- **Indicators suggest slowing economic momentum in the June quarter**
- **Inflation remains contained but near-term pressures add upside risk**
- **Global activity is being buffeted by trade policies, but uncertainty has eased**

Following stronger-than-expected growth in the March quarter, economic momentum is showing signs of easing in the June quarter, with indicators suggesting many households and businesses are still facing challenging conditions. Many bank economists have downgraded their June quarter GDP forecasts, in line with softer partial data. Nonetheless, conditions for growth remain in place as mortgage rates continue to fall and optimism for the future lifts. Short-term pricing pressures appear to be firmer than previously thought but these impacts will likely be temporary. Despite the higher near-term inflation outlook and continued strong agricultural sector performance, significant spare capacity in the economy will contain inflation over the medium term.

Global activity is unwinding from its pre-tariff surge and growth is expected to continue to slow over the second half of the year. Judging the degree of slowing is challenging, but the extent of pull-back appears to be moderate so far. Trade policy uncertainty remains high ahead of the end to the pause on reciprocal duties on 9 July, but it has eased following US agreements with the UK, China and Vietnam.

## QSBO suggests better times ahead...

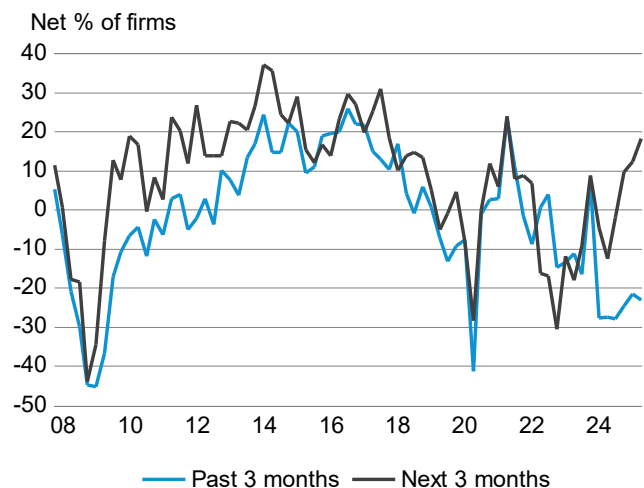
Headline business confidence firmed in the June Quarterly Survey of Business Opinion (QSBO), with a net 27% (seasonally adjusted) of firms expecting the general business situation to improve over the next six months, compared to 23% previously. Confidence in the outlook is growing, with a net 18% of firms expecting domestic trading activity to increase next quarter (from 12% previously). This contrasts with the survey's pessimism on past activity, where a net 23% of respondents reported a decline in trading activity in the June quarter (Figure 1).

Weak labour market conditions were on display in the QSBO, with firms remaining cautious on hiring. A net 12% of firms reduced headcount in the June quarter, although a net 4% plan to hire next quarter. Firms reported continued ease in finding both skilled and unskilled workers.

The weak activity and labour market results in the QSBO sit alongside other indicators of confidence and activity that suggest less momentum in the June quarter following the 0.8% lift in GDP in the March quarter. The QSBO also points to ongoing labour softness, consistent with

our *Budget Update* forecasts of higher unemployment in the June quarter.

**Figure 1: QSBO domestic trading activity (s.a.)**



Source: NZIER

## ...as weakness in the labour market persists

May's Monthly Employment Indicators (MEI) provided further confirmation of a weak labour market. Filled jobs rose 0.1%, following a revised 0.3% fall in April. The filled jobs data points to flat employment growth across the June quarter.

Evidence of the two-speed economy was also on display in the May MEI. Primary sector filled jobs rose 0.4% (up 1.0% y/y), consistent with strong primary export commodity prices. On the other hand, employment in the goods sector recorded a 0.2% decline (down 4.0% y/y), with conditions in the construction and manufacturing sectors weak.

## Building consents have remained flat

New dwelling consents lifted 10.4% in the month of May, partly reversing the 14.6% fall seen in April. Looking through the month-to-month volatility, a 12-month tally shows that consents have remained within a 33,000-34,000 consents per year range since June 2024. While current levels are down 34% compared to the record highs of 2022, consent levels remain well above the post-GFC lows and near pre-COVID levels.

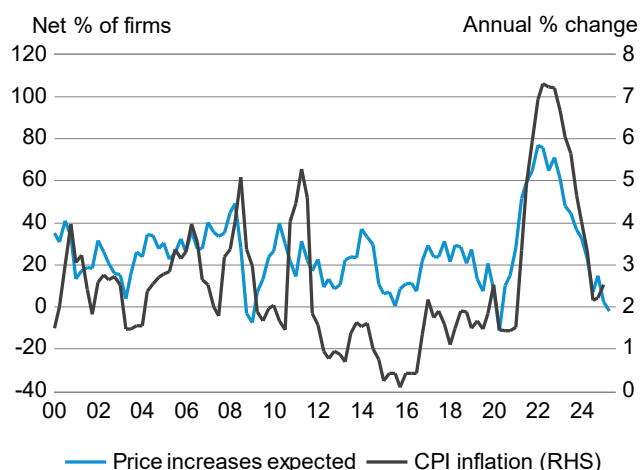
The construction sector remains subdued with signals on future activity mixed. Residential investment lifted 2.0% in the March quarter, but this follows six consecutive quarters of decline. In addition to flat consents, the QSBO showed builders were the most pessimistic industry, with only a net 3% of firms expecting an improved outlook. This weakness reflects ongoing low profitability, with high costs and low selling prices due to overall weak demand dominating the industry's outlook. By contrast, the June ANZ Business Outlook (ANZBO) suggested residential construction sentiment is continuing to improve.

### ***Inflation poised to increase in the short term***

The evidence for higher short-term inflation is mounting and there is a risk that annual inflation slips above 3% in the second half of 2025. Food prices were higher than expected in April and May – particularly for dairy, meat and fruit consistent with export commodity prices. Household energy prices continue to be hit by supply issues and higher transmission charges. Additionally, price increases for public transport and 2025/26 local body rates add upside risk. These price increases are making households sceptical of inflation easing. Household inflation expectations lifted 0.3 percentage points in June to their highest level in two years, although geopolitical turmoil and tariffs are likely also playing a part.

One of the factors that the Reserve Bank will be considering when the Monetary Policy Committee meets next week is pricing behaviour of firms. The latest survey data displays mixed signals. Indicators of cost and price pressures in the QSBO eased. A net 1% of firms cut prices in the past quarter, and a net 2% expect to do so in the September quarter (Figure 2).

**Figure 2: Firm pricing intentions and inflation**



Source: NZIER, Stats NZ

Firms surveyed in the ANZBO expected costs to rise 2.5% on average over the next three months. There remains little scope for firms to pass on costs, however, with firms on average expecting to raise prices by 1.6% over the same period. The ability of firms to pass on cost pressures appears limited due to uneven domestic demand and will put continued pressure on margins.

Market participants expect the Reserve Bank to pause OCR cuts next week but continue to expect a 25bp cut in August.

### ***...meanwhile Australian inflation eased in May***

In Australia, easing inflation has reinforced expectations that the central bank will cut rates at its 9 July meeting. May's monthly CPI indicator showed both headline and trimmed mean measures were back to 2021 lows of 2.1% and 2.4% respectively, below the target range midpoint of 2.5%. Government energy subsidies have helped to reduce price pressure, but their impact will wane in coming months, and headline inflation is expected to end the year around 3.0%.

Compared to New Zealand, lower food and electricity inflation are key differences (Table 1).

**Table 1: CPI inflation indicators**

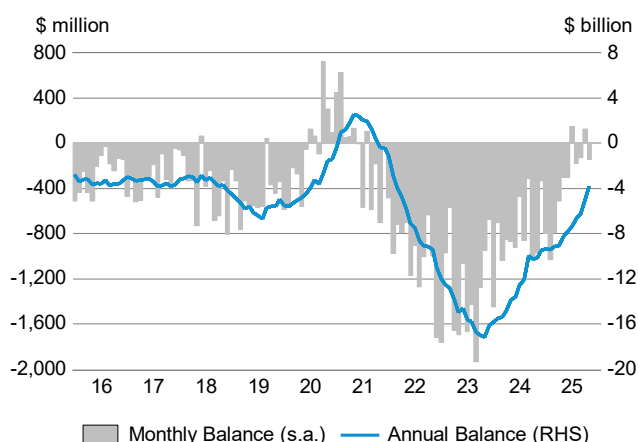
CPI group	May (annual % change)	
	NZ	AU
Food	4.4	2.9
Rent	2.8	4.5
Electricity	8.7	-5.9
Petrol/Diesel	-9.4	-10.0
<b>Headline indicator</b>	<b>na</b>	<b>2.1</b>

Sources: Stats NZ, ABS

### ***Trade deficit narrows***

Strong goods export performance has supported the economic recovery and the narrowing of the current account deficit to date. New Zealand's annual trade deficit narrowed by \$1.1 billion in May as the theme of strong exports (up 9.7% y/y) and soft imports (-7.2% y/y) continued (Figure 3). This has largely been driven by stronger prices for dairy and meat exports, alongside volume-driven growth for horticulture and forestry exports.

**Figure 3: Merchandise trade balance**



Source: Stats NZ

The goods balance is expected to narrow over 2025 before widening from 2026 as imports increase on the back of stronger domestic demand and export price gains recede.

Early signs of export prices cooling have emerged, with the ANZ commodity price index falling 2.3% in world price terms in June. This follows dairy prices falling by 4.1% at the most recent Global Dairy Trade auction, the fourth fall in a row. Dairy supply is lifting as production in the EU and US increased, likely in response to high prices. Nonetheless, dairy prices remain high and dairy farmers look set for another high payout in the season ahead.

### Global growth expected to slow

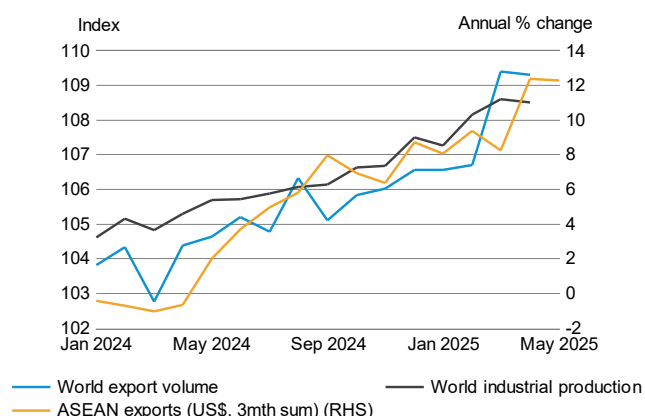
Global activity has been supported by front-loading of orders ahead of April's tariffs but this uplift is now unwinding and growth is expected to slow over the second half of the year. Judging the degree of slowing is challenging, but the extent of pull-back appears to be moderate so far. Monetary easing is providing a cushion, fiscal policy is becoming supportive and some of the downside risks to the outlook have receded.

Trade policy uncertainty remains high, with little clarity on what tariffs will be in place when the pause on reciprocal duties expires on 9 July. However, US agreements with the UK, China and Vietnam have helped to reduce uncertainty and to increase confidence that deals with others, including the EU, India and Japan, can be negotiated.

### Activity is being buffeted by trade policies...

Data on global exports and industrial production showed modest falls in April but largely held onto earlier gains (Figure 4). Exports from ASEAN countries have been strong, rising over 12% in the three months ended May compared to the same period last year. Expectations of higher tariffs on electronic goods may be adding to demand, alongside the boost from AI-related developments and increased trade with China.

**Figure 4: Global activity and ASEAN exports**



Source: Haver

Following declines in April and May, global manufacturing indicators pointed to a pickup in activity in June. The regional gauges were mixed, with increases in the US, China and

Japan, but ASEAN economies were generally weak, as were the euro area measures. Industrial activity is expected to slow this year, as higher tariffs weigh on demand, but June's data points to less risk of a sharp deceleration.

The US – Vietnam trade agreement reached this week applies a 20% tariff across all Vietnamese exports to the US – below the 46% announced earlier, but well above the prior 3.3% rate. For its part, Vietnam will completely remove tariffs on US imports, and exports transhipped through Vietnam will face a 40% tariff.

### But some sources of uncertainty have faded...

The announcement of a ceasefire between Iran and Israel has seen global oil prices stabilise near US\$68 per barrel over the past week. While tensions may rise again, the return of oil prices to pre-escalation levels relieves some uncertainty around the outlook.

In the US, the One Big Beautiful Bill Act has passed both the House and Senate and been sent to the President's desk for signature. The Congressional Budget Office estimated that the bill would add \$3.3 trillion to budget deficits over the next ten years.

### ...and inflation concerns have eased

US activity indicators showed some signs of slowing in May, but solid employment growth in June, and a dip in the unemployment rate to 4.1%, suggest conditions remain steady overall. There were few signs of tariff-driven impacts in May's PCE inflation measure, which showed annual inflation of 2.3%, but markets still expect inflation to reach 3.5% by the end of the year. Despite higher headline inflation, markets have priced in two more 25bps cuts to the federal funds rate this year.

Euro area inflation was also benign, with the annual rate at 2.0% in June, up from 1.9% in May, while core inflation was flat at 2.3%. Euro area unemployment rate edged up by 0.1%-pts to 6.3% in May but has been fairly stable around this rate for the past year. The European Central Bank is expected to keep monetary policy steady for the rest of this year. Meanwhile, more fiscal support is on the way, including NATO's agreement to raise defence spending to 5% of GDP.

### Coming up:

Date	Release
9 Jul	Monetary Policy Review
9 Jul	Net migration and travel (May)
14 Jul	Electronic card transactions (June)
17 Jul	Selected price indexes (June)

## Tables

Quarterly Indicators		2024Q1	2024Q2	2024Q3	2024Q4	2025Q1	2025Q2
Real Production GDP (1)	qpc	0.1	-1.0	-1.0	0.5	0.8	...
	aapc	1.4	0.6	0.0	-0.6	-1.1	...
Current account balance (annual)	%GDP	-6.6	-6.6	-6.5	-6.1	-5.7	...
Merchandise terms of trade	apc	-3.7	-1.4	1.6	13.7	10.3	...
CPI inflation	qpc	0.6	0.4	0.6	0.5	0.9	...
	apc	4.0	3.3	2.2	2.2	2.5	...
Employment (HLFS) (1)	qpc	-0.4	0.1	-0.7	-0.2	0.1	...
Unemployment rate (1)	%	4.4	4.6	4.8	5.1	5.1	...
Participation rate (1)	%	71.5	71.6	71.1	70.9	70.8	...
LCI salary & wage rates - total (2)	apc	4.1	4.2	3.8	3.3	2.9	...
QES average hourly earnings - total (2)	apc	5.2	5.0	3.9	4.2	4.5	...
Core retail sales volume	apc	-1.7	-2.2	-2.8	0.2	0.3	...
Total retail sales volume	apc	-2.4	-3.6	-2.5	0.3	0.7	...
WMM - consumer confidence (3)	Index	93.2	82.2	90.8	97.5	89.2	91.2
NZIER QSBO - general bus.situation (1,4)	net%	-20.9	-38.9	-3.3	9.1	22.8	26.6
NZIER QSBO - own activity outlook (1,4)	net%	-4.6	-12.6	-1.9	9.8	12.4	18.3

Monthly Indicators		Jan 25	Feb 25	Mar 25	Apr 25	May 25	Jun 25
Merchandise trade balance (12 month)	NZ\$m	-7,345.2	-6582.6	-6262.3	-4965.3	-3790.2	...
Dwelling consents - residential	apc	10.6	-7.8	15.9	-17.4	-0.8	...
REINZ house sales (number)	apc	26.3	6.9	16.1	14.8	8.9	...
REINZ - house price index	apc	-1.4	-1.3	-0.6	-0.3	0.1	...
Estimated net migration (12 month total)	people	23,699.0	23722.0	21960.0	21318.0	...	...
ANZ NZ commodity price index	apc	25.1	22.9	22.9	18.4	19.9	15.5
ANZ world commodity price index	apc	14.6	14.0	15.0	14.4	15.4	11.0
ANZBO - business confidence	net%	54.4	58.4	57.5	49.3	36.6	46.3
ANZBO - activity outlook	net%	45.8	45.1	48.6	47.7	34.8	40.9
ANZ-Roy Morgan - consumer confidence	net%	96.0	96.6	93.2	98.3	92.9	98.8
NZAC	apc	...	...	...	...	...	...

Daily Indicators		Mon 23/6/25	Tue 24/6/25	Wed 25/6/25	Thu 26/6/25	Fri 27/6/25	Mon 30/6/25
<b>NZ exchange and interest rates (5)</b>							
NZD/USD	\$	0.59	0.60	0.60	0.60	0.61	0.61
NZD/AUD	\$	0.93	0.93	0.93	0.93	0.93	0.93
Trade weighted index (TWI)	index	69.01	69.25	69.42	69.50	69.67	69.67
Official cash rate (OCR)	%	3.25	3.25	3.25	3.25	3.25	3.25
90 day bank bill rate	%	3.30	3.29	3.30	3.29	3.28	3.29
10 year govt bond rate	%	4.54	4.56	4.53	4.52	4.50	4.53
<b>Share markets (6)</b>							
Dow Jones	index	42,581.8	43089.0	42982.4	43386.8	43819.3	44094.8
S&P 500	index	6,025.2	6092.2	6092.2	6141.0	6173.1	6205.0
VIX volatility index	index	19.8	17.5	16.8	16.6	16.3	16.7
AU all ords	index	8,688.0	8774.8	8779.9	8773.5	8743.7	8773.0
NZX 50	index	12,532.7	12467.5	12461.0	12480.1	12583.6	12602.8
<b>US interest rates</b>							
3 month OIS	%	4.3	4.3	4.3	4.3	4.3	4.3
3 month Libor	%	...	...	...	...	...	...
10 year govt bond rate	%	4.3	4.3	4.3	4.3	4.3	4.2
<b>Commodity prices (6)</b>							
WTI oil	US\$/barrel	68.5	64.4	64.9	65.2	65.5	65.1
Gold	US\$/ounce	3,380.6	3302.5	3318.3	3318.7	3271.8	3287.5
CRB Futures	index	563.59	565.58	566.04	567.79	568.20	568.50

(1) Seasonally adjusted  
(2) Ordinary time, all sectors  
(3) Westpac McDermott Miller

(4) Quarterly Survey of Business Opinion  
(5) Reserve Bank (11am)  
(6) Daily close

*Data in italic font are provisional*  
... Not available

Country	Indicator		Nov 24	Dec 24	2024Q4	Jan 25	Feb 25	Mar 25	2025Q1	Apr 25	May 25	Jun 25
United States	GDP (1)	qpc			0.6				-0.1			
	Industrial production (1)	mpc	-0.3	1.1		-0.1	1.0	-0.2		0.1	-0.2	...
	CPI	apc	2.7	2.9		3.0	2.8	2.4		2.3	2.4	...
	Unemployment rate (1)	%	4.2	4.1		4.0	4.1	4.2		4.2	4.2	4.1
	Employment change (1)	000s	261.0	323.0		111.0	102.0	120.0		158.0	144.0	147.0
	Retail sales value	apc	3.9	4.6		4.6	3.9	5.1		5.0	3.3	...
	House prices (2)	apc	4.3	4.5		4.7	4.5	4.1		3.4	...	...
	PMI manufacturing (1)	index	48.4	49.2		50.9	50.3	49.0		48.7	48.5	49.0
	Consumer confidence (1)(3)	index	112.8	109.5		105.3	100.1	93.9		85.7	98.4	93.0
Japan	GDP (1)	qpc			0.6				-0.0			
	Industrial production (1)	mpc	-1.7	-0.3		-1.1	2.3	0.2		-1.1	0.5	...
	CPI	apc	2.9	3.7		4.0	3.6	3.6		3.5	3.5	...
	Unemployment rate (1)	%	2.5	2.5		2.5	2.4	2.5		2.5	2.5	...
	Retail sales value	apc	2.8	3.5		-3.0	-5.9	-4.2		-3.9	-5.1	...
	PMI manufacturing (1)	index	49.0	49.6		48.7	49.0	48.4		48.7	49.4	50.1
	Consumer confidence (1)(4)	index	35.8	35.9		34.8	34.7	34.3		31.3	32.9	34.8
Euro area	GDP (1)	qpc			0.3				0.6			
	Industrial production (1)	mpc	0.3	-0.6		0.5	1.3	2.4		-2.4	...	...
	CPI	apc	2.2	2.4		2.5	2.3	2.2		2.2	1.9	...
	Unemployment rate (1)	%	6.2	6.3		6.3	6.3	6.4		6.2	6.3	...
	Retail sales volume	apc	1.8	2.2		1.9	1.9	1.9		2.3	...	...
	PMI manufacturing (1)	index	45.2	45.1		46.6	47.6	48.6		49.0	49.4	49.5
	Consumer confidence (5)	index	-13.6	-14.3		-14.1	-13.6	-14.5		-16.6	-15.1	-15.3
United Kingdom	GDP (1)	qpc			0.1				0.7			
	Industrial production (1)	mpc	-0.3	1.0		-0.4	1.7	-0.7		-0.6	...	...
	CPI	apc	3.5	3.5		3.9	3.7	3.4		4.1	4.0	...
	Unemployment rate (1)	%	4.4	4.4		4.4	4.4	4.5		4.6	...	...
	Retail sales volume	apc	-0.4	2.5		-0.1	1.1	1.4		4.9	-1.2	...
	House prices (6)	apc	3.7	4.7		4.1	3.9	3.9		3.4	3.5	2.1
	PMI manufacturing (1)	index	48.0	47.0		48.3	46.9	44.9		45.4	46.4	47.7
	Consumer confidence (1)(5)	net %	-18.0	-17.0		-22.0	-20.0	-19.0		-23.0	-20.0	-18.0
Australia	GDP (1)	qpc			0.6				0.2			
	CPI	apc			2.4				2.4			
	Unemployment rate (1)	%	3.9	4.0		4.1	4.1	4.1		4.1	4.1	...
	Retail sales value	apc	4.1	4.0		4.1	-0.0	3.2		4.0	4.1	...
	House Prices (7)	apc			...				...			
	PMI manufacturing (1)	index	-19.3	-21.4		-21.4	-11.8	-30.5		-26.2	-23.8	-29.3
	Consumer confidence (8)	index	94.6	92.8		92.1	92.2	95.9		90.1	92.1	92.6
China	GDP	apc			5.4				5.4			
	Industrial production	apc	5.4	6.2		5.9	5.9	7.7		6.1	5.8	...
	CPI	apc	0.2	0.1		0.5	-0.7	-0.1		-0.1	-0.1	...
	PMI manufacturing (1)	index	50.3	50.1		49.1	50.2	50.5		49.0	49.5	49.7
South Korea	GDP (1)	qpc			0.1				-0.2			
	Industrial production (1)	mpc	-2.5	3.9		-2.9	0.7	3.0		-0.6	-2.9	...
	CPI	apc	1.5	1.9		2.2	2.0	2.1		2.1	1.9	2.2

(1) Seasonally adjusted

(2) Case-Shiller Home Price Index 20 city

(3) The Conference Board Consumer Confidence Index

(4) Cabinet Office Japan

(5) European Commission

(6) Nationwide House Price Index

(7) Australian Bureau of Statistics

(8) Melbourne/Westpac Consumer Sentiment Index