Week beginning 23 June 2025

AUSTRALIA & NEW ZEALAND WEEKLY

Analysis and forecasts for this week's key releases.

In this week's edition:

Economic Insight: The Wrong Kinds of Targets.

The Week That Was: Labour market resilience critical to the outlook.

Focus on New Zealand: Watching, worrying and waiting.

For the week ahead:

Australia: Monthly CPI indicator, job vacancies.

New Zealand: Westpac-MM employment confidence, trade balance, ANZ consumer confidence.

Japan: Tokyo CPI, jobless rate, PMIs.

China: Industrial profits.

Europe: IFO business climate survey, economic confidence, PMIs.

United Kingdom: Governor Bailey speech, PMIs.

United States: Personal income and spending, PCE deflator, CB consumer confidence, FOMC Chair Powell.

Information contained in this report current as at 20 June 2025

The Wrong Kinds of Targets

Luci Ellis
Chief Economist, Westpac Group

- **'What gets measured gets managed' is a warning against picking the wrong metrics. In some areas, like central bank inflation targets, both the metric and the target level have an evidenced-based rationale. Other targets can be misconceived though, or the metric might be reasonable but the target level completely arbitrary.**
- **The risk of an inappropriate metric or target level is relevant to current debates about the appropriate level of defence spending. Just spending more money on something does not always yield better outcomes. And some of the most impactful policies to protect a nation's security might not even look like defence spending.**
- **Increased defence spending probably won't translate one-for-one into bigger public deficits. How this debate plays out in different countries could materially affect budget outcomes, debt issuance and so long bond yields over time.**

The saying 'what gets measured gets managed', sometimes mistakenly attributed to Peter Drucker, highlights the perils and pitfalls of poorly designed quantitative targets. The management literature is full of examples of metrics and targets gone wrong. Sometimes the metric does not align to the intended result. The call centres that incentivised the number of calls handled – not the number of issues resolved – are a canonical example of this problem. More broadly, incentives to do things quickly rather than properly often run into strife down the track.

Sometimes the misalignment arises because the metric keyed off a presumed intermediate objective, like number of sales calls, rather than the measurable ultimate goal (actual sales or profits). But as central banks found out with targets for money supply growth in the 1980s, these metrics presume a simple and stable relationship between the metric and the true target that might not hold in practice. (See also: Goodhart's Law.)

Other times, the metric seems reasonable, but the target level is arbitrary or lacking good foundations. Certainly the debt and deficit limits in the EU's Maastricht Treaty have been criticised on these grounds. Another example closer to home is that spending a large fraction of your income on housing does seem like a signal that housing is not affordable. Who is to say, though, that 30% of gross income is the threshold between affordable and unaffordable? It turns out that this rule of thumb originated many decades ago in US government housing assistance programs for low-income households. That is unlikely to be a relevant benchmark for Australian home-buyers nowadays. Thus, it is helpful that mortgage lending decisions are based on more sophisticated and relevant metrics.

At least in economic policy, we have moved on from the 1980s era of money supply targets (though I am less sure we have completely moved away from 'checklists'). The inflation targets introduced in the 1990s were backed up by analysis showing that keeping inflation low improved economic performance and the welfare of the population. The exact level of the target is less relevant. Measurement issues mean it needs to be above zero, but provided it is low enough that inflation is not distorting decisions, it matters little exactly what the target is. A target of 2% or 2½% will do just as well as the other, with no benefit to switching between them.

The tendency to frame a desirable objective with a potentially ill-conceived metric or target level is not confined to economic policy. We are seeing something similar in current debates on defence spending. Who is to say that a particular share of GDP is the 'right' amount to spend on defence?

> **"..targets can be misconceived...or the metric might be reasonable but the target level completely arbitrary."**

After all, it would be all too easy to meet a spending target by wasting a large amount of money: think military bases in the wrong place, and overpriced equipment that doesn't work or isn't appropriate to modern warfare. And it is hard to withstand arguments along the lines of, 'how can you justify not spending every available dollar and bearing any conceivable cost to save lives or avoid this existential risk?'

The counter to these sorts of arguments is one of the most basic concepts in economics: opportunity cost. Choosing to spend money (or time) on one thing means not spending that money or time on anything else. Giving up that 'anything else' is the opportunity cost. So the right question is to ask ourselves is: 'how can we save lives or preserve our way of life in the most effective way possible, so that we don't have to impose costs on people that end up undermining society's resolve to achieve that goal?'

There is also the issue of what counts as defence spending. To be honest, if I were appointed national security advisor for a day, among my first priorities would be to massively fund university research into alternative battery and magnet technologies that do not rely on rare-earth metals for which single countries dominate supply, as well as research into cleaner processing of those minerals. That would not even count as defence spending.

My other initial priority – fostering a domestic drone industry, including design, manufacturing and operation – would probably also not count as defence spending, given that civilian uses would do just as well to build up that capability.

On top of the defence-specific and national security issues here, how the debate about the appropriate level of defence spending plays out has broader economic implications. Increased defence spending need not translate one-for-one into higher government spending, let alone larger government deficits. Governments will try to find savings and trade-offs elsewhere to make things fit; that is opportunity cost in operation. But to the extent that it does boost government borrowing, this has implications for bond markets, for the global level of yields, and for the size and shape of private investment. With increased resolve in Europe and Germany changing its constitution to enable re-armament, some upward pressure on yields seems inevitable. This will depend, though, on what other choices governments make.

Cliff Notes: labour market resilience critical to the outlook

Elliot Clarke, Head of International Economics
Mantas Vanagas, Senior Economist
Ryan Wells, Economist
Illiana Jain, Economist

In Australia, all eyes were on the May Labour Force Survey amid an otherwise quiet domestic calendar. In the event, the level of employment edged slightly lower following last month's surge, falling by –2.5k in May. While this was on the softer side of expectations, it is worth highlighting that the current trend for employment growth remains stable and robust at a three-month average pace of 2.3%yr, unchanged from five months ago and a strong result versus history.

This modest decline in employment was met with a slight pull-back in the participation rate to 67.0%, allowing the unemployment rate to hold steady at 4.1% for a fourth consecutive month, marking around a year-and-a-half of readings at or slightly above 4.0%. Emphasising the current resilience in labour demand, average hours worked rebounded back towards its long-run trend following prior disruptions, aiding a continued modest downtrend in the underemployment rate.

This latest reading is unlikely to shift the dial for the RBA who consider the labour market tight relative to full employment. Overall, we remain comfortable with our view that the RBA's next rate cut is most likely to occur in August. The Board is cognisant of the downside risks to global and domestic growth. But the RBA have made it clear they want to adjust policy in a cautious and predictable manner, warranting another quarterly reading on inflation and time to assess global conditions before the balance of risks is re-evaluated.

Across the Tasman, New Zealand GDP rose by 0.8% in the March quarter, slightly ahead of market forecasts, albeit not as broad based as anticipated. With the economy regaining its footing sooner than expected after last year's sharp downturn, our NZ economics team continue to expect the RBNZ to take the opportunity to pause and assess at its July OCR review.

Further afield, the US FOMC kept rates steady at their June meeting, believing a reactive approach to policy is prudent. Broadly, the FOMC remain positive on the health of the US economy, a view based on the underlying pulse in private final demand to abstract from trade volatility. The Committee's median GDP forecast was revised down from 1.7%yr to 1.4%yr in 2025 and from 1.8%yr to 1.6%yr in 2026, reflecting the impact on confidence and economic activity of the Administration's trade policies. Still, the revised forecasts are only marginally below the FOMC's estimate of trend growth (1.8%yr), and the unemployment rate is expected to peak around 4.5%, just above the full employment level of 4.2%.

On inflation, the FOMC are clear that someone will eventually have to pay for the tariffs, and it is most likely to be the US consumer. Still, the net impact on consumer inflation is seen as modest and short lived. Annual headline and core inflation is forecast to top out around 3.0% at end-2025 then decelerate quickly back towards target, to 2.4%yr in 2026 and 2.1%yr come 2027. The full range of forecasts from Committee members points to a greater degree of apprehension over the risks for inflation than economic activity and employment. The top-of-range forecast for core inflation is 3.5%yr in 2025 and around 3.0%yr in 2026 and 2027. These are outcomes that would require monetary policy to remain restrictive throughout this period instead of returning to neutral as per the Committee's median view.

"Latest reading is unlikely to shift the dial for the RBA who consider the labour market tight relative to full employment."

We continue to see downside risks to growth and employment compared to the FOMC's expectations, forecasting GDP growth of 0.9%yr,1.0%yr and 1.5%yr in 2025–2027 and a sustained lift in the unemployment rate to 4.8%. But we also expect to see more persistent inflation pressures and risks in 2026 and 2027, more as a result of supply constraints than delayed tariff effects. In our view, it is therefore most probable that the FOMC will be on hold at a mildly contractionary level of 3.875% in 2026 and 2027 after two 25bp cuts in H2 2025.

The Bank of England's Monetary Policy Committee also kept Bank Rate unchanged at 4.25% in June. Six committee members supported the decision, while three members voted for a 25bp cut. The minutes revealed the majority view was supported by the recent pickup in inflation, which is expected to persist in the second half of the year. Meanwhile, those in favour of lowering Bank Rate emphasized the further loosening in labour market conditions. Indeed, the whole committee acknowledged that, together with weak underlying GDP growth, the labour market is pointing to a margin of slack opening up over time. While pay growth is moderating as a result, the committee are yet to be convinced it is dampening consumer inflation.

The MPC continued to assess that risks to inflation are two-sided, particularly given the recent increase in energy prices and "heightened unpredictability in the economic and geopolitical environment". The MPC's forward guidance was left unchanged, emphasising "a gradual and careful approach to the further withdrawal of monetary policy restraint". To date, this approach has been consistent with a 25bp cut per quarter, a pace we believe will be maintained through the remainder of 2025, with the next 25bp cut coming in August after further evidence of moderating pay growth.

In Japan, the Bank of Japan held the policy rate steady at 0.5% and announced its purchase of Japanese Government Bonds (JGBs) through March 2027. The pace of purchases will be reduced by ¥200bn per quarter from June quarter 2026 to March quarter 2027 compared to the ¥400bn per quarter reduction outlined in last year's plan and in place until March quarter 2026. The messaging around tapering was consistent with the 2024 statement: the BoJ is prepared to intervene should long-term interest rates rise sharply, and will amend the plan at subsequent meetings if necessary.

To provide greater liquidity to the market, there were two changes to the Securities Lending Facility. These include broadening the bonds available for lending to 10-year JGBs maturing after 2031, and continuing to lend from its balance sheet until outstanding bonds (i.e. those not owned by the BoJ) to reach ¥1.5trn (previously ¥1.2trn) – changes that likely come as a result of feedback from market participants.

The Committee continues to describe financial conditions as 'accommodative' and believes achieving their inflation target in the medium-term remains probable. Though, given global uncertainty, we maintain the BoJ will wait until the March 2026 RENGO decision before raising rates again – continued robust wage growth and passthrough to inflation warranting taking the next step.

Finally to China. Signs of improving confidence and effective policy were evident in the latest consumption data, retail sales growth accelerating from 5.1%yr in April to 6.4%yr in May (5.0%ytd) mostly as a result of discretionary spending. However, there was no such improvement in the property market, new and existing home prices falling in May, respectively -0.2% and -0.5%, and property investment still down 10.7%ytd. Industrial production continues to carry solid momentum, 6.3%ytd, and new capacity is being invested in, with total fixed asset investment up 3.7%ytd despite the drag from the property sector. Authorities 5.0% growth target for 2025 remains readily achievable. Though to ward off downside risks for 2026, gains need to be made in housing.

Watching, worrying and waiting

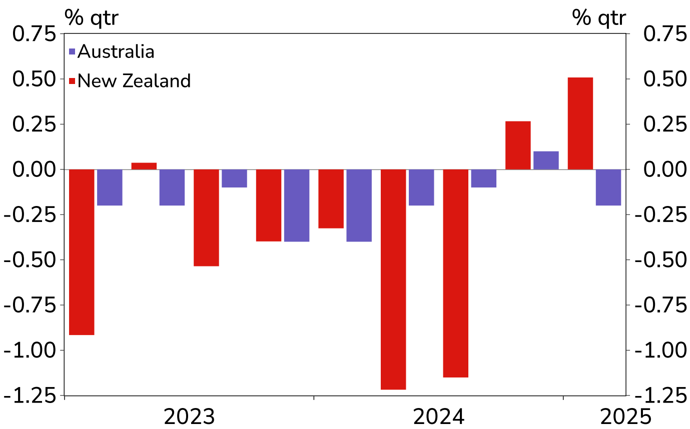
Kelly Eckhold
Chief Economist NZ

We are in an environment of better, albeit still bumpy, growth and rising inflation that is testing the limits of the RBNZ's 1-3% inflation target range. The RBNZ will likely sit the July meeting out and keep a close eye on which of the competing growth and inflation drivers will dominate over the balance of the year.

Economic indicators and news have been all over the place in recent weeks. We see elements of the data that look consistent with the baseline view that 2025 will be a year of gradual recovery. But at the same time there are many potentially severe crosscurrents that could mean the recovery is bumpy.

Probably the highlight of this week's domestic calendar was the release of March quarter GDP. Readers will remember that the last GDP print released back in March provided a solid upside surprise for Q4 2024 growth at 0.7%q/q - a welcome respite from the two quarters of sharply negative GDP growth seen in the middle of 2024. Expectations had been for a lighter result for the March quarter until partial indicators released in the last couple of suggested another solid 0.7%q/q outcome.

GDP Per Capita, New Zealand and Australia



Source: Stats NZ, ABS, Macrobond, Westpac Economics

The outcome was more solid again at 0.8% q/q – although those recessionary quarters last year mean that annual growth still languishes in negative territory at -0.7% y/y. The December quarter result was revised down to a 0.5%q/q rise, but the June and September quarters were revised to be slightly less weak than before. Per capita GDP took a second consecutive step higher in the March quarter. We have now had a couple of quarters where New Zealand per capita growth has outstripped that of Australia. Indeed, New Zealand's Q1 growth rate is the strongest among the advanced economies – no doubt reflecting the lower level of interest rates and strong terms of trade New Zealand currently enjoys.

Despite the stronger headline result for the March quarter, the pickup in activity wasn't as broad-based as we were expecting. There were larger-than-expected contributions from professional services and healthcare, along with modest gains across a range of other sectors. However, we saw some surprising declines in a range of services such as finance, communications, real estate, and arts and recreation.

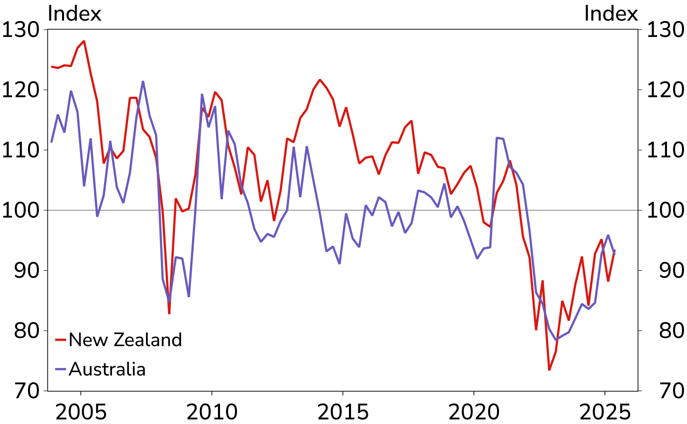
It's possible that some of these surprises could be unwound in the next quarter. But given that they go in both directions, we suspect that on balance there are no implications for our forecast. We're currently expecting a 0.6%q/q lift in activity in the June quarter, though with downside risks to this given the seasonality that has crept into the GDP figures lately (which we think leads June quarters to be understated and December quarters to be overstated). The RBNZ noted in the May MPS that its forecast of a soft 0.2% rise for the June quarter included an allowance for this pattern.

Other indicators have also point to the likelihood of a bumpy recovery. The manufacturing and services PMI indices took a sharp step backwards late last week and early this week. Also, the housing market took a pause in May as prices only rose around 0.1%m/m on a seasonally adjusted basis and the median time taken to sell a home rose from 43 to 46 days. There's plenty going on out there in the world that could potentially worry businesses and consumers. The RBNZ downgraded its short-term growth outlook significantly on expectation of a growth hiccup. Perhaps some of the more recent indicators are consistent with that.

Some slightly better news came in the form of Westpac's long standing consumer confidence survey for the June quarter. Confidence rose slightly from three months ago but remains below long run average levels. We have good reasons to expect confidence to improve over the year ahead given the now low level of interest rates and the expected eventual recovery of the labour market later in 2025.

On the inflation front, the news is less welcoming. The inflation dragon is stirring again, and we have had to revise up our forecast for inflation. We now expect a 0.6%q/q rise in consumer prices over the June quarter (up from 0.4%q/q previously). This is mainly due to stronger food prices (now running at 4.4% y/y) as strong export commodity prices pass through to higher domestic prices at the checkout. Annual inflation will hence rise to 2.8% in the June quarter, from 2.5% in the year to March. Importantly, inflation now looks like it will rise to 3.0%y/y in the September quarter and end 2025 at 2.9%y/y.

Australasian Consumer Confidence - Seasonally Adj.



Source: Westpac New Zealand, Melbourne Institute of Applied Economic & Social Research, Macrobond, Westpac Economics

While the current strength in food prices is boosting inflation, underlying inflation pressures also aren't especially weak. Core inflation (CPI ex food and energy) is set to remain around 2.7%-2.8%y/y through to the end of this year. Notably, domestic (non-tradables) inflation is easing only gradually and is likely to remain above average over the coming year. Although rents and the more interest rate sensitive parts of the domestic economy have cooled significantly, there continue to be strong increases in utilities prices like household energy. We also expect another large increase in local council rates in Q3.

Our updated forecast for June quarter CPI is higher than the 0.5%q/q increase the RBNZ depicted in its May forecasts. Importantly, it looks likely that inflation will remain above the RBNZ's forecasts over the remainder of this year. As a result, it rather looks like a pause in the easing cycle is on the cards. While there may be a few wobbles underway for the economy in Q2, the March quarter outcome was more solid than the RBNZ expected, hence the starting point for the economy will be one of slightly less excess capacity. But the real swing factor is the inflation outlook. Assuming our forecasts are close to the mark, then the RBNZ won't see inflation peak until October when the Q3 CPI data are released. Until then they will be on tenterhooks, wondering whether, and by how much, CPI inflation will breach 3%. They will reasonably wonder what businesses and consumers might make of it all and whether inflation expectations rise further as we move through 2025.

"... might it be that the RBNZ will be watching, worrying and critically be waiting for the rest of 2025?"

We still have an easing pencilled in for the August Monetary Policy Statement, but might it be that the RBNZ will be watching, worrying and waiting for the rest of 2025? Perhaps so. There's certainly plenty of scope for global uncertainties to overshadow the growth outlook in coming months. But we should also remember that uncertainty is a transitory factor that will ultimately pass. The strong level of the terms of trade and especially the low level of interest rates, held at current levels for long enough, will be more persistent influences on New Zealand's growth and inflation trajectories.

March quarter GDP growth – selected countries

Country	2025 Q1 GDP growth q/q
Sweden	-0.2
Norway	-0.1
United States	0
Japan	0
France	0.1
Australia	0.2
Germany	0.4
Canada	0.5
Euro Area	0.6
United Kingdom	0.7
New Zealand	0.8

Source: National Statistical agencies, Macrobond

AUS: May Monthly CPI Indicator (%yr)

Jun 25, Last: 2.4 Westpac f/c: 2.3
Market f/c: 2.4, Range: 2.1 to 2.5

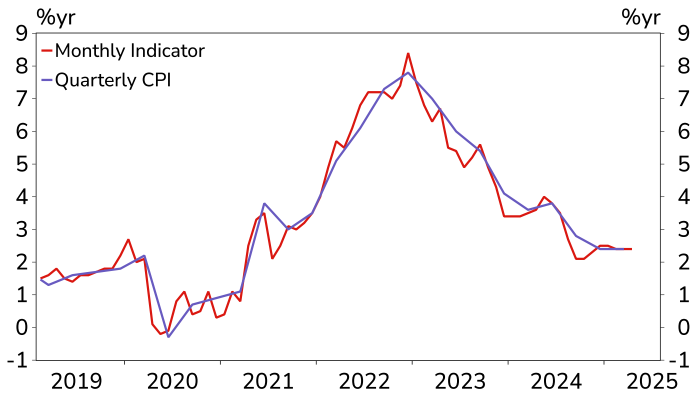
The Monthly CPI Indicator gained 2.4% in the year to April with was a 0.8% month-on-month gain being boosted by a larger medical & hospital services and dwelling prices. The April Trimmed Mean estimate was 2.8%yr, up very slightly from a 2.7%yr pace in March.

Westpac is forecasting a –0.2% decline for May taking the annual pace down a touch to 2.3%yr. This is a seasonal decline with our seasonally adjusted Monthly =CPI lifting 0.2% in May.

Being the second month of the quarter May provides an update on some of the quarterly survey services including restaurant meals, hairdressing & grooming, other household services, maintenance & repairs plus other motor vehicle services, audio visual & computing services and other recreational services.

Consumer Price Index

Headline CPI



Source: ABS, Macrobond, Westpac Economics

AUS: Q2 Job Vacancies (%qtr)

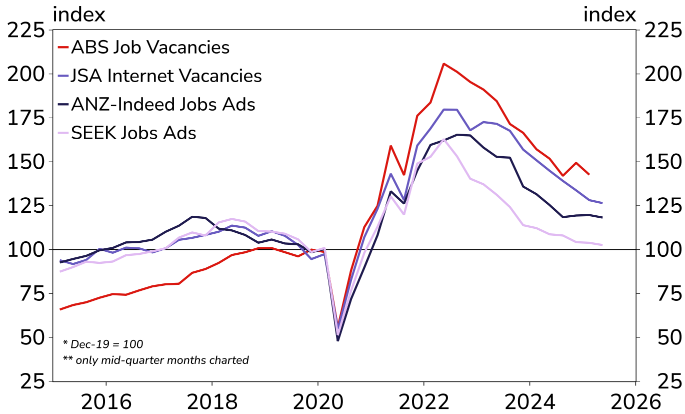
Jun 26, Last: –4.5, Westpac f/c: –1.5

Job vacancies fell by –15.6k (–4.5%) between November and February. This follows a lift in the quarter prior, leaving vacancies broadly unchanged over the past six months.

Based on other monthly data covering job vacancies and advertisement flows and stocks, we anticipate another decline in the official ABS measure of vacancies within the realm of –1.5% in Q2. This would be consistent with an ongoing but gradual easing in labour demand.

The industry mix will provide an important update on how pressures are evolving across the economy. Labour demand in the health care and social assistance industry has barely eased to date, with vacancies reported to be nearly three-times its pre-pandemic average level.

Labour demand easing but still fairly gradual



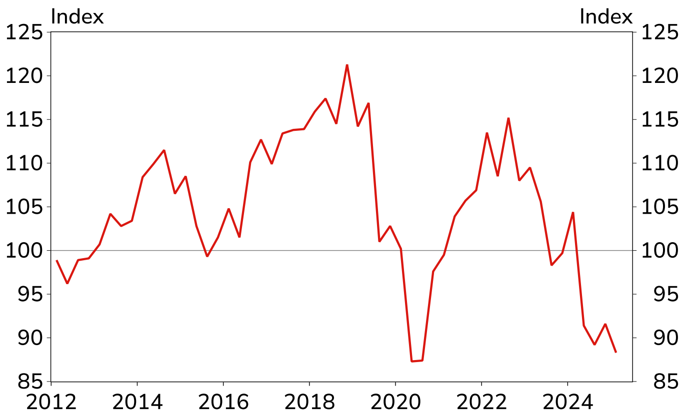
Source: ABS, Jobs & Skills Australia, ANZ-Indeed, SEEK Australia, Macrobond, Westpac Economics

NZ: Q2 Westpac-McDermott Miller Employment Confidence Index

Jun 24, Last: 88.3

The Employment Confidence Index fell by 3.3 points in the March quarter, returning to near its post-Covid lows. Households' perceptions about job availability were softer across the country, supporting our view that the unemployment rate likely has further to go before it peaks this year. However, there was more variation in the earnings measures, with the rural regions more upbeat on the back of stronger meat and dairy prices. The latest survey was conducted in early June.

Employment confidence softened in Q1



Source: Westpac New Zealand, Macrobond, Westpac Economics

What to watch

	For	Data/Event	Unit	Last	Market f/c	Westpac f/c	Risk/Comment
Mon 23							
Jpn	Jun	Jibun Bank Manufacturing PMI	index	49.4	–	–	Manufacturing sentiment remains below the neutral level …
	Jun	Jibun Bank Services PMI	index	51.0	–	–	… while services sector firms are more optimistic.
Eur	Jun	HCOB Manufacturing PMI	index	49.4	–	–	Manufacturing activity an a secular downward trend.
	Jun	HCOB Services PMI	index	49.7	–	–	Services PMI dipped below 50 in May
UK	Jun	S&P Global Manufacturing PMI	index	46.4	–	–	US tariffs weighing on UK manufacturers…
	Jun	S&P Global Services PMI	index	50.9	–	–	… but services are holding up better.
US	Jun	S&P Global Manufacturing PMI	index	52.0	51.0	–	So far consistent with stable US growth momentum.
	Jun	S&P Global Services PMI	index	53.7	52.9	–	Services sector leading the way.
	May	Existing Home Sales	%mth	–0.5	–1.3	–	Low market activity due to high interest rates and uncertainty.
		Fedspeak	–	–	–	–	Waller, Goolsbee. Williams, Kugler, Hammack.
Tue 24							
NZ	Q2	Westpac-MM Empl. Confidence	index	88.3	–	–	Job opportunities were seen as weak in Q1.
Ger	Jun	IFO Business Climate Survey	index	87.5	88.3	–	Sentiment in Germany on the upward trend.
US	Apr	S&P/CS Home Price Index	%mth	–0.12	–	–	Economic uncertainty keeping house price growth lower.
	Jun	Richmond Fed Manufact Survey	index	–9	–	–	Manufacturers waiting for more certainty on tariffs.
	Jun	CB Consumer Confidence	index	98.0	99.0	–	Sentiment started recovering in May.
		FOMC Chair Powell	–	–	–	–	Semi-annual policy testimony to House Committee.
		Fedspeak	–	–	–	–	Williams and Collins are scheduled to speak.
Wed 25							
Aus	May	Monthly CPI Indicator	%yr	2.4	2.4	2.3	Seasonally a soft month but how much will electricity bounce?
NZ	May	Trade Balance	$mn	1426	–	1440	Another large surplus as exports hit a seasonal peak.
US	May	New Home Sales	%mth	10.9	–6.7	–	A sharp increase in April is set to be reversed.
Thu 26							
Aus	Q2	Job Vacancies	%qtr	–4.5	–	–1.5	Continued but gradual easing.
UK		BoE Governor Bailey	–	–	–	–	Speaking at British Chamber of Commerce conference.
US	Q1	GDP	%ann'd	–0.2	–0.2	–	Final estimate is set to confirm a small contraction in Q1.
	May	Chicago Fed Activity Index	%mth	–0.25	–	–	Somewhat stronger growth on the cards after a dip in April.
	May	Durable Goods Orders	%mth	–6.3	6.9	–	After April's drop, expected to jump back up.
	May	Pending Home Sales	%mth	–6.3	0.0	–	High interest rates should keep growth low.
	Jun	Kansas City Fed Manufact Survey	index	–3	–	–	Manufacturers waiting for more certainty on tariffs.
		Initial Jobless Claims	000s	245	–	–	Increased recently, but levels are still low historically.
		Fedspeak	–	–	–	–	Speeches by Barkin and Hammack.
Fri 27							
NZ	Jun	ANZ Consumer Confidence	index	92.9	–	–	Treading water in the face of economic uncertainty.
Jpn	May	Jobless Rate	%	2.5	2.5	–	Stable unemployment rate.
	Jun	Tokyo CPI	%yr	3.4	3.3	–	Leading indicator for national CPI.
Chn	May	Industrial Profits	%yr	3.0	–	–	US tariffs might start squeezing corporate profits.
Eur	Jun	Economic Confidence	index	94.8	–	–	Most comprehensive economic sentiment survey in EA.
US	May	Personal Income	%mth	0.8	0.2	–	So far income growth has remained elevated…
	May	Personal Spending	%mth	0.2	0.2	–	…supporting consumer spending.
	May	PCE Deflator	%mth	0.1	0.1	–	Annual pace only slightly above the 2% target.
	Jun	Uni. of Michigan Sentiment	index	60.5	60.5	–	Final estimate to confirm a recovery.

Economic & financial forecasts

Interest rate forecasts

Australia	Latest (20 June)	Sep–25	Dec–25	Mar–26	Jun–26	Sep–26	Dec–26	Mar–27	Jun–27
Cash	3.85	3.60	3.35	3.10	2.85	2.85	2.85	2.85	2.85
90 Day BBSW	3.69	3.65	3.45	3.20	3.00	3.00	3.05	3.05	3.05
3 Year Swap	3.29	3.40	3.50	3.65	3.80	3.85	3.90	3.95	4.00
3 Year Bond	3.34	3.45	3.55	3.70	3.85	3.90	3.95	4.00	4.00
10 Year Bond	4.21	4.30	4.35	4.40	4.45	4.55	4.60	4.65	4.70
10 Year Spread to US (bps)	–18	–20	–20	–20	–20	–15	–15	–15	–15
United States									
Fed Funds	4.375	4.125	3.875	3.875	3.875	3.875	3.875	3.875	3.875
US 10 Year Bond	4.39	4.50	4.55	4.60	4.65	4.70	4.75	4.80	4.85
New Zealand									
Cash	3.25	3.00	3.00	3.00	3.00	3.00	3.25	3.50	3.75
90 Day Bill	3.29	3.10	3.10	3.10	3.10	3.20	3.45	3.70	3.85
2 Year Swap	3.29	3.30	3.35	3.50	3.65	3.80	3.90	3.95	4.00
10 Year Bond	4.59	4.65	4.70	4.75	4.80	4.85	4.90	4.95	4.95
10 Year Spread to US (bps)	20	15	15	15	15	15	15	15	10

Exchange rate forecasts

	Latest (20 June)	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27
AUD/USD	0.6490	0.66	0.68	0.69	0.70	0.71	0.71	0.72	0.72
NZD/USD	0.6000	0.60	0.61	0.61	0.62	0.62	0.62	0.63	0.63
USD/JPY	145.3000	143	141	139	137	136	135	134	133
EUR/USD	1.1526	1.15	1.16	1.17	1.18	1.18	1.18	1.18	1.18
GBP/USD	1.3496	1.36	1.36	1.37	1.37	1.37	1.37	1.38	1.38
USD/CNY	7.1804	7.15	7.10	7.05	7.00	6.95	6.90	6.85	6.80
AUD/NZD	1.0816	1.10	1.12	1.13	1.13	1.14	1.14	1.14	1.14

Australian economic growth forecasts

	2025				2026				Calendar years			
% Change	**Q1**	**Q2f**	**Q3f**	**Q4f**	**Q1f**	**Q2f**	**Q3f**	**Q4f**	**2024**	**2025f**	**2026f**	**2027f**
GDP %qtr	0.2	0.6	0.4	0.5	0.5	0.5	0.6	0.6	–	–	–	–
%yr end	1.3	1.7	1.8	1.7	2.0	2.0	2.1	2.2	1.3	1.7	2.2	2.6
Unemployment rate %	4.1	4.1	4.3	4.4	4.4	4.5	4.5	4.5	4.0	4.4	4.5	4.3
Wages (WPI) %qtr	0.9	0.8	0.7	0.6	0.8	0.8	0.7	0.7	–	–	–	–
%yr end	3.4	3.4	3.2	3.1	3.0	2.9	2.9	3.0	3.2	3.1	3.0	3.0
CPI Headline %qtr	0.9	1.0	0.9	0.6	0.6	0.8	0.7	0.5	–	–	–	–
%yr end	2.4	2.4	3.1	3.4	3.1	3.0	2.7	2.7	2.4	3.4	2.7	2.6
CPI Trimmed Mean %qtr	0.7	0.8	0.7	0.5	0.5	0.6	0.6	0.6	–	–	–	–
%yr end	2.9	2.8	2.7	2.7	2.5	2.3	2.2	2.3	3.3	2.7	2.3	2.6

New Zealand economic growth forecasts

	2025				2026				Calendar years			
% Change	**Q1f**	**Q2f**	**Q3f**	**Q4f**	**Q1f**	**Q2f**	**Q3f**	**Q4f**	**2024**	**2025f**	**2026f**	**2027f**
GDP %qtr	0.8	0.6	0.7	0.9	0.8	0.7	0.7	0.7	–	–	–	–
Annual avg change	–1.1	–0.7	0.4	1.5	2.4	3.0	3.0	3.0	–0.6	1.5	3.0	2.7
Unemployment rate %	5.1	5.3	5.3	5.2	5.0	4.8	4.6	4.4	5.1	5.2	4.4	4.1
CPI %qtr	0.9	0.6	0.8	0.5	0.5	0.4	0.9	0.4	–	–	–	–
Annual change	2.5	2.8	3.0	2.9	2.5	2.2	2.3	2.2	2.2	2.9	2.2	2.0

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