



Week beginning 11 August 2025

AUSTRALIA & NEW ZEALAND WEEKLY

Analysis and forecasts for this week's key releases.

In this week's edition:

Economic Insight: Productivity action? Tax is a distraction.

The Week That Was: Fiscal uncertainty a concern for both the short and long-term.

Focus on New Zealand: Labour market remains soft, but no surprises.

For the week ahead:

Australia: RBA policy decision, labour market data, WPI, housing finance approval, NAB business survey.

New Zealand: Retail card spending, monthly selected price indices, and REINZ house sales and prices.

China: Retail sales, industrial production, and fixed asset investment.

United Kingdom: Q2 GDP, trade balance and labour force statistics.

United States: July CPI, retail sales, industrial production, Uni of Michigan consumer confidence.

Information contained in this report current as at 8 August 2025

Past performance is not a reliable indicator of future performance. The forecasts given above are predictive in character. Whilst every effort has been taken to ensure that the assumptions on which the forecasts are based are reasonable, the forecasts may be affected by incorrect assumptions or by known or unknown risks and uncertainties. The results ultimately achieved may differ substantially from these forecasts.

Productivity action? Tax is a distraction



Luci Ellis
Chief Economist, Westpac Group

- **Why are we even worried about boosting productivity growth?** For some, it stems from a (somewhat misplaced) concern about international competitiveness better addressed through the exchange rate. The real reason to care is that higher productivity boosts living standards, and the other supports of living standards (labour force participation and higher terms of trade) are unlikely to contribute as much in the future as they did in the past quarter-century.
- **Labour productivity (Stuff Divided by Time)** is in turn determined by the Skills of the workforce, the Stock of capital and the Smarts with which the two are combined and organised.
- **Changing tax policy** is said to encourage business investment and so deepen the capital stock and boost productivity. But, even on the Productivity Commission's own modelling in support of the change, the level of productivity will only increase by 0.4%. This is not nothing, but other reforms seem likely to be more fruitful.

The current debate and impending roundtable take it as given that productivity is an appropriate policy goal. Why, after all, should it matter how 'productive' we are? And why do so many people think that changing the tax system is the answer?

For some, the concern stems from a fear of a loss of international competitiveness. If we are not more productive, this line of thinking goes, we will not be able to sell our wares overseas and so will forgo income. But this kind of competitiveness actually boils down to price. Plenty of economies with low productivity levels manage to be competitive by being low-priced, just as plenty of others (think Switzerland) can be highly competitive with high wages because their productivity is high. Where there is some misalignment or underperformance, the issue is usually an overvalued exchange rate, and that is where the solution also usually lies.

The real reason we should be concerned about productivity levels relates to living standards more broadly. Treasury has [long focused on '3Ps'](#) – population, participation and productivity – as a framework for thinking about long-run growth. Living standards are inherently a per-person concept, so population growth does not necessarily help on that front. The other two 'P's do matter for living standards as well as overall growth. We can enjoy higher living standards if more of us are working, or working longer. We can also enjoy higher living standards if we get more out of each hour worked: recall that [productivity is just 'Stuff Divided by Time'](#).

There is also another 'P' specific to living standards – price, specifically relative prices of the things we export versus those we import (the terms of trade). If we can enjoy more stuff by selling the same amount of other stuff, that results in a higher standard of living.

Higher participation and the higher terms of trade have certainly boosted Australians' living standards over the past quarter-century. Thanks to rising participation of women and older workers, population ageing has not resulted in a shrinking workforce. Increased part-time working has partly offset rising participation in terms of the hours of labour supplied, but the number of available working hours per working-age person has been broadly stable since 2000. Higher prices for iron ore and our other minerals exports have also been a significant support to Australia's living standards over the same period.

"If tax reform is the answer, it is hard to see how boosting productivity growth was the question"

As Westpac colleague Senior Economist Pat Bustamante [pointed out recently](#) though, there might not be so much upside from these sources in the future as there was in the past. There are limits to how far participation can rise when the working-age population includes 15-year-olds still in school, full-time parents, people with health issues and people in their 90s. And Australia's terms of trade are unlikely to stay as high as they have been, let alone increase, now that China has reached the ['Peak Steel' stage of development](#). Thus the focus is on productivity growth, where there is no ceiling and the only constraint is our ability to innovate and adapt.

The drivers of productivity come in threes

To the '3Ps' driving living standards, we can add the '3Ss' driving labour productivity: the Skills of the workforce, the Stock of capital, and the Smarts with which we put the two together (also known as 'multifactor productivity' or MFP, but don't let the jargon bamboozle the discussion).

It is intuitive to expect that highly skilled workers produce more than lower-skilled ones doing the same job. The ABS produces estimates of 'Quality Adjusted Labour Input', where

quality is imputed from age (a proxy for experience) and education. Both drivers have increased significantly – and note that this is another reason not to catastrophise too much about the ageing population. Recent RBA research suggests that labour quality increased in the post-pandemic period and accounted for much of the roughly 6% increase in market-sector productivity over the past decade. So this cannot be the source of disappointing productivity growth.

‘Smarts’, known as MFP, has been part of the drag on productivity growth, though caution is needed when drawing conclusions here because MFP is not directly observed and must be inferred as a residual. Previous [work by the Productivity Commission \(PC\)](#) has highlighted that MFP has slowed or even gone backwards in some industries. Part of this seems to be that the ‘frontier’ of what is possible with current inputs has not been rising as quickly as it did in the 1990s. There also seems to be an increase in ‘inefficiency’, the shortfall between the theoretical result of combining current labour and capital resources, and actual output. A third issue, that obsolete capital has not been appropriately deducted from measures of the capital stock, [might also be at play](#).

The focus on tax reform as a means of boosting productivity stems from the role of the capital stock in productivity, giving workers better, more effective tools. Consider that a worker driving a forklift can shift more in an hour than the same worker with a wheelbarrow, and that an automated warehouse where the worker supervises robots will shift even more.

Investment has been weak outside the mining sector ever since the GFC. This is partly because it has been squeezed, first by the mining boom and more recently by public infrastructure spending. It is at least arguable that the higher productivity and spillovers from the investment that did occur in these (high-productivity) sectors outweighed the productivity boost that would have occurred had the investment spend occurred in other industries.

The weakness goes beyond the squeeze from mining and public spending, though. This is the context for the PC’s [advocacy](#) for changes to the tax system. It is intuitive that lower corporate tax, by reducing the (post-tax) cost of capital, encourages business investment, and so boosts the capital stock and thereby labour productivity.

It should be noted that weak investment is not an Australian-specific issue but rather is evident across advanced economies. Indeed, the decline since the GFC in the rate of growth in the capital stock in Australia was smaller than in many other peer economies, according to [recent OECD research](#). This should make us sceptical that a relatively less competitive tax system is really the issue here.

Perhaps more germane is the question of how much difference the proposed tax changes would make. The PC, appropriately, commissioned modelling of the impact of the proposals on investment and productivity. This exercise found that the proposed tax changes lift productivity by just 0.4%. This is a

levels effect not a boost to the growth rate every year. That is not nothing, but in the scheme of things it is small beer. To put a 0.4ppt increase in labour productivity in perspective, you could achieve the same result if measured labour market productivity in the mining sector had fallen only 17½% instead of nearly 20% since 2020, or if only one-third of the shift from the market sector to the care economy had happened. The annual revisions to overall labour productivity can also be as high as 0.4ppts in some years, though usually they are closer to 0.1ppt a year.

There might well be good reasons to reform the tax system. But if tax reform, especially corporate tax reform, is the answer, it is hard to see how boosting productivity growth was the question. Other initiatives, including the deregulation initiatives proposed in the same interim PC report, are likely to be more fruitful, and deserve more attention.

Cliff Notes: fiscal uncertainty a concern for both the short and long-term

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

After a bumper run of data, local markets were provided space for reflection this week. The main release was the [household spending indicator](#) which, upon the cessation of the retail sales release last week, is now the sole official indicator of consumer spending. In June, nominal spending growth was on trend, rising 0.5% for a 1.0% quarterly gain. After adjusting for inflation, real spending increased 0.7% in Q2 following an upwardly revised 0.5% lift in Q1.

Our [Westpac-DataX Consumer Panel](#) corroborates this signal of firming momentum, indicating real spending grew by a solid 1.5% in Q2 after a 0.6% increase in Q1 – driven by discretionary categories across all demographics. Spending growth was not as strong for older Australians (65+), however, perhaps reflective of the recent financial market volatility and high cost of living. The Panel's detailed insights behind household income and saving flows suggest the latest lift in spending did not come at the expense of a reduction in the savings rate, also reporting a solid quarter for average net incomes (+2.9%) and, to a lesser extent, a pick-up in personal credit usage during EOFYS – as evinced by official credit data last week.

Overall, our Panel suggests the consumer recovery is on a relatively firm footing heading into mid-year – a welcome signal in line with our expectations. This follows what has been a fairly gradual recovery in consumer spending to date, which is understandable given the depth and length of the contraction in real per capita incomes. Abating cost-of-living pressures are a crucial factor underlying the current recovery; thankfully, [inflation is expected to remain within the target band](#), justifying 100bps of rate cuts beginning at next week's August RBA meeting through May 2026 to a neutral terminal cash rate of 2.85%.

On the medium-term view, ahead of the Government's upcoming Productivity Roundtable, [Chief Economist Luci Ellis'](#) essay this week focuses on tax policy, productivity and the eventual aim, improving living standards.

Before moving offshore, it is also worth highlighting that [Australia's goods trade](#) data continues to exhibit extreme volatility as global trade networks attempt to adjust to the Trump trade policy era – see below for the latest developments. While the surplus bounced up to \$5.4bn in June from a downwardly revised \$1.6bn in May, we expect the broader multi-year trend of a narrowing surplus to remain in place into the medium-term, as commodity prices step back from recent highs and the Aussie dollar strengthens.

Turning to the US, last Friday's weak employment report remained participants focus all week, the reduction in the

3-month average pace of nonfarm payroll growth from 150k to 35k seen as a break in the labour market trend [and evidence of building downside risks](#). Notably, household survey employment has been weaker still, declining 132k per month since January; had it not been for a 0.4ppt decline in participation over the period, the unemployment rate would now be around 4.6% as opposed to the 4.2% reported by the BLS for July.

Given this shift, it is unsurprising that the market is now pricing in 60bps of FOMC rate cuts by end-2025 and a cumulative 130bps by end-2026. In our view though, this ignores the inflation persistence and risks that have held back the FOMC in recent months and which we expect to endure. Against the market's 130bps of easing to end-2026, we instead expect just 50bps of cuts (by end-2025), with the impact on the long end of the US yield curve more than offset by rising fiscal uncertainty.

Adding to that uncertainty this week, President Trump imposed another 25% tariff on India in response to their purchases of Russian energy, but did not act against China even though the latter nation is also a major customer of Russian energy companies. A 100% industry tariff was also mooted for semiconductors produced by firms not investing in the US, albeit without detail on the terms, scale or timing of the expected investment. President Trump has previously signalled a similar approach for pharmaceutical production and imports, again without providing any detail. In such a climate, it is difficult for US businesses to justify a material expansion of capacity outside very specific sub-industries such as semiconductors and AI infrastructure. Providing another point to ponder, just announced this morning is that Stephen Miran, currently Chair of the Council of Economic Advisors, has been appointed to the Federal Reserve Board Governor position vacated by Adriana Kugler, but only until January 31 2026.

Meanwhile in the UK, the Bank of England's Monetary Policy Committee (MPC) cut its Bank Rate by 25bp to 4.0%, a level last seen in March 2023. While the eventual outcome aligned with both our and the market's expectations, for the first time ever, the MPC was required to vote a second time after a three-way split in the first vote, four members voting to leave policy unchanged, four for a 25bp cut and one for a 50bp cut. In the second vote, the five members wanting to ease policy this month coalesced on a 25bp cut, creating a majority.

The minutes of the meeting revealed that those favouring a cut were most concerned by disinflationary pressure from emerging slack in the labour market, evinced by the moderation in underlying wage growth. The four members in the minority, however, emphasised that, following a recent

increase in headline inflation, “the disinflationary process had slowed and the risk of inflation expectations feeding through to second-round effects had risen.” The updated BoE projection for the CPI illustrated the view of the latter group well: headline inflation is now expected to peak at 4.0%yr in September, 0.3ppts higher than the BoE expected three months ago; and then return to the 2% target one quarter later. The BoE’s projection for GDP growth was little changed, and is consistent with a gradual recovery.

In the press conference, Governor Bailey admitted that, while the policy rate remains on a downward trajectory, the monetary policy path has become more uncertain, with the Committee attempting to balance upside inflation risks against concerns over economic activity and the labour market. Against this backdrop, the committee maintained its forward guidance of “a gradual and careful approach to the further withdrawal of monetary policy restraint.” While we expect the MPC to proceed very carefully, we believe a 25bp cut per quarter is likely to be maintained in Q4 2025 and Q1 2026, leaving Bank Rate at a neutral 3.50% by Q2 2026.

Labour market remains soft, but no surprises



Michael Gordon
Senior Economist NZ

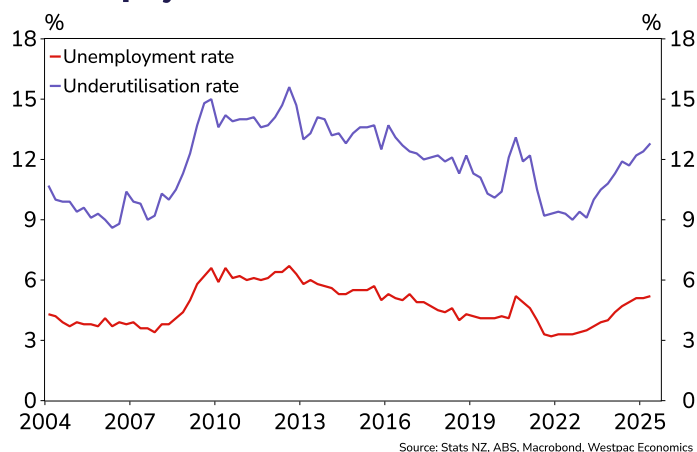
The June quarter labour market surveys showed that conditions remain tough for jobseekers, with the unemployment rate rising to match its Covid-era peak. While undoubtedly soft, we suspect this data won't have delivered any surprises to the Reserve Bank in terms of how much spare capacity there is in the economy. As such, it's unlikely to sway the Monetary Policy Committee's existing thinking as it heads towards its next decision later this month.

The unemployment rate rose from 5.1% to 5.2% in the June quarter, matching the peak that it reached during the 2020 Covid lockdown. Going back further, this was the highest reading since 2016. By comparison, unemployment peaked at 6.7% in the wake of the Global Financial Crisis and the Canterbury earthquakes.

The June quarter unemployment rate was a little below the 5.3% outcome that we and the majority of market forecasters were expecting, though it was in line with what the RBNZ had forecast in its May *Monetary Policy Statement*.

Broader measures of labour market capacity told a similar story. The underutilisation rate (which includes groups such as discouraged workers and those who would like to work more hours) rose from 12.4% to 12.8% in the June quarter. This measure is obviously higher, but also more variable than the unemployment rate, with the two sometimes even going in opposite directions. Looking past this volatility, the message is the same: both measures are near their post-Covid highs, and around the levels seen back in 2016.

NZ unemployment and underutilisation rates

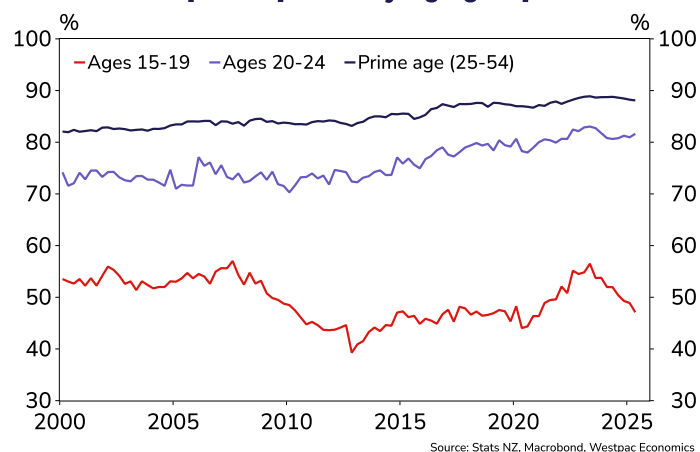


The June quarter results included a 0.1% fall in the number of people employed. This was in line with market forecasts, though it was less-weak than we had expected based on the Monthly Employment Indicator (MEI), which was down by 0.3% on average over the quarter. (Really more like -0.4%, since past performance suggests that the result for the June month will be revised down in the next release.)

While there are some conceptual differences between the MEI and the Household Labour Force Survey (HLFS), the major one is in terms of coverage. The MEI is drawn from income tax data, making it a near-complete record of employment within the country, whereas the HLFS is a survey of less than 1% of households. Hence, any significant difference between the two is most likely due to sampling error in the HLFS. For this reason, we generally advise putting more stock in the proportionate measures of the HLFS, such as the unemployment rate, rather than the levels of employment.

The drop in employment was accompanied by a further fall in the labour force participation rate, as we had expected. While falling participation is sometimes painted as 'masking' the true extent of weakness, it is a normal part of how the labour market adjusts throughout the cycle. When demand for workers is strong, there are always some people on the margin who can be induced into the workforce. And when things turn down again, some people will exit the labour force rather than actively seeking work (which is the standard definition of 'unemployed').

Labour force participation by age groups



What has been unusual through the current cycle is the extent to which this ‘flex’ in the labour force has been provided by teenagers. During the post-Covid boom in 2021-2022, the demand for workers was running hot, and the border closure meant that employers were unable to fill those roles using migrant workers. Instead, there was a sharp rise in the hiring of teens – from university students working part-time, right down to 15-year olds dropping out of high school to earn some money.

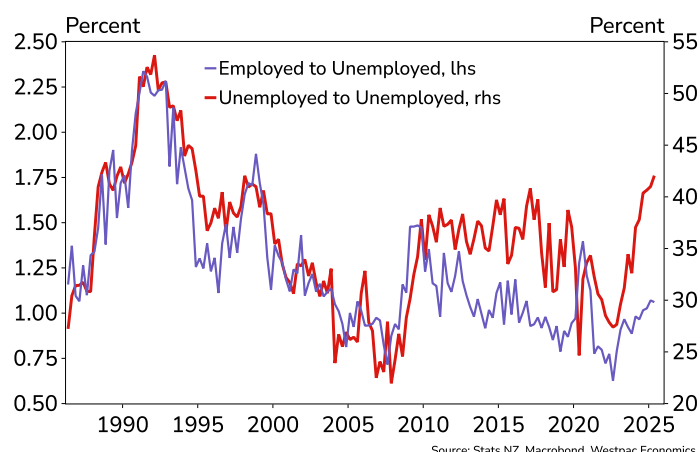
Once the economy started cooling down and the border was reopened, businesses no longer needed to hire from this pool. That has seen the rate of teen unemployment rise sharply from its lows, but also many of them are choosing to focus on their studies full-time rather than actively looking for work. The result is that the teen participation rate has been steadily returning to its previous, arguably more sustainable, levels.

Outside of this age group, there is nothing in the participation rates that suggests a ‘hidden’ degree of slack in the labour market. Indeed, among the 20-24 year olds, who would more usually make up the new entrants to the jobs market, participation has been steady and even rising a little in recent quarters.

One other notable feature of the current cycle is that hiring has remained very weak relative to the pickup in the economy to date. Job advertisements have stabilised over the last year, but they remain well below their pre-Covid trends. Some businesses have told us that they tried to hold on to workers to the extent that they could during the downturn, as they were wary of being burned again by the severe labour shortages that were apparent over 2021-2022. As a result, some may still find themselves overstaffed relative the level of work that they have on, even as that level starts to pick up again.

We can see this in, for instance, the transition rates between labour force status in the HLFS. If you’re currently employed, the chance of losing your job has certainly risen from its lows, but is not particularly high compared to history. However, if you’re out of work, the likelihood that you’ll still be unemployed in three months’ time has risen significantly.

Labour force transition rates



This element of ‘labour hoarding’ doesn’t necessarily mean that there is a significant wave of jobs cuts still to come, as employers capitulate in the face of a still-subdued economy. (Arguably that capitulation already began last year, when the tide turned from slow growth in employment to an outright decline.) However, it does suggest that the labour market will continue to lag behind the broader economy cycle, perhaps to an even greater degree than normal.

Putting all of these elements together, our view is that we’re approaching the peak in the rate of unemployment, but perhaps not there just yet – we expect it to peak at around 5.3% by the end of this year. Bear in mind that for the unemployment rate to start falling again, we need to see GDP not just growing, but substantially outpacing the growth in the working-age population (currently running at about 1.2% annualised). We see that as more of a story for next year.

Turning to the measures of wage growth, the Labour Cost Index (LCI) rose by 0.6% for the private sector, following a 0.4% rise in the March quarter. This was a little higher than the 0.5% that we expected, but was in line with the RBNZ’s forecast. On an annual basis, growth in the private sector LCI slowed from 2.5% to 2.2%, the slowest pace since June 2021. That effectively puts it in the ‘Goldilocks’ zone – much lower than during the recent surge of inflation, but higher than it was during much of the 2010s when inflation was stubbornly on the low side of the RBNZ’s target.

With the unemployment rate and wage growth in line with the RBNZ’s most recent forecasts, it seems unlikely that they would sway the Committee’s existing thinking ahead of its 20 August policy review. The record of the July meeting suggests that a 25bp OCR cut is highly likely this time, and we think the RBNZ will want to leave the door open to the possibility of further easing.

That said, there will no doubt be a vigorous debate around the table about the path ahead – this week we published [our latest Hawks, doves and kiwis report](#) that considers the arguments that might be made on both sides of the debate. And we’ll delve further into our expectations for monetary policy and the wider economy when we release our quarterly *Economic Overview* next Tuesday.

AUS: RBA Policy Decision (%)

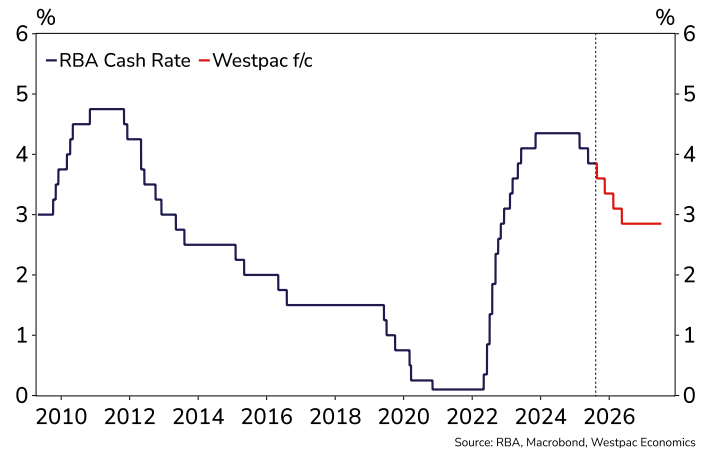
Aug 12, Last: 3.85, Westpac f/c: 3.60
Market f/c: 3.60, Range: 3.60 to 3.60

Westpac anticipates the RBA Monetary Policy Board (MPB) will deliver a 25bp rate cut at its August policy meeting, bringing the cash rate down from 3.85% to 3.60%.

Normally, monetary policy decisions should not come down to a single number tipping the balance. But once again, the latest read for underlying inflation has been material for the upcoming decision. Last week's data confirmed that inflation is on track to return sustainably to the mid-point of the target range, giving the MPB the go-ahead for an August rate cut.

Beyond August, we believe three more rate cuts are in store for the rest of the cycle – in November, February and May – bringing the cash rate to the lower end of neutral at 2.85%.

RBA set to deliver a 25bp rate cut in August



AUS: Q2 Wage Price Index (%qtr)

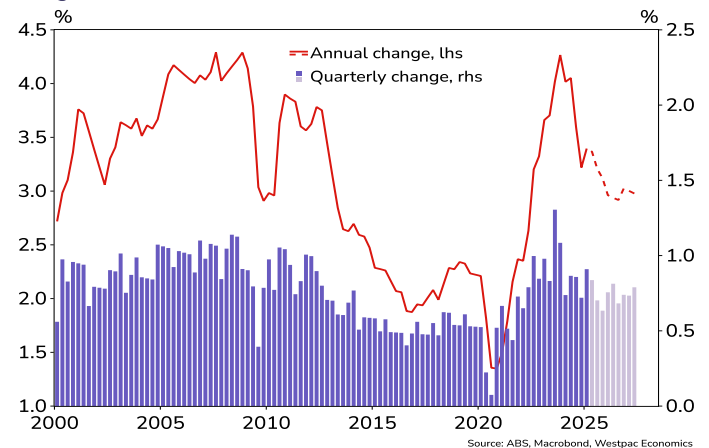
Aug 13, Last: 0.9, Westpac f/c: 0.8
Market f/c: 0.8, Range: 0.8 to 1.0

The Wage Price Index (WPI) rose 0.9% in the March quarter, a bit stronger than Westpac and the market's expectation for 0.8%, taking the annual rate up a touch from 3.2%yr to 3.4%yr. Private sector wages are running at a 3.3%yr pace with public sector wages a bit stronger at 3.6%yr..

March and June are seasonally the quieter quarters for changes in wages so we are not looking for a significant change in the current momentum. Our forecast 0.8% increase in the quarter holds the annual rate flat at 3.4%yr.

The ABS did note that in March wages growth in the public sector was impacted by new state-based enterprise agreements, and to a lesser degree, increases paid to aged care workers.

Wage Price Index



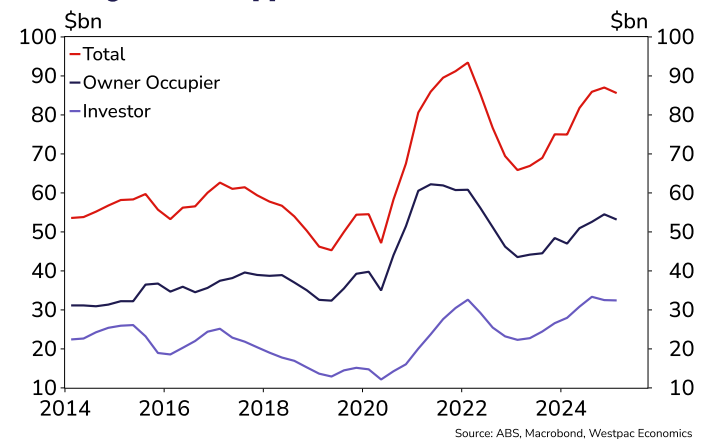
AUS: Q2 Housing Finance Approvals (%qtr)

Jul 13 Last: -1.6, Westpac f/c: 3.0%
Mkt f/c: 2.0 Range: -2.0 to 3.0

ABS housing finance updates have moved to a quarterly release cycle with a few other slight definitional changes also being implemented. The total value of dwelling finance approvals declined 1.6% in Q1, the first material quarterly decline in two years. Annual growth moderated to 14.2%yr. Momentum is slowing with markets lacking a little direction.

The Q2 update is expected to show a solid recovery. HIA new home sales point to a strong lift in construction-related activity. Price growth has also quickened across the established market. Volumes are still flatish so far although loan enquiries have lifted in recent months. All up, we expect the total value of finance approvals to post a 3% gain, reinstating a modest up-trend.

Housing Finance Approvals



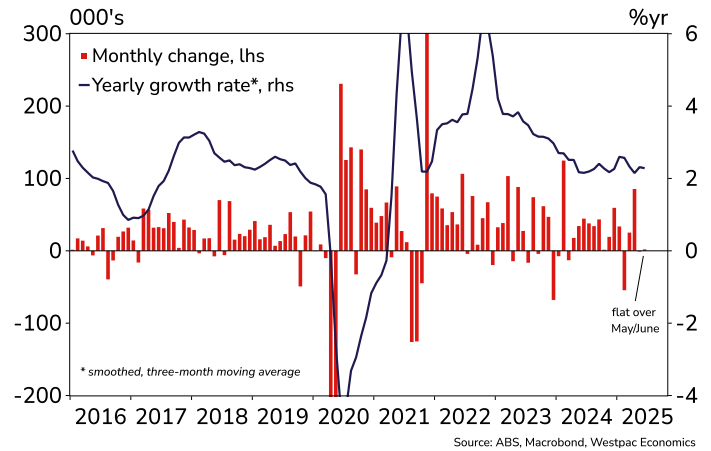
AUS: Jul Labour Force – Employment Change (000s)

Aug 14, Last: 2.0, Westpac f/c: 25.0
Market f/c: 25.0, Range: 15.0 to 50.0

Employment growth virtually flat-lined over the past two months, with a –1.1k decline in May being followed up by a measly +2.0k increase in June. These results provide a clear case to be alert to the possibility that employment growth might start to weaken more clearly over the period ahead, which resembles our own view on the employment outlook.

As discussed below, part of this is likely noise given the inherent level of volatility in the employment data, hence why we expect a little bit of a recovery in July (+25k). That said, such a result would still be broadly consistent with a resumption of a gradual softening trend, after what was a recent period of resiliency.

Employment weakened over May and June



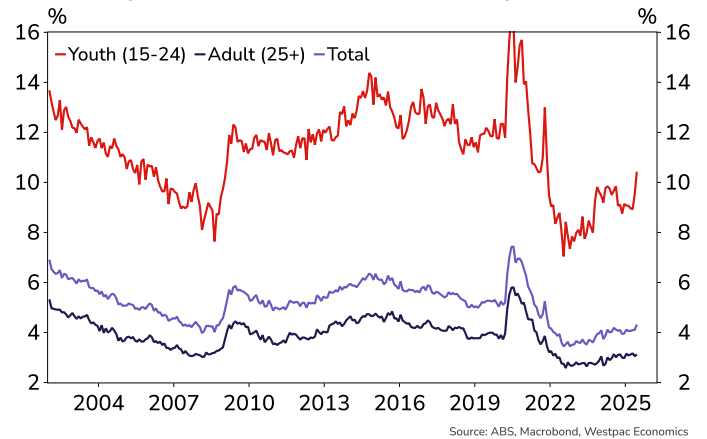
AUS: Jul Labour Force – Unemployment Rate (%)

Aug 14, Last: 4.3, Westpac f/c: 4.2
Market f/c: 4.2, Range: 4.2 to 4.4

In June, the unemployment rate surprised materially to the upside, jumping up to 4.3% after holding steady at 4.1% for five consecutive months prior. At two decimal places, the unemployment rate had been tracking a modest uptrend over these months, but June's move clearly stood-out.

One of the main drivers was a surge in youth unemployment, up from 9.5% to 10.4%, while adult unemployment held at 3.1%. Some of this is likely noise, hence our expectation for a bit of a reversal in July (to 4.2%), but it is telling that moves of this magnitude tend to precede grinds higher in total unemployment, strengthening our case for the total unemployment rate to rise to an average 4.4% by year-end.

Unemployment jump concentrated in youth cohort

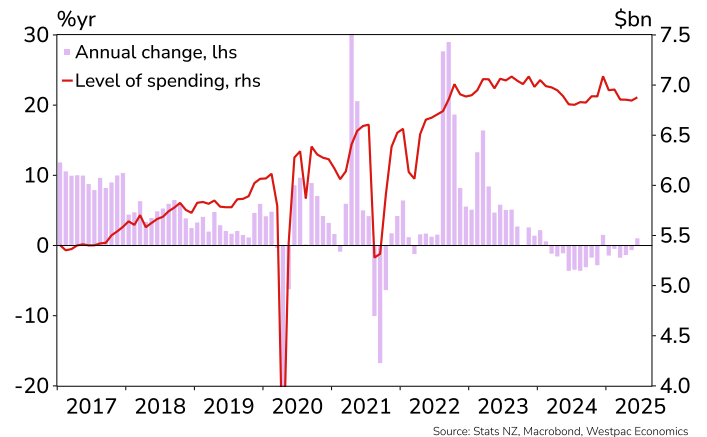


NZ: Jul Retail Card Spending

Aug 13, last: +0.5%, Westpac f/c: +0.2%

Retail spending was stronger than expected in June, with sales up 0.5%. Though much of that gain was related to increased spending on groceries (prices for which have been pushing higher), we also saw some lift in discretionary spending areas like furnishings. We're forecasting a modest 0.2% increase in spending in July, underpinned by higher food and fuel prices. Spending growth in discretionary areas is expected to be more restrained.

NZ retail card spending

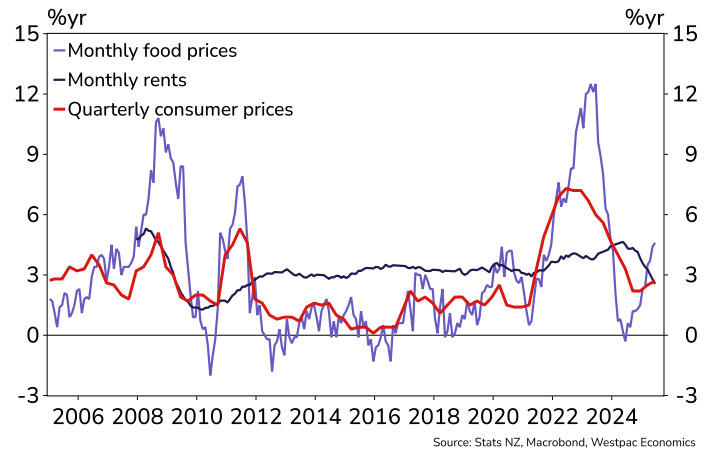


NZ: Jul Monthly Selected Prices

Aug 15

With headline inflation set to test 3% over the coming months, there will be a lot to unpack in the July prices update. A key factor that has boosted inflation in recent months has been higher food prices (around 20% of the CPI). And with poor weather in recent months and firm demand for commodities, we're expecting another firm rise in food prices in July of 0.7%. It'll also be worth watching to see if there are continued large increases in household energy prices, while domestic airfares are likely to drive a seasonal lift in travel costs. On the downside, the key area to watch is household rents (close to 10% of the CPI) which have been very subdued recently. We've pencilled in a muted rise in rents of 0.2%.

NZ selected consumer prices

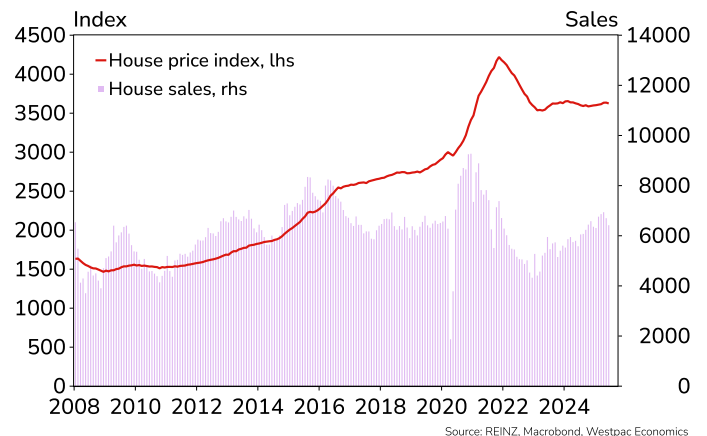


NZ: Jul REINZ House Sales and Prices

Aug 15 (TBC), Prices last: +0.3%yr; Sales last: +20.3%yr

After showing some renewed strength in the early part of this year, the New Zealand housing market appears to have settled back into a more balanced position. Lower mortgage rates are continuing to spur interest among buyers, but an ample supply of both new and existing homes on the market means that there has been little upward pressure on prices to date. The July housing report is expected late next week, but the release date has not been confirmed.

REINZ house sales and prices



US: July CPI

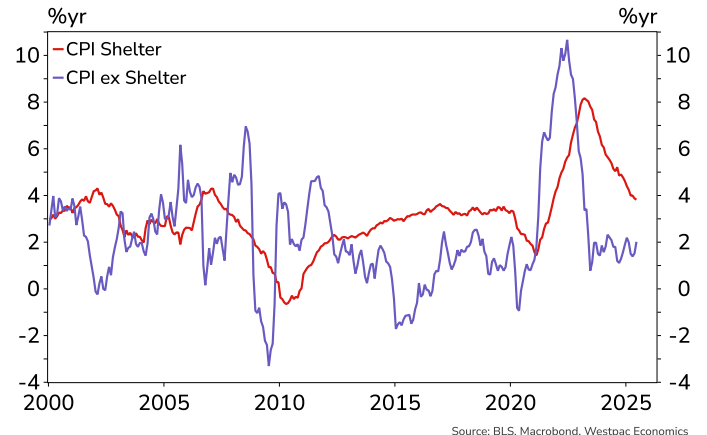
Aug 12, %m/m, Last: 0.3%, WBC f/c: 0.3%, Mkt f/c: 0.2%

The June CPI came in at 0.3%, not an alarming print by any means, but still well above the 2.0%yr medium-term target of the FOMC. Evident in the detail of the report was the first glimpse of US tariff policy's effect, core goods' pulse firming noticeably in the month. Also evident was the persistence of supply constraints, shelter inflation remaining above trend.

Come July, a similar outcome is expected for both headline and core inflation. Core goods will again be the component to watch, though it is only after a number of months that we will begin to see the full picture for tariff inflation.

Absent a material labour market deterioration, we expect annual inflation to remain above target through 2025-2027 -- tariff inflation abating, but capacity remaining an issue.

Capacity a lasting concern for the US



What to watch

For	Data/Event	Unit	Last	Market f/c	Westpac f/c	Risk/Comment
Mon 11						
- No major data releases -						
Tue 12						
Aus	Jul	NAB Business Conditions	index	9	-	- Holding the line as cost pressures get absorbed into margins.
		RBA Policy Decision	%	3.85	3.60	3.60 Inflation on track to return sustainably to the target mid-point.
Eur	Aug	ZEW Survey Of Expectations	index	36.1	-	- Investor sentiment whipsaws as trade jitters persist.
UK	Jun	ILO Unemployment Rate	%	4.7	-	- Labour market slack showing in highest jobless rate in 4yrs.
US	Jul	NFIB Small Business Optimism	index	98.6	98.6	- Passing of the 'one, big, beautiful bill' should lift the mood.
	Jul	CPI	%mth	0.3	0.2	0.2 Core goods is the main component to watch for tariff impact.
	Jul	Monthly Budget Statement	\$bn	27.0	-	- Surplus propped up by shifts in payment and receipt timing.
Wed 13						
Aus	Q2	Wage Price Index	%qtr	0.9	0.8	0.9 No significant change in the current momentum.
	Q2	Housing Finance Approvals	%qtr	-1.6	2.0	3.0 A solid recovery on the cards.
NZ	Jul	Retail Card Spending	%mth	0.5	-	0.2 Discretionary spending still subdued.
Thu 14						
Aus	Jul	Employment Change	000s	2.0	25.0	25.0 Employment growth has weakened over last two months ...
	Jul	Unemployment Rate	%	4.3	4.2	4.2 ... suggesting a resumption of a gradual softening trend.
Eur	Q2	GDP	%qtr	0.1	0.1	- Second estimate.
	Jun	Industrial Production	%mth	1.7	-0.5	- Manufacturing faces pressure as global demand drags.
UK	Q2	GDP	%qtr	0.7	-	0.1 Q2 pulse weak, with negative monthly reads for Apr and May.
	Jun	Trade Balance	£bn	-5.7	-	- Persistent and widening trade deficits since Q4 2024.
US	Jul	PPI	%mth	0.0	0.2	- Tariffs trickling cautiously into wholesale prices so far.
		Initial Jobless Claims	000s	226	-	- Despite signs of weakness, jobless claims keep relatively low.
		Fedspeak	-	-	-	- Goolsbee.
Fri 15						
NZ	Jul	REINZ House Prices	%yr	0.3	-	- Expected date. House price trends remain subdued...
	Jul	REINZ House Sales	%yr	20.3	-	- ...even as lower mortgage rates spur higher turnover.
	Jul	Manufacturing PMI	index	48.8	-	- Has softened again after a solid pickup in early 2025.
	Jul	Selected Price Indices - Food	%mth	1.2	-	0.7 Continuing to see firm gains.
	Jul	Selected Price Indices - Rents	%mth	0.1	-	0.2 Rental growth is remaining limited.
	Jun	Net Migration	no.	1530	-	- Holding at low but positive levels.
Jpn	Q2	GDP	%qtr	0.0	0.1	- Economy expected to avert a technical recession...
	Jun	Industrial Production	%mth	1.7	-	- ... underscored by resilience in its mfg sector, final estimate.
Chn	Jul	Retail Sales	ytd %yr	4.8	4.6	- The consumer backdrop looks to be on a gradual mend ...
	Jul	Fixed Asset Investment	ytd %yr	2.8	2.8	- ... but it seems businesses appear reluctant to invest.
	Jul	Industrial Production	ytd %yr	6.4	-	- Proving resilient to tariff headwinds.
US	Jul	Retail Sales	%mth	0.6	0.5	- Set for back-to-back rises, but demand doubts linger.
	Aug	Fed Empire State	index	5.5	-1.0	- Manufacturing activity expanded for the first time in 5 months.
	Jul	Import Price Index	%mth	0.1	0.0	- Closely monitored.
	Jul	Industrial Production	%mth	0.3	0.0	- Annual growth pace gradually slowing over last few months.
	Jun	Business Inventories	%mth	0.0	0.2	- Retail inventories have slowed considerably since Jan.
	Aug	Uni. Of Michigan Sentiment	index	61.7	62.1	- Has clawed back around half of the tariff-hit decline.

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Economic & financial forecasts

Interest rate forecasts

Australia	Latest (8 Aug)	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	3.67	3.55	3.30	3.05	2.95	2.95	2.95	2.95	2.95
3 Year Swap	3.33	3.35	3.45	3.60	3.75	3.80	3.85	3.90	3.95
3 Year Bond	3.41	3.40	3.50	3.65	3.80	3.85	3.90	3.95	3.95
10 Year Bond	4.25	4.35	4.40	4.40	4.45	4.50	4.55	4.60	4.65
10 Year Spread to US (bps)	0	-15	-15	-20	-20	-20	-20	-20	-20
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	4.25	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	3.15	3.10	3.10	3.10	3.10	3.20	3.45	3.70	3.85
2 Year Swap	3.06	3.30	3.35	3.50	3.65	3.80	3.90	3.95	4.00
10 Year Bond	4.41	4.65	4.70	4.75	4.80	4.85	4.90	4.95	4.95
10 Year Spread to US (bps)	16	15	15	15	15	15	15	15	10

Exchange rate forecasts

	Latest (8 Aug)	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27
AUD/USD	0.6518	0.66	0.68	0.69	0.70	0.71	0.71	0.72	0.72
NZD/USD	0.5957	0.60	0.61	0.61	0.62	0.62	0.62	0.63	0.63
USD/JPY	147.43	143	141	139	137	136	135	134	133
EUR/USD	1.1642	1.18	1.19	1.19	1.20	1.21	1.21	1.21	1.21
GBP/USD	1.3427	1.37	1.37	1.37	1.37	1.37	1.37	1.38	1.38
USD/CNY	7.1830	7.15	7.10	7.05	7.00	6.95	6.90	6.80	6.70
AUD/NZD	1.0942	1.10	1.12	1.13	1.13	1.14	1.14	1.14	1.14

Australian economic 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	4.2	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	0.7	0.8	0.5	0.6	0.8	0.6	0.5	-	-	-	-
%yr end	2.4	2.1	2.7	2.9	2.6	2.7	2.5	2.6	2.4	2.9	2.6	2.6
CPI Trimmed Mean %qtr	0.7	0.6	0.6	0.6	0.6	0.5	0.5	0.7	-	-	-	-
%yr end	2.9	2.7	2.4	2.4	2.3	2.2	2.2	2.3	3.2	2.4	2.3	2.5

New Zealand economic forecasts

	2025				2026				Calendar years			
% Change	Q1	Q2f	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f	2024	2025f	2026f	2027f
GDP %qtr	0.8	0.3	0.7	0.9	0.8	0.7	0.7	0.7	-	-	-	-
Annual avg change	-1.1	-0.8	0.2	1.3	2.1	2.7	2.9	2.9	-0.6	1.3	2.9	2.8
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	0.5	0.9	0.5	0.5	0.4	0.9	0.4	-	-	-	-
Annual change	2.5	2.7	3.0	3.0	2.5	2.3	2.3	2.1	2.2	3.0	2.1	2.0

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