

## SEPT 2025

### NZ Economy: Differences & challenges

#### Executive summary

The NZ economy appears somewhat divided. The rural and regional economy continues its strong performance, reaping record milk payouts in dairy and solid prices for meat. Meanwhile, some large urban sectors, particularly Auckland and Wellington, continue to struggle as demand remains subdued, with consumers and households still nervous about opening their wallets in an environment of continued uncertainty.

These differences in outcomes are reflected in a range of economic indicators including export sales, employment growth, unemployment rates, housing price movements, construction activity, and broader business and consumer activity.

The international economy remains subdued, with geopolitical tensions and President Trump's moves to implement his new tariff regime both taking their toll. It was disappointing that NZ received a 15% tariff on exports to the US, while our competitor in the same market, Australia, received the lesser tariff loading of 10%.

It appears that NZ has faced a higher tariff rate than Australia as part of a policy focused on the overall trade balance between the US and its trade partners. NZ's diplomatic response seeks to avoid tit-for-tat reactions and to continue to promote NZ's high-quality exports and adherence to accepted international trade rules.

Domestically, recent headline employment figures came in better than expected, however a look beneath the surface shows the labour market is still relatively weak, with a marginal increase in unemployment masked by lower participation rates and high underutilisation figures (i.e., people wanting more hours of work or simply exiting the market as conditions tighten).

Excess capacity and subdued demand are likely to result in further cuts in interest rates over the coming months, despite stubborn non-tradeables inflationary pressures persisting, e.g., local government rates, insurance, and continued electricity price rises, along with food price rises, particularly for protein.

There are no quick fixes for any of these symptoms, however a good starting point would be to get more certainty in the business environment, and for NZ's main political parties to reach a greater level of agreement on the issues affecting investment - particularly in much-needed infrastructure - rather than promising to cancel previous decisions whether they are sound or not. Without a stable and certain regulatory environment, there is little incentive for either domestic or foreign investors to put their money here.

#### HIGHLIGHTS

**Growth is expected to pick up over the coming months following a winter chill in the June quarter.**

**The BusinessNZ Economic Conditions Index sits at 3 for the Sept 2025 quarter, an improvement of 2 on the previous quarter, and the same as a year ago. (An ECI reading above 0 indicates economic conditions are improving; below 0 that economic conditions are declining.)**

**Sector performance remains mixed. The agricultural sector is living up to its long-held reputation as the backbone of the economy, with dairy farmers enjoying record milk prices and meat prices remaining elevated.**

**Meanwhile, the BNZ - BusinessNZ Performance of Manufacturing Index (PMI) continues to yo-yo in and out of contraction while its sister survey, the Performance of Services Index (PSI) remains in sub-par territory.**

**Building consents appear to be near the bottom of the cycle, with improved optimism for the construction sector going forward.**

**Housing prices are mixed, with some rural areas experiencing an upturn while in large urban centres, prices remain flat. Consumer confidence, often markedly attached to the direction of house prices, remains downbeat.**

## **PART 2: THE NZ ECONOMY – WHERE ARE WE HEADING?**

### ***1.1 Economic growth (GDP) – Mixed results***

#### *Domestic*

The NZ economy feels like a game of two halves. The first half - the rural and regional economy - continues its strong performance, earning record milk payouts in dairy and solid prices for meat. The other half - some large urban sectors, particularly Auckland and Wellington - continue to struggle as demand remains subdued, with consumers and households remaining nervous about opening their wallets in an environment of continued uncertainty.

Unemployment generally remains low in regional NZ, e.g., Southland and Taranaki, however in Auckland, our largest population area, unemployment has shot up to 6.1% while nationwide, the rate has crept up to 5.2%. Different regional variations are also being reflected in house price growth with Southland and Taranaki experiencing significant rises over the past year while Auckland stagnates. While obviously house prices remain much higher in Auckland than for most of the country, the recent advancement in rural areas reflects the flow-on effects of a strong agricultural sector.

While economic growth over the first quarter of this year was an acceptable 0.8% (quarter growth), the June quarter is likely to show marginal growth (with official figures yet to be released), while the September quarter is also likely to be subdued given available information not date. Any upturn is not expected until at least 2026, as can be seen from the forecasts below.

Despite continued favourable conditions for agriculture at present, it was disappointing that President Trump decided to impose 15% tariffs on NZ goods and services into the US, while some of our major competitors into the same market, e.g., Australia, received the lesser tariff loading of 10%.

NZ exports around \$9 billion of goods to the US annually, or about 12% of NZ's merchandise exports. At 15%, the impact will be considerable for exporters, who absorbed or passed on the earlier 10% rate. At 15% it becomes much harder.

On the positive side, according to the latest ExportNZ DHL Export Barometer (20 August 2025), NZ exporters continue to show resilience in the face of global challenges.

Two-thirds of exporters have increased or maintained export levels over the past 12 months. Concerns about an escalating trade war have risen, but many exporters are diversifying to mitigate the impact of potential tariffs.

While recent headline employment figures came in better than expected, a look beneath the surface shows the labour market is still relatively weak, with a marginal increase in unemployment masked by lower participation rates and high underutilisation figures (i.e., people wanting more hours of work or simply exiting the market as conditions tighten).

Excess capacity and subdued demand are likely to result in further cuts in interest rates over coming months, despite some stubborn non-tradeables inflationary pressures persisting, e.g., local government rates, insurance (across the board), and continued electricity price rises due to constraints on supply.

There are no quick fixes to any of these issues. Suffice to say that a very good starting point would be for both major political parties to have mature adult conversations on what is driving up costs, and whether the quality of regulatory interventions is up to scratch, or whether excessive and ad hoc regulation is the cause of the problem. The major parties need to focus on the critical issues affecting investment in much-needed infrastructure, rather than promising to cancel previous decisions whether sound or not - without a stable and certain regulatory environment, there is little incentive for either domestic or foreign investors to put their money here.

Take for example, recent concerns with NZ energy policy in respect to security and cost.

Businesses, large and small, recently shared their concerns with the Minister for Resources and discussed support strategies to manage the declining gas supply at this year's Gas User Forum, hosted by the BusinessNZ Energy Council (BEC).

BEC Executive Director Tina Schirr says the survey results paint an alarming picture, with significant cost pressures for users.

*"On average, prices have surged more than 100% in the past five years, with a quarter of businesses surveyed now paying \$25 or more per gigajoule. Most businesses surveyed (80%) have contracts expiring by 2027, creating a narrow window for necessary transitions to alternative energy sources.*

*"If we do nothing, a major de-industrialisation crisis could escalate in the next two years, having serious and devastating consequences for suppliers and customers of gas-using businesses."*

Schirr went on to say that while some businesses can transition to alternatives, it's not an easy fix.

*"More than 40% of businesses surveyed say transitioning to alternative fuels is not commercially viable within the next five years, with a further 20% uncertain. Even with a phase-out period of 15 years, only 75% of all respondents were confident of being able to transition.*

*"We urge the government to use all the levers at its disposal to help free up gas supplies and get more gas out of the ground. Minister Jones has been doing good work in this regard, but we're only scratching the surface.*

*"Increased investment in developing gas fields short-term is desperately needed to reduce the shortfall in supply. For investors to feel confident there needs to be bipartisan agreement, providing important stability and certainty."*

The much talked-about oil and gas ban under the last Government (recently reversed) provided a stark example of the chilling effect on investment that quick decisions without thinking through the implications can have on NZ and international investors. It is noted that the May 2025 Budget included \$200 million set aside for a Crown stake in new gas fields, no doubt to counter international investors' fear that the rug could be pulled from under them if there is a change of Government down the line. The structure of investments is still being worked through, but this signals a willingness, subject to Cabinet consideration, for the Crown to take a commercial stake of up to 10-15% in new gas field developments that feed the domestic market, to address sovereign risk. Gas is critically important to the NZ economy.

While it is acknowledged that this will help encourage new offshore gas fields from exploration to production, it yet again raises the importance of ensuring a stable and reliable regulatory regime going forward regarding gas exploration and use, and more widely for the use of natural resources in NZ. Greater regulatory collaboration and agreement between the major political parties is required if NZ is serious about encouraging long-term investment.

To be fair to the current Government, they are doing their best to try and improve regulatory decision-making, with a major breakthrough being the introduction of the Regulatory Standards Bill, which should hopefully improve the quality of regulatory decision-making and avoid some of the ad hoc and knee-jerk reactions such as the oil and gas ban initiated under the last Government.

It is to be hoped that this Bill will provide much-needed rigour to regulatory decision-making by the Government and its agencies, by providing a set of principles to which policymakers are expected to adhere when considering regulatory interventions.

Meanwhile, the Government's Resource Management Act (RMA) reforms keep moving forward like a rolling maul.

The latest Bill to pass into law is the Resource Management (Consenting and Other System Changes) Amendment Act.

The new Act amends the RMA to open up a consenting pathway for specified energy activities, intended to reduce costs for producers and operators, and unlock much-needed investment in renewable energy infrastructure. BusinessNZ is pleased the Act adopts its key recommendation to extend the same streamlined settings to thermal electricity generation.

Projects such as gas-fired peaking plants - essential for meeting demand when wind generation is low, hydro storage is depleted, and solar output is unavailable - will now benefit from faster consenting, with decisions required within 12 months.

BusinessNZ has long argued for a fuel-agnostic approach where projects are judged on their merits, not their fuel or technology type, with externalities dealt with appropriately through the Emissions Trading System (ETS).

Submissions have recently closed for the Government's consultation on changing a number of National Policy Statements (NPSs) and National Environmental Standards (NESs) that cover a wide range of activities.

It is widely accepted that there is a need to change many current NPSs and NESs to ensure they are fit for purpose, to improve infrastructure planning and delivery, enable development, and unlock growth in the primary sector.

The Government intends to complete further reforms of Resource Management later this Parliamentary term, with new resource management laws ("Phase 3") to be based on the guiding principle of the enjoyment of property rights likely to be introduced to Parliament in November this year.

BusinessNZ strongly supports this approach while also accepting that it is desirable to remove unnecessary roadblocks to growth in the meantime.

### International

At the international level, the economic outlook remains challenging although it appears financial markets have become so used to consistent upheavals and geopolitical risk that they are starting to take it in their stride.

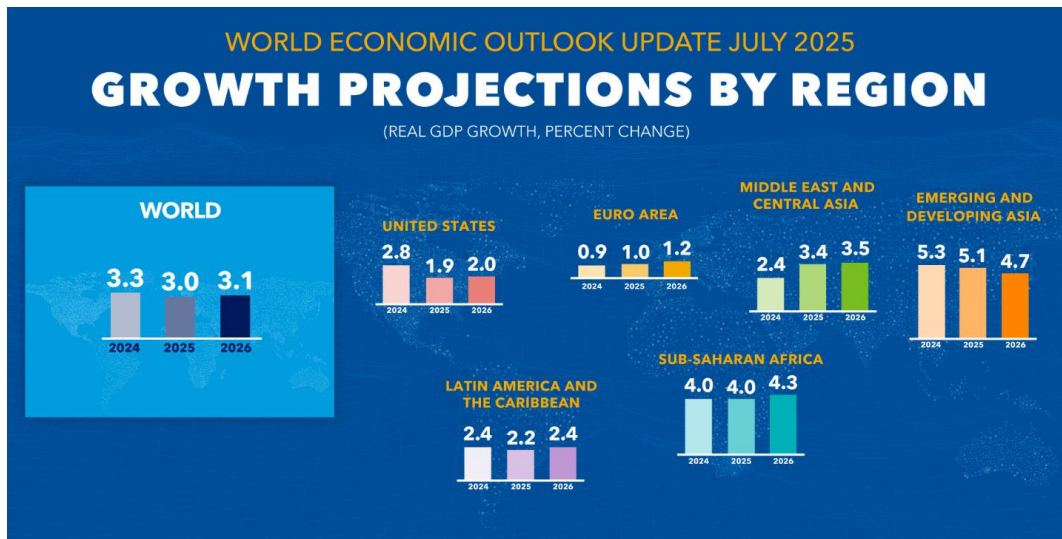
It is perhaps an understatement to say that 2025 has been very eventful on the world stage, with continued geopolitical tensions and wars on a number of fronts, alongside President Trump's ever-changing policy announcements over a range of areas.

World financial markets, after earlier showing signs of market stress, have largely settled down, with world shares basically recovering all the lost ground experienced since the announcement back in April on "liberation day."

Major indices in Europe, and United States and Australia, have made strong gains of late after slumping earlier in the year.

The NZ share market (NZX) has been relatively lacklustre for a significant period now, which reflects marginal growth over the NZ economy in recent years. Projections going forward point to an improving market as growth prospects improve. But this is likely to be well into next year.

The International Monetary Fund's (IMF) *World Economic Outlook* (July 2025) show that world growth is projected at 3.0% for 2025 and 3.1% in 2026.

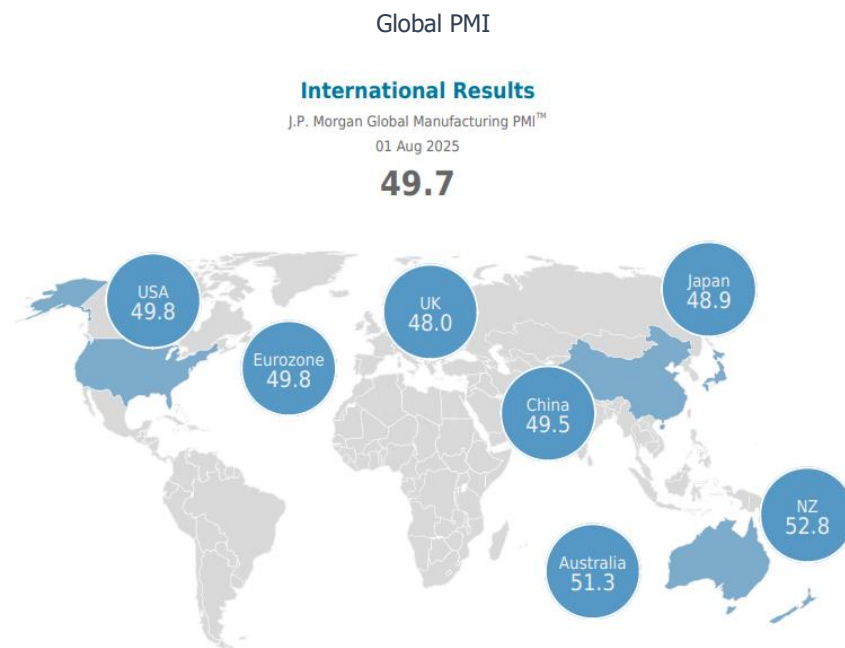


Source: IMF World Economic Outlook Update, July 2025

Meanwhile global headline inflation is expected to fall to 4.2% in 2025 and 3.6% in 2026, a path similar to that projected in the IMF April outlook.

The IMF pointed out that the risks to the outlook are tilted to the downside, with a number of factors impacting on overall economic growth. These include recent tariff announcements from the US, continued elevated geopolitical tensions which could disrupt global supply chains and push commodity prices up, and large fiscal deficits or increased risk aversion which could raise long-term interest rates and tighten global financial conditions.

Meanwhile the JPMorgan Global Manufacturing PMI has slipped back into contraction for July 2025 as seen below, reflecting downturns in output, new orders, exports and employment.



With NZ's latest PMI result for July back in black, NZ is one of the few countries with positive results compared to other major blocks, including the US, Eurozone, China, Japan and the UK.

### **Forecasts: Real GDP percent Growth**

	Years Ending		
	Sep 25	Sep 26	Sep 27
<b>Highest</b>	0.2	2.8	3.2
<b>Average</b>	0.1	2.4	2.7
<b>Lowest</b>	-0.1	1.9	2.3

Source: ASB, BNZ, Kiwibank and Westpac

## **1.2 Monetary policy to the fore**

The Reserve Bank recently announced a significant restructuring of operations, as a result of needing to live within its allocated budgets. Jobs at the Reserve Bank have ballooned over recent years and it is fair to say that a greater focus on getting back to basics and fulfilling the core role of the Reserve Bank to focus on financial stability and price stability is likely to be a good thing.

The Reserve Bank is continuing to promote significant policy changes, including the introduction of Debt-to-Income Ratios (DITs), and more recently, the introduction of the Deposit Insurance Scheme.

While well-intentioned, the Deposit Insurance Scheme is likely to have some unintended results, including raising the cost of capital (as costs will ultimately be passed on to businesses and consumers), while it may reduce incentives on individuals and businesses to monitor behaviour, given they may wrongly believe that such protection extends to KiwiSaver and a range of other investment products. Ultimately there is no free lunch here, and increased protection for depositors will come at a cost.

The Reserve Bank has also opened consultation on its review of capital settings for banks and other deposit takers, amid concerns that current capital settings may be undermining competition and efficiency in the banking industry, increasing the cost of lending which is impacting on sectors including agriculture and housing.

### **Inflation – receding despite pockets of resistance**

Inflation for the year to June came in at 2.7%, which is at the higher end of the Reserve Bank's target range. However, core inflation is trending lower and is likely to remain around the mid-point of the Reserve Bank's target of 1-3% over the forecast period, as can be seen from the forecasts below.

Notwithstanding the above, both business and household inflationary expectations have trended slightly higher of late on the back of expectations that some price rises, e.g. local government rates, insurance, energy costs, and food prices are becoming deeply embedded.

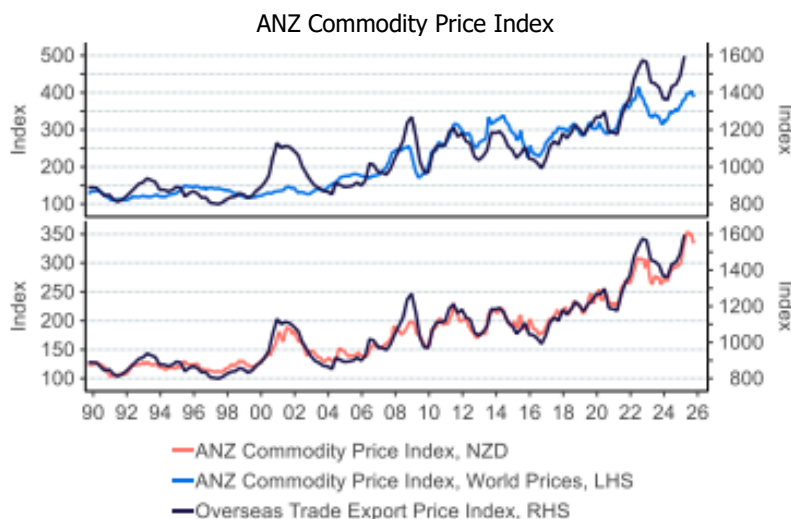
However, while NZ currently has significant excess capacity (e.g. with recent weakness in the labour market), on the other hand, NZ faces significant constraints on its ability to rapidly generate further energy supply, due principally to regulatory uncertainty and ad hoc interventions.

Meanwhile net migration numbers have continued to decline reasonably rapidly thus reducing pressure on the demand for goods and services in general. This is starting to feed through to housing costs and rental prices more generally, with housing costs expected to be relatively subdued over the coming year despite a significant slide in interest rates that should make housing more attractive to first home buyers particularly.

On the international stage, President Trump's tariffs, while increasing costs for American consumers, are likely to lower overall world growth, with the potential for world demand to drop for key inputs e.g. fuel, which might result in reduced prices over time. Secondly, given that many countries face

significant tariffs on goods and services into the US, this might result in alternative markets being sought to dispose of excess goods, which will again see prices ease.

World commodity prices are also showing some recent signs of easing which should further lower tradeables inflation over time as can be seen from the latest ANZ commodity Price Index below.



Source: Stats NZ, Macrobond, ANZ Research

The ANZ World Commodity Price Index fell 1.8% m/m in July, with a decline in dairy product prices. However, over the past year the index has risen 10.7%, supported by both higher dairy and red meat prices. The NZD Commodity Index fell 1.2% m/m on the back of a stronger currency.

In contrast, the ongoing war in Ukraine and geopolitical tensions elsewhere including the Middle East have the potential to increase goods inflation internationally, which could impact NZ.

**Forecasts: Percent Change in Inflation (CPI)**

	Years Ending		
	Sep 25	Sep 26	Sep 27
<b>Highest</b>	3.0	2.2	2.3
<b>Average</b>	2.9	2.0	2.2
<b>Lowest</b>	2.7	1.7	2.1

Source: ASB, BNZ, Kiwibank and Westpac

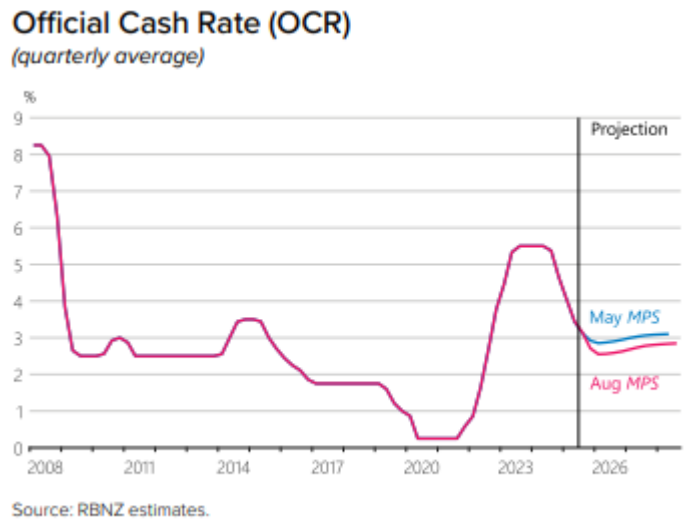
**Interest rates – direction continues to be down**

The decision of the Reserve Bank to further lower the OCR to 3.0% at its most recent review (20<sup>th</sup> August) was largely expected by markets, although the forecast outlook for interest rates is more dovish than previous forecasts.

Three policy options were discussed by the Monetary Policy Committee (MPC): keeping the OCR on hold at 3.25%; cutting the OCR by 25 basis points to 3%; or cutting by 50 basis points to 2.75%.

In the final analysis, the MPC voted on the options of either reducing the OCR by 25 basis points or reducing the OCR by 50 basis points. By a majority of 4 votes to 2, the Committee agreed to decrease the OCR by 25 basis points.

Two further reductions in the OCR are now likely this year.



Compared to the May Statement, the OCR is now projected to decline to a lower level, with the central bank's forward-looking track now showing the OCR at 2.7% in December this year. It then drops to 2.5% by March next year, this change mostly reflecting a weaker expected pace of GDP growth and hence more spare capacity in the economy. The outlook for output, inflation, and interest rates is subject to considerable uncertainty, but a gradual increase in the OCR is expected late 2026 as the economy improves.

**Forecasts: Interest Rates (90-day bills)**

	Years ending		
	Sep 25	Sep 26	Sep 27
<b>Highest</b>	3.2	3.2	4.2
<b>Average</b>	3.1	3.0	3.5
<b>Lowest</b>	2.9	2.6	2.9

Source: ASB, BNZ, Kiwibank and Westpac

**NZ dollar – improvement forecast**

The NZ dollar has recovered much of the ground lost over recent months when it plunged to around US 55 cents. It is currently trading at around US 60 cents, but expectations are that it will rise further over the forecast period.

Increases in NZ's export prices over recent months have also supported the NZ exchange rate. Notwithstanding the appreciation of the NZ dollar, the Trade Weighted Index (TWI) remains lower than it was over most of 2024. Currently it is all about the direction of the US dollar!

Bond investors remain concerned about the potential for higher inflation in the US, with Treasury yields increasing while the US dollar has weakened.

The status of the US dollar as the world’s reserve currency does provide the US with some flexibility, although the US dollar has not behaved over recent months as could be expected from a safe-haven asset.

Despite pressure on the US as a result of domestic policy upheaval, it needs to be remembered that the US is still a force to be reckoned with (the largest economic power in the world) and the US dollar is still representative of just under 90% of all foreign exchange trades.

While the US dollar is expected to remain under pressure as a result of policy uncertainty, its status as the world reserve currency does not appear to be under material threat any time soon.

Global factors, including tariff developments, are also likely to continue to drive the future direction of the NZ dollar.

**Forecasts: Exchange Rates**

AUD (cents)				USD (cents)			
	Sep 25	Sep 26	Sep 27		Sep 25	Sep 26	Sep 27
<b>Highest</b>	0.94	0.93	0.95	<b>Highest</b>	0.61	0.67	0.69
<b>Average</b>	0.92	0.91	0.92	<b>Average</b>	0.60	0.64	0.66
<b>Lowest</b>	0.91	0.88	0.88	<b>Lowest</b>	0.59	0.62	0.64

TWI			
	Sep 25	Sep 26	Sep 27
<b>Highest</b>	69.9	73.1	74.5
<b>Average</b>	69.0	71.1	72.1
<b>Lowest</b>	68.0	69.0	68.9

Source: ASB, BNZ, Kiwibank and Westpac

**1.3 Business confidence and sector activity – mixed results**

While overall business confidence remains robust, it is yet to translate into substantial increases in investment, as many businesses and households are taking a cautious approach to new developments.

Meanwhile, sector performance remains mixed as outlined below.

Agriculture – leader of the pack

Time and time again the agricultural sector has been written off as a sunset industry yet consistently it comes to the fore when other sectors are struggling. Current conditions are just another situation in which NZ is yet again relying on primary industries to carry us through trying economic conditions.

The broader agricultural sector has been going from strength to strength, buoyed by high commodity prices and input costs falling away somewhat. While long-term fundamentals remain strong, based on global demand for high-quality food and fibre, short-term challenges persist, particularly around cost pressures, regulation, climate volatility and global market uncertainty.

The latest Federated Farmers Farm Confidence Survey (July 2025) shows sustained high confidence in

current conditions. According to the survey this reflects economic stabilisation, easing on-farm costs, and supportive government policies. However, forward-looking optimism has tempered due to concerns over commodity volatility, challenges in the arable sector, and potential future pressures.

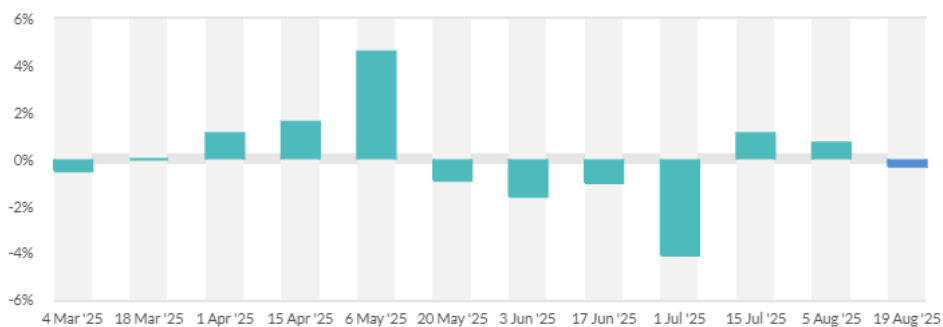
In terms of current economic conditions, farmer perceptions have reached an 8-year high, with a net 33% viewing them as good in July 2025. This was driven by easing interest rates, stronger commodity prices for dairy and meat, and supportive policy shifts, up 99 points from the deeply negative -66 in July 2024.

In terms of expected economic conditions, optimism has moderated, with a net 6% of farmers expecting better conditions over the next 12 months. This is the third positive result in the past four surveys, although down from 23% in January 2025, reflecting market and geopolitical uncertainties.

Farmers’ current concerns include regulation and compliance costs, climate change policy and the Emissions Trading Scheme, local government and rates, input costs, debt and interest rates, and farmgate and commodity prices.

Despite a slight drop in the latest Global Dairy Trade of 0.3%, dairy prices are still holding up reasonably well, although currency movements will impact on prices to NZ producers, with the NZ dollar expected to continue to rise against the US dollar in particular.

**Change in GDT Price Index**



Expectations are for a similar payout to last year (\$10.00 per kg). However, Fonterra is hedging its bets at this stage with a forecast payout of between \$9.00 to \$11.00. Final results will depend on global demand and also on how currency movements evolve over the remainder of this year and into next.

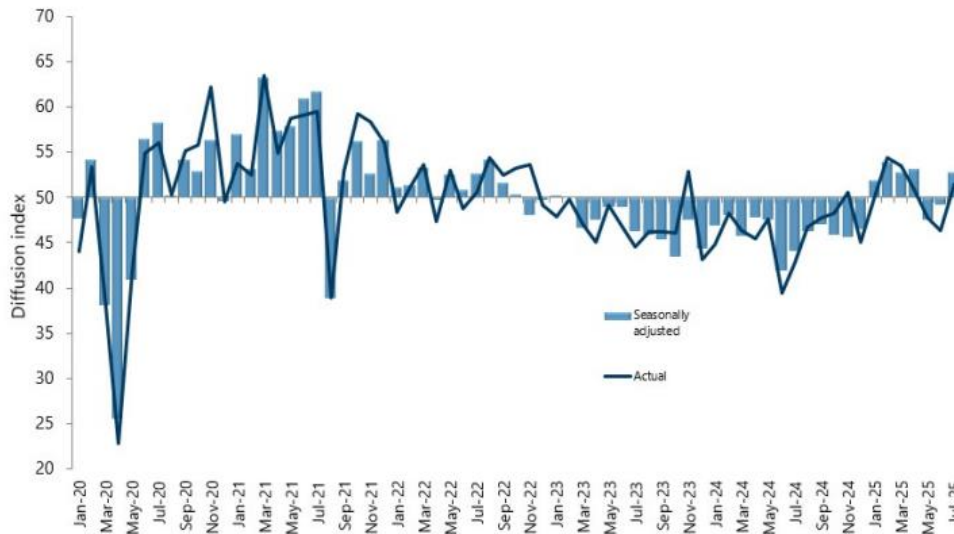
***Manufacturing – yo-yo***

NZ’s manufacturing sector moved back into expansion during July, according to the latest BNZ-BusinessNZ Performance of Manufacturing Index (PMI).

The seasonally adjusted PMI for July was 52.8 (a PMI reading above 50.0 indicates that manufacturing is generally expanding; below 50.0 that it is declining). This was up from 49.2 in June and above the average of 52.5 since the survey began.

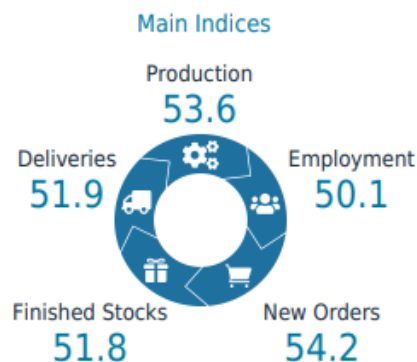
## BNZ - BusinessNZ PMI Time Series

January 2020 - July 2025



After a couple of challenging months for the sector, the upswing in activity for July saw a return to levels of expansion seen during the start of 2025.

All five main sub-index values were in expansion in July. This was led by New Orders (54.2), which reached its highest level of activity since March 2022. Similarly, Production (53.6) was at its highest level since August 2022. Finished Stocks (51.8) and Deliveries of Raw Materials (51.9) recorded similar levels of expansion, while Employment (50.1) managed to get just above the no change mark after two previous months in contraction.

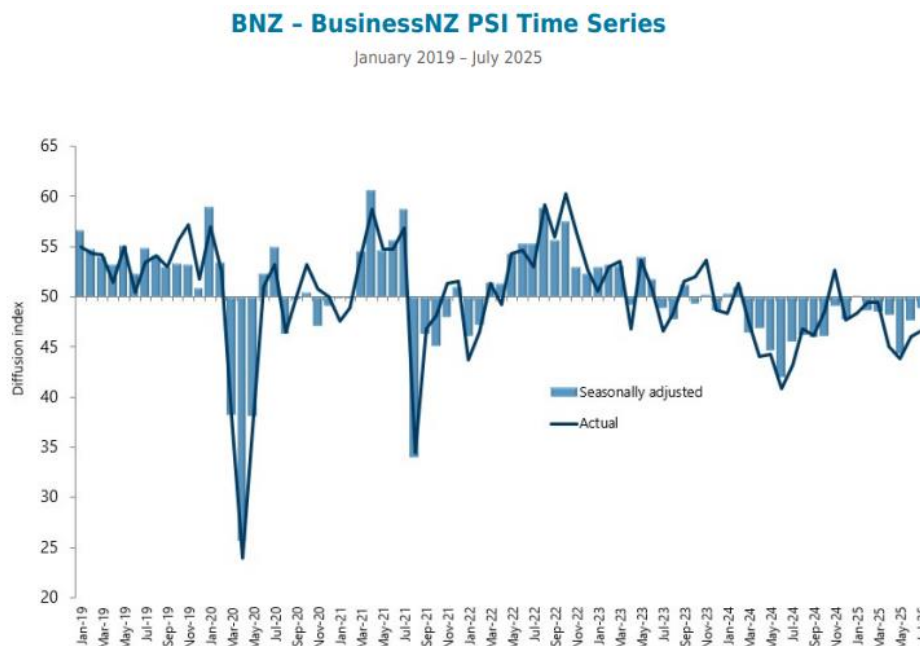


Despite the return to expansion, the proportion of negative comments from respondents stood at 58.6% in July. However, this was down from June (65.5%) and May (64.5%). Negative comments related to weak demand, falling orders, rising costs, inflation, and ongoing economic uncertainty, worsened by tariffs, slow construction, and low consumer spending. Many cite a lack of confidence, delayed projects, and customers ordering only what is immediately needed, creating stagnant market conditions.

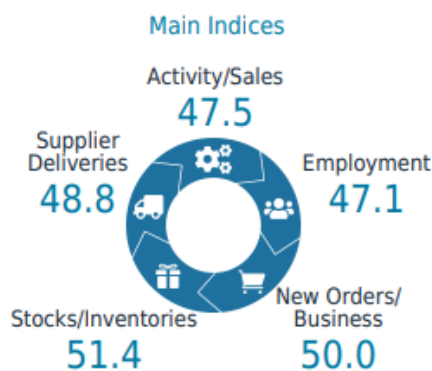
### Services – still below par

NZ's services sector continued to display contraction for the sixth consecutive month, according to the BNZ – BusinessNZ Performance of Services Index (PSI).

The PSI for July was 48.9 (A PSI reading above 50.0 indicates that the service sector is generally expanding; below 50.0 that it is declining). Although the PSI again improved from the previous month's value, it was still well below the average of 52.9 over the history of the survey.



While the July result was a continued improvement from 44.3 posted in May, the sector has not experienced expansion for 17 consecutive months. For the sub-index results, Activity/Sales (47.5) was still unable to exhibit any expansion, while New Orders/Business (50.0) displayed no change. Stocks/Inventories (51.4) showed expansion for the second consecutive month, and Employment (47.1) has remained in contraction for 20 consecutive months.



The proportion of negative comments for July (58.5%) was down from June (66.2%) and May (65.6%). Service sector businesses reported declining sales, reduced spending, and low confidence due to cost-of-living issues, inflation, higher interest rates, and a slow economy. Other challenges included seasonal downturns, weather impacts, rising costs, staffing issues, and uncertainty from global conditions.

### Construction and Housing – on the improve

Building consents appear to be near the bottom of the cycle, with optimism for the construction sector going forward improving, as evidenced by a number of surveys.

Construction sector leaders remain confident (93%) about the industry's outlook over the next five years, despite persistent economic pressures.

Equipment hire company Kennards Hire's annual Construction Confidence Check, which included a survey of NZ business leaders for the first time, indicated confidence was high on both sides of the Tasman.

Survey responses from 205 mid to large NZ construction businesses found nearly all (99%) decision makers were either actively implementing or exploring cost-saving strategies to maintain their competitive edge.

Government moves to make it easier to build houses and also a significant pipeline of major projects should give the sector a much-needed shot in the arm.

Meanwhile, continued reductions in interest rates should also provide greater confidence to investors and households moving forward, although there is still a strong degree of caution facing the sector.

According to the Centrix July Credit Indicator, company liquidations are up 26% year-on-year, though the pace of increase is slowing. Construction remains the leading contributor to liquidations, followed by hospitality, which has now overtaken property as the second-largest affected sector.

Meanwhile, with regard to housing costs, the seasonally adjusted Real Estate Institute of NZ (REINZ) House Price Index fell 0.5% m/m in July, extending June's 0.3% m/m fall. Prices were weaker in Auckland and stronger in regional areas.

Seasonally-adjusted sales volumes dropped 2.6% m/m in July and are close to their long-run average. Between the run of small price increases over the first part of the year and falls in the last two months, the level of house prices now sits just 0.4% above its most recent low in October 2024.

Given significant drops in interest rates, one would have thought that that interest might have been rekindled as housing becomes more affordable than compared to recent years. There are a number of reasons why this has not been the case so far.

First, some investors are exiting the market due to higher compliance costs, falling rents, higher insurance costs and ever-increasing local government rates, although the Government has removed some of the tax disincentives for investors over recent times.

Second, net migration continues to fall rapidly, with less pressure on the market than there was previously.

Third, despite lower interest rates, household debt levels are still high (around 170% of disposable income) and this, combined with uncertain job security, is leading to many prospective homeowners staying on the sidelines.

Geopolitical risks are also having an effect on consumer confidence, as reflected in a number of consumer confidence surveys which show confidence still tracking well below par.

Fear of missing out (FOMO) has been replaced by fear of overpaying (FOOP), with prospective buyers having much more negotiating power than for a long time, and it is possible that vendors will need to be more flexible if they want to move stock, despite the fact that house prices in just about all regions are still well below the peak in late 2021.

The Government's proposed reforms to the Resource Management Act should result in greater supply of housing as inappropriate regulations and controls are progressively removed. This should, over time, ensure that price increases remain close to the overall rate of inflation.

Easier building consenting processes should also help contain building price rises.

Finally, Government decisions to allow for greater use of new products approved for overseas use should see greater competition in respect to product/input prices for housing.

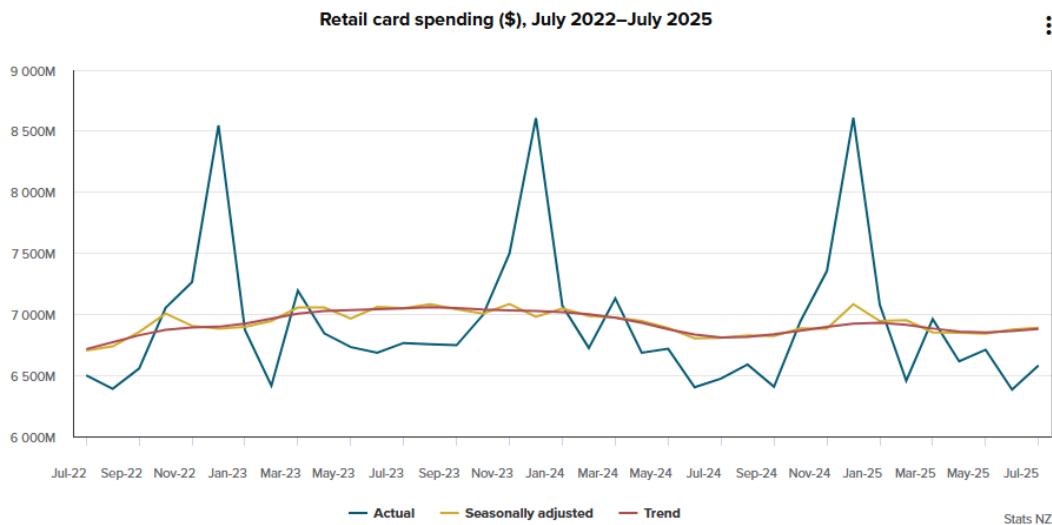
Retail - subdued

Despite significant reductions in interest which is taking some of the pressure off households, consumer confidence remains low, which is reflected in electronic sales showing little progress.

It could be expected that with lower interest rates, consumers would have regained some confidence to go out and spend again, however the relatively subdued labour market with significant restructuring still taking place has resulted in households closing their wallets.

Ironically, consumer confidence is often related to the direction of house prices, and when house prices rise it perhaps, bizarrely, gives consumers greater confidence to invest.

Electronic card transactions remain relatively flat as can be seen from the graph below.



Changes in the value of electronic card transactions for the July 2025 month (compared with June 2025) were:

- spending in the retail industries increased 0.2% (\$13 million)
- spending in the core retail industries was relatively flat (up \$1.5 million)

**1.4 Labour market – underlying weakness remains**

Expectations are that the labour market is close to bottoming out, with improvements expected for the remainder of this year and beyond as outlined in the forecasts below.

While the unemployment rate for the June 2025 quarter came in at 5.2%, which was slightly lower than market expectations, a closer look at the figures reveals remaining inherent weakness in the numbers.

The unemployment rate at 5.2% was up slightly on 5.1% for the previous quarter and up from 4.7% in the June 2024 quarter. However, it would have been higher still if not for the decline in the labour force participation rate (down from 70.7% to 70.5%): people having given up and exited the labour force altogether. This is a sure sign that the labour market remains weak compared to the recent past.

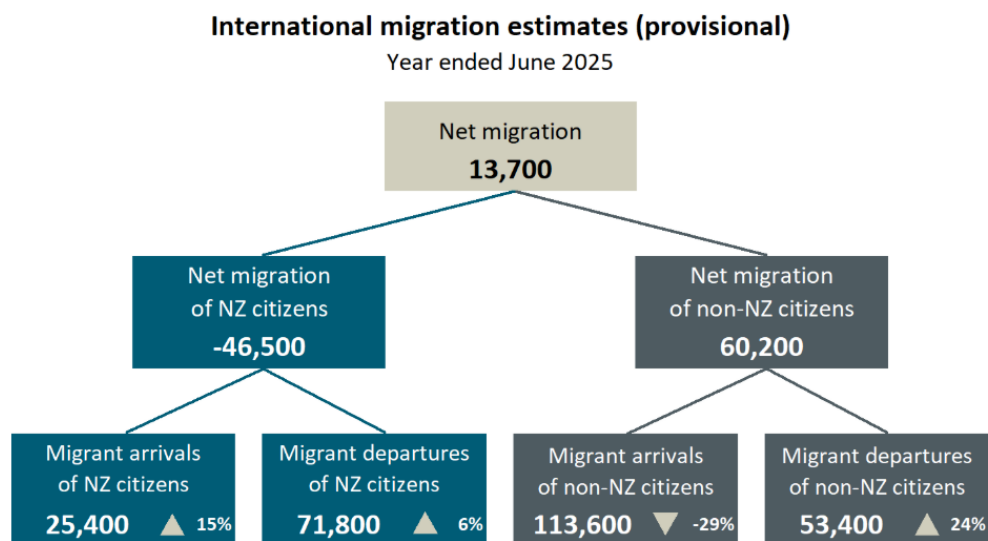
The underutilisation rate, a broader measure of untapped labour market capacity, rose to 12.8%, up from 12.4% in the March quarter 2005 and 11.9% in the June 2024 quarter. It is currently at its highest point since September 2020.

Horus worked have also been peeled back, declining by 1% over the most recent quarter, and the sixth straight quarterly decline.

While most forecasting agencies are expecting improvements in employment growth and lower levels of unemployment as outlined below, there is still cause for concern as to the speed of recovery.

As employment growth typically lags economic growth, employment growth is expected to remain subdued over the next year.

Meanwhile, net migration continues to fall, which will reduce the available labour supply, given that the largest cohort of New Zealanders exiting the country are arguably the most talented and youngest of our population.



Notes: Estimates are provisional as of 15 August 2025.  
Percentage changes are indicative of the June 2025 year compared with the June 2024 year.  
Figures may not sum to totals due to rounding.

Source: Stats NZ

NZ's net migration gain of 13,700 in the June 2025 year was down from a net gain of 70,400 in the June 2024 year, according to provisional estimates released by Stats NZ.

The main driver of the fall in net migration in June 2025 was fewer migrant arrivals of non-NZ citizens. Despite the fall in arrivals, there was still a net migration gain of 60,200 non-NZ citizens, which more than offset a net loss of 46,500 NZ citizens.

There were 71,800 migrant departures of NZ citizens in June 2025. This was up from 67,500 in June 2024 and just below the record of 72,400 in February 2012.

Migrants aged 18 to 30 years made up 27,200 (38%) of the 71,800 migrant departures of NZ citizens in June 2025.

The continued loss of talent is concerning given that it represents a massive loss of future human capital. While the exodus of Kiwis has been more than offset to date by new migrants and returning New Zealanders, in general their overall skill levels may not be as high as those leaving the country.

Meanwhile, the Government continues to tweak migration visa settings, moves which are generally endorsed by businesses in terms of attracting appropriate migrants to NZ to fill obvious gaps in our labour market.

**Forecasts: Unemployment percentage (HLFS)**

	Quarter		
	Sep 25	Sep 26	Sep 27
<b>Highest</b>	5.3	5.0	4.7
<b>Average</b>	5.3	4.9	4.6
<b>Lowest</b>	5.3	4.8	4.3

*Source: ASB, BNZ, Kiwibank and Westpac*

**Labour Costs – reflecting reality**

In line with current excess capacity in the labour market, wage movements are generally expected to be constrained over the near term, with moderate increases expected over the forecast period as labour market conditions gradually improve.

Surveys continue to report that employers are finding it easier to hire both skilled and unskilled staff more readily than has been the case in the past. This is yet another indicator of excess capacity in the labour market, which has resulted in a continued easing in wage growth.

**Forecasts: Labour cost index percentage change (wages and salaries)**

	Years Ending		
	Sep 25	Sep 26	Sep 27
<b>Highest</b>	2.3	2.1	2.2
<b>Average</b>	2.2	2.1	2.2
<b>Lowest</b>	2.1	2.0	2.1

*Source: ASB, BNZ, Kiwibank and Westpac*