

# Research Rural Wrap

6 August 2025

## Tariffs unhelpful, but primary prices firm

- **Higher US tariff rate on NZ goods unhelpful**
- **Recent global developments not all bad**
- **And a subdued NZD export supportive**
- **We lift our 25/26 milk price forecast to \$10.25**

The latest spin of the US tariff roulette wheel has occurred with a host of new rates foisted upon different countries to be implemented later this week.

NZ goods sold into the US are set to face a 15% tariff. This is a lift from the 10% that was put in place earlier this year. In addition to a higher rate, another adverse factor this time around is the fact that NZ goods will now no longer be facing the lowest possible tariff rate into the US.

Importantly, Australia will continue to face a 10% tariff rate, which is the minimum the US has set across countries. This means NZ exports will be less competitive than before when selling goods into the US, relative to Australia.

This matters for the likes of meat, NZ's biggest export category to the US (mainly frozen beef, and to a lesser extent lamb), as Australia also exports a significant amount of meat to the US.

While the latest tariff changes are a headwind, it doesn't necessarily mean NZ prices will fall, rather that they are likely to be lower than they otherwise would be absent the latest additional 5% change. Our season average forecast for NZ beef prices in the coming season is broadly in line with where the current season is expected to finish, while the equivalent for lamb is higher.

While there are exceptions, EU goods exports to the US face a general 15% tariff. This matches the rate NZ goods will face heading into the US. This will disappoint those who had hoped NZ would keep its previously announced advantage over the EU. It will impact NZ exporters competing with the EU in the US market with wine a particular concern.

At a macro level, the increased US tariff on NZ goods exports is expected to have an adverse impact at the margin. The impact of tariff changes will vary by product, partly depending on the rates that NZ competitors face

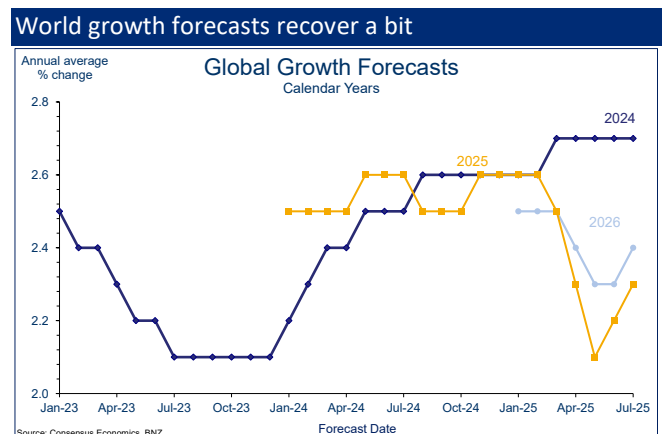
into the US like meat/wine noted above and how much is absorbed by the US importer. Some margin pressure on NZ exporters is likely.

Any economic hit would be lessened by the highly likely diversion of trade to other markets. And it's also possible that those with competitors facing higher tariffs into the US than NZ faces may see opportunity for some margin expansion.

The RBNZ has been clear that it sees rising tariffs and global uncertainty as mostly a demand shock, from an NZ perspective, that reduces medium-term inflation pressure. This, and the lift in the NZ tariff rate specifically, incrementally supports the case for further monetary policy easing.

### World growth forecasts creeping back upward

It hasn't all been negative on the global front. Consensus forecasts for world growth have recently been creeping back upwards following downgrades earlier in the year.



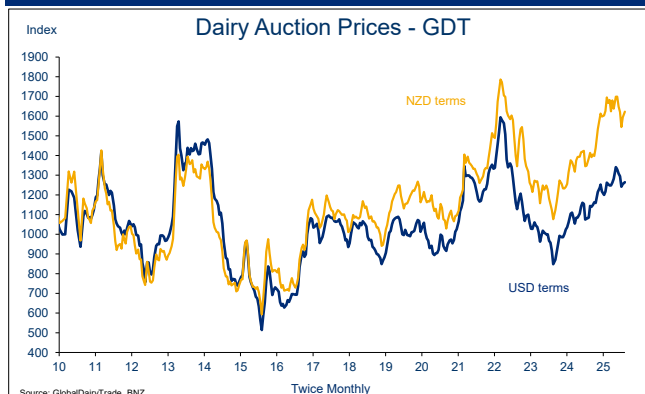
While we remain cautious on the global outlook, not-so-weak global growth forecasts, associated solid demand, and some supply side factors provide a more supportive environment for some primary product prices than previously assumed. The NZD wobbling around, and currently under, USD 0.60, is another support relative to expectations of appreciation.

For dairy, we already had another season of buoyant milk prices pencilled in. The factors above add a bit more support, so we lift our forecast for Fonterra's 2025/26 milk price (an industry yardstick) up to \$10.25 from \$9.50 previously.

Our previous milk price view built in a dip in GDT prices and an NZD pushing higher by now. GDT prices did fall a cumulative 7.4% from a recent peak in early May to early July. But changing factors like world growth expectations edging higher, weather conditions and disease affecting milk supply in parts of the EU, rising global fertiliser prices, reports of continued milk production weakness in China, and resolution of a trade dispute between NZ and Canada collectively suggest a stronger dairy outlook than we previously anticipated.

The early-August GDT auction supports the case at the margin. The small 0.7% lift at that event was arguably a bit stronger than it looked given prices tend to fall at this time of year as volumes lift, and despite a headwind from a stronger USD since the previous event.

#### GDT



On our reckoning, both Fonterra's \$10 milk price forecast for the 2025/26 season and our own \$10.25 view are consistent with some mild decline in GDT prices from current levels. If GDT prices don't ease from here, a milk price a touch higher than both forecasts could be expected.

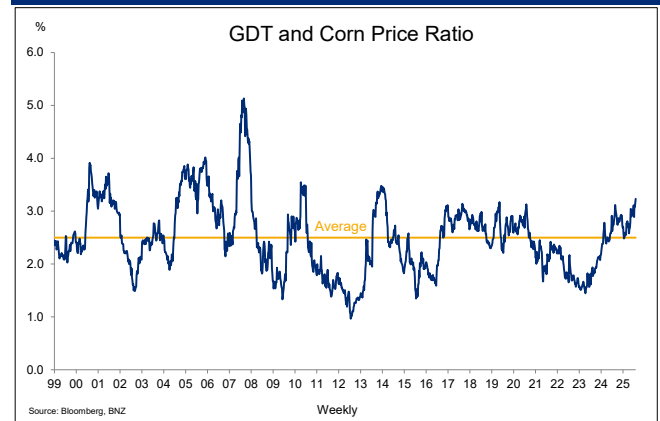
More broadly, the bound around possible outcomes for this season's milk price remains very wide. Further improvement in global growth forecasts and demand or tighter than expected supply present upside risk.

On the downside, there is still plenty to fret about that could materially and abruptly alter the trajectory for prices ahead. The world growth outlook and trade environment

are fragile, while geopolitical tensions don't look like vanishing anytime soon.

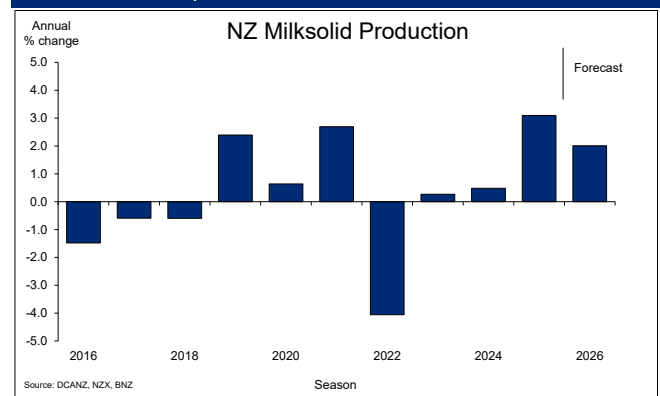
We are also wary of above average inflation-adjusted prices encouraging more milk from those that can increase production. That still feels like a question of when not if. Dairy prices are high relative to global grain prices. For example, the dairy price to corn price ratio is at its highest level in more than 10 years. US milk production is already pushing well above year earlier levels.

#### An incentive for more global milk production



Eyes are also on the new NZ production season as it starts to ramp up proper. It is off to a strong start. After lifting 3% last season, NZ production is assumed to lift 2% this season. Less volume than that would present some upside risk to our milk price view, at the margin, and vice versa if production is stronger.

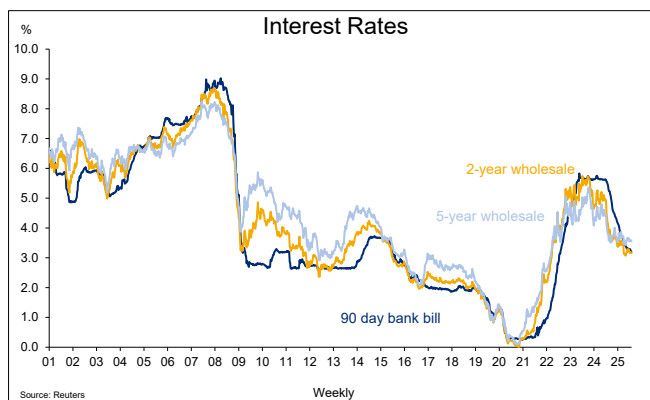
#### More NZ milk expected



[doug\\_steel@bnz.co.nz](mailto:doug_steel@bnz.co.nz)

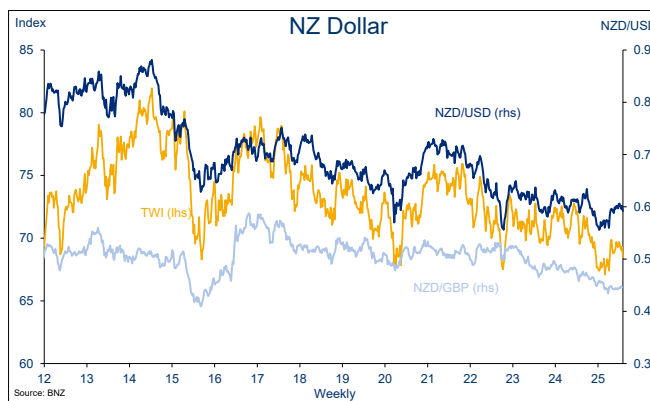
# Key Macro Drivers for Commodity Producers

## Interest Rates



In July, the Reserve Bank of New Zealand (RBNZ) held the Official Cash Rate (OCR) unchanged at 3.25%. In the accompanying record of meeting, the RBNZ signalled further cuts to the OCR if the economy progresses as expected. New Zealand's labour market continues to deteriorate, with official Q2 statistics showing another lift in the unemployment rate to 5.2%, its highest level since 2020. This is supportive of further interest rate reduction and our long-held view for an eventual low in the OCR of 2.75%. Other central banks including the US Fed, ECB and RBA recently held rates unchanged as they await further clarity on global trade tensions. However, markets still expect further rate cuts from these central banks later in the year.

## Foreign Exchange



The New Zealand dollar (NZD) has tracked sideways around the 0.60 level over the last two months. Global uncertainty has eased with more clarity on where Trump was settling in terms of import tariffs. New Zealand faces a 15% tariff rate on goods exports to the US, up from 10% previously. Importantly, our exporters now are at a 5% disadvantage relative to some other countries (e.g. Australia at 10%). Yale's Budget Lab estimates that the average effective US tariff rate will rise to a 90-year high of 18.3%, incorporating all the latest announcements. While historically high, the lack of tariff retaliation and reduced risk of a major global trade war has supported risk appetite. While a wide range of scenarios are possible, it is looking increasingly likely that we revise down our NZD forecast for a 2025 year-end target of 0.65.

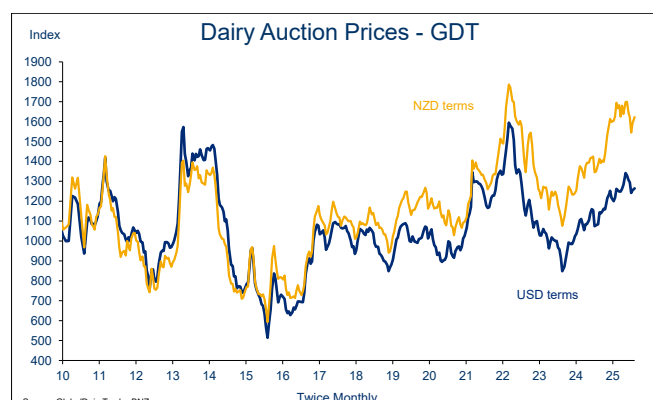
## Global Growth



Global growth forecasts have been creeping back upwards in recent months. In July, the IMF revised up its global growth estimates by 0.2% for 2025 and 0.1% for 2026. The IMF cited stronger-than-expected front-loading of activity in anticipation of higher tariffs; lower average effective US tariff rates than announced in April; an improvement in financial conditions, including due to a weaker US dollar; and fiscal expansion in some major jurisdictions. In China, GDP data for Q2 was stronger than expected at 5.2% y/y. While growth in the US and China is still expected to slow, resilient economic activity to date has provided a better backdrop for primary product prices than was anticipated just a few months ago.

# Key Commodities

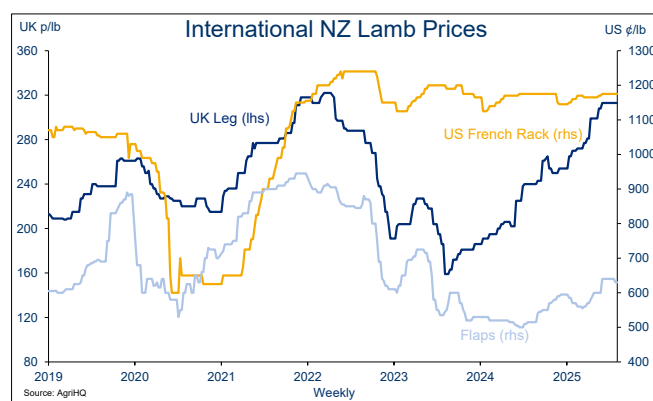
## Dairy



Dairy auction prices remain firm. Prices increased 0.7% at the early August GDT auction, against their usual fall for this time of year. Global supply has been limited by adverse weather conditions and disease in Europe. We expect prices to be at similar levels in a year's time, albeit with some mild softening in the near term. There are risks on both sides to our new \$10.25 milk price forecast for the 2025/26 season. Domestic milk solid production has started the new season well, and farmers have good reason to be optimistic about the season ahead. This is reflected in much higher-than-average farmer confidence.

	Current	Month ago	Year ago	Next 12 months
Whole milk powder (US \$/t)	4050	3910	3210	➔

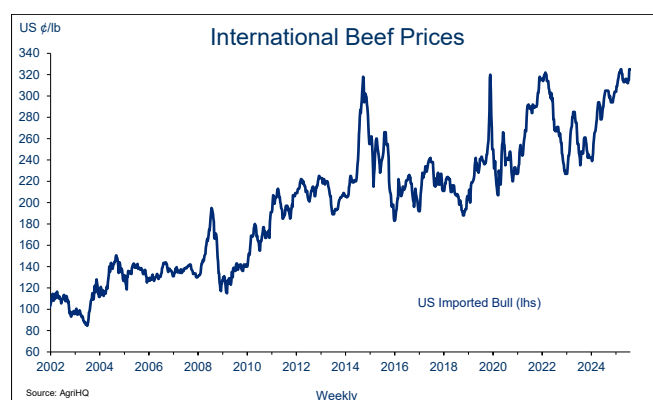
## Lamb



UK lamb prices remain elevated, supported by firm global demand. One of the key drivers of recent pricing has been strong demand from the UK and EU. New Zealand lamb exports are also relatively less exposed to US tariffs than beef. Combined with reduced NZ lamb slaughter volumes, it equates to firm market conditions for lamb prices. We expect next season's average lamb prices to be above this season assuming global prices do not fall too far from current levels.

	Current	Month ago	Year ago	Next 12 months
Lamb leg (UK p/lb)	313	313	240	⬇️

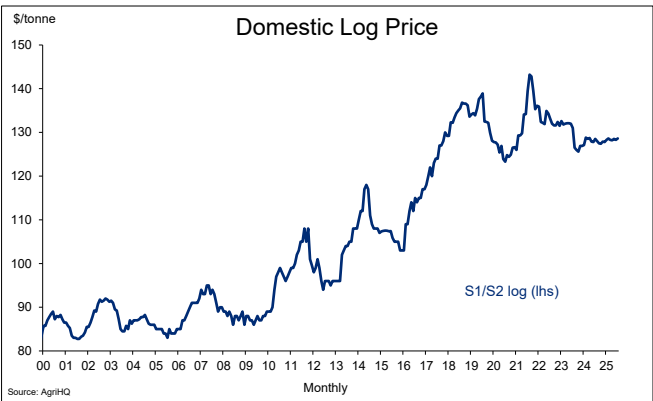
## Beef



International beef prices continue to push higher amid tight global supply. US prices have been underpinned by low US cattle numbers and sustained consumer demand. Trade between Brazil and the US has dropped significantly as Brazilian beef is tariffed at 76.4% for the rest of the year. However, China's cancellation of US beef export licenses has led to a redirection of Brazilian beef exports to meet Chinese demand. A higher US tariff on NZ goods (up to 15% from 10% previously) is a headwind. We expect next season's average beef prices to be broadly in line with the record level likely to be set this season. Higher prices will ultimately attract more supply, but it will take time. For now, US cow slaughter data indicates further declines in production and price support.

	Current	Month ago	Year ago	Next 12 months
Imported bull (US \$/lb)	325	315	305	➔

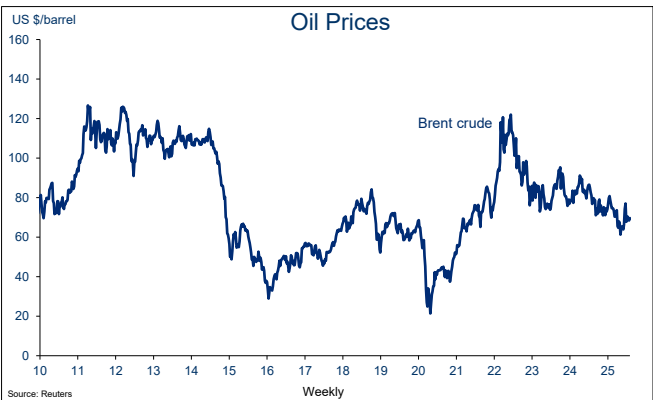
Forestry



Domestic log prices continue to move sideways. Demand from China (our largest export market) is yet to pick up materially, where new home prices have now been in decline for 25 consecutive months. China’s struggling property market continues to be a drag on New Zealand forestry exports. Domestic building activity is also subdued with the trend in residential building consents flat at best. Lastly, it would be remiss to not note the major challenges facing foresters in Tasman as they grapple with recent damage.

	Current	Month ago	Year ago	Next 12 months
S1/S2 log price (NZ \$/t)	129	128	129	➔

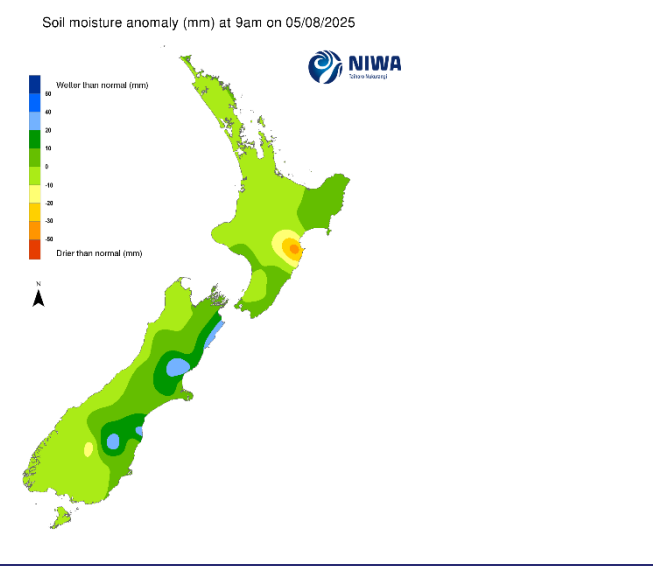
Oil



Brent crude prices lifted slightly in late July as President Trump said he will give Russia 10 days to reach a truce with Ukraine or face economic penalties. These penalties include punitive tariffs on countries that buy oil from Russia. This was partly offset as OPEC+ agreed another large oil production increase of 547k barrels a day from September. The oil futures curves are mildly downward sloping. In New Zealand, fuel prices at the pump have lifted slightly in recent weeks which will put more upward pressure on inflation.

	Current	Month ago	Year ago	Next 12 months
Brent crude (US \$/b)	70	68	77	➔

Weather



Soil moisture anomaly maps have been close to their usual levels for this time of year. Some return to normality is welcome news for many farmers who have been battling either drought or flooding (or both) in the last 12 months. The temperature has been above normal for this time of the year and is expected to stay that way in near-term. Looking ahead, NIWA expect rainfall in August – October to be above normal for the north and east of the North Island. For most other areas near normal or above normal rainfall totals are about equally as likely.

# Quarterly Forecasts

Forecasts as at 6 August 2025

## Key Economic Forecasts

Quarterly % change unless otherwise specified

Forecasts

	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27
GDP (production s.a.)	0.5	0.8	-0.2	0.5	0.7	0.8	0.8	0.6	0.6	0.5
Retail trade (real s.a.)	1.0	0.8	0.1	0.8	1.2	1.1	0.9	0.8	0.7	0.7
Current account (ann, % GDP)	-6.1	-5.7	-5.3	-5.1	-4.9	-4.8	-4.8	-4.8	-4.8	-4.7
CPI (q/q)	0.5	0.9	0.5	0.9	0.3	0.4	0.5	0.4	0.3	0.5
Employment	-0.2	0.0	-0.1	0.3	0.6	0.7	0.7	0.6	0.5	0.5
Unemployment rate %	5.1	5.1	5.2	5.3	5.2	5.1	5.0	4.8	4.8	4.7
Pr. avg hourly earnings (ann %)	4.0	3.8	3.5	3.0	2.3	3.0	3.1	3.2	3.4	3.3
Trading partner GDP (ann %)	3.2	3.2	3.0	2.5	2.2	2.3	2.5	2.7	2.9	2.9
CPI (y/y)	2.2	2.5	2.7	3.0	2.7	2.2	2.1	1.7	1.7	1.8
GDP (production s.a., y/y)	-1.3	-0.7	0.1	1.6	1.8	1.8	2.9	3.0	3.0	2.6

## Interest Rates

Historical data - qtr average

Forecast data - end quarter

	Cash	Government Stock			Swaps			US Rates		Spread
		90 Day	5 Year	10 Year	2 Year	5 Year	10 Year	SOFR	US 10 yr	NZ-US
		Bank Bills						3 month		Ten year
2024 Mar	5.50	5.66	4.44	4.68	4.92	4.40	4.45	5.30	4.15	0.53
Jun	5.50	5.63	4.56	4.74	5.01	4.53	4.60	5.35	4.45	0.30
Sep	5.33	5.30	3.96	4.31	4.05	3.80	4.05	5.05	3.95	0.37
Dec	4.42	4.44	4.00	4.47	3.65	3.74	4.10	4.50	4.30	0.19
2025 Mar	3.92	3.84	3.99	4.58	3.47	3.71	4.15	4.30	4.45	0.13
Jun	3.33	3.38	3.85	4.55	3.19	3.57	4.10	4.30	4.35	0.19
Forecasts										
Sep	3.00	2.90	3.65	4.50	3.00	3.40	4.10	4.10	4.30	0.20
Dec	2.75	2.90	3.65	4.50	3.05	3.45	4.15	3.70	4.25	0.25
2026 Mar	2.75	2.90	3.75	4.40	3.25	3.55	4.05	3.60	4.10	0.30
Jun	2.75	2.90	3.90	4.40	3.55	3.75	4.10	3.45	4.00	0.35
Sep	2.75	3.05	4.00	4.40	3.80	3.95	4.20	3.20	4.00	0.40
Dec	3.00	3.30	4.10	4.45	4.00	4.10	4.30	3.10	4.00	0.45

## Exchange Rates (End Period)

### USD Forecasts

	NZD/USD	AUD/USD	EUR/USD	GBP/USD	USD/JPY
Current	0.59	0.65	1.16	1.33	148
Sep-25	0.63	0.68	1.24	1.43	130
Dec-25	0.65	0.70	1.23	1.41	125
Mar-26	0.67	0.72	1.25	1.44	120
Jun-26	0.68	0.73	1.26	1.45	119
Sep-26	0.68	0.73	1.27	1.46	118
Dec-26	0.68	0.73	1.28	1.47	117
Mar-27	0.69	0.74	1.26	1.45	116
Jun-27	0.70	0.75	1.25	1.44	115

### NZD Forecasts

	NZD/USD	NZD/AUD	NZD/EUR	NZD/GBP	NZD/JPY	TWI-17
Current	0.59	0.91	0.51	0.44	87.1	68.4
Sep-25	0.63	0.93	0.51	0.44	81.9	71.0
Dec-25	0.65	0.93	0.53	0.46	81.3	72.3
Mar-26	0.67	0.93	0.54	0.47	80.4	73.4
Jun-26	0.68	0.93	0.54	0.47	80.9	73.9
Sep-26	0.68	0.93	0.54	0.47	80.2	73.7
Dec-26	0.68	0.93	0.53	0.46	79.6	73.6
Mar-27	0.69	0.93	0.55	0.48	80.0	74.5
Jun-27	0.70	0.93	0.56	0.49	80.5	75.3

### TWI Weights

15.6% 18.4% 9.2% 3.9% 5.5%

Source for all tables: Stats NZ, Bloomberg, Reuters, RBNZ, BNZ



# Annual Forecasts

Forecasts as at 6 August 2025	March Years					December Years				
	Actuals			Forecasts		Actuals		Forecasts		
	2023	2024	2025	2026	2027	2023	2024	2025	2026	2027
<b>GDP - annual average % change</b>										
Private Consumption	3.4	1.0	0.2	2.2	2.8	1.0	0.0	1.9	2.8	2.4
Government Consumption	2.7	2.0	-0.7	-0.5	-0.1	0.8	-0.1	0.0	-0.6	0.4
Total Investment	3.3	-1.1	-5.3	0.4	6.5	-0.1	-5.1	-1.6	6.2	4.1
Stocks - ppts cont'n to growth	0.3	-1.5	0.2	0.6	0.1	-1.4	0.2	0.3	0.3	0.0
GNE	3.7	-0.9	-1.0	1.6	3.2	-0.7	-1.1	0.8	3.2	2.4
Exports	5.6	8.6	2.7	1.1	3.9	11.4	4.1	1.5	3.3	3.8
Imports	4.5	-1.3	1.7	3.0	4.8	-0.5	1.9	2.0	4.9	3.4
Real Expenditure GDP	3.9	1.5	-0.9	1.5	2.9	2.0	-0.5	1.0	2.7	2.4
<b>GDP (production)</b>	<b>3.5</b>	<b>1.4</b>	<b>-1.1</b>	<b>1.3</b>	<b>2.9</b>	<b>1.8</b>	<b>-0.6</b>	<b>0.7</b>	<b>2.7</b>	<b>2.4</b>
<i>GDP - annual % change (q/q)</i>	3.0	1.3	-0.7	1.8	2.6	1.0	-1.3	1.8	3.0	2.3
Output Gap (ann avg, % dev)	2.0	1.0	-1.0	-1.4	-0.5	1.2	-0.5	-1.4	-0.6	-0.3
Nominal Expenditure GDP - \$bn	394	418	431	456	479	413	427	450	474	495
<b>Prices and Employment - annual % change</b>										
CPI	6.7	4.0	2.5	2.2	1.8	4.7	2.2	2.7	1.7	2.1
Employment	2.9	0.9	-0.7	1.5	2.3	2.7	-1.2	0.8	2.5	1.9
Unemployment Rate %	3.5	4.4	5.1	5.1	4.7	4.0	5.1	5.2	4.8	4.7
Wages - ave. hr. ord. time earnings (private sector)	8.2	4.8	3.8	3.0	3.3	6.6	4.0	2.3	3.4	3.2
Productivity (ann av %)	1.4	-1.0	-0.2	1.1	0.4	-1.1	-0.2	1.2	0.4	0.3
Unit Labour Costs (ann av %)	5.5	7.0	4.7	2.5	2.9	7.5	5.0	2.8	2.8	2.9
House Prices (stratified, mth)	-12.8	2.8	-0.6	3.7	5.7	0.6	-0.9	3.2	5.0	5.4
<b>External Balance</b>										
Current Account - \$bn	-33.8	-27.6	-24.7	-22.0	-22.3	-28.6	-26.2	-22.1	-22.6	-21.5
Current Account - % of GDP	-8.6	-6.6	-5.7	-4.8	-4.7	-6.9	-6.1	-4.9	-4.8	-4.4
<b>Government Accounts - June Yr, % of GDP</b>										
OBEGAL ex ACC (core op. balance) (Treasury forecasts)	-1.8	-2.1	-2.3	-2.6	-1.7					
Net Core Crown Debt (ex NZS) (Treasury forecasts)	38.7	41.7	42.7	43.9	45.7					
Bond Programme - \$bn (Treasury forecasts)	28.0	39.3	43.0	38.0	36.0					
Bond Programme - % of GDP	7.1	9.4	10.0	8.3	7.5					
<b>Financial Variables <sup>(1)</sup></b>										
NZD/USD	0.62	0.61	0.57	0.67	0.69	0.62	0.57	0.65	0.68	0.69
USD/JPY	134	150	149	120	116	144	154	125	117	116
EUR/USD	1.07	1.09	1.08	1.25	1.26	1.09	1.05	1.23	1.28	1.23
NZD/AUD	0.93	0.93	0.91	0.93	0.93	0.93	0.91	0.93	0.93	0.93
NZD/GBP	0.51	0.48	0.44	0.47	0.48	0.49	0.45	0.46	0.46	0.49
NZD/EUR	0.58	0.56	0.53	0.54	0.55	0.57	0.55	0.53	0.53	0.56
NZD/YEN	83.0	91.1	85.4	80.4	80.0	89.5	88.4	81.3	79.6	80.0
TWI	71.0	71.2	67.9	73.4	74.5	72.0	68.5	72.3	73.6	74.7
Overnight Cash Rate (end qtr)	4.75	5.50	3.75	2.75	3.25	5.50	4.25	2.75	3.00	4.00
90-day Bank Bill Rate	5.16	5.64	3.60	2.90	3.80	5.63	4.26	2.90	3.30	4.15
5-year Govt Bond	4.40	4.60	4.00	3.75	4.10	4.50	3.90	3.65	4.10	4.05
10-year Govt Bond	4.35	4.60	4.50	4.40	4.50	4.65	4.45	4.50	4.45	4.60
2-year Swap	5.15	4.91	3.35	3.25	4.00	4.93	3.53	3.05	4.00	4.00
5-year Swap	4.50	4.40	3.65	3.55	4.15	4.43	3.63	3.45	4.10	4.20
US 10-year Bonds	3.65	4.20	4.25	4.10	4.00	4.00	4.40	4.25	4.00	4.00
NZ-US 10-year Spread	0.70	0.40	0.25	0.30	0.50	0.65	0.05	0.25	0.45	0.60
<sup>(1)</sup> Average for the last month in the quarter										

Source: Statistics NZ, BNZ, RBNZ, NZ Treasury

# Contact Details

## BNZ Research

**Stephen Toplis**  
Head of Research

**Doug Steel**  
Senior Economist

**Matt Brunt**  
Economist

**Jason Wong**  
Senior Markets Strategist

**Stuart Ritson**  
Senior Interest Rate Strategist

**Mike Jones**  
BNZ Chief Economist

## BNZ Markets

**Blair Willson**  
Interest Rate Solutions  
+64 6 350 1670

**Phil Townsend**  
Interest Rate Solutions  
+64 3 353 2219

**Wayne Brill**  
Interest Rate Solutions  
+64 7 928 0871

**Jeff Yeakley**  
Interest Rate Solutions  
+64 3 938 5995

## BNZ Partners

**David Handley**  
Head of Agribusiness  
+64 9 976 5009

## Main Offices

**Wellington**  
Level 2, BNZ Place  
1 Whitmore St  
Private Bag 39806  
Wellington Mail Centre  
Lower Hutt 5045  
New Zealand  
Toll Free: 0800 283 269

**Auckland**  
80 Queen Street  
Private Bag 92208  
Auckland 1142  
New Zealand  
Toll Free: 0800 283  
269

**Christchurch**  
111 Cashel Street  
Christchurch 8011  
New Zealand  
Toll Free: 0800 854 854

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