ECONOMIC BULLETIN

Review of December quarter GDP.

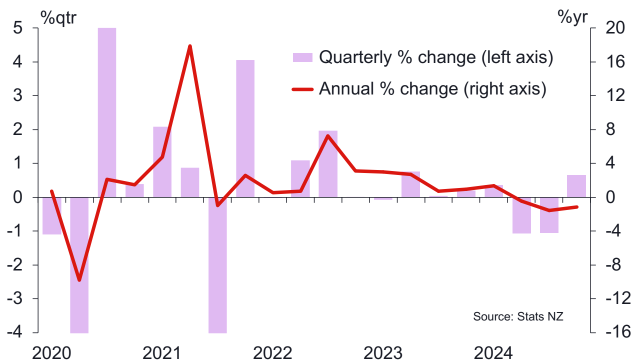
20 Mar 2025 | **Michael Gordon**, Senior Economist | +64 9 336 5670 | +64 21 749 506 | michael.gordon@westpac.co.nz

Out of the mire

- **The New Zealand economy grew by 0.7% in the December quarter, following two quarters of sharp declines.**
- **While we think the headline growth rate was overstated by technical issues, there was some genuine growth in the figures as well.**
- **We expect the economy to continue to grow at a moderate but not above-trend pace over 2025.**
- **The Reserve Bank will likely take a cautious read on today's figures, but at the margin they support our view that the OCR will bottom out at 3.25% this year.**

	Dec 24	Sep 24	Westpac f/c	RBNZ f/c
GDP qtr %	0.7	-1.1	0.5	0.3
GDP ann %	-1.1	-1.6	-1.3	-1.4

GDP growth



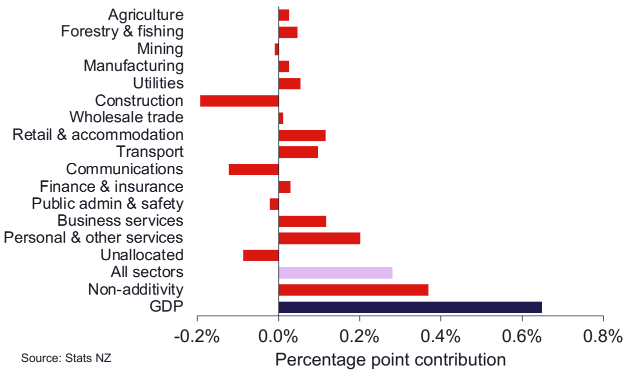
After two quarters of steep decline, the December quarter GDP figures provided some hope that the worst has passed. We think that today's figures overstate the degree to which activity has picked up, for reasons that we detailed in our preview last week. But even after accounting for those technical issues, there was more genuine growth in there than we were expecting.

GDP rose by 0.7% in the December 2024 quarter (actually 0.65%, which just barely rounded up to 0.7%). That beat our forecast of +0.5%, which in turn was at the higher end of the range of market forecasts (median +0.4%), and ahead of the Reserve Bank's estimate of 0.3%. On an annual basis, GDP was down 1.1% on the same time a year earlier, an improvement on the -1.6% decline in the September quarter.

On a sector-by-sector basis, total activity was up by around 0.3% – better than the flat outcome that was implicit in our forecast. This was mostly due to stronger than expected contributions from a range of service sectors such as healthcare, professional services, and arts and recreation.

Technical issues still dominated the result though, with the non-additive component of GDP contributing 0.4% of the growth (we had assumed it would add 0.5%). So our view remains that the headline growth rate overstates the strength of the economy's rebound, just as it likely overstated the extent of the decline in the middle of last year. Bear in mind that with hours worked down 0.5% over the quarter, seeing any growth in GDP at all would require a healthy lift in productivity.

Contributions to December quarter growth



The major contributors to the December quarter result were broadly as we expected. The ongoing recovery in international tourism provided a boost in areas such as transport, retail, hospitality and recreation. To underscore the point further, the expenditure measure of GDP showed a strong lift in services exports, while spending by New Zealand households themselves was about flat.

The electricity sector partially rebounded from a sharp fall in the previous quarter, as generation moved away from coal and gas and back towards cheaper renewables. This presents a downside risk to coming quarters though, with hydro lake levels threatening to run low again.

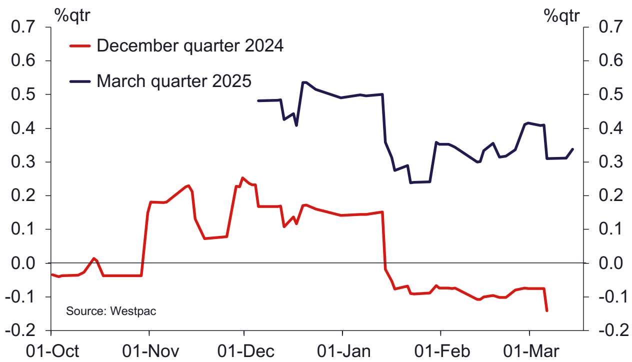
There were also solid contributions from sectors such as healthcare, hiring and real estate services, and financial services. For what it's worth, these are the sorts of areas where there's a paucity of high-frequency data to feed into our GDP forecasts; the world of physical goods remains better and more frequently measured.

On the downside, the construction sector remains in a deep funk, with activity down a further 3.1%. There was also a hefty 3% drop in telecommunications, though this sector often gets heavily revised. The shrinking of the public sector administration continued, with a 0.5% decline this quarter.

Implications.

Today's figures don't give us reason to adjust our GDP forecast for the March quarter GDP, which currently sits at 0.4%. Our nowcast model, which tracks the general tone of the data in real time, currently sits at around 0.3%. However, there are some major inputs yet to come, especially the NZIER quarterly business opinion survey on 8 April (the day before the RBNZ's next OCR decision). The non-additive component that boosted reported growth in the December quarter is likely to have a minimal impact in March (though it could be a significant drag in June).

Westpac GDP nowcasts



We expect to see further growth in the economy over 2025, though it will likely be hard-fought. Interest rates have fallen from their highs, but not to particularly low levels, and households are only gradually receiving the benefits as their mortgage rates come due for refixing. High export prices are providing a boost to incomes in the rural regions, but the global trade environment is becoming more fraught. And energy shortages could again prove to be a handbrake on activity through winter.

Given the issues with the volatility of GDP and the extent of revisions, the RBNZ has tended to downplay it in recent times, putting more of its focus on a suite of higher-frequency economic indicators. That said, we don't think the RBNZ will overlook today's upside surprise altogether. At the February *Monetary Policy Statement* the (now-departed) Governor strongly signalled two further OCR cuts in April and May, but the forecasts were divided on the possibility of a third cut later in the year. At the least, today's figures make that third OCR cut less likely.

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