ECONOMIC BULLETIN

Preview of March quarter GDP (19 June, 10:45am).

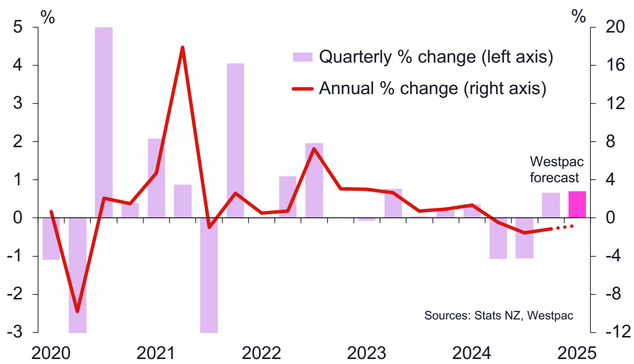
11 Jun 2025 | **Michael Gordon**, Senior Economist | +64 9 336 5670 | +64 21 749 506 | michael.gordon@westpac.co.nz

Growth here, there, not quite everywhere.

- **We expect a 0.7% rise in GDP for the March quarter, following a similar rise in the December quarter.**
- **Our estimates suggest that this growth was fairly broad-based, reflecting a range of improving conditions since last year.**
- **The economy is still clawing its way back from a sharp downturn in the middle part of 2024, and activity likely remains below year-ago levels.**
- **A 0.7% rise would be stronger than the RBNZ expected in its May forecasts, and would strengthen the case for a pause at the July policy review.**

	Dec-24 actual	Mar-25 Westpac f/c	Mar-25 RBNZ f/c
Quarterly % chg	0.7	0.7	0.4
Annual % chg	-1.1	-0.8	-1.1

Quarterly GDP growth



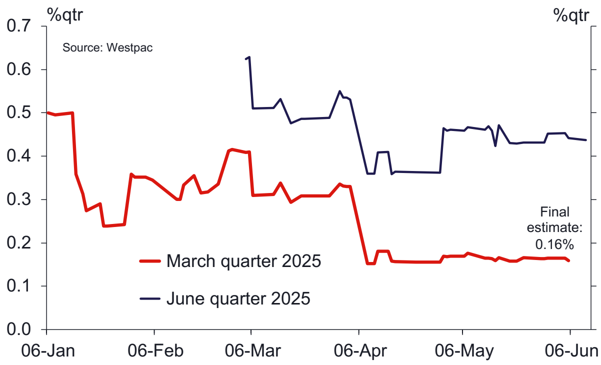
Next Thursday's GDP report is expected to show some green shoots taking hold in the New Zealand economy in the first quarter of the year. Our forecast is for a 0.7% increase in GDP, on top of a similar 0.7% rise in the December quarter. However, this follows a sharp downturn through the middle of 2024, and on our forecast would still leave output down by 0.8% on a year ago (and -1.7% in per capita terms).

Our 0.7% growth forecast is an upgrade from our previous estimate of 0.4%, following the final batch of sectoral data that was released on Monday. Other market forecasters have shifted their views in the same direction, and the RBNZ (which forecast a 0.4% rise in its May *Monetary Policy Statement*) would likely be thinking the same at this point. Combined with the RBNZ's declaration of "no bias" going into the 9 July policy review (and no quarterly CPI until after that date), a better-than-expected GDP result would make a strong case for leaving the OCR unchanged on that occasion.

Growth drivers.

The signs of strength in Monday's figures were something of a surprise for us, as they weren't foreshadowed by the higher-frequency data releases up to that point. **Our GDP nowcast model** ended on an estimate of 0.2%; it had more or less settled at that level after the soft NZIER business survey in April, and subsequent data releases hadn't deviated from this story. That does raise a flag for us that some of the upside surprises could be survey noise that won't be sustained. But nevertheless, they are what goes into the GDP calculations, so we've updated our pick accordingly.

Westpac GDP nowcasts



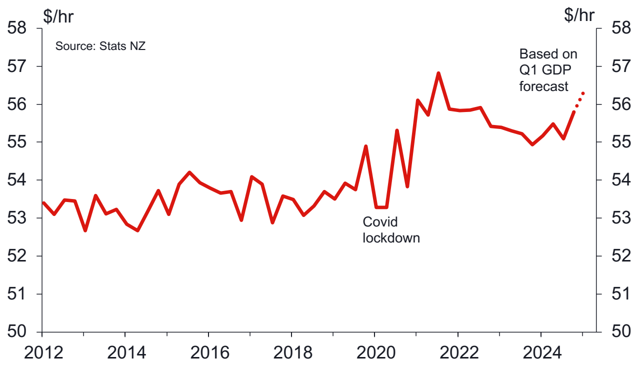
One thing that we find encouraging is the increasing breadth of the upturn. While there are a couple of standouts in our forecast which we'll discuss shortly, our indicators suggest that most sectors will report at least some modest growth. So what's driving this? We'd suggest it's not one thing, but a range of factors working together:

- A bit of lower interest rates doing their work. New Zealand's easing cycle is further advanced than most other developed economies, and that interest rate relief is gradually working its way through to households and businesses.
- A bit of the improving fortunes of the primary sector. The GDP figures won't capture the direct impact – agricultural output has been broadly flat in the last couple of quarters. Rather, the effect has been through higher farm incomes, which in turn will drive a lift in spending and investment across a wider range of sectors.
- A bit of the sustained recovery in international tourism. While overseas visitor spending appears to have been down in the March quarter (compared to a very strong December quarter), it's an industry with some momentum that has otherwise been lacking in the domestic economy.
- And, maybe, there's a bit of last year's downturn simply not being as bad as reported. Only time, and data revisions, will tell on that front.

Interestingly, the recent upturn in GDP has come at a time when the labour market has been fairly soft, with employment basically flat. Indeed, putting the two together implies quite a strong rebound in labour productivity, with GDP per hour worked approaching its post-Covid boom levels.

Have we somehow cracked our productivity problem? More likely it reflects the usual lags in the labour market cycle. We've heard in the past from businesses that they were reluctant to reduce staff numbers, as they were wary of being burned again by the severe labour shortages that were apparent a couple of years before. Consequently, it's likely that many are finding themselves overstaffed even as demand picks up again. **Some informal polling at our recent customer presentations** suggests there's limited hiring appetite at the moment, with a fair number looking to get more out of their existing workforce first.

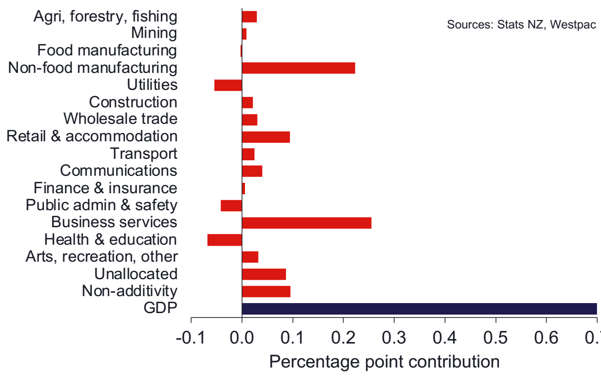
Real GDP per hour worked



Forecast details.

Our 0.7% growth forecast consists of modest growth across a broad range of sectors, with a couple of standout contributors. The main points of weakness are expected to be in the public sector, specifically central government and healthcare – though our indicators in these areas have been less reliable in recent times.

GDP growth forecasts by sector



The biggest positive contributions come out of the sectoral data that was published on Monday. The first is an estimated 4.6% rise in non-food manufacturing. While a pickup in the manufacturing sector wasn't unexpected – the monthly manufacturing PMI has been perkier in recent months – the scale of it was a surprise to us.

Some of the rise was in metals manufacturing, with the Tiwai Point aluminium smelter ramping up again after having shut down some production while hydro lake levels were low last year. But the biggest gain was in machinery and equipment manufacturing, with the survey showing a strong rise in both sales and in stocks of finished goods (implying that production was even stronger again).

The other big positive is expected to be in professional and administrative services, where the activity data was surprisingly strong given the substantial and ongoing job losses in this area. That said, we don't have a high level of confidence in the indicators for this sector.

Elsewhere, we expect to see modest gains in areas such as construction, retail, wholesale trade, and arts and recreation. Forestry (a relatively small sector) saw a strong lift in activity, and we're expecting a partial rebound in telecommunications after a 3% drop last quarter.

Aside from government, the most notable negative in our forecast is the electricity sector. Low hydro lake levels became a concern again in the March quarter, with a shift back to higher-cost thermal generation. Since GDP is a measure of value-added, this means a fall in real output even though total generation appears to have been up slightly.

We noted last quarter that some undesirable seasonality has crept into the GDP figures. That doesn't affect March quarters much, adding only around 0.1% to our growth forecast. However, it does present a risk that growth in the following quarter will be reported as very weak or even negative. We hope that future data revisions will iron out this pattern.

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