GDP REVIEW CHARTPACK

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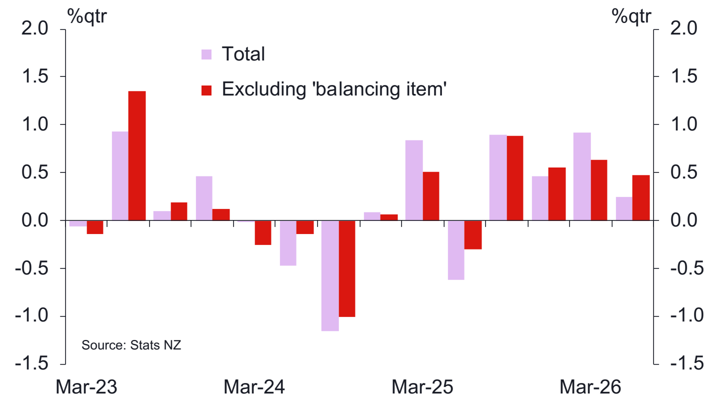
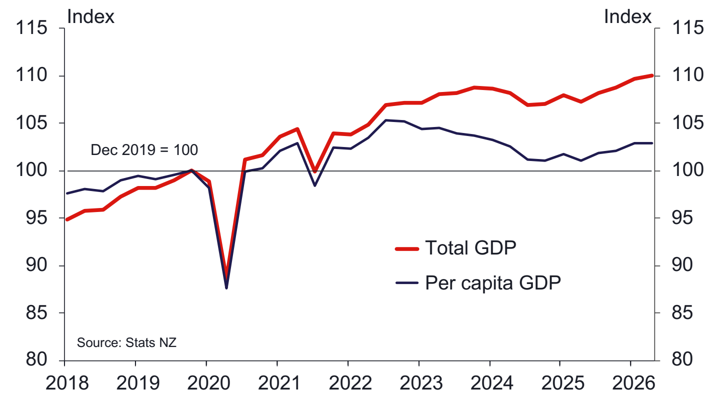
Key results

- The economy grew by 0.2% in the June quarter. That was in line with our expectation, and slightly above the median market forecast of 0.1% (range of -0.3% to +0.3%).
- It was also above the flat outturn that the RBNZ expected in its September Monetary Policy Statement (which didn't have the benefit of the final data releases that led us and the market to upgrade our forecasts last week).
- Lingering seasonality in the data means that growth tends to be understated in June quarters (and overstated in March quarters). Adjusting for this suggests an underlying growth pace of around 0.5% over recent quarters.
- The New Zealand economy appears to have held its ground through the US-Iran conflict, though it hasn't been completely unscathed. The areas where the impact was most apparent were in travel and hospitality, as the surge in fuel prices led households to tighten their belts on discretionary spending.
- Elsewhere, it was perhaps more a question of what might have been – we've seen the economy picking up momentum since the second half of last year, but the headwinds from sharply higher fuel prices mean that we haven't seen a further acceleration.
- On an annual basis, GDP was up by 2.6%, comfortably outpacing population growth of 0.7%.

Quarterly GDP growth



GDP per capita



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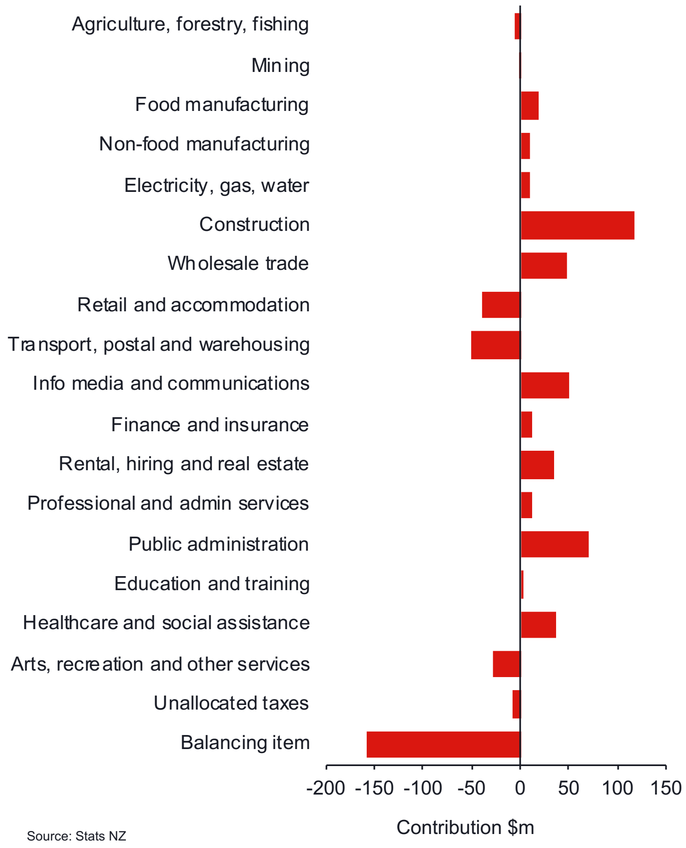
GDP by production

- The production measure of GDP, generally regarded as the more reliable of the two, rose by 0.2% in the June quarter. This followed a 0.9% rise in the March quarter (revised up from 0.8%, largely due to updated data on building activity).
- While the overall result was in line with our forecast, it was a little weaker than expected in the details. The 'market' sectors of the economy surprised us to the downside on balance, while there were surprisingly large gains in central government administration (up 2.1%) and healthcare (up 0.8%).
- As expected, the largest positive contribution came from construction (up 2.7%), with growth in both residential and non-residential building. Residential building consents have risen strongly over the last year, but this has only recently started to translate into a higher level of building work.
- There were also solid gains in manufacturing, wholesaling, information and telecommunications, and rental and real estate services.
- The sectors that saw the largest declines were transport and hospitality, most likely reflecting the impact of the sharp rise in fuel prices.
- The seasonal distortions in the GDP data were captured by the large negative 'balancing item' for the quarter, which subtracted around 0.2% from the reported growth rate.

Growth contribution by sector



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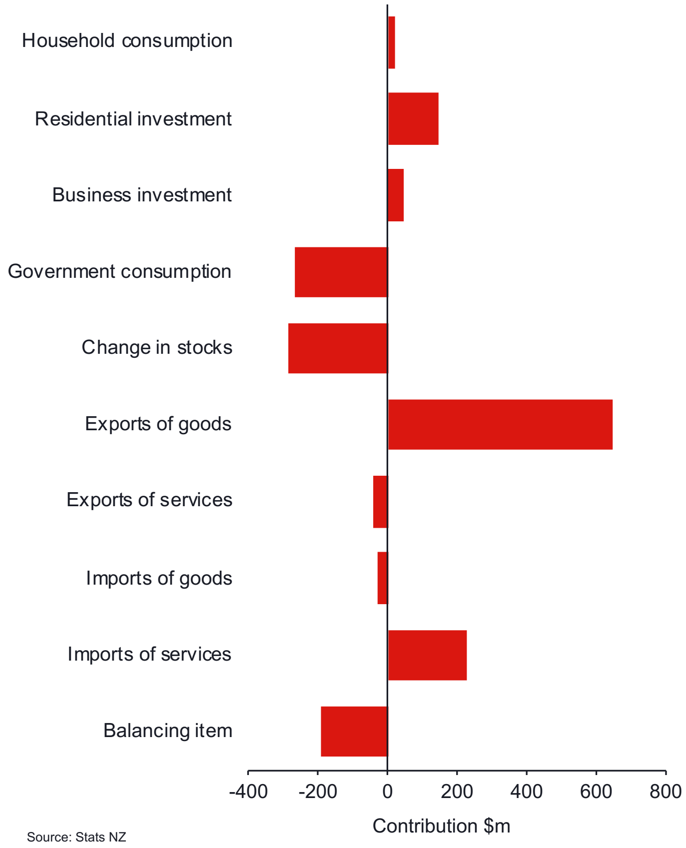
GDP by expenditure

- The expenditure measure of GDP rose by 0.4%, slightly more than the 0.2% rise in production. (We don't produce a separate forecast of the expenditure measure, due to large gaps in data availability.)
- Household consumption was around flat for the quarter. Spending on goods was up, but there was a sharp fall in spending by NZ households overseas, as a sharp rise in airfares discouraged overseas travel. This also meant that imports of services were less of a drag on GDP for the quarter.
- Residential investment saw a strong 4.4% rise, as was also reflected in the GDP production figures for the construction sector.
- Business investment was mixed, with a strong lift in non-residential buildings, plant and machinery, and intangibles (which includes software). However, there was a 9% drop in purchases of transport equipment.
- Government consumption (which covers services like health, education, law and order etc) fell by 1.7%. This measure has been – and still is – running higher than what the Government's fiscal accounts would suggest. This may be reconciled by future data revisions.
- Goods exports surged by 4.9% for the quarter. This likely reflects the timing of shipments, with much of this being met by a rundown of inventories, though there was also a solid lift in dairy production volumes.

Growth contribution by expenditure type



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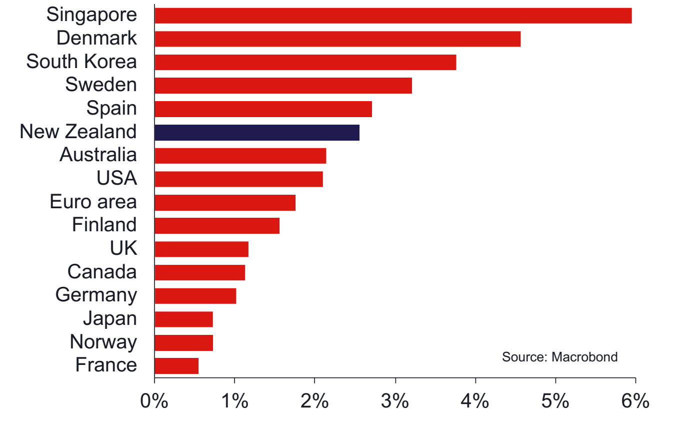
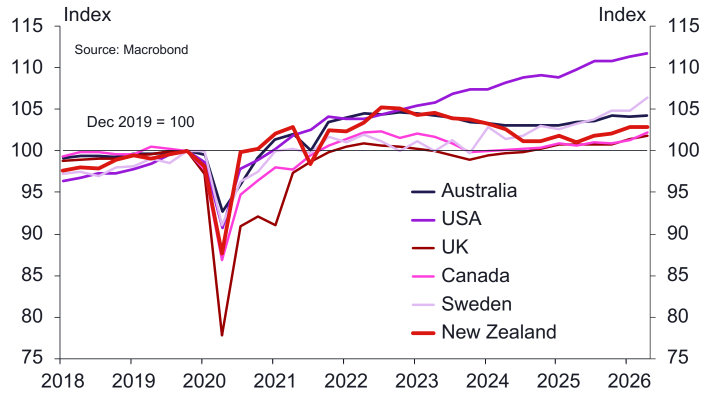
International comparisons

- The 0.2% rise in quarterly GDP was towards the lower end of the range of our peer countries, but the seasonal distortion in the New Zealand figures means that this comparison is not appropriate. On an annual basis, GDP growth of 2.6% was slightly higher than the median, and ahead of Australia's growth of 2.1%.
- In per capita terms, New Zealand's GDP is slightly above pre-Covid levels. While that puts us in the lower half of the pack, the broader picture is effectively 'the US vs the rest', with strong productivity gains seeing US growth take off in recent years, leaving other developed economies in a relatively tight cluster.
- New Zealand had one of the largest post-Covid bounces in GDP, fuelled by substantial monetary and fiscal stimulus. This also left us as one of the most overheated economies by 2022, requiring a significant tightening in monetary policy to bring inflation under control.
- The decline in interest rates from mid-2024 to late 2025 was an important factor in seeing per-capita GDP stabilise and gradually trend higher again over the last couple of years.

Selected GDP growth rates, year to June



Selected economies GDP per capita

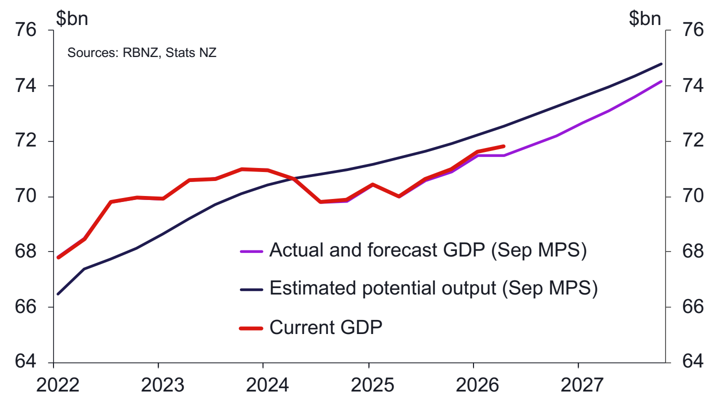


Implications

- Our current forecasts are for a solid lift in activity over the second half of this year, with 0.6% growth in Q3 and 0.8% in Q4. While there is nothing in today's data that would warrant a change in these forecasts, the ongoing Middle East conflict and the resurgence in fuel prices suggests downside risks to activity in the months ahead.
- Our GDP Nowcast model, which incorporates the latest high-frequency data, suggests around 0.5% growth in Q3 GDP, a little below our current forecast. This estimate will evolve as more data arrives, with upcoming business confidence surveys being particularly important.
- The better than expected Q2 result, along with the upward revision to Q1, suggest that the economy isn't operating as far below full capacity as the RBNZ assumed in its September MPS forecasts. These results may help to assuage some of the policy committee' concerns about downside risks to growth. But we think they will have more of an eye towards the evidence on pricing behaviour, as well as the rapidly evolving Middle East situation.
- Our view remains that the next OCR hike is more likely to come at the December review. An October hike can't be ruled out, but the RBNZ has signalled a strong preference to wait and see how the 50bp of tightening to date plays out.

Westpac GDP nowcasts

RBNZ estimate of potential output



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