ANZ Research

Forecast Update – GDP and Current Account

23 June 2025

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Contact

Matt Galt or Miles Workman for more details.

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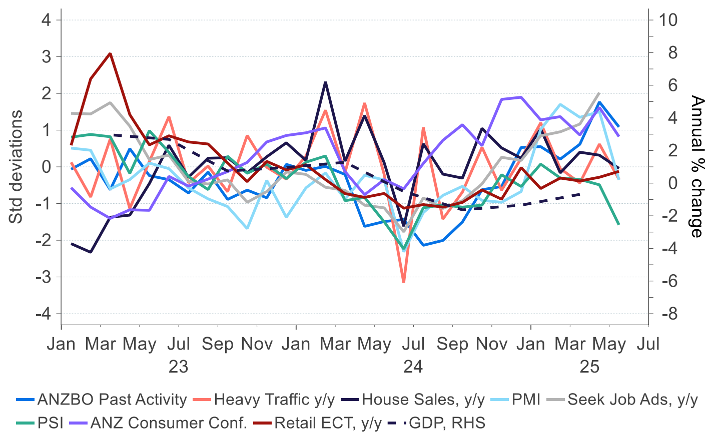
Key points

- Q1 GDP growth came in a touch stronger than our expectation, but not all of that reflects underlying economic momentum.
- We've downgraded our forecast for Q2 growth from +0.4% q/q to +0.1% q/q, incorporating some payback from Q1 and centralising some of the weaker signal we're seeing in the high-frequency data for the quarter (figure 1).
- Beyond Q2, our GDP forecast is little changed: a fragile recovery is underway, but it's relatively gradual and from a weak base. That means the economy is expected to be operating with a considerable degree of disinflationary spare capacity for a while yet.
- Our updated outlook for the current account is for a further narrowing towards 5% of GDP – that's a little too wide to call sustainable.
- Our updated GDP outlook doesn't significantly change our view on the OCR. Further cuts could be delivered a little later than our forecast given stronger Q1 GDP growth than the RBNZ was forecasting, potentially higher Q2 non-tradable inflation, and the RBNZ's data-dependent approach. However, we still believe a degree of outright monetary stimulus (i.e. an OCR under neutral) will be needed to stabilise underlying inflation near target over the medium term. We continue to pencil in a cycle low for the OCR of 2.5%.

Figure 1. High frequency data



Source: Stats NZ, BusinessNZ, AIA, REINZ, Seek NZ, Macrobond, ANZ Research

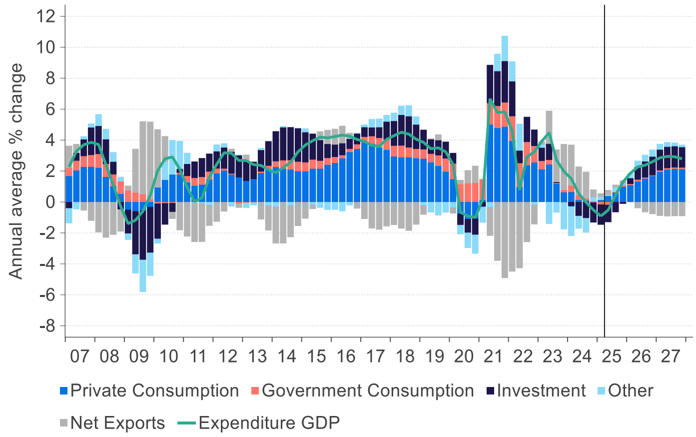
Economic recovery delayed, but not derailed

Following the stronger-than-expected Q1 GDP print and recent deterioration in the high-frequency data, we have downgraded our Q2 GDP growth forecast from +0.4% q/q to just 0.1% q/q (May MPS: +0.3% q/q). In part, this reflects some "payback" effects in the seasonal factors (which appear to have bolstered growth a touch in Q1).

Looking through the near-term noise, the economic recovery that started in the last three months of 2024 is expected continue in 2025, albeit with a slight delay versus our previous forecast. With the support of easier monetary conditions, underlying momentum is expected to gather pace in 2026. We expect annual average growth to come in at 0.9% over 2025, rising to 2.4% in 2026, and 2.7% in 2027 as the economy returns to trend.

Underpinning this forecast, net exports are expected to hand the baton of growth to domestic demand over the coming year, with private consumption supported by easier monetary conditions and an eventual recovery in labour market conditions (we expect the unemployment rate to peak in the next couple of quarters and to start to decline from year-end). Business investment is expected to lift as firms weigh up falling interest rates and the "Investment Boost" against the uncertain global outlook. Ongoing fiscal consolidation means the government consumption share of GDP is expected to drift a little lower from here as private sector shares (household consumption and business investment) recover.

Figure 2. GDP forecast



Source: Stats NZ, Macrobond, ANZ Research

While our GDP forecast suggests we're now past the worst of it, for many households it won't feel like things are getting better until after the labour market turns the corner and inflation-adjusted wage growth has been sitting in positive territory for a while. Indeed, for many households the cost of living is still a huge problem, and that's a "price level" problem that will only be resolved via real income growth, given the RBNZ's mandate is to lower the rate of change in consumer prices to 2% (not see the level of prices fall). In other words, consumer prices are not going to go down to where consumers think they "should" be, but as the economy continues to recover, prices relative to incomes should hopefully fall.

Current account deficit to narrow towards 5% of GDP

At 5.7% of GDP in Q1 2025, the annual current account deficit has narrowed considerably from its dramatically unsustainable level (9.2% of GDP) in late 2022. The partial recovery in short-term visitor arrivals has done much of the heavy lifting here, with the services balance accounting for around 2% points of the improvement. But the goods balance has also contributed, as the low NZD, solid world prices for key export commodities and favourable weather conditions (a trifecta of awesomeness that doesn't tend to last long) has seen growth in goods exports outpace that of imports (which have softened alongside domestic demand). Meanwhile, the income deficit has widened only gradually against the backdrop of higher global interest rates.

Looking forward, we expect a smaller goods and services deficit to see the annual current account deficit narrow a little further in the near term. But with key commodity prices starting to lose their shine and domestic demand picking up, we think the goods deficit will start widening again from 2026. The services balance is expected to drift very gradually towards an eventual surplus but remain shy of the ~1.5-2% of GDP level preceding the pandemic. Short-term visitor arrivals have plateaued at about 80-90% of their pre-pandemic levels, with visitors from China lagging at only around 50%. Combined with a relatively stable income deficit (as a share of GDP), that's expected to see the current account deficit stabilise around 5% of GDP from mid-2026. That's wider than the 3-4% average preceding the pandemic, reflecting the fact that services exports (chiefly tourism) are recovering more slowly than imports.

Economic forecasts

	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27
GDP (% qoq)	0.8	**0.1**	**0.5**	**0.6**	**0.6**	**0.7**	**0.8**	**0.7**	**0.7**
GDP (% yoy)	-0.7	**0.4**	**1.9**	**2.0**	**1.8**	**2.4**	**2.7**	**2.8**	**2.9**
Current Account (annual, % GDP)	-5.7	**-5.1**	**-4.7**	**-4.7**	**-4.7**	**-5.0**	**-5.0**	**-5.0**	**-5.0**

Figures in bold are forecasts. mom: Month-on-Month; qoq: Quarter-on-Quarter; yoy: Year-on-Year. Click here for full ANZ forecasts

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Sharon Zollner
Chief Economist

Follow Sharon on Twitter
@sharon_zollner

Telephone: +64 9 357 4094
Email: sharon.zollner@anz.com

General enquiries:
research@anz.com

Follow ANZ Research
@ANZ_Research (global)

David Croy
Senior Strategist

Market developments, interest rates, FX, unconventional monetary policy, liaison with market participants.

Telephone: +64 4 576 1022
Email: david.croy@anz.com

Miles Workman
Senior Economist

Macroeconomic forecast co-ordinator, economic developments, labour market dynamics, inflation, fiscal and monetary policy.

Telephone: +64 21 661 792
Email: miles.workman@anz.com

Matt Galt
Senior Economist

Macroeconomic forecasting, economic developments, GDP, housing and credit dynamics.

Telephone: +64 21 633 469
Email: matthew.galt@anz.com

Kyle Uerata
Economic Statistician

Economic statistics, ANZ proprietary data (including ANZ Business Outlook), data capability and infrastructure.

Telephone: +64 21 633 894
Email: kyle.uerata@anz.com

Natalie Denne
PA / Desktop Publisher

Business management, general enquiries, mailing lists, publications, chief economist's diary.

Telephone: +64 21 221 7438
Email: natalie.denne@anz.com

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