Review: NZ GDP – Q1 2025

19 June 2025

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Data summary

	Latest	Previous	RBNZ
GDP			
Quarterly % change	0.8%	0.5%	0.4%
Annual % change	-0.7%	-1.3%	-1.1%
Annual average % change	-1.0%	-0.6%	-1.1%

Decent growth in Q1 but at risk of stalling

- The New Zealand economy expanded 0.8% q/q in Q1, slightly above our forecast of 0.7% q/q and well above the RBNZ's forecast of 0.4% q/q. Growth in the previous quarter was revised down from 0.7% q/q to 0.5% q/q. Still, it reinforces the trend of an economic recovery over Q4 and Q1.
- The underlying details of the release showed a cyclical recovery, with greater-than-expected strength in manufacturing, construction and professional services partially offset by weakness in other market-led services industries. The expenditure cut implied growth was much more domestically driven than expected in Q1, led by private consumption, public consumption and residential investment, while net exports were flat.
- Today's data suggests the economy started the year started with more growth momentum and a marginally less-negative output gap than the RBNZ has been assuming (with downward revisions to the previous quarter providing some offset). This raises the odds of a pause in the easing cycle in July, and that's very much the market's view. However, the New Zealand economy continues to operate with considerable spare capacity, keeping core inflation restrained. It will take a period of elevated growth to get things back to par, whereas recent weakness in some high-frequency activity indicators suggests a meaningful step-down in growth could be in store in Q2.
- We still have ANZ Business Outlook, ANZ consumer confidence and the NZIER QSBO to come before the July decision, with the latter crucial for its capacity indicators. If the RBNZ does pause in July, we expect the Monetary Policy Committee will choose to deliver a 25bp cut in August. We continue to expect the OCR to end up in stimulatory territory at 2.5% as the recovery disappoints, but the risks are currently tilted towards this easing arriving more slowly than we are forecasting.

The big picture and monetary policy implications

Today's data showed that the economy grew at a decent pace through Q1 (off a low base). Production GDP increased 0.8% q/q, building on Q4's downwardly revised 0.5% q/q lift (previously 0.7%). The recession last year was revised to be fractionally less deep, with Q2 and Q3 2024 both revised from -1.1% q/q to -1.0% q/q. Growth showed some signs of responding to lower interest rates in Q1, with several cyclical industries improving, including non-food manufacturing, construction, and professional services.

The 0.8% q/q lift was above the RBNZ's forecast of 0.4% q/q, and also above its estimate of potential GDP growth (0.4% q/q) – though not much above the historical average pace of 0.6-0.7%, and off a low base. The economy did absorb spare capacity over Q4 and Q1, but in a relatively gradual fashion. All else equal, the upside surprise to Q1 GDP leaves the output gap marginally less negative than the RBNZ was assuming, but the economy appears to still be operating with a sizable amount of spare capacity after a deep slide last year. In addition, the RBNZ may discount some of the strength in today's read as residual seasonality, as they noted in their May MPS that production GDP for the December and March quarters appears to have been overstated in recent years.

Between the upside surprise to Q1 GDP and inflation looking set to stick around the top half of the band in the near term, the odds of a pause in the RBNZ's easing cycle in July now look higher. However, the GDP data are – as always – dated, covering a period before Trump's 2 April "Liberation Day" tariffs rattled global confidence. And the RBNZ monetary policy committee no longer over-weights

GDP as a source of truth regarding the state of the economy after very large revisions changed the entire 2024 narrative. They now put more weight on the collective wisdom of timelier indicators, and these have been looking decidedly poorly lately. The PMI and PSI were much weaker in May, both sinking to levels usually only seen in recessions, and the bulk of other indicators, including card transactions, have also shown some softness of late. We have already factored a step-down in growth in Q2 into our forecasts, but recent indicators suggest we may not have gone far enough. Having said that, our ANZBO data over April and May featured an intra-month bounce-back masked by the weakening headline monthly numbers, so the next PMI and PSI reads will be important.

We still have three more cuts pencilled in to shore up the recovery and medium-term inflation outlook in the face of global headwinds, and we've seen nothing in the data to change our minds that that much easing will ultimately be required as the risks pivot to medium-term inflation being too low. However, the odds are clearly tilted towards a slower delivery than our current forecast of 25bp cuts at each of the next three meetings, taking the OCR to 2.5% by October. We don't view a pause in July as a done deal, though it would be easy to justify and is very much what the market is currently pricing. But if the RBNZ does pause in July, we expect the Monetary Policy Committee will choose to deliver a 25bp cut in August as data disappoints. What Q1 GDP giveth, Q2 could take away.

With tomorrow being the Matariki public holiday, we'll publish our updated GDP forecasts early next week.

The details

Breaking down the 0.8% q/q expansion in production GDP:

- **Services industries** expanded 0.4% q/q, below our forecast of a 0.7% q/q lift. Most service industries posted growth around or below our forecast, with the biggest downside surprises being various market services such as rental, hiring and real estate services, retail trade and accommodation, information media and telecommunications, financial and insurance services and arts, recreation and culture. The main upside surprise was professional services, which was up 2.4% q/q (vs our forecast of 0.7%), contributing 0.3%pts to quarterly growth. This possibly reflects some catch-up growth after previously surprising to the downside.

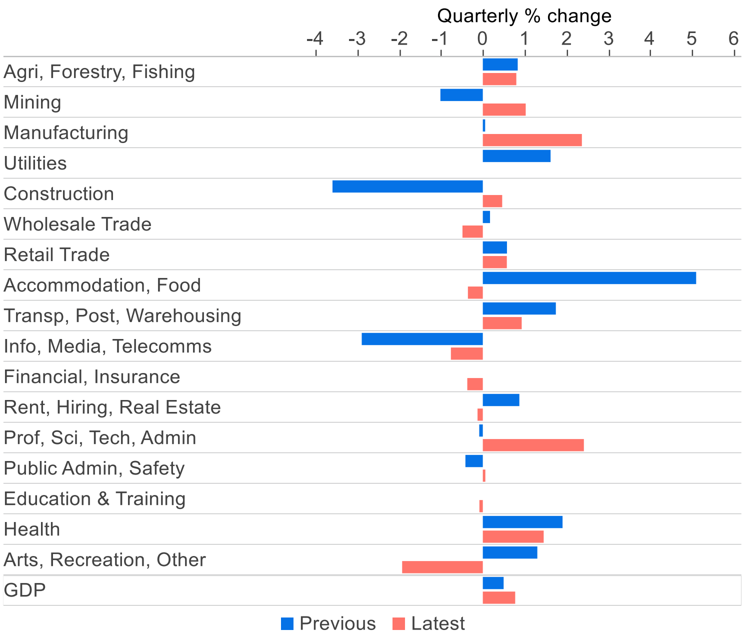
- **Goods-producing industries** expanded 1.3% q/q, its first increase for a year, and above our forecast of 0.4% q/q. Manufacturing posted a solid 2.4% q/q increase (vs our forecast of 1.5%), driven by non-food manufacturing. Construction lifted 0.5% (vs our forecast of a 0.5% q/q drop). Both are interest rate sensitive sectors that are recovering from low levels, but timelier data and anecdote are softer.

- **Primary industries** expanded 0.8%, above our forecast of a 0.4% q/q lift. Primary industries tend to be volatile on a quarterly basis, but the expansions in both Q4 and Q1 are consistent with a strong primary production season.

- **The unallocated tax component** increased by 1.9% q/q, above our forecast of a 0.5%, and contributing 0.2%pts to growth. This component tends to move with the economic cycle.

- The **balancing item** made a small 0.1%pt contribution to growth, as forecast. The balancing item reflects the difference between the sum of seasonally adjusted components and top-down seasonal adjustment of headline GDP.

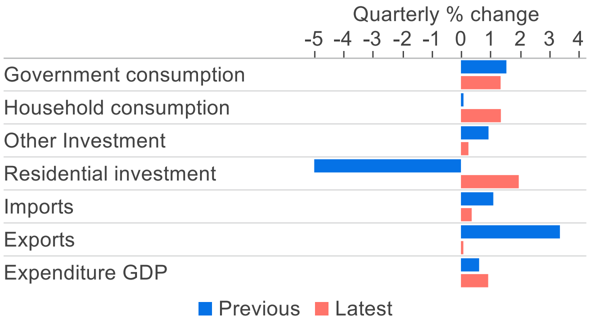
Figure 1. Quarterly change in GDP by industry



Source: Stats NZ, Macrobond, ANZ Research

Turning to the expenditure cut, headline GDP expanded 0.9% q/q, above the RBNZ's forecast of 0.4% q/q. Growth was much more domestically driven than expected. Private consumption rose 1.3% q/q (vs the RBNZ's forecast of 0.2%). Public consumption increased 1.0% q/q, while residential investment increased 2.0% q/q (vs RBNZ forecast of a 1.9% q/q decrease). Business investment was little changed, down 0.1% q/q. Export volumes barely moved, up 0.1% q/q (vs RBNZ forecast of +4.4%), which, combined with a small lift in imports, meant net exports made little contribution to growth. Ongoing data volatility issues due to changes to seasonal patterns mean caution is required when interpreting expenditure GDP. We prefer production GDP as a gauge of economic momentum, but the surprising strength in domestic growth will nonetheless be of interest to the RBNZ.

Figure 2. Expenditure GDP components



Source: Stats NZ, Macrobond, ANZ Research

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