19 June 2025

Growth Confirmed, Eyes Ahead

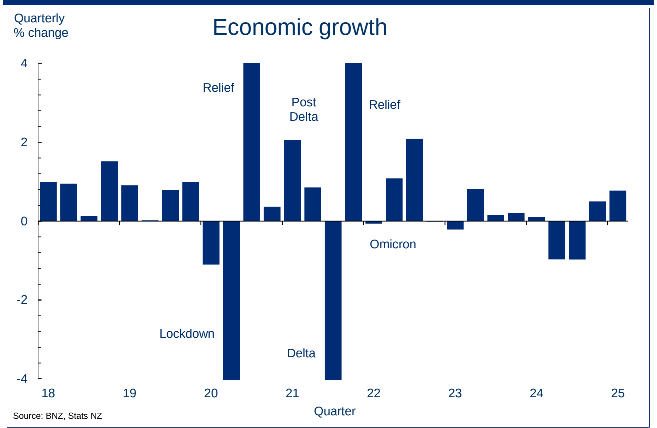
- **Economy grows 0.8% in Q1**
- **Close to market expectations; stronger than RBNZ**
- **Some offset from downward revisions**
- **And Q2 indicators weak**
- **QSBO important for timely assessment**

At one level, whatever today's GDP data reported for the first quarter of the year it was always going to come with a caveat that it predates a lot of material change.

Recent developments include the global trade upheaval that US President Trump's 'Liberation Day' kicked off and the associated rapid elevation of uncertainty; escalating geopolitical tension; and a material softening in timely domestic economic indicators for Q2.

Q1 data may be dated, but they still inform on the economy at the time which is important to know. Today's GDP data revealed the economy grew 0.8% in Q1. This was a tick above market (and our) expectations that had settled at 0.7%.

Growth confirmed in Q1



On the one hand, there is little in that. And the marginal upside surprise in the quarter looked more than offset by the previous quarter's growth being revised down to 0.5% from the initially published 0.7%.

On the other hand, it is confirmation of Q1 growth printing above the RBNZ's 0.4% forecast published in its May MPS. At face value, this increases the chance of the RBNZ pausing at the July meeting. However, a pause is not a given with timely indicators through Q2 suggesting a marked slowdown with minimal, if any, growth occurring during that quarter.

Component	qtr % chg prev qtr	% pt cont to chg	ann avg %chg	ann % chg
Expenditure on gross domestic product - March 2025 quarter				
Final consumption expenditure				
Private	1.3	0.8	0.2	1.0
General government	1.0	0.2	-0.7	0.3
Gross fixed capital formation				
Residential buildings	2.0	0.1	-12.7	-10.8
Other fixed assets	-0.1	0.0	-2.0	-1.2
Exports of goods and services	0.1	0.0	2.7	3.1
Imports of goods and services	0.4	-0.1	1.7	0.1
Change in inventories and balancing ite	..	-0.1	..	..
Expenditure on gross domestic product	**0.9**	**0.9**	**-0.9**	**-0.2**

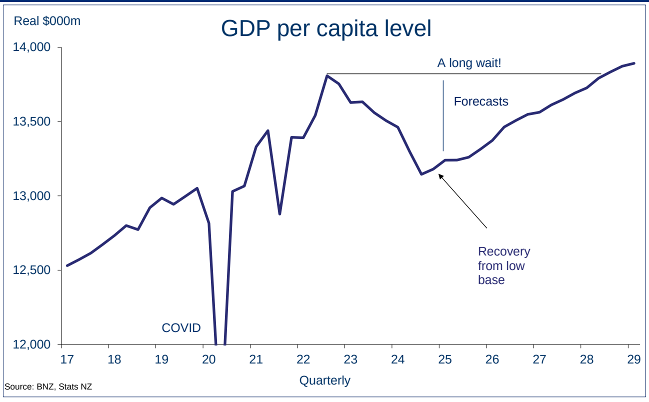
Industry	qtr % chg prev qtr	% pt cont to chg	ann avg %chg	ann % chg
Gross domestic product by industry – March 2025 quarter				
Agriculture, forestry, and fishing	0.8	0.0	3.7	3.1
Mining	1.0	0.0	-11.2	-7.8
Manufacturing	2.4	0.2	-1.4	1.9
Electricity, gas, water, and waste services	0.0	0.0	-2.4	-3.4
Construction	0.5	0.0	-9.3	-8.9
Wholesale trade	-0.5	0.0	-3.6	-2.2
Retail trade and accommodation	0.3	0.0	-1.4	0.2
Transport, postal, and warehousing	0.9	0.0	-1.0	-0.4
Information media and telecommunication	-0.8	0.0	-2.0	-3.3
Financial and insurance services	-0.4	0.0	0.8	0.6
Rental, hiring, and real estate services	-0.1	0.0	3.0	1.7
Prof, scientific, technical, admin, and suppc	2.4	0.3	-2.0	0.3
Public administration and safety	0.1	0.0	-1.8	-3.6
Education and training	-0.1	0.0	0.9	0.2
Health care and social assistance	1.4	0.1	2.2	2.3
Arts, recreation, and other services	-1.9	-0.1	-2.3	-3.7
Unallocated(2)	1.9	0.2	-2.9	-2.9
Balancing item(3)	..	0.1	..	..
Gross domestic product	**0.8**	**0.8**	**-1.1**	**-0.7**

Factoring in today's Q1 outcome, downward revisions, and a rising likelihood that Q2 GDP undershoots RBNZ expectations, the level of GDP in Q2 may well be close to the RBNZ's May projections. This would maintain a very wide output gap and associated downward pressure on core inflation over the medium term.

As things stand, our forecast for the OCR remains for two further cuts in July and August to a low of 2.75%. But with the risk of a July pause increasing, we have been tempted to move our rate call as a result. However, we still want to see the July 1 QSBO before making that decision. If it portends much weak growth ahead, or an outright end to the expansion, in the manner that the combined PMI and PSI did, then there may well remain solid justification for a July cut. Either way we see little reason to change our view that the cash rate will ultimately drop below 3.0%.

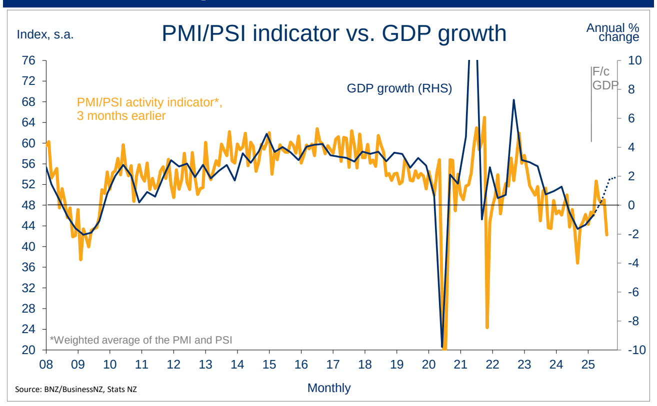
Even with the past two quarters of economic expansion, activity remains 0.7% below where it was a year ago. It is good to see confirmation of further recovery from last year's recession, but the level of activity remains well below its peak, especially on a per capita basis, suggesting there is a long recovery road ahead.

Long recovery road ahead



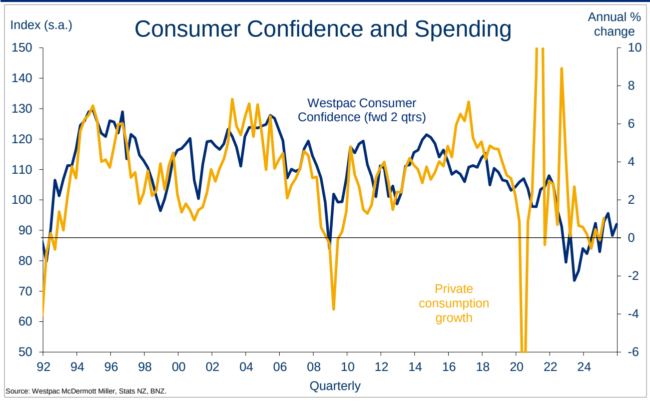
In the details, we were not at all surprised to see a strong contribution to quarterly growth from manufacturing. That sector's GDP rose a strong 2.4% in Q1. This follows from the strength we saw in the PMI earlier in the year. And is very much part of our caution around GDP ahead, including Q2, given the sharp drop in the PMI in May.

Near term risk to growth clear



Private consumption rose 1.3% q/q. This was close to our expectation. But it was firmly stronger than the RBNZ published in its May MPS and would seem more of a reason for a pause in July than GDP itself. That said, downward historical revisions provided some offset and persistent weakness in the labour market and consumer confidence firmly suggest the Q1 pace of consumption growth will not be sustained.

Confidence lacking



We thought private consumption would print stronger than the retail sales outcome in the quarter, because we thought the latter was driven by a substantial drop in real spending by tourists. This proved to be the case. Lower inflation-adjusted spending by tourists drove an 8.4% drop in exports of services.

Investment remained weak. There was a bounce in residential construction in the quarter, as guided by the partial indicators, while other gross fixed capital formation was essentially flat in the quarter. Total investment in Q1 was 4.2% lower than a year earlier.

The drop in services exports effectively offset a strong 3.6% q/q lift in goods exports, the latter driven by primary products, such that total export volumes were little changed in the quarter, up just 0.1%. Likewise, import volumes were marginally higher, up 0.4% q/q.

General government consumption rose 1.0%, driven by a 1.4% lift in central government consumption. This was stronger than we had pencilled in off Treasury's estimate in the Budget forecasts. It is not clear if this is a timing difference, but if it is we can expect some unwind in due course. For Q1, firmer government consumption was part of the lesser followed expenditure GDP measure printing a bit firmer at 0.9% q/q.

Overall, there was no major surprise from the tone of today's GDP data. Financial markets were little changed post data release.

The economy pushed forward in Q1 from its low base. But Q2 is looking weaker by the day. For Q2, we will see if the QSBO adds to that assessment along with its guidance on resource pressures and inflation. All of it will matter for the RBNZ's 9 July Monetary Policy Review, while there is also a lot to monitor offshore too.

doug_steel@bnz.co.nz

Contact Details

BNZ Research

Stephen Toplis
Head of Research

Doug Steel
Senior Economist

Matt Brunt
Economist

Jason Wong
Senior Markets Strategist

Stuart Ritson
Senior Interest Rate Strategist

Mike Jones
BNZ Chief Economist

Main Offices

Wellington
Level 2, BNZ Place
1 Whitmore St
Private Bag 39806
Wellington Mail Centre
Lower Hutt 5045
New Zealand
Toll Free: 0800 283 269

Auckland
80 Queen Street
Private Bag 92208
Auckland 1142
New Zealand
Toll Free: 0800 283 269

Christchurch
111 Cashel Street
Christchurch 8011
New Zealand
Toll Free: 0800 854 854