Research

Economy Watch

9 September 2025

GDP likely lower in Q2

- **We lower our Q2 GDP estimate to -0.5%**
- **Manufacturing slumps**
- **Adding to construction drop**
- **Activity bounce expected in Q3**
- **Balance of Q2 and Q3 not all that different**
- **Expected revisions require monitoring**

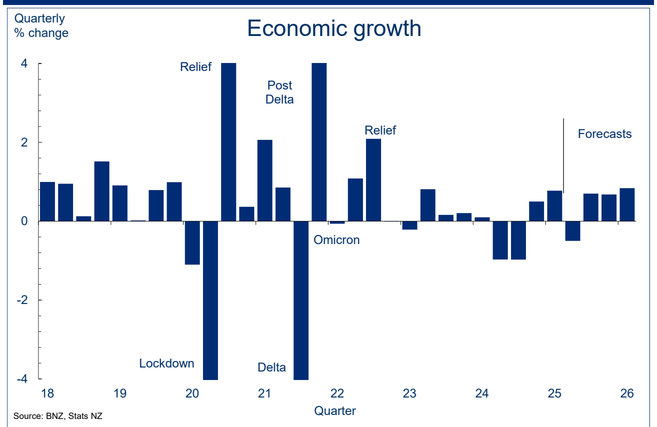
We have been warning of an economic contraction in Q2 for some time. Today's data strongly support that notion.

Our estimate for Q2 GDP has been lowered to -0.5% q/q (from -0.2%) after crunching through today's mass of manufacturing, wholesale trade, and services data.

A 0.5% drop in the quarter would see GDP around 0.2% lower than a year earlier (but that may change with historical revisions). A quarterly outcome as we expect would still see the annual contraction in GDP narrow, as a bigger quarterly drop a year earlier drops out of the annual calculations.

However, the annual changes are also subject to signalled revisions. Both the quarterly outcome and the net revisions will matter for estimates of the output gap and assessments of medium-term inflation pressure and policy.

Q2 GDP contraction expected



Production GDP is the official measure of NZ's GDP. However, our expenditure-based GDP estimate has been suggesting downside risk to our -0.2% for a while so a downward adjustment to our Q2 pick isn't a major surprise. Our expenditure GDP estimate remains at -0.4%.

Today's data showed manufacturing sales volumes fell 2.9% in Q2. After adjusting for inventory change, we estimate the sector's GDP fell 3.5% q/q, a bigger drop than we already anticipated.

Manufacturing activity declines were prevalent across significant parts of the manufacturing sector, with falls noticeable in food processing, chemical, non-metallic mineral products, metals, and transport and machinery equipment manufacturing. Manufacturing weakness follows from some major industrial plants limiting output during the quarter, some of which have restarted in Q3. Meat processing was exceptionally weak in Q2, with limited stock at the tail end of the season. A technical bounce is highly likely in Q3.

We estimate wholesale trade GDP fell 0.1%, not far from our priors albeit marginally lower than we had pencilled in.

The downside undercurrents in manufacturing and wholesale trade were added to by the service industries, on net. The service sector indicators were mixed in the detail and do not give the best of guidance to their GDP equivalents, but they do support the notion that services GDP may have eked out minimal expansion in the quarter, overall.

The manufacturing shutdown/restarts and swings in food processing are important to note, as it increases the chance of a decent bounce back in Q3 activity even if it is only technical in nature. While we have lowered our Q2 GDP estimate, we also lift our pick for Q3 (from +0.5% to +0.7%). The balance of these forecast tweaks to Q2 and Q3 is minimal, albeit marginally lower on net.

This leaves us comfortable with our expectation that the RBNZ will continue lowering in cash rate. The RBNZ's August MPS forecast -0.3% and +0.3% for Q2 and Q3 GDP growth respectively. While we see downside risk to the Bank's Q2 expectation, we see upside risk to Q3. Through the noise the balance is not all that different.

Q2 GDP is released next Thursday, 18 September.

Weakness in today's data follows other indicators like building work put in place that fell in Q2, suggesting that construction sector activity did the same. One exception to the apparent weakness in Q2, was the upside surprise in retail sales that we expect to flow through to retail trade GDP in the national accounts.

On the expenditure side of the accounts, we expect a moderate increase in private consumption (but wary of downward revisions). It is likely to be offset by weakness in investment and a material drag from external trade via lower export volumes and higher import volumes in the quarter.

With lots of noise in the GDP component indicators, a look from the top-down offers a sense check. Q2 weakness was a theme. The Q2 QSBO reported activity was very weak, but expected activity was positive. That would seem to fit with a down and up pattern for Q2/Q3 GDP that we have anticipated for some time. And in the labour market, a broad range of indicators were weak in Q2 with declines of varying magnitudes in HLFS employment, HLFS hours worked, QES filled jobs and paid hours.

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