Research
Economy Watch

18 September 2025

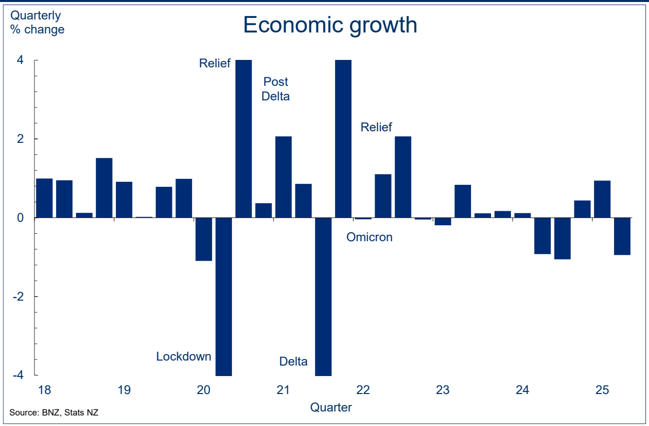
NZ Underperformance Highlighted

- **GDP contracts more than expected**
- **Manufacturing leads the way lower**
- **More pressure on the RBNZ to cut aggressively**
- **But Q3 bounce looks likely**
- **Weak potential growth poses inflation risk**

We have long touted that GDP contracted in the second quarter of 2025. And going into today's release we were the most pessimistic of local forecasters. But even we were surprised by the magnitude of the printed 0.9% decline for Q2.

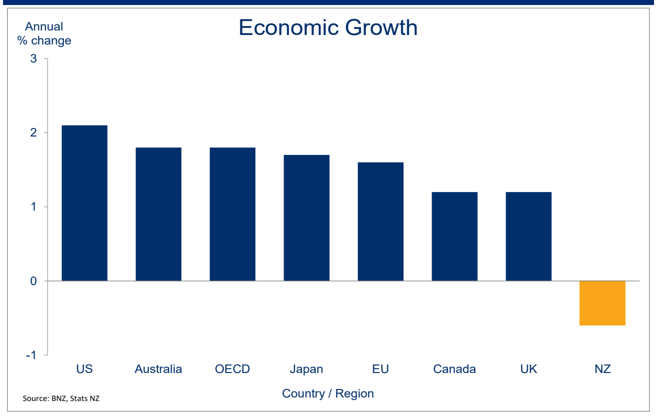
The quarterly drop means activity was 0.6% lower than the same time a year earlier. Moreover, activity is only modestly higher than where it was all the way back in the June quarter of 2022.

Q2 awful



As if all this wasn't bad enough, the international comparison provided by Stats NZ shows New Zealand to be a massive underperformer. Indeed, one of the only places in the developed world to be going backward.

A poor comparison



Industry	qtr % chg prev qtr	% pt cont to chg	ann avg %chg	ann % chg
Gross domestic product by industry – June 2025 quarter				
Agriculture, forestry, and fishing	-0.3	0.0	2.0	1.1
Mining	-4.1	0.0	-9.7	-6.9
Manufacturing	-3.5	-0.3	-1.9	-3.2
Electricity, gas, water, and waste services	0.4	0.0	-2.8	-1.7
Construction	-1.8	-0.1	-9.4	-7.6
Wholesale trade	1.4	0.1	-1.9	0.9
Retail trade and accommodation	-0.2	0.0	-0.3	1.4
Transport, postal, and warehousing	-0.6	0.0	-0.2	0.4
Information media and telecommunication	1.8	0.0	-2.3	-1.7
Financial and insurance services	-0.5	0.0	0.3	-1.0
Rental, hiring, and real estate services	0.7	0.1	3.0	3.0
Prof, scientific, technical, admin, and suppc	-0.4	0.0	-1.5	0.3
Public administration and safety	0.5	0.0	-2.5	-1.4
Education and training	0.0	0.0	0.3	0.0
Health care and social assistance	-0.7	0.0	0.9	0.5
Arts, recreation, and other services	-0.8	0.0	-3.8	-4.2
Unallocated(3)	-1.4	-0.1	-2.6	-1.6
Balancing item(4)	..	-0.4	..	..
Gross domestic product	**-0.9**	**-0.9**	**-1.1**	**-0.6**

Component	qtr % chg prev qtr	% pt cont to chg	ann avg %chg	ann % chg
Expenditure on gross domestic product - June 2025 quarter				
Final consumption expenditure				
Private	0.4	0.2	0.5	1.5
General government	0.1	0.0	0.6	1.6
Gross fixed capital formation				
Residential buildings	-1.9	-0.1	-11.6	-6.9
Other fixed assets	-1.0	-0.2	-1.7	-2.0
Exports of goods and services	-1.2	-0.3	3.0	0.7
Imports of goods and services	0.6	-0.1	1.9	2.2
Change in inventories and balancing ite	..	-0.4	..	..
Expenditure on gross domestic product	**-0.9**	**-0.9**	**-0.6**	**0.0**

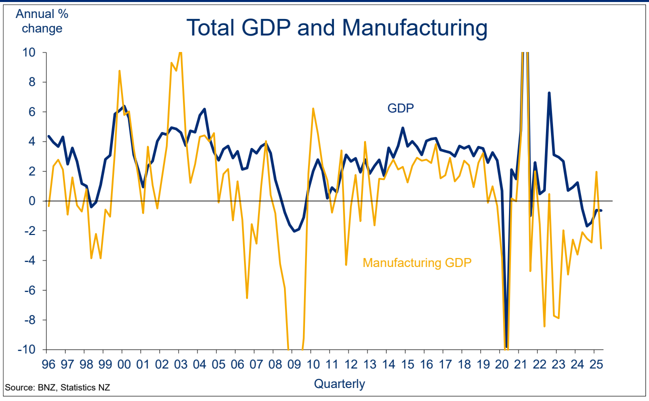
It will come as no surprise to anyone to learn that the manufacturing sector was the industry with the single largest downward contribution to activity in the quarter.

Manufacturing value add slumped 3.5% in the quarter to be down 3.2% for the year.

Manufacturing has taken hits left right and centre including:

- Weakness in construction -1.8% for the quarter, -7.6% for the year weighs heavily on a sector that provides much of the material going into the domestic building sector.
- Soaring energy prices have meant that chunks of the sector have cut back production because they simply can't operate profitably.
- Increased competition from low priced imports is problematic.
- Lack of livestock to process saw a sharp drop in meat processing.
- And the general demand for discretionary goods is weak.

Manufacturing clobbered



The ability of manufacturing to recover from its slump will be a key to New Zealand's recovery. If the closure of manufacturing businesses results in any future increase in domestic demand being met by imports rather than local production, then GDP growth will be severely compromised.

It is with this lens that we remain concerned by the ongoing weakness in the Performance of Manufacturing Index, albeit that we are encouraged by the recent pick up in new orders.

But it wasn't just manufacturing that struggled in today's data. There were only two industry groups that made a genuine positive contribution to growth: wholesale trade and rental, hiring and real estate services. In our opinion these sectoral contributions reflect the combined impact of improved primary sector earnings and falling interest rates. Or, in short, farmers buying equipment and real estate agents selling more property.

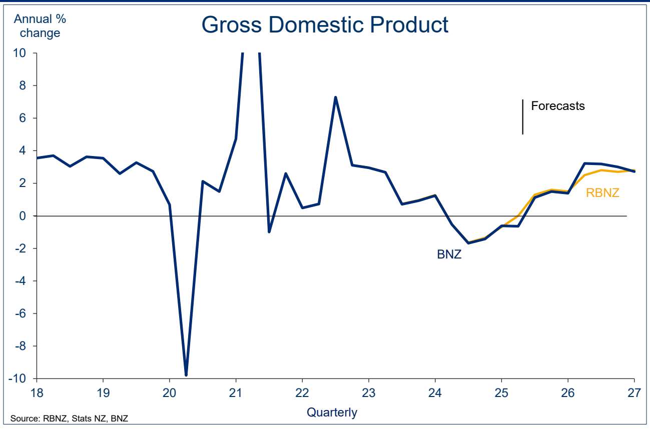
Importantly, the GDP outturn was much weaker than the -0.3% quarterly/0.0% annual pick of the RBNZ. It would thus be reasonable to assume that the miss will have the Bank rushing to cut interest rates more aggressively than they have already indicated but we are loathe to jump on that bus.

Broadly speaking we think Q3 GDP will surprise the RBNZ to the upside by a similar amount that it surprised on the downside this quarter. Our "flash" forecast for Q3 is for the economy to grow 0.7% compared with a 0.3% pick from the Bank.

The main reason for this is that we expect a significant bounce in manufacturing activity. Amongst other things: Methanex restarted some of its plant in July; Tiwai restarted a pot in mid-June; meat processing jumped from a weak Q2; and the PMI has edged higher.

Generally, there appears to be a bit of a recovery occurring now and the -0.4% contribution from the balancing item in Q2 will not be repeated.

Big deal or not?



Additionally, it is likely that the combination of this quarter's weak outturn and the fact that net migration is proving to be much weaker than the RBNZ expected, will result in the Bank lowering its potential growth expectations meaning that inflationary pressures will grow at lower rates of expansion than previously believed.

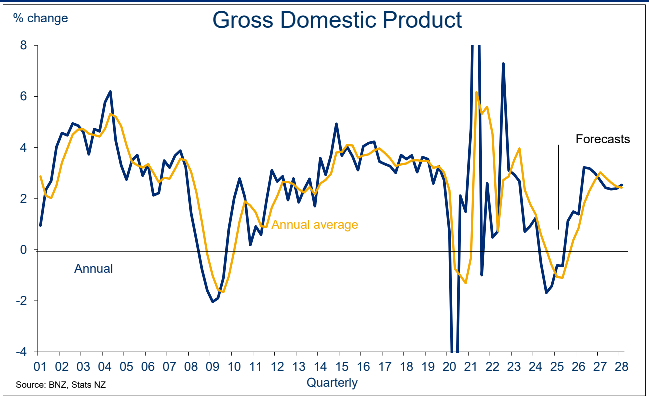
All that said there is a very real risk that a battle-shy Reserve Bank suffers sticker shock and is not willing to wait for the Q3 GDP outturn to be published in December so does cut the cash rate 50 basis points at its October meeting.

In terms of gauging the Bank's view of the next quarter it will be interesting to follow its KiwiGDP calculations. The first for Q3 may well be released at the end of this week. Given the recent PMI and PSI readings, the first estimates are not likely to be robust.

We're sticking with our central view of two more 25 basis point rate cuts, in October and November, for the time being. We want more information on likely growth prospects and inflation before making any shift. Clearly if we are to shift it will be towards a more dovish stance.

Today's data will be very unhelpful for those selling the message of a recovering economy, but statistical quirks will change all that very soon. Because Q3 2024 was so weak, any number greater than -0.4% for Q3, 2025 GDP will produce New Zealand's first positive annual growth rate since Q1, 2024. Moreover, with some momentum building there is a relatively strong likelihood that annual growth will exceed 2.0% and may even approach 3.0% by mid 2026. With the Reserve Bank recently estimating potential growth to be just 2.1% in the year ended 2026 inflationary pressures could yet pick up relatively quickly with only modest growth.

Hope springs eternal



stephen_toplis@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