

Research Economy Watch

11 December 2025

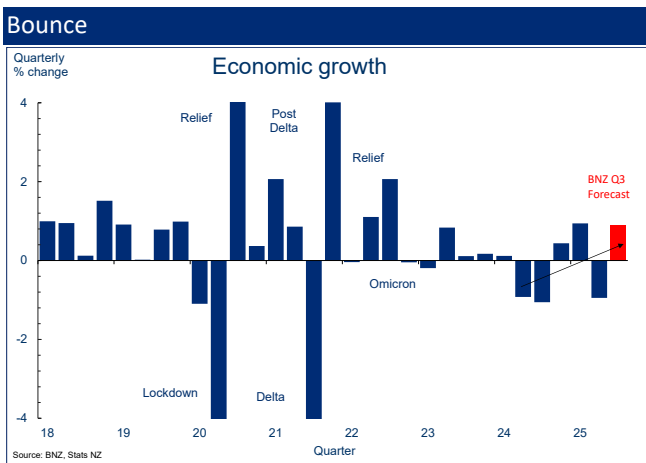
GDP to show decent bounce

- **Our Q3 GDP pick lifted to +0.9% q/q**
- **Q3 strength likely overstates trend**
- **Just like Q2 weakness did on the downside**
- **But momentum turning positive**

We have been warning of upside risk to Q3 GDP calculations for some time. Today's business financial and energy data firmly add to that idea. Q3 GDP data is release next Thursday, 18 December.

Our estimate for Q3 GDP growth has been lifted to 0.9% q/q (from 0.6%) after trawling through today's manufacturing, wholesale trade, energy, and services data.

A 0.9% lift in the quarter would see GDP around 1.3% above year earlier levels (although that may change with historical revisions).



A number in this vicinity represents strong quarterly growth. However, we caution it will probably overstate the trend.

We thought Q2's 0.9% contraction overstated the underlying extent of weakness at the time it was printed. In a similar fashion, we suspect a Q3 expansion of similar order, if that is what the outcome is, will overstate the pace of trend expansion.

If NZ presented GDP growth figures as the US do, as an annualised figure, the commentary would be that the economy contracted at an annualised rate near 4% in Q2 and then grew at an annualised rate near 4% in Q3. Neither look reflective of the underlying trend.

The data are consistent with some forward momentum getting underway, much in line with our broad thinking. Average quarterly growth so far this year looks to have been around 0.3% per quarter. We suspect GDP data, with the fullness of time, will show a turning point in 2025.

A quarterly outcome anywhere near what we expect in Q3 would generate the first positive annual growth outcome since the first quarter of last year.

A quarterly outcome around 0.9% would be significantly above the 0.4% that the RBNZ included in its November Monetary Policy Statement. We already thought an upside surprise to the bank's growth forecast was likely, the chance of that has increased following today's data.

Following recent sharp moves, financial markets already look like they have priced in a strong GDP outcome relative to RBNZ forecasts. So a stronger-than-Bank outcome need not necessarily be an excuse to build in even earlier hikes.

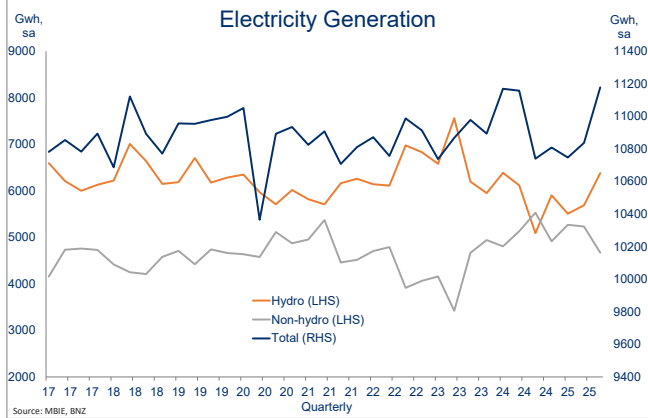
There is a lot to consider beyond the quarterly GDP outcome. Firstly, a surprise often results in about half of it being attributed to changes in potential growth. Secondly, revisions will be important to assess as well. The quarterly outcome, re-estimates of potential growth, and revisions will all matter for estimates of the output gap and assessments of medium-term inflation pressure and policy. The outlook for growth and inflation will matter too.

Today's data showed manufacturing sales volumes rose 1.1% in Q3. After adjusting for inventory change, we estimate the sector's GDP rose 2.8% q/q.

As expected, there were significant differences in growth for individual industries. Known restarts of some major plants lined up with strong growth estimates in the likes of the metal and chemical industries. The large lift in meat production fits with strong growth in food processing. On the flipside, there was weakness in wood and paper product manufacturing.

Energy data not only revealed a very strong seasonally adjusted lift in electricity generation in Q3, but also a material tilt to hydro generation thanks to abundant water. Both are positive for value-added growth in the utilities sector in Q3.

Powering up

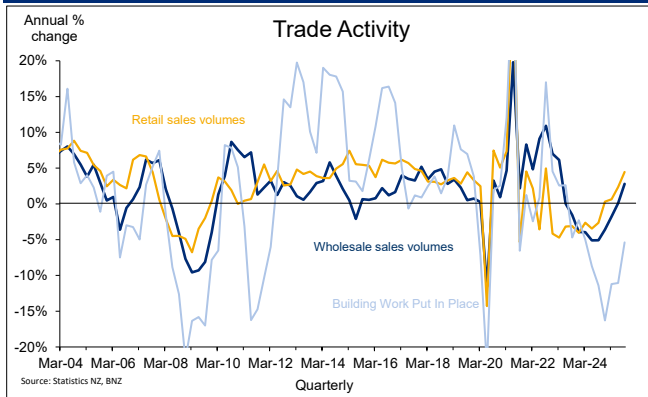


We estimate wholesale trade GDP rose a bit over 1%, which is higher than our priors.

Service sector indicators are not the best for GDP purposes, but the general mix added to the sense of growth upside for the quarter, with meaningful expansion in professional services a standout.

Positivity in today’s data follows other indicators like building work put in place, indicating that construction sector activity rose in Q3. Building work put in place is still lower than a year ago, but momentum has shifted. There is positive momentum in the distribution sector too, with both retail and wholesale trade volumes higher than a year earlier.

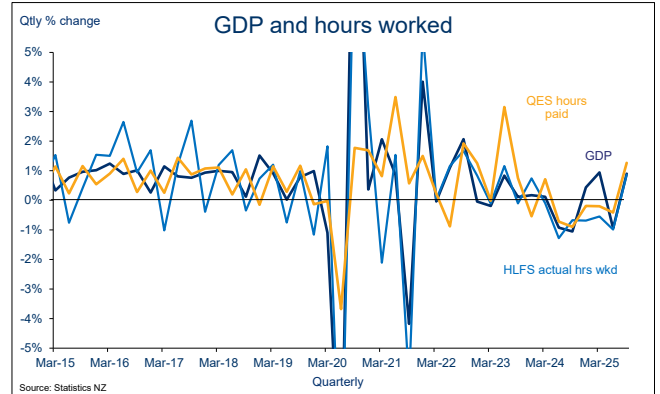
Momentum upwards



A look from the top-down offers a sense check to our quarterly GDP estimate. Q3 improvement is a theme. QSBO reported activity was still weak in Q3 but became less so in the quarter, while expected activity has been positive.

And in the labour market, while employment was flat in the quarter, there were solid increases in HLFS hours worked and both QES filled jobs and paid hours. The latter three are supportive of GDP growth in the quarter.

More activity



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