

Research Economy Watch



18 December 2025

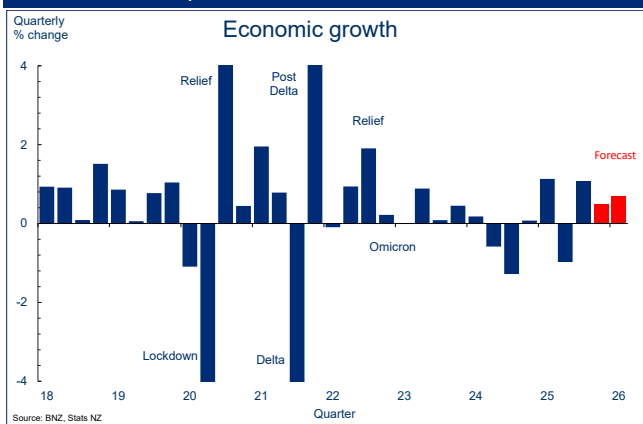
GDP volatility reigns

- **Be sceptical about the 1.1% jump in Q3 GDP**
- **But rest assured a recovery is underway**
- **Lower interest rates are working**
- **January 13 QSBO the next key indicator**
- **Merry Christmas!!**

Today's GDP outturn delivered what it promised, namely more noise than signal.

Over the last five quarters, starting Q3 2024, the economy has allegedly plummeted 1.3%, stalled at 0.1%, soared 1.1%, crashed 1.0% and soared again in Q3 2025 this time by 1.1%. Does anyone feel this is a true reflection of what happened to them? And do we really think we are currently growing at the same pace as China (1.1% for Q3) and three times that of Australia (0.4% for the quarter)?

GDP all over the place!



What's more the track has been prone to significant revision and this quarter's data also included the latest annual benchmarks which impacted both the track and the level of activity.

In our opinion, the best way to make sense out of what is happening is to look at the annual movement in activity. According to this quarter's data, activity was 1.3% higher than this time last year. It was the first annual increase reported since Q2 2024 and suggests we are, at last emerging from a protracted recession. It also feels about right.

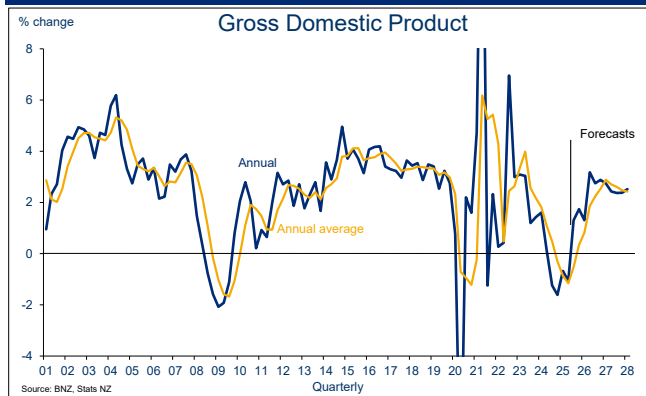
There are clear indications that falling interest rates are having an impact. Consumer spending on durable goods was up 7.3% on year earlier levels. And residential building while still down 0.7% on last year will, by Q4, be solidly

positive, ending a three year run of negatives. The impact of interest rates also shows up in the production data with rental, hiring and real estate services up 1.7% on year earlier levels largely as a function of rising turnover in the housing market.

Industry	qtr % chg prev qtr	% pt cont to chg	ann avg %chg	ann % chg
Gross domestic product by industry – September 2025 quarter				
Agriculture, forestry, and fishing	1.0	0.0	3.2	2.5
Mining	0.7	0.0	-7.7	-4.0
Manufacturing	2.2	0.2	-2.3	-0.3
Electricity, gas, water, and waste services	2.3	0.1	-1.3	4.4
Construction	1.7	0.1	-8.5	-3.6
Wholesale trade	1.6	0.1	-0.1	3.3
Retail trade and accommodation	1.2	0.1	1.3	3.5
Transport, postal, and warehousing	0.6	0.0	0.3	1.0
Information media and telecommunication	-2.1	0.0	-3.1	-4.2
Financial and insurance services	0.3	0.0	0.1	-0.6
Rental, hiring, and real estate services	0.4	0.1	2.2	1.7
Prof, scientific, technical, admin, and supp	1.6	0.2	-0.2	3.1
Public administration and safety	2.0	0.1	-1.3	2.5
Education and training	-0.2	0.0	0.9	-0.7
Health care and social assistance	0.4	0.0	1.7	2.4
Arts, recreation, and other services	1.1	0.0	-2.3	-0.5
Unallocated(3)	2.6	0.2	-0.7	3.6
Balancing item(4)	..	-0.1
Gross domestic product	1.1	1.1	-0.5	1.3

Component	qtr % chg prev qtr	% pt cont to chg	ann avg %chg	ann % chg
Expenditure on gross domestic product - September 2025 quarter				
Final consumption expenditure				
Private	0.1	0.1	1.0	1.8
General government	1.3	0.3	0.8	3.8
Gross fixed capital formation				
Residential buildings	3.8	0.2	-9.2	-0.7
Other fixed assets	3.6	0.6	0.5	4.9
Exports of goods and services	3.3	0.8	3.4	5.4
Imports of goods and services	2.5	-0.7	3.5	5.3
Change in inventories and balancing ite	..	0.0
Expenditure on gross domestic product	1.3	1.3	-0.2	1.8

Finally turning



And it's only early days in terms of the positive impact emanating from the interest rate stimulus. This gives us some confidence that the annual GDP increase will forge significantly higher over the next twelve months.

That said, we remain concerned that coincident indicators such as the BNZ-Business NZ PMI and PSI remain weaker than we would expect if economic momentum is to pick up. And anecdotal feedback from the broader retail sector about Christmas spending is far from ebullient. The labour market too is still struggling, and dairy prices are in freefall. To cap things off mortgage rates have started to edge higher.

All this is not enough to destroy our optimism, but it is clear there is some way to go before we are out of the woods. It is for this reason that we continue to believe the RBNZ will be in no hurry to raise the cash rate. Today's data certainly won't have it pressing the panic button. Sure, the 1.1% quarterly increase in GDP was well above the RBNZ's November MPS pick of 0.4%. And the RBNZ's annual projection of 0.8% was clearly outshone by the 1.3% outturn. But the Bank will be as cautious as we are about the data. Moreover, we believe the Governor will already have known that this quarter's GDP was going to

print large when she made her recent comment that the economy was evolving largely as expected while at the same time intimating there was no need for near term hikes in the cash rate.

We won't be changing our rate call on these data and it was heartening to see financial markets were not misled by today's release either.

One of the ironies of the "stronger-than-expected" real GDP data was that it was accompanied by historical downward revisions which have reduced the level of nominal GDP. At the margin, this is unhelpful for Government. As highlighted by Treasury at the Half Yearly Economic Update, revenue is a function of nominal GDP.

Our initial pick for Q4 GDP is for growth of around 0.5% for the quarter rising to 0.7% in Q1 of next year. This means that by the end of the first quarter of 2026 activity will finally be back above its Q1, 2024 peak.

For us the next key piece of data will be NZIER's QSBO released on January 13. The results of this survey will be critical to understanding the pace at which economic momentum can be sustained and, potentially more importantly, the amount of spare capacity we will have to work with, including the state of the labour market. That spare capacity will determine how inflationary pressures are likely to evolve and when the RBNZ might have to start raising interest rates.

Well, that's us for 2025. Surely, surely 2026 must be a better year! We'll produce our first publication for the New Year on Monday January 12. Until then we wish you all the very best for the festive season and our hopes that 2026 is a good one!

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