

Research Economy Watch

19 March 2026

Economy grows, slowly

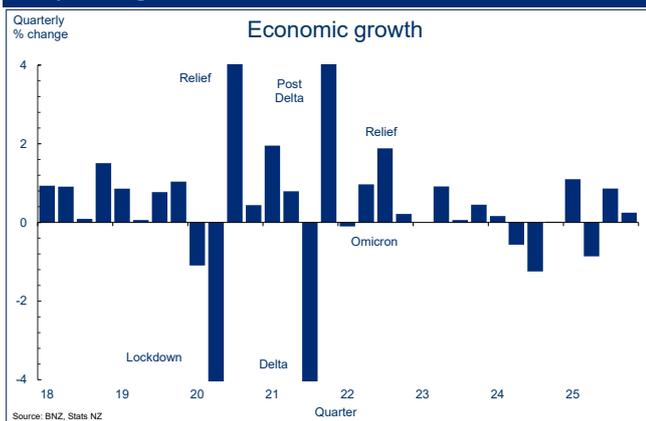
- **Q4 GDP disappoints market with 0.2%**
- **Weaker than RBNZ and more so including revision**
- **Yet inflation has been printing stronger**
- **And will lift aggressively from here**
- **A very challenging mix for a central bank**

Whatever today's Q4 GDP growth turned out to be it was always going to come with a proviso that it was a different world late last year compared to what we are now living in. Historical data are of much less importance compared to the news flow from the Middle East.

It still matters to get a sense of prevailing local economic conditions in the lead up to the mayhem offshore. Today's numbers revealed the economy grew 0.2% in the final quarter of last year. It is the second consecutive quarter of growth, seeing GDP in the quarter up 1.3% on the same quarter a year earlier. Annual average growth edged up to 0.2% in 2025.

All this affirms our thoughts that a modest economic recovery got underway in the second half of last year.

Noisy, slow growth

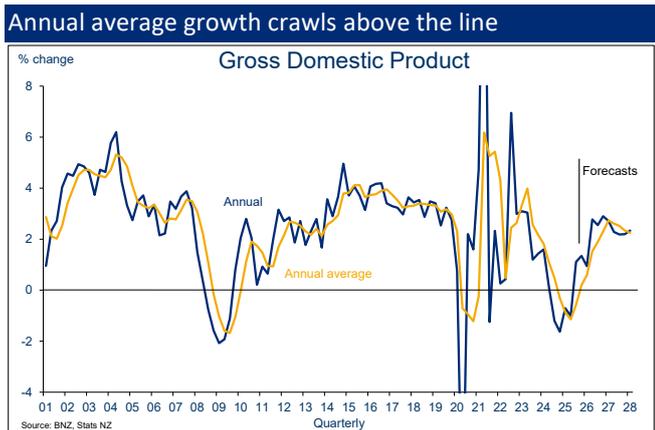


Today's GDP figures disappointed market expectations, with the consensus expecting 0.5% q/q. Q3 growth was revised down to 0.9% from the 1.1% initially published adding to the sense of downside surprise to the market. As one might have anticipated on a softer than expected outcome, the NZD edged a touch lower as did wholesale

interest rates. But movements were very small and short lived, indicating there are much bigger factors in play.

Component	qtr % chg prev qtr	% pt cont to chg	ann avg %chg	ann % chg
Expenditure on gross domestic product - December 2025 quarter				
Final consumption expenditure				
Private	-0.1	-0.1	1.4	1.4
General government	2.2	0.5	2.5	5.2
Gross fixed capital formation				
Residential buildings	-0.1	0.0	-6.0	0.5
Other fixed assets	-3.1	-0.5	0.4	-1.0
Exports of goods and services	0.1	0.0	2.7	1.8
Imports of goods and services	1.0	-0.3	3.4	5.0
Change in inventories and balancing item	..	0.5
Expenditure on gross domestic product	0.1	0.1	0.5	1.4

Industry	qtr % chg prev qtr	% pt cont to chg	ann avg %chg	ann % chg
Gross domestic product by industry – December 2025 quarter				
Agriculture, forestry, and fishing	0.5	0.0	1.9	1.3
Mining	3.6	0.0	-4.8	1.3
Manufacturing	0.0	0.0	-1.1	0.6
Electricity, gas, water, and waste services	0.7	0.0	0.3	3.8
Construction	-1.4	-0.1	-6.2	-2.4
Wholesale trade	0.9	0.0	1.8	4.3
Retail trade and accommodation	1.3	0.1	2.2	3.3
Transport, postal, and warehousing	1.1	0.0	0.1	0.3
Information media and telecommunication	1.9	0.0	-1.6	1.7
Financial and insurance services	1.5	0.1	-0.2	0.3
Rental, hiring, and real estate services	0.8	0.1	1.9	1.7
Prof, scientific, technical, admin, and support	-0.3	0.0	1.3	2.6
Public administration and safety	0.5	0.0	0.2	3.1
Education and training	-0.1	0.0	-0.1	-0.8
Health care and social assistance	0.3	0.0	1.6	1.0
Arts, recreation, and other services	2.0	0.1	-1.8	1.1
Unallocated ⁽²⁾	-1.8	-0.2	0.3	1.1
Balancing item ⁽³⁾	..	-0.1
Gross domestic product	0.2	0.2	0.2	1.3



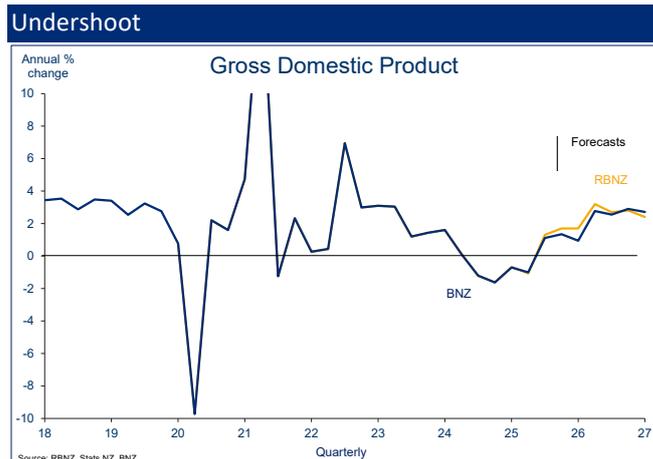
Q4 growth was close to our own 0.3% expectation, although the downward revision to the previous quarter gave it a more subdued feel. So did the expenditure measure of GDP that grew 0.1% q/q.

As we thought, today's numbers show economic growth was tracking slower than the RBNZ forecast. First, the latest quarter's 0.2% outcome was under the 0.5% estimated by the central bank in its February MPS. Second, the downward revision to the previous quarter puts the level of economic activity in Q4 about 0.4% below what the RBNZ had factored in. Adding to the sense of undershoot, domestic demand looked softer than the Bank projected with private consumption easing 0.1% against the RBNZ's +0.6% projection. Moreover, we will trawl through today's data details to assess Q1 more fully, but we haven't seen anything to change our view that it will be lower than the +1.1% q/q the RBNZ included in its February MPS.

On the one hand, a weaker economy would lead one to think the monetary authorities would become more accommodative relative to what it was thinking beforehand. Mechanically, today's figures would suggest the output gap might be a touch wider than the RBNZ thought.

On the other hand, despite economic activity undershooting, inflation has been printing higher than the central bank expected. This is well before the Middle East tensions erupted. Higher inflation with softer than expected activity indicates the output gap might not have been as disinflationary as the RBNZ thought. Potential growth might have been even lower than the authorities have been assuming.

The net result of this is more confusion from a policy point of view. But it does emphasise a key theme we have been highlighting and one that will be amplified significantly as the impact of the Middle East conflict rolls through the economy. That is, there is downward pressure on economic growth and upward pressure on inflation. It is a very challenging situation for the central bank.



We remain of the opinion that, in the first instance, the RBNZ will choose to sit pat but eventually respond to the upward pressure on inflation and upside risk to inflation expectations.

The details were largely along the lines of what we were expecting for growth in the quarter: services and tourism expansion, construction contraction, and flat manufacturing. The primary sector added to growth and utilities contributed positively, helped by a greater share of hydro electricity generation.

We saw evidence of the expected growth drivers we have been discussing such as lower interest rates, tourism growth, and strong primary sector incomes.

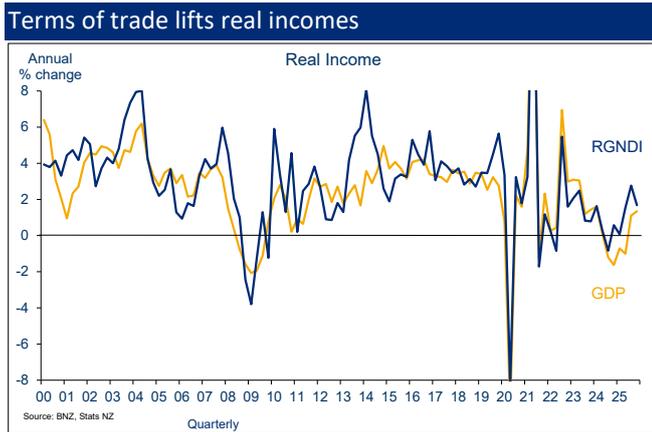
Rental, hiring, and real estate GDP rose 0.8% q/q, aided by more property sales as interest rates eased.

The influence of tourism growth appeared in the expected areas of the national accounts including a significant 7.7% lift in exports of services which was broadly in line with our priors. Rental activity rose and, as expected, growth in retail trade and accommodation looks to have been driven more by the spending of overseas visitors than that of locals. Retail sales and accommodation lifting 1.3% in the quarter, despite private consumption easing 0.1% q/q.

Primary sector export income has been a strong support to the economy over the past year. However, it has largely been driven by elevated commodity prices which do not directly count as real economy activity. But higher incomes can facilitate more activity.

Price-driven higher primary sector income does show up in real gross national disposable income (RGNDI) – a broader real income measure than GDP. RGNDI was flat in the quarter but up 1.7% y/y.

As positive as RGNDI has been, there are clear headwinds afoot. Higher import prices, driven by fuel, will be a fierce headwind to the terms of trade and RGNDI.



It's another way of saying higher fuel prices will chew into disposable incomes, dent confidence, and slow growth compared to what would have otherwise been.

On that front, we will reassess our growth forecasts over the days ahead as we build in the finer details of today's Q4 figures and the clear inflation headwind to disposable incomes. We reiterate here, we will be nudging our growth forecasts a bit lower as annual inflation threatens to punch materially higher.

Even attaching our forward quarterly growth profile, as it stood before today's data, onto today's Q4 starting point would imply annual average economic growth of 2.3% in 2026. Our base case is still for economic expansion but is already below the 'worse case' scenario that the Finance Minister talked about earlier this week referencing advice she had received from the Treasury.

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