

Research Economy Watch

9 June 2026

Q1 GDP Preview

- **GDP seen rising 0.9% q/q in Q1**
- **Manufacturing, wholesale, services data show gains**
- **More than offsetting building, forestry weakness**
- **Primary sector buoyed by milk production**
- **Top-down indicators supportive**

Q1 GDP data have a sense of being old news, especially given developments in the Middle East over recent months. But the data will set the starting position for the economy, so is worth keeping an eye on when it is released next Thursday 18 June.

We have been constructive on Q1 GDP growth. The early partial indicators like retail sales and international trade came in near enough to expectations.

Then last week's building work data produced a shockingly weak outcome seeing us tab down our GDP view a couple of ticks. The weak building result also put the onus on today's business financial data to deliver indication of reasonable gains in value added across the manufacturing, wholesale trade, and wider services industries to maintain our thoughts of decent GDP growth in the quarter.

Today's data delivered and then some. Like much data recently there was a lot of noise, but the undercurrent was a clear lift in activity in the quarter.

It is strong enough to see us finalise our Q1 GDP forecast at 0.9%, where it was before last week's soft building data saw us nudge it lower.

It would be strong growth in the quarter. The number might be large, but we think it will overstate the underlying trend. Even with the anticipated quarterly lift, annual GDP growth still eases a touch to 1.1%.

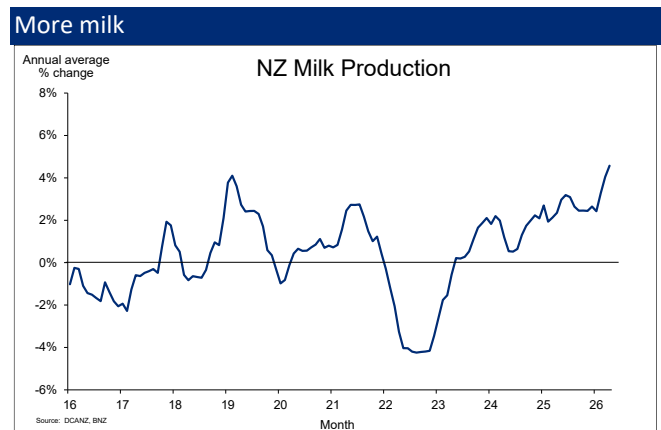
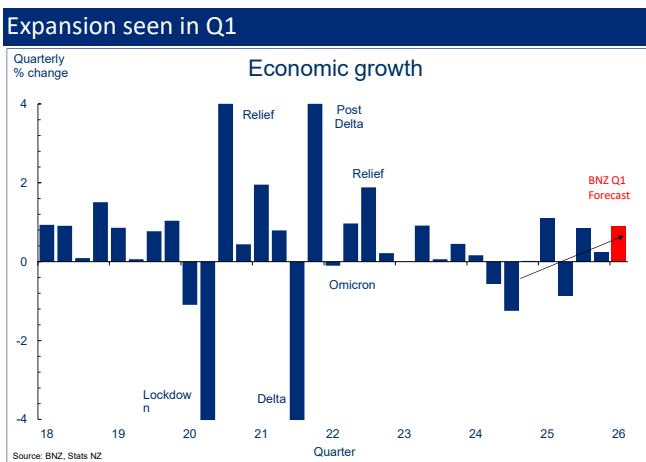
That said, it would be the third consecutive quarterly economic expansion confirming recovery was well underway ahead of the conflict in the Middle East which started in the second half of the first quarter.

If we are right, then Q1 GDP will not be far away from the 1.0% that the RBNZ projected in its May MPS. We also suspect the data will add upside to the RBNZ's KiwiGDP nowcast that sat at 0.5% last week. The next update of this is due this Friday afternoon.

Today's data show manufacturing sales volumes rose 3.6% q/q in Q1. After adjusting for inventory change, we estimate the sector's GDP grew a bit over 2% q/q. This fits with the broad direction of the PMI at the time.

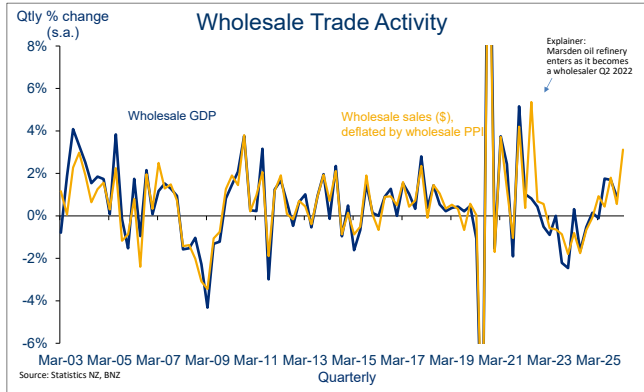
Within manufacturing, there looks to have been strong gains in meat and dairy processing, textiles, printing, metals, and transport equipment and machinery and equipment.

Primary sector Q1 GDP is expected to be positive, albeit with mixed detail. Milk production has been strong, but forestry and logging look to have declined in the quarter.



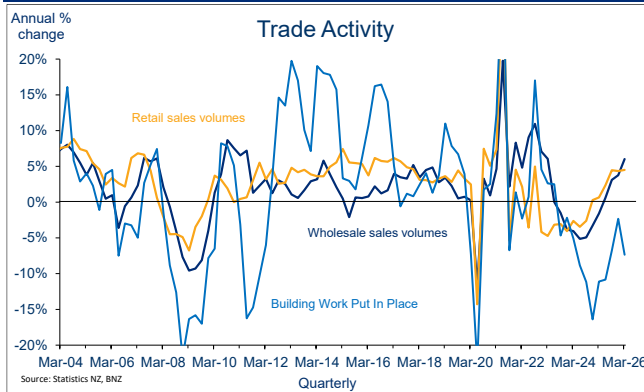
Distribution activity looked strong in Q1. Retail sales volumes rose. And today's wholesale sales posted a sharp lift, even after accounting for price changes. Strength in real wholesale trade activity fits with solid growth in both exports and imports of goods.

Wholesale activity reflects more international trade



Construction GDP is expected to decline. Despite many indicators suggesting some growth, including today's business sales data, we defer to the very soft building work indicators from last week and have pencilled in a sizeable quarterly decline.

Distribution positive, building not so



Today's selected services data looked broadly supportive of GDP expansion in the sector. Professional services indicators rose firmly. More rural property sales and increased tourist spending will have helped too. Rental, hiring, and real estate services also saw higher sales in today's data.

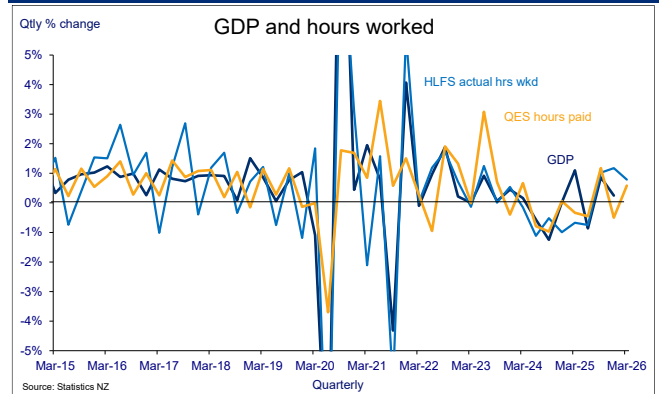
We should also note that we expect a meaningful positive contribution to quarterly growth from the seasonal balance item this quarter. It is legitimate growth, even if it gives unease to forecasters. The balancing item tends to be positive in Q1 as overall growth tends to be stronger than what is identifiable across individual industries.

Quarterly movements across sectors are often very volatile and this quarter looks no different. Given that, it is also

useful to ignore the detail and take a top-down look. Top-down indicators suggest decent Q1 GDP growth.

In the labour market, employment rose a modest 0.2% q/q, but HLFs hours worked rose a firm 0.8% q/q and QES hours paid lifted 0.6%.

Positive vibes



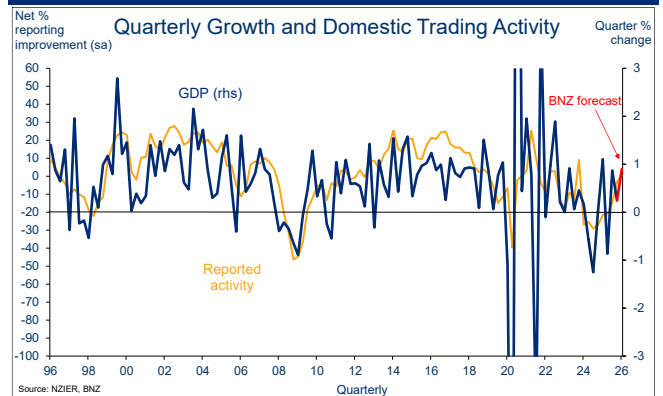
QSBO reported activity was solid and expectations even more so. The general firming trend in QSBO reported activity is consistent with positive anecdotes we have picked up from businesses for the Q1 period.

Speaking of trends, the stability of the upwards direction in the QSBO indicator over the past year or so is certainly easier to interpret than the significant volatility in the GDP data.

The combined PMI/PSI indicator was positive for Q1, although not exceptionally so, and entirely driven by the manufacturing component.

All up, there are a few conflicting signals but the balance of indicators provides compelling evidence of a solid gain in Q1 GDP. Be that as it may, while Q1 GDP growth looks firm, indicators for Q2 continue to suggest growth will struggle in that quarter. We caution that celebration of what appears to be a very strong Q1 economic signal may end in embarrassment three months later.

Businesses report growth



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