Research

Economy Watch

8 September 2026

Q2 GDP Preview

- **We finalise our Q2 GDP pick at +0.2% q/q, 2.4% y/y**
- **Wholesale trade, manufacturing growth supportive**
- **Service sector not so much**
- **Growth looks a touch stronger than RBNZ forecast**
- **Revisions relevant for policy assessment**

We noted yesterday that last week's building and international trade data placed upside risk to our estimate for Q2 GDP growth. And our expenditure-based measure was already modestly positive. But that we would wait for today's slew of information on manufacturing, wholesale trade, and the services sector before making any formal change to our GDP pick for the quarter.

The details of today's data show manufacturing sales volumes rose 0.8% q/q. After adjusting for inventory change, we estimate the sector's GDP grew around 0.6% q/q. This is marginally above the modest increase we had factored in.

Within manufacturing, there looks to have been strong gains in food processing, including dairy and meat, wood and paper products, non-metallic mineral products, and transport and machinery equipment. These more than offset weakness in textiles, printing, metals, chemicals, and furniture manufacturing.

Wholesale trade was stronger than expected. Nominal sales were always going to be strong given a significant, fuel-driven, lift in prices. But the 6.4% q/q sales gain reported implied a larger lift in volumes and GDP for the industry than we had pencilled in.

Wholesaling buoyed by international trade

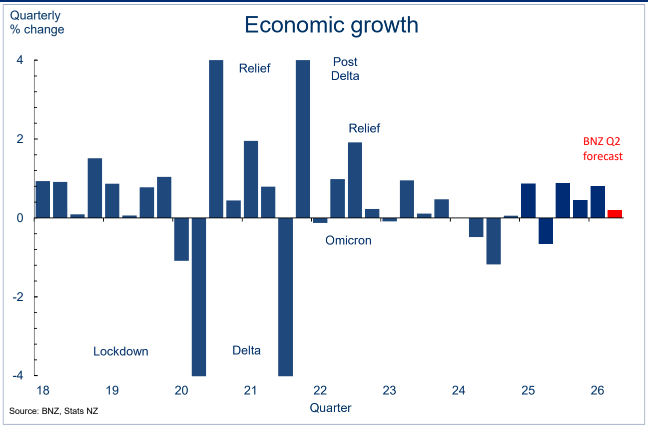
In contrast, the wider, and large, service sector continues to look mixed and patchy for GDP with softness expected in retail trade, rental and real estate, and professional services.

Service sector indicators are no clear guide to their GDP equivalents but amid a range of ups and downs suggest the sector may have edged forward in the quarter. That is close to our priors, if marginally firmer.

None of today's indicators are a major surprise on their own. But they were all on the same side relative to our expectations accumulating to more upside pressure to our Q2 GDP pick.

Last week's building and international trade data had us wondering if Q2 GDP might be about flat compared to our initial -0.2% forecast. The sum of today's information nudges it up to +0.2%. We also nudge our Q3 estimate up to 0.4% from 0.3% previously.

Subdued Q2



GDP still looks relatively subdued in Q2, but it now might come with a positive hue rather than a negative one driven by the primary sector, goods producing, construction, and wholesale trade sectors.

In contrast, there are question marks around consumer-focused sectors like retail trade. While retail sales volumes are higher than a year ago, additional intense inflationary pressure from higher fuel costs slowed its annual growth in Q2.

Notably our production estimate includes a 0.4ppt drag from the balancing item and our expenditure measure includes a meaningful negative contribution from inventory change. The latter is associated with very strong primary exports in the quarter, but there is a chance that total inventories still increase aided by additional fuel stockpiling. Precise estimates of such things are very difficult to have much faith in, especially in times of large underlying movements and with revisions pending.

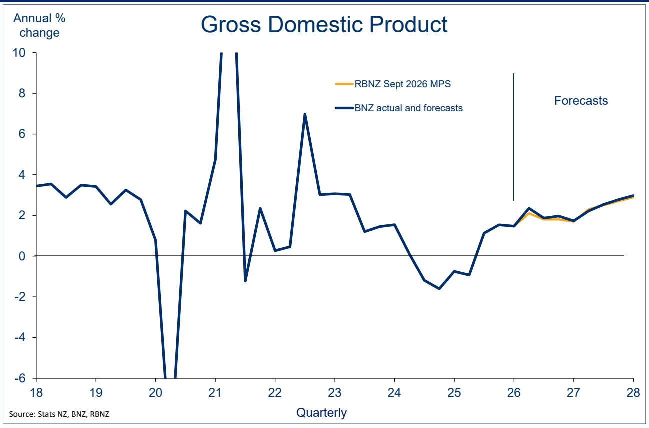
We know there will be significant revisions when GDP is released next Thursday so it will pay to look at the annual result, perhaps more so than the quarter, to get a better sense of recent developments. With this in mind, our annual pick of 2.4% growth will be our major point of comparison.

If our annual projection proves accurate, then it would be a touch firmer than the RBNZ's 2.1% projection in its September Monetary Policy Statement (MPS). That begs the question whether that will be enough to persuade the bank to continue lifting its cash rate at its next meeting rather than pause as seemed to be the stronger signal from the MPS?

This question is highly relevant given the Bank suddenly seemed to have a lot more focus on growth and risks to it in its recent missive.

The forecast upside growth surprise to the Bank doesn't look much, but it could well be enough to keep it moving on rates, especially if forward indicators suggest momentum is sustainably positive and adds upside risk to projected inflation over the medium term.

Little different, really



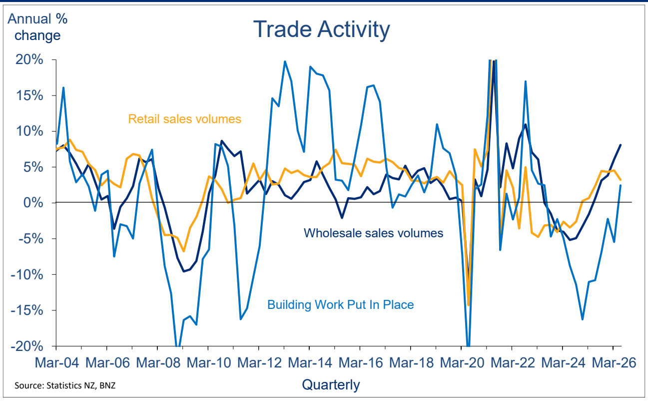
Our forecasts for growth still do not look much different to the RBNZ's, although they are now a touch above rather than a touch below.

Our current OCR forecasts see a hold in October, before hikes resume from December. This follows from the RBNZ guidance from last week. However, we continue to believe the October meeting remains live with a hike at that meeting remaining a distinct possibility.

That all said, it is not just the quarterly GDP outcome that needs to be considered. The recent trajectory and all the historical revisions will need to be assessed for what they mean for the output gap and inflation over the medium term before drawing any conclusions for policy.

Moreover, a host of other, more forward looking, activity indicators and inflation gauges will be published ahead of the October meeting in addition to next week's Q2 GDP. Among them, the QSBO on 6 October will be very important as well as Q3 CPI on 22 October.

Higher than a year ago



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