

New Zealand At A Glance

28 January 2025

Overview

Against a volatile international setting, New Zealand’s recession rolls on. Growth is moribund and the unemployment rate will continue to rise for some time. However, there are signs that the trough in activity might soon be behind us, and leading indicators have turned positive aided by ongoing easing in monetary conditions. Inflation is broadly contained but rising oil prices and a weakening NZD are causing some angst. Nonetheless, further cash rate cuts are still expected, the only real debate is how far the OCR will need to fall to generate the requisite economic response. Meanwhile the fiscal position is deteriorating and will do so for at least another year.

Key Indicators	December Years					
	Actual			Forecasts		
	2021	2022	2023	2024	2025	2026
GDP production (an avg %)	5.6	2.9	1.8	-0.6	0.7	3.1
Consumers Price Index (ann %)	5.9	7.2	4.7	2.2	2.3	1.8
Unemployment Rate (end qtr %)	3.2	3.4	4.0	5.1	5.4	4.9
Current Account (% of GDP)	-6.0	-9.2	-6.9	-6.2	-4.6	-4.1
Fiscal Balance (% GDP June Yr)	29.4	32.8	34.0	42.3	45.7	48.3
NZD/USD (Dec mth avg)	0.68	0.63	0.62	0.57	0.60	0.66
Overnight Cash Rate (Dec mth end %)	0.75	4.25	5.50	4.25	2.75	3.25
10 Year Govt Bond (Dec mth avg %)	2.40	4.20	4.70	4.40	4.30	4.40

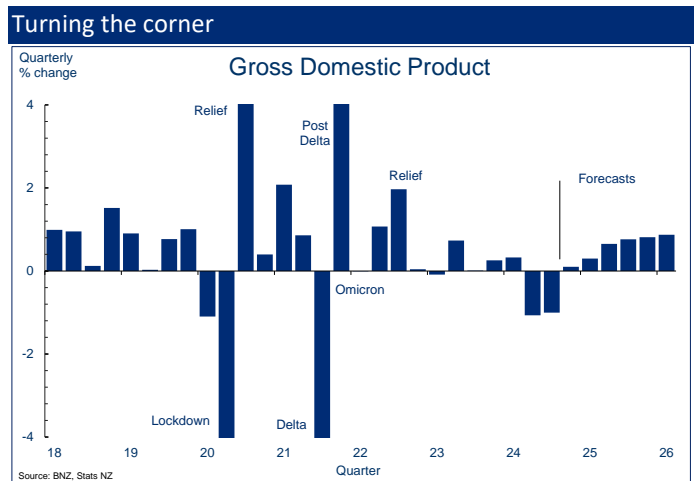
International

All eyes are on the United States as uncertainty about the prospective Trump policy mix reigns. From a New Zealand perspective, the President’s decision on tariffs is key. Overall, the consensus view is that US growth will moderate in 2025 to 2.2% from a peak of 3.1% in the year ended June 2024. Chinese growth is also expected to drop. The China softening, plus the US moderation, will weigh on the wider Asian region. The saviour for New Zealand is Australia whose growth is expected to accelerate. In sum, NZ trading partner growth is forecast to be 2.6% in 2025 down from an estimated 2.7% in 2024.



Growth

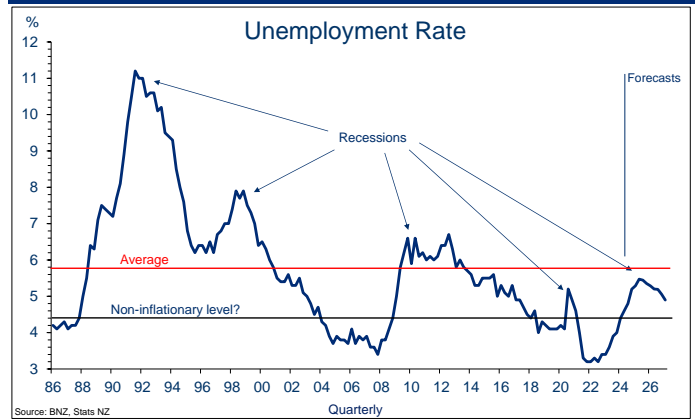
The economy is currently in a nasty recession. GDP contracted 2.1% in the six months ended September. Ex-COVID this was the sharpest six month decline since 1991. Coincident indicators such as the PMI and PSI suggest no improvement in output in Q4. But with monetary conditions easing aggressively, as both interest rates and the NZD decline, it looks increasingly likely activity will begin its resurrection in 2025. Quarterly growth should begin to erode spare capacity in the economy in the second half of the year.



Labour Market

There are clear signs the pace of deterioration in the labour market should slow. Employment intentions are lifting, economic activity will soon turn the corner, the pace of state sector restructuring will moderate, and the monthly filled jobs series has recently snuck back into positive territory. But this won't be enough to stop the unemployment rate heading higher to around 5.5% by mid-year. The general softening in the labour market, coupled with a mere 1.5% proposed increase in the minimum wage, means total wage growth will moderate such that a sub 3.0% LCI increase can be expected across calendar 2025.

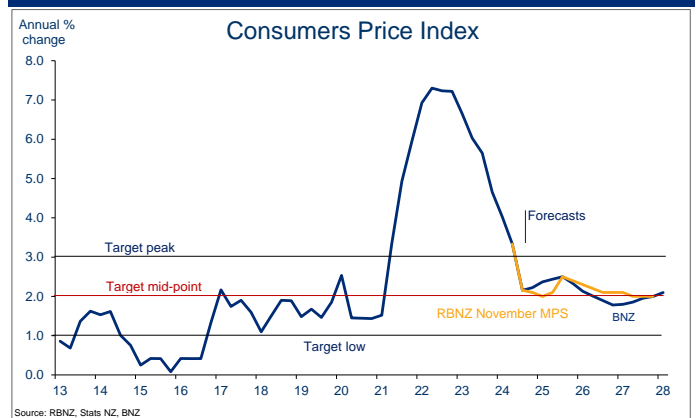
Not over yet



Inflation

We have been edging our inflation projections modestly higher in light of rising global oil prices and a weakening New Zealand dollar. The oil price impact was a factor nudging the Q4, 2024 CPI increase of 0.5% above the RBNZ's 0.4% projection. There will be more to come in Q1 for which we forecast a 0.8% jump. The exchange rate impact will be more obvious in later quarters. Given these factors, we are forecasting annual CPI inflation to keep rising to 2.5% (from the current 2.2%) in the September quarter of 2025. Despite this, we still see annual inflation returning to the midpoint of the Reserve Bank's target band by mid 2026.

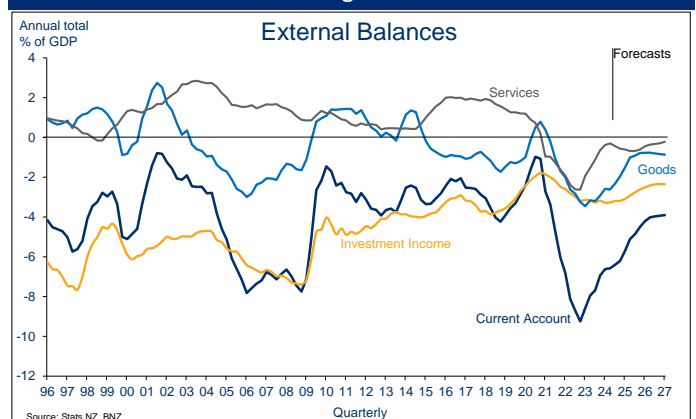
Broadly under control



External Accounts

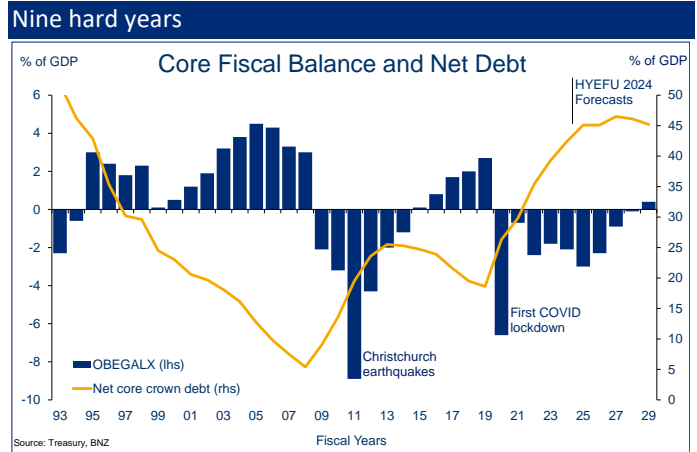
Fears that the state of New Zealand's external accounts might lead to a credit downgrade are dissipating. The current account deficit has declined to 6.4% of GDP from a peak of 9.2% in December 2022. More importantly, it looks like the deficit is set for further declines over the next two years. In the first instance, the biggest driver of the improvement in the accounts was the return of tourists to New Zealand as the borders opened post-COVID. Now, a rising terms of trade has taken over as providing the most momentum.

Getting better



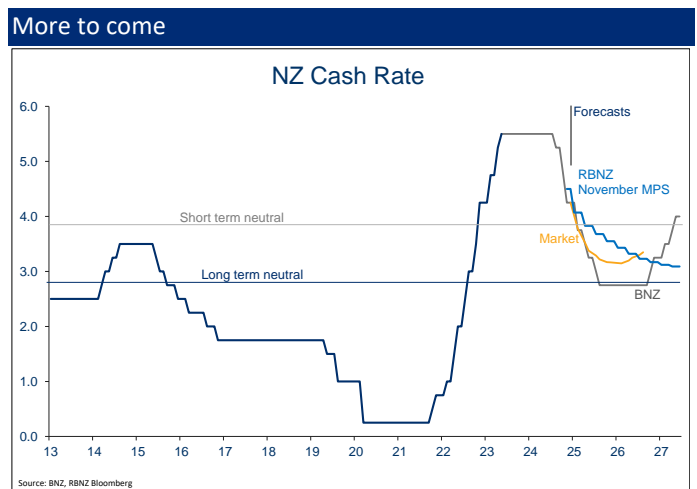
Fiscal Policy

The government’s accounts continue to deteriorate. An (OBEGALX) deficit of 2.1% of GDP was confirmed for the year ended June 2024. It is forecast to rise to 3.0% in fiscal 2025. No return to surplus is expected until 2029. By this stage New Zealand will have had a fiscal deficit for nine consecutive years. Net core crown debt jumped to 42.4% of GDP in fiscal 2024 from 39.3% a year earlier. It is forecast to rise to a peak of 46.5% in 2027. This will be the highest level since 1993. The state of the accounts argues for a protracted period of fiscal consolidation, which will constrain economic activity.



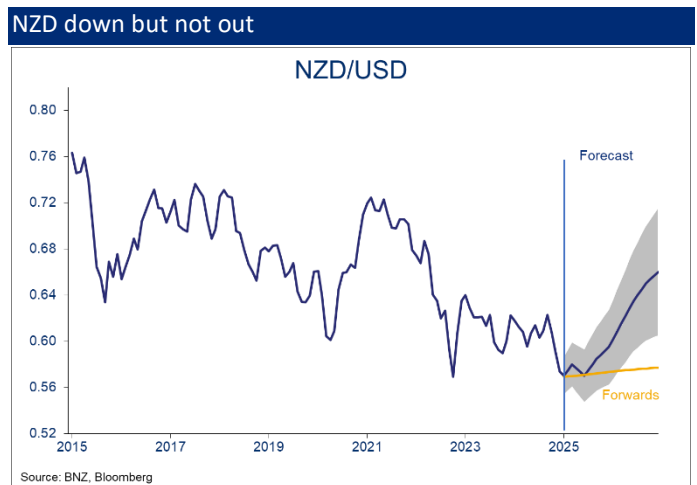
Interest Rates and RBNZ Policy

The overnight cash rate has now been cut at the last three consecutive monetary policy decisions. The cumulative reduction has been 125 basis points taking it down to 4.25%. New Zealand’s output gap remains significant, so further rate cuts are a given and need to continue until such time that rates are below neutral. The exact level of neutral is open to conjecture, but we think the cash rate will need to get down to at least 3.0% to achieve the Bank’s objectives. We are forecasting a 50-basis point cut at the next RBNZ meeting with 25 point moves at consecutive meetings thereafter.



Exchange Rates

The New Zealand dollar plunged through Q4, 2024. In the period since mid-December the currency has bounced around on the musings of President Trump with his stance on tariffs the primary focus. More of the same can be expected. In short, the harsher the tariff outlook the weaker the NZD. Note that the key here is not so much the direct impact of tariffs on New Zealand but rather the indirect effect on China, the yuan and global growth. Other immediate currency headwinds include the ongoing weakness in the domestic economy and the relatively aggressive pace of rate cuts by the RBNZ. However, as we progress through 2025 domestic conditions are expected to provide increased support for the currency.



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Quarterly Forecasts

Forecasts as at 28 January 2025

Key Economic Forecasts

Quarterly % change unless otherwise specified

Forecasts

	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26
GDP (production s.a.)	0.3	0.3	-1.1	-1.0	0.1	0.3	0.7	0.8	0.8	0.9
Retail trade (real s.a.)	-1.8	0.5	-1.2	-0.1	0.0	0.5	0.8	1.0	1.2	1.1
Current account (ytd, % GDP)	-6.9	-6.6	-6.6	-6.4	-6.2	-5.7	-5.1	-4.9	-4.6	-4.4
CPI (q/q)	0.5	0.6	0.4	0.6	0.5	0.8	0.5	0.7	0.4	0.6
Employment	0.3	-0.4	0.2	-0.5	-0.2	0.0	0.2	0.4	0.6	0.7
Unemployment rate %	4.0	4.4	4.6	4.8	5.1	5.3	5.5	5.5	5.4	5.2
Avg hourly earnings (ann %)	6.6	4.8	4.0	3.2	3.4	3.9	3.6	3.0	2.9	3.0
Trading partner GDP (ann %)	3.2	3.1	2.9	2.9	3.0	2.8	2.9	2.9	2.9	2.8
CPI (y/y)	4.7	4.0	3.3	2.2	2.2	2.4	2.4	2.5	2.3	2.1
GDP (production s.a., y/y)	0.9	1.3	-0.5	-1.5	-1.6	-1.7	0.0	1.8	2.6	3.1

Interest Rates

Historical data - qtr average

Forecast data - end quarter

	Cash	Government Stock			Swaps			US Rates		Spread NZ-US Ten year
		90 Day Bank Bills	5 Year	10 Year	2 Year	5 Year	10 Year	Libor 3 month	US 10 yr	
2023 Mar	4.58	4.99	4.27	4.26	5.11	4.51	4.40	4.90	3.65	0.61
Jun	5.42	5.62	4.23	4.27	5.19	4.44	4.30	5.40	3.60	0.68
Sep	5.50	5.66	4.87	4.87	5.54	4.90	4.75	5.65	4.15	0.73
Dec	5.50	5.64	4.90	5.07	5.28	4.85	4.90	5.65	4.45	0.64
2024 Mar	5.50	5.66	4.44	4.68	4.92	4.40	4.45	5.60	4.15	0.53
Jun	5.50	5.63	4.56	4.74	5.01	4.53	4.60	5.60	4.45	0.30
Sep	5.33	5.30	3.96	4.31	4.05	3.80	4.05	5.35	3.95	0.37
Dec	4.42	4.44	4.00	4.47	3.65	3.74	4.10	4.85	4.30	0.19
Forecasts										
2025 Mar	3.75	3.50	3.70	4.50	3.20	3.55	4.15	4.65	4.30	0.20
Jun	3.25	3.00	3.45	4.45	2.90	3.35	4.15	4.40	4.25	0.20
Sep	2.75	2.90	3.45	4.45	3.00	3.40	4.20	4.15	4.25	0.20
Dec	2.75	2.90	3.55	4.30	3.15	3.50	4.10	3.90	4.00	0.30
2026 Mar	2.75	2.90	3.65	4.30	3.40	3.65	4.15	3.90	4.00	0.30

Exchange Rates (End Period)

USD Forecasts

	NZD/USD	AUD/USD	EUR/USD	GBP/USD	USD/JPY
Current	0.57	0.63	1.05	1.25	156
Mar-25	0.58	0.65	1.04	1.27	155
Jun-25	0.57	0.64	1.05	1.27	155
Sep-25	0.59	0.66	1.06	1.28	153
Dec-25	0.60	0.67	1.07	1.28	150
Mar-26	0.62	0.69	1.08	1.29	144
Jun-26	0.64	0.71	1.11	1.32	140
Sep-26	0.65	0.72	1.13	1.34	135

NZD Forecasts

	NZD/USD	NZD/AUD	NZD/EUR	NZD/GBP	NZD/JPY	TWI-17
Current	0.57	0.90	0.54	0.46	88.6	68.0
Mar-25	0.58	0.89	0.56	0.46	89.9	69.0
Jun-25	0.57	0.89	0.55	0.45	88.4	68.7
Sep-25	0.59	0.89	0.55	0.46	89.5	69.5
Dec-25	0.60	0.89	0.56	0.47	89.3	70.1
Mar-26	0.62	0.89	0.57	0.48	88.6	71.4
Jun-26	0.64	0.89	0.57	0.48	88.9	72.7
Sep-26	0.65	0.90	0.58	0.49	87.8	73.6

TWI Weights

15.6% 18.4% 9.2% 3.9% 5.5%

Source for all tables: Statistics NZ, Bloomberg, Reuters, RBNZ, BNZ

Annual Forecasts

Forecasts as at 28 January 2025	March Years					December Years				
	Actuals		2024	2025	2026	Actuals		2023	2024	2025
	2022	2023				2021	2022			
GDP - annual average % change										
Private Consumption	6.3	3.4	1.0	0.2	2.2	7.6	4.2	1.0	0.1	1.6
Government Consumption	8.0	2.7	2.0	-1.3	-0.1	7.9	5.2	0.8	-0.2	-0.6
Total Investment	9.1	3.3	-1.6	-4.9	1.4	10.9	4.2	-0.6	-4.9	-0.9
Stocks - ppts cont'n to growth	0.5	0.3	-1.6	0.2	0.4	1.4	0.0	-1.4	0.1	0.3
GNE	7.9	3.7	-1.1	-0.6	2.1	9.9	4.5	-0.9	-0.8	1.3
Exports	2.5	5.6	8.6	1.4	3.1	-2.7	-0.8	11.4	3.5	2.1
Imports	17.2	4.4	-1.3	1.7	3.8	14.8	4.6	-0.6	2.0	2.7
Real Expenditure GDP	4.6	3.9	1.3	-0.9	1.9	5.8	3.2	1.8	-0.3	0.9
GDP (production)	4.5	3.5	1.4	-1.3	1.9	5.6	2.9	1.8	-0.6	0.7
<i>GDP - annual % change (q/q)</i>	<i>0.5</i>	<i>3.0</i>	<i>1.3</i>	<i>-1.7</i>	<i>3.1</i>	<i>2.6</i>	<i>3.1</i>	<i>0.9</i>	<i>-1.6</i>	<i>2.6</i>
Output Gap (ann avg, % dev)	1.0	2.0	0.9	-1.4	-1.0	1.3	1.9	1.2	-0.7	-1.3
Nominal Expenditure GDP - \$bn	359	394	417	428	450	353	386	412	426	444
Prices and Employment - annual % change										
CPI	6.9	6.7	4.0	2.4	2.1	5.9	7.2	4.7	2.2	2.3
Employment	2.5	3.1	1.1	-0.5	1.9	3.3	1.7	2.8	-0.9	1.2
Unemployment Rate %	3.2	3.4	4.4	5.3	5.2	3.2	3.4	4.0	5.1	5.4
Wages - ahote (private sector)	5.3	8.2	4.8	3.9	3.0	4.1	8.1	6.6	3.4	2.9
Productivity (ann av %)	1.7	1.3	-1.2	-0.7	1.2	3.6	0.7	-1.3	-0.4	0.6
Unit Labour Costs (ann av %)	4.7	5.7	7.2	4.6	1.8	2.3	6.0	7.7	4.9	2.4
House Prices (stratified, qtr)	9.1	-12.8	2.8	-0.4	7.0	22.5	-13.8	0.6	-1.0	6.8
External Balance										
Current Account - \$bn	-24.5	-33.8	-27.6	-24.4	-19.6	-21.3	-35.6	-28.6	-26.4	-20.4
Current Account - % of GDP	-6.8	-8.6	-6.6	-5.7	-4.4	-6.0	-9.2	-6.9	-6.2	-4.6
Government Accounts - June Yr, % of GDP										
OBE GAL ex ACC (core op. balance) (Treasury forecasts)	-2.7	-2.4	-3.1	-4.1	-3.1					
Net Core Crown Debt (ex NZS) (Treasury forecasts)	35.4	39.3	42.4	45.1	45.1					
Bond Programme - \$bn (Treasury forecasts)	20.0	28.0	39.3	40.0	40.0					
Bond Programme - % of GDP	5.6	7.1	9.4	9.3	8.9					
Financial Variables ⁽¹⁾										
NZD/USD	0.69	0.62	0.61	0.58	0.62	0.68	0.63	0.62	0.57	0.60
USD/JPY	119	134	150	155	144	114	135	144	154	150
EUR/USD	1.10	1.07	1.09	1.04	1.08	1.13	1.06	1.09	1.05	1.07
NZD/AUD	0.93	0.93	0.93	0.89	0.89	0.95	0.94	0.93	0.91	0.89
NZD/GBP	0.52	0.51	0.48	0.46	0.48	0.51	0.52	0.49	0.45	0.47
NZD/EUR	0.62	0.58	0.56	0.56	0.57	0.60	0.60	0.57	0.55	0.56
NZD/YEN	81.5	83.0	91.1	89.9	88.6	77.4	85.6	89.5	88.4	89.3
TWI	73.9	71.0	71.2	69.0	71.4	73.0	72.9	72.0	68.5	70.1
Overnight Cash Rate (end qtr)	1.00	4.75	5.50	3.75	2.75	0.75	4.25	5.50	4.25	2.75
90-day Bank Bill Rate	1.45	5.16	5.64	3.50	2.90	0.92	4.55	5.63	4.26	2.90
5-year Govt Bond	2.90	4.40	4.60	3.70	3.65	2.20	4.30	4.50	3.90	3.55
10-year Govt Bond	3.20	4.35	4.60	4.50	4.30	2.35	4.25	4.65	4.45	4.30
2-year Swap	3.00	5.15	4.91	3.20	3.40	2.22	5.21	4.93	3.53	3.15
5-year Swap	3.20	4.50	4.40	3.55	3.65	2.56	4.62	4.43	3.63	3.50
US 10-year Bonds	2.10	3.65	4.20	4.30	4.00	1.45	3.60	4.00	4.40	4.00
NZ-US 10-year Spread	1.10	0.70	0.40	0.20	0.30	0.90	0.65	0.65	0.05	0.30

⁽¹⁾ Average for the last month in the quarter

Source: Statistics NZ, BNZ, NZ Treasury

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