

# Our Take

## Kiwibank economics.

## A rather redundant lift in activity overshadowed by heightened global risks

- Next Thursday we will see how the Kiwi economy finished 2025. Running the numbers we expect the economy to have expanded 0.3% over the December quarter, nudging annual growth up to 1.5%.
- Most industries are set to post gains. But the standout looks likely to be sectors tied to tourism. It was another quarter of strong visitor arrivals with plenty of indicators pointing to a lift in transport, arts & rec, and retail trade and accommodation. But it's not all sunshine, with construction still dragging behind.
- Let's be honest, next week's GDP report couldn't get any more dated. The outlook for growth ahead has materially darkened as the shock to oil prices has major downside risks to global and Kiwi growth.



Stats NZ is set to release the Kiwi economy's report card for the December quarter next Thursday. But to be honest, it's probably going to be one of the most dated GDP report cards in recent memory. Yes, GDP data is always delayed. We're covering the last three months of 2025 when we're already nearly 3 months into 2026. But now, the escalating conflict in the Middle East, and the resulting lift in oil prices, have added downside risks. Both global and New Zealand growth could go south from here. So in that context, next week's GDP release is particularly stale.

The key point we've been trying to get across is that while higher oil prices will lead to a near term inflation shock, they can also create a huge demand shock. And that matters enormously for New Zealand, given the economy was only just beginning to recover. It's yet another wave of uncertainty for Kiwi households and businesses. And there is a real risk that it derails our recovery in the same way Trump's liberation day tariffs did last year.

Indeed, input costs are going to go up across the board, given oil touches just about everything. But in an already fragile demand environment, not all businesses will be able to pass on the higher costs to consumers. And in an environment of tighter margins and falling profitability, businesses may pull back on investment, hiring, and growth-oriented decisions... restraining the recovery.

Higher petrol prices will only deepen the cost-of-living-crisis we keep hoping will end. We know increases in the price of

essentials, like petrol, act like a tax on household consumption. Surging prices squeeze disposable incomes and pull spending away from elsewhere. It's yet another hit to household budgets.

All that said, we don't really care that much about next week's GDP report. It's just too dated. But we're economists, so I guess a quick round up of how we expect the Kiwi economy performed over the last quarter of the year is needed...

Running the numbers, we expect the Kiwi economy to have expanded 0.3% over the December quarter.

Compared with the strong 1.1% rise recorded in September, next week's print may look less impressive. But much of the difference reflects base effects and the ongoing volatility in the data, with disruptions in seasonal patterns post-Covid.

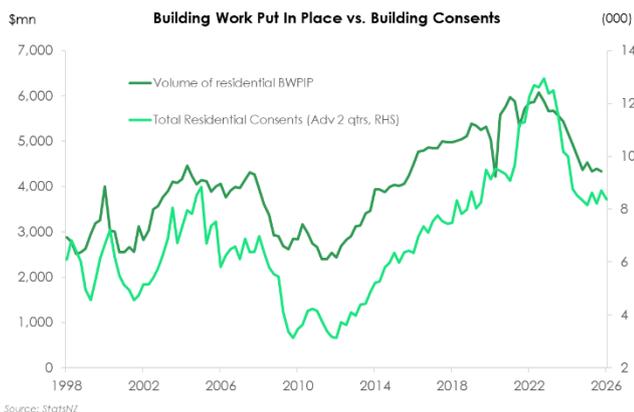
While the quarterly headline rate remains subject to volatility and revisions, the story beneath the surface points to another quarter of broad-based strength. On an annual basis, the Kiwi economy is set to have expanded 1.5%. And most industries are set to post gains. But the standout is likely to be sectors tied to tourism.

The December quarter looks to have delivered another strong tourism season, with international visitor arrivals reaching 97% of pre-Covid levels. As a result, industries such as transport, arts & recreation, retail trade, and accommodation are likely to show the strongest contributions to growth.



Stats NZ's earlier retail trade survey, along with light traffic index data, support the view of decent lifts across those sectors too. And we also expect the rental, hiring, and real estate sector to show notable strength, given the near 6% seasonally adjusted lift in house sales over the quarter (based on REINZ figures).

But it's certainly not all roses. While housing turnover may have improved over the quarter, the stale housing market continues to weigh on construction. Preliminary data from Stats NZ last week showed total building activity fell 3.1% in the December quarter, driven by large declines in both residential and non-residential volumes. It points to another quarterly decline for construction in next week's GDP report. Still, paired with consent data, the industry looks like it's finding its floor. Just not much else. We were hopeful that the significant rate easing we've had over the past year would help bring some life back into the housing market and subsequently the construction sector. But it's just not transmitting through yet. And we keep hearing from builders that they're not expecting an uptick until late 2027 or even early 2028. So, until something turns, construction may continue to drag for some time.



Some of the services may also deliver a mixed result. A typical indicator we use for these sectors is hours worked. But Stats NZ provided a conflicting read over the quarter. The Household Labour Force Survey reported a rise in total hours worked, while the Quarterly Employment Survey recorded a decline in paid hours. These measures are conceptually different, but the divergence does introduce some uncertainty around the performance across these industries. Though broadly we see most of the services

recording lifts. Professional services, after their impressive 2.1% surge last quarter is likely to moderate however. Meanwhile some of the teacher strikes that happened in the tail end of last year is likely to see education post another quarterly contraction.

Anyways that's about as much detail a preview for an incredibly dated GDP report warrants. It's the outlook that matters most. And there are big risks to that outlook. A lot of industries will be exposed to the demand shock likely to follow from the oil price shock. A slowdown in tourism, as international flights become more expensive, could weigh on the same sectors that look to have performed strongly in the December quarter. Add in the squeeze on household consumption and the likelihood of business pull-back, and the recovery faces some real headwinds.