

Our Take Kiwibank economics.

The calm before the storm. Check the rigging before you set sail.

- The Kiwi economy is facing a lot of headwinds, and next Thursday will tell us our starting point for 2026. Running the numbers we expect the economy to have expanded 0.7% over the March quarter, decreasing annual growth to 0.9%.
- Standout industries are 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.
- The outlook for growth ahead has materially darkened as the shock to oil prices has major downside risks to global and Kiwi growth. The March quarter GDP report will tell us our starting point, but the storm will dictate where we end up.

We ended last year with very little wind in our sails. The GDP report card for December was modest. Economic activity lifted 0.2% over the December quarter, 1.3% over the year. This took some of the optimism out of our estimates. We are expecting a stronger lift on a quarterly basis, of 0.7% for the March quarter, but a soft 0.9% over the year.

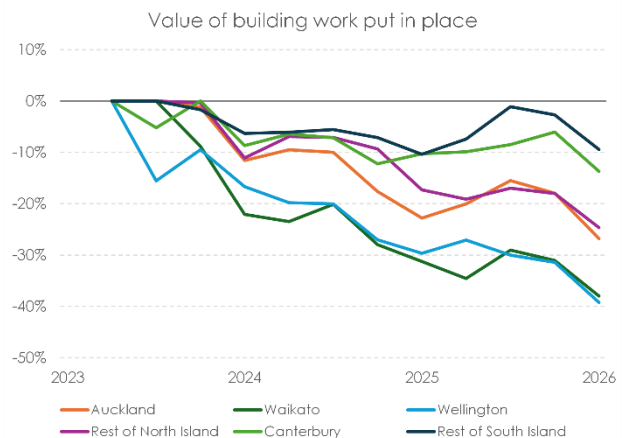
Much of that expectation is due to the softer-than-expected December quarter, rather than impacts from the war in the Middle East. Most of the disruption hadn't hit our shores until the end of March. Even then, we didn't really feel it in the first quarter of the year. With the data out next Thursday, we will see... We expect it to be a calm before the storm.

We are keeping a pulse on the high-frequency data and we know to expect an even softer June quarter, that will be the important stuff... but alas, we won't have that for a while yet. The Q1 GDP data will strengthen or weaken the RBNZ's resolve to hike rates in July. A weaker GDP print coming into the year means weaker demand and thus lower inflation pressure before the oil crisis. In all fairness, the Food Price and Selected Price Indexes (SPI), will be more important to the RBNZ. The SPI acts as an early indicator for quarterly inflation, tracking everyday costs like food, housing rent, fuel, and airfares. That data is out next week too, on Tuesday.



Higher petrol prices will 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.

Both global and New Zealand growth is likely to go south from here for the foreseeable future (until the war is resolved). In that context, next week's GDP release is not an information gold-mine. It will, however, tell us something about how hot the economy was running. Faced with the on-coming storm of the Middle East war, this is our chance to check the rigging, see how tight our bow lines were. And what weaknesses might the storm exploit and potentially capsize the Kiwi economy.



We know the construction industry has been hit particularly hard, and times were tough even before the crisis. Building work put in place was down across the board. Over the quarter, Canterbury has taken the sharpest fall. It's a surprise, given the standout performance of the region. From peak to trough, Canterbury is down 14%, second only to other regions south of the border. In the North Island, things are a lot worse. Wellington is the weakest, down 39%, Waikato is down 38%, and Auckland is down 27%. These are miserable numbers. The data is simply weaker than expected for December and is simply adding downside risk to growth estimates. The house price index was also down on a year-on-year basis in the March quarter, for the second quarter in a row.

Unemployment & Underutilisation Rates



The soft labour market also weighs on growth, with the unemployment rate largely unchanged at the start of 2026, 5.3%, down from 5.4%. The underutilisation rate also remains at an all-time high of 13%. Along with low wage growth of 2%, all of this points to a sluggish job market and low risk of a wage-price inflation spiral.

There's no longer a question of whether the oil crisis is derailing our recovery. It is. The question is by how much and for how long? This is not covid. Kiwi disposable incomes are being eroded away by increased fuel costs, businesses are facing reduced margins and, in some cases, losses. Projects are being deferred in hopes that prices will come down again in future, if not cancelled all together.

Some hope is still there for stronger results in the tourism sector, pulling up transport, arts & rec, and retail trade and accommodation industries in the process. We were just about to surpass pre-covid visitor levels at the end of 2025.

Manufacturing is also expected to give us a helping hand. The quarterly manufacturing survey revealed 2.8% of growth. In particular, food manufacturing was supported by a strong lift in milk collections. Some of that strength will buffet the Kiwi economy against the coming storm.

But there's no stimulus coming from the fiscal side, at least not if the election doesn't bring a change in government. So, nothing to stimulate demand and electrify us out of this crisis when it ends. Our best hope is that we hold on tight as we sail through these turbulent waters, and come out the other end with an economy that isn't too worse-for-wear.



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Alexandra Turcu
ECONOMIST