


Review: NZ GDP – Q4 2024

20 March 2025

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Data summary

	Latest	Previous	RBNZ
GDP			
Quarterly % change	0.7%	-1.1%	0.3%
Annual % change	-1.1%	-1.6%	-1.4%
Annual average % change	-0.5%	0.1%	-0.5%

Bouncing off the bottom

- The New Zealand economy expanded 0.7% q/q in Q4, above both our forecast of 0.4% q/q, and the RBNZ's forecast of 0.3% q/q.
- The underlying details of the release were on the stronger side of expectations. However, growth is coming off a very weak base after a 2.2% fall over the previous two quarters, meaning today's data are still consistent with domestic disinflation remaining on a path back to levels consistent with headline inflation at the 2% target midpoint.
- All up, we don't see any major implications for the RBNZ in these data. We expect the RBNZ will deliver three 25bp cuts over the next three meetings to take the OCR to 3.0% by July.

The big picture and monetary policy implications

The Q4 GDP data confirmed a gradual recovery is underway in the New Zealand economy, with growth surprising us, the market and the RBNZ's forecasts to the upside. While we saw scope for an upward surprise going into today owing to technical factors (namely the balancing item and the unallocated tax component), these in fact landed in line with our expectation overall. Rather, underlying economic momentum in today's release was firmer than we'd anticipated. However, it would be a stretch to describe today's release as "strong". We'd chalk this up to the economy bouncing off the bottom.

As a result, we don't see any major implications for the RBNZ. While headline growth was stronger than the RBNZ's forecast, it's worth remembering that the expansion in Q4 followed two quarters of sharp contraction, meaning the level of activity remains well into disinflationary territory. Indeed, given the starting point, we think there's plenty of scope for the economy to grow quickly in the near term without adding upwards pressure to inflation. Indicators of spare capacity in the economy already released for Q4 (the likes of NZIER's QSBO and the Q4 labour market release) have evolved broadly in line with the RBNZ's forecast, and that should limit the implications of today's release for the RBNZ's understanding of where the output gap was in Q4. Capacity indicators in the Q1 QSBO (out 8 April) will be an important complement to today's data.

Given recent volatility and large revisions to the GDP data, the RBNZ are sensibly putting more weight on high-frequency indicators to assess economic momentum. The evolution of those indicators has been broadly consistent with the RBNZ's current economic assessment. Economic turning points are messy, particularly in the context of recent data volatility, and we saw nothing in today's release that challenged the RBNZ's current guidance that it will continue to withdraw monetary restriction. We continue to expect three further 25bp OCR cuts to reach 3.0% by July, a neutral policy setting.

With respect to how these data have shaped our view of the near-term growth outlook, while the surprise today naturally will alter the growth profile, we'd caution against reading too much into today's strength. We'll published updated forecasts in tomorrow's Data Wrap.

The details

Breaking down the 0.7% q/q expansion in production GDP:

- Services industries** expanded 0.8% q/q, well above our forecast of a 0.3% q/q lift. Compared to our forecast, strength was fairly broad-based, though a notable contribution came from healthcare and social assistance, which bounced 1.9% q/q (vs 0.6% q/q expected) after contracting 1.6% q/q in Q3. That contraction surprised us at the time and today's bounce speaks more to quarterly volatility than anything else. Arts, recreation and other services also bounced sharply, up 1.9% q/q, following a 2.4% q/q contraction in Q3. Again, the size of these moves speaks to data volatility, though the strength isn't surprising in the sense that this industry is more interest rate sensitive than others and is likely also being supported by the ongoing recovery in international tourism. Professional services contracted 0.2% q/q, though that was better than the 0.8% q/q fall we had pencilled in. Nonetheless, a third consecutive quarterly contraction in this industry, one of the more cyclical services industries, doesn't suggest strong underlying economic momentum. Public administration and safety contracted 0.5% q/q, in line with our forecast and the third quarterly contraction on the trot, evidencing the ongoing reprioritisation of fiscal spending.
- Goods-producing industries** contracted 0.8% q/q, in line with our forecast. Industry moves were largely as expected, with a sharp 3.1% q/q contraction in construction offset by a 2.1% q/q bounce in electricity, water, gas and waste services, as supply disruption to electricity generation over Q3 unwound. Manufacturing rose 0.3% q/q, close to our forecast, though in the context of recent weakness (coming off a 2.1% q/q contraction in Q3), there wasn't much to get excited about.
- Primary industries** expanded 1.1%, above our forecast of a 0.4% q/q lift, though last quarter's previously reported expansion was revised to a 0.4% q/q contraction. Primary industries tend to be volatile on a quarterly basis, though the expansion in Q4 is consistent with a strong start to the primary production season.
- The unallocated tax component** contracted 1.2% q/q, detracting 0.1%pt from headline growth, against our expectation of a positive contribution. While it can be volatile on a quarterly basis, it does tend to follow the broader economic cycle over time, and as such the negative contribution in Q4 increases scope for a reversal in coming quarters.
- The balancing item** contribution 0.3%pt to headline growth. The balancing item reflects the difference between the sum of seasonally adjusted components and top-down seasonal adjustment of headline GDP. As a result, it tends to net out over the year, meaning strength in Q4 will be offset by weakness over Q1-Q3.

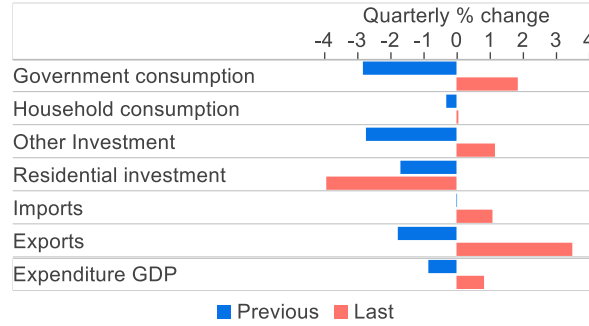
Figure 1. Quarterly change in GDP by industry



Source: Stats NZ, Macrobond, ANZ Research

Turning to the expenditure cut, headline GDP expanded 0.8% q/q, well above the RBNZ's forecast of 0.2% q/q. Ongoing data volatility issues due to changes to seasonal patterns mean caution is required when interpreting expenditure GDP. We prefer production GDP as a gauge of economic momentum. Regarding the components, private consumption lifted 0.1% q/q, weaker than the RBNZ's forecast of 0.4% q/q. Government consumption surprised significantly to the upside, expanding 1.9% q/q, providing an offset to weaker private consumption. Residential investment contracted 3.9% q/q, offset by a 1.5% q/q lift in business investment. Net exports made a strong contribution to growth, as expected, with services exports jumping 8.2% q/q.

Figure 2. Expenditure GDP components



Source: Stats NZ, Macrobond, ANZ Research

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