NZCTU
Te Kauae Kaimahi

Economic Bulletin

January/February 2025

NEW ZEALAND COUNCIL OF TRADE UNIONS
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NCZTU Economic Bulletin

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Welcome to the January/February 2025 Economic Bulletin. In the feature article Craig surveys the backwards steps New Zealand has been making on child poverty reduction. In our main data updates, we cover wage growth, employment, social welfare, consumer inflation, household living costs, and retail trade. We also provide analysis of the latest statistics on migration, trade, and consumer and business confidence, and we look at the government accounts.

All up, the economic picture is mixed. On the one hand, real wages are catching back up to their 2020 levels and some data points indicate that economic activity is starting to slowly pick up again. On the other hand, unemployment is rising, as is the number of people on social welfare, and it is expected that these numbers will rise further through the first half of the year. Additionally, the cost of living remains very high, with many non-discretionary services, such as insurance, council rates, and rent, having increased markedly in price over the past year.

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ISSN 3021-1891

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Key data for trade unionists

Economic indicators – December quarter 2024

Consumer price inflation	Household living costs inflation	Average wages	Unemployment rate	Official cash rate
2.2%	3.0%	4.2%	5.1%	3.75%

Annual wage growth – December quarter 2024

	Nominal	Real (consumer inflation)	Real (h.h. living costs)
All sectors – average ordinary time hourly wages	4.2%	2.0%	1.2%
Public sector	4.5%	2.3%	1.5%
Private sector	4.0%	1.8%	1.0%
Female	4.2%	2.0%	1.2%
Male	4.2%	2.0%	1.2%

Source: Stats NZ. Real (consumer inflation) is deflated by consumer inflation. Real (h.h. living costs) is deflated by household living-costs inflation. Household living-costs inflation includes interest payment costs, so provides a fuller picture of the change in the cost of living compared to consumer inflation.

Annual consumer inflation forecasts

	Reserve Bank	Treasury	Average
Mar 2025	2.4%	1.8%	2.3%
Jun 2025	2.4%	1.8%	2.4%
Sep 2025	2.7%	2.1%	2.6%
Dec 2025	2.5%	2.1%	2.5%

Source: RBNZ, Treasury, ANZ, ASB, BNZ, Westpac. The Average measure is the average of forecasts from the RBNZ, Treasury, and the commercial banks.

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Backward steps on child poverty

During the 2017 election, in one of the more memorable parts of the three debates, the then Prime Minister Bill English said that he would take 100,000 children out of poverty over six years. Together with the clear commitments from Jacinda Ardern, it marked the point at which both major political parties recognised child poverty as an issue that must be tackled.

Both parties supported the Child Poverty Reduction Bill and Children's Amendment Bill at the third reading in 2018. This was legislation that put in place targets to drastically reduce child poverty. The National party spokesperson for child poverty reduction, Alfred Ngaro, said, "We do support this legislation and its intent and all that it may achieve into the future for New Zealand". As a country, we thought that we had put this issue to bed – we just had to actually deliver the poverty reduction.

There were three central targets as part of that legislation. Two of these measured relative poverty – i.e., when you are poor against the rest of the population. The other measured absolute poverty – what is called "material hardship" in the legislation. Material hardship is measured by people's access to key items like having good shoes, living in a cold house, or not being able to pay the utility bills. Miss 6 out of 17 items and you are in material poverty.

Today, six years after that Bill became law, Statistics New Zealand released the latest findings on children living in poverty. Upfront, we should be honest about the information being provided as part of this release. The data is subject to some sampling errors. Statistics New Zealand is therefore very shy about making strong statements about child poverty numbers or the general direction of travel. Their caution is based upon wanting to keep these numbers credible – and so their restraint is admirable, if a little frustrating.

The data shows that the government is now missing its targets on all three measures of poverty, the first time that has happened.

The central estimate of the number of children living in material hardship in 2018 was 147,600. That fell to approximately 120,300 by 2022. It is now 156,600 – higher than it was in 2018. That's 1 in 7 children in New Zealand. The numbers are particularly stark for Māori and Pasifika children: 1 in 4 tamariki Māori live in material poverty, and 1 in 3 Pacific children live in material poverty. Where a household has a disabled person, 1 in 4 children in those households are in material poverty. For all these groups, the number of children living in material poverty has grown over the past two years.

As an economist, I can show you study after study, both here in New Zealand and overseas, that shows the economic benefits of ending child poverty. For example, I could point you in the direction of the work of the Productivity Commission, which found that two-thirds of the benefit of eradicating child poverty accrues not to the individuals who are lifted out of poverty, but to the wider community. Child poverty costs us all a lot.

But as a human being I don't need maths to tell me something that should be obvious to anyone with a conscience. For a country as wealthy as New Zealand to have that many children living in material poverty is a sin. Full stop. Can I quote Dr Bonnie Robinson of the Salvation Army here, who has put what should be our child poverty goal much more eloquently than I:

> if we stop and think about this from an ethical rather than a managerial perspective, this debate is missing the obvious point that the target must always be zero. There is no other target that is acceptable in a western developed nation. Because if the target is more than zero, then as a society what we are really saying that it is OK for children, who are vulnerable and have no choice about their socio-economic circumstances, to live with a level of material hardship that we know from evidence, can blight the rest of their lives.

In cold statistics, the recent data tells us that we aren't doing enough. Material poverty has risen in 8 out of 12 regions since 2022. With the economic indicators heading in the wrong direction, this data will get worse. Child poverty is a prison that holds too many children in Aotearoa back. Unless we tackle this problem now, we will all be paying the social and economic costs over generations.

New Zealand has spent a lot of time, money, and effort to tackle child poverty. Over the past 20 years we've seen the Working for Families reform, the 2018 Families Package, the 2021 Budget Welfare Package, and Best Start. We've seen the Winter Energy Payment, and the relinking of welfare rates to average wage increases. Child poverty levels fell under both National and Labour governments.

That progress is now over. This government's key response to child poverty has been to water down the targets so that 17,000 more children can live in material poverty. In real terms, its reduced the value of welfare support, putting up to an extra 13,000 more children in poverty by 2028. It has cut the real value of the minimum wage, which will also affect child poverty levels – as noted in the latest MSD *Child Poverty in New Zealand* report, 61% of the households with children who live in material poverty have some form of paid work.

There is no plan to help these families living in poverty, only the threat of more sanctions for households already facing hardship. Government has even cut the spending on the free school meals that might make the difference between whether children in poverty go hungry or not. New Zealand can do better than this.

Tackling poverty must mean tackling poor housing. Being able to afford the rent on a poor-quality property doesn't make you better off. If taxpayers are helping pay for that terrible quality house, they are being ripped off too. We must build more state houses, and there is no better time to do so than now, when the construction market is short of work, and we are losing skilled tradespeople overseas.

Tackling poverty must mean ensuring access to health services, which means making access to services like dentists and mental health professionals available for everyone. Tackling poverty must mean equal access to opportunities. All children in New Zealand must have equal access to education, access to work, and access to the tools to build a fulfilling career.

Ending child poverty properly in Aotearoa must also mean that working people have time to spend with their families. Because if ending poverty simply means everyone working twice as long, then we will all be poorer for it. We already work longer than the OECD average – we work around 100 hours a year longer than Australians, and about 250 hours a year more than the average French worker. Families where parents and elder siblings are working every hour available is a special form of cruelty.

My mother – Betty to her friends, Mam to me – always said that "It costs a lot of money to be poor". It costs us not just as individuals, but as a society. Child poverty costs us morally, economically, and socially. It is corrosive to all that is good. Our children deserve security from the ills of poverty, and we can deliver that. We had an agreement to get there once. We can do it again.

Craig Renney
February 2025

Table 1: Child poverty targets, year ended June 2024

Measure	Second 3-year target	Lower bound	Estimate	Upper bound	Result
% of children living in households with less than 50% of the median equivalized disposable household income before housing costs are deducted	10%	11.7%	12.7%	13.7%	Not met
% of children living in households with less than 50% of the median equivalized disposable household income after housing costs are deducted	15%	16.5%	17.7%	18.9%	Not met
% of children living in households that experience material hardship	9%	12.3%	13.4%	14.5%	Not met

Source: Stats NZ

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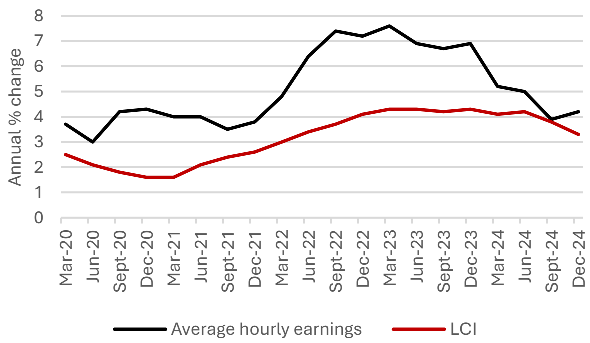
Wages

Despite rising unemployment and weak economic activity, nominal wage growth has remained relatively strong. Like unemployment, wages are a lagging indicator of economic conditions. We expect nominal wage growth will continue to trend down through 2025.

Average ordinary time hourly earnings grew by 4.2% in the year to December 2024, which is up slightly from the previous quarter. Growth was broad based, with average hourly earnings increasing 4.5% in the public sector, to $50.65, and 4% in the private sector, to $40.39. They increased 4.2% for women, to $40.32, and 4.2% for men, to $44.57.

The labour cost index (LCI), which measures the price for a fixed quality and quantity of labour – i.e., how much an employer pays for the same skills and hours of labour each year, rather than the income received by workers – increased 3.3% annually, which is down from the previous quarter. This measure covers all salary and wage rates and includes overtime.

Figure 1: Annual growth in wages and labour costs



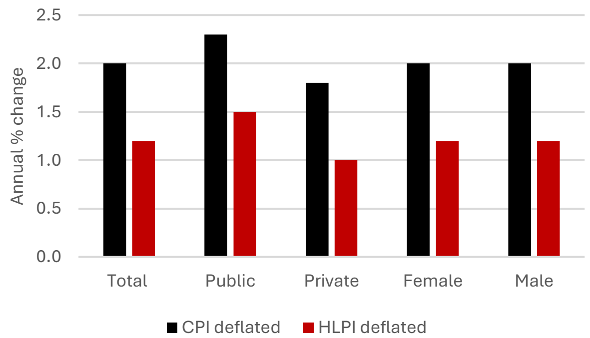
Source: Stats NZ

To calculate real wage growth, we use two measures: (1) nominal wage growth minus inflation as calculated by the consumers price index (CPI); and (2) nominal wage growth minus inflation as calculated by the household living-costs price index (HLPI). The latter measure provides a more accurate picture of changes in the cost of living as it includes interest payment costs, such as on mortgages. Consumer inflation was 2.2% in the year to December 2024, while household living-costs inflation was 3%.

When deflated by CPI, average hourly earnings grew 2% for the year to December 2024 – which is well above the pre-COVID average of real wages growing 1% per annum. When deflated by HLPI, wages grew 1.2%, which is slightly above the pre-COVID average of 1%.

Public sector workers experienced strong real wage growth this past year, of 2.3% when deflated by CPI and 1.5% when deflated by HLPI. This has provided some catch-up for public sector wages, which took the biggest real terms hit during the period of high inflation (discussed further below). When deflated by CPI, private sector wages grew 1.8%; when deflated by HLPI they grew 1%.

Figure 2: Annual real wage growth to Dec 2024



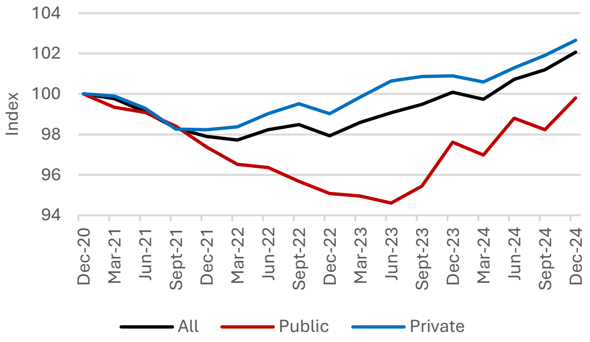
Source: Stats NZ

On average, male and female workers both experienced the same real wage growth of 2% when deflated by CPI and 1.2% when deflated by HLPI.

Figures 3 and 4 show how real wages have fared over the past four years in the public and private sectors. Real wages peaked in December 2020, before falling rapidly due to the unexpected inflation in 2021. On average, public sector wages fell steadily until June 2023, before starting to catch back up. When deflated by CPI, they are still marginally below their 2020 level, as shown in Figure 3. When deflated by HLPI, public sector wages are on average still 3.4% below their 2020 level. In other words, on average public sector workers are receiving a lower real wage than they were four years ago.

Private sector wages did not experience such a sharp decline and began growing again in late-2021. However, growth in real wages has been slower in the private sector since 2023, which likely reflects the weakening of the labour market. The private sector labour market tends to be affected more quickly when economic conditions change, partly because union and collective agreement coverage is comparatively thin in the private sector, and because employers are affected by changing levels of consumer demand. Compared to December 2020, private sector wages deflated by CPI have now grown 2.7%. However, when deflated by HLPI, they have fallen 0.6%.

Figure 3: Real wage index by sector (CPI deflated)

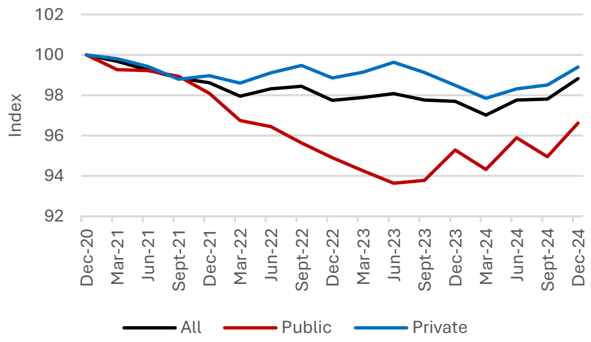


Source: Stats NZ. Dec 2020 = 100

By gender, women have experienced better real wage growth than men over the past four years, though on average continue to receive a lower wage than men. Deflated by CPI, average wages for women have grown 2.9% since December 2020. When deflated by HLPI, however, they have fallen 0.4%. By contrast, when deflated by CPI, average wages for men have only grown 1.4%; when deflated by household living-costs inflation they have fallen 1.8%.

Thus, while the past year has seen strong real wage growth, this is catch-up growth; many workers will still be feeling worse off than they were in 2020.

Figure 4: Real wage index by sector (HLPI deflated)



Source: Stats NZ. Dec 2020 = 100

By industry, average total hourly earnings (which are calculated by dividing total gross earnings by total paid hours) increased 4.3% annually. The largest increases were in information media and telecommunications, up 7.5%; professional, scientific, technical, admin, and support services (a catch-all category), up 6.2%; and healthcare, up 5.9%. As Table 1 shows, most industries that Stats NZ reports on experienced real wage growth over the past year.

Table 2: Annual wage growth to Dec 2024, by industry (average total hourly earnings)

	Nominal	CPI deflated	HLPI deflated
Information media, and telecommunications	7.5%	2.1%	1.3%
Prof, sci, tech, admin, and support services	6.2%	5.3%	4.5%
Health care and social assistance	5.9%	4.0%	3.2%
Transport, postal, and warehousing	5.7%	3.7%	2.9%
Public administration and safety	4.7%	3.5%	2.7%
Construction	4.5%	2.5%	1.7%
Manufacturing	4.2%	2.3%	1.5%
Finance and insurance services	4.2%	2.0%	1.2%
Retail trade	4.0%	2.0%	1.2%
Forestry and mining	3.4%	1.8%	1.0%
Wholesale trade	2.9%	1.2%	0.4%
Rental, hiring, and real estate services	2.9%	0.7%	−0.1%
Electricity, gas, water, and waste services	2.4%	0.7%	−0.1%
Arts, recreation, and other services	2.2%	0.2%	−0.6%
Education and training	0.9%	0.0%	−0.8%
Accommodation and food services	0.2%	−1.3%	−2.1%

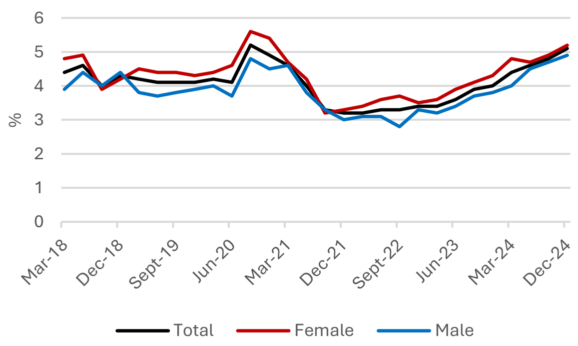
Source: Stats NZ. CPI is consumers price index. HLPI is household living-costs price index.

Employment

Unemployment has continued to increase, up from 4.8% in the September 2024 quarter to 5.1% in the December quarter. It has now risen 1.8 percentage points since the onset of the economic downturn in late-2022. The unemployment rate is well above the average of the past five years, which was 4%. The underutilization rate – which accounts for the unemployed, underemployed, and the potential labour force – rose from 11.6% to 12.1% in the December quarter.

On a seasonally adjusted basis, this means approximately 156,000 people were unemployed in the December 2024 quarter, and a further 130,000 people were underemployed (i.e., wanted more hours than they could get). Compared to the pre-recession numbers in September 2022, this means an estimated additional 60,000 people were unemployed and an estimated additional 31,000 people were underemployed.

Figure 5: Unemployment rate



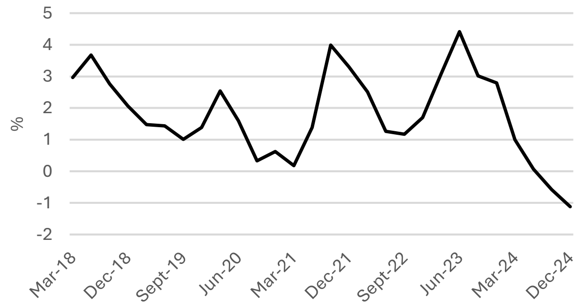
Source: Stats NZ

On a quarterly basis, both the labour force participation and employment rates fell marginally, down to 71% and 67.4% respectively. This indicates that more people are dropping out of the labour market. Compared to the December 2023 quarter, the labour force participation rate had fallen 0.9 percentage points, while the employment rate had fallen 1.6 percentage points.

The female unemployment rate increased from 5% to 5.2% and the male unemployment rate increased from 4.7% to 4.9%. The underutilization rate for female workers also rose, up from 13.1% to 13.8%, while the male underutilization rate rose from 10.3% to 10.6%.

Although starting from a lower rate, male unemployment and underutilization rates have increased faster than the female rates. Compared to the December 2023 quarter, female unemployment has increased 0.9 percentage points and underutilization has increased 0.8 percentage points. Male unemployment has increased 1.2 percentage points and underutilization has increased 2 percentage points.

Figure 6: Annual change in persons employed



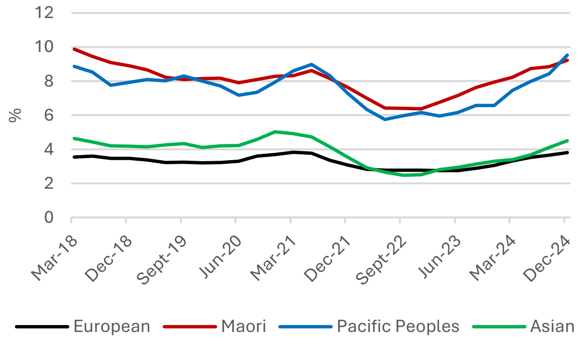
Source: Stats NZ

Stats NZ does not provide seasonally adjusted figures for employment rates by ethnicity, so we use annual average comparisons instead (this helps smooth out unreliable movements in the data):

- For Pākehā, unemployment was estimated to have increased from 3.1% to 3.8% and underutilization from 9.2% to 10.5% for the year to December 2024.
- For Māori, unemployment increased from 8% to 9.2% and underutilization increased from 16.9% to 18.7%.
- For Pasifika, unemployment increased from 6.6% to 9.5% and underutilization increased from 14.2% to 17.7%.
- For Asian workers, unemployment increased from 3.3% to 4.5% and underutilization increased from 8.8% to 11.3%.

Historically, Māori and Pasifika workers have been worst affected during recessions, because they are over-represented in more precarious forms of work. This pattern has continued over the recent downturn. From its pre-recession low, Māori unemployment has increased 2.8 percentage points and Pasifika unemployment has increased 3.5 percentage points. By contrast, Pākehā unemployment has increased 1 percentage point and Asian unemployment has increased 2 percentage points.

Figure 7: Unemployment rate by ethnicity



Source: Stats NZ

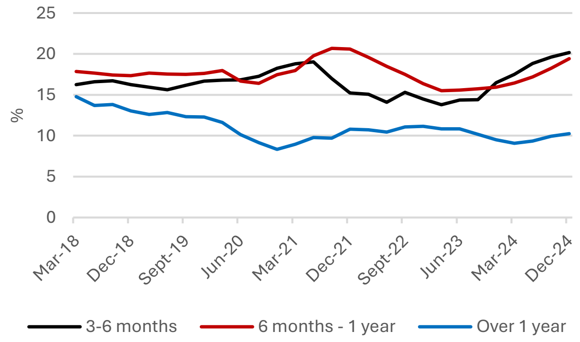
The NEET rate (people aged 15–24 who are not in employment, education, or training) for the year ending December 2024 was 12.8%, which is up 1.1 percentage points from the previous year. In real terms this represents approximately 85,500 young people who are not in employment, education, or training. This is a particularly concerning statistic as these are prime years in which young people should be learning skills that will set them up for employment through their lives. Being disconnected from employment and education at this early stage of adulthood can have lifelong negative impacts on people's employability and earning power.

Compared to the December 2023 quarter, [online job advertisements] fell 27%. They have fallen steadily for over two years now. Falling job adverts were recorded across all industries, all occupation groups, and all skill levels. By region, the largest annual falls in the number of job adverts were recorded in Gisborne/Hawke's Bay, down 67%; Wellington, down 32%; and Auckland, down 30%.

The continued weakening of the labour market should be expected to feed through into slower nominal wage growth over 2025. However, forecasters expect that we may be close to the peak of unemployment. The Reserve Bank, for example, expects unemployment to peak at 5.2% in early 2025, before gradually falling over the next two years. Although this would be a relatively low peak by historical standards (for example, unemployment peaked at 6.6% during the financial crisis of 2008–09 and 11.2% during the recession of 1991–92), it is expected that unemployment will remain elevated for the next several years.

The statistics also show that people are staying unemployed for longer. Compared to December 2023, the percentage of persons unemployed for 3–6 months increased from 16.5% to 20.2%; those unemployed for 6 months to 1 year increased from 15.9% to 19.4%; and those unemployed for a year or more increased from 9.5% to 10.3%. This indicates that people are finding it harder to get back into employment.

Figure 8: % of unemployed by duration of unemployment



Source: Stats NZ. Rolling annual average

In this context, the government should be thinking about how it can support the development of good jobs in sustainable industries, to ensure that the unemployment rate falls as swiftly as possible. We are yet to see the development of such a strategy from the government.

Social welfare

At the end of December 2024, 409,665 people were receiving a main benefit, which is up 4.7% from the previous quarter and 8.2% compared to the previous year. The rising unemployment and underutilisation rates, caused by ongoing economic weakness and a slack labour market, are driving this increase.

Of those receiving a main benefit:

- 120,399 people were receiving Jobseeker Support – Work Ready, up 10% annually.
- 92,922 people were receiving Jobseeker Support – Health Condition or Disability, up 16%.
- 104,469 people were receiving the Supported Living Payment, up 3%.
- 79,296 were receiving Sole Parent Support (SPS), up 4%.

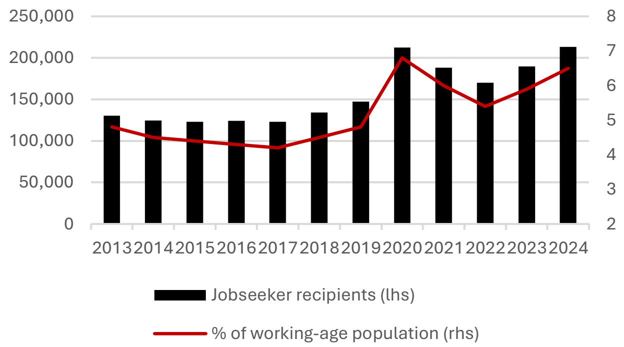
The proportion of the working-age population receiving Jobseeker was 6.5%, which is up 0.6 percentage points from 2023.

Of total Jobseeker recipients, 58% had been receiving the benefit for one year or more. This proportion has remained relatively consistent over the past five years. Many of these long-term welfare recipients may be in work, just at levels of income so low that they still qualify for a benefit.

There were 13,518 benefit sanctions issued in the December quarter – more than double the previous year. Of these sanctions, 67% were for recipients ‘not attending appointments’, 24% were for ‘failing to prepare for work’, and 7.6% were for ‘failing to participate in work’.

There were 553,871 hardship assistance payments worth a total of $173 million. This is down significantly from the previous year.

Figure 9: Jobseeker recipients, Dec quarter



Source: MSD

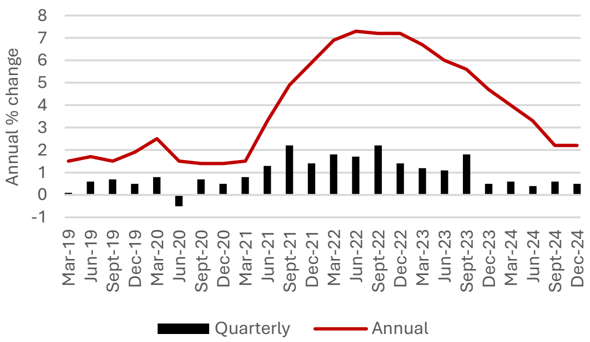
Prices

Consumer inflation

Annual consumer inflation remained at 2.2% in the December quarter. This is close to the Reserve Bank's target of 2%, but a touch higher than had been forecast by the Reserve Bank, Treasury, and most of the commercial banks. Quarterly inflation was 0.5%, down from 0.6% the previous quarter.

Annual consumer inflation in New Zealand is now lower than in most of the wealthy economies around the world. This reflects, in part, the severity of the economic downturn here, but also the fact that inflation in the goods and services we import fell sharply through 2024, as shown in Figure 11. On the latest data, annual inflation was 2.4% in Australia, 1.9% in Canada, 2.5% in the Euro Area, 3% in the United Kingdom, and 3% in the United States.

Figure 10: Quarterly and annual consumer inflation

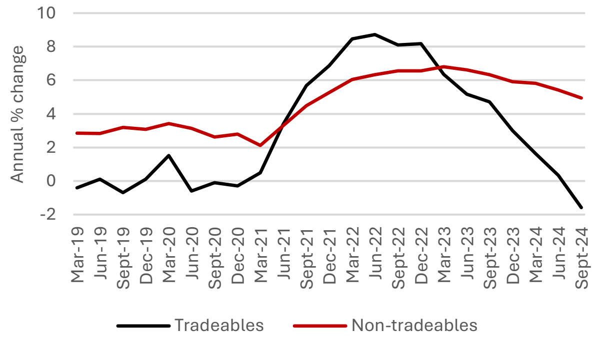


Source: Stats NZ

Annual tradeable inflation (goods and services that are imported or are exposed to international competition) was -1.1% for the year ending December 2024, which is up slightly from -1.6% in the previous quarter. Tradeable inflation tends to feed through to non-tradeable inflation (domestically produced goods and services that do not face foreign competition) over time. Annual non-tradeable inflation continued to fall, coming down from 4.9% to 4.5% for the year ending December 2024. This is well down from the high of 2023, but still remains above the pre-COVID levels.

Quarterly inflation was driven by price increases in essential goods and services such as housing rentals, up 0.8%; household energy, up 0.9%; and insurance, up 1.8%. It was also driven by price increases in more discretionary categories, such as international air transport, up 6.6%; accommodation services (both domestic and international), up 3.4%; second-hand cars, up 4.7%; and games, toys, and hobbies, up 8.5%. These increases were partially offset by falls in the price of vegetables, down 11.5%, and the price of petrol, down 1.3%.

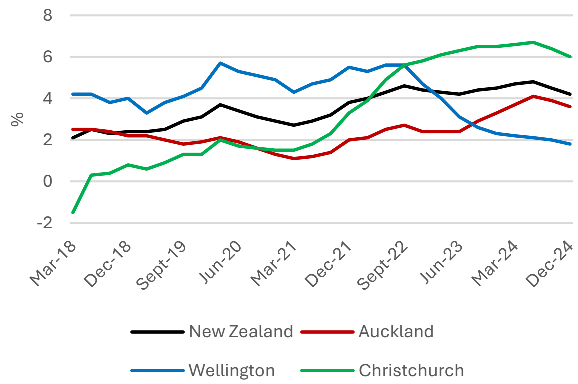
Figure 11: Annual tradeable and non-tradeable inflation



Source: Stats NZ

Annually, the largest contributors to consumer inflation were housing rentals, up 4.2%; local authority rates and payments, up 12.2%; and insurance, up 15.7%. These are all non-discretionary costs, which means that households cannot escape the pain of these rising prices. They are also services that the Reserve Bank has limited ability to influence using the Official Cash Rate. These price increases were partly mitigated by a 18.6% fall in the price of petrol, and a 9.9% fall in the price of vegetables.

Figure 12: Annual housing rental inflation



Source: Stats NZ.

Interestingly, housing rental costs have increased at a significantly faster rate in Canterbury than other major regions, as shown in Figure 12. For the year ending December 2024, rental prices in Canterbury increased 6%, compared to 3.6% in Auckland and just 1.8% in Wellington. This likely reflects the comparatively healthier regional economy in Christchurch, compared to Wellington, which has been affected by the public sector job cuts and the largest fall in house prices in the country.

Table 3 breaks down the rate of inflation for January 2025 for some of the key goods and services that we get monthly price updates on.

Table 3: Monthly inflation indicators, Dec 2024

	previous month	previous year
Food	1.9%	2.3%
Fruit & veg	2.8%	–7.2%
Meat, poultry, fish	1.8%	3.0%
Groceries	3.0%	4.0%
Rent (stock measure)	0.1%	3.6%
Petrol	4.0%	1.2%
Domestic air transport	–1.3%	15.5%
Domestic accommodation	2.8%	–12.1%

Source: Stats NZ

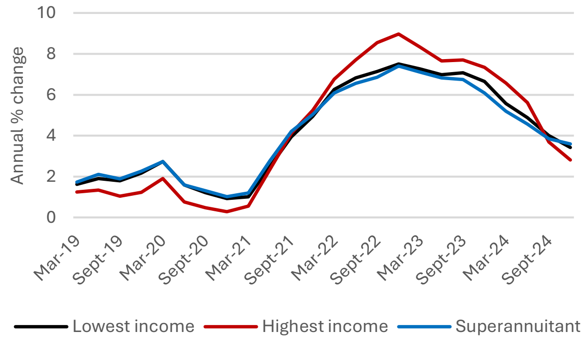
Household living costs

The household living-costs price indexes (HLPI) detail changes in the cost of living for different household groups. The HLPI provides a more accurate picture of the changes in the cost of living than the CPI does because it includes interest payments that households make on debt such as mortgages.

The cost of living for all household groups increased 3% in the year ending December 2024. This is down from 3.8% recorded in the year ending September 2024. This fall in living costs is attributable to both the moderation of consumer inflation and the decline in mortgage rates, as the Reserve Bank has lowered the Official Cash Rate. The quarterly increase in household living costs was 0.4%, which is well down from the 1% increase recorded the previous quarter.

Annually, living costs increased 3.1% for Māori households, 3.3% for beneficiary households, 3.6% for superannuitant households, 3.4% for households in the lowest-income quintile, and 2.8% for households in the highest income quintile.

Figure 13: Household living costs inflation



Source: Stats NZ

This shows a reversion to the historical trend of lower-income households and superannuitants in New Zealand experiencing higher inflation than richer households. This trend briefly inverted from mid-2022 to mid-2024, likely because of rapidly rising interest rates (higher income households will tend to have higher levels of debt and therefore may experience a sharper increase in costs as interest rates rise).

Since 2008, household living costs have increased 59% for superannuitants, 57% for households in the lowest income quintile, 56% for beneficiary households, and 53% for Māori households; they have only increased 47% for households in the highest income quintile.

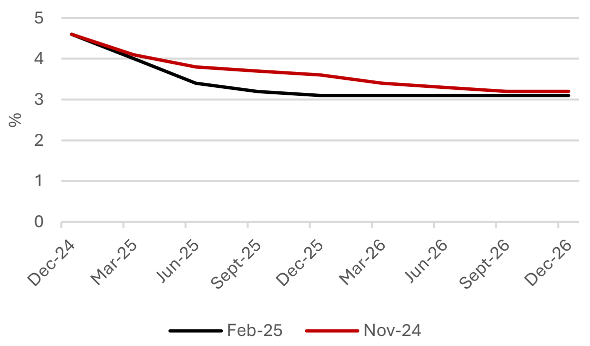
Petrol prices

For the week ending 21 February 2025, MBIE's fuel-price monitoring had regular petrol at $2.69 per litre and diesel at $2.00 per litre. Oil is currently trading around US$70 per barrel on the West Texas Intermediate.

Central bank interest rates

As expected, the Official Cash Rate (OCR) was cut 50 basis points in February, to 3.75%. The Reserve Bank also somewhat surprised commentators with its forecast for further reductions in the OCR this year, potentially to a low of 3%. This is a more aggressive rate cut trajectory than previously forecast by the bank in November last year. Interestingly, the Reserve Bank is also forecasting that inflation will run higher through 2025 than it previously expected. This combination of a lower-than-previously-forecast OCR and higher-than-previously-forecast inflation suggests that the Reserve Bank has now decisively switched focus to supporting an economic recovery – it is confident that the slightly elevated inflation through 2025 will be transitory.

Figure 14: Reserve Bank Official Cash Rate forecast



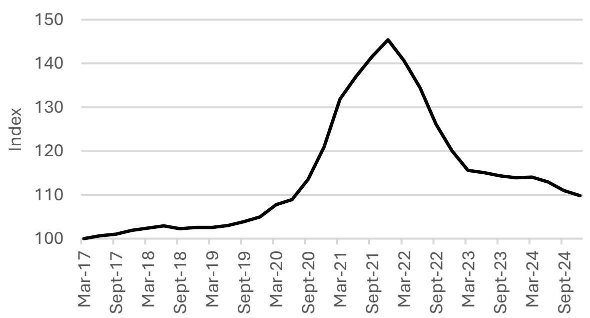
Source: RBNZ

In response to the February cut and the optimistic OCR forecast, the commercial banks have continued to reduce mortgage rates. This will ease the financial pressure on mortgage holders in the near future, the majority of whom are set to refix their mortgages later this year.

Real estate

The housing market remains weak. As of January 2025, the REINZ house price index was down 1.4% from the same time last year, and down 15.7% from its late-2021 peak. As Figure 15 shows, after adjusting for consumer inflation, overall house prices have now fallen back to their June 2020 levels.

Figure 15: CoreLogic house price index, inflation adjusted



Source: CoreLogic; RBNZ

It is expected that the reduction in interest rates will stimulate more activity in the housing market through 2025, with house prices forecast to grow slowly in the second half of that year. It is likely that house price growth will be particularly muted in Wellington, due to the ongoing economic weakness in the region, caused in part by the government's public sector cuts.

Table 4: REINZ house price index, % change, Jan 2025

	3 months	1 year	From peak
National	–0.2%	–1.4%	–15.7%
Auckland	–0.1%	–2.2%	–21.5%
Wellington	–0.7%	–4.4%	–24.6%
Canterbury	–1.5%	0.3%	–5.6%

Source: REINZ

Other economic indicators

Retail trade

Consumer spending lifted in the December 2024 quarter, likely due to the extra cash delivered by interest rate cuts.

Measured in 2010 prices, the total volume of seasonally adjusted sales increased 0.9% from the September quarter. And on an annual basis, the total volume of actual sales (again, measured in 2010 prices) increased 0.2% from the same time one year ago.

On the "core industries" measure, which strips out consumer spending on fuel and motor vehicles and parts, seasonally adjusted sales increased 1.4% from the previous quarter and actual sales increased 0.2% from the previous year.

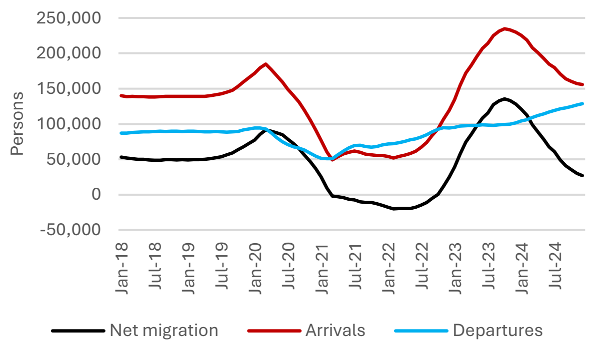
Compared to the same quarter of the previous year, actual retail sales volumes rose in supermarkets and grocery (up 0.4%), specialised food (up 1.2%), department stores (up 0.3%), furniture and houseware (up 2.4%), recreational goods (up 3%), electrical and electronic goods (up 4.2%), accommodation (up 4.1%), food and beverage services (up 0.2%), and motor vehicles and parts (up 1%). Declines in sales volumes were registered for liquor (down 0.9%), non-store and commission-based retailing (down 9.9%), hardware, building, and garden supplies (down 2.3%), clothing and footwear (down 1.1%), pharmaceutical and other store-based retailing (down 2.8%), and fuel (down 0.8%).

Migration

On an annual basis, migrant arrivals have continued to decline, while migrant departures remain elevated, with many New Zealand citizens leaving the country. For the year ending December 2024, there were an estimated 156,000 migrant arrivals (down 32% from the previous year) and an estimated 129,000 departures (up 27% from the previous year). This produced an estimated net migration gain of 27,000 people for the year, which is way down from the net gain of 128,000 the year prior.

All up, an estimated 72,000 New Zealand citizens departed the country in the year to December 2024, while only estimated 25,000 returned, for a net outflow of 47,000 (about the population of New Plymouth). It is likely that the poor economic conditions and rising unemployment in New Zealand have been driving this high net outflow of New Zealand citizens.

Figure 16: Annual migration



Source: Stats NZ

Merchandise trade

In the year to January 2025, the value of goods exports was up compared to the previous year, while the value of imports was down. Total good exports were valued at $72.2 billion, up $4 billion from the previous year. Total goods imports were valued at $79.4 billion, down $1.3 billion from the previous year. This produced an estimated annual goods trade deficit of $7.2 billion. This is down significantly from the deficit of $12.6 billion recorded in the year to January 2024.

Table 5: Top goods exports by value, year ending Jan 2025

	$ billion	Annual % change
Milk powder, butter, cheese	20.9	8.3%
Meat & edible offal	8.8	1.3%
Logs, wood, wood articles	4.8	2.0%
Fruit	4.8	36.4%
Preparations of milk, cereals, flour	2.8	12.1%

Table 6: Top goods imports by value, year ending Jan 2025

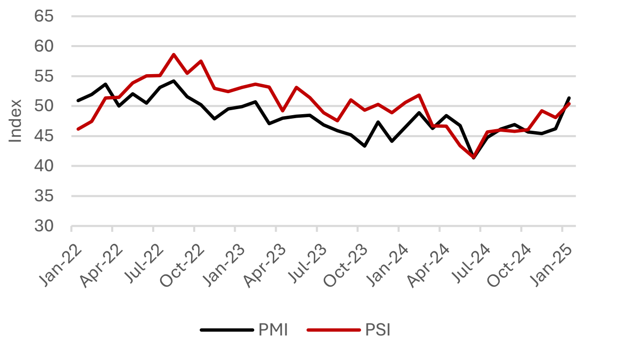
	$ billion	Annual % change
Mechanical machinery & equip	11.2	1.2%
Petroleum & products	10.4	–4.9%
Vehicles, parts, accessories	8.6	–22.8%
Electrical machinery & equip	7.2	–1.3%
Textiles & textile articles	3.1	1.5%

Source: Stats NZ

Performance indexes

The BNZ–BusinessNZ performance of [manufacturing index] (PMI) and performance of [services index] (PSI) for January 2025 both registered expansion. A figure above 50 indicates that activity is generally expanding, while a figure under 50 indicates it is generally declining.

Figure 17: BNZ–BusinessNZ PMI and PSI



Source: BusinessNZ

The manufacturing index increased 5.2 points to 51.4, making January 2025 the first month in which the sector has expanded for almost two years. The key sub-index of production increased 8 points to 50.9, and the employment sub-index lifted 2.5 points to 50.2.

The services index increased 2.3 points to 50.4, putting it in expansion for the first time since February 2024. The key sun-index of activity/sales increased 7.5 points to 54 while the employment sub-index fell marginally to 47.1. Overall, these indexes indicates that consumer demand has picked up slightly.

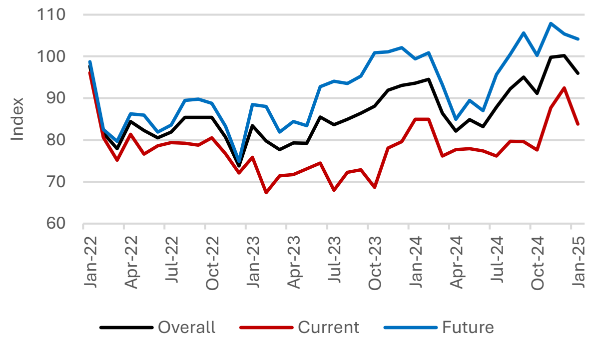
Consumer and business confidence

Somewhat contrasting with the PMI and PSI, the ANZ–Roy Morgan [Consumer Confidence Index] fell back into negative territory in January, from 100.2 to 96. A score above 100 on the index demonstrates that consumers have confidence in current and future economic conditions; less than 100, and they are pessimistic.

Confidence in current economic conditions fell 9 points to 83.8, while confidence in future economic conditions eased back 1 point to 104.2. A net 16% of those surveyed think it is a bad time to buy a major household item – a question that is seen as a leading indicator of consumer confidence and future economic activity. This is significantly worse than the December survey.

Business confidence remains strong, though fell back 8 points in January to +54, according to ANZ's [Business Outlook Survey]. Confidence is very strong across the five industry groupings reported on (retail, manufacturing, agriculture, construction, and services), as is the "own activity" outlook. However, reflecting the recession, "employment vs same month one year ago" is negative across all industry groupings except for manufacturing.

Figure 18: ANZ–Roy Morgan Consumer Confidence Index



Source: ANZ

Government accounts

For the six months ending December 2024, the government accounts were more or less as forecast at the Half-Year Economic and Fiscal Update (HYEFU), as shown in Table 7. Core Crown tax revenue was a touch higher than forecast, with GST revenue slightly up. Core Crown expenses were a touch lower than forecast, partly due to lower-than-expected expenditure in housing and community development and transport and communication.

Compared to the same time last year, the fiscal position has worsened. Core Crown tax revenue was $0.7 billion (1.2%) higher than in December 2023, mostly due to a 2.6% increase in income tax revenue. The Treasury notes, however, that tax cuts that took effect on 31 July 2024 "are starting to have a negative effect" on income tax revenue. This increase was partly offset by a 2.1% fall in GST revenue – which reflects the recessionary conditions – and a 3.8% fall in corporate tax revenue.

Core Crown expenses were $0.9 billion (1.3%) higher than the previous year. This was driven by an increase of $1.6 billion in social security and welfare expenses, with rising superannuation and unemployment benefit costs. Health expenditure rose $0.5 billion and education expenditure rose $0.3 billion.

The OBEGAL deficit was $1.8 billion larger than the same period last year. Net core Crown debt was $11.2 billion higher, and as a share of GDP it increased from 42.8% to 44.1%.

Table 7: Interim financial statements of government for the six months ended 31 Dec 2024

	Dec 2024 actual	2024 HYEFU forecast	Dec 2023 actual
Core Crown tax revenue ($bn)	59.9	59.7	59.2
Core Crown revenue ($bn)	66.6	66.3	66.0
Core Crown expenses ($bn)	68.9	69.3	68.0
OBEGAL ($bn)	–4.6	–4.9	–2.7
Net core Crown debt (% of GDP)	44.1%	44.2%	42.8%

Source: Treasury. HYEFU = Half-Year Economic and Fiscal Update (published December 2024)