NZCTU
Te Kauae Kaimahi

Economic Bulletin

March 2025

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Welcome to the March 2025 Economic Bulletin. The feature article examines what public private partnerships (PPPs) are. PPPs have been a hot topic recently, with the coalition government signalling it wants to use them to deliver infrastructure. However, experience with PPPs, both here and overseas, indicates we should be wary. Not only are good use cases for PPPs extremely rare, PPPs often put key public services – like hospitals and schools – at the mercy of private providers.

In our regular data updates, we discuss the GDP data for the December 2024 quarter and examine the latest statistics on prices, trade, migration, and consumer and business confidence, and the government accounts.

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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%	2.5%
Dec 2025	2.5%	2.1%	2.4%

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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Public private partnerships: A bluffer's guide

Public private partnerships (PPPs) have been in the news quite a bit recently. The coalition government's "International Investor Summit" was held in March, and promises were made about a new prison and a new road, and the Minister of Finance assured voters "we want to do more".

But why would a country want to use PPPs and when do they make sense? This is an incredibly brief guide – for those of you wishing to go further, start here for the New Zealand Treasury's approach to PPPs.

What is a PPP?

The PPP literature is huge. But one thing is clear – there is no universal definition of a PPP. The New Zealand Auditor General says, "PPPs are a type of partnering arrangement between the public and private sectors". The NSW Treasury says they are "a long-term arrangement between the public and private sector for the development, delivery, operations, maintenance, and financing of service enabling public infrastructure". The broadness of these definitions shows you that PPPs are essentially whatever you want them to be.

PPPs aren't new – we have just labelled them as new. Governments have been using private actors to do things for a very long time. Arguably, the East India Company, founded in back in 1600, was a kind of PPP. But in their modern incarnation, PPPs are a form of agreement where the private sector and the public sector negotiate the purchase of an asset or an outcome. The UK is probably the first place in which they were systematically adopted. They were turbocharged as a policy idea under the Blair government with the creation of Partnerships UK.

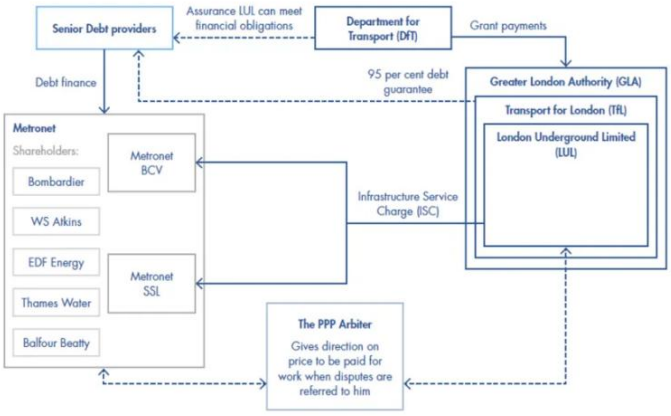
Most PPPs involve the use of private money, expertise, and management in the building of an asset for the public sector. Older versions of PPPs were built around the idea of three types of company:

- Topco: The special purpose vehicle or entity responsible for the management of the contract and negotiations around any changes.
- Finco: The company responsible for financing the project. The finco can use private equity or sell bonds to finance the project.
- Delco or Opco: The company responsible for delivering or operating the project.

In this set up, the government had a legal relationship with the Topco. The Topco was responsible for making sure everything was delivered with the other two parts. Newer versions of PPPs have brought these different parts into one company.

Extremely complicated rules are used to justify who does what, when, and why. This complexity is often the downfall of PPPs. The London Underground Line PPP fell apart, costing UK taxpayers at least £2.5 billion, and possibly as much as £25 billion. The diagram below shows a simplified version of the responsibilities in that project.

Figure 1: Responsibilities in London Underground Lines PPP



Source: Porcher, 2022

So, in essence, like much else in government, PPPs are usually little more than a very complicated contract. A party (i.e., a private firm or consortium) agrees to do a thing for a price. The counterparty (i.e., the government) agrees to pay. Stuff hopefully gets delivered. That's normally where the complications start.

Types of PPP

The different types of PPP vary widely. Some examples are given below:

Build – Own – Operate – Transfer (BOOT)

The private sector builds and owns a facility for the duration of a contract, with the goal of recovering costs and profit during the "operate" phase. At the end of the contract, the facility is handed back to the government. This model is often used for the development of schools and hospitals.

Build – Own – Operate (BOO)

This is a similar structure to BOOT, but the facility is not transferred to the public sector. This model is often used where the asset will be end of life by the end of the contract. Examples include emergency power equipment, water pumps, and mobile telephony.

Design – Build – Finance (DBF)

The private sector constructs an asset and finances the capital cost during the construction period. The government pays a known price, but the financial risk associated with construction is held by the private sector or shared. Examples here include new office buildings or accommodation.

Design – Build – Finance – Operate (DBFO)
Design – Build – Finance – Maintain (DBFM)
Design – Build – Finance – Maintain – Operate (DBMFO)

Similar to the BOOT model, DBFO (and variations) are used in the UK and have been used here in NZ. The private sector designs, builds, finances, and operates an asset, then leases it back to the government, typically over a 25–30-year period. The government can (if it chooses) sign an "option to purchase" contract that allows it to purchase the asset for an agreed price at the end of the contract period.

Design – Build – Maintain – Finance (DBMF)

This model is very similar to DBFM. The private provider creates the asset based on specifications from the government body and leases it back to them. The main difference between this and the models above is that operations are the sole responsibility of the public sector. This is most often used for prison projects.

Operation & Maintenance (O&M)

In an O&M contract, a private actor operates and maintains the asset for the public partner, usually to an agreed level with specified obligations. Service level agreements control payments and maintenance.

Why might governments want to use a PPP?

Over the past 40 years (if not longer) governments have been told that they aren't very good at doing stuff. As President Reagan said "the nine most terrifying words in the English language are: 'I'm from the Government, and I'm here to help'". Since the creation of New Public Management, encapsulated by the idea that the role of the state was to "steer and not row", governments have been trying to do less and bring in others to do more. Privatisation, outsourcing, contracting – PPPs are just a part of that drift away from the direct provision of goods and services by government.

There are generally three reasons given by governments why PPPs are desirable:

1. Risk transfer: Government projects, especially building projects, often run over budget or timetable. PPPs seek to dispense with this risk by making it someone else's problem (i.e., the private firm or consortium holding the contract). Governments therefore theoretically have greater certainty of cost and timetable.
2. Private sector finance: It's always better to use other people's money rather than your own. If private cash is being put up for an infrastructure project, that means the government can use public funds elsewhere.
3. Innovation: The private sector may have a more efficient way of doing something than the government. That means the productivity of each dollar of investment improves. It might also mean that you get a better product than you would otherwise have got for the money.

In New Zealand, the government is focused on the first and last of these benefits. The Treasury notes that, "The purpose of PPPs is not to provide a financing tool – they are a project delivery model which utilises private capital for the incentives this provides".

PPPs may also provide value for projects where the government has absolutely no experience or practice. Tunnelling is a relevant example in NZ. It's incredibly capital-intensive and requires very specialised kit and expertise that may not be readily available. The government could try to do it, but would bear a lot of risk; alternatively, it could get a private provider in to do the job (however, because the private provider knows a lot more than the government does in this area, the government might get fleeced).

What are the downsides?

There are many, many, many potential downsides to using PPPs. Three of the most obvious are:

1. Cost: Using private money is almost always more expensive than using public money. This is because the government can almost always borrow at a lower rate than a private firm or consortium can. Currently, a 10-year NZ Treasury bond has an annual interest rate of around 4.7%. By contrast, 10-year corporate bonds have an annual interest rate of about 8%.
2. Complexity: Contracts for PPPs must cover every eventuality. Even then, they fall apart at times (hello Transmission Gully!). The more complex something is, the longer the contract, the more expensive it gets to manage, and the more lawyers are needed. That all adds huge expense to what is already an expensive process. PPPs are supposed to encourage risk transfer, but instead what you can get is risk ignorance: no one actually knows where real risk lies until the parties to the contract end up in court.
3. Control: Projects can change as the context changes. PPPs hate change, as it is extremely expensive to renegotiate the contract. For example, PPPs that have been used to build hospitals overseas have had controls for things like bed occupancy rates. But what happens if you need to have more or less of a service – such as in the case of a pandemic? The more control you want, the higher the cost of the PPP upfront.

Politically, the biggest problem that faces decision-makers is that while "risk transfer" might be real on paper, it's not real to the public. If a hospital or school isn't built on time, the government might technically be able to blame the PPP contractor. Usually, though, the public doesn't care – politically, the government is going to get held to account regardless of who is responsible on paper. This is especially the case if the PPP contractor has gone bust.

Additionally, there is almost always an inherent conflict within PPPs. Developers, not unreasonably, want a profit, and they will seek any legal way they can to secure that. Governments generally want outcomes – better health or education, for example. Building a very cheap hospital, that also helps to deliver great healthcare, is almost impossible – the incentives are all in the wrong place. At Edinburgh Hospital surgeons famously had to undertake heart surgery by headlamp after the PPP provider cut off the electricity.

Finally, the problem of control is not just about managing risk. If you have several PPP projects, then each one will have a performance management framework. Bonus or incentive payments may be a function of these frameworks. Each one will be bespoke to the project. Suddenly, the government doesn't have enough people to manage contracts, which is a very specialist skill. (These are the very "back office" people that the coalition parties have spent the past two years demonising.)

When should PPPs be used?

In practice, PPPs are seldom the best tool for the job. A sound use-case for a PPP would need to check off the following criteria:

- Be cheaper than the cost of government borrowing.
- Deliver innovation or benefits that cannot be reasonably delivered by the public sector.

- Work towards the government's policy goals, rather than towards the financial goals of the private firm or consortium.
- Ensure genuine risk transfer for project delivery – with public information about why and how risk transfer has occurred.
- Not further diminish the capacity of the state to deliver assets or services in the future.

Just the first of these bullets alone is enough to stop most projects. That was also the view of the Treasury in 2006, which said of PPPs:

- There are other ways of obtaining private sector finance without having to enter into a PPP.
- Most of the advantages of private sector construction and management can also be obtained from conventional procurement methods (under which the project is financed by the government, and construction and operation are contracted out separately).
- The advantages of PPPs must be weighed against the contractual complexities and rigidities they entail. These are avoided by the periodic competitive re-tendering that is possible under conventional procurement.

Conclusion

When someone is trying to tell you that they have a great deal, it just involves cubic metres of paperwork, corralling armies of lawyers, and understanding diagrams that look like nuclear submarine wiring specifications, you would be right to be suspicious. There can be good use-cases for PPPs at the margins, but it is very rare.

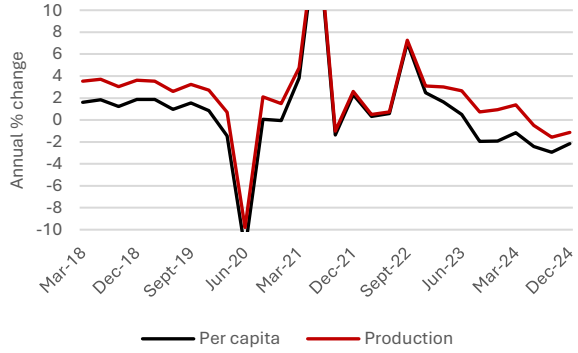
We should also pause for a second and ask ourselves a more fundamental question: do we really want key public services to be at the mercy of private providers? Do we want to rent, for however short a period, a hospital that an entire city might depend on? Do we want the maintenance decisions for our children's school to be a function of decisions made by people you will never see, and over whom you have no democratic control? These are important questions that need to be asked as the government looks to rev up its use of PPPs.

Economic growth

After falling a whopping 1.1% in both the June and September 2024 quarters, the New Zealand economy was estimated to have grown by 0.7% in the December 2024 quarter. It was also estimated the economy expanded 0.4% on a per capita basis, ending two years of non-stop contraction on that measure.

Forecasters expect moderate growth through the rest of the year and into 2026. However, while the economy is growing again, as shown in Figure 3 it is still smaller than its pre-recession peak; indeed, on the per capita measure it is about the same level it was in late-2019.

Figure 2: Annual GDP growth rate



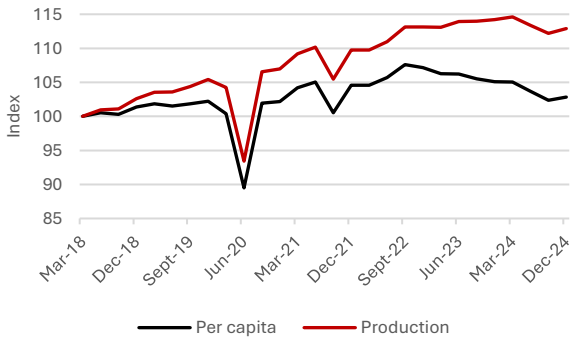
Source: Stats NZ

Additionally, unemployment is expected to continue to increase, at least until the middle of the year. Unemployment is a "lagging indicator", meaning that changes in economic conditions (both on the up and the down) tend to take a while to feed through into the unemployment rate.

On a quarterly basis, the services sector (which makes up the bulk of the economy) was estimated to have grown 0.8%, the primary sector was estimated to have grown 1.1%, and the goods-producing sector was estimated to have contracted 0.8%.

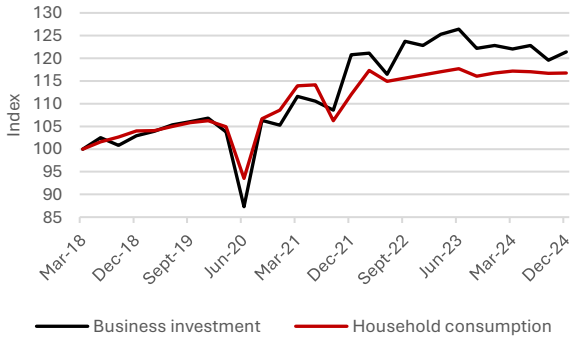
Annually, the services sector was estimated to have grown by 0.5%, with performance mixed across the different industries: wholesale trade, retail trade and accommodation, and business services all contracted significantly, while strong growth was posted in rental, hiring, and real estate and health care and social assistance. The primary sector was estimated to have grown 2.2%, with this led by strong growth in agriculture, forestry, and fishing (by contrast, the highly volatile mining industry contracted 10.3%). Finally, the goods-producing sector was estimated to have contracted by 3.9% on an annual basis, with manufacturing shrinking 1.8% and construction shrinking 7.3%. A full breakdown of the quarterly and annual movements by industry is provided in Table 1 overleaf.

Figure 3: GDP index



Source: Stats NZ. 100 = Sep 2022

Figure 4: GDP expenditure index, selected measures



Source: Stats NZ. 100 = March 2018

Expenditure on GDP increased 0.8% compared to the September quarter. After falling for two consecutive quarters, household consumption was estimated to have increased 0.1%, driven by an increase in expenditure on durable goods. Non-resident expenditure in New Zealand increased significantly, up 10% for the quarter. Central government expenditure increased 1.8%.

Rounding out the picture, business investment increased 1.5%, driven by a 5.6% increase in plant, machinery, and equipment investment and a 4.5% increase in intangible fixed assets investment.

Table 1: GDP by industry (production measure)

	Quarterly change	Annual average change
Agriculture, forestry, and fishing	1.4%	4.4%
Mining	–1.1%	–10.3%
Manufacturing	0.3%	–1.8%
Electricity, gas, water, and waste services	2.1%	–0.9%
Construction	–3.1%	–7.3%
Wholesale trade	0.2%	–4.1%
Retail trade and accommodation	1.9%	–1.8%
Transport, postal, and warehousing	2.4%	–0.5%
Information media and telecommunications	–3.0%	–1.3%
Financial and insurance services	0.5%	1.2%
Rental, hiring, and real estate services	1.1%	3.8%
Business services	–0.2%	–2.1%
Public administration and safety	–0.5%	0.4%
Education and training	0.1%	1.9%
Health care and social assistance	1.9%	3.1%
Arts, recreation, and other services	1.9%	–0.2%

Source: Stats NZ.

Prices

Monthly inflation indicators

Table 2 breaks down the rate of inflation for February 2025 for some of the key goods and services that we get monthly price updates on. Compared to February 2024, food prices have risen broadly in line with overall consumer inflation, while petrol and domestic accommodation prices have fallen. Statistics NZ was unable to provide the estimates of rental price inflation due to incomplete data.

Table 2: Monthly inflation indicators, Dec 2024

	previous month	previous year
Food	–0.5%	2.4%
Fruit & veg	–3.6%	–6.2%
Meat, poultry, fish	0.6%	4.1%
Groceries	–0.2%	4.3%
Rent (stock measure)	n/a	n/a
Petrol	–0.2%	–3.0%
Domestic air transport	–3.6%	3.7%
Domestic accommodation	–3.0%	–14.5%

Source: Stats NZ

Petrol prices

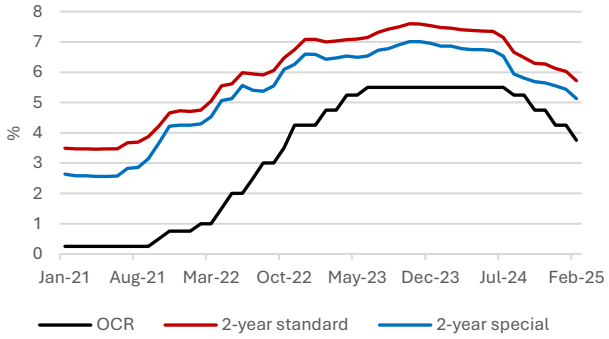
For the week ending 21 March 2025, MBIE's fuel-price monitoring had regular petrol at $2.67 per litre and diesel at $2.00 per litre. Oil is currently trading around US$70 per barrel on the West Texas Intermediate.

Central bank interest rates

The Official Cash Rate (OCR) remains at 3.75%. It is expected that further cuts will be made in the first half of the year. Currently, forecasters are currently expecting it to bottom out between 3–3.25%, but this would be at risk if inflation creeps higher again. The Reserve Bank will announce its next OCR decision on 9 April.

The commercial banks have further reduced mortgage rates over the last month. This should ease the financial pressure on mortgage holders, the majority of whom are set to refix their mortgages later this year.

Figure 5: Mortgage rates and OCR



Source: RBNZ

Real estate

The housing market remains weak, though the monthly indicators suggest activity is picking up in most parts of the country. As of February 2025, the REINZ house price index was up 1.4% from the previous month, but down 1.2% from the same time last year, and down 14.5% from its late-2021 peak. Auckland and Wellington have experienced the largest declines in house prices over the past two years, falling 20.5% and 23% respectively. By comparison, in Canterbury house prices have only fallen 3% from their late-2021 peak, while Southland house prices have hit a new high.

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 the year. It is possible that house price growth will be more muted in Wellington, due to the ongoing economic weakness in the region, caused in part by the government's public sector cuts.

Table 3: REINZ house price index, % change, Feb 2025

	3 months	1 year	From peak
National	0.5%	–1.2%	–14.5%
Auckland	0.6%	–2.3%	–20.5%
Wellington	0.9%	–3.1%	–23.0%
Canterbury	0.8%	0.9%	–3.0%

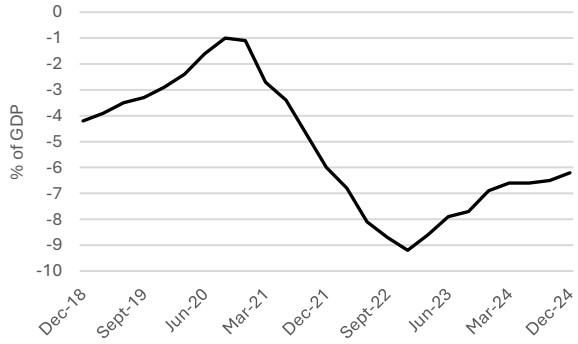
Source: REINZ

Other economic indicators

Balance of payments

In the December 2024 quarter, the seasonally adjusted current account deficit fell from $6.4 billion to $5.9 billion. The current account deficit for the year ended December 2024 was estimated to be $26.4 billion, or 6.2% of GDP. This is down compared to the year ending December 2023, when the current account deficit was 6.5% of GDP.

Figure 6: Current account balance



Source: Stats NZ

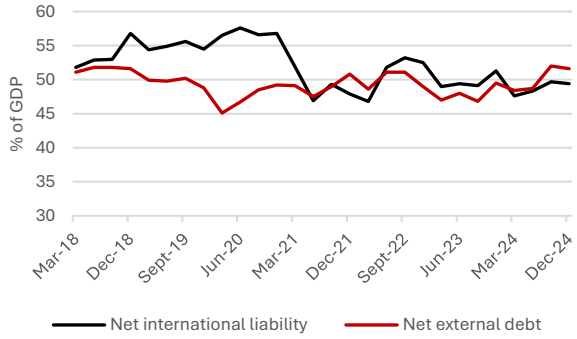
On an annual basis goods imports exceeded goods exports by $8.6 billion (down $3.4 billion from the previous year); services imports exceeded services exports by $1.6 billion (down $1 billion the previous year); and primary income outflow exceeded primary income inflow by $15.1 billion (up $1.4 billion from the previous year).

These deficits show that the total cost of imports into New Zealand exceeds the total earnings from New Zealand exports, and that more profits, interest payments, and dividends ("primary income") are flowing out of the country to overseas investors than New Zealand residents are earning from their foreign investments.

For the year ended December 2024, New Zealand's net international investment liability was –$210.7 billion, or 49.4% of GDP (this ratio has been broadly stable for the past three years). This position shows the value of financial claims held by New Zealand residents on non-residents against the financial liabilities of New Zealand residents to non-residents.

New Zealand's net external debt position was –$220.4 billion, or 51.6% of GDP (again, this ratio has been broadly stable in recent years). This means that New Zealand is a net debtor to the rest of the world. Over half of this deficit is accounted for by the commercial banks, who collectively recorded a net debt liability of $127 billion to the rest of the world (up $8.8 billion since December 2023). General government's net debt liability was $78 billion (up $25 billion from the previous year), while the Reserve Bank recorded a net asset position of $33.3 billion (up $19.4 billion from the previous quarter).

Figure 7: Net international liability and external debt



Source: Stats NZ

Merchandise trade

In the year to February 2025, the value of goods exports was up compared to the previous year, while the value of imports was down – reflecting weak consumer demand in New Zealand.

Total good exports were valued at $73 billion, up $4.1 billion from the previous year. Total goods imports were valued at $79.5 billion, down $1.4 billion from the previous year.

This produced an estimated annual goods trade deficit of $6.5 billion. This is down significantly from the deficit of $12.1 billion recorded in the year to February 2024.

Table 4: Top goods exports by value, year ending Feb 2025

	$ billion	Annual % change
Milk powder, butter, cheese	21.3	8.8%
Meat & edible offal	9.0	2.7%
Fruit	4.8	37.8%
Logs, wood, wood articles	4.8	0.0%
Preparations of milk, cereals, flour	2.9	18.5%

Table 5: Top goods imports by value, year ending Feb 2025

	$ billion	Annual % change
Mechanical machinery & equip	11.3	3.6%
Petroleum & products	10.4	–6.4%
Vehicles, parts, accessories	8.5	–23.9%
Electrical machinery & equip	7.1	–2.2%
Textiles & textile articles	3.2	0.8%

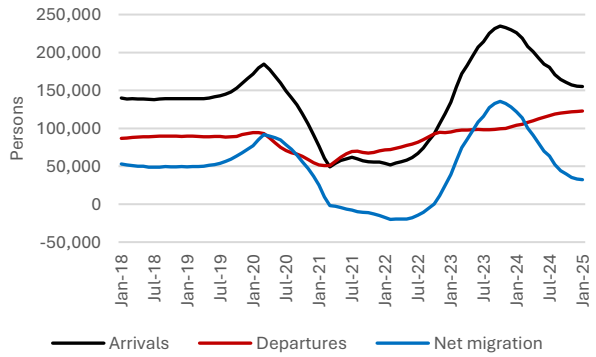
Source: Stats NZ

Migration

For the year ending January 2025, there were an estimated 155,300 migrant arrivals (down 31% from the previous year) and an estimated 122,800 departures (up 18% from the previous year). This produced an estimated net migration gain of 35,500 people for the year, way down from the net gain of 121,800 the year prior.

New Zealand citizens continue to leave the country in high numbers, reflecting the weak economic conditions here. All up, an estimated 69,200 New Zealand citizens departed the country in the year to January 2025, while only estimated 25,000 returned, for a net outflow of 44,200 (about the population of New Plymouth).

Figure 8: Annual migration

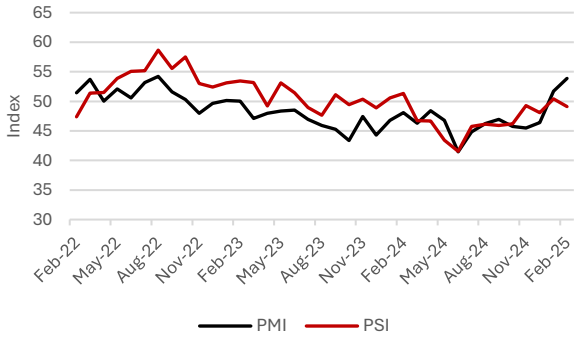


Source: Stats NZ

Performance indexes

The BNZ–BusinessNZ performance of manufacturing index (PMI) registered expansion while the performance of services index (PSI) registered contraction in February 2025. A figure above 50 indicates that activity is generally expanding, while a figure under 50 indicates it is generally declining.

Figure 9: BNZ–BusinessNZ PMI and PSI



Source: BusinessNZ

The manufacturing index continued to show a recovery of activity in the sector, increasing 2.2 points to 53.9, which is its highest value since August 2022. The key sub-index of production lifted 1 point to 52.4, and the employment sub-index lifted 3 points to 54.

The services index, on the other hand, fell back into contraction after registering a weak expansion in January. The index fell 1.3 points to 49.1, with the key sub-index of activity/sales falling 4.6 points to 49.2 and the employment sub-index lifting 1.5 points to 48.9.

Confidence surveys

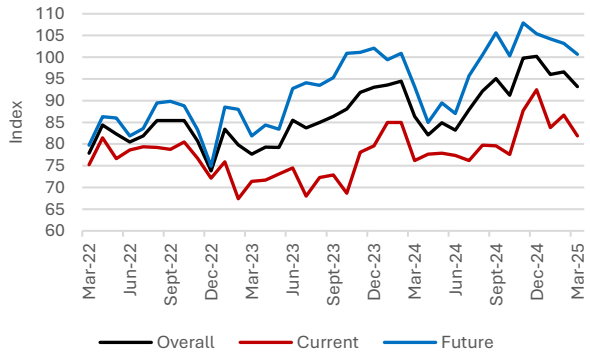
Despite the Reserve Bank's rate cuts, and chatter about a return to economic growth, consumer confidence remains very low. The ANZ–Roy Morgan Consumer Confidence Index fell a further 4 points in March to 93.2. A score above 100 on the index demonstrates that consumers have confidence in current and future economic conditions; less than 100, and they are pessimistic.

Confidence in current economic conditions fell 5 points to 81.9, while confidence in future economic conditions also eased back, down 2.5 points to 100.7. 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 measure has been steady for the past three months.

Business confidence remains strong. It rose 4 points in February to +58 and then held steady in March, according to ANZ's Business Outlook Survey. Confidence is strong across all five industry groupings reported on (retail, manufacturing, agriculture, construction, and services), as is the "own activity" outlook. However, in terms of activity compared to the same time last year, the picture is mixed. Retail, manufacturing, and construction all reported that activity was down; in contrast, activity compared to the same time last year was up marginally in services at +2.7, and significantly in agriculture at +34.8. Similarly, "employment vs same month one year ago" was negative across all industry groupings except agriculture, which reported a marginal increase.

Figure 10: ANZ–Roy Morgan Consumer Confidence Index



Source: ANZ

Workers' confidence in the jobs market remains historically low. In the March 2025 quarter, the Westpac McDermott Miller Employment Confidence Index fell 3.3 points to 88.3. A net 19% of workers surveyed responded they thought jobs would be "harder to get" one year from now, while a net 7% felt they would have less job security over the coming year. This data reflects the weak state of the labour market, which we covered in last month's Bulletin.

Government accounts

For the seven months ending January 2025, the government accounts were a touch stronger than forecast at the Half-Year Economic and Fiscal Update (HYEFU). Core Crown tax revenue was 0.9% higher than forecast, mostly due to stronger-than-expected GST revenue. Core Crown expenses, meanwhile, were 0.7% lower than forecast, due to a wide range of minor variances in expected expenditure, the most notable of which were in housing and community development and transport and communication. This produced a lower-than-forecast OBEGAL deficit, as shown in Table 6.

Compared to the same time last year, however, the fiscal position has worsened. Core Crown tax revenue was $1.2 billion (1.7%) higher than in January 2024. This was driven by higher income tax revenue and "other individuals tax revenue", which was partially offset by lower corporate tax revenue.

Core Crown expenses were $1.6 billion (2%) higher than the previous year. This was driven by an increase of $1.9 billion in social security and welfare expenses, driven by rising superannuation and unemployment benefit costs.

The OBEGAL deficit was $1.3 billion larger than the same period last year. Net core Crown debt was $9.8 billion higher, and as a share of GDP it increased from 41.9% to 42.8%.

Table 6: Interim financial statements of government for the seven months ended 31 Jan 2025

	Jan 2025 actual	HYEFU forecast	Jan 2025 actual
Core Crown tax revenue ($bn)	70.2	69.6	69.0
Core Crown revenue ($bn)	77.8	77.1	76.8
Core Crown expenses ($bn)	80.1	80.7	78.6
OBEGAL ($bn)	–5.0	–6.2	–2.6
OBEGAL excluding ACC ($bn)	–3.7	–5.0	–3.7
Net core Crown debt (% of GDP)	42.8%	42.8%	41.9%

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