

# **Economic Bulletin**

# April/May 2025





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Welcome to the April/May 2025 Economic Bulletin. The Minister of Finance has made it clear Budget 2025 will bring further cuts to public investment. She has chopped the operating allowance almost in half, said most government departments will not receive any additional funding, and signalled that numerous government programmes are to be axed, totalling "billions of dollars" of cuts. The Minister argues this is necessary to reduce the nation's public debt – which she suggests has reached a dangerously high level. In our feature article, we examine why this claim doesn't stack up.

In our regular updates, we cover the quarterly data releases on wages, employment, social welfare, and consumer inflation. We also provide the regular monthly analysis of migration, performance indexes, consumer and business confidence, and the government accounts.

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#### Key data for trade unionists

#### Economic indicators – March quarter 2025

Consumer price inflation	Household living costs inflation	Average hourly wage growth	Unemployment rate	Official cash rate
2.6%	n.a.	<b>4.5</b> <sup>%</sup>	5.1 <sup>%</sup>	3.5%

#### Annual wage growth - March quarter 2025

	Nominal	Real (consumer inflation)	Real (h.h. living costs)
All sectors – average ordinary time hourly wages	4.5%	1.9%	n.a.
Public sector	<b>6.6</b> <sup>%</sup>	4.0%	n.a.
Private sector	3.8%	1.2%	n.a.
Female	4.6%	2.0%	n.a.
Male	4.5%	1.9%	n.a.

Source: Stats NZ. Real (consumer inflation) is deflated by consumer inflation. Real (h.h. living costs) is deflated by household living-costs inflation. This measure includes interest payment costs, so provides a fuller picture of the change in the cost of living compared to consumer inflation. The March 2025 quarter household living-costs inflation report was cancelled.

#### Annual consumer inflation forecasts

	Reserve Bank	Treasury	Average
Jun 2025	2.4%	1.8%	2.4%
Sep 2025	2.7%	2.1%	2.6%
Dec 2025	2.5%	2.1%	2.5%
Mar 2026	2.2%	2.1%	2.2%

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



# The red herring at Budget 2025

The Minister of Finance has <u>made it clear</u> Budget 2025 will bring further cuts to public investment. She has chopped the operating allowance (the new funding the government allocates itself each year) almost in half, to \$1.3 billion. With a few exceptions, government departments will not receive any additional funding. And numerous government programmes are to be axed, totalling "billions of dollars" of cuts. Pay equity claims have been announced as an early casualty: all outstanding claims have been scrapped, review clauses in settled claims have been voided, and the government has made it much harder to lodge and prove new claims.

The justification? Our government debt, according to the Minister of Finance, is too high. Spending cuts are therefore needed to reduce debt. In explaining this Minister Willis, like many other politicians, enjoys likening the government's budget to that of the average household. In her <u>pre-Budget speech</u> to the Hutt Valley Chamber of Commerce she suggested the government's borrowing was the same as that done on the personal credit card: "sure, sensible borrowing has its place, but no overdraft can be extended forever, and while you can keep giving the credit card a hammering, left unpaid, it does, eventually, get declined".

For anyone who must live within a budget – which is almost everyone – this framing probably makes intuitive sense. But it is also deeply misleading, for two reasons. First, the government budget is nothing like a household budget, for the simple reason that the government is nothing like a household. Second, Minister Willis's remarks imply that the New Zealand government has reached a dangerously high level of indebtedness; the evidence suggests otherwise. Let's look at each of these issues in turn.

#### The government budget is nothing like your own

The likening of the government budget to a household budget is foolish for numerous reasons. First, unlike a

household the government can raise new revenue by levying taxes. Second, unlike your credit card debt, or your mortgage, which ultimately must be paid back, the government can roll over its debts indefinitely - it simply issues new debt to pay off the old debt. Indeed, governments seldom truly "pay their debts off" (financial markets would cease to function if they did, as investors rely on government debt as a pool of safe and liquid assets). Third, when the government spends borrowed money this can stimulate economic activity, which in turn can cause government revenue to increase, creating a positive feedback loop. Technically, the government can also create new money via the central bank (but this issue opens something of a can of worms, which we shall keep closed for the sake of brevity).

Households can do none of these things – they cannot levy taxes, indefinitely roll over their debts, create positive feedback loops by spending money, and they certainly can't print their own. In short, the government has far more flexibility than a household when it comes to managing its debts.

This is not to say that the government can borrow as much as it likes and everything will be dandy. It still needs to pay attention to both the quantity and quality of its debt.

On quantity: it is sensible for the government to keep its overall debt within a range that the investors who buy government debt are comfortable with. If the debt level gets too high, then investors will start to worry about the government's capacity to service its debts and will demand a higher interest rate, making it more expensive for the government to borrow.

On quality: most economists argue that government borrowing is sensible if it is used to fund capital assets. So it can make sense for government to use borrowed money to fund the construction of assets such as schools, hospitals, and roads. This is because the government is creating a long-term asset that matches its debt liability. Some of these assets, such as roads, port infrastructure, or energy generation can also help



pay for themselves over the long run (though this isn't guaranteed), either in the form of the revenue they bring in or in higher economic growth and therefore higher tax revenue. And the government is usually able to borrow at lower rates than the private sector, which means it is more cost efficient for the government to fund infrastructure (see the discussion of public–private partnerships in the <u>April Bulletin</u>).

Most economists also support the use of government debt to fund spending during significant economic downturns or shocks (what's called "counter-cyclical" spending). During a recession, when times are tough, individual households will pull back on their spending. Unfortunately, when everyone does this at the same time it exacerbates the downturn. In this context, the government can step in to stabilise economic activity (failure to do so can simply compound the recession). This is exactly what the NZ government has done in response to major shocks like the global financial crisis in 2008, the Christchurch earthquakes in 2010 and 2011, and the Covid-19 pandemic.



Figure 1: Govt net debt as % of GDP, various measures

Source: Treasury. Core Crown net debt excludes the NZ Super Fund from the government's financial assets, whereas net debt includes the NZ Super Fund. The current government uses the first measure, which is not internationally comparable.

So debt-financing is part and parcel of sensible economic management. When the level of government debt goes up, this is not automatically a bad thing. Instead, it might reflect increased infrastructure investment, or the fact that government is making critical interventions during a crisis. Done well, these uses of government debt improve wellbeing and economic performance over the long run.

#### Is the government debt too high?

All this is well and good, you might say, but what if our government debt *has* gotten too large? This is a very reasonable question. The short answer, in our view, is "no". The slightly longer answer involves looking at two different data points.

First, we can look at how the NZ government's debt position compares to other advanced economies. The most commonly metric to use here is the debt-to-GDP ratio. Specifically, net government debt – its gross debt minus its liquid financial assets - as a percentage of GDP. (Things can get messy here because different countries calculate their net debt in different ways. The most reliable way to do cross-country comparisons is to use the data produced by institutions like the International Monetary Fund.) GDP is used as the denominator because it's a rough proxy for a government's ability to collect tax and therefore service its debt. Thus, the debt-to-GDP ratio can be used as a crude measure of how risky a government's debt is. All else equal, the higher the debt-to-GDP ratio, the riskier the debt, and therefore the higher the interest rate that government must pay. Using the IMF's internationally comparable data, New Zealand's net debt-to-GDP ratio is around 20%. This is low by international standards, as shown in Figure 2.

However, the phrase "all else equal" is doing some dangerously heavy lifting here. In reality, different debtto-GDP ratios will be considered sustainable for different countries, because each country has a unique economic structure and is exposed to different risks. The credit rating agencies, who investors rely on to determine how risky a government's debt is, therefore take a host of other factors into account. These include the country's history of servicing its debt (past defaults count against you), its current and future economic outlook, its monetary policy settings, the strength of the country's political and legal institutions (corruption, for example, is bad for investor confidence), its exposure to economic shocks, its trade balance, and the currency



its debt is denominated in (it's always more risky for a government to owe debt in a foreign currency).

New Zealand scores well on some of these measures, such as the history of servicing its debt and the fact that all our government debt is in NZ dollars, but scores poorly on some others, such as our exposure to international economic shocks and natural disasters. Given this exposure, it is sensible for New Zealand to maintain a lower level of government debt than some other advanced economies who have more dynamic economies and aren't as exposed to shocks.



Figure 2: Govt net debt as % of GDP, selected economies

#### Source: IMF

So the debt-to-GDP ratio doesn't tell us everything we need to know. The second data point, then, is what the credit rating agencies have to say. NZ government debt is currently rated between the highest and secondhighest rating, depending on the agency. This puts it in the top 20 governments in the world by credit rating. In their <u>latest set of updates</u>, all three of the major ratings agencies – Moody's, Standard and Poor's, and Fitch – noted that the outlook for their New Zealand ratings were "stable", meaning they did not anticipate having to change them in the near future. In other words, there is no indication the NZ government is at risk of a credit rating downgrade.

Putting these two data points together indicates there is no looming debt crisis. Suggesting that the government debt is like the sword of Damocles dangling over the nation is simply a useful trick for Minister Willis. It helps her position the government's spending cuts as necessary and inevitable.

#### The real challenge

The government is framing the choice at Budget 2025 as a choice between less spending and therefore less debt, or more spending and therefore more debt. As the Prime Minister said in his <u>pre-Budget speech</u> to Business New Zealand: "I know there are some commentators calling for larger allowances and more spending. They need to be honest that those decisions will mean more debt, more deficits, and an indefinite delay to New Zealand's return to surplus".

This is a false binary. Debt is not the only way to raise government revenue. Indeed, it is not even the main way. The vast bulk of the government's budget is funded by tax. By arguing over the debt question, then, we are staying within the terms of the debate set by the National party. The far bigger and more important question concerns tax – specifically, the government's long-term ability to fund the public goods and services New Zealanders rely on.

New Zealand has a number of major economic and fiscal challenges on its hands. We have an infrastructure deficit that's estimated to be over \$100 billion and counting. We have an increasingly stressed and under-resourced public healthcare system. We have an ageing population, which means a steeply growing superannuation bill. And we have unacceptably high levels of wealth inequality. This is only to name a few. Currently, the government simply does not collect enough revenue to address these issues.

Nicola Willis and Christopher Luxon want people talking about the size of the government's debt at this Budget. And they want you to think that it's too high. What we should be talking about is tax – and the need for the wealthy to start paying their fair share.



# Wages

The labour cost index (LCI), which measures the price for a fixed quality and quantity of labour – i.e., how much an employer must pay to maintain the same skills and hours of labour year to year – increased 2.9% annually; this is higher than consumer price inflation for the same period, which was 2.5%. The LCI increased 4.2% in the public sector and 2.6% in the private sector. This difference likely reflects the conclusion of collective bargaining in sectors such as healthcare and education.

These averages mask significant differences across the labour market, with 41% of workers not receiving a pay rise in the year to March 2025. For those who did receive a pay rise, the median increase was 3.8% and the average (mean) increase was 4.7%. Of the reasons given for pay increases, 41% were for cost of living, 19% was to match market rates, 19% was to retain/attract staff, and 25% was because of a collective agreement.





Source: Stats NZ

Average ordinary time hourly earnings – which captures the increase in actual income received by workers – grew by 4.5% in the year to March 2025. Growth was particularly strong in the public sector, up 6.6% to \$51.66 (likely reflecting the conclusion of collective bargaining rounds), while private sector wages increased 3.8% to \$40.46. Average hourly earnings increased 4.6% for women, to \$40.66, and 4.5% for men, to \$44.71.

To calculate real wage growth, we use two measures: (1) nominal growth in ordinary time hourly earnings minus inflation as calculated by the consumers price index (CPI); and (2) nominal growth in ordinary time hourly earnings 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. Unfortunately, Stats NZ had to cancel the release of the HLPI this quarter due to "technical data processing challenges in updating" the index. We therefore can't provide calculations on this measure.

When deflated by CPI, average hourly earnings grew 1.9% for the year to March 2025 – which is above the pre-COVID average of real wages growing 1% per annum. Public sector workers experienced average real wage growth of 4%. This has provided some further catch-up for public sector wages, which took the biggest real terms hit during the period of high inflation (see below). By contrast, private sector real wages grew 1.2%. On average, real wage growth was 2% for female workers and 1.9% for male workers.



Figure 4: Annual real wage growth to Mar 2025

Source: Stats NZ

Figure 5 provides a snapshot of average real wages by sector since the beginning of the inflationary surge in 2021. Real wages peaked in December 2020, before falling rapidly due to the unexpected inflation in 2021. Public sector wages fell furthest before stabilising in mid-2023 and beginning a process of rapid catch up. Private sector real wages didn't fall as far, but have seen slower growth since mid-2023, likely reflecting the weakening of the job market. The private sector job 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 private sector employers are affected by changing levels of consumer demand. When deflated by CPI, public sector real



wages are now only 0.8% above their 2020 level and private sector real wages are 1.9% above their 2020 level.



Figure 5: Real wage index by sector (CPI deflated)

Source: Stats NZ. Dec 2020 = 100

This means that while there has been relatively strong real wage growth in the past year, many workers are only now beginning to return to their 2020 levels of real income.

By industry, average total hourly earnings (which are calculated by dividing total gross earnings by total paid hours) increased 4.4% annually. The largest increases were in retail trade, information media and telecommunications, education and training, and rental, hiring, and real estate services. Table 1 provides a breakdown of real wages by industry. All industries except for forestry and mining and accommodation and food services recorded some growth in real wages.

Table 1. Annual wage	growth to March 2025	ny industry (avera	oe total hourly earnings)
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Nominal	CPI deflated
6.0%	3.4%
5.9%	3.3%
5.8%	3.2%
5.6%	3.0%
5.5%	2.9%
5.2%	2.6%
4.9%	2.3%
4.8%	2.2%
4.7%	2.1%
4.3%	1.7%
4.0%	1.4%
3.9%	1.3%
3.0%	0.4%
2.7%	0.1%
2.0%	-0.4%
1.7%	-0.7%
	Nominal           6.0%

Source: Stats NZ. CPI is consumers price index



# Employment

The unemployment rate remained steady in the March quarter, at 5.1%. This is up 1.8 percentage points since the onset of the economic downturn in late-2022 and 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 marginally to 12.3%.

On a seasonally adjusted basis, this means approximately 156,000 people were unemployed in the March 2025 quarter, and a further 128,000 people were underemployed (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. Of those who were underemployed, 56% were actively seeking more hours.



Total

Figure 6: Unemployment rate

#### Source: Stats NZ

On a quarterly basis, both the labour force participation and employment rates fell marginally, down to 70.8% and 67.2% respectively. This indicates that more people are dropping out of the labour market.

- Female

Male

The female unemployment rate remained unchanged at 5.3% and the male unemployment rate remained unchanged at 4.9%. The underutilization rate for female workers rose slightly, up from 13.8% to 14.3%, while the male underutilization rate dropped back slightly from 10.6% to 10.4%.

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 3.3% to 3.8% and underutilization from 9.8% to 10.6% for the year to March 2025.
- For Māori, unemployment increased from 8.2% to 9.6% and underutilization increased from 16.9% to 19.1%.
- For Pasifika, unemployment increased from 7.5% to 9.9% and underutilization increased from 15.4% to 18%.
- For Asian workers, unemployment increased from 3.3% to 4.9% and underutilization increased from 9.3% to 11.9%.

Historically, Māori and Pasifika workers have been worst affected during recessions, because they are overrepresented in more precarious forms of work. This pattern has continued over the recent downturn. From its pre-recession low, Māori unemployment has increased 3.2 percentage points and Pasifika unemployment has increased 3.9 percentage points. By contrast, Pākehā unemployment has increased 1 percentage point and Asian unemployment has increased 2.4 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 March 2025 was 12.8%, which is up 0.7 percentage points from the previous year. In real terms this represents approximately 86,000 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 the



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.

#### Figure 8: Annual change in persons employed



Source: Stats NZ

Compared to the March 2024 guarter, the number of employed persons has fallen in almost all regions of the North Island but is up in the top of the South Island, Canterbury, and Otago. This decline is also recorded in the monthly filled jobs data.

This trend is also borne out in the job advertisement data. Compared to the March 2024 quarter, online job advertisements fell 21.7%. They have fallen steadily for over two years now, although the pace of the fall is beginning to slow. Falling job adverts were recorded

Table	2: Annual	change in	online	iob vacanc	ies to M	larch 2025
Tuble	Z. Annual	change in	onune	job vacanc	103 101	1010112020

across all industries, all occupation groups, all skill levels, and all regions. See Table 2 for a detailed breakdown.

Because of the weakness of the jobs market, people are staying unemployed for longer. Compared to the prerecession low, the percentage of persons unemployed for 3 months or less has fallen from 50.7% to 43.1%. By contrast, the percentage of persons unemployed for 3-6 months has increased from 15.3% to 20.9%; and those unemployed for 6 months to 1 year increased from 17.5% to 21.8%. Those unemployed for a year or more has remained steady, at 11.1%.

Figure 9: % of unemployed by duration of unemployment





Table 2: Annual change in online job vacancies to March 2025						
Change	Industry	Change	Occupation	Change		
-8.5%	Primary	-12.0%	Managers	-11.5%		
-14.8%	IT	-12.1%	Technicians & trades	-17.2%		
-19.6%	Education	-18.1%	Professionals	-21.9%		
-20.4%	Hospitality	-19.9%	Community & personal services	-23.1%		
-21.5%	Sales	-20.4%	Clerical & admin	-24.7%		
-22.2%	Manufacturing	-20.9%	Machinery operators & drivers	-25.3%		
-25.0%	Business services	-21.3%	Sales	-27.6%		
-25.2%	Construction	-22.7%	Labourers	-28.6%		
-25.2%	Health care	-33.6%				
-52.3%						
	Change -8.5% -14.8% -19.6% -20.4% -21.5% -22.2% -25.0% -25.2% -25.2% -52.3%	Change         Industry           -8.5%         Primary           -14.8%         IT           -19.6%         Education           -20.4%         Hospitality           -21.5%         Sales           -22.2%         Manufacturing           -25.0%         Construction           -25.2%         Health care	Change         Industry         Change           -8.5%         Primary         -12.0%           -14.8%         IT         -12.1%           -19.6%         Education         -18.1%           -20.4%         Hospitality         -19.9%           -21.5%         Sales         -20.4%           -22.2%         Manufacturing         -20.9%           -25.0%         Business services         -21.3%           -25.2%         Construction         -22.7%           -25.2%         Health care         -33.6%	ChangeIndustryChangeOccupation-8.5%Primary-12.0%Managers-14.8%IT-12.1%Technicians & trades-19.6%Education-18.1%Professionals-20.4%Hospitality-19.9%Community & personal services-21.5%Sales-20.4%Clerical & admin-22.2%Manufacturing-20.9%Machinery operators & drivers-25.0%Eusiness services-21.3%Sales-25.2%Construction-22.7%Labourers-25.2%Health care-33.6%-		

Source: MBIE



# Social welfare

At the end of March 2025, 398,163 people were receiving a main benefit, which is up 7.5% compared to the previous year. The rising unemployment and underutilisation rates, caused by ongoing economic weakness and a poor jobs market, are driving this increase.

Of those receiving a main benefit:

- 117,426 people were receiving Jobseeker Support Work Ready, up 8.4% annually.
- 92,412 people were receiving Jobseeker Support – Health Condition or Disability, up 16%.
- 104,700 people were receiving the Supported Living Payment, up 2.6%.
- 79,341 people were receiving Sole Parent Support (SPS), up 2.4%.

The proportion of the working-age population receiving Jobseeker was 6.4%, which is up 0.5 percentage points from 2024.

Of total Jobseeker recipients, 59% had been receiving the benefit for one year or more. Many of these longterm welfare recipients may be in work, just at levels of income so low that they still qualify for a benefit. There were 13,485 benefit sanctions issued in the March 2025 quarter – almost 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 573,840 hardship assistance payments worth a total of \$171 million. The number of payments was down 4% from the previous year while the total value of payments was down 25%.

Figure 10: Jobseeker recipients, March quarters



Source: MSD



# **Prices**

#### **Consumer inflation**

Annual consumer inflation ticked up from 2.2% in the year ending December 2024 to 2.6% in the year ending March 2025. This remains within the Reserve Bank's target range of 1–3%. This increase was driven by an uptick in tradeable inflation (goods and services that are imported or exposed to international competition).

On the latest data, annual inflation was 2.4% in Australia, 2.3% in Canada, 2.2% in the Euro Area, 2.6% in the United Kingdom, and 2.4% in the United States.

Figure 11: Annual CPI inflation



Source: Stats NZ

Annual tradeable inflation was 0.3% for the year ending March 2025, which is up significantly from -1.1% 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 4.5% to 4% for the year ending March 2025. This is well down from the high of 2023 but remains above the pre-COVID levels.

Quarterly, the largest contributions to inflation were price increases for grocery food, up 2.9%; household energy, up 2.5%; petrol, up 4.6%; and tertiary education, up 22.6%. Annually, the largest contributors to consumer inflation were all essential goods and services. These included grocery food, up 4.3%; housing rent, up 3.7%; local authority rates, up 12.2%; household energy, up 7.2%; and insurance, up 10.6%. Petrol prices fell 2.8% overall, and the cost of early childhood education fell 22.8%.

#### Figure 12: Annual housing rental inflation



Source: Stats NZ

Housing rental costs have continued to increase at a significantly faster rate in Canterbury than other major regions, and especially 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 April 2025 for some of the key goods and services that we get monthly price updates on.

#### Table 3: Monthly inflation indicators, April 2024

	previous month	previous year
Food	0.8%	3.7%
Fruit & veg	0.3%	0.2%
Meat, poultry, fish	-0.4%	3.6%
Groceries	1.2%	5.2%
Rent (stock measure)	0.2%	3.0%
Electricity	2.3%	6.2%
Gas	1.1%	15.8%
Petrol	-1.5%	-9.2%
Domestic air transport	3.8%	10.6%
Domestic accommodation	-2.1%	-8.1%

Source: Stats NZ. The electricity and gas figures are taken from the April 2025 monthly index compared to the June 2024 quarterly index.

# Petrol prices

For the week ending 9 May 2025, <u>MBIE's</u> fuel-price monitoring had regular petrol at \$2.65 per litre and diesel at \$1.96 per litre. Oil is currently trading around US\$62 per barrel on the West Texas Intermediate, which is well down from last month.



#### Official cash rate

The Official Cash Rate (OCR) was cut 25 basis points on 9 April, to 3.5%. Currently, forecasters are expecting a further cut to 3.25% at the next announcement, which is at the end of May.

#### **Real estate**

The housing market remains across most of the country. On a monthly basis, the <u>REINZ</u> house price index fell 0.3% in April, with declines in Auckland, Gisborne/Hawke's Bay, Wellington, and Otago.

Overall, the house price index is down 0.3% compared to a year ago, and down 115.3% from its late-2021 peak. Auckland and Wellington have experienced the largest declines in house prices, falling 21.6% and 25.1% from their peaks. By comparison, in Canterbury house prices have only fallen 3.2% from their late-2021 peak and in Southland house prices have hit a new high.

The reduction in interest rates is probably having a stabilising effect on the housing market, and house prices are forecast to grow slowly in the second half of the year.

Table 4: REINZ house price index, % change, Apr 2025					
	3 months	1 year	From peak		
National	0.4%	-0.3%	-15.3%		
Auckland	-0.1%	0.0%	-21.6%		
Wellington	-1.0%	-4.2%	-25.1%		
Canterbury	2.4%	1.6%	-3.2%		

Source: REINZ



# Other economic indicators

#### Migration

For the year ending March 2025, there were an estimated 149,600 migrant arrivals (down 28% from the previous year) and an estimated 123,300 departures (up 16% from the previous year). This produced an estimated net migration gain of 26,400 people for the year, way down from the net gain of 100,400 the year prior.

New Zealand citizens continue to leave the country in high numbers, reflecting the weak economic conditions here. All up, an estimated 70,000 New Zealand citizens departed the country in the year to March 2025, while only estimated 25,200 returned, for a net outflow of 44,900 (about the population of New Plymouth).

#### **Performance indexes**

The BNZ–BusinessNZ performance of manufacturing index (PMI) registered expansion while the performance of <u>services index</u> (PSI) registered contraction in March. These surveys provide indications of whether their sectors are expanding or contracting relative to the previous month. A figure above 50 indicates that activity is generally expanding, while a figure under 50 indicates it is generally declining.

The manufacturing index continued to show a recovery of activity in the sector at 53.2. The key sub-index of production was at 54.2, while the employment subindex was at 54.7.

The services index, on the other hand, remained in contraction, at 49.1. The key sub-index of activity/sales was down several points to 47.4, although the employment sub-index rose to 50.2.

#### **Confidence surveys**

The ANZ–Roy Morgan <u>Consumer Confidence Index</u> increased 5 points in April to 98.3. 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. As Figure 14 shows, the difference between current and future confidence is wider than usual, and consumers' expectations that things will get better over the next 12 months is what's keeping the overall index at a somewhat respectable level.

In saying that, confidence in current economic conditions did increase in April, up 6 points to 88. Confidence in future economic conditions rose 4 points to 105.2. A net 11% 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 better than it was the previous month but shows that households are still wary.

Figure 14: ANZ–Roy Morgan Consumer Confidence Index



#### Source: ANZ

According to ANZ's <u>Business Outlook Survey</u>, business confidence remains strong, though fell 9 points in April to +49. Confidence is strong across all five industry groupings reported on (retail, manufacturing, agriculture, construction, and services), as is the "own activity" outlook. In terms of activity compared to the same time last year, the picture is mixed. Retail reported that activity was down, while manufacturing and construction reported it was flat. However, activity had increased in services and agriculture. "Employment vs same month one year ago" was also mixed – it was negative in retail and manufacturing but had lifted marginally in the other industry groupings.



# **Government accounts**

For the nine months ending March 2025, the government accounts were a touch stronger than forecast at the Half-Year Economic and Fiscal Update (HYEFU). Core Crown tax revenue was \$200 million (0.2%) higher than forecast, mostly due to strongerthan-expected GST revenue and "other individuals' tax revenue". On the other side, source deductions revenue (income tax) was lower than expected due to the weakness of the jobs market.

Core Crown expenses were \$570 million (0.5%) lower than forecast, due to a wide range of minor variances in expected expenditure, the most notable of which were in core government services, transport and communication, and housing and community development. This produced a lower-than-forecast OBEGAL deficit of \$8.4 billion (\$400 million or 4.6% below forecast). Net core Crown debt was also slightly lower than forecast, at 42.6% of GDP.

Compared to the same time last year, however, the fiscal position has worsened. Core Crown tax revenue was \$1.2 billion (1.1%) higher than in March 2024. This was driven by higher income tax revenue and "other individuals' tax revenue".

But core Crown expenses were \$3.2 billion (3.2%) higher than the previous year. This was driven by an increase of \$2.3 billion in social security and welfare expenses, mostly due to rising superannuation and unemployment benefit costs. Health costs also rose \$600 million while education costs rose \$900 million.

The OBEGAL deficit is \$3.3 billion (66%) higher than the same time last year, while net core Crown debt has risen from 42.1% of GDP to 42.6%.

#### **Table 5:** Interim financial statements of government for the nine months ended 31 Mar 2025

	Mar 2025 actual	HYEFU forecast	Mar 2025 actual
Core Crown tax revenue (\$bn)	89.5	89.3	88.5
Core Crown revenue (\$bn)	99.1	99.2	98.1
Core Crown expenses (\$bn)	104.1	104.7	100.9
OBEGAL (\$bn)	-8.4	-8.8	-5.0
OBEGAL excluding ACC (\$bn)	-6.6	-7.1	-3.6
Net core Crown debt (% of GDP)	42.6%	43.1%	42.1%

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