NZCTU
Te Kauae Kaimahi

Economic Bulletin

May / June 2026

NEW ZEALAND COUNCIL OF TRADE UNIONS
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NCZTU Economic Bulletin

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Welcome to the May/June 2026 Economic Bulletin.

The feature article examines the upcoming changes to Jobseeker Support for young people. The Social Security (Jobseeker Support and Accommodation Supplement) Bill introduces a "parental assistance test" for applicants aged 18 and 19 years' old. People whose parents collectively earn over $67,225 per year before tax and can be "reasonably expected" to rely on their parents for financial support will be ineligible for Jobseekers. We discuss why means-testing 18- and 19-year-olds for Jobseeker Support is a bad idea. We also set this proposed change in the context of the government's other welfare policy reforms, which have created a more punitive and miserly support system.

In our regular updates, we examine the latest price, economic, and government accounts data. We've also added a set of quick reference graphs to the Labour Market Dashboard, at the front of the Bulletin. For detailed discussion of the March quarter employment and wage data, see the March/April Bulletin. The next set of comprehensive labour market and wage data will be released in early August.

In case you missed it: earlier in June we released the NZCTU's Workers' Analysis of Budget 2026, where we dig into the government's major spending and revenue decisions and what they mean for working people.

NZCTU
Te Kauae Kaimahi

Contents

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NZCTU
Te Kauae Kaimahi

Key data for trade unionists

Economic indicators and wages – March quarter 2026

CONSUMER INFLATION	LIVING COSTS INFLATION	UNEMPLOYMENT RATE	OFFICIAL CASH RATE*
3.1%	2.1%	5.3%	2.25%
AVE HOURLY WAGE GROWTH	LABOUR COST INDEX	MINIMUM WAGE*	LIVING WAGE*
3.1%	2.0%	$23.95	$29.90

Source: Stats NZ, RBNZ, MBIE, Living Wage Movement. * Current rates

Annual wage growth – March quarter 2026

	NOMINAL	REAL (CONSUMER INFLATION)	REAL (LIVING COSTS)
Average ordinary time hourly wages – all sectors	3.1%	0.0%	1.0%
Private sector	3.5%	0.4%	1.4%
Public sector	1.5%	–1.6%	–0.6%
Female	3.8%	0.7%	1.7%
Male	2.5%	–0.6%	0.4%
Labour cost index – all sectors	2.0%	–1.1%	–0.1%
Private sector	2.0%	–1.1%	–0.1%
Public sector	1.7%	–1.4%	–0.4%

Source: Stats NZ

Annual consumer inflation forecasts – latest available

YEAR ENDING	RESERVE BANK	TREASURY	AVERAGE
Jun 2026	4.2%	4.0%	4.1%
Sep 2026	4.3%	3.7%	3.9%
Dec 2026	4.1%	3.2%	3.6%
Mar 2027	3.7%	2.7%	3.1%

Source: RBNZ, Treasury, ANZ, ASB, BNZ. The Average measure is the average of forecasts from all sources.

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Labour market dashboard – March 2026 quarter

	MAR 2026	MAR 2025	5-YEAR AVE	VS 2025	VS 5-YEAR AVE
Unemployment	**5.3%**	5.1%	4.2%	↑ +0.2pp	↑ +1.1pp
Female unemployment	**5.3%**	5.4%	4.4%	↓ –0.1pp	↑ +0.9pp
Male unemployment	**5.4%**	4.9%	4.1%	↑ +0.5pp	↑ +1.3pp
Māori unemployment[1]	**10.8%**	9.7%	8.5%	↑ +1.1pp	↑ +2.3pp
Pasifika unemployment[1]	**12.1%**	10.0%	8.4%	↑ +2.1pp	↑ +3.7pp
Youth unemployment[1]	**16.0%**	14.3%	12.1%	↑ +1.7pp	↑ +3.9pp
Underutilisation[2]	**12.9%**	12.4%	10.9%	↑ +0.5pp	↑ +2.0pp
Female underutilisation	**14.3%**	14.5%	12.8%	↓ –0.2pp	↑ +1.5pp
Male underutilisation	**11.6%**	10.5%	9.1%	↑ +1.1pp	↑ +2.5pp
Māori underutilisation[1]	**21.2%**	19.2%	17.9%	↑ +1.0pp	↑ +3.3pp
Pasifika underutilisation[1]	**20.8%**	18.2%	16.2%	↑ +2.6pp	↑ +4.6pp
Reason for leaving last job – redundant/laid off/business closed[1, 3]	**14.7%**	14.8%	11.9%	↓ –0.1pp	↑ +2.8pp
Perceived chance of losing job among those currently employed[1, 4]	**16.1%**	16.3%	15.2%	↓ –0.2pp	↑ +0.9pp
Percentage of working-age population on Jobseekers	**6.7%**	6.4%	6.0%	↑ +0.3pp	↑ +0.7pp
Duration of unemployment, 3-6 months[1]	**20.3%**	20.9%	17.5%	↓ –0.6pp	↑ +2.8pp
Duration of unemployment, more than 6 months[1]	**39.8%**	32.9%	30.0%	↑ +6.9pp	↑ +9.8pp

Source: Statistics NZ; MSD

[1] Annual rolling average.

[2] Underutilisation provides a more complete picture of the strength of the jobs market than the unemployment rate. It includes those who are unemployed (out of work and actively seeking a job), underemployed (in work but want more hours than are available), and the potential labour force (those who are either actively seeking work but not able to start immediately, or who are not activley seeking work but want a job).

[3] Percentage of unemployed people who left their last job because they were made redundant, laid off, or the business closed.

[4] This is a measure of percieved job security. It is the sum of those who report it is “almost certain/high chance” and “medium chance” they will lose their main job in the next 12 months.

Figure 1: Unemployment rate (%)

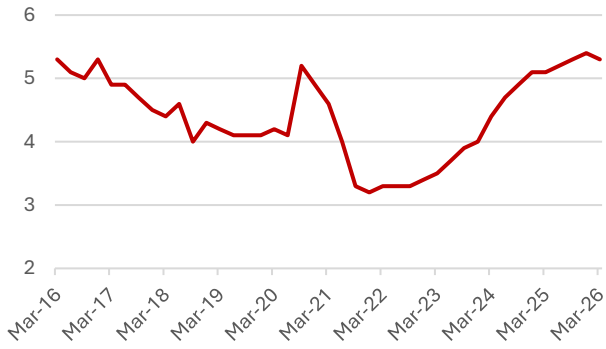


Figure 2: Underutilisation rate (%)

Figure 3: Seasonally adjusted filled jobs (thousands)

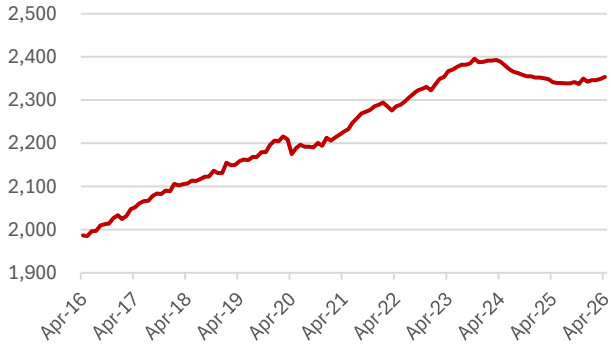


Figure 4: NEET rate, 15–24-year-olds (%)

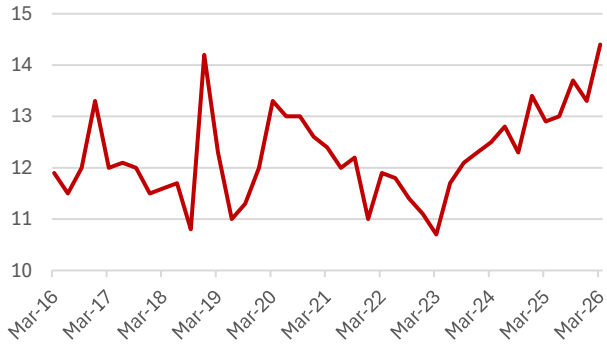


Figure 5: Persons unemployed for 6+ months

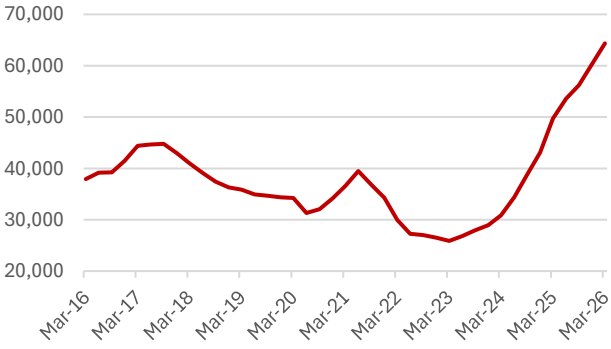


Figure 6: Jobseeker Support recipients (thousands)

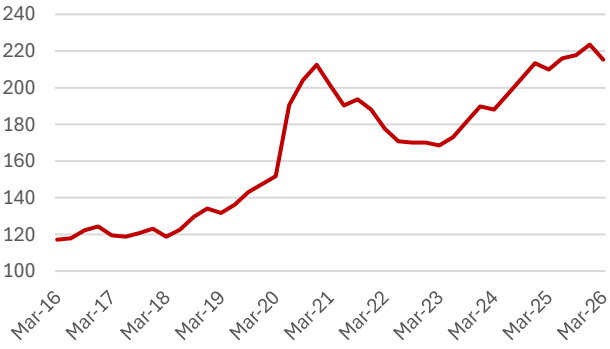


Figure 7: Annual growth in wages and labour costs (%)

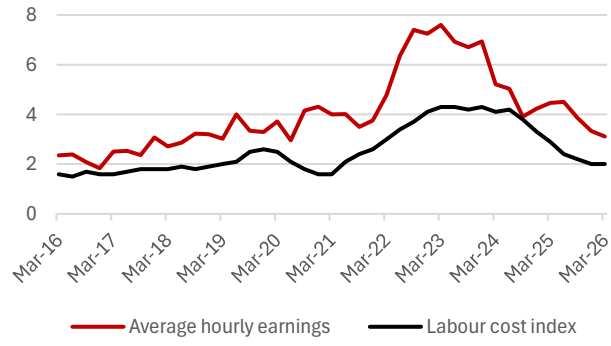
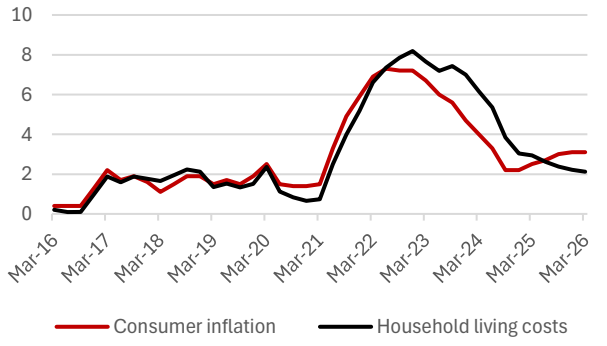


Figure 8: Annual inflation rate (%)



Source: Stats NZ

Welfare changes for the worse

In 2019 the Welfare Expert Advisory Group (WEAG) called for a paradigm shift in New Zealand's welfare system. The group recommended moving from a system based on "conditionality and sanctions" to one based on "mutual expectations and responsibilities", or "whakamana tāngata". As the group noted, "The social security system needs to recognise that most New Zealanders are willing to engage, participate, contribute and do their fair share for their communities" (p. 6).

The previous Labour-led government made some important steps in this direction, though did not complete the shift outlined by the WEAG. The National-led government, by contrast, has doubled-down on conditionality and sanctions. Rather than a welfare system that treats people with dignity, it has approached benefit recipients as inherently suspect and in need of constant monitoring. At the same time, it has chipped away at eligibility and financial assistance across numerous different benefits.

One part of this reform programme is the upcoming means testing of Jobseeker Support for 18- and 19-year-olds, based on parental income. This is being progressed through the Social Security (Jobseeker Support and Accommodation Supplement) Bill, which also reduces Accommodation Supplement support for some households. The bill is currently before select committee, with the Jobseeker eligibility changes scheduled to come into effect from November this year.

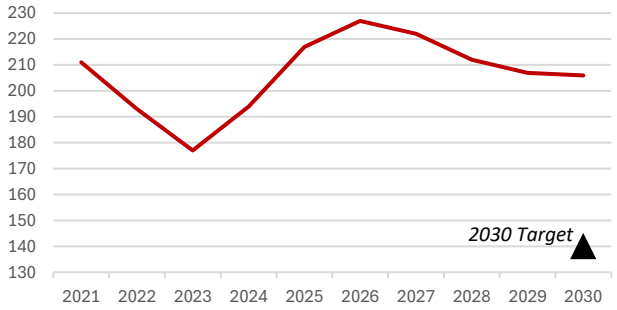
The bill will establish a "parental assistance test" for applicants aged 18 and 19 years' old. People whose parents collectively earn over $67,225 per year before tax and can be "reasonably expected" to rely on their parents for financial support will be ineligible for Jobseekers (we will come back to this issue of reasonable expectation below). For context, a full-timer on the minimum wage earns $49,816 per year before tax. So this is a very low threshold.

In this note, we discuss why means-testing 18- and 19-year-olds for Jobseeker Support is a bad idea. We also set this proposed change in the context of the government's welfare policy reforms, which have created a more punitive and miserly support system.

The economic context

In 2024 the government set a target to reduce the number of people on Jobseeker Support by 50,000 by 2030 (Jobseeker numbers were around 190,000 at the time). They are massively off course with this target. Jobseeker numbers have risen sharply and are now over 215,000. The Treasury is forecasting the number will continue to grow this year and will remain above 200,000 people in 2030.

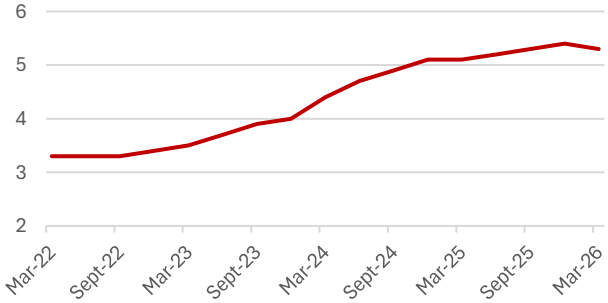
Figure 1: People on Jobseeker Support forecast (thousands)



Source: Treasury

The government is failing to reduce Jobseeker numbers because the economy has been extremely weak over the past three years, due to higher interest rates (a.k.a. the Reserve Bank deliberately engineering a recession), international shocks (Trump's tariffs and war on Iran), and failed government policy (cutting government expenditure during a downturn, which exacerbates the downturn).

Figure 2: Unemployment rate (%)



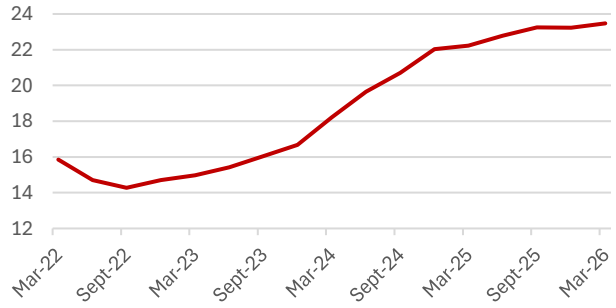
Source: Stats NZ

The job market has weakened significantly over this period. Compared to 2023, filled jobs have fallen, job adverts are down, and unemployment, underutilisation, and Jobseeker numbers have all risen. Unemployment has increased from its pre-downturn low of 3.3% to 5.3%, and underutilisation has risen from 9% to 12.9% over the same period. Using seasonally adjusted figures,

there were around 163,000 people unemployed and 406,000 underutilised in the March 2026 quarter.

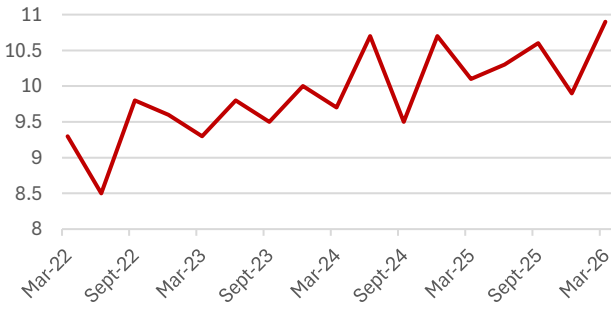
In this context, youth unemployment has risen rapidly. The unemployment rate for 15–19-year-olds has increased from 14.3% in September 2022 to 23.5% in March 2026. The NEET rate (not in employment, education, or training) has also risen, though less steeply, as people in this age group are highly likely to be in some form of education or training. The number of young people receiving Jobseeker Support has, unsurprisingly, also risen (we don't have publicly available data for 18–19-year-olds so show 18–24-year-olds in Figure 5).

Figure 3: Unemployment rate, people aged 15–19 (%)



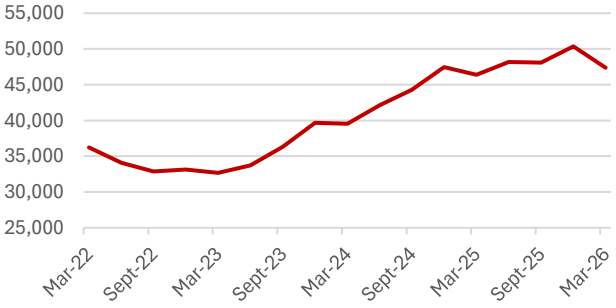
Source: Stats NZ. Annual rolling average

Figure 4: NEET rate, people aged 15–19 (%)



Source: Stats NZ. Seasonally adjusted

Figure 5: People aged 18–24 on Jobseeker Support



Source: MSD

Youth unemployment, NEET, and Jobseeker figures have risen not because young people have suddenly become lazy and uninterested in working, but because of the poor state of the job market. Young people tend to be more heavily impacted by economic downturns as they have fewer employable skills, are less likely to be embedded in stable employment, and tend to be concentrated in industries that are vulnerable to economic swings, such as hospitality and retail.

In simple terms: there aren't enough jobs to go around at present, and young people are hard hit by this. So it is a particularly cruel time to be introducing means testing for 18- and 19-year-olds who are unable to find work.

Potential impacts of means testing

Means testing Jobseeker Support for young people creates a range of risks, many of which are outlined by the Ministry of Social Development (MSD) in its regulatory impact statement. The first and most obvious is that it will increase financial pressure on some low-income families. Although people whose parents are earning below the threshold will continue to be eligible for Jobseekers, the fact that the threshold is so low means some families who are above the threshold will struggle.

This will be particularly difficult for disabled young people and their parents, due to the inclusion of the Jobseeker Support Health and Disability category in the means testing. Disabled people tend to face higher living costs than other cohorts due to the increased health-related expenses they face. And disabled people are less likely to be able to find paid work than other cohorts, leaving them doubly exposed to this change.

There is also the fact that some young people affected by this Bill will be refused support by their parents, even though their parents earn above the threshold. This is a particular risk for groups such as the rainbow community, who are less likely than other cohorts to be able to rely on parental support.

The bill provides for a "parental support gap determination" to (theoretically) safeguard against this. This provides MSD with discretion to determine if a person cannot reasonably be expected to rely on their

parents for financial support. However, this forces applicants to prove they cannot rely on their parents for support, which will in many cases be very difficult. It also creates further hurdles to jump through and barriers to negotiate for applicants. This means that people who are eligible – either because of the income of their parents/caregivers, or the fact that they cannot actually rely on their parents for financial support – will be more likely to make failed applications or will neglect to apply altogether.

The means testing also means that some young people may feel compelled to remain in dangerous household environments – for example, to continue living with abusive parents – when they are unable to find a job. Still others may be incentivised to engage in illegal activities or the informal economy to get by.

As MSD notes in its analysis, although some young people may be incentivised to enter employment, education, or training if they are unable to access welfare support, this will not be uniform. Some young people face particular challenges, not just to attaining employment but to entering education or training. This can include a lack of foundational literacy and numeracy skills, severe mental health issues, or practical barriers such as not having a driver's licence.

Here, it is also salient to note that more young people have experienced significant disruption to their education in recent years, due to the COVID-19 pandemic. This means that some young people are leaving secondary school without basic skills needed to attain employment or to enter into education and training.

Another negative consequence of means testing is that it will reduce access to employment support services for young people who are ineligible for Jobseekers. Access to many of MSD's support services is contingent on a person either receiving a main benefit or being at risk of receiving one long term. Some people who will be rendered ineligible for Jobseekers by this bill will therefore also be shut out of crucial services that could help them attain employment or get into a useful education or training course.

It is therefore not surprising that MSD's advice to government was that, although this policy will save the Crown some money in the short-run, it is quite likely to result in higher costs in the long-run. This is because some people who have been denied Jobseeker Support when they are 18 and 19 will nevertheless need to take up that support when they are 20, and they will be doing this from a worse starting position, potentially having spent the last two years in severe hardship. This puts them at greater risk of long-term benefit dependency.

Costs may also be higher over the long run for other parts of government, when we consider the wider social impacts of increased hardship. This includes greater costs across the health system, the justice system, and social housing. Meanwhile, beyond the costs to government, economic hardship can have severe social consequences. It can fracture communities, put immense psychological pressure on individuals and strain on families, and cause broader harm in terms of unmet health needs, lower educational achievement, and heightened crime, among other things.

All in all then, the bill will probably not save the government money in the long run; it is unlikely to be particularly effective at incentivising young people into employment, education, or training; and it will directly increase hardship for some young people.

A punitive turn

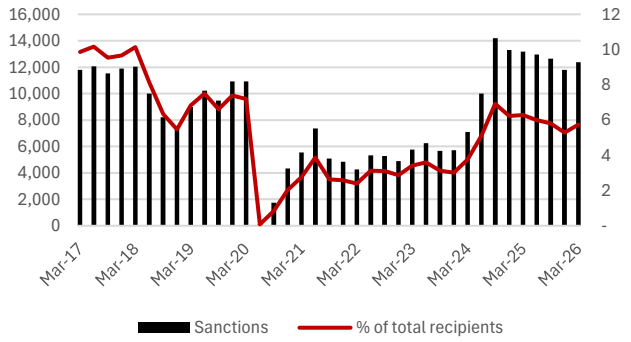
The move to means-test Jobseeker Support for young people is part of a broader reform agenda from this government that has squeezed welfare recipients and made the system more punitive. The changes include the following.

In 2019, the Ardern government amended the Social Security Act so that main benefit rates would increase annually in line with wages, rather than inflation. Wages tend to grow faster than inflation over time, so this was introduced as a mechanism to support liveable benefits. In 2024 the National-led government reverted back to the annual increases based on inflation. This has left main benefit recipients net worse off over this period. For example, if benefits had remained indexed to net average wages over the past three years, then Jobseeker Support (for a single adult without children) would be $6.21 higher per week after tax, or $323.11 per year. A

single adult without children on the Supported Living Payment would be $7.07 per week better off, or $367.87 per year. (The NZCTU's preferred option is to index main benefits to whatever is higher of net average wages or inflation in a given year.)

In 2024 Minister Upston instructed MSD to increase the use of obligations and sanctions for benefit recipients who fail to complete certain tasks – for example, by reducing their payments. "[B]enefit sanctions should be fully applied, rather than used sparingly", she said. After being temporarily paused in 2020 due to Covid, and then remaining relatively low for the next couple of years, the use of sanctions has shot back up since 2024. The available evidence, both domestic and international, suggests that sanctions are relatively ineffective at changing people's behaviour. They are effective, however, at causing social harm and distress. The WEAG reported that the overwhelming consensus from MSD staff, welfare experts, and benefit recipients was that this approach "diminishes trust, causes anger and resentment, and contributes to toxic levels of stress" (p. 41).

Figure 6: Sanctions for Jobseeker Support recipients



Source: MSD

The government has also introduced a large number of additional compliance obligations, such as the introduction of the "traffic light" scheme; a set of new non-financial sanctions; extending the period in which an obligation failure counts against a benefit recipient from 1 year to 2 years; and shortening the mandatory reapplication for Jobseeker Support from 12 months to 6 months. These measures often have the effect of creating more hurdles for welfare recipients to jump through, without doing much to actually support them to find work.

At Budget 2026 two additional changes were announced. The first was the switch in accommodation support from social housing tenants to those receiving the Accommodation Supplement. On one side, the minimum Income-Related Rent contribution for social housing tenants was increased from 25% to 30%. This means that some of the poorest households in the country will have to pay more of their incomes towards rent, squeezing the rest of their budget. The average weekly increased cost is expected to be around $31 per household. On the other side, most of this money was allocated to pay for an increase in Accommodation Supplement rates, which covers people in private rentals.

The second big change was the reduction of Temporary Additional Support (TAS) payments. TAS payments are made to people in desperate situations who don't have the money to meet essential payments like food, rent, or childcare. Budget 2026 reduced the maximum rates that will be paid from 30% of the relevant main benefit to 25%, a move that will directly increase hardship for many people.

On the positive side of the ledger, the government has made investments to increase the provision of MSD services for people receiving Jobseeker Support, such as more community-led job coaching programmes, greater case management provision, and work-readiness needs assessments. And in Budget 2026 it was announced that further case management support would be provided to people receiving Sole Parent Support. This additional resourcing is welcome, but it is coming in the context of a broader squeeze on benefit recipients, and the turn back to the punitive model of welfare that the experts in the WEAG counselled against. These expansions in case management have also been made while MSD's overall budget has been cut. It was cut in the baseline reductions of 2024 and is in scope for reductions in 2027 and 2028 (see our analysis of Budget 26 here).

Better options?

There are better ways to improve youth employment, education, and training outcomes and reducing the number of young people on Jobseeker Support. The first

place to start is to increase the level of support provided to young jobseekers in developing a range of key skills – including literacy, numeracy, and practical skills like time management and the legal ability to drive – that may be impeding them from finding employment or entering education and training. As MSD (p. 27) recommended to the Minister in its regulatory impact statement, "More education and training services for young people is more likely than the other options to address the problem".

In many cases education and training services need to be supplemented by an additional layer of support to overcome other barriers to employment, such as those related to mental health. These "wraparound" services are resource intensive, but research shows they tend to provide long-term benefits in terms of employment outcomes, more secure and stable communities, and reduced welfare (and other) costs for the Crown.

Providing more comprehensive support of this kind would also have the benefit of aligning with the purposes of the Social Security Act itself. One of these purposes, outlined at section 3(d) is "to provide services to encourage and help young people to move to or remain in education, training, and employment, rather than receiving financial support under this Act". What the National-led government is doing with its amendment bill, by contrast, is stripping financial support (and access to support services) while neglecting to provide anything else by way of assistance.

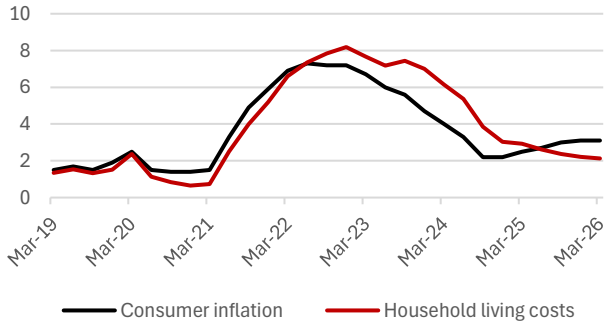
But removing "barriers" to employment isn't enough in the context of a weak economy and labour market. It doesn't solve the problem of there not being enough jobs in the first place. That requires using macroeconomic and industrial policy to pursue full employment. As we've written about in previous Bulletins, the current system of macroeconomic management in New Zealand uses unemployment as a lever with which to control inflation (this is the basic mechanism that underpins the Reserve Bank's monetary policy). We disagree with this approach. But it becomes truly perverse and cruel when it is combined with an approach to the welfare system that punishes people for having the bad luck to become unemployed. A more rational, economically efficient, and human approach would be to put full employment back at the centre of our economic policy.

Prices

Consumer inflation

Annual consumer inflation was 3.1% for the year ending March 2026, which is unchanged from the previous quarter. Annual household living costs inflation for the "all households" category fell slightly to 2.1% in the March 2026 quarter. This decline has been very uneven, though. Annual living-costs inflation was only 1.1% for households in the highest income quintile but was 3.2% for households in the lowest quintile. Detailed analysis of March quarter consumer and living-costs inflation is provided in the March/April Bulletin.

Figure 7: Annual consumer and household living-costs inflation (%)



Source: Stats NZ

Table 1 summarises the rate of inflation for the month of May 2026 for the goods and services that we get monthly price updates on. The story here continues to be the surge in petrol and diesel prices, up 28.7% and 76.8% annually. The April numbers were even worse, with petrol up 30.1% and diesel 91.3%.

Table 1: Monthly inflation indicators, May 2026

	PREVIOUS MONTH	PREVIOUS YEAR
Food	1.0%	3.2%
Fruit & veg	2.5%	2.7%
Meat, poultry, fish	0.9%	6.9%
Groceries	1.0%	2.4%
Rent (stock measure)	–0.1%	0.3%
Electricity	1.4%	12.1%
Gas	0.5%	10.5%
Petrol	–3.8%	28.7%
Diesel	–11.4%	76.8%
Domestic air transport	–11.4%	2.8%
Domestic accommodation	–7.3%	1.7%

Source: Stats NZ

Official cash rate

The Official Cash Rate (OCR) remains at 2.25%. Although inflation was just above the top of the Reserve Bank's target band prior to the Iran war, it was expecting this to be transitory. The Monetary Policy Statement released on 27 May indicated that the bank intends to begin raising the OCR later this year, with it forecast to rise to around 3% by early 2027. This is because the war in Iran is causing inflationary pressures to intensify. Because fuel is such a critical input, the massive price shock we've seen across diesel and petrol is expected to flow through into other prices over time. There are also other prices directly affected by the war, not least fertiliser. However, as we've discussed before, monetary policy is not a very useful tool to deal with a supply shock such as this. Over the long-term, the sensible response is to build up our resilience to international price shocks – for example, by reducing our reliance on imported fuels. The next OCR decision is on 8 July.

Real estate

The housing market remains weak across the North Island, but relatively solid in the South Island. The REINZ house price index for May 2026 shows that, on an annual basis, house prices fell everywhere in the north except for Bay of Plenty. By contrast, they grew across the south, with 3% growth in Canterbury, 2.8% in Otago, and 5.8% in Southland. This continues to reflect the two-speed nature of the economy, with activity and employment stronger in the South Island, partly due to high export earnings for agriculture. The South Island also had a more moderate house price boom in 2020 and 2021, compared to the North Island. Table 2 breaks down the movements in the country's main centres.

Table 2: REINZ house price index, % change, May 2026

	3 MONTHS	1 YEAR	FROM PEAK
National	–1.7%	–0.6%	–16.2%
Auckland	–2.4%	–2.0%	–23.4%
Waikato	–1.7%	–0.7%	–13.7%
Wellington	–3.4%	–3.3%	–27.7%
Canterbury	–0.8%	3.0%	–1.1%

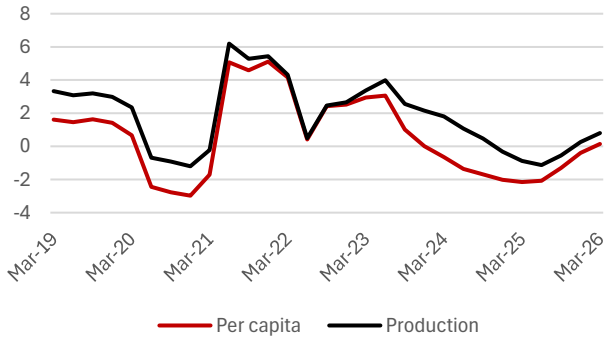
Source: REINZ. Peak is late-2021

Economic activity

Gross domestic product

The New Zealand economy was estimated to have grown 0.8% in the March 2026 quarter. This was off the back of 0.9% growth in the September 2025 quarter and 0.5% growth in the December quarter. On an annual basis, headline GDP was estimated to have grown 0.8%. On a per capita basis, annual GDP growth was much lower, at only 0.1%. However, this marks the first time that the economy has grown annually on a per capita basis since the end of 2023.

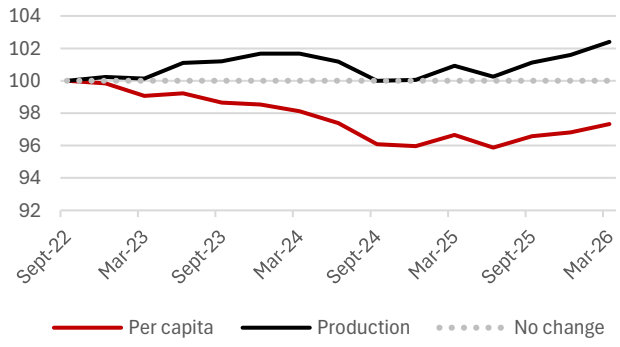
Figure 8: Annual GDP growth rate (%)



Source: Stats NZ

GDP per capita is still approximately 2.7% lower than it was in the pre-recession peak of September 2022 (on seasonally adjusted figures). On the headline measure of GDP, the economy has grown about 2.4% since September 2022. This is illustrated in Figure 9.

Figure 9: GDP index since September 2022 (seasonally adjusted)



Source: Stats NZ. 100 = Sep 2022

On a quarterly basis, the services sector (which makes up three-quarters of GDP) was estimated to have grown 0.5%, after recording 0.7% growth the previous quarter. The goods-producing sector (which makes up one fifth of GDP) was estimated to have contracted by 0.4%, following no growth in the previous quarter. Finally, the primary sector (which makes up just over 5% of GDP) was estimated to have contracted 0.5%, reversing some of the gains of the previous quarter.

Annually, the services sector was estimated to have grown 1.4%, with performance mixed across the different industries. Wholesale trade (up 4.2%) and retail trade and accommodation (up 3.2%) both grew particularly strongly.

The goods-producing sector, which has been hardest hit during the downturn of the past three years, was estimated to have contracted by 1.7% on an annual basis, with construction shrinking 4.5% and manufacturing shrinking 0.7%. This is reflected in the large declines in filled jobs in these industries over recent years – unfortunately, this will have forced many skilled workers offshore. If food manufacturing is excluded, the manufacturing sector has contracted an astonishing 14.8% since March 2022.

The primary sector was estimated to have grown a weak 0.2%, with this led by 1.1% growth in agriculture, forestry, and fishing, and partially offset by a 5.3% contraction in the volatile mining sector. The growth in primary industries reflects sustained international demand for agricultural and horticultural exports.

Table 3: Expenditure on GDP, Mar 2026

	DEC-25 QUARTER	MAR-26 QUARTER	ANNUAL AVE CHANGE, YE MAR-26
Household consumption	–0.1%	0.5%	1.5%
Central govt consumption	2.3%	1.4%	3.6%
Local govt consumption	0.1%	2.2%	5.4%
Gross fixed capital formation	–1.3%	2.0%	–0.2%
Gross capital formation	1.3%	1.6%	1.1%
Exports less imports	1.3%	4.2%	5.4%
Expenditure on GDP	0.4%	1.0%	1.3%

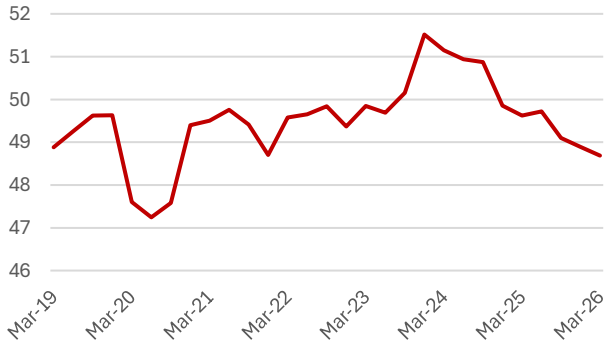
Source: Stats NZ. YE = year ended.

On a quarterly basis, household consumption expenditure was estimated to have grown 0.5%, which comes off the back of a 0.1% contraction in the December quarter. Household spending on durable goods (a marker of disposable income) increased notably, up 0.6%, while spending on non-durable goods

increased 0.3% and spending on services 0.4%. This growth in household expenditure is a further indication that economic activity was recovering in the first part of the year. Non-resident expenditure (tourism) also grew, up 1% for the quarter. Business investment bounced back from its previous decline in the December quarter, posting 3.7% growth. This was driven by a 5.5% increase in expenditure on plant and machinery and transport equipment, and a 6.7% increase in expenditure on transport equipment. Overall, expenditure on GDP grew 1% on a quarterly basis and 1.3% on an annual average basis. Table 3 breaks some of these numbers down.

Overall, the data shows that the New Zealand economy was beginning to recover towards the end of 2025 and the first part of 2026. Prior to that, the only real strong point in the economy had been the primary sector, due to robust demand for key exports like dairy and beef. However, the Iran war has been another setback. The inflationary shock it has created is squeezing household incomes and some businesses, meaning lower spending and investment than otherwise. Economic forecasters therefore expect the impacts of the war to be a drag on New Zealand economic activity. The longer the conflict goes on, the bigger the negative impacts will be for New Zealand economically. (For further discussion of the economic forecasts, see our Workers' Analysis of Budget 2026.)

Figure 10: Gross labour income share (%)



Source: Stats NZ

Stats NZ has started to publish quarterly, seasonally adjusted GDP income data, which allows us to provide up-to-date estimates of movements in the labour share of income (previously, the GDP income data has been published with a long lag). As Figure 9 shows, the past two years have seen a steep drop in the labour income share, meaning that workers are getting less of the value produced in the New Zealand economy than they were previously. In the December 2023 quarter, the gross labour income share was estimated to be 51.5%. This had fallen to 48.7% by the March 2026 quarter. More of the economic pie has been going towards business in the last two years.

Retail trade

Retail sales volumes grew in the March 2026 quarter. The total volume of seasonally adjusted sales (a measure that strips out inflation and seasonal fluctuations in spending) increased 0.9% compared to the December 2025 quarter. On the "core industries" measure, which strips out consumer spending on fuel and motor vehicles and parts, sales increased 1%. These numbers indicate that consumer spending was lifting in the March quarter, suggesting that economic recovery was underway.

Compared to the December 2025 quarter, seasonally adjusted sales volume in the big categories of expenditure were as follows: up 1.7% in supermarkets and grocery; down 0.2% in department stores; up 2.7% in hardware, building, and garden supplies; down 4.8% in clothing and footwear; up 0.7% in electrical and electronic goods (which has seen strong spending growth since mid-2024); up 2.8% in pharmaceutical and other store-based retailing; and up 1.3% in food and beverage.

Balance of payments

The current account deficit for the year ended March 2026 was estimated to be $16.3 billion, or 3.6% of GDP. This is an improvement from the previous year, when the current account deficit was around $18.3 billion, or 4.2% of GDP. This narrowing of the deficit is the result of favourable terms of trade which has increased export revenue, combined with the weakness of the domestic economy, which has limited appetite for imported goods. On a quarterly basis, the current account deficit was slightly worse than the December 2025 quarter, due to a widening of the goods deficit.

For the year ended March 2026, New Zealand's net international investment liability was $193.1 billion, or 42.8% of GDP, its lowest level in decades. This position

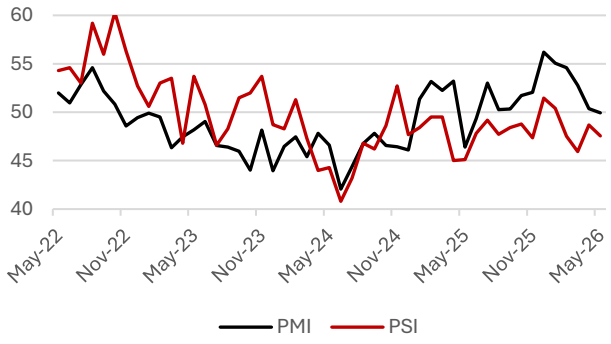
shows the value of financial claims held by New Zealand residents on non-residents against the financial liabilities of New Zealand residents to non-residents. New Zealand's net external debt position was $220.8 billion, or 49% of GDP. This means that New Zealand is a net debtor to the rest of the world. The majority of this deficit is accounted for by the commercial banks.

Performance indexes

The BNZ–BusinessNZ performance of manufacturing index (PMI) registered contraction in May, at 49.9, as did the performance of services index (PSI), at 47.5. The PMI had been in expansion since July last year, indicating a recovery of sorts in the sector. This appears to have been snuffed out by the war in Iran. The services index began to register expansion in December 2025, but then dipped back into contraction in February 2026, where it has stayed.

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.

Figure 11: BNZ–BusinessNZ Performance indexes



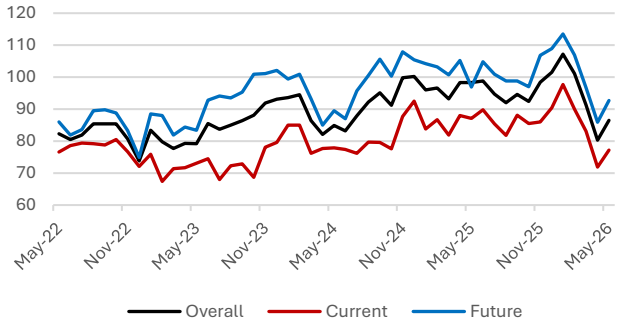
Source: BusinessNZ

Consumer confidence

The ANZ–Roy Morgan Consumer Confidence Index rallied slightly in May, though remains deeply negative at 86.5. Confidence in current economic conditions rose 5 points but remains very low at 77.2. Confidence in future economic conditions also rose, up 6 points to 92.7.

A score above 100 on the index indicates consumers on balance have confidence in current and future economic conditions; less than 100, and they are pessimistic.

Figure 12: ANZ–Roy Morgan Consumer Confidence Index



Source: ANZ

Business confidence

Business confidence as reported by ANZ rose in May, up 21 points to +10. This is a bounce-back from the previous two months in which confidence fell steeply, due to the war. In May, confidence was positive or neutral across all five industry groupings – retail, manufacturing, agriculture, construction, and services – that ANZ reports on. "Activity vs same month one year ago" was strongly positive across manufacturing and agriculture – likely reflecting the strong demand for exports over the past year – weakly positive in services, and negative in retail and construction. "Employment vs same month one year ago" was positive in manufacturing, neutral in agriculture, and negative across retail, construction, and services.

ANZ's survey measures business confidence based on whether respondents think conditions will be better or worse in the future.

Government accounts

For the ten months ending April 2026, the government accounts were slightly better than had been forecast at the Budget Economic and Fiscal Update (BEFU). Core Crown tax revenue was $1.8 billion (1.8%) higher than forecast, and core Crown expenses were a touch lower than forecast. Higher tax revenue was driven by corporate tax, other individuals' tax, and GST all coming in over forecast. The OBEGAL (operating balance excluding gains and losses) deficit was $8.8 billion, which was $3.5 billion (28.3%) lower than forecast. The current government's preferred measure of OBEGALx (which excludes ACC from the calculations), registered a deficit of $6 billion, which was $3.2 billion (34.9%) lower than forecast. Net core Crown debt also came in slightly below forecast, at 42.8% of GDP.

Compared to the same time last year, the fiscal position has marginally improved. Core Crown tax revenue grew $3.5 billion (3.5%), driven mostly by wage taxes and GST. Core Crown expenses also grew, up $3.9 billion (3.4%), due primarily to higher spending on welfare and superannuation (up $2.3 billion), health costs (up $1.8 billion), education spending (up $500 million) and transport and communications expenditure (up $300 million). The OBEGAL deficit shrank by $2.9 billion (24.5%), while the OBEGALx deficit was $1.4 billion (19.2%). Net core Crown debt as a percentage of GDP was marginally lower than last year.

Table 4: Interim financial statements of government for the ten months ended 30 April 2026

	APR 2026 ACTUAL	BEFU FORECAST	APR 2025 ACTUAL
Core Crown tax revenue ($bn)	103.9	102.1	100.4
Core Crown revenue ($bn)	114.5	112.1	110.8
Core Crown expenses ($bn)	119.7	120.0	115.8
OBEGAL ($bn)	–8.8	–12.3	–11.7
OBEGALx – excluding ACC ($bn)	–6.0	–9.2	–7.4
Net core Crown debt (% of GDP)	42.8%	43.1%	43.2%

Source: Treasury. BEFU = Budget Economic and Fiscal Update (published May 2026)