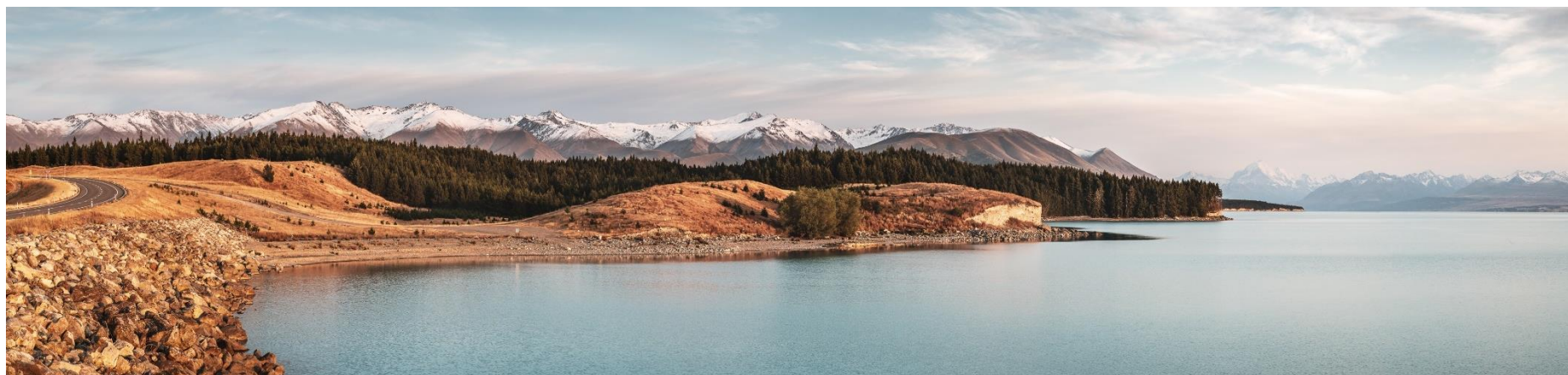


SALT

New Zealand Chartbook

Bevan Graham, Economist

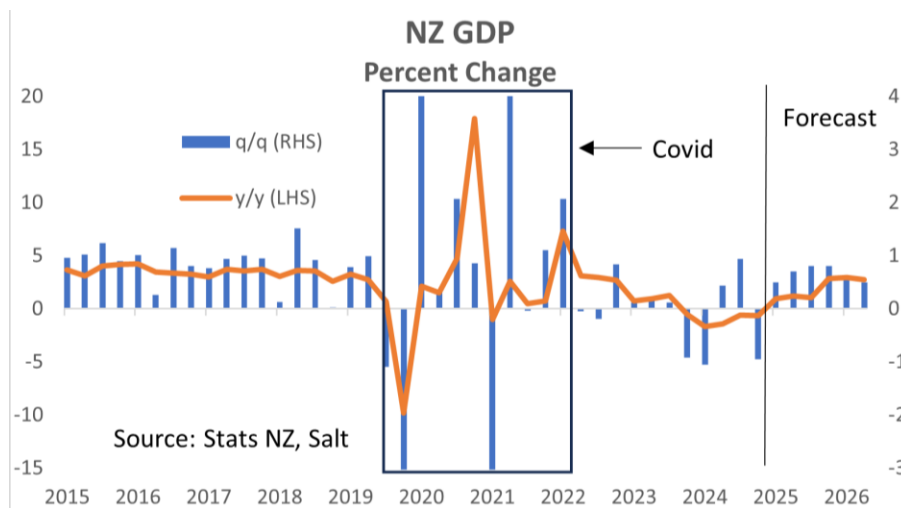
November 2025



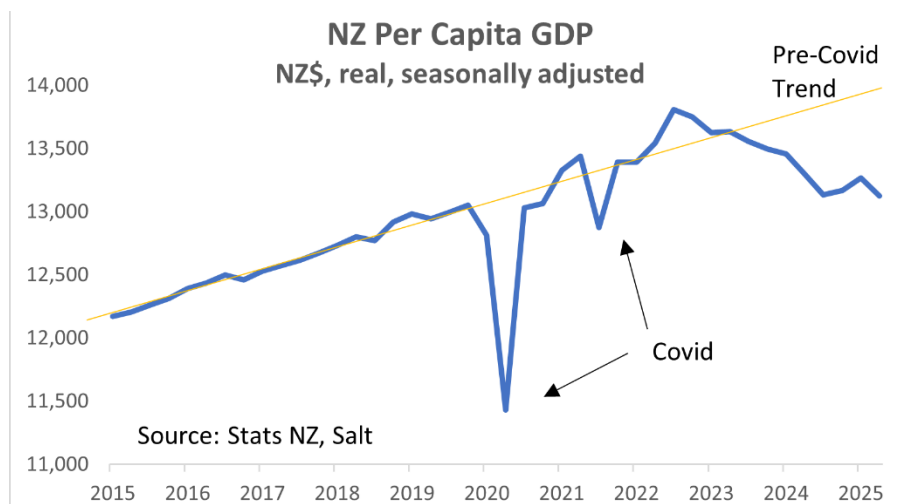
Highlights

- **After surprising to the upside in the March 2025 quarter, NZ GDP growth surprised to the downside in the June quarter, both by an order of magnitude that likely overstated the strength and weakness of the respective periods.**
- **We expect a more sustained period of growth to emerge from the September quarter, reflecting the ongoing pass-through of lower interest rates into household disposable incomes and firm commodity prices. However, the recovery will remain hard work given the absence of traditional tailwinds of population growth and house price inflation.**
- **The labour market will likely remain soft for a few months yet. The unemployment rate is expected to have peaked at around 5.3% in the September 2025 quarter, with no meaningful improvement until 2026.**
- **Annual CPI inflation back at the top end of the target band, but we expect this rise will be temporary, with the annual rate likely to head back towards 2% through the early part of next year. That view is not without risks, however. Much will depend on the extent to which businesses look to restore margins as activity improves and the extent to which the current higher inflation rate may become entrenched in household inflation expectations.**
- **The Official Cash Rate has thus far been lowered 300bps to 2.5%. We have pencilled in one further 25bp cut at the November MPS for a low of 2.25%. We see the RBNZ needing to start withdrawing some of that stimulus from early 2027.**

Green shoots emerging

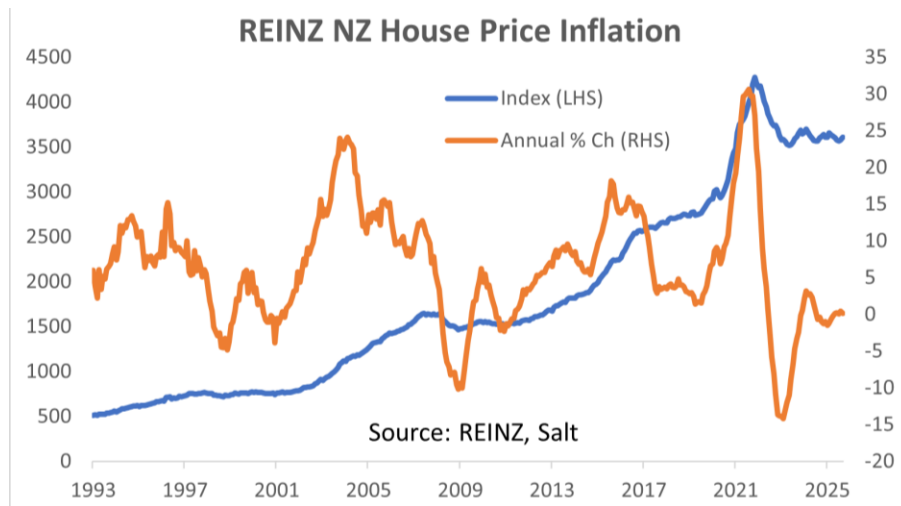


After surprising to the upside in Q1 NZ GDP surprised to the downside in Q2, both by an order of magnitude that likely overstated the strength and weakness of the respective periods. We expect a more sustained period of growth to emerge from Q3, but the recovery will remain hard work given the absence of traditional tailwinds of population growth and house price inflation.

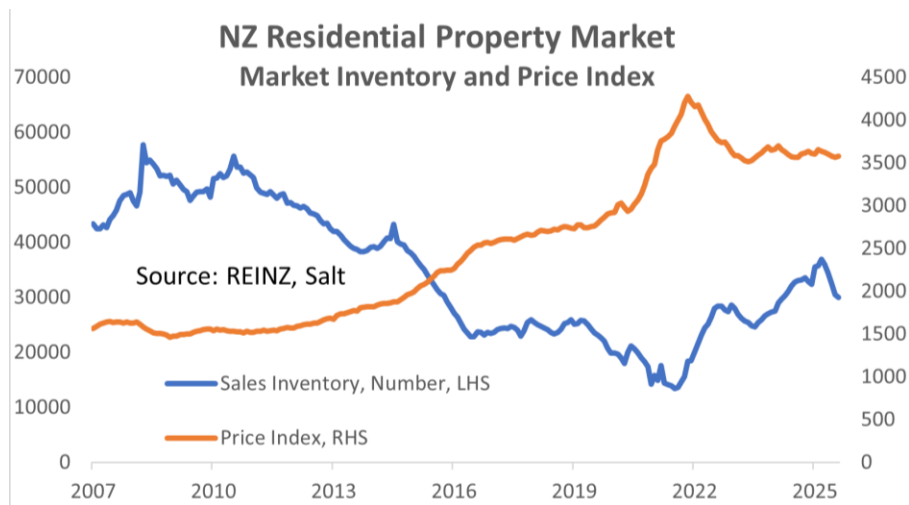


The fledgling recovery in per-capita GDP took a step backwards in Q2. It is 5% below the peak of September 2022, which was admittedly inflated by the post-Covid bounce in spending. But we are also well below where the pre-Covid trend line would have had us if the pandemic had not occurred. It will be a long, hard journey back.

No tailwind from house price inflation...

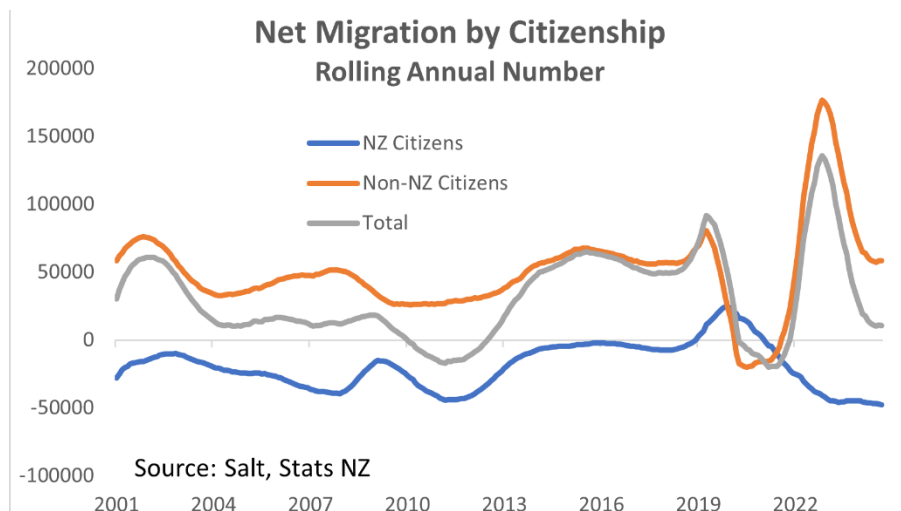


House price inflation has been a traditional tailwind to economic growth as households have benefitted from the wealth effect of higher prices. However, house prices remain soft in the early months of 2025. The annual rate of change currently stands at +0.2% in the year to September, with future gains expected to remain modest for a host of cyclical and structural reasons.

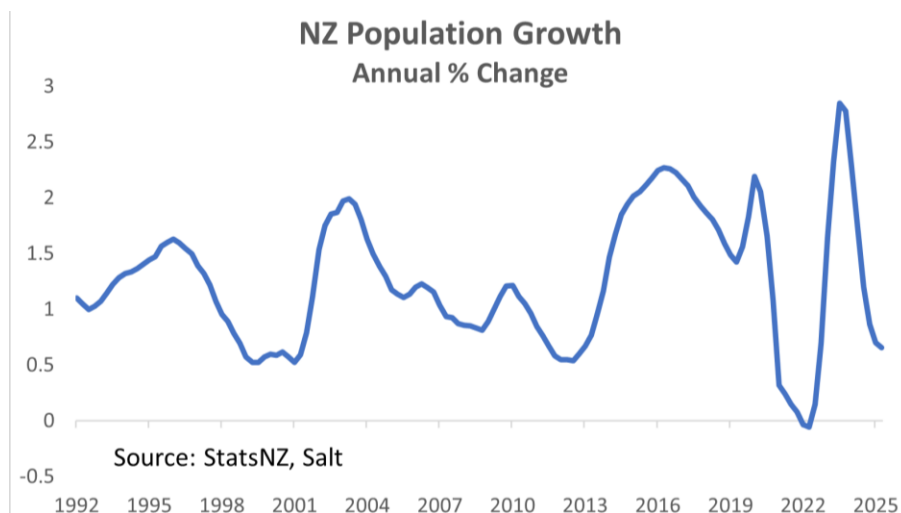


The key constraining factor is the level of inventory which remain at close to decade highs. Lower population growth, still high interest rates relative to the last cycle, too high vendor price expectations, the ageing population and public policy initiatives that have boosted housing supply and land availability are key factors that are expected to keep house price inflation in check in the period ahead.

...nor population growth

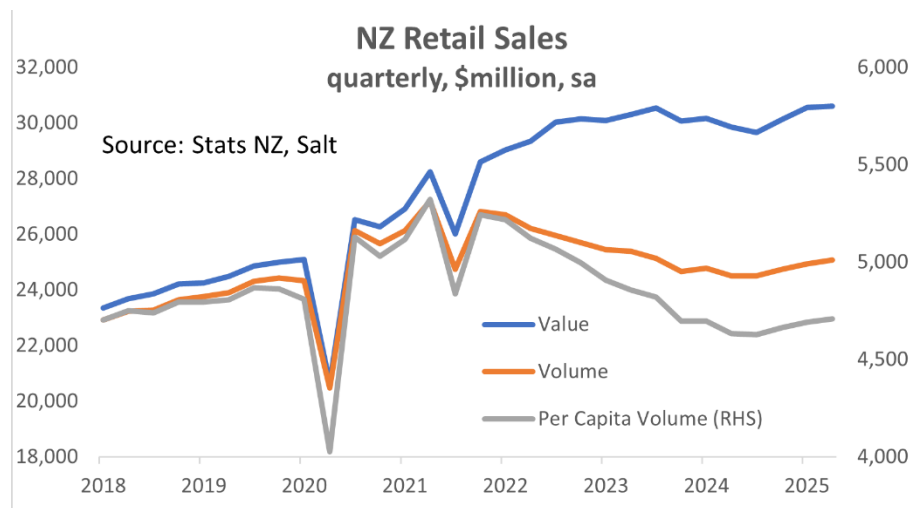


Net migration has now fallen to around +10,600 and appears to be forming a base. This is well down on the post-border-opening peak of 135,500 peak of October 2023. The decline is a function of strong net outflows of NZ citizens and lower net inflows of non-NZers. This lower level of inward migration has obvious implications for economic activity but also labour market supply.

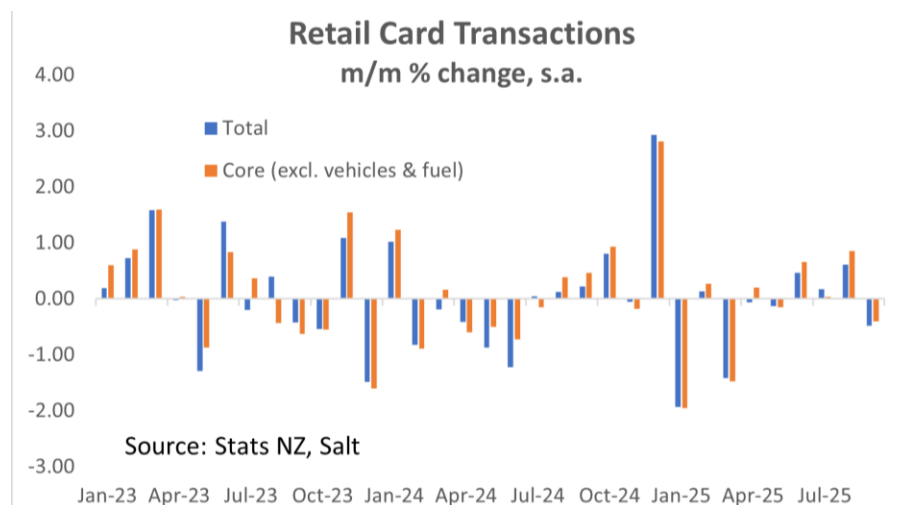


Net migration explains much of the volatility in New Zealand's population growth. As migration peaked at the end of 2023, population growth peaked at +2.8%. As migration has slowed, so too has population growth, coming in at +0.7% for the year to June 2025. This slower growth has obvious implications for the expected rate of growth in activity in the period ahead.

Retail spending recovering slowly

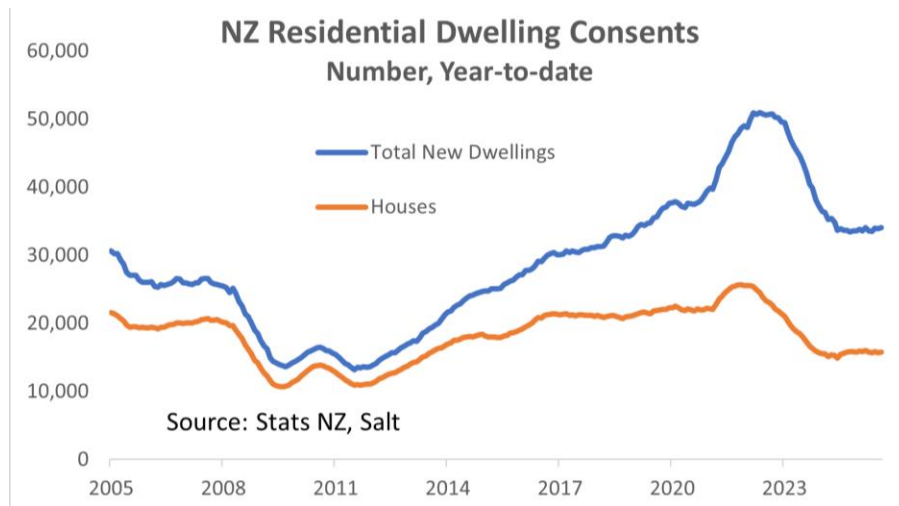


Consumers started to open their wallets as the end of 2024 approached with a bounce in retail spending in the final three months of the year. However, higher prices are still accounting for much of the turnaround. Sales volumes were up +0.5% in the March 2025 quarter for an annual gain of +2.4%. It will be long journey back to a full recovery, especially per-capita sales, but things are moving in the right direction.



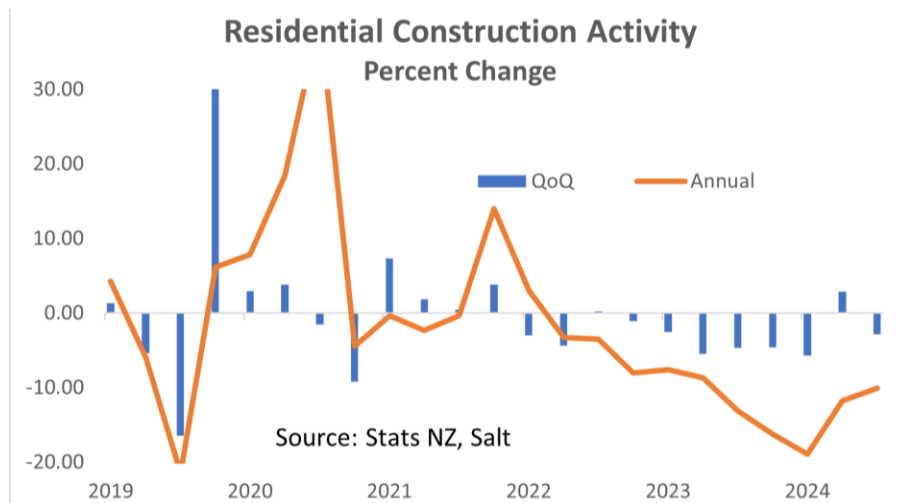
Caution about the pace of recovery in spending in the early part of 2025 has been reinforced with recent retail card transaction data showing that spending has been a stop-go affair over the first few months of 2025. Low population growth and the absence of a wealth effect from house prices will keep the recovery gradual. On a positive note, households with debt are continuing to benefit from lower interest rates.

Residential construction stabilising, but no rebound yet



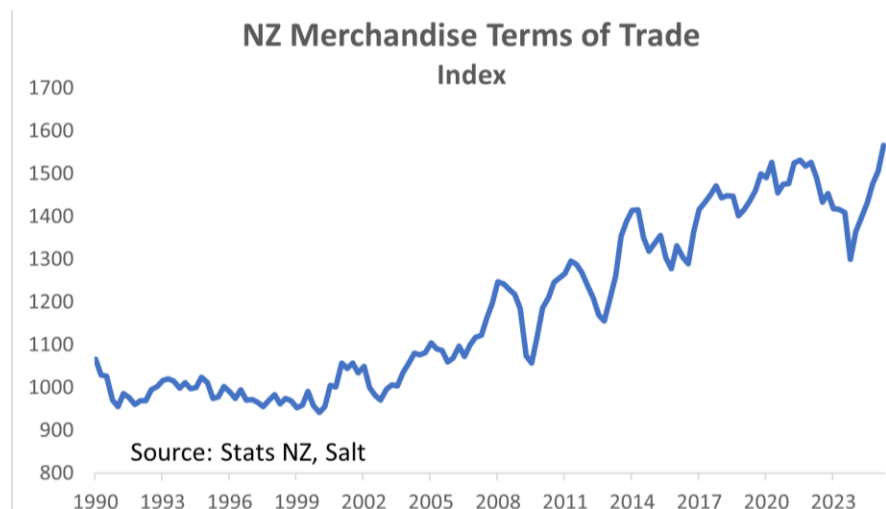
Consents for new dwellings have fallen sharply over the last couple of years but now appear to be finding a floor (pun intended). With interest rates now falling and house prices stabilising, a recovery is likely in the months ahead.

However, the slowdown in the rate of population growth will provide something of a brake on any sharp recovery.

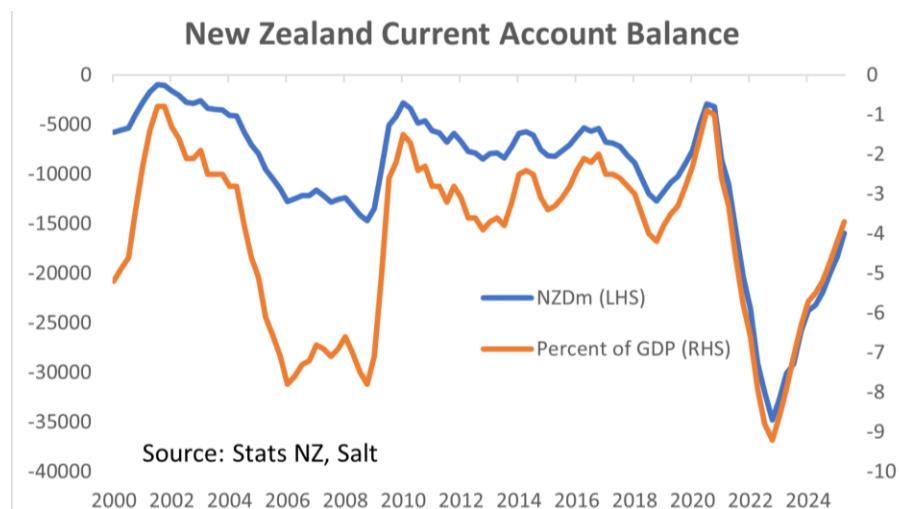


Residential building work put in place rose for first time in over two years in the March quarter of 2025 but then gave that gain back in the June quarter. A sustained improvement in residential construction activity appears unlikely until next year.

Terms of trade on a tear

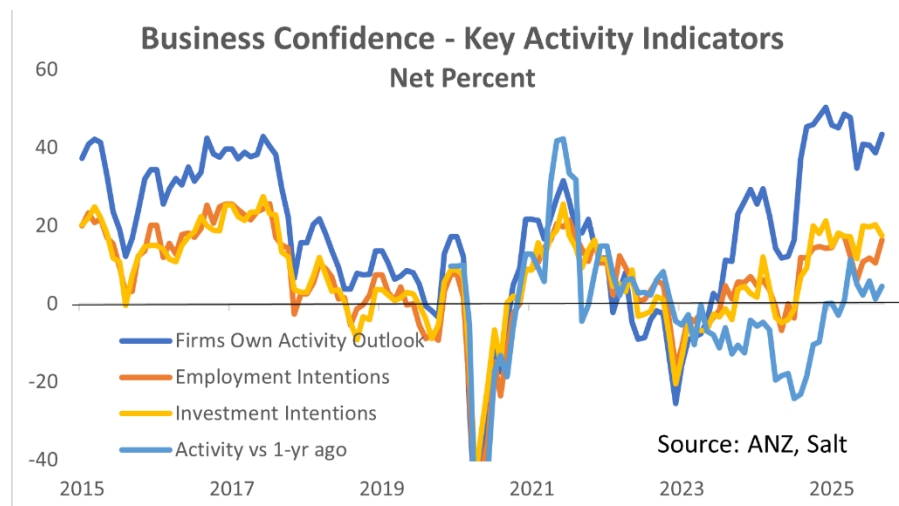


NZ's Terms of Trade index has now risen 20% off its recent lows, the combined result of a 17% increase in export prices and a 3% fall in import prices. The index is now at a record high. Higher commodity prices are a key support for the economy right now as other typical key supports are absent. This is why regional data typically shows better levels of activity in the provincial centers.

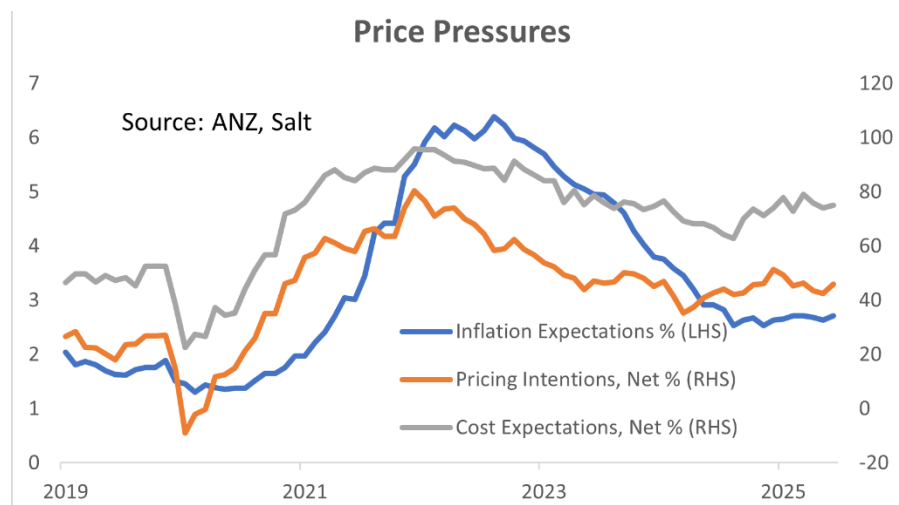


The improved terms of trade is leading to a more significant improvement in the current account deficit than we had previously been anticipating. Positive revisions have also helped. The annual deficit improved to -3.7% of GDP in the June 2025 quarter. That's still large considering we have a record high in the terms of trade, but the deficit is now getting back to a level that will cause less consternation from rating agencies.

Business confidence still upbeat

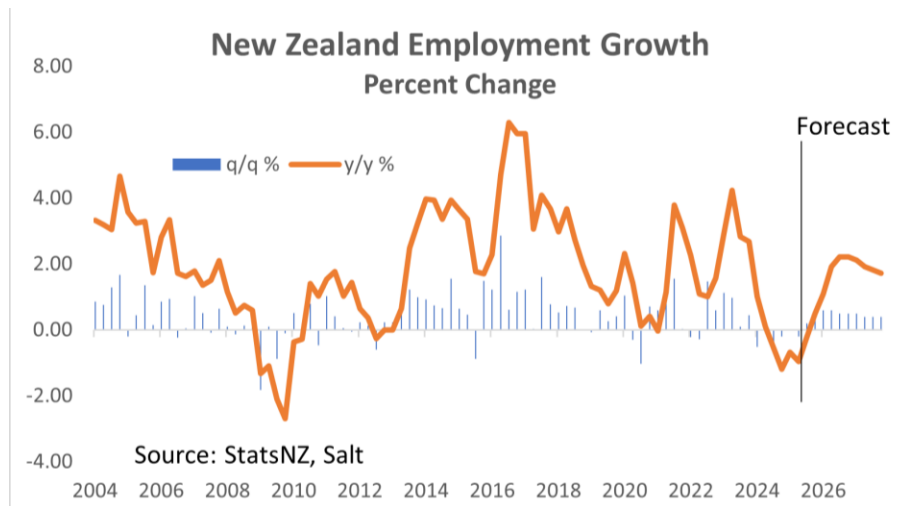


The recovery in the ANZ's Business Outlook survey has continued following May's likely tariff-induced slump. The question asking respondents about activity relative to last year remains consistent with the stop-start nature of the recovery in some of the key activity indicators.

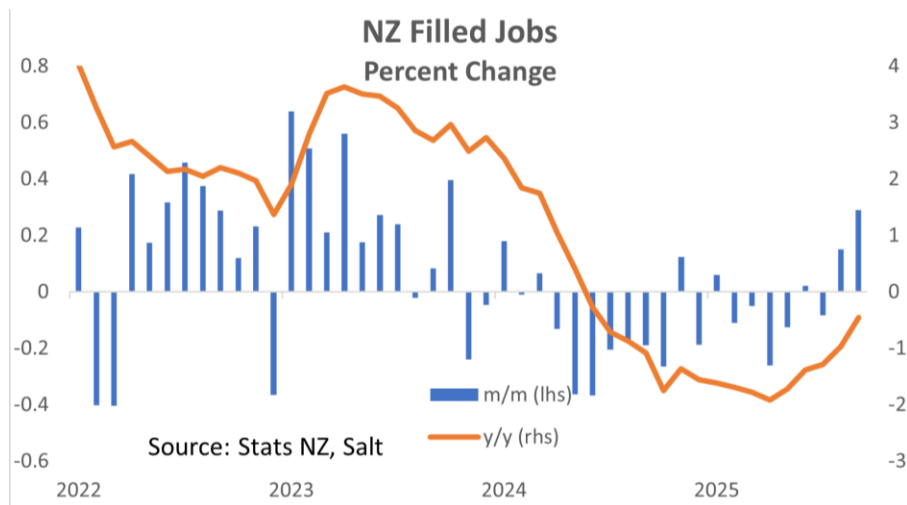


Pricing intentions, cost expectations and inflation expectations all remain within recent ranges. Pricing intentions in particular warrants close attention in the period ahead as some firms may look to restore margins as demand conditions improve. The RBNZ won't be uncomfortable with inflation expectations at 2.71%.

Employment conditions looking a little brighter

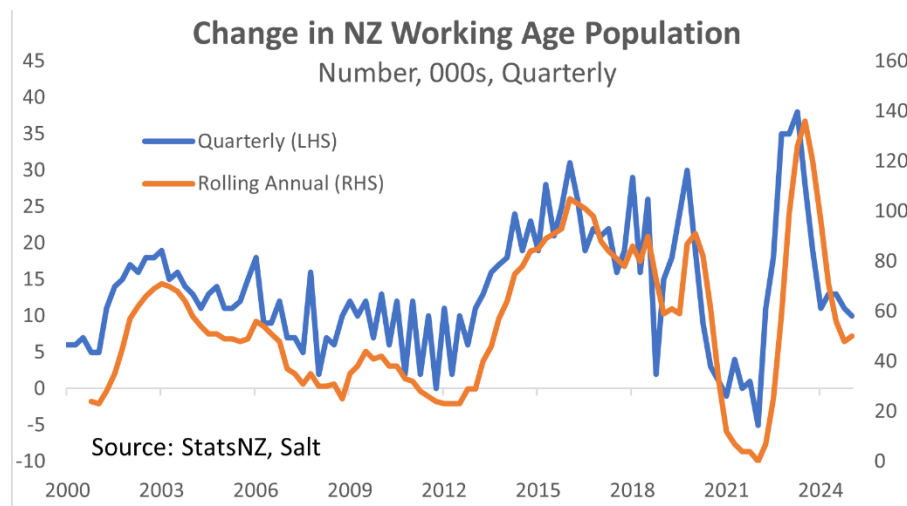


Like many indicators in the June quarter, employment also took a step back, falling -0.2% q/q to be down -1.0% y/y. The September quarter is looking a little brighter with +0.2% growth expected, though the overall recovery in employment will be subdued, in line with our expectations of an only modest recovery in activity.

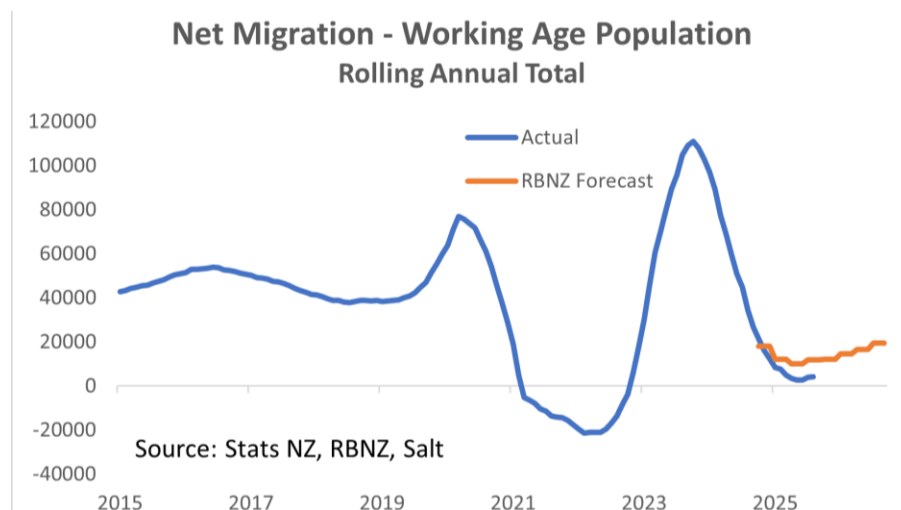


Recent filled jobs data supports the story of a modest gain in employment in the Household Labour Force Survey in the September quarter. This data has a tendency towards downward revisions, but the trend is certainly heading in the right direction.

Labour market supply constrained

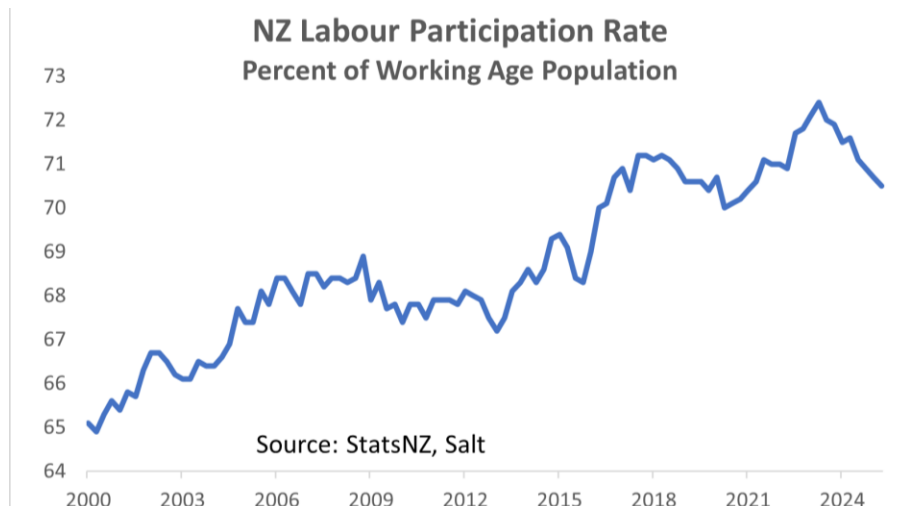


As demand for labour has remained soft, growth in the supply of labour has also slowed, limiting the rise in the unemployment rate. This followed a period of rapid growth as borders reopened following the Covid pandemic and was a key contributor to the moderation in wage growth and inflation that followed. We expect only modest growth in the working age population in the period ahead.



The biggest source of recent growth in the working age population has been net migration. This is a critical input into measures of potential GDP growth (the speed at which the economy can grow without generating excess inflation). Latest revisions to migration data suggests the RBNZ will likely be revising their estimates of growth in the working age population and potential GDP down in the November MPS.

Unemployment rate close to peak



A further moderating influence on the rise in the unemployment rate has been the recent decline in the participation rate (the proportion of the working age population that is either in or actively seeking work). During recessions people can become discouraged at the prospect of finding work and drop out of the labour market. We are going through such a period currently.

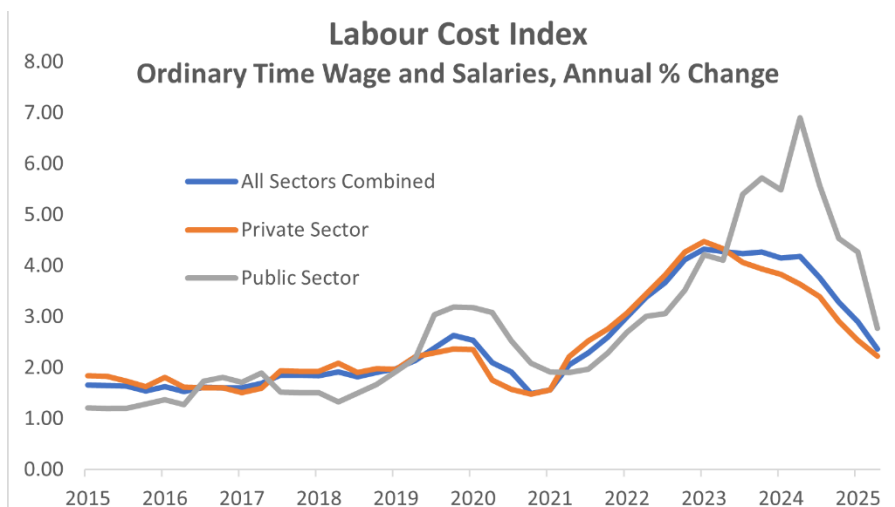


The unemployment rate has risen sharply over the past two years as demand for employment has contracted. The unemployment rate stood at 5.2% in the June 2025 quarter with the decline in the participation rate preventing a sharper rise. We still see this peaking at around 5.3% in the September quarter before a gradual improvement begins. This will be a key factor in improving consumer confidence and spending through 2026.

Wage growth moderating

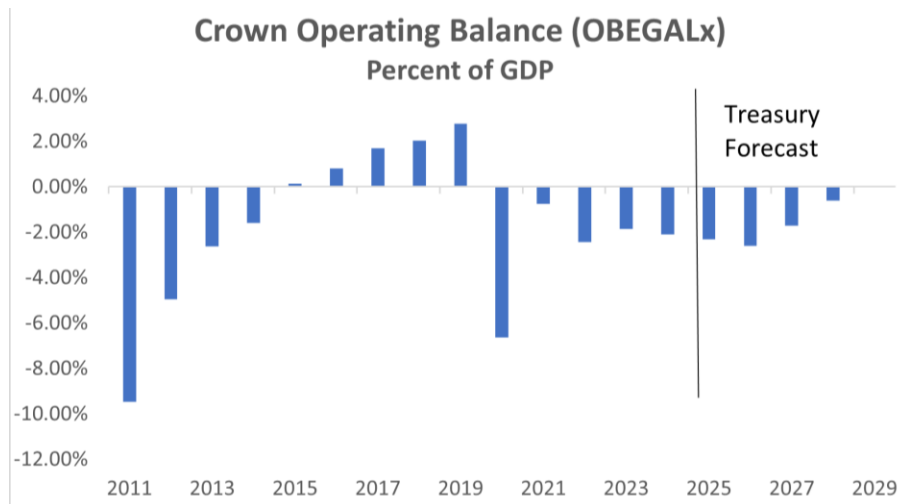


September quarter wage growth from the Quarterly Employment Survey was stronger than expected, coming in at +1.9% q/q and 4.6% y/y. This data can be volatile and while the annual rate appears to be climbing again, this shouldn't detract from the story that wage growth is running at around half the level it was during the Covid period.

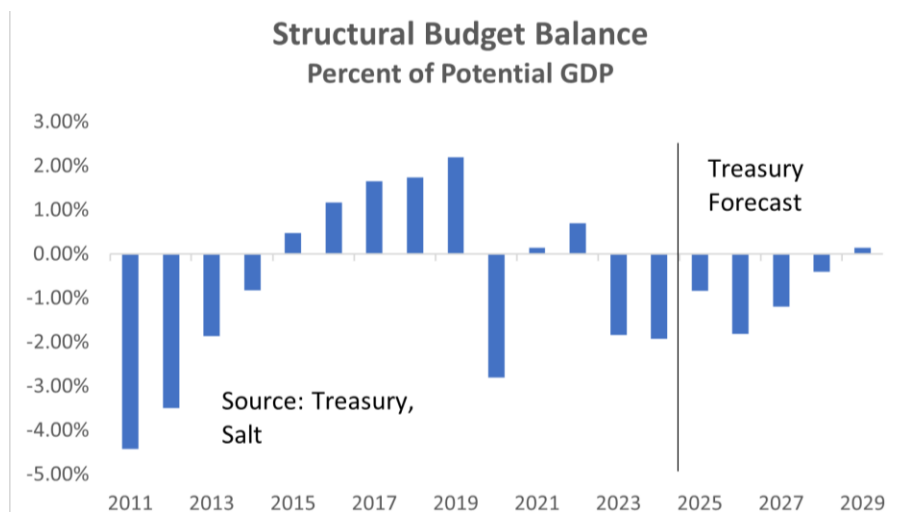


The Labour Cost Index is the more reliable measure of wage inflation. The key measure for the RBNZ is for the private sector as it is the measure they can most influence. From a peak of 4.5% this has now fallen to 2.2% as at June 2025, close to the 2% that would be consistent with target inflation. Ongoing softness in the labour market will lead to further moderation in the months ahead.

Fiscal position is challenging

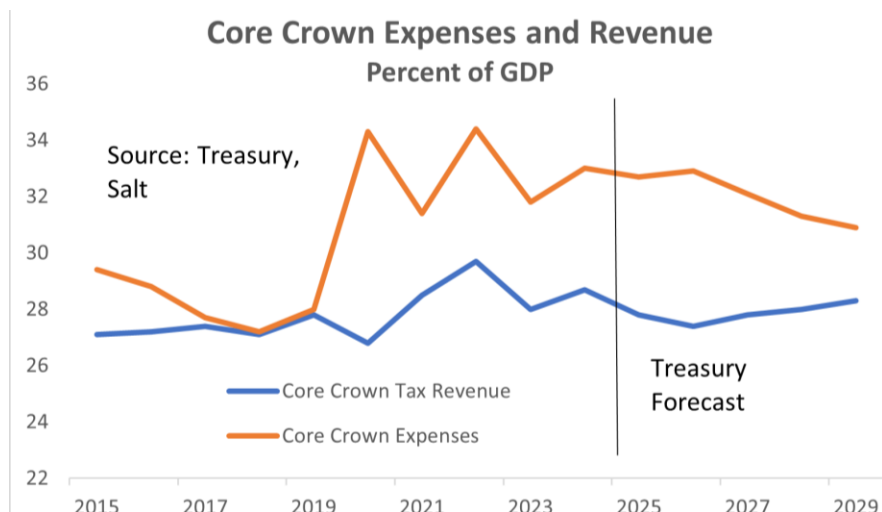


The Government continues to target a return to surplus in 2029, but that forecast surplus is wafer thin, rounding to zero as a percentage of GDP. Furthermore, we believe the fiscal forecasts are based on growth assumptions that are at the optimistic end of the spectrum. The Treasury is forecasting average GDP growth of 2.8% in the period 2026-2029. Our own forecasts average 2.3%.

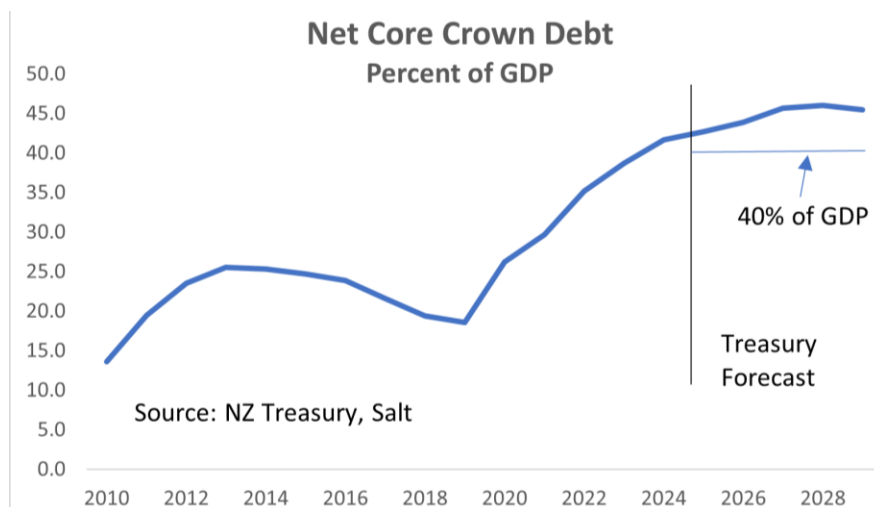


Trade disruptions aside, adjusting for the economic cycle reveals that the budget deficit problem is structural, meaning that just a pick-up in growth (to its current potential) is insufficient to solve the deficit problem. We need either higher potential growth, reductions in current levels of expenditure, or new sources of revenue.

No easy fix

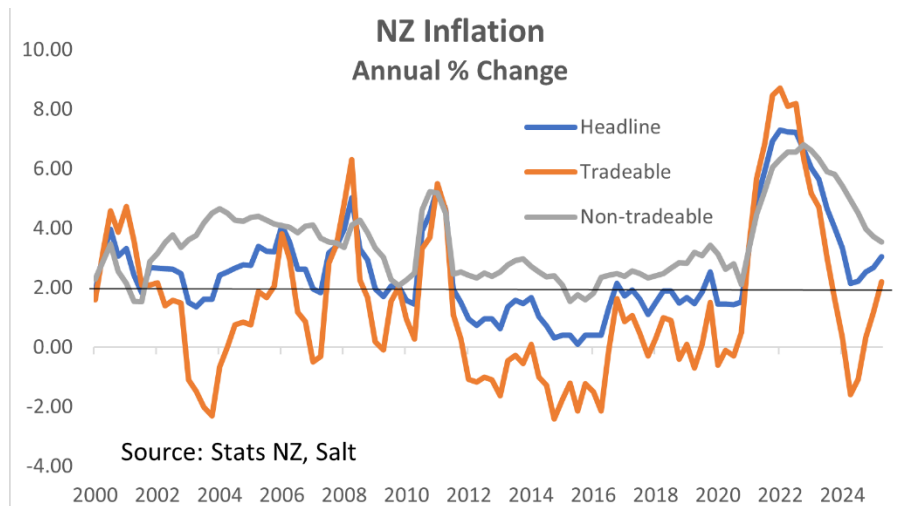


While the Government has stabilised the Crown expense ratio, expenses remain significantly higher than prior to the pandemic. From here, a more strategic approach to cost cutting will be required. For those advocating higher taxes as the answer, it should be noted that tax revenue is already forecast to rise as a percentage of GDP.

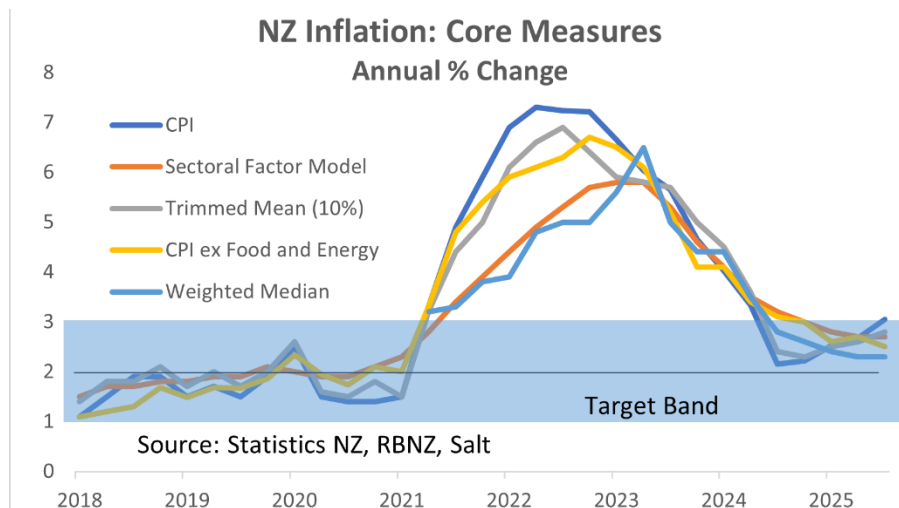


The Government remains committed to its 40% target for net Crown debt, which we fully support. It is essential we restore a buffer for whatever the next crisis is that gets thrown at us. Allowing a higher debt level, along with the associated higher debt servicing costs, is not the answer. Higher debt servicing simply crowds out more important expenditure.

Back to the top of the band

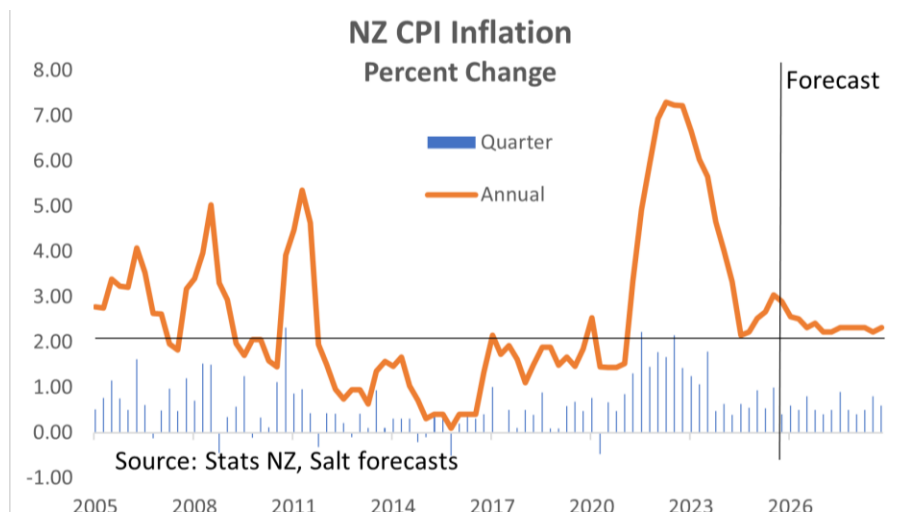


The annual rate of CPI inflation has moved back to the top end of the RBNZ's 1-3% target band. Tradable inflation has moved back into the top half of the band while non-tradable inflation has continued to moderate in line with the weakness in the economy. The combined impact saw headline inflation print at 3.0% in the year to September.

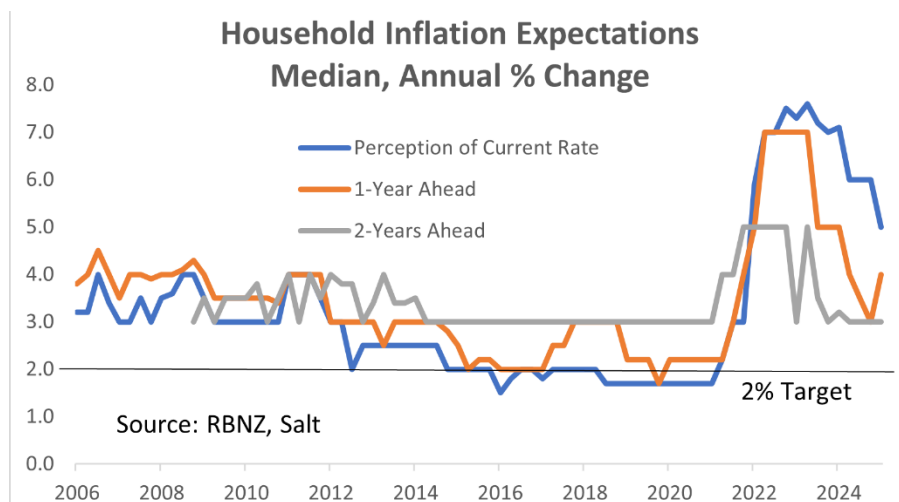


All the core measures of CPI inflation are within the target band. That said, they are all in the top half of the band with none of the measures threatening to move into the bottom half anytime soon.

A blip, then back towards 2%

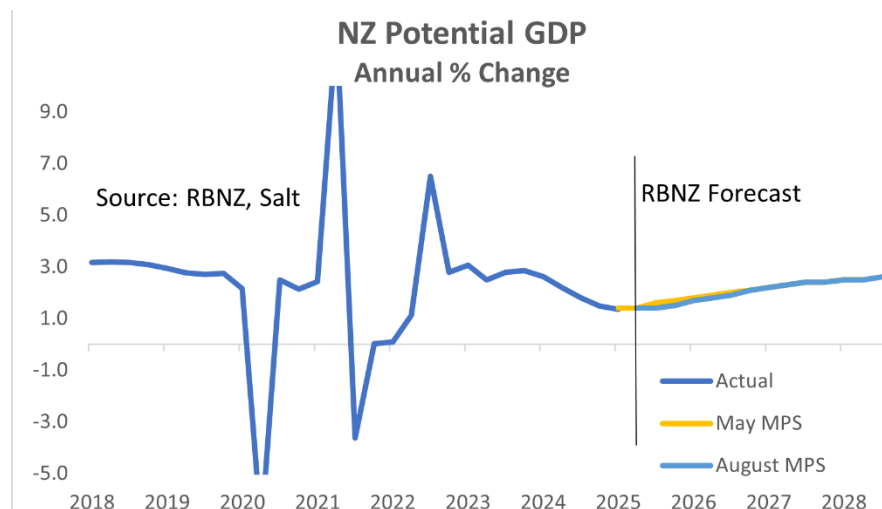


The move back up to 3.0% inflation was anticipated by the RBNZ. Importantly, they (and we) see this as a temporary rise with the annual rate likely to head back towards 2% through the early part of next year. That view is not without risks, however. Much will depend on the extent to which businesses look to restore margins as activity improves.

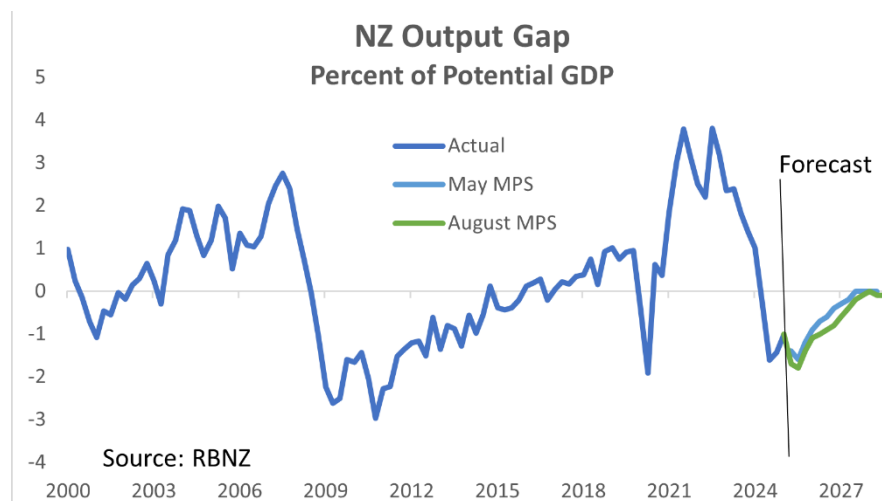


The RBNZ will also be watching inflation expectations. IF household expectations tick higher again, this blip higher in inflation could prove more persistent. It's a reasonable risk given that some of the biggest recent price increases have come in CPI items that households see quite regularly, like groceries, local authority rates and electricity prices.

Oodles of spare capacity, but low potential

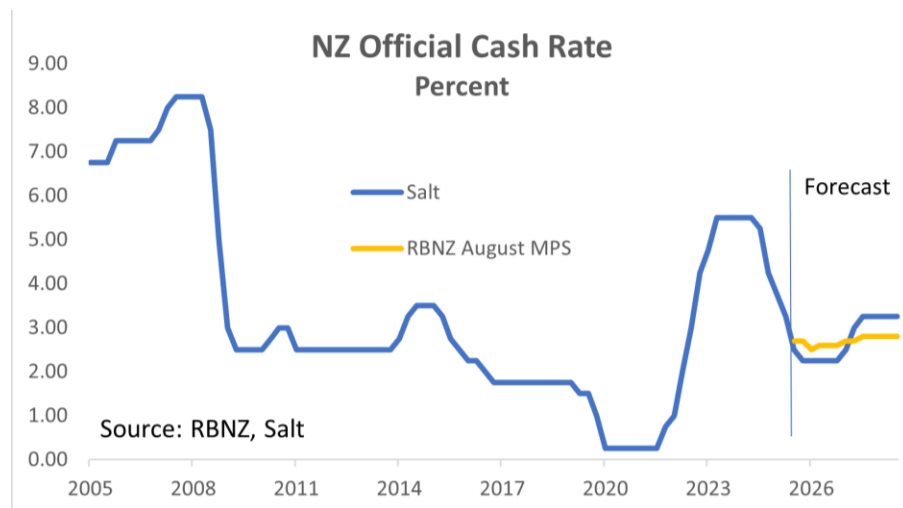


Critical to the outlook for inflation and monetary policy is how fast the economy can grow while achieving low and stable inflation, or its potential growth rate. This is a function of factors such as growth in the working age population and productivity. The RBNZ estimates our potential growth rate is currently around 1.4%. Not flash.

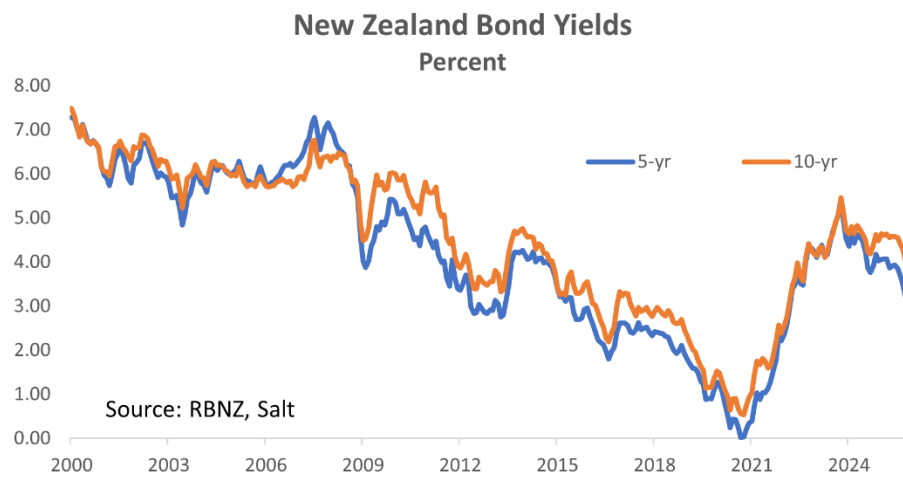


Likely revisions aside, we currently have a large negative output gap. Given the likely modest growth in the period ahead, this will take some time to close. When it is closed, sustainable growth in the economy is then constrained by our low potential growth rate.

Are we there yet?

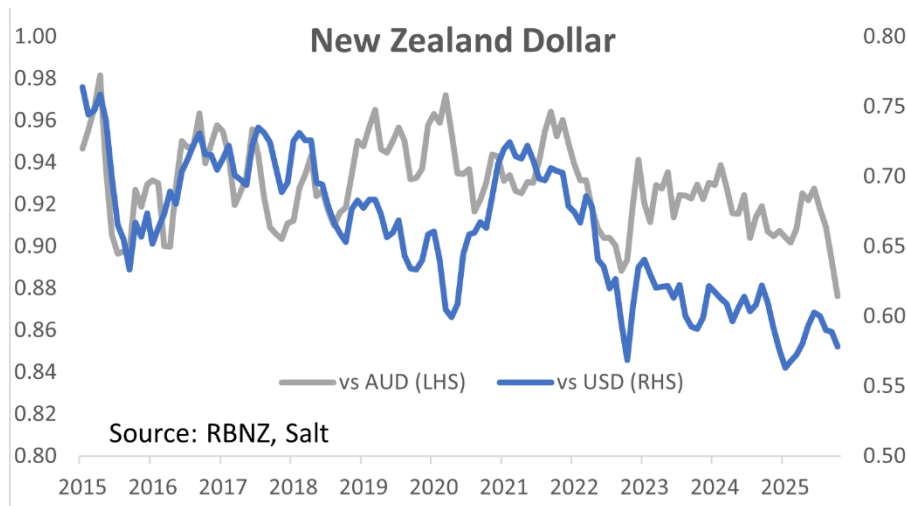


Events have moved ahead of the RBNZ's own August interest rate projections. At that time they signalled a further 25bp cut was likely for a terminal rate of 2.50%, but then delivered the full 50bp following the weaker than expected June quarter GDP result. They also signalled further cuts we likely. We see one more 25bp cut in November for a low of 2.25%. We see the RBNZ needing to start hiking again from early 2027.

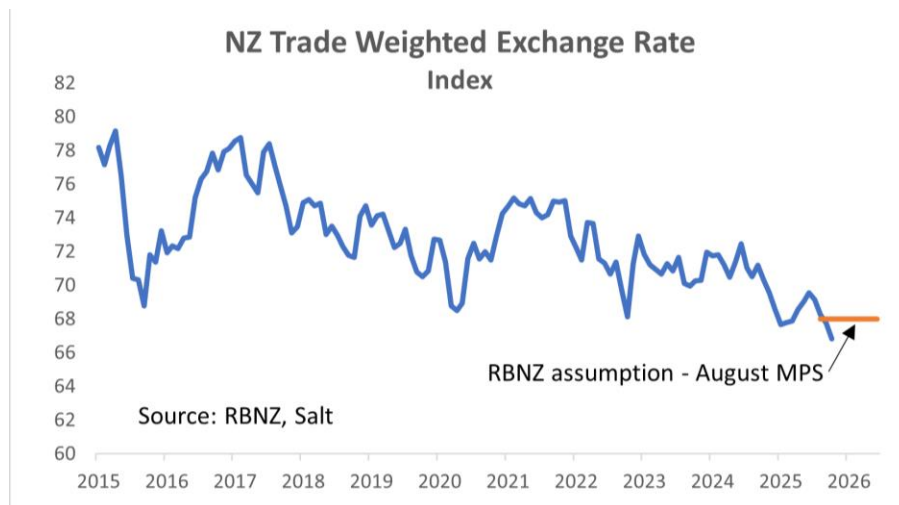


The shorter end of the bond curve is lower than at the time of our last report as monetary policy has continued to ease, not just in New Zealand but globally. The long-end hasn't been as strong given increasing concern about fiscal sustainability in much of the developed world. Yield curves are generally steeper as monetary policy expectations keep the shorter end of the yield curve anchored.

Renewed weakness in the NZD

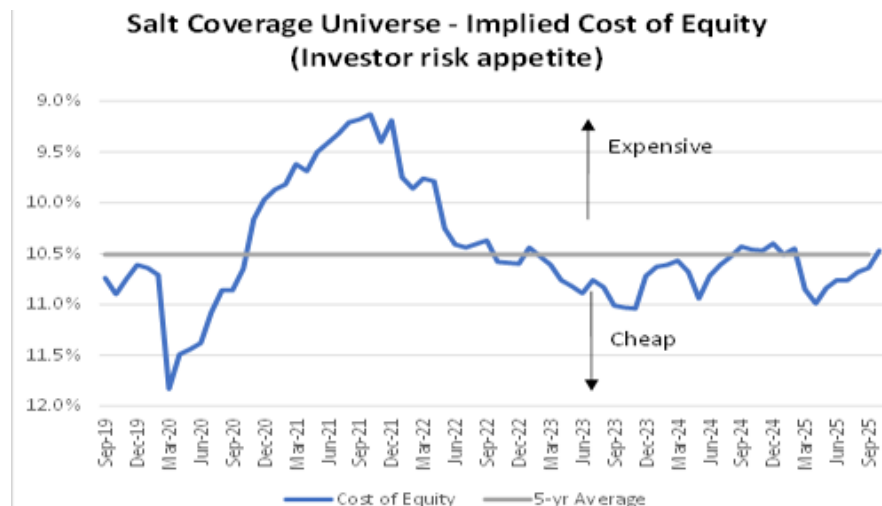


The New Zealand dollar has struggled as the weakness in the economy has become more entrenched and the RBNZ has cut interest rates more aggressively than expected. This compares to more cautious approach to interest rate reductions in many of our trading partners including the US and Australia.



What matters most for the RBNZ is how the NZD moves on a trade weighted basis. The TWI has fallen sharply as interest rate expectations have changed. The TWI is now at its lowest level since the GFC and is currently 2% below the level assumed in the RBNZ's August projections.

Share valuations around fair value



We view current pricing of the Salt stock coverage universe as fair value relative to its 5-year average, with New Zealand equities priced at around a 7% discount to Australian equities based on bottom-up DCF valuation methodology. Equities have recovered from April 2025 lows as investor fears around tariff uncertainty and the risk this posed to short-medium term earnings reduced. Evidence of a return to small positive underlying growth was noted by some cyclicalists at the recent August reporting round and subsequent AGM commentary this month. However, expectations for a broader underlying macro recovery have now extended out to end of CY25 at the earliest.

Disclaimer

The information in this presentation has been prepared from sources believed to be reliable and accurate at the time of preparation but Salt Funds Management Limited, its officers and directors, make no representation or warranty as to the accuracy or completeness of any of the information contained within. All analysis, opinions and views reflect a judgment at the date of presentation and are subject to change without notice. This presentation is provided for general information purposes only. To the extent that any of the information in this presentation does constitute advice, it does not take into account an individual investor's financial situation or goals. An individual investor should, before making any investment decisions, seek professional advice, having regard to the individual investor's financial situation and goals. Past performance is not a reliable indicator of future performance and no representation or warranty, express or implied, is made regarding future performance. This presentation is solely for the use of the person or persons to whom it is provided and must not be distributed or copied, in part or in whole, without the permission of Salt Funds Management Limited.