

15 December 2025

# focus



## From Grind to Growth: New Zealand Shifts Into Gear

The past three years have been challenging for New Zealand households and businesses. Unlike past downturns sparked by global crises or financial shocks, this one was engineered at home. The Reserve Bank of New Zealand (RBNZ) lifted interest rates aggressively to contain runaway inflation, suppressing economic activity along the way. The medicine has worked, inflation is back under control, and interest rates have fallen sharply – but not without cost.

## ...A cyclical recovery is beginning to take shape...



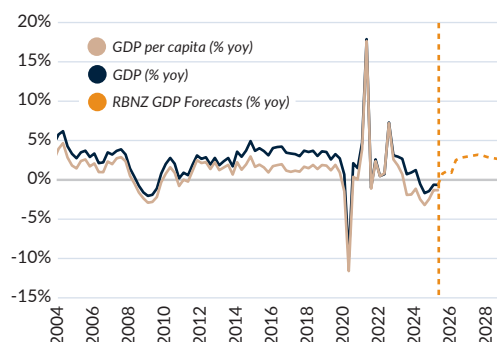
With the Official Cash Rate (OCR) now down from 5.50% in August 2024 to 2.25% at the end of 2025, many are asking why the economy has not yet started firing. In our view, a cyclical recovery is beginning to take shape and opportunities for investors are emerging.

### A recession by design

Every recession has its own catalyst. The early 1990s saw a deep contraction as the economy adjusted to sweeping reforms. The Asian financial crisis of 1997–98 produced a modest, export-led downturn. The global financial crisis (GFC) in 2008 saw GDP fall by 3.5%, cushioned by steep rate cuts and fiscal stimulus. COVID-19 caused a dramatic one-quarter collapse in 2020 that was quickly unwound by record government spending and ultra-low interest rates.

The 2023–25 slowdown has been different. It was manufactured and drawn out rather than sharp. Inflation surged to 7.3% in mid-2022, prompting the RBNZ to lift the OCR from 0.25% to 5.50% in just 18 months. In the process, the economy ground to a standstill as households adjusted to sharp interest rate hikes, with large amounts of debt to service. Notably, GDP per capita experienced a more prolonged decline than during the GFC, with households experiencing a deep squeeze to living standards.

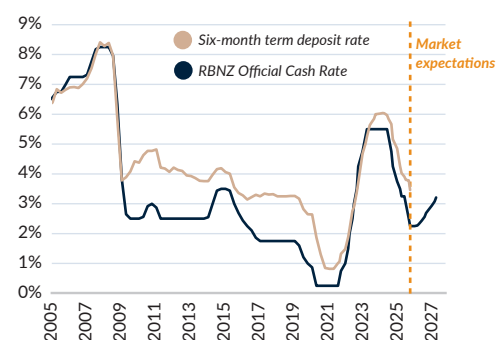
### NEW ZEALAND GDP GROWTH, HEADLINE AND PER CAPITA (% YOY)



Source: Stats NZ, Forsyth Barr

By late 2024 inflation had returned to within the 1%–3% target band, allowing rate cuts to begin. Lower rates encourage borrowing, investment, and spending, although monetary policy always takes time to work.

### INTEREST RATES HAVE BEEN CUT SHARPLY, ALTHOUGH NOT AS MUCH AS DURING THE GFC



Source: Refinitiv, Forsyth Barr analysis

Unlike previous downturns, fiscal policy has not joined the effort. The government has focused on reducing spending and returning the books to surplus rather than stimulating demand. This has allowed New Zealand to accumulate more fiscal firepower for the next (inevitable) economic shock, but contrasts with the GFC or COVID, when increased government spending worked alongside interest rate cuts to provide a boost.

The 2023–2025 downturn has been widely felt, especially by consumers. The nasty combination of high interest rates, the rising cost of living, falling house prices, and a deteriorating job market has impacted nearly all New Zealanders. It has really been the first broad-based recession New Zealand has seen since the early 1990s.

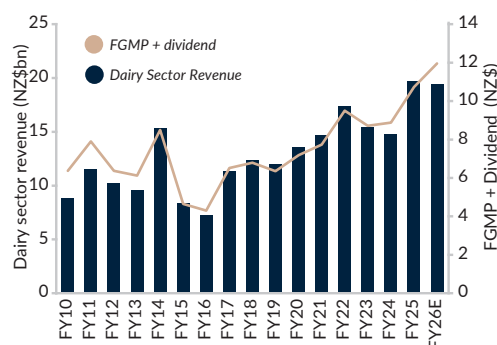
### Wading through treacle

Historically, recoveries have been largely V-shaped once enough monetary and/or fiscal support arrives. Post-COVID the economy surged back within months, driven by record low interest rates and large levels of fiscal support. After the GFC, stimulus stabilised

conditions quickly. This time the improvement has been slower and more uneven, which, for many, has felt like wading through treacle.

There have, however, been clear pockets of resilience. Agriculture and horticulture have been standout performers. Fonterra's record NZ\$10.15/kgMS payout in 2024/25, with another solid payout forecast for the current season, has supported rural economies. Much of the initial windfall went toward debt reduction, but cash is now flowing more widely, helped by the proceeds farmers will receive from the sale of Fonterra's consumer business.

DAIRY SECTOR REVENUES (INCLUDES THE FONTERRA CONSUMER BUSINESS SALE)

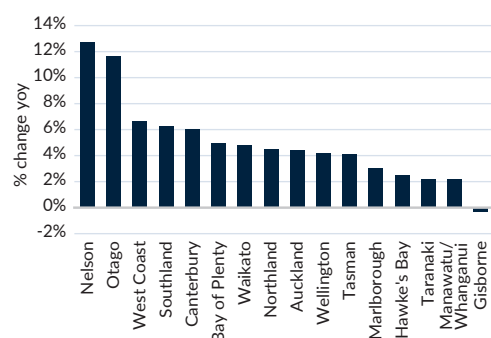


Source: Fonterra, DCANZ, Forsyth Barr analysis

Tourism, too, has improved, with international arrivals back to around 90% of pre-COVID levels, although it has not rebounded as quickly as in other countries. For many regions reliant on visitors, from Queenstown to Rotorua, this has brought welcome relief and increased local spending.

This boost from our export sectors is having a clear positive impact on those areas with the highest export exposures, such as Otago, Southland, and Waikato. Christchurch has also fared comparatively well with its exposure to the agricultural and tourism sectors, and a growing population.

NEW ZEALAND RETAIL SPEND BY REGION (% YOY)



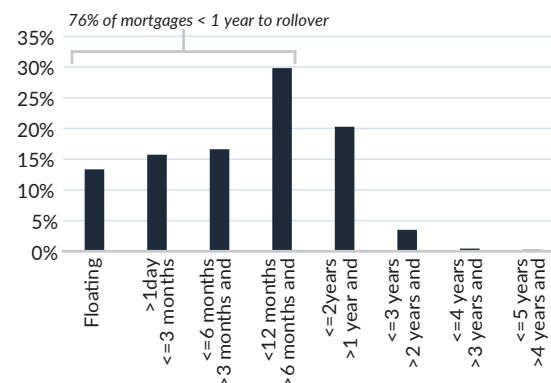
Source: Stats NZ, Forsyth Barr analysis

The picture is weaker in Auckland and Wellington. Softer construction activity, cautious consumers, and a subdued housing market have all weighed on growth. Housing matters for sentiment. Falling prices discourage spending and amplify uncertainty.

## Setting the stage for 2026

Monetary policy acts slowly. It is more similar to turning a large ship than flicking a switch. As rate cuts filter through the economy, signs of improvement are becoming more visible. Consumer spending is lifting, and households are looking forward to lower mortgage payments as fixed-rate loans continue to roll off. Around 76% of mortgage debt will reset over the coming year, which should further boost disposable incomes and confidence.

ABOUT 76% OF ALL MORTGAGE DEBT IS SET TO ROLL OVER IN THE COMING YEAR



Source: RBNZ, Forsyth Barr analysis

Interest rates have been moving lower for more than a year, and we are already beginning to see the benefits. Business confidence for the next 12 months is close to record highs – although optimism is naturally easier when conditions have been slow – and, more encouragingly, reported activity levels have picked up materially across a range of sectors. Other indicators point to rising sales and stronger order books in the months ahead.

Retail spending has improved, and the labour market, typically a lagging indicator of economic health, appears to be turning. The housing market is also stabilising and is expected to show more life over summer, supported further by improved affordability.

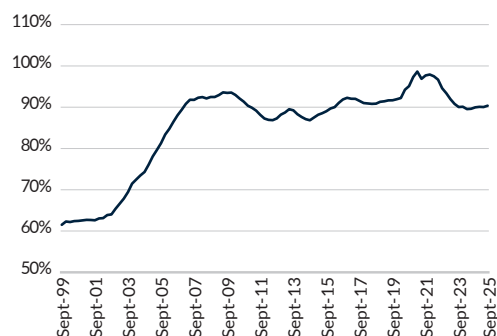
Even though we're confident a recovery is now under way, it may unfold more gradually than the sharp rebounds seen in past cycles. The long and grinding nature of the downturn has left lasting marks, particularly on households. Many remain cautious. Additionally, New Zealand households have not meaningfully reduced the debt accumulated in the lead up to the global financial crisis in 2008/2009. High leverage will limit the ability to borrow and spend, even as confidence improves.



## ...2026 may offer investors an attractive mix of stability and growth...



NEW ZEALAND HOUSEHOLD DEBT TO GDP (%)



Source: IMF, Forsyth Barr analysis

### Where to from here?

For the New Zealand equity market, the economic backdrop matters. While the S&P/NZX 50 does not perfectly reflect the domestic economy, two categories of companies stand to benefit most from falling interest rates and a gradually improving outlook.

**Yield-sensitive companies:** Businesses that struggled during the period of high rates are becoming more appealing again. Their steady cash flows and reliable dividends look increasingly attractive as borrowing costs fall. Utilities and infrastructure companies such as Contact, Mercury, Port of Tauranga, and Auckland Airport fit this profile, as do property companies including Precinct, Vital Healthcare, and Stride, as well as telcos like Chorus.

**Cyclically sensitive companies:** Companies that benefit from an upswing in activity should perform well as momentum builds. Our preferred exposures at this stage of the cycle include: Mainfreight, Freightways, SkyCity, Vulcan Steel, and the aged care sector: Oceania Healthcare, Summerset Group, and Ryman Healthcare. We also see scope for a recovery in discretionary retail. Hallenstein Glassons and KMD Brands offer leveraged upside, although with higher risk compared with other sectors.

The combination of a cyclical recovery, lower interest rates, and the defensive, income-oriented characteristics of many listed New Zealand companies suggests 2026 may offer investors an attractive mix of stability and growth. The recovery is gradual, but its foundations are strengthening, and patient investors are likely to be rewarded as economic momentum broadens.

If at any time you want to discuss investment options and opportunities, your Forsyth Barr Investment Adviser is available to provide you advice and assistance.

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