New Zealand economy “subdued” going into 2026

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According to a bleak report by New Zealand’s Treasury, the country’s economy was “suppressed” through much of 2025, with the outlook for 2026 “subdued.” Escalating unemployment and wage growth below inflation means the working class is bearing the brunt of the ongoing downturn.

The Treasury’s Half-Year Economic and Fiscal Update (HYEFU), released on December 16, showed the economy was in “a deep downturn” at the beginning of 2025. New Zealand has been hit with a 15 percent tariff on most exports to the United States and remains highly exposed to the escalating US trade war against China, NZ’s main trading partner.

The economy fell 0.5 percent across 2025. Despite a modest 1.1 percent upswing in the last 3 months, the economy has not grown in 2 years. Real GDP per capita is $1,593 worse than when the right-wing National Party-led government took office two years ago. The economy will be $28.3 billion smaller at the next election, due this year, than Treasury predicted in 2023.

Weaker economic growth has meant lower GST consumption tax, source deductions and business tax, resulting in $13 billion less tax revenue than forecast. Return to a much-promised budget surplus is pushed back by two years, with net core Crown debt forecast to rise to 46.1 percent of GDP by 2027/28.

The deficit is expected to rise to 3 percent of GDP in 2026. Treasury estimates that 1 percent will come from a hoped-for economic upturn, but 1.9 percent is structural, which “will not resolve as the economy recovers.” Treasury declares this requires spending cuts and “better-performing” Crown entities. Calling for “discipline,” Finance Minister Nicola Willis has committed to reducing new spending to below growth in nominal GDP.

This means the continued starving of funds for health, education and social programs, along with a brutal assault on public service employment. While the figures are disputed, Radio NZ calculated that by the end of 2024 the government slashed 9,520 sector jobs during its first 13 months in office.

The country’s GDP shrank by 0.9 percent in the second quarter of 2025, more than twice what most economists had predicted. But Treasury has hailed a supposed “turning point” with easing inflation and interest rates in the final quarter. In November, the Reserve Bank cut the Official Cash Rate by 25 basis points to 2.5 percent, justified by inflation coming in at 3 percent, which is at the top end of the central bank’s 1-3 percent target band.

Prime Minister Christopher Luxon told 1 News on December 14 that “we can see the economy strengthening” and “more New Zealanders are starting to feel that, and that’s a good thing.” Such claims are completely baseless.

Unemployment is likely to stay much higher than previously forecast. In November, it reached a 9-year high at 5.3 percent and is expected to “peak” at around 5.5 percent in early 2026. Some 76,000 more will be on the Jobseeker benefit scheme by 2027, even as the government removes this benefit from many 18-19 year-olds. Among young people, 59,427 fewer 15-29 year-olds are in jobs than 2 years ago.

Unemployment has increased more sharply than in most other OECD countries. Figures would be even worse but for the exodus of working people to other countries, mainly Australia. A record 72,000 people left permanently in the 12 months to September—greater than the 57,393 births recorded during the same period. The population is growing due to immigration, but net migration was down to just over 10,000 people in

2024/25.

In November, according to the Ministry of Business Innovation and Employment, job advertisements over two years were down by 27 percent in construction, 33 percent in health, 31 percent in IT, 35 percent in manufacturing, 30 percent in sales and 16 percent in primary industries.

Wages have increased by less every year than Treasury forecasts. The minimum wage will rise by just 2 percent this April, the third successive year in which minimum wage workers have had a cut in pay in real terms. As a measure of declining real wages, the minimum wage is now at the level of 67-72 percent of the median wage. Full-time workers are estimated to be $4,184 worse off over the past three years.

According to NZ Council of Trade Unions economist Craig Renney, operating profits across the economy increased by 8.6 percent last year, with profits for electricity and gas services up a massive 30.3 percent. Wages and salaries grew by a paltry 1.4 percent in 2025, compared with inflation at 3 percent. Over the past two years, wages grew by just 3.2 percent when inflation averaged 5.3 percent.

The unions have played the key role in suppressing wages by shutting down strikes while isolating workers from each other and negotiating below-inflation pay deals. Following a strike of more than 100,000 teachers and healthcare workers on October 23—the biggest since 1979—the Post-Primary Teachers' Association (PPTA) has pushed through a settlement for 20,000 high school teachers. The offer included a 2.5 percent pay rise followed by 2.1 percent a year later—below 3 percent inflation and the 4.4 percent annual increase in food prices.

There has been a sharp reversal in the social position of the working class. According to a *Post*/Freshwater poll published on December 30, nearly two in five respondents (39 percent) reported being in financial trouble or having to cut back on essentials. Only 27 percent felt comfortable or confident in their finances.

Seventeen percent would struggle to pay an unexpected $600 bill without borrowing, selling possessions or going into debt, and 13 percent would manage only with outside financial help. Meanwhile, 77 percent expect energy prices to climb in the next 12 months, and about 60 percent expect their purchasing power to either take a year to improve or never improve at all. Confidence in the government's ability to manage economic growth is low, with 54 percent expressing doubt.

Successive Labour and National Party governments have transferred vast wealth to the super-rich, through tax cuts, bailouts and other concessions. While the poorest 20 percent of households own a median $11,000 in assets, the richest 1 percent, about 40,000 people, control 17.5 percent of NZ wealth. Between 2021 and 2024, the wealthiest 20 percent of households increased their wealth by 19 percent ($386,000) to a median of $2.4 million.

Claims of "fiscal necessity" mask deliberate decisions to prioritise military spending and debt servicing over public services—this political choice produces wage suppression and collapsing social infrastructure. Alongside deepening austerity for working people, the government, fully supported by the opposition Labour Party, is doubling military spending from 1 to 2 percent of GDP, at a cost of $12 billion over four years.

The entire ruling establishment is committed to this program. Labour Party leader Chris Hipkins responded to the *Post*/Freshwater survey with an anodyne comment that it was a "stark reminder of the pressure facing families." Hipkins offered nothing more, however, than limited free doctor visits, falsely claiming this would make a "big difference" to household budgets.

Labour's Finance spokesperson Barbara Edmonds revealed the reality during the party's annual conference in November, telling delegates that "we can't say yes to everything and I make no apology for that. Responsibility must always come first." Labour lost the 2023 election in a landslide after presiding over rising unemployment, soaring living costs and increased homelessness and child poverty.