Rt Hon. Christopher Luxon, Prime Minister

Hon. Nicola Willis, Minister of Finance

2nd October 2025

Delivered By Hand

Dear Prime Minister & Minister of Finance

Nearly one year ago, some of us wrote to you, expressing concern that the government had badly misjudged the economic needs of Aotearoa. In particular, we were extremely worried that the fiscal approach taken by your government would likely delay any return to economic growth and have enduringly negative consequences for the people and communities of New Zealand.

It is disappointing that no formal or written response from you has been received. Nevertheless, a growing number of economists feel compelled to write again as our concerns not only remain but are increasingly heightened, as borne out by recent data from Statistics New Zealand. Unemployment is rising, and for Māori and Pasifika communities is now above 10%. Youth unemployment is particularly troubling, with more than 42,000 fewer 15–24-year-olds filling jobs. Over 400,000 New Zealanders want work, or more work, but can't get it – a record.

Economic growth has been going backwards now for 9 out of the past 15 months. The economy is now 1.3% smaller than it was at the election. Quarterly GDP is now smaller than at any time since June 2022 – 3 years ago. GDP per capita is now lower than it was in Q1 2021. Business and residential investment is falling. The construction sector has fallen by 9.4% this year. Annual manufacturing sector output has been particularly badly affected and is now smaller than it was in 2015.

Headline inflation is lower than it was two years ago. But this picture hides the fact that, for many, the cost-of-living challenge has not ended – it has, if anything, increased. Food prices are up by 5% annually. Electricity prices are up by 11.4%. Support to use public transport, free prescriptions, and early childhood education have all ended, or been cut for the vast majority. The minimum wage has been cut in real terms for two years, leaving the average full-time worker $1,300 worse off in real terms.

The number of jobseekers is rising quickly, and at each economic update, the Treasury has revised its forecasts higher. The number of children living in poverty will very likely exceed even the less ambitious targets the government set itself. Homelessness in our urban centres has increased dramatically at the same time as the government booked a $1bn saving in emergency housing spending. Hardship is increasingly evident in communities across Aotearoa.

Manufacturing businesses across New Zealand are closing. The news is filled weekly with large employers closing factories, which means well-paid employment in provincial centres is disappearing forever. Many businesses are in dire straits, and company liquidations in 2025 are on track to hit an all-time high. Food banks are being forced to ration support to those with needs due to record demand. As yet, there has been neither a response to this challenge nor even an acknowledgement of the damage it is causing from the government.

These are not the outcomes we would expect from an economy or a country that is working. In December 2024, the Minister of Finance told the House that “After several years of bumping along the bottom, in and out of recession, we are now able to forecast confidently a sustained period of economic growth…because when you grow an economy more, you provide better opportunities for New Zealanders”. The economy has sadly shrunk since that statement was made.

Overseas, countries that we often compare ourselves to are growing and creating employment opportunities. In Australia – a country impacted by tariffs like ours – unemployment is 4.2% and GDP grew 1.8% this year. The UK saw 1.4% GDP growth. Kiwis are leaving in record numbers, with 73,400 New Zealand citizens migrating away last year – one every 7 minutes and 11 seconds. They are taking with them their skills and endowed capital.

The policy prescription ordered by your administration is causing long-term harm, and that harm will continue to intensify if the prescription is not changed. We are writing this letter to publicly ask you to change the course of your current economic policy, the failings of which are set out below:

- Tax cuts rather than revenue growth – there have been around $23bn of tax cuts and depreciation changes in the past two Budgets that have failed to stimulate growth and have removed vital funding for public services and investment, with consequences that are becoming increasingly clear.
- Public sector cuts – there have been two rounds of cuts to public sector budgets and workforces, both of which have failed to encourage public sector investment and have reduced the capacity of the sector to deliver much-needed services. There is an increasing sense of crisis in health, and punitive welfare policies have added to hardship while weakening automatic stabilisers that are desperately required in a time like the present.
- Debt and expenditure reduction – we note that the government has made little progress on these, and that the economic and social situation would be even more

dire if it had, as intended, succeeded in these aims. New Zealand does not have an urgent need to reduce public debt, and expenditure levels are both an economic and a political decision. In the current circumstances, additional expenditure is needed to underpin demand in the economy.

- Interest rate cuts – in an environment of prolonged international uncertainty alongside high uncertainty over government intentions and funding, interest rate cuts are unlikely to spur sustainable private investment and economic growth. With mortgage holders facing negative equity, the wealth effect will not be present to encourage demand. With such uncertainty present it is the role of fiscal policy to step in to and bolster certainty with a well signalled pipeline of investment expenditure.
- Infrastructure development – this has focussed on the "Fast Track". We applaud the expressed intention to reduce the infrastructure deficit and the urgency that should be attached to it but are concerned at the wholly inadequate funding allocated to new and existing infrastructure. We fear that Fast Track processes will simply lead to increased social division and environmental harm at a time when social cohesion and care for the environment are increasingly vital for future prosperity.

These policies have failed to mitigate the recession, and as we signalled in our letter last year, likely exacerbated it. Your policy approach is not based on sound economics – it is an approach rooted in a political cycle, not an economic cycle.

We are asking that you reconsider your government's approach to investment. Aotearoa has more than 16,000 fewer people working in construction, 19,000 households on the waiting list for a state house, and we have had a near complete halt to state house building via Kainga Ora. The Science City project in Wellington has been halted, and the jobs of around 500 scientists and researchers in government have been axed.

Given that OBEGAL is not forecast to be in surplus until 2031, we question whether your government's decision to give away significant amounts of taxation revenue is right. That foregone revenue could have sustained urgently needed public services while enabling new borrowing to be used to deliver much-needed public investment and, by extension, economic growth. Distributionally, the revenue changes delivered to date also predominantly support higher-income earners and owners of capital assets. Neither is likely to support additional output.

Considerable harm to our people and their communities has been done, and urgent changes are required. The current approach has little within it that is designed to tackle climate change. It has nothing that experts would advise to tackle child poverty. Its impacts on productivity are likely to be weak or negative. It does nothing to reduce tax distortions in investment markets. It does nothing to restore adequacy of support to the rising number of people reliant on the welfare system.

In short, we are asking for a considered economic plan, which has widespread buy-in from sectors across the economy and which is aimed to address the problems confronting New Zealand and New Zealanders. A plan that has support from business groups, unions, Iwi/Māori, and communities across the country.

That plan should spell out how living standards will be raised for all New Zealanders – not just a few. How we will move New Zealand's economy into higher value production in main centres and regions. How sustainable and secure employment will be delivered, not just more labour market precarity. How we will tackle poverty and not simply accept that it must grow. This is the very least that the public deserves from their government.

We believe our earlier concerns are now clearly visible and evidenced. Consequently, we expect a formal response and request that you meet with us at your earliest convenience to discuss these issues and demonstrate to New Zealanders how your economic approach is changing. The economist Lord Keynes is credited with saying, "When the facts change, I change my mind. What do you do?". The economic facts have changed since last year. We hope that means you are open to changing your mind too.

Signed

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