ECONOMIC BULLETIN

Westpac New Zealand RBNZ pulse client survey.

25 Nov 2024 | **Michael Gordon**, Senior Economist | +64 9 336 5670 | +64 21 749 506 | michael.gordon@westpac.co.nz

Offshore views on the RBNZ remain more dovish

- **There is a strong view among our customers towards a 50bp cut by the RBNZ this week.**
- **Customers expect a modest downgrade to the RBNZ's OCR projections for the end of 2025, although many think they will move faster than what they signal.**
- **Offshore clients remain more inclined towards a faster and deeper easing cycle than what locals are expecting.**
- **However, international factors, especially the US election, are seen as more likely to prompt the RBNZ to scale back its easing.**
- **Expectations for inflation two years from now are skewed towards the upper half of the target range.**

Survey results.

Westpac New Zealand's third survey of global client views on the outlook for RBNZ policy was conducted over the week of 18-22 November. We received 149 responses to the survey, of which around two-thirds were New Zealand-based businesses or institutions. Thanks so much for your efforts in contributing.

On the following pages we look at what different client groups expect for the RBNZ's policy stance over the coming years.

Kelly's take.

The results of this survey accord well with the themes encountered on my recent discussions with clients in the UK and Europe. Customers appear primed for further OCR reductions, although in the main there is only a modest difference between our own OCR trough of 3.5% and the roughly 3% level in the minds of most of the more dovish offshore customers. Growth and unemployment indicators will be key in determining whether the cuts in 2025 will be realised.

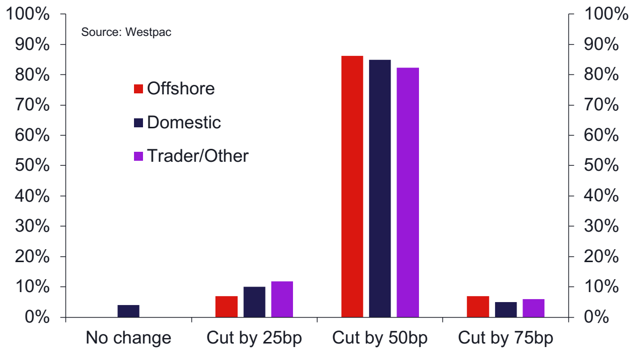
We will issue a note on Tuesday providing more detail on the themes of the discussions we held. But it's fair to say that the market seems primed for an asymmetric reaction should the RBNZ not deliver on participants' most dovish hopes – either at this meeting or as data comes available between now and February.

What will the RBNZ do at the November *Monetary Policy Statement*?

There is a strong consensus towards a 50bp cut at this Wednesday's review, which would take the OCR down to 4.25%. In terms of the range of views, there was a slight tilt among our clients towards a smaller cut rather than a larger one, with a small number of locals even predicting no change.

Interest rate market pricing is also fairly balanced around a 50bp cut this week. Market opinion had previously been leaning towards the risk of a larger move, though that was seen as highly contingent on the Q3 labour market surveys, which ultimately did not show the marked deterioration that some were hoping for.

What will the RBNZ do this week?



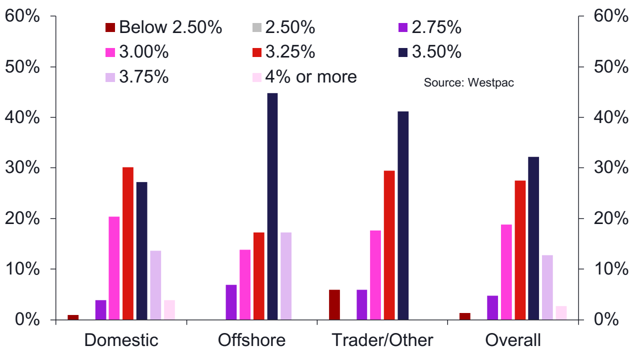
Where will the RBNZ project the OCR to be at the end of 2025?

The August MPS projections saw the OCR reaching 3.85% at the end of next year. However, the RBNZ has already proceeded further with rate cuts than the August track implied (even more so if they deliver another 50bp cut this week), so the updated November projection will be a crucial part of their messaging.

Customers expressed a range of views on where the projected track will be at the end of 2025, with the modal forecast sitting at 3.5% (the median was slightly in favour of 3.25%). Few thought that the projection would reach less than 3% by the end of next year, which would put it below the RBNZ's estimates of the 'neutral' policy rate.

There were some notable differences by location. Domestic responses were fairly evenly spread around a median of 3.25%, while overseas clients more strongly favoured 3.5%.

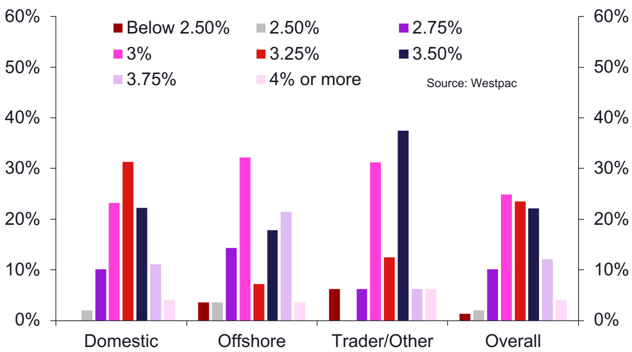
RBNZ's projected OCR at the end of 2025



Where will the OCR actually be at the end of 2025?

As for where the OCR will *actually* be at the end of 2025, the distribution of responses was more to the downside of the previous question, with a modal answer of 3%. In other words, our clients expect the RBNZ to continue to move faster than it signals. The difference between the responses was more pronounced for offshore clients.

Client's expected OCR at the end of 2025

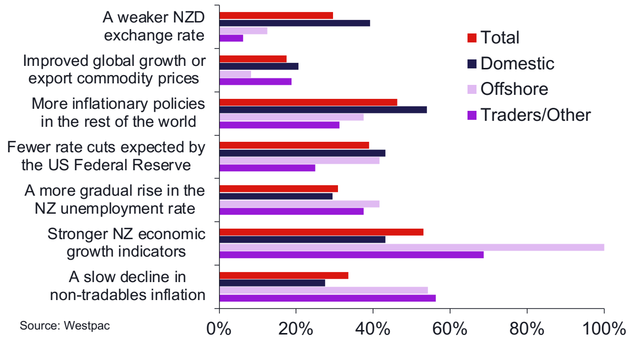


What factors could affect the extent of easing?

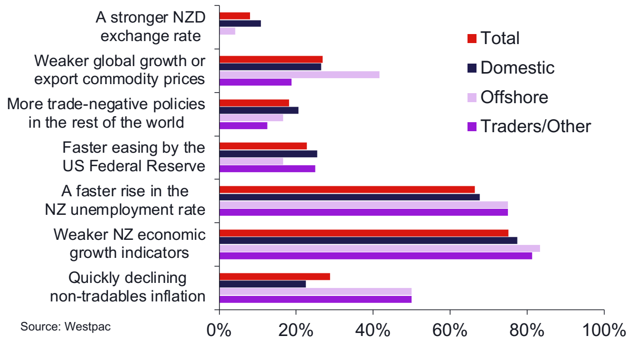
For these two questions we asked people to choose up to three risk factors that could alter the RBNZ's easing plans. Respondents felt that signs of a pickup in economic activity in New Zealand was the most likely to prompt the RBNZ to slow the pace of easing, followed by a turn to more inflationary policies in other parts of the world or a slower pace of easing by the US central bank. Notably, domestic clients see more risk from international factors, while offshore clients are firmly focused on conditions within the New Zealand economy.

In contrast, there was much more agreement that domestic factors were more likely to prompt the RBNZ into easing faster and further. In other words, global factors were seen as having much more sway with the RBNZ on the upside than on the downside, while domestic factors would have more sway if they were to turn out weaker.

What is most likely to result in scaled back easing?



What is most likely to result in greater easing?



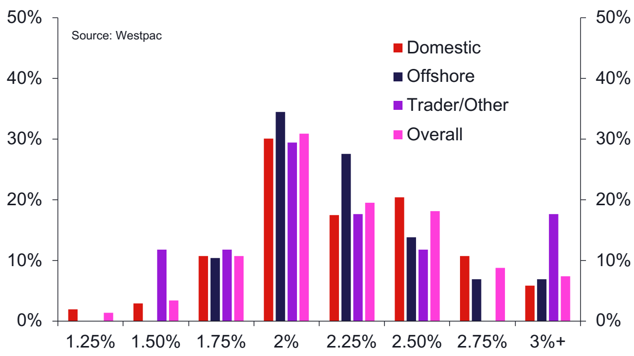
Where do you expect NZ inflation to be in two years' time?

There was a wide range of views as to where people saw the annual inflation rate two years from now, with the modal response being the 2% midpoint of the RBNZ's target range, but with a noticeable skew towards higher outcomes. Only a small share of respondents thought that inflation would be in the lower half of the target range by then, and none expected an undershoot.

This is a similar result to the RBNZ's own survey, where expectations of inflation in two years' time actually rose from 2.03% to 2.12% in the latest survey, taking them above the 2% target midpoint. (The two-year ahead horizon is significant because this is when policy actions taken in the next 6-12 months are likely to have their greatest influence on the inflation rate.)

It's interesting to compare these responses with the earlier questions on the extent of OCR cuts. Together they suggest a view that the RBNZ's easing could be more effective in re-stimulating activity and inflation pressures than intended, which would be consistent with the 'neutral' OCR being higher than the RBNZ's estimates.

Expected inflation rate in two years' time



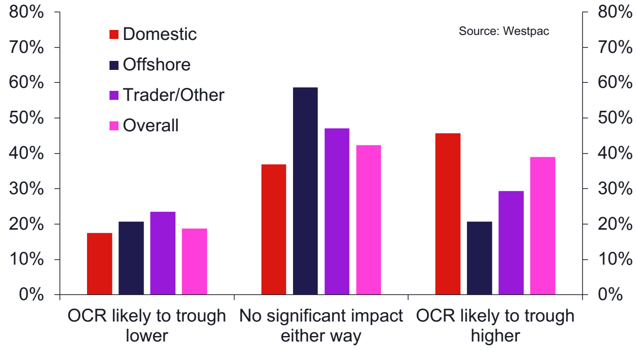
Impact of the US election results.

Customers were mixed as to whether the US election results would affect the path of monetary policy in New Zealand. While many thought there were no significant implications for the RBNZ either way, there was a greater skew towards less rather than more easing, all else equal.

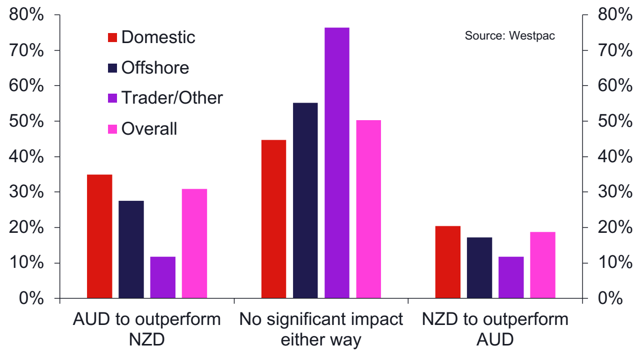
The new Trump administration's policies remain unclear, but tariffs are set to the high on the agenda. These would be a negative for exporters to the US, while lifting the level of prices within the US. However, what this would actually mean for activity and inflation elsewhere would also depend on other factors, such as how exchange rates respond.

On that front, our customers expect Trump's policies to be more negative for the NZ dollar than for the Australian dollar (relative to what was already expected for the two currencies). A weaker NZ dollar would help to soften the blow of a global trade war, but would also add to imported inflation pressures here, potentially limiting the extent of the RBNZ easing cycle.

Net impact of the US election for NZ monetary policy



Net impact of the US election for exchange rates



Which central bank will ease the most in 2025?

Customers are strongly of the view that the RBNZ will ease rates by more in 2025 than its peers in the US and Australia – after having almost certainly done more easing than them in 2024 as well.

While this ranking is in line with financial market pricing, we take the opposite view. If the RBNZ delivers a 50bp cut this week, it will have eased by 125bp this year. We're expecting another 75bp of cuts over the first half of 2025. In contrast, the Fed has eased by 75bp so far, and another 25bp cut in December is likely but not certain; we expect another 100bps of easing by them next year. As for the RBA, which has yet to begin its easing cycle, we also expect a total of 100bp of cuts over next year.

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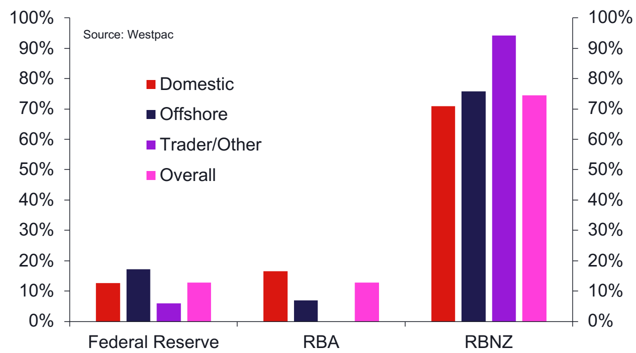

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