



ECONOMIC BULLETIN

Review of RBNZ February 2025
Monetary Policy Statement.

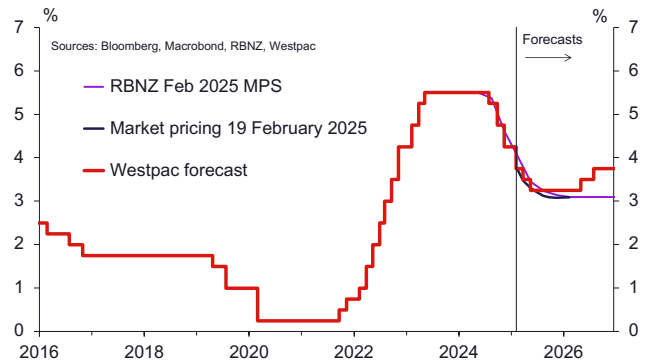


19 Feb 2025 | **Kelly Eckhold**, Chief Economist | +64 9 348 9382 | +64 21 786 758 | kelly.eckhold@westpac.co.nz

RBNZ cuts the OCR to 3.75%

- As widely anticipated, the RBNZ cut the OCR by 50bps to 3.75%.
- The RBNZ signalled a high chance of 2-3 further cuts in 2025, including 25bp cuts at the April and May meetings.
- The RBNZ's tone remains dovish albeit without any obvious intent to do another 50bp cut in the near term.
- Our OCR forecast remains unchanged. We see two further 25bp cuts in April and May and the end of the cycle at 3.25%.

Official Cash Rate forecasts



Key takeout: RBNZ cuts OCR 50bps to 3.75%, signals further easing in April and May.

The RBNZ cut the OCR by 50bps to 3.75% as widely expected. This decision had been foreshadowed by the RBNZ at its late November meeting and was reached by consensus. It seems that there has been little on balance to shift the RBNZ's thinking since the November meeting.

The RBNZ projects the OCR to end 2025 at 3.1%. This end-2025 level was revised down from 3.55%, with the key adjustments taking place in the near-term profile which now looks consistent with Westpac's forecasts of two further 25bp cuts in the April and May meetings.

The discussion surrounding the projections remains dovish. The MPC remains confident that inflation will remain well-contained – even though the headline CPI will temporarily rise to 2.7% in the September quarter of this year. These forecasts are exactly in line with Westpac's forecasts.

The RBNZ has not significantly adjusted its short-term growth forecasts and sees recent indicators as broadly consistent with the expected return to growth from the December 2024 quarter. The RBNZ has, like us, not taken

much from the large falls in GDP in mid-2024. There is a modest upgrade in their assessment of excess capacity in the economy – but it's very much at the margin. The forecast downturn in the unemployment rate occurs a quarter later than projected in November.

Risks.

The RBNZ points primarily at global developments which are seen as presenting downside risks to global growth and NZ exporters' incomes. Tighter financial conditions from higher global interest rates are noted as something that could undermine global growth.

Tariffs and trade disputes similarly are seen as presenting downside risks to growth. The RBNZ hasn't drawn any firm conclusions on how these global trade risks will pan out. The RBNZ echoes the RBA's message from yesterday that the uncertainty might impact on business investment.

The RBNZ notes that while growth outcomes might be undermined, the impact on inflation is indeterminate – and it will be the impact of medium-term inflation pressures that will drive any policy response. Notably, the RBNZ acknowledges that the exchange rate will likely bear the brunt of foreign trade shocks. However, the commentary on the exchange rate impacts on the outlook is not prominent.

The RBNZ has made a significant downgrade to its house price forecasts (from 7.1% growth for 2025 to 3.8% in the new forecasts). While the recent strengthening-but-still-modest momentum may justify the direction of this adjustment, some forward indicators look positive. Mortgage approvals are now running at their highest levels since 2021 when house prices were rising very strongly. While we don't think house prices will behave anything like they did in 2021, we see upside risks to the RBNZ's assessment on this score. If realised, this could reduce the MPC's ardour in cutting the OCR by mid-year.

Westpac's OCR call.

We see the RBNZ cutting the OCR by 25bp increments at the April and May meetings, leaving the OCR at 3.25%. We think the RBNZ will pause at this point as by then there will be tangible signs of a return to trend growth, while inflation will still be in the top half of the 1-3% target range. This combination may test the MPC's confidence in how anchored inflation is by then.

Key domestic data to watch ahead of the RBNZ's 9 April Review.

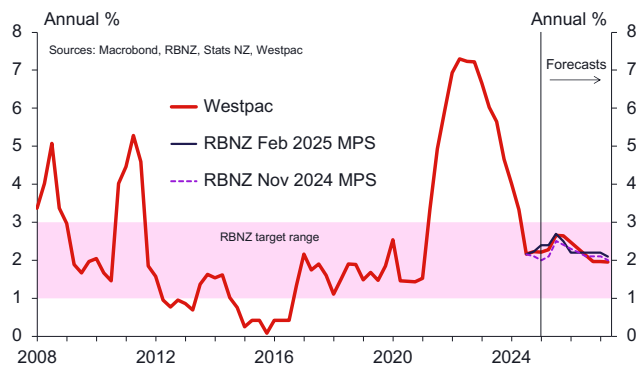
The next RBNZ policy review will take place in seven weeks on 9 April. On the domestic front the most important data releases between now and then are as follows.

- **The Q4 GDP report** (20 March): The outcome of this report will be compared to the RBNZ's estimate, with any deviation having implications for the RBNZ's estimate of the output gap and perhaps also its view on near-term growth momentum.
- **The February Selected Price Indexes** (14 March): This will provide the last indication of the likely outcome of the Q1 CPI report, which will be released on 17 April.
- **The Q1 QSBO survey** (8 April): This key report will be released publicly just the day prior to the policy announcement (although the RBNZ will likely see this earlier). The focus will be on indicators of Q1 activity and cost/inflation pressures. It will also be interesting to see to what extent confidence, hiring and investment indicators are continuing to lift.

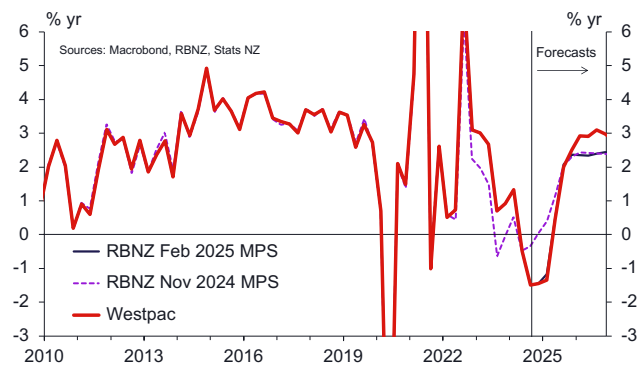
In addition to the above, key monthly activity indicators such as the BusinessNZ manufacturing and services indexes and the ANZ Business Outlook survey will also be of interest, as will developments in retail spending and housing indicators (the latter could be especially instructive as we move into what is typically the busiest time of the year for housing market activity).

Outside of New Zealand, interest will centre on any clarity that emerges regarding the implications of the Trump presidency for New Zealand's export sector. On that score, we note that President Trump has signalled an intention to apply 'reciprocal' tariffs to countries that apply value-added taxes – which would presumably include New Zealand's GST. Associated developments in financial conditions – longer-term interest rates and the exchange rate – will also factor into the next OCR review.

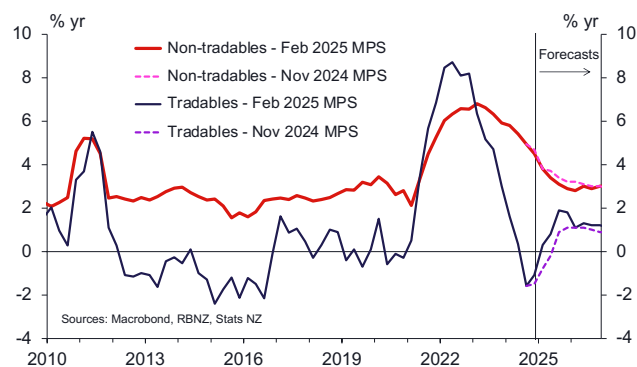
Consumer price inflation



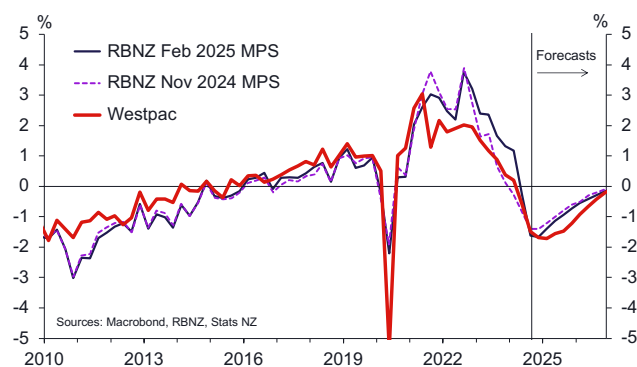
GDP forecasts



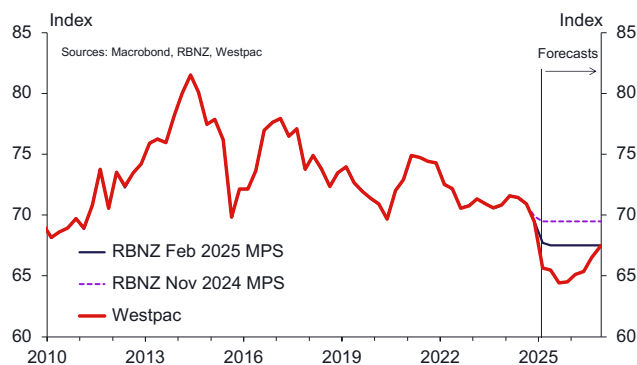
Inflation component forecasts



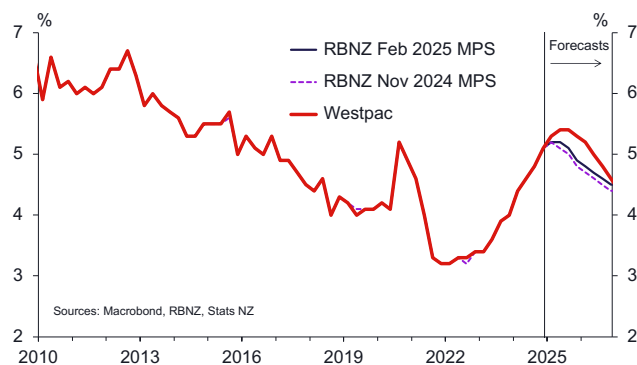
Output gap forecasts



Trade Weighted Index forecasts



Unemployment forecasts



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