



ECONOMIC BULLETIN

Preview of RBNZ July 2025 Monetary Policy Review.



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

Time for a cup of tea

- We expect the RBNZ to leave the OCR unchanged at its July meeting.
- The RBNZ will likely retain an easing bias but stay noncommittal on when it might act on that bias.
- The RBNZ will likely note the uncomfortably high near-term inflation outlook and upweight this factor relative to more recent indicators of weaker economic momentum.
- This should point markets towards inflation and inflation expectations indicators when determining if a further cut will occur in August or sometime later.

RBNZ decision and communication.

The RBNZ will likely leave the OCR unchanged at its July meeting and take a wait-and-see attitude to the outlook for the OCR. While we expect the RBNZ to retain the easing bias it showed in its May Monetary Policy Statement communications, we don't expect the RBNZ will give a strong guide on the timing on when it might cut the OCR further. Instead, we expect the RBNZ will give the market room to determine for itself, based on data released up until the August Monetary Policy Statement, whether a cut to 3% will happen in August, be delayed until later in the year, or be cancelled altogether.

The RBNZ will likely note that economic activity was stronger than expected in the first quarter of 2025, but that activity indicators since then have pointed to the slow down in economic momentum foreshadowed in their May forecasts. We doubt it will judge recent economic momentum as materially weaker than previously expected – but its likely they will point to some risk that such evidence might accumulate in coming months.

The RBNZ will also likely note that the near-term inflation outlook looks uncomfortably high. We think it will retain confidence that medium-term inflation will recede through 2026 – but will express uncertainty around that as well as the path of inflation expectations while headline inflation remains close to 3%.

The key in determining the timing of when (or if) the next 25bp rate cut occurs will be the relative weight the RBNZ places on the degree of concern about the near-term activity outlook versus the short-term inflation picture. We expect more weight will be placed on the inflation outlook given the single mandate the Monetary Policy Committee is working to.

A hawkish scenario would be one where the RBNZ said nothing about the potential for further easing. We don't think the RBNZ will want to call time on the easing cycle just yet. But if the RBNZ were not to mention the potential for future easing at all, this would likely be interpreted as a hawkish signal by the market.

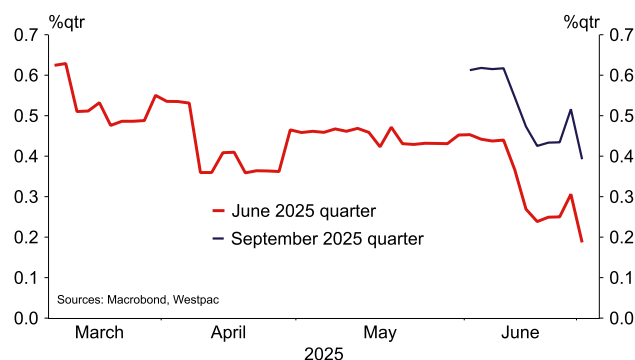
A dovish scenario would be one where the RBNZ plays down concern about the near-term inflation outlook and instead expresses comfort with the medium-term inflation outlook. In this scenario, the RBNZ would likely note the weaker short-term activity outlook and leave the impression that further policy easing is more likely than not at the August meeting provided that upcoming data meets expectations.

Recent data flow and impact

Key data that has accumulated since mid-May include:

- **Stronger Q1 2025 GDP** (0.8%q/q vs 0.4%q/q expected, albeit with a downward revision to growth in Q4) which implies stronger economic momentum and a slightly lower level of excess capacity than appreciated.
- **Weaker high frequency activity indicators for the May month** (PMI's, filled jobs, house prices and days to sell, consumer spending, business confidence). These look consistent with weaker activity in Q2 compared to Q1 and the RBNZ's soft GDP growth expectations for Q2 and Q3 2025 (0.3% and 0.2% respectively). Nowcasts have accordingly been revised down in recent weeks.

GDP nowcast daily



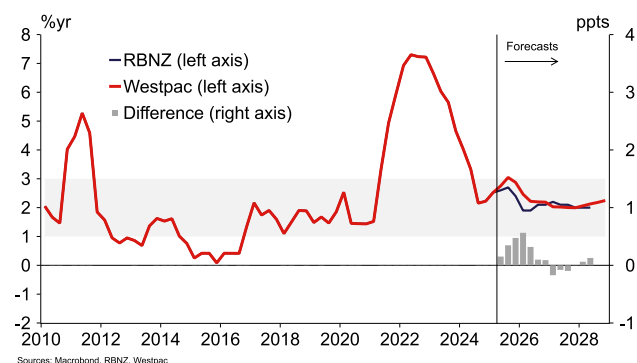
- **The still downbeat but also optimistic NZIER Quarterly Survey of Business Opinion.** This survey showed firms perceive that they experienced weak activity in Q2 while optimism about the future improved from what was already relatively optimistic levels. It's very much in the eye of the beholder which of these indicators best represents the underlying activity outlook – although recent experience suggests that the more positive forward-looking indicator has been closer to the mark.

QSBO Domestic Trading Activity



- **Stronger short-term inflation indicators.** The monthly selected price indices suggest a more robust short-term inflation outlook than the RBNZ anticipated in May when they forecasted a 0.5%q/q and 2/6%y/y CPI outcome for the June quarter. Westpac has revised up its own CPI forecast from 0.4%q/q to 0.6%q/q since late May, especially reflecting strong food prices. It's likely the RBNZ will have made a similar-sized adjustment. The outlook shows that headline inflation will rise to 3% in Q3 and be at 2.9% in Q4 2025. Inflation expectations continued to track higher in the June ANZ consumer survey.

Inflation (annual) Westpac vs RBNZ



- **Improved/less uncertain global growth and trade environment.** High on the MPC's mind in May was global uncertainty and the potential for weak global growth and a lower terms of trade. Since then, the outlook has improved somewhat. Progress has been made on trade deals such that the risks of very high and retaliatory tariffs look lower. Progress has been made in reducing risks to global security now Middle East tensions have reduced. Global equity markets are at record highs. Consensus forecasts for global growth have increased in the last 6 weeks – although these remain lower than forecasts seen before April.

Kelly's take

A pause at this meeting is appropriate. There seems little risk of inflation moving very far into the bottom half of the target range in the next year or two. The global economic

environment looks less threatening than might have been feared a month or two ago. And importantly, it's not clear when inflation will peak and at what level.

There has been volatility in high frequency activity indicators, but also plenty of short-term news that might have driven sentiment in ways that may not prove to be long-lived.

Growth has been more solid than expected in the last couple of quarters and there are tangible signs of higher commodity prices and lower interest rates supporting the economy. Examples include strong agriculture sentiment and increased borrowing as well as rising demand for credit from investors in the housing market.

Strong commodity markets and the current level of interest rates will likely translate into trend to above-trend growth outcomes with time. This should be especially evident as global uncertainties continue to recede. The relatively high level of inflation limits the need to impart further stimulus at this time.

CONTACT

Westpac Economics Team | westpac.co.nz/economics | economics@westpac.co.nz

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

Satish Ranchhod, Senior Economist | +64 9 336 5668 | +64 21 710 852 | satish.ranchhod@westpac.co.nz

Darren Gibbs, Senior Economist | +64 9 367 3368 | +64 21 794 292 | darren.gibbs@westpac.co.nz

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

Paul Clark, Industry Economist | +64 9 336 5656 | +64 21 713 704 | paul.clark@westpac.co.nz

Past performance is not a reliable indicator of future performance. The forecasts given in this document are predictive in character. Whilst every effort has been taken to ensure that the assumptions on which the forecasts are based are reasonable, the forecasts may be affected by incorrect assumptions or by known or unknown risks and uncertainties. The ultimate outcomes may differ substantially from these forecasts.

DISCLAIMER

Things you should know.

Westpac Institutional Bank is a division of Westpac Banking Corporation ABN 33 007 457 141 ("Westpac").

Disclaimer.

This material contains general commentary, and market colour. The material does not constitute investment advice. Certain types of transactions, including those involving futures, options and high yield securities give rise to substantial risk and are not suitable for all investors. We recommend that you seek your own independent legal or financial advice before proceeding with any investment decision. This information has been prepared without taking account of your objectives, financial situation or needs. This material may contain material provided by third parties. While such material is published with the necessary permission none of Westpac or its related entities accepts any responsibility for the accuracy or completeness of any such material. Although we have made every effort to ensure the information is free from error, none of Westpac or its related entities warrants the accuracy, adequacy or completeness of the information, or otherwise endorses it in any way. Except where contrary to law, Westpac and its related entities intend by this notice to exclude liability for the information. The information is subject to change without notice and none of Westpac or its related entities is under any obligation to update the information or correct any inaccuracy which may become apparent at a later date. The information contained in this material does not constitute an offer, a solicitation of an offer, or an inducement to subscribe for, purchase or sell any financial instrument or to enter a legally binding contract. Past performance is not a reliable indicator of future performance. Whilst every effort has been taken to ensure that the assumptions on which the forecasts are based are reasonable, the forecasts may be affected by incorrect assumptions or by known or unknown risks and uncertainties. The ultimate outcomes may differ substantially from these forecasts.

Country disclosures.

Australia: Westpac holds an Australian Financial Services Licence (No. 233714). This material is provided to you solely for your own use and in your capacity as a wholesale client of Westpac.

New Zealand: In New Zealand, Westpac Institutional Bank refers to the brand under which products and services are provided by either Westpac or Westpac New Zealand Limited ("WNZL"). Any product or service made available by WNZL does not represent an offer from Westpac or any of its subsidiaries (other than WNZL). Neither Westpac nor its other subsidiaries guarantee or otherwise support the performance of WNZL in respect of any such product. The current disclosure statements for the New Zealand branch of Westpac and WNZL can be obtained at the internet address www.westpac.co.nz.

China, Hong Kong, Singapore and India: This material has been prepared and issued for distribution in Singapore to institutional investors, accredited investors and expert investors (as defined in the applicable Singapore laws and regulations) only. Recipients in Singapore of this material should contact Westpac Singapore Branch in respect of any matters arising from, or in connection with, this material. Westpac Singapore Branch holds a wholesale banking licence and is subject to supervision by the Monetary Authority of Singapore. Westpac Hong Kong Branch holds a banking licence and is subject to supervision by the Hong Kong Monetary Authority. Westpac Hong Kong branch also holds a license issued by the Hong Kong Securities and Futures Commission (SFC) for Type 1 and Type 4 regulated activities. This material is intended only to "professional investors" as defined in the Securities and Futures Ordinance and any rules made under that Ordinance. Westpac Shanghai and Beijing Branches hold banking licenses and are subject to supervision by the China Banking and Insurance Regulatory Commission (CBIRC). Westpac Mumbai Branch holds a banking license from Reserve Bank of India (RBI) and subject to regulation and supervision by the RBI.

UK: The contents of this communication, which have been prepared by and are the sole responsibility of Westpac Banking Corporation London and Westpac Europe Limited. Westpac (a) has its principal place of business in the United Kingdom at Camomile Court, 23 Camomile Street, London EC3A 7LL, and is registered at Cardiff in the UK (as Branch No. BR00106), and (b) authorised and regulated by the Australian Prudential Regulation Authority in Australia. Westpac is authorised in the United Kingdom by the Prudential Regulation Authority. Westpac is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. Details about the extent of our regulation by the Prudential Regulation Authority are available from us on request. Westpac Europe Limited is a company registered in England (number 05660023) and is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority.

This communication is being made only to and is directed at (a) persons who have professional experience in matters relating to investments who fall within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "Order") or (b) high net worth entities, and other persons to whom it may otherwise lawfully be communicated, falling within Article 49(2)(a) to (d) of the Order (all such persons together being referred to as "relevant persons"). Any person who is not a relevant person should not act or rely on this communication or any of its contents. The investments to which this communication relates are only available to and any invitation, offer or agreement to subscribe, purchase or otherwise acquire such investments will be engaged in only with, relevant persons. Any person who is not a relevant person should not act or rely upon this communication or any of its contents. In the same way, the information contained in this communication is intended for "eligible counterparties" and "professional clients" as defined by the rules of the Financial Conduct Authority and is not intended for "retail clients". With this in mind, Westpac expressly prohibits you from passing on the information in this communication to any third party. In particular this communication and, in each case, any copies thereof may not be taken, transmitted or distributed, directly or indirectly into any restricted jurisdiction. This communication is made in compliance with the Market Abuse Regulation (Regulation(EU) 596/2014).

Investment recommendations disclosure.

The material may contain investment recommendations, including information recommending an investment strategy. Reasonable steps have been taken to ensure that the material is presented in a clear, accurate and objective manner. Investment Recommendations for Financial Instruments covered by MAR are made in compliance with Article 20 MAR. Westpac does not apply MAR Investment Recommendation requirements to Spot Foreign Exchange which is out of scope for MAR.

Unless otherwise indicated, there are no planned updates to this Investment Recommendation at the time of publication. Westpac has no obligation to update, modify or amend this Investment Recommendation or to notify the recipients of this Investment Recommendation should any information, including opinion, forecast or estimate set out in this Investment Recommendation change or subsequently become inaccurate.

Westpac will from time to time dispose of and acquire financial instruments of companies covered in this Investment Recommendation as principal and act as a market maker or liquidity provider in such financial instruments.

Westpac does not have any proprietary positions in equity shares of issuers that are the subject of an investment recommendation.

Westpac may have provided investment banking services to the issuer in the course of the past 12 months.

Westpac does not permit any issuer to see or comment on any investment recommendation prior to its completion and distribution.

Individuals who produce investment recommendations are not permitted to undertake any transactions in any financial instruments or derivatives in relation to the issuers covered by the investment recommendations they produce.

Westpac has implemented policies and procedures, which are designed to ensure conflicts of interests are managed consistently and appropriately, and to treat clients fairly.

The following arrangements have been adopted for the avoidance and prevention of conflicts in interests associated with the provision of investment recommendations.

- (i) Chinese Wall/Cell arrangements;
- (ii) physical separation of various Business/Support Units;
- (iii) and well defined wall/cell crossing procedures;
- (iv) a "need to know" policy;
- (v) documented and well defined procedures for dealing with conflicts of interest;
- (vi) steps by Compliance to ensure that the Chinese Wall/Cell arrangements remain effective and that such arrangements are adequately monitored.

U.S: Westpac operates in the United States of America as a federally licensed branch, regulated by the Office of the Comptroller of the Currency. Westpac is also registered with the US Commodity Futures Trading Commission ("CFTC") as a Swap Dealer, but is neither registered as, or affiliated with, a Futures Commission Merchant registered with the US CFTC. Westpac Capital Markets, LLC ("WCM"), a wholly-owned subsidiary of Westpac, is a broker-dealer registered under the U.S. Securities Exchange Act of 1934 ("the Exchange Act") and member of the Financial Industry Regulatory Authority ("FINRA"). This communication is provided for distribution to U.S. institutional investors in reliance on the exemption from registration provided by Rule 15a-6 under the Exchange Act and is not subject to all of the independence and disclosure standards applicable to debt research reports prepared for retail investors in the United States. WCM is the U.S. distributor of this communication and accepts responsibility for the contents of this communication. All disclaimers set out with respect to Westpac apply equally to WCM. If you would like to speak to someone regarding any security mentioned herein, please contact WCM on +1 212 389 1269. All disclaimers set out with respect to Westpac apply equally to WCM.

Investing in any non-U.S. securities or related financial instruments mentioned in this communication may present certain risks. The securities of non-U.S. issuers may not be registered with, or be subject to the regulations of, the SEC in the United States. Information on such non-U.S. securities or related financial instruments may be limited. Non-U.S. companies may not be subject to audit and reporting standards and regulatory requirements comparable to those in effect in the United States. The value of any investment or income from any securities or related derivative instruments denominated in a currency other than U.S. dollars is subject to exchange rate fluctuations that may have a positive or adverse effect on the value of or income from such securities or related derivative instruments.

The author of this communication is employed by Westpac and is not registered or qualified as a research analyst, representative, or associated person under the rules of FINRA, any other U.S. self-regulatory organisation, or the laws, rules or regulations of any State. Unless otherwise specifically stated, the views expressed herein are solely those of the author and may differ from the information, views or analysis expressed by Westpac and/or its affiliates.

