

WESTPAC RBNZ CLIENT PULSE SURVEY

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WESTPAC RBNZ CLIENT PULSE SURVEY

Key take-outs.

- 90% of clients expect the RBNZ will deliver a 25bp cut at this Wednesday's policy meeting, with a further 5% expecting a 50bp cut. That's in line with market pricing, as well as our own forecast for a 25bp cut.
- Around 5% of clients expect that the RBNZ will leave the OCR on hold, all of whom are New Zealand based.
- The majority of respondents expect that the RBNZ will start to tighten policy over 2026. Client expectations are a little more hawkish than financial markets pricing.
- Back in October, the RBNZ delivered a 50bp 'circuit breaker' cut in the wake of the much weaker than expected June quarter GDP report.
- We think the RBNZ will continue to take a cautious view of the short-term growth outlook, and some MPC members are likely to remain pessimistic. The tone of data since the October policy meeting has been mixed. While signs of recovery are emerging, we're not seeing a significant turn in spending or business activity at this stage. On the inflation front, while the headline rate has picked up to 3%, core inflation is closer to 2% and is expected to remain contained over 2026.
- Clients in New Zealand are evenly split on whether the RBA or RBNZ will tighten policy first. However, offshore clients think it's a little more likely that the RBA will be first.

SURVEY OVERVIEW

Clients expect a rate cut in November, but a hawkish tilt in 2026.

Our latest Westpac Client Pulse survey was conducted from 17 to 21 November. We received 140 responses with the bulk from New Zealand-based businesses or institutions, with around 24% coming from offshore clients or brokers. Thanks to all those who took part.

A 25bp OCR cut is expected in November.

90% of respondents expect a 25bp cut at the RBNZ's 26 November policy meeting, in line with our own forecast. Amongst the remainder, responses were evenly split between those expecting no change and those that expect a 50bp cut.

Medium-term outlook: A hawkish tilt expected in 2026.

Looking to 2026, there's more of a split in terms of clients' expectations for policy, along with some notable differences from market pricing.

Around 18% of clients think the OCR will end 2026 at 2%, and 28% expect it will sit at 2.25%.

However, the majority of respondents expect that the RBNZ will start to tighten policy over the coming year, with 53% forecasting that the OCR will be 2.5% or higher by the end of 2026. A number of clients expect more than one rate hike over the coming year.

On balance, clients' expectations are broadly in line with our own forecasts for a 25bp cut in November, followed by gradual rate hikes beginning in late 2026.

However, clients' expectations are a little more hawkish than financial markets pricing: markets are currently pricing a low in the cash rate of around 2.10% in mid-2025 and are consistent with an OCR of around 2.25% by the end of 2026.

With a large amount of stimulus already working its way through the economy, and the NZ dollar losing ground in recent weeks, we expect the economy will strengthen over the year ahead. Against that backdrop, we expect that the RBNZ will be cautious about pumping the gas too hard at this late stage of the cycle. And as the economy recovers, we expect gradual rate hikes from December 2026 (after next year's general election).

RBNZ vs. RBA: Who tightens first?

When comparing the outlook for policy here to other regions, clients are split: 40% expect the RBNZ to tighten first, while 46% think it will be the RBA. Australia's stronger economy and firmer inflation have seen expectations for rate cuts from the RBA wound back. In contrast, New Zealand has had larger interest rate cuts over the past year. That's taken our policy rate deeper into stimulatory territory, with growth expected to pick up over the coming year. ►

SURVEY OVERVIEW

Inflation taking a backseat to growth and labour market concerns.

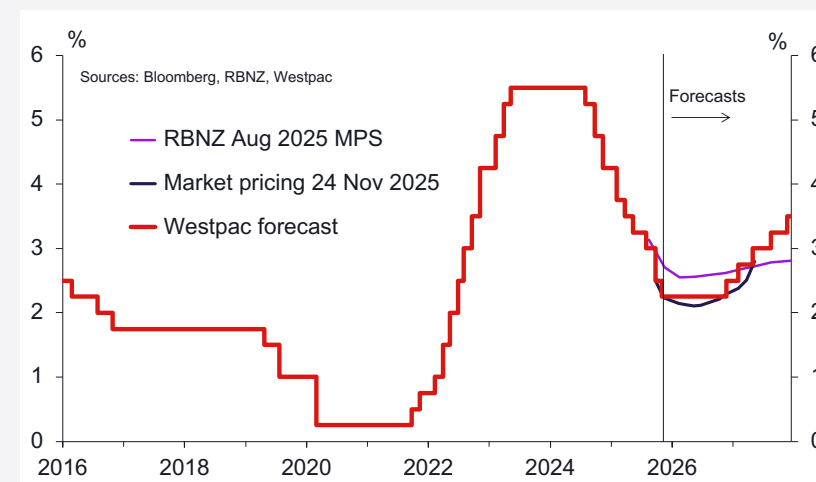
Most respondents (89%) expect that inflation will remain contained over the coming year, albeit in the upper part of the RBNZ's target range. Relatively few thought that non-tradables inflation would be a concern for the RBNZ.

Instead, it's the strength of domestic economic growth and the labour market (or lack there of) that are expected to be the key influences on the RBNZ's policy stance over the coming year. Global conditions are one factor that clients thought could prompt a greater degree of easing.

Fiscal Policy to become more expansionary?

Lastly, nearly 60% of respondents believe a significant increase in government spending is likely before next year's election. This will be an interesting area to watch, with many of those we've spoken to during our recent travels noting that uncertainty about the election was likely to have at least some impact on their businesses.

Official Cash Rate forecasts

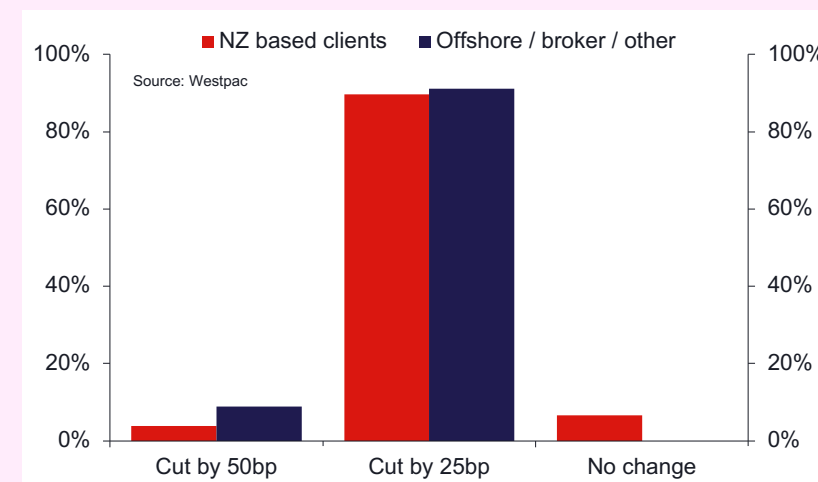


SURVEY FINDINGS

What will the RBNZ do at the November Policy meeting?

- 90% of clients expect the RBNZ will deliver a 25bp cut at this Wednesday's policy meeting, with a further 5% expecting a 50bp cut. That's in line with market pricing, as well as our own forecast for a 25bp cut.
- Back in October, the RBNZ delivered a 50bp 'circuit breaker' cut in the wake of the much weaker than expected June quarter GDP report.
- We think the RBNZ will continue to take a cautious view of the short-term growth outlook, and some MPC members are likely to remain pessimistic. The tone of data since the October policy meeting has been mixed. While signs of recovery are emerging, we're not seeing a significant turn in spending or business activity at this stage. On the inflation front, while the headline rate has picked up to 3%, core inflation is closer to 2% and is expected to remain contained over 2026.
- Around 5% of clients expect that the RBNZ will leave the OCR on hold this week, all of whom are New Zealand based.

What will the RBNZ do this week?

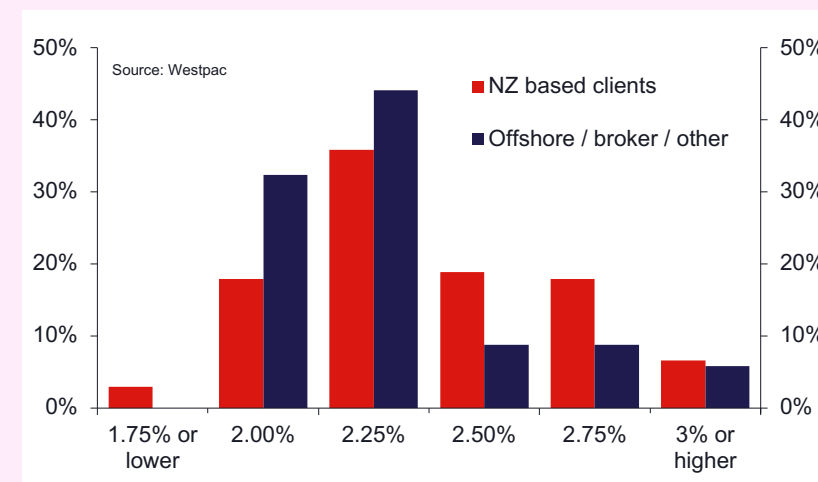


SURVEY FINDINGS

Where will the RBNZ project the OCR to be at the end of 2026?

- After the expected 25bp easing in the OCR next week, clients are split on what the RBNZ will signal for 2026.
- Around 38% of clients expect the RBNZ will signal a fairly neutral stance and project the OCR at 2.25% at end 2026.
- A similar proportion expect the OCR forecast will sit at 2.50% or higher at the end of 2026, thus indicating tightening by the end of 2026. New Zealand based clients see a greater chance of tightening in 2026 compared to offshore clients.
- A minority (around 21%) of clients anticipate that the RBNZ will leave the door open for further cuts and project the OCR around 2% at the end of 2026.

Where will the RBNZ project the OCR at end 2026?

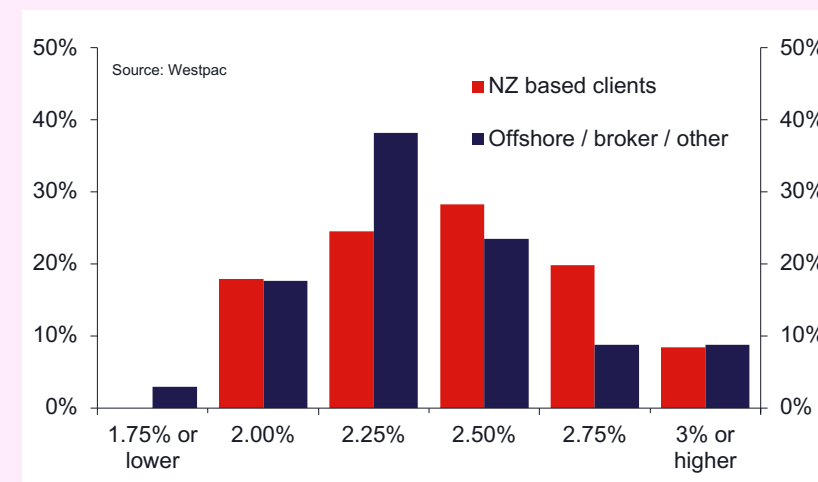


SURVEY FINDINGS

Where will the OCR actually be at the end of 2026?

- Clients appear to believe that the risks are tilted towards the RBNZ delivering an earlier tightening in policy than the RBNZ's projections will indicate.
- Just over half of clients (53%) expect the OCR to end 2026 at 2.50% or higher. Assuming we get a 25bp cut this week, that would mean at least one rate hike next year. Around a quarter of clients expect two or more rate hikes.
- Compared to those offshore, New Zealand based clients expect slightly faster rate hikes over 2026.
- There are still a number of clients (27%) who expect the OCR will remain at 2.25% over 2025, with 18% expecting that the OCR will fall to 2%.
- On balance, clients' expectations are broadly in line with our own forecasts for gradual rate hikes from late 2025. However, clients are a little more hawkish than financial market pricing, which is consistent with an OCR of around 2.25% by the end of 2026.

Where will the OCR actually be at the end 2026?

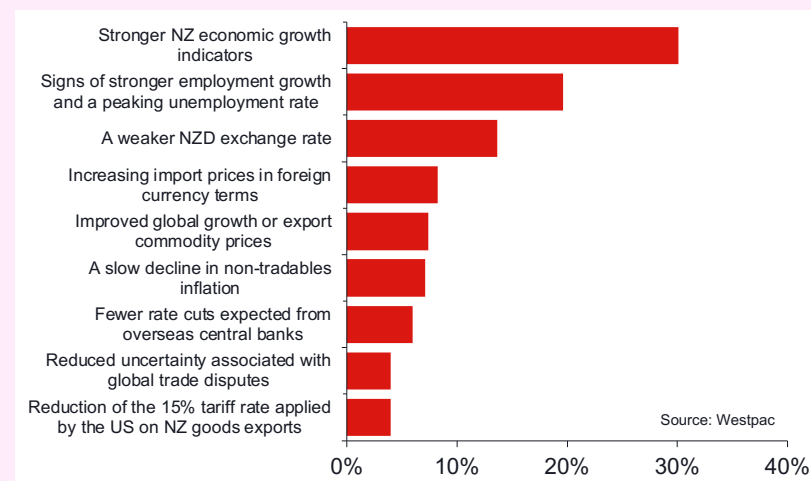


SURVEY FINDINGS

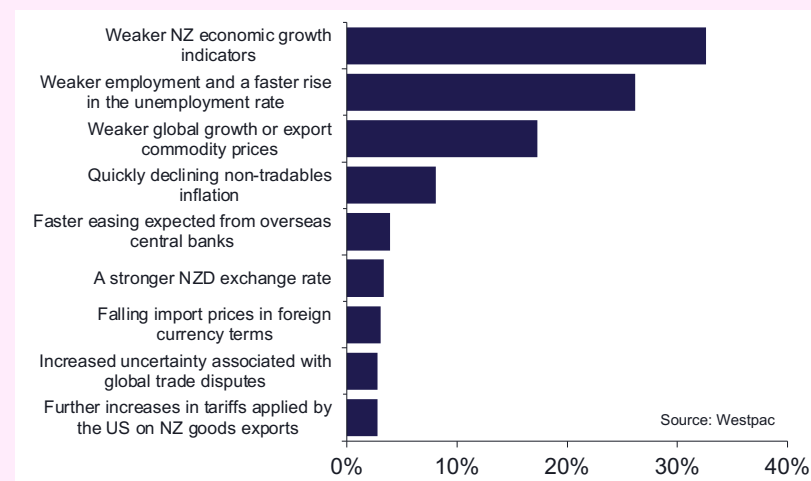
What factors could affect the RBNZ's policy stance?

- For these two questions we asked clients to choose up to three risk factors that could alter the RBNZ's easing plans.
- Generally, clients saw domestic growth and the strength of the labour market as the biggest risks for the RBNZ in both directions.
- The strength of global growth and export commodity prices were also important factors which clients thought could prompt a greater degree of easing from the RBNZ.
- Compared to economic growth and the labour market, inflation was somewhat down the list of risk factors that clients think will be a concern for the RBNZ. However, some clients did think that there was upside risk for imported inflation pressures, consistent with the fall in the NZ dollar.
- The risks of a weaker NZ dollar appears relatively prominent as a factor that might forestall easing or accelerate interest rate increases.

Which factors are most likely to lead to scaled-back easing?



What factors are likely to lead to increased RBNZ easing?

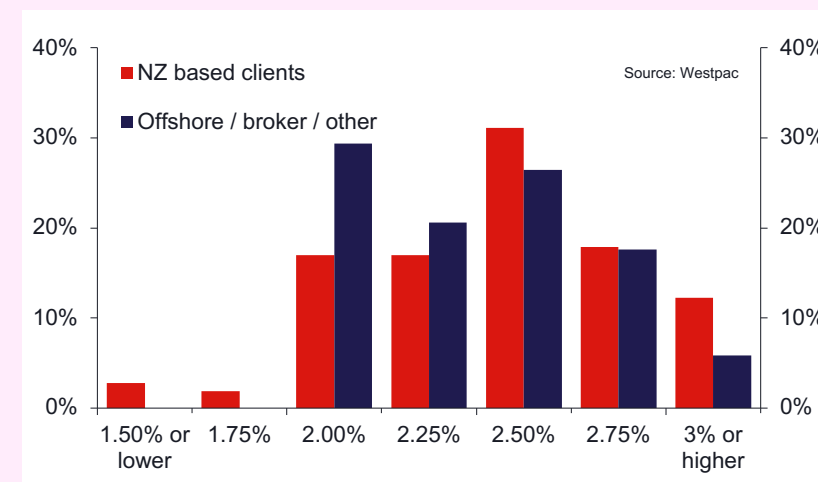


SURVEY FINDINGS

Where will inflation be in two years' time?

- Inflation is expected to remain contained over the coming years. However, only around 20% of clients expect that it will sit at the 2% midpoint of the RBNZ's target band.
- Most clients expect inflation will linger in the upper part of the 1% to 3% target band, with expectations centred around 2.5%. History is certainly on the side of these views, as headline inflation has averaged close to 2.5% since 2002.
- We should perhaps read this in conjunction with the responses to the previous questions, with clients viewing the RBNZ as being more focused on the risks to growth and the labour market, rather than inflation.

Where will inflation be in two years' time?

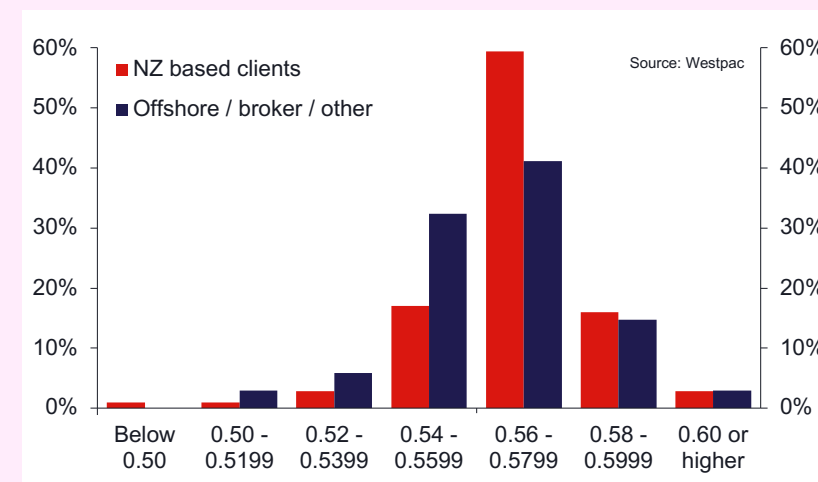


SURVEY FINDINGS

Where will the NZD/USD exchange rate end 2025?

- Even with the expected cut in the OCR, 55% of clients expect the NZD will close 2025 around US 0.56 to 0.5799.
- Among the remainder, expectations for the Kiwi are tilted mildly to the downside, with offshore clients highlighting slightly more downside risk.
- Westpac's forecast is for the exchange rate to remain at around 57c at the end of the year and to gradually rise over the year ahead.
- However, there's substantial uncertainty about where the NZD/USD ends up, with questions around the Fed's stance over the coming year, along with a still gradual recovery in domestic economic conditions.

Where will the NZD/USD end 2025?

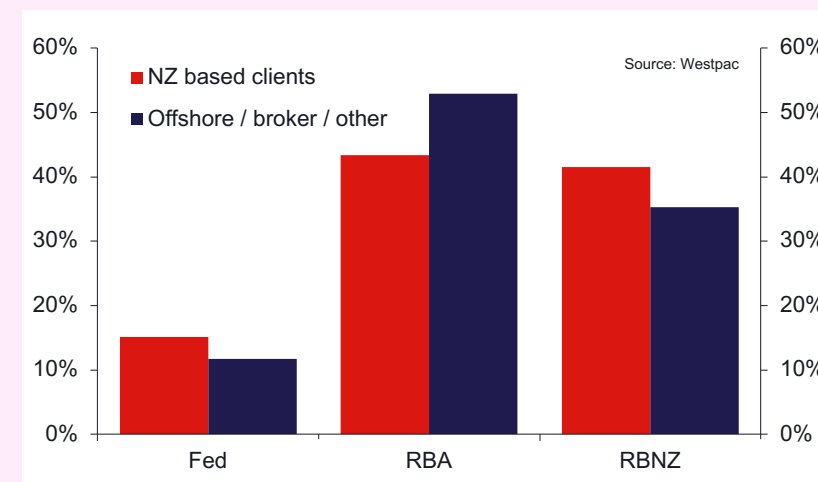


SURVEY FINDINGS

Which central bank is most likely to tighten policy first?

- Clients in New Zealand are evenly split on whether the RBA or RBNZ will tighten policy first. However, offshore clients think it's a little more likely that the RBA will be first.
- Australia's labour market has been firmer than New Zealand's, consistent with the less aggressive tightening of interest rates by the RBA in previous years and the related resilience in Australian demand. However, inflation in Australia has also been stronger than on this side of the Tasman. Those conditions have seen expectations for rate cuts from the RBA wound back in recent weeks.
- In contrast, the RBNZ's rate cuts over the past year have taken our policy rate deeper into stimulatory territory. And with growth here expected to pick up over 2026, we expect the RBNZ will start to raise the OCR late next year, while the RBA is expected to deliver gradual rate cuts.
- Only 14% of clients expect the Fed will tighten ahead of the RBA or RBNZ.

Which central bank is most likely to tighten policy first?

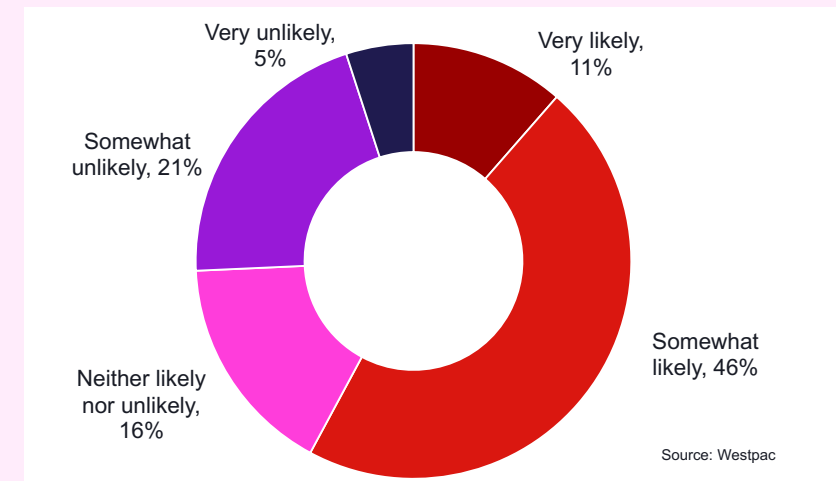


SURVEY FINDINGS

How likely is a large increase in government spending ahead of the 2026 election?

- 58% of clients think a large increase in Government spending before the 2026 election is 'somewhat likely' or 'very likely'.
- With next year's election coming into sharper focus, there are growing questions around government policy settings over the coming years. But those policy settings don't just relate to spending. Customers we've spoken to have also raised questions about areas like taxation, infrastructure, labour market policy and industry specific regulations.

How likely is a large increase in Government spending ahead of the 2026 election?



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