

Forecast Update & OCR Call Change

16 April 2025

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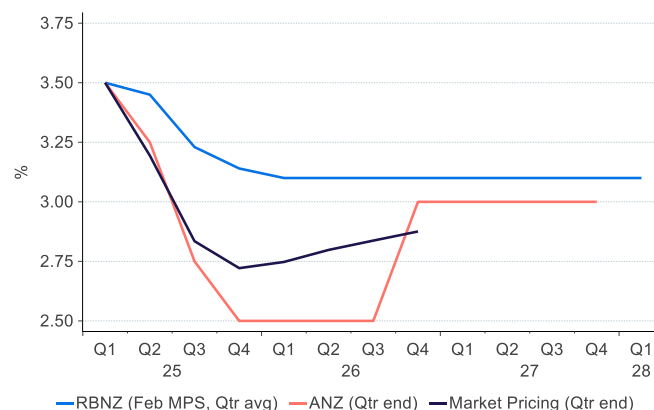
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Key points

- **We are adding two more OCR cuts to our forecasts (in August and October), which takes the OCR to a low of 2.5% rather than our previous forecast of a 3% trough.** In Q4 2026 we then have 'placeholder' hikes taking the OCR back up to 3% (neutral).
- Recent data (eg QSBO, Performance of Services Index, electronic card transactions) on balance suggest **the economic recovery, while certainly well underway, is looking a bit more stop-start than our current forecasts imply.** In addition, persistent uncertainty on the global trade front and a darker and **murkier outlook for global growth is likely to dampen investment and broader risk-taking to some extent.** We therefore now think that the economy will require a bit more support from monetary policy to ensure that the recovery remains on track (and accordingly, that medium-term inflation doesn't undershoot the target). It's early days, but we expect the RBNZ forecast revisions will have the same broad flavour in next month's Monetary Policy Statement.
- We have **revised down our forecasts for GDP, the housing market, the output gap and the OCR.** We will also be **reducing our CPI inflation forecasts** (both tradable – courtesy of oil prices, and non-tradable – courtesy of the more negative output gap), **but we will wait until Q1 CPI is released** to get an updated starting point. We will update our CPI forecasts next week.
- **We have not centralised the downside risks around global markets and growth at this point (such as downside risk to our export commodity prices, or upside risk to bond yields, or wobbles in credit markets).** Like the RBNZ, we'll take a 'wait and see' approach on that front – it was notable that dairy prices rose in the auction overnight. In practice, risks are tilted towards the 100bp of OCR cuts we are forecasting arriving more quickly than a steady 25bp at each meeting. With inflation pressures looking contained the RBNZ is indeed, as they stated last week, in a good position to respond vigorously to downside risks should they manifest. The risk that the NZD may hold up better than it has in previous global ructions (should the USD come under pressure) also implies a risk that the OCR will need to do more work.

Figure 1. OCR forecast



Source: RBNZ, ICAP, Bloomberg, Macrobond, ANZ Research

Our updated forecasts

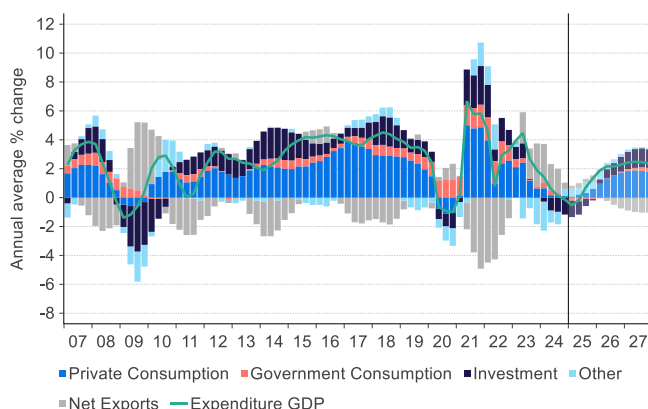
We have modestly downgraded our GDP forecasts to reflect the softer signal from recent economic indicators, which have highlighted that the recovery, while undoubtedly underway, might need a bit more of a push to really get going. The conditions remain in place for a recovery in the economy:

- lower interest rates and easing credit conditions are supporting credit growth and demand more broadly;
- the external sector is starting from a position of strength, with improving terms of trade and a relatively weak NZD supporting competitiveness, although risks to the outlook remain heightened; and
- the housing market recovery is underway (though at a slower pace than previously expected).

However, trade tensions and ongoing uncertainty surrounding the global growth and markets outlooks have very likely weighed on confidence across both households and businesses, eroding a key pillar of support to the recovery. As a result, we think further policy support is required to keep the recovery on track.

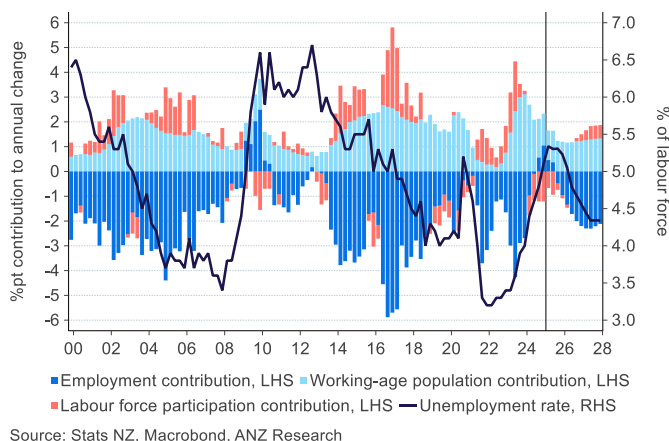
Our forecast downgrade largely reflects a more gradual recovery in investment, as uncertainty weighs on households' and firms' risk appetites. We have revised down annual average GDP growth from 1.3% to 1.0% for 2025 and from 2.9% to 2.6% for 2026. Our forecast for annual average growth in 2027 has been revised up from 2.4% to 2.6% as stimulatory monetary policy settings eventually flow through.

Figure 2. ANZ GDP forecast



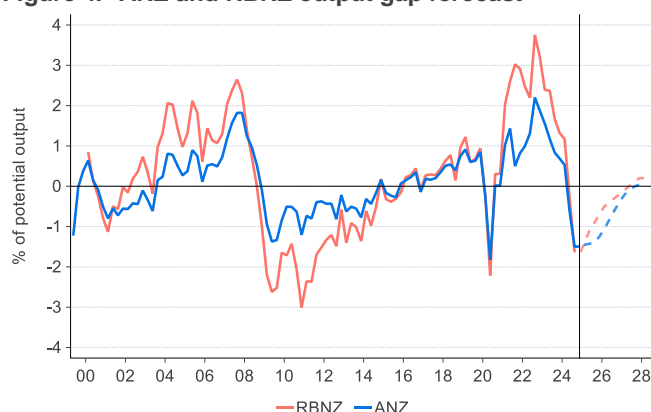
Slightly softer economic momentum is expected to leave the labour market loose for a little longer. After ending 2024 at 5.1%, the unemployment rate is expected to lift to 5.3% in early 2025 and remain around that level for most of the year. Thereafter, the trajectory for the unemployment rate is similar to our prior forecast: on a path towards 4.3% (which is the level we think is consistent with stable inflation) but with around a 1-2 quarter delay.

Figure 3. ANZ labour market forecast



A slightly looser labour market and a slower recovery in economic activity mean the negative output gap closes more gradually than previously forecast. The RBNZ will ultimately do what is necessary to close it and stabilise inflation at the 2% target midpoint, and we now think that achieving that will necessitate the RBNZ delivering monetary stimulus (ie an OCR under neutral, assumed to be 3%) for a time.

Figure 4. ANZ and RBNZ output gap forecast



Source: RBNZ, Macrobond, ANZ Research

Of course, for the RBNZ the buck stops with the medium-term CPI outlook. While we still expect inflation to stabilise around 2% over the medium term (that's the RBNZ's job), we need to bake recent weakness in oil prices and a slightly wider-for-longer negative output gap into our CPI forecasts. However, we'll hold off on that until we have the Q1 CPI starting point in the bag (Thursday). Given the upcoming Easter holiday, we'll publish our CPI forecast in next week's Data Wrap (out 24 April).

With the OCR heading to 2.5%, we now expect bank-bill and short-end swap rates to drift below 3%, taking them to fresh lows for the cycle. Additionally, owing to our global team's new, lower US 10yr bond yield forecast, we have further lowered our NZGB 10yr forecast. On the FX front, we have lifted our NZD/USD forecast slightly in Q3 2026, maintaining a gradual pace of appreciation next year, but the remaining NZD profile is unchanged. However, we have downgraded our outlook for the USD DXY index, most of which will be felt via a stronger EUR, GBP and JPY.

Key Forecasts and Rates

FX rates	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26
NZD/USD	0.550	0.570	0.590	0.600	0.610	0.620	0.630
NZD/AUD	0.902	0.905	0.922	0.923	0.924	0.925	0.926
NZD/EUR	0.491	0.500	0.509	0.517	0.517	0.525	0.525
NZD/JPY	79.8	79.8	81.4	81.6	81.7	81.8	81.9
NZD/GBP	0.423	0.432	0.440	0.441	0.449	0.449	0.457
NZ\$ TWI	65.6	67.5	69.5	70.3	70.9	71.6	72.2
Interest rates	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26
NZ OCR	3.25	2.75	2.50	2.50	2.50	2.50	3.00
NZ 90 day bill	2.89	2.62	2.62	2.62	2.62	3.04	3.12
NZ 2-yr swap	2.93	2.88	2.94	3.06	3.17	3.27	3.32
NZ 10-yr bond	4.50	4.25	4.00	3.75	3.75	4.00	4.00

Economic forecasts

	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26
GDP (% qoq)	0.7	0.6	0.4	0.6	0.6	0.6	0.7	0.8	0.7
GDP (% yoy)	-1.1	-0.9	0.6	2.3	2.2	2.2	2.5	2.7	2.8
CPI (% qoq)	0.5	0.9	<i>Under review</i>						
CPI (% yoy)	2.2	2.5							
Employment (% qoq)	-0.1	0.1	0.2	0.3	0.4	0.5	0.6	0.6	0.6
Employment (% yoy)	-1.1	-0.5	-0.4	0.5	1.0	1.4	1.8	2.1	2.3
Unemployment Rate (% sa)	5.1	5.3	5.3	5.3	5.2	5.0	4.8	4.7	4.6
Current Account (% GDP)	-6.2	-5.7	-5.1	-4.7	-4.4	-4.3	-4.3	-4.4	-4.4
House Prices (% qoq)	-0.2	0.5	0.6	1.2	2.0	1.8	1.3	1.2	1.1
House Prices (% yoy)	-1.1	-1.1	0.0	2.1	4.5	5.8	6.6	6.5	5.5

Figures in bold are forecasts. mom: Month-on-Month; qoq: Quarter-on-Quarter; yoy: Year-on-Year. Click [here](#) for full ANZ forecasts

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