Preview: RBNZ Monetary Policy Statement

21 May 2025

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A 25bp cut looking like a lock next week – but then what?

- We expect a 25bp cut in the OCR to 3.25% next Wednesday. That is universally expected, with the main interest being in what the RBNZ will do with its Official Cash Rate (OCR) projection.
- Data since the last OCR review in April has been a mixed bag, but we estimate starting point news (including fiscal) justifies perhaps 15bp off the OCR track (which troughed at 3.1% in the February MPS). Where it gets messy is judgments about the global growth outlook and any impacts the Committee builds into its forecasts for commodity prices, investment and employment. That's a judgment call and it's very hard to predict whether at this stage the RBNZ thinks it's worth 0 (i.e. wait and see) or up to 50bp off the track. Given recent de-escalation, risks are tilting towards the Committee choosing to centralising less of it and instead presenting scenario analysis.

The view

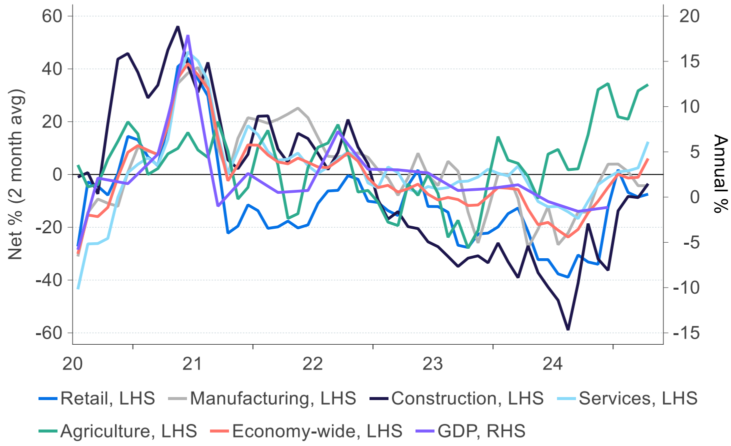
The market is currently pricing a 25bp cut as a lock, which we agree with. The domestic economy is recovering, but it's patchy and looks like it could do with a bit more support. A 25bp cut was signalled last meeting and is widely expected. But even assuming no surprise on the decision front, the RBNZ could nonetheless move the market considerably with what it chooses to publish for the forward track for the OCR. Uncertainty is high, but it's useful to split that into the "known knowns" (starting point surprises) and "known unknowns" (the impacts of global ructions). The latter has certainly not gone away but has calmed down considerably over the last month, making it likelier the RBNZ will keep significant impacts in the "wait and see" risks basket, rather than centralising them into the OCR track.

Let's start with the data news. Our MPS starting-point surprise chart pack provided an opinion-free rundown of how the key data have evolved versus RBNZ forecasts in the February Monetary Policy Statement. Here, we'll summarise that but add colour, as well as discuss data that can't easily be compared to RBNZ forecasts but is nonetheless important.

- Q4 GDP (released 20 March, *before* the RBNZ's April OCR review) was stronger than expected at the headline level, but with soft details: private consumption and residential investment were both weaker than expected, while exports, imports and inventories were stronger. Mixed signals overall but might be worth +5bp on the OCR track.
- Q1 CPI inflation (out 17 April, *after* the RBNZ's April OCR cut) was slightly higher than the RBNZ had forecast, but the details were benign and core inflation measures all fell. Maybe another +5bp. Looking ahead to Q2, early indicators suggest food and other volatile items are surprising to the upside, and we have revised up our forecast from 2.5% to 2.8% y/y. That's uncomfortably close to the top of the RBNZ's target band, even if it isn't a generalised inflation issue. It might be worth another +5bp on the track.
- The Q1 unemployment rate (7 May) at 5.1% was lower than the RBNZ's forecast of 5.2%, but the miss was due to slightly tighter labour supply than expected, not stronger employment. The fall in the labour force participation rate implies a tighter labour market for a given level of employment all else equal, but the RBNZ's preferred wage measures were benign, and the NZIER's Quarterly Survey of Business Opinion is still sending disinflationary signals regarding labour market spare capacity. Probably broadly cancels out in OCR track terms.
- The NZD trade-weighted index is currently sitting at 68.9, 2.1% higher than the RBNZ February assumption of an average of 67.5 from Q2 onwards. Mechanically, that's worth 15-20bp off the OCR track, all else equal.

- New Zealand's [commodity prices]() have done remarkably well through recent turmoil. Dairy prices slightly at last night's Global Dairy Trade auction but are still up 8% since the end of March, and meat prices are also strong, especially beef. According to our Business Outlook survey, the agriculture sector is leading the activity recovery (figure 1). Overall, we judge that the positive commodity price news perhaps worth 5-10bp on the OCR track.

Figure 1. ANZBO experienced activity and GDP growth

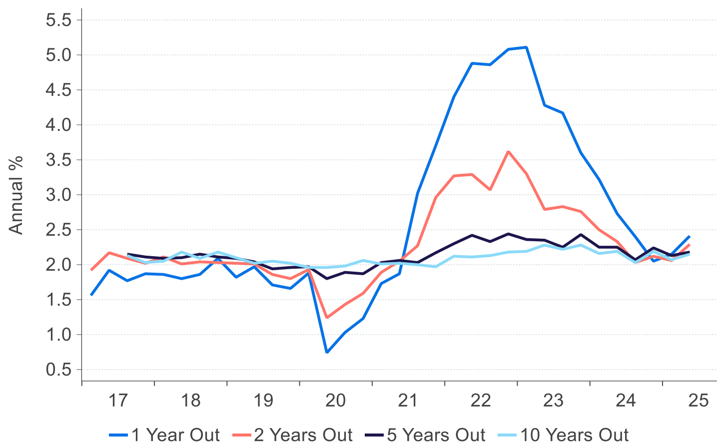


Source: Stats NZ, Macrobond, ANZ Research

- The RBNZ assumed Dubai oil spot prices would average USD73.60 in Q2. The average for the quarter so far is USD65 and the current spot is USD64.2. If a similar profile to February is carried forward from the new starting point, that's worth -5bp on the track (it's a sizeable move but the RBNZ's focus is on non-tradable inflation as changes in tradable inflation tend to wash through fairly quickly).

- Inflation expectations jumped half a percent in our consumer confidence survey last month, but we put that down to tariff confusion and the RBNZ is likely to do the same. Less easy to dismiss is the lift in the RBNZ's own expectations survey. While expectations can certainly still be characterised as well-anchored the lift would not have been welcomed. It might be worth a couple of points on the track but for now we'll assume it goes into the watch basket. Business inflation expectations have remains very steady in the ANZ Business Outlook survey (even if there has been a small lift in some of the other inflation indicators).

Figure 2. RBNZ inflation expectations survey



Source: RBNZ, Macrobond, ANZ Research

- At the time of writing the Budget has not been released, but based on the signals coming out of the Beehive, we estimate tighter discretionary spending is worth around 5-10bp on the OCR track, depending on the extent to which higher capital expenditure provides an offset. See our [Preview]() for more.

- Finally, on the starting point, a quick high-frequency data roundup since the April Monetary Policy Review:
  - the Performance of Manufacturing Index is holding up at healthy levels but the Performance of Services Index (which has the stronger correlation to GDP) slipped further in April and remains under par at 48.5.
  - The housing market continues to pick up, but in a stop-start fashion, and a month ago we revised down our forecast for growth in house prices this year from 6% to 4.5%.
  - Card spending data suggests households are still being cautious with their spending.
  - The Truckometer is mixed – heavy traffic is recovering more rapidly than light traffic.
  - Our ANZ Business Outlook survey showed a confidence hit in late April from the Liberation Day global pandemonium, but as we'll discuss further, there's massive uncertainty about whether it will be a lasting impact or a hiccup.

All up, then, the recent data justifies a drop in the OCR track, but it would also be possible to come up with an unchanged track on the back of it. But of course, there's a lot more than New Zealand data starting point developments going on.

Global volatility exploded in mid-April as US President Trump announced 'reciprocal' tariffs against every country in the world calculated on a simplistic formula using the relative size of countries' trade surpluses with the US. Rapid backpedalling has seen markets calm down and equities have recovered losses, but the situation remains unpredictable, with the majority of tariff reductions still temporary at this point, and no one expecting tariffs to go back to where they were before 'liberation day'. The outlook for the US fiscal position is also causing some headaches in bond markets and may constrain the US Administration's ability to implement their policy platform.

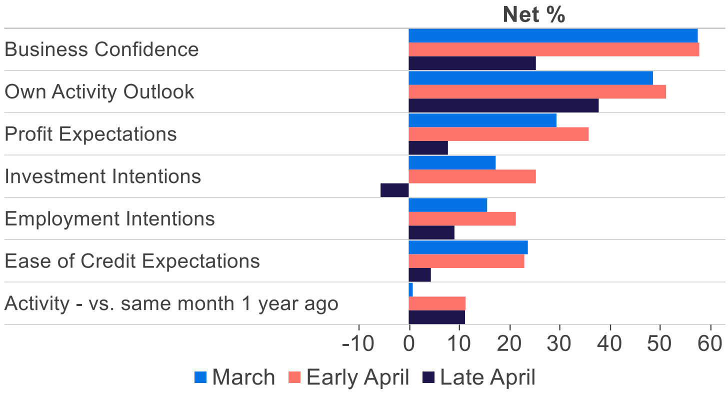
The IMF and the European Commission have both downgraded their global growth forecasts, as has ANZ, on the basis of both direct trade disruptions and broader confidence impacts. The Minister of Finance has also indicated that Treasury will also revise down their forecasts for trading partner growth. So the direction of revision in the RBNZ's forecasts is clear, though the magnitude is less so.

Indeed, arguably the biggest shadow of uncertainty hanging over the RBNZ's OCR track is to what extent the RBNZ will revise down their forecasts for global GDP, and also local GDP on the back of headwinds from the global turmoil. The two main channels through which the New Zealand economy is likely to be affected are confidence and commodity price impacts (the direct impacts of the 10% tariffs on New Zealand's exports to the US will be small, given we export only around 12% of our goods exports to the market and are not facing any new comparative disadvantage, given a 10% tariff is the minimum).

On the commodity front, as noted above, the dairy price news could hardly be better. And according to the ANZ Commodity Price Index, the meat and fibre index rose 0.6% in April. Forestry hasn't been invited to the party, but overall, the picture is remarkably benign. The RBNZ's model will want to translate any reduction in the global growth outlook into a weaker commodity price forecast, but the starting point is certainly worth something. Even assuming this is the peak for dairy prices and that they will steadily ease, we still landed on a healthy $10 milk price payout for next season. Overall, our commodity prices are certainly going into battle from a position of strength.

As for confidence: the April ANZBO certainly showed an initial hit to overall business confidence, investment, profit and export expectations in the responses that came in later in the month (figure 3).

Figure 3. ANZBO early and late April responses



Source: Macrobond, ANZ Research

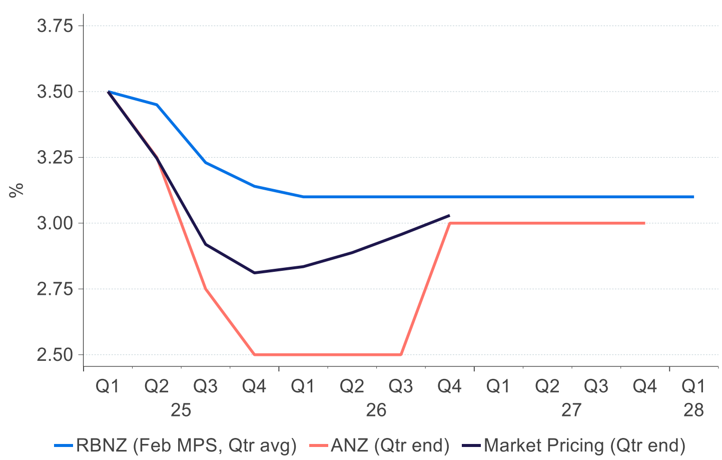
But the key question for the RBNZ (and indeed for all forecasters) is how long the impact on confidence (and thus on investment and employment plans) will last. A two-month hiatus is no big deal. But cancellation of those plans certainly would be. Will New Zealand firms decide that the tariffs are "somebody else's problem" or their own problem? It's very difficult to judge. On balance, we expect the RBNZ will build in a little more of a headwind for investment and employment, but certainly not assume the worst, reserving judgment until there is more evidence on the impact. They may well choose to publish a downside scenario, highlighting that they are in a good position to respond aggressively with OCR cuts should that become necessary. All else equal, that would likely mean they feel less obliged to build a large impact into the central OCR projection. For the sake of argument, let's say they build in -10bp.

Pulling it all together

We expect the tone of the Monetary Policy Statement to be one of confidence that the inflation outlook is benign, despite some near-term surprises, though recent upward surprises will certainly get a mention with reassurance that they are watching developments closely.

On balance, our best guess is that the OCR track will be 15-25bp lower, i.e. dipping under the 3% mark, but as outlined, given the biggest factor this round is hand-wavy judgements about uncertain events rather than concrete data outcomes, the scope for a surprise is significant. In this kind of environment, there's plenty of leeway for strategy to play a role, and we think the overall message the RBNZ will be wanting to send is "we got this, whatever happens". To us, that speaks to a lower OCR track but not one that is designed to move market pricing from where it currently is (as of this morning, a trough of 2.86%). We continue to forecast that the RBNZ will ultimately deliver an OCR of 2.5%, but we don't expect them to signal such an outcome at this stage.

Figure 4. OCR forecasts: RBNZ, ANZ, market pricing



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

Markets

Financial markets have been locked into expecting a 25bp cut for some time, and barring a surprise pause or 50bp cut, both of which we think are highly unlikely, the focus will thus be on the RBNZ's OCR track and scenarios, should they choose to express risks to the outlook that way.

On that score, most of the attention will be on whether the track goes below 3%, and by how much. As we've outlined, on balance we think a small dip below 3% is the likeliest outcome, but if a dramatic downside scenario is outlined, the Committee may well see that as reducing the strategic need to lower the central OCR track meaningfully.

While we still expect the OCR to ultimately get to 2.5%, that forecast includes our judgement of the impact of global developments (mainly tariff volatility and uncertainty), and as we alluded to in our comments above, we don't think the RBNZ will feel the need to take a large punt and centralise a great deal on that front yet, preferring to preserve as much optionality as possible. The upshot is, even though we are forecasting four more cuts over the remainder of the year as global data starts to show the strain and the domestic recovery remains underwhelming, that doesn't mean we expect the RBNZ to signal that next week.

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