mni

All Signal, No Noise

MARKET ANALYSIS

MNI RBNZ Review – August 2025

Meeting Date: Wednesday, 20 August 2025

Link To Decision: https://www.rbnz.govt.nz/monetary-policy/official-cash-rate-decisions

Link To MPS: https://www.rbnz.govt.nz/monetary-policy/monetary-policy-statement

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MNI POV (Point Of View): RBNZ Signals Further Easing

The pace of NZ's economic recovery appears to have disappointed the MPC with Q2 GDP expected to contract again and spare capacity greater and more persistent than expected in May. As a result, the MPC decided to cut rates 25bp to 3% and to give a distinctly dovish message with two members voting for a 50bp reduction. In addition, the OCR path was revised materially lower which was said should provide "sufficient signalling effects" in terms of the MPC's easing bias. The revised OCR path now troughs 30bp below the May assumption at 2.55%. The Q4 average is at 2.7%, which implies cuts at both the 8 October and 26 November meetings, assuming the economy develops broadly as the RBNZ expected this month.

The MPC noted that the OCR path was a "central expectation" "needed to ensure inflation" is sustainably at the band mid-point. While views over the risks were diverse, the MPC was unanimous over the central profile for the OCR. This range of opinions reflects current heightened uncertainty. The revised OCR path implies back-to-back cuts by year end and then rates staying at 2.5%, the bottom of the bank's estimated 2.5-3.5% neutral range, for most of 2026 with a 50% chance of a rate hike by year end. Thus, October and November are clearly "live" but Governor Hawkesby stated that all meetings are "live". The MPC was also clear that it remains highly data dependent.

Chief Economist Conway noted that policy is "around neutral" which means that the important factor now is the effect of monetary easing on the economy rather than exactly where rates are relative to neutral. The concept is more important when rates are clearly stimulatory or restrictive. He also pointed out that "you can't be too mechanistic about these things". Rates are one part of monetary conditions, and not only did the MPC expect the NZD to decline following its decision given the vote and OCR path but was happy that it did.

Rates were cut by 25bp rather than 50bp as upside and downside risks were seen as "broadly balanced", financial conditions continue to ease due to previous cuts, and the OCR path would signal the MPC's easing bias. Downside risks to the forecasts stemmed from continuing cautious behaviour from households and businesses, while upside came from the economy responding quickly when the "full effects of interest rate reductions" had flowed through. It is estimated that around 50% of the 250bp of monetary easing to date has been transmitted and so there is a lot still to come which is expected to boost consumption and dwelling investment.

The case for a 50bp cut included "declining inflationary pressure and significant spare capacity", global uncertainty could have "self-reinforcing" effects on domestic demand, a larger cut would send a clearer signal, and labour market and excess capacity would put downward pressure on inflation if growth recovered faster than expected.

Arguments to keep rates unchanged were also discussed which included that global uncertainty had eased since May, the global economy appeared more resilient than expected, the full effect of previous easing was yet to be felt, July data "suggest some improvements" and inflation is close to the top of the band and near-term expectations are rising. One member supported this view.

Headline inflation was revised higher over H2 2025 and H1 2026 and is forecast at 2.2% in Q4 2026 with it not returning to the 2% mid-point of the target band until H1 2027. It is now expected to be at the top of the band in Q3 2025. The focus remains on the medium-term, which Hawkesby stated the RBNZ can influence. He noted that there is a 50% chance that inflation will exceed the 3% band ceiling in the short term, but that is a time frame they can't control. He advised economic participants to make decisions based on "low and stable" inflation.

Governor Hawkesby reiterated that Q2 growth had disappointed and MPC member Silk clarified it was due to an "uncertainty shock" with the worst now over. This lower starting point then drove the downward revision to the OCR path as there was more spare capacity than previously estimated and needed to keep inflation sustainably in the band. Q3 GDP was revised down to -0.3% q/q from +0.3% in May with the subsequent 5 quarters revised 0.1pp lower. Growth is still expected to gradually recover with Q4 2025 at 1.6% y/y and Q4 2026 at 2.7% after Q4 2024's -1.3%.

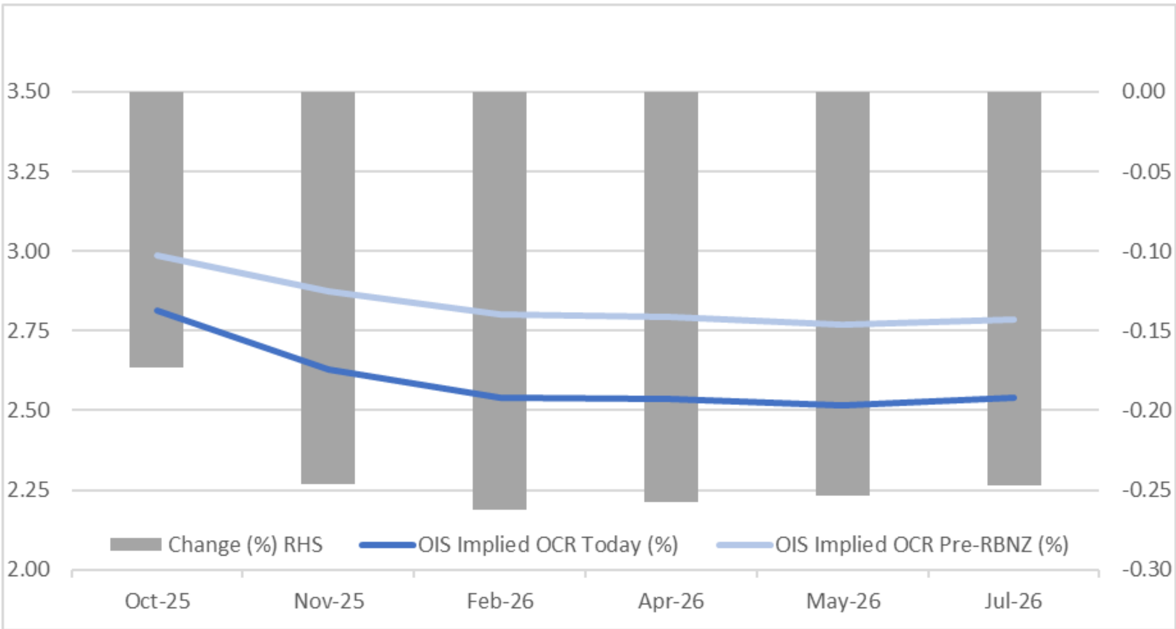
Given the split vote between cutting 25bp and 50bp and the substantial downward revision to its OCR path despite the near-term possibility that inflation exceeds the top of the band, further easing is highly likely by year end. There are meetings in October and November and then not again until mid-February. The RBNZ will be watching the data and listening to businesses and if they are in line with expectations, then another 50bp by end-2025 looks likely.

RBNZ Dated OIS Pricing

RBNZ dated OIS pricing are 17-26bps softer across meetings versus yesterday's pre-RBNZ Policy Decision levels.

- The market had priced 22bps of yesterday's 25bp cut going into the decision.
- 19bps of easing is priced for October, with a cumulative 37bps by November 2025 versus 12bps before the decision.

Figure 1: RBNZ Dated OIS Current vs. Pre-RBNZ (%)



Source: Bloomberg Finance LP / MNI

RBNZ August 2025 Summary Record Of Meeting

Annual consumers price index inflation remains within the Monetary Policy Committee's 1 to 3 percent target band. Recent increases in food prices and administered prices have contributed to near-term inflationary pressure. However, domestic activity has been subdued and there remains significant spare productive capacity in the economy. Headline inflation is expected to return to around the 2 percent target mid-point by mid-2026. If medium-term inflation pressures continue to ease as expected, there is scope to lower the OCR further.

Annual CPI inflation remains within the target band

Annual consumers price index (CPI) inflation increased to 2.7 percent in the June 2025 quarter. Headline inflation is expected to reach to 3.0 percent in the September 2025 quarter, reflecting large increases in administered prices, food prices, and the prices of other tradable goods and services.

Surveyed measures of medium-term inflation expectations remain near 2 percent, consistent with the mid-point of the target band. Non-tradables inflation has continued to decline in aggregate. Measures of core inflation have declined and are within the target band. Headline inflation is expected to converge to the mid-point of the target range over the next year as tradables inflation pressures dissipate and significant spare capacity continues to reduce domestic price pressures.

Near-term inflation expectations have increased, particularly for households. Household inflation expectations have risen across several advanced economies and may be influenced by global factors such as increased trade restrictions, as well as relatively large increases in some prices such as those for food and energy.

Tariffs and economic policy uncertainty are dampening the global economic outlook

Evidence to date suggests that the global economy is responding broadly as expected to trade restrictions and policy uncertainty. Growth in some of our trading partners, particularly China, was higher than expected in the second quarter of 2025 but is expected to moderate in the coming quarters. Headline inflation has increased moderately in some advanced economies but is declining in most of our Asian trading partners.

Tariffs are causing changes to global trading patterns but have so far had a limited effect on aggregate global trade volumes. To date, there is no evidence of major disruption to global supply chains, or a material impact on the prices of New Zealand's imports or exports. The Committee noted that it continues to expect that the increase in global trade restrictions will result in less inflationary pressure in the New Zealand economy.

The effective tariff rate on New Zealand exports to the United States is higher than anticipated at the time of the May Statement. Some firms and industries may experience more challenging export conditions as a result. The medium-term implications for New Zealand will depend on how global demand responds to increased trade restrictions and economic policy uncertainty.

Economic growth in New Zealand is expected to recover gradually

High-frequency indicators suggest that the New Zealand economy contracted in the second quarter of 2025 and was weaker than expected at the time of the May Statement. Growth is expected to resume in the September quarter, consistent with a recovery in some economic indicators for July. A key judgement for the Committee's economic assessment was the extent to which spare capacity in the New Zealand economy is likely to persist.

The Committee discussed constraints on household wealth and discretionary income. Employment and hours worked have declined, and wage inflation has slowed sharply over the last year. Household dissaving since the start of 2022 has reduced savings buffers. At the same time, inflation in some essential expenditure components such as food, gas, electricity, and council rates has been much higher than the general rate of inflation. These factors were noted as likely to contribute to a slower recovery in domestic spending than would otherwise be the case.

House prices have declined to a level within the Reserve Bank's range of sustainable house price estimates. Housing is a key component of household wealth, which influences household spending. Ongoing weakness in the housing market is contributing to subdued residential construction and household consumption.
The Committee discussed the fiscal outlook. Declining government spending as a share of the economy is expected to reduce inflationary pressure in the medium term. This is consistent with the economic and fiscal projections published in the Budget Economic and Fiscal Update 2025.

The Committee acknowledged regional and sectoral divergences in economic activity. House price growth has varied considerably across regions. High commodity export prices are supporting activity in the agricultural sector, resulting in stronger spending in rural areas. However, to date, many agricultural businesses have used higher export revenues to pay down debt, limiting the pass-through to consumption and investment.

There is significant spare capacity in the New Zealand economy
A broad range of indicators suggest that significant spare capacity in the New Zealand economy persists. Unemployment has increased, as have measures of labour underutilisation, and firms are reporting that it is relatively easy to find labour. Firms are also reporting low levels of capacity utilisation. The Committee noted that while credit is generally available, growth in business lending has been slow.

The Committee discussed slow growth in the productive capacity of New Zealand's economy. Potential output growth has slowed, reflecting subdued investment, low productivity growth, and historically low population growth through net immigration. The Committee noted that appropriate monetary policy settings would support sustainable long-run investment and growth.

Monetary policy continues to transmit through the financial system
The Committee noted that wholesale interest rates have fallen since the May Statement, resulting in lower mortgage and term deposit rates, particularly at shorter terms. The average interest rate on the stock of mortgages is expected to continue to decline over the coming year, as about half of existing mortgages are expected to re-fix onto lower rates over the next six months. This will reduce debt servicing costs for households as past reductions in the OCR continue to transmit through the financial system.

Long-term bond yields have increased internationally over the first half of the year, with higher term premia reflecting geoeconomic uncertainty and elevated debt levels. Despite subdued domestic activity, the New Zealand dollar TWI has been relatively stable through this period, in part due to policy developments and declining short-term interest rate expectations in the United States. Equity prices in the United States have been elevated, but this has largely been attributable to the out-performance of a few large technology firms.

The financial system remains stable
The Committee was briefed on financial system stability. Subdued demand and low profitability are contributing to financial stress for some businesses. Non-performing loans for households and businesses have increased but remain low relative to previous cycle peaks. Increased provisions and strong capital buffers mean that banks are well-prepared to absorb any losses. The Committee noted that monetary policy settings that support growth in the economy will also contribute to financial stability.

There are upside and downside risks to the economic outlook
The Committee expects headline inflation to remain within the target band over the forecast horizon. However, with inflation projected to increase to 3.0 percent in the September quarter, there is a material possibility that it rises above the target band. The period in which this is most likely to occur is too soon for monetary policy to have any meaningful effect. However, if inflation were to remain higher for longer than expected, there is a risk that this influences inflation expectations and wage- and price-setting behaviour over the medium term.

The Committee noted that increases in administered prices, such as local council rates and some energy charges, have contributed to higher-than-otherwise non-tradables inflation. Some members emphasised that these prices represent rising costs for businesses and may spill over to generalised non-tradables inflation, particularly in the near term. Other members emphasised spare capacity and weak demand, which would limit the ability of firms to pass on cost pressures to consumers.

Some members also drew attention to slow growth in parts of the economy that are most sensitive to interest rates. Residential construction, house prices, and retail activity have not materially recovered, despite monetary easing to date. On a quarterly basis, non-tradables inflation excluding central and local government charges is consistent with inflation at or below the target mid-point. Some members suggested that this may represent a downside risk to medium-term inflation. Other members emphasised that previous reductions in the OCR continue to transmit through the financial system and will take time to have their full effect on activity and inflation. Growth in interest-rate-sensitive sectors of the economy is projected to recover over the remainder of this year.

The Committee discussed the extent to which uncertainty associated with global trade restrictions is likely to limit domestic demand and inflationary pressure in the medium term. Consumption and investment demand appear to have weakened in the second quarter of 2025, partly in response to heightened trade policy uncertainty. The effects of uncertainty on domestic activity are assumed to persist over the remainder of the year. Some members emphasised the fact that some measures of uncertainty have improved considerably since May and noted a possibility that the domestic economy recovers more rapidly as the effects of uncertainty dissipate. Other members highlighted that excess supply in China and some parts of emerging Asia has the potential to lower tradable inflation in New Zealand over the medium term.

Some members also emphasised the risk that precautionary behaviour by New Zealand households and businesses may result in a weaker consumption and investment outlook than assumed, particularly in the context of slow growth in household wealth and discretionary incomes and low firm profitability. In this environment, businesses that are uncertain about potential future demand are less willing to invest, which in turn lowers potential growth and could further prolong uncertainty about future incomes and wealth. It is possible that pessimistic sentiment, together with the initial negative effects of the global tariff shock, have dampened the effects of the reduction in the OCR since last August.

The Committee noted limits to the ability of monetary policy to influence expectations of long-term growth. Some members emphasised that near-term support from monetary policy is most effective when combined with regulatory and policy settings that promote innovation and investment to support productivity growth.

The Committee voted to reduce the OCR to 3 percent
The projected path of the OCR reflects the Committee's central expectation of the path needed to ensure that inflation settles sustainably near the target mid-point. Uncertainty about the future path of the OCR is reflected in the Committee's discussion of upside and downside risks to the outlook. Some members considered the balance of risk to be to the upside relative to the projected path, while others considered the balance of risk to be to the downside.

The Committee discussed three policy options: keeping the OCR on hold at 3.25 percent; cutting the OCR by 25 basis points to 3 percent; or cutting by 50 basis points to 2.75 percent.

The case for holding the OCR steady at 3.25 percent focused on positive influences on growth. Global economic activity outside of the United States has so far proven resilient in the face of new trade barriers, and global policy uncertainty has reduced from its peaks in April and May. The full extent of recent monetary easing is yet to fully transmit through the economy. Although high-frequency indicators suggest weak economic activity in the June 2025 quarter, available indicators for July suggest some improvement. With inflation approaching the top of the target band, and near-term inflation expectations rising, it could be prudent to pause to observe incoming data. One member gave relatively more weight to this view.

The case for lowering the OCR by 50 basis points to 2.75 percent emphasised declining inflationary pressure and significant spare capacity. Some members put relatively more weight on the risk that the negative consequences of global policy uncertainty on domestic consumption and investment are self-reinforcing and therefore more persistent. A larger reduction in the OCR might disrupt such a dynamic and generate clearer signals that support consumption and investment, whereas a gradual reduction in the OCR might not provide the same positive signalling effect. These members also emphasised that weakness in the labour market and excess capacity limits the upside risk to inflation should the economy recover more quickly than projected.

The case for lowering the OCR by 25 basis points to 3 percent was based on the upside and downside risks around the central projection being broadly balanced. Financial conditions are continuing to respond to past reductions in the OCR. They are also influenced by expectations of the future path of the OCR, which provides sufficient signalling effects. If medium-term inflation pressures continue to ease in line with the Committee's central projection, the Committee expects to lower the OCR further. Reducing the OCR by 25 basis points at this meeting provides the opportunity to adjust this view incrementally in response to new information.

On Wednesday 20 August, the Committee voted on the options of either reducing the OCR by 25 basis points or reducing the OCR by 50 basis points. By a majority of 4 votes to 2, the Committee agreed to decrease the OCR by 25 basis points to 3 percent.

RBNZ August MPS – Key Forecast Variables

Key forecast variables

		GDP growth Quarterly	CPI inflation Quarterly	CPI inflation Annual	Unemployment rate	TWI	OCR
2023	Mar	-0.2	1.2	6.7	3.5	71.3	4.5
	Jun	0.8	1.1	6.0	3.7	71.0	5.3
	Sep	0.2	1.8	5.6	3.9	70.6	5.5
	Dec	0.2	0.5	4.7	4.0	70.8	5.5
2024	Mar	0.1	0.6	4.0	4.4	71.6	5.5
	Jun	-1.0	0.4	3.3	4.7	71.4	5.5
	Sep	-1.0	0.6	2.2	4.9	70.9	5.4
	Dec	0.5	0.5	2.2	5.1	69.5	4.6
2025	Mar	0.8	0.9	2.5	5.1	67.8	4.0
	Jun	**-0.3**	0.5	2.7	5.2	69.1	3.4
	Sep	**0.3**	**0.9**	**3.0**	**5.3**	**68.8**	**3.1**
	Dec	**0.8**	**0.3**	**2.7**	**5.2**	**68.0**	**2.7**
2026	Mar	**0.7**	**0.5**	**2.3**	**5.2**	**68.0**	**2.5**
	Jun	**0.6**	**0.5**	**2.2**	**5.1**	**68.0**	**2.6**
	Sep	**0.6**	**0.9**	**2.2**	**5.0**	**68.0**	**2.6**
	Dec	**0.7**	**0.3**	**2.2**	**4.9**	**68.0**	**2.6**
2027	Mar	**0.8**	**0.4**	**2.1**	**4.8**	**68.0**	**2.7**
	Jun	**0.8**	**0.4**	**2.0**	**4.7**	**68.0**	**2.7**
	Sep	**0.8**	**0.9**	**2.0**	**4.6**	**68.0**	**2.8**
	Dec	**0.7**	**0.3**	**2.0**	**4.5**	**68.0**	**2.8**
2028	Mar	**0.7**	**0.4**	**2.0**	**4.4**	**68.0**	**2.8**
	Jun	**0.6**	**0.4**	**2.0**	**4.4**	**68.0**	**2.8**
	Sep	**0.6**	**0.9**	**2.0**	**4.3**	**68.0**	**2.8**

Source: RBNZ

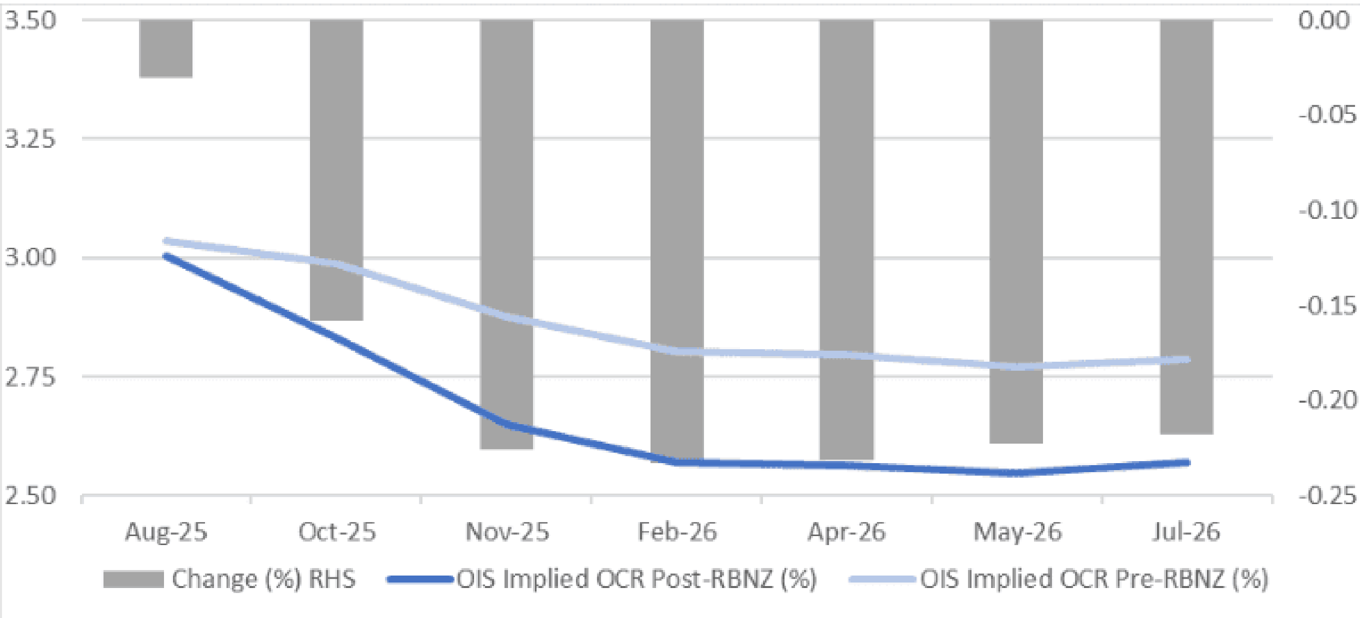
MNI RBNZ Watch: MPC Makes Dovish 25BP Cut, Eyes 2.5% OCR

By Daniel O'Leary

MELBOURNE - The Reserve Bank of New Zealand Monetary Policy Committee voted four-two to cut the Official Cash Rate 25 basis points to 3% on Wednesday, opting against a larger 50bp move, while publishing forecasts that signalled a more dovish policy path.

Acting Governor Christian Hawkesby said the Bank was comfortable with the market's swift reaction, with the OCR now priced at 2.5% by February, noting the move was anticipated given the Reserve's signals. "The signalling power of the vote and of the OCR track means that actual conditions and markets can start moving for us in terms of providing that additional easing," he said. (See [MNI RBNZ WATCH: MPC Likely To Cut 25bp To 3%])

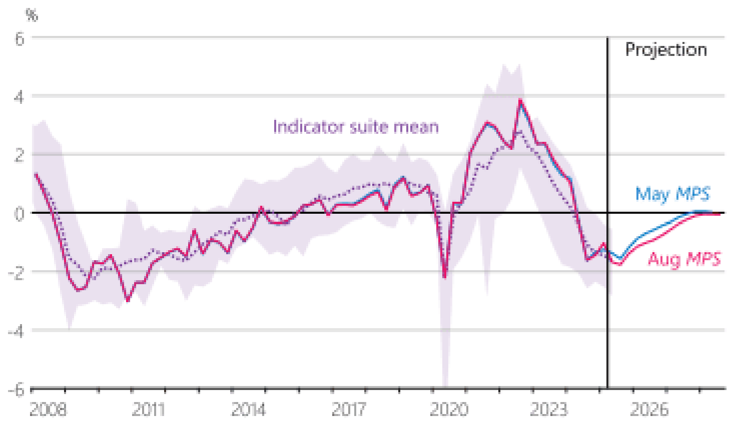
The four-two split was the most fractious in the MPC's history. The dovish tilt saw NZGBs close 10-16bp richer, with OIS pricing down 14-23bp across future meetings, and 35bp of further easing priced by November. (See chart)



DOVISH TRACK

Hawkesby pointed to July's hold decision and suggestions then that 3% might represent a floor, noting fresh data published since showed greater spare capacity. (See [MNI RBNZ WATCH: MPC Holds, Eyes August Cut])
The Bank's latest [Monetary Policy Statement] revised Q2 GDP growth down 60bp to -0.3% from May's projections, adding to concerns about the output gap, he continued. "That doesn't need to be the case, and so we need lower interest rates to close that gap," he said, adding that the next two meetings in October and November will be live.

Output gap and indicator suite
(share of potential, seasonally adjusted)



Source: Stats NZ, NZIER, MBIE, RBNZ estimates.

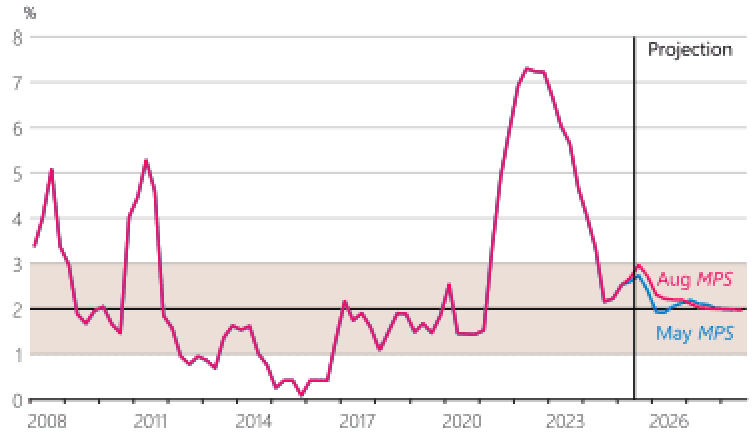
Note: The shaded area shows the range of indicators in the suite. The vertical line shows the final quarter of published GDP data.

"That projection troughs at around 2.5% by the end of this year, and so that would be consistent with further cuts through the course of this year."

The MPS showed the OCR reaching 2.5% by March, 40bp lower than May's track. While the decision was split, Hawkesby said there was strong consensus around the central projection.

Forecasts also showed inflation peaking at 3% by September, up 30bp from May, and Hawkesby noted the rise reflected factors little affected by monetary policy. "I'd really emphasise quite strongly that the mandate is to set interest rates today to achieve our inflation target in the medium term," he said. "With inflation pressures abating, our job is to stay focused on that horizon."

CPI inflation
(annual)



Source: Stats NZ, RBNZ estimates.

Note: The shaded area represents the MPC's 1 to 3 percent target range for inflation over the medium term.

NEUTRAL RATE

Chief Economist Paul Conway said the Bank's view of neutral between 2.5-3.5% had not changed, but the OCR was clearly no longer restrictive. "We're sort of in that zone of neutral, but you can't be too mechanistic about these things," he said, noting uncertainty from tariffs and global policy tensions.

Despite lower GDP forecasts, Assistant Governor Karen Silk said the economic slowdown was largely over. Q2 reflected an "uncertainty shock" from U.S. trade policies that hit consumer confidence, but underlying demand remains solid, she argued. "End of Q4 last year, Q1 this year, we did see consumption up, investment up. We then got hit with an uncertainty shock at the beginning of Q2. As that starts to wane, we believe monetary policy transmission will continue to have the impact we were starting to see late last year and into early this year," she said.

The MPC next meets Oct 8.

Sell-Side Analyst Views

ANZ: "As expected, the RBNZ cut the Official Cash Rate (OCR) by 25bp to 3.00% today. However, the details were much more dovish than expected. Not only did the accompanying OCR track bottom out at 2.55% versus 2.85% in May; two Committee members voted for a 50bp cut. That's quite the pivot from May, where one Committee member voted against cutting at all. The RBNZ has come around to our big-picture view more quickly than we anticipated. Accordingly, we are bringing forward the two further cuts in our forecasts to October and November, whereas we were previously forecasting them to come in November and February."

- "We have also taken the opportunity to push out our first (lightly pencilled-in!) normalisation hike from October 2026 to February 2027."
- "We suspect we are around peak pessimism currently, but the economy nonetheless looks like it needs more support. And today it got it, with a recalibration of market expectations for where the OCR will be over coming months feeding straight into lower wholesale rates and a weaker currency."
- "We expect the economy will return to growth in the second half of the year, as does the RBNZ, but they are only forecasting modest 0.3% growth in Q3 after an equivalent fall in Q2, implying things will be going broadly sideways for a while yet. We expect that the economy will improve over the second half of the year – not least because of the RBNZ's dovish pivot today, just in time for the usual spring lift in the housing market. Rural incomes are also excellent. But the headwinds of cost-of-living pressures, a soft labour market and global uncertainty mean the recovery has been slow going."

ASB: "The RBNZ cut the OCR by 25bp to 3.00%, consistent with the policy guidance that the RBNZ signalled back in the May MPS. The tone of the policy assessment was dovish, with the RBNZ also voting on whether to cut by 50bp today. Views on the NZ economic outlook have softened, with both global and local headwinds. Forecasts for economic activity and the labour market were shaded down.

- The published OCR track was shaded down relative to the May MPS projections. The OCR track is projected to end the year at 2.71% (2.92% in May MPS), signalling the likelihood of a further 50bp of OCR cuts by year end (likely 25bp per meeting) and a 2.50% OCR. The 2026 Q1 2.55% trough in the OCR track is ~30bp lower than in the May MPS (May MPS: 2.85% Q1) and the endpoint of the OCR is ~25bp lower than in the May MPS.
- The RBNZ have adjudged that significant spare capacity in the New Zealand economy persists, with a slightly larger margin of spare capacity than assumed in May. The RBNZ remain broadly comfortable that spare capacity in the economy will be sufficient to drive overall inflation down towards 2%.
- Near-term forecasts for CPI inflation were revised up with a 3% peak in Q3 but are expected to ease towards 2% from early 2026. This is not without risk, given the stickiness inherent in core inflation and upward drift in some inflation expectations measures. The RBNZ concede there are both upside and downside risks to the inflation outlook.
- We have tweaked our OCR view and now expect a further 50bp of cuts by year end (25bp cuts in October and November) and a 2.50% OCR. This means pushing the OCR further below neutral levels. The OCR outlook remains incredibly uncertain and is conditional on the evolution of economic activity and inflation.
- Not all risks are tilted to the downside, with inflation not being as well behaved as the RBNZ would like it to be. If inflation fails to moderate to the extent envisaged this could limit the extent of monetary stimulus the RBNZ will be able to provide."

BNZ: "Not only did it cut its cash rate 25 basis points to 3.0% but, in today's Monetary Policy Statement, it gave a very strong indication there is even more to come. Accordingly, we are adding a further 25 point cut in November in addition to the cut we were already anticipating for October. This takes the low in the cash rate to 2.50%."

- "The RBNZ's rate track shows a relatively strong expectation the cash rate will hit a low of 2.5% before the end of the year."
- "A glance at the RBNZ's forecasts for growth, inflation and the labour market suggests that relative to the Bank's central view, the balance of risk still lies to even lower, rather than higher, rates."
- "Really importantly, the RBNZ shares our view that annual CPI inflation will climb to 3.0%. It also admits "there is a material risk that it rises above the target". Inflation would thus have to rise well above 3.0%, and threaten to stay there, to spook the Bank particularly if it still believes, as do we, that the spike in inflation is transitory. Actually, we think there is a decent chance the RBNZ is overestimating inflation next year if domestic demand stays soft and commodity price inflation falls as we expect."

- “The RBNZ has been seeing all the same data as have we and its commentary on business visits suggests the MPC was also hearing loud and clear the same level of angst. In our opinion, the volume of that feedback would have been highly influential on the Bank’s decision.”
- “While we are comfortable with our long-held view that more work is needed to be done, we can’t stress enough that we are still very close to the bottom in the interest rate cycle. Once things take off, the economy’s capacity to grow without creating inflation will be severely compromised so rate increases, when they eventually happen, may be a lot more aggressive than many now anticipate.”

CIBC: “The RBNZ lowered the OCR by 25 bps to 3.00% as widely expected by consensus. However, the announcement surprised dovish on two fronts: (i) The 4-2 vote revealed two dissents (for a 50 bps cut), revealing a serious debate for larger rate reduction today. The updated August MPS revised the OCR terminal rate 30 bps lower (to 2.55%). That implies two more rate cuts (to 2.50%) after today’s reduction. In the May MPS, the Q4 2025 guidance was for one more final rate cut (to 2.75%).

- On timing, the August MPS forecast strongly hints that the next 50 bps of OCR cuts will occur in Q4. As such, we switch our base case view to further 25 bps cuts on October 8th and November 26th (from our previous view of an October hold and November cut). Because the August MPS’ OCR forecast for Q4 (of 2.71%) represents an average, the new forecast indicates that the RBNZ is clearly guiding towards consecutive rate cuts at the next two meetings.”
- “Chief Economist Paul Conway also noted that “the worst is over” and that “Q2 is the trough in terms of GDP growth.” We characterize the surprise dovish shift as a “mark-to-market” change in reaction to Q2. Growth could improve in Q3, but the MPC could still remain dovish in October and November amid lingering excess capacity.”
- “Governor Hawkesby still noted that every RBNZ meeting is “live,” and that there is no pre-determined path. That indicates there is some risk of an October hold. Overall, however, we lean in the dovish risk camp. We think the MPC wants to ease financial conditions into more stimulative territory to offset lingering spare capacity. When asked about NZD weakness in reaction to the statement, Hawkesby noted that he was “comfortable” with the reaction. The acting governor elaborated that the “signalling power” of the vote and the OCR forecasts will start easing monetary conditions.”

Goldman Sachs: “The RBNZ lowered the Official Cash Rate (OCR) by 25bps to 3.00% at August's meeting, in line with expectations (GSe/BBG: 3.25%). The accompanying statement was dovish for several reasons. First, an explicit easing bias was maintained. Second, the Committee voted 4-2 in favour of a 25bp cut, with 2 members voting for a larger 50bp reduction. Third, the MPS showed a 35bp lower trough in the OCR track at 2.55% by 1Q2026 (prior: 2.9% by 4Q2025).

- In the post-meeting press conference, Governor Hawkesby reinforced the dovish pivot by highlighting a "strong consensus" on the RBNZ's revised OCR track which he characterised as "consistent with further cuts throughout this year". The Governor sounded concern about NZ's “stalling” economic recovery against the backdrop of significant spare capacity – both of which have reduced upside risk to already 'on-target' inflation.
- We now forecast a faster easing cycle with 25bp cuts in Oct and Nov (prior: Nov, Feb: to 2.50%) to an unchanged terminal rate of 2.50%. While potential ongoing RBNZ leadership changes could cloud its reaction function, we continue to view the balance of risks to our revised forecast as skewed to the downside.”

ING: “While delivering the much-anticipated 25bp cut to 3.00%, the RBNZ seriously debated a 50bp cut – for which two of the six committee members voted.

- NZD/USD fell 1.1% and the terminal rate for the easing cycle was marked some 20bp lower, close to 2.50%.
- Despite acknowledging that CPI would increase to and possibly breach the top of its 1-3% target range in the next quarter, the RBNZ felt that the spare capacity, both in labour and business, meant that inflation wouldn't stick and would be lower next year.
- The backdrop is that the New Zealand unemployment rate has risen to 5.2% from 3.2% over the last three years. The RBNZ also felt that US tariff uncertainty might be reducing the effectiveness of rate cuts, where uncertainty continues to depress business investment.”
- “The reaction in NZD FX and rates markets today serves as a reminder that if the labour market shows serious signs of softening, doors open for central banks to cut rates back to neutral or even below neutral.”

J.P. Morgan: "The RBNZ cut the OCR 25bp today to 3% in line with consensus and market pricing (-21bp) but against our out-of-consensus call for a hold. The statement was dovish as the committee apparently considered three options: hold, -25bp and -50bp, with all members eventually going for a cut, and a 4-2 vote split on the magnitude.

- The OCR track was lowered 30bp on average in the near-term and now troughs a bit earlier, sloping up again from mid-26. The mid-26 OCR level is close to our forecast (2.75%), though the path and emphasis on protecting growth suggest earlier achievement and so we bring forward our remaining 50bp of easing to November, and February (i.e. adding -25bp on net after today's surprise).
- The case for not jumping to October is our expectation that 2Q GDP (delivered mid-Sep) will beat the staff's forecasts and so remove some urgency for that meeting. This is obviously data-dependent and it is unusual to stake a lot on NZ's %q/q GDP outturns alone given the noise content (1Q25 had surprised the RBNZ's forecast to the upside by 0.4%-pt), which is what makes the committee's apparent willingness to put so much weight on 2Q forecasts alone so surprising.
- ""Some" members saw the sluggish housing market as evidence of diminished interest-rate sensitivity, presenting further downside risks to inflation. "Other members" emphasized the lags of earlier cuts. From the tone of the press conference, we would guess Assistant Governor Silk was in the latter camp, but views seem split relative to mid-year."

Kiwibank: "The Reserve Bank cut the cash rate a further 25bps to 3%. And today's decision came down to a vote, 4-2 (a first in RBNZ history), with 2 favouring a 50bps cut. More importantly, the RBNZ clearly signalled further rate cuts from here. The OCR track was massively lowered, now signalling an 80% chance of a move to 2.5%." "Our call for a 2.5% cash rate by year end remains as it always has – unchanged."

- "The Reserve Bank has gone from signalling a 60% chance of one last 25bps move to 2.75% at the May MPS, to now an 80% chance of a cut to 2.50%."
- "Around a third of the mortgage book has repriced over the last 3 months onto rates that should have been lower. The transmission is slower than it should have been."
- "The strength in economic activity over the summer looks to have faded. More timely economic data show that the Kiwi economy stalled in the middle of this year. … Uncertainty remains high and has led to more cautious activity from both businesses and consumers."
- "The expected recovery in economic activity is forecast to be slower than projected in the May MPS. The RBNZ now projects the NZ economy to grow just 0.6% this year – well below trend. It's not until the end of next year that the economy returns to more normal levels of growth."
- "Together weaker global growth, elevated global uncertainty, and declining inflation across most of our trading partners are expected to reduce inflationary pressure here at home."

MUFG: "The RBNZ resumed their rate cut cycle by lowering their policy rate by a further 25bps to 3.00% after leave the policy rate hold for the first time at the previous meeting in July. While the decision to resume rate cuts today was widely expected, the vote was more divided with 2 out of 6 members even voting for a larger 50bps rate cut today revealing a dovish shift in thinking.

- "The updated policy communication was more dovish than expected as well signalling clearly that the RBNZ is planning on delivering two further 25bps cuts by the end of this year. It would lower the policy rate towards the bottom of the estimated range for the neutral policy rate between 2.5% and 3.5%. RBNZ Governor Hawkesby stated that the RBNZ's updated forecast for the policy rate "troughs at around 2.5% by the end of this year…Whether we end up going faster or slower than that will be determined by developments".
- "The unemployment rate had risen to a new cyclical high of 5.2% in Q2. The RBNZ's updated forecasts for economic growth were revised down to show growth of just 1.1% for the 12 months through to March 2026 compared to the previous forecast of 1.5%."

TD Securities: "The RBNZ cut the Official Cash Rate 25bps at today's meeting to 3%. This was widely expected. However the market did not expect the Bank to send a strong dovish signal that it intends to deliver further cuts. We're not ignoring the message. We change our call and expect the RBNZ to cut to 2.50% by Nov."

- "There were 2 votes to cut 50bps at the Board meeting and the dovish shift occurred despite the Acting Governor assigning 50/50 odds to headline inflation rising above 3% this year."

Westpac: "As expected, the RBNZ cut the OCR 25bps to 3%. The accompanying Statement was more dovish than expected. We now expect two further rate cuts (previously we forecast 3% would be the low for the OCR)." "We retain the view that interest rates will rise from at least the end of 2026 – we will review the timing further in coming months."

- "In a dovish surprise to the market, two of the six committee members voted for a 50bps cut, and the revised projections lowered the terminal rate by 30bps to 2.55% (versus 2.85% in their previous forecasts)."
- "The RBNZ would have expected that presenting such a low OCR forward track would lead markets to conclude cuts in October and November were likely, and we certainly take on board that message."
- "What we have here is a change in strategy where the RBNZ is choosing to look through the CPI inflation outlook for the next six months and instead take action to underwrite an improvement in growth. The RBNZ likely won't move away from this insurance strategy until totally comfortable that the economy is on track to grow at rates that will eliminate the current spare capacity."
- "The risk distribution around the baseline forecast is viewed as balanced."
- "The RBNZ estimates that economic activity contracted 0.3% in the June quarter and expects that growth will remain subdued in the September quarter (forecast: +0.3% qtr). The resulting output gap is more negative in the near term than forecast in May, despite the positive growth surprise in Q1."
- "Some members expressed concern with the speed of monetary policy transmission, with the record noting that: "Some members also drew attention to slow growth in parts of the economy that are most sensitive to interest rates. Residential construction, house prices, and retail activity have not materially recovered, despite monetary easing to date"."
- "Regarding inflation, the record notes: "On a quarterly basis, non-tradables inflation excluding central and local government charges is consistent with inflation at or below the target mid-point. Some members suggested that this may represent a downside risk to medium-term inflation.""