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All Signal, No Noise

MARKET ANALYSIS

MNI RBNZ Review – May 2025

Meeting Date: Wednesday, 28 May 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 Keeping Options Open

The RBNZ cut rates 25bp to 3.25% following a vote, the first in two years, that included an option to leave rates unchanged. The vote wasn't unanimous with one dissenter but Governor Hawkesby said that there was consensus around the projections. There appears to be some disagreement over the impact of increased trade protectionism on NZ inflation and thus the timing of any easing. Hawkesby also observed that debate usually happens when there is significant uncertainty and around inflexion points suggesting that the MPC may be almost done easing but the highly uncertain outlook opens many different policy paths. With rates now in the "neutral zone" of 2.5-3.5%, the MPC is keeping its options open and doesn't have a bias and will respond to events in a "considered, data dependent" way.

It believes that it continues to be "well placed" to respond to developments but dropped that it "has scope to lower the OCR further as appropriate" from the April statement. Despite "no clear bias" for the July meeting, the RBNZ's OCR path was revised down "modestly" to show a trough 25bp below February's at 2.85% in Q1 2026, still within the 'neutral' range. There is still 25-50bp of easing in Q3 2025 OCR profile. Rates are assumed to return to around 3.1% in 2027. Chief Economist Conway said that now rates are in that range, it becomes more difficult to talk about restrictive or stimulatory policy and communication will mention 'neutral' less. The RBNZ is now focussed on the effect of rates on the economy. Global events reduced the bank's expected trading partner growth rate, which then weighed on NZ growth pushing inflation lower and thus the OCR profile.

The arguments to cut rates included that inflation is within the 1-3% target band, core and wage inflation are moderating, significant spare capacity persists, domestic inflation is impacted by higher administered prices, and growth and inflation are projected to be lower due to global events.

In terms of staying on hold, the MPC considered that it would have more time to assess the impact of elevated uncertainty on the behaviour of households & businesses, will help inflation expectations to return to the band mid-point, and "guard against" risk of higher inflation from a tariff-related supply chain shock.

Given the outcome of US trade negotiations remains highly uncertain, the RBNZ ran a demand shock scenario and a supply shock one with different impacts on NZ inflation – significant rise in global production costs increasing imported inflation and weaker global growth & trade diversion reducing imported inflation. The demand shock drives inflation below the 2% mid-point of the target band and thus the OCR below the central case.

Global developments push the RBNZ's downward revision to growth and inflation. GDP is revised lower in 2025 but then is expected to post higher quarterly rates in 2026. The economy is still assumed to recover with end-2025 growth at 1.8% y/y and 2.9% in Q4 2026 after -1.1% in Q4 2024 but the annual growth rates are revised down around 0.3-0.4pp from 2026. Commodity prices are currently insulating the NZ economy but are a downside risk to growth. Given the weaker GDP outlook, the unemployment rate is now forecast to peak 0.1pp higher at 5.2% and then moderate to 4.7% by Q4 2026, revised up 0.2pp. The May budget had little effect on RBNZ projections and thinking.

Q2 2025 inflation was revised up 0.2pp to 2.6% y/y but Q4 is 0.1pp lower at 2.4% and Q4 2026 at 2.1%. Despite concerns about the pickup in inflation expectations, the RBNZ continues to expect inflation to reach the band mid-point as core moderates and that is now expected to occur around 18 months earlier than projected in February. Hawkesby said that risks remain though, especially as inflation printed at 2.5% in Q1 and that this may have contributed to the pickup in Q2 inflation expectations, which can respond to higher inflation in the short-term. Tariff news may have also had an effect. Chief Economist Conway noted that the recent rise in inflation was not ideal but he believes it will slow from here.

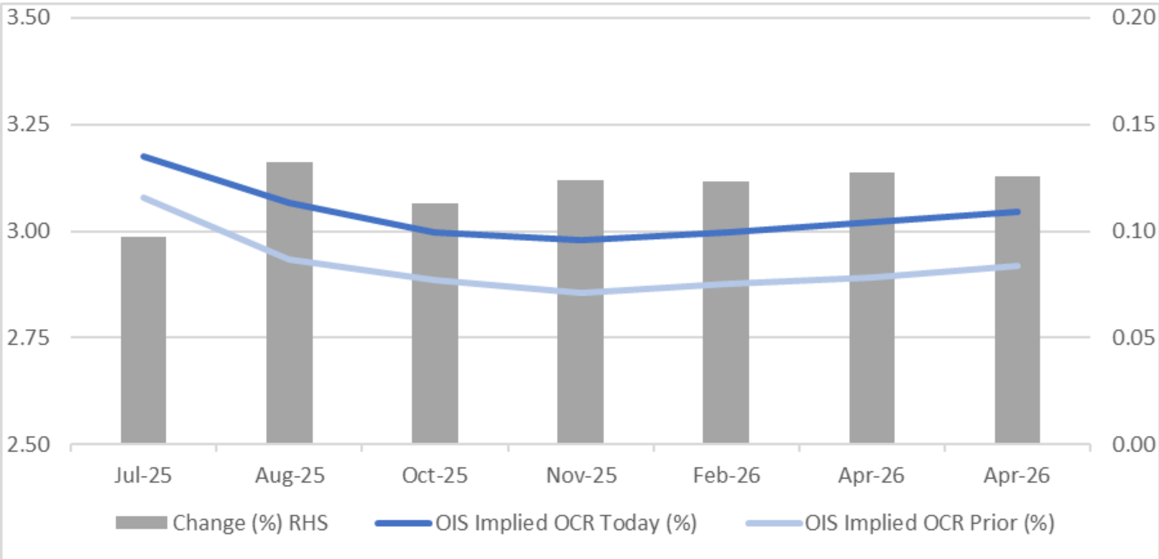
Today's decision by the US Court of International Trade to block most of the proposed US tariffs saying that the President had overstepped his authority has added to the uncertainty around the global trade outlook. The MPC looks likely to leave rates at 3.25% at its July 9 meeting though as rates are around 'neutral and assuming the economy develops as it expects. This would give it time to watch how global trade develops and wait for Q2 CPI on July 21 and Q2 labour market & Q3 inflation expectations data on August 7. The August 20 meeting will also have updated staff forecasts.

RBNZ Dated OIS Pricing

RBNZ-dated OIS pricing is 10-13bps higher across meetings compared to yesterday's pre-RBNZ decision levels.

- RBNZ Governor Hawkesby just spoke with Bloomberg today and reiterated that the message at yesterday's press conference was not to assume that a July rate cut is programmed into the MPC's thinking.
- Elevated uncertainty means that there could be many different paths from here, which is why the central bank presented different scenarios in its May Monetary Policy Statement.
- For instance, if current trade events result in higher costs and NZ price pressures rise, then the OCR is unlikely to move much from where it is in the 'neutral zone', but if weaker global demand reduces inflation, then there is room to cut. Thus, he said that the MPC will make "considered, data-dependent steps" and that markets should also follow developments closely.
- Markets had fully priced in yesterday's 25bp cut ahead of the decision, with a total of 64bps of easing expected by November 2025. That has now adjusted to 50bps, inclusive of yesterday's move.

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



Source: MNI - Market News / Bloomberg

RBNZ May Summary Record Of Meeting

Annual consumers price index (CPI) inflation remains within the Monetary Policy Committee's 1 to 3 percent target band. While measures of inflation expectations have increased, core inflation and spare productive capacity in the economy are consistent with inflation returning to the target mid-point over the medium term. Elevated export prices and recent reductions in the OCR are expected to support a modest pace of growth in the New Zealand economy, even as increased global tariffs are expected to slow global economic growth.

Higher global tariffs and policy uncertainty are expected to lower global growth

The Committee noted that projections for global economic activity have weakened since the February Statement, reflecting the shift towards protectionist policies in some major economies. There have been downward revisions to economic growth projections for China and the US, reflecting the scale of tariff increases between these two countries.

The Committee noted that, in addition to the direct effect of higher tariffs, increased policy uncertainty in the international economy is likely to weigh on global investment and consumption. As well as uncertainty about tariff retaliation, it was unclear how countries would respond with fiscal and monetary policies. For example, it is possible that China could respond to weaker economic activity with a sizeable fiscal stimulus. US fiscal policy could place strains on the sustainability of its public debt. More generally, the uncertain trajectory of geoeconomic fragmentation and the decline in the quality of macroeconomic institutional arrangements were likely to result in precautionary behaviour by firms and households. In aggregate, economic growth in New Zealand's main trading partners is expected to remain below potential over 2025.

Headline inflation within New Zealand's trading partner economies has fallen over the past year. Projections for inflation for most of our trading partners have been revised down in recent quarters. The main exception is the US, where higher tariffs are expected to increase inflationary pressure.

The New Zealand economy is starting to recover, after contracting over the middle of 2024

The Committee noted that spare productive capacity remains in the New Zealand economy. This is projected to dissipate over the medium term as the economy recovers. Elevated export commodity prices and lower interest rates are supporting overall economic activity in the New Zealand economy. The Committee noted that the full economic effects of cuts in the OCR since August 2024 are yet to be fully realised.

The Committee discussed conditions in New Zealand's labour market. Nominal wage growth is slowing, while firms report that it is easier to find workers. Employment growth is currently modest but expected to increase from the second half of the year in line with the broader economic recovery.

The announced increase in US tariffs will lower global demand for New Zealand's exports, particularly from Asia, constraining domestic growth. Heightened global policy uncertainty is expected to weigh on business investment and consumption in New Zealand.

On balance, the Committee expects the increase in global tariffs to result in less inflationary pressure in the New Zealand economy. However, as discussed below, there is significant uncertainty about this assessment, depending on whether the impact of tariffs proves to be predominantly demand- or supply-side in nature. The domestic monetary policy response will focus on the medium-term implications for inflation.

Domestic fiscal policy is assessed as being broadly neutral from a medium-term inflation perspective, relative to February Statement projections. The change announced in Budget 2025 enabling businesses to bring forward depreciation allowances is assumed to increase investment activity. However, the inflationary consequences of this policy are assumed to be offset by an announced reduction in government spending.

Annual CPI inflation is expected to remain in the target band, and converge to the mid-point

The Committee discussed domestic inflationary pressure. New Zealand's annual CPI inflation increased to 2.5 percent in the March 2025 quarter, largely in line with previous projections. Most annual core inflation measures continued to decline in the March 2025 quarter, and all are now within the target band for headline CPI inflation.

Annual CPI inflation is projected to increase to 2.7 percent in Q3 2025, then return to near the 2 percent target mid-point from 2026. The near-term increase in headline inflation includes higher food and electricity price inflation.

Non-tradables inflation is expected to continue to decline, consistent with spare productive capacity in the economy. Annual tradables inflation is projected to remain around 1 percent over the medium term, reflecting below average global growth and falling inflation within our trading partners.

The financial system remains stable

The Committee noted that most wholesale interest rates have fallen since the February Statement, resulting in lower mortgage and term deposit rates. The average interest rate on the stock of mortgages is expected to continue to decline in coming quarters as more mortgage holders refix at lower fixed-term interest rates. Close to half the stock of mortgages is due to reprice during the June and September 2025 quarters.

The Committee was briefed on financial system stability. While non-performing loans in the housing and small business sectors have increased in line with the past contraction in the economy, the banking system remains well capitalised and in a strong financial position to support customers. The Committee agreed that there is currently no material trade-off between meeting inflation objectives and maintaining financial system stability.

The Committee was briefed on the status of the Large Scale Asset Purchase programme. The Committee noted there has been increased volatility in domestic wholesale interest rates, reflecting increased global policy uncertainty. Despite this volatility, wholesale interest rate markets continue to function, without impeding monetary policy transmission.

Risks around the economic outlook are heightened

The Committee discussed several key risks around the central projection. Measures of business and household inflation expectations have increased. The Committee discussed whether this increase reflected factors like higher food prices and current reporting on the inflationary effect of tariffs in the US. The projections assume that medium-term inflation expectations remain consistent with the target midpoint. Some Committee members emphasised the risk that these increases reflect a more generalised and persistent increase in inflation expectations.

The Committee discussed the medium-term outlook for import prices. Members noted that a less productive global economy, against a background of deglobalisation, presents an upside risk to the current import price projection.

The Committee noted downside risks to the outlook for export prices. This reflects a weaker global growth outlook and the potential for a quicker international supply response to high prices from global meat and dairy producers.

The Committee noted the risk that large economic policy shifts in overseas economies could lead to additional volatility in financial markets. For example, concerns about US debt sustainability could lead to increased bond yields or declines in global asset prices.

There are alternative scenarios for the domestic outlook

In addition to the uncertain scale and duration of tariff policies, it is unclear how these will transmit to the New Zealand economy. Some members emphasised that the costs of trade could increase more than currently assumed, as global supply chains adapt to trade barriers and geoeconomic fragmentation. This could result in greater domestic medium-term inflationary pressure than in the central projection. Other members emphasised that policy uncertainty could lower global investment, and trade diversion could lower import prices by more than currently assumed. This could, instead, lower medium-term inflationary pressure relative to the central projection.

Two scenarios in the May Statement highlight how the realisation of these risks could affect the outlook for the domestic economy. These scenarios represent just two of many paths the economy may take as higher tariffs and uncertainty transmit through the system. They are intended to broadly highlight the trade-offs and considerations facing the Committee should these risks eventuate.

The Committee noted that, in practice, a broad range of factors contribute to its monetary policy decisions. Its response to any of these risks would depend on economic conditions at the time, the outlook for inflationary pressure, and its secondary objectives of avoiding unnecessary instability in the economy and having regard to financial system stability.

The Committee voted to reduce the OCR to 3.25 percent

The Committee agreed on the projected central path for the OCR.

The Committee discussed the options of keeping the OCR on hold at 3.50 percent or reducing it to 3.25 percent. The case for lowering the OCR to 3.25 percent highlighted that CPI inflation is in the target range and there is significant spare capacity in the economy. Measures of core inflation and wage inflation have continued to decline. In addition, there is a weaker outlook for domestic activity and inflationary pressure relative to the February Statement, because of international developments. Some members also emphasised that non-tradable inflation was currently being boosted by administered prices. Given these factors, a 25 basis point decline in the OCR was seen as consistent with medium-term price stability.

In considering the merits of holding the OCR unchanged at 3.50 percent for this meeting, some members noted that this would allow the Committee to better assess whether increased economic policy uncertainty was having a noticeable impact on household and firm behaviour. An unchanged OCR could also further consolidate inflation expectations around the target mid-point, and guard against the risk of higher-than expected inflation from the supplyside effects of increased tariffs.

On Wednesday 28 May, the Committee took the decision to vote on the two options. By a majority of 5 votes to 1, the Committee agreed to decrease the OCR by 25 basis points from 3.50 percent to 3.25 percent.

Inflation is within the target band, and the Committee is well placed to respond to both domestic and international developments to maintain price stability over the medium term.

RBNZ May MPS – Key Forecast Variables

Key forecast variables

		GDP growth Quarterly	CPI inflation Quarterly	CPI inflation Annual	Unemployment rate	TWI	OCR
2023	Mar	-0.1	1.2	6.7	3.4	71.3	4.5
	Jun	0.8	1.1	6.0	3.6	71.0	5.3
	Sep	0.0	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	0.4	0.6	4.0	4.4	71.6	5.5
	Jun	-1.1	0.4	3.3	4.6	71.4	5.5
	Sep	-1.1	0.6	2.2	4.8	70.9	5.4
	Dec	0.6	0.5	2.2	5.1	69.5	4.6
2025	Mar	**0.4**	0.9	2.5	5.1	67.8	4.0
	Jun	**0.3**	**0.5**	**2.6**	**5.2**	**69.0**	**3.4**
	Sep	**0.2**	**0.8**	**2.7**	**5.2**	**69.0**	**3.1**
	Dec	**0.9**	**0.2**	**2.4**	**5.1**	**69.0**	**2.9**
2026	Mar	**0.8**	**0.5**	**1.9**	**5.0**	**69.0**	**2.9**
	Jun	**0.7**	**0.5**	**1.9**	**4.9**	**69.0**	**2.9**
	Sep	**0.7**	**0.9**	**2.1**	**4.8**	**69.0**	**2.9**
	Dec	**0.7**	**0.3**	**2.1**	**4.7**	**69.0**	**2.9**
2027	Mar	**0.7**	**0.5**	**2.2**	**4.6**	**69.0**	**3.0**
	Jun	**0.8**	**0.4**	**2.1**	**4.5**	**69.0**	**3.0**
	Sep	**0.7**	**0.9**	**2.1**	**4.4**	**69.0**	**3.1**
	Dec	**0.7**	**0.2**	**2.0**	**4.4**	**69.0**	**3.1**
2028	Mar	**0.6**	**0.5**	**2.0**	**4.3**	**69.0**	**3.1**
	Jun	**0.6**	**0.4**	**2.0**	**4.3**	**69.0**	**3.1**

Source: RBNZ

MNI RBNZ Watch: 5-1 Vote Drives 25bp Cut To 3.25%

By Daniel O'Leary

MELBOURNE - The first dissenting vote on the Reserve Bank of New Zealand's monetary policy committee in over two years was prompted by a disagreement over timing rather than policy direction, Acting Governor Christian Hawkesby told reporters after the five-one decision to cut the official cash rate by 25 basis points to 3.25% on Wednesday.

"We did form a consensus around our set of projections that we published today and that included a central projection for the OCR," Hawkesby said, referring to the updated Monetary Policy Statement, which showed a 2.9% rate by December – 10 basis points lower than February's forecast, suggesting at least one more cut this year.

Despite the dissent, Hawkesby said the RBNZ's assessment showed less inflationary pressure than forecast in February. "We also acknowledge that there is a high degree of uncertainty around that," he added, noting recent price strength.

"That is just one central projection. There are many other paths the economy could take, and the confidence ranges around that central projection are wide enough for us to not have a bias either way in terms of what the next step is at the next meeting. It will be dependent on developments and what those developments mean for medium-term inflation pressure in New Zealand."

While Wednesday's decision was largely anticipated, the split vote appeared to push market pricing for further rate cuts higher following the press conference. (See MNI RBNZ WATCH: MPC Set To Cut 25bp, Lean Into Future Data)

Market pricing now aligns with the MPS's OCR track, assigning a 35% probability of a cut in July and 52% in August.

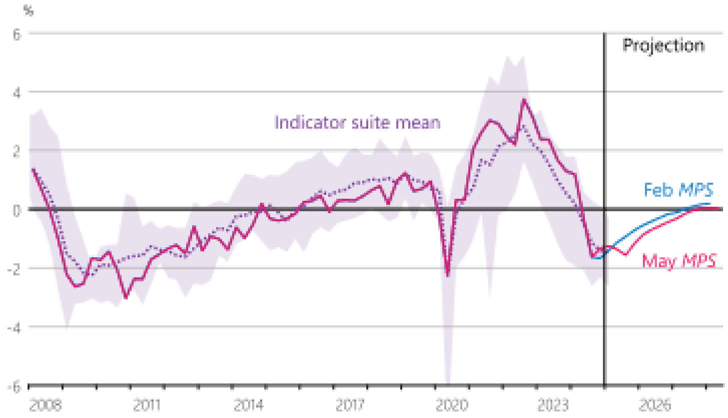
GREAT EXPECTATIONS

Though Hawkesby emphasised the likelihood of lower inflation ahead, he acknowledged expectations remained elevated, likely due to recent headline price strength. The MPC will continue to monitor these expectations, which he said were likely overly sensitive following the recent period of high inflation.

"Some [MPC] members put more emphasis on the risk that those higher inflation expectations might be a sign of something more persistent," he said. "Other members put more emphasis on the amount of spare capacity there is in the economy, and therefore inflation pressure is likely to come out."

The RBNZ believes significant spare capacity now exists in the economy and that the output gap has moved into negative territory. (See chart)

Figure 2.7
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.

Hawkesby also noted that the U.S. tariff offensive may have influenced inflation expectations, despite the Reserve's view that the impact would likely be deflationary for domestic prices.

However, the RBNZ's statement flagged heightened uncertainty over whether the global trade shock would ultimately act as a net negative demand shock – inducing disinflation – or a net negative supply shock that would fuel prices. For the first time in five years, the Bank included two alternative scenarios in its forecasts: one reflecting weaker demand, in which the OCR falls to 2.55%, and another showing a supply shock, where the OCR initially drops to 2.9% before rising to 3.5% later in the forecast period.

NEUTRAL LEVEL

Chief Economist Paul Conway said the current 3.25% OCR sits near the top of the RBNZ's 2.5-3.5% neutral range.

"When we get close to neutral, which is definitely where we are now, it's more a matter of feeling our way, rather than being too definitive about whether policy is stimulatory or otherwise," Conway said. "That's very much the world that we're in currently."

He added that the Reserve would focus on how the economy responds to the OCR to determine the level of current monetary restriction.

The MPC next meets July 9.

Sell-Side Analyst Views

ANZ: "As expected, the RBNZ cut the Official Cash Rate (OCR) by 25bp to 3.25% today. The decision was reached in a 5:1 vote, with the anonymous dissenter preferring to leave the OCR unchanged. The accompanying OCR track now bottoms out at 2.85% rather than 3.1% as in February, and gradually rises from there to 3.1% by mid-2028, the end of the forecast."

- The tone of the accompanying forecasts and text was balanced. Downside activity risks and upside inflation risks were noted. But overall the RBNZ remains confident the inflation outlook is benign and that they are well placed to respond to developments as they unfold.
- The RBNZ outlined two scenarios related to the global trade situation: inflationary or disinflationary, with the OCR either heading north or south next year as a result, as opposed to staying in a narrow range."
- "The RBNZ's strategy continues to be to take the OCR close to its estimate of neutral (2.5-3.5%) and reassesses in real time from there – while stressing the conditionality of the outlook on the data flow.
- Higher inflation expectations have caused concern amongst some Committee members (see quotes above). But overall the Committee has parked higher near-term inflation expectations in the "wait and see" basket, as we expected they would, given the "subdued" economic recovery."
- "We are forecasting further 25bp cuts in July, August and October, taking the OCR to a low of 2.5% to shore up the recovery in the face of global headwinds. We didn't expect the RBNZ to feel the need to put that many cards on the table as yet. The domestic data could start to surprise on the upside. Or the global tariff situation could be resolved with less angst than expected, leaving the New Zealand economy to get on with the business of recovery. It's certainly not all downside risks from here, but lacklustre anecdote and data in recent months has seen us conclude a bit more support is warranted."

ASB: "The 25bp cut was widely expected. The RBNZ is mindful of the potential for the spike in inflation this year to re-ignite unhelpful pricing behaviour. And it's a sign of the times that central banks around the world are all grappling to decipher the economic impacts of the US trade war.

- The RBNZ has assumed that the overall impact of the trade war will be to dampen NZ inflation pressures over the medium term. We believe this is the correct assumption to make. But, as the RBNZ is at pains to point out, it is really uncertain at present. Helpfully, the RBNZ created two alternative scenarios to guide expectations on how its policy outlook could change if circumstances evolve differently to what it has assumed to be most likely.
- A significant development was the 5:1 vote by Monetary Policy Committee members in favour of a 25bp vs. remaining on hold. The caution displayed by one MPC voter, who it would appear wanted more time to assess the behavioural implications of this year's inflation spike and the tariff impacts, is understandable. We would argue that not too much weight should be placed on that voting outcome: the reality is there is little clarity around how the tariffs will impact – not least because no-one knows where the tariffs will settle.
- The forecasts, which assume a dampening medium-term effect, still guide the RBNZ towards 1-2 more 25bp cuts and indicate more stimulus is needed relative to the view just three months ago. But the vote highlights starkly that the path forward for monetary policy will be heavily driven by how the RBNZ interprets events and data.
- We continue to expect the RBNZ will cut the OCR twice more in 25bp moves to 2.75%, similar to the RBNZ's current assessment. It is possible the RBNZ pauses along the way: our forecast of July and August cuts doesn't reflect that, but unfolding events can easily change the timing."

BNZ: "Cash rate lowered 25 basis points to 3.25%. The decision to cut was passed with a 5-1 vote with the dissenter wanting no change. There was no discussion of a 50-point move."

- "Our central view is that there will be a further 25 point cut in rates at the July 9 meeting but we concede this is not at all a done deal. Making any decision at that meeting will be problematic to the extreme given that Trump will be announcing his "final" decision on tariffs less than 24 hours after the RBNZ meets."
- "There is no suggestion whatsoever in the Bank's short policy assessment about the direction or timing of the Bank's next move. There is nothing to even confirm there will be another cut. Accordingly, the RBNZ has left itself full optionality to do almost anything at its next meeting."
- "Prior to this statement we had said the balance of risk to our 2.75% forecast was evenly balanced. We now think the pendulum has now swung modestly towards 3.00% being the more likely alternative scenario."

- “Currently mortgage rates are priced off the expectation that the RBNZ would cut rates to near 2.75%. This is no longer the case.”

CIBC: “The RBNZ lowered the OCR by 25 bps to 3.25% as widely expected by consensus. However the tone of the statement and the press conference were hawkish relative to expectations, with a 5-1 vote revealing one dissent (for no change).

- The updated May 2025 MPS projected further cuts to the OCR to lows of 2.85% by Q1 2026. However, neither the projections nor Acting Governor Hawkesby’s comments gave a strong hint for a July cut. Instead, Hawkesby departed from the style of his predecessor and gave vague, open-ended guidance. Similar to recent Fed speakers, the acting governor was only modestly dovish in tone, highlighting downside risks to inflation from tariffs while also noting that surveys show inflation expectation are rising.”
- “The updated May MPS shows the OCR falling to an average rate of 3.12% in Q3, or 13 bps lower than the new current OCR level of 3.25%. That points to another 25 bps cut in Q3, but the timing will likely be mid-way through the quarter (at the August 20th RBNZ meeting) rather than at the next meeting (July 9th).
- When asked about the likelihood of further cuts, Hawkesby’s overall message was “we will reassess every six weeks instead of being on a pre-programmed path.” The acting governor also emphasized that “future rate decisions will be driven by developments,” suggesting a data-dependent approach for the upcoming meetings.”
- “Surprise weakness in New Zealand data could yet sway the RBNZ to act again in July, but we think the RBNZ will act with more caution and wait until the August 20th meeting before cutting rates again. Part of the mild hawkishness is due in part to the OCR (now at 3.25%) nearing the terminal rate for this cycle. Even though the projected low in OCR was shifted to 2.85% (from 3.10% previously), with the OCR now closer to terminal it makes sense for the RBNZ to act more slowly. Beyond the expected August cut, we think the final cut in the RBNZ easing cycle will take place at the November 26th meeting. That would put the terminal OCR rate at 2.75% by Q1, or 10 bps below the MPS forecast.”

Goldman Sachs: “The RBNZ lowered the Official Cash Rate (OCR) by 25bps to 3.25% at May's meeting, in line with expectations (GSe/BBG: 3.25%). The accompanying statement was mixed, highlighting that "core inflation is declining and there is spare productive capacity in the economy" but noting one Committee member dissented in favor of holding the OCR steady (vs. five members voting to cut).

- The forward guidance was also mixed, with the statement removing prior language highlighting "scope to lower the OCR further" but the updated MPS showing a somewhat lower OCR track by end-2025 (2.9% vs. 3.1% previously). In the post-meeting press conference, newly appointed Governor Hawkesby indicated future decisions would be data dependent given elevated uncertainty about the macro outlook.
- Overall, while today's mixed communications indicate a somewhat more cautious RBNZ under Governor Hawkesby, the MPC's underlying reaction function and view on New Zealand's economy does not appear to have changed much.
- Our base case remains for another 25bp cut in July to a terminal rate of 3.0%, with the key upcoming data being the 1Q2025 GDP report (19 June).
- “On inflation expectations, Governor Hawkesby noted that the recent increase in short-term expectations likely reflected the recent pick up in headline inflation, as well as recent news reports around the impact of higher global tariffs. The Governor noted the MPC was mixed in how much emphasis to put on the rise in inflation expectations, with some putting more emphasis on ongoing spare capacity in the domestic economy.”

HSBC: “The RBNZ delivered a widely expected 25bp cut. In the context of external uncertainty, the statement and press conference screened more hawkish than expected.

- Holding the OCR unchanged was discussed, and one out of the six board members voted for a steady rate. In the press conference, Governor Hawkesby mentioned the RBNZ does not have a bias for the next step.
- While the trough of the OCR projection was revised lower from 3.1% to 2.85%, the projection track was upward sloping thereafter. And importantly, a lower terminal rate was fully priced in by markets.
- The RBNZ adjusted non-tradable inflation forecast upward and noted the scenario where global trade uncertainty may lift domestic inflation expectation.
- Despite some near-term downward adjustment to forecasts in GDP and private consumption, the Bank seemed cautiously optimistic about the ongoing recovery, with a stronger projection in employment growth and no change in peak unemployment rate projection.

- The Bank judged the medium-term inflation impact of domestic fiscal policy to be neutral, looking past the near-term drag on growth from fiscal consolidation."

J.P. Morgan: "The RBNZ cut 25bp as we and consensus expected, though the guidance and forecasts suggest that after 225bp of cuts in 6 meetings, the committee wants to take an extended breather."

- "Our forecast is still for the RBNZ to be on hold from here through 2H25, before resuming with 50bp of easing in 1H26. Global concerns could of course be sufficient to move again, but this is probably contingent on other central banks also being pushed into a similar position."
- "The bank has been reluctant to push its OCR projections below its own assessment of neutral (high 2s), and that runway shortened further today, which sets up for a period on hold. Despite having already eased more than suggested by the Nov-Feb forecast path, the OCR trough moved down in less-than mark-to-market fashion, such that the trough at 2.9% is only 20bp lower than previously, and still not accommodative on the RBNZ's own metrics."
- "At the press conference, acting Governor Hawkesby wouldn't endorse the baseline of another cut, and said there is enough uncertainty to "not have a bias". Distance to neutral had been a significant motivating factor for earlier cuts, which is no longer active now that the OCR is in the neutral "zone". Hawkesby and Chief Economist Conway jointly noted in Q&A responses that "having come a long way" on the OCR, the bank will be "talking less about neutral" from now on and "feeling our way" using the data, which suggests a period of observation."
- "Headline is expected to push into the upper half of the band this year, even over the top as the Governor indicated. The committee takes comfort from easing core inflation, as "there is spare productive capacity" allowing further progress towards the target mid-point even if headline is a bit higher near term."

Kiwibank: "Another RBNZ meeting, another rate cut, and another forecast cut. Today's 25bps move to 3.25% is the sixth straight cut, and takes total easing to 225bps. And there's more coming. Although the path is highly uncertain. Policy is much closer to neutral now, but it is still not stimulatory."

- The RBNZ has lowered the forecast OCR track 25bps, from 3.1% to 2.85%, implying a good chance of another two rate cuts to 2.75%. We expect to see the OCR tracked lowered again in August towards 2.5%."
- "The risks to the growth outlook are tilted to the downside. As was revealed last week, the Govt's hands are tied (self-inflicted). So, we look to the RBNZ. In the current environment, with a future clouded by the tariff trade war, there's more for the central bank to do to support the recovery."
- "The fact the RBNZ "voted" 5-1, with one member voting for a pause to assess, throws some doubt on the timing of the next move, but not the direction. They are not on a "pre-set course", and always data dependent. We think there's enough for them to cut again in July, but they may wait until August to cut again."
- "Uncertainty is high, and the outlook for the global economy has significantly deteriorated. The RBNZ assumes that the US tariff policies (as of 22 May) shave about 0.5%pts off our trading partner growth, dampening demand for our exports. The output gap – the difference between actual output and potential output – is still modelled to be negative; meaning significant spare capacity remains in the economy."
- "The good news is that inflation over the forecast horizon remains reasonably well-contained. There's a short-lived blip to 2.7% later this year (Sep-25 quarter), but inflation travels back down to the 2% target midpoint in early 2026."
- "Well in both the alternative scenarios provided, our trading partner's GDP growth is lower than assumed in the Reserve Bank's central scenario. But what differs between the two alternative scenarios is whether tariffs prove to have a greater demand or supply shock."

TD Securities: "The RBNZ cut the OCR 25bps as expected, but it delivered a more measured message. We now shift our call for a 25bps July rate cut to August. No surprises to the forecasts the Bank delivered, revising GDP, CPI and Wages lower vs Feb'25 MPS forecasts. The unemployment rate is elevated for longer while the TWI was raised. We have retained our call for a 3% terminal cash rate given we see upside risks to the Bank's CPI forecasts."

- "For the first time in a long while, the Bank discussed the option of cutting 25bps vs holding the cash rate at 3.50%, arguably a sign the Bank is considering pausing."
- "The market is now pricing in the RBNZ getting the OCR close to 3% and staying there for some time. This is consistent with our evolution of the OCR track with terminal at 3%."

- “The Bank projects that it will cut its cash rate to a cyclical low of 2.85% in H1'26. Given the risks around trade, we can only agree the risk to our OCR forecast at 3% is to the downside, but we see no pressing need to change our terminal cash rate call right now.”
- “The case for the RBNZ to cut in July is not so clear-cut now. Accordingly, we push our call for a 25bps July cut to August. The RBNZ's July OCR decision is a day after the Trump Administration 8 July deadline to conclude trade negotiations. The Bank can make a more informed decision on 20 August when it will have CPI and Labour market data at hand (released 21 July and 6 August, respectively).”

Westpac: “As widely expected and priced, today the RBNZ reduced the OCR by a further 25bps to 3.25%. The decision was reached following a 5 – 1 vote, with one MPC member voting for no change in policy. Westpac now sees the next 25bp cut to 3% at the August MPS (previously July). But they could easily be done if the downside risks don’t crystalise.”

- “A vote on the merits of today’s 25bp cut hence signals more debate and suggests a raised bar for OCR cuts at each meeting going forward.
- The RBNZ has reduced its near-term growth forecasts quite noticeably. The profile implies a pause in the recovery in place in recent quarters with quarterly growth expected in the range of 0.2-0.4% a quarter over Q1-Q3 2025. Our expectations are stronger - in the range of 0.4- 0.7% in the same period. The noticeably weaker trading partner growth profile is consistent with this mark down. That this weaker short term growth profile only argues for one more cut in Q3 seems telling.
- The focus of the MPC on inflation expectations is noticeable and appropriate. Evidence these are falling back will likely be important in making the MPC hawks more comfortable with getting back on the easing track. The Q2 CPI on 18 July may well be pivotal in that regard.
- We think this is an MPC that wants to slow down. Governor Hawkesby noted the MPC has no bias regarding the outcome of the next meeting. We previously expected the final cut to 3% to occur in July, although we were agnostic on whether this might also end up occurring in August. August looks a better bet now – hence we are moving our call.”
- “We suspect that it will be easier to make the case for another easing in August than July given the pending negotiation dates set by the US authorities on trade agreements. The Q2 CPI will also be quite important. But equally uncertainty is high and a range of events both positive and negative could occur. So, we will watch the data like the RBNZ.”
- “Policy is “neutralish”. If nothing overtly negative happens to the economy or medium-term inflation outlook between now and August, then there could be no change in the OCR in August also.”