

Preview: RBNZ Monetary Policy Review

2 April 2025

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25bp looking like a lock

- **Markets and economists are united in expecting a 25bp cut from the RBNZ next week, taking the OCR to 3.5%. We concur.**
- Such a move was unusually clearly signalled at the February MPS, and the data has not provided sufficient grounds to diverge from the plan.
- Domestic data and anecdote is tilting towards suggesting fewer OCR cuts will be needed than the market is currently pricing or we/the RBNZ are forecasting, but it's early days, and the global situation is a clear risk in the other direction.
- The NZIER's Quarterly Survey of Business Opinion could move the dial, but is likelier to change market pricing about what the May and July meetings will bring than affect expectations for the decision next week.

The market is currently pricing a 100% chance of a 25bp cut, and economists are of one mind as well. Given the RBNZ in February clearly signalled confidence that they'd be cutting 25bp this month, the burden of proof is on finding reasons not to deliver. And we don't think the threshold for either a pause or a larger cut has been cleared.

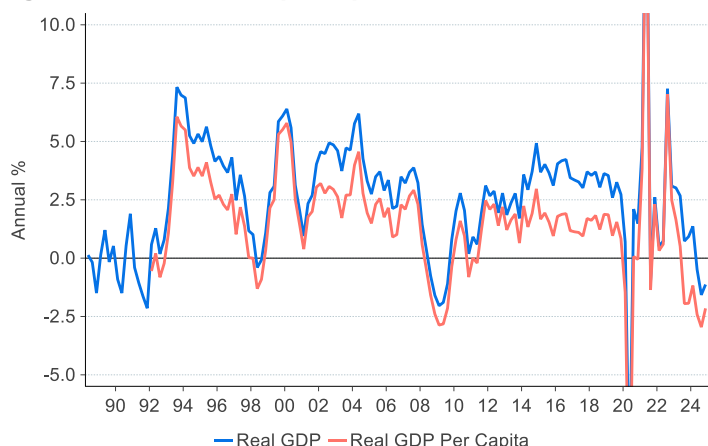
The [housing market](#) is going nowhere fast, [consumer confidence](#) is in the doldrums, the labour market recovery is fairly sluggish, and the lift in retail spending is gradual. None of that will be a surprise to the RBNZ. Also in the "neither here nor there" category: the RBNZ recently lost its Governor. Given the continuity provided by the Committee structure (the Governor is just one of seven MPC members), we don't expect any monetary policy implications in the near term. Indeed, if anything, the Committee's bias might be to not rock the boat.

The main factor on the "downside risk" side of the ledger is that global growth fears are intensifying as unpredictable tariff wars and geopolitical developments make for shifting sands. But for now, we think that'll stay in the 'risks' basket.

The hawkish arguments are starting to accumulate, though it's early days.

[GDP](#) (0.65% q/q) was stronger than the RBNZ expected (0.3% q/q) in Q4. And it wasn't all technical factors; we've revised up our estimate for Q1 growth as well. But a quick glance at a chart of annual GDP growth quickly puts Q4 growth firmly into perspective (figure 1). As we said at the time, "the upside growth surprise in Q4 certainly doesn't stand in the way of further OCR cuts."

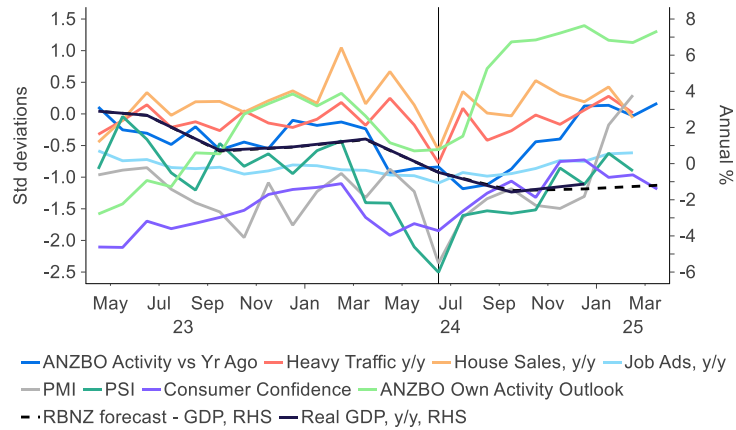
Figure 1. GDP and GDP per capita



Source: Stats NZ, Macrobond, ANZ Research

Looking further ahead, the suite of monthly data suggests upside risk to the RBNZ's (and our very similar) forecast for a very sluggish recovery (figure 2).

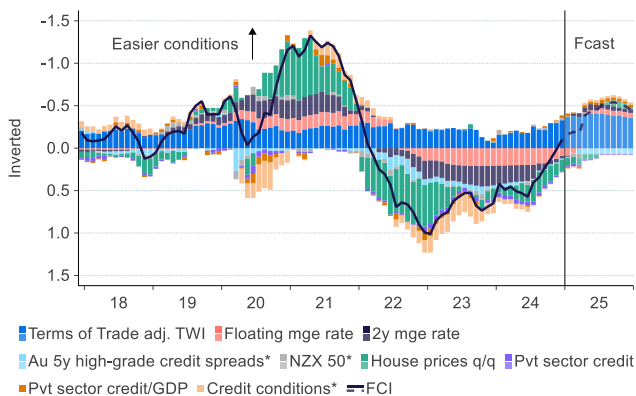
Figure 2. High-frequency activity indicators



Source: Stats NZ, BNZ-BusinessNZ, Seek, Roy Morgan, REINZ, NZTA, Macrobond, ANZ Research

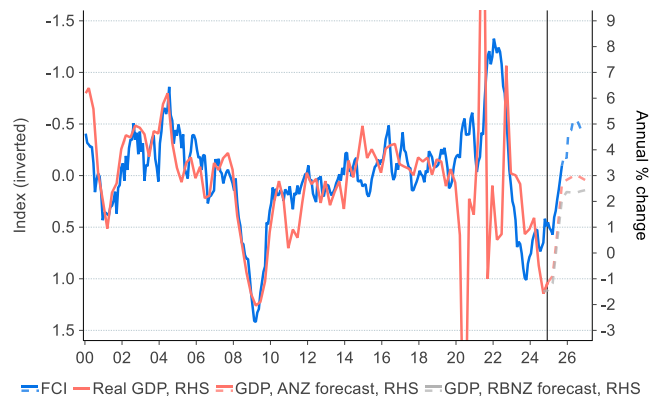
Regression analysis shows the same thing (it puts the most weight on ANZBO past activity and the Performance of Services Index), and so too does our Financial Conditions Index (figures 3 and 4).

Figure 3. ANZ Financial Conditions Index (FCI)



Source: Stats NZ, RBNZ, Bloomberg, Macrobond, ANZ Research

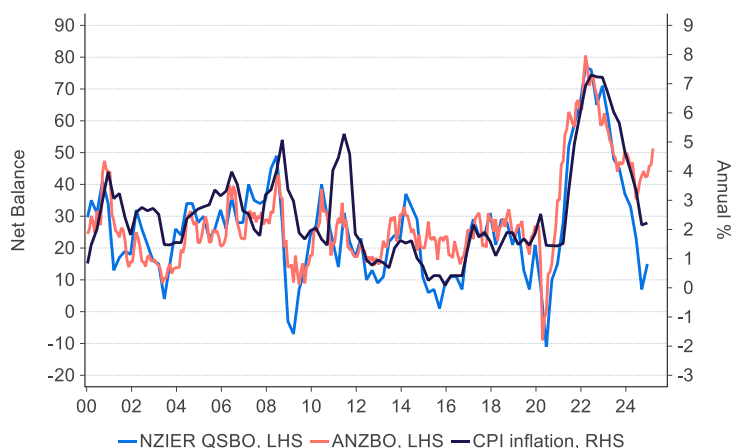
Figure 4. ANZ FCI and GDP



Source: Stats NZ, RBNZ, Macrobond, ANZ Research

There isn't just potential upside on activity over the next six months, but for inflation too. Both cost expectations and pricing intentions in the ANZ Business Outlook survey suggest significant upside risk to the RBNZ's (and our) inflation forecasts. While readings are very likely to reflect transitory tradable inflation pressures (given how soft the economy has been), it would, all else equal, be harder for the RBNZ to keep cutting the OCR if we saw headline CPI inflation bounce out the top of the band. The NZIER's Quarterly Survey of Business Opinion is due out the day before the RBNZ decision, and will provide a corroborating or challenging perspective on pricing intentions. So far, CPI inflation has split the difference (figure 5, over).

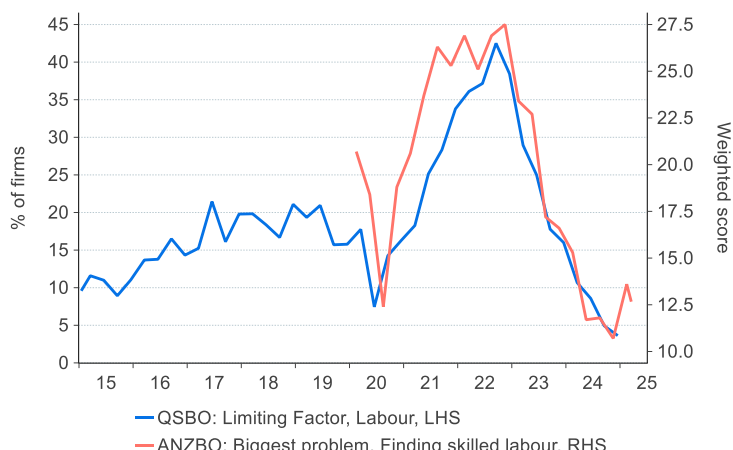
Figure 5. ANZBO and QSBO pricing intentions



Source: ANZ, NZIER, Stats NZ, Bloomberg, Macrobond, ANZ Research

The QSBO will be even more important for its direct indicators of the degree of slack in the economy, such as difficulty finding skilled labour, and labour as a limiting factor. Our own Business Outlook survey is suggesting it might lift off the floor (figure 6). That would be consistent with the RBNZ’s February output gap estimate: they expect it to narrow 0.3%pts to a still-disinflationary -1.4% in Q1.

Figure 6. ANZBO and QSBO labour tightness measures



Source: NZIER, Macrobond, ANZ Research

The upshot: a 25bp cut this month looks baked in. The risks beyond that are starting to tilt towards less being needed than the market is currently pricing in, particularly against the backdrop of the upside risks the ANZBO is signalling around the expected imminent bounce in headline inflation. But with such uncertainty about where the neutral OCR lies it’s too soon to take a strong position on that. The debate about whether the economic recovery will become self-sustaining or peter out is still very much live. In addition, the global situation could change the picture abruptly. The RBNZ will need to stay nimble.

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Sharon Zollner
Chief Economist

Follow Sharon on Twitter
[@sharon_zollner](#)

Telephone: +64 9 357 4094
Email: sharon.zollner@anz.com

General enquiries:
research@anz.com

Follow ANZ Research
[@ANZ_Research](#) (global)



David Croy
Senior Strategist

Market developments, interest rates,
FX, unconventional monetary policy,
liaison with market participants.

Telephone: +64 4 576 1022
Email: david.croy@anz.com



Miles Workman
Senior Economist

Macroeconomic forecast
co-ordinator, economic developments,
labour market dynamics, inflation,
fiscal and monetary policy.

Telephone: +64 21 661 792
Email: miles.workman@anz.com



Henry Russell
Economist

Macroeconomic forecasting, economic
developments, GDP and activity
dynamics and monetary policy.

Telephone: +64 21 629 553
Email: henry.russell@anz.com



Kyle Uerata
Economic Statistician

Economic statistics, ANZ proprietary
data (including ANZ Business
Outlook), data capability and
infrastructure.

Telephone: +64 21 633 894
Email: kyle.uerata@anz.com



Natalie Denne
PA / Desktop Publisher

Business management, general
enquiries, mailing lists, publications,
chief economist's diary.

Telephone: +64 21 221 7438
Email: natalie.denne@anz.com

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