


# Preview: RBNZ Monetary Policy Statement

12 February 2025

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## The downward march continues

- We expect a 50bp cut in the OCR to 3.75% next Wednesday. That would be consistent with RBNZ November messaging, economists' forecasts, and market pricing. Data since the November Monetary Policy Review has been mixed, but overall consistent with the RBNZ's guidance.
- With the OCR now much closer to neutral and the economy showing clear signs of life, we expect more caution from the RBNZ from here – this is likely the last 50bp cut. However, given the RBNZ's central estimate of neutral is 3%, the risks are tilted towards a lower OCR trough than the 3.5% we are forecasting.

## The view

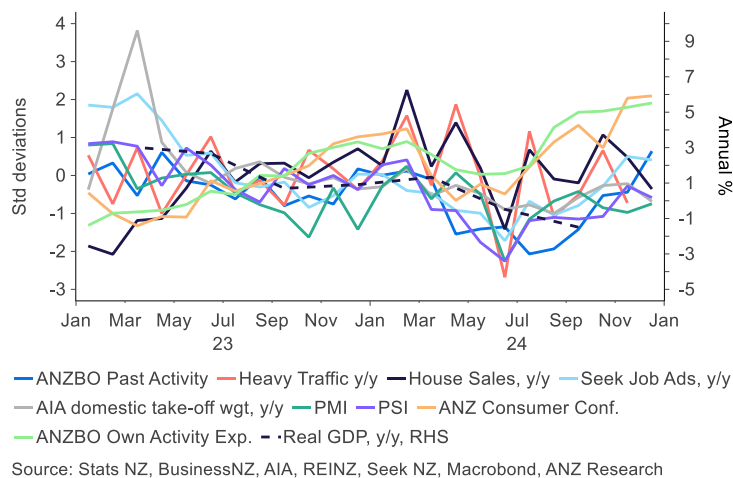
The market is currently pricing a 50bp cut as a lock, which we agree with. The RBNZ gave unusually firm guidance in November. That means their credibility would be dented if they didn't deliver, given the data has fallen broadly in line with their expectations.

Our [MPS starting-point surprise chart pack](#) provides a look at how the key data have evolved versus RBNZ forecasts. But to summarise developments:

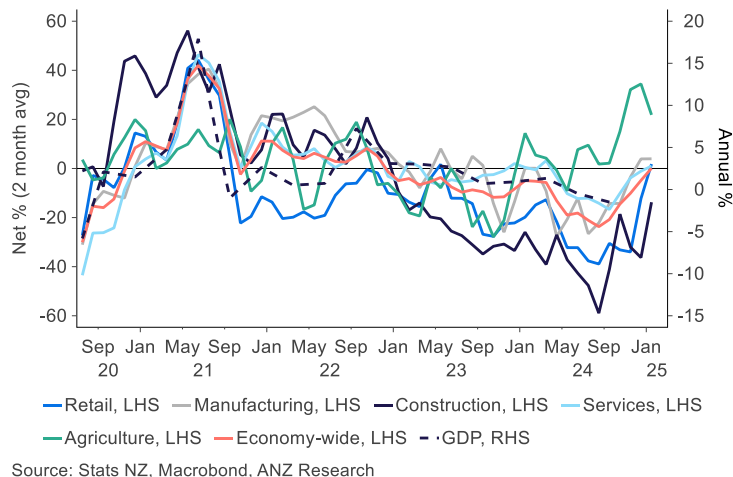
- Q3 [GDP](#) saw large upward revisions that eliminated previous reported recessions but made up for that with a spectacular crash in the middle of last year (-1.1% q/q in Q2 and -1.0% q/q in Q3). The endpoint level of activity was much the same but the implied abrupt loss of momentum is likely to push the RBNZ's OCR forecast lower.
- The NZIER [QSBO](#) corroborated the ANZBO's story of recovering activity. Capacity and inflation indicators were a mixed bag, but overall confirmed the economy is in a disinflationary state.
- Q4 [CPI](#) inflation at 2.2% y/y was a touch higher than RBNZ forecasts, but the key non-tradable component was a little softer than expected, and most core inflation measures are now back in the 1-3% target band.
- The Q4 [unemployment](#) rate was bang on the RBNZ's forecast at 5.1%. Some wage measures were higher than forecast, but the RBNZ will still be comfortable that the labour market is disinflationary.
- New Zealand's [commodity prices](#) have done remarkably well recently in a challenging global growth environment, particularly dairy prices. Meanwhile the NZD has remained under pressure, which will boost exporter incomes but also put upward pressures on tradable inflation.

The higher-frequency data has continued to broadly lift over recent months, indicating that demand and activity has picked up (figure 1). Breaking down our ANZBO past activity data by sector, it's clear here too that the pickup is broad based, if uneven, with this data also suggesting GDP turned higher towards the end of last year (figure 2).

**Figure 1. High-frequency activity indicators and GDP growth**



**Figure 2. ANZBO experienced activity and GDP growth**

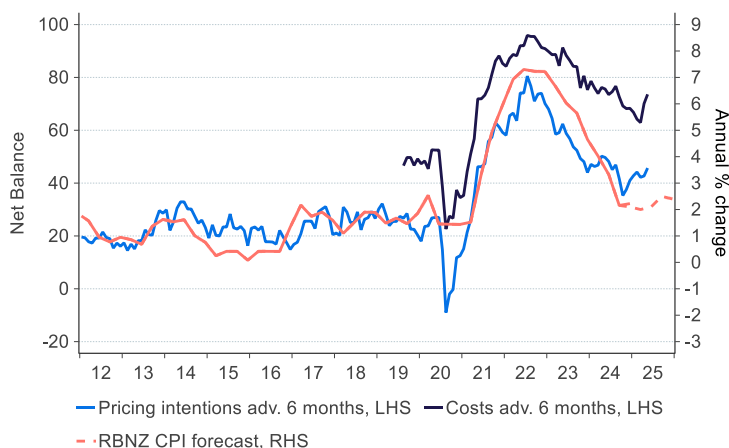


Of course, the RBNZ isn't concerned with GDP growth per se, but rather focuses on the output gap, ie the degree of spare capacity in the economy. The evolution of that depends on growth relative to the economy's speed limit. It's currently hard to find anyone, inside the RBNZ or out of it, with a positive word to say about New Zealand's past and likely future productivity performance. That does imply that questions around how much growth is "too much" could arise regrettably soon. But it's certainly not a topic for today, with plenty of indicators suggesting there is ample spare capacity out there, including in the labour market (though some skill shortages persist).

All that said, it's worth noting that there are still some signs of some stickiness in inflation in our ANZBO survey (figure 3, over), and it's the RBNZ's job to be a little more paranoid about inflation than everyone else. In any case, we expect the RBNZ to start to tread more carefully now the OCR is approaching the RBNZ's range of estimates for neutral (2.5-3.5%). Barring significant downward data surprises, this is very likely to be the last outsized cut.

Indeed, we are forecasting just one more cut after next week: a 25bp cut in April to take the OCR to a trough of 3.5%. However, given the RBNZ's central estimate of neutral is 3%, the risks are currently tilted towards the OCR going lower than that. Even if neutral is in fact higher than the RBNZ estimates, it would take time for that to become evident. That means neutral isn't a risk so much for where the OCR troughs as it is for the timing of the eventual kick-off of the next hiking cycle. We'll re-evaluate our OCR forecast once we have an updated read on how the RBNZ is seeing things.

**Figure 3. ANZBO inflation indicators and RBNZ inflation forecasts**



Source: RBNZ, Macrobond, ANZ Research

### Pulling it all together

We expect the tone of the Monetary Policy Statement to be one of confidence that the inflation outlook is benign, while acknowledging upside risks to tradable and thus headline inflation. The OCR track will likely be lower, due to the GDP surprise, but given capacity indicators have been mixed, and taking into account the offset from the lower NZD and higher export prices, we aren't expecting a very large change in the track overall.

The RBNZ is unlikely to feel the need to once again provide such explicit guidance about where to next, given the next meeting is just six weeks away. There's a paucity of top-tier data between now and then, meaning the market is likely to be reluctant to budge from expectations for a 25bp cut in April, unless the RBNZ's tone surprises significantly next week.

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



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

### Markets

Near-term market pricing going into the MPS (which currently implies that markets expect a 49bp cut next week, and a 29bp cut in April) seems pretty fair. Those expectations aren't precisely aligned with our forecasts (of 50bp followed by 25bp), but it seems a fair representation of the risk profile. The RBNZ is not going to be cutting 75bp next week, given the data rebound, and while a 25bp cut in April looks very likely at this stage, short of hawkish data surprises another 50bp cut seems likelier than no cut, if there is to be a surprise.

Assuming we don't see a big change in the RBNZ's track, we don't think we will see significant market moves on the day, and volatility (in FX and interest rate markets) will likely continue to be driven by offshore events.

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