



# ECONOMIC BULLETIN

RBNZ Monetary Policy Review, April 2025.

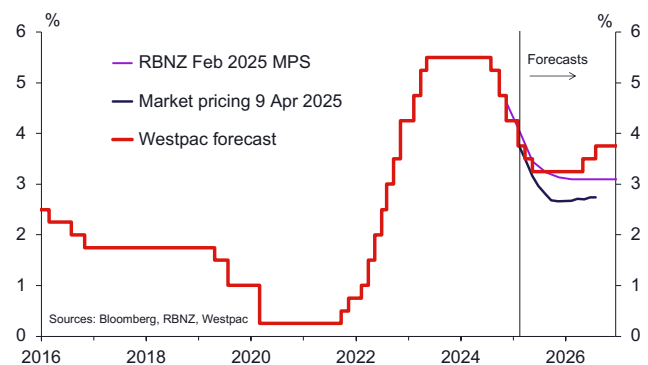


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## OCR cut by 25bps to 3.50%, as expected.

- As widely expected, the RBNZ lowered the OCR by 25bps to 3.5%.
- The RBNZ sees downside risks to the medium-term inflation outlook.
- But the overall tone doesn't suggest a sense of undue alarm.
- High uncertainty about the outlook due to global developments was recognised, along with a sense that events are still recent.
- The RBNZ sees the domestic economy as having evolved in line with their February expectations.
- Westpac expects another 25bp cut in May. The downside risks to the outlook imply risks of further easing from there, but data will determine the extent to which these crystallise.

Official Cash Rate forecasts



As strongly signalled in the February MPS, and more than fully priced by markets, the RBNZ today announced a further 25bps reduction in the OCR to 3.5%.

More importantly, regarding the outlook for policy at future meetings, the RBNZ indicated that they see downside risks to growth and inflation reflecting the global trade shock unfolding in recent days. The view on downside risks to growth looks like a consensus view:

*“Against this backdrop, the recently announced increases in tariffs in the United States, retaliation from several trading partners, and heightened geoeconomic uncertainty will have a significant negative impact on global growth. This will have adverse effects for domestic economic activity.”*

Regarding inflation there is more uncertainty, although still a sense of downside medium term risks:

*“Most members of the Committee consider that recent global policy developments have shifted the balance of risk for New Zealand inflation lower over the medium term. Others note that, while uncertainty around the inflation outlook has increased, the risks remain balanced at this stage.”*

The outlook for interest rates looks tilted towards more easing. A 25bp cut at the May Monetary Policy Statement looks like a firm possibility. There are appreciable chances of additional easing, either in May or later, depending on how global events evolve and on how these translate to the New Zealand outlook. The MPC is not tying their hands here in that regard.

Regarding the impact of the change in the global outlook, the RBNZ's read looks as expected. Hence, they see the predictable downside risks to growth and hopes of inflation being controlled over the medium term, while acknowledging the uncertainty about what happens in the short term.

The MPC notes, correctly, that both the supply and demand sides of the global economy have changed, and there is little that monetary policy can do to counteract the more permanent losses to the supply side of the economy.

*"The adaptation of global supply chains to increased trade barriers will take longer to work through. It was noted that monetary policy cannot offset the long-term negative supply-side effects of higher barriers to international trade."*

The role of the New Zealand dollar is acknowledged as play a role in buffering the economy from this global shock. Westpac's view is that the exchange rate will do most of heavy lifting in that regard. That the RBNZ says the recent decline in the NZD will "help" cushion the blow implies there is a role of interest rates as well – reasonably:

*"The recent decline in the New Zealand dollar will help to cushion the immediate effect of decreased global demand for New Zealand exports. Lower oil prices will also support domestic consumption and production."*

Finally, importantly the RBNZ sees the overall economy as having evolved as expected in recent months, albeit with some differences in the composition of growth.

*"Economic activity in New Zealand has evolved largely as expected since the February Monetary Policy Statement. Higher-than-expected export prices and a lower exchange rate have supported primary sector incomes and overall economic growth. While monetary restraint has been removed at pace, household spending and residential investment have remained weak."*

It doesn't appear that there is a significant "starting point" difference for the RBNZ to account for leading into the global tariff shock.

Hence regarding the outlook for interest rates, the path is clear for further OCR cuts. The scale and timing of cuts will depend on unfolding events.

*"As the extent and effect of tariff policies become clearer, the Committee has scope to lower the OCR further as appropriate. Future policy decisions will be determined by the outlook for inflationary pressure over the medium term."*

## Westpac's interpretation and rate call.

The RBNZ's statement did not convey any sense of undue alarm. The downside risks to the trading partner outlook are clear and appropriately highlighted in the press release and the Statement of Record.

It's likely the 25bp cut to 3.25% we currently forecast in the May Monetary Policy Statement will occur. The choice is likely between 25 and 50bp but it's hard to say how large the adjustment will be now.

There are downside risks to our current forecast of a trough in the OCR of 3.25%. We will assess these forecasts considering emerging events, financial market developments and domestic data when we review our forecasts in May when we prepare the Economic Overview, or sooner if appropriate.

The RBNZ is correct in not being prescriptive in terms of how global events will evolve and how they will impact on NZ. The reaction of the New Zealand dollar will be key in that regard. We expect the New Zealand dollar to take on a significant part of the adjustment – especially if darker scenarios emerge. This will complicate the usual playbook of cutting rates to support growth.

If significant rate cuts are required, then these will likely further cement in the tentative recovery of the domestic economy that has been taking hold up until now. Large OCR cuts could end up being procyclical if the NZD is doing its job and providing stimulus.

## Future things to watch.

Looking ahead to the 28 May MPS, the case for future easing will depend on how the global outlook evolves and how that is expected to impact the outlook for activity and inflation in New Zealand.

We are not aware of any scheduled commentary from the RBNZ in coming days on the monetary policy outlook. Chief Economist Paul Conway will be holding a webinar on Tuesday 15 April. This webinar is not advertised as having monetary policy content – but worth watching nonetheless.

As far as domestic economic indicators are concerned, the key high frequency indicators to watch are:

- Consumer and business confidence surveys (24 and 30 April)
- The PMI and PSI surveys (11 and 14 April, 16 and 19 May)

- Filled jobs (29 April) and job advertisements (16 April and 14 May)
- Housing market indicators (mid-April and May)

In addition, the Q1 CPI (17 April) will of course be key in determining the baseline for headline and non-tradable inflation. The Q1 labour market reports (7 May) will be critical as these will set the tone for expectations of the path for the unemployment rate and growth in labour costs in coming quarters. The RBNZ likely needs to modestly upgrade its peak unemployment rate forecast. These reports will tell us by how much. The lead-up to the Budget on 22 May will also be of interest given the risks that the Government expands spending to cover pressing priorities in both operational and capital spending, notwithstanding recent comments made by the Minister of Finance.

Aside from economic data, developments in international commodity prices – especially for New Zealand’s key exports – and the exchange rate will also be important in gauging the extent to which additional interest rate support is likely to be required to ensure that spare capacity in the economy is eliminated, and that inflation stays close to the centre of the RBNZ’s target band.

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