



ECONOMIC BULLETIN

OCR change of call September 2025.

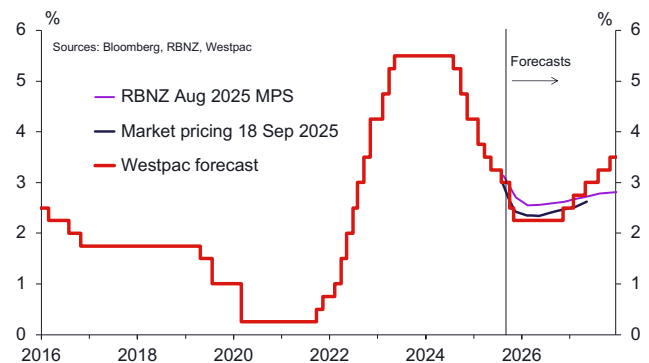


18 Sep 2025 | **Kelly Eckhold**, Chief Economist | +64 9 348 9382 | +64 21 786 758 | kelly.eckhold@westpac.co.nz

RBNZ to cut 50bp in October.

- Very weak GDP implies greater than expected economic slack in Q2.
- We now think the RBNZ will cut 50bp at the 8 October policy meeting and 25bp at the 26 November meeting (previously we expected 25bp cuts at both of those meetings).
- The cut in October seems a high probability, November is likely but more uncertain.
- The QSBO on 7 October could shift the balance of probabilities back to a 25bp cut in October, but it would need to be very strong.
- Conditions will become very stimulatory, implying a very different 2026 outlook.

Official Cash Rate forecasts



A 50bp cut to very stimulatory levels looks likely.

Just last week, speaking at the Financial Services Council annual conference, RBNZ Governor Christian Hawkesby stated: “While our central projection for the OCR is to fall to around 2.50% by the end of the year, that could occur faster or slower depending on how the economic recovery evolves.”

Today’s **GDP data** (-0.9% q/q, -0.6% y/y) surprised significantly to the downside (WBC -0.4% q/q, -0.1% y/y, RBNZ -0.3% q/q, 0% y/y). While it wasn’t a total washout in terms of the forecast, the main message is that the RBNZ MPC will likely judge there is too much excess capacity in the economy. Hence the case for an accelerated easing profile will look strong – especially to those who were already arguing for a circuit-breaking 50bps cut at the August meeting.

The RBNZ had previously indicated that they were interested in delivering more stimulus to provide guardrails against a deeper or more prolonged period

of economic stagnation. That argument only grew stronger today.

There might be prospects for some rebound in GDP in Q3 based on today's data. But that's uncertain and what is most clear is that our current forecast of 0.6% growth in Q3 still looks solid enough and is higher than the RBNZ's 0.3% q/q projection.

We don't see much data between now and the 8 October meeting that will change the situation much for the October decision. The QSBO survey on 7 October is the main highlight. If that showed significant strength, then the case for a 50bps easing might reduce a little but the RBNZ would need to be very confident that this indicator was giving an accurate steer. Recent indicators would need to improve a lot more strongly than we saw in August to be able to draw those sorts of conclusions.

For now, we are also pencilling in a further 25bps cut in the OCR at the 26 November MPS meeting, taking the OCR to a low of 2.25%. Not least as it's not especially likely the RBNZ will pause after having cut the OCR by 50bp the meeting earlier. And there are aspects of the data (recent trends in consumption, assessments of the degree of reversal in GDP, the trend in the exchange rate) that might impinge on the decision to keep easing conditions. However, there is a lot of water to flow under the bridge before that meeting. The Q3 CPI and labour market surveys will both have a bearing on the RBNZ's decision, together with more forward-looking high frequency indicators (retail sales, housing market, business surveys etc). And developments in the global economic outlook, financial markets (including the exchange rate) and commodity prices will also be important.

Interest rates look set to be moving into very stimulatory territory in the next few months. This will have implications for the 2026 outlook, even though recent trends are not suggesting the economy is recovering particularly rapidly from that Q2 nadir. We are acutely aware that those indicators could change quickly and so will not be making any fast judgements on the implications for 2026 growth and the timing of when the OCR might start to rise again. Right now, the forecast is for the OCR to begin increasing after the 2026 election in August-November 2026. This could come sooner but let's see.

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