ECONOMIC BULLETIN

Westpac RBNZ Client Pulse Survey – May 2025.

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

Views on the RBNZ are converging, but global uncertainty remains

- **There is a near-consensus that the RBNZ will cut the OCR by 25bps this week, in line with what the RBNZ had previously signalled.**
- **Beyond this point, there is a broader range of views as to where monetary policy will go. Most clients expect the RBNZ to signal an OCR at or below 3% by the end of this year.**
- **We're seeing some convergence in views between domestic and offshore clients, the later having tended to be more dovish in previous surveys.**
- **Clients believe that the RBNZ is more likely to be swayed by shocks to demand – either here or overseas – than by shocks to inflation.**
- **Expectations for inflation in two years' time remain skewed towards the upper half of the RBNZ's target range.**
- **Clients are hopeful but not confident that the US will scale back the 10% tariff increase it has imposed on NZ exports.**
- **There is a range of views as to whether New Zealand's fiscal position will put its credit rating at risk in the years ahead.**

Key survey results: Kelly's take

Westpac New Zealand's fifth survey of global client views on the outlook for RBNZ policy was conducted over the week of 19-23 May. We received 99 responses to the survey, of which around 60% were New Zealand-based businesses or institutions. Thanks so much for your efforts in contributing.

A few issues stand out. Firstly, there's a clearer consensus that we are close to the end of the easing cycle. While it's still the case the global investor community sees more cuts than local players, the gap has narrowed noticeably. Market pricing seems consistent with this view (as does the view of Westpac Economics).

Secondly, the RBA is on the rise in terms of the degree of client interest. Up to now, the RBNZ has been front and centre in terms of client thinking when it comes to the central bank likely to generate the most movement in policy rates. This makes sense to me given the RBNZ is advanced in its easing cycle whereas the RBA has taken just a couple of sometimes tentative steps.

Thirdly, it's good to see the increased focus on global issues in terms of the things most likely to shape the recovery and interest rate trends going forward. This is the right focus. We look forward to continuing to bring you insights on global events to help hone those views.

Fourthly, look at those inflation expectations! Those are higher than the RBNZ would like and, taken in conjunction with the focus on growth rather than inflation factors, tells a story where the RBNZ is seen as focused on output stabilisation rather than inflation. Let's hope that doesn't cause a problem going forward given inflation is likely to be closer to 3% than 2% for much of the rest of this year… at least!

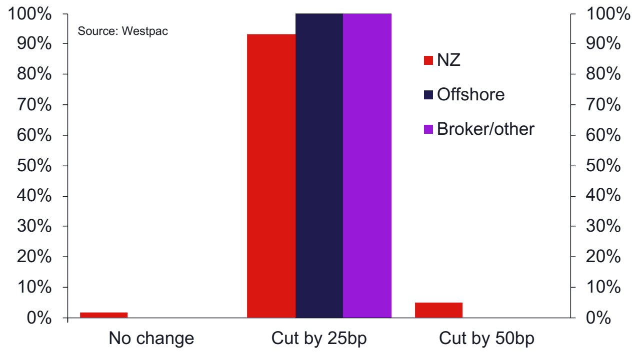
Finally, hope springs eternal that perhaps the tariff impost will be eased on New Zealand. It's not a dominant probability but noticeable in any case. I think the offshore clients are likely more realistic in that regard.

What will the RBNZ do at the May *Monetary Policy Statement*?

There was a near-unanimous view among our clients that the RBNZ will cut the OCR by 25 basis points at this Wednesday's Monetary Policy Statement. Only a couple of respondents were willing to break away from the pack (either a 50bp cut or no change). That degree of certainty can also be seen in interest rate market pricing, and in economists' forecasts for this week's review. (In our **preview bulletin last week** we put 90% odds on a 25bp move.)

This level of agreement likely reflects the previous RBNZ Governor's explicit signal that the February MPS forecasts were consistent with 25bp cuts at the April and May reviews. While the current Monetary Policy Committee is by no means beholden to that path, recent developments on balance haven't provided a clear reason to depart from it either. What the RBNZ signals for policy beyond these well-signalled moves will be of much greater interest in the May MPS.

What will the RBNZ do this week?

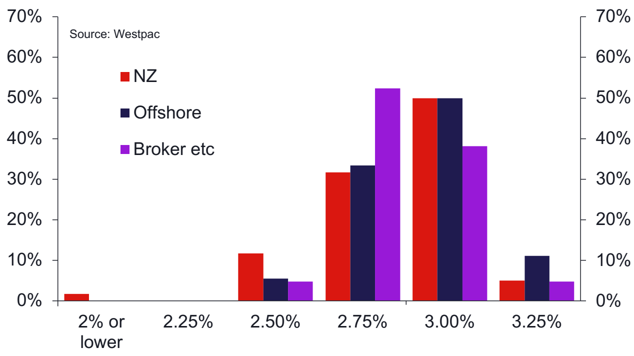


Where will the RBNZ project the OCR to be at the end of 2025?

The February MPS projections saw the OCR reaching 3.14% at the end of 2025, then remaining at 3.1% in the following years. Taking a 25bp cut in May as a given, this implied some probability of one further cut this year. Crucially, these forecasts effectively signalled that the RBNZ was planning to finish easing by the end of this year, in contrast with its previous forecasts which had implied that the easing cycle could be drawn out over a few years.

With the RBNZ having already brought its easing plans forward, it's not surprising that there was a narrower range of views this time as to where the RBNZ's projections would be at the end of 2025. Most of our clients are expecting something in the 2.75-3.00% range – which would be a downgrade from the February projections, most likely reflecting the greater perceived risks to the global economy as a result of the US tariff announcements since early April.

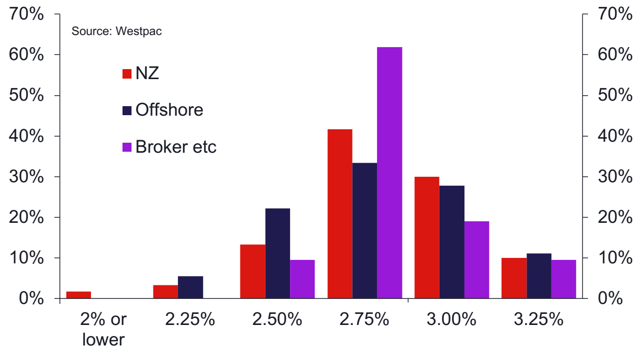
Where will the RBNZ project the OCR to be at end 2025?



Where will the OCR be at the end of 2025?

As we've seen in previous surveys, our clients think that the RBNZ will ultimately move a bit further than it signals – the modal forecast for the RBNZ's end-2025 projection is 3%, while the modal view of where the OCR actually ends up is 2.75%. Notably, we're also seeing some convergence in views across client types – the average expectation for every group was around 2.8%. In previous surveys our offshore clients have tended to be more dovish than our domestic client base, anticipating a greater extent of easing by the end of this year.

Where do you think the OCR will be at the end of 2025?



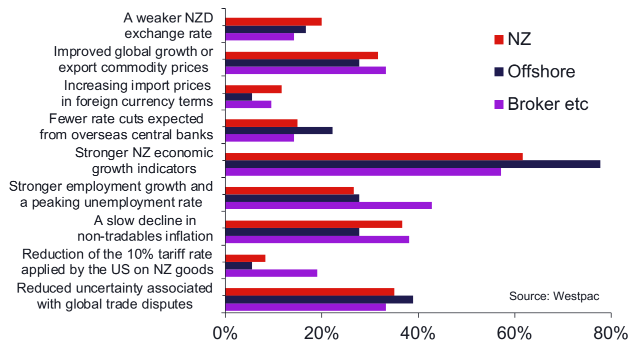
What factors could affect the extent of easing?

For these two questions we asked clients to choose up to three risk factors that could alter the RBNZ's easing plans. Generally, clients saw domestic growth as the biggest risk for the RBNZ, in both directions. The labour market was also seen as an important risk factor, though more so on the downside than on the upside.

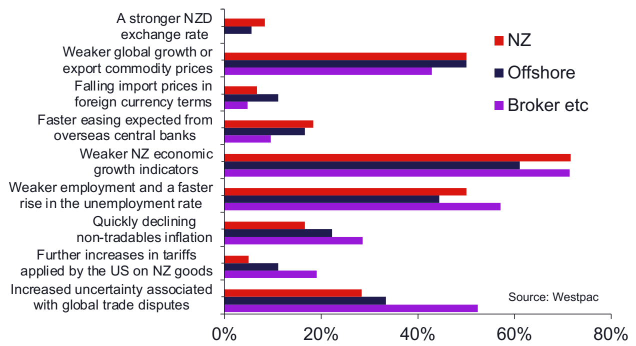
Global growth conditions were also a significant factor, through either the demand and prices for our commodity exports, or through the general uncertainty resulting from the impact of US tariffs and how other countries might respond. Few respondents thought that the RBNZ would be concerned by shifts in imported inflation, through either the world prices for our imports or the exchange rate.

Non-tradables inflation was somewhat down the list of risk factors, though it was more prominent in terms of what might prompt the RBNZ to curtail its easing. This contrasts with the February survey, where clients generally thought that external factors were most likely to slow the pace of easing.

Which factors are most likely to lead to scaled-back easing?



What factors are likely to lead to increased RBNZ easing?

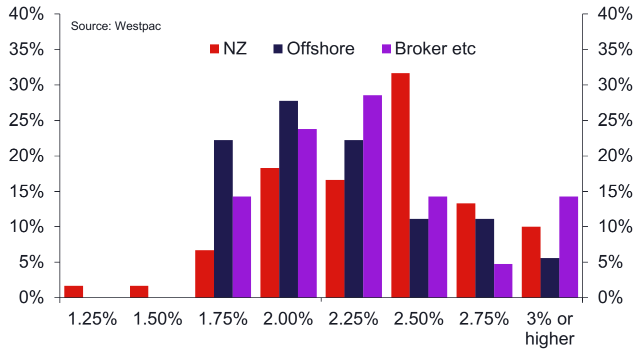


Where do you expect NZ inflation to be in two years' time?

Views on the expected inflation rate two years from now remain centred above the 2% midpoint of the RBNZ's inflation target. There's also a notable upward skew in the range of responses – relatively few clients see inflation undershooting the midpoint, while a greater number expect it to be near or even above the top of the 1-3% range. (Indeed, we may need to expand the range of possible responses in the next survey.)

History is certainly on the side of these views, as headline CPI inflation has averaged closer to 2.2-2.3% over the inflation-targeting era. It's also likely that these responses are being influenced by current conditions, with headline inflation ticking up again to 2.5% and with businesses still reporting significant cost pressures. And we should perhaps read this in conjunction with the responses to the previous questions, with clients viewing the RBNZ as motivated more by growth risks than inflation risks.

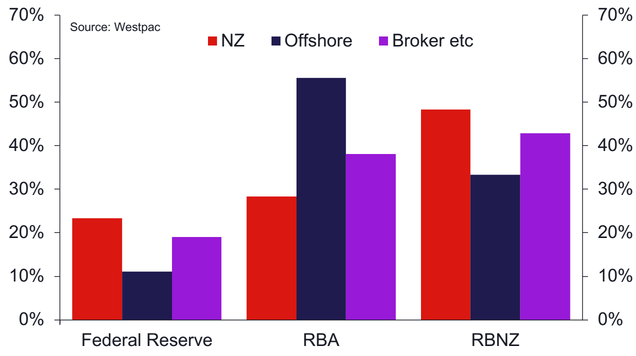
What level will inflation be at in two years' time?



Which central bank will ease the most in 2025?

While the RBNZ has a clear lead on the extent of easing so far in 2025, client views are mixed as to what will happen over the remainder of the year. The RBNZ was the overall favourite for more easing, although offshore clients leaned more towards the RBA. (Almost all of the survey responses were received after the RBA's 25bp rate cut last Tuesday). A reasonable number of clients felt that the Fed will look through the near-term boost to US inflation from the tariff increases and will ease by more than other central banks.

Which central bank will ease most over the rest of 2025?

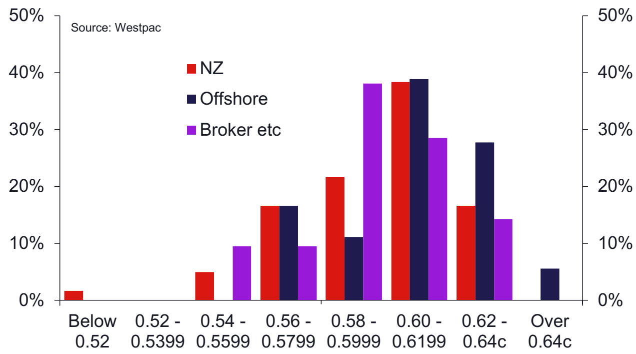


Where will the NZD/USD end 2025?

On average, our clients expect a modest appreciation of the New Zealand dollar to above US60c by the end of this year (the exchange rate was around 59c over the survey period). However, there was something of a downward skew to this range of views, particularly among domestic clients.

Westpac's forecast is for the exchange rate to remain at around 59c at the end of the year. However, we acknowledge there's substantial uncertainty about where it ends up. The 'textbook' response to the US's imposition of tariffs would be a higher US dollar, and hence a weaker NZ dollar. But right now this is being outweighed by concerns that the US dollar's dominant role in global markets is becoming tarnished.

Where will NZD/USD end 2025?

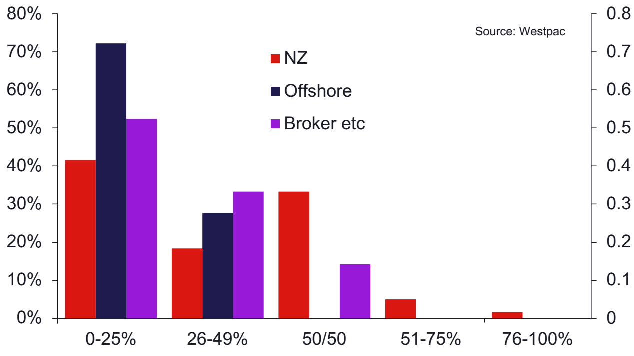


What is the probability that the 10% tariff on NZ exports is reduced?

US President Trump's "Liberation Day" announcement imposed tariff increases of at least 10% on every country, regardless of their trade relationship with the US. And in the limited deals that have been done to date, no country has succeeded in bringing their tariff rates down below 10%.

In that light, it's interesting to see that a fair number of our clients still see the 10% tariff imposed on New Zealand as up for negotiation. A third of local respondents put 50/50 odds on it being reduced. Offshore clients are less inclined to believe that New Zealand will succeed where other countries haven't.

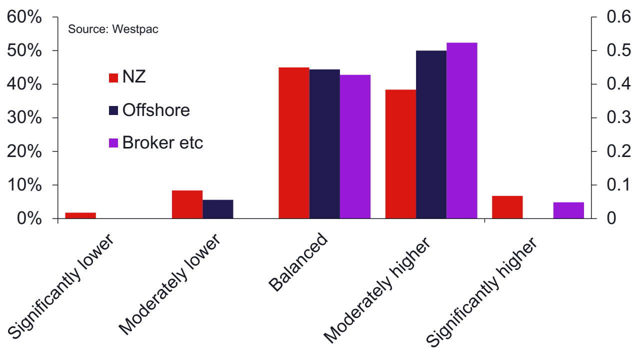
What chance that the 10% tariff rate is reduced?



Where will net debt to GDP peak?

In our recent *Economic Overview*, we estimated that the net core Crown debt to GDP ratio would peak in 2027 at 44.5%, before edging down in the following years. Most of our clients agreed that it would be either in that range or moderately higher. And indeed, they were on the right track for last Thursday's Budget, which projected a peak of 46.0% in 2028, a slightly lower but also later peak compared to the December HYEFU. (Most survey responses were received before the Budget, but post-Budget responses were not noticeably different.)

Where will net debt to GDP peak relative to Westpac's forecast?

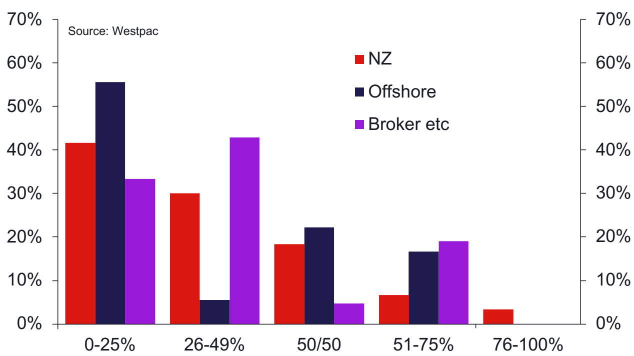


What is the probability of a downgrade to NZ's credit rating?

There was a wide range of views on the risks to New Zealand's sovereign credit rating. Just under half of clients felt that there was a low probability of a rating downgrade, but others saw a more substantial risk, and a reasonable number felt that there was more than half a chance of a downgrade. These views are not unreasonable given the broad scope of the survey question, covering a long time horizon (five years) and any one of the three major rating agencies.

Our **primer on credit ratings**, released last year, noted that the greatest points of vulnerability to New Zealand's credit rating are around the external and fiscal balances. Since then, we've seen an improvement in the current account deficit, but the prospect of a stabilisation in the fiscal accounts has become more distant.

Probability of a downgrade in NZ's credit ratings?



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