Preview: RBNZ Monetary Policy Statement

12 August 2025

Contact
Sharon Zollner for more details.

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A 25bp cut with a mildly dovish tone likely

- We expect a 25bp cut in the OCR to 3.00% next Wednesday. Like in May, a 25bp cut is universally expected, having been strongly signalled. The main interest will therefore be the RBNZ's Official Cash Rate (OCR) forecast, and any other hints about where to from here.

- The big quarterly data (CPI, GDP, unemployment) since the last OCR review in July have been much as the RBNZ expected (or stronger) but the timelier growth indicators have been very soft. We've also seen some mixed inflation data. All up, a ready reckoner approach justifies perhaps 10-15bp off the OCR track, with a trough of 2.70-2.75% implying one more 25bp cut. Like in May, we expect the RBNZ will publish a track that is non-committal about the timing of that.

- Our big-picture view is that we expect the RBNZ to pivot more dovish and ultimately cut the OCR to 2.5% as the soft high-frequency data increasingly shows up in the hard data. But next week is likely too soon for a lurch in that direction.

The view

The market is currently pricing a 25bp cut as a lock next week, which makes sense. The domestic economy is faltering, and while we're probably near peak pessimism, the economy looks like it could do with more support. A 25bp cut this month was signalled at the July Review (as consolation for a pause) and is consequently fully expected. But even assuming the decision is a given, the RBNZ could nonetheless move the market considerably with both its OCR forecast and its words. The market will also likely react to whether it was a consensus or split decision, though it isn't particularly clear that it should, given one hold-out won't change the decision.

As always, let's look at the data news, particularly since the July Review. Our MPS starting-point surprise chart pack provided an opinion-free rundown of how the key data have evolved versus RBNZ forecasts in the May Monetary Policy Statement. Here, we'll summarise that but add colour, as well as discuss data that isn't easy to compare to RBNZ forecasts.

- Q1 GDP (released 19 June, *before* the RBNZ's July OCR Review) showed the economy grew 0.8%, well above the RBNZ's forecast of 0.4% q/q. This implied a marginally less-negative output gap than the RBNZ was assuming (with downward revisions to the previous quarter providing some offset). It's been superseded by weak activity indicators since, but is still worth +5 to 10bp on the OCR track if taken at face value (the RBNZ is wary of wonky GDP seasonality post-COVID, so it may not be).

- Q2 CPI inflation (out 21 July, *after* the RBNZ's July OCR pause) was broadly in line with RBNZ expectations, with non-tradable bang on. Indicators for Q3 are suggesting some upside non-tradable risk – specific rather than general but still implying marginal upside for the OCR track. Also, world prices have been stronger than forecast, and it's not just an oil story. Minor upside for OCR.

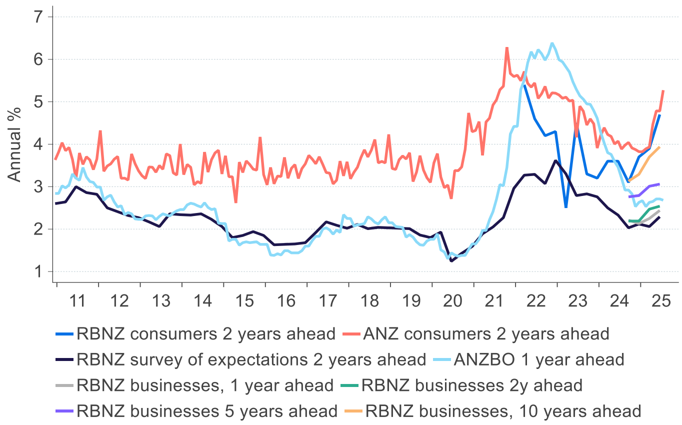
- The Q2 unemployment rate (6 August) at 5.2% was in line with the RBNZ's forecast, but with mixed details. QES wages were stronger than the RBNZ's forecast and labour supply was weaker. But higher underutilisation implies more spare capacity. Overall likely broadly cancels out.

- The NZD trade-weighted index is currently sitting at 68.8, close to the RBNZ May assumption of an average of 69 from Q2 onwards.

- New Zealand's [commodity prices] continue to hold up well. Dairy prices are off their peak but have risen in the past two auctions. Q1 export prices were close to the RBNZ's forecast; it's difficult to judge whether Q2 has contained any surprises. Probably not a big factor.

- Inflation expectations likely played a part in seeing one member of the RBNZ Monetary Policy Committee dissent regarding the decision to cut the OCR in May. At a glance, the suite looks alarming (figure 1). But the top two are consumer expectations. Those are explained by food prices, and in any case won't drive inflation outcomes in the current soft economy. The second-highest measure, long-run expectations from the RBNZ's new business survey, will look a lot more benign once the RBNZ also publishes the median, not just the mean, which (as it noted in the May MPS) was dragged higher by outliers. That data is out on Monday. Meanwhile, inflation indicators in our ANZBO continue to ease and inflation expectations have been flat as a pancake.

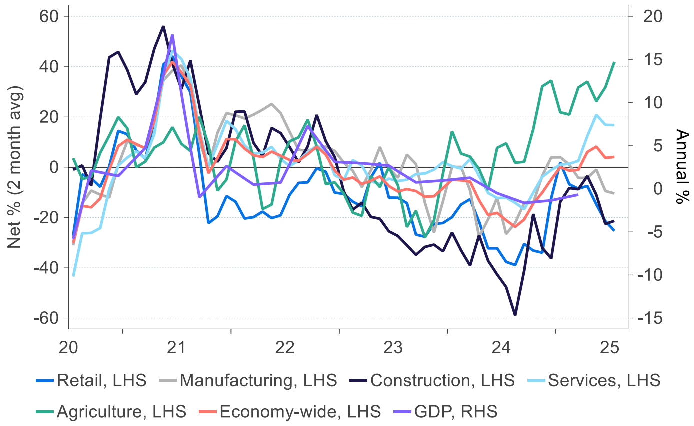
Figure 1. Measures of inflation expectations



Source: RBNZ, ANZ, Macrobond, ANZ Research

- Finally, a quick high-frequency data roundup – these largely boil down to a Q2 GDP forecast downgrade versus May:
  - The Performance of Manufacturing Index and the Performance of Services have bounced in the last month but remain well under par at 48.8 and 47.3 respectively. We'll get a fresh read on both before the OCR decision.
  - The housing market remains lacklustre. We have revised down our forecast for growth in house prices this year once more, from 4.5% to 2.5%.
  - Card spending data suggests households are still being cautious with their spending, but signs of life are emerging in some discretionary categories.
  - The Truckometer Heavy Traffic Index fell in Q2 but lifted in July.
  - Our ANZ Business Outlook survey remains lacklustre outside of agriculture, with the best GDP indicator, past activity, showing a really mixed bag.

Figure 2. ANZBO experienced activity and GDP growth



Source: Stats NZ, Macrobond, ANZ Research

The Committee said at the July Review that "The current level of economic activity is broadly consistent with the Committee's judgement in May." That implies the downward revision to their Q2 GDP forecast at that time neatly cancelled out the upward surprise on Q1 GDP. The GDP level might be roughly the same as the RBNZ expected, but the momentum most certainly is not. In essence, the impact on the OCR track will come down to the question of whether the Committee concludes the weakness seen in Q2 was a brief stumble or the economy falling flat on its face. Judgement will be needed on that front, because the jury is still out.

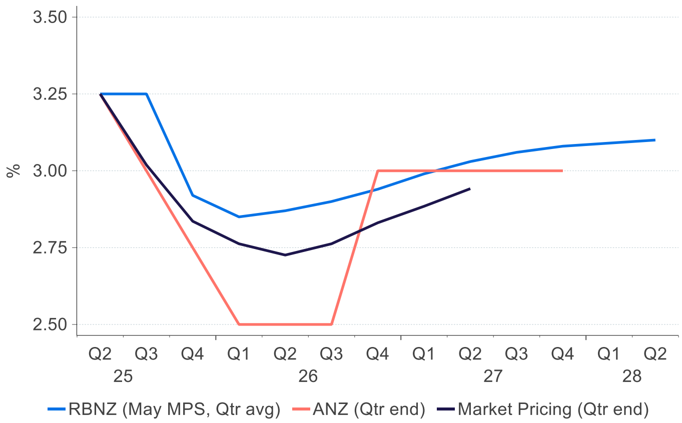
Pulling it all together

All up, then, while the country is certainly in a funk, it's not a given that the RBNZ is going to be revising their OCR track a whole heap lower. It will ultimately come down to what message the Committee wants to send. On that front, something similar to May wouldn't surprise, i.e. we're very likely easing again, but no promises as regards timing. A shallow track bottoming out around 2.70-2.75% (versus 2.85% in May) sometime this year would fall into that category. If the business inflation expectations data due two days before the MPS is benign, the Committee may well feel comfortable publishing a lower track than otherwise.

We expect the tone of the Monetary Policy Statement to be pretty down-the-middle, emphasising that they will do whatever is needed to keep inflation in check or shore up the economic picture as required. Perhaps it will be another of those Statements where everyone, hawk or dove, can find what they are looking for. When there are downside risks to growth but upside near-term risks to inflation, mixed messages are inevitable to some extent.

We continue to forecast that the RBNZ will ultimately deliver an OCR of 2.50%, led by the data, but we don't expect the Committee to signal such an outcome at this stage. We expect they would be happy to not move the market much at all on the day, but that may be easier said than done.

Figure 3. OCR forecasts: RBNZ, ANZ, market pricing



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

Markets

If market expectations going into the decision are similar to today (30bp of cuts priced in by October, 41bp by November and 49bp by February), and the RBNZ's track doesn't dip below 2.75%, there's a good chance that short-end swap rates rise a little, with markets disappointed by what they'll perceive as ongoing RBNZ caution despite the flagging tempo of data. While technically a track that bottoms out at 2.75% (10bp lower than in May) would be "meeting the market", given the market's fixation with soft activity data, we think traders will need a lower-than-market track for short-end rates to go lower immediately.

In May, the news that one MPC member voted to hold, along with the Governor's comment that each decision would be meeting by meeting now that the OCR was around neutral shocked markets, which had been laser-focused on the softer growth outlook. The market's focus appears similar now, so the reaction will depend heavily on the tone of both the document and the press conference.

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Sharon Zollner
Chief Economist, New Zealand

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

General enquiries:
research@anz.com

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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

Matthew Dilly
Agricultural Economist

Primary industry developments and outlook, structural change and regulation, liaison with industry.

Telephone: +64 21 221 6939
Email: matthew.dilly@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

Matthew Galt
Senior Economist

Macroeconomic forecasting, economic developments, GDP, housing and credit dynamics.

Telephone: +64 21 633 469
Email: matthew.galt@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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