



ECONOMIC BULLETIN

Westpac New Zealand RBNZ pulse client survey.



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Tea leaves and tariffs

- There is a strong view that the RBNZ will cut the OCR by 50bps this week.
- Customers expect a modest downgrade to the RBNZ's OCR projections for the end of 2025, although many think they will move faster than what they signal.
- 3.00-3.25% is seen as the likely end of 2025 level for the OCR.
- Expectations for inflation two years from now remain skewed towards the upper half of the target range.
- Investors are unsure of the final extent of global tariffs but are optimistic currently announced initiatives will be scaled back.
- Investors think the RBNZ will see tariffs as slightly inflationary but in general don't see the RBNZ drawing strong conclusions.
- Investors are split on the direction of the exchange rate although few think it will remain around current levels by year end.

Key survey results: Kelly's take

Westpac New Zealand's third survey of global client views on the outlook for RBNZ policy was conducted over the week of 12-15 February. We received 136 responses to the survey, of which around two-thirds were New Zealand-based businesses or institutions. Thanks so much for your efforts in contributing.

Investors are rightly focused on the global trade environment as a key issue facing the RBNZ and the outlook. But they are uncertain about what is going to happen and have an optimistic view that the trade issues will blow over to a large extent.

I think they are right to think that we have no idea how the tariff situation will pan out. But I think it's overly optimistic to expect the direction of the new US administration to change significantly from the direction the President campaigned on.

In our view, the issue is not whether there will be increased tariffs, but rather how large and broad-based will they be and will New Zealand exporters be caught in the crossfire? Indeed, since our survey was sent out, we've seen the US announce tariffs on imports of steel and aluminium, which will affect New Zealand exporters.

And at least as importantly, we need to consider the stimulatory impacts coming from other aspects of the US administration's policy platform such as from reduced taxes, easier US fiscal policy, and the upward impact of tariffs on the US dollar and the resultant depreciation impact on other currencies.

It rather looks from this survey that the doves have pulled their wings in somewhat. The results suggest that most see a 3-3.25% OCR at the full extent of this easing cycle. That's despite the RBNZ seemingly giving the green light to a 50bp cut this month and after some very weak GDP data from mid-2024. The large and fast OCR cuts to date are rightly driving investors' views.

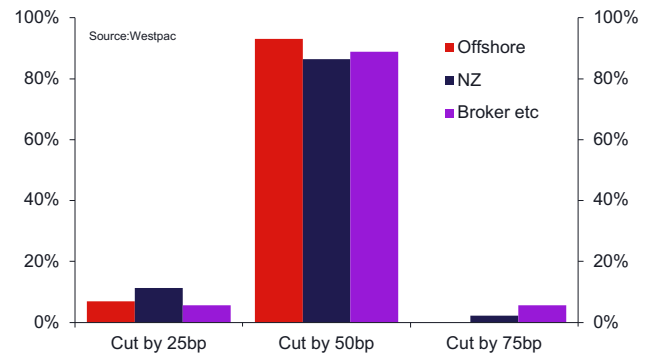
On the following pages we look at what different client groups expect for the RBNZ's policy stance over the coming years, as well as their expectations regarding US tariff policy.

What will the RBNZ do at the February Monetary Policy Statement?

There is a strong consensus in favour of a 50bp cut at this Wednesday's review, which would take the OCR down to 3.75%. In terms of the range of views, there was a slight tilt among our clients towards a smaller cut rather than a larger one, with a small number of locals even predicting no change.

Interest rate market pricing also reflects expectations of a 50bp cut this week. Market opinion has been anchored by the RBNZ's very explicit guidance issued back in late November combined with data that seems broadly consistent with the RBNZ's forecasts.

By how much will the RBNZ cut the OCR this month?



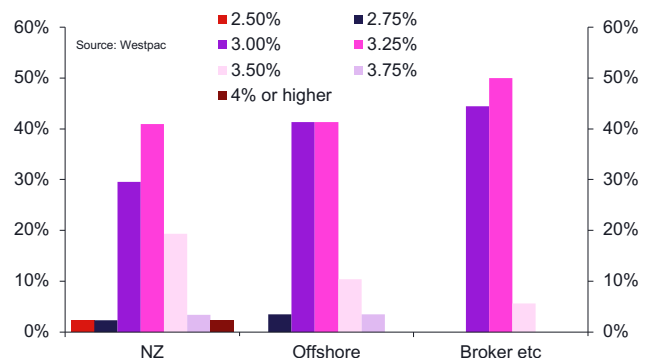
Where will the RBNZ project the OCR to be at the end of 2025?

The November MPS projections saw the OCR reaching 3.55% at the end of 2025. However, the RBNZ also indicated a very front-loaded profile with only 25bp of cuts indicated after February. Some data, such as the Q2 and Q3 GDP figures, suggest the economy has some way to go before growth returns to trend even though inflation is close to 2%. The RBNZ Chief Economist indicated in late January that the RBNZ continues to see 3% as the mid-point of a wide range for the neutral OCR. Hence the updated February projection will be a crucial part of the RBNZ's messaging on how quickly the Bank wants to get to that neutral level.

Customers expressed a range of views on where the projected track will be at the end of 2025, with the modal forecast sitting at 3.25%. Few thought that the projection would reach less than 3% by the end of this year. Most responses are in the 3-3.25% range and in reality, there's little to split between those options. Both these options are consistent with the OCR being close to the middle of the RBNZ's neutral OCR range by the end of this year. Westpac in contrast would view these settings as mildly stimulatory as our view is that 3.75% is closer to neutral.

Both offshore and domestic investors have similar views – there's just a slightly more dovish tinge to the responses from global investors. This is a contrast to previous surveys where offshore investors have been uniformly more dovish than local market participants.

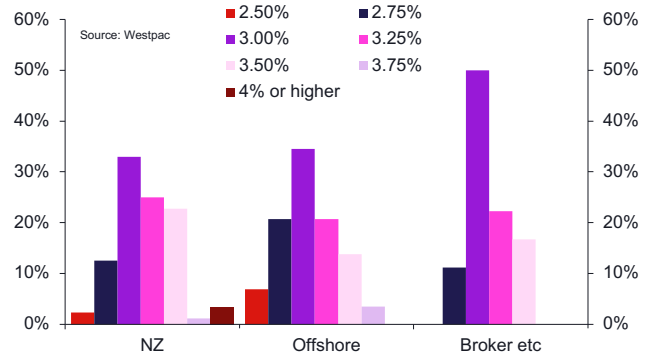
Where will the RBNZ project the OCR at end 2025?



Where will the OCR be at the end of 2025?

As for where the OCR will actually be at the end of 2025, the distribution of responses was more to the downside of the previous question, with a modal answer of 3%. In other words, our clients expect the RBNZ to continue to move slightly faster than it signals. Domestic clients have more of a hawkish skew to their views than offshore clients, although even the generally dovish global customer set has more balanced views than in recent surveys.

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

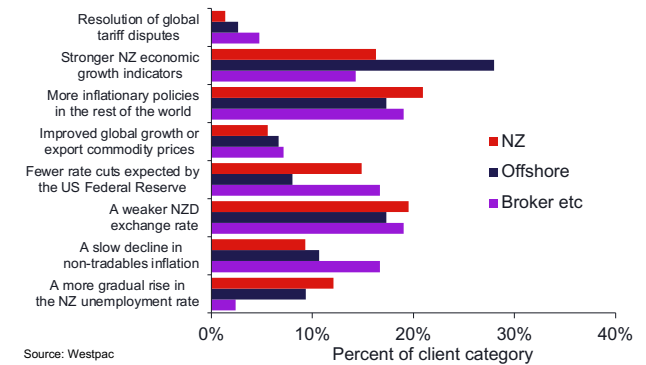


What factors could affect the extent of easing?

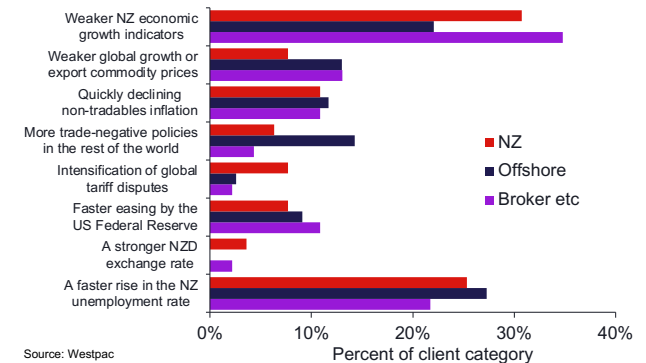
For these two questions we asked people to choose up to three risk factors that could alter the RBNZ's easing plans. Respondents felt that a weaker exchange rate, stronger domestic growth indicators and inflationary policies offshore (tariffs, expansionary fiscal policy) would be the most important factors that would lead to the RBNZ scaling back the degree of policy easing.

Respondents saw potential weakness in New Zealand growth and a more significant rise in the unemployment rate as being the key factors which would prompt the RBNZ to scale up the amount of easing. Hence there's a clear dichotomy in favour of domestic factors that would drive further easing while external factors might have more of a role in scaling back the easing cycle.

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



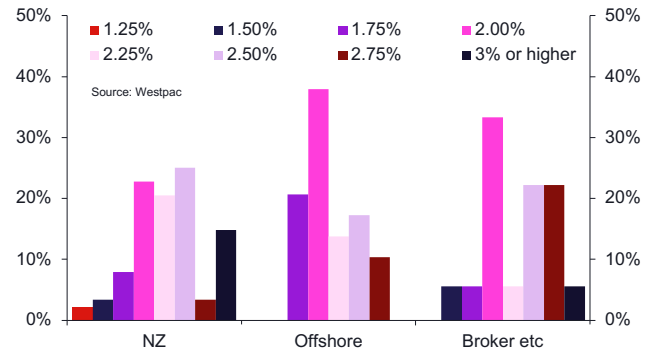
What factors are likely to lead to increased RBNZ easing?



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

Relatively few investors see inflation moving below 2% - and the mode of all responses lies around 2.25-2.5% depending on the group considered. These results suggest investors think the RBNZ's easing cycle will be very effective in re-stimulating activity and inflation pressures. Indeed, perhaps more than intended given inflation expectations are not centred on 2%. This would be consistent with the 'neutral' OCR being higher than the RBNZ's estimates - as is Westpac's view. History is on the side of this view of higher than 2% inflation at headline CPI inflation is averaged closer to 2.2-2.3% over the inflation targeting period.

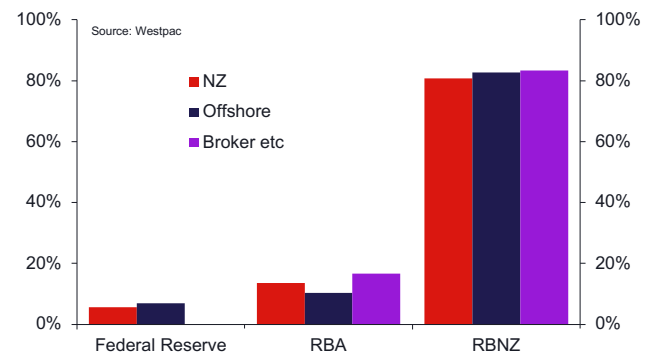
What level will inflation be at in two years' time?



Which central bank will ease the most in 2025?

Investors almost uniformly see the RBNZ as being the biggest easer in 2025 even though the RBA is just stepping up to the plate now. Fed easing expectations seem quite low. Westpac agrees with investors in terms of the likely extent of US easing this year (we expect no cuts). However, we are more equivocal on the RBA as our colleagues' project 100 bp of RBA cuts this year, which is the same as the 100bp of cuts we have for the RBNZ.

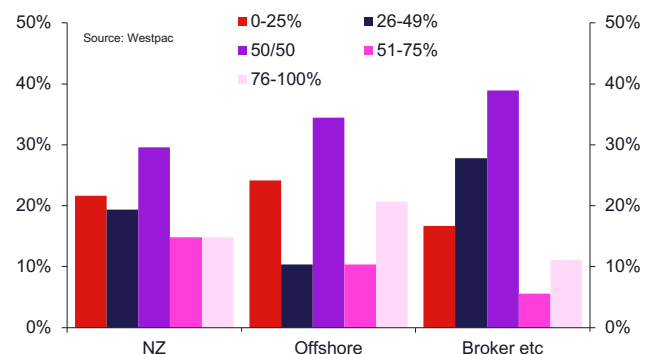
Which central bank will ease the most in 2025?



What is the probability of new significant tariffs on NZ exports?

This issue de-jour is that of global tariffs and how these will impact New Zealand. Investors seem uncertain on this issue with a fair split between pessimists and optimists. Domestic customers appear more confident that NZ will be relatively untouched - but that's hardly a resounding consensus. The most representative view is that investors don't know - and that's what we expect the RBNZ to echo in its Monetary Policy Statement this week as well.

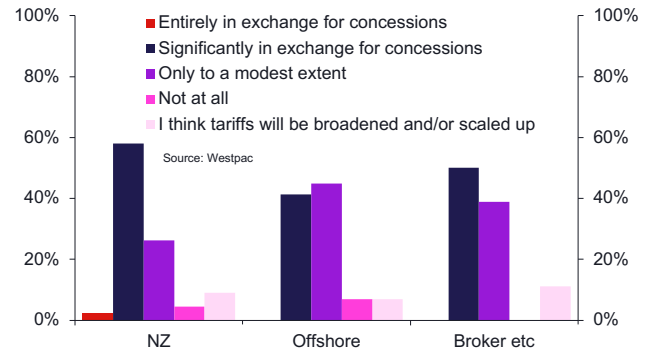
What is the probability that at least one major export is subject to new tariffs?



To what extent will US tariffs be scaled back?

Investors are optimistic that the Trump administration will scale back already announced tariff threats in exchange for concessions. Domestic customers seem more optimistic on this view compared to offshore. This suggests that most investors don't think the medium-term outlook, which is presumably shaping their inflation and OCR views, will be very significantly impacted by global trade issues.

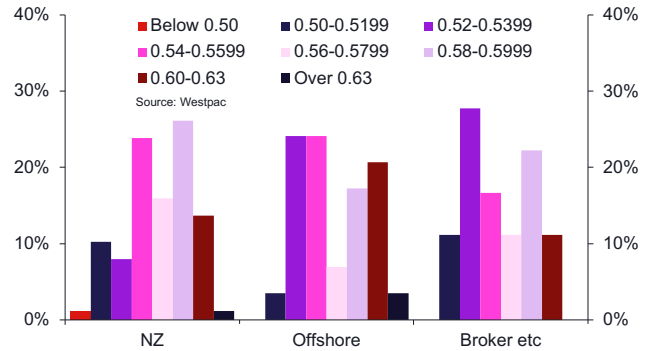
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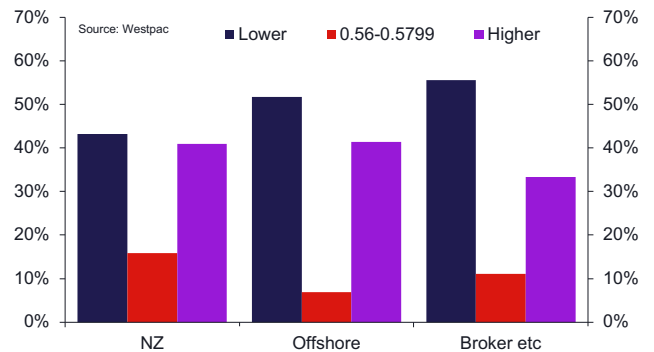
Where will the NZD/USD end 2025?

Few investors think the exchange rate will remain around the levels prevailing at the time of the survey (0.56-0.57c), with views split on whether it will go up or down. This is interesting as most of the time investors when surveyed don't have a strong view and then to have a forecast of no change in the exchange rate. And of course, there is significant research suggesting a random walk forecast is no worse than any other. There's a slight bias towards expectations of depreciation when we group the categories that lie above and below the exchange rate level prevailing during the survey period.

Where will NZD/USD end 2025?



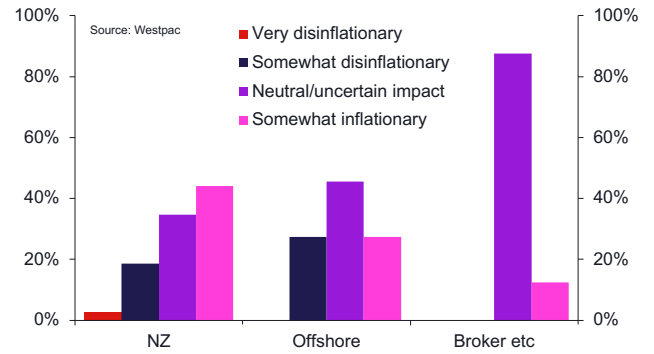
Where will NZD/USD end 2025?



What assessment will the RBNZ make of the tariff impact on New Zealand?

Investors think the RBNZ will see the prospect of global tariffs as neutral to somewhat inflationary. There's a sizable minority of especially offshore investors who think the RBNZ could see the more difficult trade environment as mildly disinflationary. It rather looks like investors don't think the RBNZ will draw strong conclusions at this point given the significant unknowns.

How will the RBNZ assess the impact of global tariffs on NZ?



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