

Economic Alert

MONETARY POLICY STATEMENT – FEBRUARY 2023

Wednesday, 22 February 2023

“The Monetary Policy Committee today increased the Official Cash Rate (OCR) from 4.25% to 4.75%.”

Because:

“Core inflation and inflation expectations remain too high, and the labour market remains very stretched.”

As the key drivers remain embedded:

“The global growth outlook is easing but the strong tourism recovery is contributing to domestic inflation.”

And we should be prepared for further rate hikes:

“The recovery from recent severe storms in the North Island is likely to add to near-term inflation, short-run production volatility, and medium-term activity.”

Which will come with further pain domestically:

“Higher interest rates are still needed to meet our inflation and employment objectives, to the same extent as in the November Statement.”

But there is a hope that we may be nearing the peak:

“There was stronger-than-expected domestic activity in 2022, there are some signs that demand is starting to ease as expected.”

Comment:

For once, the RBNZ Governor stuck to the script, but there may still be some fireworks in the Q&A.

Breaking it down, the RBNZ maintained that inflation remains too high, emphasising that increases of 50 and 75bps were considered.

Interestingly, the RBNZ’s projections still forecast a peak at 5.50% into Q2 2024 with the cash rate starting to fall from Q3 2024. Unfortunately, the RBNZ is continuing to forecast a recession from Q2 2023, although there is a more sustained recovery in 2024 than previously projected.

With the Government about to spend billions to support the recovery from the various weather related events, until we know the timing, size, and the nature of said funding, it places the RBNZ in a difficult position given its need to slow the economy down. And in relation to this, it should also be noted that while the *“current assessment is that over the coming weeks, prices for some goods are likely to spike and activity will be weaker”* the caveat that *“Monetary policy is set with a medium-term focus”* allowed the Committee to look through these short-term impacts.

Market Implications:

Ahead of the Q&A, market activity has been subdued. With the quote, *“early signs of price pressures easing,”* swap rates have sold-off across the curve, especially in the short-end, while the NZD firmed a touch, performing strongest against the AUD.

So, to conclude, this was a statement with something for everyone ... the bulls will be justified with their calls, while there was also some hope for the bears!



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