Economic Alert

MONETARY POLICY STATEMENT — AUGUST 2023

Wednesday, 16 August 2023

"The Monetary Policy Committee today agreed to leave the Official Cash Rate (OCR) at 5.50%."

Reiterating last meeting's theme:

"The Committee agreed that the OCR will need to remain at a restrictive level for the foreseeable future."

Because it wants to:

"... ensure annual consumer price inflation returns to the 1.00 to 3.00% target range, while supporting maximum sustainable employment."

The hikes to date are having the desired effect:

"Activity continues to slow in parts of the economy that are more sensitive to interest rates."

But:

"Measures of core inflation remain too high."

And:

"In the near term, there is a risk that activity and inflation measures do not slow as much as expected ."

Globally, the picture is deteriorating:

"Globally, economic growth remains below trend and headline inflation has eased for most of our trading partners... Over the medium term, a greater slowdown in global economic demand, particularly in China, could weigh more on commodity prices and overall New Zealand export revenue."

To conclude:

"The Committee is confident that with interest rates remaining at a restrictive level for some time, consumer price inflation will return to within its target range."

Comment:

The outcome was expected, no change to the OCR, however, in delivering so, the RBNZ perhaps surprised somewhat with a slightly hawkish slant to the projected OCR track.

Despite plenty of warning about slowing economic activity, both domestically and internationally, the RBNZ made it clear core inflation remains high and that is the focus of its decision making. Supply constraints continue to ease, it said, however inflation remains too high.

Given the economic picture, it is surprising to see a slightly higher projected OCR track, with the peak 9bp higher, suggesting the RBNZ gives itself a 36.0% chance it will hike again. The back end of the projection has pushed the first cut out by about 6 months, and the OCR around 40-50bp higher in 2026 than previously projected.

The statement again failed to mention the 'R' word... Recession.

Market Implications:

With the outcome largely as expected, the minor hawkishness in the OCR projection saw the NZD gain around 30 points across the board, but only back to where it started the day. Swap rates were higher at the short end, and largely unchanged at the tail, with the most action seen in the 1-year swap rate, which was up 5bp.

The statement was largely in line with July's wording and isn't likely to change in six weeks' time either. Markets are clearly focused elsewhere, with China affecting sentiment much more than the RBNZ was ever going to today. The question remains, when is the deteriorating economic reality going to force the RBNZ's hand?