Economic Alert

MONETARY POLICY REVIEW AND OCR — OCTOBER 2023

Wednesday, 04 October 2023

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

The summary:

"The Committee agreed that the OCR needs to stay at a restrictive level to ensure that annual consumer price inflation returns to the 1 to 3% target range and to support maximum sustainable employment."

The desired impact:

"Interest rates are constraining economic activity and reducing inflationary pressure as required."

Domestically:

"Demand growth in the economy continues to ease. While GDP growth in the June quarter was stronger than anticipated, the growth outlook remains subdued. With monetary conditions remaining restrictive, spending growth is expected to decline further."

But:

"There is a near-term risk that activity and inflation do not slow as much as needed."

Globally:

"Economic growth remains below trend and headline inflation has eased for most of our trading partners. Core inflation has also eased, but to a lesser extent. Weakening global demand is putting downward pressure on New Zealand export volumes and prices. Apart from oil, global import prices have eased."

To conclude:

"The Committee agreed that interest rates may need to remain at a restrictive level for a more sustained period of time, to ensure annual consumer price inflation returns to the 1 to 3% target range and to support maximum sustainable employment."

Comment:

It was another one that can be added to the 'as expected' column, with the bar quite high for another hike at the moment. If anything, the Committee's 'record of meeting' shows some hawkishness in suggesting that interest rates may need to stay higher for longer. However, "*Members agreed that the risks to the outlook remained similar to those discussed in the August MPS*" so it's hardly a surprise the statement is similar to August.

The statement also pointed to subdued growth globally, with "*momentum beginning to fade*", and a comment on Chinese demand for New Zealand's exports a welcome acknowledgement of the risks the domestic economy faces.

The strong June quarter GDP number is clearly being looked through by the RBNZ, with some other data points being mentioned showing weakness and easing capacity.

Without the press conference this month, there will be no fireworks and pointed questions from the press, so we will have to comb through the statement for more clues...

Market Implications:

Ahead of the announcement, the market had priced in a full hike by March with a 30% chance of a further hike beyond that, so the market was clearly looking for more from the RBNZ. The NZD/USD was quick to shed almost half a cent following the statement, falling back below 0.5900 for the first time since early September.

Swap rates were similarly looking for a little more hawkishness, coming off a few points at the short end following the release, with the long end also down a tick. Not really much to get excited about there, with domestic moves being dominated by offshore influences at present. The expectation for a hike early next year remains, however. All in all, a rather muted response from the market, suggesting it was all rather expected.