Economic Alert

MONETARY POLICY STATEMENT — APRIL 2024

Wednesday, 10 April 2024

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

As expected, don't expect OCR cuts anytime soon:

"The Committee is confident that maintaining the OCR at a restrictive level for a sustained period will return consumer price inflation to within the 1 to 3 percent target range this calendar year."

The good news is:

"The New Zealand economy continues to evolve as anticipated by the Monetary Policy Committee." Yes … that was as good as it got!

And the bad news:

"Economic growth in New Zealand remains weak."

And a warning:

"Globally, while there are differences across regions, economic growth remains below trend and is expected to remain subdued. However, most major central banks are cautious about easing monetary policy given the ongoing risk of persistent inflation."

To conclude:

"The members agreed they remain confident that monetary policy is restricting demand. A further decline in capacity pressure is expected, supporting an ongoing decline in inflation."

Comment:

For all of the hype and jostling before this meeting, the announcement and statement was a muted affair. There was nothing particularly new, or different in the wording with the acknowledgment that economic growth with our major trading partners was predominately below trend and that the major central banks remain cautious about easing monetary policy given the risks of inflation persistence and elevated inflation. Interestingly, the Committee also acknowledged that the monthly Selected Price Indices implied some upside risk to its March quarter Consumers Price Index projections while also acknowledging the increases to local government rates, insurance, and utility costs, could also further slow the decline in headline inflation.

Against all of these negative's, the projected positive that might support falling inflation was the ongoing restrictive monetary policy environment and weaker global growth which could lead to a more rapid decline in inflation, simply put … its death by a thousand cuts … its just that those cuts aren't interest rate ones!

Market Implications:

Well, there weren't any really. Yes, the NZD firmed against the USD and most pairs immediately after the release of the statement, but those gains were largely unwound 20-minutes later after swap pricing eased a smidge lower.

The reaction from financial market participants was like the statement itself … not lot of words, not a lot of noise, and little impact.