

# RBNZ OCR Call Change

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## Sooner or later

Now the dust has settled **from yesterday's OCR Review**, we are revising the timing of our cut call. We previously expected the RBNZ would cut the OCR 25bp in November, with two further cuts to follow in early 2020. However, the RBNZ turned explicitly dovish on the outlook somewhat earlier than we expected, noting **yesterday that "the more likely direction of our next OCR move is down."** As a result, we are now forecasting the RBNZ to cut the OCR 25bp in August with follow-up moves in November and February.

The essence of our call remains the same: the New Zealand economy is slowing – and capacity pressures are easing – before non-tradable inflation has sustainably reached where it needs to be. We have also highlighted emerging global risks and the possibility that they could change the picture abruptly. None of that has changed.

In recent MPS downside scenarios, the RBNZ has highlighted the risk that domestic growth proves insufficient to see inflation push higher (August and November) and that the global environment deteriorates (February). Clearly, the RBNZ now sees these concerns as even more pressing. In particular, a trifecta of factors is key to their new take on the situation: the marked slowing in GDP growth in the second half of last year; the deteriorating global growth outlook; and the currency implications of being out of step with global central banks.

So far, negative implications of the evident global slowing still belong in the **"risk" camp. Commodity prices are so far holding up reasonably well and** tourist growth is down but certainly not out. Ditto the NZD: it has held up, but in trade-weighted terms it has been gyrating in current ranges since mid-November – **it hasn't suddenly surged** in recent times. On the other hand, the recent slowing in New Zealand GDP growth is more concrete, having decelerated from 3.4% annual growth to 2.3% over the past year.

Greater downside risks leading to an acknowledgement of a greater chance of an OCR cut is one thing, but actually cutting the OCR is another. On balance, we expect it will take a little longer for the RBNZ to be sure that OCR cuts are the right path forward, for a few reasons:

- Dairy prices are still rising;
- GDP growth has been disappointing but is still borderline respectable;
- The labour market is tight;
- Upward cost pressures for firms are evident – including upcoming solid increases in the minimum wage;
- Historically, the RBNZ has tended to give more explicit guidance regarding a cut before delivering, though with a new Governor and now a new policy-making committee, history may not be a good guide to the future. The introduction of a committee may introduce some inertia into decision-making; **it's impossible to know. The new committee members announced today will certainly find themselves in the hot seat immediately.**

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Still, May versus August for the first cut is a line-ball call, given the **definitiveness of the RBNZ's** change of stance yesterday. So what might cause us to bring forward our cut call to the MPS on 8 May?

- **QSBO (2 April).** Demand-side indicators out of the QSBO are likely to ease, in line with our ANZ Business Outlook survey, but key here will be the reads on resource pressures. Our capacity suite suggests they will wane a little. Experienced activity is also very important as a steer on Q1 GDP – if it is negative, game on. Other near-term indicators will add colour to this view, though they would need to send a broad-based negative signal to be given significant weight.
- **CPI (17 April).** Non-tradable inflation reflects previous capacity stretch in the economy and so has limited information about the future – though if it surprises, then it can lead the RBNZ to change its thinking about how pass-through of cost pressures are evolving. We are forecasting the key non-tradable inflation measure to continue its slow grind towards 3%, but the RBNZ is forward looking and will focus more on its capacity suite. By our estimates, this is likely to be losing ground (see Monday's ANZ *Weekly Focus* for details).
- **Labour market data (1 May).** Our forecast for the labour market in Q1 is for solid employment growth and modest wage increases. But were we to see any decisive evidence that the labour market is moving away from full employment, this could provide justification for a cut.
- **Global central banks and the NZD.** The RBNZ has made it clear that relativities to global central banks are important, in that they have implications for the currency. If we were to see the Reserve Bank of Australia (2 April, 7 May) or the Federal Reserve (2 May NZT) move closer to cuts, expectations for an RBNZ cut in May will lift accordingly. For determining the path of global central banks from here, the global data flow will also bear watching closely, as will the latest reads on our commodity prices.

But for now, the RBNZ still has time on its side, and we are forecasting that the new committee members will have a chance to get their feet under their desks before being called into action.



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