

RBNZ OCR Preview

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Hold the door

- We expect the RBNZ will leave the OCR on hold at 1.00% next Wednesday, but leave the door open to further cuts.
- The Bank will most likely want to let the dust settle a little following August's surprise 50bp move, but with this pre-emptive Committee nothing is certain.
- We continue to forecast three more 25bp cuts (in November, February and May).

Key points

We expect the RBNZ will leave the OCR unchanged at 1.00% at its Official Cash Rate Review next Wednesday at 2pm. The RBNZ will reaffirm its willingness to cut further should the outlook warrant, but it will also want to assess how earlier stimulus is transmitting through the broader economy before moving again.

On net, developments since the August MPS are unlikely to have been significant enough to move the dial for the RBNZ yet. But with this proactive Committee, we wouldn't rule anything out.

There's plenty for the RBNZ to worry about, with downside risks having intensified in recent months. The Reserve Bank's August 50bp cut hasn't caused any discernible improvement in business or consumer confidence, or inflation expectations indicators. Since the August MPS:

- The **global outlook** has deteriorated further. The RBNZ's global growth outlook is due for a downgrade, with broad-based weakness in NZ's trading partners in Q2. And it doesn't look like things are likely to get any better in the remainder of the year.
- **Forward-looking activity indicators** suggest that the RBNZ's forecast growth acceleration over the next few quarters is not going to eventuate.
 - The ANZ Business Outlook is dismal, with several key indicators (own activity, investment and employment intentions) falling to post-GFC lows.
 - It's not clear the RBNZ's 50bp rate cut shock has put consumers in the mood to go and spend either.
- **Inflation expectations** in our survey, which have tracked the RBNZ's preferred measures well in recent years, have slipped further.
- The **expected fiscal stimulus** may not come through as fast as the RBNZ needs it to – the KiwiBuild reset and push back in some infrastructure spend may have the RBNZ questioning the degree of fiscal stimulus in their forecasts.

That said, there are a few reasons the RBNZ will nonetheless probably feel comfortable sitting this one out for now, preferring to watch and wait:

- The **NZD is tracking lower** than the RBNZ expected at the August MPS. However, the NZD is only lower because more rate cuts are expected, so the RBNZ should discount this a bit to avoid double-counting.
- The **solid Q2 labour market report** may indicate that capacity pressures are holding up a bit better than expected. But the focus will be kept on the

outlook – the deterioration in both surveyed employment intentions and job ads suggests that the labour market won't stay this tight for long.

Other factors have been tracking largely as the RBNZ expected since the August MPS. GDP growth in the second quarter was in line with expectations, with annual growth falling to its lowest level since 2013, and commodity prices have continued to hold up in recent weeks.

For now, a “watch, worry, and wait” stance seems the most likely outcome of the OCR Review. There’s time to observe how rate cuts are filtering through to activity and confidence, and there’s no smoking gun in the data to warrant an urgent move.

But looking ahead, we’re confident that an OCR of 1% will not be the low of this cycle. The weak global outlook, gloomy business activity picture, and changes to bank capital requirements are likely to add further headwinds that a lower OCR will need to try and offset. We continue to expect 25bp cuts in November, February, and May to take the OCR to 0.25% – around its useful limit.



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