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## More of the same

- Next Wednesday the RBNZ will leave the OCR at 1.75%.
- Reflecting little new information, the tone of the Review will be essentially unchanged from the February MPS, while acknowledging Q4 GDP growth undershot the RBNZ forecast.
- We continue to forecast an OCR cut by year-end. As the economy fails to accelerate out of its dip, the case for easier policy will become clearer.

## Key points

We expect the RBNZ will leave the OCR unchanged at 1.75% at its Official Cash Rate Review next Wednesday at 2pm. The RBNZ will reaffirm the next move "could be up or down". We're content to be **picking "down"**.

Since the February MPS, the main data has been that Q4 GDP surprised the RBNZ on the downside again, at 0.6% q/q versus RBNZ expectations of 0.8%. However, **the details were decent so the 'news' element is pretty limited**.

Looking forward, leading indicators such as activity metrics out of the ANZ Business Outlook survey and the Truckometer Light Traffic Index continue to point south, but the jury remains out on the degree to which this will feed through into **the traditional 'hard data'**. In the background, evidence for a global slowdown continues to accumulate slowly but our commodity prices remain resilient. Meanwhile, our ANZ Monthly Inflation Gauge remains pretty directionless, but we do expect some further uplift in non-tradable inflation in the short term on account of previous strength in the economy.

A **"wait and see" strategy** on the part of the RBNZ is entirely defensible in this context. There is no hard evidence the economy is struggling, and indeed some regions are outright booming. The full employment target is being met, and inflation continues to inch its way towards where it needs to be.

The local economy has slowed, and downside global growth risks are accumulating; the RBNZ will continue to acknowledge as much – as they did in February. However, there is a lot more data to flow under the bridge. Our call for an OCR cut in November is based on a steady accumulation of small disappointments, rather than a dramatic turn for the worse.

One can tell quite different plausible stories about where inflation is headed from here. Firms report sharply higher costs, and there is clearly pent-up inflationary pressure in the system. Our forecasts see resource pressures and associated cost strains dissipate before consumer inflation breaks out meaningfully. But economic forecasts are by their nature uncertain. A marked lift in inflation and inflation expectations would likely see us push back our rate cut call into next year, while clear signs of a weakening labour market, for example, could bring it forward.

To the extent that the RBNZ cares more about capacity stretch than GDP growth *per se*, the next QSBO supply-side read (2 April) and labour market data (1 May) will be particularly important for setting direction. In the meantime, the market is currently pricing around 50% odds of a 25bp cut by November, and 80% by March next year. We doubt the RBNZ will have much beef with that.



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