

RBNZ speech “The importance of quality research and data”

30 January 2024



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Contact

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No dovish pivot here

Bottom line

- RBNZ Chief Economist Paul Conway gave an on-the-record [speech](#) and Q&A session today.
- The main body of the speech was regarding how post-COVID changes to the global economy have made inflation targeting more challenging and the RBNZ's future research agenda.
- However, there were also comments about recent data. These reiterated that the inflation-fighting job remains far from done, though things are moving in the right direction. We continue to forecast cuts from August, but unlike market pricing, wouldn't put a 0% chance of a hike next month.

“We still have a way to go”

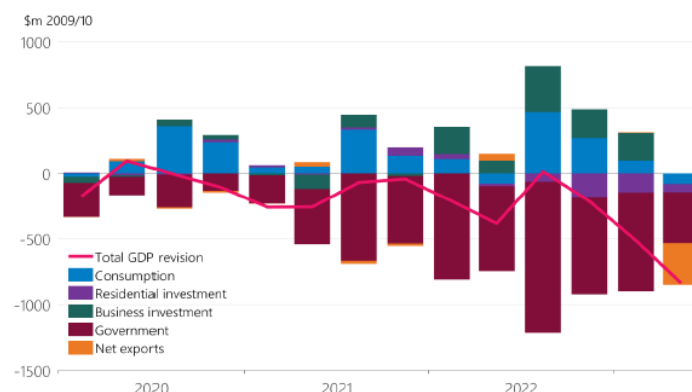
Today's speech by RBNZ Chief Economist Paul Conway entitled “The importance of quality research and data” outlined how changes to the global economy in the post-COVID era have provided new uncertainties and challenges for monetary policy.

For the market, the main interest in the speech was the inclusion of “brief comments on domestic data developments”. The main pieces of data since the November Monetary Policy Statement have been [GDP](#) (weak with downward revisions), the [NZIER QSBO](#) (a mixed bag) and the [CPI](#) (headline as expected but a 0.3%pt upside surprise on non-tradable inflation). Overall, the data commentary can be described as factual, played with a straight bat, carefully worded to keep all options open in terms of where the February MPS lands, but certainly *not* dovish.

Key points:

- **GDP:** downward revisions to historical GDP data don't necessarily imply weaker inflation pressure going forward, particularly taking into account the details. Conway noted that “*Private demand in the economy, which is more interest-rate sensitive, has mostly been revised up, with stronger consumption and business investment than first reported*” (Figure 1).

Figure 1. Contributions to revisions in expenditure GDP



Source: Stats NZ, RBNZ estimates

- Net **migration** has been revised up a lot since November – this is a mixed bag for inflation pressure, dampening labour market pressures but adding pressure on rents and construction costs.
- Measures of core **inflation** have fallen, but annual non-tradable inflation was higher than the RBNZ estimated.
- Overall: monetary policy is working, but we still have a way to go. Bring on the February MPS.

Indeed, as regards non-tradable inflation, Conway noted that the job might be even greater than it has been in the past: “globalisation may become less of a disinflationary force than it has been. This means we should not expect substantial declines in imported inflation to achieve our inflation target. Instead, home-grown, or domestic inflation, would need to be lower than it has been historically.”

We continue to forecast that solid progress in the inflation fight will allow the RBNZ to begin cutting the OCR in August, but the data will decide, with risks on both sides of the inflation outlook. We are not anticipating a hike next month, but unlike current market pricing, would not rule one out. The RBNZ gave fair warning in November that they would have very little tolerance for an upward surprise on sticky inflation, and at the end of the day, they got one. But in our view there is enough disinflation progress to keep the RBNZ in “wait and see” mode.

Global challenges

Turning to the main body of the speech, challenging global developments from a monetary policy perspective include:

- Supply chain and trade disruptions – and these aren’t over;
- Geopolitical risks and shortening global value chains;
- A sharp rise in public debt;
- A faster pace of digital transformation;
- An ongoing backdrop of structural challenges: demographics and climate change.

All that means the RBNZ’s research agenda needs to hone in on:

- The interaction of **fiscal** and monetary policy.
- How to respond to **supply-side shocks** – if they are going to be larger, more frequent and persistent, can/should monetary policy still look through them?
- **Neutral interest rates**: they have clearly risen. Changes in globalisation, government spending, climate change, demographics, and productivity developments will all have a say.
- **Additional policy tools**: what should central banks do if policy rates hit their effective lower bounds again?

Conway noted that the RBNZ will start talking more about its research agenda and the conclusions they are drawing from it, which we applaud.

Market reaction

This didn’t come across as a speech designed to have a big impact on market pricing, and it didn’t. While it was hawkish relative to market expectations (with a 50bp cut still priced in by August) it was overshadowed by a spike lower in US bond yields following the downgrade in the US Treasury’s Q1 funding estimate.

The speech did, however, clarify that the weaker GDP data is not a slam dunk for an imminent dovish 'pivot'. No domestic commentators have been suggesting it was, but some offshore commentators giving the NZ economy a quick once-over appear to have been inclined that way.

"I'm being very careful here; I'm not going to give away anything about the future path of the OCR." Fair enough, too – eyes now turn to the labour market data on 7 February in the run-up to the MPS on 28 February.



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