TO BOLDLY NOT GO

BOTTOM LINE

- The RBNZ maintained the OCR at 1.75%, as universally expected, and reaffirmed “we expect to keep the OCR at this expansionary level for a considerable period of time”. The first paragraph stated that “the direction of our next move is equally balanced, up or down.”

- The RBNZ’s rate forecasts were barely changed from the February Statement, implying hikes from around mid-to-late 2019 – far enough ahead that they can alter their strategy as conditions change.

KEY POINTS

- Today was the first Monetary Policy Statement with Adrian Orr as Governor, and the first under the new Policy Targets Agreement. The policy message remains the same.

- The RBNZ still believes that the “Official Cash Rate (OCR) will remain at 1.75 percent for some time to come”. Although the economy has experienced “an unprecedented increase in employment”, inflation remains below the midpoint of the RBNZ’s target band. Broad price and wage pressures remain elusive.

- The short-term outlook for inflation is higher, but the RBNZ remains cautious given the lack of definite inflationary pressure. Depreciation of the TWI, higher oil prices, the fuel tax, and changes in the minimum wage are all expected to provide a boost to inflation, at least in the short term. In a small tweak, the RBNZ is now forecasting that inflation will reach 2% in Q4 2020, rather than the February forecast of Q3 2020. But the RBNZ notes that underlying inflation pressures remain subdued, with wage inflation modest.

- The rate track implies possible hikes from around Q3 2019, with the cash rate lifting to 2¼% by late 2020. The RBNZ left itself maximum flexibility to respond to developments: “The direction of our next move is equally balanced, up or down. Only time and events will tell.”

- The RBNZ provided further colour on their interpretation of labour market developments, given the ongoing evolution towards a true dual mandate, including “maximum sustainable employment”. In February, the RBNZ published an estimate of the NAIRU for the first time we could recall. Today they provided further colour of their assessment of capacity pressures in the labour market. The RBNZ judges that the economy is close to maximum sustainable employment, based on a broad range of indicators.

- The outlook for GDP growth has been revised down slightly. GDP growth is being supported by net migration, fiscal stimulus, a robust global picture, and supportive financial conditions. Nonetheless, GDP is expected to grow above potential over the projections, with capacity pressures expected to tighten further. Potential output is estimated to be growing at 3% y/y, boosted by strong labour supply. The RBNZ is forecasting that the unemployment rate will reach 4.2% in 2021.
• **Discussion of the global economy remains upbeat, with risks seen as broadly balanced and global inflationary pressures gradually building.** The Bank acknowledged a slowing in momentum amongst New Zealand’s major trading partners since the February Statement and noted that “some early signs of downside risks” have been mounting (lower equity prices, increased market volatility, and higher bank funding costs). However, impacts for New Zealand have been immaterial to date. Normalisation of policy in overseas economies is expected to put downward pressure on the TWI, contributing to a pick-up in tradable inflation.

• As rationale for the current policy setting, **the RBNZ highlighted risks it believes would be associated with either a cut or a hike.** On the one hand, reducing the OCR would risk “creating unnecessary volatility in output, employment, and interest rates”. On the other hand, employment and inflation are expected to increase – but “responding to such expectations without more evidence that they are emerging could stifle the recovery”.

• While the RBNZ incorporates eventual hikes in their projections, this is based on assumptions that could well prove wrong. Accordingly, **the RBNZ’s risk scenarios discuss risks around financial conditions and price-setting behaviour.** A tightening in financial conditions would require further monetary stimulus. While the TWI would fall, this would be offset by higher mortgage rates and lower export prices. On the other hand, the RBNZ is assuming deflationary forces dissipate only gradually, and that the minimum wage has only a small impact on inflation. If price pressures increase more quickly, the OCR will need to be higher. But given recent wage developments, we view the assumption of only a slow rise in inflation as prudent.

• **Today’s Statement could be interpreted as more dovish than it might have been.** Developments since February have been positive for headline CPI inflation on the whole, with a lower exchange rate and higher oil prices. But the RBNZ is treating this largely as noise: it cares about non-tradable inflation. **The outlook for domestic inflation remains benign, with non-tradable inflation forecast to increase only very gradually.**

• **Our own views on the outlook for monetary policy are unchanged.** We expect the next move in the OCR to be a hike and have pencilled in August next year. **This outlook may be tested if we do not see a broadening in inflationary pressures, or if current global wobbles take a turn for the worse.** The RBNZ’s sanguine global growth forecasts look to us like a key source of downside risk.

• **Today’s Statement confirms the RBNZ remains firmly on hold.** Putting equal odds of the next move being a cut or a hike in the first paragraph sends a strong signal to the market that the Bank is very comfortable on the fence.

• **The market interpreted the Statement on the dovish side:** the 2-year swap has rallied 4bp to 2.24% and the NZD/USD dropped half a cent to sit under 0.6950.
The Official Cash Rate (OCR) will remain at 1.75 percent for some time to come. **The direction of our next move is equally balanced, up or down. Only time and events will tell.**

Economic growth and employment in New Zealand remain robust, near their sustainable levels. However, consumer price inflation remains below the 2 percent mid-point of our target due, in part, to recent low food and import price inflation, and subdued wage pressures.

The recent growth in demand has been delivered by an unprecedented increase in employment. The number of willing workers continues to rise, especially with more female and older workers choosing to participate. Likewise net immigration has added to the supply of labour, and the demand for goods, services, and accommodation.

Ahead, global economic growth is forecast to continue supporting demand for New Zealand’s products and services. Global inflation pressures are expected to rise but remain contained.

At home, ongoing spending and investment, by both households and government, is expected to support economic growth and employment demand. **Business investment should also increase due to emerging capacity constraints.**

The emerging capacity constraints are projected to see New Zealand’s consumer price inflation gradually rise to our 2 percent annual target.

To best ensure this outcome, we expect to keep the OCR at this expansionary level for a considerable period of time. This is the best contribution we can make, at this moment, to maximising sustainable employment and maintaining low and stable inflation.

Our economic projections, assumptions, and key risks and uncertainties, are elaborated on fully in our **Monetary Policy Statement.**

### RBNZ SIDE-BY-SIDE

<table>
<thead>
<tr>
<th>NEW: 10 MAY MPS</th>
<th>PREVIOUS: 22 MARCH OCR (RE-ORDERED)</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Official Cash Rate (OCR) will remain at 1.75 percent for some time to come. <strong>The direction of our next move is equally balanced, up or down. Only time and events will tell.</strong></td>
<td>The Reserve Bank today left the Official Cash Rate (OCR) unchanged at 1.75 percent.</td>
</tr>
<tr>
<td>Economic growth and employment in New Zealand remain robust, near their sustainable levels. However, consumer price inflation remains below the 2 percent mid-point of our target due, in part, to recent low food and import price inflation, and subdued wage pressures.</td>
<td></td>
</tr>
<tr>
<td>The recent growth in demand has been delivered by an unprecedented increase in employment. The number of willing workers continues to rise, especially with more female and older workers choosing to participate. Likewise net immigration has added to the supply of labour, and the demand for goods, services, and accommodation.</td>
<td></td>
</tr>
<tr>
<td>Ahead, global economic growth is forecast to continue supporting demand for New Zealand’s products and services. Global inflation pressures are expected to rise but remain contained.</td>
<td>The outlook for global growth continues to gradually improve. While global inflation remains subdued, there are some signs of emerging pressures. Commodity prices have continued to increase and agricultural prices are picking up. Equity markets have been strong, although volatility has increased. Monetary policy remains easy in the advanced economies but is gradually becoming less stimulatory.</td>
</tr>
<tr>
<td>At home, ongoing spending and investment, by both households and government, is expected to support economic growth and employment demand. <strong>Business investment should also increase due to emerging capacity constraints.</strong></td>
<td>House price inflation remains moderate with restrained credit growth and weak house sales.</td>
</tr>
<tr>
<td>The emerging capacity constraints are projected to see New Zealand’s consumer price inflation gradually rise to our 2 percent annual target.</td>
<td>CPI inflation is expected to weaken further in the near term due to softness in food and energy prices and adjustments to government charges. Tradables inflation is projected to remain subdued through the forecast period. Non-tradables inflation is moderate but is expected to increase in line with a rise in capacity pressure. <strong>Over the medium term, CPI inflation is forecast to trend upwards towards the midpoint of the target range.</strong> Longer-term inflation expectations are well anchored at 2 percent.</td>
</tr>
<tr>
<td>To best ensure this outcome, we expect to keep the OCR at this expansionary level for a considerable period of time. This is the best contribution we can make, at this moment, to maximising sustainable employment and maintaining low and stable inflation.</td>
<td>Our economic projections, assumptions, and key risks and uncertainties, are elaborated on fully in our <strong>Monetary Policy Statement.</strong></td>
</tr>
<tr>
<td>Monetary policy will remain accommodative for a considerable period. Numerous uncertainties remain and policy may need to adjust accordingly.</td>
<td></td>
</tr>
</tbody>
</table>
This document is intended for ANZ's institutional, professional or wholesale clients, and not for individuals or retail persons. It should not be forwarded, copied or distributed. The information in this document is general in nature, and does not constitute personal financial product advice or take into account your objectives, financial situation or needs. This document may be restricted by law in certain jurisdictions. Persons who receive this document must inform themselves about and observe all relevant restrictions.

Disclaimer for all jurisdictions: This document is prepared and distributed in your country/region by either: Australia and New Zealand Banking Group Limited (ABN11 005 357 522) (ANZ); or its relevant subsidiary or branch (each, an Affiliate), as appropriate or as set out below.

This document is distributed on the basis that it is only for the information of the specified recipient or permitted user of the relevant website (recipients).

This document is solely for informational purposes and nothing contained within is intended to be a recommendation, invitation, solicitation or offer by ANZ to sell, or buy, receive or provide any product or service, or to participate in a particular trading strategy. Distribution of this document to you is only as may be permissible by the laws of your jurisdiction, and is not directed to or intended for distribution or use by recipients resident or located in jurisdictions where its use or distribution would be contrary to those laws or regulations, or in jurisdictions where ANZ would be subject to additional licensing or registration requirements. Further, the products and services mentioned in this document may not be available in all countries.

ANZ in no way provides any financial, legal, taxation or investment advice to you in connection with any product or service discussed in this document. Before making any investment decision, recipients should seek independent financial, legal, tax and other relevant advice having regard to their particular circumstances.

Whilst care has been taken in the preparation of this document, ANZ does not make any representation as to the accuracy of the views expressed in this document. Further, ANZ does not accept any responsibility to inform you of any matter that subsequently comes to its notice, which may affect the accuracy of the information in this document.

Preparation of this document and the opinions expressed in it may involve material elements of subjective judgement and analysis. Unless specifically stated otherwise: they are current on the date of this document and are subject to change without notice; and, all price information is indicative only. Any opinions expressed in this document are subject to change at any time without notice.

ANZ does not guarantee the performance of any product mentioned in this document. All investments entail a risk and may result in both profits and losses. Past performance is not necessarily an indicator of future performance. The products and services described in this document may not be suitable for all investors, and transacting in these products or services may be considered risky.

ANZ expressly disclaims any responsibility and shall not be liable for any loss, damage, claim, liability, proceedings, cost or expense (Liability) arising directly or indirectly and whether in tort (including negligence), contract, equity or otherwise out of or in connection with this document to the extent permissible under relevant law. Please note, the contents of this document have not been reviewed by any regulatory body or authority in any jurisdiction.

ANZ and its Affiliates may have an interest in the subject matter of this document. They may receive fees from customers for dealing in the products or services described in this document, and their staff and introducers of business may share in such fees or remuneration that may be influenced by total sales, at all times received and/or apportioned in accordance with local regulatory requirements. Further, they or their customers may have or have had interests or long or short positions in the products or services described in this document, and may at any time make purchases and/or sales in them as principal or agent, as well as act (or have acted) as a market maker in such products. This document is published in accordance with ANZ’s policies on conflicts of interest and ANZ maintains appropriate information barriers to control the flow of information between businesses within it and its Affiliates.

Your ANZ point of contact can assist with any questions about this document including for further information on these disclosures of interest.

Country/region specific information: Unless stated otherwise, this document is distributed by Australia and New Zealand Banking Group Limited (ANZ).

Australia. ANZ holds an Australian Financial Services licence no. 234527. For a copy of ANZ’s Financial Services Guide please click here or request from your ANZ point of contact. If trading strategies or recommendations are included in this document, they are solely for the information of ‘wholesale clients’ (as defined in section 761G of the Corporations Act 2001 Cth).

Brazil, Brunei, India, Japan, Kuwait, Malaysia, Switzerland, Taiwan. This document is distributed in each of these jurisdictions by ANZ on a cross-border basis.

Cambodia. This document is distributed in Cambodia by ANZ Royal Bank (Cambodia) Limited (ANZ Royal Bank). The recipient acknowledges that although ANZ Royal Bank is a subsidiary of ANZ, it is a separate entity to ANZ and the obligations of ANZ Royal Bank do not constitute deposits or other liabilities of ANZ and ANZ is not required to meet the obligations of ANZ Royal Bank.

European Economic Area (EEA): United Kingdom. ANZ is authorised in the United Kingdom by the Prudential Regulation Authority (PRA) and is subject to regulation by the Financial Conduct Authority (FCA) and limited regulation by the PRA. Details about the extent of our regulation by the PRA are available from us on request. This document is distributed in the United Kingdom by Australia and New Zealand Banking Group Limited. ANZ solely for the information of persons who would come within the FCA definition of “eligible counterparty” or “professional client”. It is not intended for and must not be distributed to any person who would come within the FCA definition of “retail client”. Nothing here excludes or restricts any duty or liability to a customer which ANZ may have under the UK Financial Services and Markets Act 2000 or under the regulatory system as defined in the Rules of the Prudential Regulation Authority (PRA) and the FCA. ANZ is authorised in the United Kingdom by the PRA and is subject to regulation by the FCA and limited regulation by the PRA.

Fiji. For Fiji regulatory purposes, this document and any views and recommendations are not to be deemed as investment advice. Fiji investors must seek licensed professional advice should they wish to make any investment in relation to this document.

Hong Kong. This publication is issued or distributed in Hong Kong by the Hong Kong branch of ANZ, which is registered at the Hong Kong Monetary Authority to conduct Type 1 (dealing in securities), Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities. The contents of this publication have not been reviewed by any regulatory authority in Hong Kong.

India. If this document is received in India, only you (the specified recipient) may print it provided that before doing so, you specify on it your name and place of printing.
IMPORTANT NOTICE

Myanmar. This publication is intended to be general and part of ANZ’s customer service and marketing activities when implementing its functions as a licensed bank. This publication is not Securities Investment Advice (as that term is defined in the Myanmar Securities Transaction Law 2013).

New Zealand. This document is intended to be of a general nature, does not take into account your financial situation or goals, and is not a personalised adviser service under the Financial Advisers Act 2008 (FAA).

Oman. ANZ neither has a registered business presence nor a representative office in Oman and does not undertake banking business or provide financial services in Oman. Consequently ANZ is not regulated by either the Central Bank of Oman or Oman’s Capital Market Authority. The information contained in this document is for discussion purposes only and neither constitutes an offer of securities in Oman as contemplated by the Commercial Companies Law of Oman (Royal Decree 4/74) or the Capital Market Law of Oman (Royal Decree 88/98), nor an invitation or solicitation of any offer to buy non-Omani securities in Oman as contemplated by Article 139 of the Executive Regulations to the Capital Market Law (issued vide CMA Decision 1/2009). ANZ does not solicit business in Oman and the only circumstances in which ANZ sends information or material describing financial products or financial services to recipients in Oman, is where such information or material has been requested from ANZ and the recipient understands, acknowledges and agrees that this document has not been approved by the CBO, the CMA or any other regulatory body or authority in Oman. ANZ does not market, offer, sell or distribute any financial or investment products or services in Oman and no subscription to any securities, products or financial services may or will be consummated within Oman. Nothing contained in this document is intended to constitute Omani investment, legal, tax, accounting or other professional advice.

People’s Republic of China (PRC). This document may be distributed by either ANZ or Australia and New Zealand Bank (China) Company Limited (ANZ China). Recipients must comply with all applicable laws and regulations of PRC, including any prohibitions on speculative transactions and CNY/CNH arbitrage trading. If this document is distributed by ANZ or an Affiliate (other than ANZ China), the following statement and the text below is applicable: No action has been taken by ANZ or any affiliate which would permit a public offering of any products or services of such an entity or distribution or re-distribution of this document in the PRC. Accordingly, the products and services of such entities are not being offered or sold within the PRC by means of this document or any other document. This document may not be distributed, re-distributed or published in the PRC, except under circumstances that will result in compliance with any applicable laws, regulations and rules of jurisdictions outside of PRC. If and when this document relates to the products and/or services of ANZ China, the following statement and the text below is applicable: This document is distributed by ANZ China in the Mainland of the PRC.

Qatar. This document has not been, and will not be: • lodged or registered with, or reviewed or approved by, the Qatar Central Bank (QCB), the Qatar Financial Centre (QFC) Authority, QFC Regulatory Authority or any other authority in the State of Qatar (Qatar); or • authorised or licensed for distribution in Qatar; and the information contained in this document does not, and is not intended to, constitute a public offer or other invitation in respect of securities, products or services of any kind. The products or services described in this document have not been, and will not be: • registered with the QCB, QFC Authority, QFC Regulatory Authority or any other governmental authority in Qatar; or • authorised or licensed for offering, marketing, issue or sale, directly or indirectly, in Qatar. Accordingly, the financial products or services described in this document are not being, and will not be, offered, issued or sold in Qatar, and this document is not being, and will not be, distributed in Qatar. The offering, marketing, issue and sale of the financial products or services described in this document and distribution of this document is being made in, and is subject to the laws, regulations and rules of, jurisdictions outside of Qatar and the QFC. Recipients of this document must abide by this restriction and not distribute this document in breach of this restriction. This document is being sent/issued to a limited number of institutional and/or sophisticated investors (i) upon their request and confirmation that they understand the statements above; and (ii) on the condition that it will not be provided to any person other than the original recipient, and is not for general circulation and may not be reproduced or used for any other purpose.

Singapore. This document is distributed in Singapore by the Singapore branch of ANZ solely for the information of “accredited investors”, “expert investors” or (as the case may be) “institutional investors” (each term as defined in the Securities and Futures Act Cap. 289 of Singapore). ANZ is licensed in Singapore under the Banking Act Cap. 19 of Singapore and is exempted from holding a financial adviser’s licence under Section 23(1)(a) of the Financial Advisers Act Cap. 100 of Singapore.

United Arab Emirates (UAE). This document is distributed in the UAE or the Dubai International Financial Centre (DIFC) (as applicable) by ANZ. This document does not, and is not intended to constitute: (a) an offer of securities anywhere in the UAE; (b) the carrying on or engagement in banking, financial and/or investment consultation business in the UAE under the rules and regulations made by the Central Bank of the UAE, the Emirates Securities and Commodities Authority or the UAE Ministry of Economy; (c) an offer of securities within the meaning of the Dubai International Financial Centre Markets Law (DIFCML) No. 12 of 2004; and (d) a financial promotion, as defined under the DIFCML No. 1 of 200. ANZ DIFC Branch is regulated by the Dubai Financial Services Authority (DFSA) ANZ DIFC Branch is regulated by the Dubai Financial Services Authority (DFSA). The financial products or services described in this document are only available to persons who qualify as “Professional Clients” or “Market Counterparty” in accordance with the provisions of the DFSA rules. In addition, ANZ has a representative office (ANZ Representative Office) in Abu Dhabi regulated by the Central Bank of the UAE. The ANZ Representative Office is not permitted by the Central Bank of the UAE to provide any banking services to clients in the UAE.

United States. Except where this is a FX-related document, this document is distributed in the United States by ANZ Securities, Inc (ANZ SI) which is a member of the Financial Regulatory Authority (FINRA) (www.finra.org) and registered with the SEC. ANZSI’s address is 277 Park Avenue, 31st Floor, New York, NY 10172, USA (Tel: +1 212 801 9160 Fax: +1 212 801 9163). ANZSI accepts responsibility for its content. Information on any securities referred to in this document may be obtained from ANZSI upon request. This document or material is intended for institutional use only – not retail. If you are an institutional customer wishing to effect transactions in any securities referred to in this document you must contact ANZSI, not its affiliates. ANZSI is authorised as a broker-dealer only for institutional customers, not for US Persons (as “US person” is defined in Regulation S under the US Securities Act of 1933, as amended) who are individuals. If you have registered to use this website or have otherwise received this document and are a US Person who is an individual: to avoid loss, you should cease to use this website by unsubscribing or should notify the sender and you should not act on the contents of this document in any way. Non-U.S. analysts may not be associated persons of ANZSI and therefore may not be subject to FINRA Rule 2242 restrictions on communications with the subject company, public appearances and trading securities held by the analysts. Where this is an FX-related document, it is distributed in the United States by ANZ’s New York Branch, which is also located at 27 Park Avenue, 31st Floor, New York, NY 10172, USA (Tel: +1 212 801 9160 Fax: +1 212 801 9163).

Vietnam. This document is distributed in Vietnam by ANZ or ANZ Bank (Vietnam) Limited, a subsidiary of ANZ.

This document has been prepared by ANZ Bank New Zealand Limited, Level 26, 23-29 Albert Street, Auckland 1010, New Zealand, Ph 64 9 357 4094, e-mail nzecconomics@anz.com, http://www.anz.co.nz