STILL “UP OR DOWN”

- Today the RBNZ left the OCR at 1.75%, as universally expected, and reiterated that the next move in the OCR could be “up or down”.

- Today’s neutral statement toed the line of recent RBNZ communications, with their projections “little changed”.

- The RBNZ stands ready to act should economic activity disappoint. All eyes will be on the degree of economic momentum into the end of the year.

KEY POINTS

- The **RBNZ left the OCR at 1.75%, as universally expected.** They retained a consistent message, reiterating that the next move in the OCR could be “up or down” and that they expect to keep the OCR at “an expansionary level for a considerable period”.

- Overall, the **RBNZ noted that their projections were “little changed”** from the August Monetary Policy Statement, with the OCR expected to remain at its current level “through 2019 and into 2020”. Q2 GDP was stronger than they expected and there is accordingly a little less spare capacity in the economy than previously assumed, but forward-looking indicators have been a touch more negative and the outlook is far from assured.

- The **statement remained firmly in neutral territory.** The RBNZ continues to caution that the “outlook for the OCR assumes the pace of growth will pick up over the coming year” and that “while GDP growth in the June quarter was stronger than we had anticipated, downside risks to the growth outlook remain” – a hat tip to the downside activity scenario in the August MPS. Trade tensions were also noted as a risk to global growth, which is otherwise expected to support exports.

- The **words around the inflation outlook were slightly more cautious**: inflation is expected to “gradually” rise – this word is new (and the mention of upside risks to inflation was dropped to boot), but we don’t believe a strong signal was intended and would caution about reading too much into it. They reiterated that there are “welcome early signs of core inflation rising to the mid-point of the target”, but that they “will look through volatility as appropriate”.

- We see the OCR on hold for the foreseeable future. But with inflation still low and the activity outlook uncertain, **the RBNZ stands ready to act should the activity outlook disappoint.** Accordingly, all eyes will be on the economic data-flow into the end of the year. While strength in GDP growth in the June quarter is positive, we continue to view a cut in the OCR as more likely than a hike, on balance.

- **Today’s Review appears to have been successfully geared to generate little market reaction.**
RBNZ NEWS RELEASE KEY QUOTES (RE-ORDERED)

<table>
<thead>
<tr>
<th>27 SEPTEMBER OCR</th>
<th>9 AUGUST MPS</th>
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<tbody>
<tr>
<td>OCR decision and outlook</td>
<td>The Official Cash Rate (OCR) remains at 1.75 percent. We expect to keep the OCR at this level through 2019 and into 2020. The direction of our next OCR move could be up or down. We will keep the OCR at an expansionary level for a considerable period to contribute to maximising sustainable employment, and maintaining low and stable inflation.</td>
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<tr>
<td>Growth outlook</td>
<td>Our projection for the New Zealand economy, as detailed in the August Monetary Policy Statement, is little changed. While GDP growth in the June quarter was stronger than we had anticipated, downside risks to the growth outlook remain. Our outlook for the OCR assumes the pace of growth will pick up over the coming year, assisting inflation to return to the target mid-point. Domestically, ongoing spending and investment, by both households and government, is expected to support growth.</td>
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<tr>
<td>Inflation</td>
<td>There are welcome early signs of core inflation rising towards the mid-point of the target. Higher fuel prices are likely to boost inflation in the near term, but we will look through this volatility as appropriate. <strong>Consumer price inflation is expected to gradually rise to our 2 percent annual target</strong> as capacity pressures bite. <strong>...consumer price inflation remains below the 2 percent mid-point of our target, necessitating continued supportive monetary policy.</strong></td>
</tr>
<tr>
<td>Employment</td>
<td>Employment is around its sustainable level</td>
</tr>
<tr>
<td>Global</td>
<td>Robust global economic growth and a lower New Zealand dollar exchange rate is expected to support demand for our exports. Global inflationary pressure is expected to rise, but remain modest. Trade tensions remain in some major economies, increasing the risk that ongoing increases in trade barriers could undermine global growth.</td>
</tr>
<tr>
<td>Risks</td>
<td>[see comment in Growth Outlook: &quot;downside risks to the growth outlook remain.&quot;]</td>
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