TAKEN FOR GRANTED

- The RBNZ will again leave the OCR at 1.75%, and retain a cautiously upbeat stance at Grant Spencer’s last announcement as Acting Governor.
- Developments since the February Statement won’t change the RBNZ’s assessment much, with the RBNZ not expecting to tighten monetary policy until the second half of 2019 – a view that we share.
- OCR decisions have taken a bit of a back seat recently, with fiscal policy and potential changes to the PTA and Reserve Bank governance at the fore.

KEY POINTS

- At the March OCR announcement next Thursday, the RBNZ will leave the OCR at 1.75%, and retain a cautiously upbeat stance. In Grant Spencer’s last OCR announcement as Acting Governor, the RBNZ will retain a clear, consistent message.
- Developments since the February MPS have been, on balance, more positive. But this won’t change the RBNZ’s assessment a great deal.
  - The economy has weathered recent political uncertainty well, with business confidence off post-election lows and near-term activity looking sold. Overall, the economy is growing at about trend pace.
  - The housing market is stable. REINZ house price index was up 3.7% y/y (3m m.a.) in February – a healthy, steady pace. The Auckland market is cool and the rest of the country is playing catch up.
  - The terms of trade remain elevated, supporting national incomes. But at the same time, the NZD remains high, dampening activity and inflation. Headline inflation is set to remain low, but underlying inflation is expected to increase gradually from here.
- A broad spirit of cautiousness (particularly with regard to the inflation outlook) has underpinned the RBNZ’s assessments for some time. And we expect that to continue for some time yet. The RBNZ is not expecting to tighten monetary policy until the second half of 2019 and we agree with that assessment.
- With interest rates on hold this year, OCR decisions have taken a bit of a back seat – you might even say they are being taken for granted. Fiscal policy and potential changes to the PTA and Reserve Bank governance are instead at the fore.
  - Fiscal stimulus over the next couple of years will be large, particularly since it will put money in the pockets of people most likely to spend.
  - Changes to the Reserve Bank’s mandate are not expected to alter the conduct of monetary policy. But governance changes may have implications for how the Bank functions and forms its views.
- In that vein, there will be a keen interest in the next MPS – the first under the reigns of new Governor, Adrian Orr. We don’t expect any major changes in the RBNZ’s views, at least until he gets his feet well under his desk. But over time we will be looking to understand how the RBNZ operates under his watch. Will the RBNZ’s views and policy strategy be the same under a new leader? Orr will we see something different?
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