Economic Alert

MONETARY POLICY STATEMENT — AUGUST 2024

Wednesday, 14 August 2024

"The Committee agreed to ease the level of monetary policy restraint by reducing the OCR to 5.25%."

Because:

"New Zealand's annual consumer price inflation is returning to within the Monetary Policy Committee's 1.0% to 3.0% target band."

As everything is pointing in the same direction:

"Surveyed inflation expectations, firms' pricing behaviour, headline inflation, and a variety of core inflation measures are moving consistent with low and stable inflation."

It's not a surprise, because they forecast it:

"The Committee noted that the weakening in domestic economic activity observed in the July Monetary Policy Review has become more pronounced and broad-based."

Really?

"The Committee discussed possible reasons for the current economic weakness." Could it be something to do with high interest rates?

But let's not get too carried away:

"Members noted that monetary policy will need to remain restrictive for some time to ensure that domestic inflationary pressures continue to dissipate. The pace of further easing will thus be conditional on the Committee's confidence that pricing behaviour is continuing to adapt to a low inflation environment and that inflation expectations remain anchored."

Comment:

Where should we start?

The most interesting aspect is the updated inflation and OCR forecasts with the RBNZ's projections being marked considerably lower. For example, it has lowered the Q3 annual inflation projection by 1.0%, from 3.3% to 2.3%, while the year-end OCR forecast has been lowered from 5.7% to 4.9%! These are substantial revisions that get larger the further out you go. It also appears to have some ambitious GDP growth projections as the economy recovers, which begs the question, is there sufficient capacity for the economy to recover quickly, or will it take longer for the recovery to impact?

But despite these projections, the statement acknowledged that methodological changes by Statistics NZ is creating additional uncertainty around the composition of the data!

Market Implications:

So far, the impact has been muted, although as I type this, the post meeting Q&A session has not yet started.

The NZD has seen most of the movement with the NZD broadly falling -0.7%. This has seen the NZD/USD back towards yesterday's 0.6035 peak, NZD/AUD is back below 0.9100, while the biggest fall has occurred in NZD/JPY which has dropped -1.0%.

Swap rates are also lower, but it appears to be a case of the 'calm before the storm' with swap rates only 1 or 2 bps lower than their pre-meeting trading levels.