Economic Alert

MONETARY POLICY STATEMENT — NOVEMBER 2024

Wednesday, 27 November 2024

"The Monetary Policy Committee today agreed to reduce the Official Cash Rate by 50 basis points to 4.25%."

Because:

" Consumer price inflation is sustainably within the Monetary Policy Committee's 1.0% to 3.0% target range, and measures of core inflation are converging on the midpoint."

But as we all know:

"Economic activity in New Zealand remains subdued and output continues to be below its potential."

On a positive note:

"Economic growth is expected to recover during 2025, as lower interest rates encourage investment and other spending."

But:

"Employment growth is expected to remain weak until mid-2025 and, for some, financial stress will take time to ease."

And the global economic outlook isn't helping either:

"Global economic growth is expected to remain subdued in the near term. Geopolitical conditions and policy uncertainty could contribute to increased economic and inflation volatility over the medium term."

Finally . . .

"The Committee confirmed that future changes to the OCR would depend on its evolving assessment of the economy."

Comment:

As almost everyone expected, the RBNZ cut the cash rate by 50bps, lowering the OCR to 4.25% now that inflation is comfortably within the central bank's target range. The RBNZ has now delivered 125bps of cuts over the last three meetings as it seeks to rapidly remove monetary constraints to revive the fragile economy. There will also likely be further positive news in the new year, with the central bank forecasting further cuts in 2025 - with the average cash rate projected to fall to 3.83% by mid-2025.

On a side note, the RBNZ suggested the average rate on outstanding mortgages has now peaked at 6.4%, forecasting it will decline to 5.8% over the next 12-months although, unsurprisingly, the bank also warned there was a greater risk to inflation volatility given the heightening in geo-political tensions.

There is no doubt that the RBNZ has undertaken a massive u-turn since its hawkish May statement, but at least the central bank has moved at a rapid pace to reverse its prior errors. Looking further ahead, apart from a few speeches over the next few days, the members of the Committee will now retire to their baches and put their feet up for the next few months, with a 'cone-of-silence' expected to engulf the Reserve Bank Building at number 2 The Terrace, Wellington until their next meeting on the 19 February.

Market implications:

Broadly summing up the RBNZ's projections, it is noticeable that it has projected a stronger rebound in inflation in the second half of 2025, and while the OCR cutting cycle is now more aligned to the markets, it remains stickier in the longer term. The central bank is also expecting a resurgence of growth later in the year, with Q4 projected to grow 0.3%, and then 0.6% growth in each quarter for the next 2-years ... which seems in contrast to what has actually happened over the last three years!

These adjustments saw the NZD firm a further 0.5% against the USD as it looks to close in on the 0.5900 level, while swap rates have lifted 10bps-12bps, with markets clearly looking for a more dovish commentary and easing track.