Economic Alert

MONETARY POLICY STATEMENT — FEBRUARY 2025

Wednesday, 19 February 2025

"The Monetary Policy Committee today agreed to reduce the Official Cash Rate by 50 basis points to 3.75%."

Because:

"Annual consumer price inflation remains near the mid-point of the Monetary Policy Committee's 1.0% to 3.0% target band."

The good news is:

"Economic growth is expected to recover during 2025," and *"If economic conditions continue to evolve as projected, the Committee has scope to lower the OCR further through 2025."*

But the global outlook remains weak:

"Global economic growth is expected to remain subdued in the near term. Geopolitics, including uncertainty about trade barriers, is likely to weaken global growth. Global economic activity is also likely to remain fragile over the medium term given increasing geoeconomic fragmentation."

And a warning:

"Consumer price inflation in New Zealand is expected to be volatile in the near term, due to a lower exchange rate and higher petrol prices. The net effect of future changes in trade policy on inflation in New Zealand is currently unclear."

Finally ...

"If economic conditions continue to evolve as projected, the Committee has scope to lower the OCR further through 2025."

Comment:

So, there is a ying to the yang!

The good news is the RBNZ cut the cash rate by 50bps for a total of 175bps of cuts since the beginning of this cutting to bring the OCR to 3.75%. Furthermore, the MPS statement ended on a positive note, with the RBNZ affirming their capacity to further lower the OCR if economic conditions continue to evolve according the RBNZ's projections. The current forecast is projecting 2 further 25bps rate cuts in 2025, with a 50:50 chance of a 3rd given the central bank of forecasting a 3.1% OCR at calendar year-end, where it is expected will remain until 2028.

But despite the positive news, there was a warning with the statement, also providing a dovish tone with the central bank warning inflation remains volatile and that it sees it peaking at 2.7% this year, rather than its previous forecast of 2.5%, while the implications of a possible trade war also played a part in the central banks thinking given that, *"Overall, these trade policy shocks are likely to reduce growth in the New Zealand economy, but the effect on inflation in New Zealand is highly uncertain."*

Market Implications:

While the 50bps was anticipated, the statement was balanced offering hope of further rate cuts while warning imported inflation could become an issue. This saw the NZD soften slightly against the USD to be sitting at 0.5680 ahead of the Q&A, while the NZD/AUD has fallen to a 3-month low at 0.8950. Swap rates are also a touch lower having fallen 5-6bps across the curve on hopes of a 3.0% OCR by year end.