Economic Alert

MONETARY POLICY STATEMENT — APRIL 2025

Wednesday, 09 April 2025

"The Monetary Policy Committee today agreed to reduce the Official Cash Rate by 25 basis points to 3.50%."

Because:

"Firms' inflation expectations and core inflation are consistent with inflation remaining at target over the medium term."

The good news is:

"Higher-than-expected export prices and a lower exchange rate have supported primary sector incomes and overall economic growth," but *"While monetary restraint has been removed at pace, household spending and residential investment have remained weak."*

But the global outlook remains weak:

"The recently announced increases in global trade barriers weaken the outlook for global economic activity. On balance, these developments create downside risks to the outlook for economic activity and inflation in New Zealand."

And a warning:

"The Committee noted that the impact of increased tariffs on global inflation is unclear at this point, particularly given the recency of the announcement and the possibility of further changes in global trade policy settings."

Finally ...

"As the extent and effect of tariff policies become clearer, the Committee has scope to lower the OCR further as appropriate." which is great news, although, *"Future policy decisions will be determined by the outlook for inflationary pressure over the medium term."*

Comment:

It was always going to be a difficult 'debut' for the new RBNZ Governor, Christian Hawkesby, given that this was the first central bank meeting since the start of the tariff war. But then again, if you are only in the job for a limited time, the last thing you want to be doing is making waves ... which is how the newly crowned Governor played it.

The statement was predictable, but with an optimistic tone highlighting that inflation is close to the mid-point of the target range, that there is significant spare capacity in the economy, and that the preceding cuts to the OCR have yet to have their full effect on the economy.

To counter that, the statement referenced that the outlook has weakened given the tariff war and that the global response would be an important consideration in gauging the impact on medium-term inflation in New Zealand. Unsurprisingly, there was no reference at all to the February statement's forecast of an inflationary spike in Q3.

Market Implications:

Immediately ahead of the meeting, the NZD/USD had fallen to its low within this cycle, at 0.5486, on Chinese CNY concerns, but as the pair started to recover, the spot rate surged past the 0.5550 level on the announcement, while NZD/AUD fell back towards the 0.9250 level.

Swaps rates were unchanged in the hour before and in the immediate aftermath of the announcement, which is not surprising given it's the international impacts that are influencing local swap rates, rather than domestic drivers.