

Preview: RBNZ Monetary Policy Review

3 April 2024



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Nothing (much) to see here

Summary

- We expect the RBNZ to keep the OCR unchanged at 5.5% at next Wednesday's Monetary Policy Review (MPR).
- There has been nothing to move the dial on the data front in recent weeks, so we are expecting a reiteration of the key messages from the February MPS.

No game changers

We expect the RBNZ to keep the OCR on hold next Wednesday. Let's take a look at developments since the Monetary Policy statement of 28 February.

Q4 [GDP data](#) was very close to the RBNZ's expectation at -0.1% (RBNZ: 0.0%). There was a decent upside surprise to the expenditure measure of consumption (+0.5% versus the RBNZ's expectation of -0.5% q/q) and we can't rule out the RBNZ might put some weight on this, but there was demand weakness written all over the data elsewhere, so we think this is unlikely.

High-frequency activity data has been a mixed bag:

- Confirmation of recession appears to have dampened both [business](#) and [consumer](#) confidence in March, though the data from earlier in the month preceding the release was still down versus February.
- The PSI and PMI have lifted.
- Card spending was higher in January but fell back again in February.
- Net migration is looking topy but past outcomes are tending to be revised higher.
- Building consents have stayed weak, as the RBNZ expected.

Inflation pressures remain too strong but are gradually easing:

- The two months of [Selected Price Indexes](#) suggest at this stage that the RBNZ is likely to get an upward surprise on both tradable and non-tradable inflation in Q1, but these are generally some of the more volatile parts of inflation that are not the RBNZ's medium-term focus (rents being the notable exception, which are slow moving) and we expect core inflation measures will take another meaningful step down in Q1, offsetting the noise.
- Import prices were stronger than expected in Q4, but export prices were softer than we expected too.
- The proportion of ANZBO respondents expecting higher costs and intending to raise prices remains stubbornly high, but the *amount* by which they are expected to go up continues to fall.
- Inflation expectations continue to drop, while still suggesting a meaningfully slower return to target than the RBNZ is forecasting.

The two big players on the tradable inflation front have moved in an inflationary direction:

- Dubai oil prices have risen more than 8% since the February MPS forecasts were finalised on 22 February. At USD88.8/bbl, they are 10% higher than the RBNZ assumption of an average of USD80.8/bbl for Q2.
- Over the same time period, the NZD trade-weighted index has fallen 3.3%, and is currently sitting at 70.4, 1.5% below the RBNZ MPS flat-line assumption of 71.5. If oil and currency moves were to be sustained across the quarter, all else equal that would be worth roughly an extra 0.4%pts on the RBNZ's Q2 CPI forecast.

The RBNZ will be aware of the risks but will have a strong preference to look through inflation bumps caused by these factors. Their ability to do so will depend on the extent to which it bleeds into inflation expectations and domestic inflation. Their base assumptions will very likely be that a) oil prices won't increase much more, b) the currency will flat line, and c) given weak demand, firms will find it difficult to fully pass cost increases into prices, limiting second-round impacts.

The housing market remains in [stasis](#). It's certainly a must-watch, given the topping out in mortgage rates (with 2yr fixed rates now around 0.2%pts off their late 2023 highs), population growth, and investor-friendly tax and other policy changes recently enacted. But for now, it's a snail race, and our (and the RBNZ's) forecast is for that to remain the case all year.

Dairy prices have fallen 2.9% in GlobalDairyTrade auctions since the MPS, with a 2.8% bounce this morning offsetting a similar-sized fall at the previous auction. We don't know what the RBNZ assumed here, but exporter incomes matter for activity in their model.

The monthly employment indicator printed on the firmer side of expectations in January and February, and currently suggests employment growth of 0.5% q/q in Q1 vs the RBNZ's February forecast of 0.1% q/q. But labour supply growth has been firmer too, with the working age population increasing 0.7% q/q in Q1, 0.2%pts above the RBNZ's assumption, offsetting some of the strength in employment. Relatively more resilient employment growth in the near-term is unlikely to alter the RBNZ's labour market outlook, given it remains on a loosening trajectory.

Between now and the MPR next Wednesday the most important data the Monetary Policy Committee will receive is the Quarterly Survey of Business Opinion (QSBO). Demand-side measures are likely to weaken, based on developments seen in the ANZBO. The RBNZ will be expecting to see capacity indicators ease further, but given widespread evidence of weak demand in the economy, any upward surprises would likely be seen as just a question of timing and put on a watch list.

Overall, while there are some unders and overs as always, we don't see net grounds for the RBNZ to change its thinking materially from February.

What we're looking for in the Summary Record of Meeting

This on-hold OCR decision is being taken as a given, but there are a couple of interesting things to look out for in the Record of Meeting:

1. Any discussion on near-term inflation risks (monthly price indexes, the NZD, oil prices).
2. Any take on whether they think the upward surprise in consumption in Q4 was notable (we don't think it was).

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3. And of course, any change to the language around the outlook for monetary policy, but we are expecting something extremely similar if not identical to the February line that “interest rates need to remain at a restrictive level for a sustained period of time”.

Markets

Markets aren't expecting anything radical, and with no projections due (they only accompany Monetary Policy Statements), the focus will instead be on the RBNZ's words/tone, which we don't expect to change markedly. All of that suggests it's likely to come and go without any fanfare. That said, we will be watching out for any comments on the exchange rate given recent weakness, especially in the face of higher oil prices and the rebound in NZ's commodity prices.



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