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ECONOMIC ALERT

OCR REVIEW — MARCH 2019

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"The Official Cash Rate (OCR) remains at 1.75 percent."

And ...

"The more likely direction of our next OCR move is down."

Why ...

"Core consumer price inflation remains below our 2 percent target mid-point, necessitating continued supportive monetary policy."

And ...

"The global economic outlook has continued to weaken, in particular amongst some of our key trading partners including Australia, Europe, and China."

Looking ahead ...

"As capacity pressures build, consumer price inflation is expected to rise to around the mid-point of our target range at 2 percent."

But ...

"The balance of risks to this outlook has shifted to the downside."

And ...

"The risk of a more pronounced global downturn has increased and low business sentiment continues to weigh on domestic spending."

In conclusion ...

"We will keep the OCR at an expansionary level for a considerable period."

Market Implications

The Reserve Bank of New Zealand ("RBNZ") Governor, Adrian Orr, shifted his monetary policy bias from neutral to downward with language used recently by a growing number of developed nation central banks. He is as worried as the other central banks about the global economic outlook and inflation but added a local concern — *"upward pressure on the New Zealand dollar."*

The RBNZ's shift and explicitly negative language took local markets by surprise, including those predicting OCR cuts, resulting in dramatic falls by the NZD and local swap rates. Further falls seem likely as long as the domestic and global markets maintain their collective economic, monetary policy and geopolitical nervousness.

Comment

This is the last OCR decision for which the RBNZ Governor is solely responsible. The newly created Reserve Bank Monetary Policy Committee ("MPC") takes effect from 1 April and makes its first OCR decision on 8 May with the Monetary Policy Statement. Adrian Orr has defined the agenda for the MPC's first meeting and MPS.

The RBNZ repeated that *"employment is near its maximum sustainable level"* but core inflation, the other half of its dual mandate, *"remains below our 2 percent target mid-point, necessitating continued supportive monetary policy."*

Clearly, Adrian Orr is not alone in being frustrated by low wage and price inflation but he is arriving late to that party.

Today's RBNZ statement makes the immediate direction for the New Zealand dollar and local swap rates even more dependent on offshore developments and central bank actions even though the New Zealand economy is performing better than most from economic and fiscal perspectives.