Economic Alert

MONETARY POLICY REVIEW — JULY 2023

Wednesday, 12 July 2023

"The Monetary Policy Committee today agreed to leave the Official Cash Rate (OCR) at 5.50%."

And that means:

"The Committee agreed that the OCR will need to remain at a restrictive level for the foreseeable future."

Because:

"The level of interest rates are constraining spending and inflation pressure as anticipated and required."

525bps of rate hikes is starting to impact:

"Consumer spending growth has eased, and residential construction activity has declined, while house prices have returned to more sustainable levels. More generally, businesses are reporting slower demand for their goods and services, and weak investment intentions."

And more broadly:

"Global economic growth remains weak and inflation pressures are easing. Global inflation rates continue to decline, assisted by the normalisation of international supply chains, and the decline in shipping costs and energy prices. The weaker global growth has led to lower export prices for New Zealand's goods."

To conclude:

"The Committee is confident that with interest rates remaining at a restrictive level for some time, consumer price inflation will return to within its target range of 1 to 3% per annum, while supporting maximum sustainable employment."

Comment:

As expected by the economists and the financial markets, the RBNZ undertook its first 'pause' since August 2021. But while this could conceivably be seen as the first piece of 'positive news' from the central bank in a long time, the statement was quick to highlight that inflation remains too high while spending needs to remain subdued in order for inflation to return to its target range.

Inflation is still projected to return into its target range in the second half of 2024, while the risks around the central bank's inflation projections were broadly balanced. Employment remains above its maximum sustainable level; however recent indicators suggest that the tight conditions in the labour market are starting to ease.

Interestingly, the statement noted that while mortgage rates have increased further over the last few months, the lag effect of the prior monetary policy adjustments are continuing to be passed through to households as more households move off lower fixed rates. According to the RBNZ, the average mortgage rate has increased from about 3.0% in early 2022 to around 5.0% currently.

The statement alluded to a slowing economy but, perhaps tellingly, failed to mention the 'R' word... Recession.

Market Implications:

The 'steady as she goes' approach from the RBNZ, with little of note in the statement, initially saw the NZD reach intra-day lows, but once traders had fully analysed the statement, most of the NZD-related pairs bounced back to their pre-announcement levels.

One mild positive was that interest rate swap pricing managed to consolidate and hold on to the initial bout of selling pressure, but this merely saw pricing move down a further couple of basis points from its pre-announcement levels.

To summarise, the July MPR announcement and statement release was a subdued event.