

# Preview: RBNZ Monetary Policy Review

3 July 2024



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## Holding pattern

- **We expect the RBNZ to leave the OCR at 5.5% next week**, reiterating that they remain in watch-worry-wait mode.
- The 'soft' (survey) data since the May Monetary Policy Statement clearly tilts dovish. That is likely to be acknowledged in the Review, but we doubt it's sufficient to bring about a meaningful change in policy rhetoric from the RBNZ.
- We continue to forecast the first OCR cut to come in February, with risks tilting towards earlier. But with the RBNZ's May MPS thinking so far removed from that (forecasting the first cut only in August 2025), it seems likely we'd need to see meaningful downward surprises versus RBNZ expectations across a decent share of the Q2/Q3 non-tradable CPI, labour market data and GDP prints for a November cut to come into play. That's not far-fetched, but it's far from a fait accompli.

## What's new?

Since the May Monetary Policy Statement (MPS), the data have tilted softer, but it's primarily been the 'soft' data (surveys and anecdotes), which faces a high bar to bring about a change in rhetoric from the RBNZ. And at a Review, rhetoric is all there is – there will not be a forecast update.

A quick recap of developments since the May MPS:

- **The Budget** showed a mix of tax and spending cuts. In our view the net result isn't a game-changer for inflation pressures, but any comments that reveal how the RBNZ is viewing it would be of interest.
- **GDP: Q1 growth** at the headline level was bang on RBNZ expectations. We read the details as soft, but the RBNZ may put some weight on the upward surprise on personal consumption in the expenditure measure. Stats NZ warned against doing that, however, given seasonal adjustment challenges caused by the ongoing tourism recovery, so for our part we're discounting it. In any case, the RBNZ is likely to downgrade their Q2 GDP forecast based on the details in the report.
- **ANZBO inflation indicators:** A meaningful **fall** in inflation indicators across the survey in June should provide reassurance to the RBNZ that domestic disinflation is in train.
- **QSBO:** It was pretty much a **clean sweep** across the inflation indicators in the Q2 NZIER QSBO survey too, with direct (eg pricing intentions) and indirect (capacity indicators and past activity) measures softening, corroborating the messages out of our ANZBO survey.
- **Trade-weighted index:** The TWI has been a little higher than RBNZ expectations, and is currently sitting around 1.3% higher than their flat-line assumption of 71.0.
- The SNA **terms of trade** showed weaker import prices in Q1, not driven by oil. On the other hand, oil prices have been a little higher than assumed. Shipping costs are also lifting as Red Sea disruption cumulates in stranded containers and other bottlenecks.

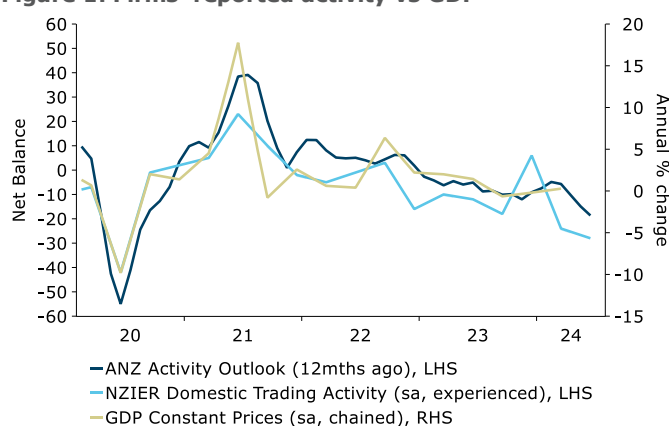
## No need to jump to conclusions

Tactically there is no need for the RBNZ to take a strong stand at this Review. The market has slightly amped up its easing expectations in response to the above dataflow, but not inappropriately, in our view. The RBNZ won't want to greenlight the market running away with the idea of imminent cuts, given the relative paucity of the data flow since May (and in particular, no new non-tradable CPI data). But we wouldn't be surprised to see an acknowledgement of the softer tone of the recent data.

In the big picture, it's going to take domestic disinflation runs on the board to see the RBNZ acknowledge that cuts are likely to come far earlier than their May MPS estimate of August next year. In that context, the CPI release on 17 July is a bigger day in the financial market calendar than next Wednesday's OCR Review. Two months of Selected Price Indexes suggest downside risk to the RBNZ's forecast of 1.1% y/y tradable inflation, but surprises relative to its expectation of 5.3% y/y *non-tradable* inflation would matter far more. We currently see the risks around that as balanced (our own forecast is the same). But the details will matter too. Given what lies ahead (chunky increases in council rates, utilities etc), market services components are going to be what matter most in terms of the RBNZ being confident that transmission from weak demand to lower inflation is occurring.

Beyond the question of near-term inflation, the soft data is suggesting downside risks to the medium-term non-tradable inflation outlook, and therefore tilts the risks towards the first OCR cut coming in November rather than in February next year. But it's worth remembering that that would require a huge change in view from the RBNZ's current expectation. As well as CPI data (the week after next week's Monetary Policy Review), the Q2 labour market release will be important (7 August). After the 14 August MPS, Q2 GDP data on 19 September will also be key, with both the ANZBO and QSBO experienced activity questions suggesting significant downside risk to Q2 growth (figure 1).

**Figure 1: Firms' reported activity vs GDP**



Source: NZIER, Stats NZ, Macrobond, ANZ Research

Putting it all together, the data since the May MPS certainly suggests economic conditions are consistent with ongoing disinflation, and perhaps a faster pace of disinflation than we're all expecting. However, with sticky inflation risks front of mind, and the nagging fact that inflation has been outside the target band for three years now, the Committee is unlikely to feel comfortable providing a clear nod to earlier OCR cuts than signalled in May. After all, there's still some very important data to come ahead of their next full forecast update (August MPS), and they probably won't want to pre-empt that too much, particularly given recent sticky CPI inflation surprises.



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