

Economic Note

What would prompt a RBNZ rate cut?

3 October 2018

Timetable of key events that the RBNZ will be considering

- The RBNZ has pledged to leave the OCR on hold until 2020, but left the door open to an OCR cut.
- Given the deterioration in the NZ growth outlook an OCR cut is certainly possible, but this hinges on weak sentiment persisting and translating into increasing spare capacity within the economy.
- Given data publication lags and RBNZ policy announcement dates, it may not be until 2019 that the OCR is lowered. At this stage, meetings from the February 2019 MPS look to be ‘live’.

We remain wary of how quickly the NZ growth outlook could deteriorate if firms and households cut back on investment, spending and employment decisions given the weakness evident in recent sentiment measures. It’s very much a case of watch, worry and wait – to use a well-worn cliché. **At present 6-7bps of OCR cuts are currently priced in by mid-2019, which looks a fraction light given our view of the risk profile.**

The following tables summarise our estimates of some of the key RBNZ judgements (Table 1), as well as our assessment as to whether developments are signalling the potential for an OCR cut (Table 2). Table 3 contains a timetable which shows which domestic data will be available to the RBNZ at the time of each OCR decision.

We believe that, despite the recent stronger starting point for NZ economic activity, the RBNZ has become more wary of growing downside risks to the domestic outlook. As such, the RBNZ is likely to adjudge that pressures on medium-term inflation have weakened. To us, the persistent weakness in business sentiment measures is becoming increasingly concerning. **If this dampens economic growth and results in greater economic and labour market slack, it will become more of an issue of *when* rather than *if* the OCR touches new record lows.**

Table 1: Our view of the risks to OCR from the RBNZ’s key judgements

RBNZ key judgements and risks	RBNZ Risk assessment (September OCR)	RBNZ Risk assessment (August MPS)
Robust global growth continues	Downside given escalating trade tensions	Downside
Global inflation increases gradually	Modest rise expected.	Some upside
NZ grows above trend	Stronger Q2 starting point offset by downside risks to growth outlook	Some downside
NZ capacity pressures build	Downside given weaker growth outlook	Some downside
Inflation takes its time to return to target	Near-term upside from fuel prices. Weaker outlook for medium-term inflation.	Upside via capacity pressures

Source: ASB estimates. Red denotes more downside risk to OCR outlook, green an upgrade to the OCR outlook since the August 2018 MPS.

The second table shows our estimates of RBNZ judgements and events that would be needed to trigger an OCR cut. According to our judgment, not all of these conditions currently appear to have been met. If, however, weak business confidence persists and flows through into economic activity, annual GDP growth could fall below 2½% by the end of the year and remain at a low pace over 2019. All else equal this could translate into more goods market and labour market capacity within the economy and may dampen medium-term inflation. The weaker growth [scenario](#) in the August MPS, in which the OCR was cut by a cumulative 100bps from late 2019, had annual GDP growth remaining below 3% over 2019.

Table 2: Balance of Risk to OCR from Individual Judgements: Forthcoming data

RBNZ key judgements and risks	RBNZ Risk assessment (September)	Events to trigger cut	Condition met?	NZ Data and events to monitor
Robust global growth continues	Downside	Significant deterioration in trading partner outlook. Overseas central banks cut rates/ US Fed on hold or cuts rates.	NO	Financial market developments – NZD, NZ/global interest rates, equities. Trading partner activity data and leading indicators – PMIs. Actions of overseas central banks – RBA, BoC, FOMC.
Global inflation increases gradually	Upside	Sharp fall NZ commodity export prices - weaker NZ Terms of Trade. High oil prices.	NO	Oil prices GDT dairy auctions NZ commodity export prices Global commodity prices
NZ grows above trend	Downside	Downside to 2018H2 growth outlook (RBNZ August MPS forecast +1.5% for H2).	NOT YET Sentiment data signal weak H2 2018 growth	Q2 GDP +1.0% qoq (RBNZ +0.5% qoq exp) NZIER QSBO (2 Oct, 15 Jan). ANZ Business Outlook (31-Oct, 29-Nov, 18-Dec). Q3 GDP partials – Nov/Dec. Q3 GDP – 20 th Dec REINZ housing data - Significant downturn.
NZ capacity pressures build	Some downside	Weaker GDP outlook. Q3 Unemployment rate climbs above the 4.5% expected.	NOT YET Sentiment data is mixed	Q3, Q4, Q1 Labour market reports – Nov 7, Feb 7, early May Q3 GDP – Dec 20, Q4 GDP – Mar 21 NZIER QSBO (2 Oct, 15 Jan).
Inflation takes its time to return to target	Near-term upside, but medium-term downside.	Q3 core inflation weakens relative to 1.7% Q2 print. LCI Wage growth sub 1.9% expected.	NOT YET	Q3 CPI – 16 Oct. Q4 CPI – 23 Jan, 19Q1 CPI – 17 Apr RBNZ Survey of Expectations – 7 Nov, 13 Feb, early May Q3, Q4, Q1 Labour market reports – Nov 7, Feb 7, early May.
Monetary conditions fail to adjust to weaker outlook		TWI above 73 August MPS assumption. Wholesale interest rates/mortgage interest rates unchanged/higher.	NO NZD and wholesale interest rates lower.	Financial market developments. NZD, NZ interest rates. Retail deposit/mortgage rates, Bank Bill-OIS spreads.

Source: ASB estimates. Red denotes a downgrade to the RBNZ’s assessed risk, green an upgrade to the risk.

Glossary: RBA = Reserve Bank of Australia; BoC = Bank of Canada; FOMC = US Federal [Reserve] Open Market Committee; PMI = Purchasing Managers’ Index; QSBO = Quarterly Survey of Business Opinion.

The final table shows the OCR decision dates and the list of the latest data available to the RBNZ at that time. By the November 2018 MPS, for example, the RBNZ would have Q3 CPI, Q3 QSBO, Q3 labour market data and the Q4 Survey of Expectations, but not Q3 GDP (which could prove to be a pivotal number, particularly as it will include the annual benchmarking revisions). By the February MPS, the RBNZ would have access to the Q4 QSBO, the Q1 RBNZ Survey of Expectations, Q4 CPI and Q3 GDP. By the March 2019 OCR Review, the RBNZ would also have 2018Q4 GDP.

Table 3: NZ data and events calendar

	New NZ data published prior to OCR decision	RBA/FOMC timetable
2018		
MPS – 8 th Nov	Q3 QSBO – 2 nd Oct, Q3 2018 CPI – 16 th Oct, Q3 2018 Lab mkt – 7 th Nov, ANZBO – 31 Oct Q4 RBNZ Survey of Expectations – 7 th Nov	RBA – 6 Nov, FOMC – 9 Nov US mid-term elections – Nov 7
2019		
MPS – 13 th Feb	Financial Stability Report – 28 th Nov, Treasury 2018 HYEUFU, ANZBO – 18 Dec, Q3 2018 GDP – 20 th Dec, Q4 QSBO – 15 th Jan, Q4 2018 CPI – 23 rd Jan, Q4 lab mkt – 7 th Feb, Q1 RBNZ Survey – 13 th Feb	RBA – early Feb FOMC – Dec 20, Jan 31
OCR – 27 th Mar	Q4 2018 GDP – 21 st Mar, ANZBO – Feb, ANZBO - Mar	RBA – early Mar FOMC – Mar 21,
MPS – 8 th May	Q1 2019 CPI, Q1 2019 lab mkt, ANZBO – end Apr Q1 QSBO – early Apr, Q2 RBNZ Survey – early May	RBA – early May FOMC – May 2
OCR – 26 th June	Q1 2019 GDP, FSR – 29 th May, Budget 2019, ANZBO – end June	RBA – early Jun FOMC – June 20
MPS – 7 th Aug	Q2 2019 CPI, Q2 2019 lab mkt, ANZBO – end Jul, Q2 QSBO – early Aug, Q3 RBNZ Survey – early Aug	RBA – early Aug FOMC – Aug 1
OCR – 25 th Sep	Q2 2019 GDP, ANZBO – end Sep	RBA – early Sep, FOMC – Sep 19
MPS – 13 Nov	Q3 2019 CPI, Q3 2019 lab mkt, ANZBO – end Oct Q3 QSBO – early Nov, Q4 RBNZ Survey – early Aug	RBA – early Oct/Nov FOMC – Oct 31
2020		
MPS – 12 Feb	FSR – 27 Nov, Treasury 2018 HYEUFU, Q3 2019 GDP, Q4 2019 CPI, Q4 2019 lab mkt, ANZBO – Dec, Q4 QSBO – mid Jan, Q1 RBNZ Survey – early Feb	RBA – early Feb FOMC – Dec 12
OCR - 25 Mar	Q4 2019 GDP, ANZBO – Mar	RBA – early Mar, FOMC – Mar
MPS – 13 May	Q1 2020 CPI, Q1 2020 lab mkt, ANZBO – end Apr, Q1 QSBO – early Apr, Q2 RBNZ Survey – early May	RBA – early May FOMC – May
OCR – 24 Jun	FSR – 27 May, NZ Budget, Q1 2020 GDP, ANZBO – end May	RBA – early Jun FOMC – June
MPS – 12 Aug	Q2 2020 CPI, Q2 2020 lab mkt, ANZBO – end Jul, Q2 QSBO- early Aug, Q3 RBNZ Survey – early Aug	RBA – early Aug FOMC – Aug
OCR – 23 Sep	Q2 2020 GDP, ANZBO – end Aug	RBA – early Sep, FOMC – Sep
MPS – 11 Nov	Q3 2020 CPI, Q3 2020 lab mkt, ANZBO – end Oct Q3 QSBO – early Oct, Q4 RBNZ Survey – early Nov	RBA – early Oct/Nov FOMC – Oct

Source: ASB, Statistics NZ, FOMC, RBA, RBNZ.

For some non-Statistics New Zealand data and policy releases – e.g. Budget/Half Year Economic and Fiscal Update, QSBO/ANZ Business Opinion – the RBNZ sometimes gets advance data/information prior to the official publication.

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