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ECONOMIC ALERT

OCR REVIEW — JUNE 2018

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"The Official Cash Rate ("OCR") will remain at 1.75 percent for now."

And …

"We are well positioned to manage change in either direction — up or down — as necessary."

Why …

"Our outlook for the New Zealand economy, as detailed in the May Monetary Policy Statement, remains intact."

And …

"Employment is around its sustainable level and consumer price inflation remains below the 2 percent mid-point of our target, necessitating continued supportive monetary policy for some time to come."

And …

"The recent weaker GDP outturn implies marginally more spare capacity in the economy than we anticipated."

And …

"The Government's projected spending impulse is also slightly lower and later than anticipated."

Looking ahead …

"Inflation is expected to gradually rise to our 2 percent annual target, resulting from capacity pressures."

In conclusion …

"The best contribution we can make to maximising sustainable employment, and maintaining low and stable inflation, is to ensure the OCR is at an expansionary level for a considerable period."

Market Implications

Today's headline OCR decision was universally expected mainly because it was well signalled in last month's *Monetary Policy Statement* ("MPS"). Of interest were the words, as markets adjust to the new Governor's way of communicating and any new ways he might find to say 'lower for longer'.

The local market response to today's OCR announcement was muted because the headline decision was as expected, the Governor's language was as dovish as expected and little changed from the MPS, and financial markets had already positioned for the Governor's dovish language.

Comment

RBNZ Governor Adrian Orr successfully found new ways of saying that the OCR will remain 'lower for longer' — *"necessitating continued supportive monetary policy for some time to come"* and *"ensure the OCR is at an expansionary level for a considerable period."*

The RBNZ has a long history of setting and meeting forward guidance to which the new Governor has adhered. That has been made more difficult by global developments as pointed out by the Bank of Canada Governor overnight.

Markets will return to assessing and responding to the inputs to future RBNZ decisions — local data (specifically actual and expectations for inflation, employment, wages and growth), and global developments, specifically geopolitical and policy (monetary and fiscal) related. The latter have been more fluid in recent months and a more dominant influence on local financial markets, and will continue to do so in the immediate future.

Risk managers' best defences in such times are to ensure that forecasts are the best they can be in terms of accuracy and timeliness and that decisions are based on known quantities, which excludes someone's (anyone's) guess at what the future holds.