

Macro Note

New Zealand: RBNZ Raises OCR By 25bps To 0.75%

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The Reserve Bank of New Zealand (RBNZ), at its last meeting of the year, decided to increase the Official Cash Rate (OCR) to 0.75%. In the accompanying [press release](#), the RBNZ stated that “the Committee agreed it remains appropriate to continue reducing monetary stimulus so as to maintain price stability and support maximum sustainable employment”, adding that “further removal of monetary policy stimulus is expected over time given the medium term outlook for inflation and employment”.

- The unemployment rate fell further to 3.4% in the September quarter, down from 4.0% previously, now at the previous record-low set in Q4 2007. This was accompanied by a 2.0% q/q (4.2% y/y) rise in employment driving the fall in the unemployment rate, even as participation surged to 71.2%. Wages continued to accelerate, with labour costs up 0.7% q/q (2.5% y/y) and average hourly earnings up 1.2% q/q (3.6% y/y) in 3Q21. The only soft spot was average hours worked, which fell to 31 hours/week (34 previously), largely due to the impact of the lockdown.
- CPI inflation came in at 2.2% q/q (4.9% y/y) in the September quarter, up from an already-strong 1.3% q/q (3.3% y/y) in June. Food, housing, and transport-related costs continued to be the big drivers of price rises, but there was also widespread strength across the CPI components, with communication being the only group to see prices fall in the September quarter.
- The RBNZ’s quarterly survey of expectations showed business managers expecting annual inflation to average 3.70% over the coming year, the highest reading in 10 years, versus 3.02% in the previous [monetary policy statement](#) (August 2021). Two-year inflation expectations, seen as the time frame when RBNZ policy action will filter through to prices, is seen rising to 2.96% from a previous prediction of 2.27%.

Today’s hike of 25bps reinforces our view that any further tightening is likely to occur in a steady approach, with incoming data key to determining future moves. The RBNZ now expects to raise its benchmark rate to 2.50% by the third quarter of 2023, according to the latest [monetary policy statement](#) (November 2021). Previously, it projected the cash rate plateauing at around 2.00% from late 2023. **For now, we are comfortable with our call for follow-up 25bps hikes in February, May, August and November, taking the OCR to 1.25% by mid-2022, and for it to reach 1.75% by end-2022.**

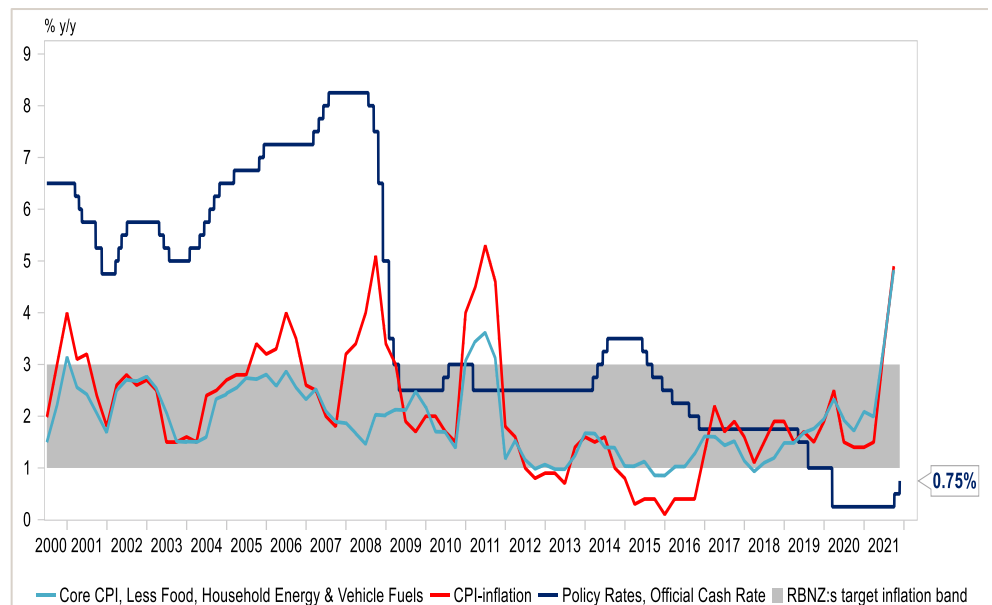
We still think the RBNZ’s OCR projections through 2022 is too optimistic. Our projections may seem low, compared to current inflation of nearly 5.0%, but borrowers rolling over a 1-year mortgage are already facing around 60% increase in their debt-servicing bill. As it is, earlier this month from 1 November, the RBNZ has been restricting the amount of lending banks can do above an LVR of 80% to 10% of all new loans to owner-occupiers, down from 20% previously.

As we also highlighted previously, even with inflation pressures undeniably strong and broad-based, there are still downside risks. These include the ongoing COVID-19 situation domestically and abroad; a sharper-than-expected slowdown in the New Zealand housing market; and risks to China's and US' growth outlooks.

Earlier this week on Monday (22 November), PM Jacinda Ardern announced that Auckland would end its more than three-month lockdown in early December and the country would institute a three-tier "traffic light" system that will give broader freedoms to fully vaccinated people. This is a dramatic shift for the country, which had for much of the pandemic been a beacon of the elimination method, squashing outbreaks with swift, sweeping lockdowns.

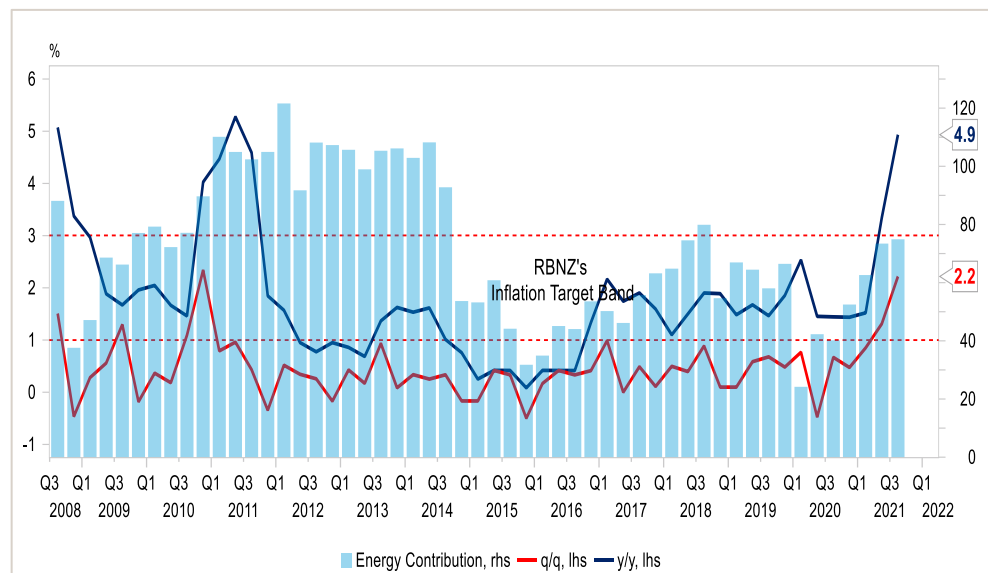
New Zealand: Monetary Policy & Price Developments

Source: Macrobond, UOB Global Economics & Markets Research



New Zealand: 3Q21 Inflation Reaches Highest Level In A Decade

Source: Macrobond, UOB Global Economics & Markets Research



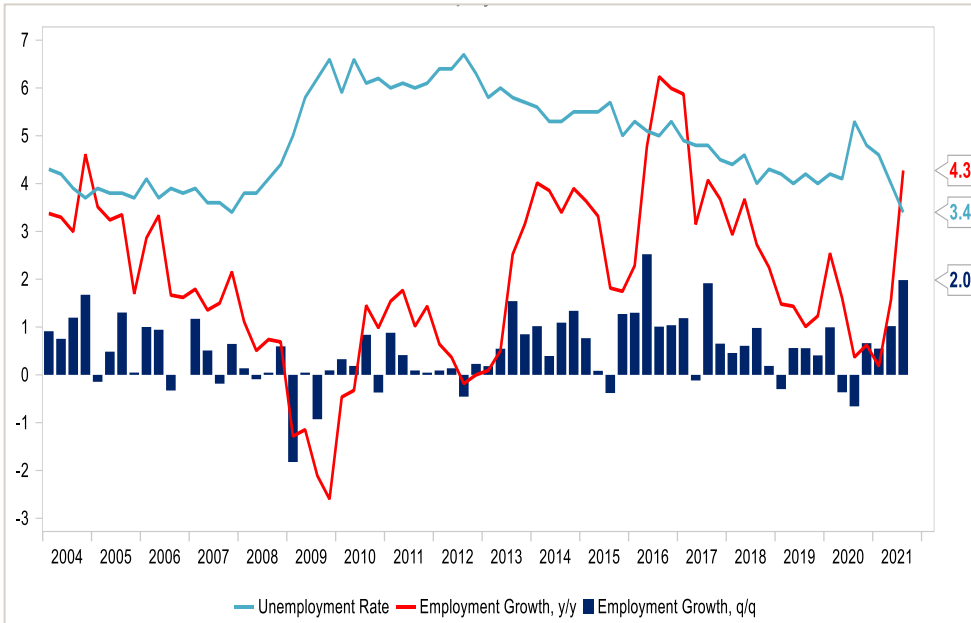
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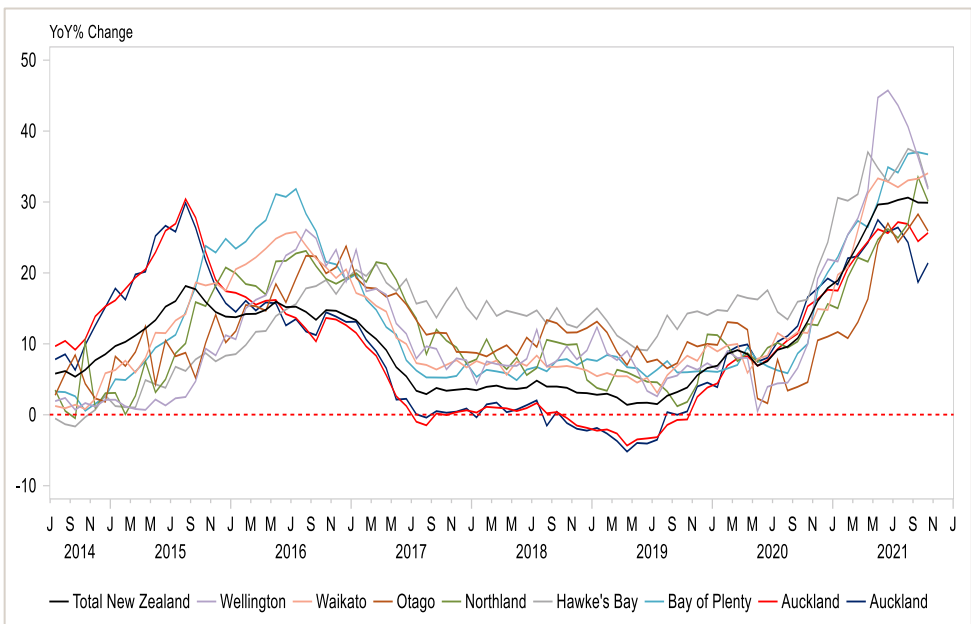
New Zealand: Unemployment Rate Falls To 3.4%

Source: Macrobond, UOB Global Economics & Markets Research



New Zealand: Housing Market Softening

Source: Macrobond, UOB Global Economics & Markets Research



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