Tony Alexander: Reserve Bank drops the scary language - should borrowers get their hopes up?

The RBNZ kept the Official Cash Rate on hold at 5.5%.

Tony Alexander 10 Jul 2024

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The Reserve Bank refrained from giving any signal of when rates will come down but forecasters are shifting their sights to November this year. Photo / Fiona Goodall

ANALYSIS: Most of the measures in the five monthly surveys I run took a turn for the worse around February this year as worries about employment lifted and people became aware of large hikes in insurance premiums and council rates. The deterioration in sentiment is now showing through in gauges of economic activity and this is prompting forecasters to shift their predictions for when the Official Cash Rate (OCR) gets cut from 2025 to the November timing I've sat at for some time.

Looking through my latest surveys of consumers, businesses, mortgage brokers and real estate agents I can see that things remain at very depressed levels. But there does not appear to be any fresh deterioration underway. That is, sentiment and spending intentions have settled at recessionary levels but are not heading into territory which would prompt an immediate policy easing by the Reserve Bank.

That helps explain why this week the Reserve Bank today left the OCR unchanged at 5.5% – which was universally expected – and gave no direct message as yet that it is bringing its predicted timing of the first rate cut forward.

As discussed before, only now have we entered the period of the monetary policy tightening phase when businesses feel forced to change what they do and how they do it because passing on cost increases (for most) is no longer a viable option.

Now would be the worst time to ease monetary policy because of the risk that re-tightening would be needed in 12-18 months time. However, the Reserve Bank did what central banks do when they don't change their cash rate, but they want to signal that their bias regarding what to do and when is shifting.

Whereas in May the Reserve Bank wrote about inflation reaching the 1-3% band by the December quarter, now committee members referred to "the second half of the year". They did not repeat their May warning that additional policy tightening might be needed.

In reference to recent weak economic data they wrote: "Members discussed the risk that this may indicate that tight monetary policy is feeding through to domestic demand more strongly than expected." That is exactly what my surveys have been showing for four to five months now.

Independent economist Tony Alexander: "Borrowers should not expect anything but minor rate tweaks by banks in the next few weeks." Photo / Fiona Goodall

They also dropped their May comment regarding monetary policy needing to "remain at a restricted level for a sustained period" and instead wrote: "The Committee agreed that monetary policy will need to remain restrictive."

The upshot of these changes is that wholesale borrowing costs have fallen to mild degrees in New Zealand this week and it is likely that more forecasters will bring forward their picks for when rates start falling. I am more confident of rate cuts in November.

But borrowers should not expect anything but minor rate tweaks by banks in the next few weeks – unless we get a downward surprise in the June quarter inflation number, which comes out on July 17.