OCR cut to 2.5%

The Reserve Bank has, this morning, cut the Official Cash Rate, and warns further cuts are unlikely.

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Home loan rates, particularly floating rates, will fall following the Reserve Bank's decision today to cut the OCR.

The prospects of further OCR cuts looks unlikely, although some economists, such as those at ASB have flagged further cuts.

The Reserve Bank said its goal is to get inflation into the middle of its 1-3% target range, and the current settings should achieve that.

"Monetary policy needs to be accommodative to help ensure that future average inflation settles near the middle of the target range. We expect to achieve this at current interest rate settings, although the Bank will reduce rates if circumstances warrant."

As usual it will "continue to watch closely the emerging flow of economic data."

Currently inflation is low running at 0.4%

The RBNZ says that inflation is below the target range mainly due to the earlier strength of the New Zealand dollar, and the 65% fall in world oil prices since mid-2014.

It forecasts the inflation rate will move inside the target band in the first three months of next year as the oil price declines will fall out of the annual calculations and the lower dollar will be reflected in higher tradable prices.

While further OCR cuts look unlikely, there aren't likely to be any increases soon.

In its forecasts the RBNZ projects the yearly average 90-day bill rate will be 3% in 2016, and 2.6% in the following two years.

It has sat at 3.6% this year.

The key economic factors behind the Bank's decision to cut the OCR relate to the global economic situation, a softening New Zealand economy, a rising dollar and strong immigration.

Growth in the New Zealand economy has softened over the year, it says, mainly due to lower terms of trade. The slowdown has seen an increase in spare capacity and unemployment.

In its Monetary Policy Statement the RBNZ highlights four key risks and outlines what they could mean for future interest rate tracks. They are:

- High net immigration continues
- El Nino conditions lead to a drought
- Export prices fall further
- Consumers spend more freely

If any of these risks play out the RBNZ would respond differently to what it Is currently forecasting.

The biggest changes would be brought about by demand-side scenarios. For instance if consumption picked up then monetary policy would be tightened and the 90-day bill rate could rise from 2.6% to 3.2% in the next couple of years.

Conversely if export prices fell then the 90-day interest rates could fall to below 2.2%.

The supply developments, stronger immigration and a drought, are more neutral for monetary policy.