RBNZ outlines case for interest rate cut

This morning's OCR announcement the Reserve Bank said it has not plans to increase interest rates and also outlined what would need to happen for it to cut rates.

Daily Mortgage Rates Thursday, April 30th 2015,

Trading partner growth continues at around its long-term average, but remains dependent on highly accommodative monetary settings. Policy interest rates are at record lows and many European government bonds are trading at negative yields. Looking ahead, considerable uncertainties exist in Europe, China and Australia, and on the timing of US monetary policy adjustment, although global growth should be boosted by the decline in world oil prices. Crude oil prices are almost 50 percent below their July 2014 level, with increasing supply mostly contributing to this fall.

The New Zealand economy continues to grow at an annual rate of around 3%, supported by low interest rates, high net immigration and construction activity, and the fall in fuel prices. House price inflation is elevated in Auckland. However, lower dairy incomes, lingering effects of drought, fiscal consolidation, and the high exchange rate are weighing on the outlook for growth.

Lower fuel prices, coming on top of the high exchange rate and low global inflation, lowered annual CPI inflation to 0.1% in the March quarter. Underlying inflation remains low and is expected to pick up gradually. Monetary policy will focus on the medium-term trend in inflation. The Bank expects to keep monetary policy stimulatory, and is not currently considering any increase in interest rates.

We are watching closely the ongoing impact on tradables inflation from global forces and the high New Zealand dollar. On a trade-weighted basis, the New Zealand dollar continues to be unjustifiably high and unsustainable in terms of New Zealand's long-term economic fundamentals. The appreciation in the exchange rate, while our key export prices have been falling, is unwelcome.

The timing of future adjustments in the OCR will depend on how inflationary pressures evolve in both the non-traded and traded sectors. It would be appropriate to lower the OCR if demand weakens, and wage and price-setting outcomes settle at levels lower than is consistent with the inflation target.

The Bank will continue to monitor and carefully assess the emerging flow of economic data.