

Westpac: OCR to hold until 2022

Westpac has become the latest bank to change its OCR forecast. The lender believes there will be no movement in the official cash rate until 2022, with "risks on both sides".

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The lender previously forecast an OCR hike in late 2020, but has changed its views amid weakening construction numbers and a slowdown in the economy in the latter months of 2018.

Dominic Stephens, chief economist at Westpac, says the OCR outlook "is evenly balanced for the foreseeable future". He adds: "The biggest motivation for changing our OCR call is the construction outlook – it now looks as though construction activity will peak in 2019 and dissipate from 2020. Second, there is increasing evidence that the economy lost momentum in late-2018."

Stephens believes the central bank's OCR forecast will be flat until "at least" 2021. He believes the Reserve Bank will adopt a more neutral outlook at this week's OCR/MPS announcement, and says the next move could be up or down, amid continued uncertainty.

Westpac's change of heart comes as wholesale interest rates markets price in an 80% chance of an OCR cut this year. Stephens believes the chance of a cut is "below 50%", as he expects the economy to recover.

The bank's views come after the lender cut its one year special rate below 4% last month. KiwiBank has also cut rates below 4% this year.

Stephens is the latest economist to take a more dovish view on the economy. ANZ's Sharon Zollner expects the OCR to be slashed to 1% in 2020.

Economists do not expect the OCR to change this week, but believe the central bank will outline a gloomier forecast for the economy.