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OCR held at 2.75%

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The Monetary Policy Committee today voted 4 - 3 to hold the OCR at 2.75 percent.
Annual consumers price index inflation was 3.7 percent in the September quarter, down from 4.1 percent in June and lower than expected. To date, wage growth has been subdued, and medium-term inflation expectations have remained stable. However, core inflation measures have increased to around the top of the Committee's 1 to 3 percent target band, and price increases have become more broad-based across the economy.
Global events are adding to near-term inflation pressures in New Zealand. Fuel prices have risen further because of ongoing disruptions in global energy markets, and the exchange rate has fallen by around 3 percent since early September. Annual inflation is expected to increase to 4.4 percent in the December quarter, largely reflecting current futures prices for fuel. Near-term inflation forecasts are uncertain given volatility in prices for oil and refined fuels.

The New Zealand economy continues to recover, although conditions remain uneven. Export-exposed parts of the economy are benefiting from high commodity prices, strong demand for goods exports and increased tourist numbers. But domestic demand remains subdued outside of exporting centres. There are some early signs of a recovery in residential investment, including in Auckland.

The Committee is focused on returning inflation to the 2 percent target mid-point over the medium term, discounting temporary disturbances to inflation and avoiding unnecessary economic instability. Subdued growth in household spending is limiting the ability of some firms to pass on higher costs to restore profit margins. But the longer inflation remains high, the greater the risk of higher costs feeding into inflation expectations and price- and wage-setting behaviour, making inflation more persistent.

Global growth has been resilient but is increasingly fragile given geopolitical tensions, high energy prices, financial stresses, and surging AI-related investment. New Zealand's recovery could be stronger than expected but could also lose momentum if the global environment deteriorates or export strength does not flow through to jobs, incomes and household spending.

All Committee members agreed on the overall outlook for inflation. However, members differed in how much weight they placed on various risks and the timing of the monetary policy response. The Committee agreed that tighter monetary policy is likely to be required but remains conditional on the economic outlook.

Read the full statement and Record of meeting

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