New Zealand Institute of Economic Research (Inc)
Media release

For release 10am Monday 24 May 2021

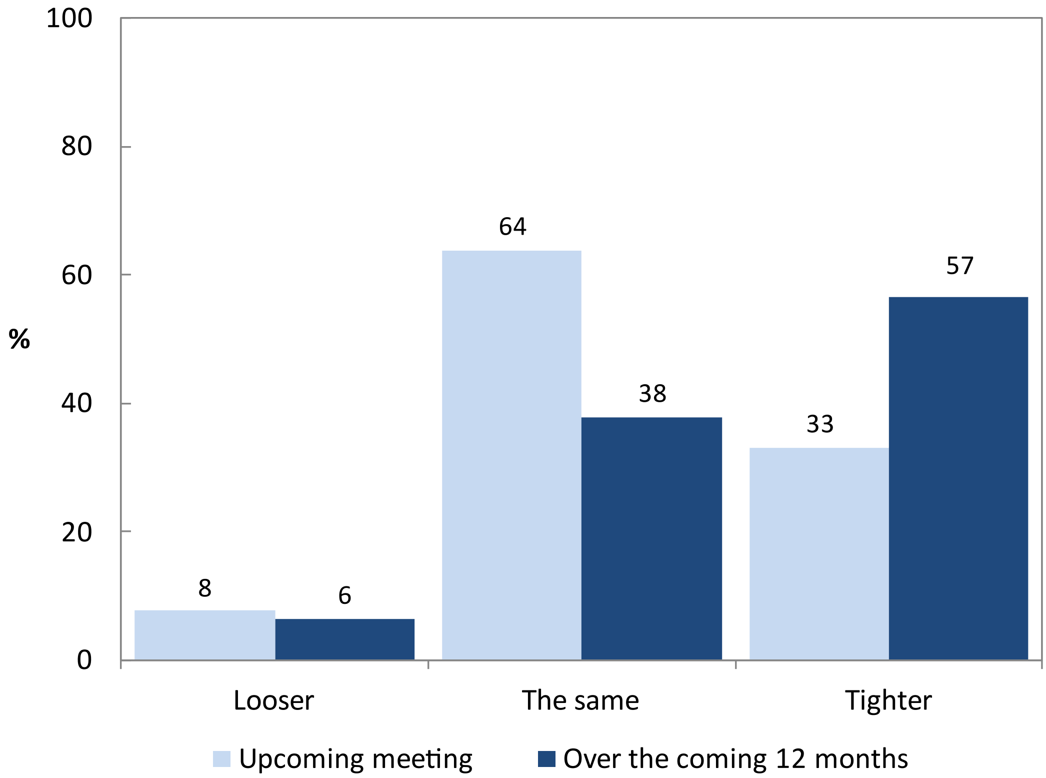
NZIER's *Shadow Board* sees stronger case for tightening

While Shadow Board members still considered current monetary settings as appropriate for the upcoming May meeting, attention turns to a tightening in monetary policy over the coming year. In the near term, members pointed to some uncertainty over how sustainable the recovery will be particularly in light of continued border restrictions. Hence members saw a cautious approach as justified for the upcoming meeting.

Beyond that, members saw a tightening in monetary policy as appropriate given the strengthening New Zealand economic outlook and higher inflation pressures. Some members pointed to the slowing in bond purchases by the Reserve Bank under its Large-Scale Asset Purchase programme (LSAP) that was already underway, and considered an increase in the Official Cash Rate after the LSAP programme was wound down as appropriate for the coming year. The continued strength in house prices was highlighted by some members as remaining an area of concern for the New Zealand economy.

Figure 1 Shadow Board considers tightening as more appropriate over the coming year

% strength of policy preference on stance RBNZ should take



Source: NZIER *Monetary Policy Shadow Board*

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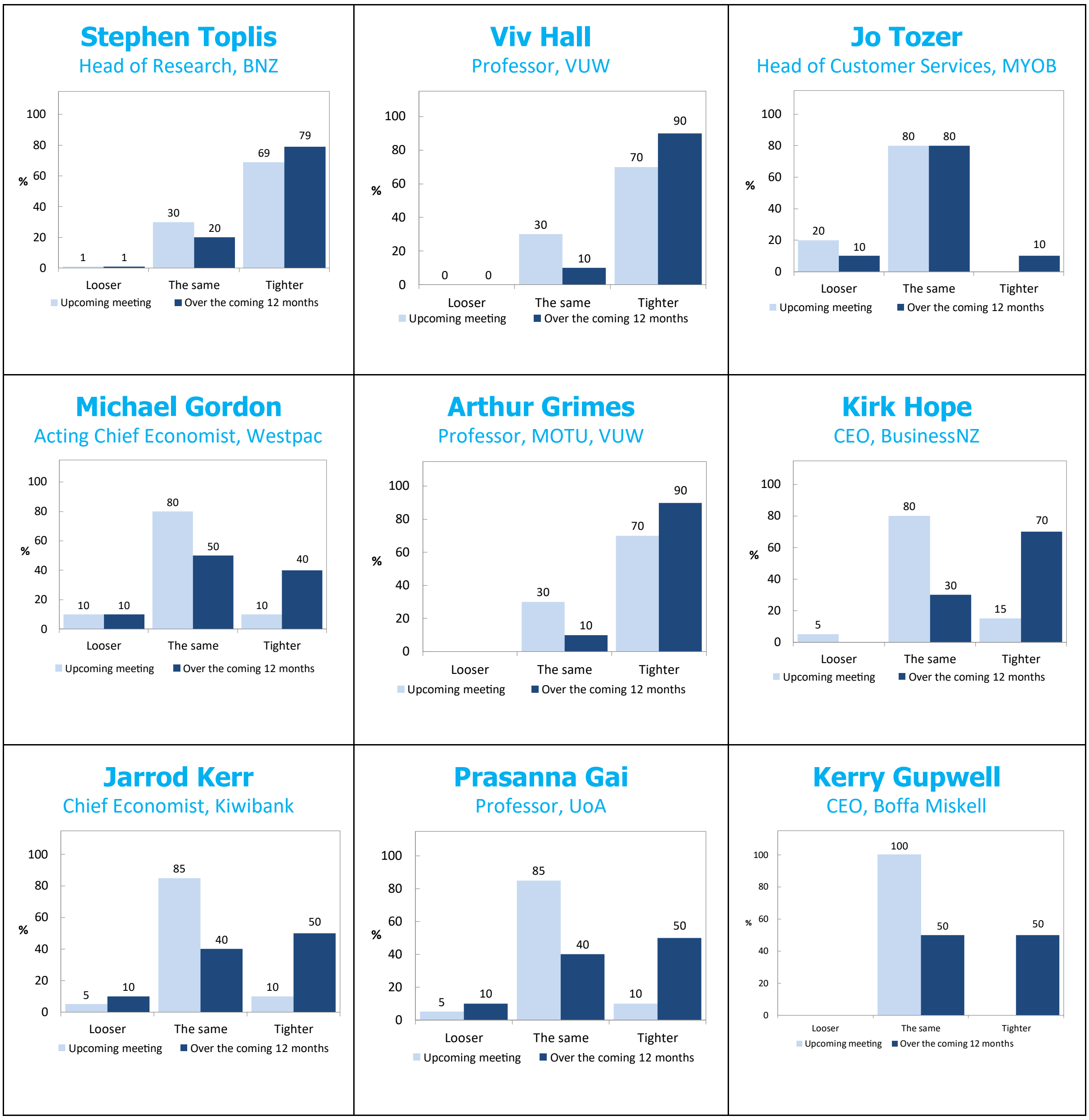
Figure 2 Individual participants' recommended rate settings – 19 May 2021



Source: NZIER *Monetary Policy Shadow Board*

Table 1 Participant comments

Participant comments are optional.

Stephen Toplis	The LSAP programme is already gradually tapering, and it should continue to do so. The cash rate can rise once LSAP meets its end. Tactically the RBNZ will not want to scare the horses but its objectives are close to being met so the need for the current degree of stimulus to be maintained is waning rapidly.
Viv Hall	Continue winding back the LSAP, and do not extend the FLP. Some modest upward OCR movement should then follow.
Michael Gordon	An unemployment rate of 4.7% suggests that the economy is still operating below its full capacity, although the gap is narrowing. The best course of action for now is to let current monetary policy settings do their work. Financial conditions are already set to tighten over the next year or so, as unconventional policy measures are allowed to expire.
Kirk Hope	Despite ongoing improvements in business and consumer confidence, and some key economic statistics proving better than expected, e.g. employment growth and reductions in unemployment, growth in the economy will still be constrained until the borders are opened up. While inflationary pressures particularly as a result of continuing supply-side constraints are on the rise, there is little justification for changing monetary policy settings, at least in the short term. Continued uncertainty surrounding the vaccine roll-out and a number of legislative proposals by government, particularly in the housing, labour market, and environmental space, could have a chilling effect on investment as uncertainty rises.
Jarrod Kerr	The Reserve Bank is clearly looking into the use of Debt To Income ratios, which is the remit of financial stability (not MPS). Leave the OCR unchanged and reduce the LSAP (which isn't actually a tightening if forecast bonds available is evaporating). I think this time next year the discussion will evolve into a "timing of tightening" strategy
Jo Tozer	Our latest SME Snapshot revealed that the profitability of local small businesses is still finely balanced, with around a third of SMEs seeing an increase in profitability in the last three months, and the same proportion seeing profitability fall. In this environment where there are still strong levels of uncertainty, SMEs would not welcome a tightening of the current monetary policy. SME owners and decision makers rank inflation as low on their list of concerns impacting confidence for the year ahead. This would signal that they are broadly happy with the Reserve Bank's currently policy, and bearing in mind that the sector is still cautious about New Zealand's economic performance – around half expect the economy to decline this year – it's likely they'd prefer not to see significant change at this stage in New Zealand's post COVID-19 recovery.
Kerry Gupwell	I think the RBNZ should continue to hold the course.
Arthur Grimes	Asset price inflation (particularly of houses) that is driven almost solely by monetary policy, is causing massive social dislocation. In addition, goods price inflation looks to be on the rise. The degree of monetary easing needs to be lessened, initially through stopping bond purchases. Unless an unexpected downward shock were to occur, monetary policy needs to be tightened. It is already well behind the curve and will become more so the longer a tightening is delayed.
Prasanna Gai	No comment.

About the NZIER *Monetary Policy Shadow Board*

NZIER's *Monetary Policy Shadow Board* is independent of the Reserve Bank of New Zealand. Individuals' views are their own, not those of their respective organisations. The next *Shadow Board* release will be Monday 12 July 2021, ahead of the RBNZ's *Monetary Policy Review*. Past releases are available from the NZIER website: www.nzier.org.nz

Shadow Board participants put a percentage preference on each policy action. Combined, the average of these preferences forms a *Shadow Board* view ahead of each monetary policy decision.

The NZIER *Monetary Policy Shadow Board* aims to:

- encourage informed debate on each interest rate decision
- help inform how a Board structure might operate
- explore how Board members could use probabilities to express uncertainty.