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Media release

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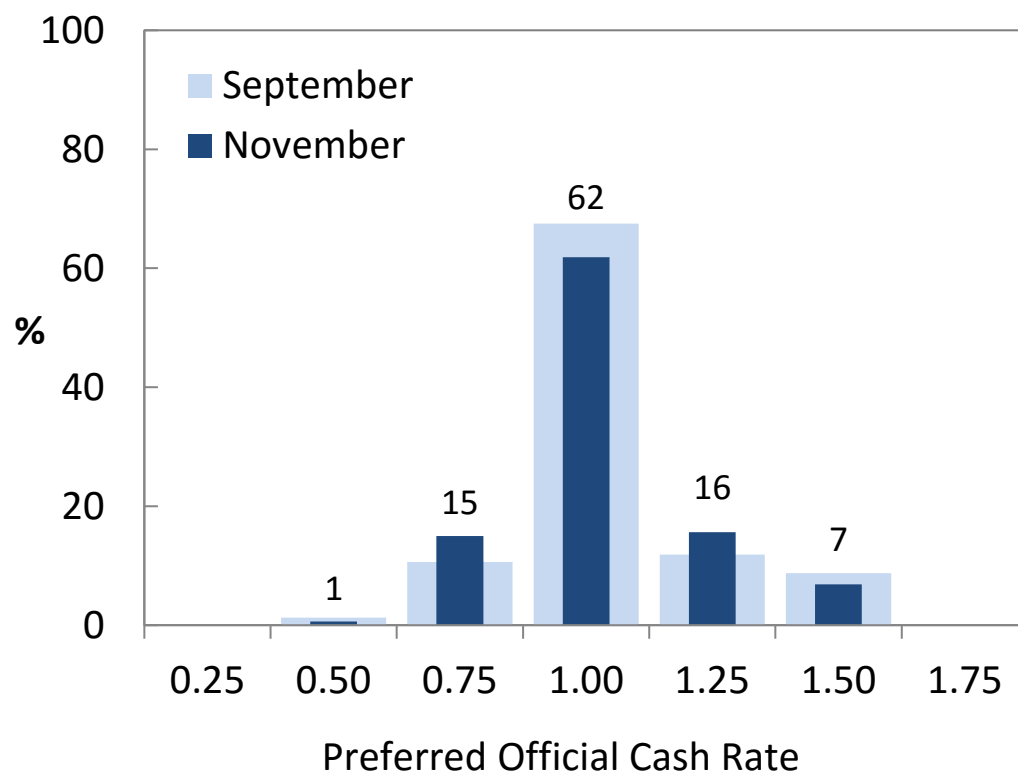
NZIER's *Shadow Board* remains divided on where OCR should be

The range of views amongst the NZIER *Policy Shadow Board* on the appropriate level of the OCR at the *Monetary Policy Statement* (MPS) release on Wednesday has widened since September. Shadow Board members, on average, still called for the OCR to be kept on hold, but there was an increased skew towards a higher OCR.

“Recent data has been mixed in the wake of the Reserve Bank’s surprise 50 basis point cut to the OCR in August. There are signs of renewed housing market activity, but the labour market appears to be slowing as businesses become more cautious about hiring. The global growth outlook also remains murky.

Shadow Board members highlighted the recent pick-up in house prices, and the financial stability risks that stem from interest rates being too low. This was seen by some Shadow Board members as justification for a higher OCR.” said Christina Leung, Principal Economist at NZIER.

Figure 1 Slightly more tightening bias amongst the Shadow Board



Source: NZIER *Monetary Policy Shadow Board*

* distribution may not add up to 100% due to rounding

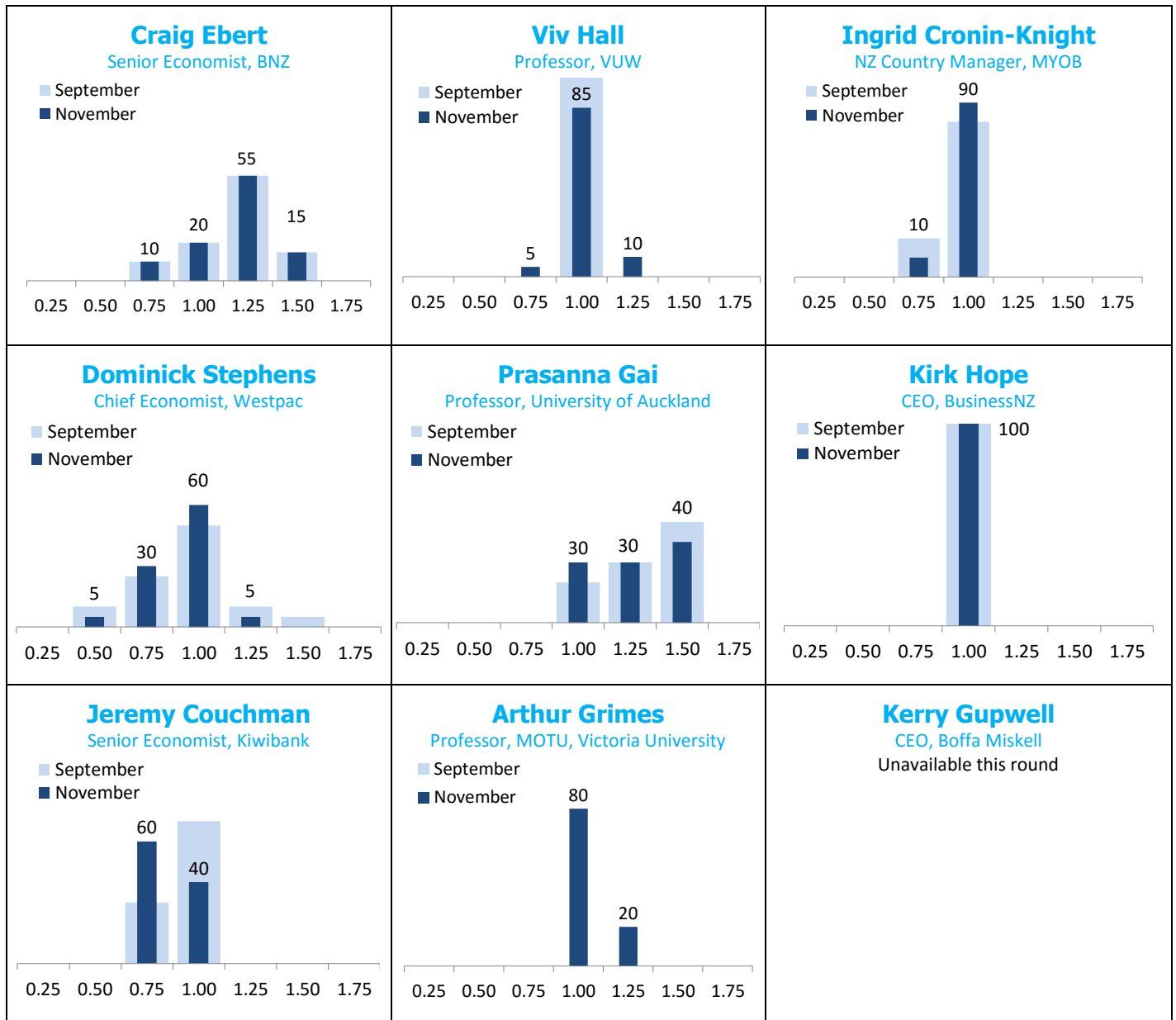
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Figure 2 Individual participants' recommended rate settings – 6 November 2019



Source: NZIER Monetary Policy Shadow Board

Table 1 Participant comments

Participant comments are always optional and can be limited to 60 words.

Craig Ebert	The RBNZ will probably feel under pressure to keep reducing its cash rate, in the ardent belief it will accelerate the economy toward higher inflation. However, we think this interest rate path ultimately risks being counterproductive to the medium-term health of the economy and financial system. We also believe inflation pressure is not insufficient in the way the Reserve Bank appears to judge, as capacity constraints reign. Recent signs of another broad leg higher in house prices are also a warning that the levels to which interest rates are falling are lower than is ideal.
Viv Hall	Insufficient evidence to justify a further OCR cut. Some early evidence of re-emerging house price inflation, and of non-tradeables inflation resuming its modest upwards trend. On balance, no change recommended to the OCR, together with a minor bias towards an OCR increase sometime in the future.
Dominick Stephens	Risks remain skewed to the downside, because GDP growth has remained slow. However, the housing market is beginning to lift, the exchange rate has dropped, export conditions are improving, and there are signs that non-tradables inflation is stirring, creating an uncertain outlook overall.
Prasanna Gai	No comment.
Kirk Hope	No comment.
Jeremy Couchman	The right course of action is tilted in favour of a 25bp OCR cut in November. The global economic outlook has deteriorated, business confidence surveys report weaker business activity ahead (despite 75bps of cuts already delivered in 2019), and inflation expectations eased further below the RBNZ's 2% target mid-point. For the Bank it comes down to what move is likely to deliver the path of least regret.
Ingrid Cronin-Knight	The latest data from the MYOB Business Monitor points to steady performance in the economy, with a slight flattening of revenue expectations for 2020.
Arthur Grimes	After the 50bp cut, there is no need to cut further – especially as the previous cut had the effect of reducing economic confidence. A partial reversal of the previous cut is warranted, but it is probably best to let the dust settle for a while.

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 10 February 2020, ahead of the RBNZ's *Monetary Policy Statement*. Past releases are available from the NZIER website: www.nzier.org.nz

Shadow Board participants share out 100 points across possible interest rates to indicate what they believe is the most appropriate Official Cash Rate setting for the economy. Combined, these scores form a *Shadow Board* view ahead of each monetary policy decision.

Participants show where they think interest rates should be, not what they believe will happen.

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.