

## New Zealand Institute of Economic Research (Inc) Media Release, 10 am Monday, 8 July 2024

### For immediate release

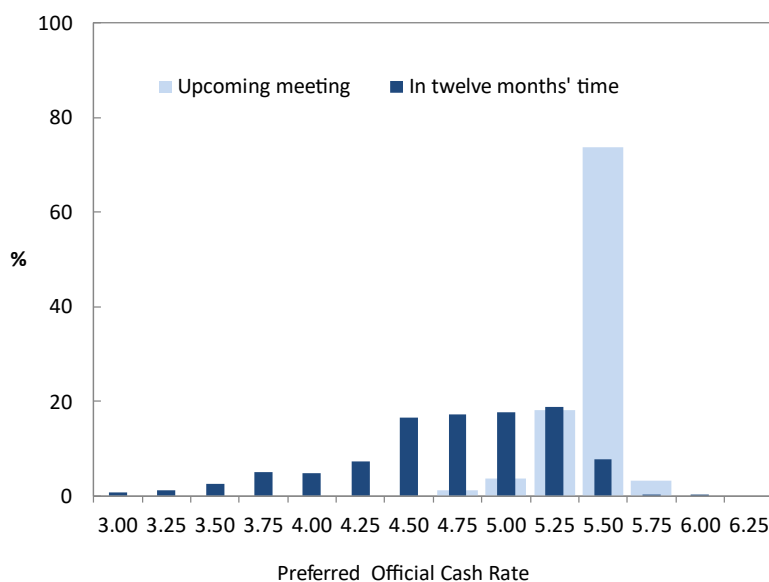
#### NZIER Shadow Board recommends the Reserve Bank keep the OCR at 5.50 percent in July

Most Shadow Board members recommended that the Reserve Bank of New Zealand (RBNZ) keep the Official Cash Rate (OCR) at 5.50 percent in the upcoming Monetary Policy Review on 10 July 2024. The weaker growth and a slack labour market, along with the continued easing in annual CPI inflation, suggest that the OCR increases to date are reducing inflation pressures in the New Zealand economy. However, with domestic inflation pressures remaining elevated, Shadow Board members were of the view that the RBNZ should remain cautious about moving the OCR for now. One member considered that there is justification for a cut in the OCR given the deteriorating economic outlook.

Regarding where the OCR should be in a year's time, the Shadow Board's core view was an easing in the OCR, with the majority picking an OCR ranging between 4.25 percent and 5.25 percent. This reflects the broad consensus that the cooling economy and continued easing in inflation pressures should provide scope for the RBNZ to commence an easing cycle in the OCR next year. Several members considered that the pressure for the RBNZ to start lowering the OCR early next year is increasing, given the weak economic momentum. However, one member recommended that the RBNZ wait for further data to see how the upside and downside risks play out.

#### Figure 1 Majority view for the OCR in a year ranges between 4.25 percent and 5.25 percent

% strength of policy preference on stance RBNZ should take



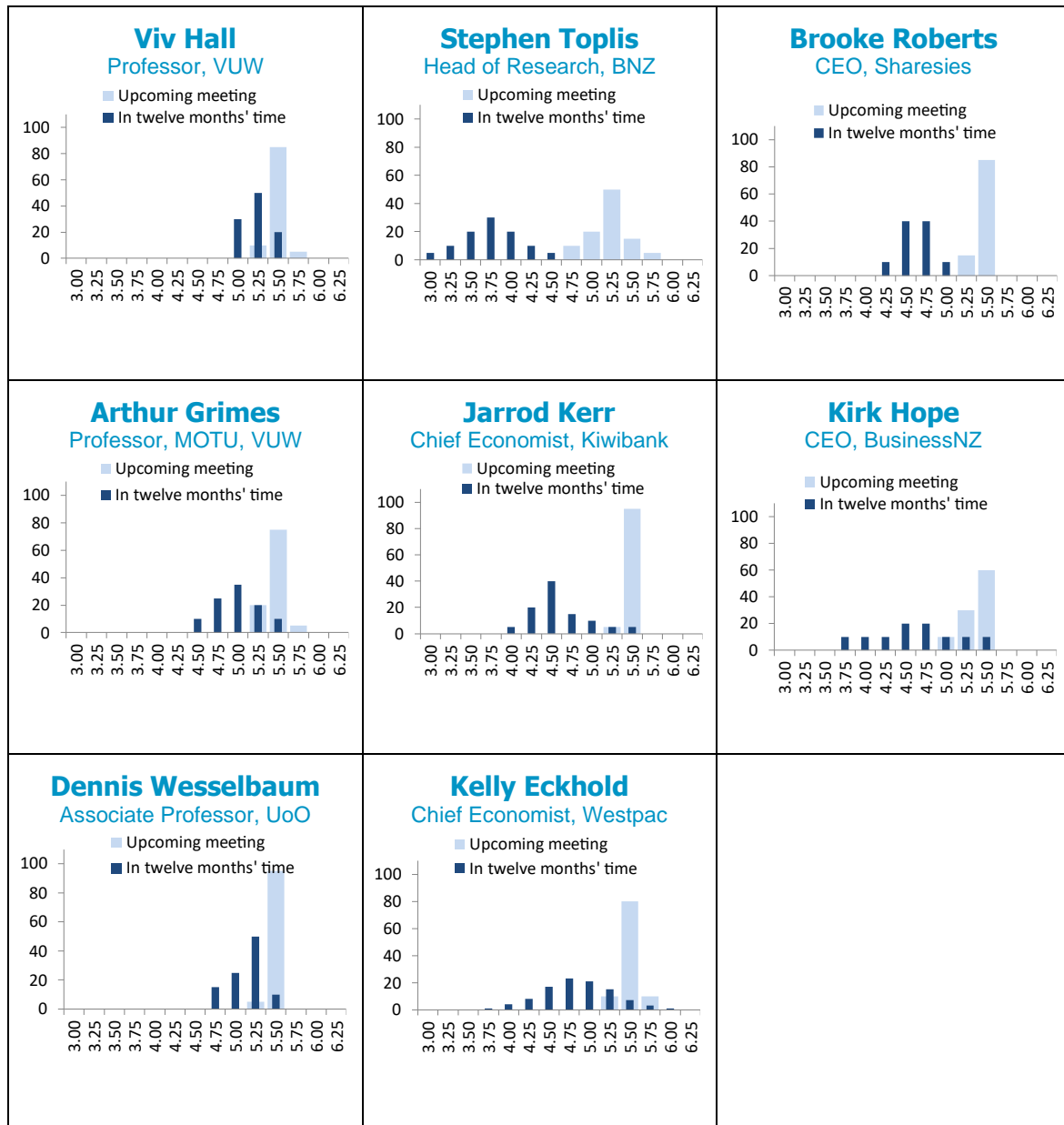
Source: NZIER Monetary Policy Shadow Board

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Figure 2 Individual participants' recommended rate settings – 3 July 2024



Source: NZIER Monetary Policy Shadow Board

**Table 1 Participant comments**

Participants' comments are optional

<b>Stephen Toplis</b>	We don't think the Reserve Bank will cut rates this year. However, equally, we believe that the economy is moribund, the unemployment rate will rise rapidly, and inflation will continue to fall. This means that there is enough justification to start cutting rates now.
<b>Viv Hall</b>	Some recent modest easing in cost pressures and pricing intentions are welcome, but there is still not enough progress on reducing non-tradables inflation. As further data emerges over the next six months, the balance between upside and downside risks should become clearer.
<b>Kirk Hope</b>	No comment.
<b>Jarrod Kerr</b>	<p>The outlook for interest rates is becoming clearer, if only delayed. We have experienced a great deal of volatility in rates markets, with rate cut expectations being pushed back, but not out because the path for policy is ultimately pegged to the path of inflation.</p> <p>When the RBNZ starts easing, whether it's in November or February, or later, the big move in rates will be over 2025 to 2026 as the terminal cash rate gets adjusted towards a neutral setting. The rates market will need to adjust to a 3% terminal rate, which is 100bps lower than the current 4%.</p>
<b>Arthur Grimes</b>	No comment.
<b>Kelly Eckhold</b>	The economy is maintaining growth below trend, and the labour market is weakening at least as quickly as anticipated. This adds confidence that in a year's time, a modest easing cycle is feasible. Uncertainties over the impact of tax cuts on spending and the path of core inflation continue to be significant upside risks that could delay the easing profile.
<b>Dennis Wesselbaum</b>	We are in stagflation with zero growth, and inflation still around 4% (according to GDP Live). As we move through the year, the pressure to reduce the OCR will likely build, making rate cuts early next year increasingly probable.
<b>Brooke Roberts</b>	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 August 2024, ahead of the RBNZ's Monetary Policy Statement. Past releases are available from the NZIER website: [www.nzier.org.nz](http://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.

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