New Zealand Institute of Economic Research (Inc)
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For immediate release

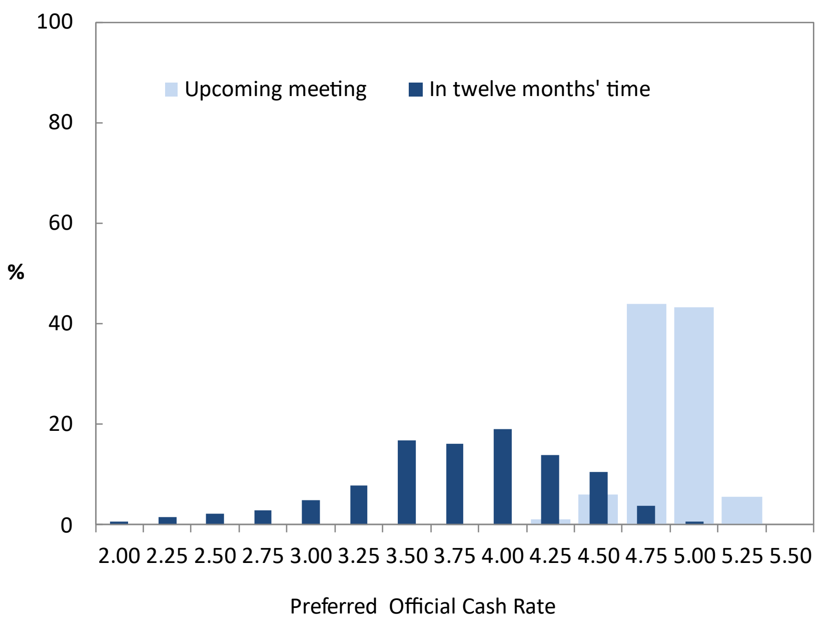
Shadow Board is divided over a 25 or 50 basis-point cut in the OCR in October

The NZIER Shadow Board is equally divided over whether the Reserve Bank of New Zealand (RBNZ) should ease the Official Cash Rate (OCR) by 25 basis points or 50 basis points in the upcoming October Monetary Policy Review. Those members who recommended a 50 basis-point cut were concerned about the continued weakness and increased excess capacity in the New Zealand economy. They also cited the easing in headline inflation and inflation expectations, which warrant a less-restrictive interest rate setting. The rest of the members viewed a 25 basis-point cut is more appropriate for now, given some upside risks in non-tradable inflation remain.

Regarding where the OCR should be in a year's time, the Shadow Board viewed that the RBNZ should continue with the easing cycle over the coming year, with the majority picking an OCR ranging between 3.5 percent and 4.5 percent. Some members recommended a gradual easing in the OCR, reflecting their views that the RBNZ should take a more cautious and data-dependent approach. Other members viewed that the RBNZ should ease the OCR more rapidly. They considered that the weak economic conditions suggest the need for more stimulus over the coming year.

Figure 1 Majority view for the OCR next year range between 3.5 percent and 4.5 percent

% strength of policy preference on stance RBNZ should take



Source: NZIER *Monetary Policy Shadow Board*

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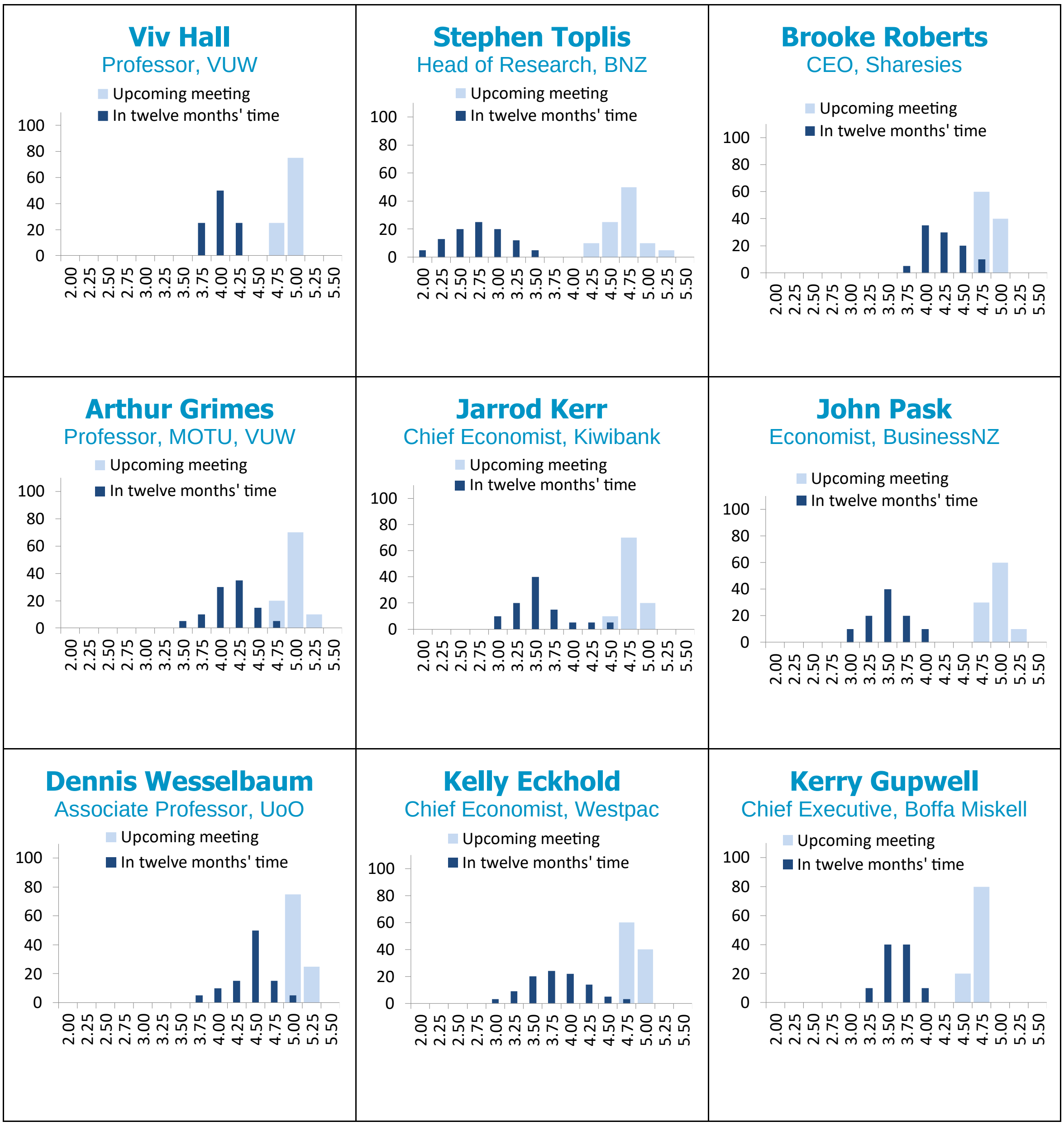
Figure 2 Individual participants' recommended rate settings – 2 October 2024



Source: NZIER *Monetary Policy Shadow Board*

Table 1 Participant comments

Participants' comments are optional

Stephen Toplis	The economy is going backwards, with the labour market deteriorating, and the output gap widening. Inflation is also nearing the target range, so interest rates need to head towards neutral as soon as possible.
Viv Hall	A further 25bp cut in the OCR is justified now, but the path of further cuts must be data dependent. Some upside risks remain with non-tradables/underlying inflation and with cost pressures.
John Pask	Inflationary pressures continue to ease while businesses remain under pressure as demand subsides. Net migration figures are turning lower, which will reduce demand further. Significant interest rate cuts are therefore warranted over the coming year.
Jarrod Kerr	The decision to cut rates was made in August. It is now a decision around the pace and magnitude of cuts. The discussion should involve a 50bp move in both October and November. Policy works with a long lag, and the economy needs stimulus. The recession is ongoing and is coming up two years. Interest rates are clearly restrictive, and returning to more neutral levels requires at least 250bps.
Arthur Grimes	A gradual reduction of the OCR over the next 12 months is appropriate based on the current economic outlook. Naturally, this path could change depending on shocks to the economy.
Kelly Eckhold	Headline inflation and expectations no longer look to justify very tight interest rate settings whereas a negative output gap is in place. A strong case can be made to quickly adjust interest rates towards neutral levels to stabilise output and employment. Given the long gap between meetings from November to February, a strong case exists to move the OCR down more quickly before Christmas.
Dennis Wesselbaum	GDP numbers (particularly manufacturing, trade and transport) looked weak, and jobseeker support is increasing. Inflation, on the other hand, is too high and, according to GDPlive, appears not to be falling as fast any more. A small cut (25bp) seems to be a good compromise.
Kerry Gupwell	I think there will be an additional reduction of 25 basis points, but I do think there is a case for a more aggressive reduction given the continued sluggish growth.
Brooke Roberts	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, 25 November 2024, ahead of the RBNZ's Monetary Policy Statement. 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.