

Embargoed until 1am Wednesday 9 December 2015

NZIER's Shadow Board counsels the Reserve Bank to hold fire

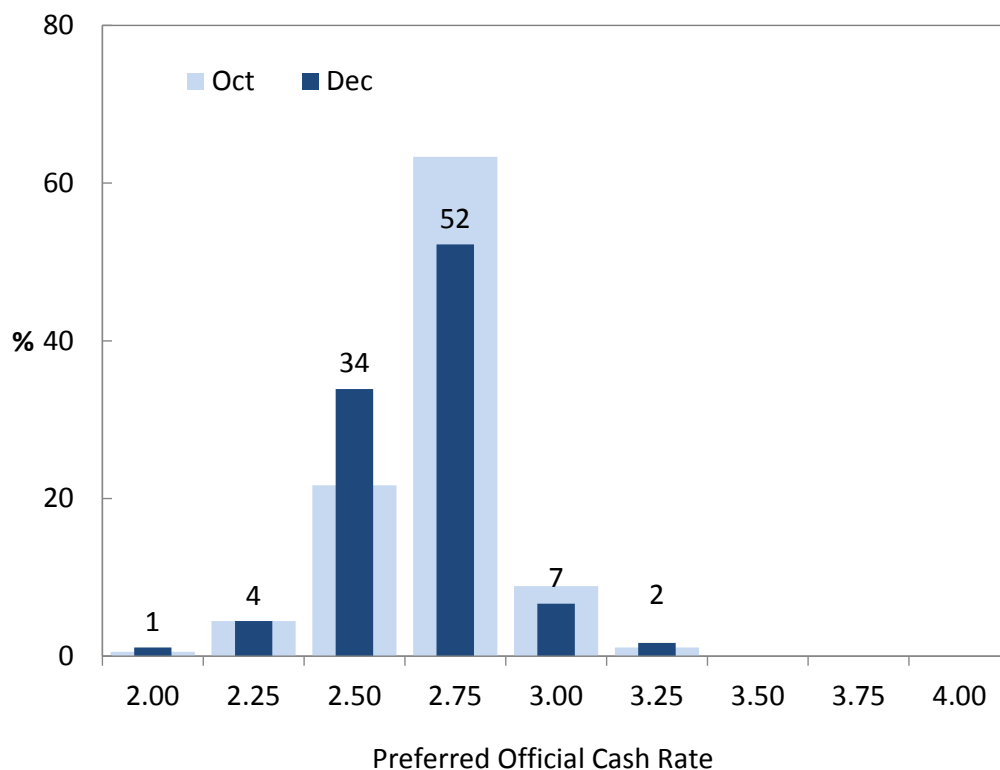
NZIER's *Monetary Policy Shadow Board* recommends the Reserve Bank holds the interest rate at 2.75 percent in its Official Cash Rate announcement this Thursday.

"The Reserve Bank has indicated further easing is likely. But recent positive developments, including a recovery in business and consumer confidence, is leading many on the *Shadow Board* to question whether an interest rate cut is needed in December" said Christina Leung, Senior Economist at NZIER.

"The December meeting is shaping up to be a close call. There are signs of a pick-up in activity, with the services sector remaining a standout. But there are also concerns about an impending drought here in New Zealand, as well as risks in the global economy. The Reserve Bank will also be mindful of the effects low interest rates are having on asset prices, with their accompanying risks to financial stability".

The *Shadow Board's* average recommended interest rate remains steady at 2.70 percent.

Figure 1 NZIER's *Shadow Board* recommends interest rates are kept on hold

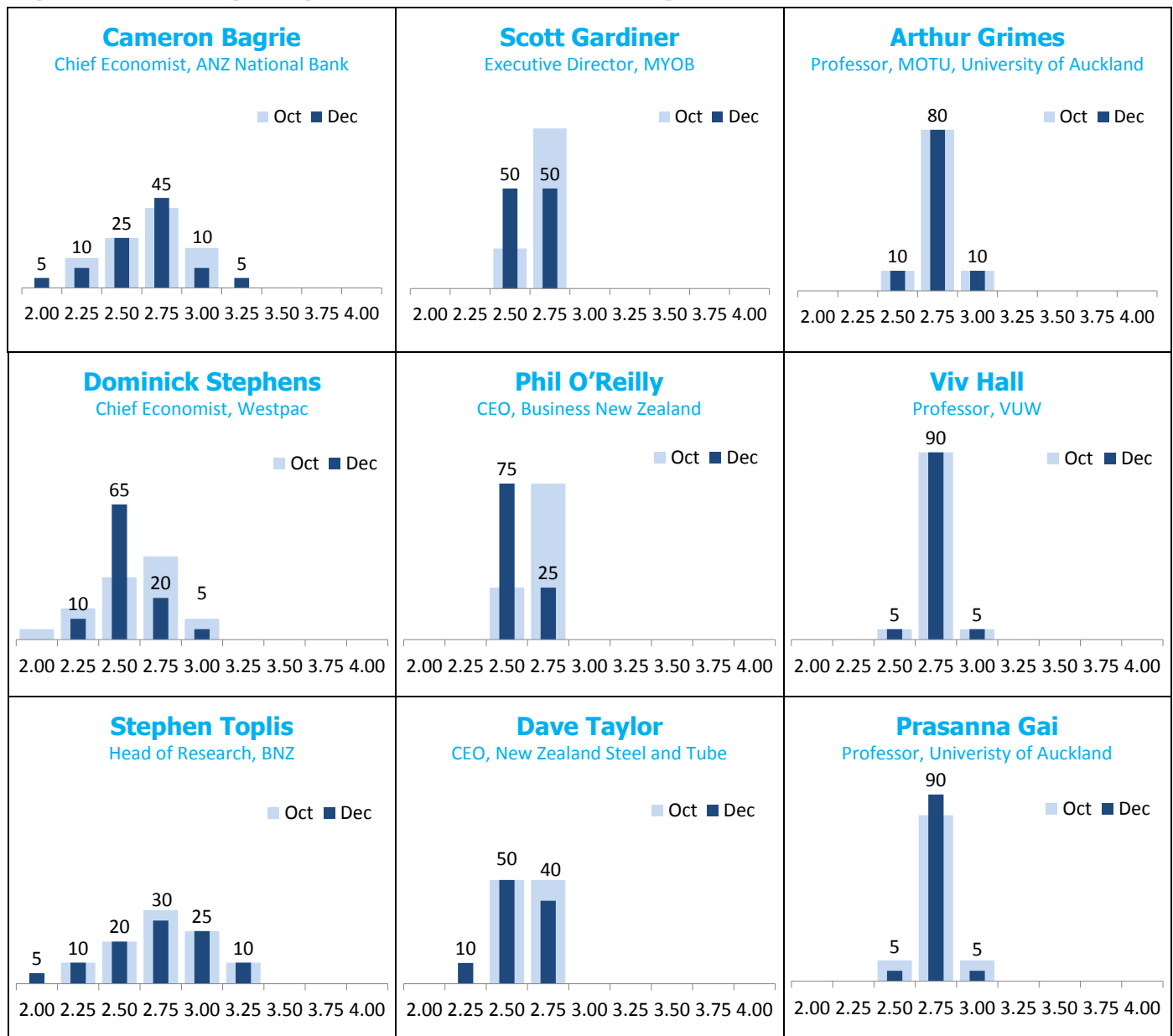


Source: NZIER *Monetary Policy Shadow Board*

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Figure 2 Individual participants' recommended rate settings – 4 December 2015



Source: NZIER Monetary Policy Shadow Board

Table 1 Participant comments

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

Cameron Bagrie	I don't see any hurry to move again right now. The economy is pretty clearly picking up and the lagged impact of previous cuts has yet to fully take hold. There is still uncertainty over whether this will flow into inflation though. I'd wait for more information on inflation itself before potentially moving again.
Scott Gardiner	Whilst confidence seems to continue to track up, the challenge will be to see if lower interest rates will assist cashflow challenges some sectors face, such as the dairy industry, whilst balancing price pressures.
Arthur Grimes	A 'wait and see' approach remains warranted in the face of conflicting possibilities for the future path of inflation and both the global and domestic economies.
Dominick Stephens	There is little chance of inflation exceeding two percent on average over the coming years. Conversely, there is a very real chance that inflation will settle below two percent. Low inflation globally, the global commodity price downturn, the wind-down of the Canterbury rebuild, and internet retailing are all set to drag inflation down. Impediments to a lower OCR in recent months were the Auckland housing market and the falling exchange rate. But Auckland housing has slowed with a thump, and the exchange rate has risen back above 65 cents.
Phil O'Reilly	No comment.
Viv Hall	Monetary conditions continue to be very accommodative, and any further OCR reduction is unlikely to assist sustainably higher real GDP growth or trend inflation. The signals from factors contributing to inflationary pressures are approximately in balance. Long-foreshadowed Federal Reserve interest rate increases, and their implications for USD-NZD exchange rates, now look closer. So, no change is my "most appropriate" OCR setting.
Stephen Toplis	We think the RBNZ will cut rates next week. It's just that we don't think that this is the best course of action given surging asset prices (housing), a deteriorating household savings ratio, increasing current account deficit and, generally, solid growth.
Dave Taylor	The exchange rate remains elevated, commodities and inflation low, so on balance the move should be towards further softening.
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 Wednesday, 27 January 2016, ahead of the RBNZ's January *OCR Review*. Past releases are available from the NZIER website: 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.