

New Zealand Institute of Economic Research (Inc)  
Media release

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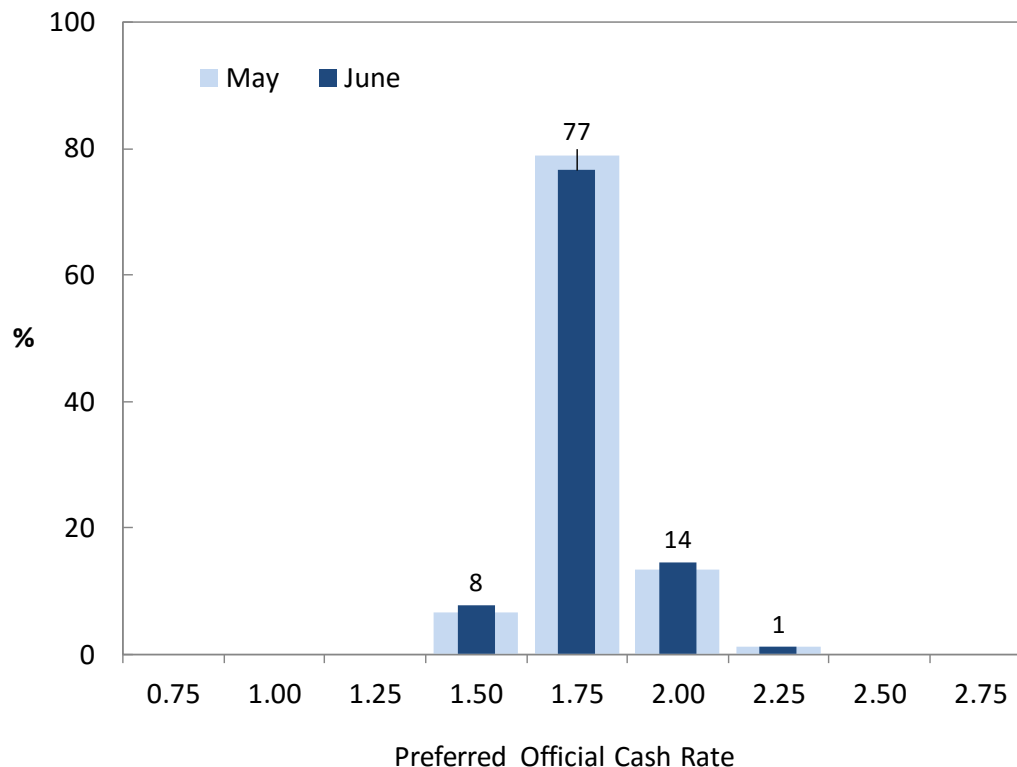
## NZIER's *Shadow Board* recommends no change to the OCR

NZIER's *Monetary Policy Shadow Board* sees little need to change the Official Cash Rate ahead of the Reserve Bank's *OCR Review* on Thursday.

"There is still a great deal of uncertainty over the effects of new government policies, which continues to weigh on business confidence. However, this continued pessimism about the New Zealand economy is at odds with what firms are seeing when it comes to demand in their own business, which continues to hold up at healthy levels. Nonetheless, this uncertainty may impact on firms' planning over the longer run, and adds to the case for the Reserve Bank to be cautious as to when it lifts interest rates." said Christina Leung, Principal Economist at NZIER.

"There is a slightly more divergent view amongst the Shadow Board members relative to the previous round, but the recommendation remains firmly centred on no change to the OCR. Higher global interest rates support a tightening bias, but the heightened uncertainty and low inflation environment indicates little urgency for interest rates to be lifted."

**Figure 1 Slightly more divergent views amongst the Shadow Board members**



Source: NZIER *Monetary Policy Shadow Board*

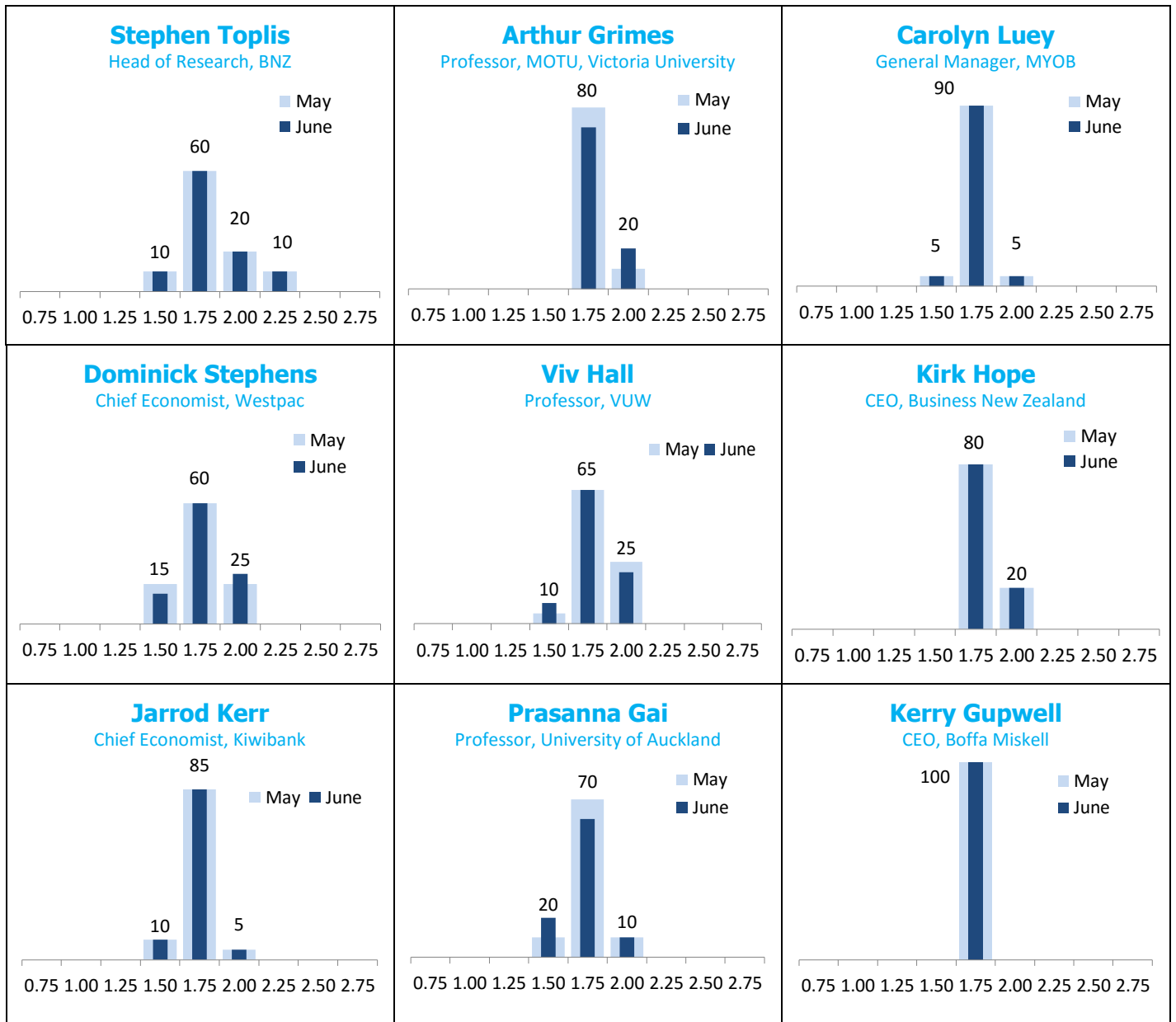
\* distribution may not add up to 100% due to rounding

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Figure 2 Individual participants' recommended rate settings – 20 June 2018



Source: NZIER Monetary Policy Shadow Board

## Table 1 Participant comments

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

|                          |   |
|--------------------------|---|
| <b>Carolyn Luey</b>      | We think the Reserve Bank ought to keep the cash rate steady, given the current shaky state of local business confidence and concerns about global uncertainty. It will be interesting to see what the Bank's outlook is following the US Federal Reserve's increase last week and its signal of two more rises by the end of the year. |
| <b>Arthur Grimes</b>     | As in a number of other countries, NZ will soon have to move towards reducing its degree of monetary stimulation in what is virtually a fully-employed economy.   |
| <b>Dominick Stephens</b> | Inflation is below target, employment is roughly in line with the sustainable maximum, and the economy is slowing. Keeping the OCR steady at a low rate is probably best. The balance of probabilities has tilted slightly towards a higher OCR due to the Government's stimulatory Budget and rising petrol prices.                    |
| <b>Kirk Hope</b>         | No comment.   |
| <b>Viv Hall</b>          | No sustained inflationary pressures for the immediate future, and variations in real GDP growth rates and disaggregated components remain modest. Some non-trivial international trade-related concerns, but on balance I recommend no change to the OCR and a further marginal easing of my tightening bias.                           |
| <b>Stephen Toplis</b>    | We have recently revised upward our CPI forecasts but, at the same time, have become more aware of the downside risks to New Zealand's economic outlook. These two factors broadly balance each other out leaving us with an unchanged prognosis for interest rates.  |
| <b>Prasanna Gai</b>      | No comment.   |
| <b>Jarrold Kerr</b>      | Evidence of inflation pressure remains patchy. The NZ dollar has started to fall, but is resilient even with the US Fed funds rate now overtaking the OCR. Inflation will eventually start to rise, for now there is simply little urgency for the RBNZ to hike. In our view the Bank is still at least a year away from any move.      |
| <b>Kerry Gupwell</b>     | I see no reason for a lift in the rate as yet. There is a sense of upward pressures on CPI from labour reforms, skills shortage, wage rounds, petrol tax/levy (oil prices) but we are yet to see any flow on effects.   |

## 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 Tuesday 7 August 2018, 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 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.