

New Zealand Institute of Economic Research (Inc)
Media release

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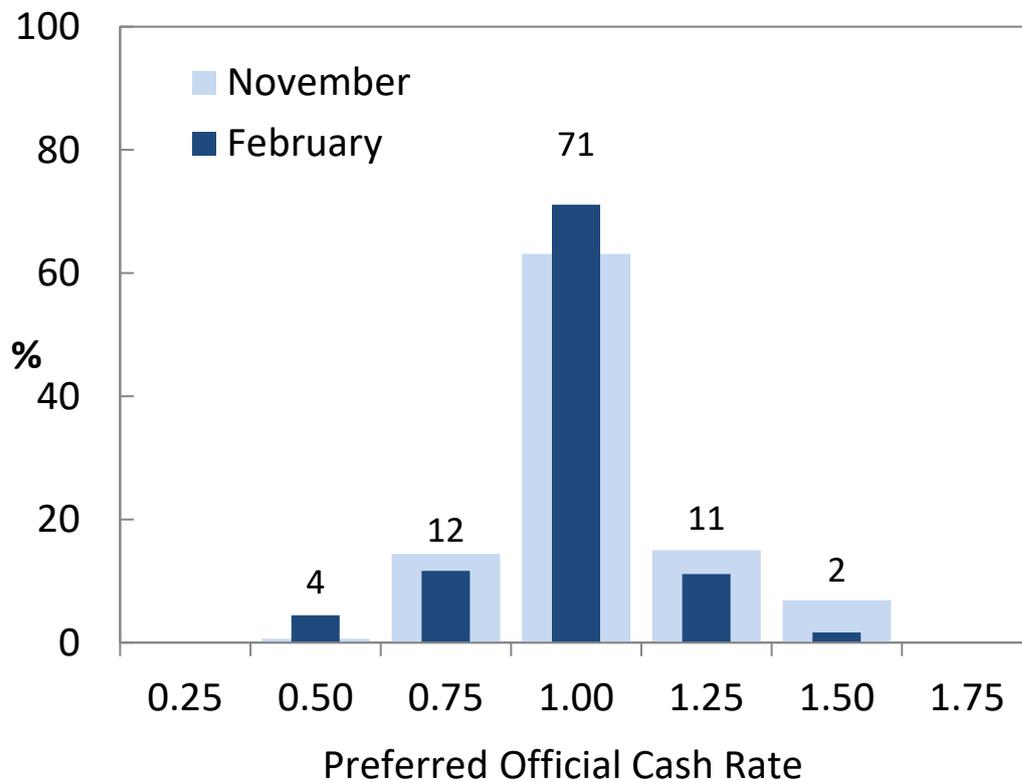
NZIER's *Shadow Board* see risks to both sides of the current OCR

There remains a wide 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. Although Shadow Board members acknowledged the positive developments in the New Zealand economy, the recent coronavirus outbreak has introduced further uncertainty over the global growth outlook. Overall, Shadow Board members still called for the OCR to be kept on hold.

“Shadow Board members highlighted the uncertainty over how the coronavirus will affect demand for New Zealand exports. Other than that, developments have largely been positive. Households are feeling optimistic as housing market activity picks up, and business confidence is recovering as the Government signals a greater willingness to spend on infrastructure.

The added uncertainty over how long the coronavirus will persist means that Shadow Board members deemed it prudent for the Reserve Bank to wait and see how the effects play out.” said Christina Leung, Principal Economist at NZIER.

Figure 1 Uncertainty over coronavirus weighs on OCR outlook



Source: NZIER *Monetary Policy Shadow Board*

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

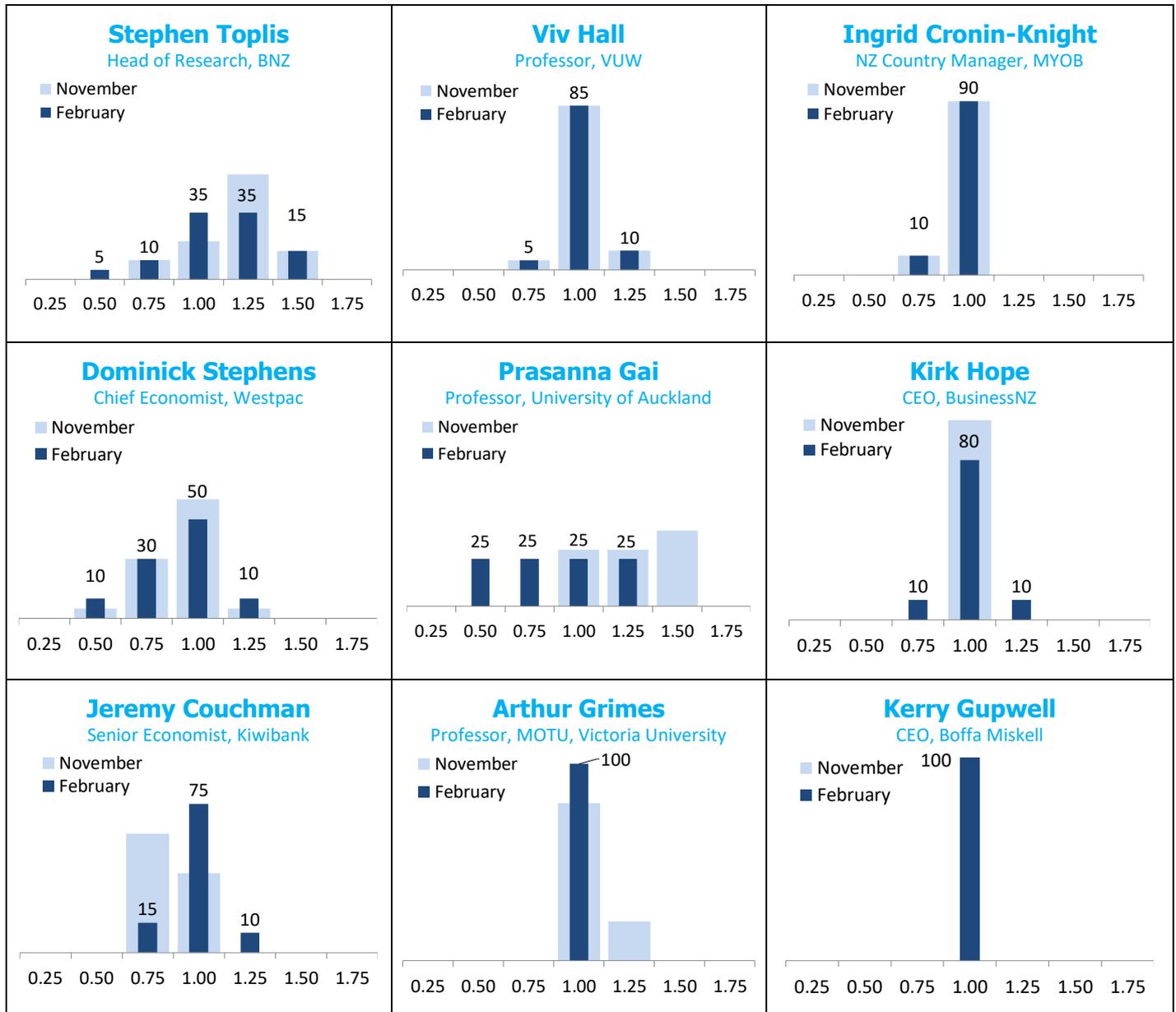
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Figure 2 Individual participants' recommended rate settings – 5 February 2020



Source: NZIER Monetary Policy Shadow Board

Table 1 Participant comments

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

Stephen Toplis	Ex the coronavirus we would now be moving to a more hawkish stance. But the virus cannot be ignored and significantly increases negative tail risks. Our response recognizes this. While probability distributions of appropriateness are interesting in an intellectual sense, realistically the RBNZ will have little option but to hold rates where they are until greater clarity develops.
Viv Hall	No sufficiently solid evidence yet on implications of the novel coronavirus for international trade in goods & services, so no recommendation at this stage for any change to the OCR, and no amendment to my probabilities.
Dominick Stephens	Before coronavirus, the OCR outlook had lifted slightly due to rising inflation, low unemployment, government infrastructure plans, and new data showing the economy is stronger than previously thought. The housing market is behaving exactly as we expected. However, the probabilities have blown out this time due to coronavirus, which is highly uncertain.
Prasanna Gai	No comment.
Kirk Hope	No comment.
Jeremy Couchman	Global trade tensions have abated, and local data has generally surprised on the upside since November. However, there is no need for the RBNZ to alter the cash rate. Local businesses still exhibit a degree of caution, broad global risks surrounding trade haven't changed, and we now face the emergence of the coronavirus - threatening global growth in the short term.
Ingrid Cronin-Knight	We are awaiting our latest MYOB business monitor survey but from our last set of data (at the end of 2019) business confidence is trending up. However new developments – particularly the economic impacts of Coronavirus on tourism and primary sector industries – are likely to create uncertainty.
Arthur Grimes	Given current uncertainties, now is not the time for any change to the OCR.
Kerry Gupwell	I see no need to change the OCR just yet as they may need their powder dry and monitor the potential effects of the coronavirus. The infrastructure announcements seem to have lifted optimism in certain sectors however there is residual wariness over "delivery".

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 23 March 2020, ahead of the RBNZ's *OCR Review*. 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.