New Zealand Institute of Economic Research (Inc)
Media release

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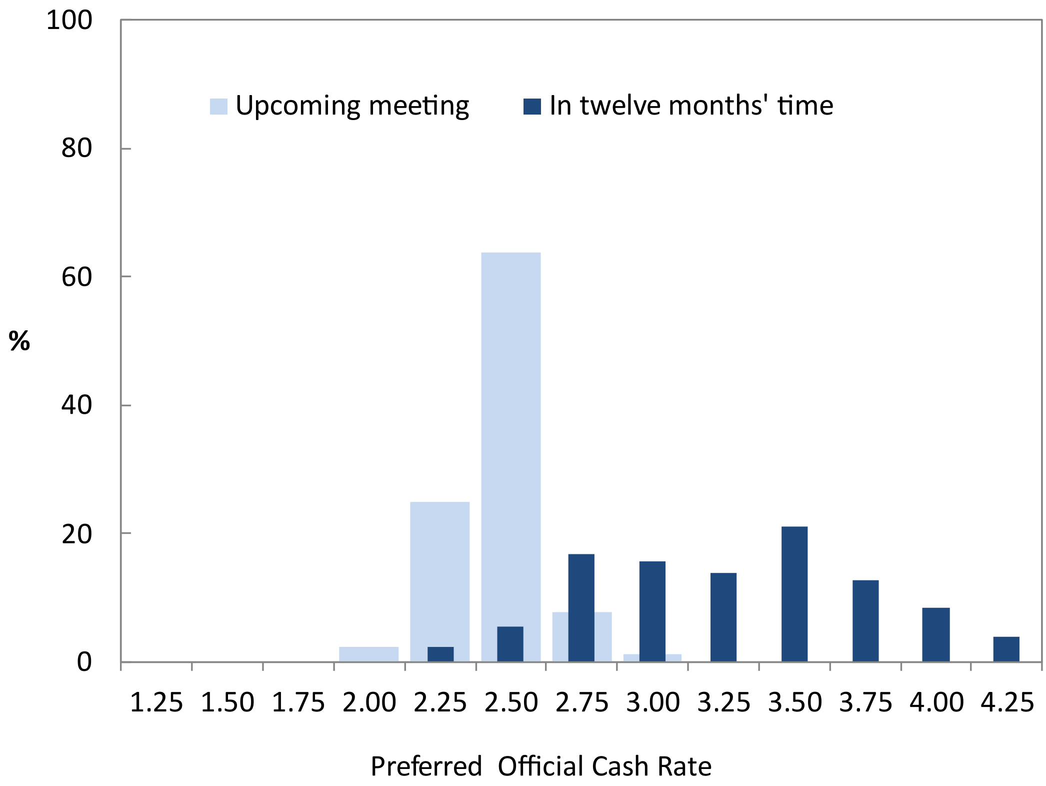
Shadow Board members recommend the Reserve Bank gets on with OCR increases

The widely held view amongst the Shadow Board is that the Reserve Bank of New Zealand should increase the Official Cash Rate (OCR) by 50bp at the upcoming meeting in July. Only one member from the business community was divided on whether such a large hike was necessary at the next meeting, given the fine balance between the surge in inflation and signs of slowing economic activity.

Beyond the July meeting, Shadow Board members believed further OCR increases were warranted, citing the very intense inflation pressures in the New Zealand economy. There was a wide range of views on the degree of monetary tightening required. While many members pointed to the need for the Reserve Bank to rein in inflation pressures by lifting interest rates, emerging signs of an easing in demand raised concerns about the longer term growth outlook. These concerns meant some Shadow Board members saw limited further tightening as necessary over the coming year. The release of the latest June quarter NZIER *Quarterly Survey of Business Opinion* highlighted the tricky balancing act faced by the Reserve Bank as inflation pressures intensify against a backdrop of slowing demand in the New Zealand economy.

Figure 1 Shadow Board recommends further tightening over the coming year
% strength of policy preference on stance RBNZ should take



Source: NZIER *Monetary Policy Shadow Board*

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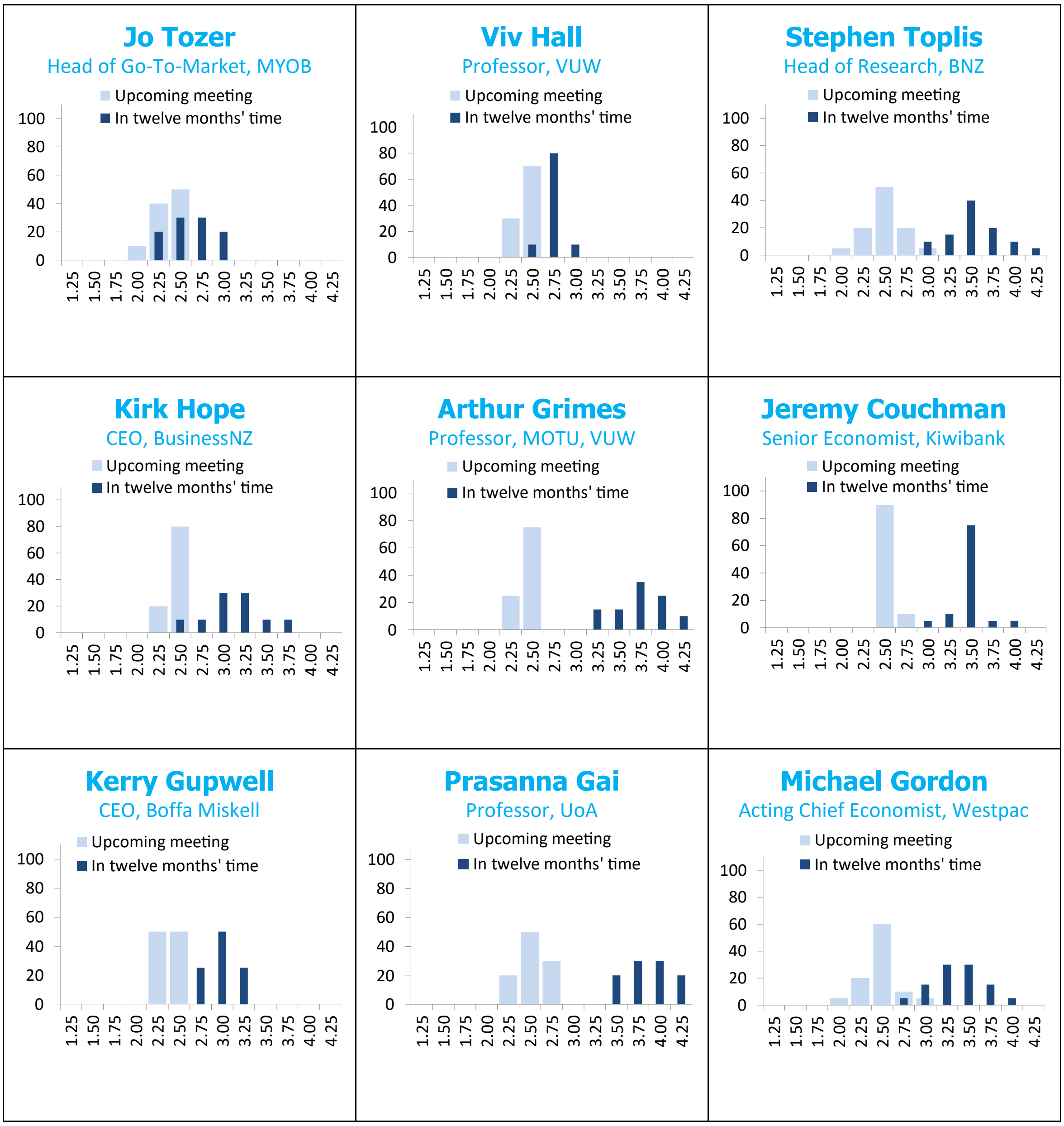
Figure 2 Individual participants’ recommended rate settings – 7 July 2022



Source: NZIER *Monetary Policy Shadow Board*

Table 1 Participant comments

Participant comments are optional.

Stephen Toplis	The RBNZ has little choice but to go 50bp at the upcoming meeting; otherwise, its credibility would be threatened. Thereafter, further rate increases are warranted, but we still think that rates will not need to go as high as current market pricing.
Viv Hall	Further increases in the OCR are required over the coming 12 months. Should one increase the OCR by another 50 bp now and then pause to assess the cumulated effect of global and domestic monetary policy tightening, or would successive 25bp increases be more appropriate? Slowing of our real sector activity may be greater than the speed of reduction of CPI inflation, but on balance, a further 50 bp increase is necessary now.
Kirk Hope	No comment.
Jeremy Couchman	The RBNZ still has plenty of work to do to cool inflation and meet its mandate. Supply-side issues continue to hammer firms. For instance, the labour market is as tight as it gets, and rising wage inflation is the result. In addition, longer-term inflation expectations are still at risk of becoming unanchored.
Jo Tozer	In MYOB's Business Monitor survey of 1000 SMEs, only 3% of respondents were not concerned about the rise in inflation or its impact on the cost of goods and consumer spending. Given this high level of concern and changes in consumer confidence as the cost of living increases, SMEs likely expect the Reserve Bank to continue to adjust the OCR in order to target inflation pressures.
Arthur Grimes	Despite an over-heated economy, real interest rates are currently massively negative (using any measure of inflation expectations). They need to return to being positive, meaning they should be somewhere near 4% in a year's time; they would need to be higher still if inflation stays above 3% for the next twelve months.
Michael Gordon	The RBNZ should continue to follow through with the OCR hikes that have been signalled – not doing so would mean an effective easing of monetary conditions that, at this stage, would be unintended. However, with the global economy cooling, it's time to start thinking about when to bring the tightening cycle to a close.
Prasanna Gai	No comment.
Kerry Gupwell	While the economy is slowing, there are ongoing supply-side and capacity constraints driving inflation and measures of financial stress appear to be absent, so a further increase in the OCR is warranted. Again the question is by how much, as things are finely balanced.

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, 15 August 2022, 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.