

New Zealand Institute of Economic Research (Inc)
Media release

For release 10am Monday 5 August 2019

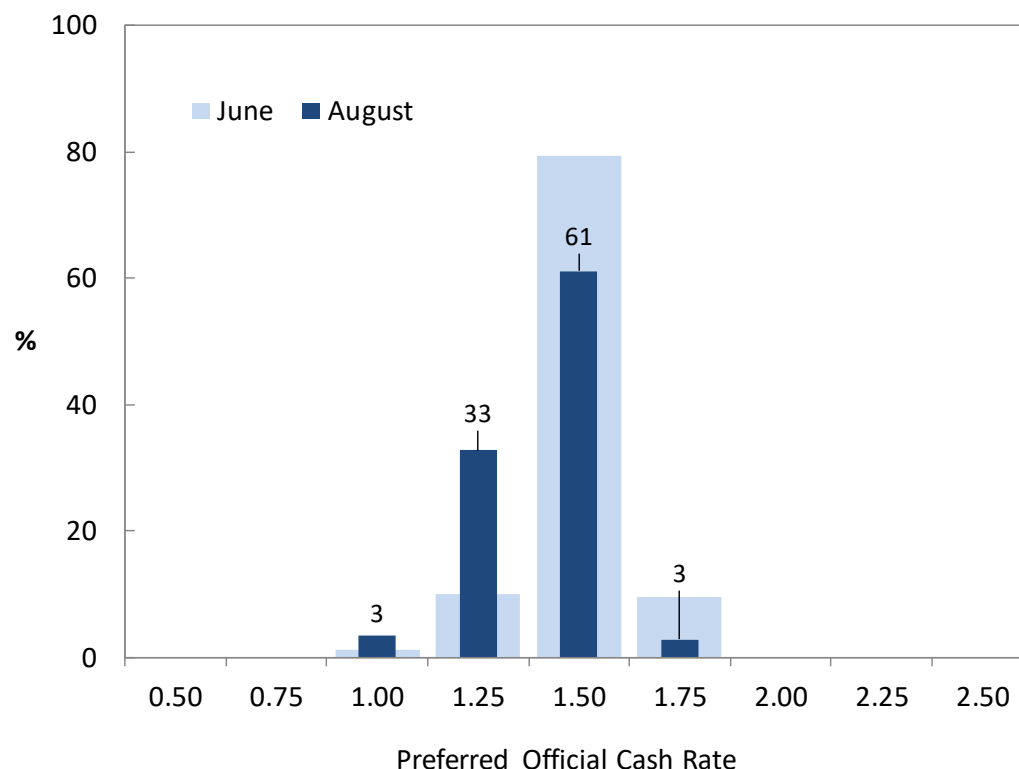
NZIER's *Shadow Board* sees stronger easing bias as appropriate

NZIER's *Monetary Policy Shadow Board* have lowered their recommendation for the OCR but remained centred on a no-change decision for Wednesday. There was a wide range of views this time, and NZIER *Shadow Board* members distinguished between their views on what they think the Reserve Bank will do, versus what it should do. Nonetheless, there was a stronger easing bias amongst the NZIER *Shadow Board*, relative to June.

"The Reserve Bank noted a lower OCR may be needed given it saw downside risks around the employment and inflation outlook. The Reserve Bank's concern, combined with recent activity indicators showing a further weakening in business confidence and some slowing in demand, means that at least one further OCR cut is likely.

The majority of the NZIER Shadow Board still believes it is appropriate to leave the OCR on hold at this meeting. There was scepticism amongst some Board members that further monetary policy easing would boost activity and inflation, and undesired consequences from interest rates being too low was also highlighted." said Christina Leung, Principal Economist at NZIER.

Figure 1 Stronger easing bias on a no-change recommendation



Source: NZIER *Monetary Policy Shadow Board*

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

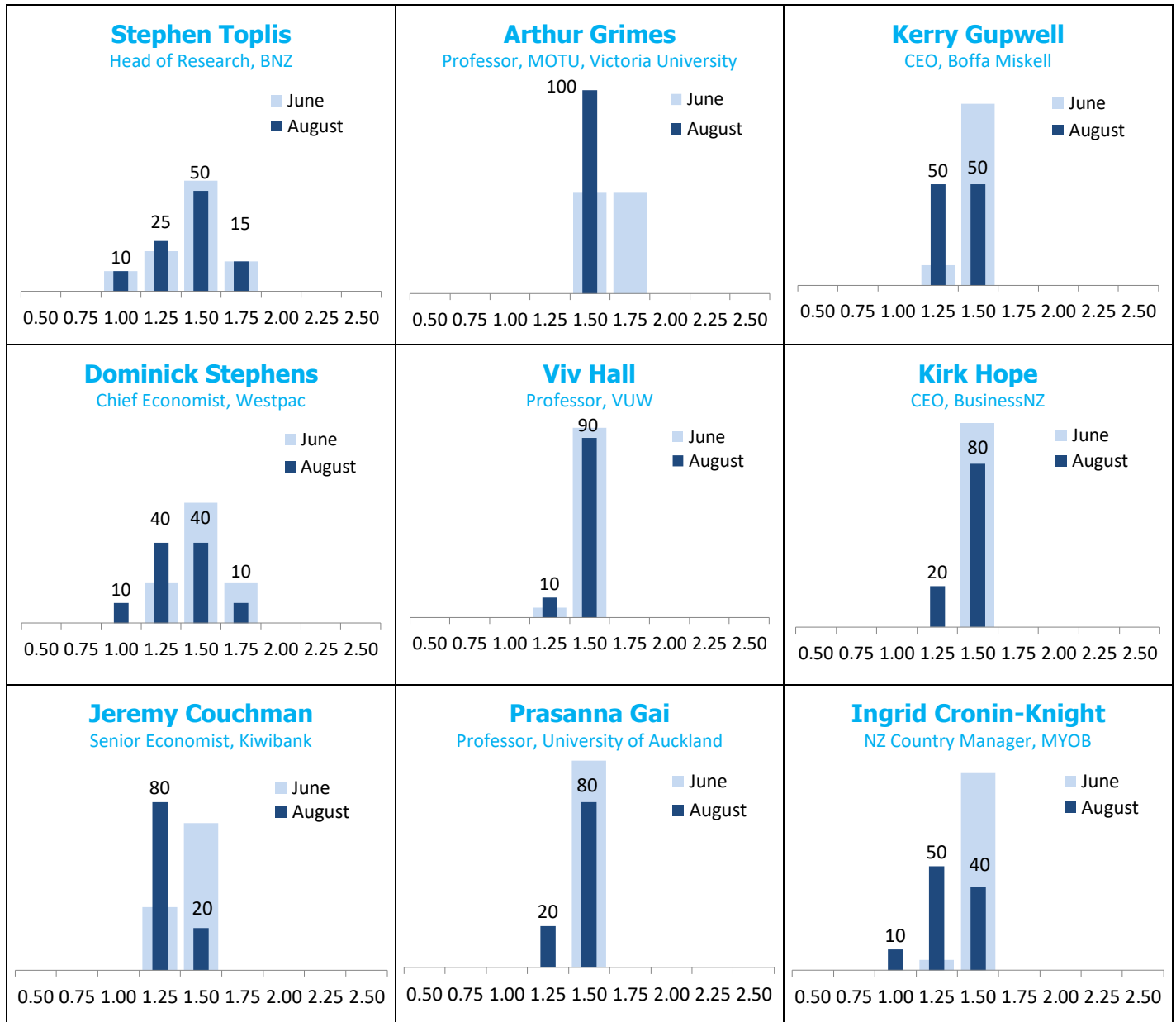
For further information, please contact:

Christina Leung, Principal Economist & Head of Membership Services

christina.leung@nzier.org.nz

021 992 985

Figure 2 Individual participants' recommended rate settings – 31 July 2019



Source: NZIER Monetary Policy Shadow Board

Table 1 Participant comments

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

Arthur Grimes	One of the major problems caused by interest rate reductions since the GFC has been to raise house prices, causing both increased poverty and a massive financial stability risk. House prices need to fall and monetary policy should not prevent this from happening. Further interest rate reductions may therefore be counterproductive both for wellbeing and in exacerbating financial stability concerns.
Dominick Stephens	The domestic economy has remained weak, global economic risk abound, and other central banks are lowering interest rates. This has changed the outlook for New Zealand monetary policy, hence more weight on the likely need for a lower OCR.
Kirk Hope	No comment.
Viv Hall	It's not clear that a further 25 bp OCR cut will lead to materially greater economic growth and employment. The only strong argument for a cut at this stage would be if RBA cuts further on 6 August, resulting in an unsatisfactorily large 75 bp gap.
Stephen Toplis	We expect the RBNZ to cut rates on August 7 to 1.25%. We expect it to maintain a soft easing bias. But we remain unconvinced that a cut in interest rates will have the desired impact on inflation in the current environment.
Prasanna Gai	No comment.
Kerry Gupwell	I am not sure if a further cut is needed in terms of trying to stimulate a slowing economy, perhaps other levers/decisions/execution is needed as part of a more broader economic strategy.
Jeremy Couchman	A 25bp cut to the OCR to backup May's cut is warranted. The outlook for GDP growth has deteriorated, with business confidence pointing to slower growth over the second half of 2019. Major central banks are lining up to loosen policy to fend off the fallout from US-China trade tensions. The NZ dollar has strengthened as a result. The RBNZ may have to do more in the months ahead.
Ingrid Cronin-Knight	MYOB's June Monitor Snapshot indicates the SME sector is still performing solidly, with a third of businesses reporting more work in the pipeline for the current quarter and 38% predicting their returns would increase this year.

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 September, ahead of the RBNZ's *Monetary Policy Statement*. 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.