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Media release

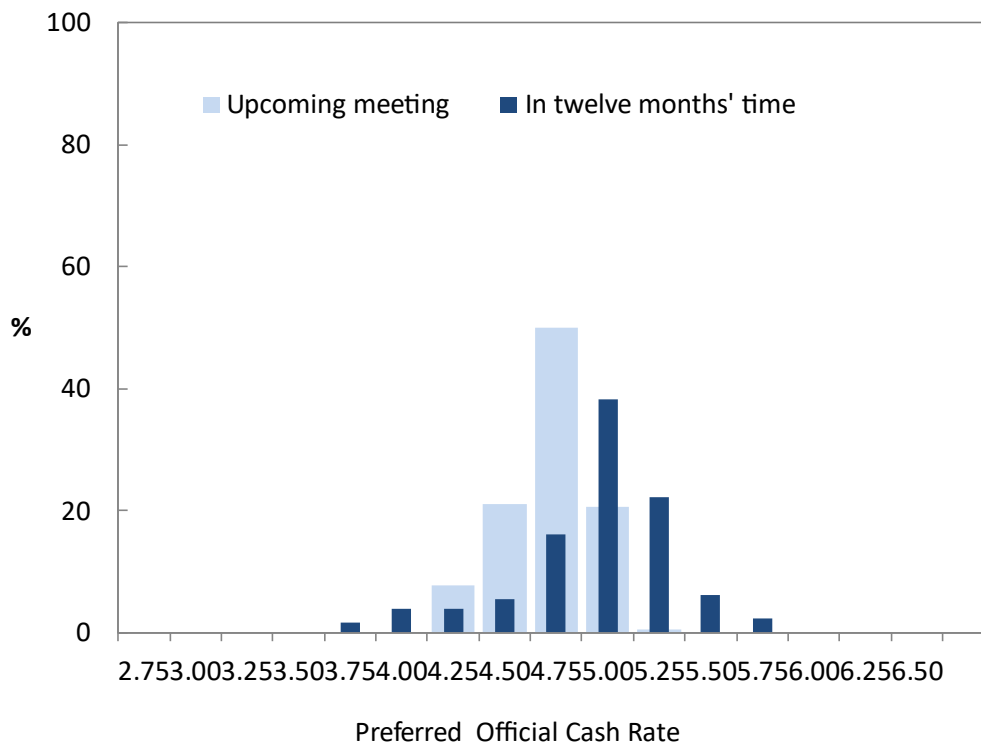
For release 10 am Monday, 20 February 2023

Shadow Board recommends the Reserve Bank increases the OCR by 50 basis points in February

Shadow Board members recommend that the Reserve Bank continue increasing the Official Cash Rate (OCR). The broad view was a 50 basis-points increase in the OCR at the Reserve Bank's February meeting, given inflation pressures in the New Zealand economy remain strong. Only one member recommended a smaller increase of 25 basis points. Some members also noted that while inflation and interest rates in New Zealand are approaching their peaks, the Reserve Bank should commit to controlling inflation.

Regarding where the OCR should be in a year, the Shadow Board recommends the Reserve Bank takes a more measured approach, with the core views ranging from 4.00 percent to 5.50 percent. One member suggested that the degree of further tightening depends on the effects of cumulated domestic and global interest rate increases to date. Another member highlighted the need for the Reserve Bank to be cautious of over-tightening as monetary policy works with a lag in either direction. Some members pointed out that inflation in New Zealand is reaching its turning point, similar to other countries. However, they also suggested the Reserve Bank should carefully consider the potential for a further rise in cost pressures, particularly in construction, due to the recent extreme weather events in the North Island.

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



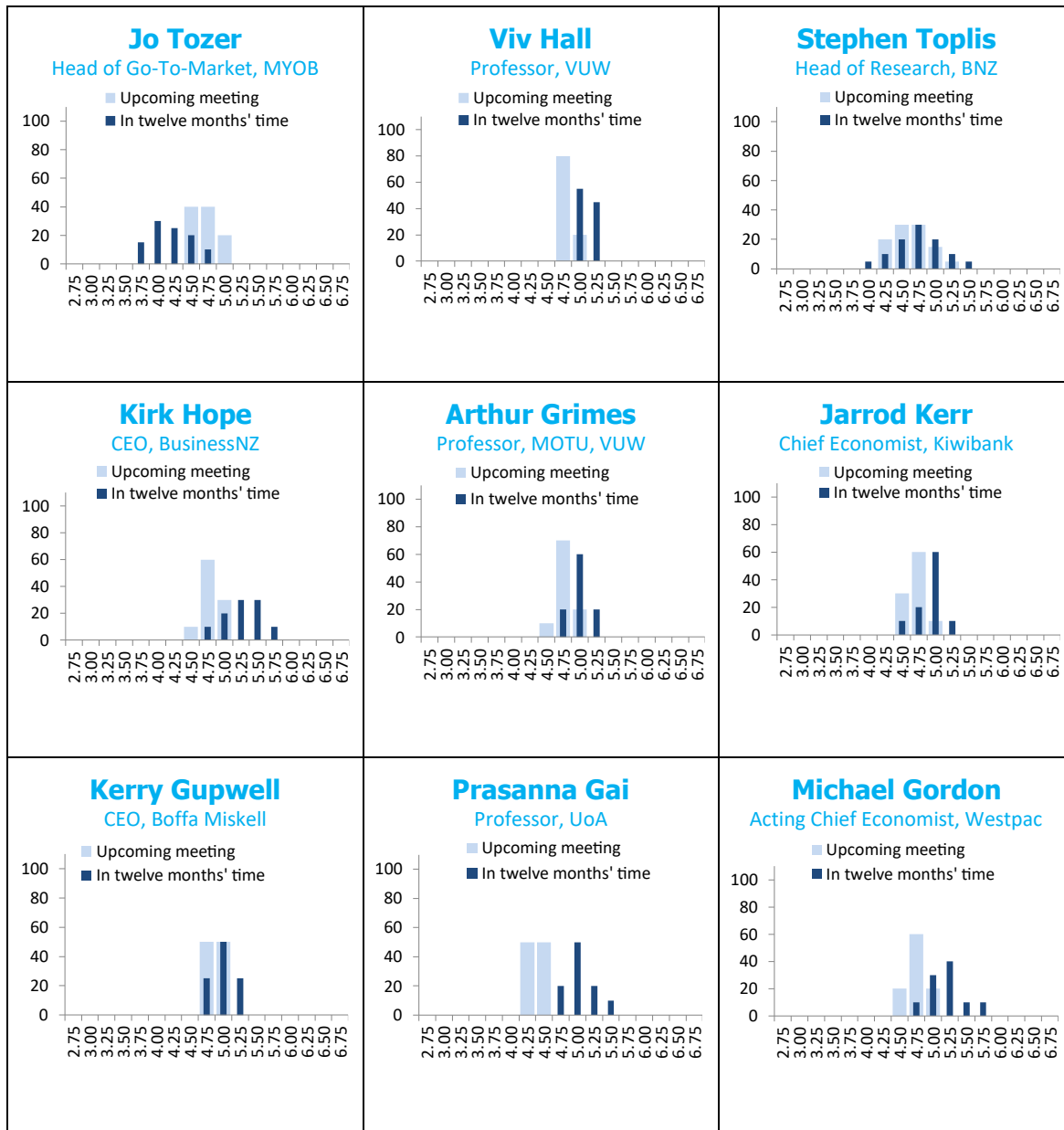
Source: NZIER *Monetary Policy Shadow Board*

For further information, please contact:

Ting Huang, Senior Economist

ting.huang@nzier.org.nz, 027 266 0969

Figure 2 Individual participants' recommended rate settings – 15 February 2023



Source: NZIER Monetary Policy Shadow Board

Table 1 Participant comments

Participant comments are optional.

Stephen Toplis	We are rapidly approaching the peak in interest rates. But, equally, we are a long way from warranting a cut. There is probably no need to tighten at all at the upcoming meeting, from an economic perspective, but was the RBNZ to appear too dovish, financial markets would start to price in near term easing that would impede the Bank from achieving its objectives.
Viv Hall	Underlying inflation pressures remain strong, and a 50 bp increase now is warranted. Depending on the effects of cumulated domestic and global interest rate increases to date, either a 25 bp or a 50 bp increase should then follow in April.
Kirk Hope	No comment.
Jarrod Kerr	The severe impact of recent weather events warrants some caution from the RBNZ. Lost economic activity (income for businesses) is ongoing, and there will be a huge clean-up and rebuilding effort. The accompanying lift in economic activity, as the rebuild continues, and inflationary pressures added to the construction sector should be 'looked through'. Offshore, the disinflationary phase has kicked in and the outlook for inflation is improving. The world war on inflation is not yet won, but there has been a notable retreat.
Jo Tozer	More than half (54%) of SMEs MYOB surveyed at the end of 2022 said inflation was having the biggest impact on their confidence for the 12 months ahead, and 40% said the same of interest rates. While there are some signals that inflation is being brought under control, rising supply costs and ramifications of the recent extreme weather events will be top of mind for fatigued business owners.
Arthur Grimes	No comment.
Michael Gordon	The RBNZ will understandably continue to emphasise the fight against inflation for now. But in the longer term it will need to keep in mind that monetary policy works with a lag in both directions: the OCR cuts that we're forecasting for 2024 won't deliver effective relief to borrowers until 2025 and beyond.
Kerry Gupwell	Inflation remains persistently high, although it may have peaked. We may be reaching a turning point, so things could be finely balanced, but an increase in the OCR is still warranted in my view, perhaps 50 basis points instead of another 75.
Prasana 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 Monday, 3 April 2023, ahead of the RBNZ's *Monetary Policy Review*. 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.

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