New Zealand Institute of Economic Research (Inc)
Media release

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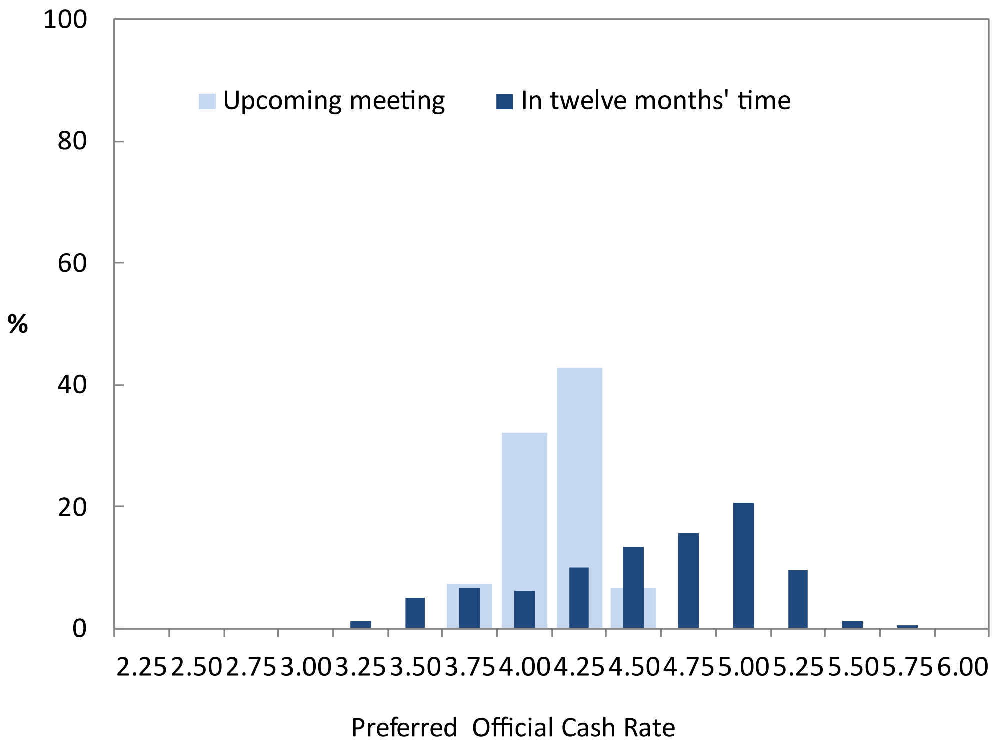
Shadow Board recommends another large OCR hike in November to reduce domestic inflation pressures

Shadow Board members recommend another hike in the Official Cash Rate (OCR) in the Reserve Bank's upcoming November meeting. However, there was a range of views on the size of the increase. The majority view was that the OCR should increase by 75 basis points to 4.25 percent, given that strong action is required to bring down domestic inflation pressures. One member also considered that, given the rapid increase in the US Fed rate in recent months, any increases smaller than 75 basis points would weigh on the New Zealand currency and add to inflation pressures as prices of imported goods increase. Three members preferred a smaller OCR increase. Two of them highlighted the increased risk of entering another recession if the RBNZ increases the OCR by more than 50 basis points, and the other member was concerned about the increased costs for owners of SMEs.

Regarding where the OCR should be in a year, the Shadow Board's core views ranged from 3.50 percent to 5.25 percent. One member noted that more central banks are increasing their interest rates at a less rapid pace now, and the Reserve Bank should take similar actions in the coming year. Some members pointed out that the Reserve Bank should consider the cumulative effect of interest rate increases on the New Zealand economy more carefully when determining the degree of tightening next year.

Figure 1 Shadow Board recommends less-rapid tightening in the next year
% strength of policy preference on stance RBNZ should take



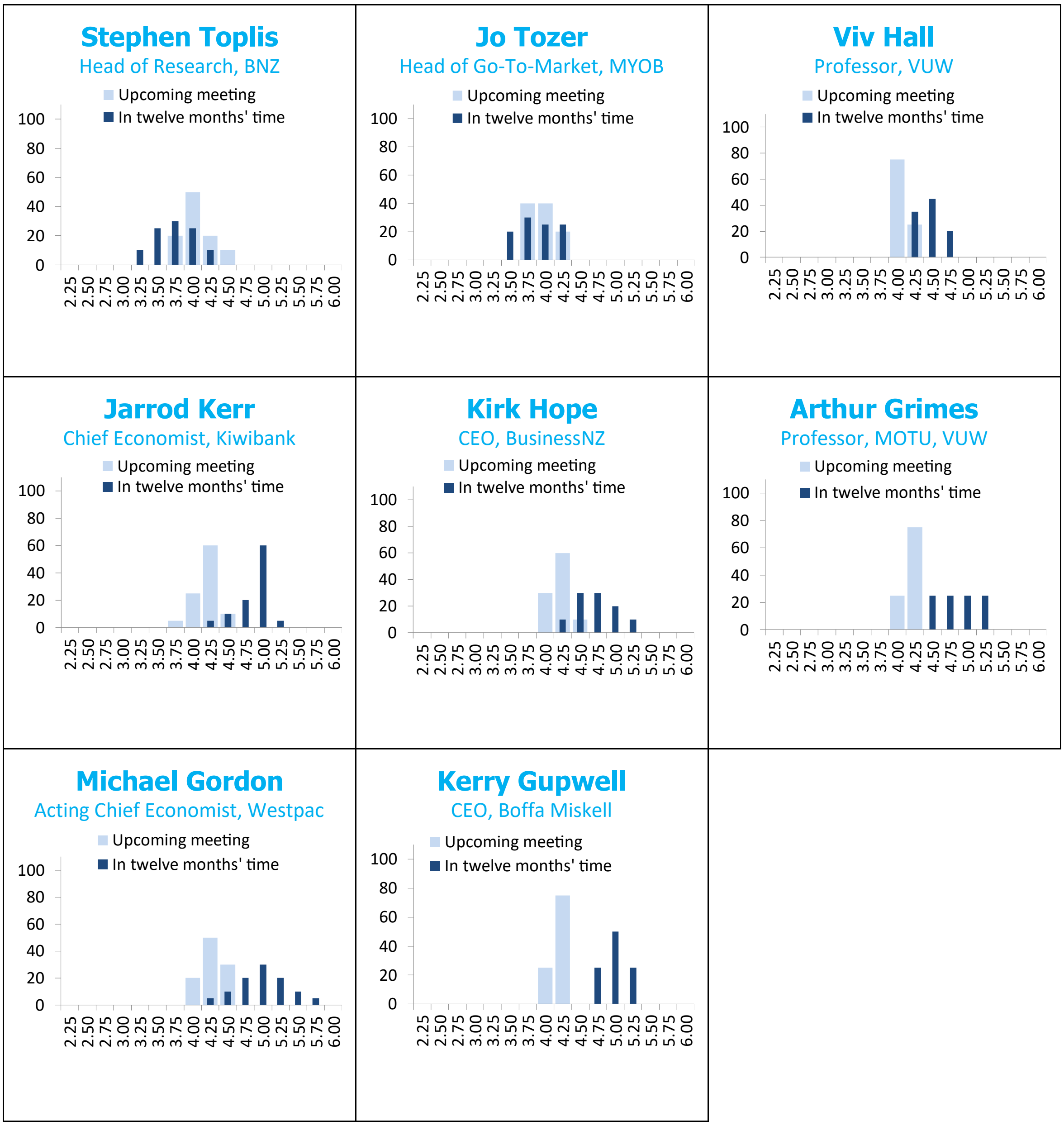
Source: NZIER *Monetary Policy Shadow Board*

For further information, please contact:

Ting Huang, Senior Economist

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

Figure 2 Individual participants' recommended rate settings – 16 November 2022



Source: NZIER *Monetary Policy Shadow Board*

Table 1 Participant comments

Participant comments are optional.

Stephen Toplis	We think the decision is a line ball call for the upcoming meeting. We predict the Bank will go 75 but believe 50 would be a better option. Current indicators show inflation well outside the band and the labour market excessively tight, but leading indicators look almost universally recessionary. They should not be ignored.
Viv Hall	Underlying inflation pressures have not yet eased, and medium term inflationary expectations remain elevated. An immediate 50 bp increase in the OCR is again necessary, while a 75 bp increase now could increase the probability of New Zealand entering its next recession. The effects of cumulated domestic and global interest rate increases should be carefully evaluated ahead of determining the size of OCR increases in 2023.
Kirk Hope	No comment.
Jarrod Kerr	I think the November decision is reasonably straight forward. The RBNZ must keep their foot firmly on the brakes. Mirroring the actions of the US Fed, a 75bp move is most likely. Anything softer will cause a lowering in mortgage rates and a decline in the currency. We don't need the inflationary pressure. The path beyond a 4.25% cash rate, however, is much more difficult to gauge. After taking a long 3 month summer holiday, the RBNZ is back in action in February. By that time, we would have seen a plethora of global economic data, most of it turning south. Recently, we have seen a growing number of central banks 'pivoting' away from relentlessly hawkish stances, to recognising the end of interest rate hikes is near. Come February, the RBNZ may indeed be pivoting.
Jo Tozer	Our insights show the biggest concern for local SMEs heading into 2023 is the rate of inflation and its impact on their own costs, the cost of living, and consumer spending. According to our latest SME Snapshot, most local SMEs are also planning their own price increases as they try to mitigate the impact of rising supply, wage and operating costs.
Arthur Grimes	No comment.
Michael Gordon	The RBNZ is right to be invoking its 'stitch in time' reasoning again. Inflation is increasingly being driven by local conditions, and strong action is needed to avoid the risk of an even more painful peak in interest rates down the road.
Kerry Gupwell	Inflation pressures remain persistent, especially producer and wage cost increases. Further OCR increases are warranted with perhaps a 75 basis point increase before Christmas.

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 February 2023, 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.