

New Zealand Institute of Economic Research (Inc)
Media release

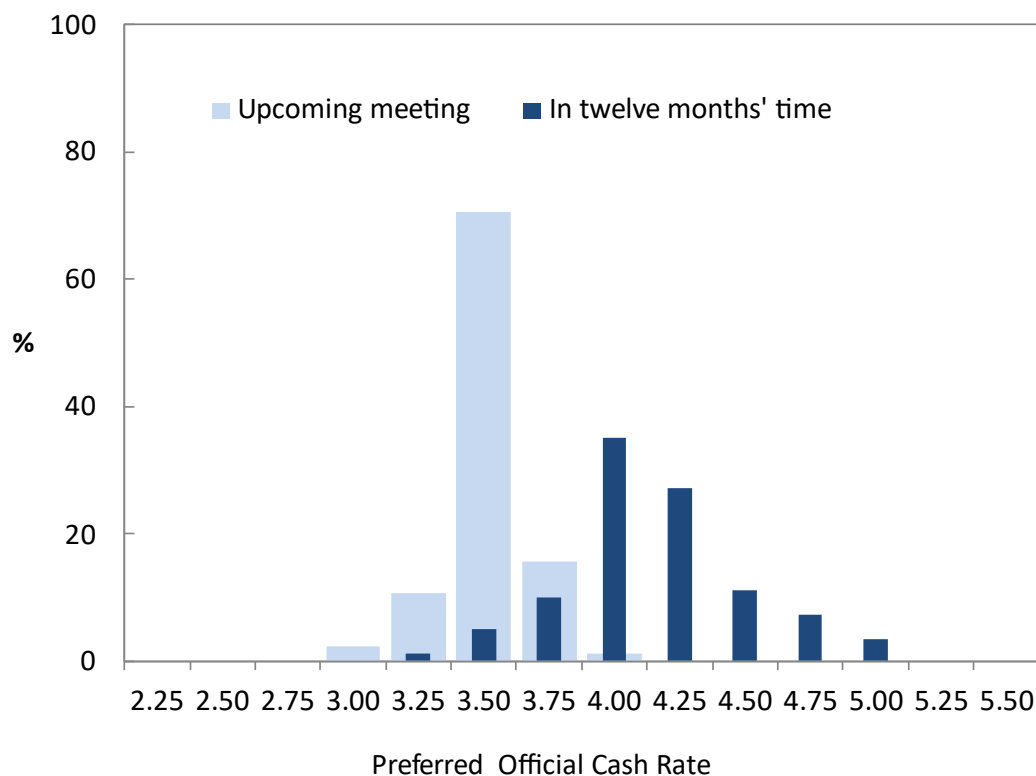
For release 10 am Monday, 3 October 2022

Shadow Board members recommend another 50 basis points increase in October and further tightening necessary

The broad view amongst the Shadow Board is that the Reserve Bank of New Zealand should raise the official cash rate (OCR) by another 50 basis points to 3.50 percent at the upcoming October meeting. Only one member does not recommend such a large increase due to concerns about business and consumer confidence and the increasing cost of finance. Shadow Board members highlighted that domestic constraints, particularly labour, are keeping inflation high.

The Shadow Board's core view regarding where the OCR should be in a year ranged from 3.50 percent to 4.75 percent. Inflation is still the main concern for the New Zealand economy, and further monetary tightening was considered necessary. However, there was a range of views on the degree of further tightening. One Shadow Board member noted the risks of a hard landing in the global economy and the potential impact of this on New Zealand. Another member was concerned with the increasing cost of finance for small businesses if interest rates rise further. Some Shadow Board members highlighted that the extent of further OCR increases depends on how domestically generated inflation responds to the cumulative changes in the OCR to date. With demand from household consumption and business investment weakening, the economy is showing signs of RBNZ's monetary tightening, gradually achieving its intended effect.

Figure 1 Shadow Board recommends further tightening beyond October
% strength of policy preference on stance RBNZ should take



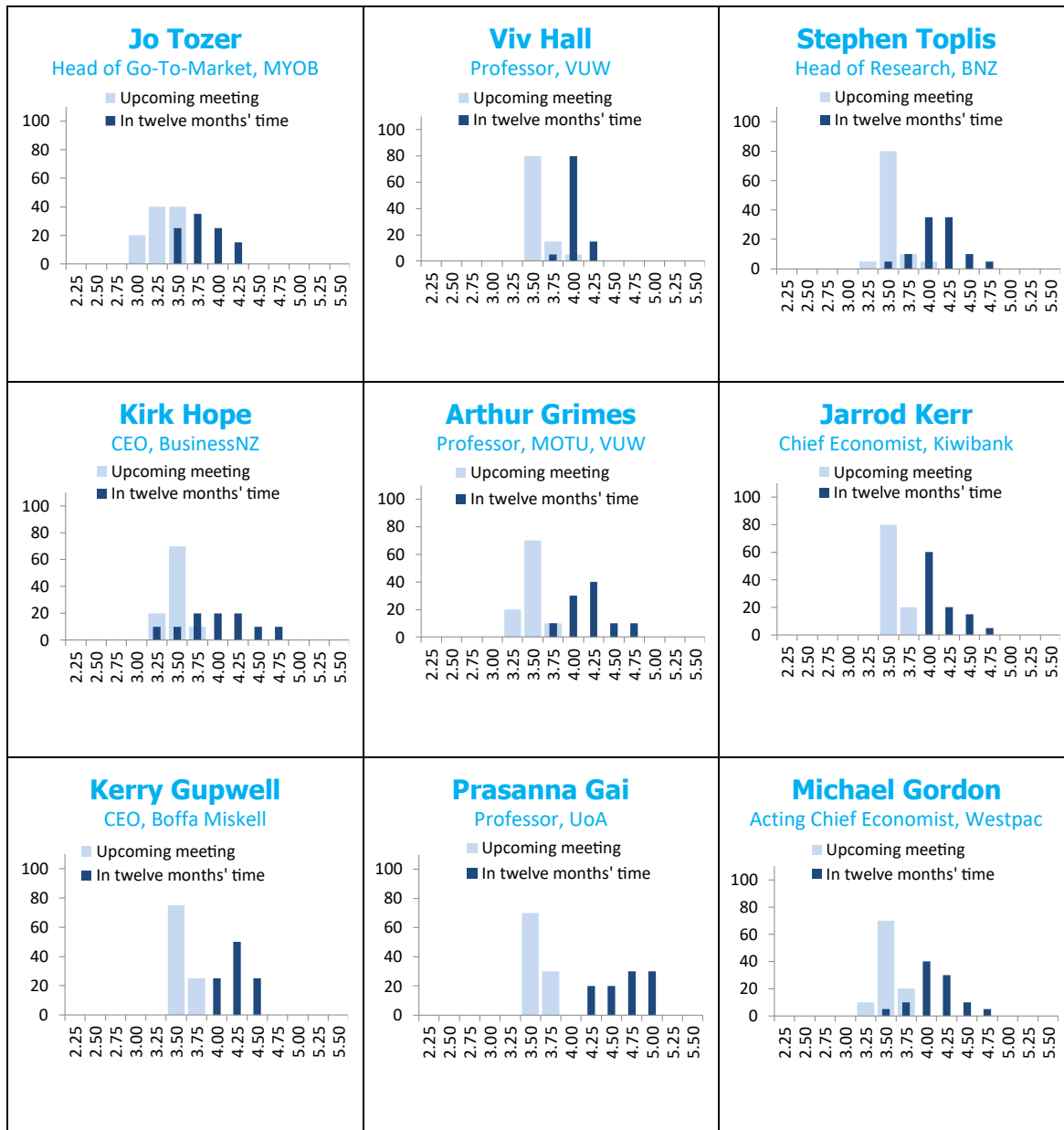
Source: NZIER *Monetary Policy Shadow Board*

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Figure 2 Individual participants' recommended rate settings – 28 September 2022



Source: NZIER Monetary Policy Shadow Board

Table 1 Participant comments

Participant comments are optional.

Stephen Toplis	There is more work to be done in tightening monetary policy. But the wheels are falling off the global economy and we believe the likely impact of this is understated. Consequently, we do not believe the cash rate will need to push to the heady heights as currently priced by the financial markets. It should also, eventually, fall faster than expected.
Viv Hall	Global and domestic inflationary pressures, including from domestic labour market conditions, remain stubbornly strong, and are inconsistent with achieving low and stable inflation in the foreseeable future. This necessitates a further 50 bp increase in the OCR now. The extent of further increases will depend on the degree of success of cumulated OCR increases to date.
Kirk Hope	No comment.
Jarrod Kerr	The terminal rate for the RBNZ's OCR will largely depend on the stickiness of domestically generated inflation. We believe the RBNZ has already gained significant traction in its actions to date. Household consumption is weakening and business investment is on the back foot. The good news is the tourism industry is starting to fire back up.
Jo Tozer	With inflation remaining stubbornly high, it is continuing to weigh on SME and consumer confidence. While the nation's smaller business operators would expect the RBNZ to continue its focus on reducing inflation, over the next year, many SMEs will be wary about the impact on the increasing cost of finance, particularly given many rely on personal credit for funding.
Arthur Grimes	No comment.
Michael Gordon	No comment.
Prasanna Gai	No comment.
Kerry Gupwell	Inflation remains persistent with supply-side constraints, particularly labour. Further OCR increases are warranted, just a matter of how much.

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, 21 November 2022, 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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