

New Zealand Institute of Economic Research (Inc) Media Release, 10 am Monday, 14 August 2023

For immediate release

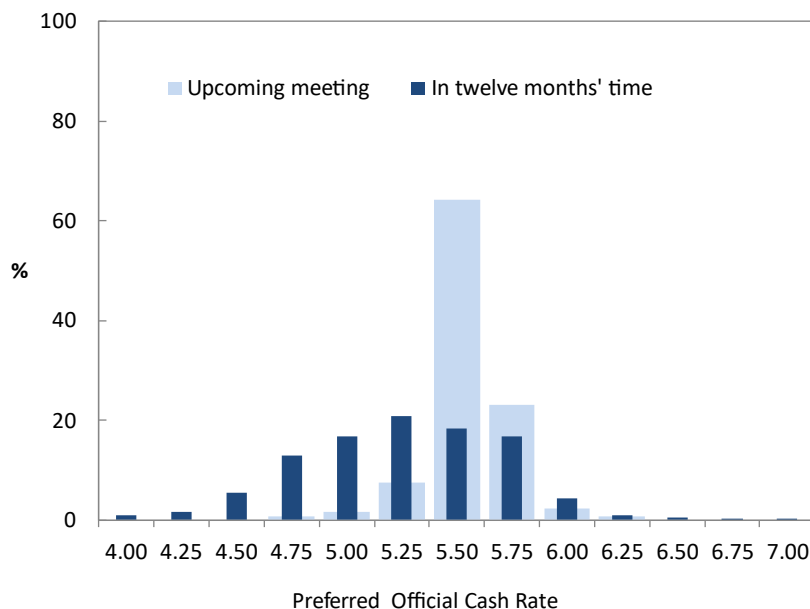
Shadow Board recommends the OCR should remain at 5.5 percent in August

Most Shadow Board members recommend that the Reserve Bank keep the Official Cash Rate (OCR) at 5.50 percent in the upcoming August Monetary Policy Statement. The impacts of previous interest rate increases are still flowing through to the household sector, which should help to reduce inflation pressures in the New Zealand economy. However, two members recommended a 25 basis-point increase in the OCR in August. They were concerned about the stickiness of domestic inflation pressures and the continued increase in employment, which seems to suggest more work now is needed for the Reserve Bank to sufficiently bring inflation down.

Regarding where the OCR should be in a year, the Shadow Board's core view ranged from 4.50 percent to 5.75 percent and centred on an OCR of 5.25 percent. While most members did not see the need for the Reserve Bank to increase the OCR in the August meeting, there were increased concerns over the potential upside risks from strong migration, potential pick-up in the housing market and continued strong growth in employment. It remains crucial for the Reserve Bank to closely monitor the impact of previous OCR increases and risks to inflation pressures in the New Zealand economy.

Figure 1 Shadow Board's view on the OCR in a year's time centres on 5.25 percent

% strength of policy preference on stance RBNZ should take



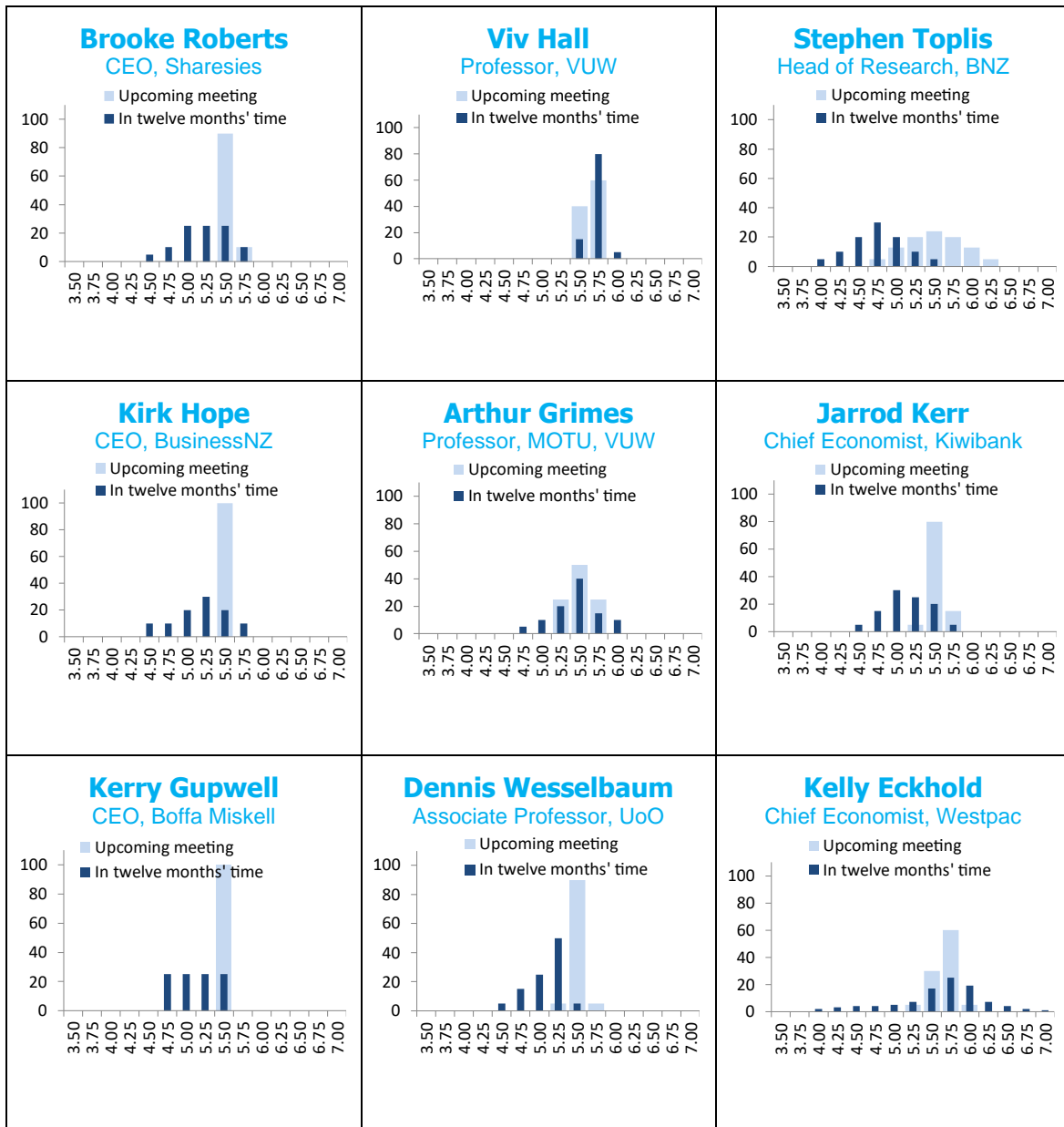
Source: NZIER Monetary Policy Shadow Board

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Figure 2 Individual participants' recommended rate settings – 9 August 2023



Source: NZIER Monetary Policy Shadow Board

Table 1 Participant comments

Participants comments are optional

Stephen Toplis	The risks that rates are currently too low is rising. But so too is the risk that rates are too high. Our central perception of what is right is unchanged but the distribution curve around this is flattening.
Viv Hall	Core/non-tradables inflation remains elevated, and employment continues above its maximum sustainable level. A further 25 basis point increase is therefore warranted now rather than later.
Kirk Hope	No comment.
Jarrold Kerr	The RBNZ will keep the cash rate unchanged at 5.5%, the peak in this cycle. The RBNZ were crystal clear in their messaging in May. And the RBNZ will be crystal clear in the messaging in August. The cash rate has peaked at 5.5% and will stay there until the RBNZ is convinced inflation will return to target. The next move will be a rate cut and could come as soon as February next year.
Arthur Grimes	No comment.
Kelly Eckhold	Inflation pressures remain elevated and sticky and labour markets may take some time to sufficiently ease to bring inflation down sufficiently. The housing market has found a base and could support demand from later this year. Downside risks come from the weaker external situation especially in China.
Kerry Gupwell	While I don't see a change in the OCR this round, I believe there is ongoing inflationary pressure (strong migration, the housing market seemingly picking up, and employment remains strong) which may lead to a further increase before the end of the year.
Dennis Wesselbaum	On balance, there is nothing suggesting changing the OCR at this time.
Brooke Roberts	We expect that the Reserve Bank will hold the OCR at 5.5%. While we are seeing inflation ease, it isn't yet at the levels mandated. We've seen investor confidence begin to increase again through the Sharesies index. Signs that people are thinking our economic situation may be stabilising and opting for more growth focus again. Interest rates are still flowing through to homeowners' pockets, and we expect this to continue to reduce inflationary growth.



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, 2 October 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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