

New Zealand Institute of Economic Research (Inc) Media Release, 10 am Monday, 25 November 2024

For immediate release

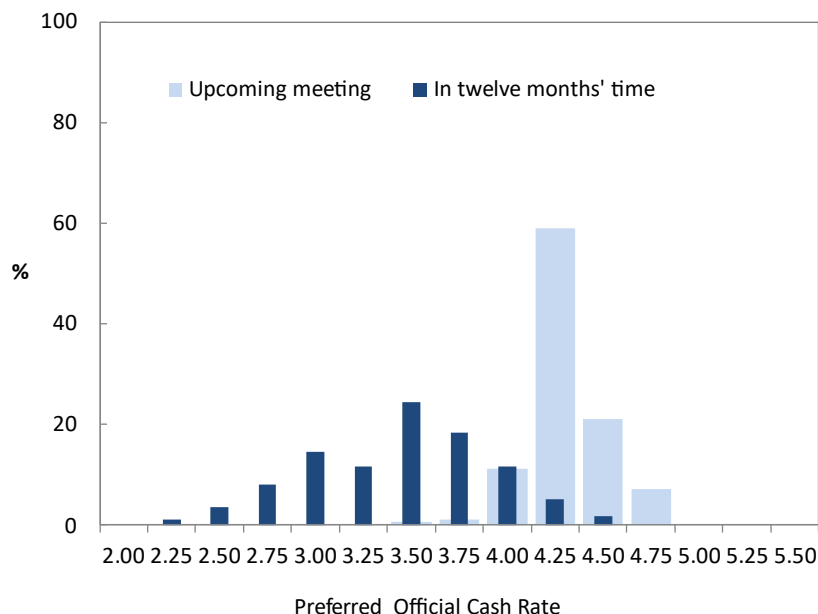
Shadow Board is in favour of lowering the OCR by 50 basis points in November

The NZIER *Monetary Policy Shadow Board* recommends that the Reserve Bank of New Zealand (RBNZ) ease the Official Cash Rate (OCR) by 50 basis points to 4.25 percent in the upcoming November Monetary Policy Statement. With annual inflation now back to within the RBNZ's 1 to 3 percent inflation target band while the New Zealand economy remains soft, most members agreed that a 50-basis point cut in November is appropriate. One member also pointed out that, given the 3-month gap between the November and February meetings, a 50-basis point cut in the upcoming meeting is appropriate so that the OCR can return to its neutral rate within the next 12 months.

Regarding where the OCR should be in a year's time, most Shadow Board members picked an OCR ranging between 3.0 percent and 4.0 percent. This reflects the Shadow Board's view that the RBNZ should continue to reduce the OCR towards its neutral level, given that inflation has returned to the target range, but economic growth remains weak. One member pointed out that the RBNZ needs to watch for the downside risk to the New Zealand dollar due to a potential increase in US trade restrictions, which could limit the extent of OCR cuts over the coming year.

Figure 1 Majority view for the OCR next year range between 3.0 percent and 4.0 percent

% strength of policy preference on stance RBNZ should take



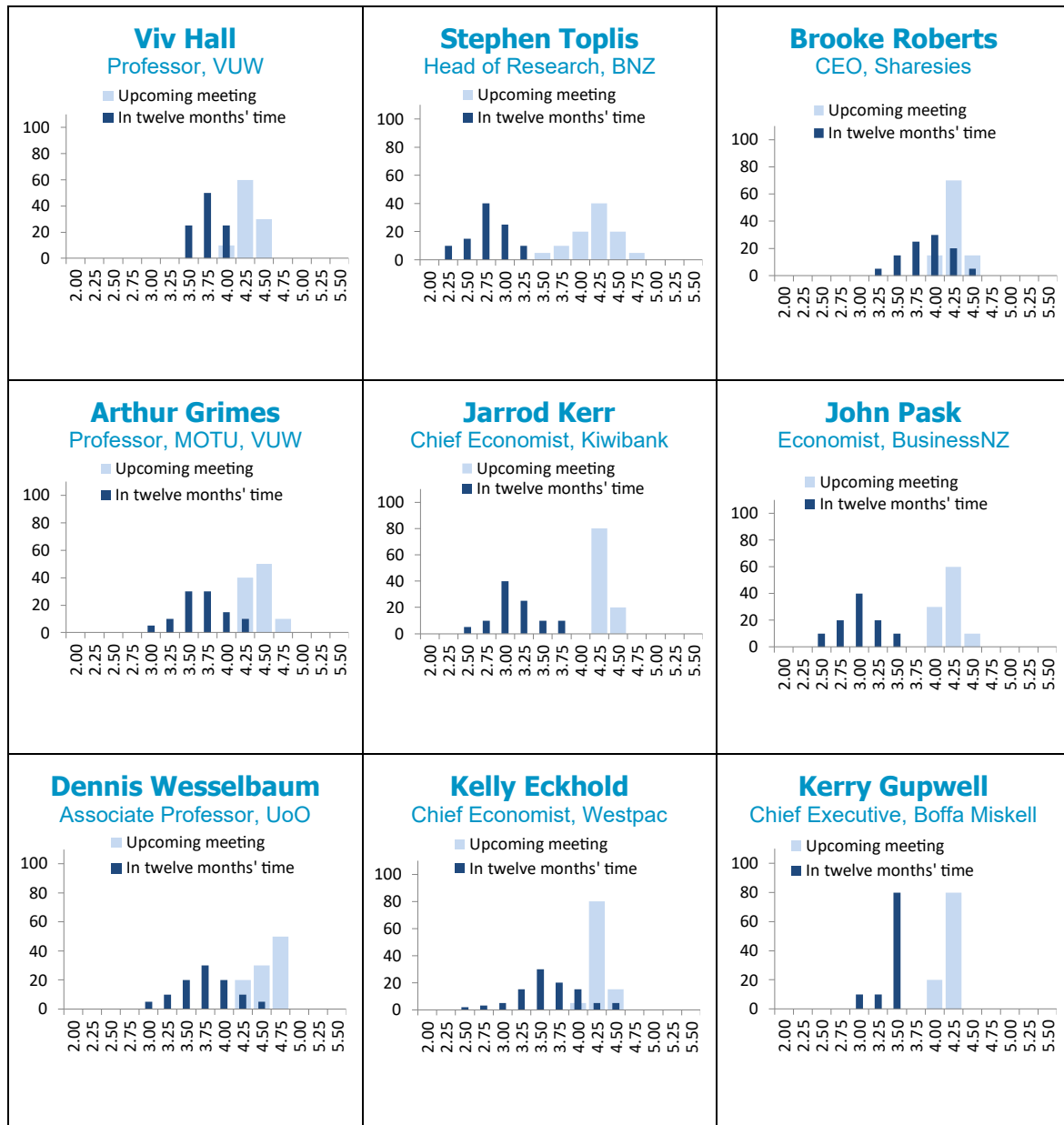
Source: NZIER *Monetary Policy Shadow Board*

For further information, please contact:

Ting Huang, Senior Economist

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

Figure 2 Individual participants' recommended rate settings – 20 November 2024



Source: NZIER Monetary Policy Shadow Board

Table 1 Participant comments

Participants' comments are optional

Stephen Toplis	Rates need to keep falling for some time. The only debate is how far and how fast.
Viv Hall	Underlying inflation remains somewhat elevated, though key non-tradables such as council rates and insurance premiums are not able to be significantly influenced by OCR changes. The substantial gap between November and February OCR determinations means a 50bp cut is appropriate for this round, leading to a neutral OCR no later than 12 months from now.
John Pask	Inflationary expectations continue to fall, which justifies further significant reductions in the OCR rates over the near term. Longer term, ongoing geopolitical risks will require careful thought in the movement of the OCR towards a more neutral position.
Jarrold Kerr	An expected cash rate of 4.25% is still well into a restrictive territory. After two long years of recession, rates need to be neutralised. Neutral is around 2.5% to 3%, with some arguments as high as 3.5%. It doesn't matter where you sit in this debate; the next two moves should be 50bp cuts.
Arthur Grimes	No comment.
Kelly Eckhold	A 50-basis point cut remains appropriate to bring interest rates closer to a 3.75% neutral. From here, the policy should move more cautiously as a more complex policy environment is likely. Potential trade restrictions will likely cause NZD weakness that will limit further interest rate cuts and allow the economy to rebalance. Monetary policy should not cause the next housing market boom.
Dennis Wesselbaum	No comment.
Kerry Gupwell	I would expect a 50-basis point cut in November as inflation is now under 3%, with a soft economy still facing some challenges. Firms continue to restructure (costs and people) due to weak demand and/or remain hesitant about committing to new projects/investments due to an uncertain outlook, some of which is driven by a lack of clarity surrounding the regulatory/legislative environment. A deeper cut (75 basis points) would be welcomed due to the three-month gap until the next policy meeting in Feb 2025.
Brooke Roberts	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, 17 February 2024, 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.

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