

New Zealand Institute of Economic Research (Inc)
Media release

For release 10am Monday 11 February 2019

NZIER's *Shadow Board* more certain that OCR should remain unchanged

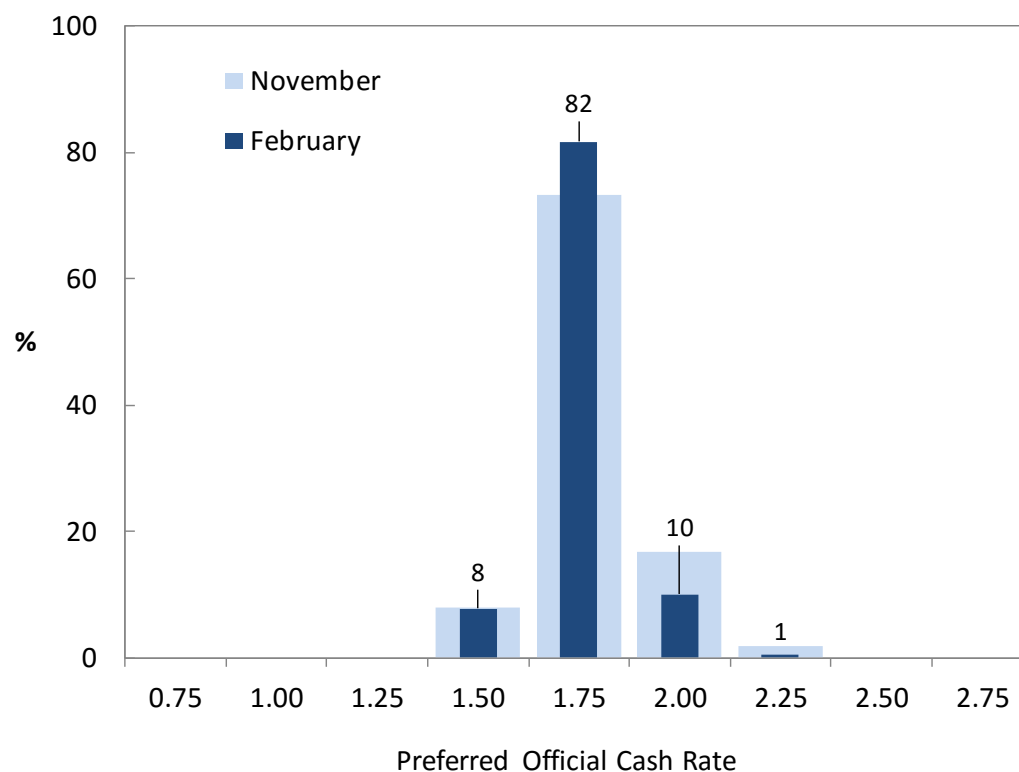
NZIER's *Monetary Policy Shadow Board's* view on the Official Cash Rate (OCR) continues to be firmly on no change ahead of the Reserve Bank's *Monetary Policy Statement* on Wednesday.

"Heightened global uncertainty, with the escalating trade tensions between the US and China and concerns about slowing growth in the Chinese economy, has meant Shadow Board members now see a reduced need for higher interest rates. This is reflected in the reduced tightening bias going into this OCR decision.

Inflation pressures have lifted, and business confidence is recovering, but the increased downside risks to the growth outlook means the Reserve Bank is likely to remain cautious as to when it starts to normalise monetary policy by lifting interest rates. There remains the potential for an OCR cut should economic conditions deteriorate." said Christina Leung, Principal Economist at NZIER.

"Recent developments suggest the Reserve Bank will keep the OCR on hold until 2020 as it assesses how the risks will play out."

Figure 1 More conviction around an unchanged OCR



Source: NZIER *Monetary Policy Shadow Board*

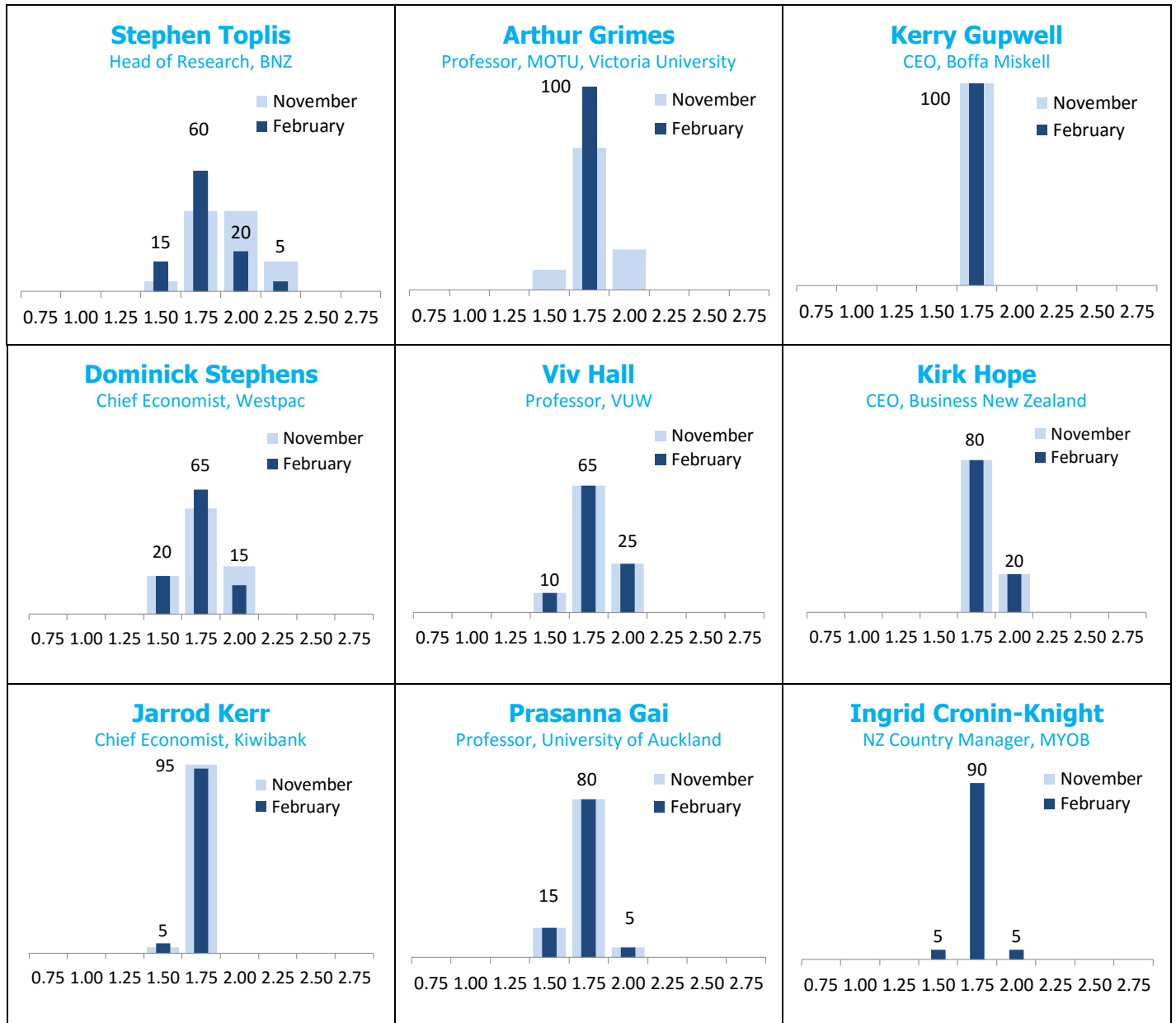
* distribution may not add up to 100% due to rounding

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Figure 2 Individual participants' recommended rate settings – 7 February 2019



Source: NZIER Monetary Policy Shadow Board

Table 1 Participant comments

Participant comments are always optional and can be limited to 60 words.

Arthur Grimes	There is currently no need to change the OCR – either upwards or downwards.
Dominick Stephens	A steady OCR is still most likely to be the best course. However, the odds have shifted slightly in the direction of a lower OCR due to a recent rise in the exchange rate.
Kirk Hope	No comment.
Viv Hall	Non-tradables inflation continues to edge upwards, but not yet at a pace to warrant increasing the OCR. I'm retaining my modest upwards bias, though with a wary eye on some potentially adverse global factors.
Stephen Toplis	Given the uncertainty that pervades it is difficult to argue strongly that current interest rate settings are inappropriate. Global risks argue for lower rates, inflation forecasts say no change, labour market tightness argues for higher rates. We still have a bias for higher rates but our aggression for such has diminished.
Prasanna Gai	No comment.
Kerry Gupwell	I see no need to change the OCR at this time.
Jarrold Kerr	There is little to justify a change in the OCR. Growth is close to trend, inflation is close to the RBNZ's target mid-point, wage growth is on the rise, and we're as close to full employment as you get. However, risks are skewed to the downside. Business confidence is still subdued, and risks to the global economic outlook are aplenty.
Ingrid Cronin-Knight	We think the Reserve Bank should keep the OCR on hold. While employment numbers are still solid even if they've softened a little, there doesn't seem to be strong inflationary pressures in the economy, especially with Auckland's housing market staying flat.

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 25 March, ahead of the RBNZ's OCR Review. Past releases are available from the NZIER website: www.nzier.org.nz

Shadow Board participants share out 100 points across possible interest rates to indicate what they believe is the most appropriate Official Cash Rate setting for the economy. Combined, these scores form a *Shadow Board* view ahead of each monetary policy decision.

Participants show where they think interest rates should be, not what they believe will happen.

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.