New Zealand Institute of Economic Research (Inc)
Media release

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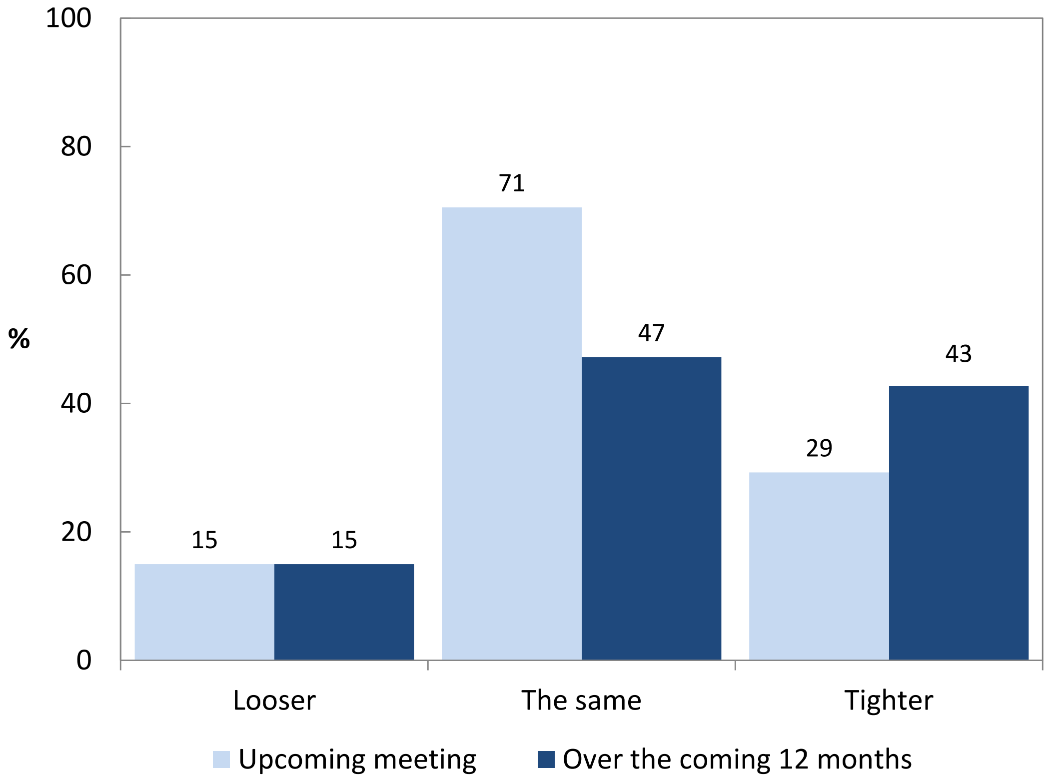
NZIER's *Shadow Board* calls for a 'wait and see' approach

There remains a wide range of views amongst the Shadow Board members on what the Reserve Bank should do with monetary policy. The focus on the housing market has become more intense in recent months, and the recent announcements of policy measures to address house price sustainability has reduced the appetite for tighter monetary policy over the coming year.

For the upcoming April RBNZ meeting, Shadow Board members are in favour of leaving the monetary policy stance unchanged. Given the recent announcement of measures such as extending the bright-line test to 10 years and the removal of interest deductibility for investment properties, Shadow Board members felt a wait and see approach was appropriate to assess the effects on the New Zealand economy. Beyond the April meeting, board members were divided over whether to tighten monetary policy, with some members highlighting the winding down of the Large Scale Asset Purchase Programme (LSAP) and Funding for Lending Programme (FLP) as the primary means of commencing the tightening of monetary policy. Some members also considered higher interest rates as appropriate for the coming year.

Figure 1 Shadow Board divided over whether to tighten monetary policy over the coming year

% strength of policy preference on stance RBNZ should take



Source: NZIER *Monetary Policy Shadow Board*

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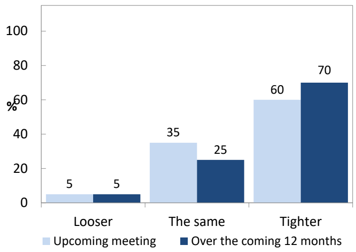
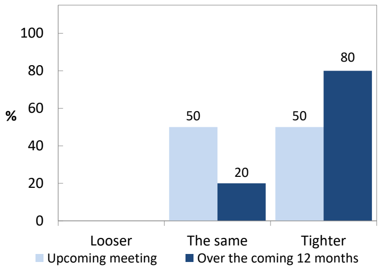
Figure 2 Individual participants' recommended rate settings – 7 April 2021

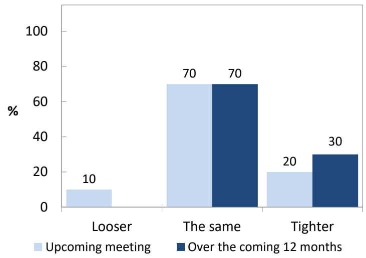
Stephen Toplis
Head of Research, BNZ



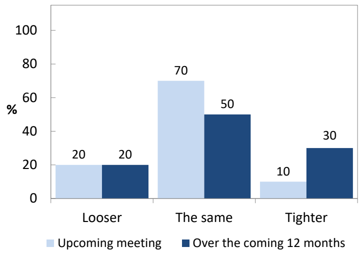
Viv Hall
Professor, VUW



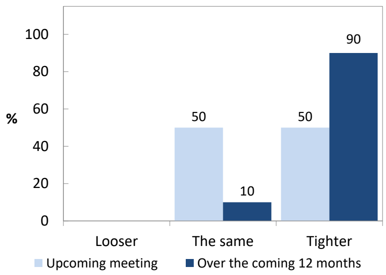
Jo Tozer
Head of Customer Services, MYOB



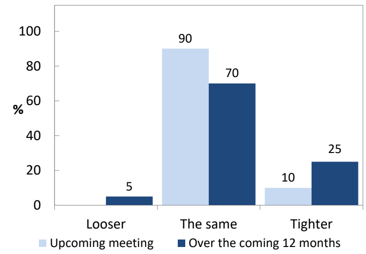
Michael Gordon
Acting Chief Economist, Westpac



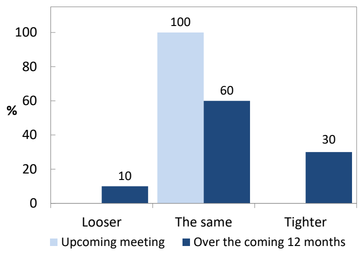
Arthur Grimes
Professor, MOTU, VUW



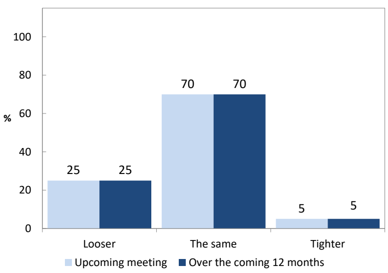
Kirk Hope
CEO, BusinessNZ



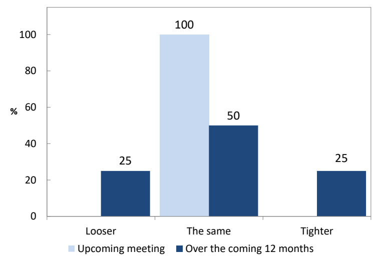
Jarrod Kerr
Chief Economist, Kiwibank



Prasanna Gai
Professor, UoA



Kerry Gupwell
CEO, Boffa Miskell



Source: NZIER *Monetary Policy Shadow Board*

Table 1 Participant comments

Participant comments are optional.

Stephen Toplis	A higher cash rate may well be appropriate now but recent housing announcements provide significant uncertainty to the outlook. Anyway, you can't raise rates while the LSAP programme remains in its current form so a moderation in the LSAP would be the first point of call. Assuming no shock it would be appropriate for the LSAP programme to have concluded within the next year and the cash rate should be progressively raised.
Viv Hall	There has been some unevenness in output and employment growth across regions and sectors, but for some time monetary policy settings have not been a constraint on improved real activity. Monetary policy settings should therefore be progressively tightened over the coming twelve months, with initial emphasis on winding back LSAP.
Michael Gordon	The economy is running below full capacity, and further progress towards closing that gap is more a story for 2022 and beyond as the border reopens. There is some upward pressure on prices right now due to disruptions in supply chains and higher shipping costs, but these are likely to be temporary rather than a source of sustained inflation. The most likely tightening in the year ahead will be in the form of not extending the LSAP and FLP programmes, which are proving to have limited effectiveness anyway.
Kirk Hope	NZ's rate of growth is forecast to be modest until the border is properly reopened. For varying reasons this is unlikely to be until early next year. Until then, we face the continued prospect of a two-speed economy, with some sectors and regions growing while others struggle. There is little or no justification for changing monetary policy at present despite some pockets of inflationary pressures as a result of ongoing supply-side issues.
Jarrod Kerr	The concern around the housing market is being addressed via macro-prudential (LVRs) policy and Government action. The LVR restrictions will have an impact, although maybe not as much as previously experienced. It's easier to meet LVR levels when house prices are up over 20% in a year. Anecdotally, the removal of interest deductibility by the Government has caused many investors to rethink their next purchase. I feel the current monetary policy settings will be appropriate for the next year. We're unlikely to be confident in the meeting of mandates for quite a while. Although I do hope the next move is a tightening in the second half of next year.
Jo Tozer	From MYOB's insights, we are seeing an increased intention across sectors to raise prices and improve margins over the coming year. At the same time, consistently low interest rates are becoming a greater concern for local businesses. While the RBNZ may not wish to constrain re-emergent growth in the post-COVID environment, these inflationary pressures and business concerns may require a slight rise in the OCR in the second half of the year.
Kerry Gupwell	I think the RBNZ need to hold the course, for now, as we may need whatever reserves we have for later in the year depending on the impacts of recent government policies, international trade disruption, labour shortages, travel bubbles, potential COVID outbreaks and the vaccine programme.
Arthur Grimes	Interest rates need to rise to reverse price increases in the housing market and to head off incipient goods market inflation pressures.
Prasanna Gai	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 24 May 2021, 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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