New Zealand Institute of Economic Research (Inc)
Media release

For release 10am Monday 24 June 2019

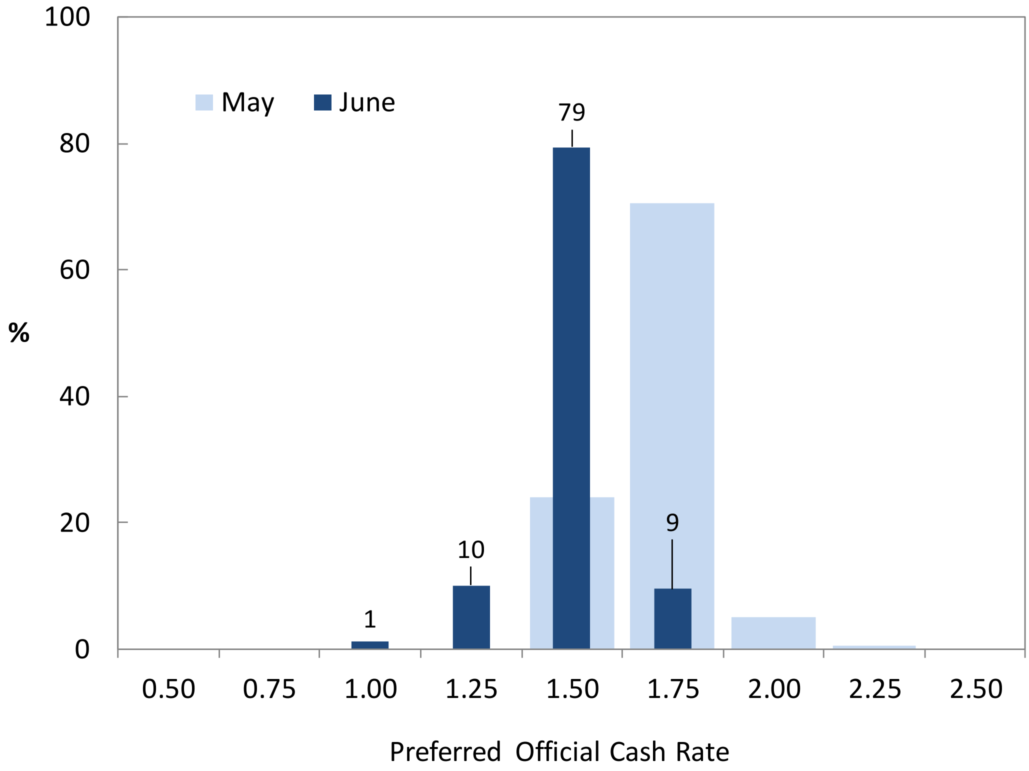
NZIER's *Shadow Board* adjusts OCR recommendation in the wake of cut

NZIER's *Monetary Policy Shadow Board* has adjusted their recommendation in the wake of the Reserve Bank's OCR cut in May. The NZIER *Shadow Board* recommends the Reserve Bank should leave the OCR on hold at the OCR Review on Wednesday. However, there have been mixed views as to whether the OCR should have been cut in the first place. Nonetheless, an easing bias remains amongst the NZIER *Shadow Board*.

"The Reserve Bank had followed through in May with its earlier signal to cut the OCR. Since then, some data has suggested economic activity slowed over the first half of 2019. The central bank left the door open to further easing in monetary policy, and there is increasing speculation it will cut interest rates again over the coming year.

The majority of the NZIER *Shadow Board* believes it is appropriate to leave the OCR on hold at the upcoming announcement. Besides the judgement on whether the Reserve Bank should have cut the OCR to 1.50 percent in May, there are mixed views on the efficacy of any further easing in monetary policy." said Peter Wilson, Principal Economist at NZIER.

Figure 1 Easing bias remains in the wake of OCR cut



Source: NZIER *Monetary Policy Shadow Board*

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

For further information, please contact:

Peter Wilson, Principal Economist & Head of Auckland Business

peter.wilson@nzier.org.nz

021 870 928

Figure 2 Individual participants' recommended rate settings – 19 June 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	Conditions imply no need to change the OCR right now, but that has to be balanced against the unnecessary (and unwise) cut to the OCR at the last decision. Hence it is a 50:50 call as to whether the cut should be restored or whether to leave the OCR as is.
Dominick Stephens	The global and New Zealand economic slowdowns have continued, and inflation remains low. However, the recent plunge in mortgage rates is likely to spark a lift in house prices. Overall, the OCR outlook is balanced and uncertain.
Kirk Hope	No comment.
Viv Hall	For now, monetary policy through its most recent OCR cut has already maximised the support it can provide to maximum sustainable employment. Any further contribution must now come from other, including fiscal, policies. Nontradables inflation continues to ease upwards. Some global trade and growth issues remain of concern, but domestic medium-term growth promises to be stronger than current and recent performance.
Stephen Toplis	"Appropriate" is getting more difficult to define. We don't think cutting interest rates now will meaningfully support the RBNZ's objectives but we also note that the downside risks to growth are growing rapidly such that the expansion could yet slow enough to push the unemployment rate higher and inflation lower.
Prasanna Gai	What "should" the RBNZ do? Nothing.
Kerry Gupwell	I don't see the need for a further rate cut at the moment as we still need to assess the effects/response to; the budget, OCR rate cut and the back down on the capital gains tax. However, there is still a sense of increasing concern about the economic outlook and conditions, there seems to be a general slow down in activity and decision making in land use developments and infrastructure – which could be temporary.
Jeremy Couchman	Since cutting the OCR in May, developments have added weight to further rate cuts. Trade tensions have intensified, and local data is pointing to softer growth in the near-term. Markets are doing some of the RBNZ's work. The NZ dollar is weaker and wholesale interest rates have fallen steadily. For this meeting the Bank can afford to be patient.
Ingrid Cronin-Knight	The Reserve Bank's decision to cut the OCR by 25 basis to a record low of 1.5% in May will have slowed the declining confidence in the economy. Holding this rate for longer will provide the economy more of an opportunity to stabilise and allow the banks to improve their required reserves following the Royal Commission in Australia.

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 5 August, ahead of the RBNZ's *Monetary Policy Statement*. 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.