

New Zealand Institute of Economic Research (Inc)  
Media release

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## NZIER's *Shadow Board* still recommends the OCR be kept on hold

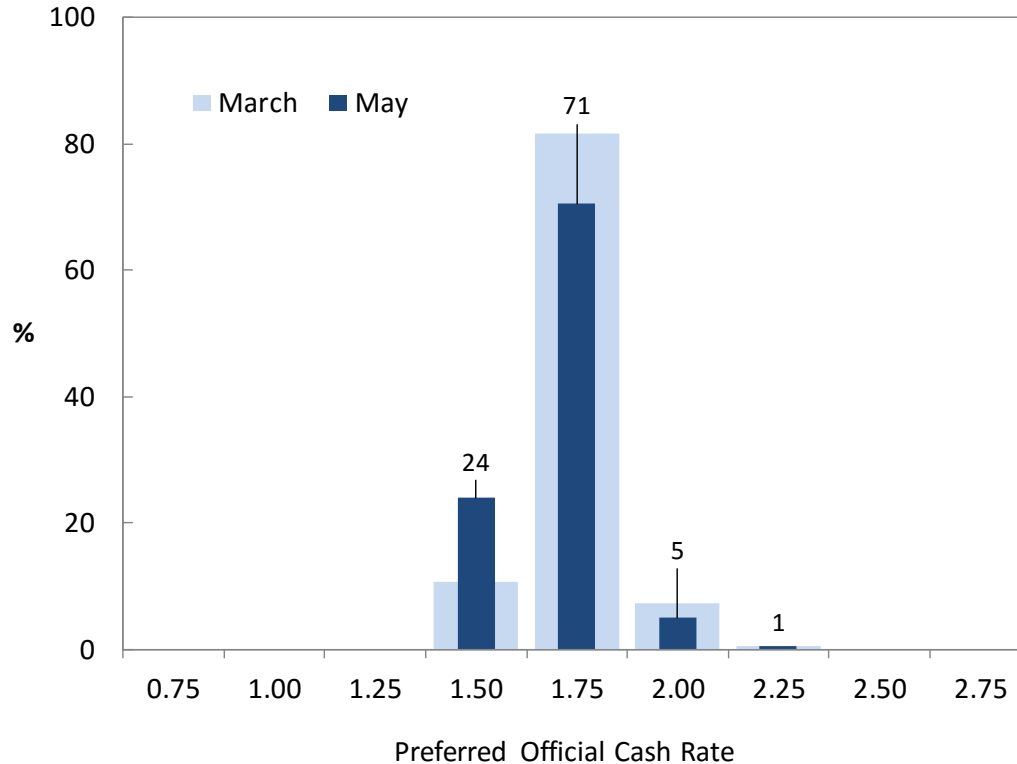
NZIER's *Monetary Policy Shadow Board* continues to remain of the view that the OCR should not be changed at the Reserve Bank's *Monetary Policy Statement* on Wednesday. However, there has been an increase in easing bias relative to the previous OCR decision.

"Recent data have been mixed, with inflation and employment figures softer than expected. The key change has been the surprise introduction of an easing bias by the Reserve Bank at its *OCR Review* in March. The central bank's indication that it sees the next move in the OCR being more likely to be a cut was a shift from its previous neutral stance.

Nonetheless, the majority of NZIER Shadow Board believes it is appropriate to leave the OCR on hold at the upcoming announcement. The exception is Kiwibank, which recommended the OCR be cut. This shift in view drove much of the increase in easing bias for the Shadow Board." said Christina Leung, Principal Economist at NZIER.

"The Reserve Bank sent a strong signal that it was likely to lower the OCR. Upcoming data releases will be a key influence on the timing of the OCR cuts."

**Figure 1 Easing bias increases amongst the Shadow Board**



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 – 1 May 2019**



Source: NZIER Monetary Policy Shadow Board

## Table 1 Participant comments

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

<b>Arthur Grimes</b>	There is no reason to change the OCR given the current economic outlook. Powder should be kept dry until a change is needed in either direction.
<b>Dominick Stephens</b>	On hold still probably the best course, but the odds of a cut being required have risen from 25% last time to 30% now. Inflation is below target and the economy might not fire enough to bring it up to target. However, cancellation of the capital gains tax has removed one big downside risk.
<b>Kirk Hope</b>	No comment.
<b>Viv Hall</b>	Various temporary factors continue to obscure trends, though nontradables inflation continues to edge upwards. So no need to edge closer to a zero/effective lower bound at this stage. Any OCR cut in May would be premature.
<b>Stephen Toplis</b>	Given the starting point for interest rates, and the broader economic environment, it is highly unlikely that a move in interest rates, in any direction, would have a sustained or meaningful impact on anything.
<b>Prasanna Gai</b>	No comment.
<b>Kerry Gupwell</b>	I feel the conditions for a rate cut are gaining momentum as the economy continues to slow and some central government policies start to be clarified and take effect.
<b>Jeremy Couchman</b>	A deteriorating global economic outlook, and softer domestic spending was enough to shift the RBNZ towards an easing bias in March. Since then, local data – such as soft inflation and business confidence – have backed up the change in tone, supporting the need for a policy response sooner rather than later in the form of a rate cut.
<b>Ingrid Cronin-Knight</b>	With CGT no longer being implemented and New Zealand’s small businesses expecting solid performance for the next quarter, holding the OCR at the current rate in the short term would be wise. However, with nearly half of all SMEs expecting the economy to decline in the next 12 months, the RBNZ may look to create some stimulus in the coming year.

## 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 June, ahead of the RBNZ’s *OCR Review*. Past releases are available from the NZIER website: [www.nzier.org.nz](http://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.