New Zealand Institute of Economic Research (Inc)
Media release

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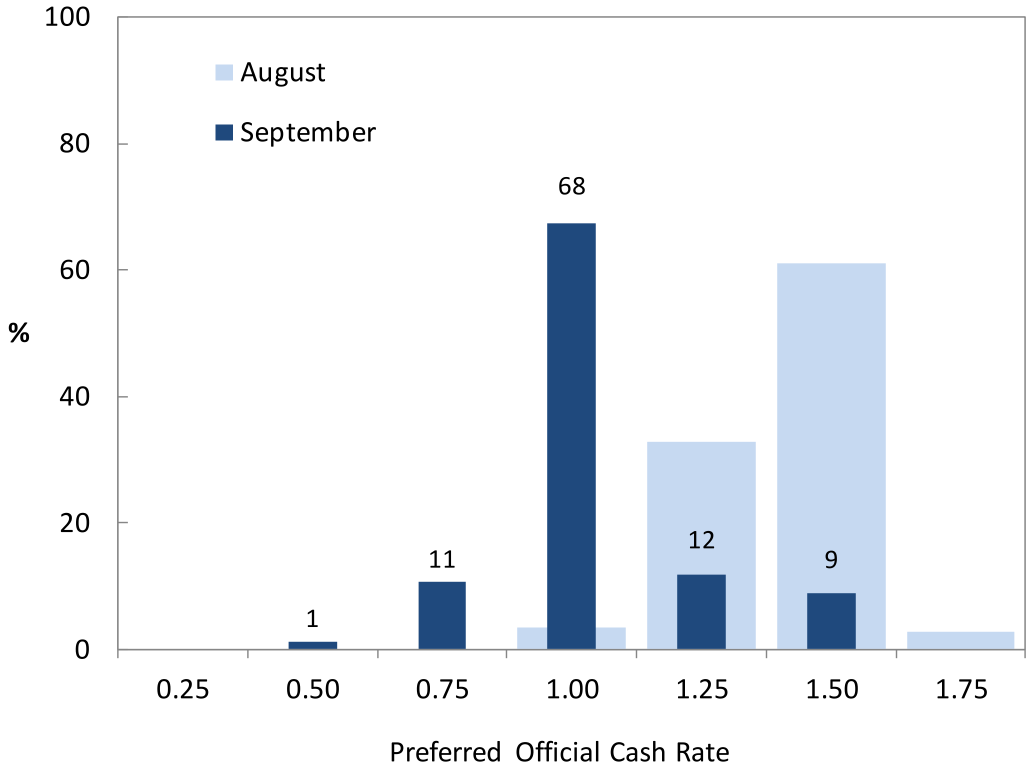
NZIER's *Shadow Board* more divided on where OCR should be

There has been increased divergence in views amongst the NZIER *Policy Shadow Board* on what the OCR should be at the OCR Review this Wednesday. This widening in the range of views follows the Reserve Bank's surprise decision to cut the OCR by 50 basis points at its August meeting. Although Shadow Board members generally called for keeping the OCR on hold, some saw a higher OCR as appropriate. The views were taken before the release of June quarter GDP.

"The Reserve Bank surprised markets with a greater-than-expected OCR cut, and left the door open to further easing. A deterioration in the global growth outlook appears to be their main concern, with the extensive easing by other central banks a primary influence given the effects on the exchange rate.

However, many Shadow Board members were sceptical about whether a further lowering of interest rates would boost activity and headline inflation. Some highlighted the financial stability risks with having monetary policy set too low, particularly with the effects on asset price inflation." said Christina Leung, Principal Economist at NZIER.

Figure 1 Wider range of views in the wake of 50bp OCR cut



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 – 18 September 2019

Source: NZIER *Monetary Policy Shadow Board*

Table 1 Participant comments

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

Stephen Toplis	We are not forecasting a rate hike. To the contrary, we think rates will continue falling, with the next move down in November. It's just that we do not believe lower rates are the answer to New Zealand's current concerns. Indeed, lower interest rates, at this juncture, risk causing more harm than good.
Viv Hall	No further OCR cut is warranted at this stage. No argument that New Zealand's economic growth continues to become more modest, but OCR-based monetary policy will have minimal further effect on consumer and investment expenditure, and on employment growth. Increased asset price inflation would result and is not desirable. Fiscal and structural adjustment policies will need to contribute further.
Kerry Gupwell	I don't think it's appropriate for another cut (or change) at this time as we continue to gauge the effect of the last cut, we may need to keep some powder dry for future cuts. I think the government needs to continue to focus on policy certainty and delivery as a boost to confidence and economic activity.
Dominick Stephens	The global and New Zealand economic situations continue to deteriorate quite rapidly, and inflation expectations are now dropping. However, the exchange rate has dropped a long way, which will help stabilise the tradables sector and will boost inflation.
Prasanna Gai	The world economy has recently been hit by several negative supply shocks that have disrupted trade in goods, services, energy, capital and information. Two of these, Brexit and the Sino-US trade and technology war appear permanent, and the shock to oil supplies may also persist. The global trend of uncertainty generated by political factors – and increasing talk of negative interest rates – means that firms will wait rather than invest, and savers will save more (rather than spend) in order to hit retirement targets. The more prolonged the policy uncertainty at home and abroad, the greater the option value of waiting, and the weaker aggregate demand will be. The effects of such shocks cannot be properly reversed through conventional monetary or fiscal policymaking. By sharply lowering interest rates, the RBNZ is attempting to encourage exports, investment, and an appetite for risk to ensure that aggregate demand will remain resilient enough to in spite of the policy uncertainty. But it is not obvious that a simple reliance on the incentives of lower interest rates will be sufficient to stave off a self-fulfilling downturn. A more novel approach to policy coordination will soon be needed.
Kirk Hope	No comment.
Jeremy Couchman	Following last month's 50bp cut, the most prudent move would be to wait and watch. Apart from a lower currency and interest rates, it's too early to see effects on inflation. In fact, some may have been spooked by the unexpectedly large cut - usually reserved for emergency settings. For now, risks to employment and inflation remain skewed to the downside.
Ingrid Cronin-Knight	MYOB's latest SME and Enterprise surveys highlight that the majority of local businesses expect economic conditions to worsen in the next year. However, most are confident in their own performance and revenue over the medium term, meaning a further change in the interest rate settings is not yet required.

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 23 September, 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.

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