NZ Institute of Economic Research (Inc)
Media release

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NZIER *Shadow Board* favours leaving interest rates on hold

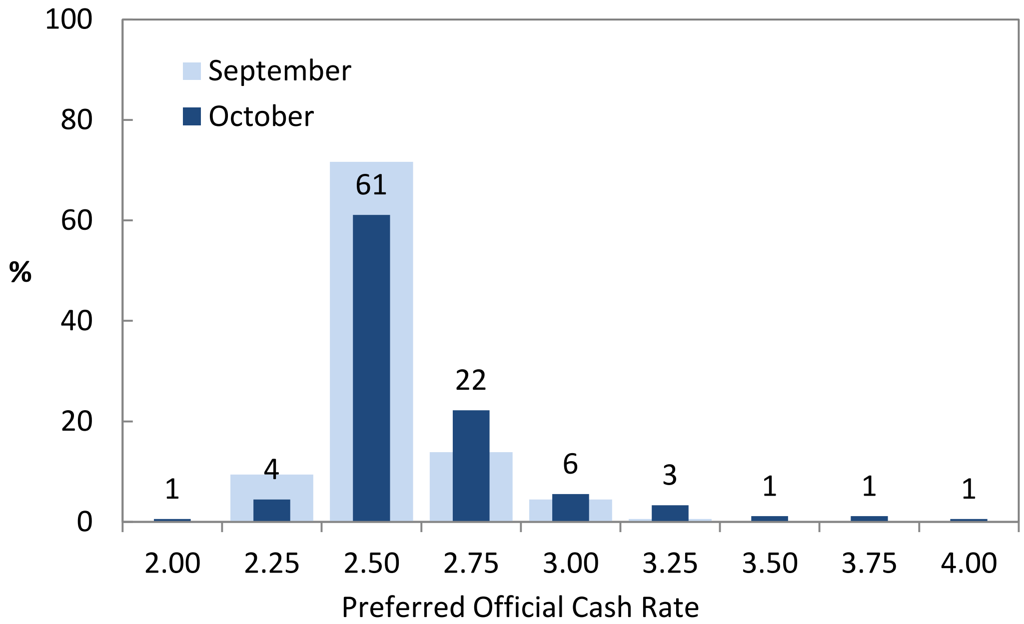
Most Shadow Board participants favour leaving interest rates at 2.50 percent.

"The economy is starting to show signs of robust growth. But inflation is low and the exchange rate remains high, weakening the outlook for New Zealand's exports. So most members recommend leaving interest rates on hold" said Dr. Kirdan Lees, Senior Economist at NZIER.

Nonetheless the Board's preferences are shifting, with more support than in previous months for higher interest rates. Auckland's housing market is very bubbly, risking a costly downwards correction in house prices in the future. Two Board members recommend raising rates right now to start addressing this risk.

Figure 1 shows the Shadow Board view. Figure 2 and Table 1 show individual views and comments.

Figure 1 Most of NZIER's *Shadow Board* favour leaving the OCR at 2.50%



Source: NZIER *Shadow Board*

This round we welcome Dr. Prasanna Gai, Professor of Macroeconomics at the University of Auckland to the Shadow Board. Dr. Gai replaces Professor Christoph Thoenessen who steps down to take up an opportunity at the University of Sheffield in the United Kingdom.

The NZIER *Shadow Board* is independent of the Reserve Bank of New Zealand. Individuals' views are recommendations on where the Official Cash Rate should be – they are not forecasts. They are not the views of their respective organisations.

For further information please contact:

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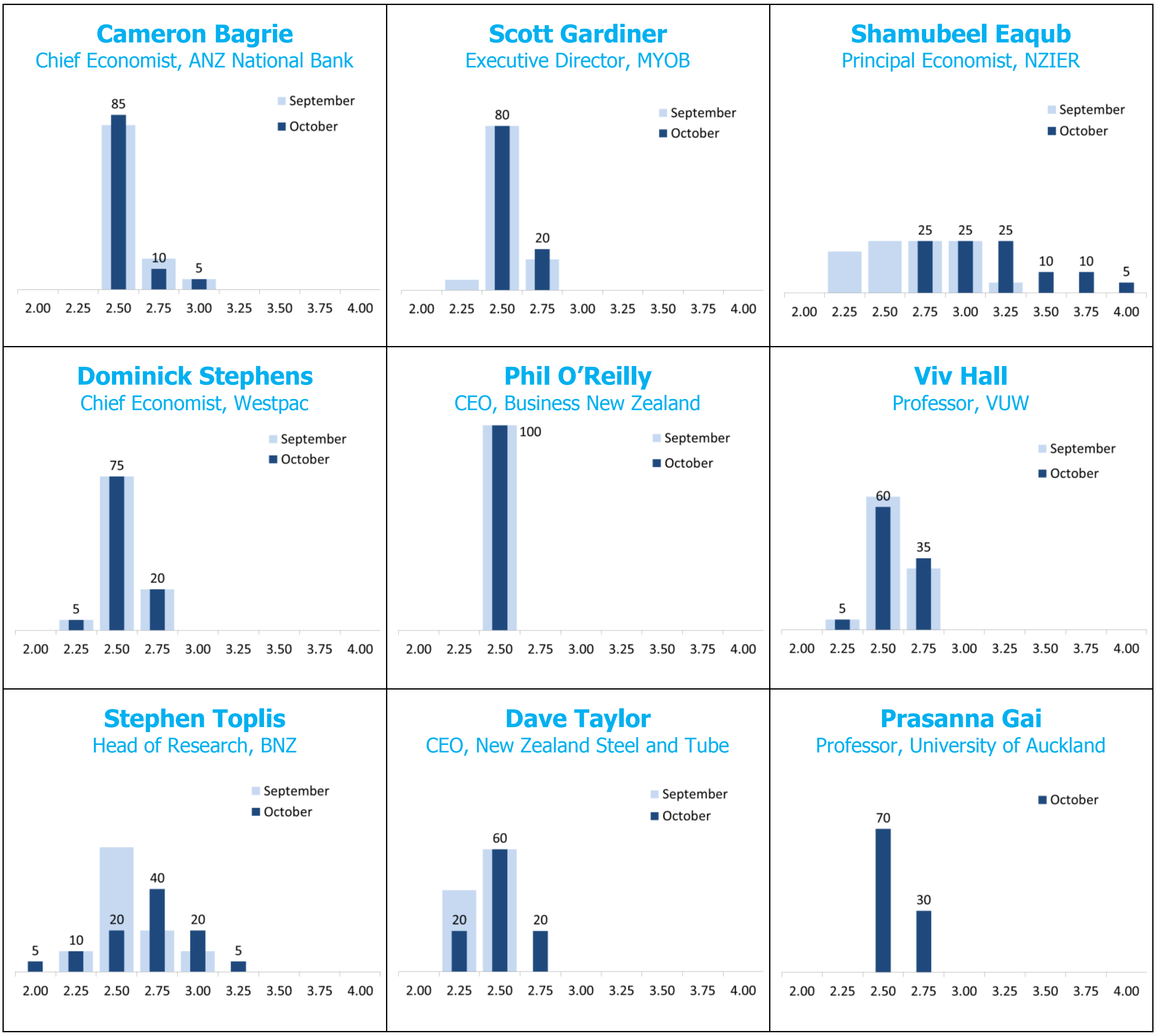
Figure 2 Individual responses – 25 October 2013



Source: NZIER ***Shadow Board***

Note: Participant comments are on page 3.

Participant comments – 25 October 2013

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

Cameron Bagrie	No comment.
Scott Gardiner	In the 12 months to August 2014, 43% of SMEs are forecasting an improvement in revenue, while a further 41% expect steady income. We believe this growth in the economy will likely see interest rate rises in the coming year. However, in a note of caution, almost a quarter (22%) of SMEs expect significant pressure from interest rates this year.
Shamubeel Eaqub	An overheated housing market means the RBNZ needs to act. They are currently using macro-prudential tools. I believe this is inviting political interference into central bank independence. It would be better to raise interest rates and manage the economic risks, or adjust bank capital requirements, as part of micro-prudential settings.
Dominick Stephens	No comment.
Phil O'Reilly	No comment.
Viv Hall	I'm edging upwards to 35% my probability of a 25bp increase, but I'll wait for more information on actual and projected exchange rate movements and impacts from LVR restrictions before increasing this probability further.
Stephen Toplis	All the indications are that interest rates should be quickly returning to neutral given that growth is returning to trend. The impact of LVR restrictions does, however, leave substantial risks to the outlook. Please note that our picks are definitively what we think should be the case not what we are forecasting.
Dave Taylor	No comment.
Prasanna Gai	No comment.

About the NZIER Shadow Board

The NZIER 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 Tuesday 10 December, ahead of the RBNZ's Monetary Policy Statement. Past releases are available from the NZIER website: 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 Shadow Board aims to:

- encourage informed debate on each interest rate decision
- help inform how a Board structure might operate
- explore Board members using probabilities to express uncertainty.