

New Zealand Institute of Economic Research (Inc)
Media release

Embargoed until 1am Wednesday 9 September 2015

NZIER's Shadow Board calls for the OCR to be cut to 2.75%

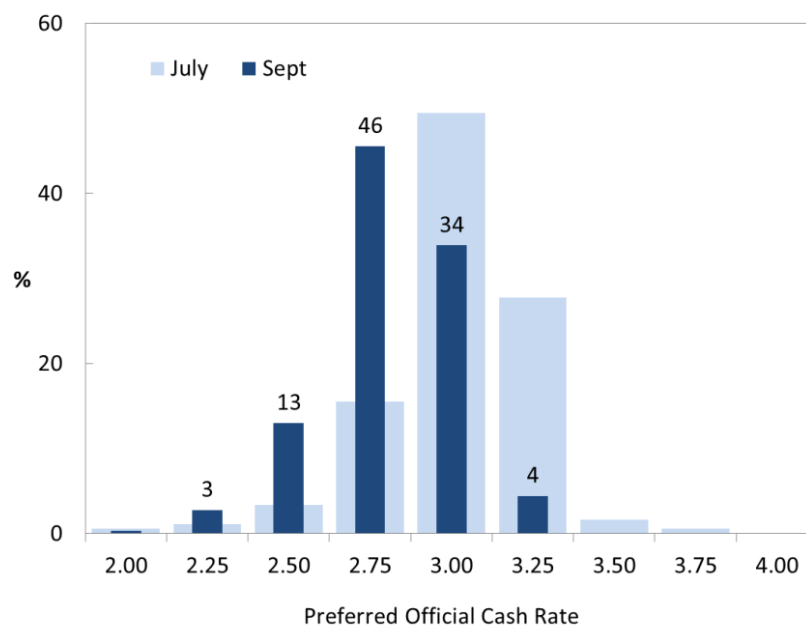
NZIER's *Monetary Policy Shadow Board* recommends the Reserve Bank cuts the interest rate by 25 basis points to 2.75 percent this Thursday.

"Recent activity indicators continue to point to a softening growth outlook. However, there was a wide range of views amongst the Shadow Board this round, with some calling for the OCR to be left unchanged." said Christina Leung, Senior Economist at NZIER.

"Headline inflation is low, but the housing market remains strong and the recent sharp depreciation in the NZD has contributed to a loosening in monetary conditions. The Reserve Bank needs to balance the economic risks, as well as take into account the potential for further surges in asset prices and the consequences of a sharp correction down the track."

The Shadow Board's average recommended interest rate is down to 2.80 percent – from 3.00 percent in July.

Figure 1 NZIER's Shadow Board favours lower interest rates

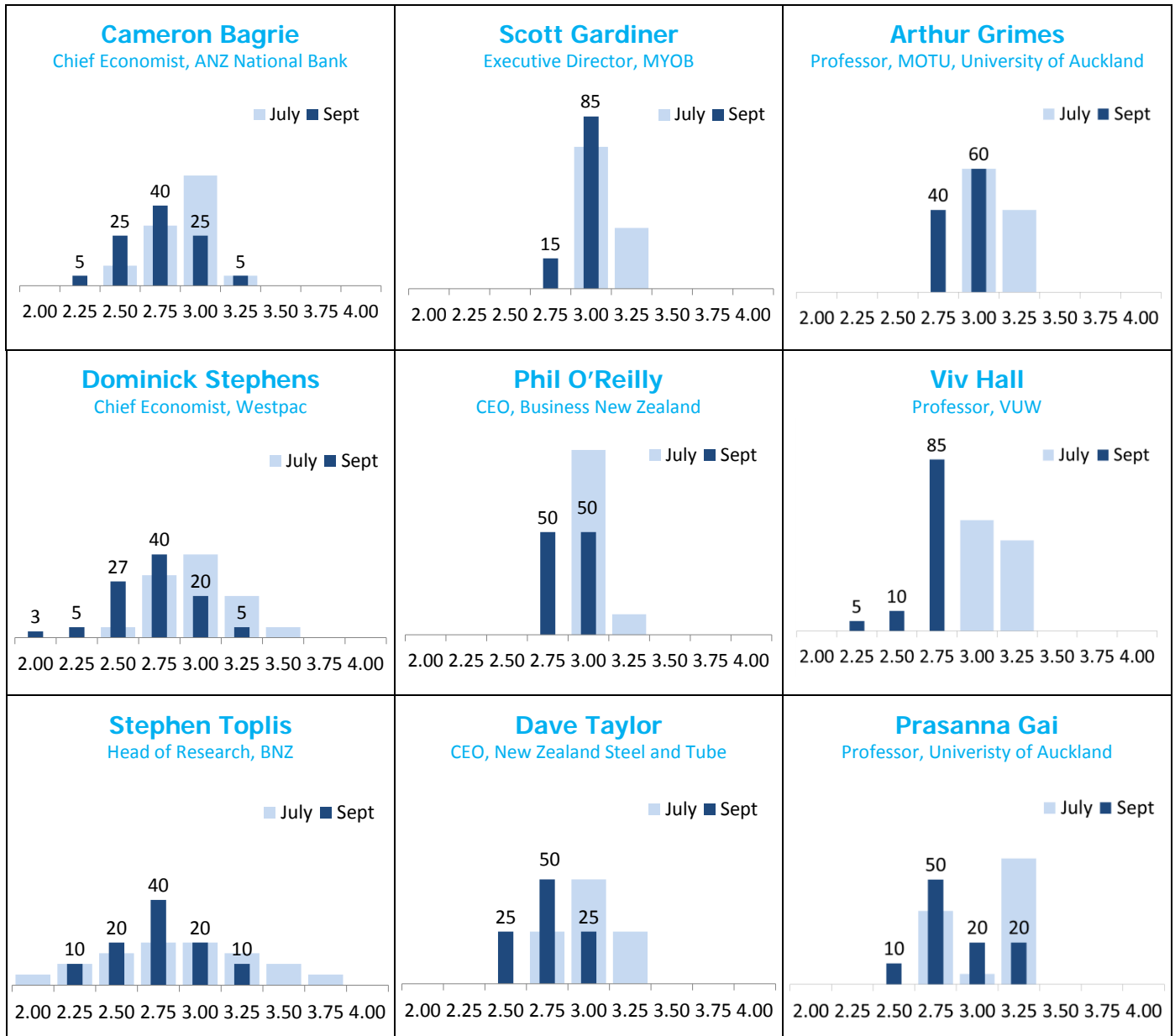


Source: NZIER *Monetary Policy Shadow Board*

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Figure 2 Individual participants' recommended rate settings – 4 September 2015



Source: NZIER Monetary Policy Shadow Board

Table 1 Participant comments

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

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|--------------------------|---|
| Cameron Bagrie | I'm not convinced the decision this time is as clear-cut as the market is thinking (a cut is 90% priced). Yes the economy is sluggish and inflation is low. But the NZD has come a long long way and monetary conditions have loosened a lot. |
| Scott Gardiner | Business confidence continues to be weak. Cannot see any positive to changing rates in the short or medium term. |
| Arthur Grimes | No comment. |
| Dominick Stephens | No comment. |
| Phil O'Reilly | No comment. |
| Viv Hall | Aggregate economic growth continues to ease, and core inflation remains below the target band. But no need at this stage to project deep and/or continuing OCR cuts. New Zealand's current OCR level continues to provide supportive monetary conditions, and provides plenty of room to cut substantially should global conditions deteriorate markedly. On balance, a further 25bp cut now, and re-assess in October. |
| Stephen Toplis | The tug of war between a softening dairy sector and a surging housing market continues. With housing as strong as it is the RBNZ will only make matters worse by cutting interest rates but with dairy imploding what's the alternative? |
| Dave Taylor | No comment. |
| 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 Wednesday, 28 October 2015, ahead of the RBNZ's October *OCR Review*. 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 *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.