

Embargoed until 1am Wednesday 22 July 2015

NZIER's Shadow Board calls for the OCR to be cut to 3%

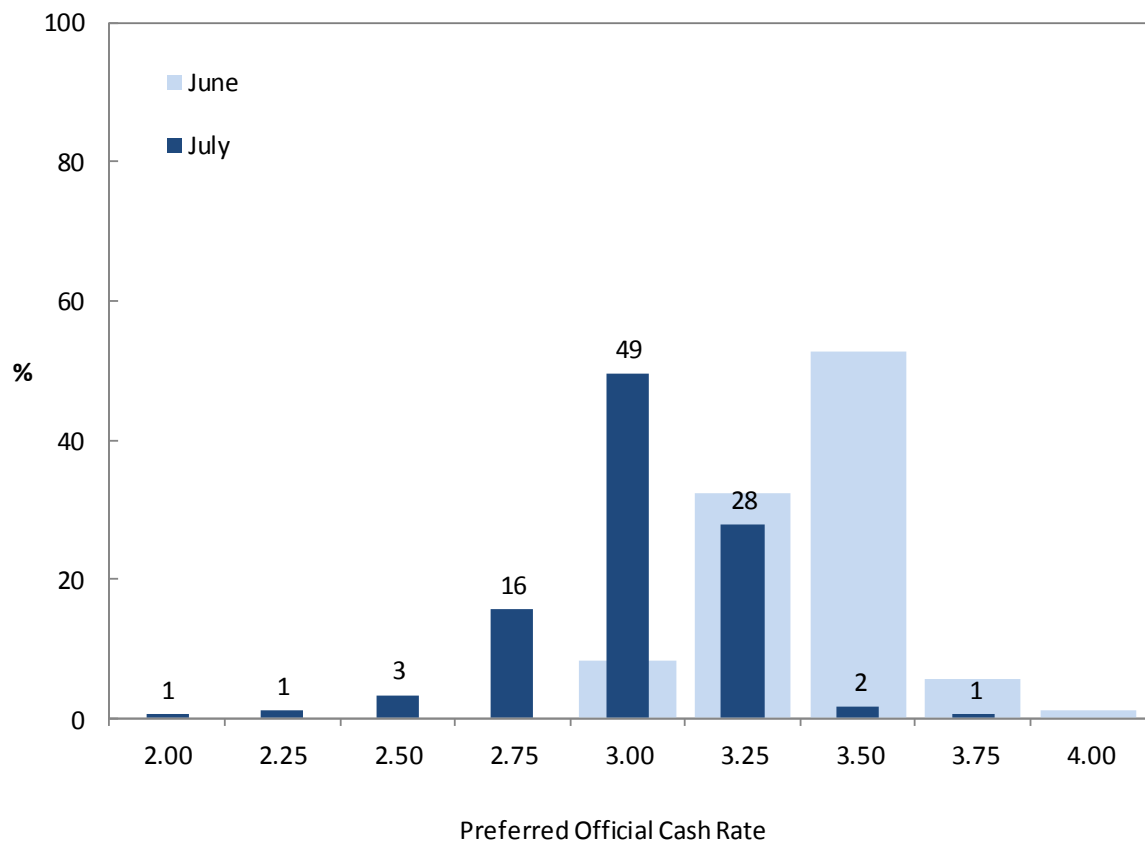
NZIER's *Monetary Policy Shadow Board* recommends the Reserve Bank cuts the interest rate by 25 basis points to 3 percent this Thursday.

“This reflects a considerable shift in view over the past six weeks in favour of rate cuts, consistent with a weaker economy. Business and consumer confidence have dropped to their lowest levels in three years, with the deterioration more marked in dairy-intensive regions rocked by very low dairy prices” said Christina Leung, Senior Economist at NZIER.

“Headline inflation remains very low at 0.3 percent for the year to June – well below the Reserve Bank’s target mid-point of 2 percent. The inflation outlook is also benign.”

The *Shadow Board* cautioned against being too aggressive with monetary policy easing this week. While there is some support for a 0.5% cut or more, this is not a majority view. The Shadow Board’s average recommended interest rate is down to 3.00 percent – from 3.40 percent in June.

Figure 1 NZIER's Shadow Board favours lower interest rates

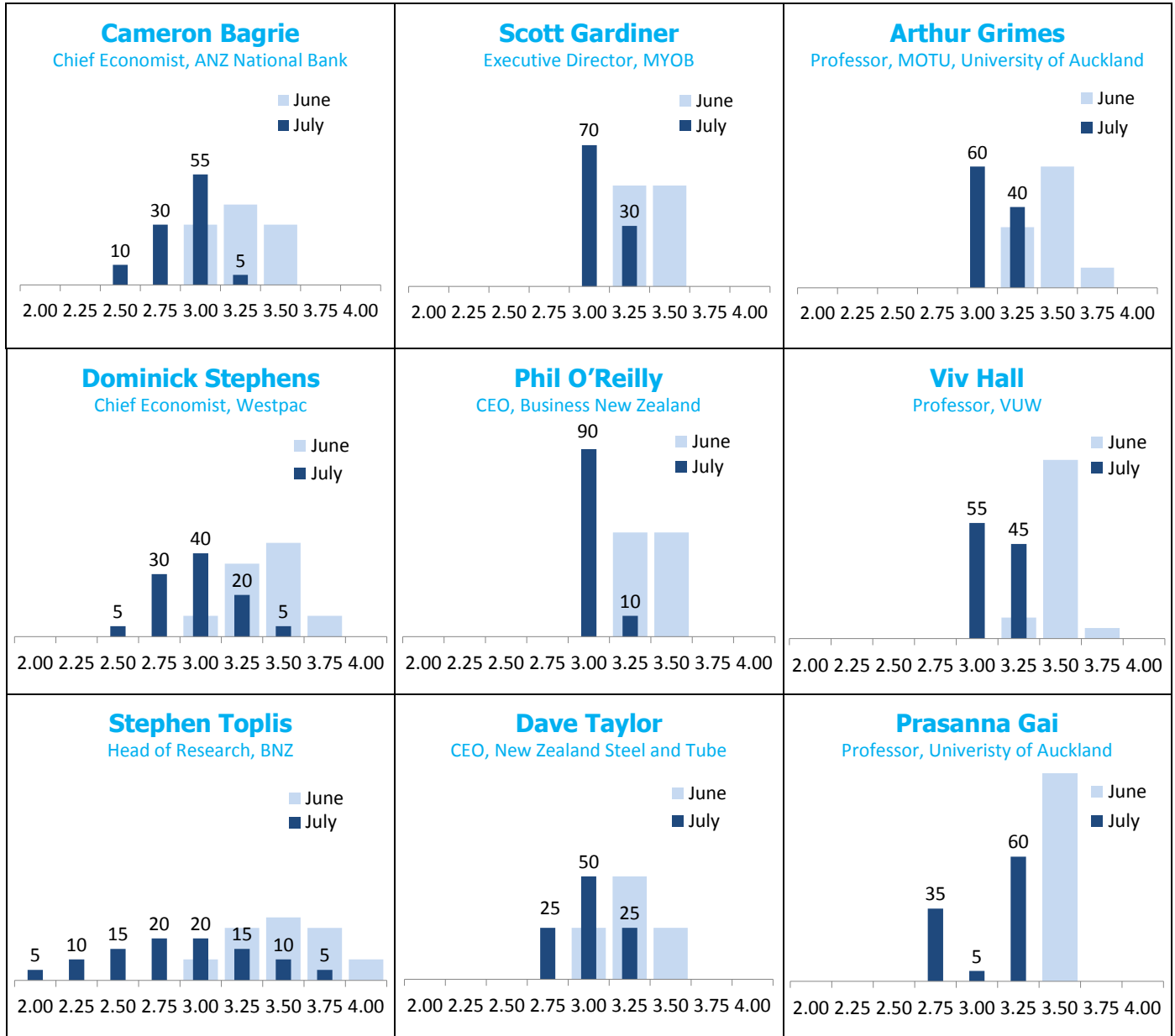


Source: NZIER *Monetary Policy Shadow Board*

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Figure 2 Individual participants' recommended rate settings – 20 July 2015



Source: NZIER Monetary Policy Shadow Board

Table 1 Participant comments – 20 July 2015

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

Cameron Bagrie	Core inflation is low and growth is sub-trend. The OCR is too high.
Scott Gardiner	No comment.
Arthur Grimes	The world economy is shakier now than it was 6 weeks ago (especially China, Australia and Greece) so a further cut in the OCR is warranted. However the lower exchange rate and likely accompanying rise in inflation caution against being too aggressive in cutting rates.
Dominick Stephens	No comment.
Phil O'Reilly	No comment.
Viv Hall	Key risks to medium-term CPI inflation remain: the very accommodating global and New Zealand financial conditions, and these have recently been joined by material exchange rate depreciations and therefore potential non-temporary tradables inflation increases. But domestic demand pressures have begun easing, 2-year inflation expectations remain reasonably benign, and key export commodity prices continue to fall (though more modestly in \$NZ terms). On balance, to the extent that further OCR cuts will prove necessary there is a case, but not yet a totally compelling one, for a 25bp cut in July rather than waiting until September.
Stephen Toplis	There are huge risks to the current economic and inflation outlook. If dairy prices don't recover and drought hits we could be headed for recession and much lower rates. But if the currency keeps falling, much higher headline inflation will pose a significant challenge for the RBNZ suggesting significant upside pressure for rates even as the economy softens.
Dave Taylor	All economic indicators and actual activity affirms the economy continues to moderate. The cash rate needs to reflect this.
Prasanna Gai	In January, I noted that the increasing risks from the global economy would require that the next material movement in interest rates be downwards. These risks are currently playing out. So at this stage, it is appropriate to wait and see, rather than seeking to overly fine tune monetary conditions.

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, 9 September 2015, ahead of the RBNZ's September *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 *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.