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Reserve Bank - still fighting the wrong battle

Cost Price Inflation (CPI) dropped dramatically to 3.4 percent in December and further falls below the 1 to 3 percent target band seem likely later in the year. However, New Zealand's Reserve Bank continues to buck international trends by fighting inflation when the rest of the world has moved on to fighting deflation. The New Zealand Manufacturers and Exporters Association (NZMEA) say that while cuts have already come too late, we need a big interest rate cut this month to close the differential between New Zealand and the rest of the world.

Westpac has predicted that inflation will be down to 0% by September with deflation in prospect if economic conditions continue to worsen. Most central banks have already slashed interest rates to record lows well below our rate of 5%. The Bank of England's rate is at 1.5%, the United States rate is between zero and 0.25% and the Reserve Bank of Australia's rate is at 4.25% with more cuts in prospect.

NZMEA Chief Executive John Walley says, "Even the Reserve Bank's traditionally conservative prediction had inflation falling within the target band half way through this year which begs the questions: Why persist in keeping higher interest rates than our competitors? Why persist in stifling our productive sector?"

"Economists are predicting a cut of 75 or 100 basis points, but given that inflation is falling away and our economic forecasts darken by the day, a cut of 150 to 200 basis points is justified."

"The message remains the same: the sooner interest rates come down and the speculative pressure comes off exchange rates, the sooner the recovery can start. With international markets continuing to worsen and protectionism increasing amongst our trading partners, it is all the more important to allow our productive sector to earn the returns needed to lead us out of this crisis."