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OCR cut – Why not more?

The Reserve Bank has cut New Zealand's Official Cash Rate (OCR) by 50 basis points this morning, which was on the low end of expectations. Reserve Bank Governor Dr. Alan Bollard said that the OCR is now on a "glide path" to its trough, which he predicts will be around 2.5%. The New Zealand Manufacturers and Exporters Association (NZMEA) wonder what is to be gained by delaying the inevitable.

NZMEA Chief Executive John Walley says, "There is a disconnect between the economic situation the Reserve Bank describes and the action taken. If inflationary pressure is continuing to abate, the world economic outlook is still dire and the need to attract foreign capital was not driving the decision, why is the OCR not at 2.5%?"

Dr. Bollard outlined, "reduced export revenues, weak business sentiment, and sharply curtailed investment and employment", and also mentioned that, "there is great uncertainty about future economic developments".

"These conditions indicate that firms need every bit of margin right now, not in three months time when the Reserve Bank rolls out smaller cuts," says Mr. Walley. "The uncertainty in international markets makes it even more important that exporters get the best return possible on their investment from current sales. We don't know how bad international markets will get; what we can do is take maximum advantage of demand that exists now."

"Dr. Bollard predicted that the Trade Weighted Index would fall to 45 cents later this year. If the OCR had been cut more aggressively, this benefit to our external sector would have come sooner. In essence this timid cut might mean some exporters will not make it to the other side. Markets anticipated a greater cut as indicated by the exchange rate jump following the news."

"We still have one of the highest interest rates in the world and currency speculation is still a problem. This needs to be addressed; we cannot just assume we are immune to the affects of the recession. The real economy is in decline and unemployment continues to grow."

"If inflation and capital are not a problem, why not do more to ease the suffering of the real economy?"