



11 June 2009

Status quo not good enough

The Reserve Bank has held the Official Cash Rate at 2.5 percent this morning. This is likely to cause interest rates and the exchange rate to remain high. Reserve Bank Governor Dr. Alan Bollard commented that the appreciation of the dollar was causing “unhelpful tension”, but he did not signal any action which would seek to address the problem.

NZMEA Chief Executive John Walley says, “The impact of an overvalued exchange rate and high interest rates combined with the collapse of international markets is clear. Overseas trade statistics released yesterday show that export prices decreased 8.2 percent and our own survey shows a massive 59 percent drop off in sales – not many green shoots to be seen at this point.”

“We believe demand is much weaker than the Reserve Bank has indicated.”

“A greater concern in the medium term is a large drop in imports of capital goods which declined by over 30 percent. This suggests that New Zealand firms are not investing in new technology to lift their productivity.”

“It is no longer acceptable to simply bemoan the volatility of our exchange rate. Many of our competitors are acting to reduce the value of their currency with countries such as the United States and the United Kingdom setting lower interest rates and printing money; we should be doing more,” says Mr. Walley.

“Dr. Bollard noted that if the exchange rate stayed at current levels it could delay or even reverse the growth of exports, causing a delay in our economic recovery. Given this assessment, and the fact that the Reserve Bank is expecting inflation to drop below one percent, the decision to do nothing is really hard to understand.”

“It is difficult to see how the same monetary policy settings are suddenly going to produce different results.”