



9 June 2009

Cut 50 points and toughen the language

The New Zealand Manufacturers and Exporters Association (NZMEA) is calling for the Reserve Bank to put quantitative easing on the radar with its Monetary Policy Statement on Thursday, as well as making a further rate cut. The New Zealand dollar has increased in value since March, despite further Official Cash Rate (OCR) cuts and attempts by Reserve Bank Governor Dr. Alan Bollard to talk it down.

NZMEA Chief Executive John Walley says, "The OCR continues to have little impact on New Zealand's retail interest rates. The cost of funding offshore makes the OCR increasingly irrelevant."

"Global conditions have demonstrated the limitations of conventional monetary policy. The linkage between the Official Cash Rate and other medium term interest rates has never been that tight. In the 'good times' the banks were able to use foreign money to undercut the OCR and now our reliance on foreign credit allows the banks to use the price of overseas money as justification for higher rates."

"Our dollar continues to be driven by policy contrasts, as big economies run far looser monetary policy than New Zealand. At the top of the OCR cycle our interest rate was more than two percent higher than many others, pushing the exchange rate to record highs. Now even with the OCR at a low level, the United States and United Kingdom have interest rates near zero and are printing money. That puts pressure on our exchange rate, and destroys returns to exporters," says Mr. Walley.

"It is worth noting that a one percent change in the exchange rate has an annual impact of about \$400 million on export value in New Zealand dollar terms, and even after input costs and time variations are taken out of the calculation, the value of exports would be about \$200 million. From March to June the Trade Weighted Index has appreciated 20 percent causing an annualised adverse impact of some \$4 billion. This will badly hurt the economy now and in the future as investment in the real economy stalls."

"It is clear that we need more than cuts to the OCR and the same old talk; new language around quantitative easing and taking the pressure off the currency is required. If the 'green shoots' reported in the US do translate into better markets for our exporters, then it is important that they have the conditions to make something of the opportunity."

"Our monetary policy settings cannot be considered in isolation. While the OCR is low, it remains well above levels in Europe and the United States, and our retail interest rates remain well above those of Australia despite a lower OCR in New Zealand. The Reserve Bank needs to broaden its action to correct this imbalance."