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## Inflation down: it is now time for more than talk

Statistics New Zealand has released its Consumer Price Index figures today which show that inflation has dropped to 1.9 percent for the year to June. The New Zealand Manufacturers and Exporters Association (NZMEA) say that this puts yet more pressure on the Reserve Bank to lower the Official Cash Rate (OCR) in order to put downward pressure on the currency and apply more than just verbal pressure on the banks to lower interest costs.

NZMEA Chief Executive John Walley says, "There is an expectation that inflation could drop below the target zone in the third quarter, so it is difficult to see how an OCR above many of our competitors can be justified. High interest rates and bewilderingly positive comments about the New Zealand economy are continuing to sustain a higher than workable exchange rate. Don't anticipate much investment or many new jobs in the tradeable sector while these conditions persist."

"Reserve Bank Governor Dr. Alan Bollard, Bill English and John Key have expressed concerns that the high exchange rate will hamper an export led recovery. They are right! It is time to stop talking and start doing something to support returns to the tradeable sector."

"The Government are now nine months into their term, so it is time that we started hearing about specific solutions rather than the same old productivity rhetoric. Without policy changes that will encourage more investment in the real economy nothing will change."

"With fears of another borrow and spend cycle mounting, nothing has been done to lower the appetite for asset debt or encourage productive investment. High interest rates hurt the real economy, put upward pressure on the exchange rate and put more jobs at risk."

"As was the case in the last cycle, inflation continues to be strongest in the non-tradeable sector that has proved to be immune to OCR price pressure. Policy changes to control credit volumes in the non-traded sector are a necessary precursor to any rebalancing in the economy. Otherwise talk of increasing productivity is just that, talk."

"Initiatives such as a Variable Excise Tax,<sup>i</sup> Variable Superannuation<sup>ii</sup> and a Variable GST rate would provide this credit volume control. We need the Government to evaluate these and other policy options rather than simply bemoaning an unbalanced and unproductive economy – what we have is a product of past policy choices; change will only follow changes to policy."

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<sup>i</sup> 'Would giving the Governor power to vary the Excise Tax on fuel reduce the amplitude of exchange rate fluctuations?' <http://www.mea.org.nz/document.ashx?id=495>

<sup>ii</sup> 'A Case for Compulsory Superannuation', <http://www.mea.org.nz/document.ashx?id=36>