



**28 August 2009**

## **Reserve Bank delay costly**

The Reserve Bank's inaction on the Official Cash Rate (OCR) has seen exports continue to decline say the New Zealand Manufacturers and Exporters Association (NZMEA). Exports have declined \$252 million in July according to statistics New Zealand.

The Statistics New Zealand release noted that, "The value of New Zealand's largest export category, milk powder, butter and cheese, was almost the same as July 2008, despite quantities being over 50 percent higher."

NZMEA Chief Executive John Walley says, "The dollar has now been on a rising trend for four months and nothing has been done. The numbers above show that the decision to leave the OCR unchanged rather than reducing it has been, and continues to be, very costly."

"For every percentage point the exchange rate moves up it costs exporters about \$200 million per year and about double that when all costs are in New Zealand dollars; in the primary sector for example. The New Zealand Trade Weighted Index (TWI) has gone up 24 percent since its low earlier in the year; that's a cost of \$4.9 billion on an annual basis."

"The trade balance correction has been a long and slow process due to the high dollar. The quicker this rebalancing occurs the quicker our economy will be able to grow again."

"There also needs to be urgent consideration given to providing the Reserve Bank an additional inflation control tool. With some commentators predicting the housing market will take off again we need to find a way to dampen the internal economy without damaging the tradeable sector."

Members of the New Zealand Manufacturers and Exporters Association make nearly \$2.0 billion in sales and have an export value of around \$1.0 billion. Our organisation can trace its existence back to the early history of New Zealand.

As a legacy of the hard work and careful financial management of the past, we have a significant asset base that enables our independence and extends our activity. Subscriptions fund only a very small part of our current operating costs.

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<sup>i</sup> NZMEA Blog, [Opinion: How the OCR has little impact on non-tradeable inflation,](http://www.interest.co.nz/ratesblog/index.php/2009/08/06/opinion-how-the-ocr-has-little-impact-on-non-tradeable-inflation/)  
<http://www.interest.co.nz/ratesblog/index.php/2009/08/06/opinion-how-the-ocr-has-little-impact-on-non-tradeable-inflation/>