

Governing Committee Minutes – May 2018 OCR Review

Present: Adrian Orr, Geoff Bascand, John McDermott

AO considered the written advice of 10 MPC members, including GC members and 2 externals.

Balance of Risks

• Withheld, OIA s9(2)(d), to avoid prejudice to the substantial economic interests of New Zealand

- AO viewed risks as balanced.

Main Upside Risks

- Stronger personal consumption, in part driven by fiscal expansion and ongoing residential investment.
- Wage inflation from increases in the minimum wage and public sector settlements - combined with tight overall labour market – leading to margins pressure
- TWI going lower, combined with rising global inflation pressure.

Main Downside Risks

- Muted inflation impact from output gap pressures
- Import prices remain subdued due to innovation/competition
- Fiscal impacts being less than expected due to delivery constraints
- Higher international long-term interest rates and domestic credit constraints

OCR Decision (see chart below)

- 10 MPC members recommend holding at 1.75%.

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- AO decision: hold OCR at 1.75%

Communication

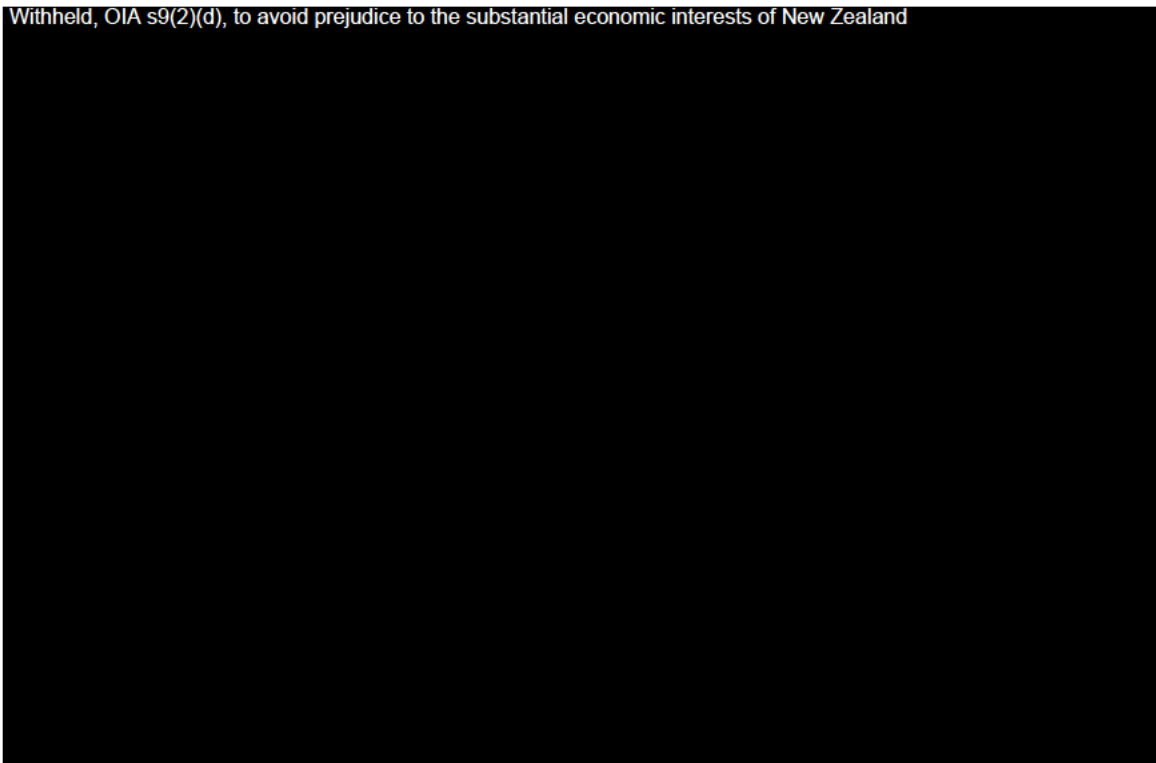
Refer to draft press release.

- OCR on hold
- Risks are balanced
- Economy operating near capacity, core inflation just below 2% target

Key research and process issues going forward

- Understand productivity and supply potential better
- Integrate labour market more fully into the modelling framework and forecast process
- Assess new fiscal measures and their economic impact, including KiwiBuild and minimum wage increases.

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A Orr

7 May 2018