

Tale of two central banks: NZ faces key rate decision

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If markets are any guide, the trans-Tasman ditch will be a little wider on Wednesday.

Central banks in Australia and New Zealand are on different courses to manage Covid-19 lockdowns and recovery. Watching closely are property markets, small businesses and the big four banks with footholds in both economies.

As entirely expected the RBA left the cash rate 0.25 per cent on Tuesday. But on Wednesday the Reserve Bank of New Zealand, which sets interest rates but is also the prudential regulator, is expected to hike the cash rate from 0.25 per cent to 0.5 per cent. Its last move was in March 2020, a drop from 1 per cent to 0.25 per cent.

Paul Bloxham, HSBC's chief economist for Australia and New Zealand, says behind these decisions are two very different takes on inflation. "In New Zealand inflation has got going into the upper range of the RBNZ's target band. They are seeing wages growth pick up as well. We haven't got either of those features here in Australia."

Before Covid-19 hit, inflation in New Zealand was already near the middle of the RBNZ's target band. Bloxham says there was also a housing undersupply, so when rates fell to 0.25 per cent the housing market gained momentum rapidly.

The second factor was closing international borders, which both countries did to manage the virus. That has had a much bigger impact in New Zealand on the supply of labour. "Cross-border movements of people and workers is just a bigger deal for a smaller economy," explains Bloxham, adding that New Zealand also bounced back more strongly from its first lockdown.

However, the very recent lockdown in Auckland has had some questioning the wisdom of a rate rise.

Like Australia, New Zealand has a shadow central bank board which sits at the independent Institute of Economic Research, the NZIER. Until last week the board had been fully behind a rate rise. But on Monday it released an update to say that the board was split on the issue since the Auckland lockdown.

Unlike Australia's shadow board, which is made up of economists (including Bloxham in past times), the NZIER's board includes business people. The concerns came from these board members arguing small and medium businesses in particular were being hit hard.

On balance, the shadow board still saw a tightening of monetary policy on Wednesday as appropriate, citing strong demand and acute supply issues, border inflation pressures and a surge in asset prices – including property. But there was also a more cautious tone about infection rates and what the relaxation of restrictions, which began on Tuesday, will mean for the economic and inflation outlook.

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Australia (or at least NSW and Victoria) leads New Zealand on the path to recovery. It was only on Sunday that New Zealand Prime Minister Jacinda Ardern acknowledged that Covid-19 elimination was no longer a plausible strategy.

Vaccination rates in Australia on Tuesday reached a 80 per cent first-dose milestone and 57.4 per cent of the population has had two doses. New Zealand has reached 79 per cent first and 49 per cent double-vaxxed. Australia is opening its border to international travellers from November but for New Zealand the date is early next year.

Opening up Australia could actually dampen wages if new labour starts flowing in. And Bloxham says more Australians travelling could take their savings overseas.

“The reopening could be disinflationary and we have a starting point of low inflation. The low inflation challenge is still very clear for the RBA to me.”

Over in New Zealand, with different forces at play, will a rate rise to 0.5 per cent be something the RBNZ lives to regret? “That’s a grand question,” says Bloxham. “It may be that inflation picks up and growth is still quite weak but the central bank still has to take some action in the face of that pick-up in inflation because it is already happening.”

While the central banks are juggling rather different pressures, Bloxham says with so much economic uncertainty, inflation is the right focus for both.

“You don’t really know what the demand side looks like, and you rarely know what the supply side looks like. Central banks should come back to focusing on inflation because that is what gives you the guidance on how demand and supply are travelling relative to each other.”

Testing times

One step that both Australia and New Zealand have yet to take is the broad-scale adoption of rapid antigen testing in the workplace and at home.

In the US and Britain rapid tests that give Covid results within minutes are not just accepted but an essential part of living with the virus, from essential workers to schoolchildren. They are less accurate than pathology tests but faster.

Battling to build the rapid testing market in Australia is John Kelly, CEO of Australian-listed business Atomo Diagnostics. In the workplace Kelly has a three week pilot program under way with frontline workers at rail business Pacific National.

“At the moment NZ has a prohibition in rapid antigen testing. They are about the only country in the world that is behind us,” he says. Australia is now moving faster. Late last month Health Minister Greg Hunt announced that rapid testing in the home could commence from November and that the TGA could approve self-testing products.

And on Tuesday Atomo Diagnostics sealed a new deal with its American partner Access Bio, which CEO John Kelly believes will be leap forward for Australia.

“We have been able to secure access to up to 10 million of the professional use tests that we are currently selling in the market and we have also secured access their self-test product that Access Bio have already registered with FDA as a in the US. We are going to be submitting that to the TGA and we have secured commercial supply,” he says.

Locking in supply has recently become a critical issue. That is because manufacturers have a major back-order thanks to funding from the US government and the procurement of subsidised tests for the commercial market in America. “That has sucked all the supply out of the system. This agreement today gives us access to volume which is going to be important given the shortages around the world for good quality rapid antigen tests,” he says.

Kelly has also agreed to run a three week self-testing pilot at the Monash Private Hospital in Melbourne for 60-70 staff who will be tested three to four times a week. Atomo should have the results of the pilot on both usability and acceptance of self-testing in a work environment for the TGA.

“Having already having secured an FDA self-test approval we are very hopeful our submission to the TGA will be compelling and meet their requirements,” said Kelly.

As to New Zealand, the government’s shift on Covid has not escaped the Atomo chief. “Over the weekend for the first time they indicated they may be stepping away from a zero tolerance strategy, so maybe the testing legislation will catch up to reflect that.”

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