Submission To:

Secretariat Manager
Independent Review of the Operation
of Monetary Policy
The Treasury
P O Box 3724
Wellington

Independent Review into the Operation of Monetary Policy

Submission From:

NZ Manufacturers Federation Inc.
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1. INTRODUCTION

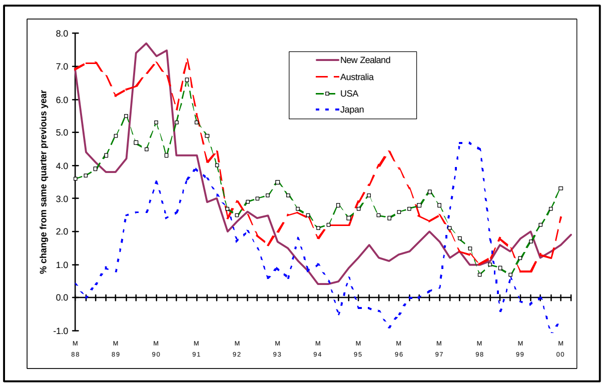
1.1 The New Zealand Manufacturers Federation Inc (ManFed) welcomes the opportunity to contribute to the review of the way in which New Zealand's monetary policy is conducted and its effectiveness in contributing to broader social and economic objectives.

1.2 This submission is made on behalf of ManFed members. ManFed represents both regional associations and sector groups of manufacturers and has a total membership of about 2,600 companies.

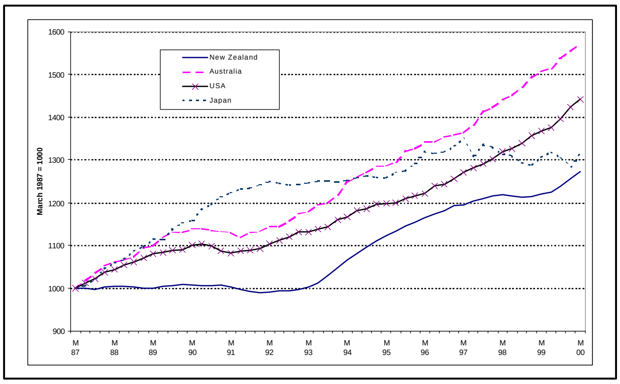
1.3 The manufacturing sector is a significant contributor to the economy of New Zealand and represents approximately 18% of total GDP. Manufactured products comprise 87% of New Zealand exports (this includes primary products exported in processed form). Manufacturing sector sales on an annual basis are $51 billion, and total sector employment is about 280,000.

1.4 Manufacturers have been generally supportive of the concept of price stability, recognising that inflation in New Zealand needs to be broadly in line with that of our main trading partners. Australia, Japan and the United States are our three largest markets for manufactured goods, taking 66% of manufactured exports (excluding basic primary processed products). These countries have all adopted policies of general price stability and, over the last ten years, have experienced similar levels of inflation. There have been, however, significantly different growth levels achieved by these three countries and New Zealand, leading to a view that effective implementation of general price stability can result in high levels of economic growth.

Consumer price inflation (excluding housing)



Real GDP growth (volume index)



SOURCE: Statistics NZ

1.5 ManFed considers that the way price stability has been implemented in New Zealand has impacted negatively on overall manufacturing sector output. Price increases in the manufacturing sector and other parts of the tradeable goods sector have been significantly below the level of overall price inflation in the economy. It is our view that the implementation of monetary policy has contributed to this significant and ongoing divergence in inflation in the tradeable and non-tradeable sectors of the economy. The lack of coordination of monetary policy with other elements of the economic policy framework is a key issue in the divergence which is occurring and it is not solely the management of monetary policy that is at issue. This is discussed in more detail later in the submission.

1.6 There is a general public perception that the Reserve Bank is completely independent from the Government in its task of implementing general price stability. This independence, however, is limited only to the formulation and implementation of monetary policy. It is ManFed's view that a greater level of independence is required if price stability is to be achieved with the maximum benefits for the economy. Other elements of the economic policy framework are important in the achievement of price stability so the Reserve Bank should be more effective in identifying the sources of inflation and possible Government responses as an alternative to monetary policy action.

1.7 It is acknowledged there have been significant changes in the way monetary policy is managed over the last ten years and the instruments used. While ManFed believes these changes have been beneficial, there are still further changes required, particularly to aspects of the Reserve Bank economic modelling and forecasting processes.

1.8 It is also our view that there needs to be more transparency in the decision making process by the Reserve Bank. The 16 August 2000 Monetary Policy Statement provided a more useful analysis of the issues facing the Reserve Bank and the uncertainty over the future track for inflation. This openness appears to have been well received by financial market and economic commentators, adding to greater stability in short term monetary policy settings.

1.9 Recommendations

There have been significant improvements in the management of monetary policy, but there are still major issues which need to be addressed. Accordingly, it is recommended that:

1.9.1 more research is undertaken on the sources of inflation in the economy;

1.9.2 reform of the non-tradeable sector is undertaken to reduce the gap between tradeable and non-tradeable sector inflation. Measures would include:

- reforming sectors where occupational licensing and regulation are barriers to effective competition;
- local government reform; and
- further producer board reform.

1.9.3 consideration be given to alternatives for reducing the impact of central and local government charges on monetary policy setting. These include:

- moving to a broader measure of inflation across the whole economy, such as the Gross National Expenditure (GNE) deflator;

- excluding Government charges completely from the CPI; and
- producing a real disposable income measure.

1.9.4 the Reserve Bank be given a mandate to publicly advocate reforms for sectors that are currently contributing to a higher level of general inflation in the economy;

1.9.5 Reserve Bank forecasting techniques and analysis of trends in economic activity be improved by greater use of disaggregated industry sector data and making greater use of external advice on forecasting techniques and modelling.

1.9.6 the Reserve Bank use external advisory committees to periodically review measures such as the TWI and MCI;

1.9.7 additional funding be provided for the development and maintenance of key economic statistics; and

1.9.8 consideration be given to changing the expression of the Policy Targets Agreement to an average level of inflation over the course of a business cycle.

2 TERMS OF REFERENCE

2.1 The way in which Monetary Policy is Managed in Pursuit of the Inflation Target

2.1.1 There has been considerable criticism by ManFed over the way monetary policy has been managed over the last ten years in pursuit of the inflation target. There was concern initially that the 0-2% inflation target was too tight and that excessive price stability was being achieved at the expense of greater volatility in interest rates and the exchange rate and, ultimately, in output. The Reserve Bank has more recently acknowledged there is a trade off between stability in prices and stability in output growth.

2.1.2 Much of this concern is due to our view that the Reserve Bank has concentrated too much on short-term price shocks to the economy, over which monetary policy can have little impact. While the Reserve Bank has argued that it has been focussing its attention on the second round impact of an increase in the average level of price increase, it is debatable what are first round price effects that are therefore, impervious to a change in monetary policy settings.

2.1.3 A good example of this is the recent trade shock which has occurred as a result of the sharp increase in international oil prices and the increase in the New Zealand dollar price of oil as a result of the weaker New Zealand dollar. The first round impact of this trade shock is being recorded in the CPI through higher petrol prices for motorists and higher public transport costs (airfares, train, bus and taxi costs). We would consider all of these price increases first round impacts of the increase in oil prices, as oil processors and transport companies are limited in the level of cost increase they can absorb. These transport price increases have further impacts on the manufacturing and retail sector and will contribute to a small rise in prices across a much wider range of products in the economy. A tightening in monetary conditions to stop this transmission of price increases through the economy is inappropriate, unless there is an attempt by business to increase profit levels by raising prices more than is necessary to absorb the increase in costs.

2.1.4 The real concern about possible second round effects from the oil price increase is the way in which business and the labour force respond to the decline in real living standards, which have fallen as a consequence of the oil price shock. Any attempt by the labour force to recover their loss in living standards through higher wages would be futile and result in a higher level of price change, unless there was a significant increase in the level of productivity improvement.

2.1.5 It is our view that, in the past, the Reserve Bank has responded too quickly to price shocks of this nature and has targeted price changes that we would consider first round impacts. These price shocks have come from terms of trade changes, significant currency movements and changes in Government policies.

2.1.6 We note that the impacts of Government policy change are not always able to be linked to clear on-off shocks, particularly when policy change is implemented incrementally over several years. Reform of the Government housing sector, for example, was implemented over three years as Government rentals moved to 'market rates' and an accommodation subsidy (rental and home ownership) was progressively introduced for low income earners. These policy changes contributed to a significant increase in both public and private sector housing rental costs. This, combined with Government immigration policy changes and strong employment growth, were all factors in the house price inflation recorded in the mid 1990's. There is reasonable evidence to suggest that the Reserve Bank was unsuccessful in assessing the one-off impacts of changes in Government housing and immigration policy. Instead it reacted to the overall increase in house prices.

2.2 The Instruments of Monetary Policy

2.2.1 The Federation was initially supportive of the Monetary Conditions Index (MCI) concept when it was introduced about three years ago. Prior to the introduction of the MCI level, the Reserve Bank appeared to place more weight on the exchange rate when setting monetary policy. Public statements often specified minimum exchange rate levels (TWI) which the Reserve Bank was comfortable with, while there was often little comment on preferred interest rate levels.

2.2.2 With much of the inflation in the mid 1990's driven by price rises in the housing sector, it was the Federation's view there should have been much more weight placed on interest rates as a means to meet the monetary policy target. The introduction of the MCI appeared to offer the opportunity for the weight on interest rates and the exchange rate to be better balanced.

2.2.3 The Federation, however, objected to the weighting in the MCI. It argued that the ratio between the exchange rate and interest rates was too high, and that the impact of movement in the exchange rate on inflation was much less than that predicted in Reserve Bank modelling. The Federation also had some concerns about the small number of currencies included in the TWI and argued for coverage of a wider range of currencies.

2.2.4 It has also become obvious with hindsight that one of the flaws in the MCI was its publication on a daily basis. While the impact on inflation of both the exchange rate and interest rates is significantly lagged, daily publication placed undue focus on short-term movements in interest rates or the exchange rate. This, coupled with the excessive weighting for the TWI in the index, resulted in a significant rise in interest rates in early 1998 when the exchange rate fell sharply. ManFed is firmly of the view this interest rate response to the fall in the exchange rate was excessive, contributing to the short term recession later in the year.

2.2.5 The heavy weighting given to the exchange rate in the MCI also continued the pressure on the tradeable goods sector. As noted earlier, there has been a much higher level of price increase in the non-tradeable sector, which is affected only marginally by movements in the exchange rate.

2.2.6 The introduction of the OCR last year was, therefore, very welcome as it continues the change in the focus of monetary policy from the exchange rate to domestic interest rates. There was some initial concern that moving to a fixed interest rate target could lead to greater volatility in the exchange rate. But the evidence so far is that both interest rates and the exchange rate have become more stable.

2.3 The Information used by the Reserve Bank in its Decision Making

2.3.1 The Federation has concerns about a number of aspects of the Reserve Bank economic modelling and forecasting processes, as well as concerns about some of the data it uses. These include:

(a) Output Gap Model

The output gap model assumes that inflation will increase if demand in the economy exceeds the capability of the economy to supply that demand. There are, however, several major issues with the model:

- lack of data. While there is reasonable information on the tradeable goods sector, New Zealand, unlike most OECD countries, does not have an industrial production series. Some production information is collected for the GDP (Production) series but not on a comprehensive basis. There is much less information on the non-tradeable sector, which has been the source of much of the inflation in New Zealand. The Federation, therefore, has significant reservations about the output gap measures produced by the Bank.

- the opening up of the tradeable goods sector to international competition through the removal of import licensing and large scale tariff reduction. This opening up of the economy now means an excess in demand in the tradeable goods sector is more likely to be met by an increase in imports, rather than by increased prices. Manufactured imports already have an estimated 45% share of total domestic demand for manufactured (BMS) goods and this will continue to increase as tariffs reduce and production is rationalised on a global basis (the share of production exported is also increasing).

- this explains why import levels increased significantly in late 1999, and so far this year. Economists had expected the weaker exchange rate to result in a slowing in import growth but instead it accelerated in response to increased domestic demand. We believe the output gap model has therefore become less useful in predicting inflation pressures, but better at predicting changes in the current account.

(b) <u>Exchange Rate Pass Through</u>

The Reserve Bank model predicts the rise in inflation that will occur from a fall in the exchange rate on a trade weighted basis. Experience over the last 10 years has shown that the pass through from a fall in the exchange rate has been much less than predicted by the model. This has been recently acknowledged by the Reserve Bank, but we have not seen any detail on a new pass through ratio. There appears to be several reasons why the pass through has been less:

- use of exchange rate hedging which removes short term fluctuations in the exchange rate and delays the impact of longer term changes;

- the link between inflation and wage increases weakened, particularly under the Employment Contracts Act; and

- there is anecdotal evidence that importers are less willing to accept price increases from exporters, so exporters have to bear more of the exchange rate risk. More aggressive purchasing behaviour by importers also reduces the impact of exchange rate falls, since they are more willing to change suppliers to minimise potential price increases.

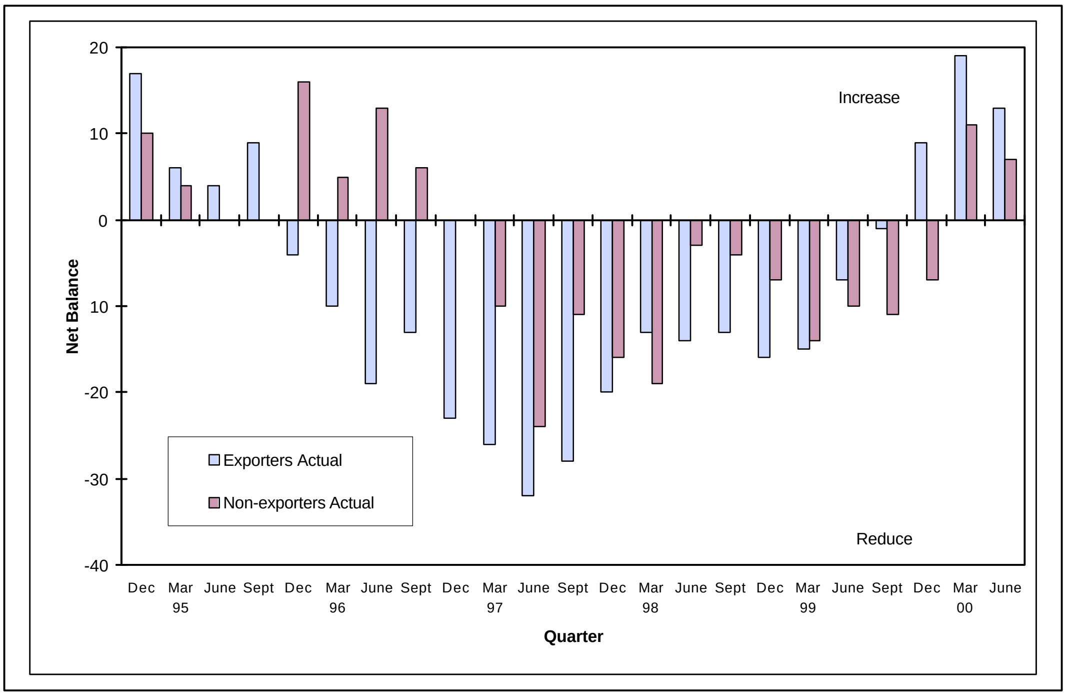
(c) Forecasting

There is a concern that the Bank has been unwilling to look in sufficient detail at what is happening in the economy and has focussed too much on the aggregate numbers. Recent examples include:

- Reserve Bank concern, in May, at the rise in pricing intentions reflected in the March quarter NZIER Quarterly Business Opinion Survey (QSBO). Further analysis of the data showed that most of the increase in pricing intentions was from exporters, while pricing intentions for non exporters were much weaker. Price rises by exporters can be seen as ‘good' for the economy.

  The QSBO also showed a significant increase in the number of firms facing cost increases as a consequence of higher oil prices and the weaker currency. Although more firms were reporting an intention to raise prices, this was less than the proportion of companies reporting increased costs, confirming inflationary pressures were being constrained.

WestpacTrust Manufacturers Business Opinion Survey – pricing intentions



SOURCE: NZIER

- Reserve Bank concern at GDP growth in the second half of 1999. Analysis of GDP data showed this was driven by strong growth in commodity sectors, while growth in non-commodity manufacturing was much weaker. The strong growth in the commodity sectors was due to an increase in the New Zealand dollar price of these commodities – a fall in the New Zealand dollar and a small increase in international prices. This provided a one-off increase in the sales and exports of commodity products, but was not likely to lead to sustained economic growth. The Federation argued earlier this year that a monetary policy response at that point in the commodity cycle was inappropriate since the economic recovery was fragile.

- As discussed earlier, there is concern about the ability of the Reserve Bank to look through short-term inflation shocks. The impact of the recent increase in the oil price is already evident in petrol and diesel prices, and is now beginning to impact on transport and inputs based on oil products. The Bank is concerned about these price increases resulting in more general inflation in the economy, particularly if wages increase at a faster rate. The oil prices are, however, also having an impact by depressing economic activity in New Zealand because of reduced terms of trade. In effect our wealth has been reduced because there has been a transfer in wealth to oil producers. Accordingly, interest rates to dampen the inflationary impacts of the increase in oil prices may have reduced domestic economic activity more than is appropriate, since the oil price increases are already having a dampening effect on domestic consumption.

(d) <u>Trade Weighted Index (TWI)</u>

ManFed considers the number of currencies included in the TWI is too narrow. This resulted, for example, in the Bank failing to fully assess the impact of the Asian economic crisis on the New Zealand economy. The major depreciation in the currencies of most members of ASEAN has resulted in very strong growth in imports of manufactured goods from ASEAN over the last two years. Between 1998 and 2000, imports from ASEAN increased by 59%, while imports from Korea increased by 44%. Import growth from China has also been strong, as it was their earlier devaluation which contributed to the Asian crisis. Imports from China increased by 48% over the last two years and now comprise over 6% of manufactured imports. The impact of these imports from China is even more significant in volume terms.

(e) Data Sources

(i) *NZIER Quarterly Survey of Business Opinion (QSBO)*

One of the important indicators from the quarterly QSBO is the capacity utilisation measure for the manufacturing and building sectors. ManFed, however, has concerns with the way the index is constructed and the way it is used by economic forecasters, including the Bank. The index is based on the following question in the survey:

Excluding seasonal factors, by how much is it currently practicable for you to increase your production from your EXISTING PLANT AND EQUIPMENT WITHOUT RAISING UNIT COSTS? (increase per cent)

None	1-5	6-10	11-20	Over 20	N/A

Concerns with the current question include:

- the focus on production from existing plant and equipment. Increasingly, manufacturers are making use of outside contractors to increase their flexibility to respond to fluctuations in demand. Increasing specialisation has resulted in an increased willingness of firms to share some productive capacity or contract the production of some items to other firms in the industry.

- the current percentage categories result in an index number that always falls between 80 and 100. Over the last 6 years, the percentage of firms in the 'over 20%' category has varied from 18% in December 1994, to 37% in December 1998. ManFed has suggested to the Institute that additional categories should be added to the survey to provide a better indicator of the level of spare capacity available.

We are also concerned that most forecasters report the index as a percentage rather than index number. The last time the Bank reported on the capacity utilisation measure in a Monetary Policy Statement (November 1999, Figure 6) it was shown as a percentage measure. Other surveys of the manufacturing sector have shown that actual capacity utilisation is lower than the QSBO index number.

(ii) *Statistics New Zealand*

The Consumers Price Index (CPI) is well resourced and there is little evidence of significant bias in the current index. Improvements made have included tracking of switching by electricity consumers and matching the introduction of user charges by local authorities with changes in property based rates. We note, however, that the last CPI advisory committee suggested that a real disposable income (RDI) measure should be produced before the Department proceeded with the removal of interest rates from the CPI. The changes to the CPI were introduced last year but the Government has not provided funding for the construction of the RDI measure.

ManFed also has significant concerns about the lack of Government funding for the development of other important economic indicators or for maintaining the quality of existing measures. Recent concerns have been:

- the long delay in updating the Producers Price Index (PPI). Some sectors of the PPI were not updated for 16 years. This had a major impact on the calculation of productivity statistics over this period;

- New Zealand currently does not have a GDP (Income) series due to the lack of an economy wide profit survey;

- the Terms of Trade survey is still in the process of moving to the collection of actual price data. Data is currently based on average unit values at a statistical code level;

- the Broad Economic Classification (used for classifying imports into categories for capital goods, consumption goods etc) has not been updated since 1987. A range of goods currently classified as capital goods are increasingly becoming consumer items. Examples include TV/video cameras, telephone equipment (eg cordless telephones, mobile telephones), computers and peripheral equipment; and

- there is a complete lack of official data for:

  - economy wide business investment expenditure
  - productivity

- savings or wealth
- industry production

although there is some experimental work to develop official statistics for several of these areas.

2.4 The Monetary Policy Decision Making Process

2.4.1 There needs to be more debate on whether monetary policy is an exact science, or whether there is still a considerable extent to which the Reserve Bank is 'stabbing in the dark'. There is a concern the Bank has oversold its position and is far less sure than it indicates about whether a particular mix of monetary conditions is stimulatory or contractionary. Greater transparency of the decision making process would be useful to show how much issues were debated or considered in determining the decision on monetary policy settings.

2.4.2 The debate in the latest Monetary Policy Statement about possible paths for economic growth and the considerable uncertainty about the direction of growth was useful. It appears to have been well received by financial markets which were also unsure about prospects for economic growth over the next year.

2.4.3 We believe there could be benefit in having some private sector input into the decision on monetary policy settings. It would appear the Board is not currently involved in the decision making process, unlike some overseas boards.

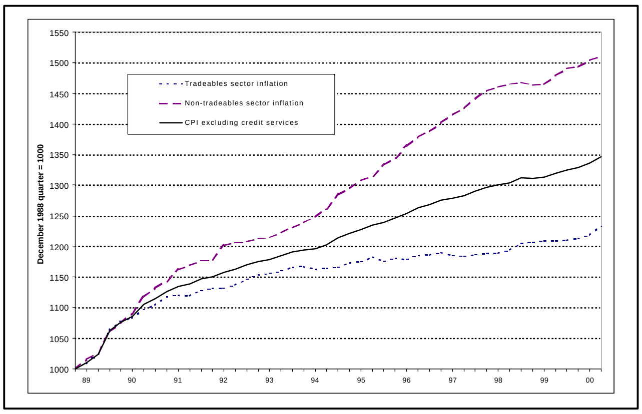
2.5 The Coordination of Monetary Policy with Other Elements of the Economic Policy Framework

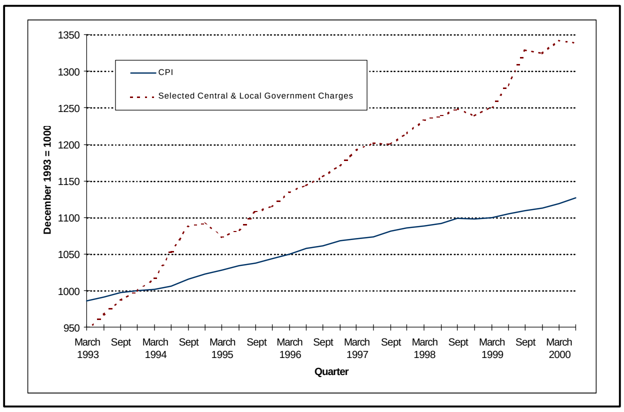
2.5.1 It has become abundantly clear over the last 15 years that central and local government have been a major source of inflation as measured by the CPI. Statistics New Zealand maintain a measure of selected Government charges which has increased by an average of 6.0% annually since June 1993. While the headline CPI increased by an average of 1.9% each year over this period, the CPI, excluding these selected charges, rose by an average of 1.4%.

2.5.2 While the Reserve Bank attempts to look through the impact of one-off significant policy changes, such as the recent increase in tobacco tax, much of the growth in central and local government charges has been occurring over a longer period of time. Two areas where there has been consistent growth in costs include:

- tertiary education fees
- local authority rates and charges

Tradeables & non-tradeables inflation ***Selected government charges***





SOURCE: Statistics NZ

2.5.3 A truly independent Reserve Bank should be in a position to analyse the sources of inflation and publicly report to the Government on its contribution to inflation and the extent to which monetary policy settings could have been different if changes were made to Government policy. There is already recognition of the impacts of fiscal policy on monetary settings, but little analysis of whether increased Government spending has differing impacts from the alternative of reduced Government spending and lower tax rates.

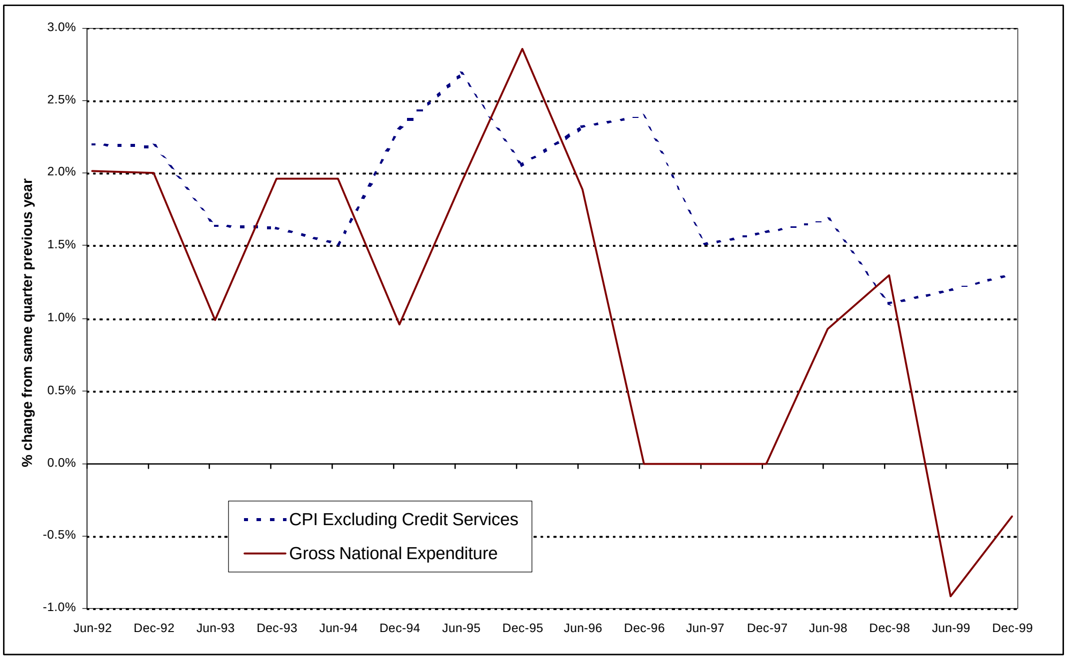
2.5.4 ManFed would also like to see more debate on whether the CPI is the best measure for the Reserve Bank inflation target. Some of the cost increases recorded in the CPI have been the result of Government policy reforms that ManFed supported. In some situations, such as the housing reforms, there were offsetting income adjustments for the increase in costs which were recorded in the CPI. It appears there are several alternatives which could be considered:

- moving to a broader measure of inflation across the whole economy, such as the Gross National Expenditure (GNE) deflator. There would, however, need to be more research on the degree to which wage setting is still based on the CPI;

- excluding Government charges completely from the CPI; and

- producing a real disposable income measure which would show how much rises in Government charges are offset by changes in income measures such as transfer payments or tax reductions.

CPI excluding credit services and GNE deflator



SOURCE: Statistics NZ

2.5.5 It has also become clear that the increasing divergence of non-tradeable sector inflation from that in the tradeables sector is due to a lack of progress on Government structural reforms for the non-tradeable sector.

2.5.6 The opening up of the tradeable sector to international competition has been a major factor in reducing its contribution to inflation. However, while major components of the non-tradeable sector remain closed to international competition, then monetary policy will lean more heavily against the tradeables sector in order to meet the central inflation target.

2.5.7 The Reserve Bank has in the past been criticised by politicians for commenting on policy issues it believes should be addressed to reduce inflationary pressures from the non-tradeables sector (eg housing and whether the introduction of a capital gains tax would be a useful policy tool). We consider the Reserve Bank should be given more independence to research and comment on the sources of inflation, and possible Government policy changes, which would reduce monetary policy pressures on other sectors of the economy.

2.6 Communication of Monetary Policy

2.6.1 We consider that the introduction of the OCR, and the change to regular scheduled six weekly statements on monetary policy, has been very beneficial in terms of clarity and greater stability in monetary policy setting. There were occasions in the past when statements by different individuals from the Bank caused considerable confusion in the financial markets. The current process of communication is now much clearer with better information on the background to decisions made.

This now leaves less room for market commentators to guess what the Reserve Bank is thinking and changes in monetary policy settings are now well predicted by financial markets.

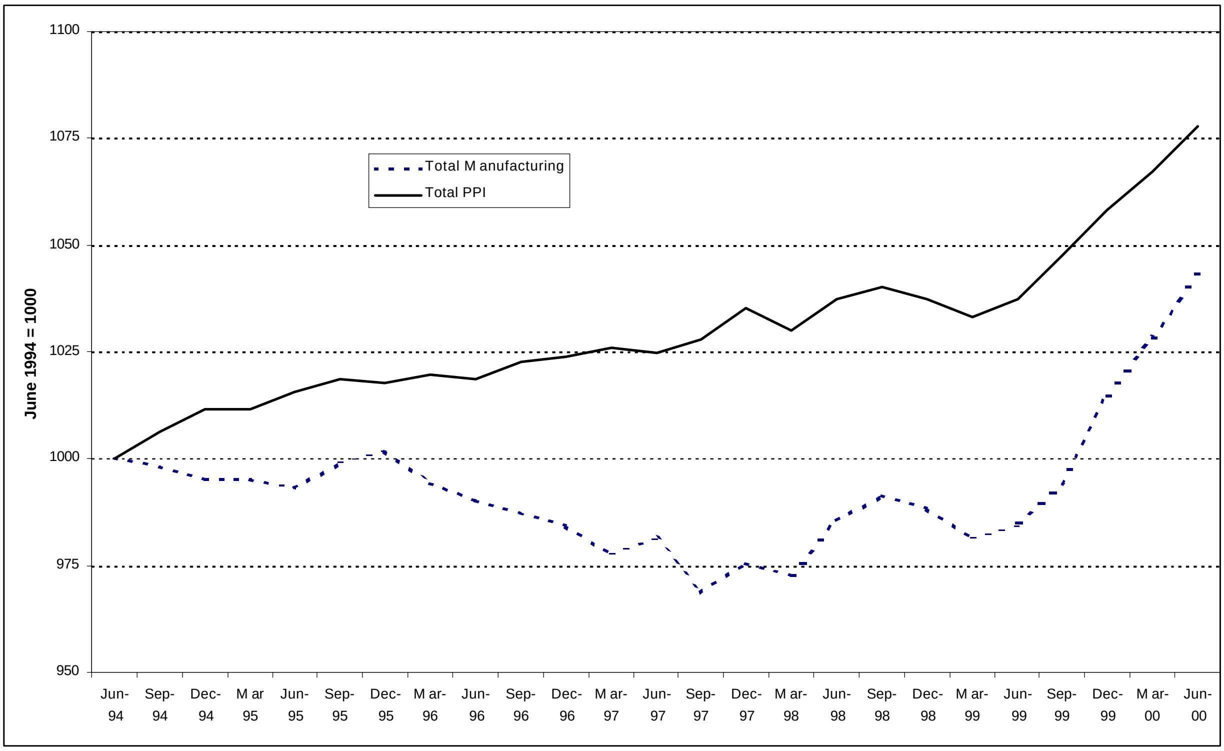
2.6.2 There was also a concern in the past that the Bank was responding too quickly to short term movements in the exchange rate, rather than focussing on the medium term outlook. By moving to a six weekly timetable, the Bank has increased the discipline on itself to look through these short-term movements.

2.6.3 There is also considerable value in the review of Monetary Policy Statements by the Finance and Expenditure Select Committee of Parliament. This has shown the broad political support for the Policy Target Agreement and has provided the Bank with further opportunity to explain its outlook for the economy and inflation.

2.7 Conclusions

2.7.1 The manufacturing sector considers that the implementation of monetary policy over the last 10 years has resulted in the sector being unfairly penalised for what is in fact high inflation in the non-tradeable sector. This is confirmed by inflation data covering the period from June 1994 to June 2000 (we have used June 1994 because the new producers price index was only backdated to that quarter).

Producers price index



SOURCE: Statistics NZ

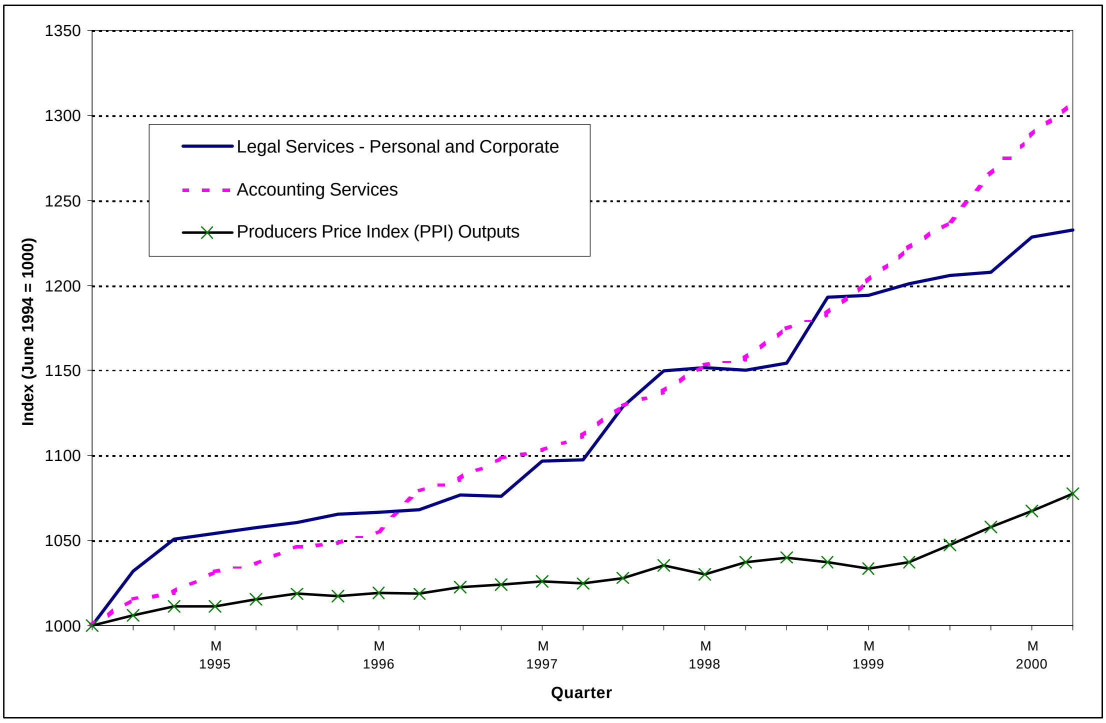
	Total Change in Inflation ’94 - ‘00	Average Annual % Change
Manufacturing output prices	2.8%	0.5%
Tradeable sector inflation	5.9%	1.0%
Non-tradeable sector inflation	19.7%	3.3%
CPI	11.9%	2.0%
Policy Targets Agreement		0 – 3%

2.7.2 Inflation in the manufacturing sector has been close to the bottom of the Policy Targets Agreement (PTA) range, with periods of negative inflation during the period from 1994 to the present. In contrast, the average level of inflation in the non-tradeable sector has been above the top of the PTA range, with average inflation of 3.3% over the last 6 years.

2.7.3 The significant reform to import protection levels for the manufacturing sector has been the major factor contributing to the low level of inflation for manufacturing prices. Competition from imports now means it is much more difficult for manufacturers to raise prices when demand increases or input costs rise.

2.7.4 In contrast, there are major parts of the non-tradeables sector (for example, chemists, real estate agents, the legal profession, other forms of occupational licensing) where there has been no Government reform of barriers to competition. Most of the sector is not affected by changes in the exchange rate and interest rate rises have only a limited impact on inflation in the sector. Monetary policy is therefore, not the most effective instrument for controlling inflation in this sector while barriers to competition remain. Major Government policy reform is required. Until this reform occurs, the manufacturing sector will continue to feel unfairly penalised by the Reserve Bank.

Selected services – Producers price index



SOURCE: Statistics NZ

2.7.5 There are a number of criticisms too, over the management of monetary policy over the last ten years:

- the initial 0 – 2% target was too tight;
- there was too much weight given to the exchange rate as a monetary policy instrument;
- the Reserve Bank appears to have had difficulty in looking through short term inflationary shocks; and
- there have been occasions when failures in Reserve Bank forecasting and serious limitations in the instruments used, have resulted in economic growth lower than required to meet the 0 – 3 % inflation target.

2.7.6 Recommendations

There have been significant improvements in the management of monetary policy, but there are still major issues which need to be addressed. Accordingly, it is recommended that:

(a) more research is undertaken on the sources of inflation in the economy;

(b) reform of the non-tradeable sector is undertaken to reduce the gap between tradeable and non-tradeable sector inflation. Measures would include:

- reforming sectors where occupational licensing and regulation are barriers to effective competition;
- local government reform; and
- further producer board reform.

(c) consideration be given to alternatives for reducing the impact of central and local government charges on monetary policy setting. These include:

- moving to a broader measure of inflation across the whole economy, such as the Gross National Expenditure (GNE) deflator;
- excluding Government charges completely from the CPI; and
- producing a real disposable income measure.

(d) the Reserve Bank be given a mandate to publicly advocate reforms for sectors that are currently contributing to a higher level of general inflation in the economy;

(e) Reserve Bank forecasting techniques and analysis of trends in economic activity be improved by greater use of disaggregated industry sector data and making greater use of external advice on forecasting techniques and modelling.

(f) the Reserve Bank use external advisory committees to periodically review measures such as the TWI and MCI;

(g) additional funding be provided for the development and maintenance of key economic statistics; and

(h) consideration be given to changing the expression of the Policy Targets Agreement to an average level of inflation over the course of a business cycle.