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# 1 Policy assessment

The Official Cash Rate (OCR) will remain on hold at 6.75 per cent.

Our current review confirms what we said in the March *Statement* and again at the April OCR review. Activity remains strong across many parts of the economy and inflation pressures remain persistent. Several years of strong growth have led to productive resources becoming stretched, with capacity utilisation and measures of labour shortages remaining at or near record highs.

However, there is sufficient evidence that the economy is slowing, and that past policy tightenings are yet to have their full effect, for us to leave policy on hold at this point.

While many businesses see more difficult trading conditions ahead, activity and inflation pressures in some sectors are proving stronger than anticipated. Export prices for some commodities have edged up in recent months. Household spending and housing market activity have remained firmer than expected. Non-residential construction and business investment look likely to be sustained at high levels in the near-term.

Overall, we assess that the balance of inflation risks remains on the upside. We base this view on the ongoing growth in debt-financed household spending; and on increases in costs – of labour, energy and freight – that are now putting considerable pressure on margins and prices.

With inflation projected to remain around 3 per cent through most of this year and next, a firm policy stance will be required for some time. We will be watching closely to see if inflation pressures are contained, and further tightening in monetary policy would likely be required if there are upside surprises to the inflation outlook. Certainly, there is no scope for an easing in policy in the foreseeable future.



Alan Bollard  
Governor