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'Group think': These were our Covid-19 mistakes, economists say

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New Zealand's post-Covid house prices were rising rapidly, but interest rates were extremely low.
 Photo: RNZ

New Zealand's government and Reserve Bank realised too late that the economy was not as damaged by the Covid-19 pandemic as they had expected it to be, economists have told an economic forum at Waikato University.

ANZ chief economist Sharon Zollner, Infometrics chief executive Brad Olsen and ASB chief economist Nick Tuffley spoke to a panel on Thursday morning, where they were asked what lessons about monetary policy had emerged from the pandemic.

Tuffley said the response to Covid had been a "grand experiment" here and around the world, as about a third of the economy was shut down through lockdowns.

"We had no idea what it was going to look like when it started to open up. We were nervous about the job losses that could come through. The wage subsidy was one of the most effective things the government here did, giving employers some confidence to hold on to people and giving people some cash in their pockets as well," Tuffley said.

"But we didn't know how big the problem was going to be and we ended up throwing literally everything into it. Perhaps the lesson is being more on to it for signs you've done enough.

"We've learnt how people feel is really important."

He said while forecasters thought that unemployment was going to escalate after the lockdowns, and people might be wary to spend, the opposite happened.

"Instead of people being really cautious and wary, people were going 'Yes I'm alive and the banks are offering a 2 percent mortgage, I can't afford not to go out and go crazy'.

"Retrospectively, we kept the pedal to the floor for too long. The Reserve Bank was still threatening in 2021 that it could put the cash rate into negative when by that stage the housing market was already on fire."

(Edmunds, S., 2025)
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From left, Infometrics chief executive and principal economic Brad Olsen, ANZ chief economist Sharon Zollner and ASB chief economist Nick Tuffley. Photo: Supplied / Screenshot

Olsen said the lesson was that policy makers needed to be more "even-handed" about the pace of movement. He said the government and Reserve Bank had rushed into their responses but then been slow to unwind them.

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"At the start of the pandemic when we had no idea how cataclysmic it was going to be, we acted appropriately and moved quickly - what was in front of us was clearly a deep, dark hole.

"But on the other side when it was clear to literally everyone that things were going absolutely fine we were still saying 'No, no, no still a black hole'. We didn't adjust enough on the other side.

"We're very happy to go this way fast and then this way very slowly - you've got to be even-handed, either go fast, fast or slow, slow, but you can't go fast [then] slow and then wonder why we got here."

He said there could also have been cheaper ways to access the benefits of the money printing that the Reserve Bank conducted.

Zollner said the fact that pandemics were a supply shock had been a lesson to many people.

"We hadn't seen one in 100 years so that's an understandable mistake."

She said there had been "group think" which became a problem.

"The idea that confidence is super fragile persisted well beyond when it was true. House prices - the Reserve Bank forecast them to go down 10 percent or 20 percent but they went up 30 percent one year then 20 percent the next - confidence was not a problem, at least not in the negative."

She said it showed that people needed to be willing to realise their implicit assumptions might no longer be valid.

"If your economy has house prices going up the fastest in the world, would you have interest rates at practically zero and talk about adding more stimulus in every way possible? But hindsight is a wonderful thing."

The economists said the next issue for the economy would be finding growth that did not lead to a return of inflation, given New Zealand's productivity concerns.

They were split in whether more cash rate cuts would be needed after February, given the addition of offshore inflation pressure from Trump's tariffs.

"There are question marks about how much growth we can enjoy before we start thinking is this too much," Zollner said. "My fear is that number could be regrettably low."

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