

Economic outlook

Reserve Bank of New Zealand
November 2018

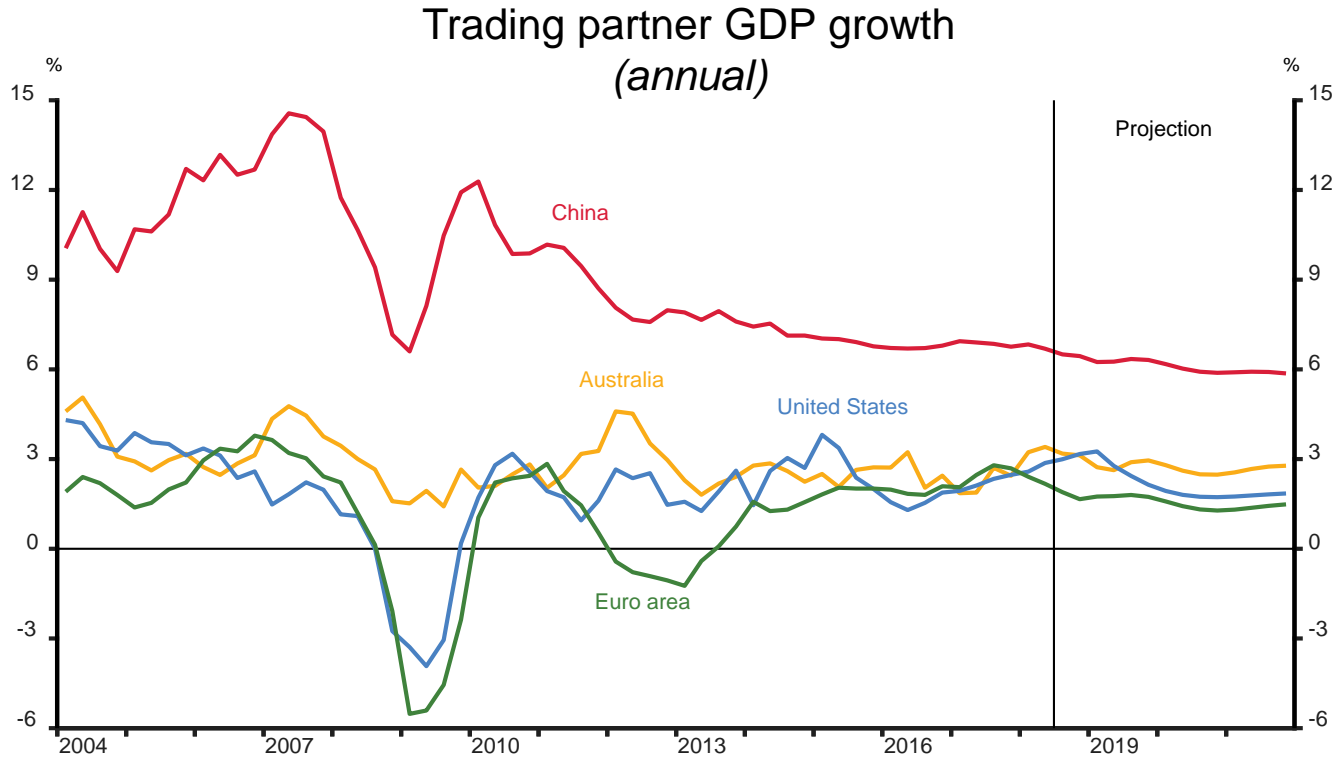


Overview

- Monetary and fiscal stimulus, net immigration, and higher net exports to support growth
- Employment is in the vicinity of its maximum sustainable level.
- Underlying inflation expected to rise to 2 percent, as capacity pressure increases
- OCR expected to remain low for a considerable time.
- Downside growth risk balanced by upside risk to cost pressure



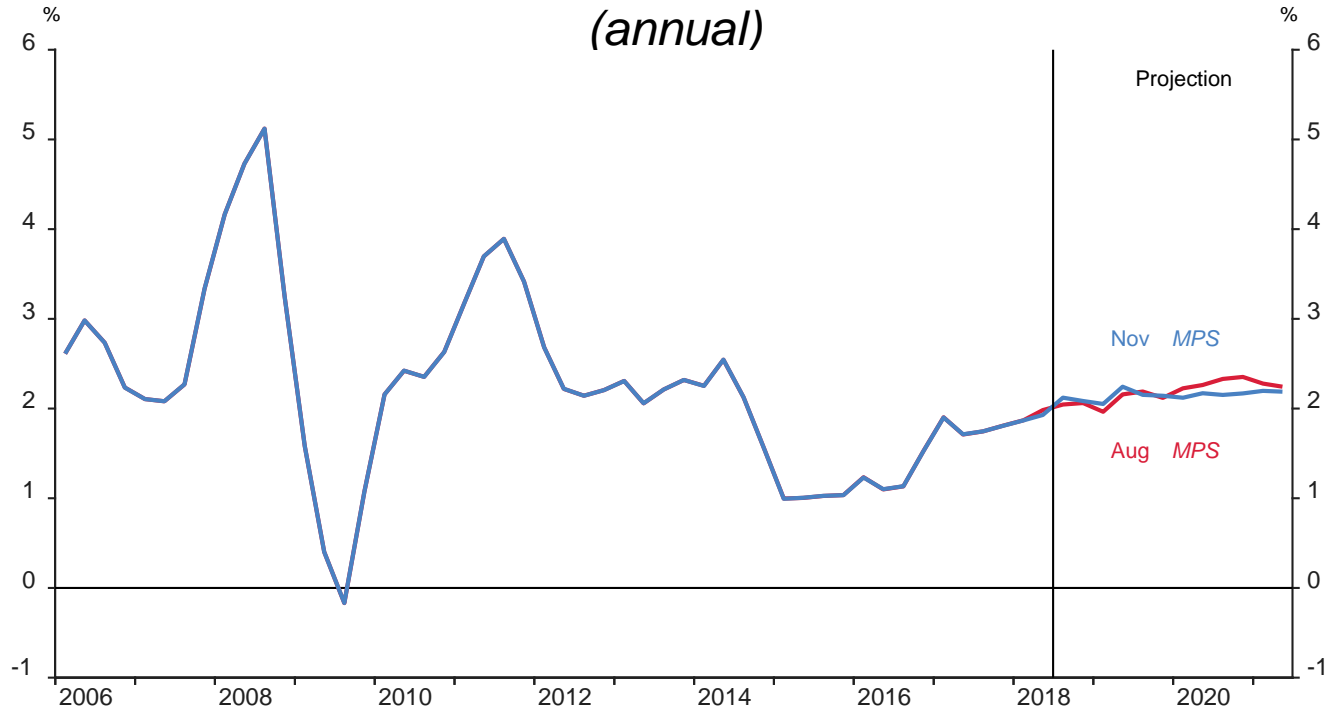
Diverging global growth





Global inflation picking up...

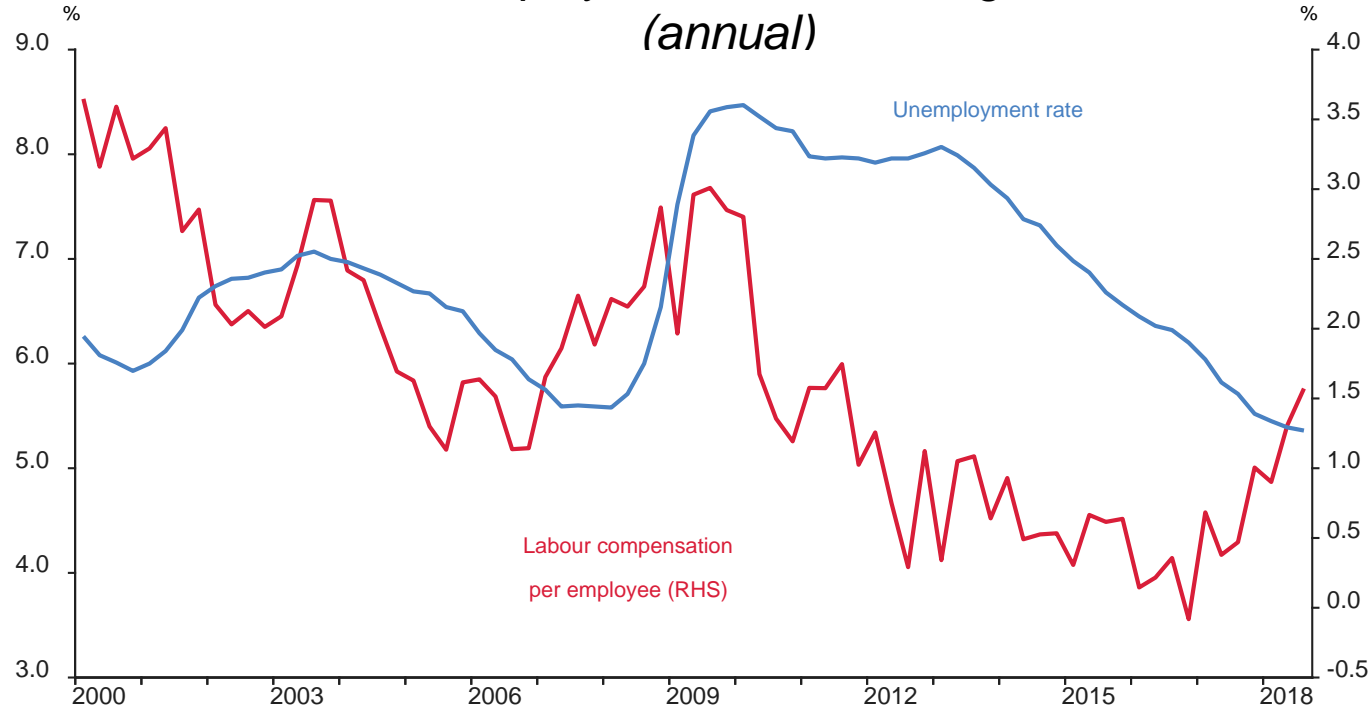
Trading-partner CPI inflation (annual)





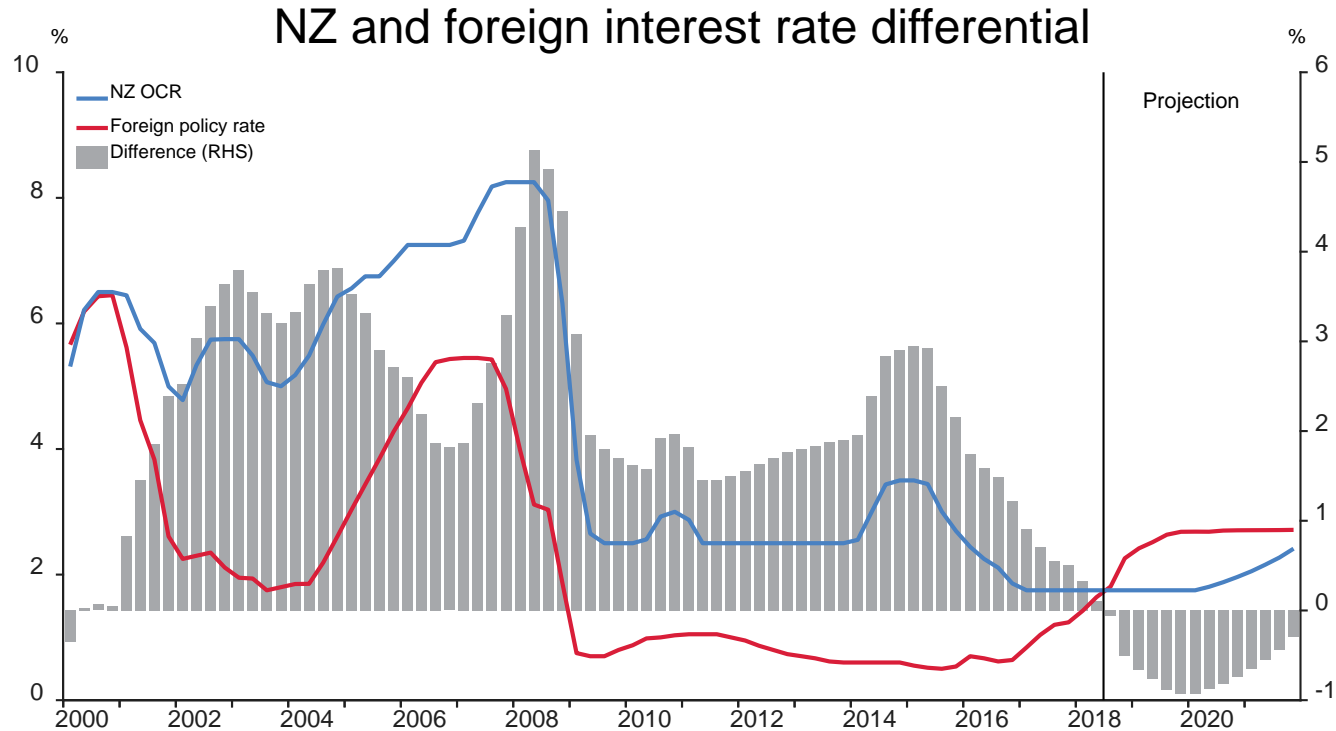
...as capacity is absorbed

OECD unemployment rate and wage inflation (annual)





Global monetary stimulus being unwound



Financial conditions tightening globally



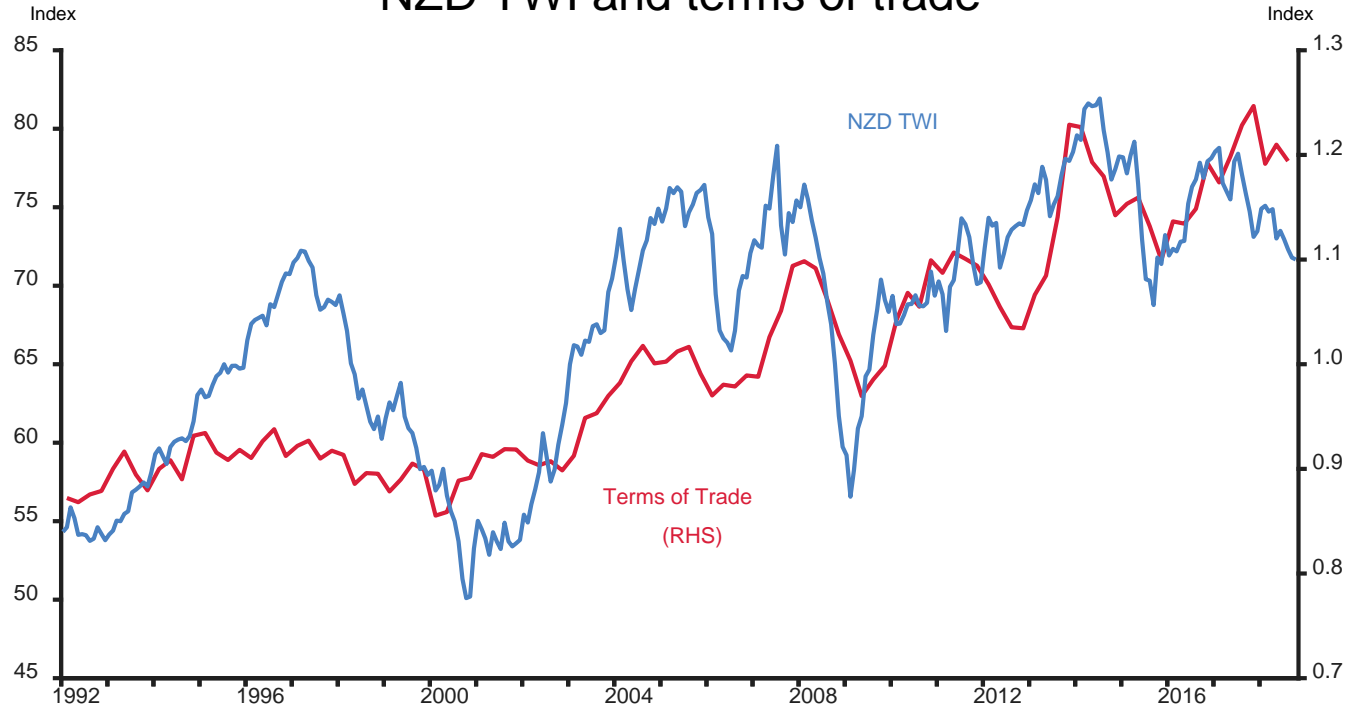
Bloomberg financial conditions indices





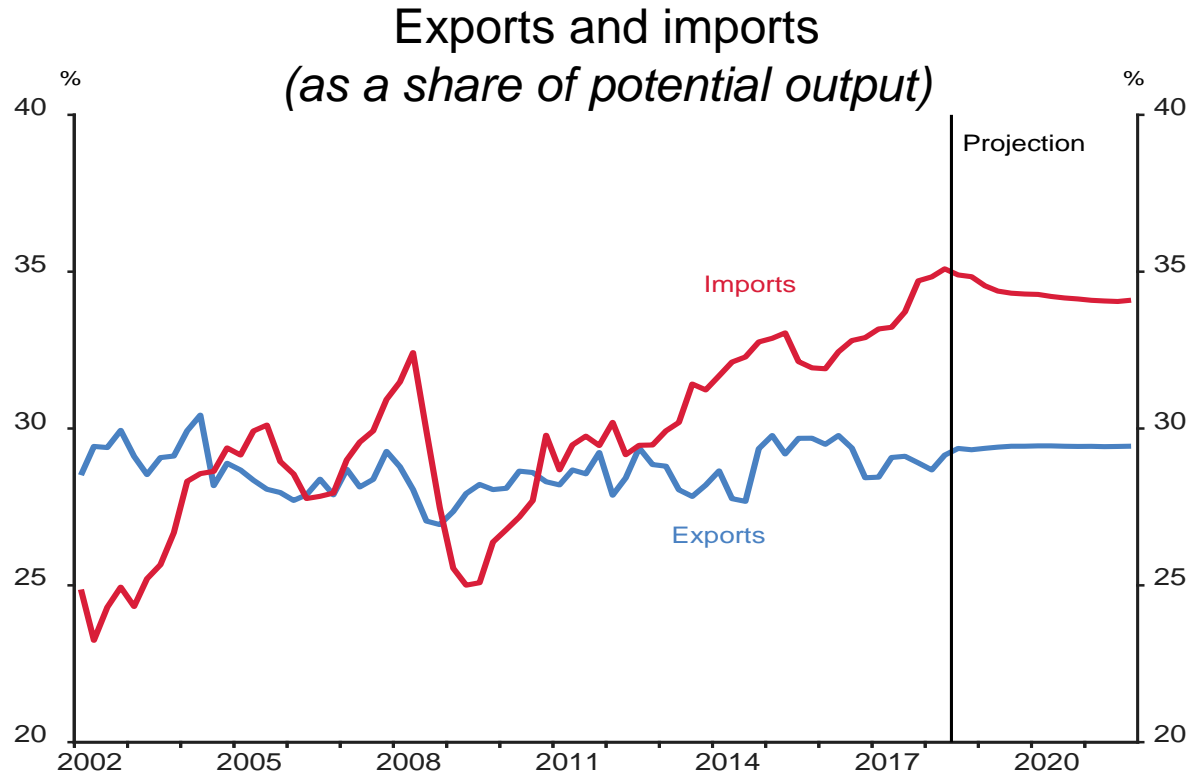
NZ dollar and terms of trade broadly consistent

NZD TWI and terms of trade

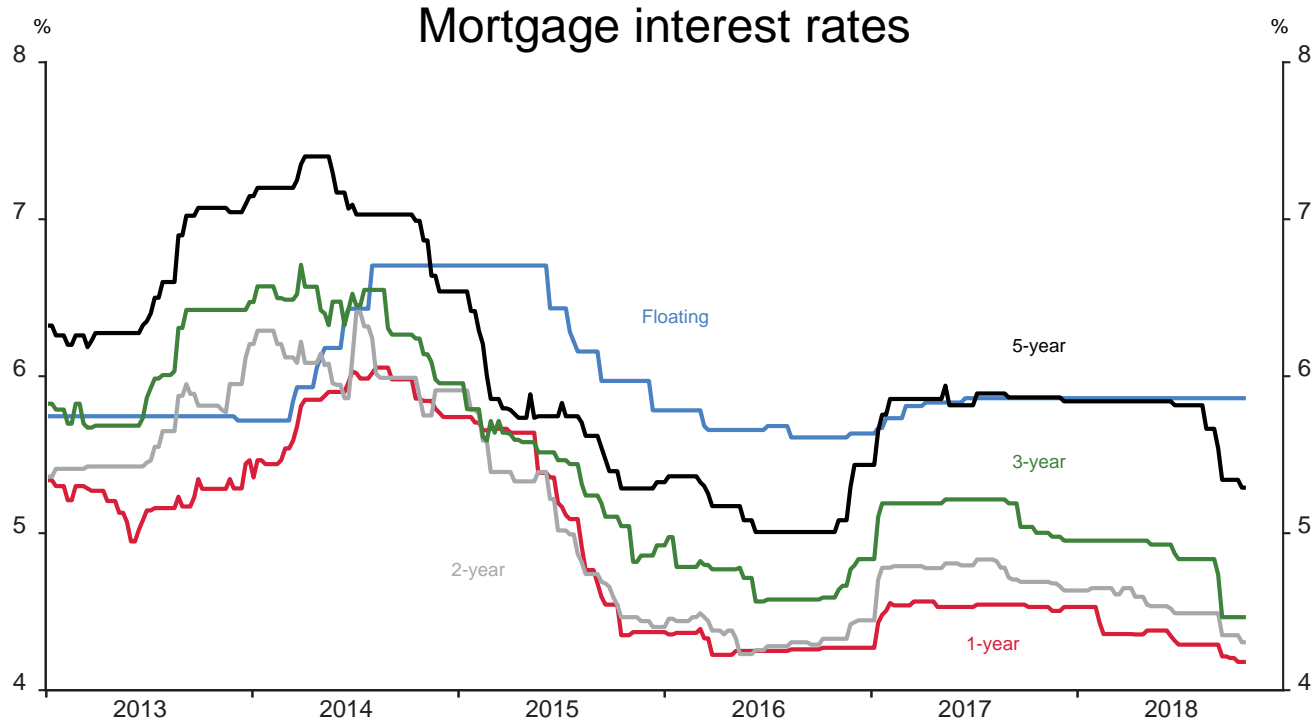




Positive net exports outlook



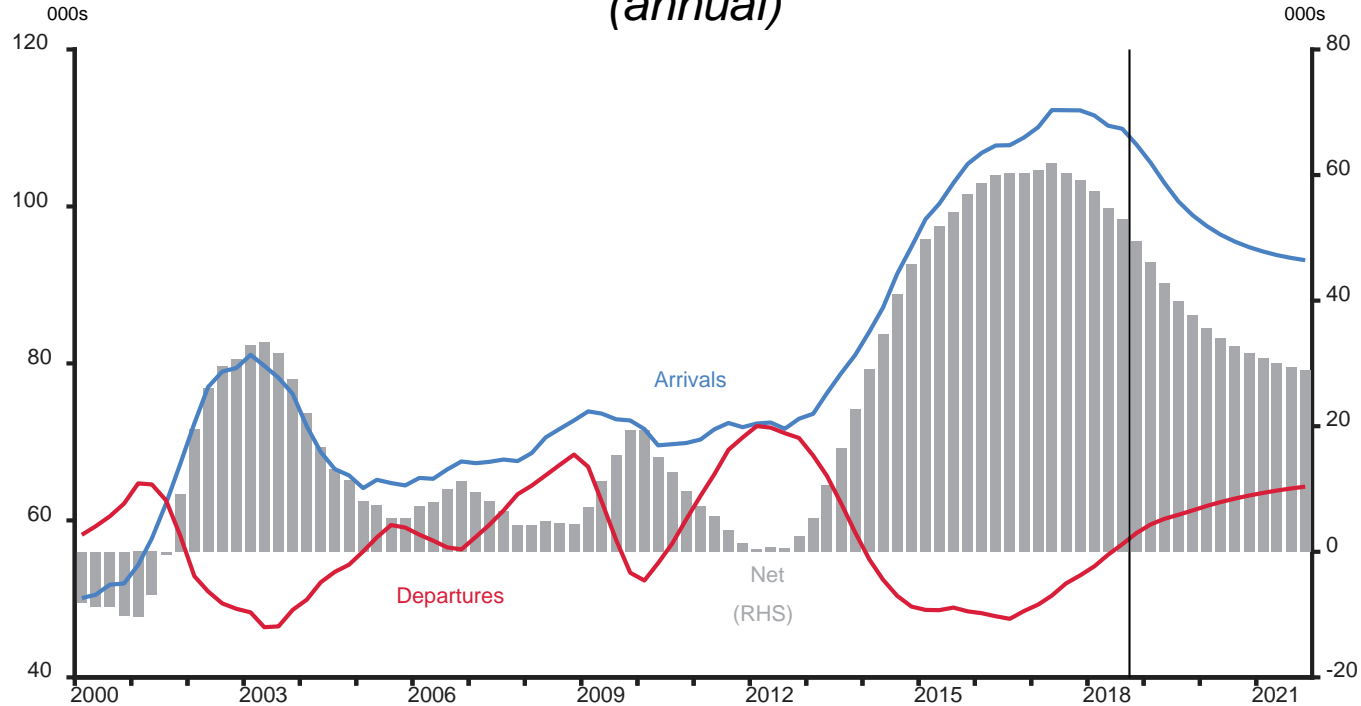
Domestic conditions supported by lower fixed-term rates





PLT net inflows to moderate

Permanent and long-term working-age arrivals/departures
(annual)



Source: Stats NZ, RBNZ estimates.



House price inflation to be subdued

House price inflation
(*annual*)





Residential investment supported by Kiwibuild from late-2019

Residential investment
(as a share of potential output)



Source: Stats NZ, RBNZ estimates.



Construction sector capacity constrained

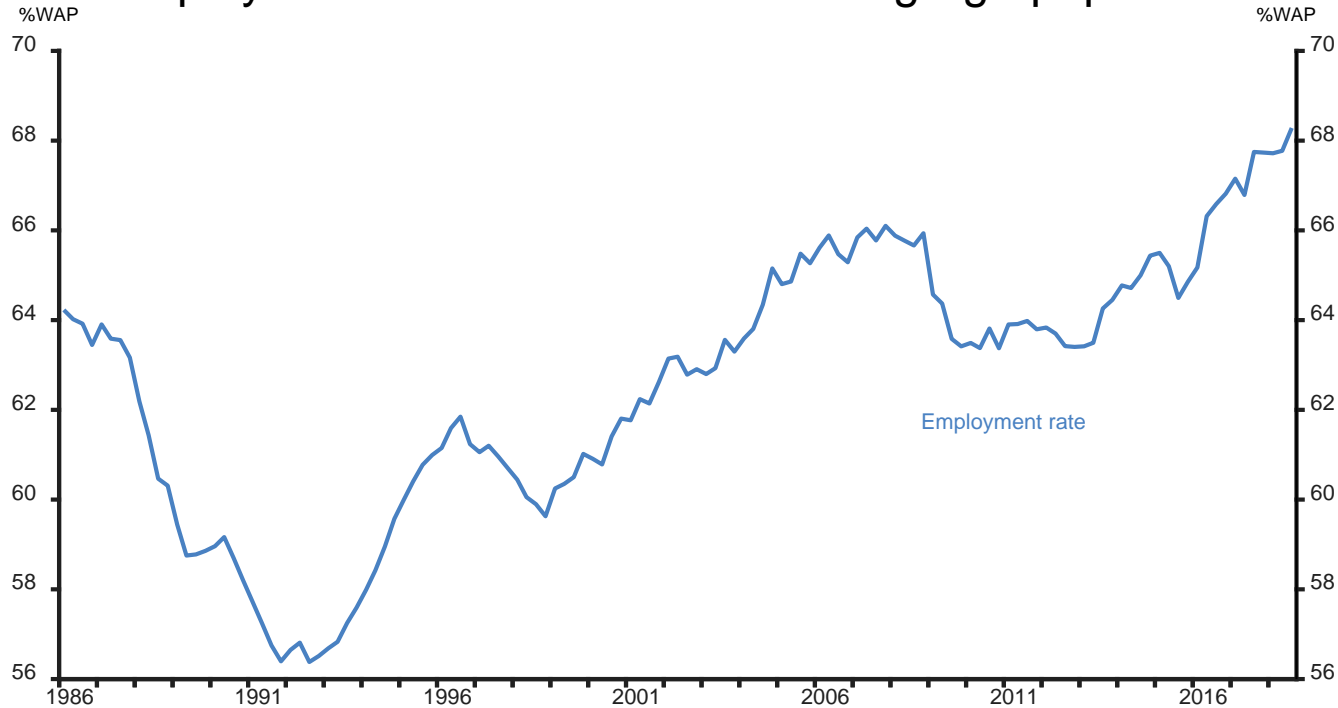
Dwelling consents (*monthly*) and QSBO difficulty of finding labour





Employment around MSE

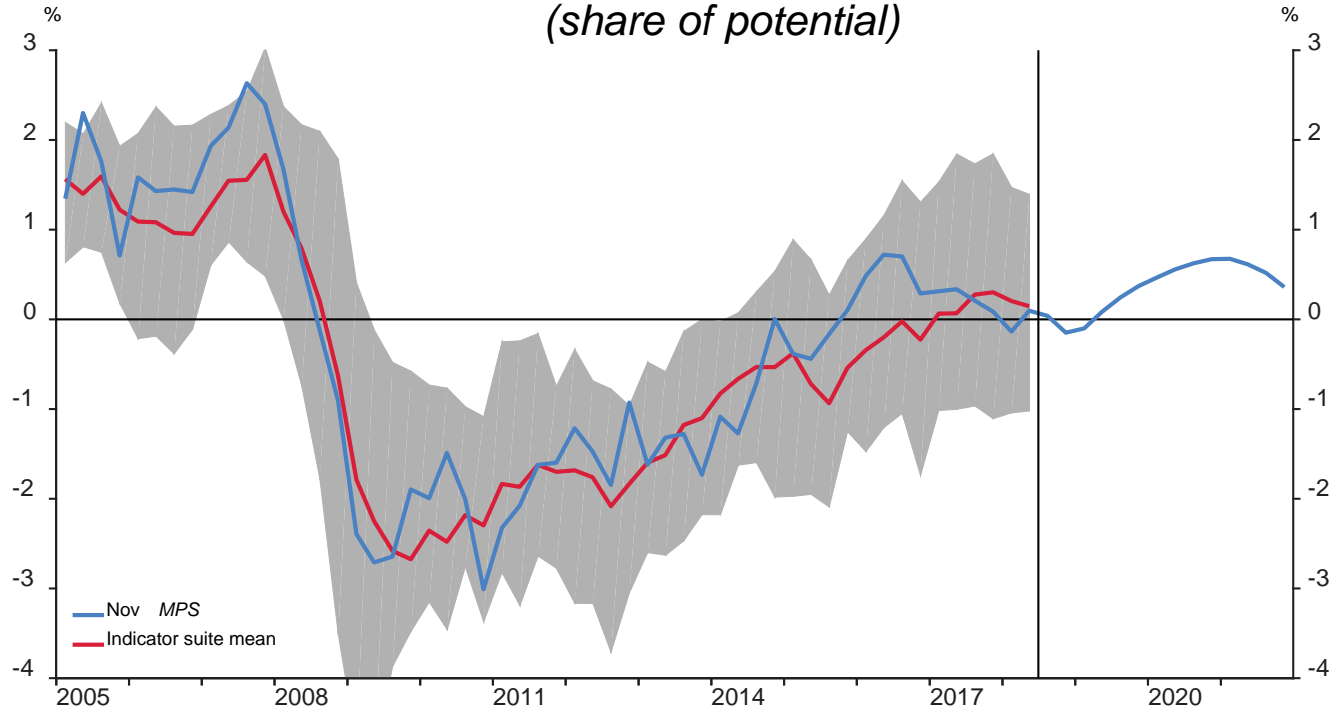
Employment as a share of the working-age population





Output gap and indicator suite

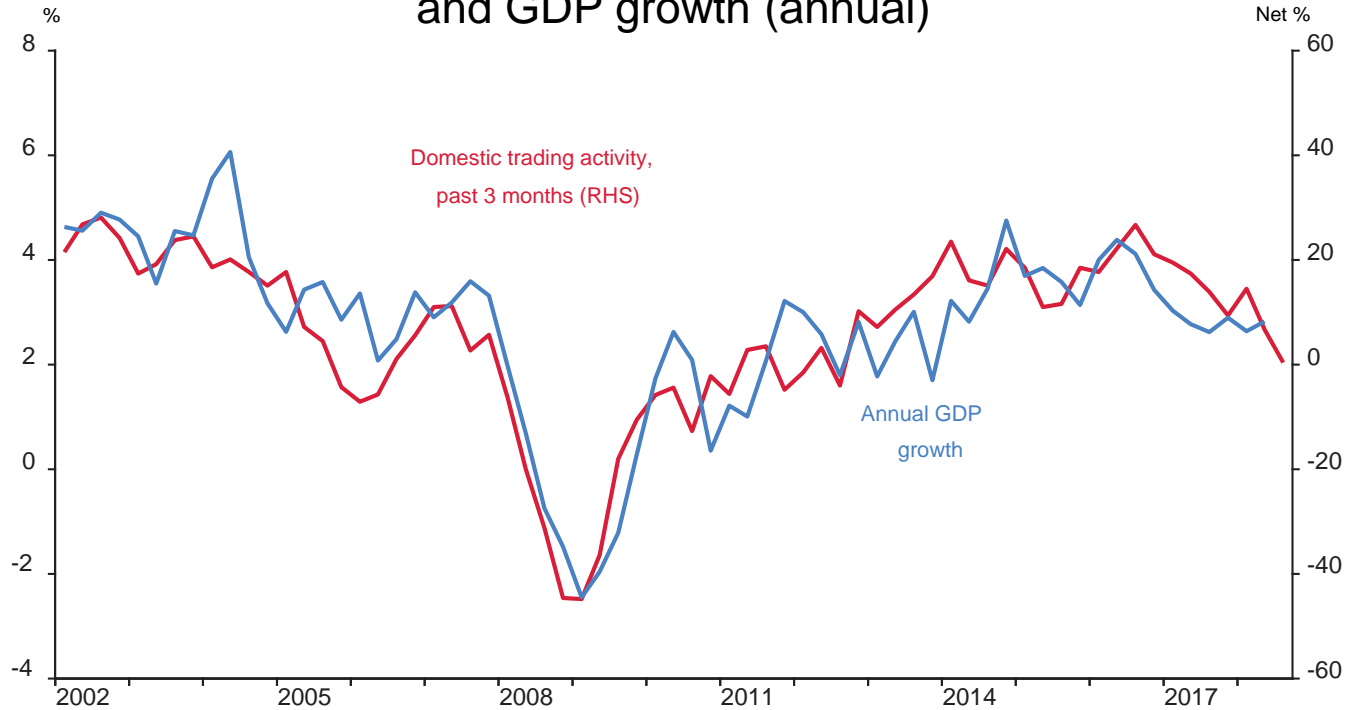
Output gap and mean of indicator suite
(share of potential)





But businesses' reported activity poses downside risk

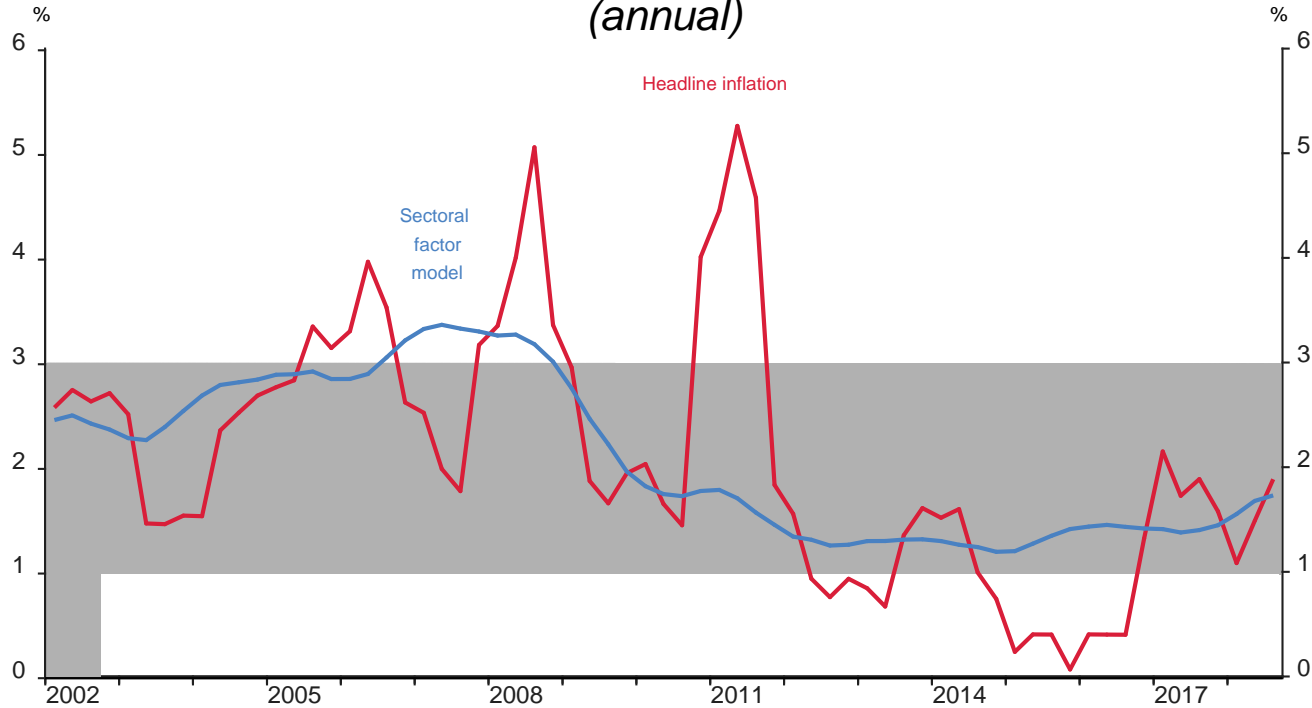
QSBO domestic trading activity expectations (past 3 months) and GDP growth (annual)



Underlying inflation approaching 2 percent



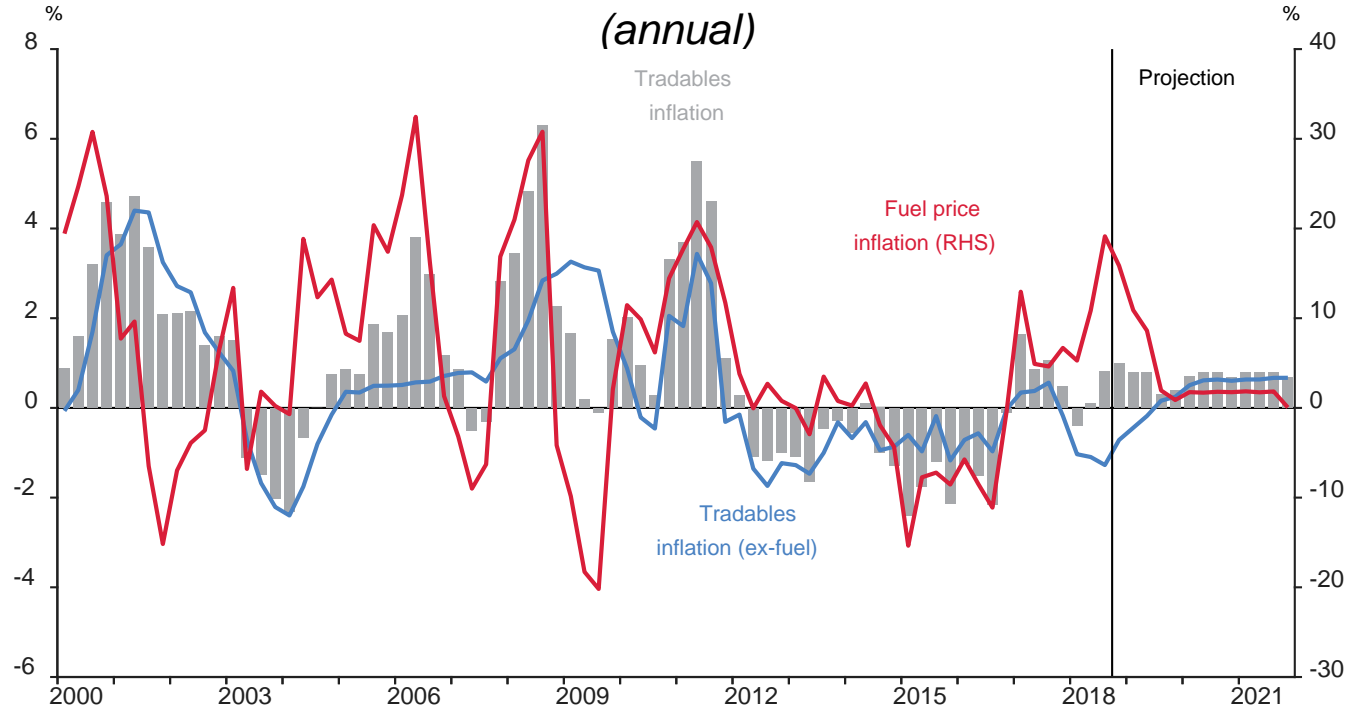
Core and headline inflation
(annual)





Tradables inflation driving headline inflation

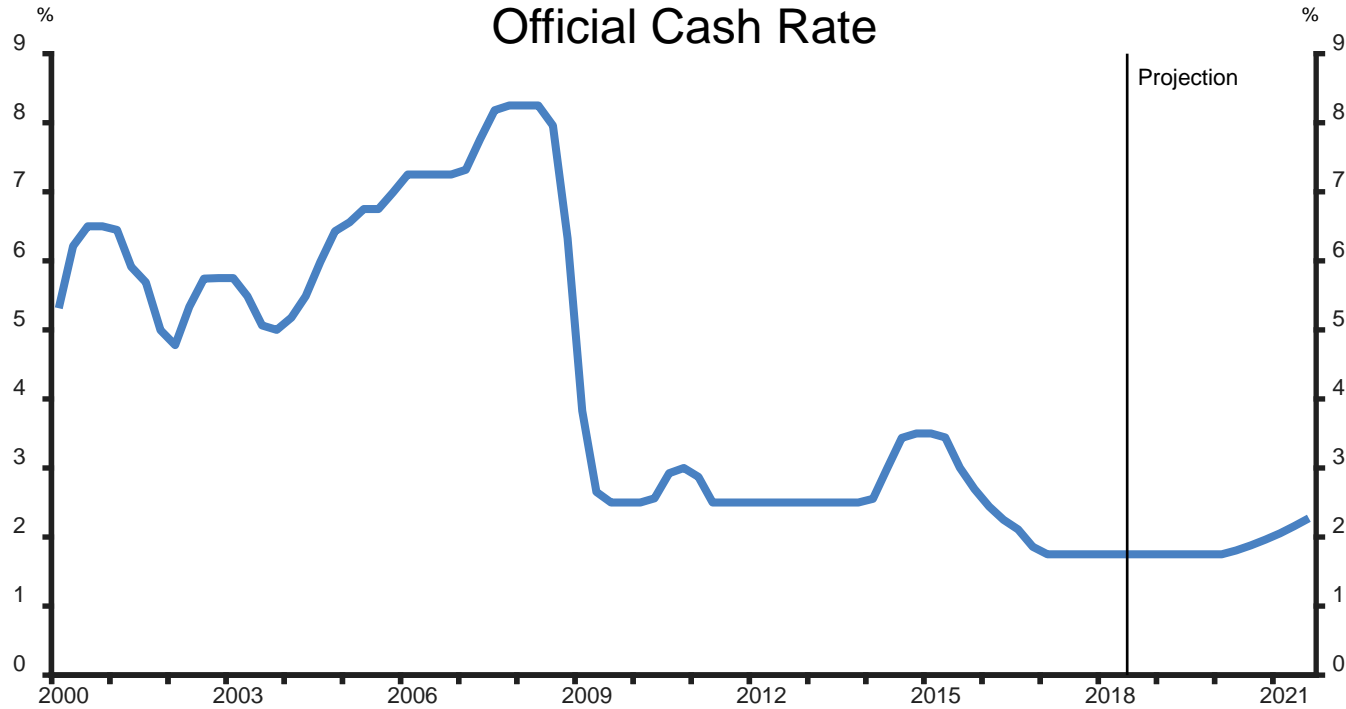
Fuel, tradables and tradables ex-fuel inflation



Source: Stats NZ, RBNZ estimates.

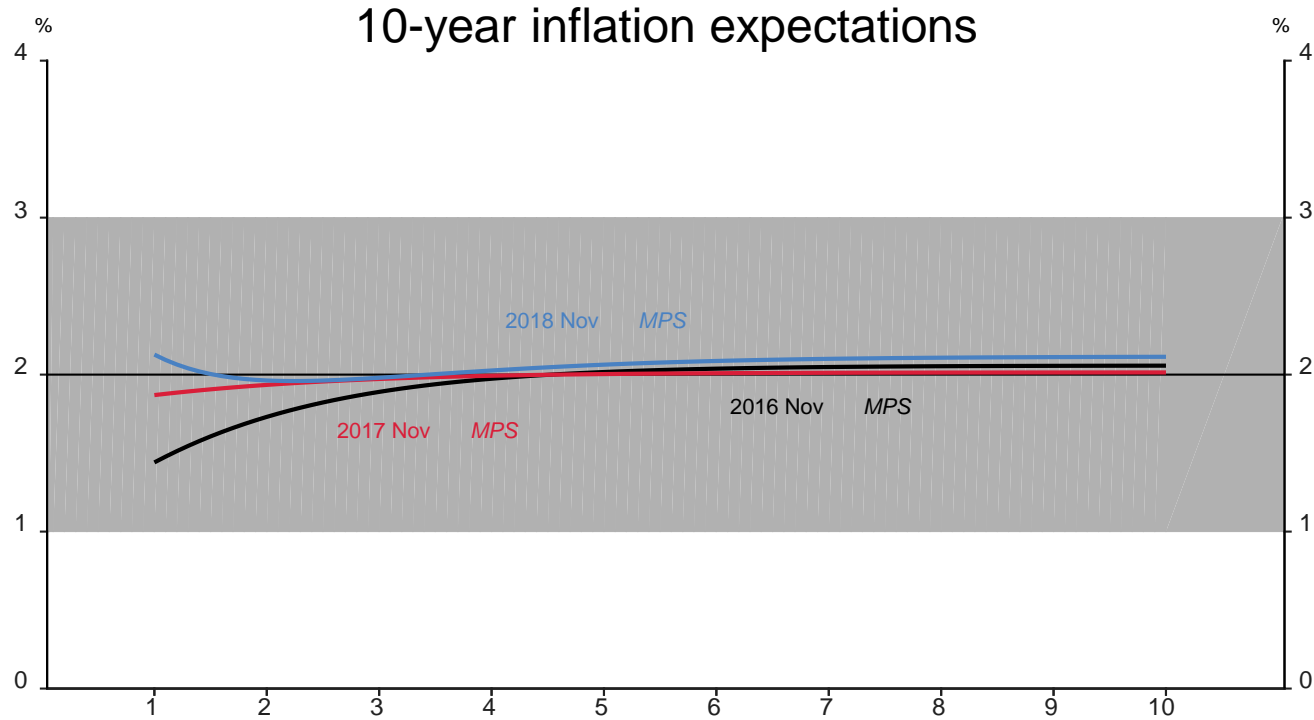


OCR on hold for considerable period



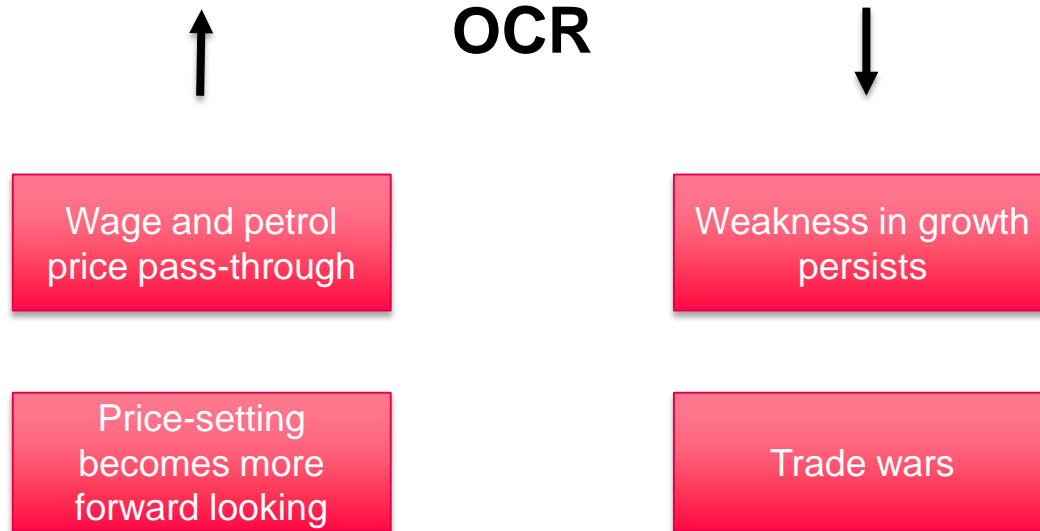


Inflation expectations well anchored





Key risks in the November *Statement*





Reserve Bank of New Zealand Act Review

- The joint Treasury and Reserve Bank team undertaking Phase 2 of the Government's Review of the Reserve Bank Act has released its first consultation paper <https://treasury.govt.nz/news-and-events/reviews-consultation/reviewing-reserve-bank-act/phase-2-reserve-bank-act-review>
- Phase 2 of the Review focuses on the Reserve Bank's financial policy framework.
- Phase 1 of the Review focused on improving the Reserve Bank's monetary policy framework, and led to Cabinet announcing agreed policy changes in March 2018. After legislation has passed it is expected to come into effect on 1 April 2019.
- For general enquiries about the Reserve Bank of New Zealand Act Review, please email rbnzactreview@treasury.govt.nz



Thank you