

Monetary Policy Statement in pictures

May 2019



Official Cash Rate reduced to 1.50 percent

The Monetary Policy Committee decided a lower OCR is necessary to support the outlook for employment and inflation consistent with its policy objectives.



Economic growth has supported employment and inflation



Growth has slowed recently as headwinds have emerged



Lower interest rates are needed to support the economy

As we get new information about the state of the economy, we may need to change the Official Cash Rate (OCR) to ensure inflation returns to our target mid-point of 2 percent per year, and to support maximum sustainable employment.

LATEST STATISTICS

- Annual GDP growth: 2.3 percent (Q4 2018)
- Annual CPI inflation: 1.5 percent (Q1 2019)
- Unemployment rate: 4.2 percent (Q1 2019).

Economic growth has supported employment and inflation

Until the second half of 2018, the New Zealand economy expanded at a solid pace. The global economy improved, and low interest rates and strong population growth encouraged households and businesses to spend more.

As a result, businesses needed more workers and the number of people unable to find a job fell. Employment rose to near its maximum sustainable level.

Inflation for domestically-produced goods and services picked up to just below its historical average. Consumer price inflation has been within our 1 to 3 percent target range since late 2016, despite petrol price fluctuations.



Growth has slowed recently as headwinds have emerged

Growth in the New Zealand economy slowed in the second half of 2018. Headwinds have emerged from both international and domestic sources.

Our key trading partners grew more slowly over the second half of 2018. Trade disputes between major economies have reduced global trade and caused firms around the world to delay investment.

Domestically, a lack of confidence in the economic outlook has reduced business investment. Population growth has slowed due to lower net immigration. The housing market has remained subdued, especially in Auckland.

Slower growth appears to be continuing in 2019. We expect this will dampen employment and inflation.



Lower interest rates are needed to support the economy

With emerging headwinds, the New Zealand economy needs more support from monetary policy. Lower interest rates encourage consumers to spend, and businesses to invest and hire more people. This activity supports economic growth and employment, and nudges inflation towards 2 percent per year.

The outlook for the economy is uncertain. Economic growth could slow further over the next year if a global economic slowdown reduces overseas demand for our exports. On the other hand, domestic spending could be stronger than we anticipate. As we get new information about the state of the economy, we may need to change the OCR to help stabilise employment and inflation.

