Economic outlook

Reserve Bank of New Zealand
November 2020
Disclaimer:

This presentation represents the view of the Monetary Policy Committee, not of any individual member.
The Monetary Policy Statement at a glance

- The Reserve Bank’s Monetary Policy Statement (MPS) provides a quarterly picture of the New Zealand economy and where we think it is heading next.

- It sets out how the Bank has implemented monetary policy and how it plans to do so in the next three years.
Overview

- Easing social restrictions have seen a rebound in economic activity, assisted by government support.
- The virus continues to spread offshore, disrupting the global recovery. This is restraining business confidence and investment.
- Our *Remit* requires us to keep future inflation close to 2% p.a. and support employment near its maximum sustainable level.
- Ongoing monetary stimulus is needed. We are introducing a Funding for Lending Programme to further reduce lending rates.
Impacts of COVID-19 on the New Zealand economy
Economic activity has been curtailed by the COVID-19 outbreak

GDP growth in the June quarter 2020

Source: Haver Analytics, Stats NZ.
Border restrictions have hit activity, particularly in tourism and education sectors.

International visitor arrivals
(7-day rolling average)

Source: New Zealand Customs Service.
Job losses significant in some sectors...

Employment by industry

(change since March quarter 2020, s.a.)

- Total
- Other services
- Trade
- Transport, accom., and food services
- Manufacturing
- Forestry and mining
- Utilities and government
- Construction

Source: Stats NZ, RBNZ estimates.
...with an uneven hit across demographic groups

COVID-19 employment impact by age
(change, March quarter 2020 to September quarter 2020)

Source: Stats NZ, RBNZ estimates.
Job losses have led to a rise in income support

Source: Ministry of Social Development.
Unemployment expected to rise into 2021, gradually fall thereafter

Unemployment rate
(s.a.)

Source: Stats NZ, RBNZ estimates.
But a post-lockdown rebound is underway....

Electronic card spending
(week vs. a year earlier)

Source: MBIE. Note: data to end of October
Business sentiment has improved but remains low

Employment and investment intentions

Source: ANZ.
A sharp decline in economic activity, but some resilience

Source: Stats NZ, RBNZ estimates.
...associated with a drop in inflation

Source: Stats NZ, RBNZ estimates.
Inflation expected near 2% over medium term

Inflation expectations (annual)

Source: RBNZ estimates.
Note: based on ANZ, Consensus Economics, Aon Hewitt, and Reserve Bank professional forecaster and business surveys.
Policy responses to date

- **Fiscal policy** is providing considerable support (around $60 billion), initially via the Wage Subsidy.

- **The OCR** was cut 75bp to 0.25 percent in March, and Monetary Policy Committee signaled this level for at least a year.

- **A Large Scale Asset Purchase (LSAP)** programme began in March. This involves the purchase of up to $100 billion of New Zealand government bonds, local government debt, and inflation-indexed bonds.

- **A Funding for Lending Programme (FLP)** to begin in December. This provides funding to banks of up to 6% of total loans for 3 years at the prevailing OCR.
Fiscal spending moderating but remains significant

COVID-19 discretionary government spending

Source: Treasury, RBNZ estimates.
Note: These indicative estimates are derived from information outlined in Government releases.
Monetary stimulus has lowered interest rates...

Change in New Zealand interest rates
(change since beginning of 2020)

Source: Bloomberg, interest.co.nz, RBNZ.
...with lower funding costs for corporates encouraging higher debt and credit issuance

Corporate issuance in capital markets

Source: Bloomberg.
New Funding for Lending Programme (FLP) to provide further monetary stimulus

**FLP:** Promoting lending to businesses and households at lower interest rates, increasing consumption and investment by:

- Lowering banks’ direct funding costs (market)
- Lowering banks’ indirect funding costs (other)
- Banks competing for borrowers’ business (to access further funding)

---

**FLP funding**  
**Wholesale funding costs**  
**Retail funding costs**  
**Price (↓) and quantity (↑) of credit**  
**Inflation and employment (↑)**  
**Consumption and investment (↑)**  
**Borrowing and lending (↑)**

...easing credit conditions...
...increasing economic activity...
Summary

• The COVID-19 pandemic has reduced economic activity globally over the first half of 2020.

• Easing social restrictions have seen a rebound in economic activity, assisted by government support.

• The virus continues to spread offshore, disrupting the early global recovery.

• Considerable ongoing monetary stimulus is needed. We are:
  - implementing a Funding for Lending Programme in December;
  - holding the OCR at 0.25%; and
  - maintaining the Large Scale Asset Purchase programme at $100 bn.