Reserve Bank of New Zealand
Te Pūtea Matua

08/2021 Monetary Policy SNAPSHOTS

Official Cash Rate on hold at 0.25 percent.

The seven members of the Monetary Policy Committee agreed to retain the current stimulatory level of monetary settings, keeping the OCR at **0.25 percent** for now.

Economic growth and employment are strong

Businesses are finding it difficult to source the workers needed to meet demand

Recent increases in inflation are largely temporary

Less stimulus will be needed to meet our inflation and employment objectives

Latest key statistics

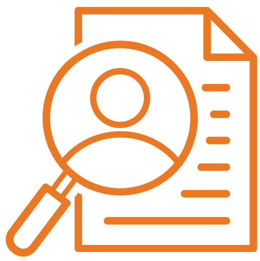
- Annual economic growth: 2.4 percent (Q1 2021)
- Annual inflation: 3.3 percent (Q2 2021)
- Unemployment rate: 4.0 percent (Q2 2021)

Today's decision to keep the OCR at 0.25 percent was made in the context of the Government's imposition of Alert Level 4 restrictions on activity across New Zealand.

Economic growth and employment are strong

- The recoveries in economic activity and employment have been much stronger than expected. Many industries have been operating back at or above their pre-COVID-19 levels. The unemployment rate has fallen recently to 4.0 percent, from a peak of 5.3 percent a year or so ago.
- A lot of the current momentum in the economy is due to strong household spending within New Zealand, with New Zealanders having saved a lot during Alert Levels 3 and 4, and being unable to spend much overseas. Strong spending by households has more than offset the loss in international visitors at a nationwide level, although differences between regions and industries remain.

Businesses are finding it difficult to source the workers needed to meet demand



- Businesses are finding it increasingly difficult to meet strong demand with their current resources. Pressures are most apparent in the labour market. While the unemployment rate has fallen, the number of jobs being advertised is still high.
- Those who remain unemployed do not always have the skills suited to the jobs available, and it takes time to retrain. Border restrictions are also limiting the ability of employers to fill vacancies with workers from overseas. Wages are increasing faster as businesses try to hold onto existing employees and attract new ones.

Recent increases in inflation are largely temporary

- Inflation has increased recently. Delays in getting goods into New Zealand and high shipping costs have increased the price of imported goods. Higher oil prices globally have led to an increase in petrol prices in New Zealand. The prices of goods and services related to the housing market – such as the cost of building new houses, and repairs and maintenance costs – are also contributing to rising inflation.
- However, high inflation is expected to be temporary. While inflation is expected to increase further over the rest of the year as these conditions persist, annual inflation is expected to ease towards our 2 percent target midpoint in 2022. Expectations for inflation in two or more years' time remain anchored near 2 percent.

Less stimulus will be needed to meet our inflation and employment objectives

- Monetary policy has been working alongside government spending to support New Zealand's economic recovery. There is an ongoing risk that New Zealand's recovery is stalled by a widespread outbreak of COVID-19 in the community. While the recent move to Alert Level 4 will restrain activity, the impact will depend on the length of time restrictions are in place and the responses of households and businesses.
- The effectiveness of the Wage Subsidy and the adaptability of businesses and workers over 2020 show that New Zealand can recover quickly from these periods of restrictions, at least if they are short-lived. Combined with strength in inflation and the labour market, we expect that monetary policy will need to provide less stimulus in order to meet our inflation and employment objectives.