

11/2021

Monetary Policy SNAPSHOTS

MPC continues to reduce monetary stimulus

The Monetary Policy Committee agreed to raise the Official Cash Rate (OCR) to **0.75 per cent**.



The economy was strong going into lockdown, but the spread of COVID-19 poses risks



Demand for workers is robust and businesses are finding it difficult to get the workers they need



Inflation is high, but expected to ease



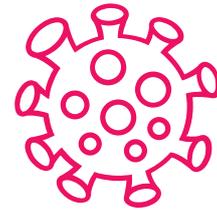
Higher interest rates are needed to achieve our inflation and employment objectives

Latest key statistics

- Annual average economic growth: 5.1 percent (Q2 2021)
- Annual inflation: 4.9 percent (Q3 2021)
- Unemployment rate: 3.4 percent (Q3 2021)

The Committee agreed it remains appropriate to continue reducing monetary stimulus so as to maintain price stability and support maximum sustainable employment. Further removal of monetary policy stimulus is expected over time given the medium-term outlook for inflation and employment.

The economy was strong going into lockdown, but the spread of COVID-19 poses risks



- The economy was strong ahead of the latest nationwide COVID-19 lockdowns. Household spending and demand for our key goods exports have underpinned this strength. Many more homes are being built, and builders have lots of work in the pipeline.
- However, businesses in Auckland and other parts of the country have been badly affected by COVID-19 restrictions. While incomes have been supported by the Wage Subsidy and other government assistance, the lockdowns will have slowed the economy. Economic growth is assumed to recover as restrictions are eased.
- COVID-19 will likely spread across New Zealand in the coming months. How the economy fares will depend on whether more restrictions will be needed and how people react to the spread of COVID-19. For example, some people may choose to stay at home more often, instead of going out and spending at places like restaurants.
- We expect spending by households and businesses to be lower in the coming months as COVID-19 becomes more widespread, but to recover as New Zealanders learn to live with COVID-19 in the community.

Demand for workers is robust and businesses are finding it difficult to get the workers they need



- The strong economy has seen demand for workers increase. At the same time, the number of people available to work has been limited, in part because it is hard to get workers into the country. Strong demand for workers has seen the unemployment rate fall to its lowest level since 2007.
- Government support has helped businesses to keep workers, even as COVID-19 restrictions have disrupted activity.
- Competition for workers is high. Businesses tell us that it is hard to find new workers, and existing workers are being enticed by competitors. Many businesses are increasing pay so that they can both retain existing workers and attract new ones.

Inflation is high but expected to ease



- Prices for consumer goods and services increased 4.9 percent in the past year, above our 1 to 3 percent inflation target.
- International supply-chain disruptions are making it more expensive to bring goods into the country. Strong global demand for goods and a sharp rise in oil prices have increased the price of imports.
- Prices have risen for many domestic goods and services, but especially for those related to housing, like building costs.
- Inflation is expected to ease next year. Oil prices are not expected to keep increasing as they have. Supply-chain bottlenecks are also

assumed to improve slowly, as increasing vaccination rates reduce the likelihood of disruptions at key ports and shipping starts to normalise. Higher interest rates should also ease demand for labour and materials.

- However, there are risks to this outlook. High inflation could lead people to expect more inflation in the future. This might cause businesses to make larger price and wage increases to account for inflation, causing more inflation as a result.
- Expectations of inflation over the next few years have increased, but longer-term expectations remain near 2 percent.

Higher interest rates are needed to achieve our inflation and employment objectives



- Government spending and record low interest rates have supported New Zealand households and businesses since the COVID-19 pandemic began. However, the strength of the economy – as seen in a robust job market and high inflation – means that such low interest rates are no longer appropriate.

- Mortgage rates have already increased, removing some stimulus from the economy. We expect that a higher Official Cash Rate will be needed to make sure inflation is kept in check and we achieve as much employment as possible without inflation increasing.