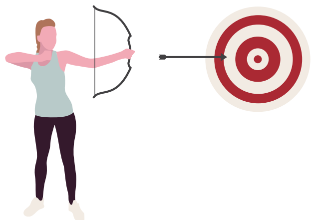
***Monetary Policy Statement* in pictures**

August 2018

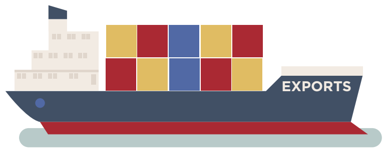
Official Cash Rate unchanged at 1.75 percent

The Official Cash Rate (OCR) remains at 1.75 percent. We expect to keep the OCR at this level through 2019 and into 2020.



Low interest rates will support the economy

Employment remains healthy so wages are likely to rise



Global economic growth is supporting the New Zealand economy

Uncertainty remains – as always

We are monitoring a number of risks, and overall these appear evenly balanced for the Official Cash Rate. If any of these risks were to materialise, we may need to change the Official Cash Rate to best ensure inflation hits our target and we contribute to maximum sustainable employment.

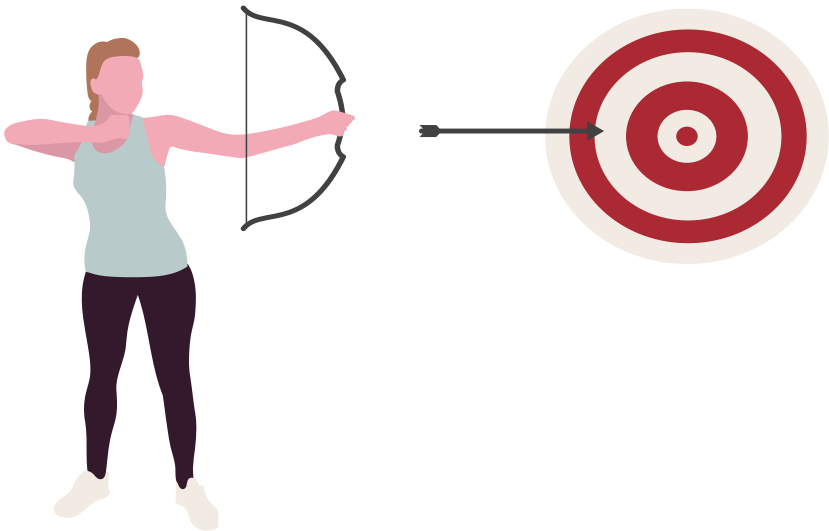
LATEST STATISTICS: Economic growth: 2.7 percent • Inflation: 1.5 percent
• Employment growth: 3.7 percent (94,000 more people in work over the past year)

Low interest rates will support the economy

Our deliberate low official interest rate setting is assisting a range of consumer price inflation indicators to rise. This gradual price pressure reflects ongoing economic and employment growth that are using up the economy's spare resources.

At the same time, we are experiencing a slowdown in economic activity that we project as temporary, but which could be more prolonged.

On balance, we intend to keep our official interest rate low for a long time to come, to support spending, investment, and employment. We will do so while ensuring annual consumer price inflation remains within our 1-3% target range and employment remains around its maximum sustainable level.



Employment remains healthy so wages are likely to rise, and government spending will boost the economy

A variety of estimates suggests employment is around its maximum sustainable level. Although economic growth has eased in the past few months, a high number of jobs have been filled as more people want to work.

The amount that a person can buy with their wage has been increasing, as wage growth has outpaced consumer price growth.

Planned spending and investment by the Government will add to overall demand for New Zealand's resources. This includes spending on schools, hospitals, and transport infrastructure.

The Government's house-building programme, KiwiBuild, will also add economic activity once it cranks up.

Global economic growth is supporting the New Zealand economy

The global economy continues to grow, and there is good demand and prices for New Zealand's offerings. However, threats to trade access are spooking businesses.

Like in New Zealand, we are seeing some signs of inflation returning in the global economy. It remains early days.

Uncertainty remains – as always

There might be higher inflation than we expect – spurred by profit margin pressures forcing businesses to hike prices where they can. Profit margins are being challenged by rising wages and import costs.

Alternatively, investment growth may be slower to respond to capacity constraints, and/or government spending may take longer to occur than planned.

Likewise, 'trade wars' – or even their threat – can stall global investment and spending, and reduce demand for New Zealand's products.