Monetary Policy Statement in pictures

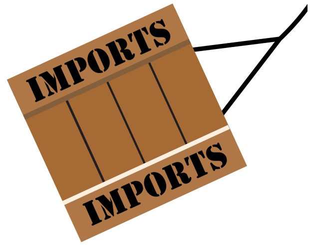
May 2018

Official Cash Rate unchanged at 1.75 percent

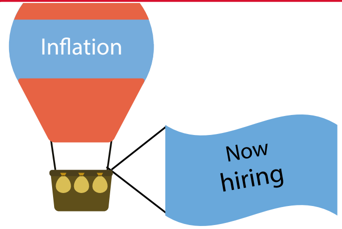
The official interest rate is expected to remain at 1.75 percent for a considerable period.

Global growth continues to support the New Zealand economy

Employment growth continues to be strong



Low import prices have kept inflation low



Low interest rates will help support employment and raise inflation

We are monitoring a number of risks that are evenly balanced. 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: 2.9 percent | Inflation: 1.1 percent | Employment growth: 3.1 percent (79,000 more people in work over past year).

Global growth continues to support the New Zealand economy

The world economy is growing strongly. Economic growth has strengthened in the United States and our other major trading partners, and is expected to remain strong in the period ahead.

Stronger growth overseas benefits New Zealand by increasing the demand for our exports. This extra demand encourages New Zealand businesses to invest more at home and recruit more staff, which in turn boosts the growth rate of our economy.

Employment growth continues to be strong

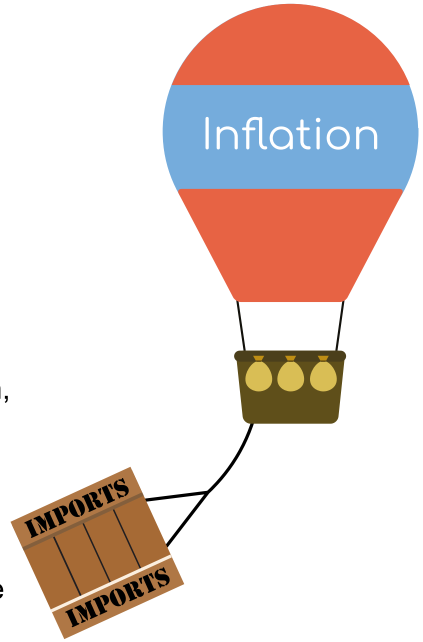
The New Zealand economy has grown strongly since 2015. This has prompted businesses to hire an extra 264,000 workers over the past three years.

More New Zealanders have also been encouraged to enter the labour force in search of work. In particular, more women and older people have been looking for jobs. Likewise, immigration has been high. This increase in willing workers has been rapid, but job growth has been even faster. As a result, the proportion of people in work has risen to a record high and unemployment has declined.

Looking ahead, growth in New Zealand is expected to remain positive, supported by growth overseas, immigration, increased government spending, and low interest rates. Strong growth at home is expected to encourage businesses to create more jobs.

Low import prices have kept inflation low

The price of imports depends on both the level of the New Zealand dollar and how quickly the price of goods is rising overseas.



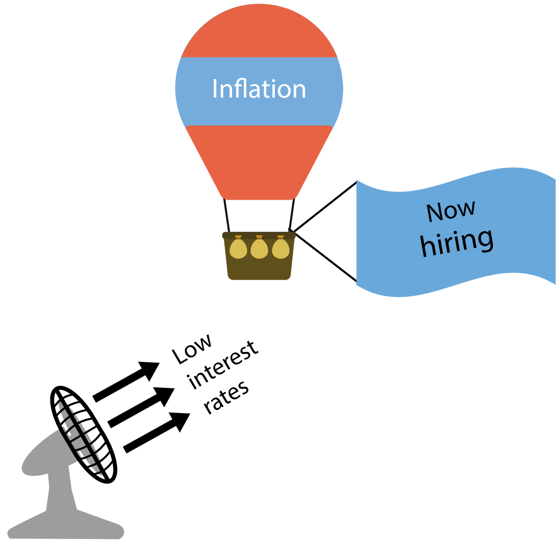
The recent relative strength of the New Zealand dollar means that local businesses and households have been able to purchase goods from overseas at lower prices. In addition, overseas inflation has been low.

Imports are a key input into the production of goods and services in New Zealand. Low import prices are thus a key reason why inflation in New Zealand is currently low.

Low interest rates will help support employment and raise inflation

It is the job of the Reserve Bank to keep inflation close to 2 percent and contribute to supporting maximum sustainable employment. We do this by adjusting the Official Cash Rate (the official interest rate) so that the amount of spending in the economy is near its sustainable level.

At the moment, with inflation low, we want to boost the economy a little faster, to help build pressure and return inflation to 2 percent. This is why we expect to keep the official interest rate at its current low (expansionary) level for a considerable period.



We are monitoring a number of risks that could change the economic outlook and lead us to change interest rates

As it takes over a year for a change in interest rates to fully affect the economy, we need to rely on economic forecasts to ensure interest rates today are set at an appropriate level for the future. Our forecasts represent our best judgement, but we do not have a crystal ball. If an unlikely or unexpected event occurs, we may need to act differently.

We think the risks to economic growth and employment are broadly balanced. Spending and employment could be higher than expected if net immigration stays high, or house prices rise more quickly. But spending and employment could be lower than expected if activity in the construction sector is held back by capacity constraints, or if growth overseas slows due to a tightening in global financial conditions.

We think the risks to the outlook for inflation are also balanced. Inflation has been weaker than expected for several years and there is a risk this could continue. Or, inflation could pick up faster than expected if, for example, tight profit margins lead businesses to raise prices more quickly.

We constantly monitor the state of the economy to ensure interest rates are set at the appropriate level.