

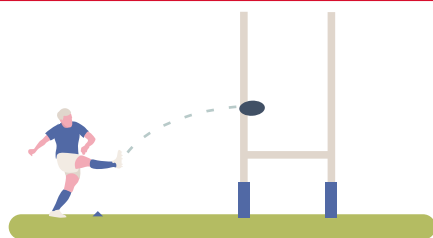
Monetary Policy Statement in pictures

August 2019



Official Cash Rate reduced to 1.0 percent

The Monetary Policy Committee decided a lower OCR is needed to support the outlook for employment and inflation consistent with its policy objectives.



Employment and inflation are close to target



Growth has slowed, and headwinds continue to strengthen



Lower interest rates are needed to support the economy

As we get new information about the state of the economy, we may need to change the Official Cash Rate (OCR) to ensure inflation returns to our target mid-point of 2 percent per year, and to support maximum sustainable employment.

LATEST STATISTICS

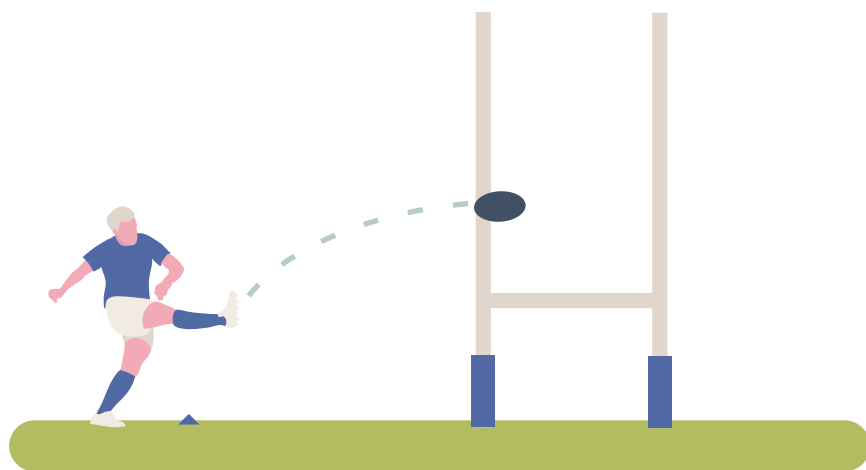
- Annual GDP growth: 2.5 percent (Q1 2019)
- Annual CPI inflation: 1.7 percent (Q2 2019)
- Unemployment rate: 3.9 percent (Q2 2019).

Employment and inflation are close to target

Until the second half of 2018, the New Zealand economy expanded at a solid pace. The improving global economy, low interest rates, and population growth encouraged households and businesses to spend more.

As a result, businesses have needed more workers and the number of people unable to find jobs has fallen. Employment has risen to near its maximum sustainable level.

Inflation for domestically produced goods and services has picked up to just below its historical average. Consumer price inflation has stayed within our 1 to 3 percent target range since late 2016, but has been below the target mid-point.



Growth has slowed, and headwinds continue to strengthen

Growth in the economy slowed over the second half of 2018. Headwinds have emerged from both international and domestic sources.

Growth in our key trading partners has been slowing since mid-2018. Trade disputes between major economies have reduced global trade and firms around the world have held off on investment.

In New Zealand, a lack of confidence in the economic outlook has reduced business investment. The housing market has been moderating, with slowing momentum broadening beyond Auckland.

Slower growth has continued in 2019. We expect this will dampen employment and inflation in the near term.



Lower interest rates are needed to support the economy

With headwinds increasing, the economy needs more support from monetary policy. Lower interest rates encourage consumers to spend, and businesses to invest and hire more people. This supports economic activity and employment, and nudges inflation towards our target mid-point of 2 percent per year. Higher government spending will also boost economic activity and job growth.

However, economic growth could slow further over the next year if the global economy slows by more than we expect, reducing demand for our products. Should this happen, we can lower interest rates further to provide more support for employment and to ensure inflation remains around 2 percent.

