Reserve Bank of New Zealand
Te Pūtea Matua

02/2022

Monetary Policy SNAPSHOTS

More tightening needed

The Monetary Policy Committee agreed to raise the Official Cash Rate (OCR) to **1.00 per cent**.

Widespread COVID-19 in the community is expected to weigh on economic activity in the short term

House price inflation is easing while residential investment remains strong

The labour market remains tight and wages are rising

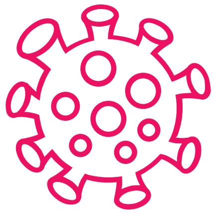
Inflation has continued to rise, but is expected to ease in coming years

Latest key statistics

- Annual average economic growth: 4.9 percent (Q3 2021)
- Annual inflation: 5.9 percent (Q4 2021)
- Unemployment rate: 3.2 percent (Q4 2021)

The Committee agreed that further removal of monetary policy stimulus is expected over time given the medium-term outlook for growth and employment, and the upside risks to inflation.

Widespread COVID-19 in the community is expected to weigh on economic activity in the short term



- The New Zealand economy has remained robust through the COVID-19 pandemic to date. The economy has been supported by low interest rates, high export prices and significant government spending to support businesses and workers.
- Widespread COVID-19 in the community is expected to weigh on spending and the supply of goods and services in the first half of 2022. This reflects some hesitancy to go out and spend in places like restaurants and bars. In addition, some employees might need to take time off work to self-isolate or look after sick family members.
- Spending and production are expected to recover in the second half of 2022 as New Zealanders adapt to living with COVID-19. The gradual easing of border restrictions will also allow for more international visitors and migrant workers. This will support our tourism industry and ease some labour shortages.

House price inflation is easing while residential investment remains strong

- Annual house price inflation across New Zealand has started to ease from its recent peak, as nationwide house prices fell in December 2021 and January 2022. Rising mortgage rates, more home building, tighter credit lending standards, and policy changes related to investors are among the factors slowing housing demand.
- Residential building consents have reached record highs. This indicates a significant pipeline of residential construction for the next few years that will continue to increase the supply of housing in New Zealand. Changes to zoning rules will also encourage construction.

The labour market remains tight and wages are rising

- The unemployment rate has dropped to a record low level despite an increase in COVID-19-related restrictions over the second half of 2021. Strong demand for labour has reduced unemployment across most age and ethnic groups. Businesses continue to face difficulty finding staff.
- Some businesses have increased wages to retain existing employees and attract new workers. However, overall wage growth has generally been outstripped by high inflation.
- Employment is currently above its maximum sustainable level. However, employment growth has likely peaked and is expected to slow over the coming years. Spending and pressure on resources is expected to normalise due to less government support and rising interest rates.
- Significant disruption to the availability of workers is expected as COVID-19 becomes more widespread in the community. This disruption is assumed to be relatively short-lived, similar to the experience of other countries.

Inflation has continued to rise, but is expected to ease in coming years

- The general price of goods and services increased 5.9 percent over the last year, outside the MPC's inflation target band of 1 to 3 percent. This has been driven by both domestic and international factors.
- The price of imported goods has increased due to high oil prices and continued supply-chain bottlenecks. Further growth in domestic prices, particularly the price of building a house, have also contributed to the recent rise in inflation. In part, these price increases have been driven by strong demand, and shortages of labour and materials within New Zealand.
- Inflation is expected to decline as monetary policy acts to reduce demand, softening the pressure on available resources. Less pressure on housing-related resources and an easing in supply-chain bottlenecks are also expected to support a slowdown in inflation.
- Expectations for inflation over the next few years have increased. Although longer-term inflation expectations have risen, they remain close to 2 percent.
- Higher interest rates will be needed to make sure inflation is kept in check and we achieve as much employment as possible without increasing inflation.