Reserve Bank of New Zealand
Te Pūtea Matua

05/2022
Monetary Policy SNAPSHOTS

Monetary conditions tighten by more and sooner

The Monetary Policy Committee agreed to increase the Official Cash Rate (OCR) to 2.0 percent.

Demand in the New Zealand economy has been resilient to community spread of COVID-19, but supply has struggled to keep up

The labour market remains tight. Wages are rising and people are working more hours

House prices are falling toward more sustainable levels, and the construction sector is operating at full capacity

The war in Ukraine has pushed inflation higher, and interest rates will need to increase further to meet our objectives

Latest key statistics

- Annual average economic growth: 5.6 percent (Q4 2021)
- Annual inflation: 6.9 percent (Q1 2022)
- Unemployment rate: 3.2 percent (Q1 2022)

The Committee agreed to continue to lift the OCR at pace to a level that will confidently bring consumer price inflation to within the target range. Once aggregate supply and demand are more in balance, the OCR can then return to a lower, more neutral, level.

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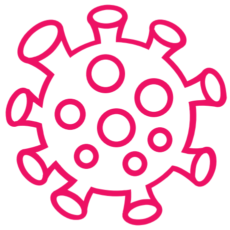
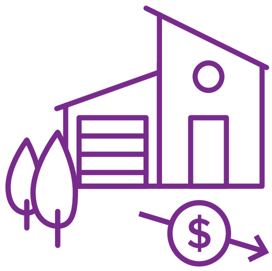


- The New Zealand economy began 2022 in a stronger position than had been expected, rebounding strongly from the nationwide lockdown and prolonged COVID-19 public health measures.
- Although demand has remained robust this year, there has not been sufficient supply of labour and goods to meet this demand. Pressure on available resources is high, particularly for labour.
- Employers have found it increasingly difficult to find both skilled and unskilled labour as demand has remained robust. Labour supply has been constrained by a sharp decline in international immigration, and the gradual outflow of New Zealanders abroad. A wide range of measures suggest that employment in New Zealand is currently above its maximum sustainable level.

The labour market remains tight, wages are rising and people are working more hours

- The unemployment rate has remained at a record low level, and firms are struggling to attract and retain staff. Workers isolating during the recent Omicron outbreak have made labour shortages worse. Strong demand for labour has reduced unemployment across most age and ethnic groups.
- Some businesses have increased wages to retain existing staff. Higher wage and income growth also reflects an increase in workers switching jobs for higher pay and working more hours. However, wage growth has generally been outstripped by high inflation over the past year.

House prices are falling toward more sustainable levels, and the construction sector is operating at full capacity



- House prices have been falling in recent months, and we expect prices to continue to ease over the next year or two. Higher mortgage rates, tighter lending standards, more housing supply, lower population growth, and tax changes for property investors are contributing to lower house prices.
- Residential building consents have increased to record highs. However, builders are facing challenges often associated with construction booms. Strong demand has overwhelmed supply capacity for some materials, leading to delays and higher costs. It will take some time to work through the pipeline of residential construction activity, and we are likely to see some consolidation in the sector.

War in Ukraine has pushed inflation higher, and interest rates will need to increase further to meet our objectives

- Disruptions to global supply chains have intensified in recent months, leading to more expensive imports. The war in Ukraine has led to higher commodity prices. Recent lockdowns in major Chinese cities have led to more bottlenecks in global production and trade.
- Central banks are responding to higher inflation by raising interest rates. Higher global interest rates are putting downward pressure on New Zealand's exchange rate, making imported goods and services more expensive.
- The Reserve Bank will need to increase the OCR further than previously expected to return inflation to the MPC's 2 percent target midpoint, and to return employment to its maximum sustainable level over the medium term.