Reserve Bank of New Zealand
Te Pūtea Matua

11/2022

Monetary Policy SNAPSHOTS

Higher interest rates necessary

The Monetary Policy Committee today increased the Official Cash Rate (OCR) from 3.5 percent to 4.25 percent.

Demand in the New Zealand economy has remained resilient

Worker shortages are holding the economy back and increasing inflation

Global developments are adding to inflation in New Zealand, but weakening our economic growth outlook

Higher interest rates are needed to meet our inflation and employment objectives

Latest key statistics

- Annual average economic growth: 1.0 percent (Q2 2022)
- Annual inflation: 7.2 percent (Q3 2022)
- Unemployment rate: 3.3 percent (Q3 2022)

The Committee agreed that the OCR needs to reach a higher level, and sooner than previously indicated, to ensure inflation returns to within its target range over the medium term. Core consumer price inflation is too high, employment is beyond its maximum sustainable level, and near-term inflation expectations have risen.

Demand in the New Zealand economy has remained resilient

- Demand in the New Zealand economy has been resilient to global and domestic headwinds.
- Household spending has stayed elevated, despite high inflation, rising interest rates, falling house prices and uncertainty about the global outlook. Recent spending has been supported by high employment, increasing wages, cost of living payments, and savings built up by households during COVID-19 lockdowns.
- The recovery in international visitors has been faster than expected since our border reopened. This is boosting demand in the tourism and hospitality sectors in particular.

Worker shortages are holding the economy back and increasing inflation

- The unemployment rate remains very low at 3.3 percent, and a record number of New Zealanders are participating in the labour force. Worker shortages are holding back output across many industries and regions. A wide range of indicators continue to point to employment being above its maximum sustainable level.
- Worker shortages are increasing wages and are contributing to high domestic inflation.
- We expect the unemployment rate to stay low in the near term. This is because employers are likely to hold on to existing workers. Instead, they may reduce hiring of new staff or offer fewer work hours in response to the weakening outlook for economic growth.

Global developments are adding to inflation in New Zealand, but weakening our economic growth outlook

- Global developments have driven a large part of the high headline inflation in New Zealand. Increases in commodity and energy prices as a result of the Ukraine war have added to initial inflationary pressures that emerged during the COVID-19 pandemic.
- Inflation is now at or near multi-decade highs in many parts of the world. High inflation globally has led to sharp increases in world prices for the goods that New Zealand imports.
- The weaker outlook for global demand will contribute to lower growth in New Zealand through lower export prices and business investment. Lower global demand will also contribute to lower imported inflation over coming years.

Higher interest rates are needed to meet our inflation and employment objectives

- Annual inflation remains too high in New Zealand, at 7.2 percent. High inflation is due to a mixture of domestic and international factors.
- Measures of persistent or ‘core’ inflation have increased, as have expectations of future inflation. These measures suggest that inflation will remain elevated in the near term.
- The MPC expect that they will need to increase the OCR by more than expected in August to meet their inflation and employment objectives.
- Given that the New Zealand economy is starting from a point of acute labour shortages and high inflation, an economic contraction is likely as economic activity eases from elevated levels. The unemployment rate is expected to increase from very low levels as demand for workers reduces and the labour force grows.