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Economic outlook

Reserve Bank of New Zealand

November 2022

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**TOITŪ TE
ŌHANGA,
TOITŪ TE
ORANGA.**

We enable economic wellbeing and prosperity for all New Zealanders.

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Our purpose

A scenic photograph of a beach at sunset. In the foreground, three people are captured in mid-air, jumping joyfully. Their silhouettes are dark against the bright, golden light of the setting sun. The beach is wet, reflecting the sky and the people. In the background, the ocean waves are visible, and several large, dark rock formations stand prominently. The sky is filled with soft, colorful clouds. On the left side of the image, there is a vertical decorative element consisting of a series of white, overlapping geometric patterns.

GREAT TEAM, BEST CENTRAL BANK.

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Our vision

Disclaimer:

This presentation represents the view of the Monetary Policy Committee (MPC), not of any individual member.



The *Monetary Policy Statement* at a glance

- The Reserve Bank's *Monetary Policy Statement* (MPS) provides a quarterly picture of the New Zealand economy and where we think it is heading next.
- It sets out how the MPC has set monetary policy and how it plans to do so in the future.



Overview

- Inflation is too high
- Global developments are adding to inflation in New Zealand, but weakening our economic growth outlook
- Demand in the New Zealand economy has remained resilient
- Worker shortages are holding the economy back and increasing inflation
- Higher interest rates are needed to meet our inflation and employment objectives





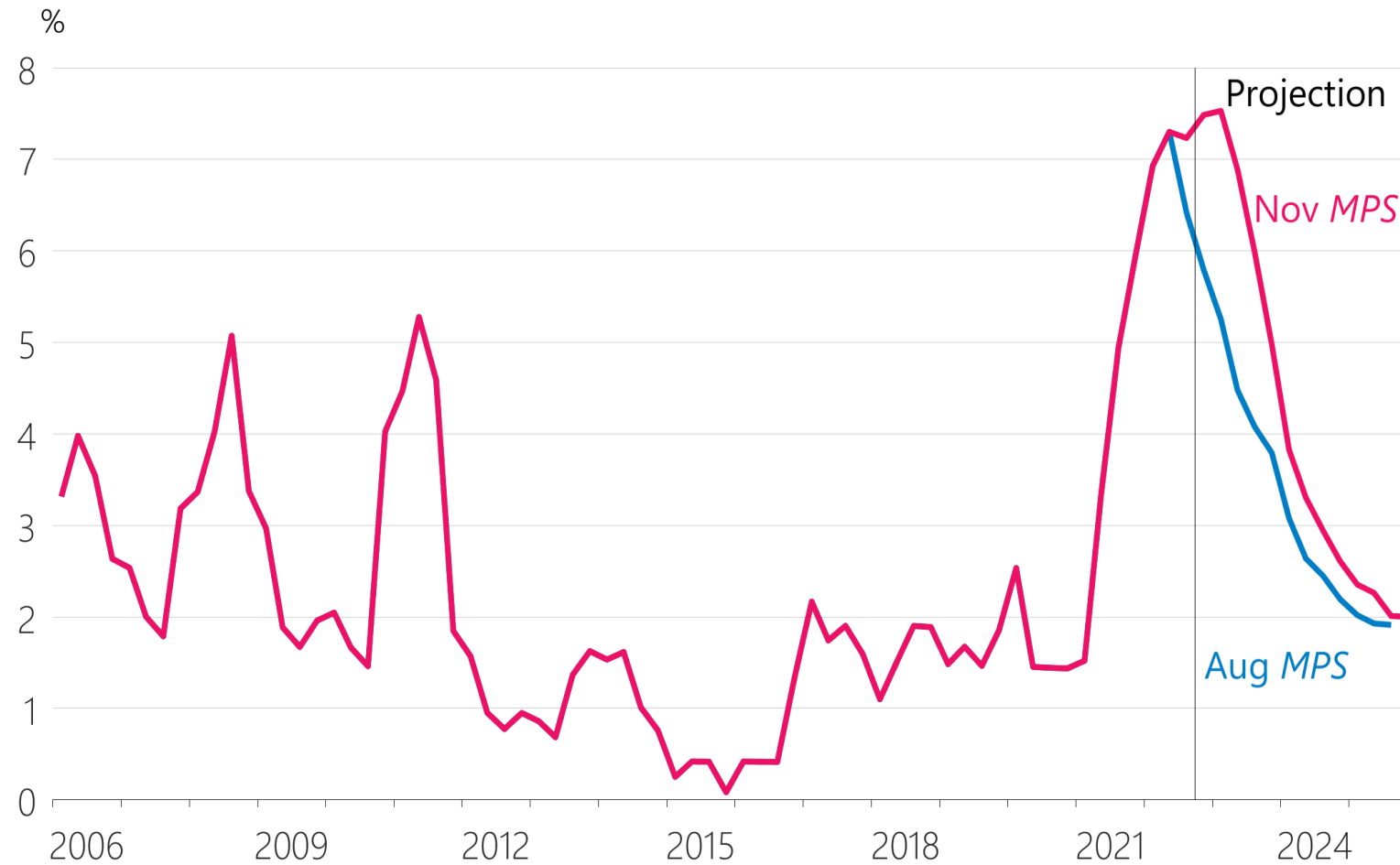
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INFLATION IS TOO HIGH.

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Inflation is expected to stay higher for longer ⁸

CPI inflation (*annual*)



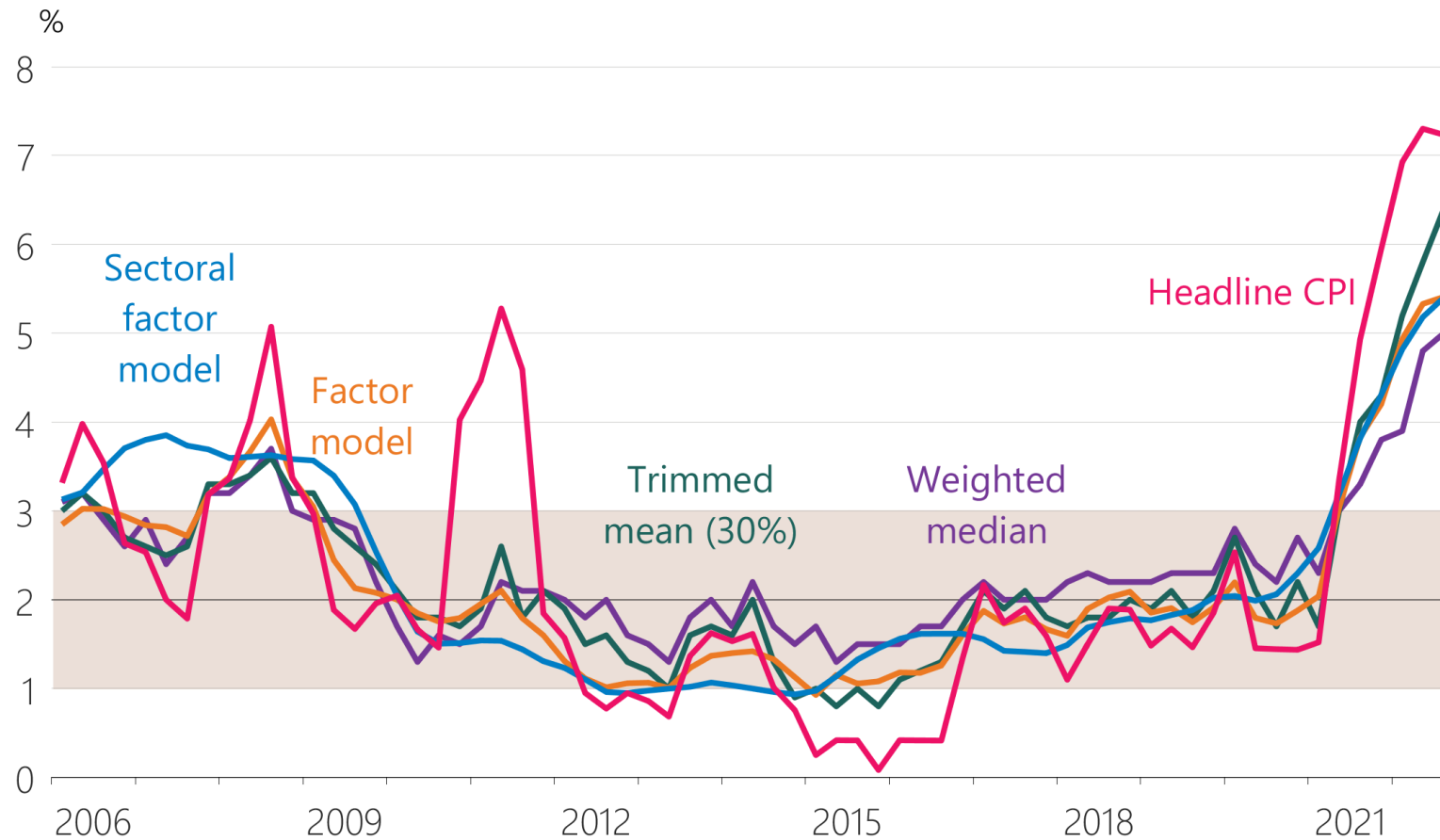
Source: Stats NZ, RBNZ estimates.

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Core inflation needs to decline

Headline and core inflation measures (annual)



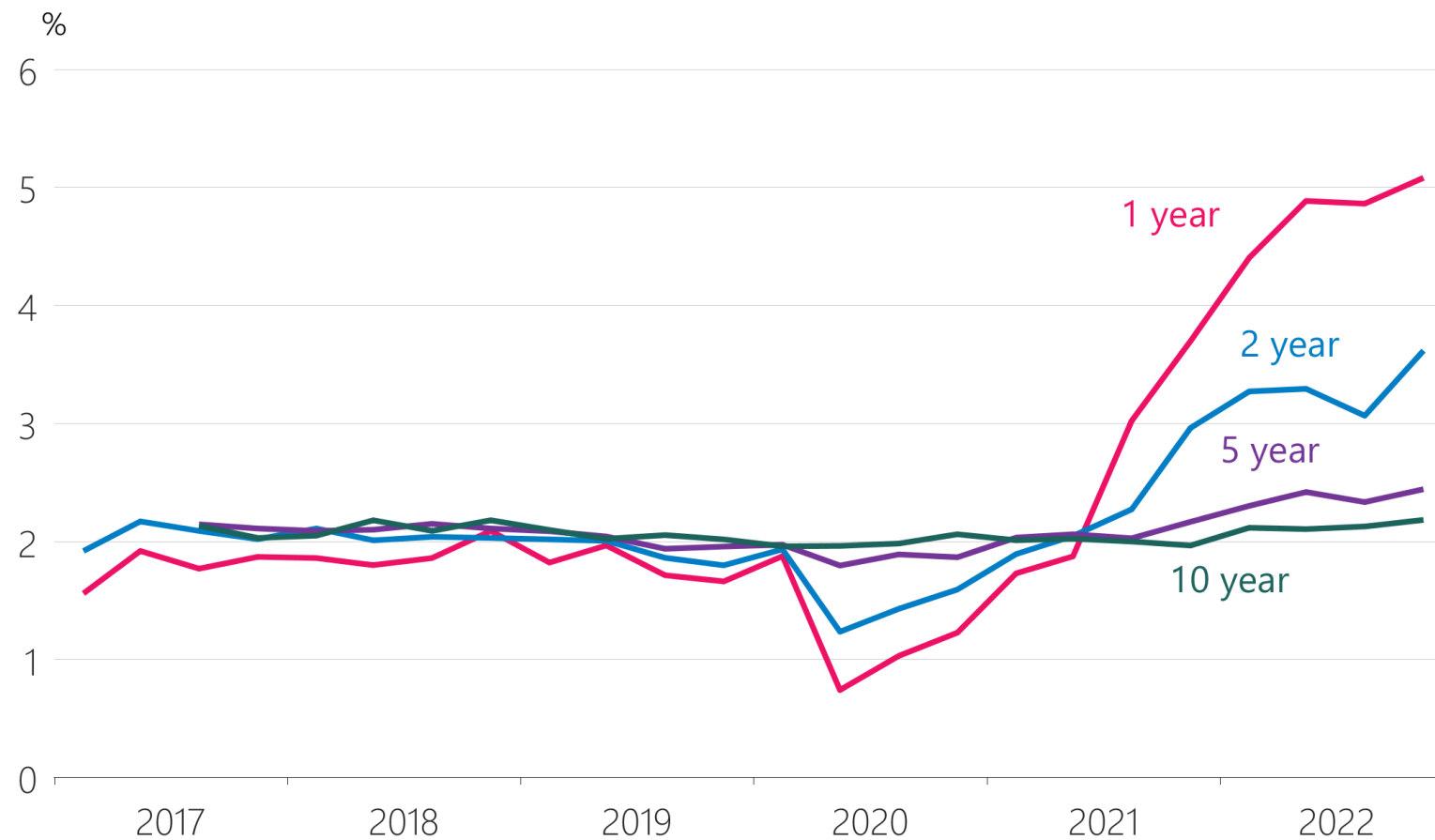
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Source: Stats NZ, RBNZ estimates.



Inflation expectations have risen

Inflation expectations (*annual, years ahead*)



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Source: RBNZ Survey of Expectations (Business).





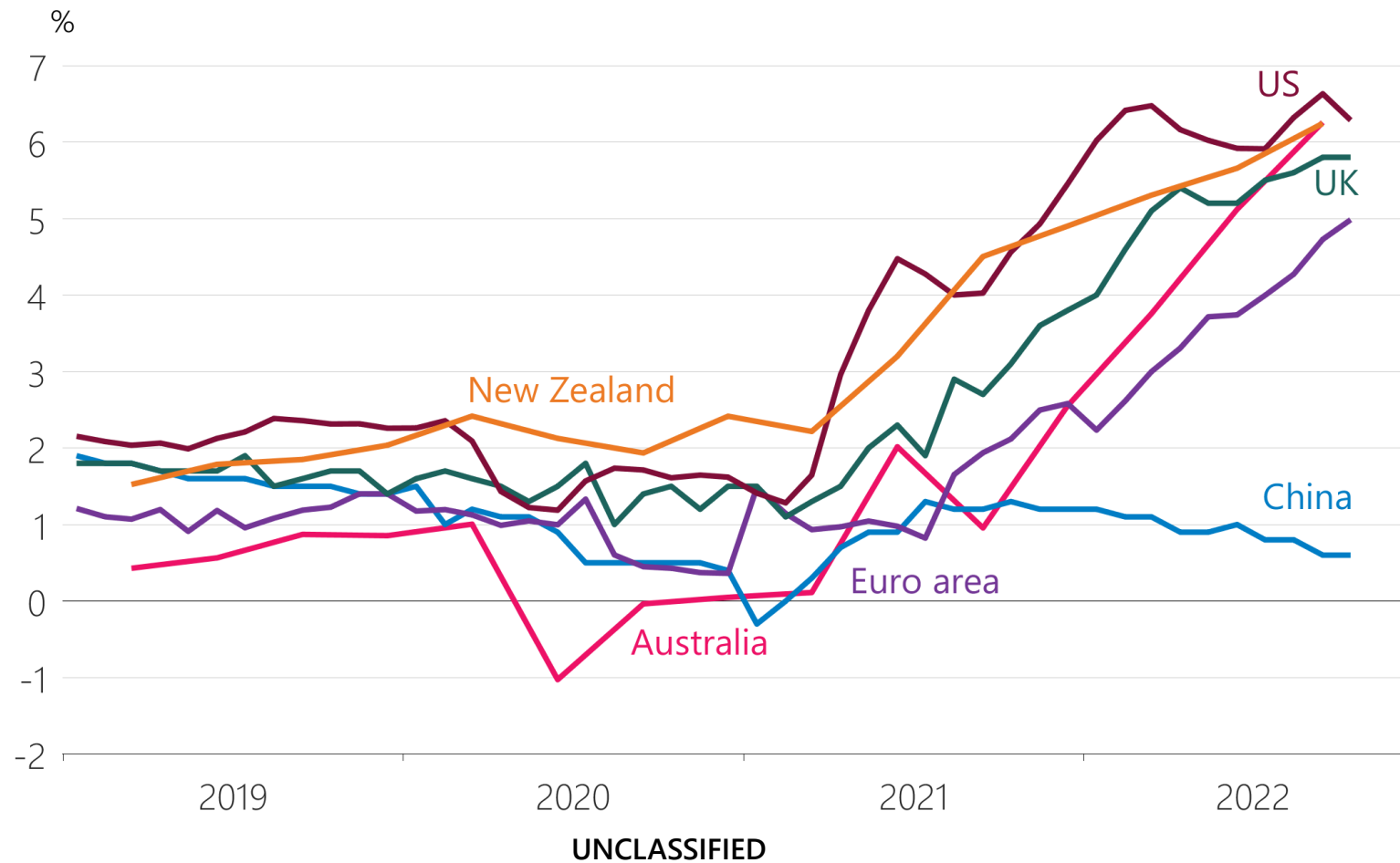
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GLOBAL CENTRAL BANKS ARE RESPONDING TO INFLATION.

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Core inflation is high globally

Annual inflation excluding food and energy in key trading partners

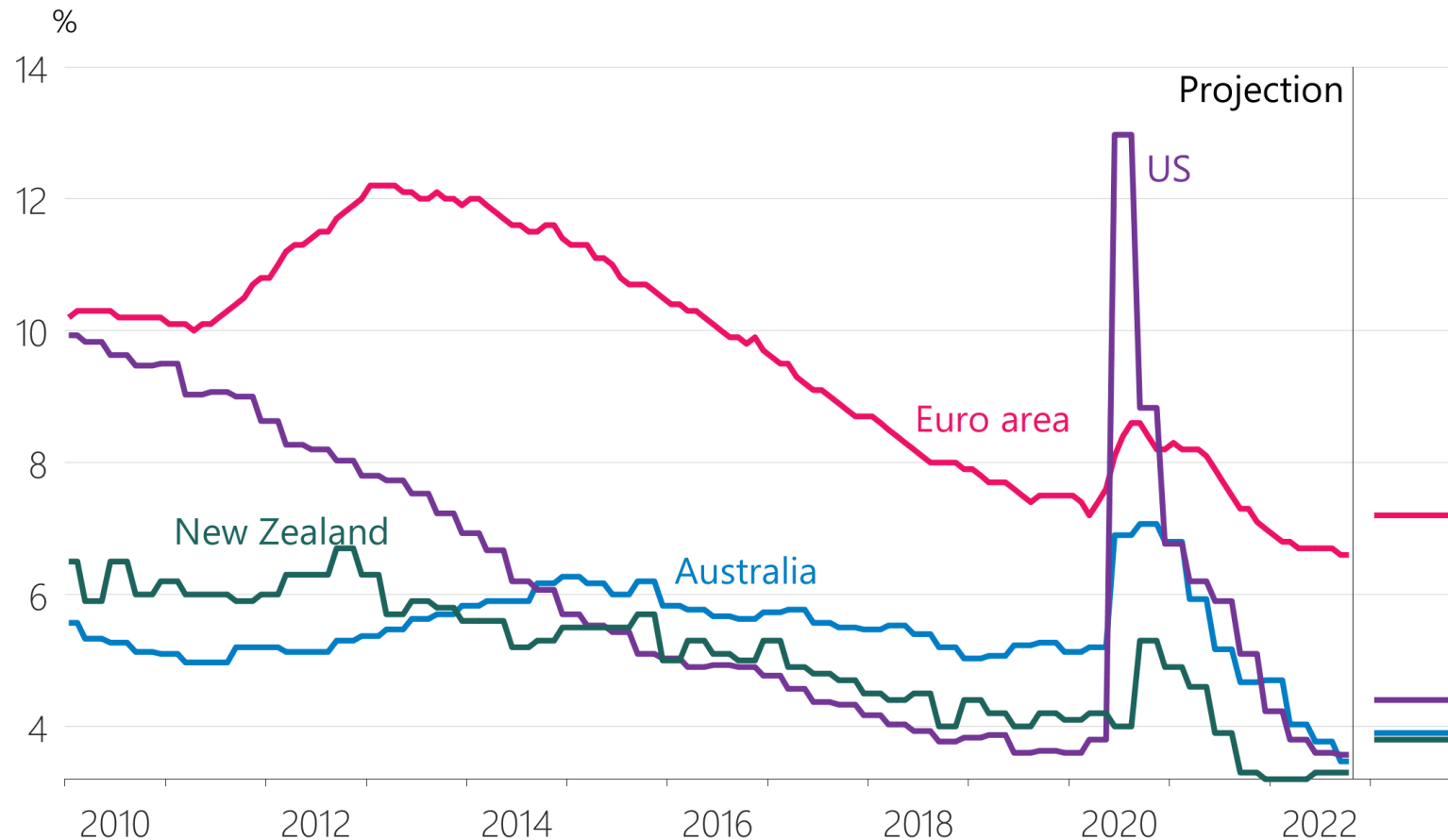


Source: Haver Analytics.



There is a global labour shortage

Key trading partner unemployment rate forecasts



Source: Bloomberg, Consensus Economics.

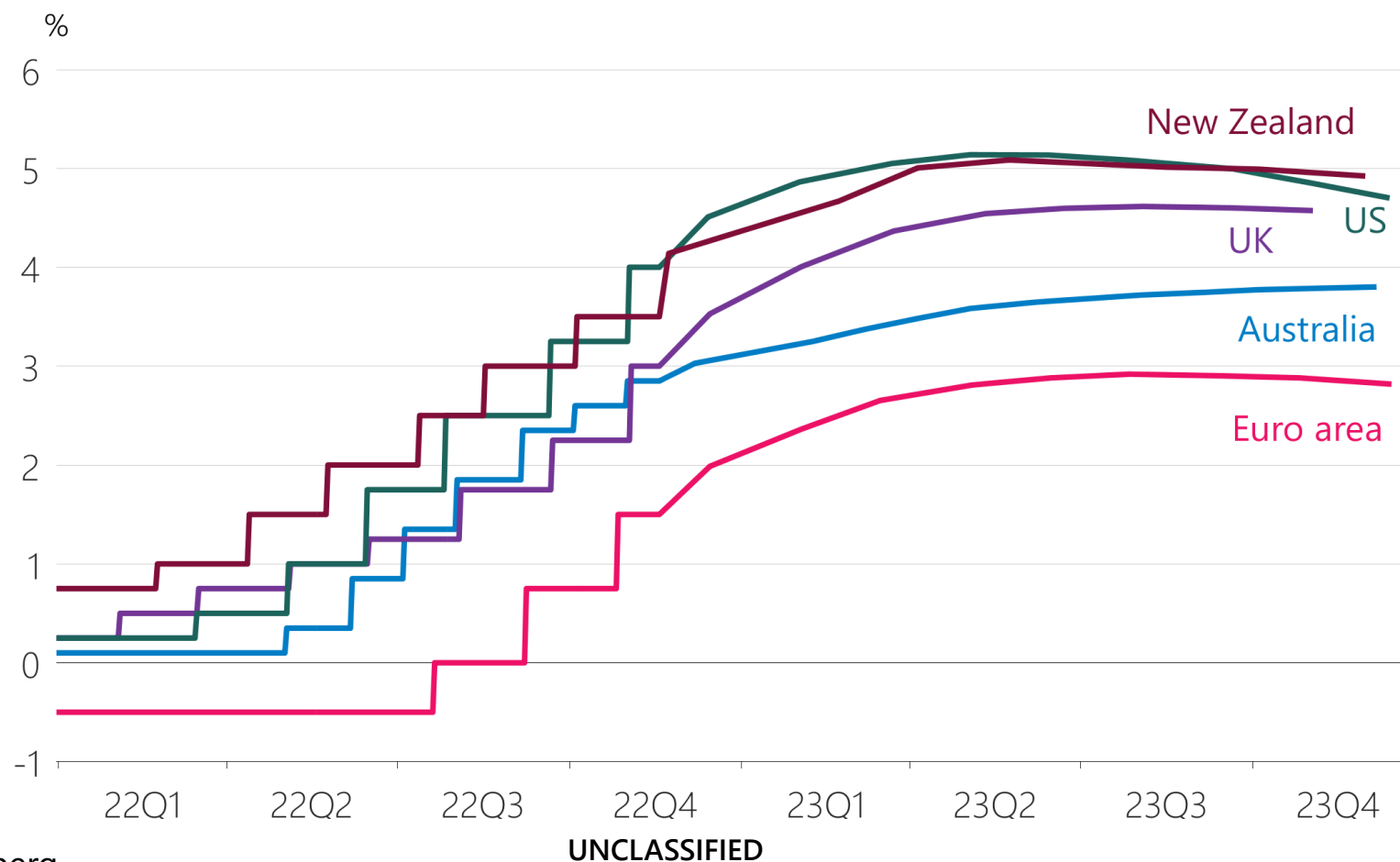
Note, NZ forecasts are from Consensus Economics for comparability

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Central banks are lowering inflation with higher interest rates

Central bank policy interest rates and market pricing for future policy rate levels

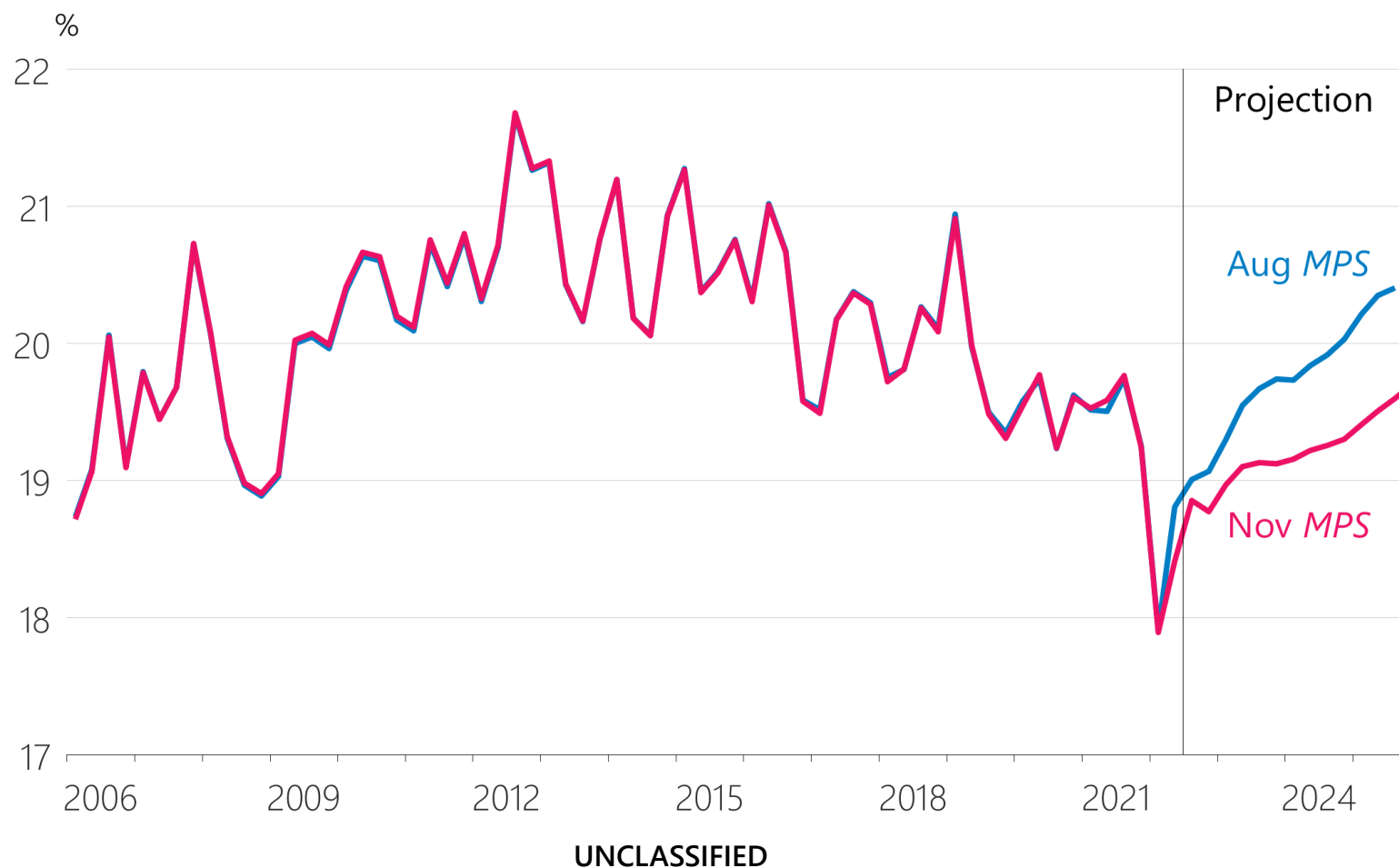


Source: Bloomberg.
Data as at 17 Nov 2022



Weaker global growth will reduce demand for our exports

Exports of goods (*real, share of potential GDP, seasonally adjusted*)

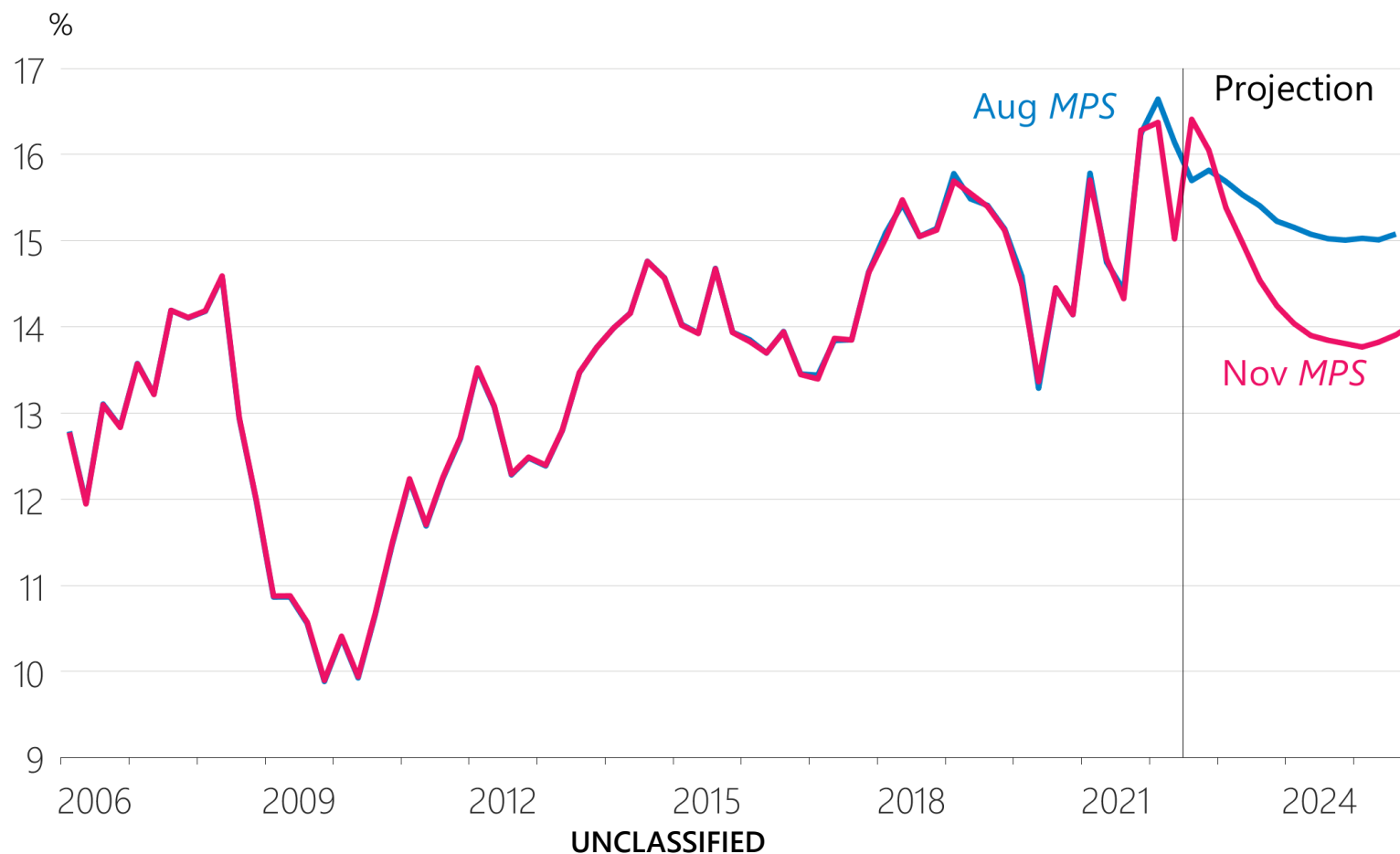


Source: Stats NZ, RBNZ estimates.



A more uncertain world outlook is likely to reduce business investment

Business Investment (*real, share of potential GDP, seasonally adjusted*)



Source: Stats NZ, RBNZ estimates.





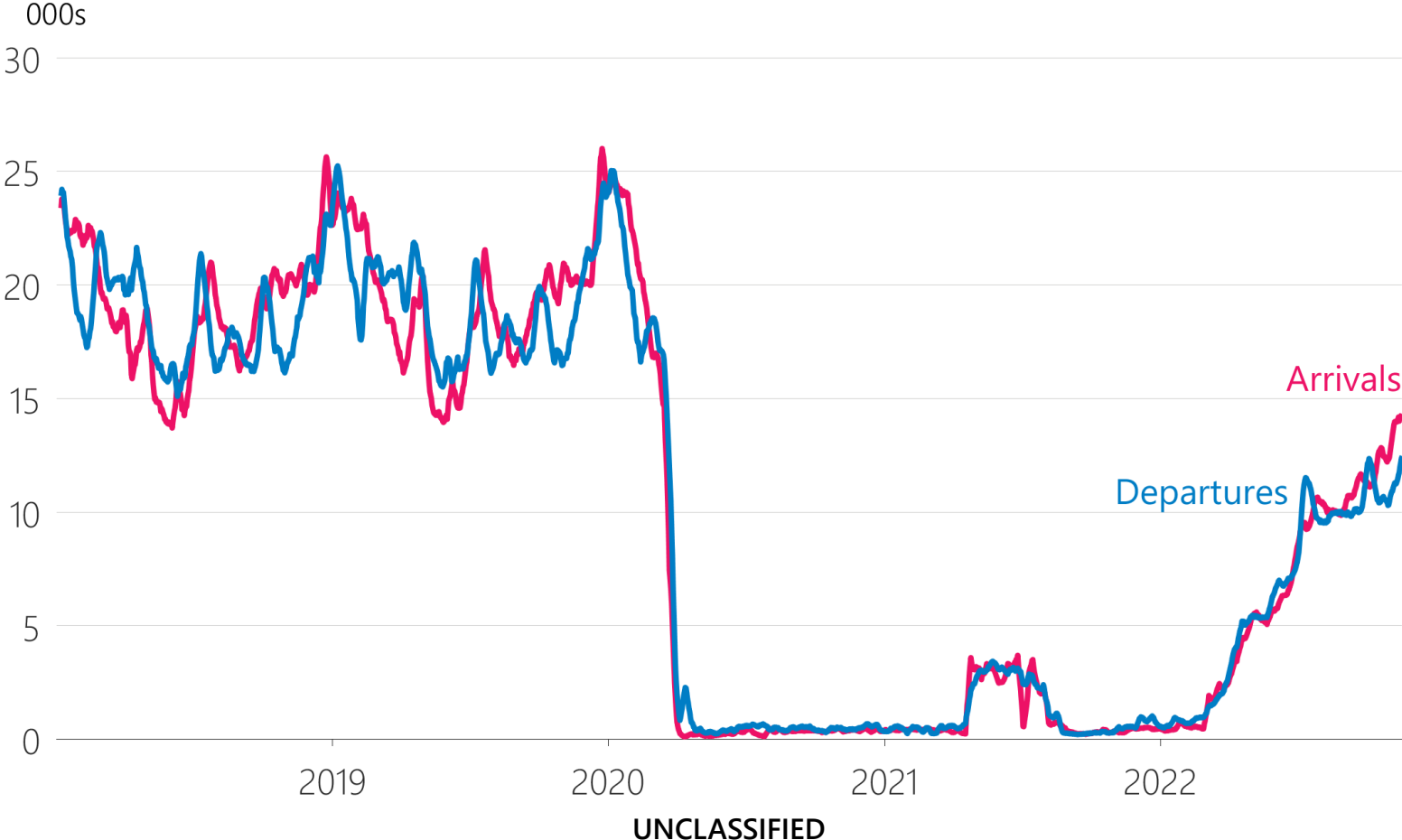
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DEMAND EXCEEDS SUPPLY IN NEW ZEALAND.

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Tourists are returning rapidly

Air passenger arrivals and departures (7-day moving average)

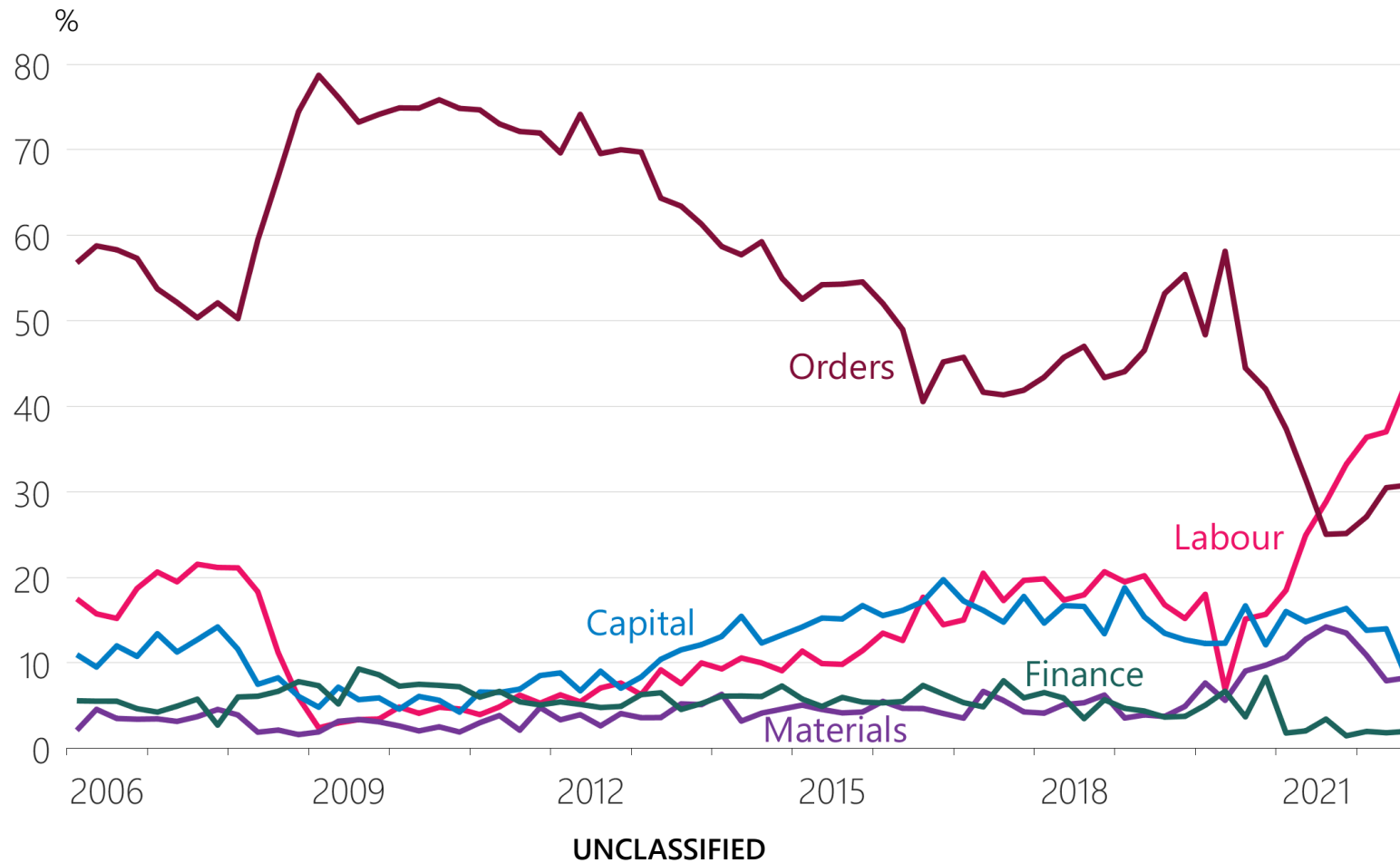


Source: NZIER, RBNZ estimates.



Demand for workers is exceeding supply

QSBO factor most limiting production (*seasonally adjusted*)

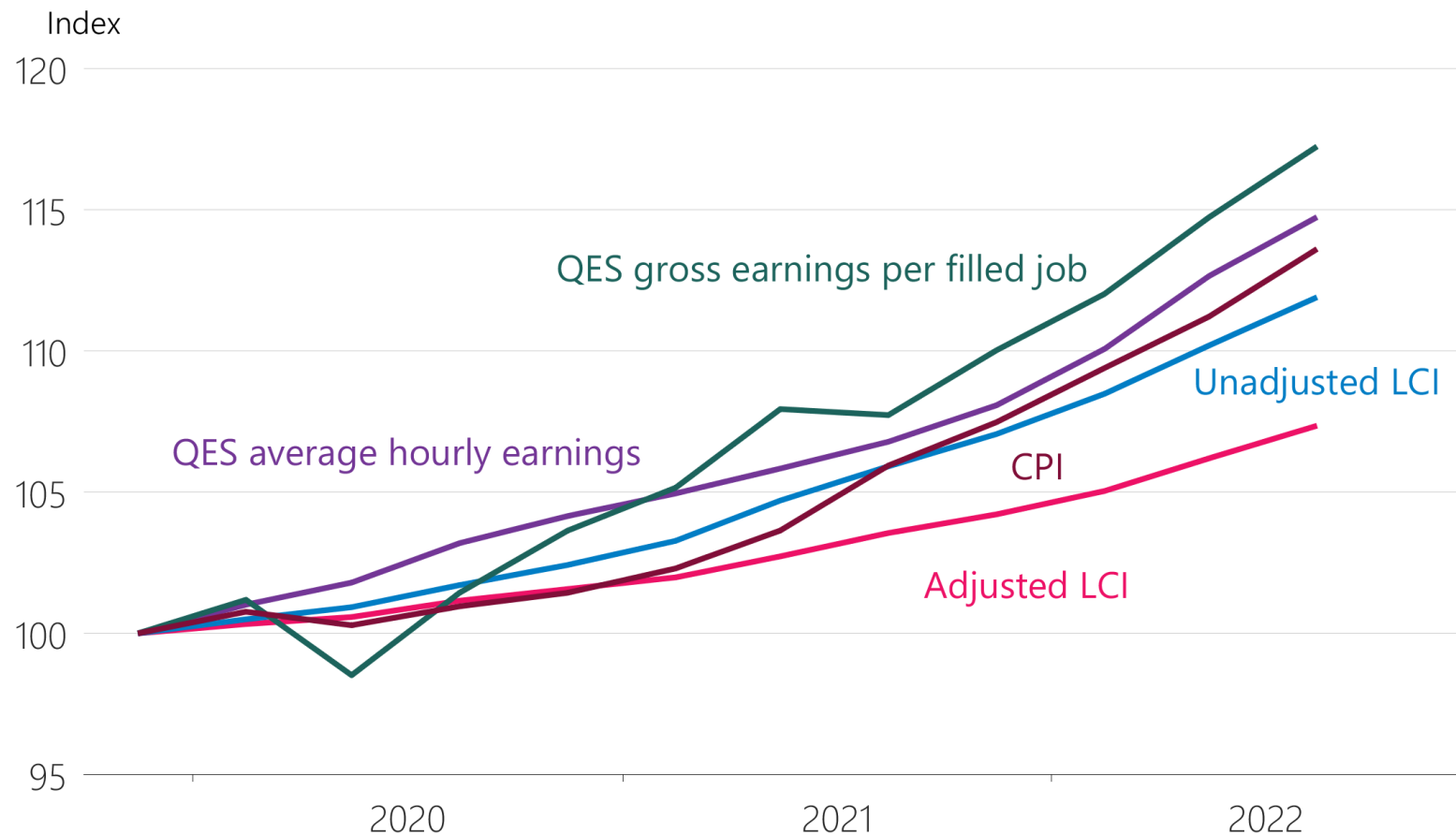


Source: NZIER, RBNZ estimates.



Wages are rising faster than inflation ²⁰

Wage and labour income relative to CPI (*index = 100 in 2019Q4*)



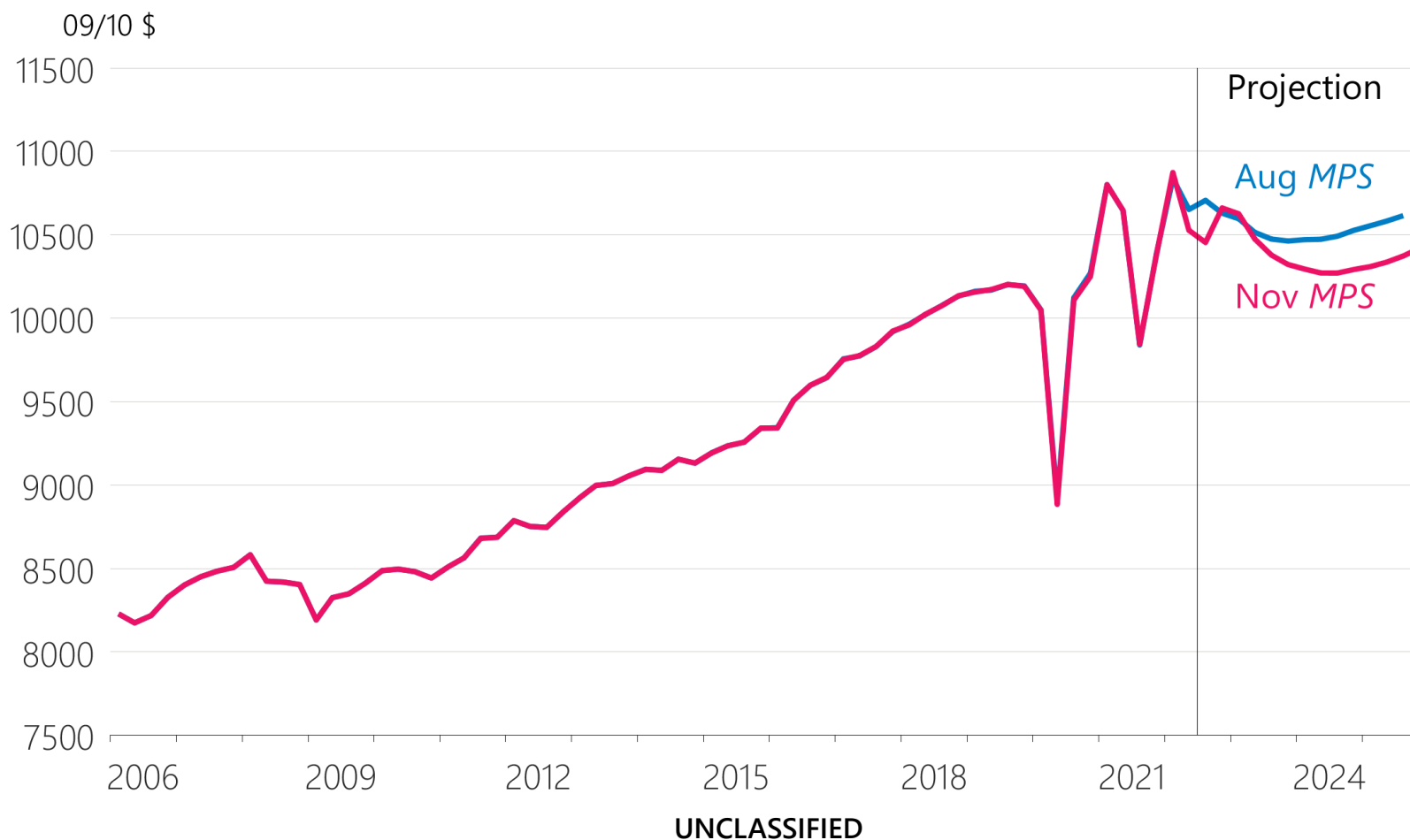
Source: Stats NZ.

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Household spending has stayed elevated

Quarterly private consumption expenditure per working age person (*real, s.a.*)

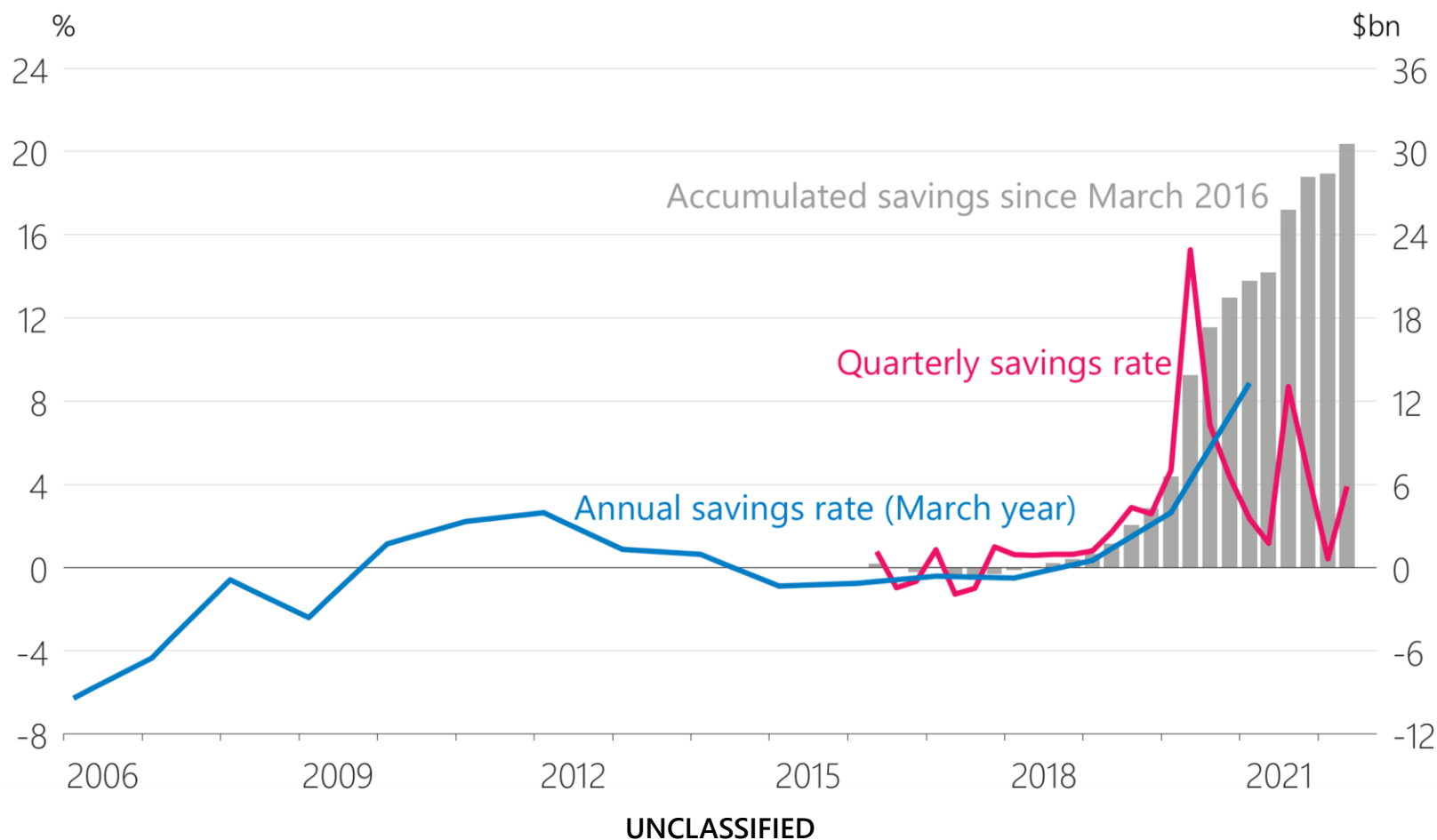


Source: Stats NZ, RBNZ estimates.



Savings have been built up by households

Savings rate as a share of net disposable income and accumulated savings (s.a.)



Source: Stats NZ, RBNZ estimates.





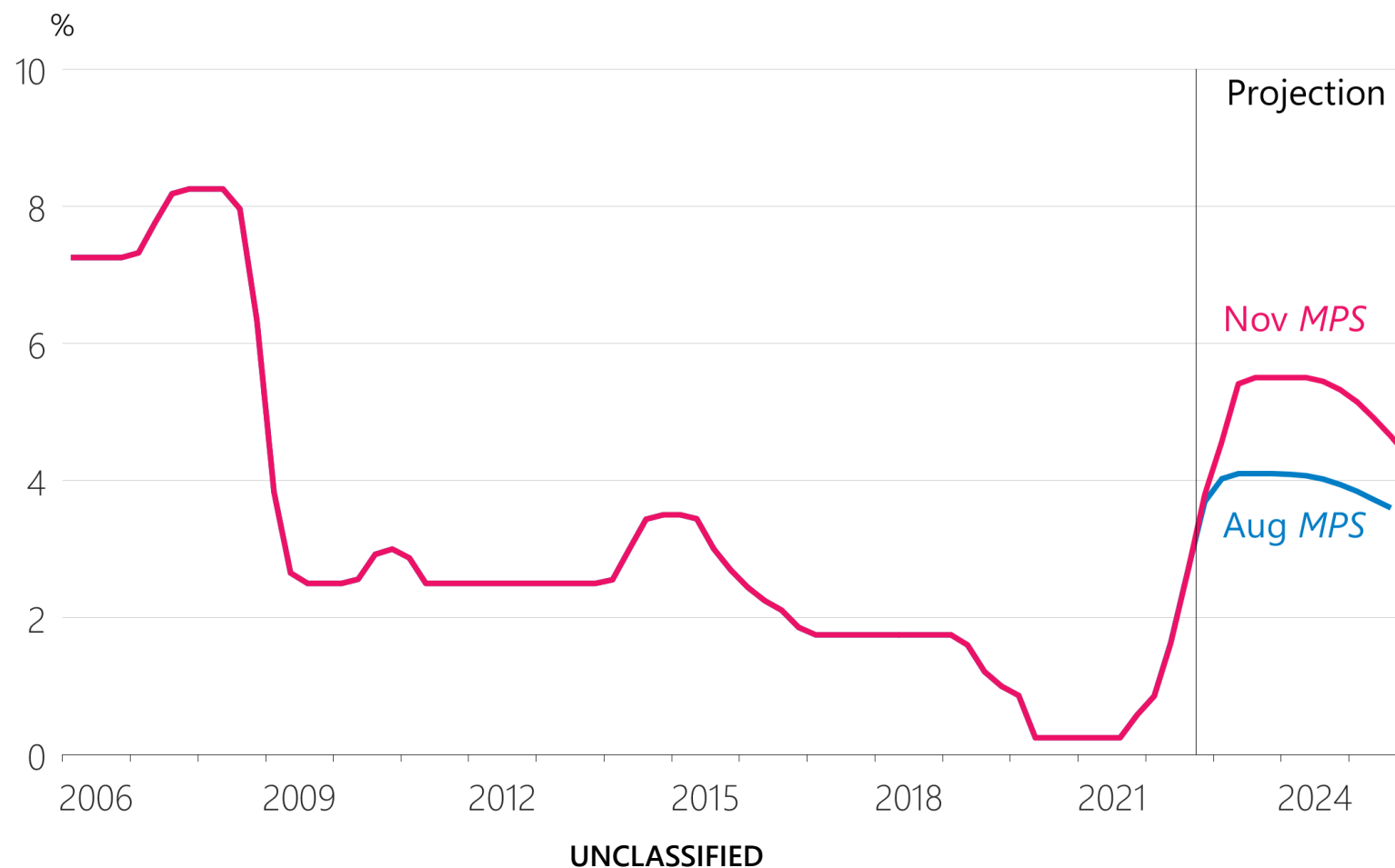
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**HIGHER INTEREST RATES
WILL COOL THE ECONOMY.**

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Higher interest rates are needed to achieve our economic objectives

OCR (quarterly average)



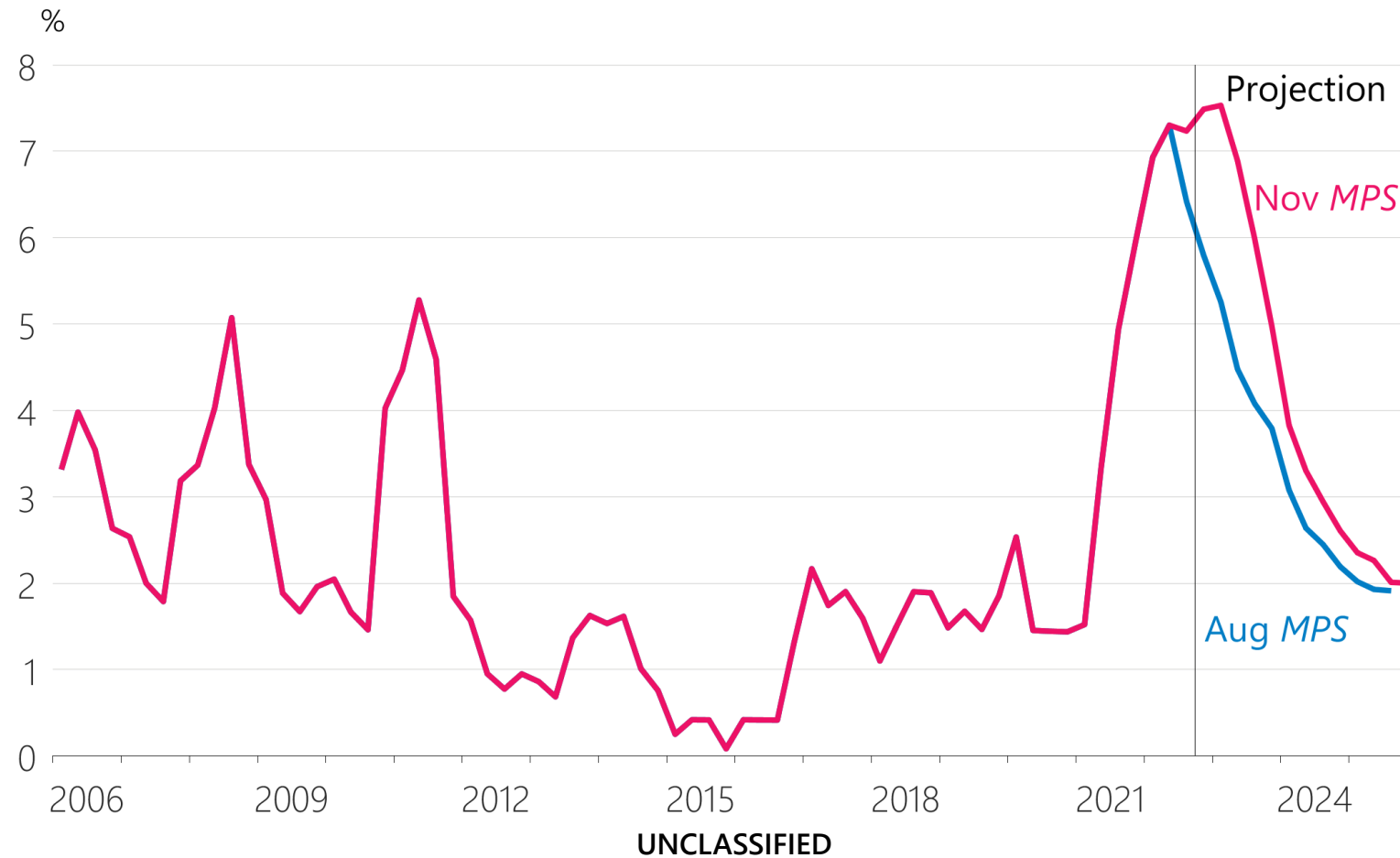
Source: RBNZ estimates.

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We will return inflation to 2% p.a.

CPI inflation (*annual*)

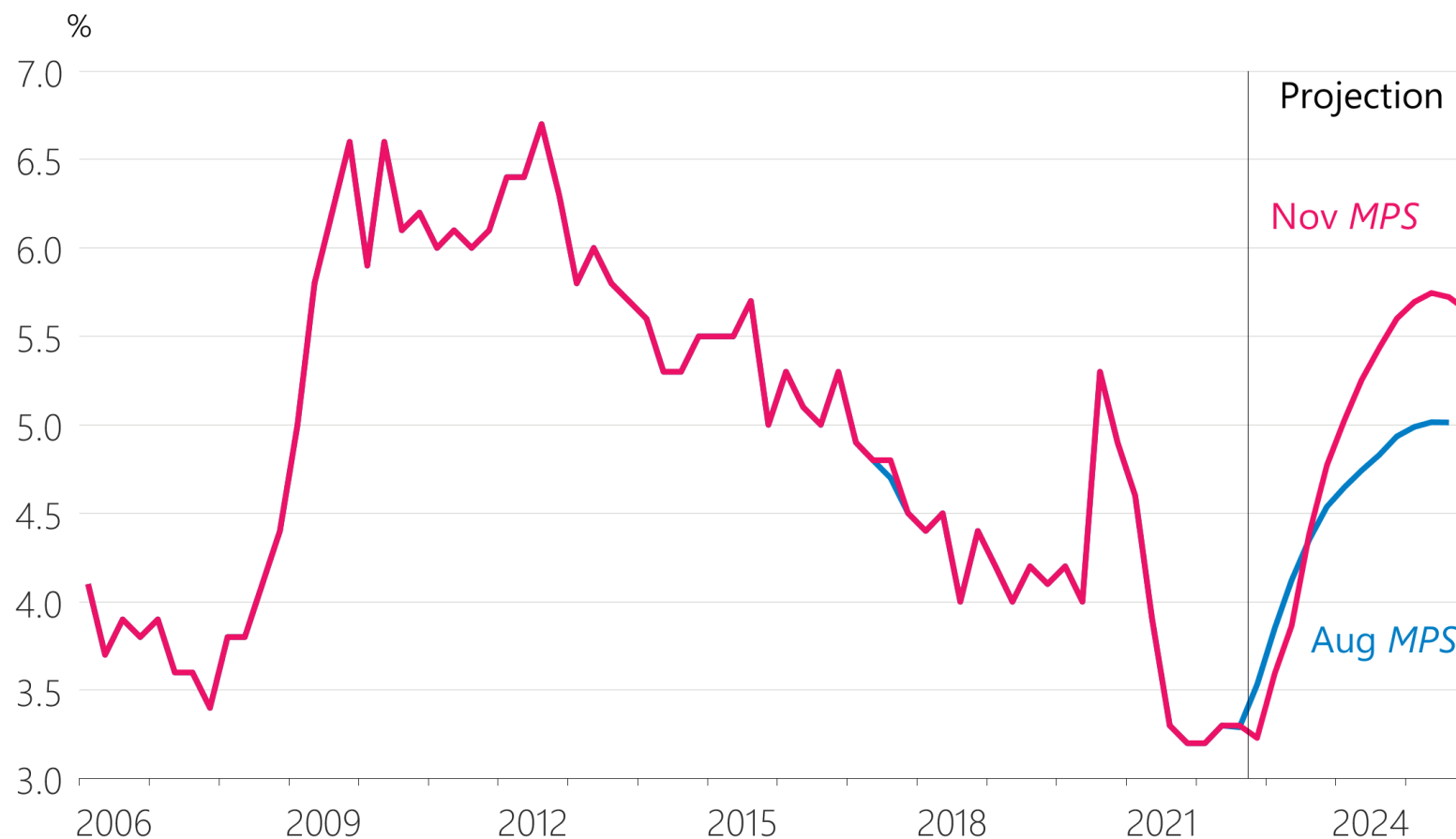


Source: Stats NZ, RBNZ estimates.



Unemployment likely to increase from very low levels

Unemployment rate (seasonally adjusted, share of the labour force)



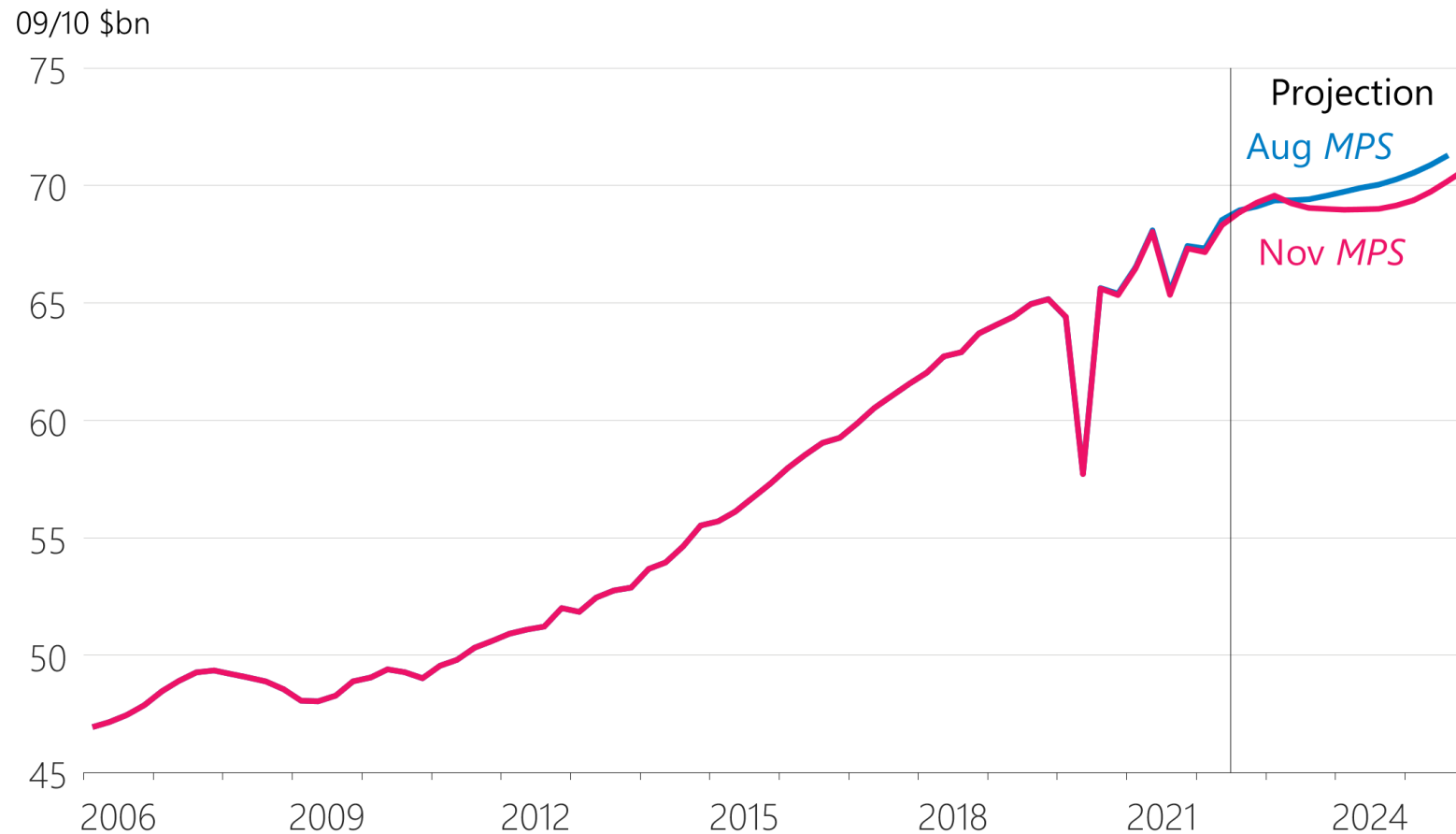
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Source: Stats NZ, RBNZ estimates.



The New Zealand economy is likely to contract

Quarterly production GDP (*real, seasonally adjusted*)



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Source: Stats NZ, RBNZ estimates.



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