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Economic outlook

Reserve Bank of New Zealand

May 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.



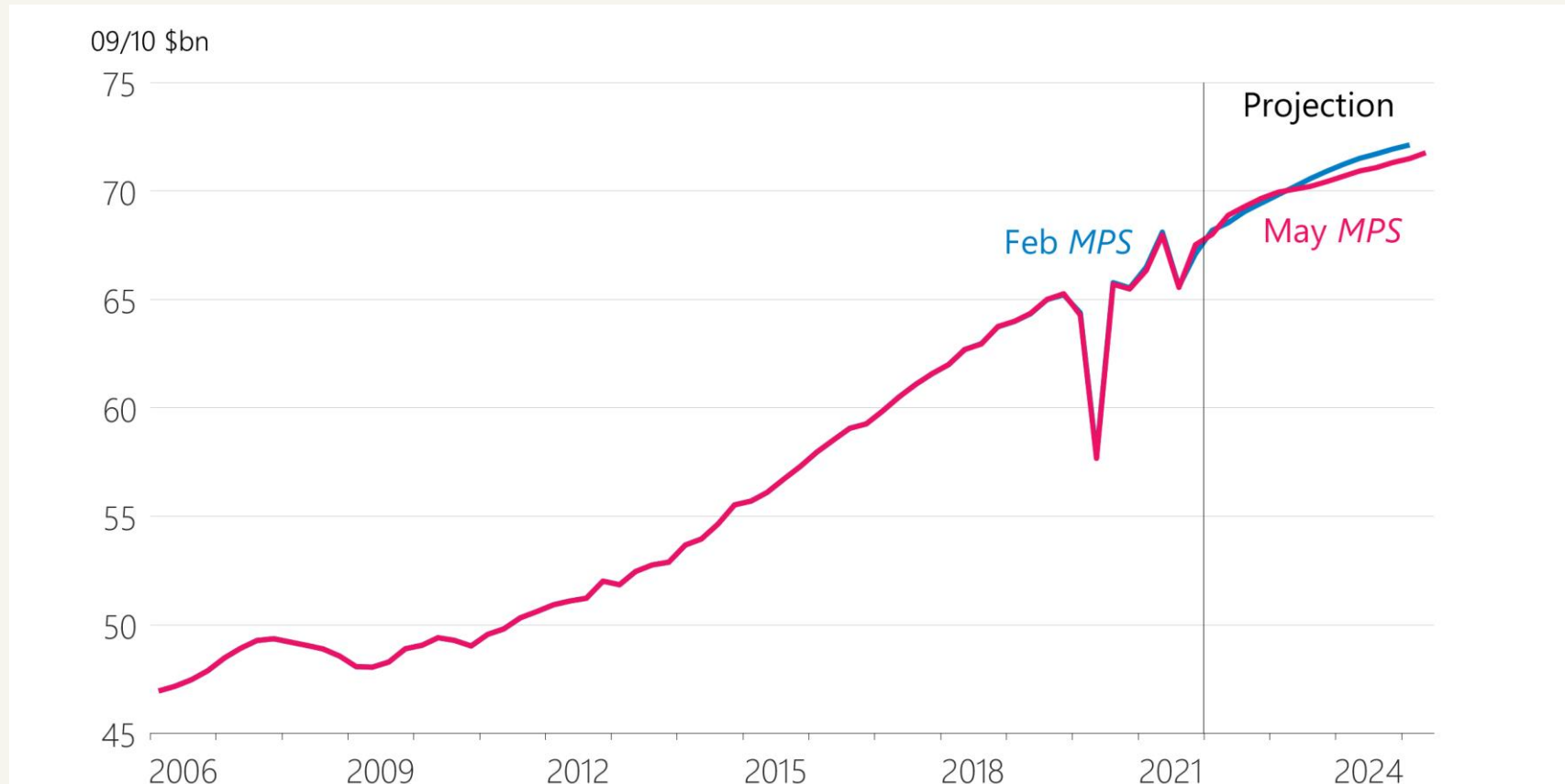
Overview

- Demand has been resilient to community spread of COVID-19, but supply has struggled to keep up. The war in Ukraine, and new lockdowns in China, have pushed inflation higher.
- The labour market remains tight, wages are rising and people are working more hours. There has been an increase in workers switching jobs and being promoted for higher pay.
- Demand for new builds has outstripped the supply of materials, contributing to cost increases and delays.
- On balance, the OCR will need to increase further than previously expected in order to return inflation to 2 percent, and employment to its maximum sustainable level.



Economic growth has been resilient to the spread of COVID-19

Quarterly GDP
(real, s.a.)



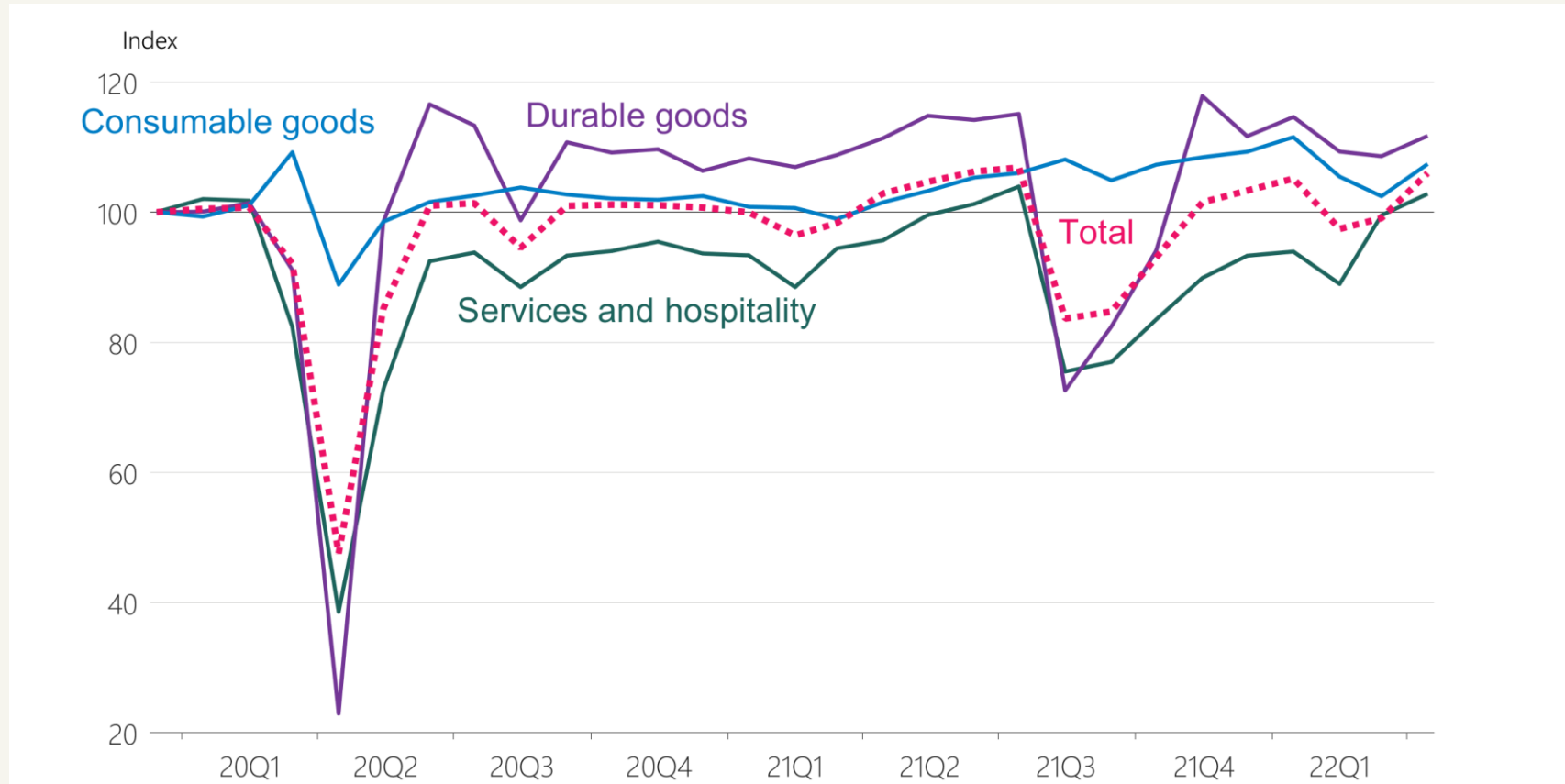
Source: Stats NZ, RBNZ estimates.

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Demand has remained strong despite isolation requirements

Electronic card transactions



Source: Stats NZ, RBNZ estimates.

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Government spending is high

Real government consumption
(share of expenditure GDP)



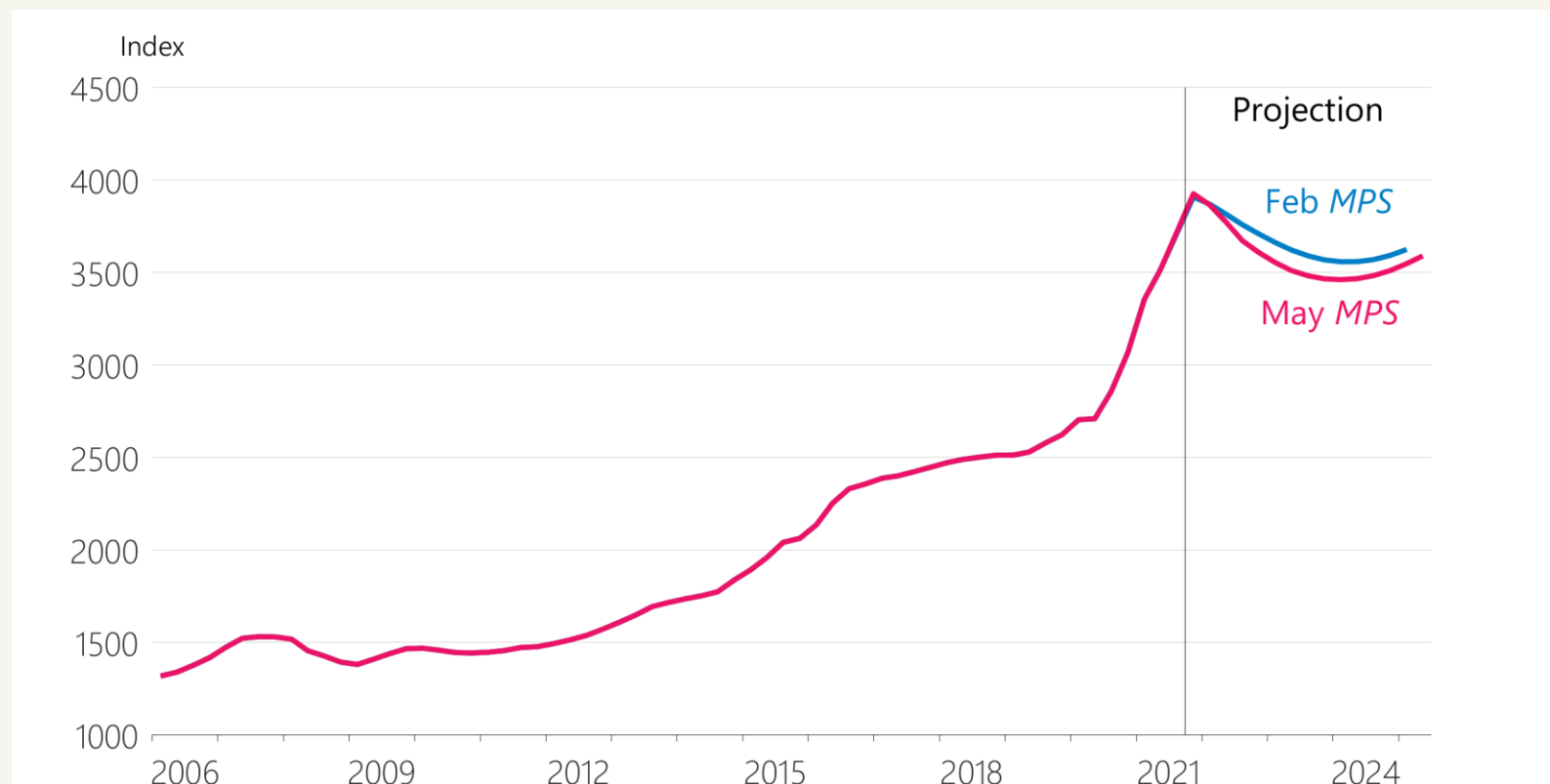
Source: Stats NZ, New Zealand Treasury, RBNZ estimates.

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Lower house prices will take pressure off domestic inflation

House prices
(levels)



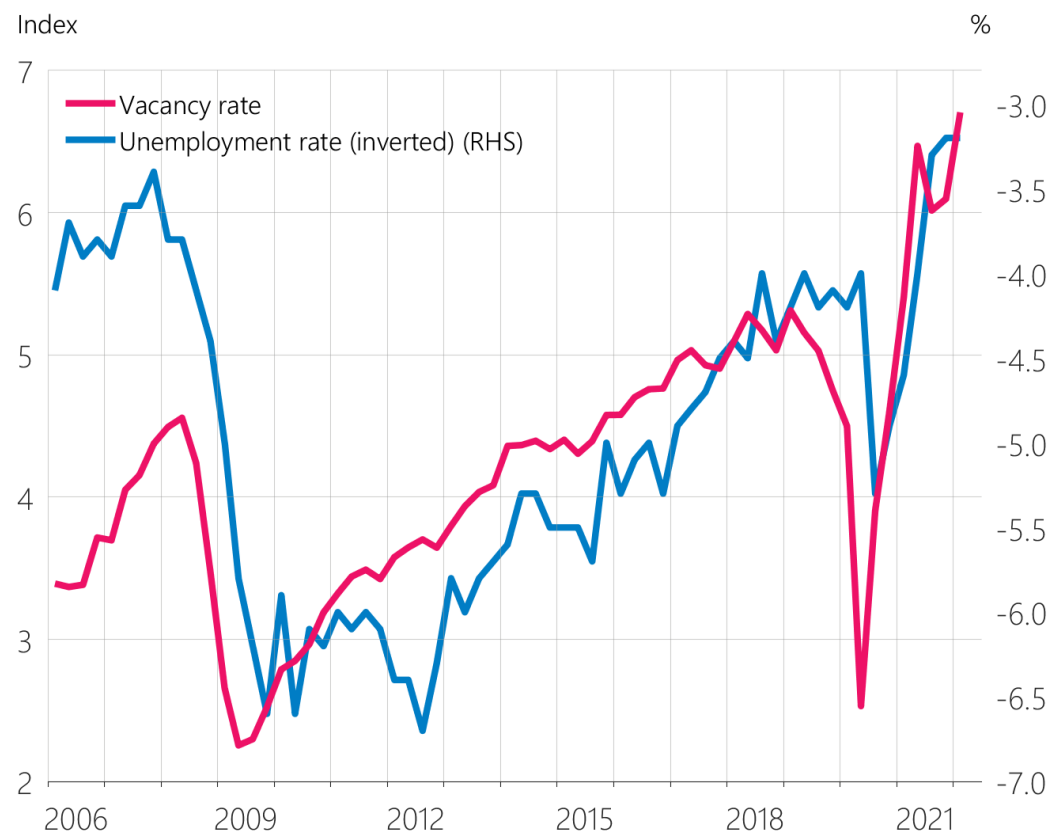
Source: CoreLogic, RBNZ estimates.

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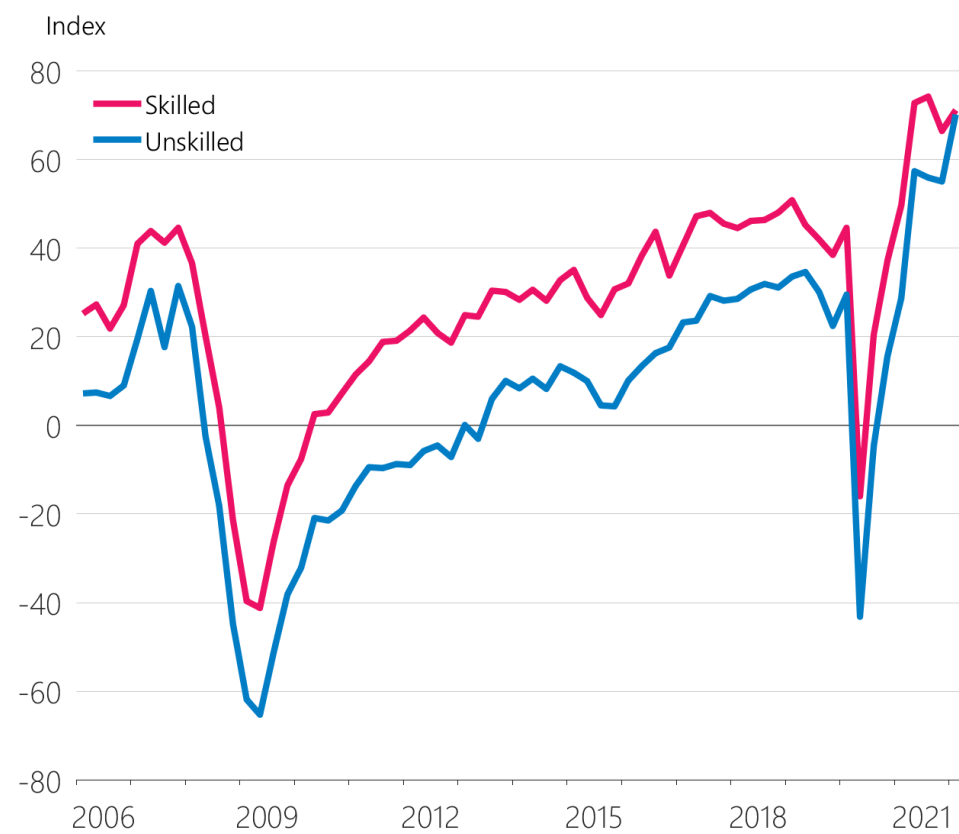


But capacity pressures remain acute, particularly in the labour market

Vacancy and unemployment rate



Difficulty finding labour



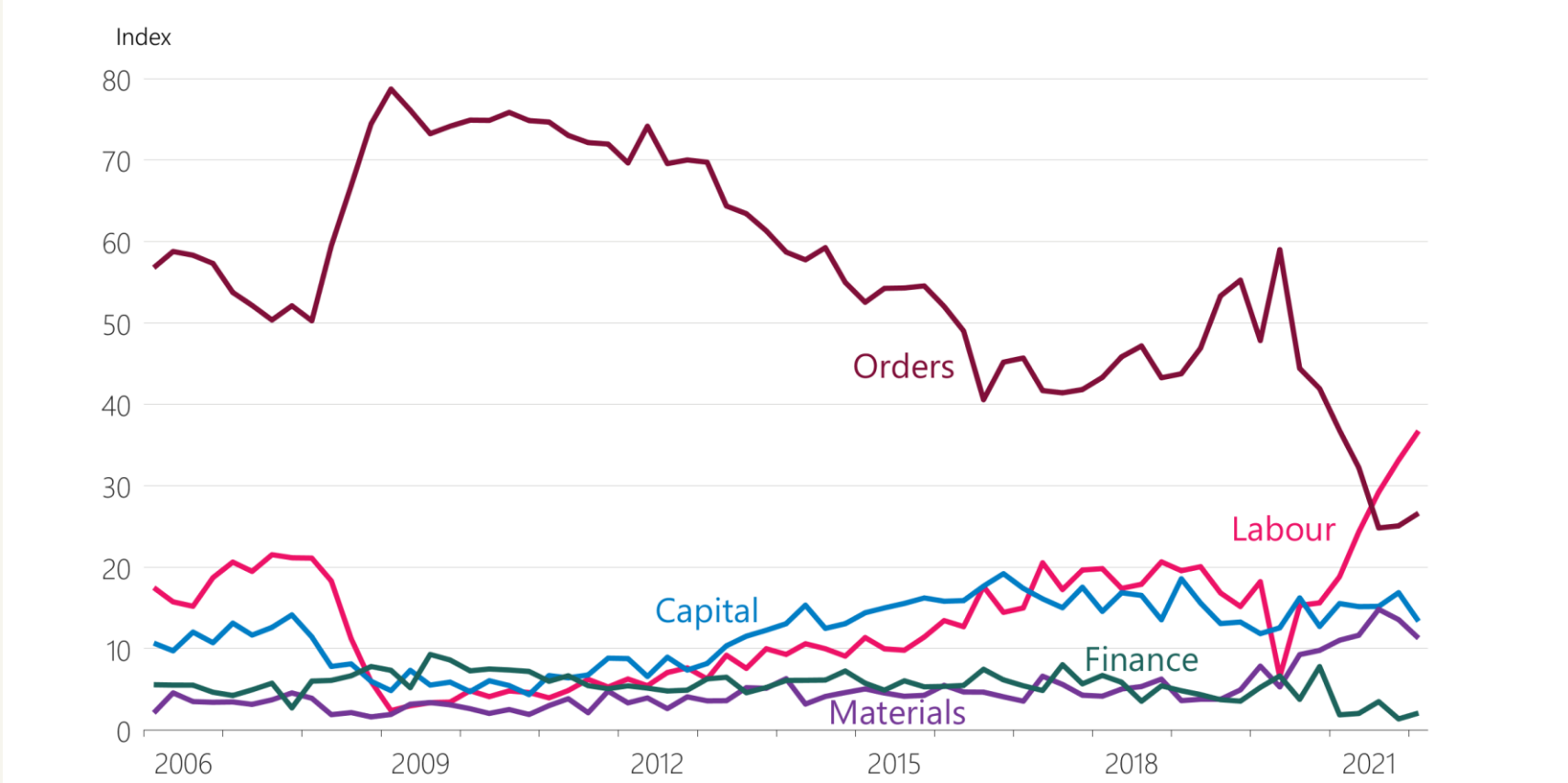
Source: MBIE, NZIER.

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Labour has become the most limiting factor for businesses

QSBO most limiting factor



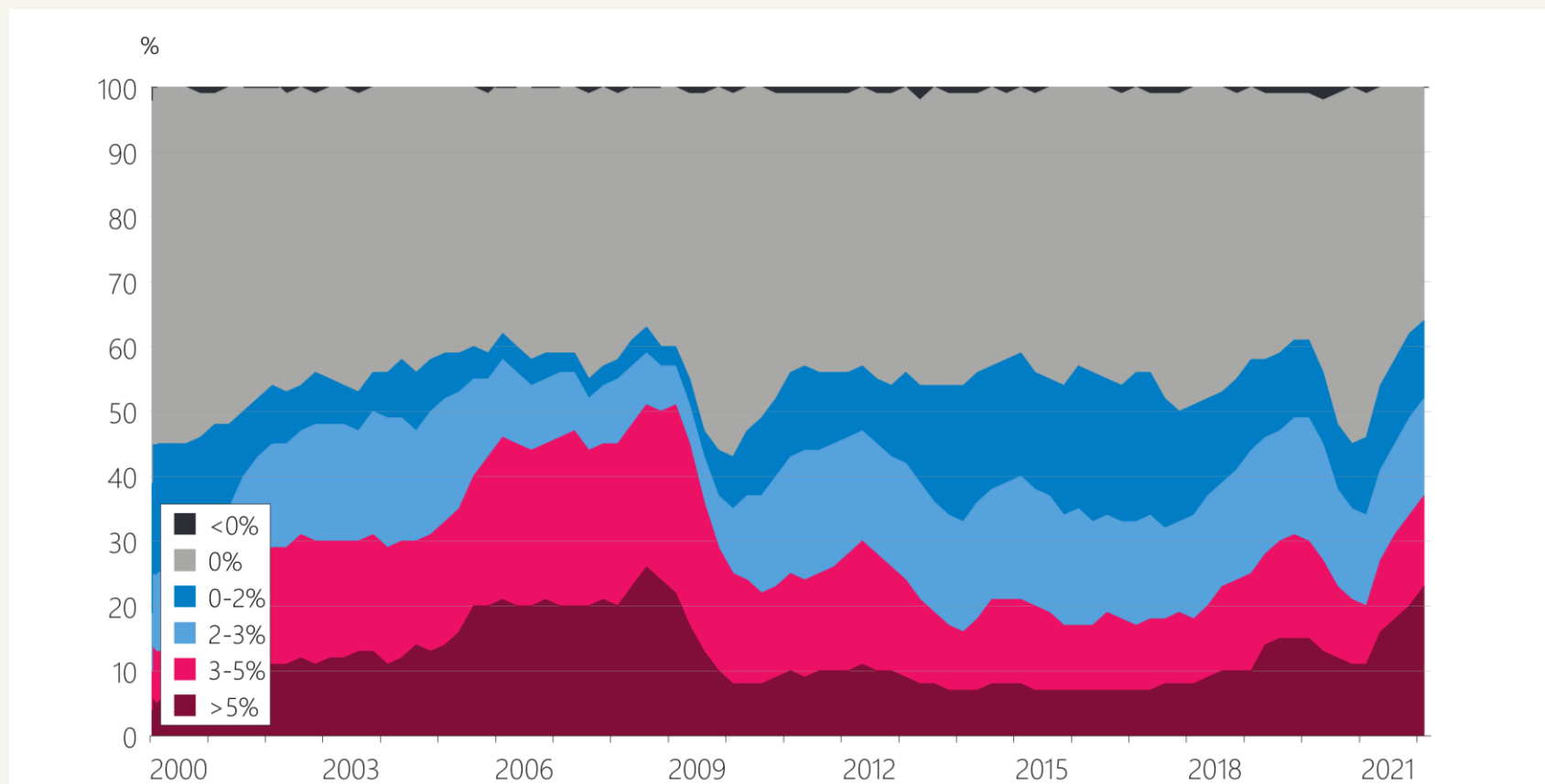
Source: NZIER.

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Wage growth is lagging inflation

Distribution of LCI wage increases



Source: Stats NZ.

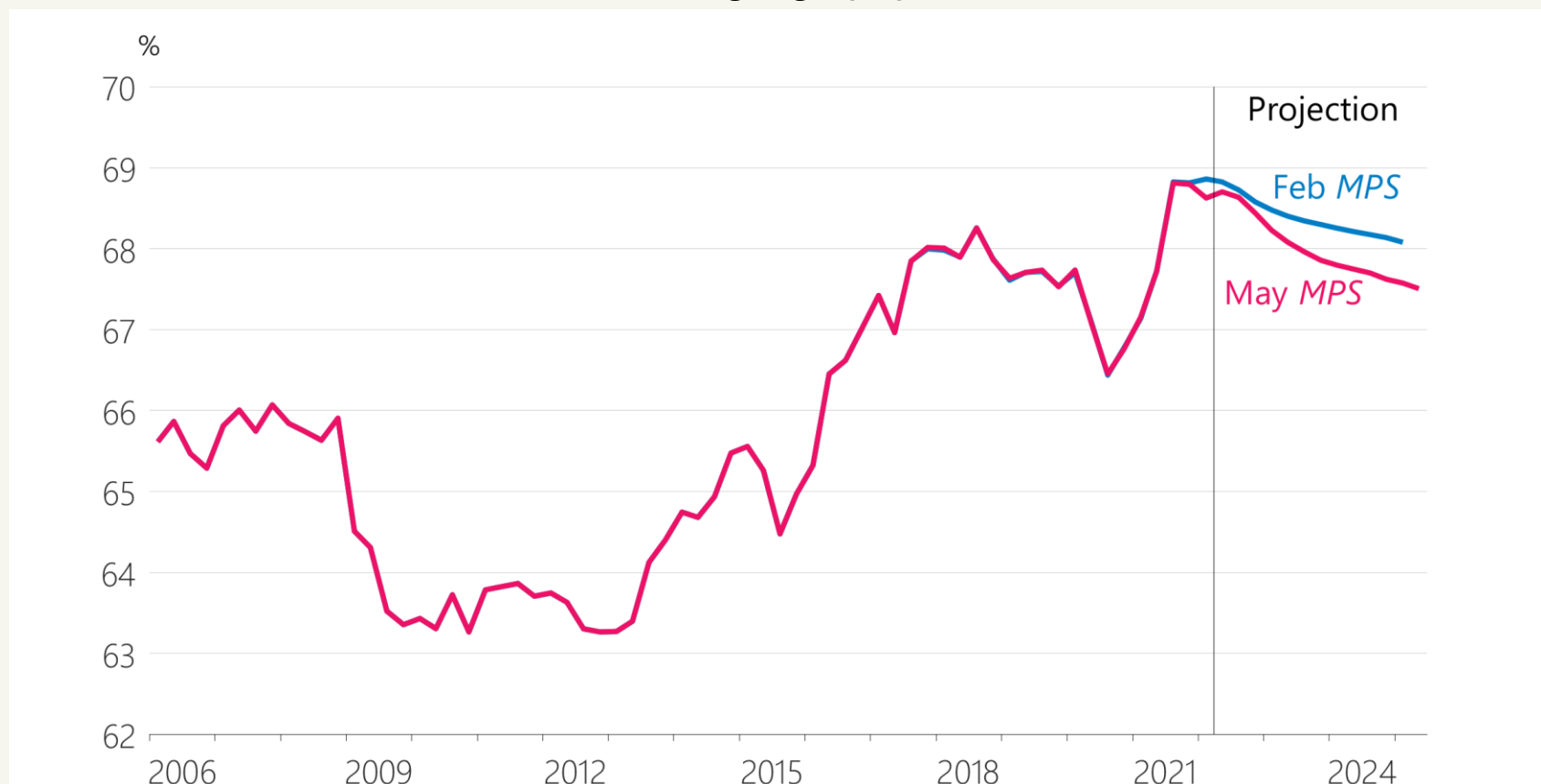
Note: The LCI is a measure of growth in same-job pay over time, and adjusts for employment quality. Total actual take-home pay will reflect job-switching, promotions and hours worked

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The employment rate is at a historically high level, and is expected to ease

Employment rate
(share of working-age population, s.a.)



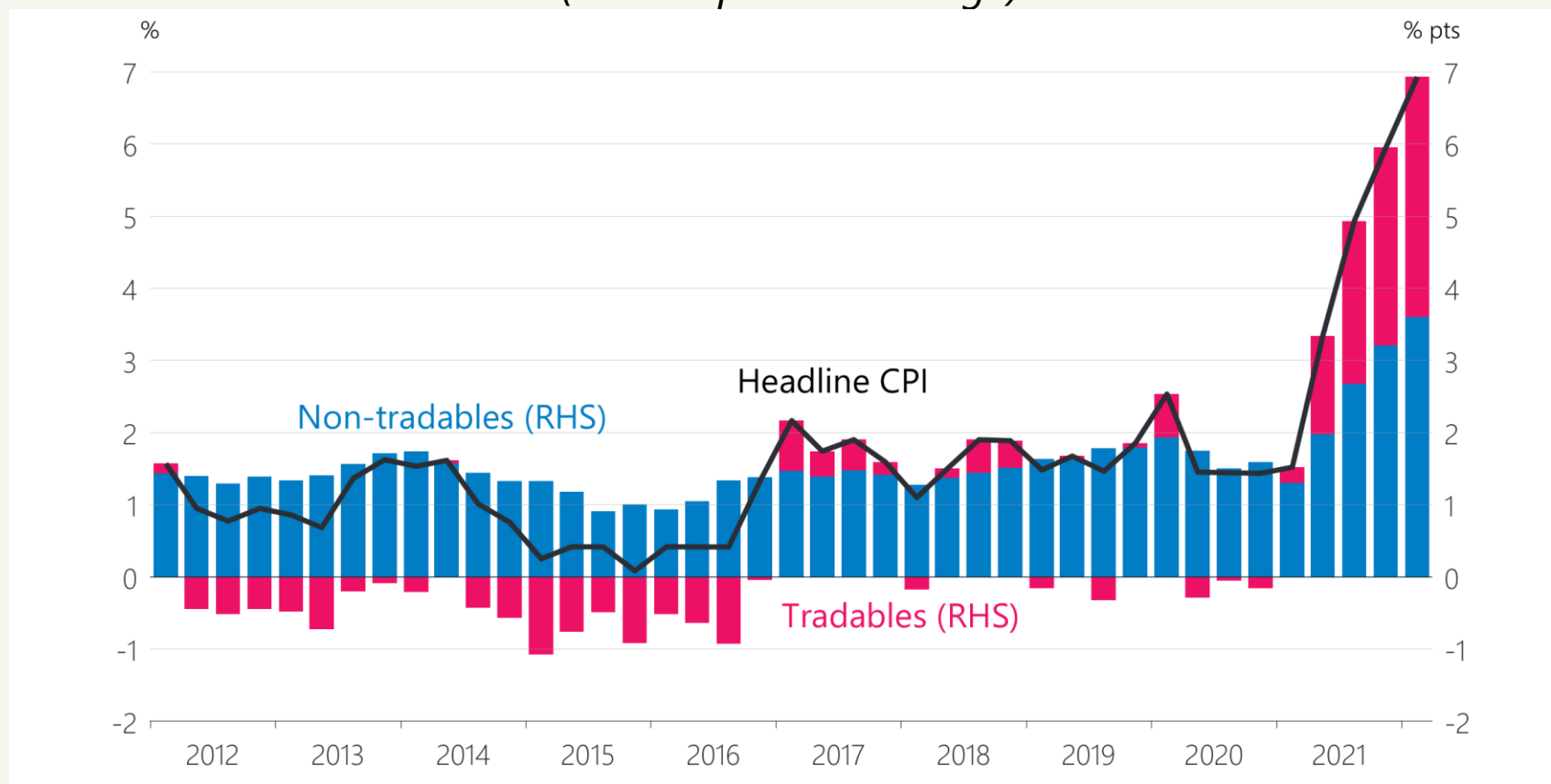
Source: Stats NZ, RBNZ estimates.

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Inflation has increased due to offshore and domestic pressure

Contributions to CPI inflation
(annual percent change)



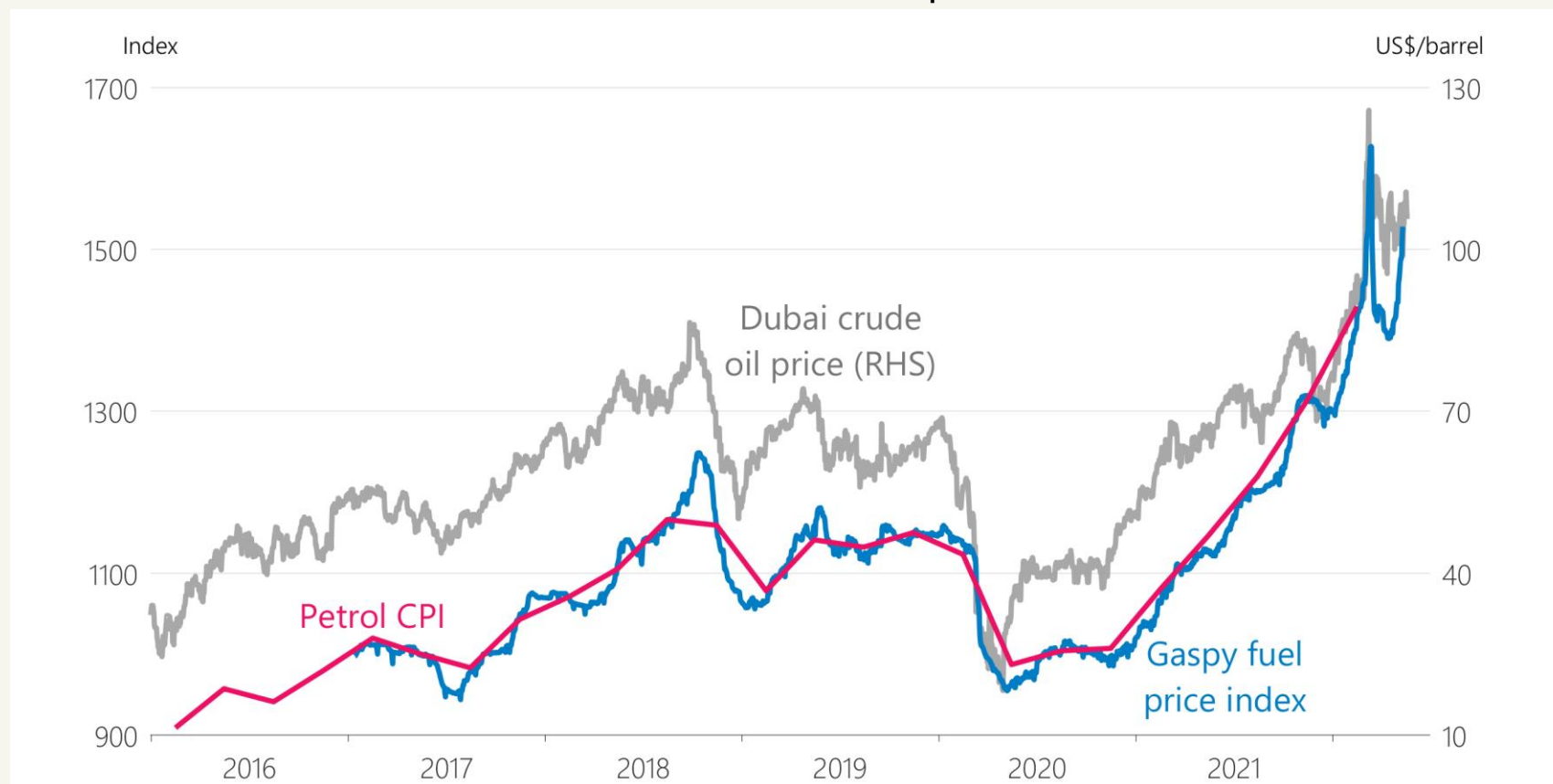
Source: Stats NZ, RBNZ estimates.

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Import prices are higher due to the war in Ukraine

Petrol and Dubai oil prices



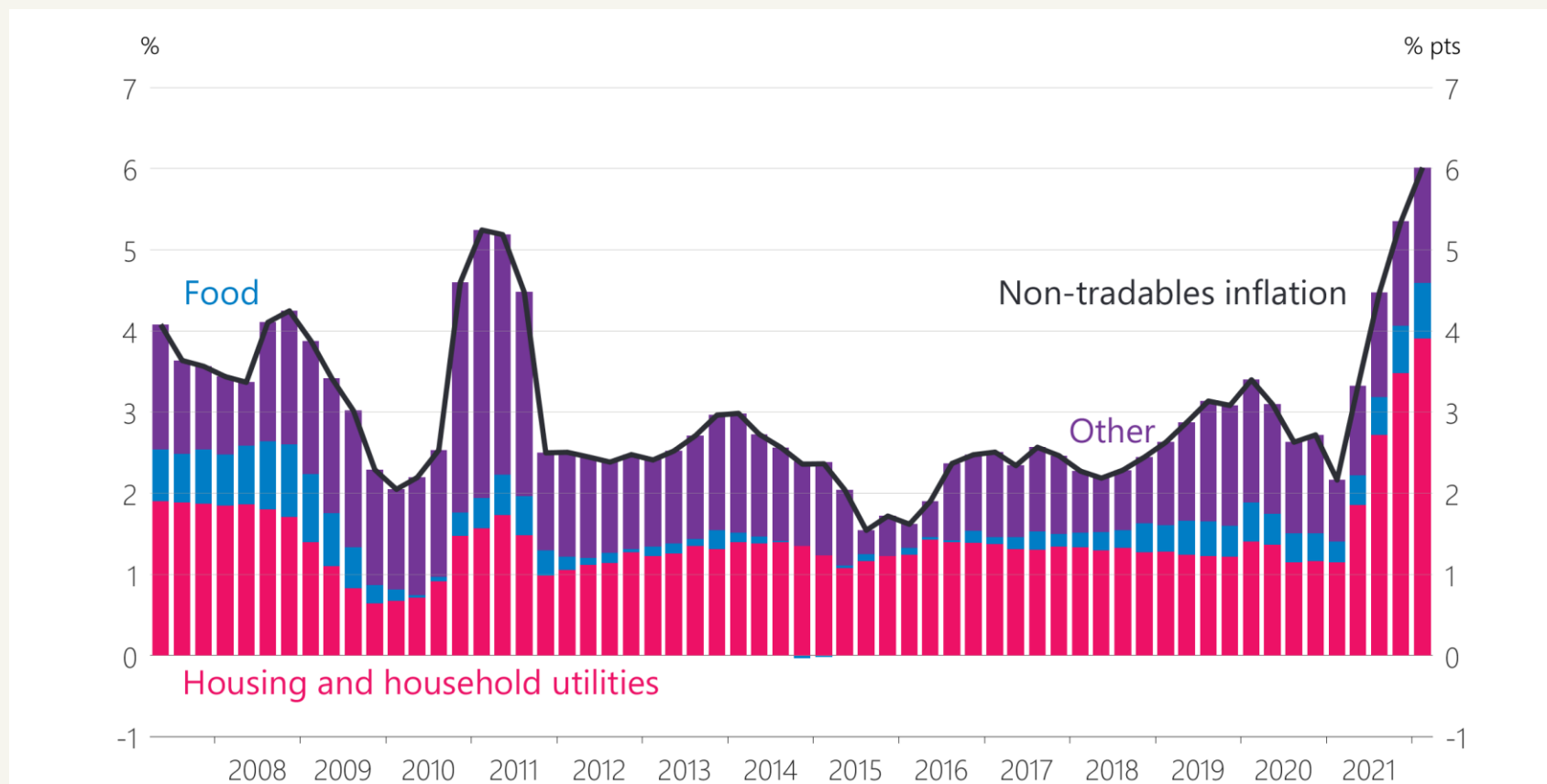
Source: Datamine – Gaspoly data, Stats NZ, Reuters.

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Construction costs have increased due to strong housing demand

Contributions to annual non-tradables inflation



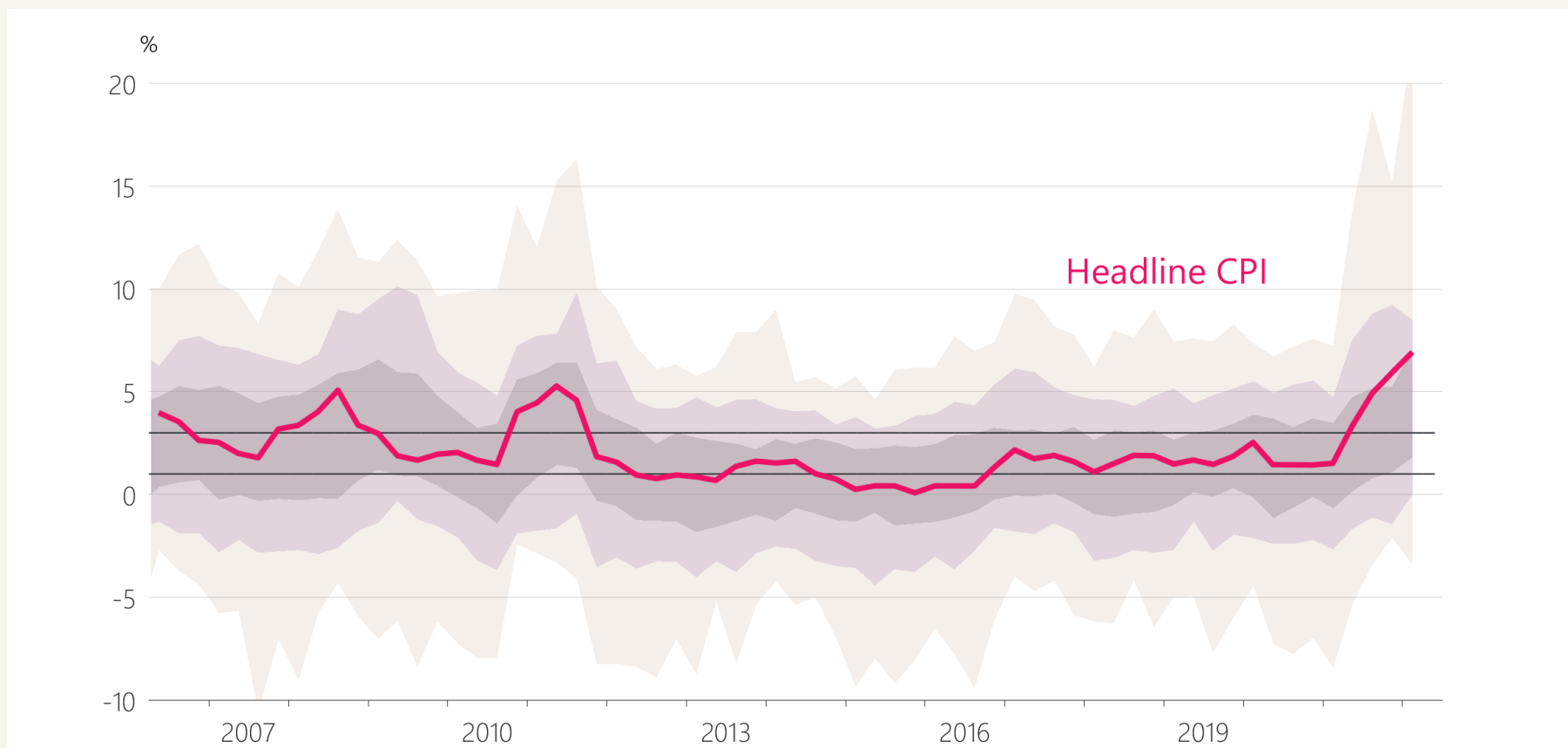
Source: Stats NZ, RBNZ estimates.

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Inflation is becoming more broad based

Distribution of price movements



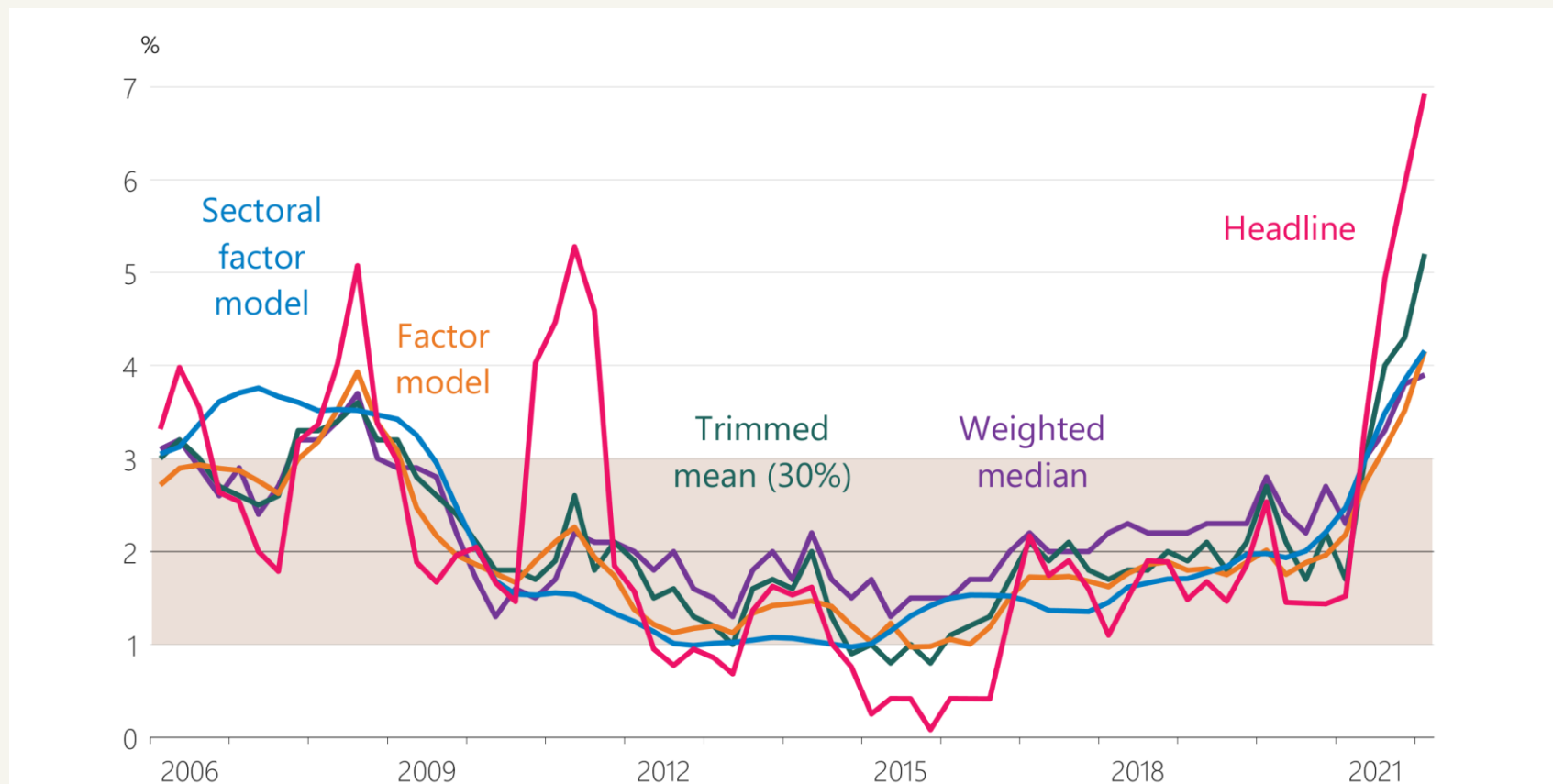
Source: Stats NZ.

Note: Bands capture annual changes in more than 100 CPI classes. Shaded areas represent:
 grey – middle 50 percent of CPI classes; purple – middle 75 percent of CPI classes;
 light brown – middle 90 percent of CPI classes UNCLASSIFIED



Underlying inflation has risen further

Core inflation measures



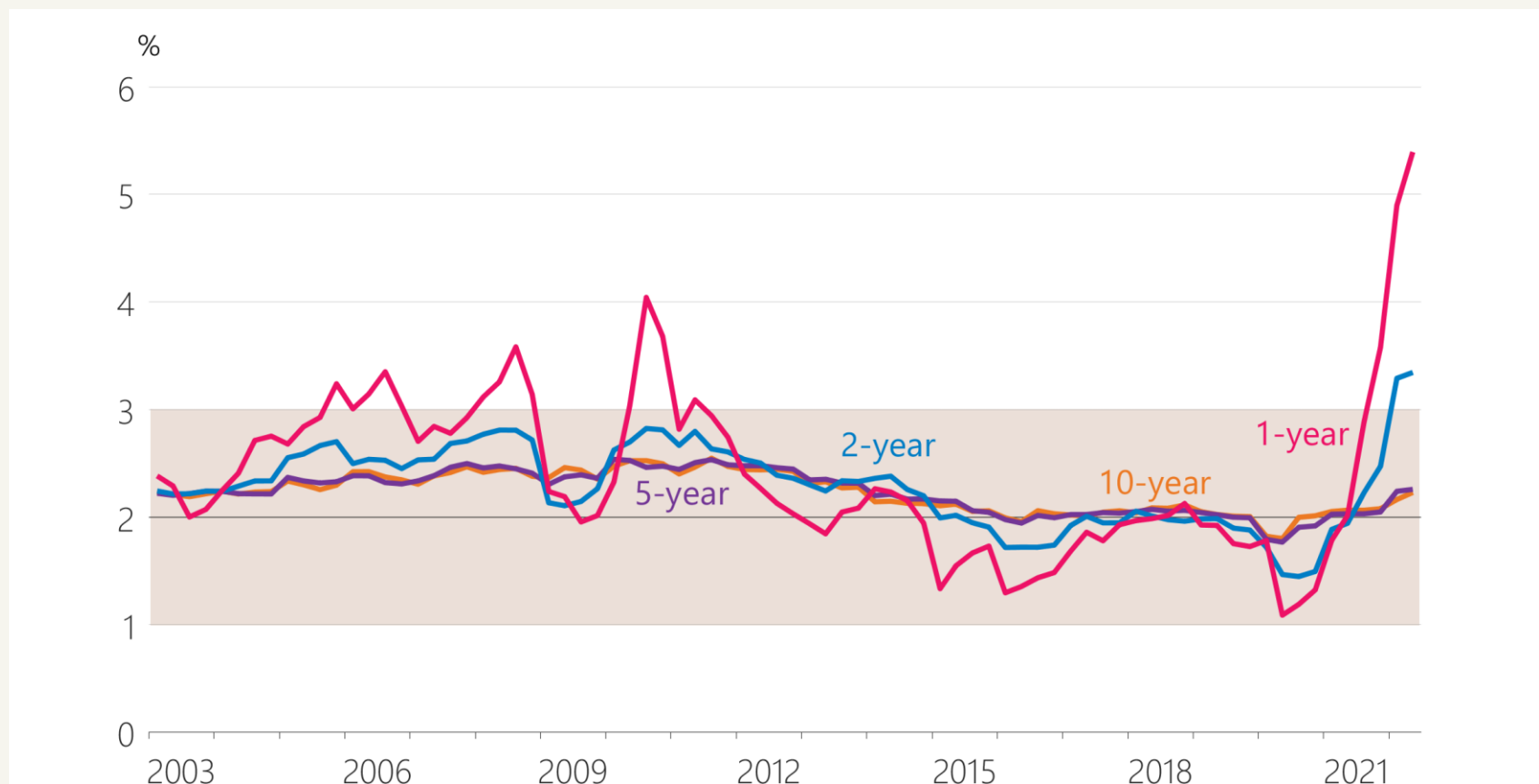
Source: Stats NZ, RBNZ estimates.

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Longer term inflation expectations have risen modestly

Inflation expectations
(annual)



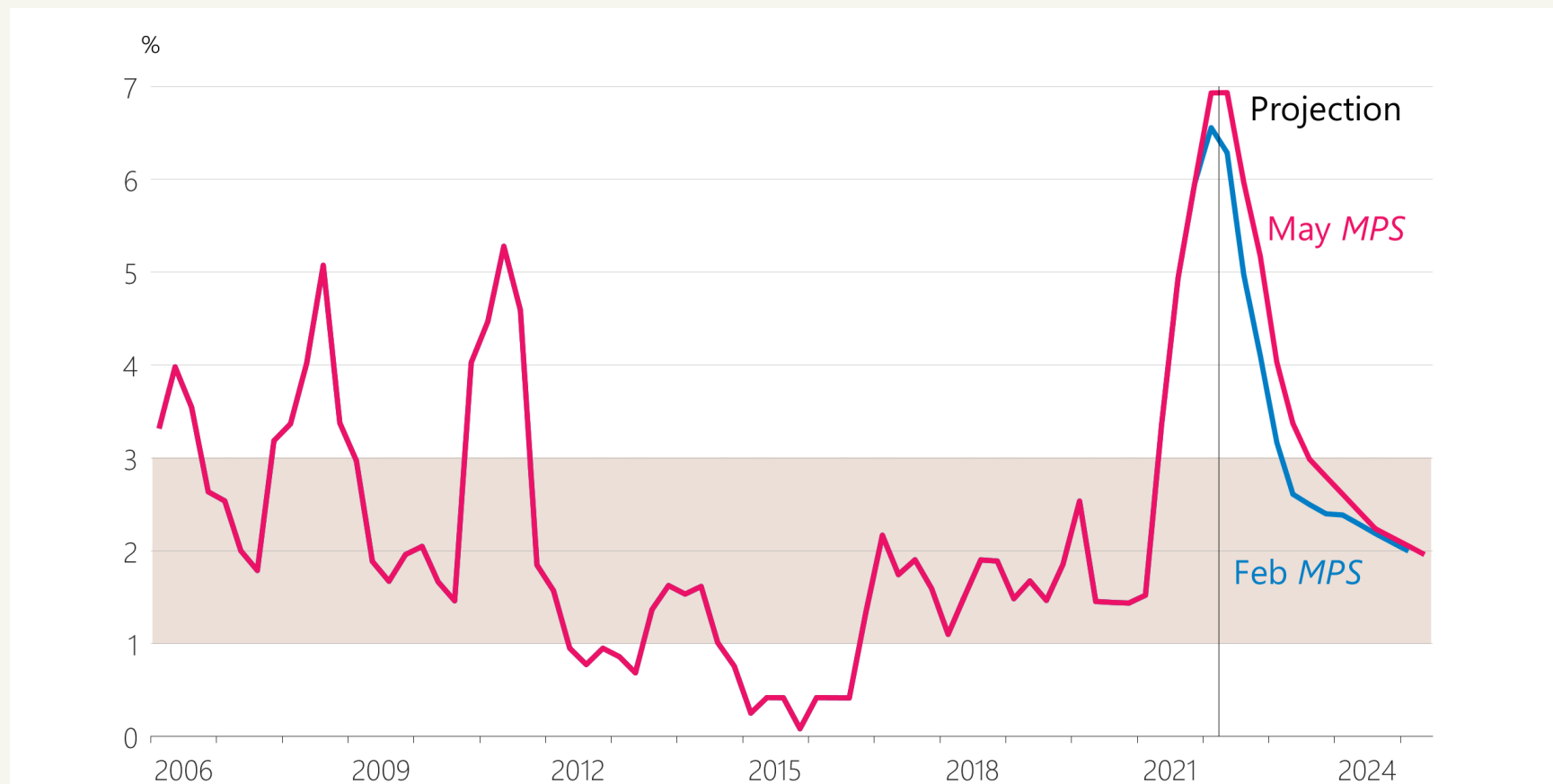
Source: RBNZ survey of expectations.

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Headline inflation is expected to be higher and more persistent

CPI inflation

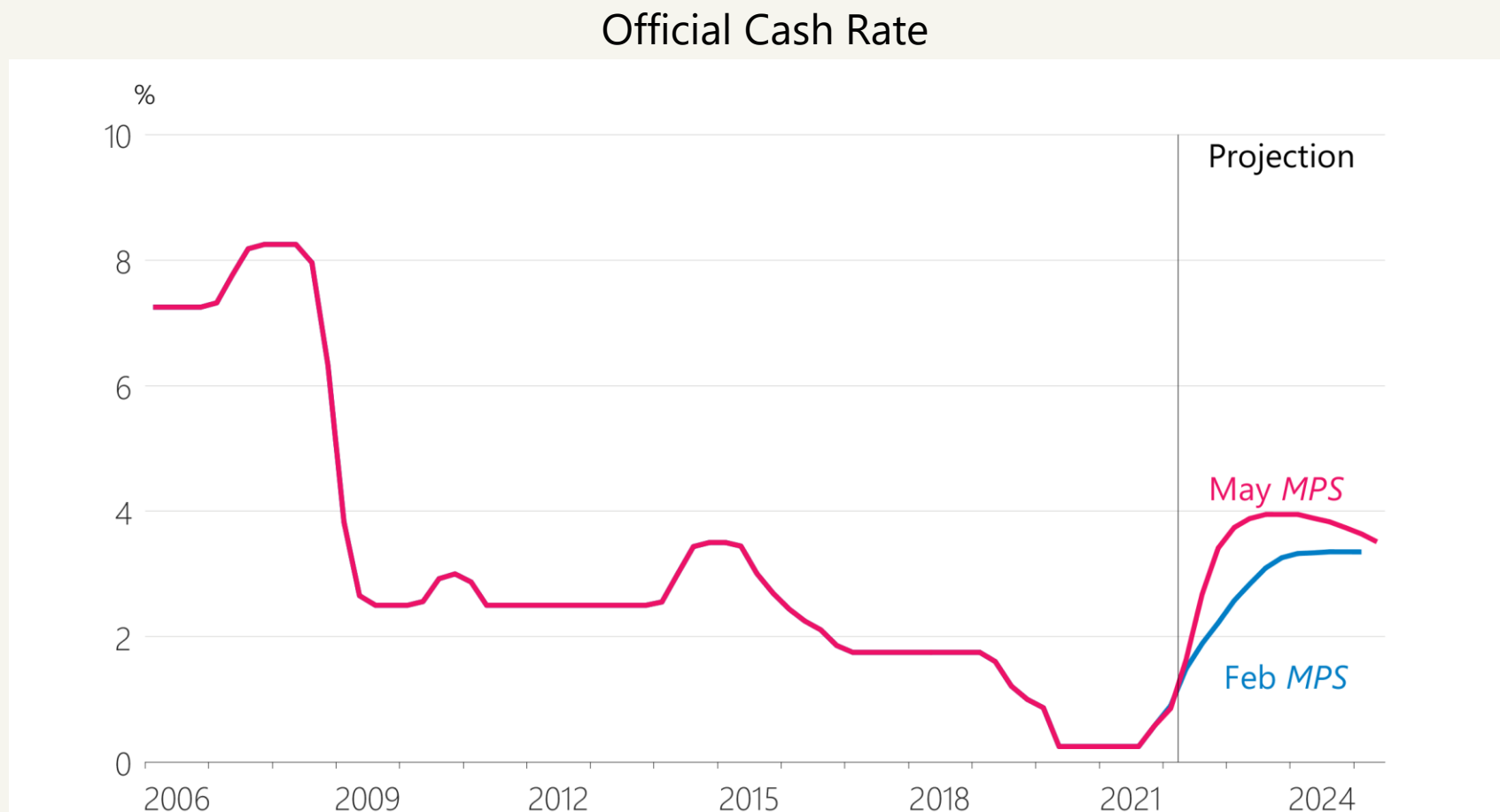


Source: Stats NZ, RBNZ estimates.

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OCR will increase to meet our objectives



Source: RBNZ estimates.

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