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# Economic outlook

Reserve Bank of New Zealand

August 2023

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ŌHANGA,  
TOITŪ TE  
ORANGA.**

We enable economic wellbeing and prosperity for all New Zealanders.

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Our purpose

# 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

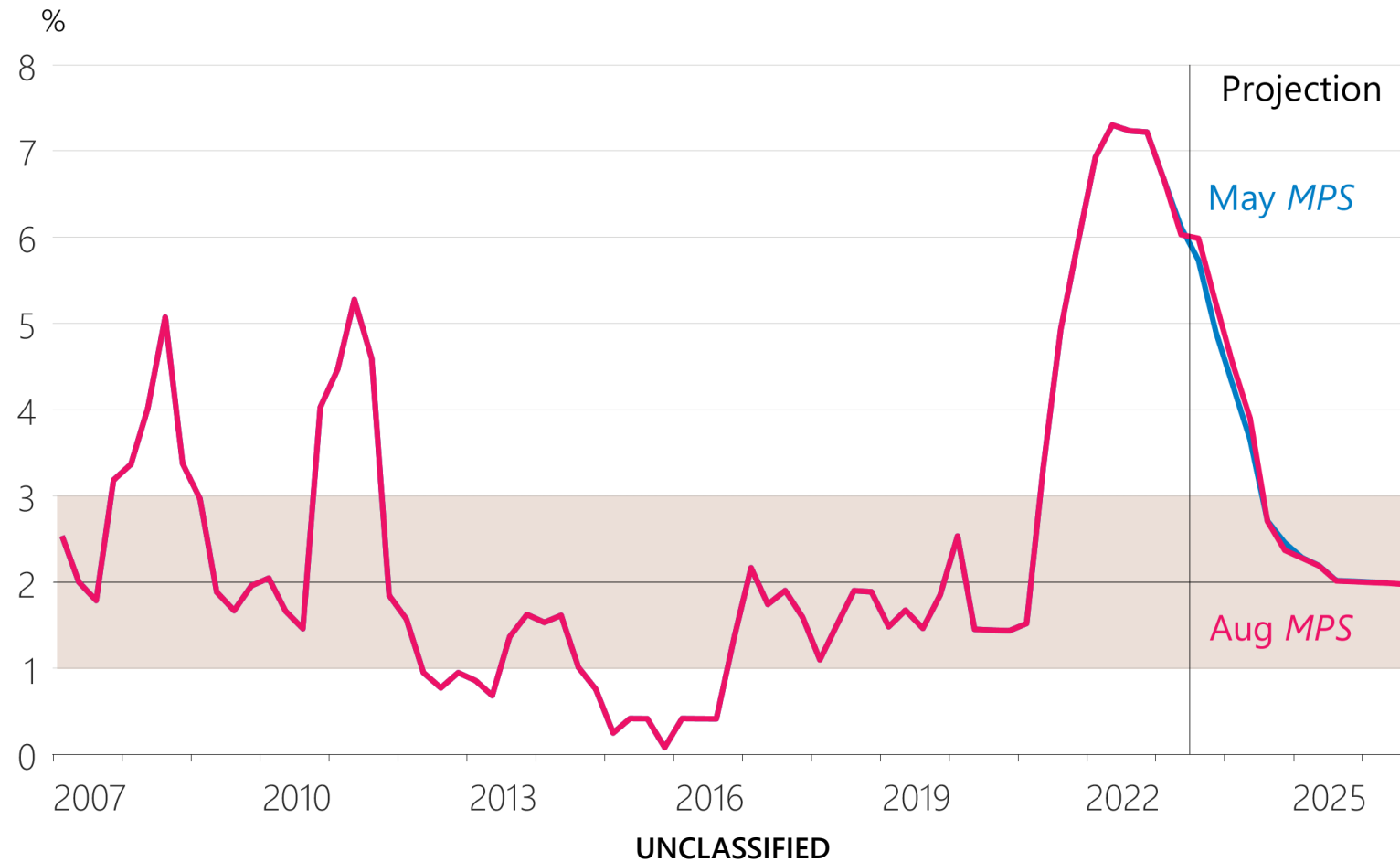
- Economic activity since late 2022 has declined, as higher interest rates have contributed to a broad-based easing in domestic demand and capacity pressures.
- Inflation decreased broadly in line with expectations, but it is still too high and measures of core inflation have remained near their recent peaks.
- Inflationary pressure continues to be underpinned by a tight labour market, but labour market pressures have eased from early 2022 and wage inflation seemed to have peaked.
- High interest rates have contributed to significant falls in house prices. This is dampening in particular housing-related spending and investment. However, house prices have stabilised earlier-than-anticipated, also on the back of high net immigration.
- Less interest-rate-sensitive factors are also shaping the inflation picture, in particular the tourism recovery, subdued global demand and declining commodity prices.
- High interest rates are still needed for some time for the MPC to meet its inflation and employment objectives.



**Inflation is easing, but  
domestic pressures persist.**

# Inflationary pressure has reduced due to weaker demand and improved supply

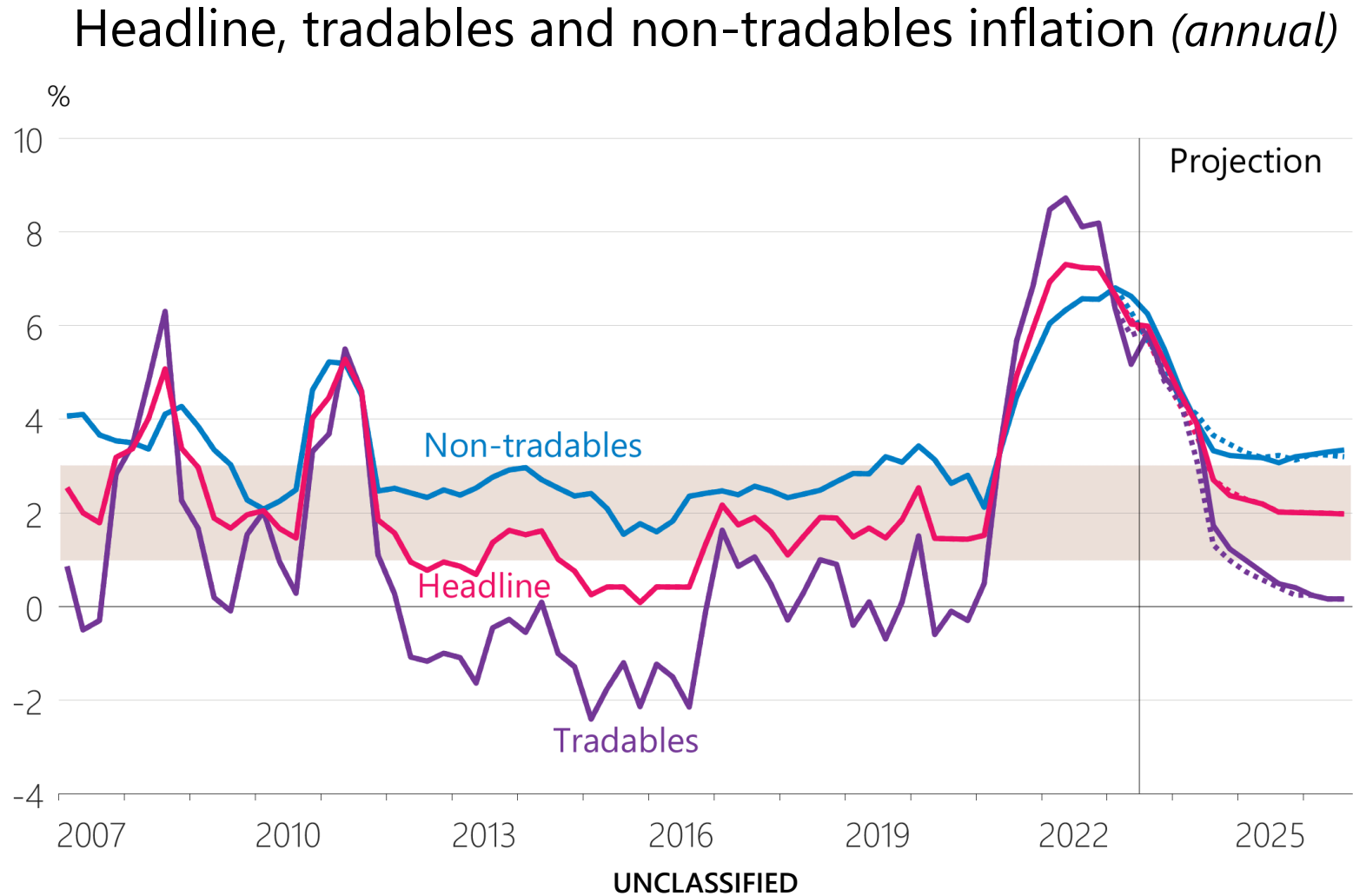
CPI inflation (annual)



Source: Stats NZ, RBNZ estimates.



# Declines in headline inflation have been led by falls in tradables inflation



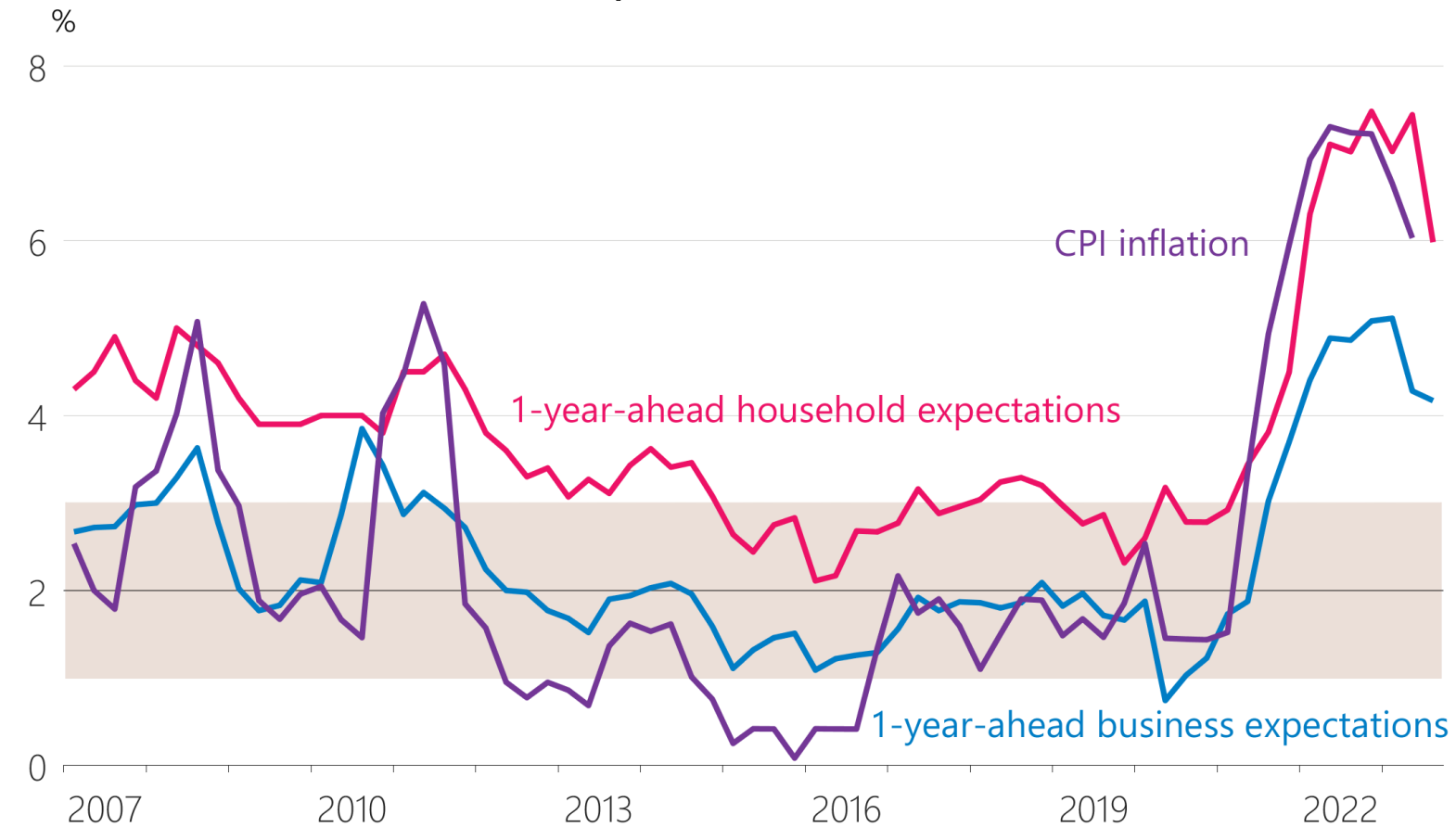
Source: Stats NZ, RBNZ estimates.





# Most measures of inflation expectations have declined from recent highs

CPI Inflation, Inflation expectations (*annual, years ahead*)



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Source: Stats NZ, RBNZ Survey of Expectations (Business and Household).



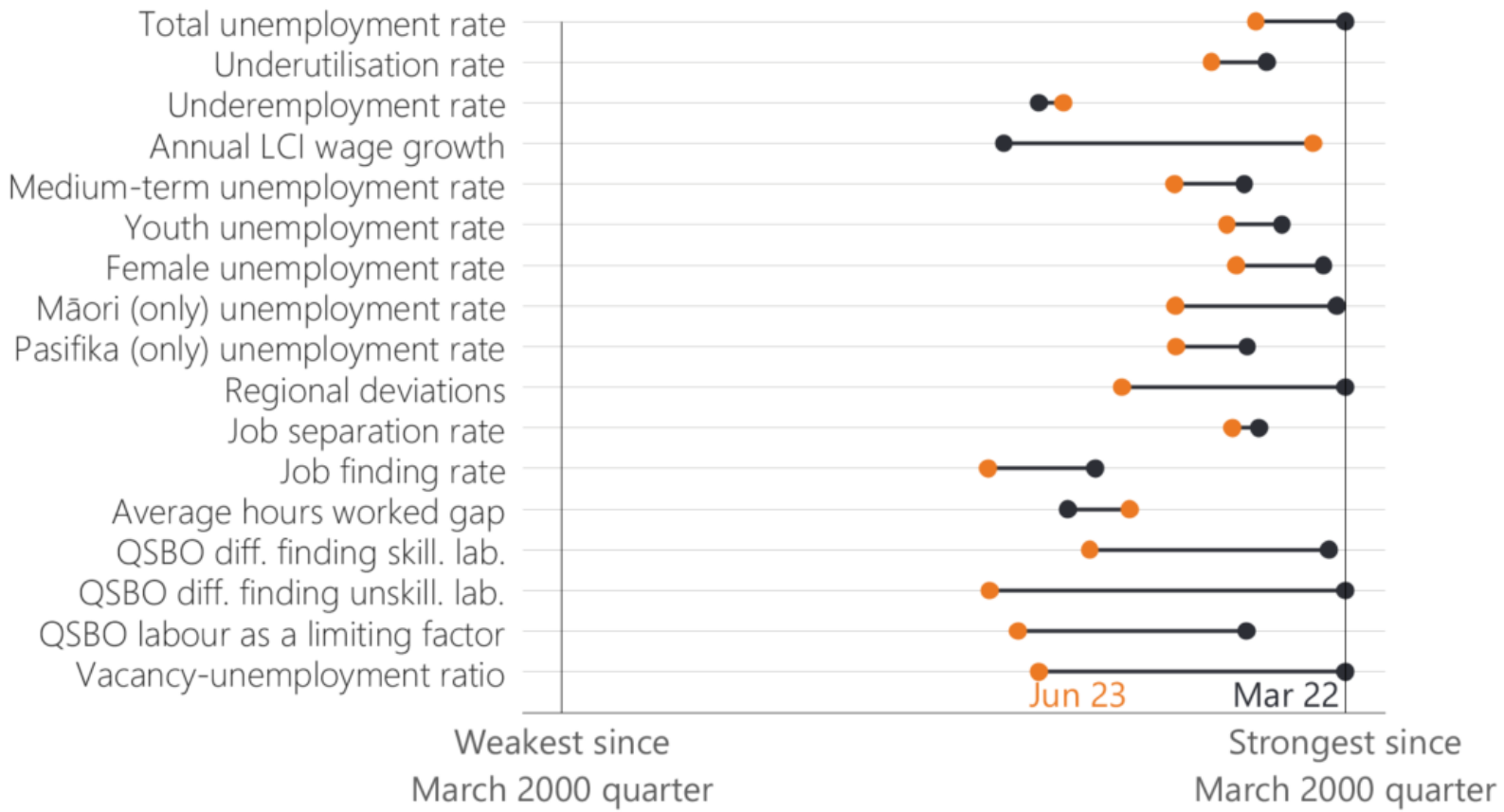
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**The tight labour market is still adding to inflation pressure, but to a lesser extent.**

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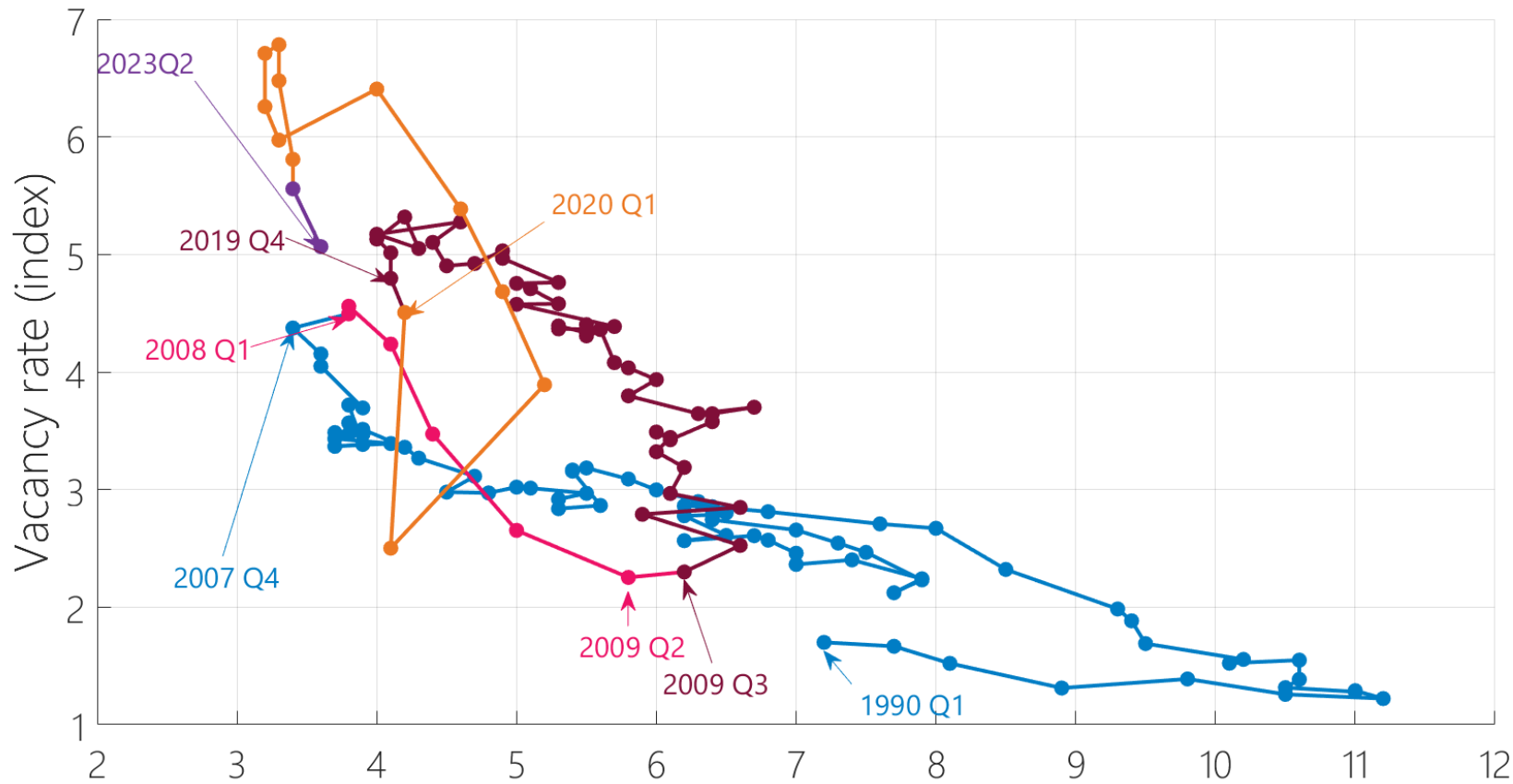
# The labour market remains strong, but eased since early 2022

## Maximum sustainable employment indicator suite



# Vacancies trending down without a sharp rise in unemployment

Beveridge curve

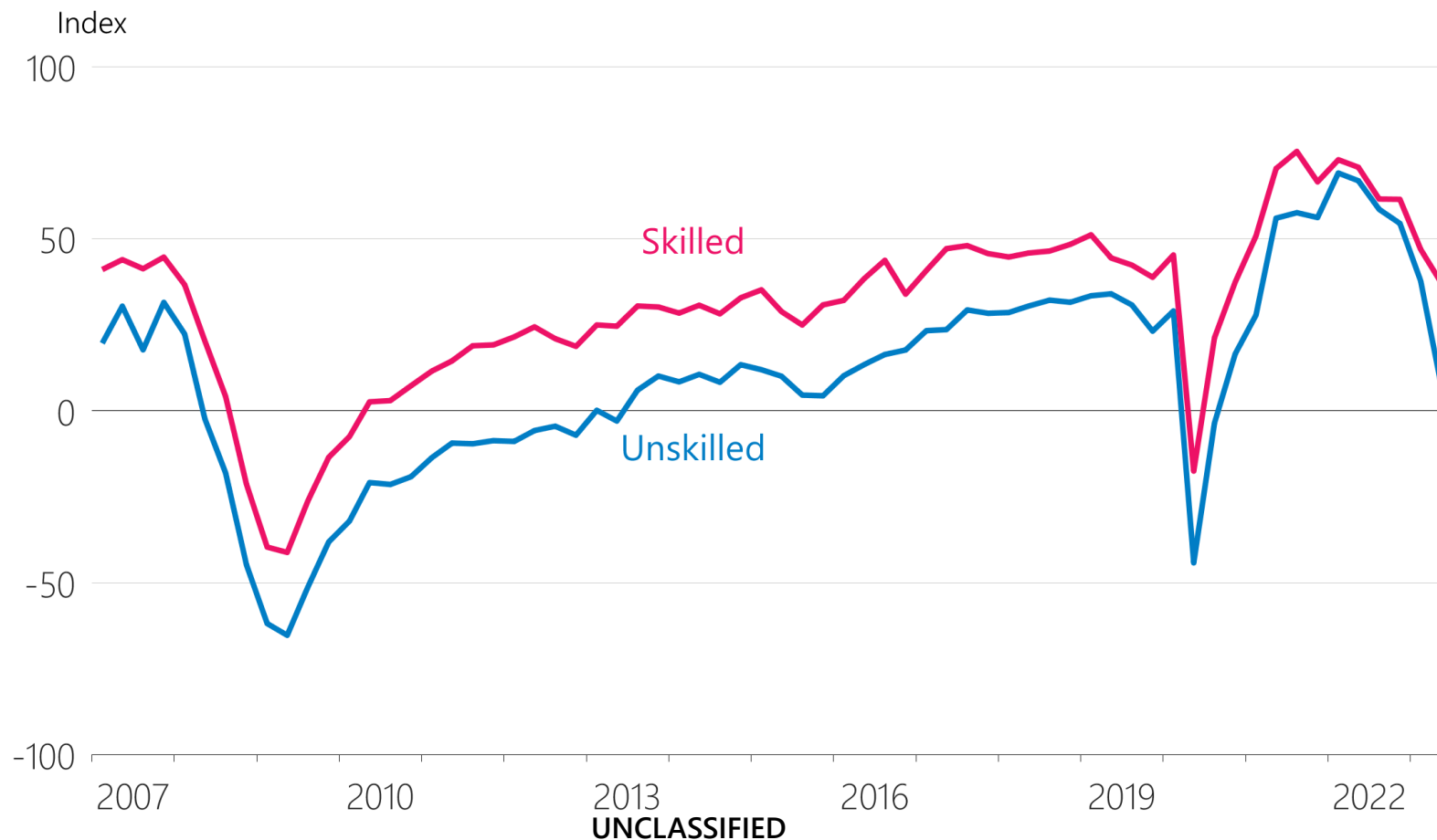


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Source: MBIE, Stats NZ.

# Labour shortages have declined from their peak but remain elevated

QSBO difficulty in finding labour (*seasonally adjusted*)

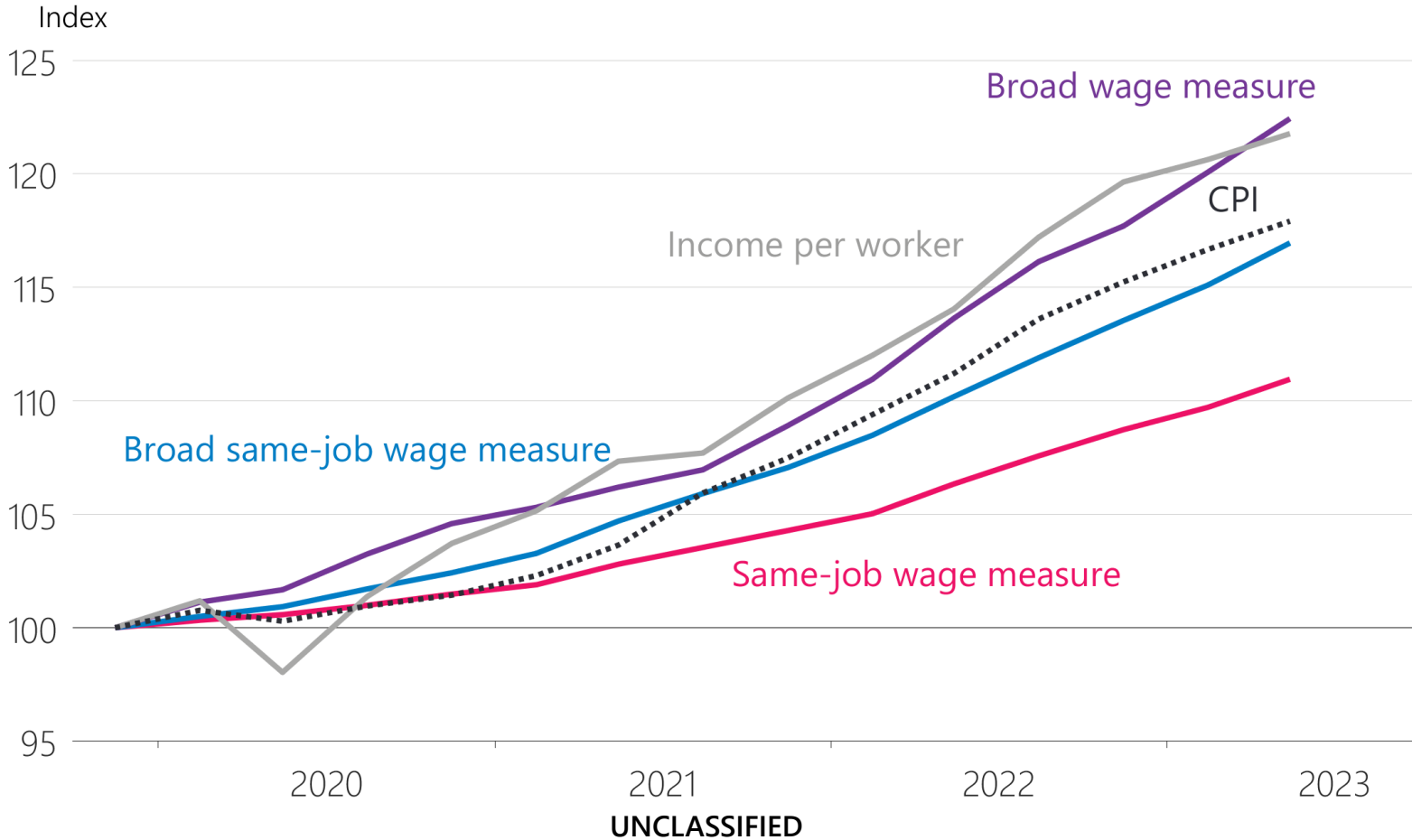


Source: NZIER, RBNZ estimates.



# Same-job wage growth below CPI inflation but broader wage growth outpacing it

Wage measures and headline CPI (index=100 in Q4 2019)



Source: Stats NZ, RBNZ estimates.





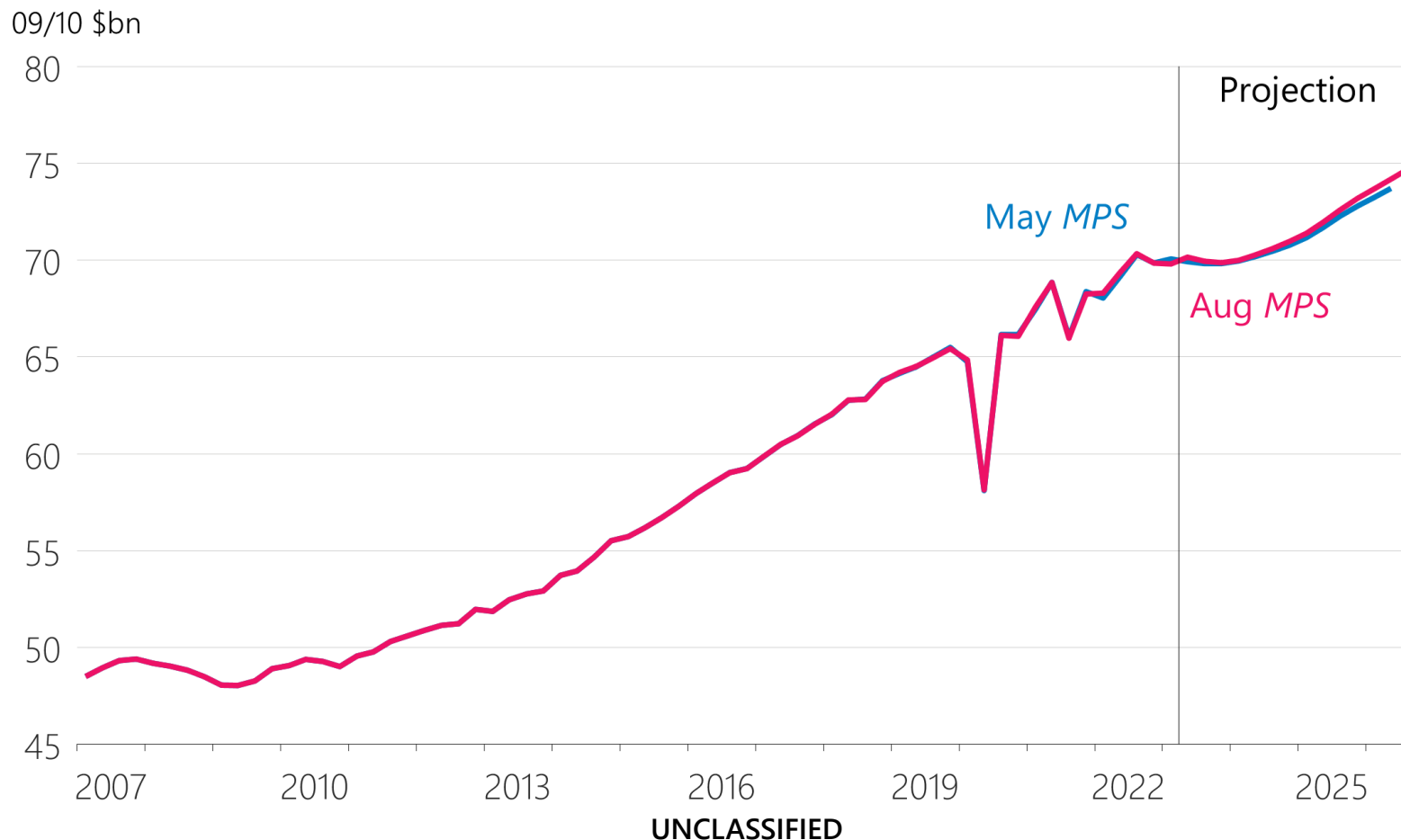
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**Demand is easing but  
continues to exceed supply.**

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# GDP contracted in the March 2023 quarter reflecting broad based slowing in activity

Production GDP (*quarterly, seasonally adjusted*)



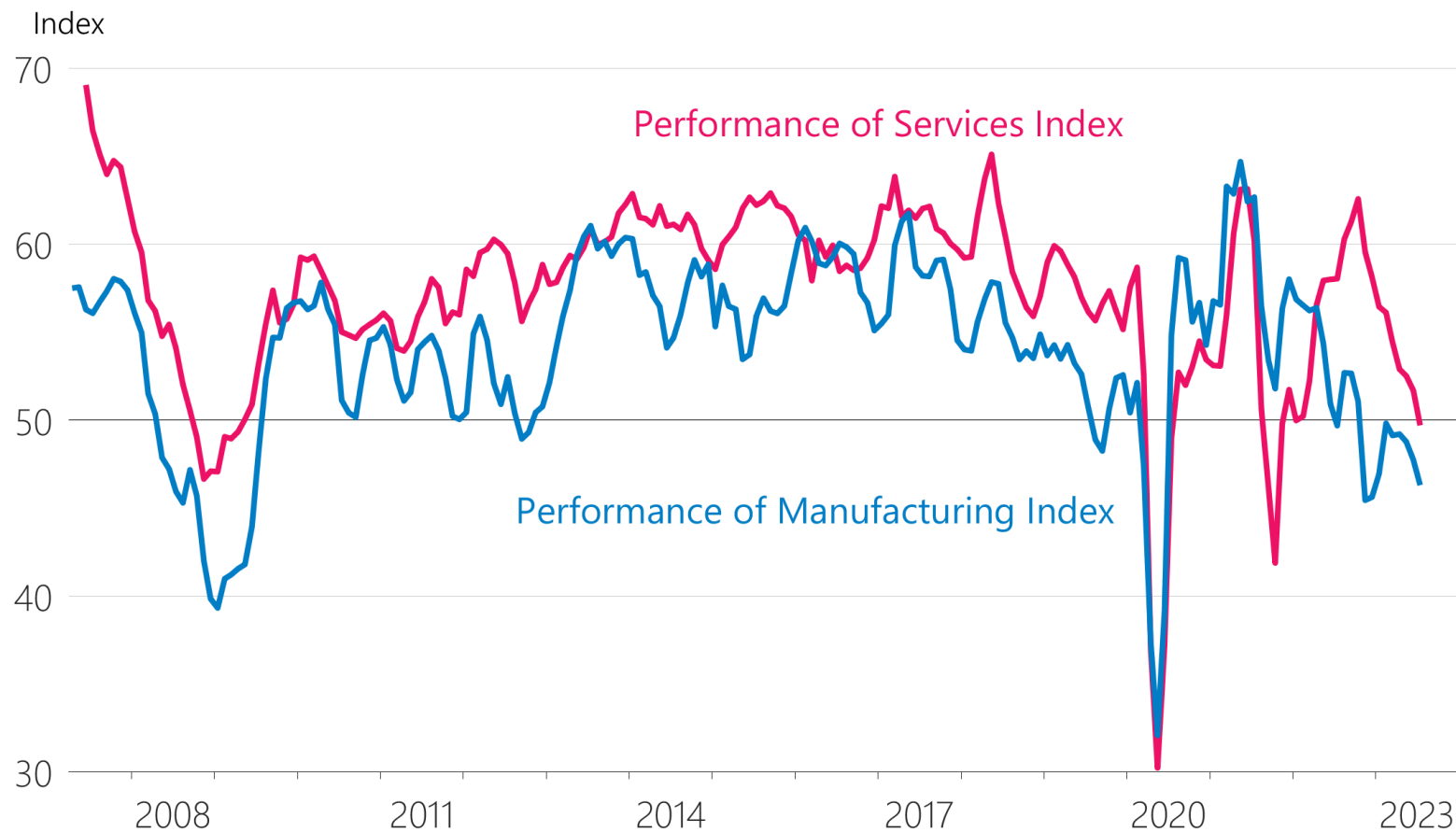
Source: Stats NZ, RBNZ estimates.





# New orders have been easing for some time

Surveyed new orders *(seasonally adjusted, 3-month moving average)*



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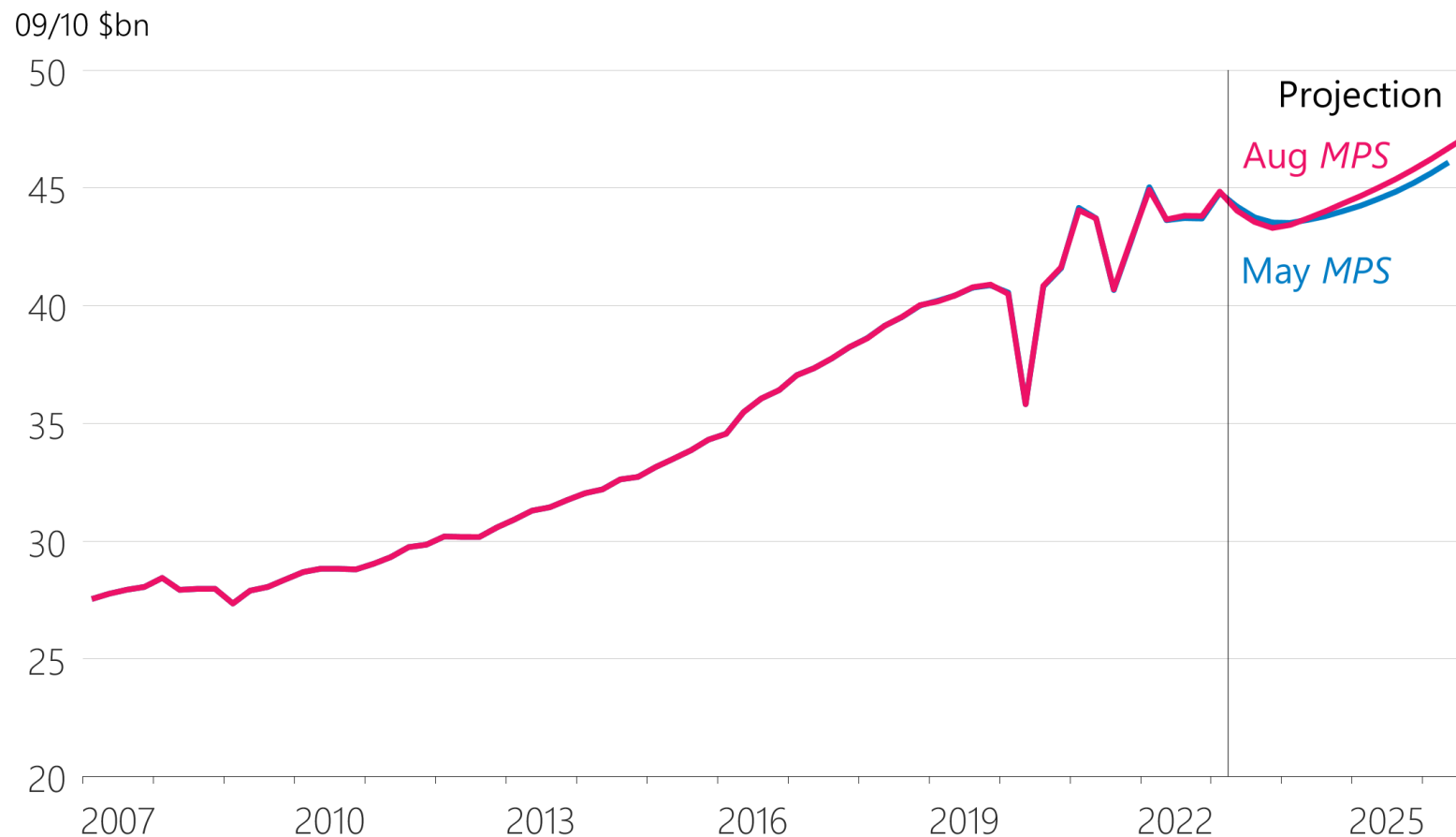
Source: BusinessNZ.

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# Household spending is expected to decline from high levels

Consumption (*quarterly, seasonally adjusted*)



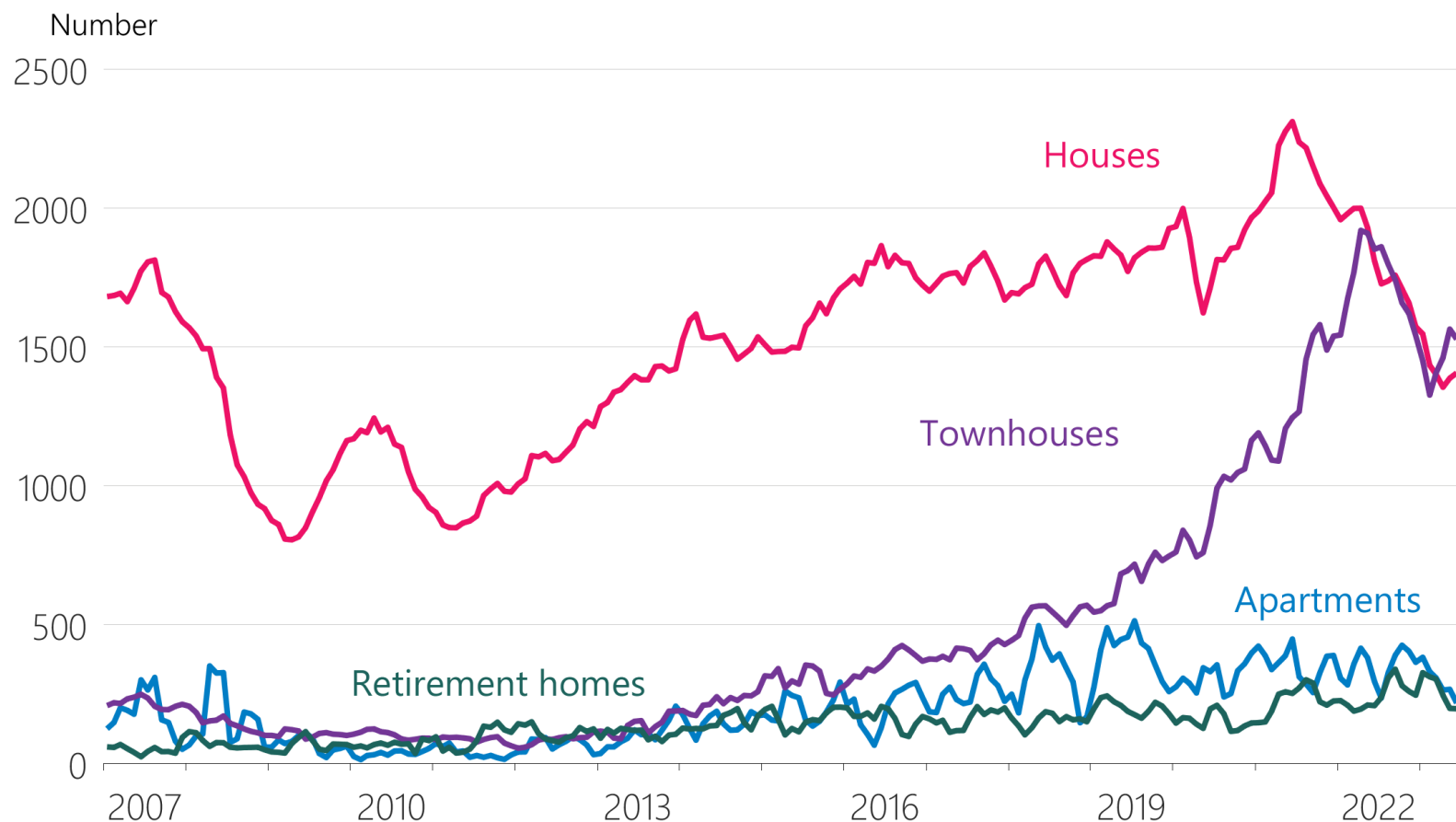
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Source: Stats NZ, RBNZ estimates.



# Falling consent numbers suggest that residential investment will continue to slow

Residential consents by type (*seasonally adjusted, 3-month moving average*)



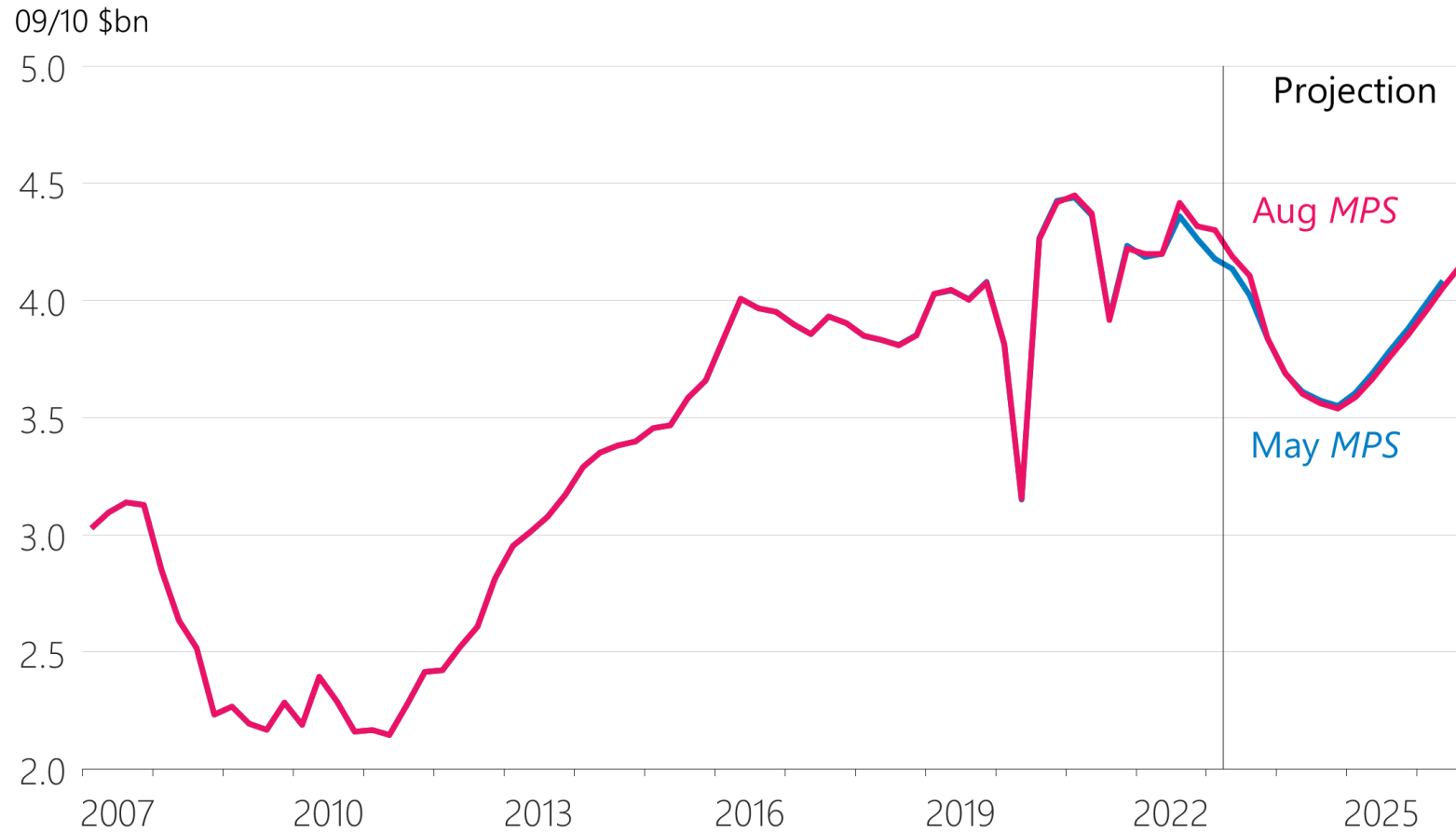
Source: Stats NZ.

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# Residential building activity is expected to be subdued

Residential investment (*quarterly, seasonally adjusted*)



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Source: Stats NZ, RBNZ estimates.



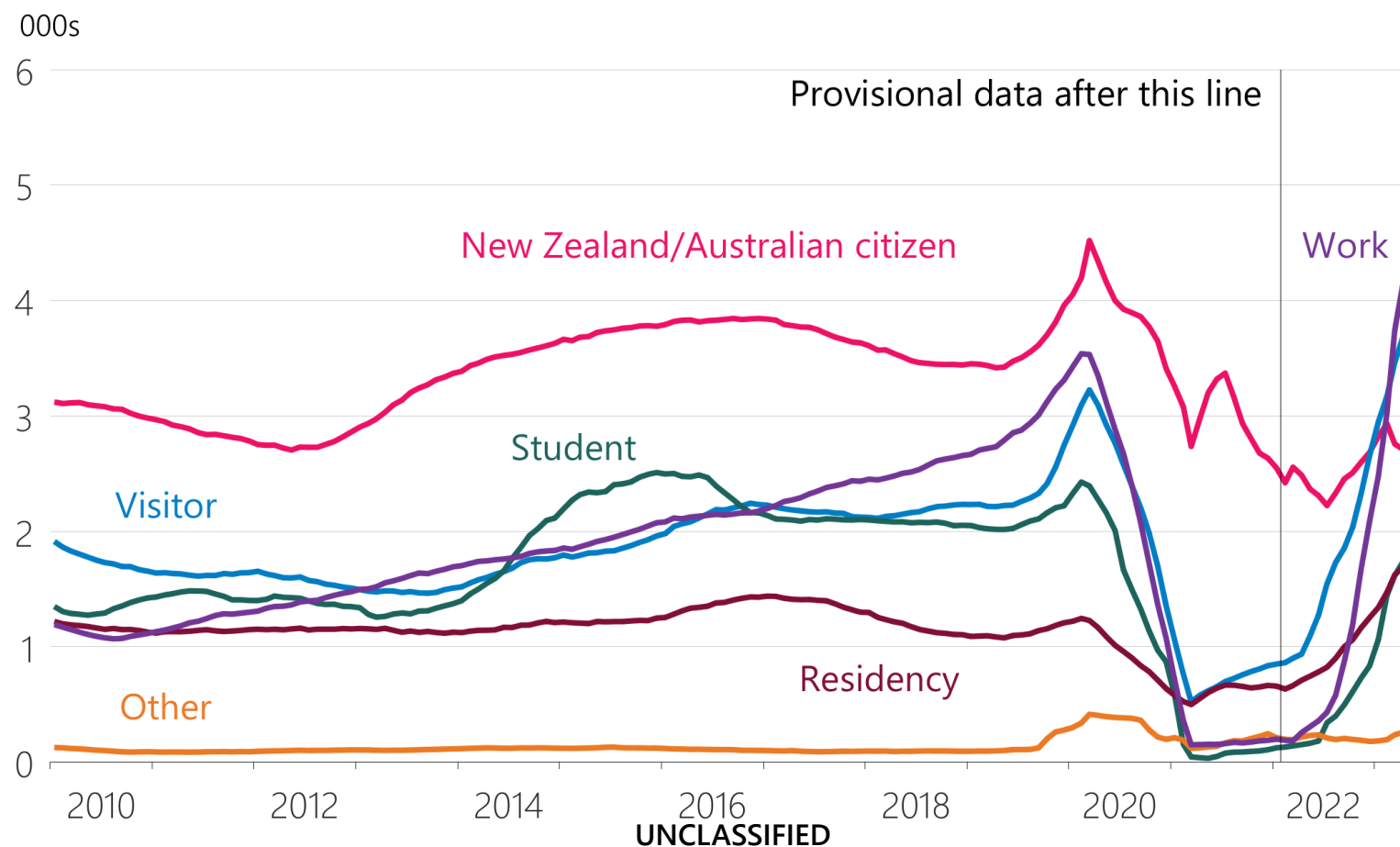
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**Many other factors are also  
shaping the inflation outlook.**

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# Sharp increase in migration supports demand and supply

Migrant arrivals by type (12-months moving average, seasonally adjusted)

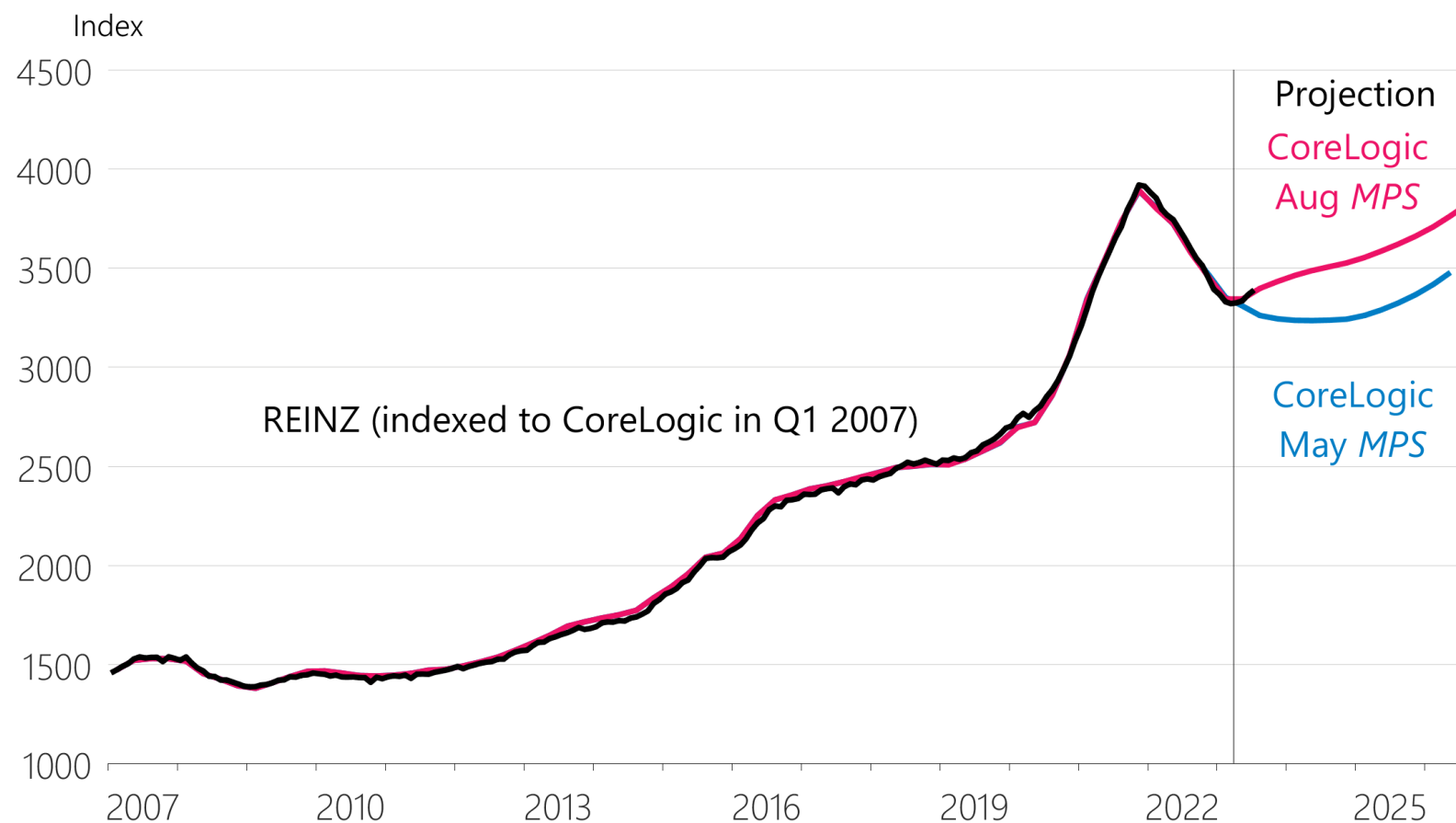


Source: Stats NZ.



# House prices are assumed stabilise earlier than assumed in the *May Statement*

House prices (*nominal, seasonally adjusted*)



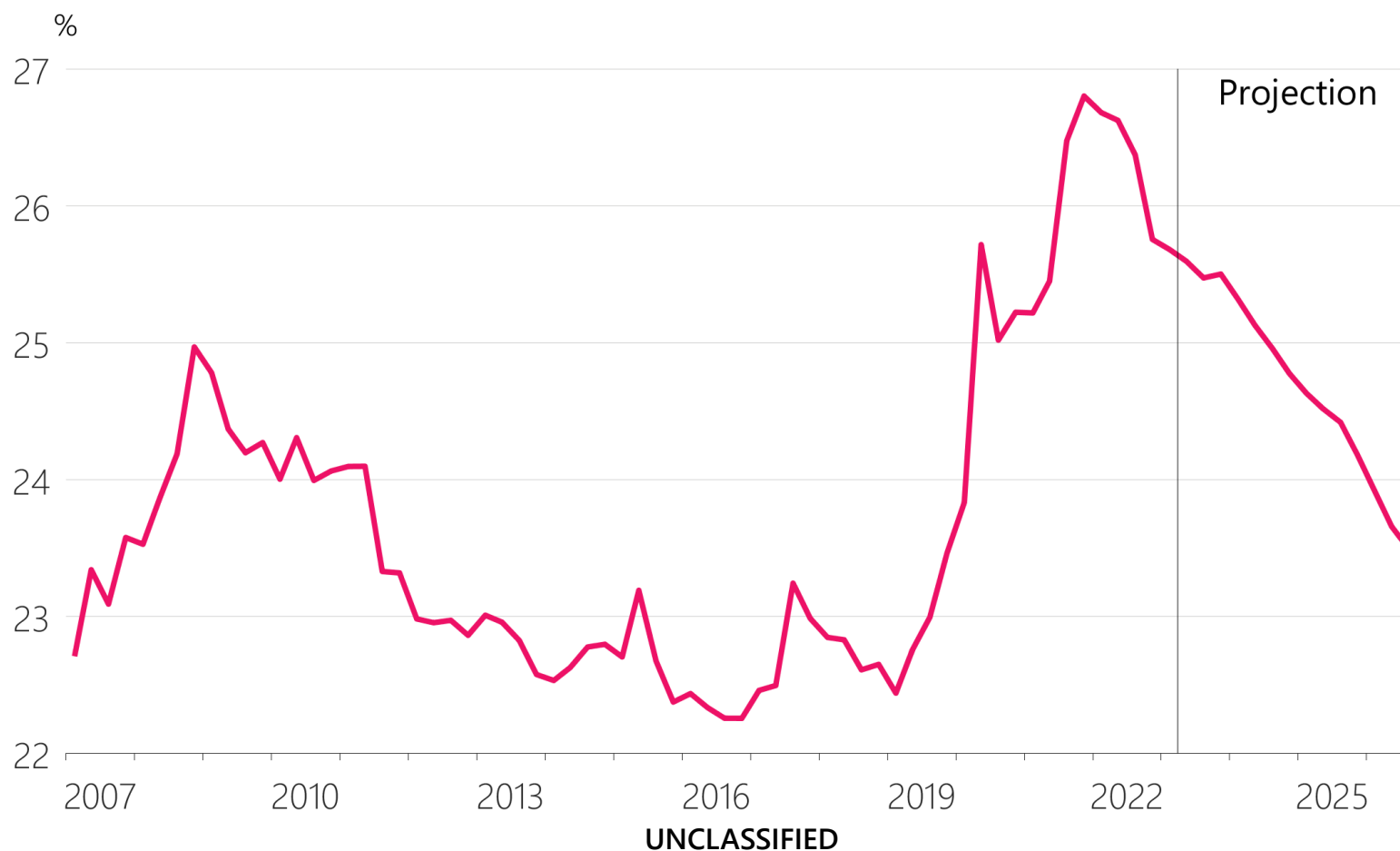
Source: CoreLogic, REINZ, RBNZ estimates.

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# Government spending is less of an inflationary factor

Government spending (*real, share of potential GDP*)



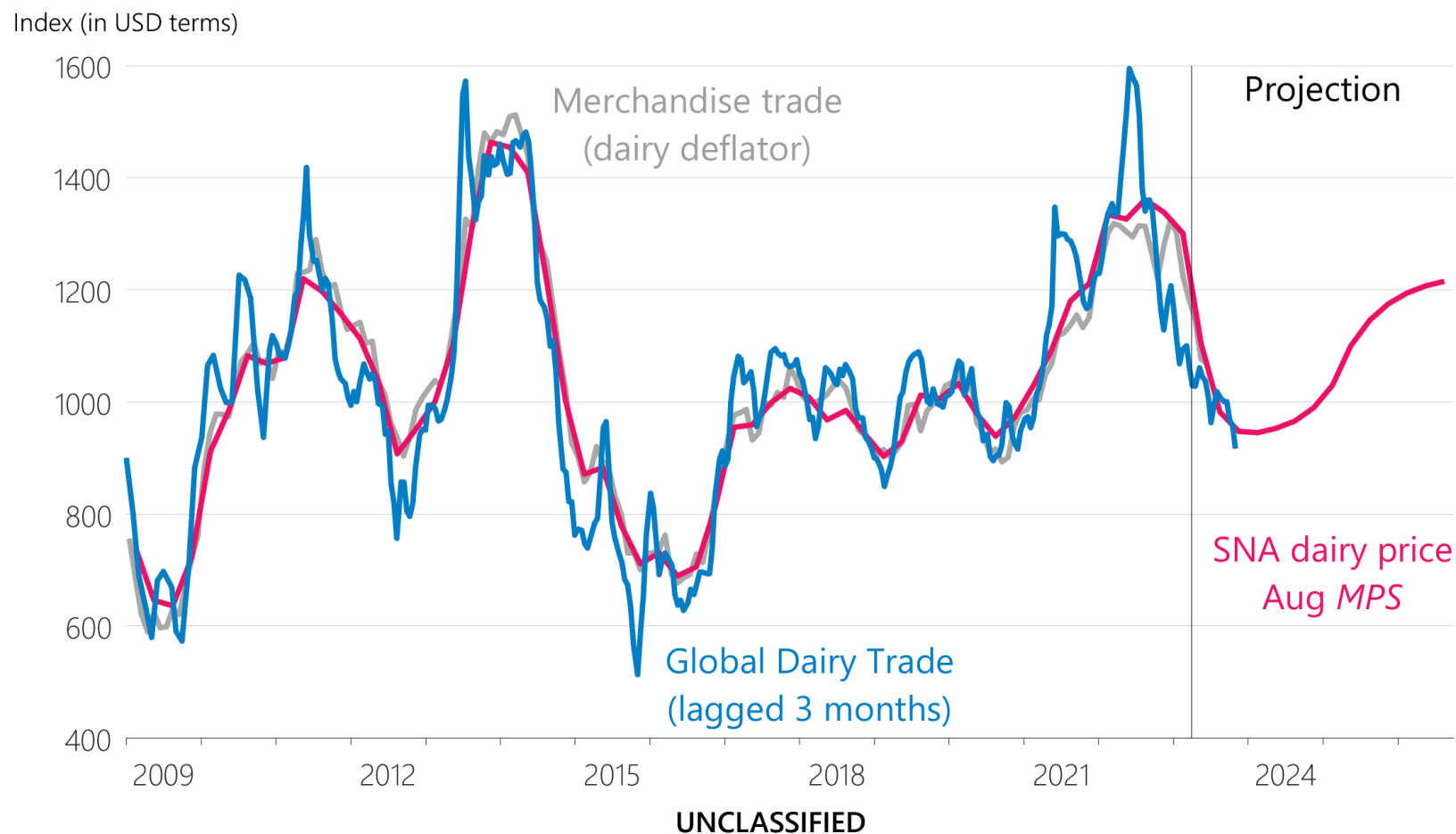
Source: NZIER, RBNZ estimates.





# Export receipts continue to moderate as falls in global commodity prices continue

## Dairy prices (*nominal*)



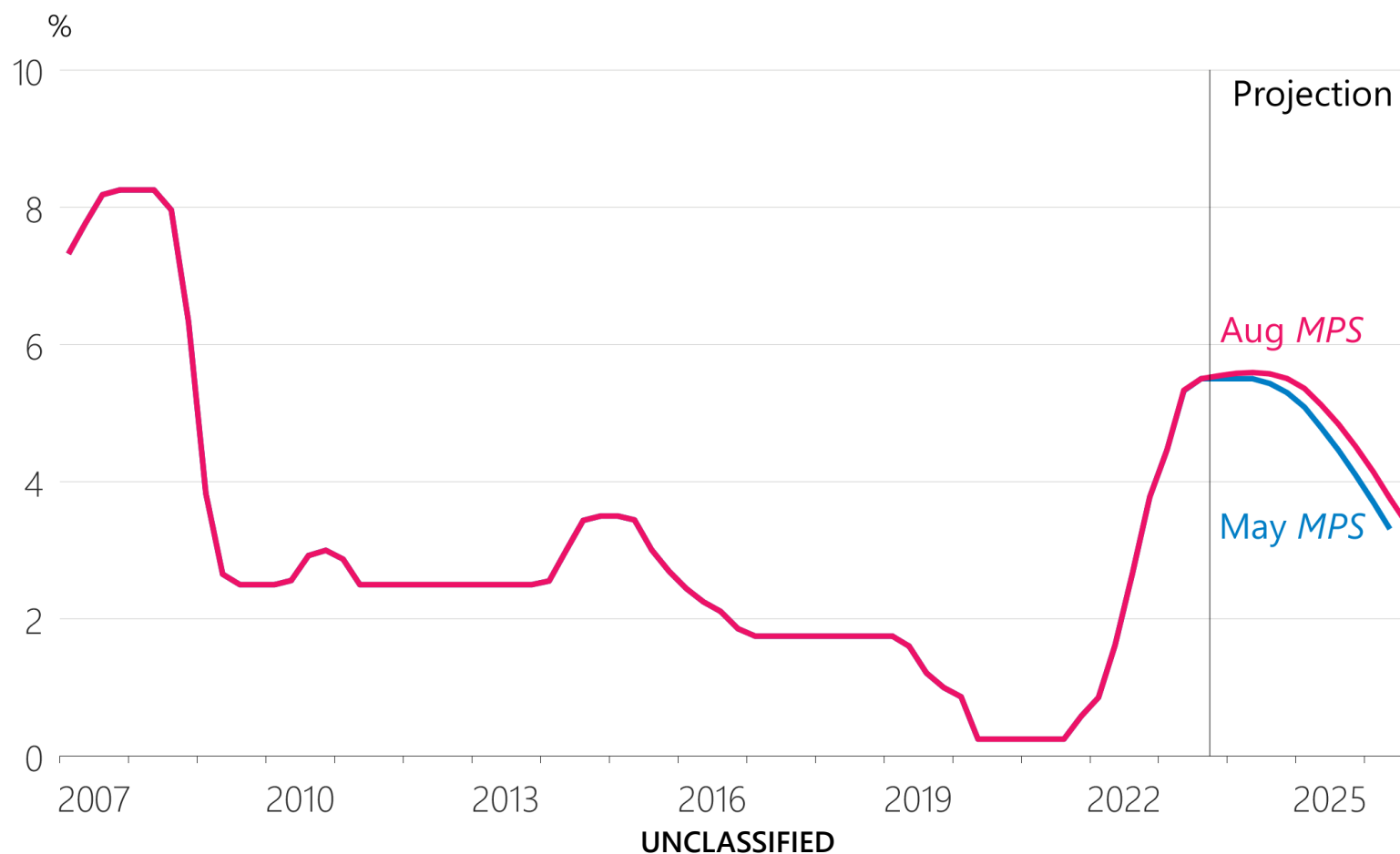
Source: ANZ, Stats NZ, RBNZ estimates.



**High interest rates are  
needed for somewhat longer  
to bring down inflation.**

# High interest rates are still necessary to return annual inflation to 2 percent

OCR (quarterly average)



Source: RBNZ estimates.



# Overview

- Headline inflation decreased, but tradables inflation fell faster than non-tradables inflation and core inflation remains very high.
- Inflationary pressure continues to be supported by a tight labour market, but there are signs of easing across employment indicators.
- Domestic activity has declined in the past two quarters, however demand still exceeds supply and we need a period of subdued economic growth.
- Exogenous (non-interest rate sensitive) factors also help shape the inflation outlook: Tourism and migration, government spending and global demand.
- High interest rates are still needed for some time to meet our inflation and employment objectives, to a similar extent as in the *May Statement*.



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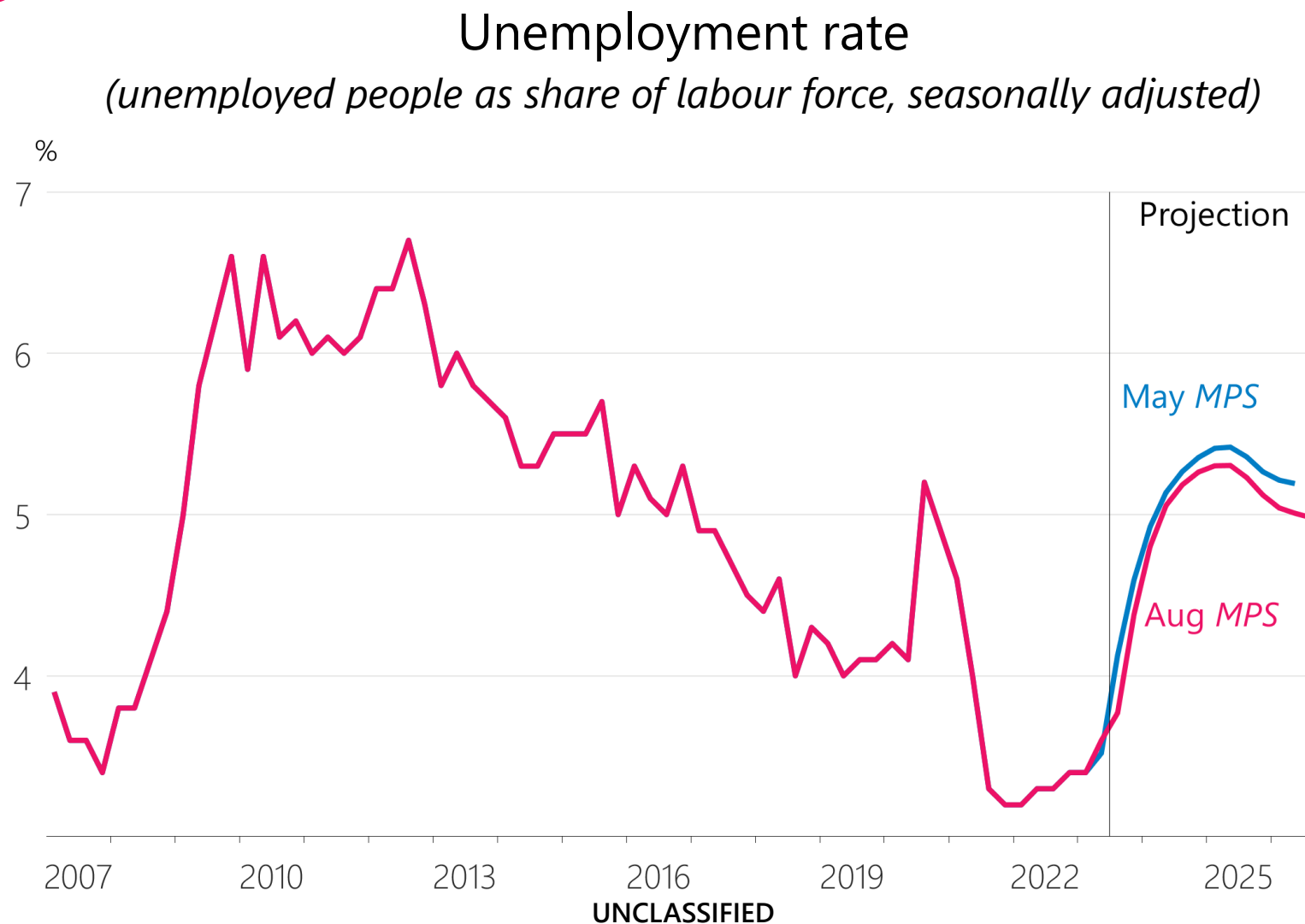


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# Appendix.

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# Unemployment rate was up from record lows

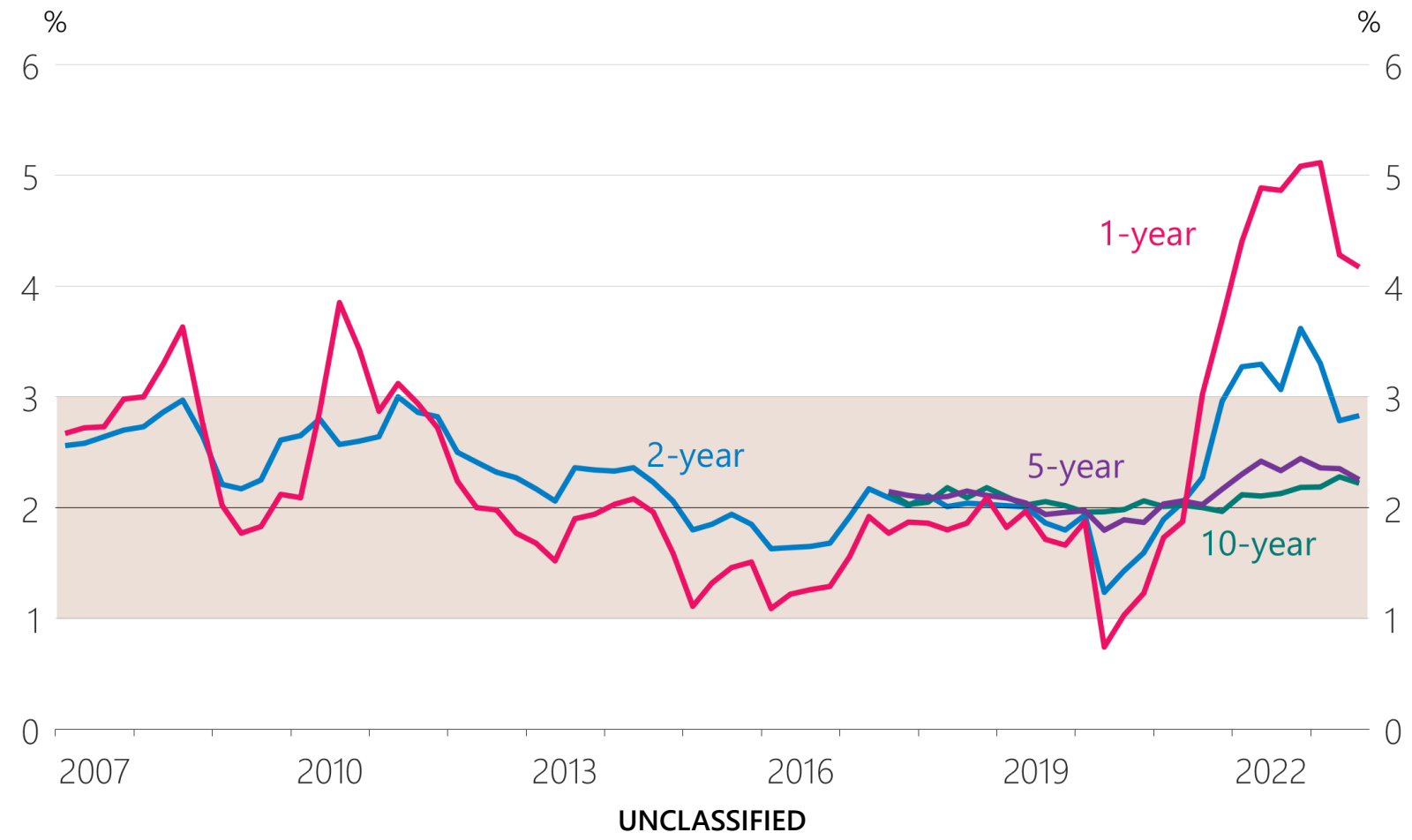


Source: Stats NZ, RBNZ estimates.



# Most measures of inflation expectations have fallen from recent highs

Inflation expectations (*annual, years ahead*)



Source: RBNZ Survey of Expectations (Business).

