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Economic outlook

Reserve Bank of New Zealand

May 2023

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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

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

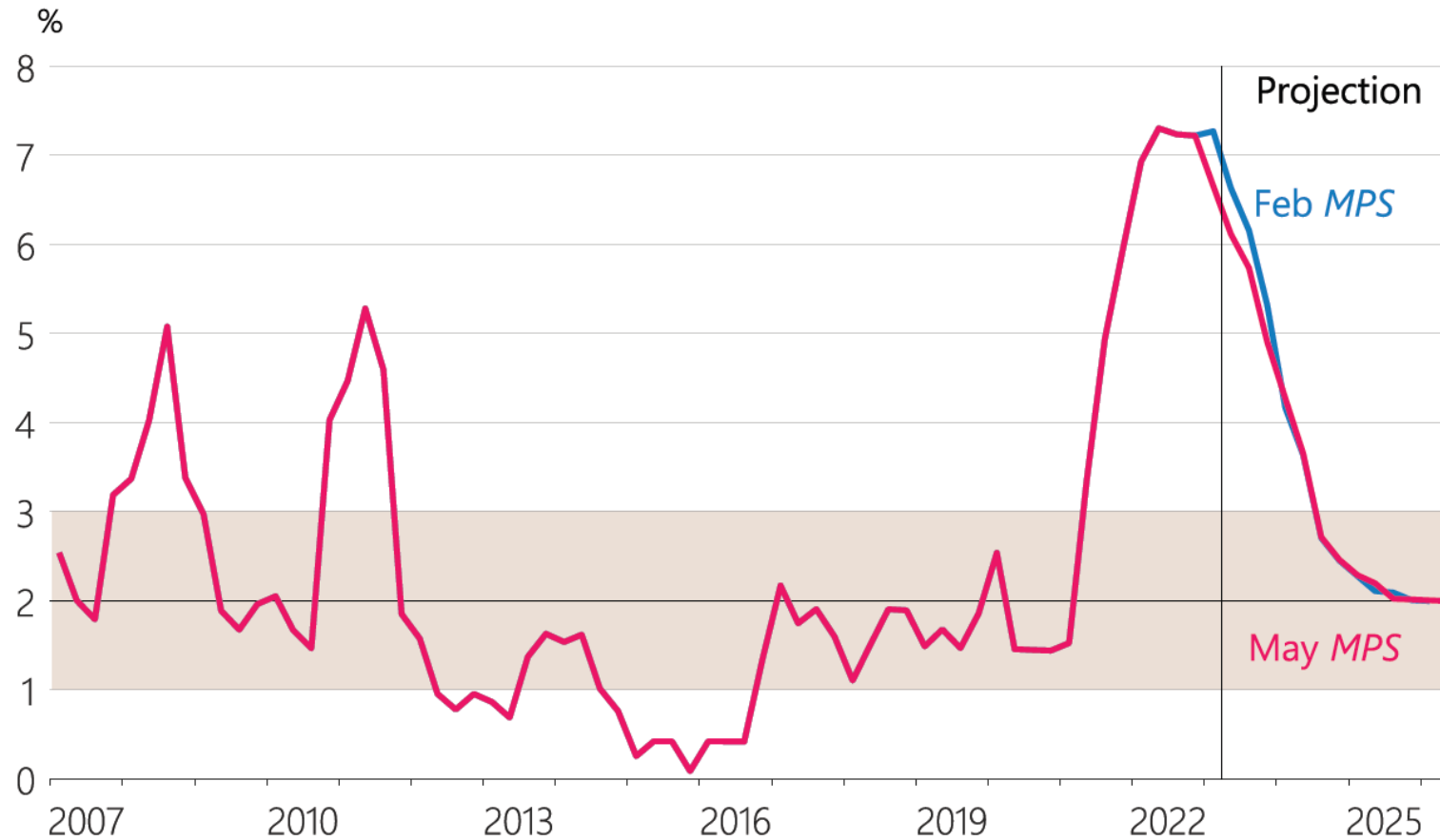
- While inflation decreased more than expected, it is still too high and most measures of core inflation have remained near their recent peaks.
- Labour market pressures are easing, but still supporting inflationary pressure. Employment is above its maximum sustainable level.
- Demand is slowing in parts of the economy that are more sensitive to higher interest rates, but continues to exceed supply.
- Many factors other than interest rates also impact the degree of inflationary pressure: net tourism and migration flows, the extent of public and private repair and rebuild work following the recent severe weather events, and global demand.
- High interest rates are still needed to meet our inflation and employment objectives, to a similar extent as in the February *Statement*.



Inflation has been lower than expected, but is still too high.

Inflationary pressure has reduced due to weaker demand and improved supply

CPI inflation (annual)



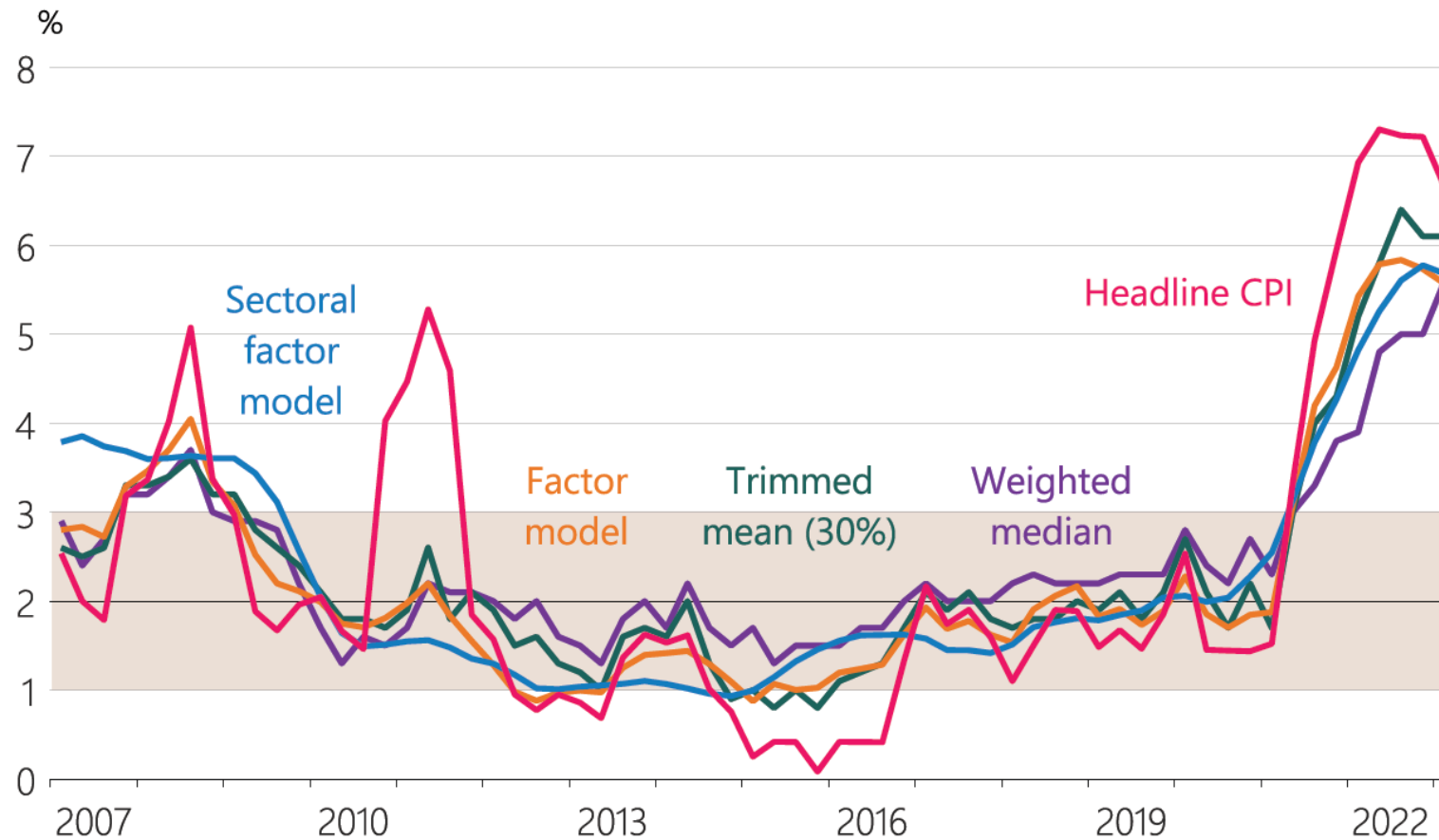
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Source: Stats NZ, RBNZ estimates.



Most measures of core inflation have remained near their recent peaks

Headline and core inflation measures (*annual*)



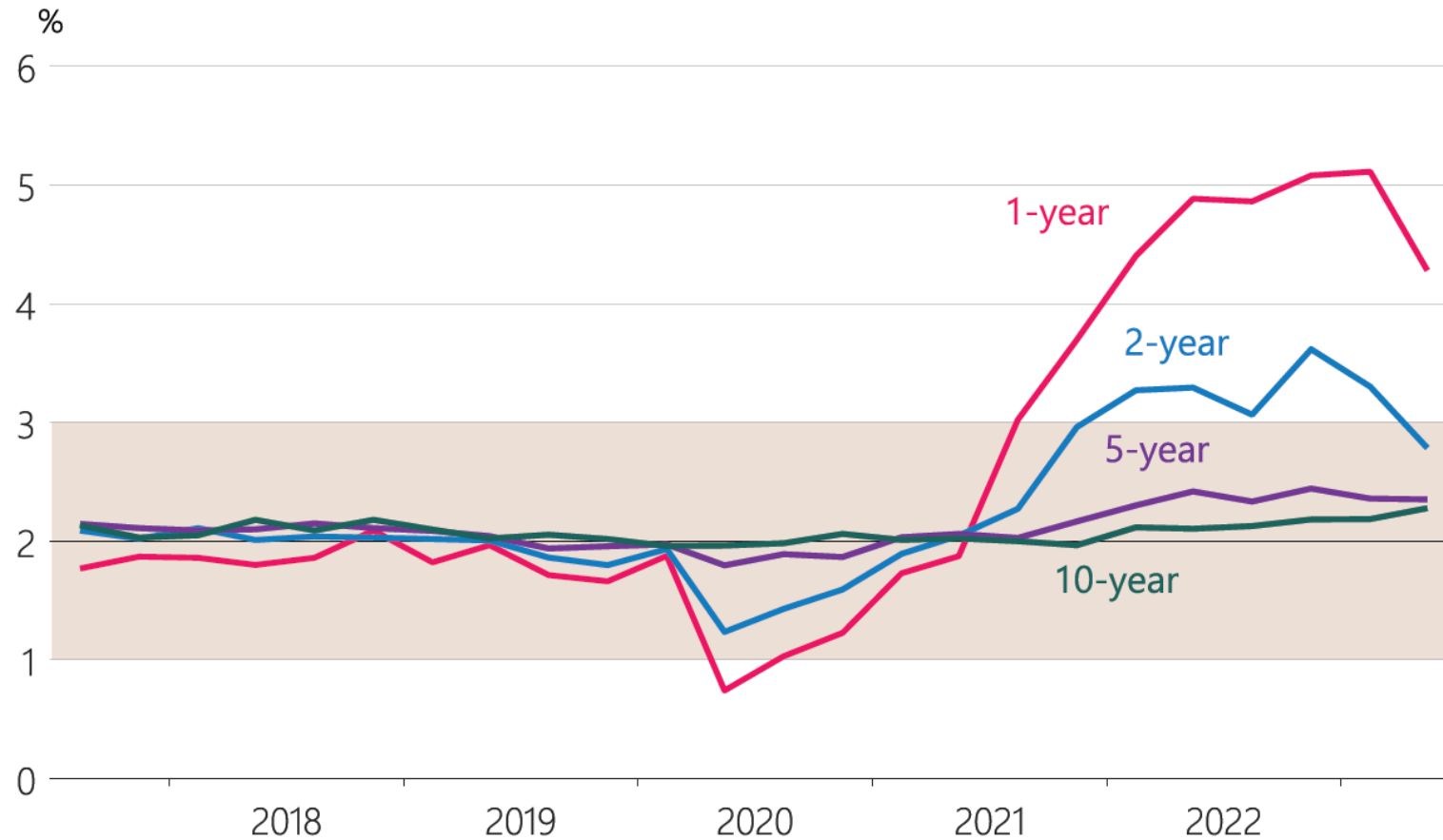
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Source: Stats NZ, RBNZ estimates.



Short-term inflation expectations have declined from recent highs

Inflation expectations (*annual, years ahead*)



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Source: RBNZ Survey of Expectations (Business).





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Labour market pressures are easing, but still supporting inflationary pressure.

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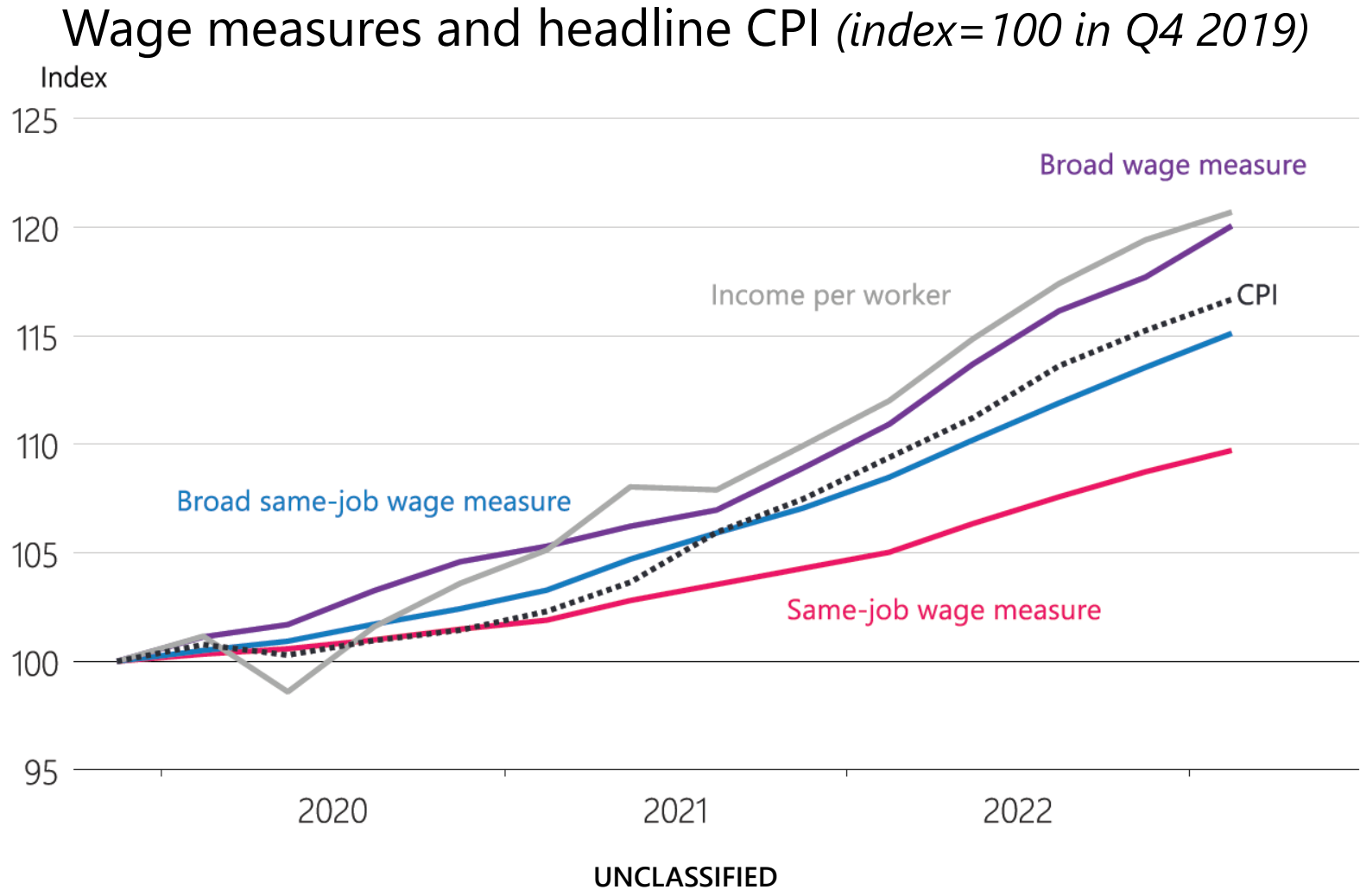
The unemployment rate remained low in the March 2023 quarter



Source: Stats NZ, RBNZ estimates.



Same job wage growth below CPI inflation but broader wage inflation still strong

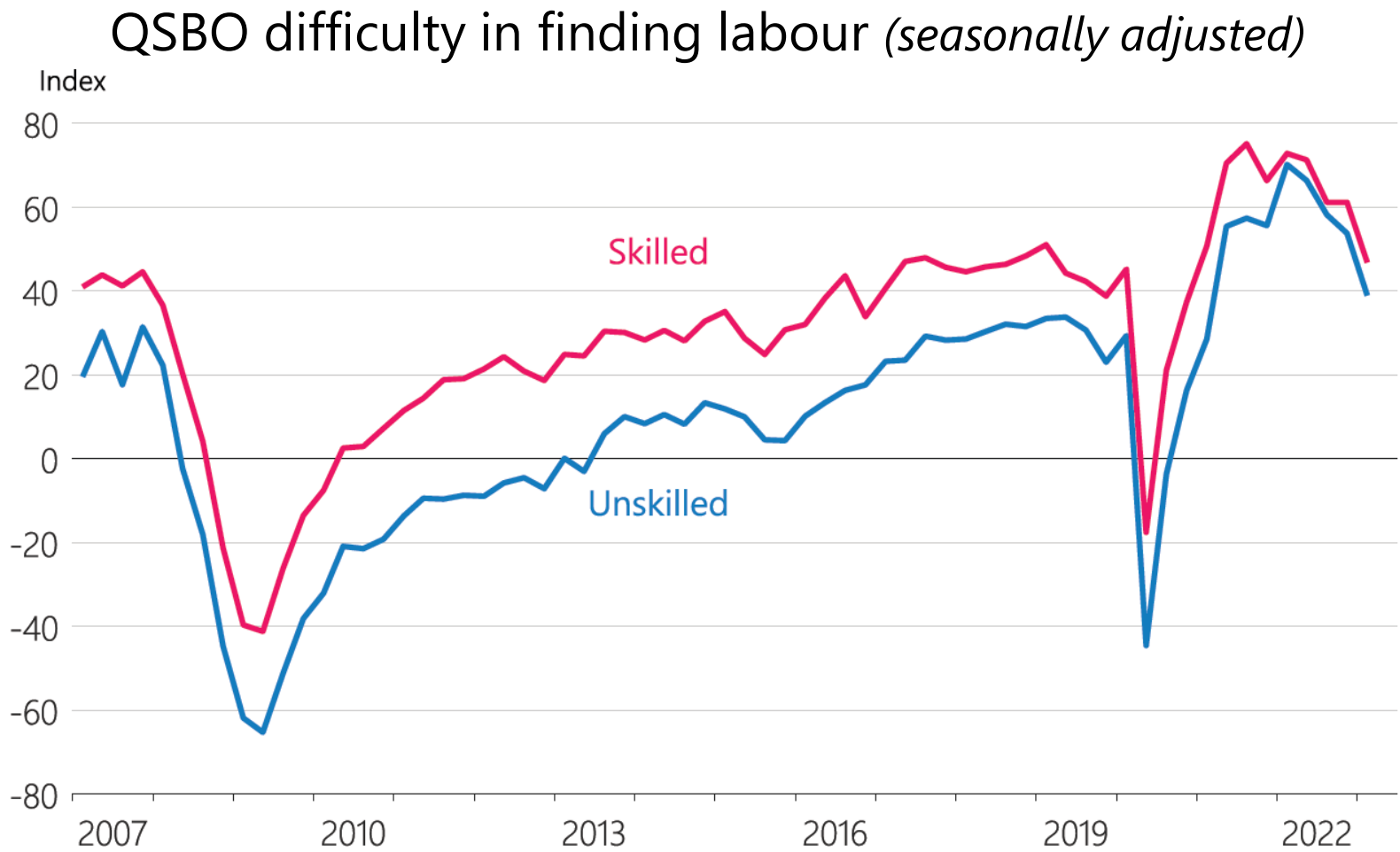


Source: Stats NZ, RBNZ estimates.

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Labour shortages have declined from their peak but remain elevated



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Source: NZIER, RBNZ estimates.





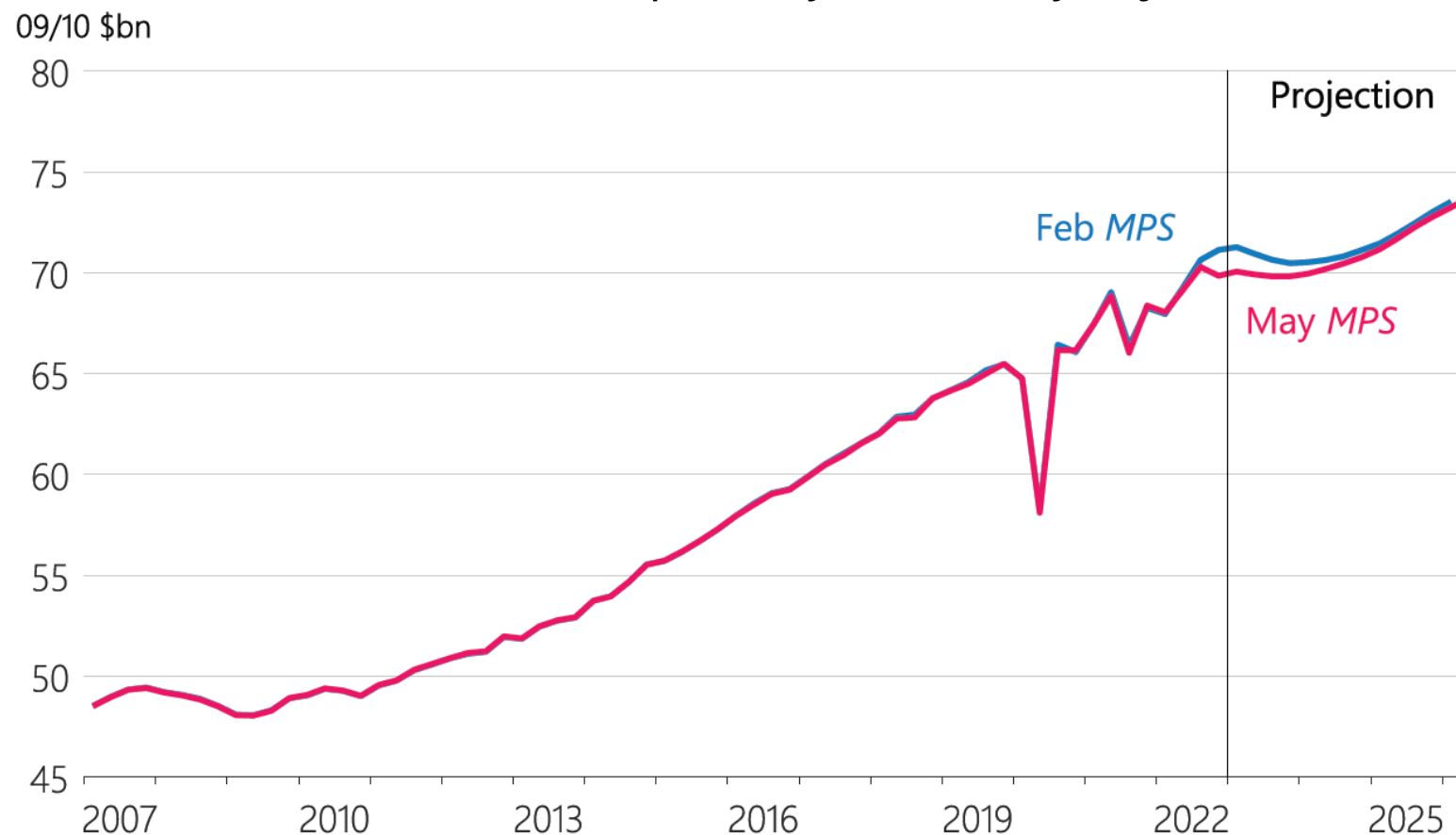
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**Demand has eased but
continues to exceed supply.**

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GDP contracted in the December 2022 quarter across most industry groups

Production GDP (*quarterly, seasonally adjusted*)

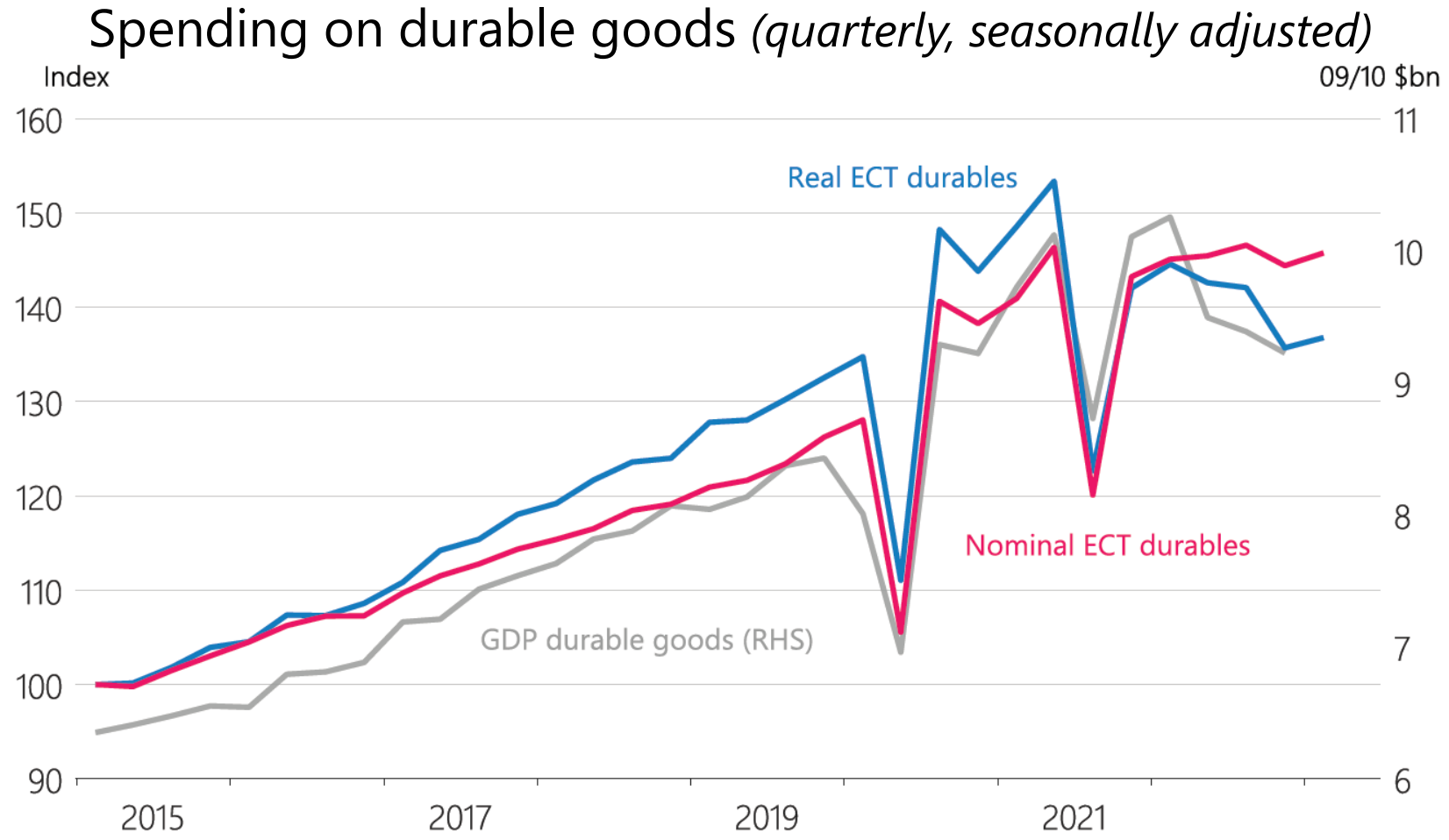


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Source: Stats NZ, RBNZ estimates.



Demand is slowing in parts of the economy that are more sensitive to interest rates



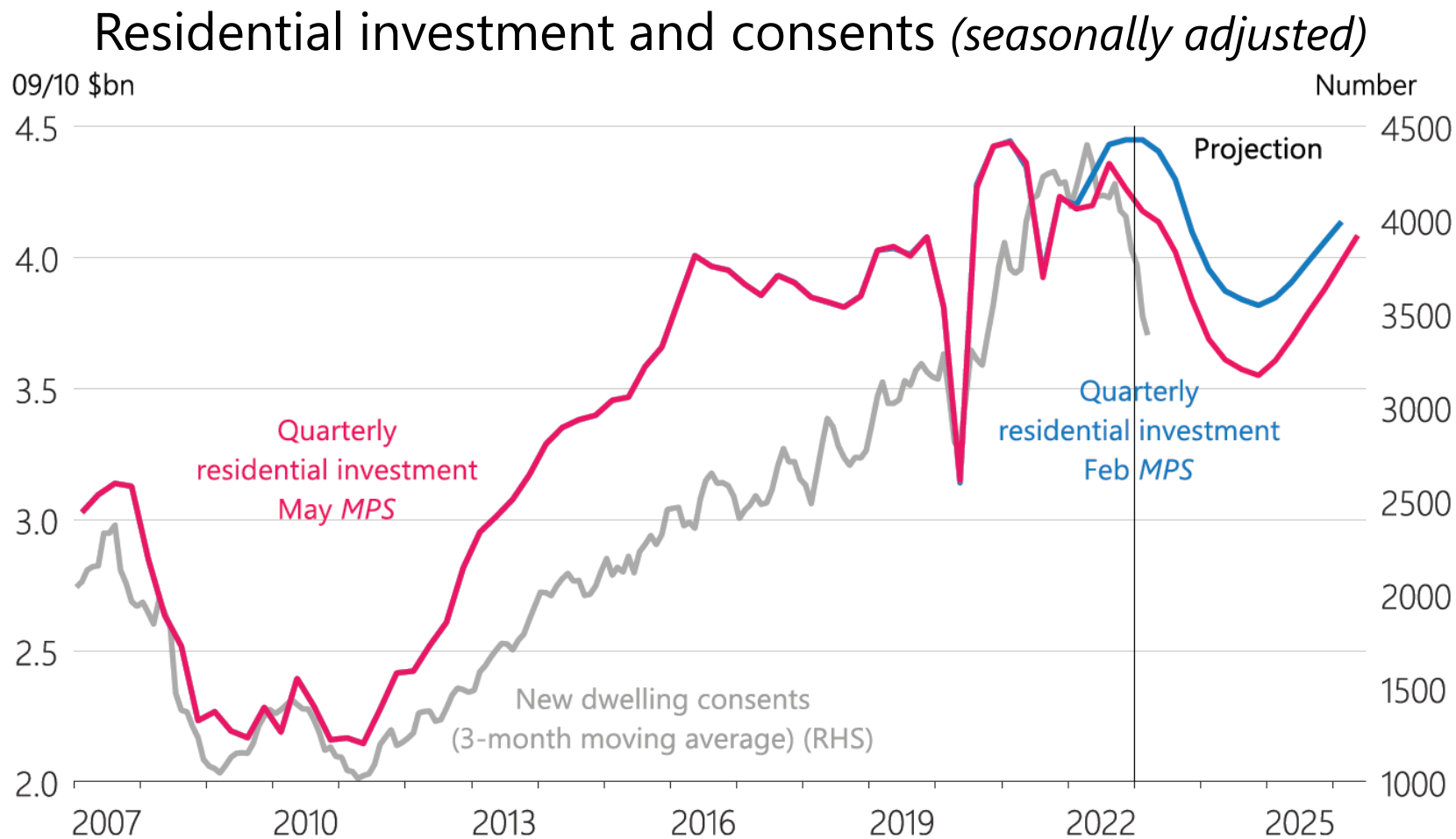
Source: Stats NZ, RBNZ estimates.

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Note: 'Real ECT durables' is 'nominal ECT durables' deflated with relevant components of the consumers price index.



Falling consent numbers suggest that residential investment will continue to slow



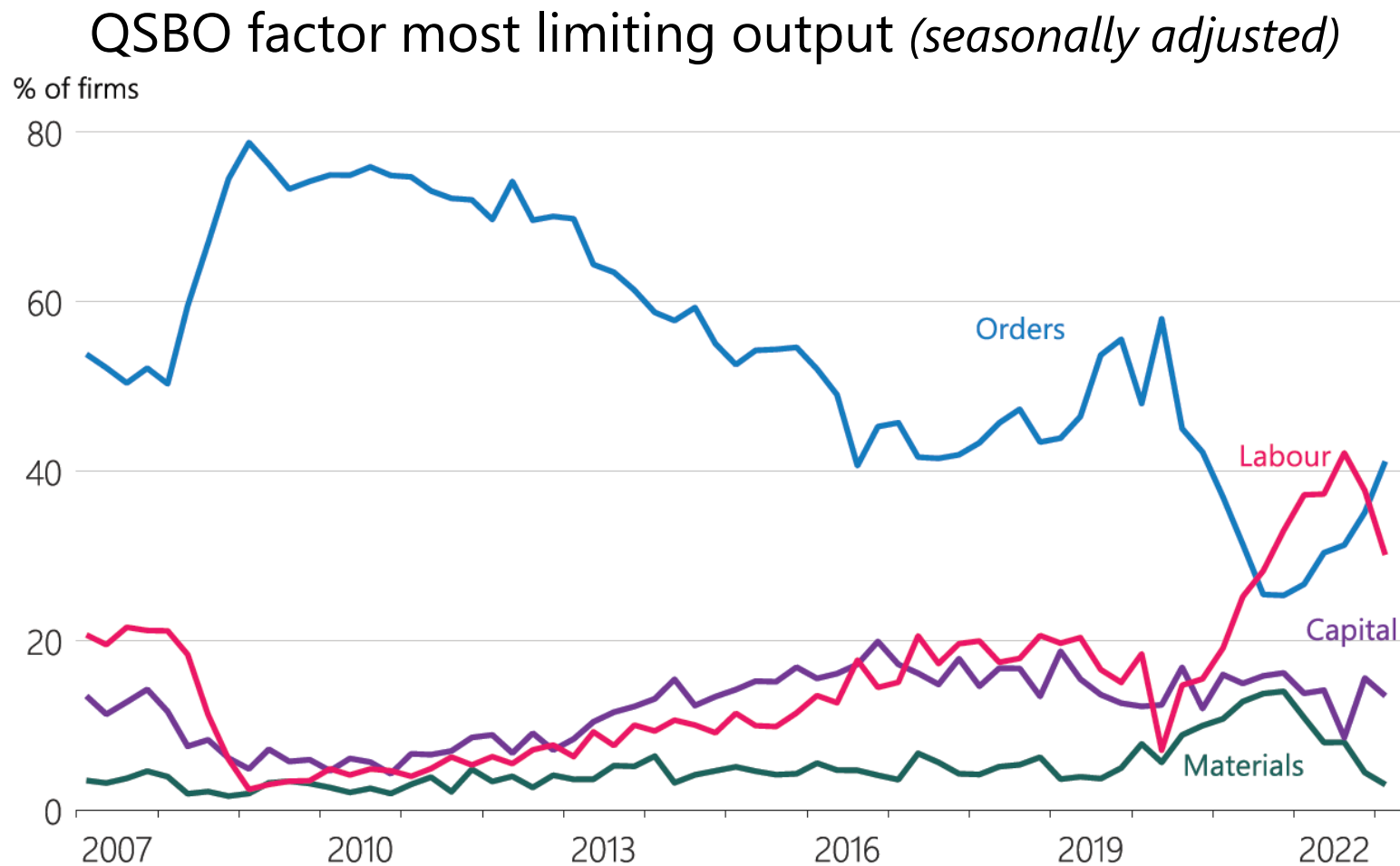
Source: Stats NZ, RBNZ estimates.

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Note: Historical data for residential investment in 2022 has been revised downwards.



Lack of orders more limiting to output than labour shortages



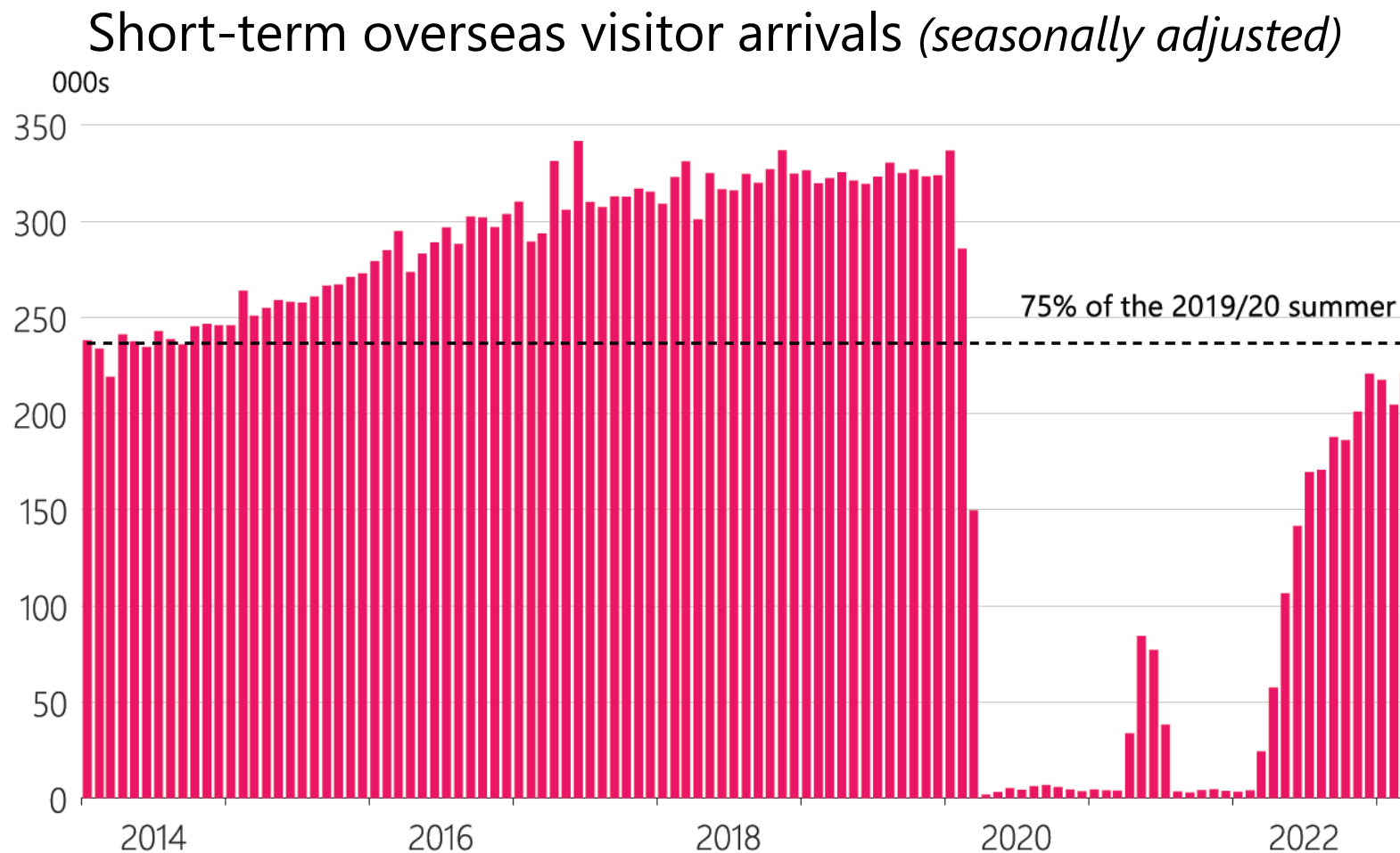
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Source: NZIER, RBNZ estimates.



Many factors other than interest rates also impact the degree of inflationary pressure.

The rapid recovery in international tourism has boosted demand

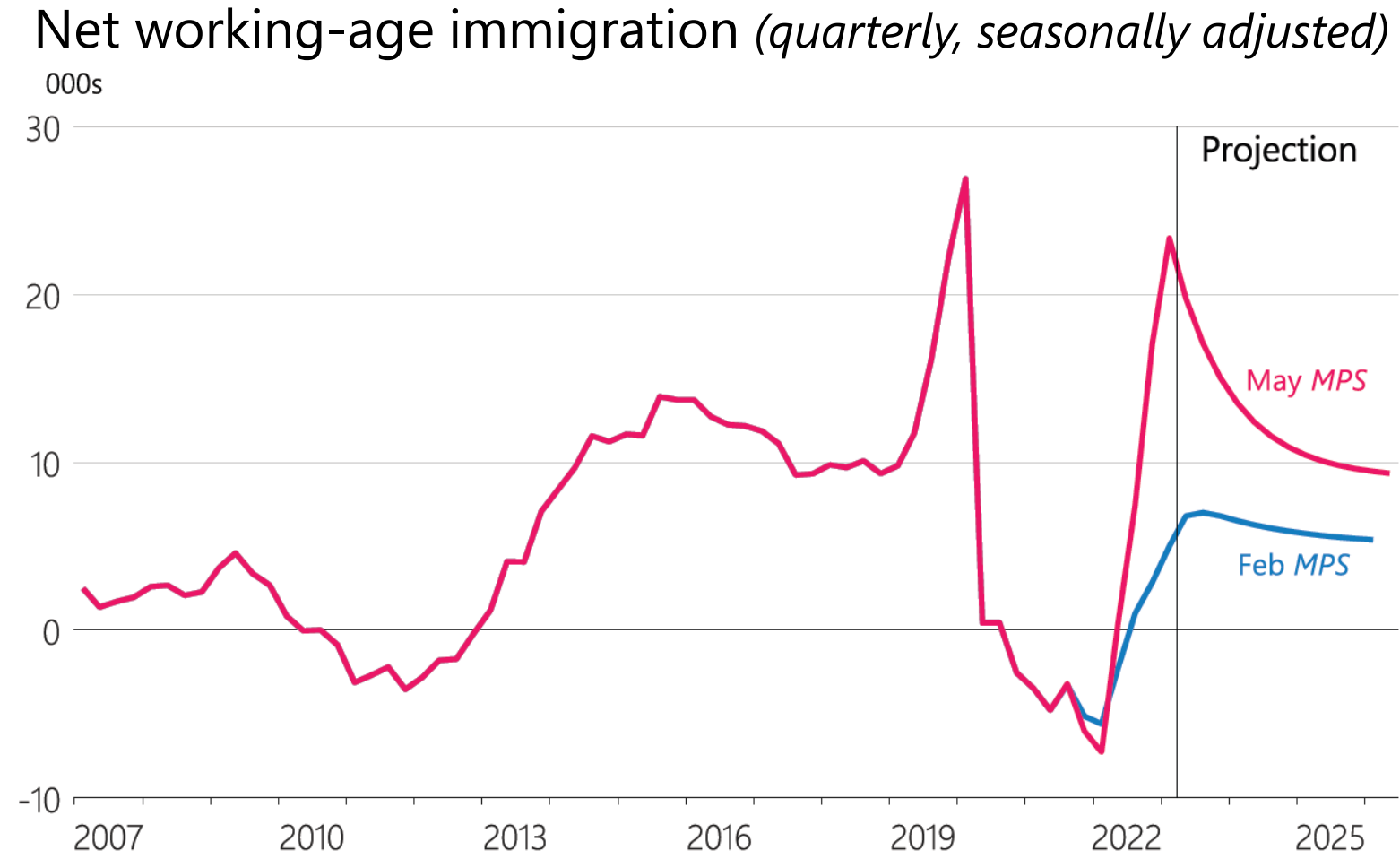


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Source: Stats NZ, RBNZ estimates.



Net immigration has been higher than anticipated, but the impact on inflation is uncertain



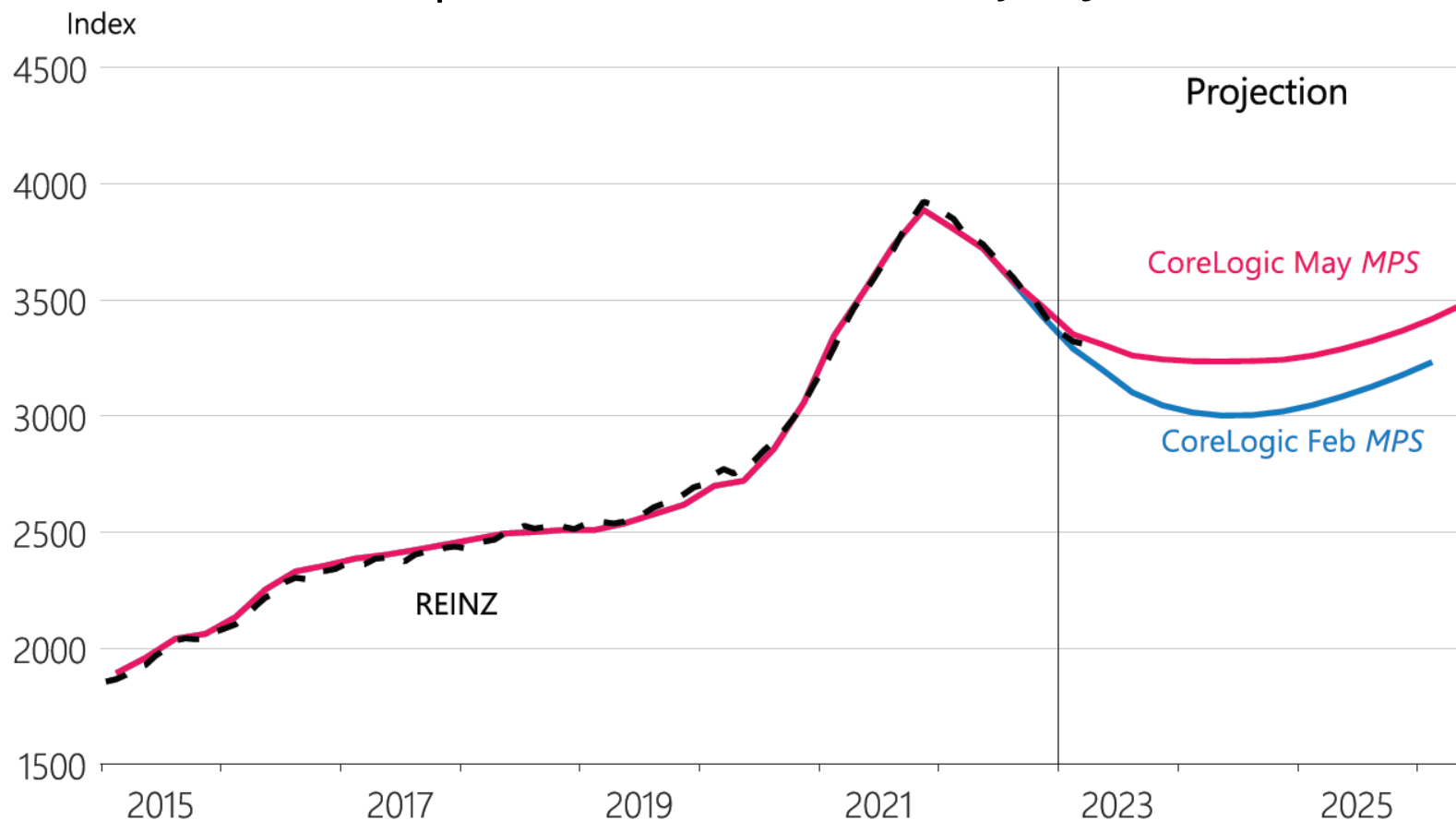
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Source: Stats NZ, RBNZ estimates.



House prices are assumed to fall by less than assumed in the February *Statement*

House prices (*nominal, seasonally adjusted*)



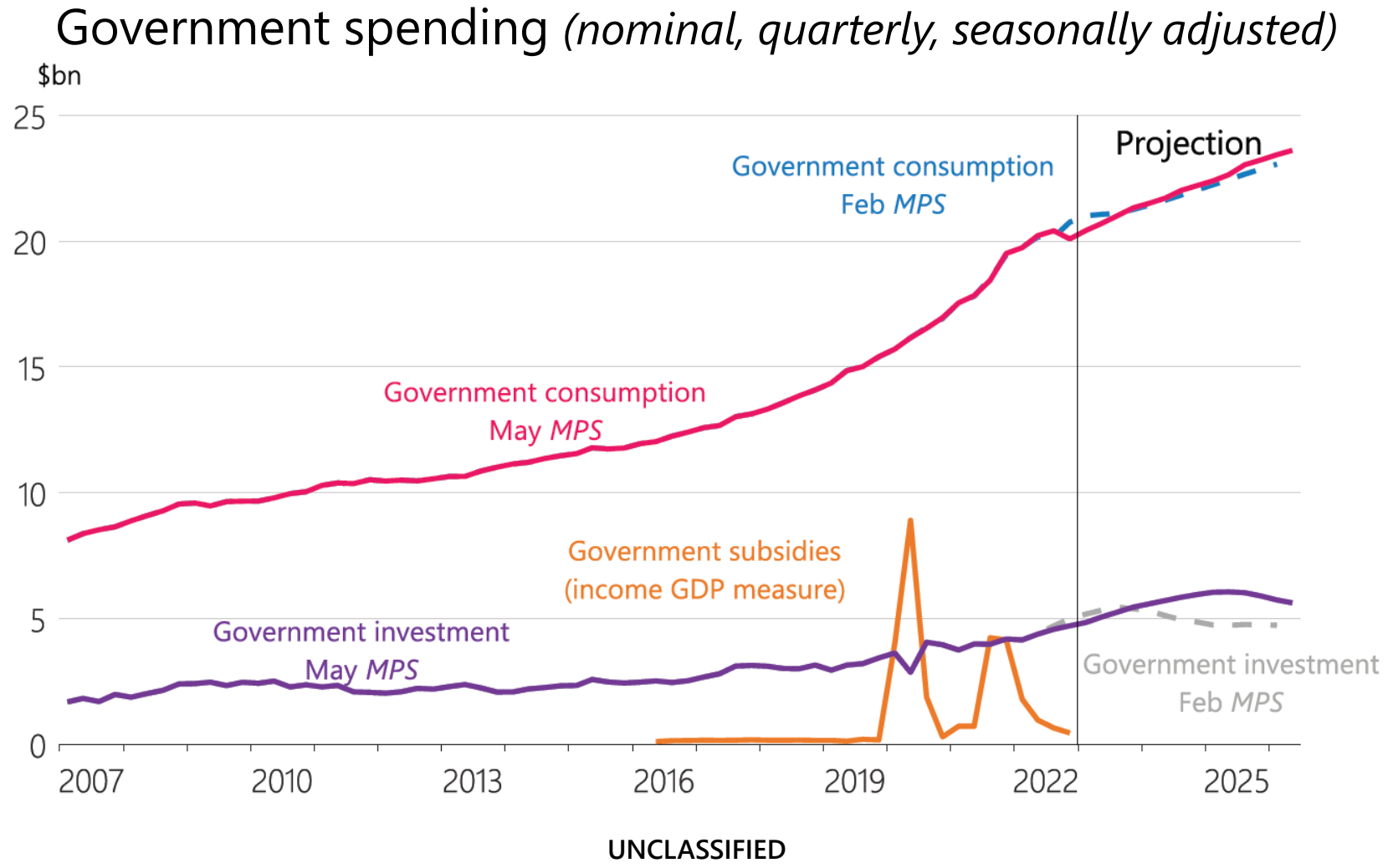
Source: CoreLogic, REINZ, RBNZ estimates.

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Note: The REINZ house price index is indexed to the CoreLogic house price index in the March 2007 quarter.



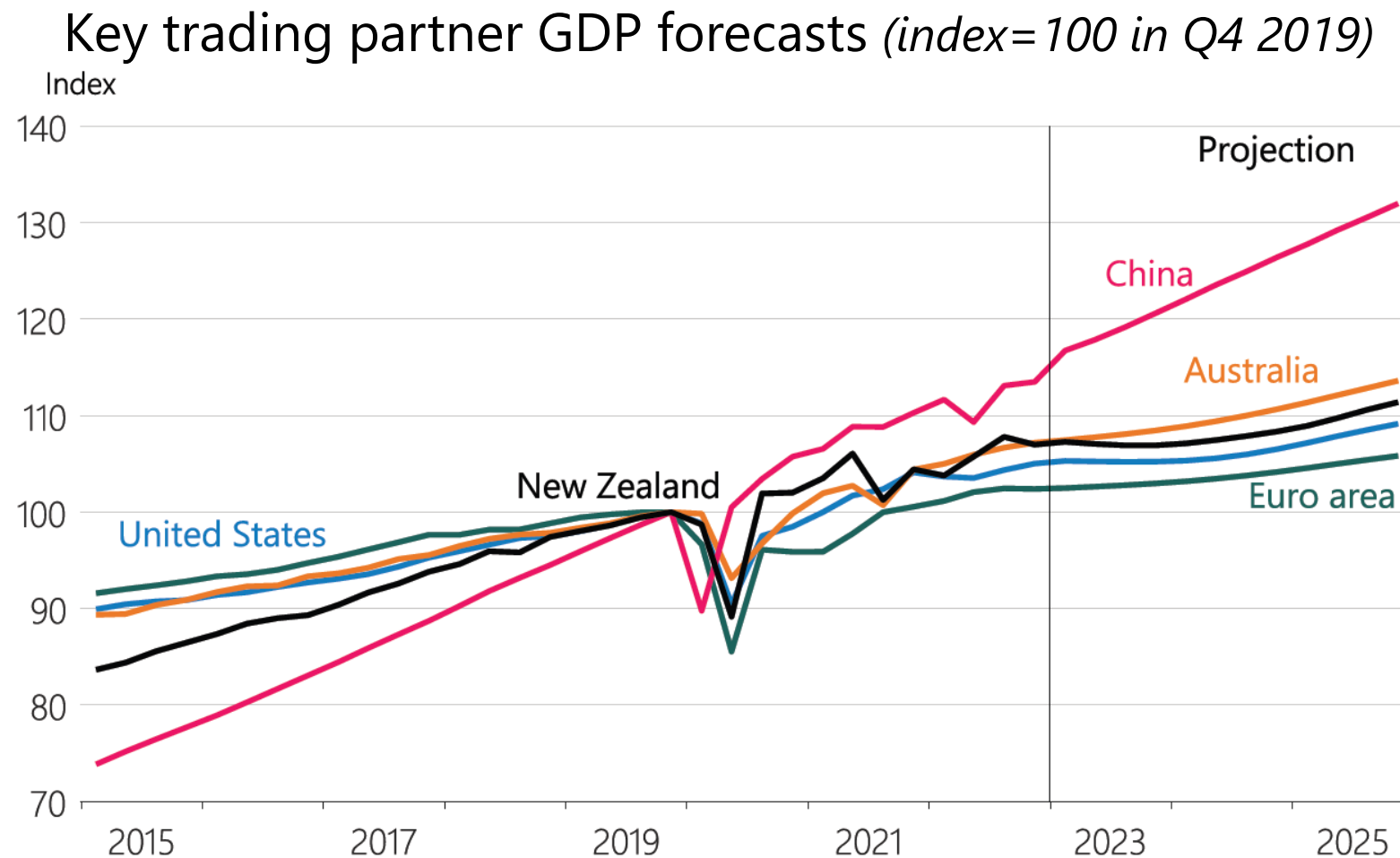
Government spending to decline as a share of the economy, but increased in *Budget 2023*



Source: Stats NZ, RBNZ estimates.



Global economic growth is expected to slow over 2023



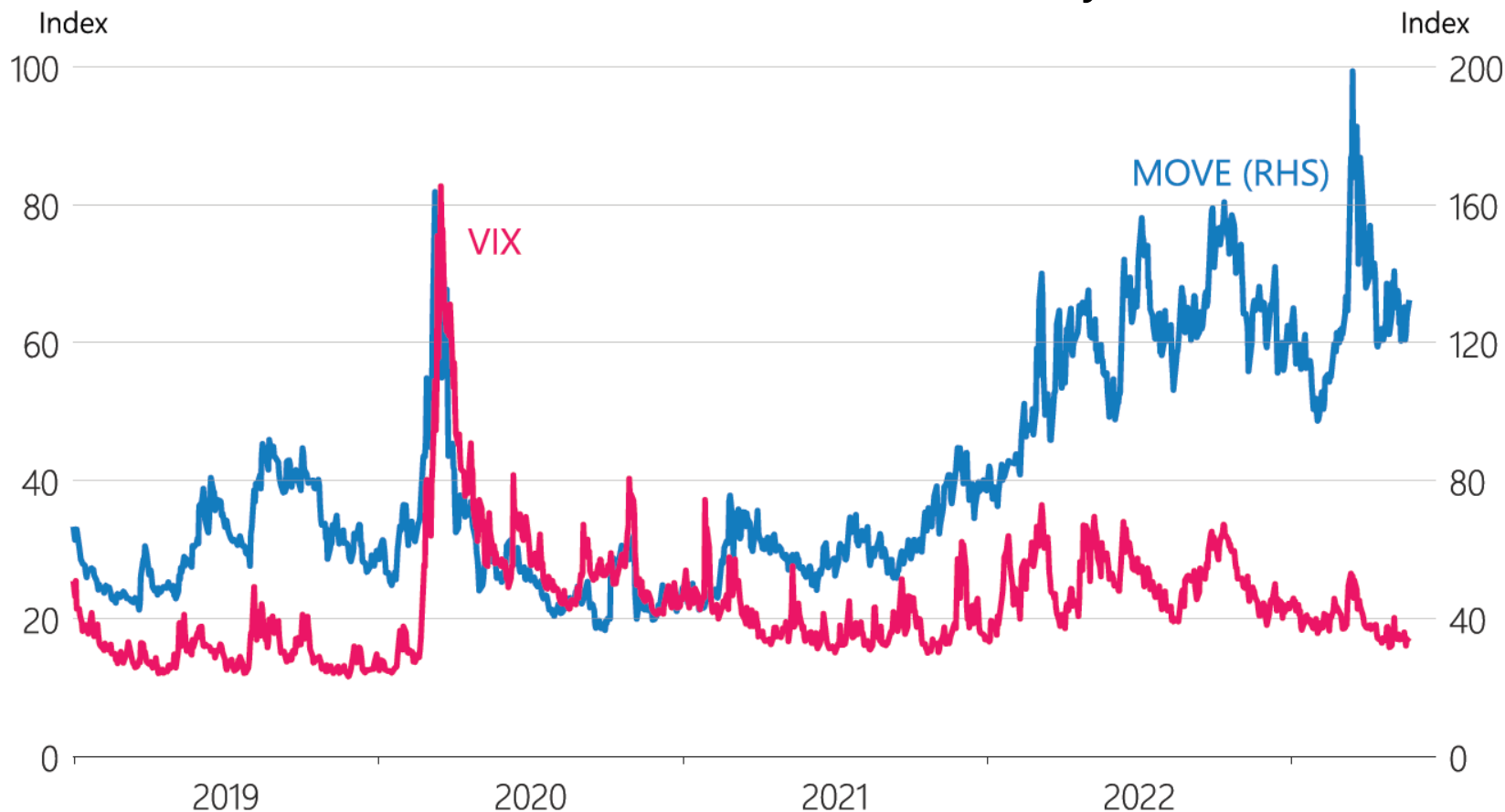
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Source: Haver Analytics, Consensus Economics, RBNZ estimates.



Banking stress has increased uncertainty around the global economic outlook

Measures of market volatility



Source: Bloomberg.

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Note: The VIX and MOVE indices are measures of volatility in equity markets and bond markets, respectively.



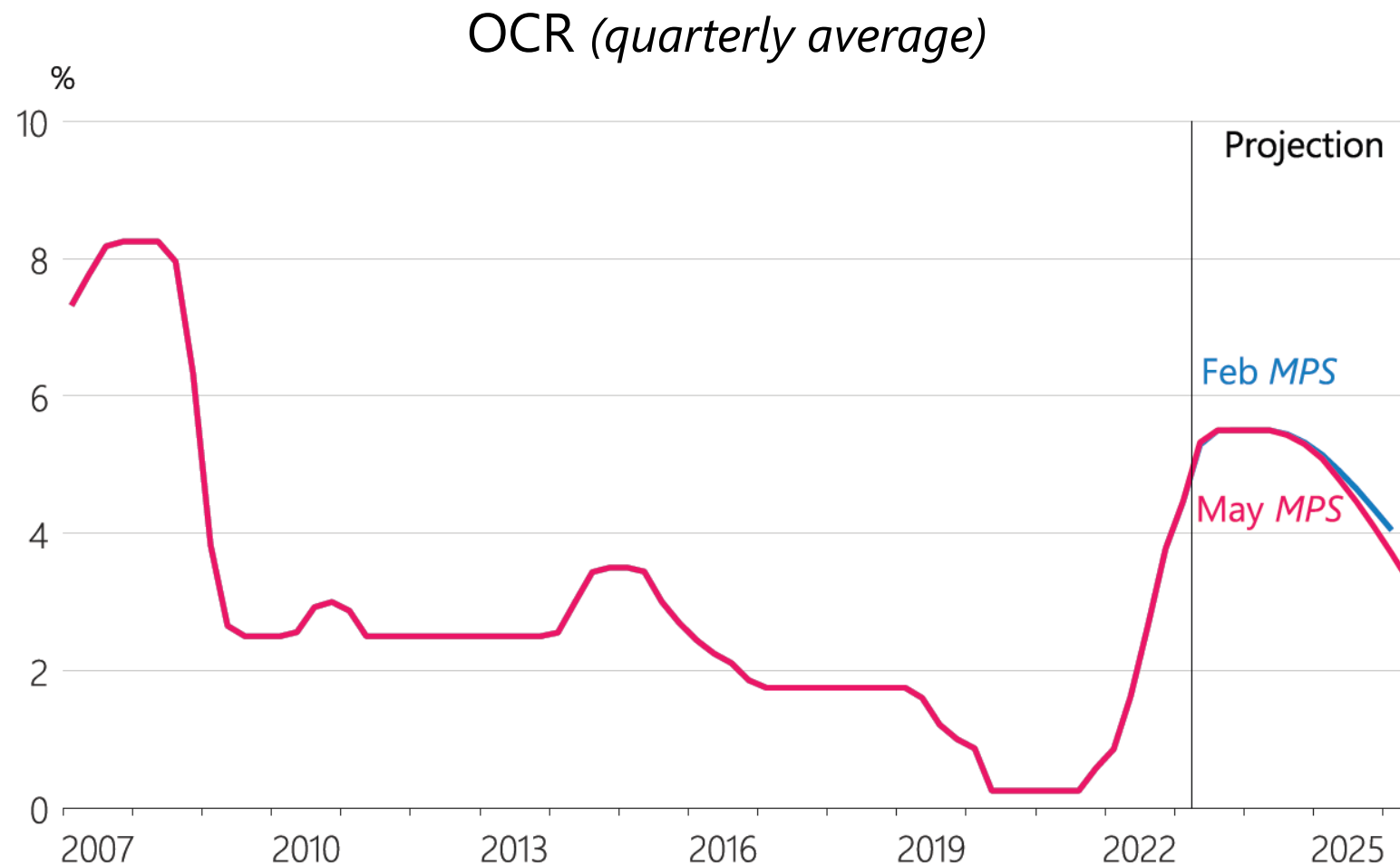


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**High interest rates are still
needed to achieve the MPC's
objectives.**

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High interest rates are required to return annual inflation to 2 percent



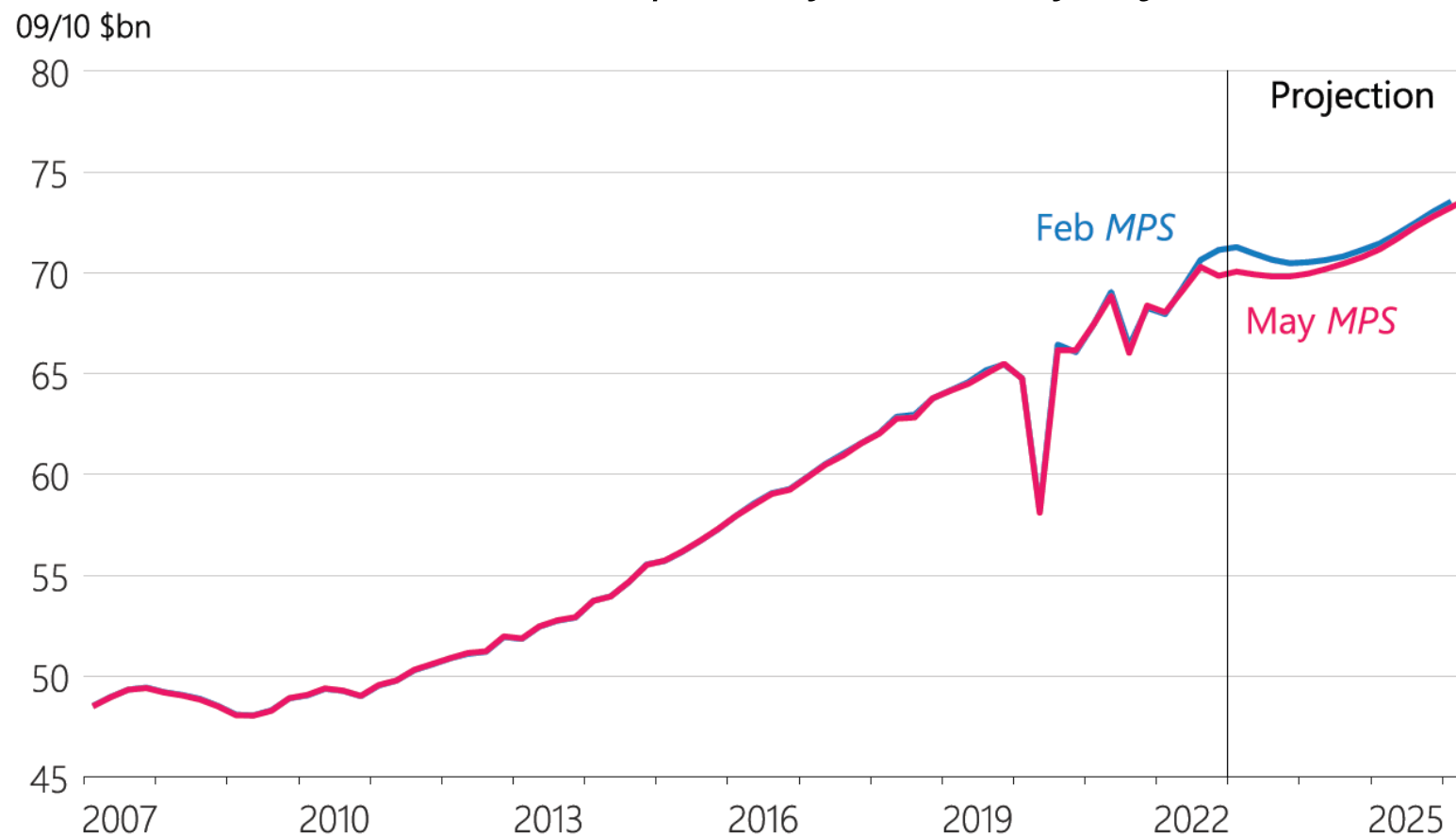
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Source: RBNZ estimates.



An economic contraction over 2023 remains possible

Production GDP (*quarterly, seasonally adjusted*)

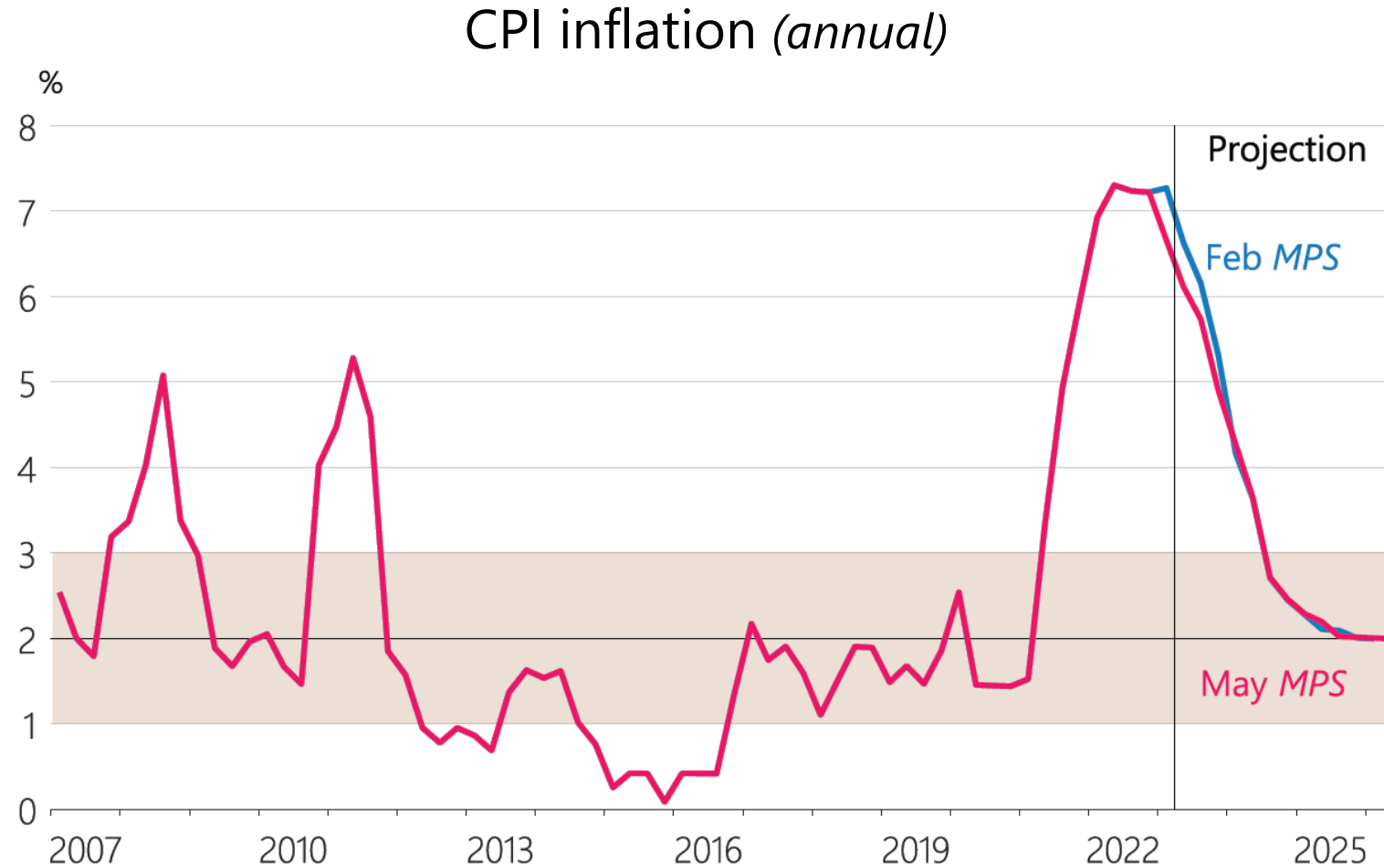


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Source: Stats NZ, RBNZ estimates.



Inflation is assumed to return to 2 percent by the end of 2025



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Source: Stats NZ, RBNZ estimates.



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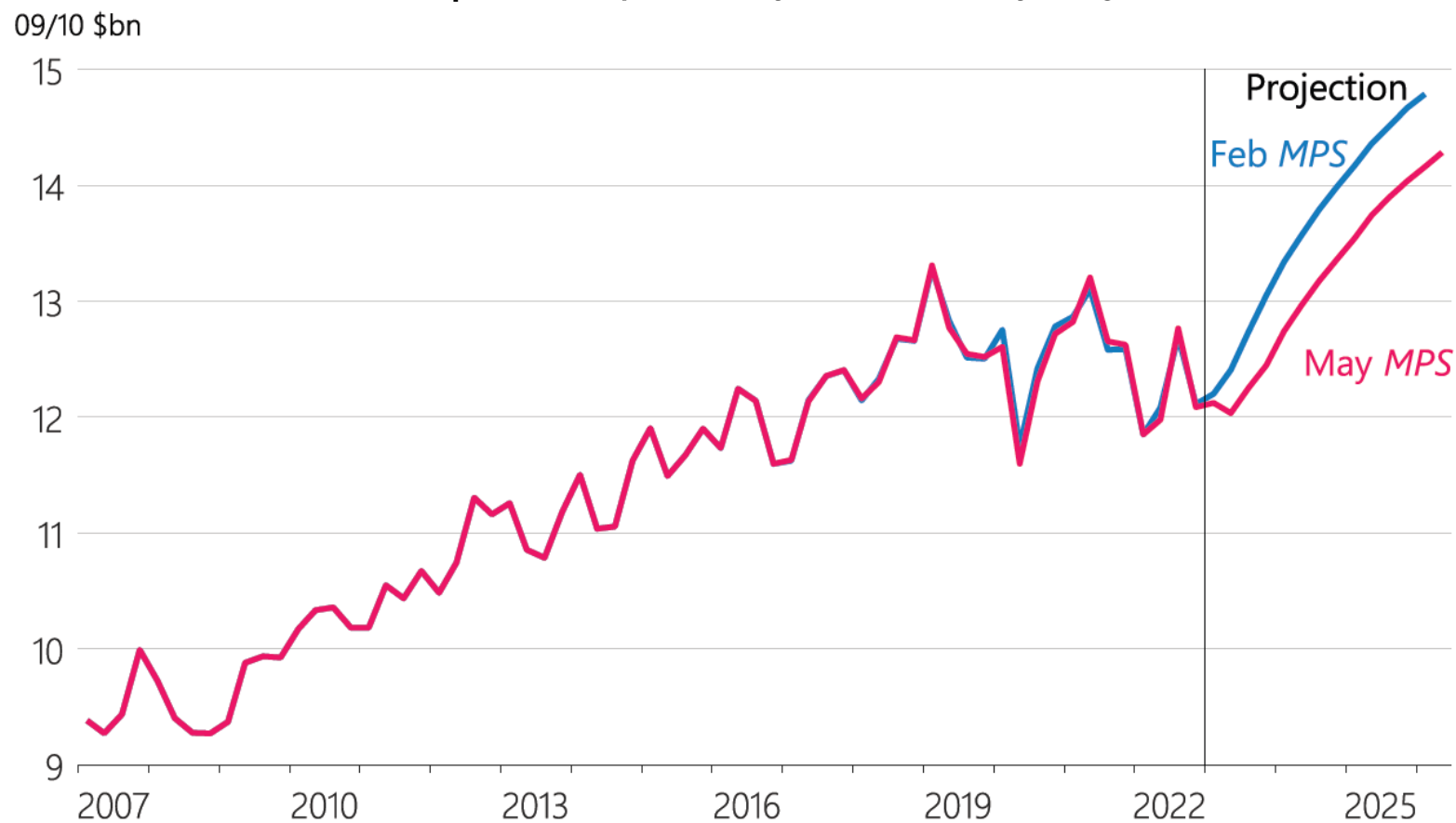
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Appendix.

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Global demand for our goods exports has been slowing

Goods exports (*quarterly, seasonally adjusted*)



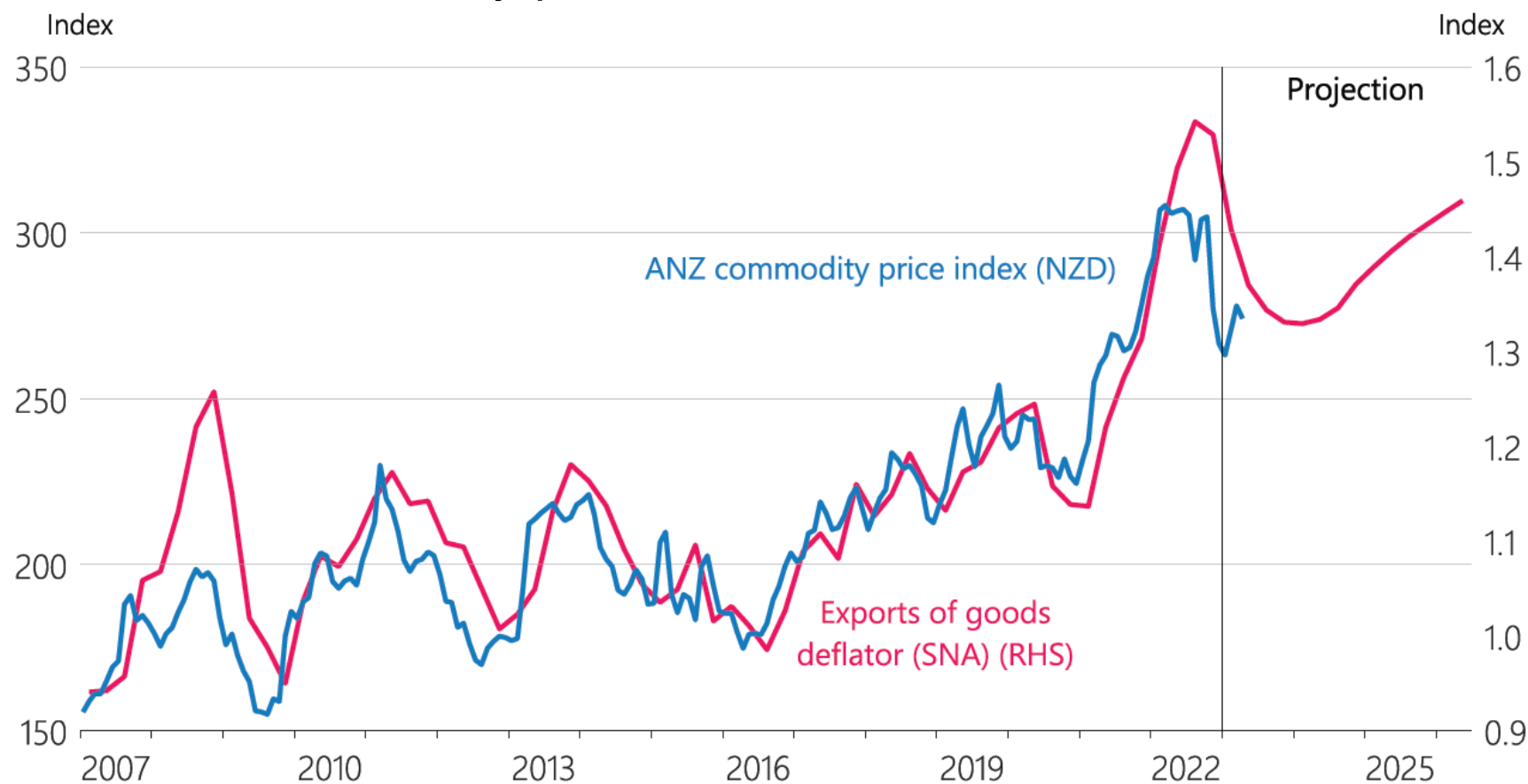
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Source: Stats NZ, RBNZ estimates.



This has been reflected in a decline in commodity prices since early 2022

Commodity prices (*nominal, seasonally adjusted*)



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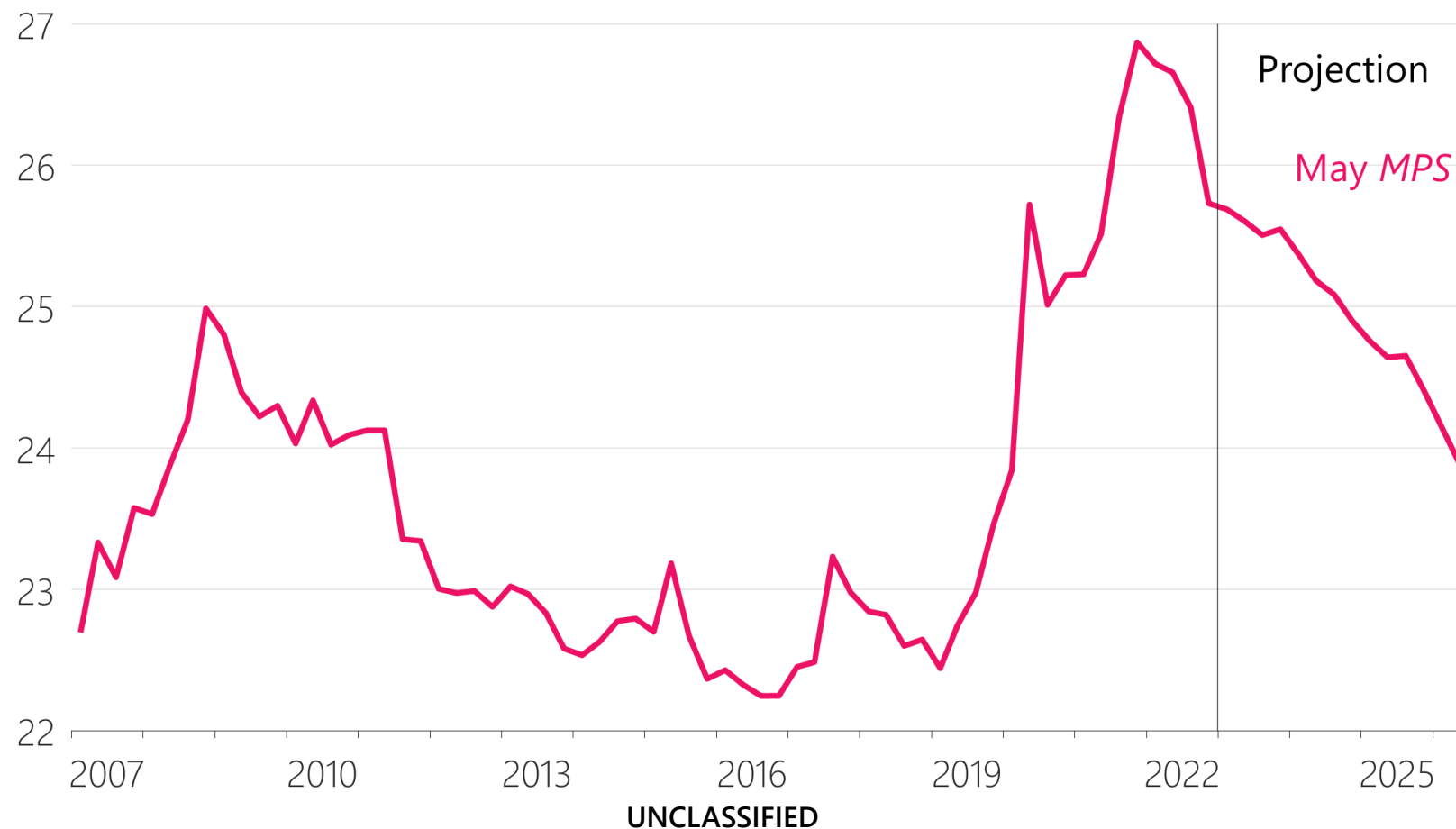
Source: ANZ, Stats NZ, RBNZ estimates.



Real government consumption and investment as share of potential GDP

Real government consumption and investment (*seasonally adjusted*)

% potential GDP



Source: Stats NZ, RBNZ estimates.

