Reserve Bank
of New Zealand
Te Pūtea Matua

Monetary Policy Snapshots.

August 2024

The Monetary Policy Snapshots describe the current and forecast economic conditions.

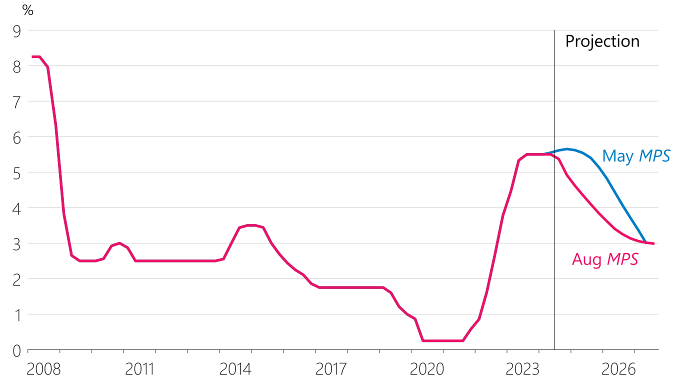
OCR 5.25% – Monetary restraint tempered as inflation converges on target

OCR reduced by 25 basis points to 5.25%.

Latest key statistics

- Annual average economic growth: 0.2 percent (Q1 2024)
- Annual inflation: 3.3 percent (Q2 2024)
- Unemployment rate: 4.6 percent (Q2 2024)

Figure 1
Official cash rate (OCR)
(quarterly average)



Source: RBNZ estimates.

The pace of further easing will depend on the Committee's confidence that pricing behaviour remains consistent with a low inflation environment, and that inflation expectations are anchored around the 2 percent target.

Domestic demand is slowing

The labour market is easing

Inflation will soon return to our target range

Interest rates can become less restrictive

Domestic demand is slowing

Economic growth in New Zealand has been weak and economic activity has likely declined over the middle of this year.

Restrictive interest rates, subdued global growth, slowing net immigration and lower government spending are continuing to reduce domestic demand and the economy is shifting from a period of excess demand to excess supply.

Household spending, residential construction and business investment have slowed down reflecting restrictive interest rates, falling net immigration, a softening housing market and subdued global demand.

Growth in our key trading partners remains below trend, dampening global demand for our exports and contributing to lower import prices. Growth in China has slowed, reflecting a weak property market and lower growth in consumer spending.

The labour market is easing

New Zealand's labour market has cooled down significantly over the past year. Labour market conditions are likely to weaken further over the coming year.

Businesses have cut back on hiring as a result of weak economic activity. Job vacancies have continued to fall, and businesses are reporting that it is much easier to find workers.

Net immigration has recently slowed from high levels and is expected to fall further over the coming year. Despite this, labour supply has continued to grow. Weak labour demand and growing labour supply led to the unemployment rate increasing to 4.6 percent in the June 2024 quarter. The weakening labour market and declining headline inflation are contributing to lower growth in nominal wages.

Inflation will soon return to our target range

Annual headline inflation declined from 4.0 percent to 3.3 percent in the June 2024 quarter. Measures of ‘core’ inflation – which remove some volatility from headline inflation – have fallen significantly over the past year. We expect annual inflation to decline to within the Monetary Policy Committee’s 1 to 3 percent target band in the September 2024 quarter.

Imported or tradables inflation – changes in prices for goods and services that are imported or are in competition with foreign goods – has declined rapidly. Weak global demand and falling inflation overseas have contributed to lower tradables inflation. Recent increases in shipping costs and a weaker New Zealand dollar exchange rate may reduce the size of further declines in tradables inflation.

Domestic or non-tradables inflation – which is more affected by domestic factors – has declined gradually. High inflation rates for items such as insurance, rents and some government-regulated goods and services are supporting non-tradables inflation. We expect non-tradables inflation to decline further over the coming year as spare capacity in the economy increases.

Interest rates can become less restrictive

Declining inflation and rising spare capacity in the economy mean that monetary policy can become less restrictive over time. Annual headline inflation is expected to be within the Monetary Policy Committee’s 1 to 3 percent target band from this quarter, and return sustainably to the 2 percent midpoint in the middle of next year.

However, there are both upside and downside risks to our economic outlook. How fast and far interest rates fall will depend on how the economy evolves.