

Economic Outlook.

Reserve Bank of New Zealand

May 2024

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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

- Domestic inflation has declined by less than anticipated leading to a more gradual easing in headline inflation. Most measures of core declined; however, they remain above the MPC's target band.
- Restrictive interest rates continue to reduce demand. Economic growth has now been subdued for an extended period.
- Worker shortages continue to be filled due to high inward migration in recent months. Labour demand continues to soften, and this is reflected in the overall cooling in labour market conditions.
- Interest rates remain restrictive at their current level based on our understanding of the state of the economy. However, monetary policy needs to remain restrictive for a sustained period to meet our inflation objective.

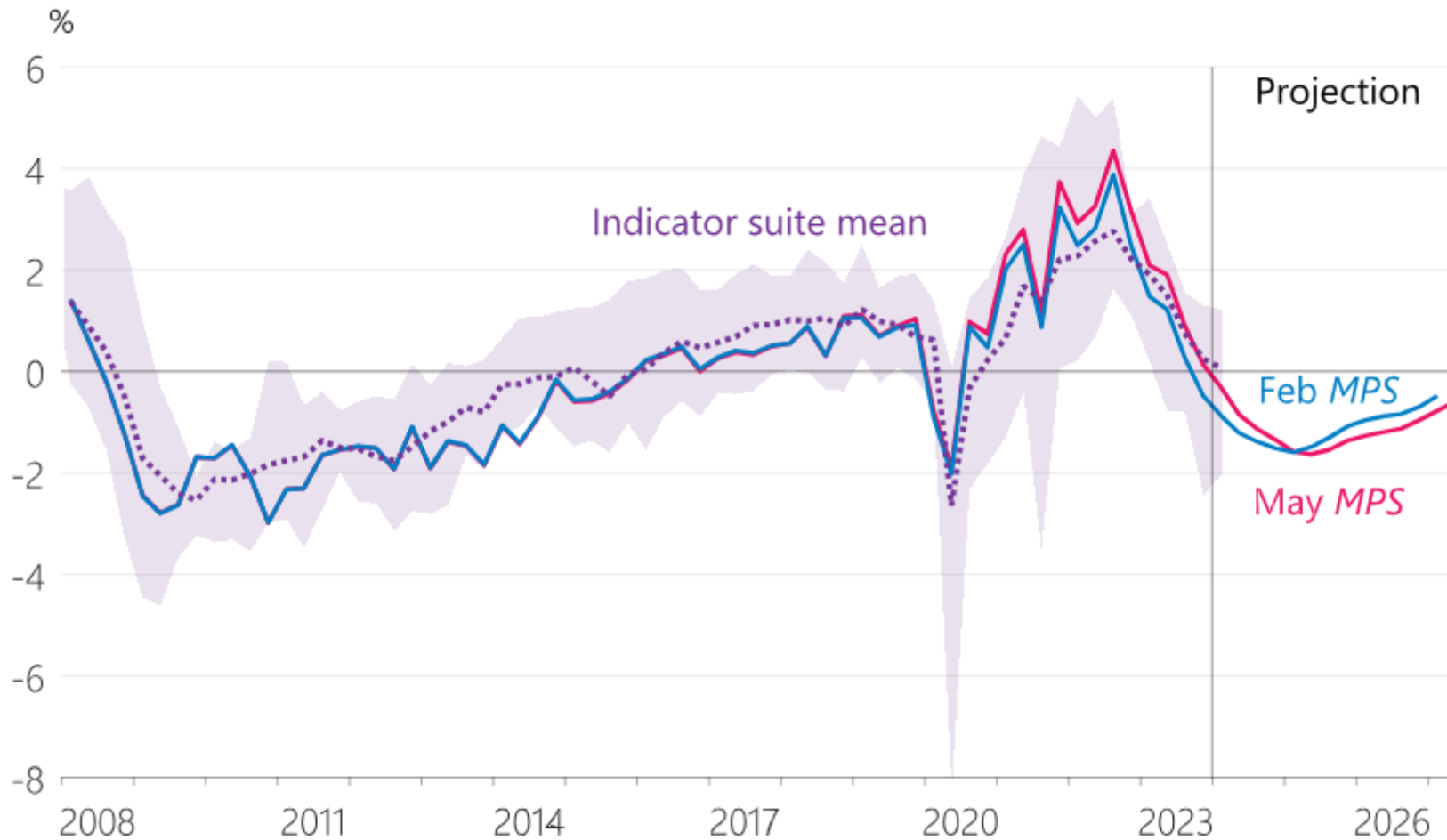


**Domestic capacity pressures
are higher than expected.**

**Restrictive interest rates
continue to reduce demand.**

Stronger domestic inflation is consistent with greater capacity pressures in recent quarters

Output gap and indicator suite (share of potential GDP, seasonally adjusted)



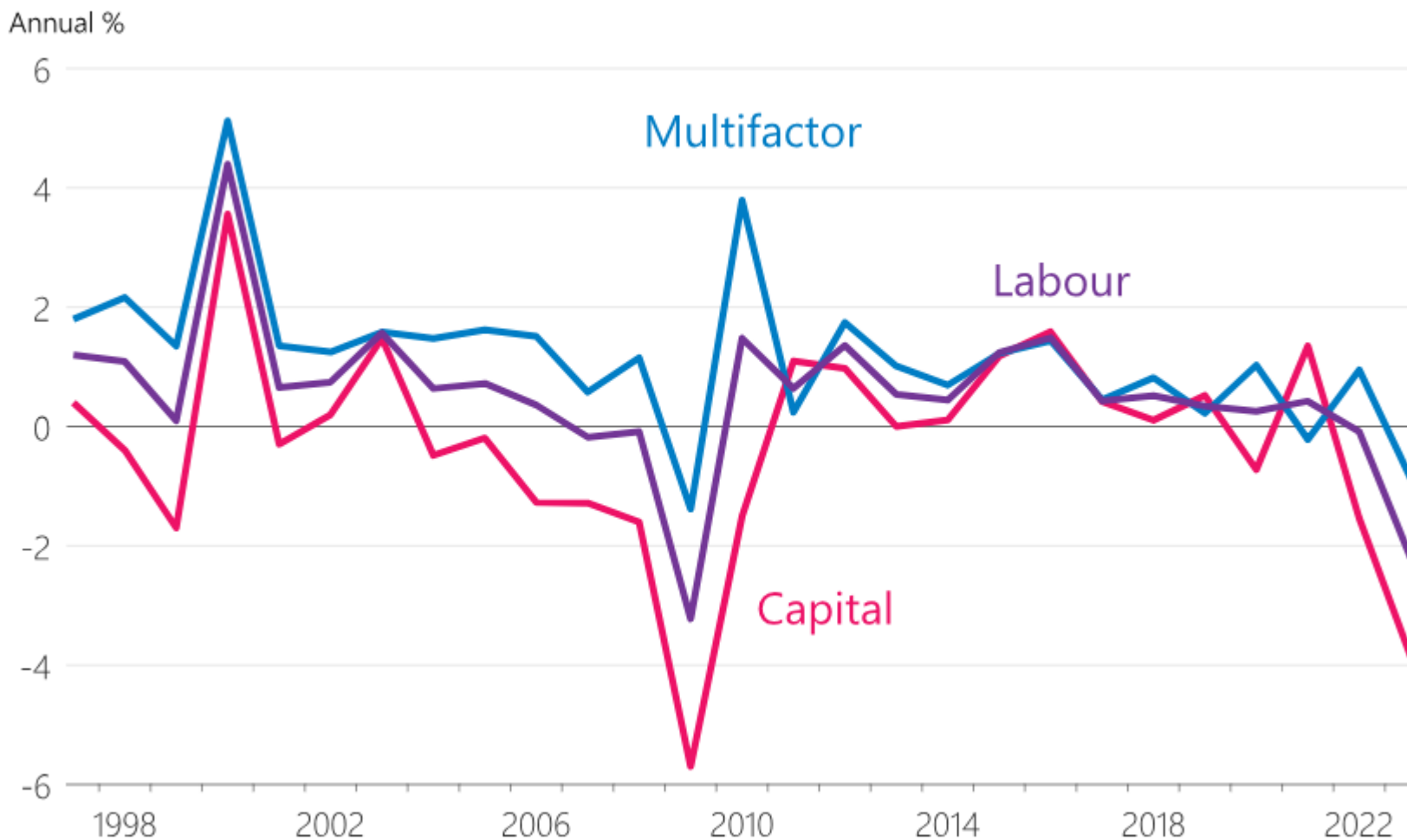
Source: Stats NZ, NZIER, MBIE, RBNZ estimates.

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Past declines in productivity have contributed to lower growth in potential output

Productivity growth (annual, March years)



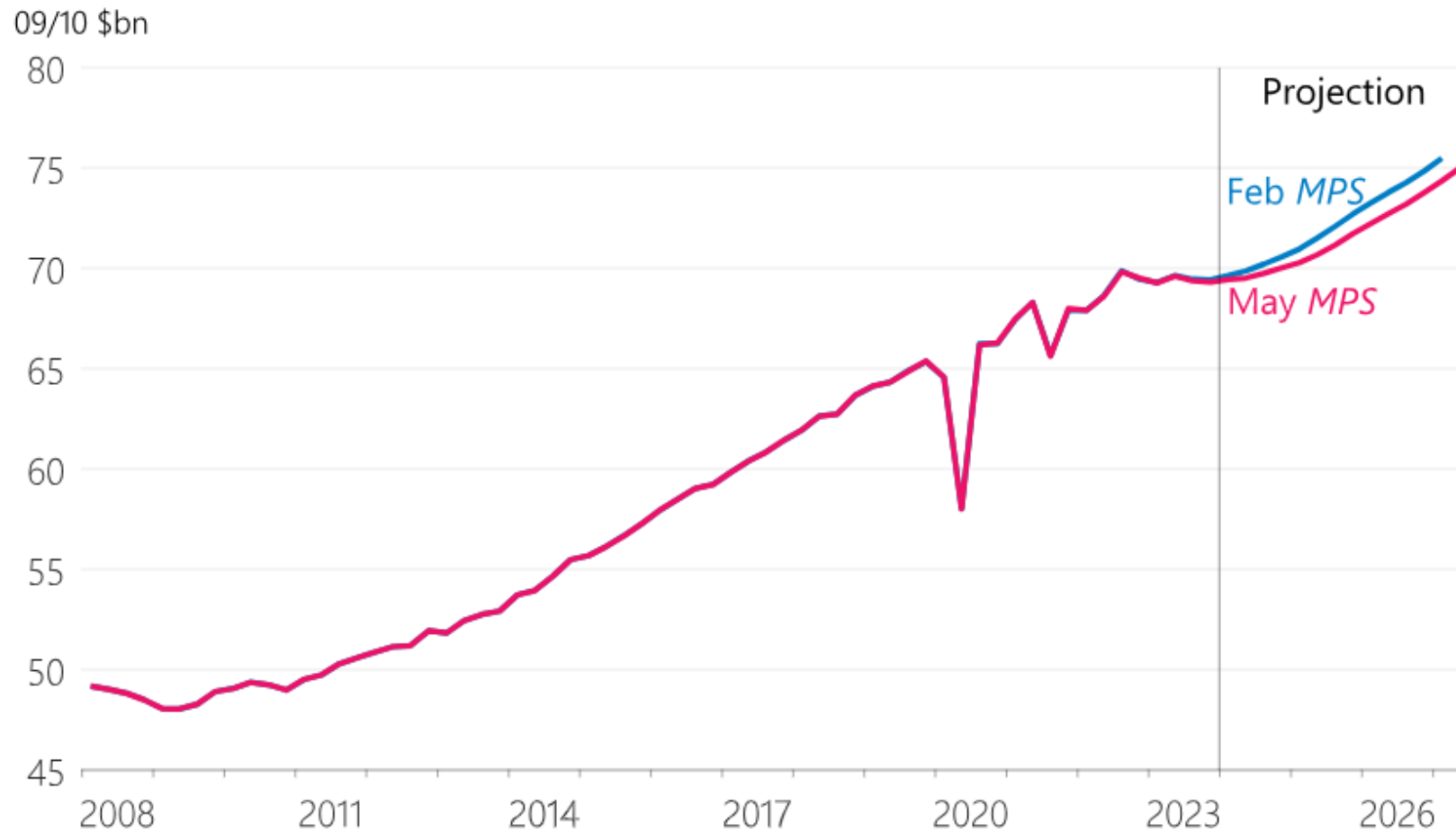
Source: Stats NZ.

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Despite strong population growth, economic growth continues to be weak

Production GDP (quarterly, seasonally adjusted)



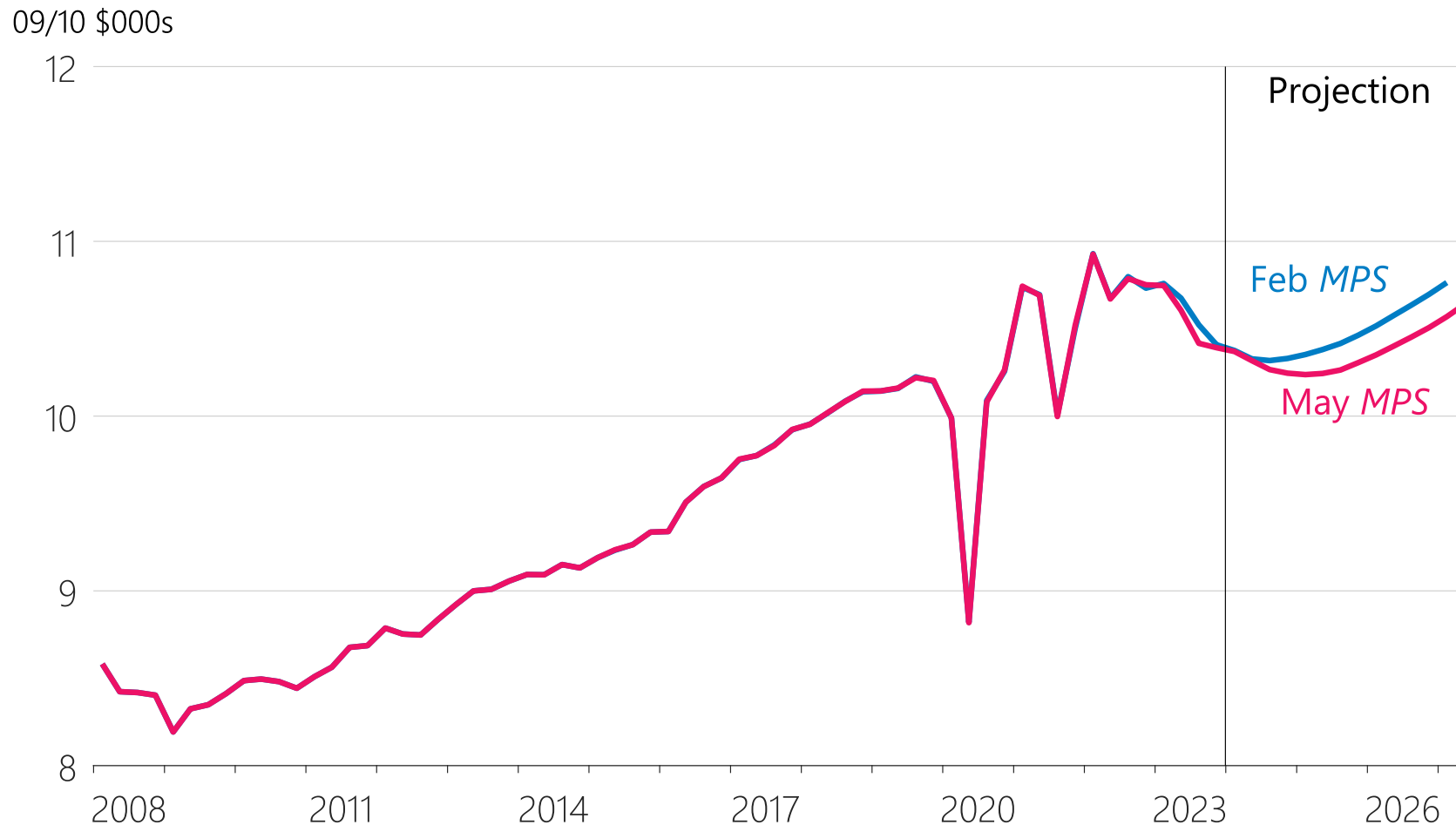
Source: Stats NZ, RBNZ estimates.

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Restrictive interest rates weigh on household spending

Private consumption per capita (quarterly, seasonally adjusted)



Source: Stats NZ, RBNZ estimates.

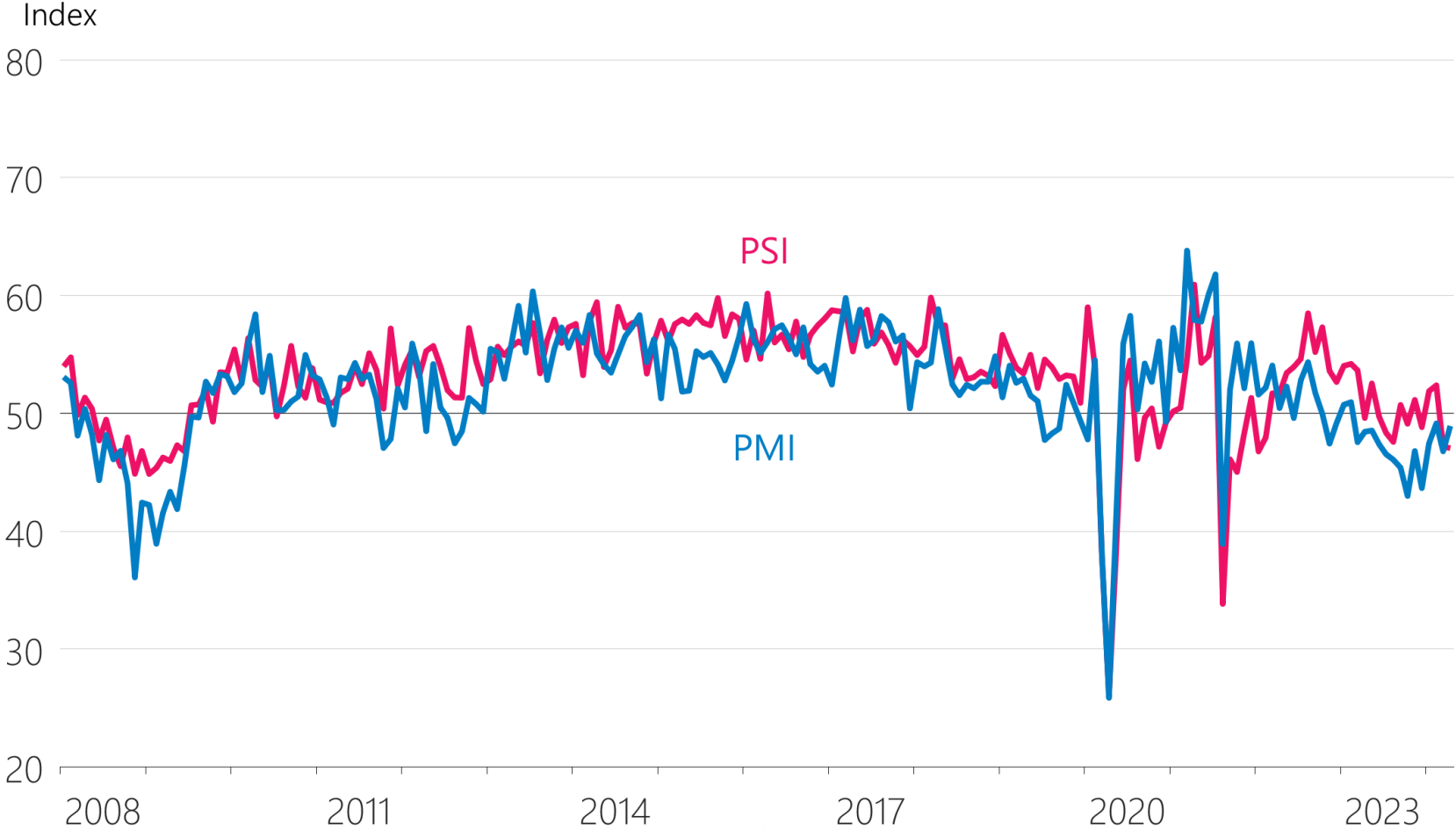
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Note: Per capita consumption is based on the working-age population.



Recent economic indicators have been weak

Performance of Services Index and Performance of Manufacturing Index *(quarterly, seasonally adjusted)*



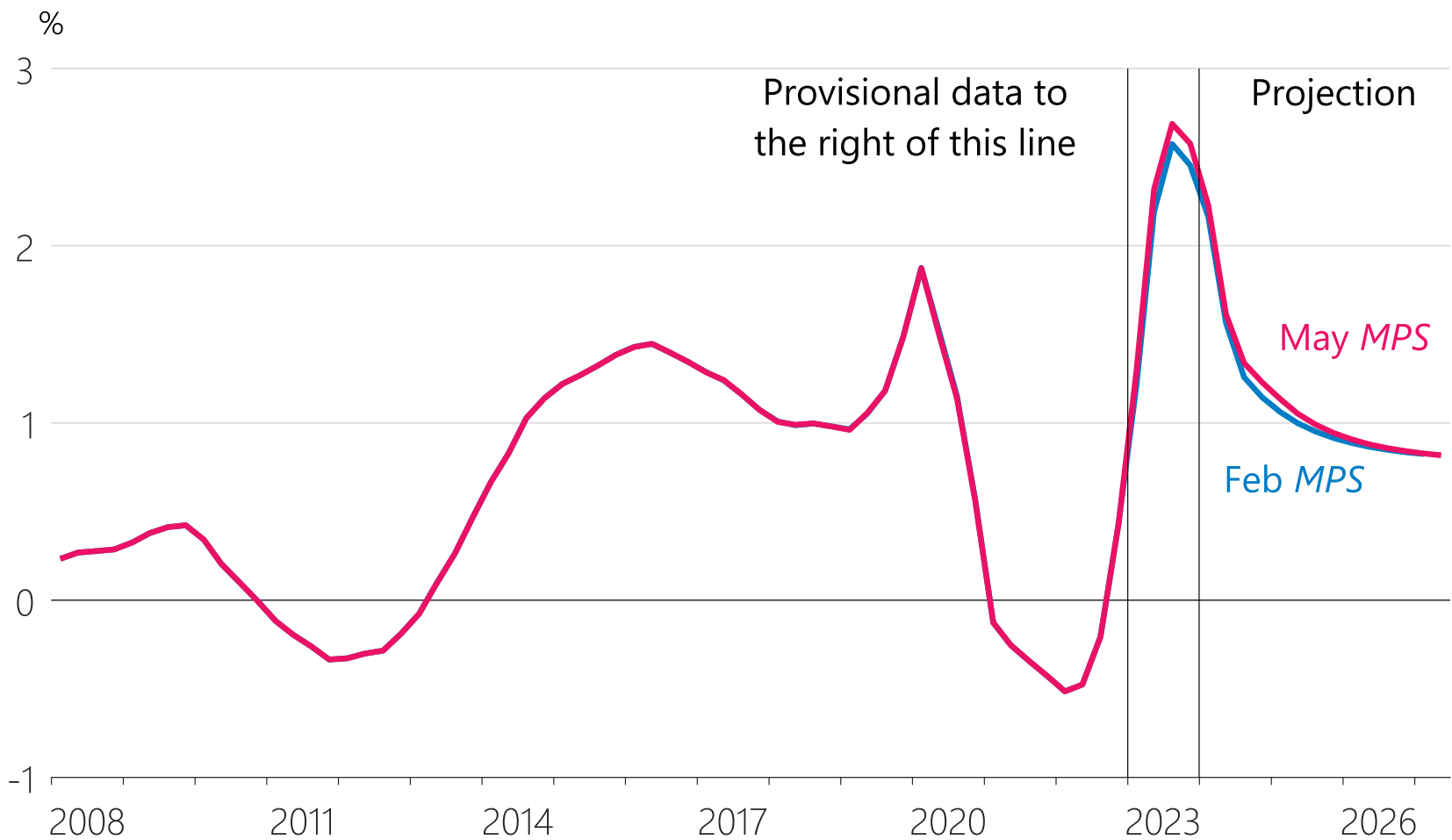
Source: BNZ – BusinessNZ.

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High levels of migration is adding to demand and supply

Net working age migration (annual, share of working-age population)



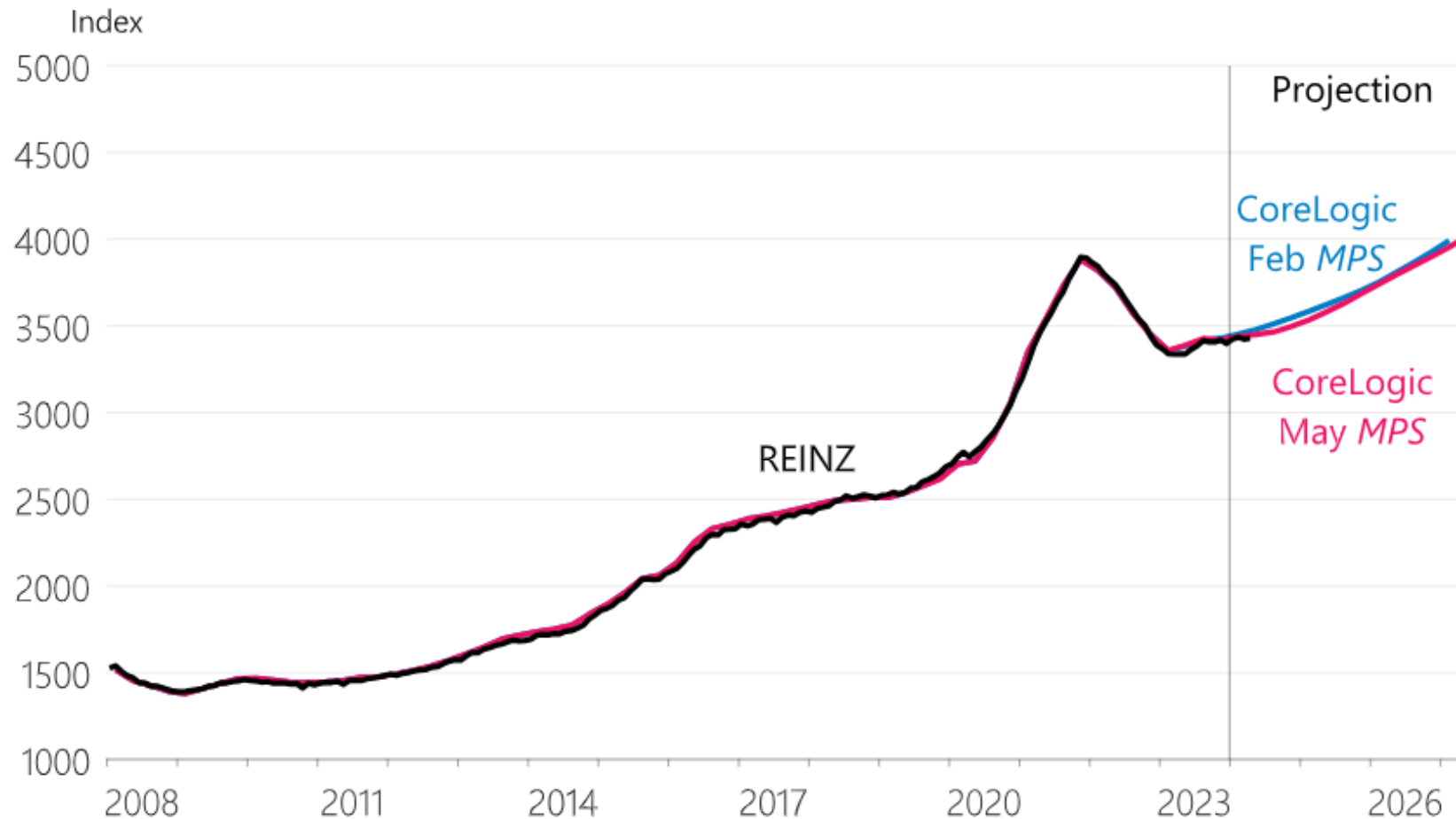
Source: Stats NZ, RBNZ estimates.

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However, house prices have increased moderately over the past year

House price growth (nominal, seasonally adjusted)



Source: CoreLogic, REINZ, RBNZ estimates. UNCLASSIFIED





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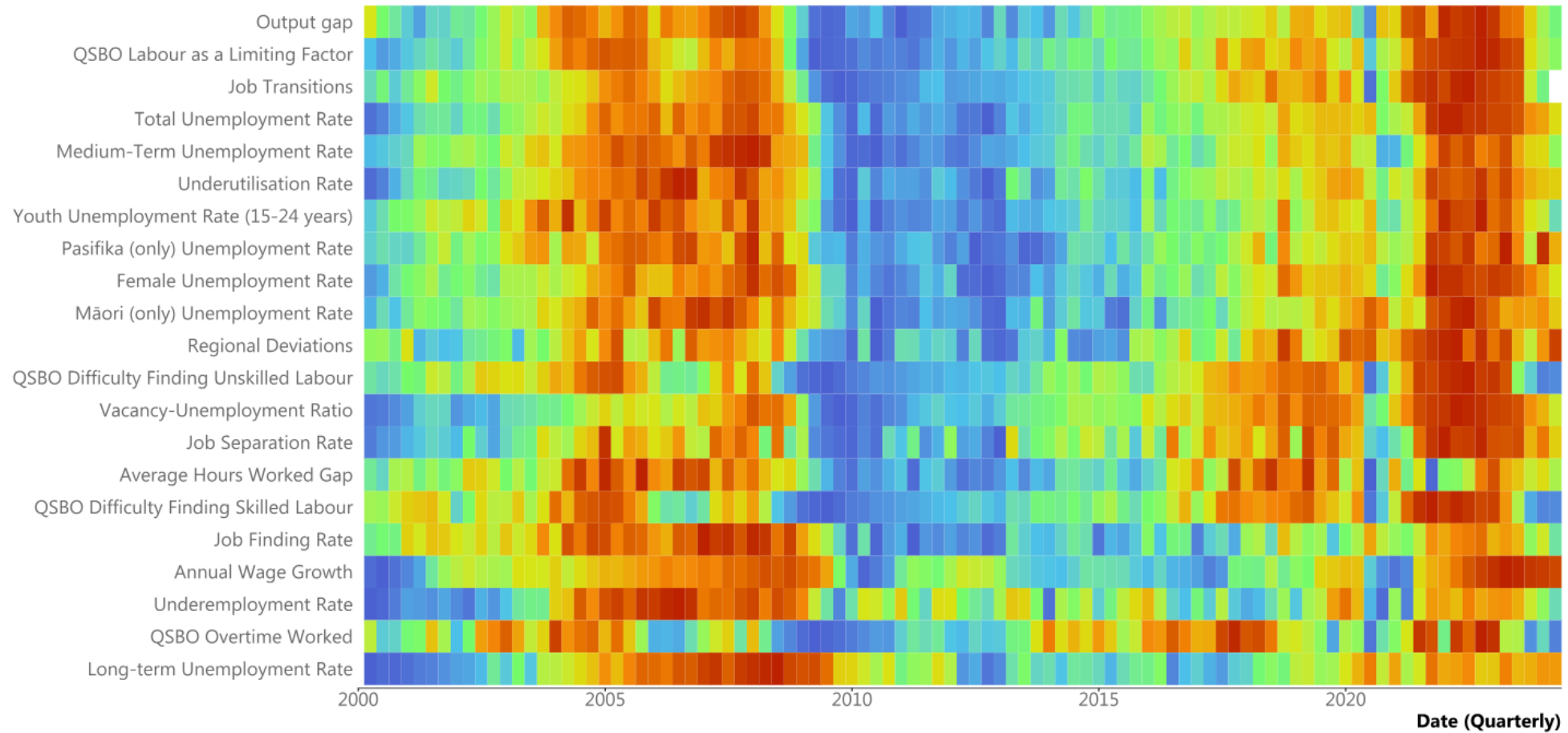
**Labour market conditions
have softened.**

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Lower demand for labour and increased worker supply is cooling the labour market

Labour market indicator suite

Fill colour shows the standardised value for each variable compared to the **weakest**, **median** & **strongest** since 2000.



Sorted by rank correlation with output gap, top (highest) to bottom (lowest).

Source: Stats NZ, NZIER, RBNZ estimates.

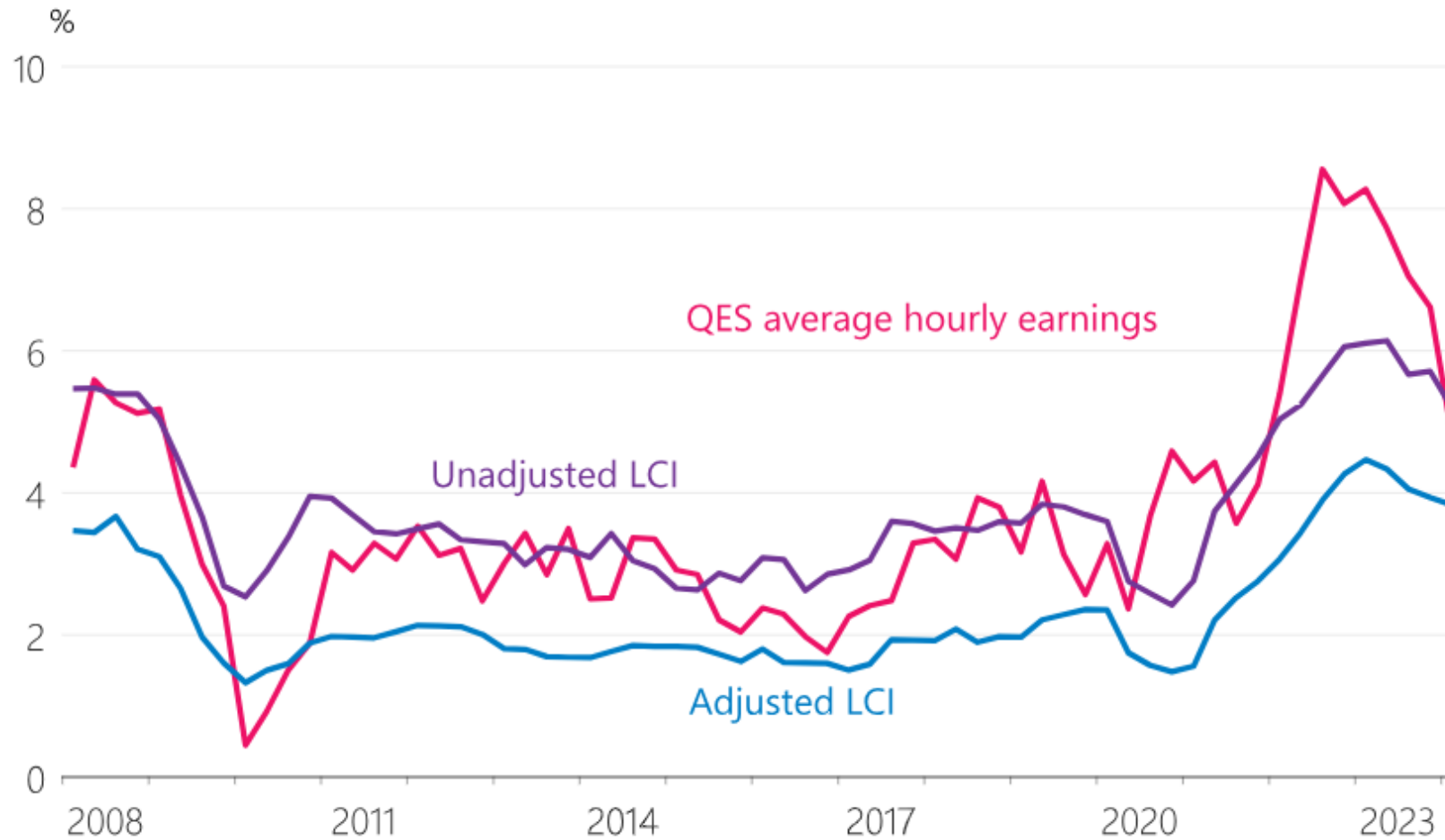
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Note: See Ball (2024), 'Assessing and communicating labour market indicators of inflationary pressure'.



Nominal wage growth continues to ease

Private sector wage growth (annual, nominal)



Source: Stats NZ.

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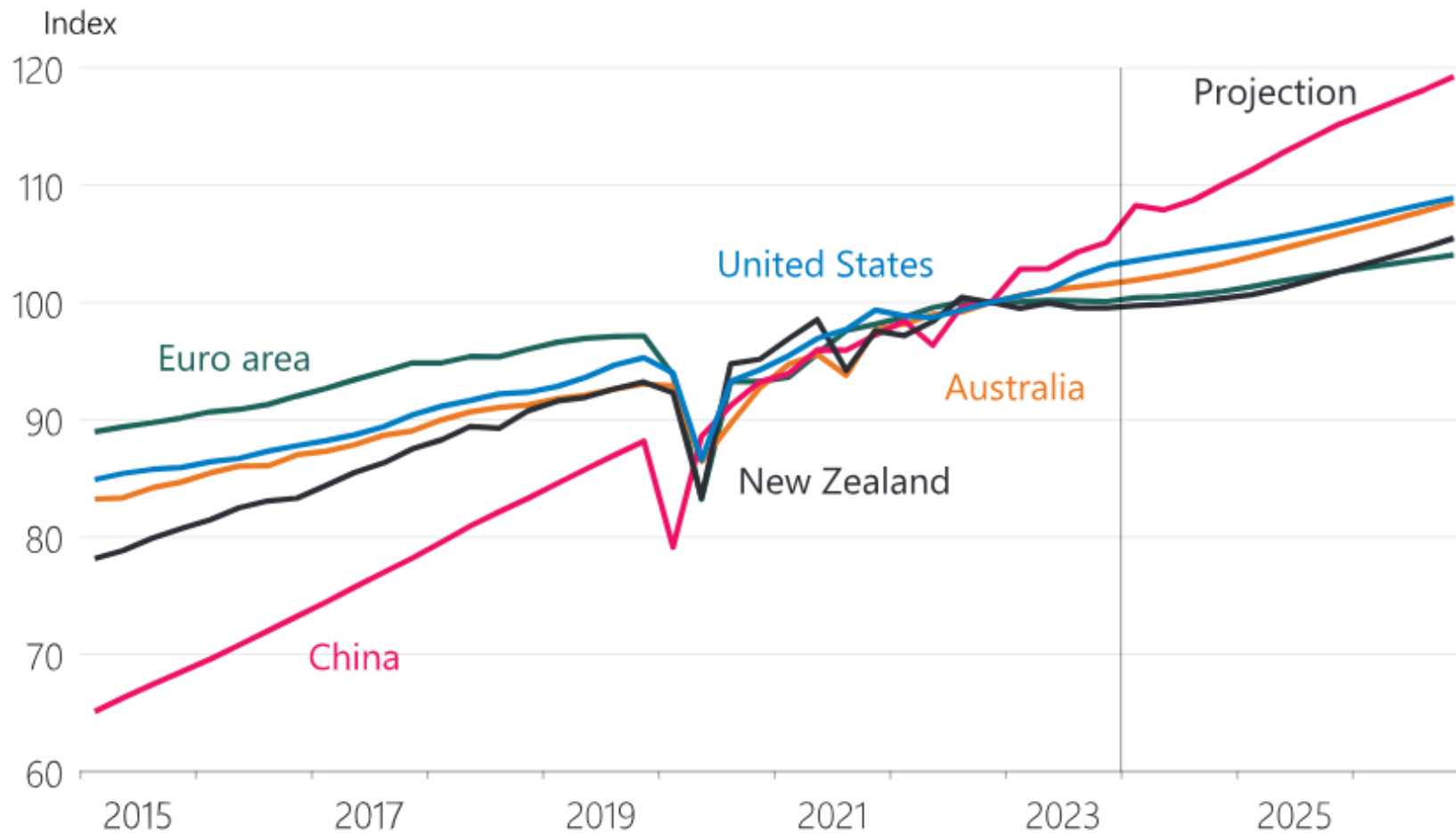
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Global growth is below trend, but there are signs of resilience.

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Global economic activity is below trend but remains resilient to high interest rates

Key trading partner GDP forecasts (*index=100 in Q4 2022*)



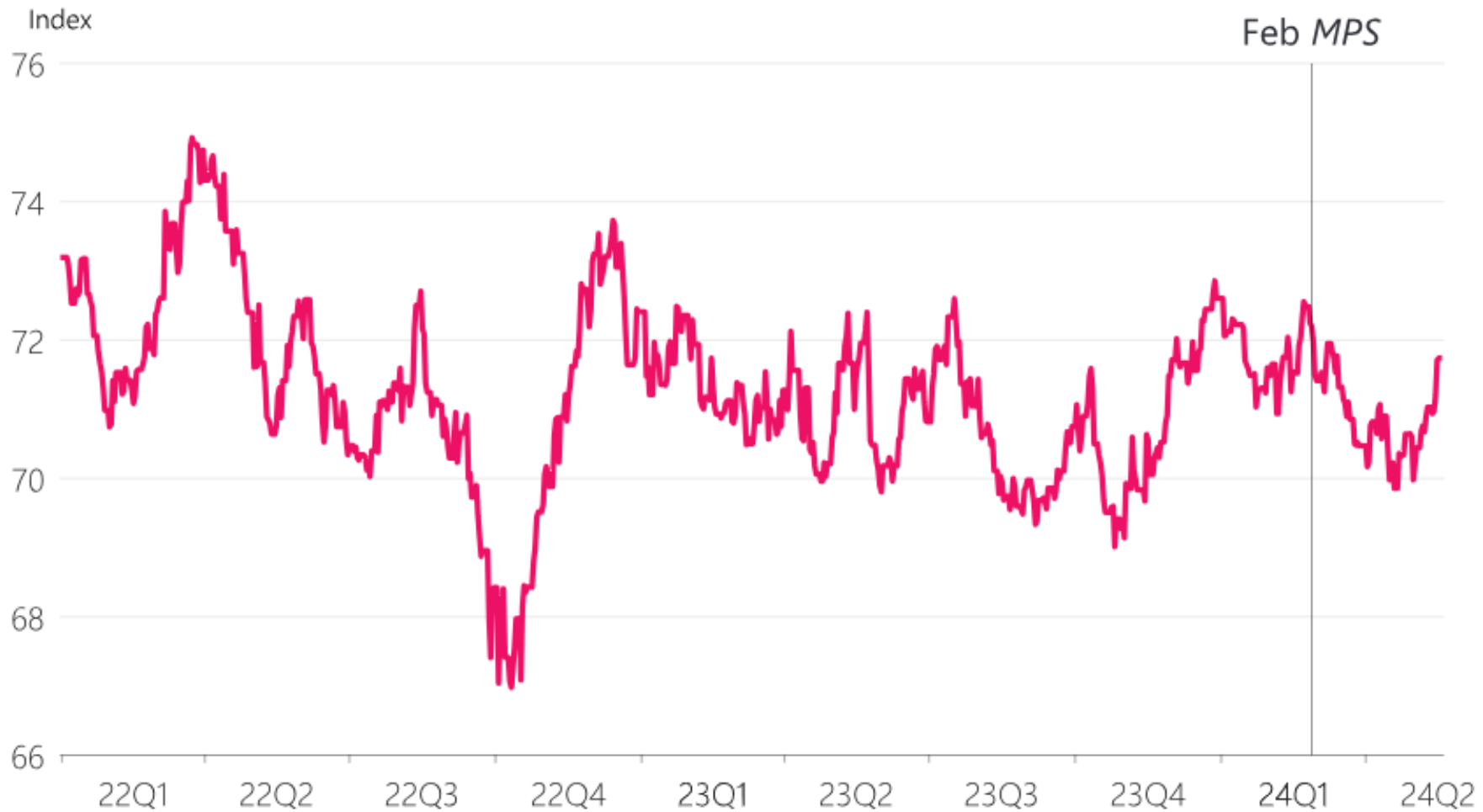
Source: Consensus Economics, Haver Analytics, RBNZ Estimates. **UNCLASSIFIED**

Note: GDP forecasts are based on Consensus Economics estimates, except New Zealand's which is based on our current projection.



Which has contributed to a lower exchange rate

New Zealand dollar TWI (nominal)



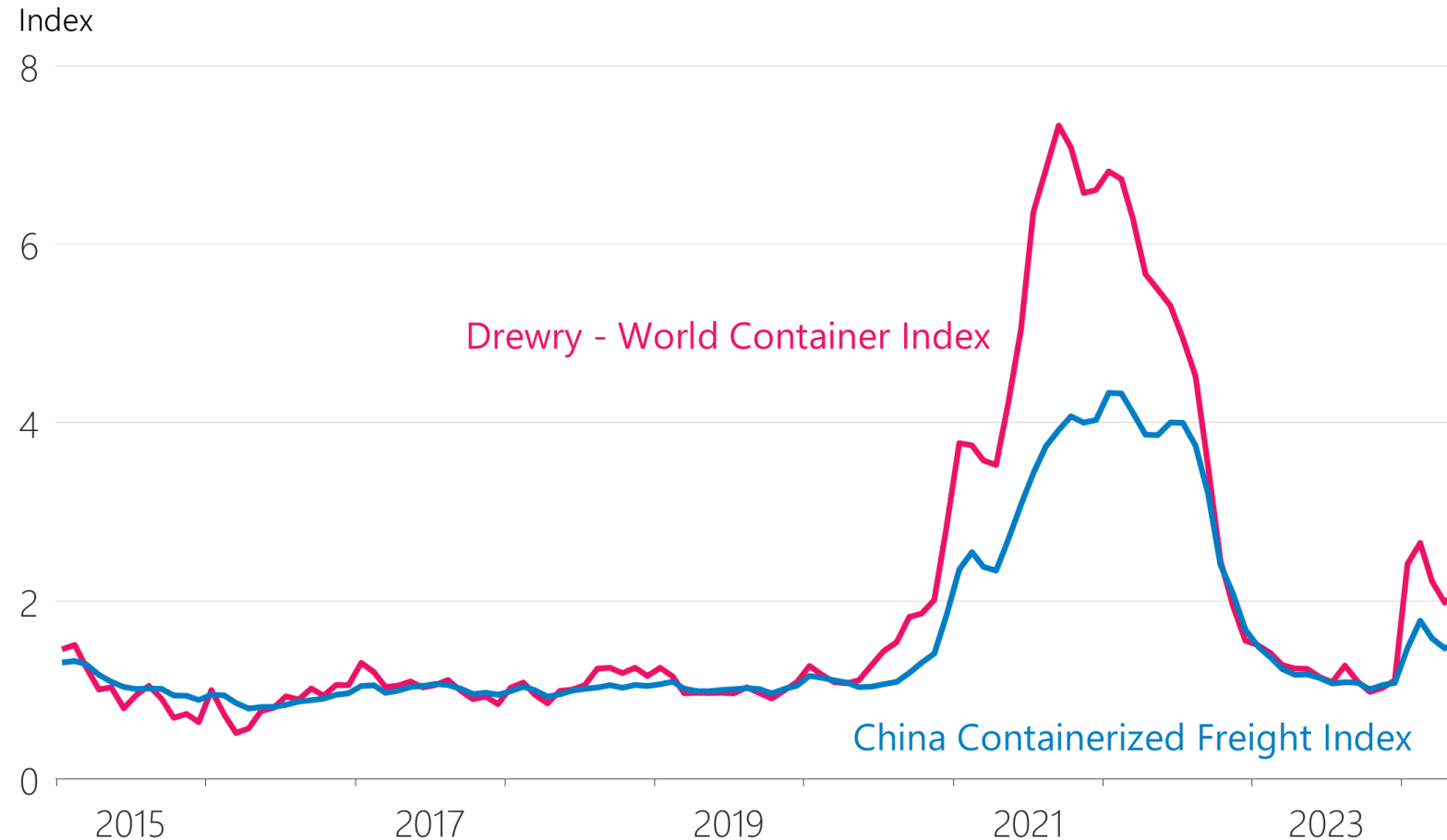
Source: RBNZ.

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Shipping disruptions are expected to impact import prices with a lag

Shipping cost indices (*indexed to 2015-2019 averages*)



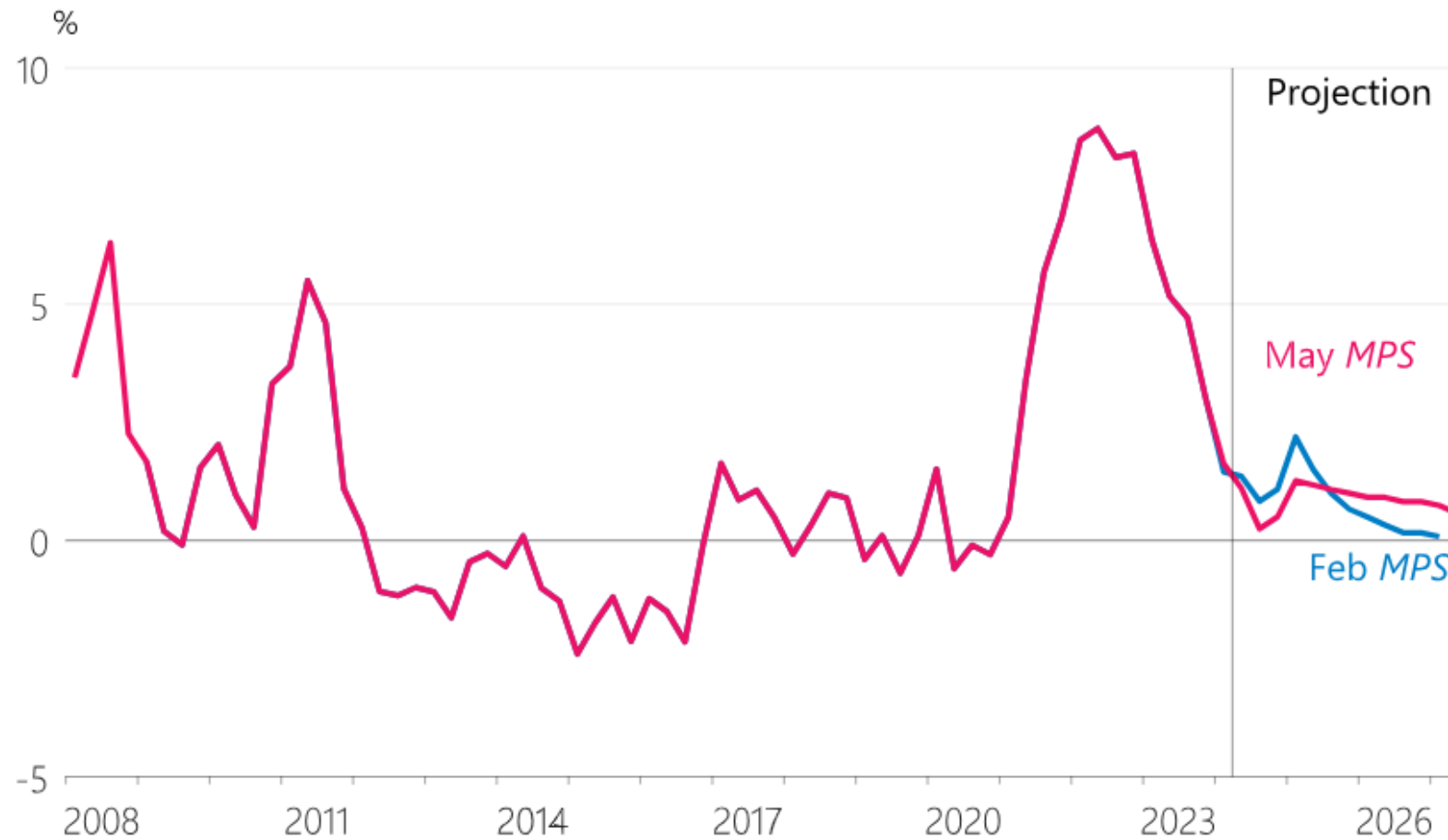
Source: Bloomberg.

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Tradables inflation expected to remain higher over the medium term

Tradables inflation (*annual*)



Source: Stats NZ, RBNZ estimates.

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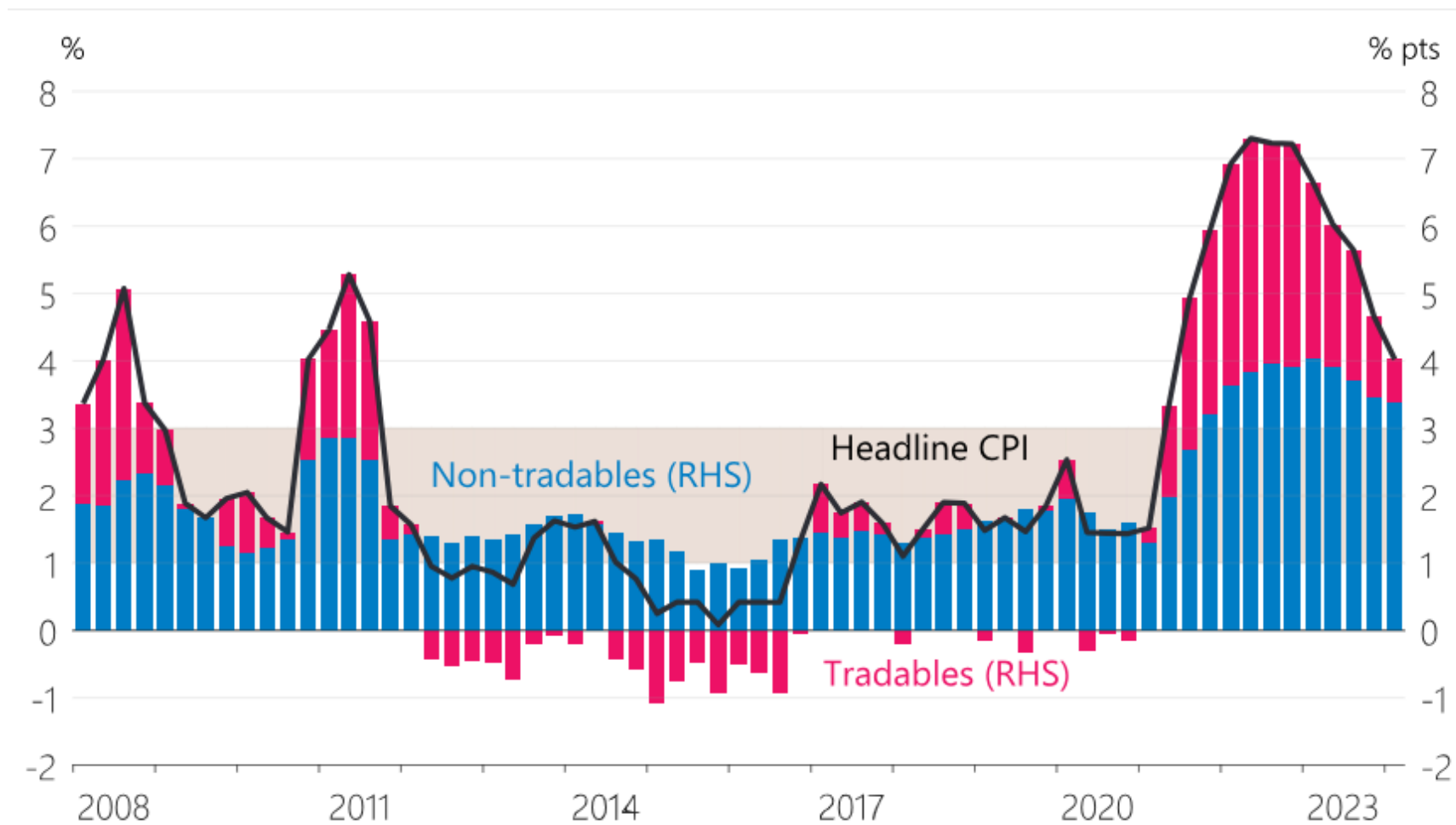


Headline inflation has declined.

Domestic inflation eased by less than expected.

Headline continues to ease gradually

Contributions to CPI inflation (*annual*)



Source: Stats NZ, RBNZ estimates.

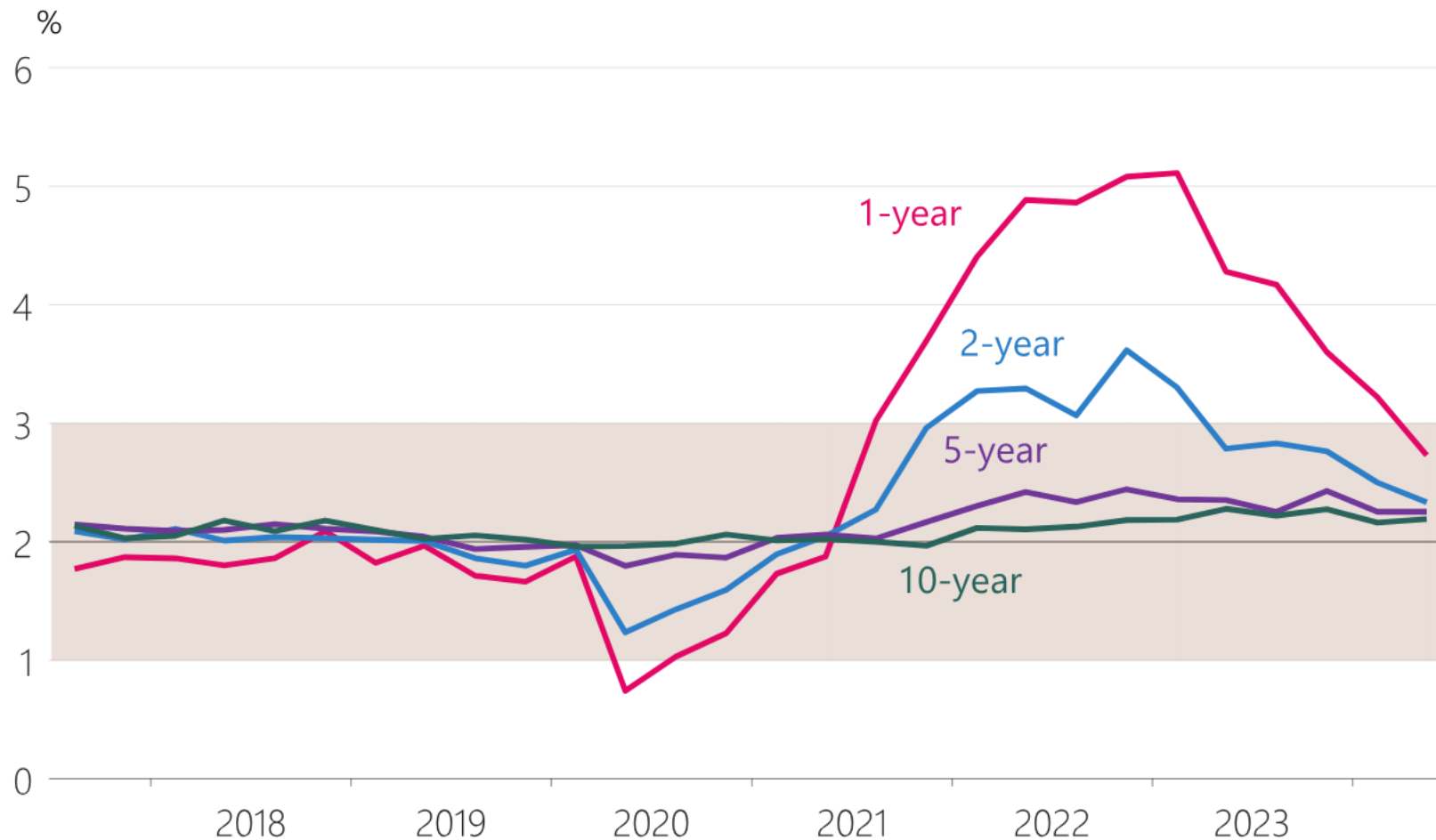
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Note: The shaded area represents the MPC's 1 to 3 percent target range for inflation over the medium term.



Near term measures of inflation expectations have declined

Business inflation expectations (*annual, years ahead*)



Source : RBNZ Survey of Expectations (Business).

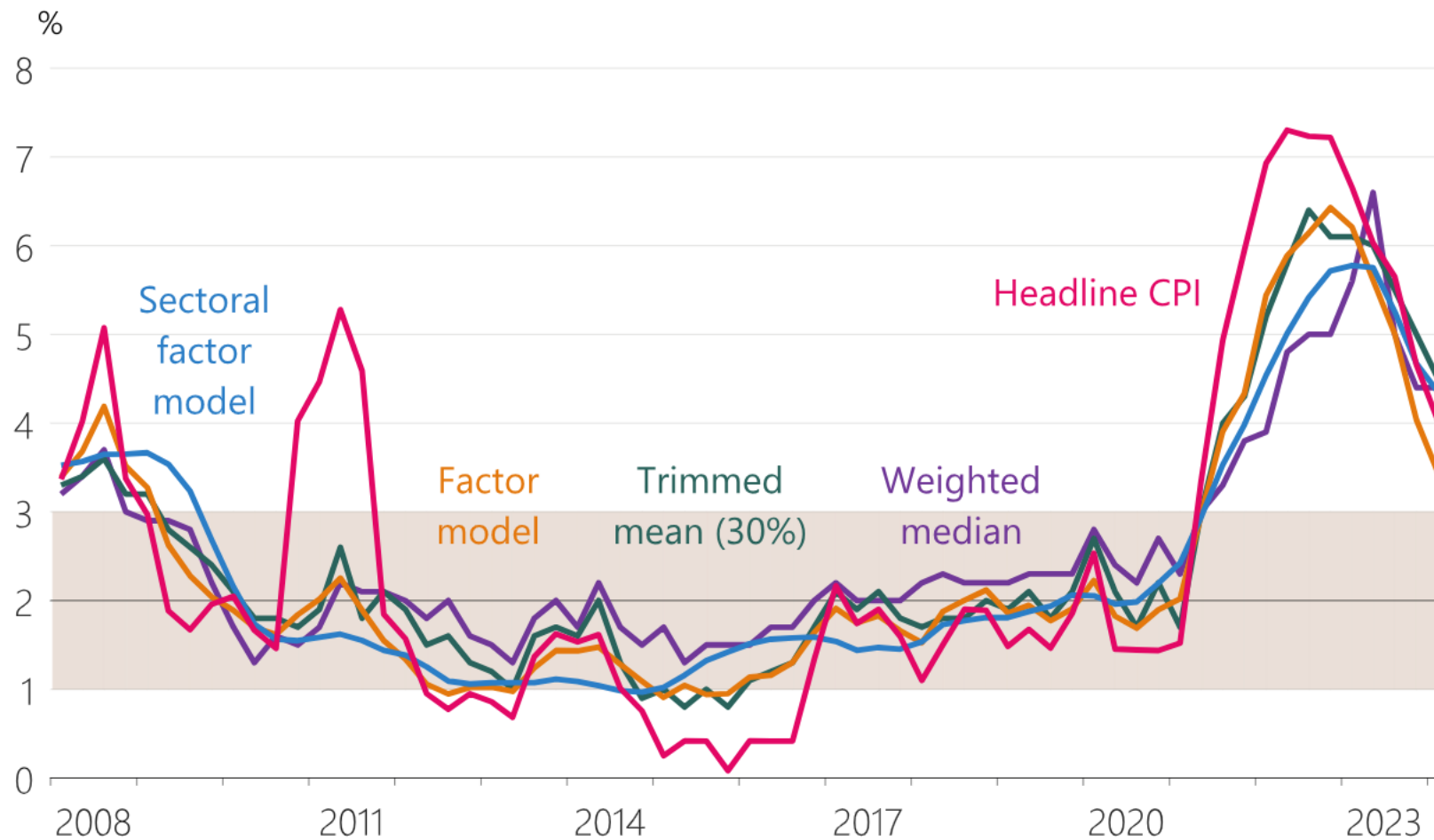
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Note: The shaded area represents the MPC's 1 to 3 percent target range for inflation over the medium term.



Core inflation measures have also eased

Measures of core inflation (annual)



Source : Stats NZ, RBNZ estimates.

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Note: Core inflation measures exclude the GST increase in 2010. The shaded area represents the MPC's 1 to 3 percent target range for annual CPI inflation over the medium term.



However, domestic pressures remain more persistent than expected

Non-tradables inflation (annual)



Source: Stats NZ, RBNZ estimates.

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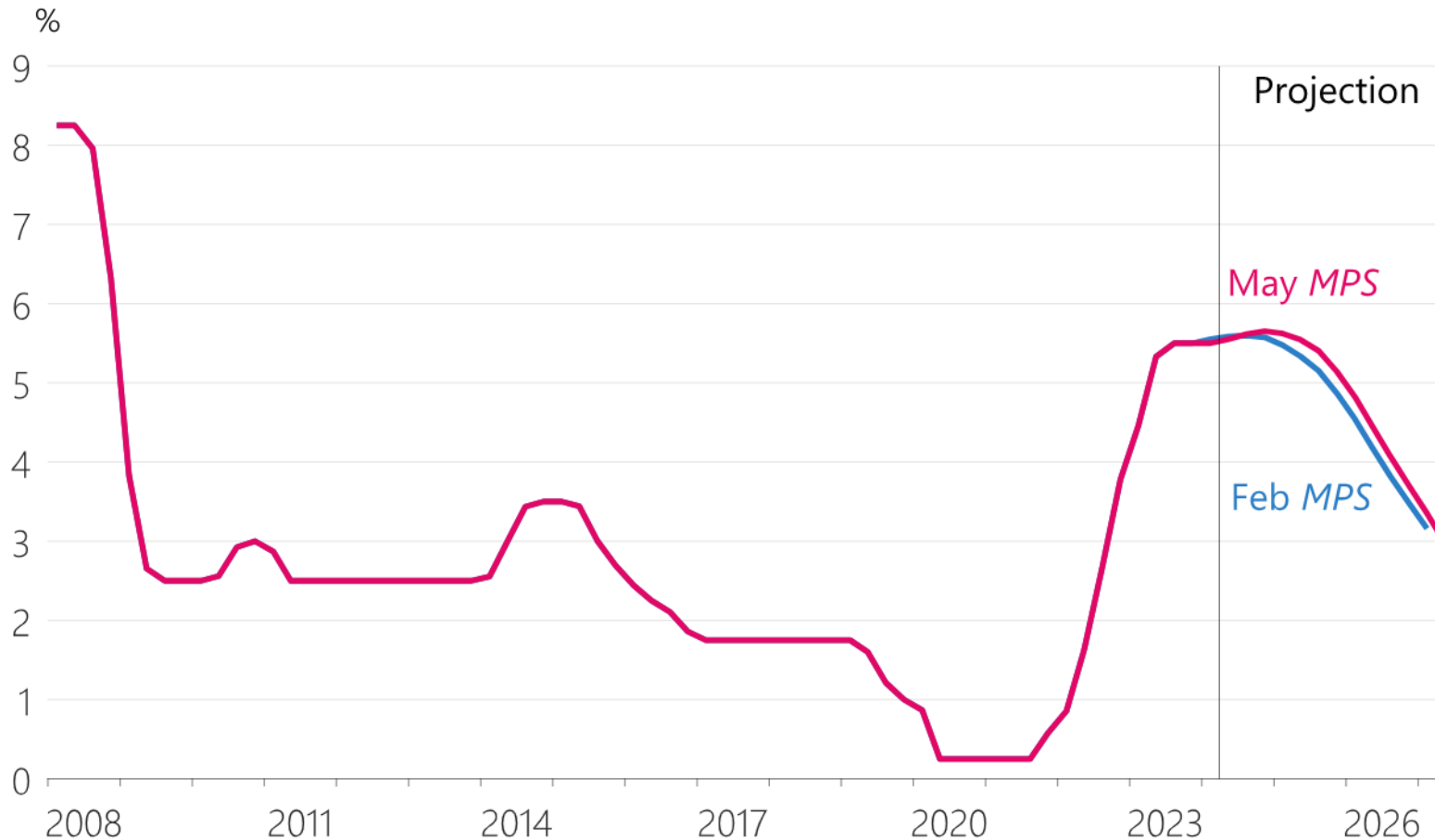
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Interest rates need to remain restrictive for a sustained period to meet our inflation objective.

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Interest rates need to remain restrictive for a sustained period to meet our inflation objective

OCR (quarterly average)



Source: RBNZ estimates.

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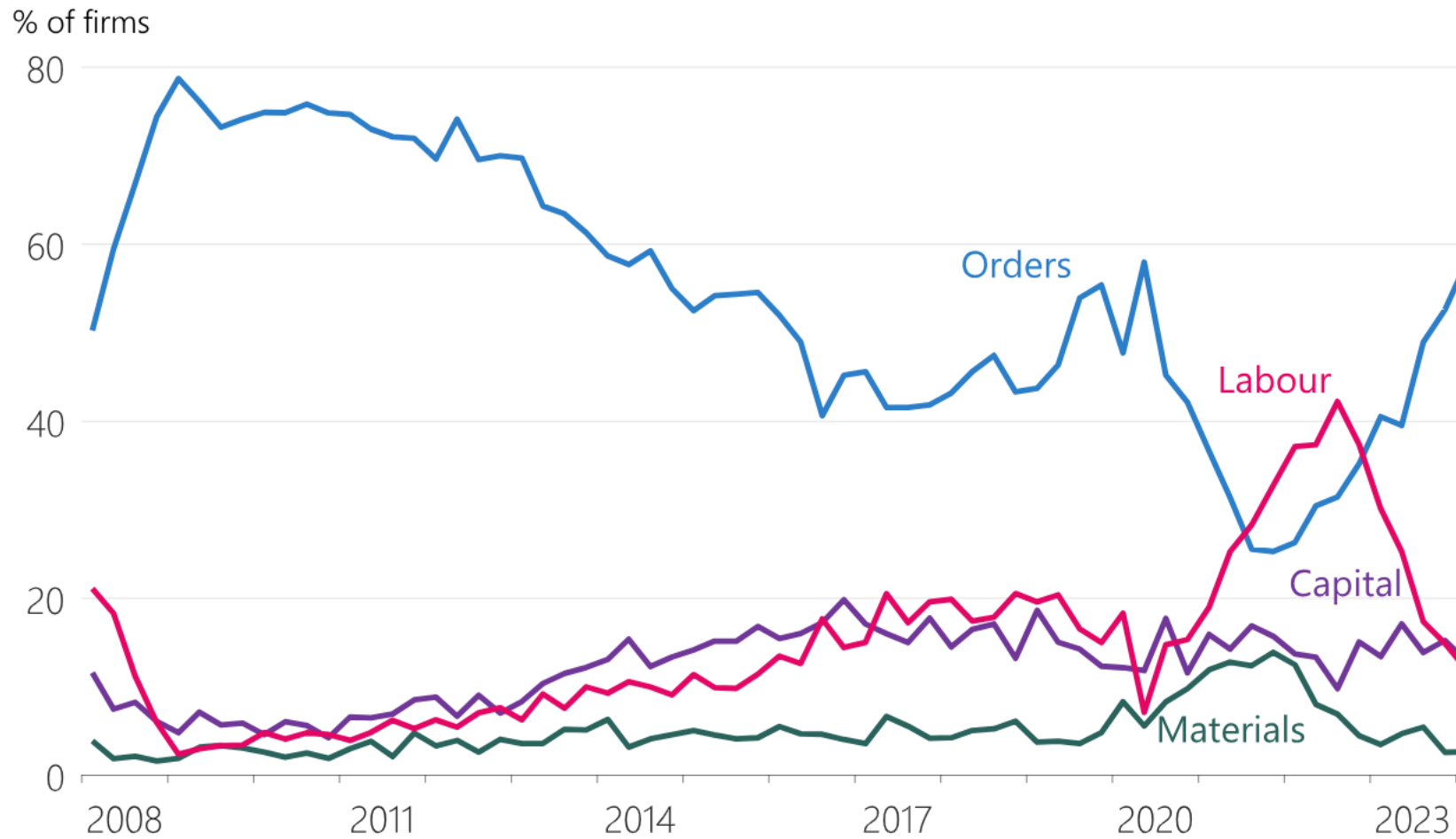


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QSBO factor most limiting production *(seasonally adjusted)*

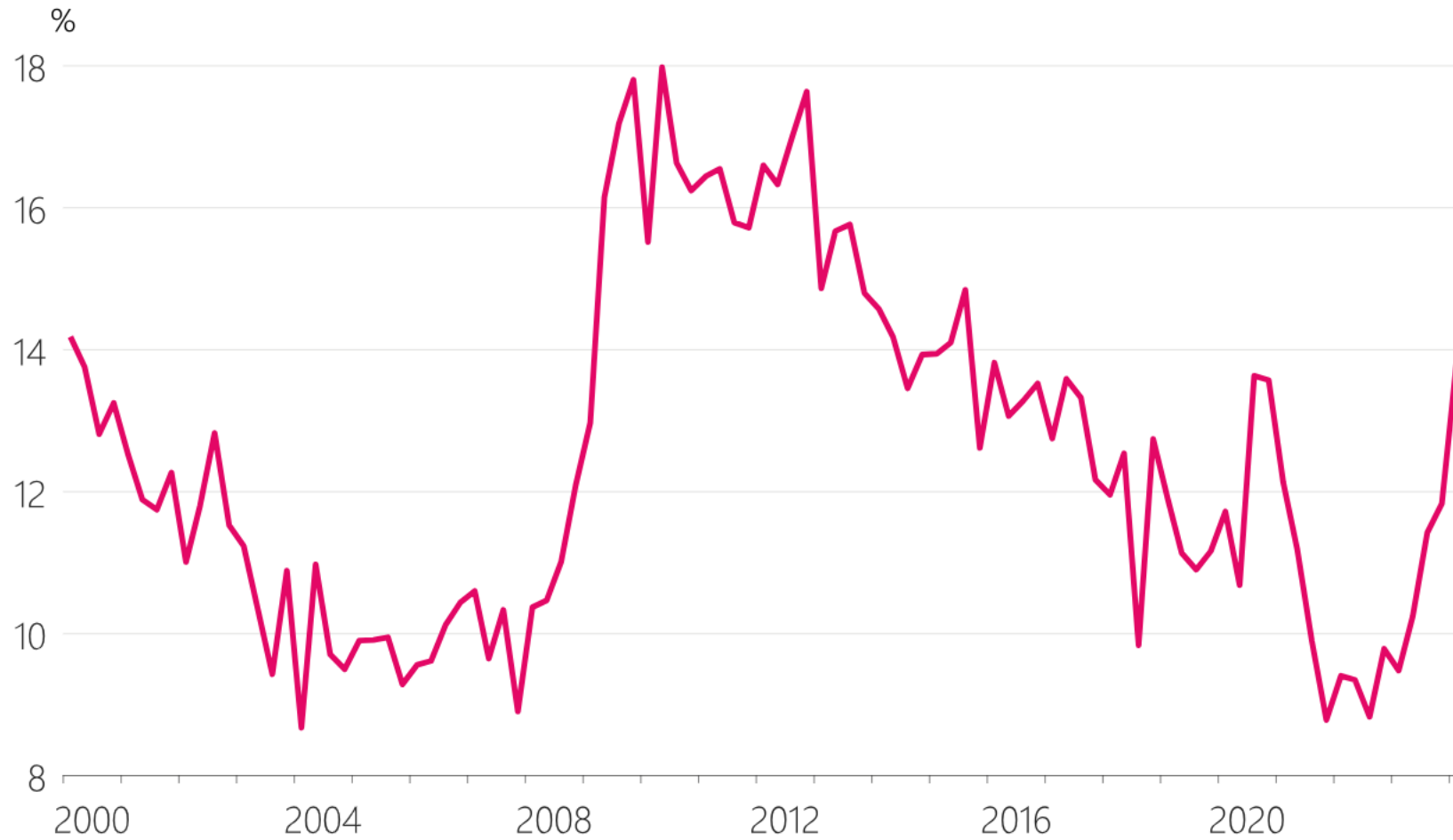


Source: NZIER.

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Youth unemployment rate (15-24 years) *(seasonally adjusted)*

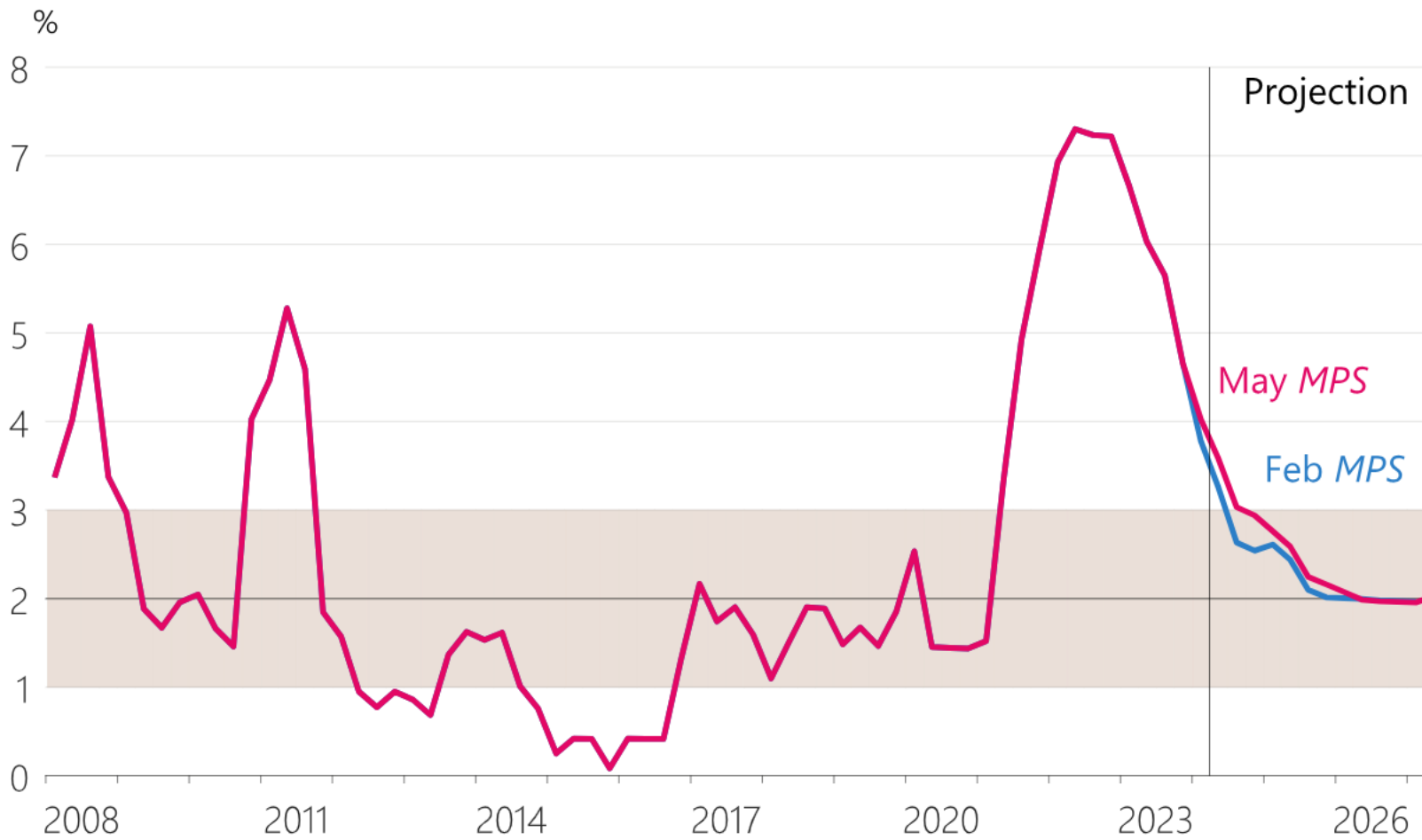


Source: Stats NZ.

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CPI inflation (annual)



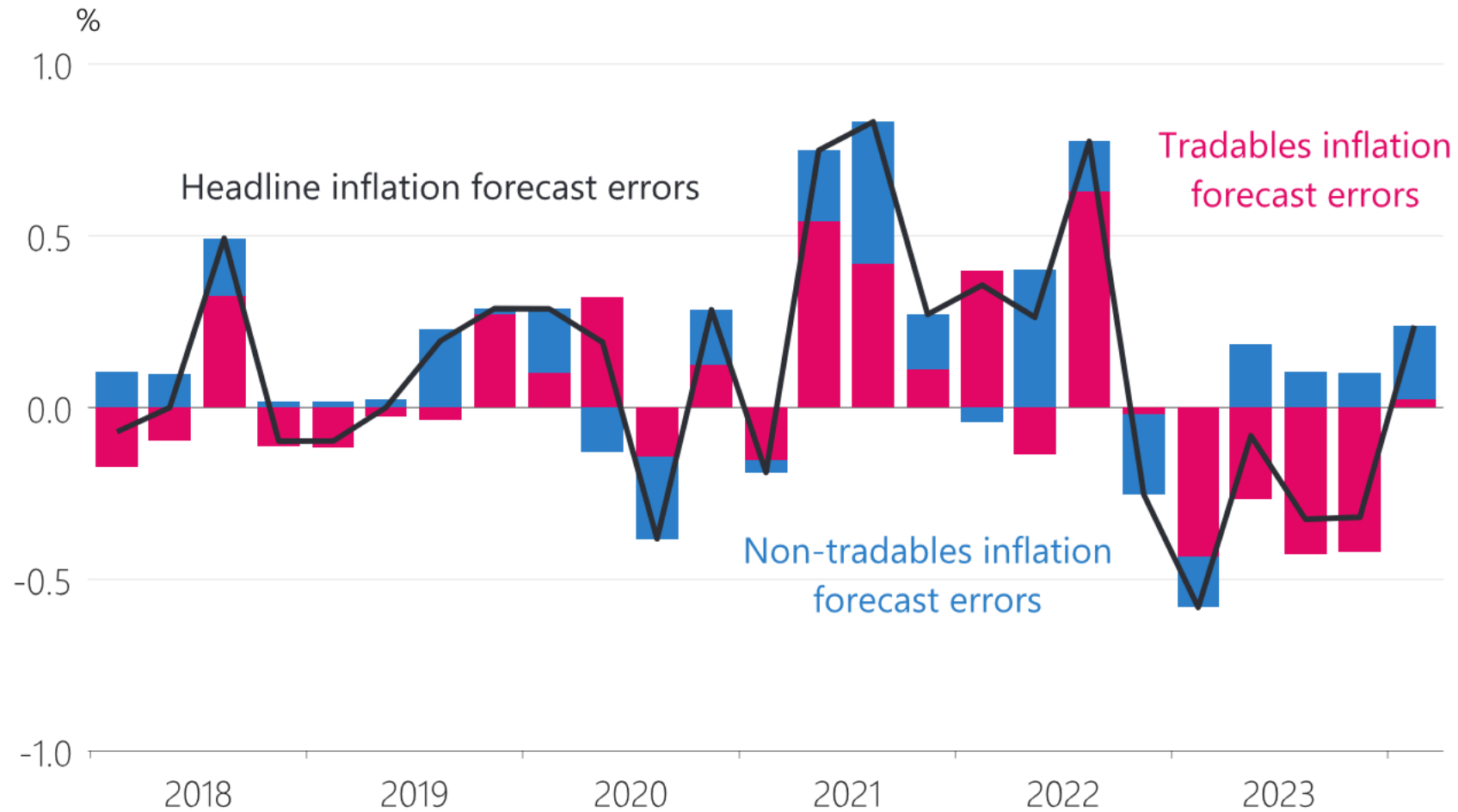
Source: Stats NZ, RBNZ estimates.

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Note: The shaded area represents the MPC's 1 to 3 percent target range for inflation over the medium term.



Contributions to annual CPI forecast error (one quarter ahead)



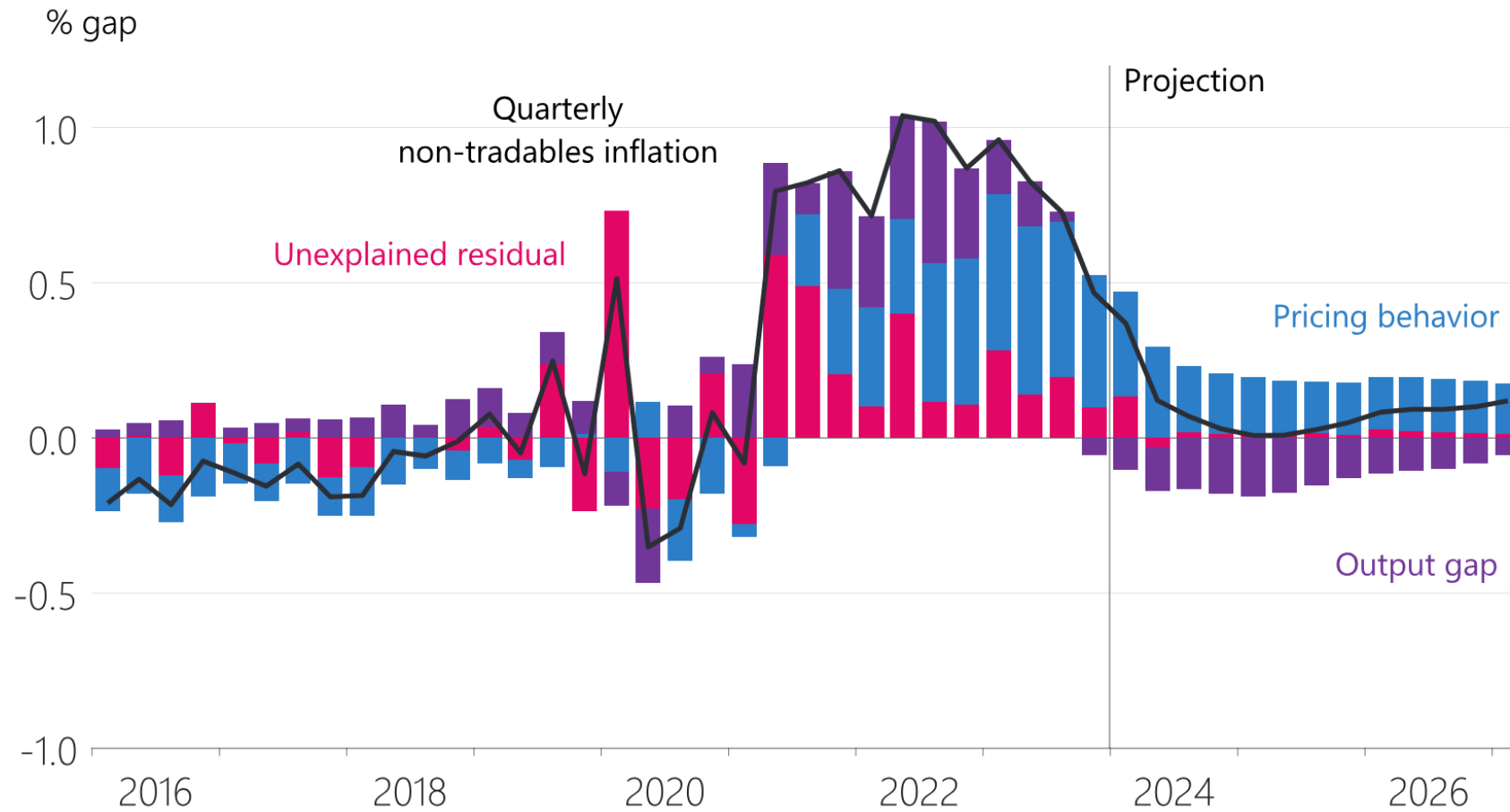
Source: Stats NZ, RBNZ estimates.

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Modelled explanation of non-tradables inflation in the February 2024 *Statement*

(quarterly)



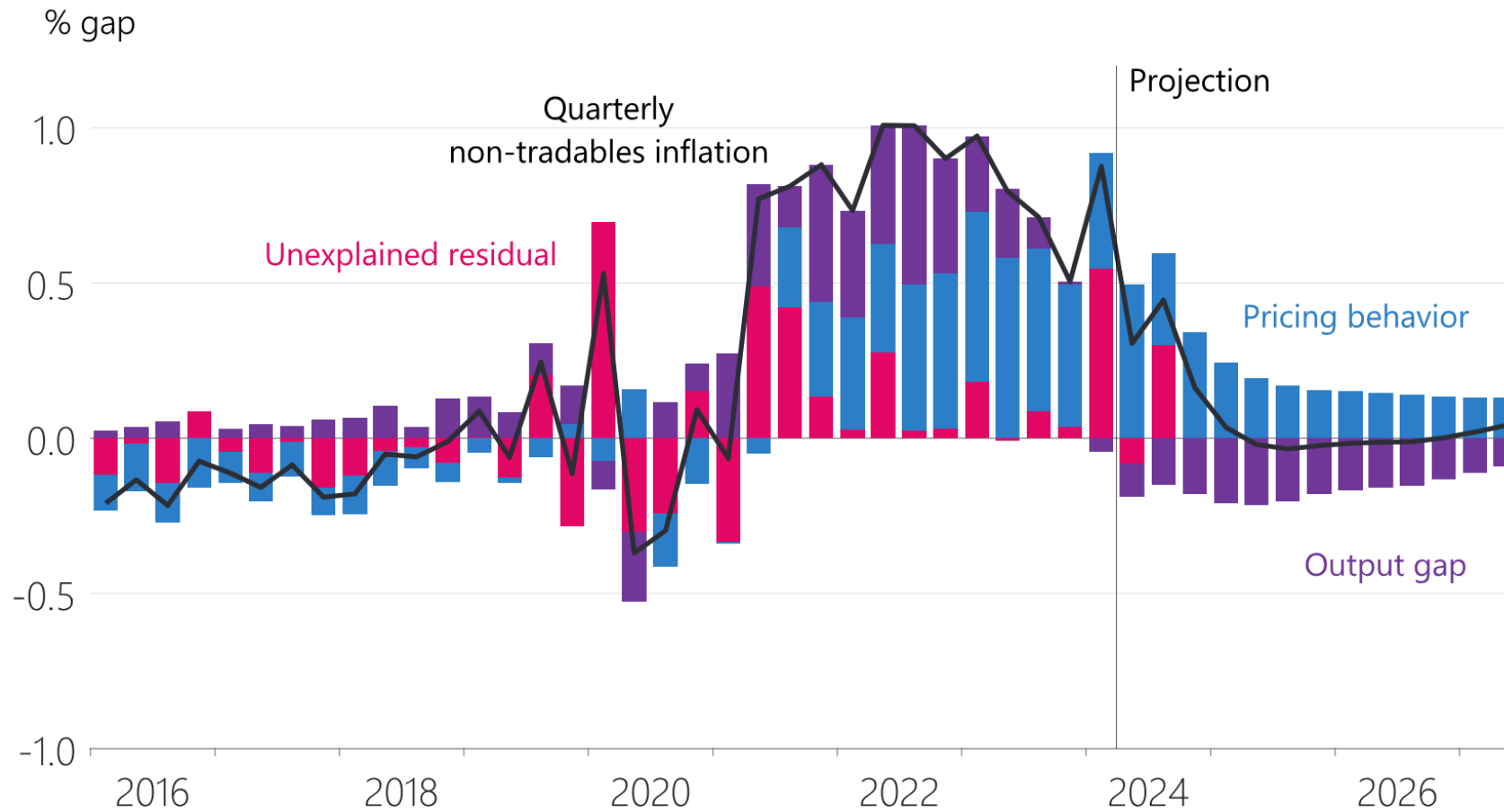
Source: RBNZ estimates.

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Modelled explanation of non-tradables inflation in the central projection

(quarterly)

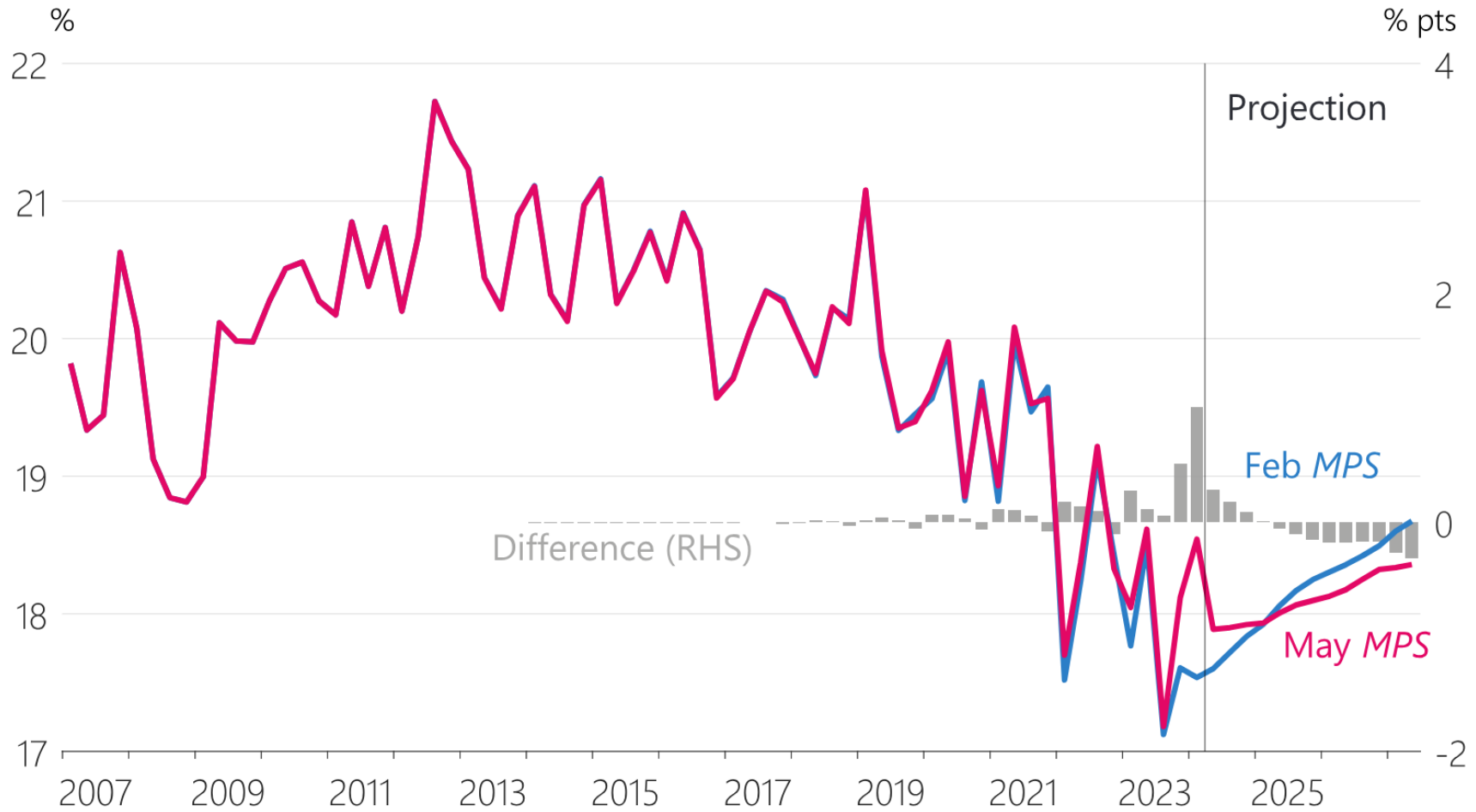


Source: RBNZ estimates.

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Goods exports (share of potential GDP)



Source: Stats NZ, RBNZ estimates.

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