Reserve Bank of New Zealand
Te Pūtea Matua

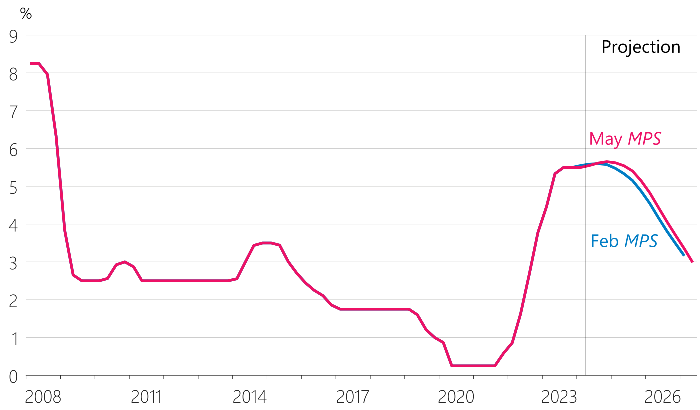
Monetary Policy Snapshots.

May 2024

Official Cash Rate to Remain Restrictive

The Monetary Policy Committee today agreed to keep the Official Cash Rate at 5.50 percent.

Figure 1
Official Cash Rate (OCR)
(quarterly average)

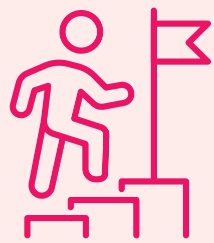


Source: RBNZ estimates.

Restrictive interest rates are reducing domestic demand

The labour market is softening

Inflation continues to decline, but remains too high



Maintaining restrictive interest rates will help us to achieve our inflation target

Latest key statistics

- Annual average economic growth: 0.6 percent (Q4 2023)
- Annual inflation: 4.0 percent (Q1 2024)
- Unemployment rate: 4.3 percent (Q1 2024)

Annual consumer price inflation remains above the Committee’s 1 to 3 percent target band, and components of domestic services inflation persist. The Committee agreed that monetary policy needs to remain restrictive to ensure inflation returns to target within a reasonable timeframe.

Restrictive interest rates are reducing domestic demand

- Economic activity in New Zealand has continued to slow. There is now a better balance between demand and the economy's ability to supply goods and services. We expect economic growth to be weak for the rest of this year.
- Restrictive interest rates are reducing domestic demand through a range of channels. They are encouraging households who can to save rather than spend, and reducing the amount households with mortgages have available to spend once they've met their repayments. Restrictive interest rates have also reduced the value of assets such as houses, further dampening household spending as people feel less wealthy. New housing construction is falling, reflecting high interest rates and lower house prices. Businesses are investing less as demand for their products declines.
- High net immigration to New Zealand is increasing both supply and demand in the economy. Stronger population growth is easing labour shortages but increasing demand, such as in the property rental market.
- Growth in our main trading partners has been subdued, reducing demand for New Zealand's exports. More recently, economic activity has been more resilient than expected in some economies, particularly the US and China.

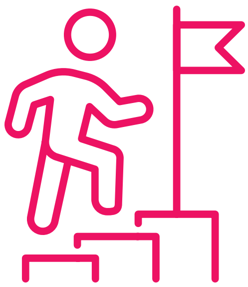
The labour market is softening

- New Zealand's labour market has eased over the past year and is now broadly back in balance. Businesses' demand for workers has fallen as economic activity has declined, and strong net immigration has increased the number of available workers.
- A wide range of measures of labour market pressure have eased significantly over the past year. The unemployment rate increased from 4.0 to 4.3 percent in the March 2024 quarter. Businesses are reporting that it is much easier to find workers. Fewer people are moving between jobs.
- The easing labour market and declining inflation are contributing to slower growth in wages, although wage growth remains high compared to history.
- The labour market is expected to weaken further as economic activity remains subdued. Weak growth in economic activity is expected to further ease labour demand, resulting in fewer job vacancies and lower wage growth.

Inflation continues to decline, but remains too high

- Annual headline inflation declined from 4.7 percent to 4.0 percent in the March 2024 quarter. Measures of core inflation – which remove some volatility from headline inflation – have fallen a lot over the past year, showing that underlying inflationary pressure is easing. However, headline and core inflation remain above the Monetary Policy Committee's 1 to 3 percent target range.
- Although headline inflation is falling rapidly, non-tradables inflation – which is more affected by domestic factors – has declined at a more gradual pace. The improving balance between demand and supply in the New Zealand economy is reducing domestic inflation, but not as much as expected. In addition, other factors are limiting the speed of decline. These factors include higher insurance costs following last year's severe weather events, high rental inflation due to strong population growth, and higher costs for items influenced by government charges and taxes (such as property rates and cigarettes).
- Inflation for imported goods has declined rapidly. Global inflation has fallen substantially over the past year, and this has flowed through to New Zealand. Food price inflation has declined over the past year. However, global inflation remains higher than normal, and shipping costs are still elevated due to shipping disruptions in the Red Sea. These factors may limit further declines in imported inflation.

Maintaining restrictive interest rates will help us to achieve our inflation target



- Interest rates need to remain restrictive for an extended period. This will ensure that inflation returns sustainably to the 2 percent mid-point of the Monetary Policy Committee's target range.
- Restrictive interest rates will continue to limit demand, resulting in less pressure on available resources and lower domestic inflation. We expect headline inflation to fall below 3 percent later this year and then decline towards 2 percent over time.