Reserve Bank of New Zealand
Te Pūtea Matua

08/2022 Monetary Policy SNAPSHOTS

Ongoing monetary tightening

The Monetary Policy Committee today increased the Official Cash Rate (OCR) to 3 percent from 2.5 percent.

Demand in the New Zealand economy has been resilient

Labour and materials shortages are holding the economy back and adding to inflation

House prices have continued to fall towards more sustainable levels, and the outlook for residential construction has weakened

Higher interest rates are needed to meet our inflation and employment objectives

Latest key statistics

- Annual average economic growth: 5.1 percent (Q1 2022)
- Annual inflation: 7.3 percent (Q2 2022)
- Unemployment rate: 3.3 percent (Q2 2022)

The Committee agreed it remains appropriate to continue to tighten monetary conditions at pace to maintain price stability and contribute to maximum sustainable employment. Core consumer price inflation remains too high and labour resources remain scarce.

Demand in the New Zealand economy has been resilient

- Demand in the New Zealand economy remained resilient to global and domestic headwinds over the first half of 2022.
- Household spending is holding up, despite low consumer confidence and high inflation. Overall, household budgets have been bolstered by high levels of employment, savings built up during COVID-19 lockdowns, and government support payments.
- A significant increase in international visitor arrivals following the reopening of our border has likely boosted demand in the tourism and hospitality sectors.

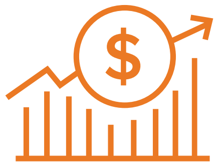
Labour and materials shortages are holding the economy back and adding to inflation

- The unemployment rate remains very low at 3.3 percent. The New Zealand economy is being constrained by acute labour shortages. A wide range of indicators continue to point to employment being above its maximum sustainable level.
- Higher-than-usual levels of sickness from COVID-19 and other illnesses, as well as an outflow of New Zealanders heading overseas following the reopening of our border, have made labour shortages worse.
- A very tight labour market is adding to high consumers price index (CPI) inflation, with wage growth continuing to increase as businesses compete to attract or retain staff.
- However, this growth in wages is still being outpaced by the rising cost of living for many New Zealanders.
- Global and local supply-chain bottlenecks are limiting and slowing down production, making goods more expensive and further constraining output. The war in Ukraine and COVID-19-related lockdowns in China are adding to these bottlenecks.

House prices have continued to fall towards more sustainable levels, and the outlook for residential construction has weakened

- House prices have continued to fall towards more sustainable levels. We expect house prices to decline further over coming months.
- Construction sector activity has remained at a high level, but the outlook for residential construction has weakened.
- The combination of acute labour and materials shortages in the construction sector has constrained activity and contributed significantly to domestic inflationary pressure. Future work orders have begun to dry up beyond construction firms' existing work pipelines. Higher interest rates, tighter lending conditions, and rising costs are weighing on demand.

Higher interest rates are needed to meet our inflation and employment objectives



- Annual CPI inflation has continued to increase, reaching 7.3 percent in the June 2022 quarter, due to a mixture of domestic and international factors.
- Measures of persistent or 'core' inflation have also increased. Expectations for inflation have eased recently but remain elevated relative to history.
- The MPC expect they will need to increase the OCR by more than expected in May to return inflation to the MPC's 2 percent target midpoint and employment to its maximum sustainable level.