Reserve Bank of New Zealand
Te Pūtea Matua

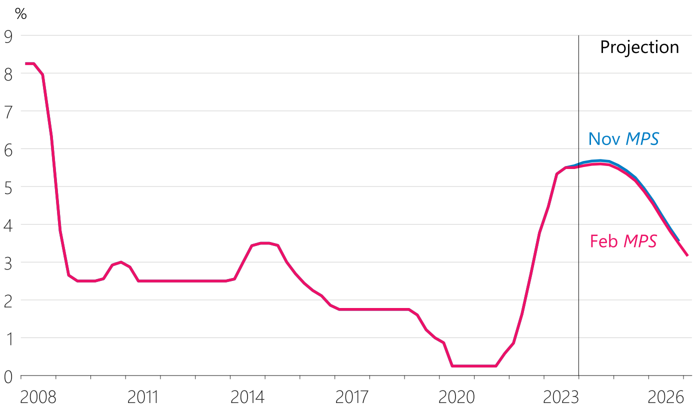
Monetary Policy Snapshots.

February 2024

Monetary Policy remains restrictive

The Monetary Policy Committee today agreed to hold the Official Cash Rate (OCR) at 5.50%.

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



Source: RBNZ estimates.

High interest rates are reducing demand in the New Zealand economy

Strong migration is adding to both demand and supply

Labour market pressures are easing gradually

High interest rates are still required to meet our inflation objective

Latest key statistics

- Annual average economic growth: 1.3 percent (Q3 2023)
- Annual inflation: 4.7 percent (Q4 2023)
- Unemployment rate: 4.0 percent (Q4 2023)

The Committee remains confident that the current level of the OCR is restricting demand. However, a sustained decline in capacity pressures in the New Zealand economy is required to ensure that headline inflation returns to the 1 to 3 percent target. The OCR needs to remain at a restrictive level for a sustained period of time to ensure this occurs.

High interest rates are reducing demand in the New Zealand economy

- Recent data suggest overall demand in the economy has declined, and was lower than previously expected. There is now better balance between demand and the economy's ability to supply goods and services.
- The outlook for economic growth in the near term remains subdued. High interest rates have reduced demand, as seen in declining business investment and per capita household consumption. Higher interest rates, subdued house price growth and high construction costs have made it less appealing for developers to build houses. The number of building consents has continued to decline, indicating a slowdown in residential building activity.
- Globally, economic activity has continued to slow, reducing demand for New Zealand's goods exports. Recent conflict in the Red Sea and drought near the Panama Canal are creating shipping delays and increasing shipping costs, which will likely feed into higher imported inflation if sustained.
- Weak global growth and high interest rates are expected to reduce business investment over 2024. Household consumption is also expected to decline further in per capita terms as high interest rates underpin households' debt servicing costs and a weaker labour market reduces growth in incomes.

Strong migration is adding to both demand and supply

- Strong population growth, mainly due to migration, is providing support to economic activity. Net migration has increased rapidly over the last year, with an annual rate of 2.4 percent of the population at the end of 2023. The overall effect of immigration on inflation is uncertain, as immigrants help ease labour shortages but also create more demand in the economy.
- The demand effects of strong migration have become apparent in higher rent inflation. Despite strong growth in rents, high interest rates have kept demand in the housing market relatively subdued. House prices have increased only modestly from their trough in early 2023.
- High net immigration also means more workers are available, boosting labour supply in the economy. Labour supply has also been supported by high labour force participation of New Zealanders. Businesses report it is much easier to find workers, with more people looking for jobs and less demand for extra workers.

Labour market pressures are easing gradually

- New Zealand's labour market remains tight, but labour shortages are easing due to both slowing demand for workers and increased labour supply. The unemployment rate increased from 3.9 to 4.0 percent in the December 2023 quarter.
- While most measures of labour market pressure have eased significantly, wage inflation remains elevated and is still adding to inflationary pressures. Strong growth in wages was seen across several industry groups, suggesting wage growth is broad-based.
- The labour market is expected to moderate further over the remainder of this year as labour demand continues to ease, reflected in fewer job vacancies and increasing unemployment.

High interest rates are still required to meet our inflation objective

- Decreasing demand and easing supply constraints here and abroad have reduced inflation in New Zealand. Annual headline inflation eased from 5.6 to 4.7 percent in the December 2023 quarter. Declines have been led by continued falls in imported inflation, especially for food and transport services. Domestically-generated inflation is falling more slowly.
- All measures of core inflation declined in the December 2023 quarter, showing that underlying inflationary pressure is continuing to ease. All measures of business inflation expectations also declined, although they remain elevated. While the declines in core inflation and business inflation expectations are encouraging, they remain high compared to the 2 percent mid-point of the MPC's target band.
- Overall, a combination of lower demand and growing supply is bringing domestic inflation down, with further declines expected over 2024. Interest rates remain contractionary at their current level based on our understanding of the state of the economy. However, high interest rates still need to be maintained for an extended period to meet our inflation objective.