Economic outlook

Reserve Bank of New Zealand
May 2019
Disclaimer:

This presentation represents the view of the Monetary Policy Committee, 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, how it is performing, and where we think it is heading next.

• It sets out how the Bank has been implementing monetary policy and how it plans to do so in the next five years.
Overview

• Employment near its maximum sustainable level, core inflation slightly below 2 percent
• The global growth outlook has softened
• Domestic growth momentum has slowed
• Additional monetary stimulus is needed to meet our objectives
Global growth outlook has slowed
Global growth to slow towards long-term average

Trading partner GDP growth (annual)

Source: Haver Analytics, RBNZ estimates.
Global inflation low and stable...

Trading-partner CPI inflation (annual)

Source: Haver Analytics, RBNZ estimates.
...as spare capacity is being absorbed

OECD unemployment rate and wage inflation

(annual)

Source: OECD.
Global policy rate outlook more accommodative

NZ and foreign interest rate differential

Source: Haver Analytics, RBNZ estimates. Note: Foreign interest rate attributes 80 percent to the US and 20 percent to Australia.
Policy uncertainty reducing...

Global uncertainty indices

Source: Bloomberg. Note: These measures are based on the frequency of news coverage about policy-related economic uncertainty.
...contributing to easier financial conditions

NZ dollar and terms of trade broadly consistent

Source: Stats NZ, RBNZ estimates.
Domestic conditions supported by lower fixed-term rates

Mortgage interest rates

Source: interest.co.nz. Note: The rate for each term is the average of the latest rate on offer from ANZ, ASB, BNZ, and Westpac.
Domestic growth momentum has eased further

GDP growth (Annual %)

Source: Stats NZ, RBNZ estimates.
Net immigration expected to slow further

Working-age net immigration (annual)

Source: Stats NZ, RBNZ estimates. Note: New outcomes based data have been incorporated into our projections. Our forecast starts from 2018Q2 due to large revisions in recent months.
House price inflation expected to be subdued

House price inflation

*(annual)*

Source: CoreLogic NZ, RBNZ estimates.
Residential investment supported by KiwiBuild from late-2019

Residential investment

(as a share of potential output)

Source: Stats NZ, RBNZ estimates.
Construction sector capacity constrained

Dwelling consents (*monthly*) and QSBO difficulty of finding labour

Source: Stats NZ, NZIER, RBNZ estimates. Note: Dwelling consents is a 3-month moving-average
Economy operating near its potential...

Output gap and mean of indicator suite

(share of potential)

Source: RBNZ estimates. Note: Shaded area shows the range of the suite of indicators.
... and employment near its maximum sustainable level

Mean of labour market indicators

*(share of potential)*

Source: RBNZ estimates. Note: Shaded area shows the range of the suite of indicators.
On balance, employment near its maximum sustainable level

<table>
<thead>
<tr>
<th>Indicator type</th>
<th>Employment Below MSE</th>
<th>Employment At MSE</th>
<th>Employment Above MSE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Indicator suite</td>
<td>• Employment rate gap (filled jobs)</td>
<td>• LUCIL</td>
<td>• Hours worked gap</td>
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<td></td>
<td></td>
<td>• Employment rate gap (total employment)</td>
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<tr>
<td></td>
<td></td>
<td>• Unemployment rate gap (Structural model)</td>
<td></td>
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<tr>
<td></td>
<td></td>
<td>• Unemployment rate gap (reduced form model)</td>
<td></td>
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<tr>
<td>Unemployment</td>
<td>• Underemployment rate</td>
<td>• Range of NAIRU estimates</td>
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<td></td>
<td>• Youth unemployment (15-19 years)</td>
<td>• Underutilisation rate</td>
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<td></td>
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<td>• Maori and Pacific unemployment</td>
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<td></td>
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<td>• Medium-term unemployment</td>
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<td></td>
<td></td>
<td>• Youth unemployment (20-24 years)</td>
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<tr>
<td>Business surveys</td>
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<td>• Difficulty of finding labour (QSBO)</td>
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<td></td>
<td></td>
<td>• Labour as a limiting factor (QSBO)</td>
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<td></td>
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<td>• Overtime worked (QSBO)</td>
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<tr>
<td>Flows data</td>
<td>• Job-finding rate</td>
<td>• Job-separation rate</td>
<td></td>
</tr>
</tbody>
</table>
Weaker outlook for capacity pressures

Output gap
(share of potential)
Businesses report a slow start to growth in 2019

QSBO domestic trading activity *(past 3 months)*
and GDP growth *(annual)*

Source: Stats NZ, NZIER, RBNZ estimates.
Underlying inflation nearing 2 percent

Core and headline inflation (annual)

Source: Stats NZ, RBNZ estimates.
Weak growth holds down domestic inflation

Non-tradables inflation
(*annual*)

Source: Stats NZ, RBNZ estimates.
Subdued tradables inflation holding down CPI inflation

Source: Stats NZ, RBNZ estimates.
Inflation rises to 2 percent

Source: Stats NZ, RBNZ estimates.
OCR lower over the next two years

Official Cash Rate
(Quarterly average)

Source: RBNZ estimates.
Inflation expectations well-anchored

Source: RBNZ estimates.
## Key uncertainties in the May *Statement*

<table>
<thead>
<tr>
<th>Key judgement</th>
<th>Uncertainty</th>
</tr>
</thead>
</table>
| Global growth stabilises around average rates | • Global growth could deteriorate further  
• Easier financial conditions boost global growth |
| Domestic growth picks up over late 2019 | • Stronger-than-expected housing market supports consumption  
• Fiscal policy more stimulatory over next few years  
• Low business sentiment could hold down investment, or reduced uncertainty sees investment pick up more than assumed. |
| Underlying inflation increases over the projection | • Lower-than-expected growth could dampen domestic inflation  
• Imported inflation may be weaker  
• Firms could pass costs through faster |
Reserve Bank of New Zealand Act Review


• Phase 2 of the Review focuses on the Reserve Bank’s financial policy framework.

• Phase 1 of the Review focused on improving the Reserve Bank’s monetary policy framework, and came into effect on 1 April 2019.

• For general enquiries about the Reserve Bank of New Zealand Act Review, please email rbnzactreview@treasury.govt.nz
Proposed changes to bank capital requirements

- The Reserve Bank is currently consulting on a proposal to raise the amount of capital that banks must hold.
- This would make bank failures less likely and ensure bank shareholders absorb a greater share of losses if their bank fails.
- [Reserve Bank website](#) has the consultation papers and a non-technical summary.
- Feedback closes 17 May 2019, and final decisions are expected in the third quarter of 2019.
### Summary of macro-economic indicators

<table>
<thead>
<tr>
<th></th>
<th>Current*</th>
<th>Post-2000 average</th>
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</thead>
<tbody>
<tr>
<td>GDP growth (Annual %)</td>
<td>2.3</td>
<td>2.8</td>
</tr>
<tr>
<td>CPI inflation (Annual %)</td>
<td>1.5</td>
<td>2.2</td>
</tr>
<tr>
<td>Employment growth (Annual %) **</td>
<td>1.1</td>
<td>1.8</td>
</tr>
<tr>
<td>Unemployment rate (%)</td>
<td>4.2</td>
<td>5.0</td>
</tr>
<tr>
<td>Current account balance (% GDP)</td>
<td>-3.7</td>
<td>-3.8</td>
</tr>
</tbody>
</table>

*GDP and current account balance data ends at December 2018. CPI, employment, and unemployment end March 2019.
** Based on filled jobs in the Quarterly Employment Survey

Source: Stats NZ, RBNZ estimates.
Thank you
Additional slides
### Decision-making timetable

**Table 3.2: Full MPS and policy decision timetable**

<table>
<thead>
<tr>
<th>M</th>
<th>Tu</th>
<th>W</th>
<th>Th</th>
<th>F</th>
<th>M/Tu</th>
<th>W</th>
</tr>
</thead>
<tbody>
<tr>
<td>Staff present recent developments, issues, and risks.</td>
<td>Staff present outlook and strategy.</td>
<td>MPC discusses risks and external messages.</td>
<td>MPC discusses strategy and tactics.</td>
<td>MPC decides on strategy and tactics.</td>
<td>MPC finalises risks and external messages.</td>
<td>MPC decides level and direction of policy instrument.</td>
</tr>
<tr>
<td>Information pooling (Staff as presenters)</td>
<td>MPC deliberations (Staff as advisers)</td>
<td>MPC decisions (Staff not present)</td>
<td></td>
<td></td>
<td></td>
<td>MPS release</td>
</tr>
</tbody>
</table>

Source: RBNZ Monetary Policy Handbook