

Economic outlook

Reserve Bank of New Zealand
August 2020



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 and where we think it is heading next.
- It sets out how the Bank is implementing monetary policy to achieve its mandates of maintaining price stability and supporting maximum sustainable employment.



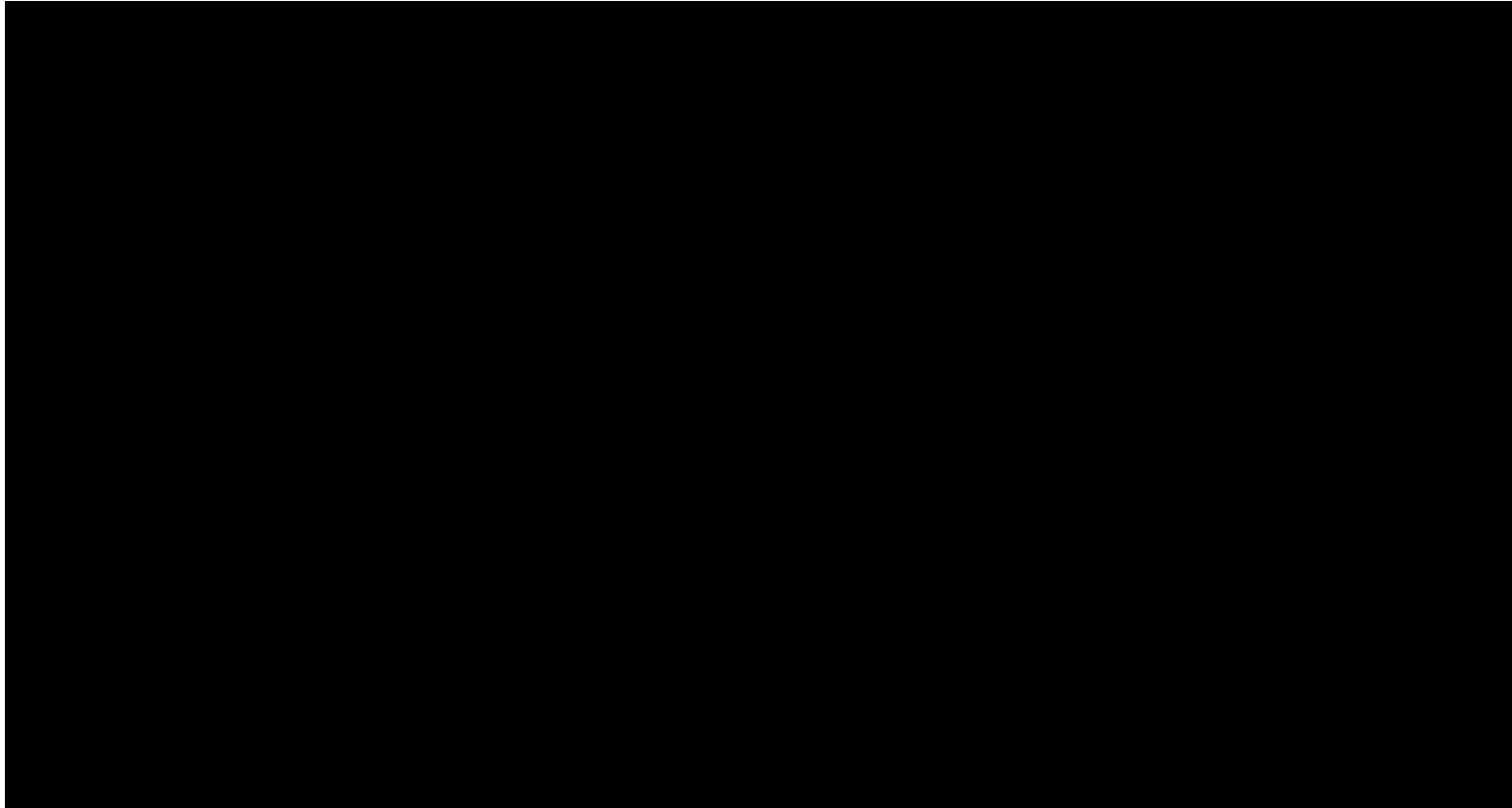


Summary of MPS process

M	T	W	Th	F		M	T	W
Developments and issues	Strategy and projections	Risks	Policy strategy	Key messages and advice		Comms	Policy deliberation	Policy decision and release
Information		Deliberations		Decisions				



Meet the external members





Overview

- The COVID-19 pandemic is having an unprecedented impact on the economy, despite activity rebounding with moves towards Alert Level 1
- Domestic activity continues to be suppressed by border restrictions and the weaker global economy
- The extent and persistence of this weakness is very uncertain
- Fiscal policy is providing significant support to the economy
- Accommodative monetary policy is complementing fiscal policy by reducing interest rates

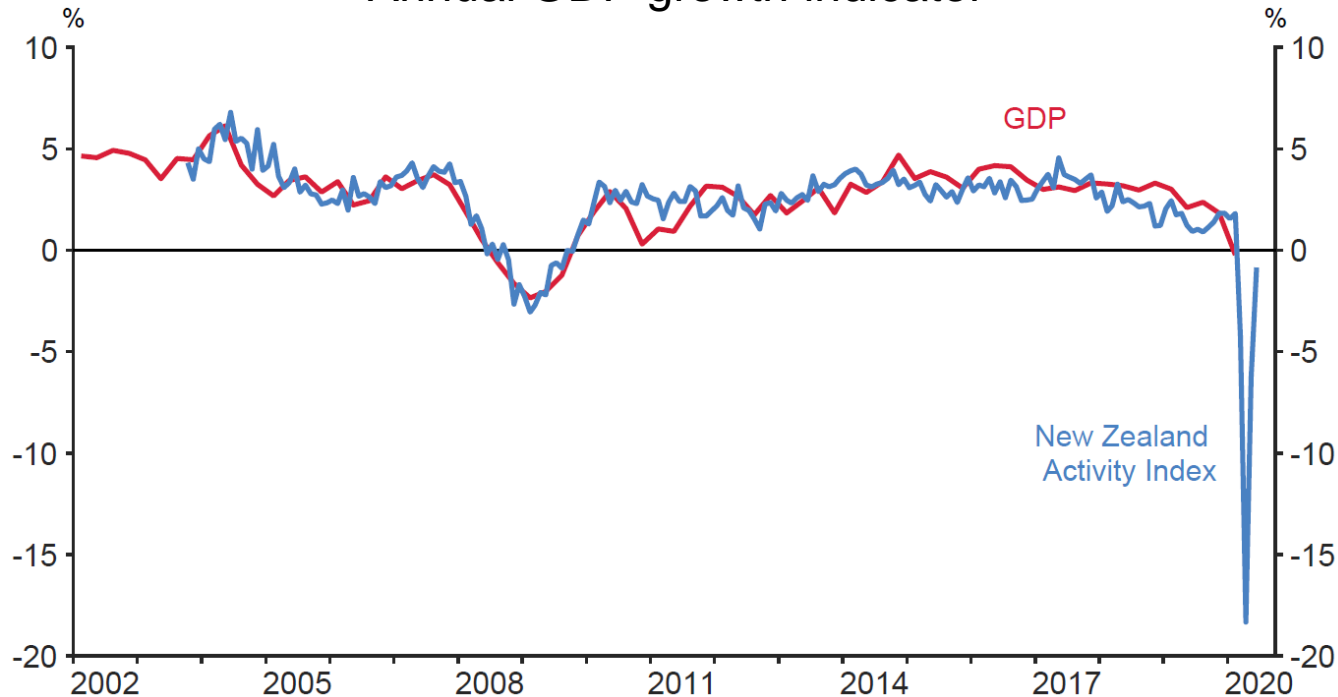


Impacts of COVID-19 on the New Zealand economy

The COVID-19 outbreak is hampering economic activity but a recovery has started



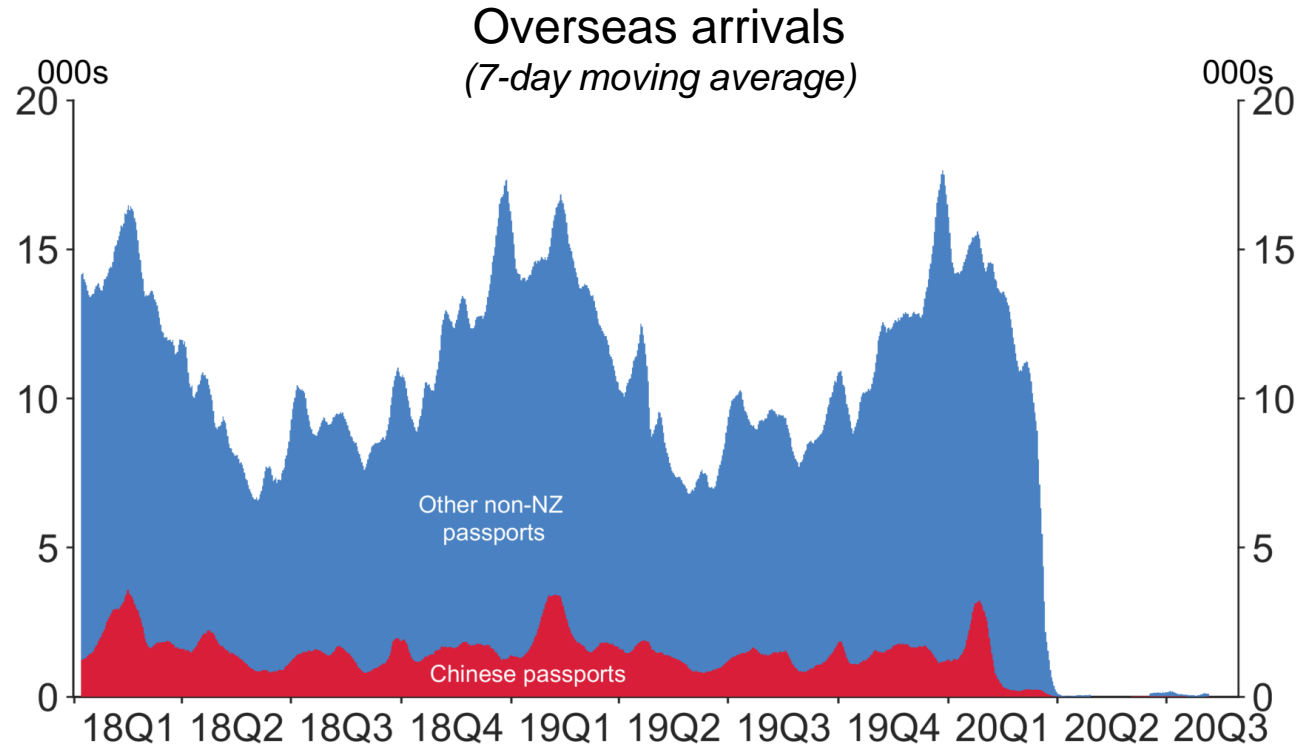
Annual GDP growth indicator



Source: Stats NZ, the Treasury, RBNZ estimates. Note: The New Zealand Activity Index (NZAC) is a weighted-average of eight monthly indicators of economic activity, covering consumer spending, unemployment, job vacancies, traffic volumes, electricity generation, economic outlook, and manufacturing expectations.



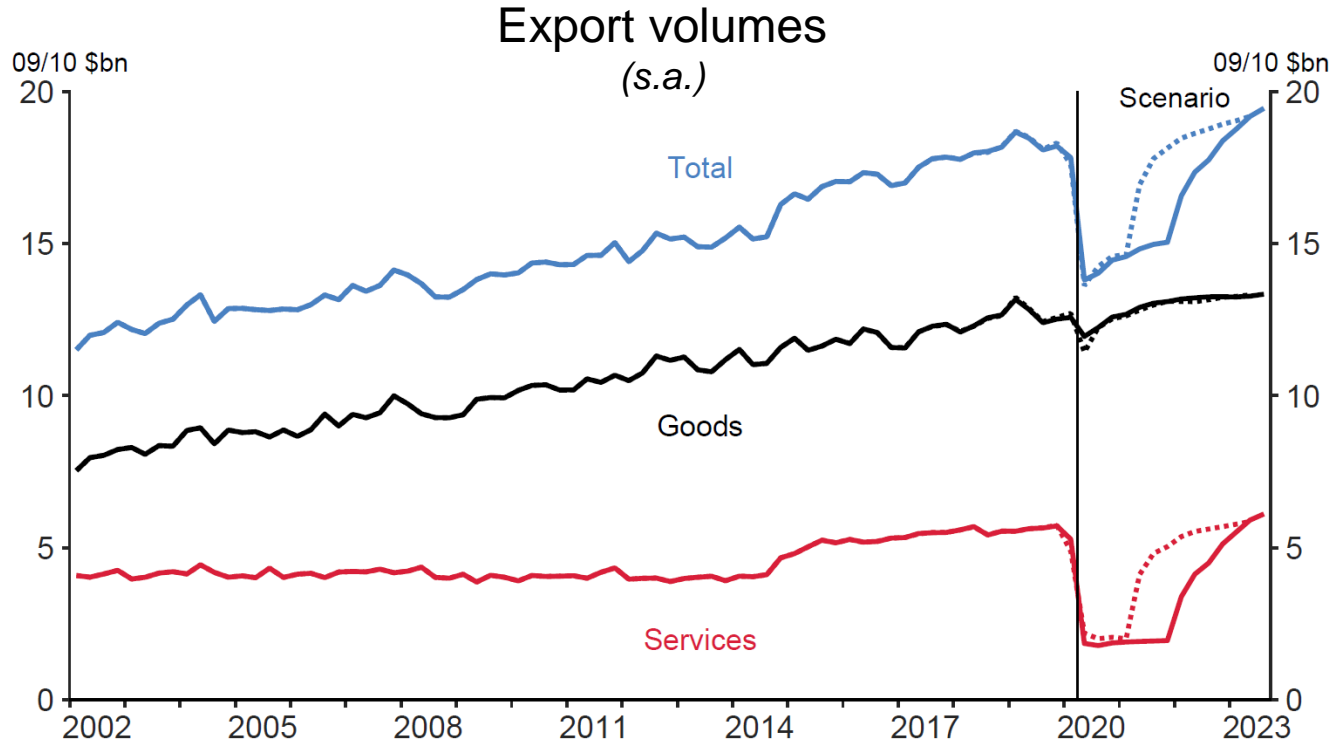
Border restrictions have particularly impacted the tourism and education sectors.



Source: Customs NZ. Note: This chart includes all arrivals to New Zealand on commercial air services, except those travelling on New Zealand passports. The data will include New Zealand residents arriving on non-New Zealand passports.



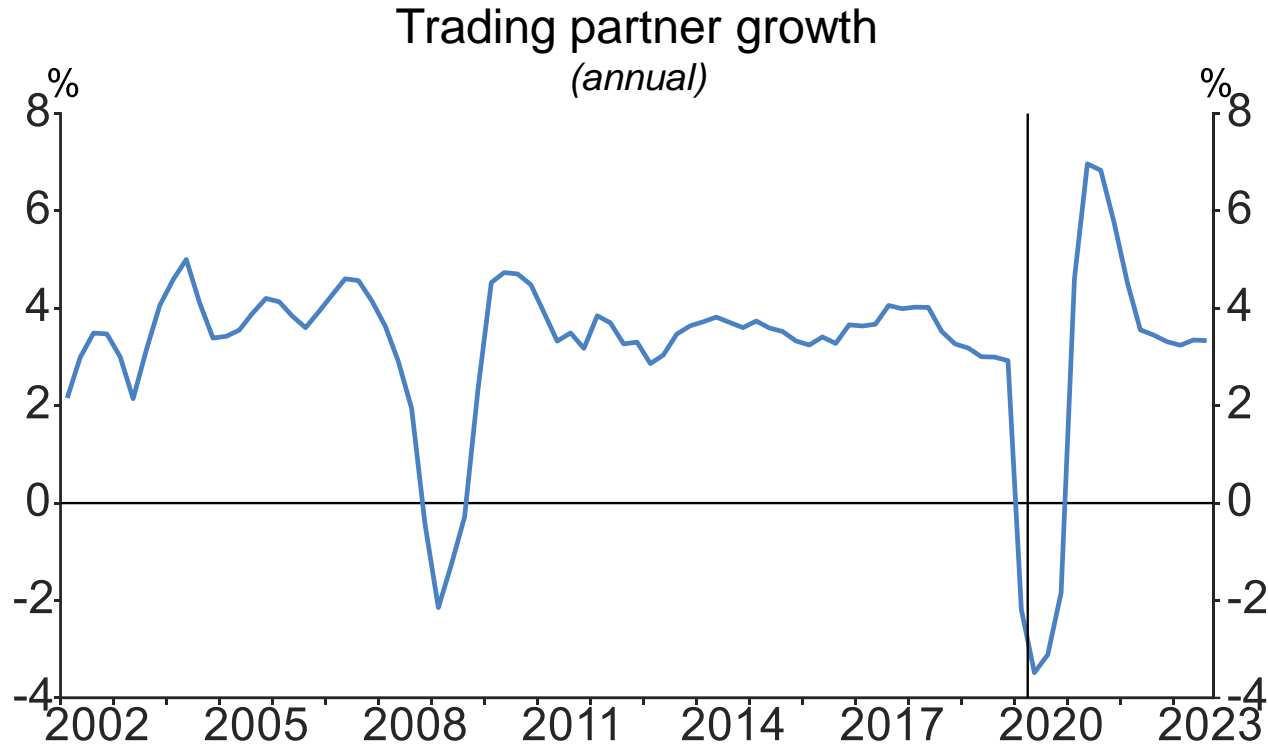
Services exports are expected to remain at low levels until borders re-open



Source: Stats NZ, RBNZ estimates. Note: Dotted lines show the baseline scenario from the May *Statement*.



Global softening negatively influences the New Zealand economy

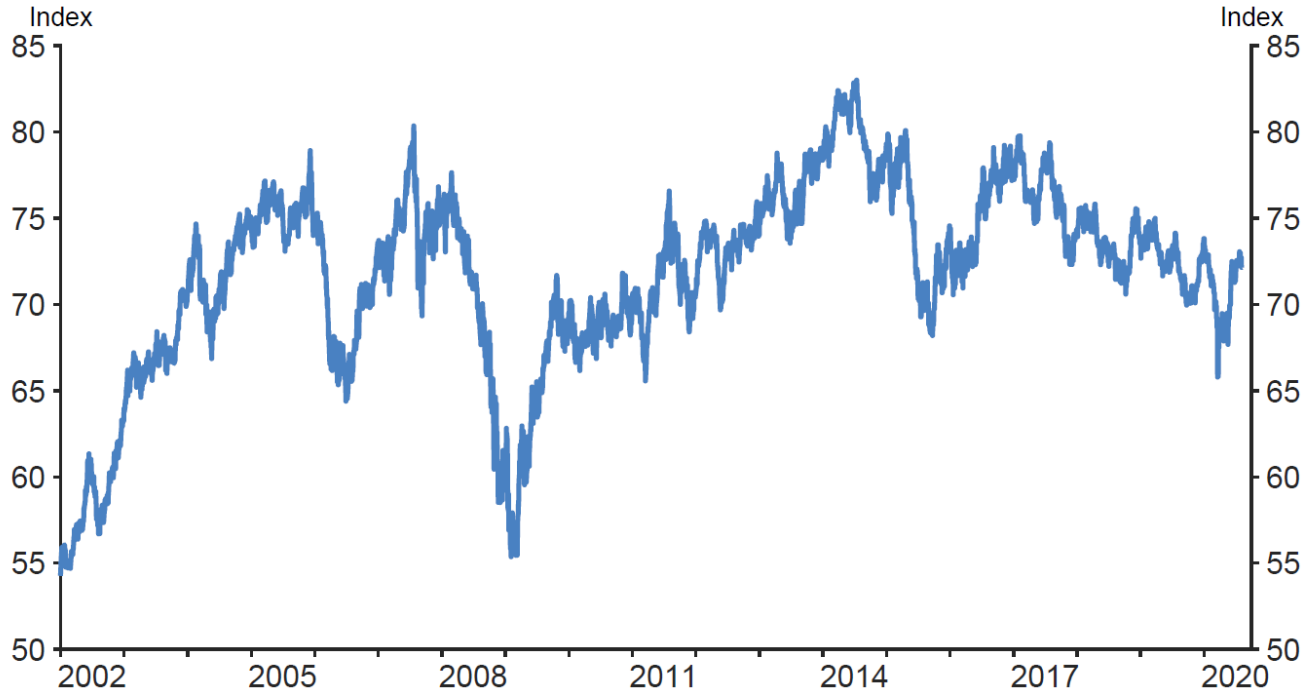


Source: Haver Analytics, RBNZ estimates.



The New Zealand dollar exchange rate has appreciated due to a number of factors

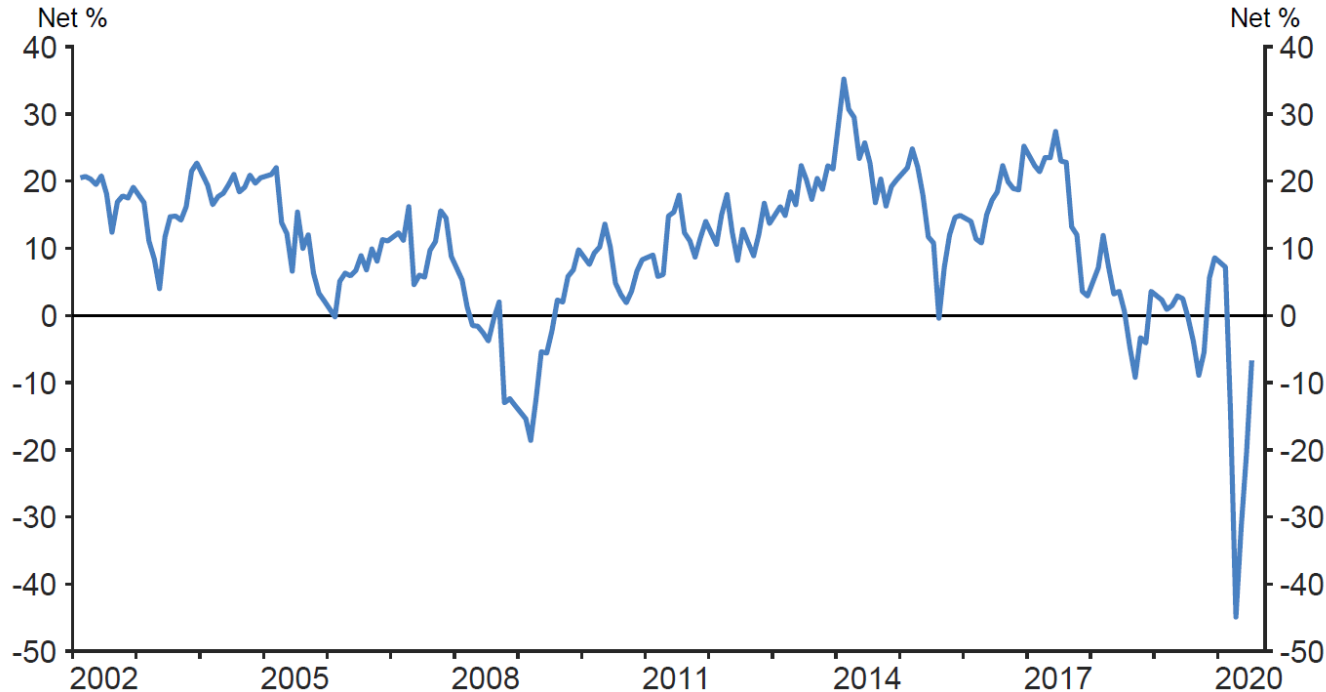
New Zealand dollar TWI





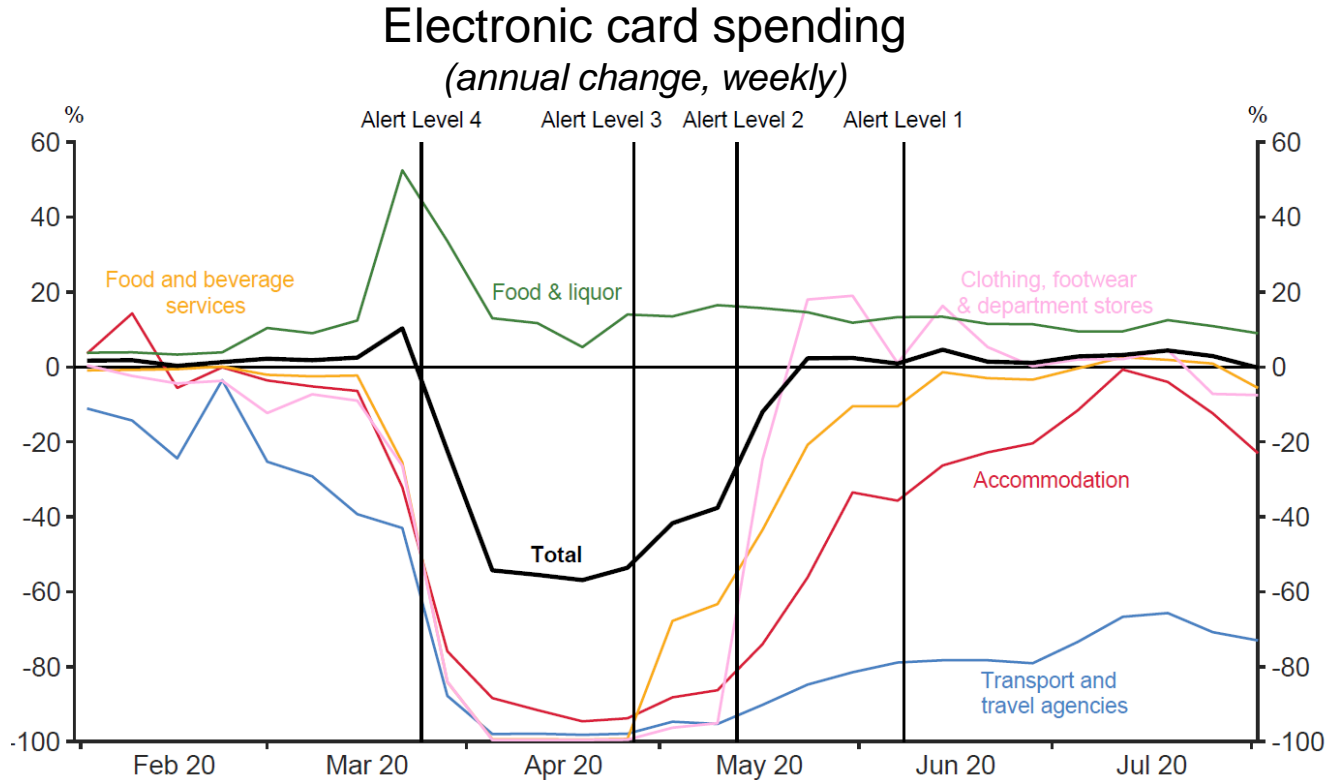
Faced with lower incomes and higher uncertainty, firms are scaling back investment

Investment intentions



Source: ANZ. Note: ANZ *Business Outlook* investment intentions measures the net percentage of firms that report an increase or decrease in intended investment.

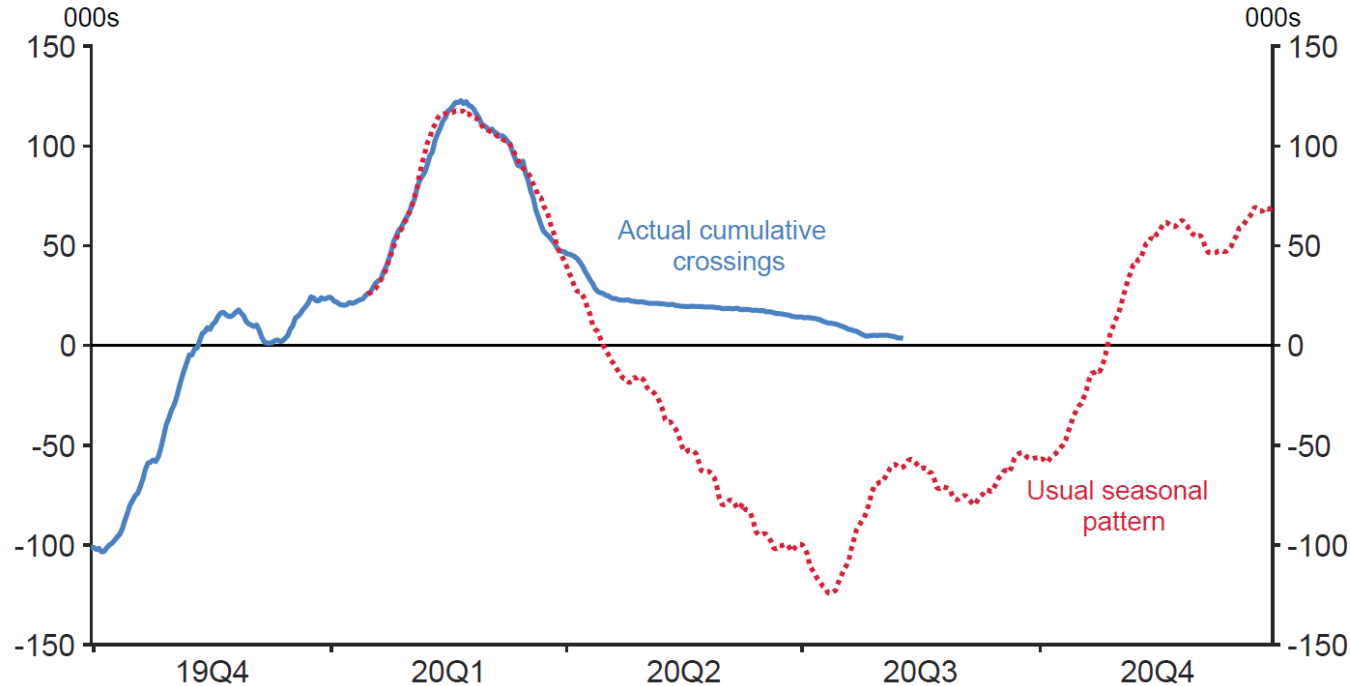
Activity rebounded as the Alert Levels were eased





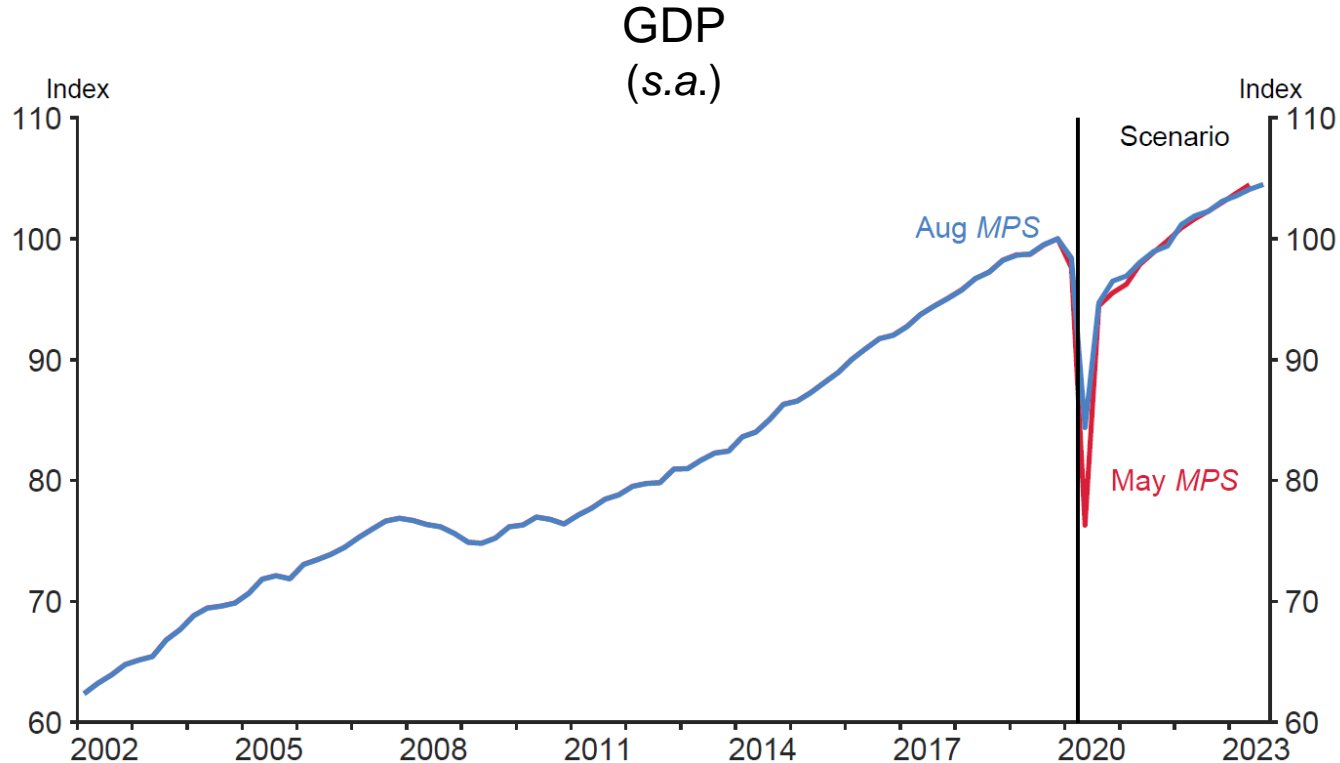
There is currently an unusually high number of people in the country

Cumulative border crossings since late 2019





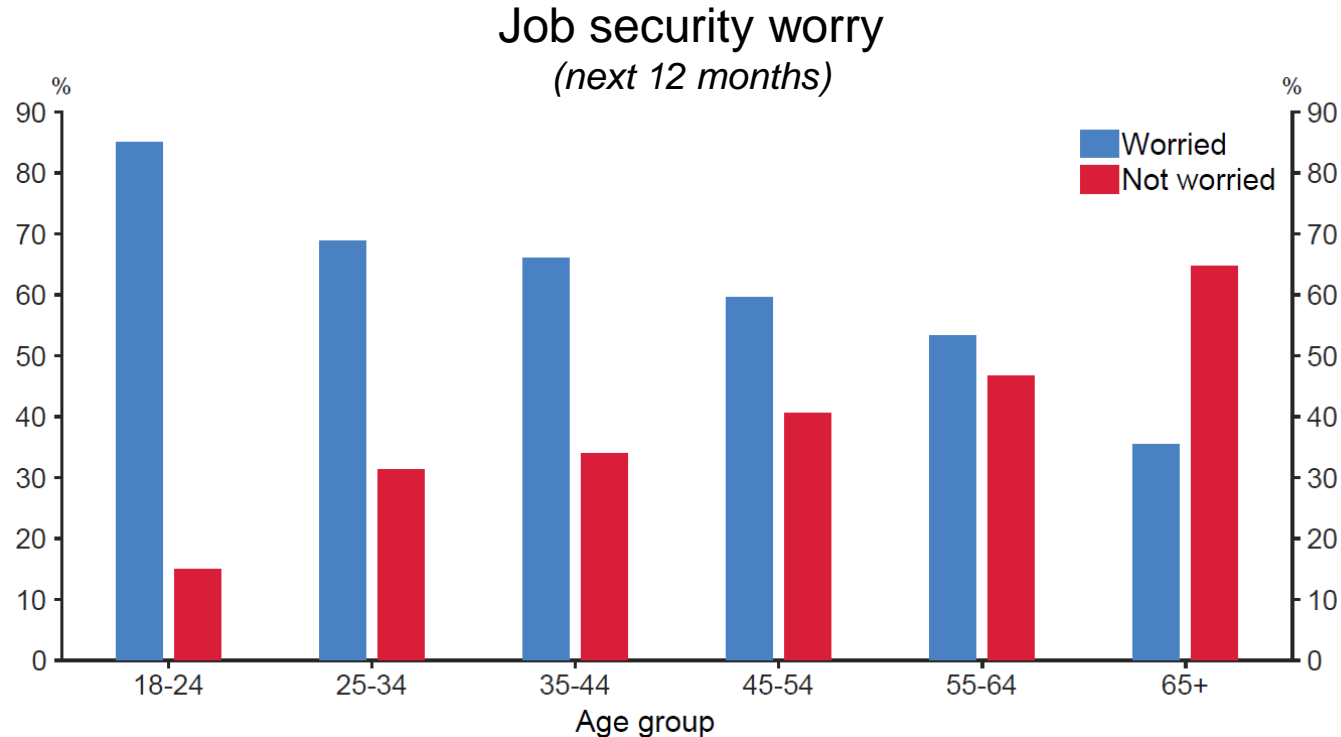
The baseline scenario indicates a sharp decline in economic activity but less so than in May



Source: Stats NZ, RBNZ estimates. Note: The series has been rebased to equal 100 in 2019 Q4

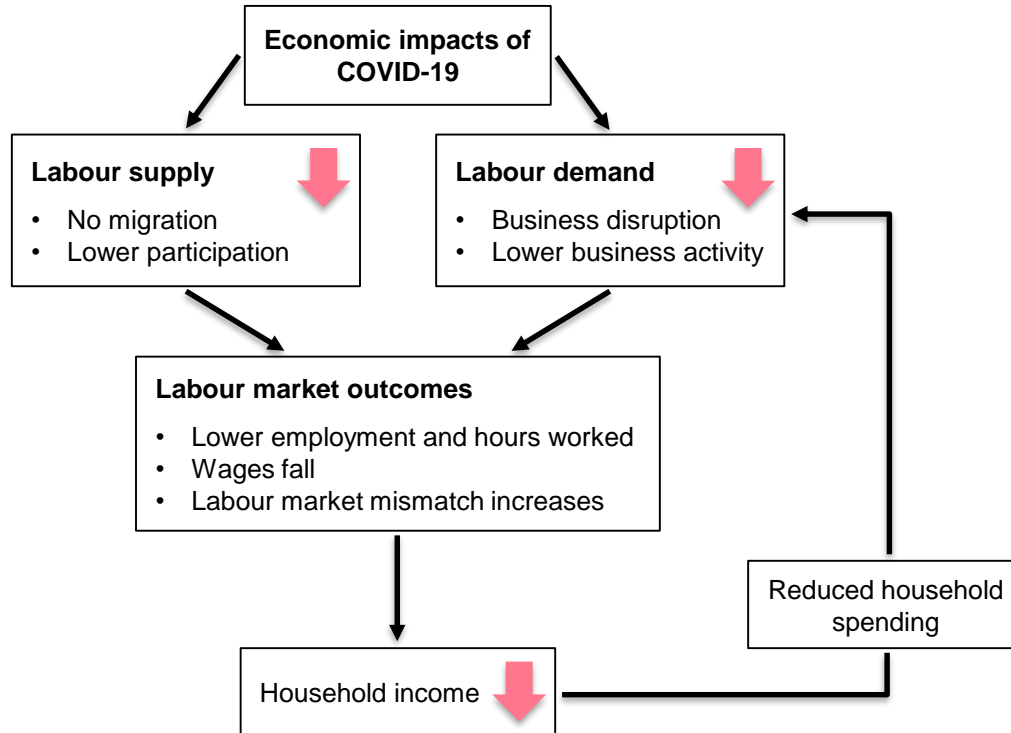


Uncertainty and pressure from COVID-19 has reduced job security for households



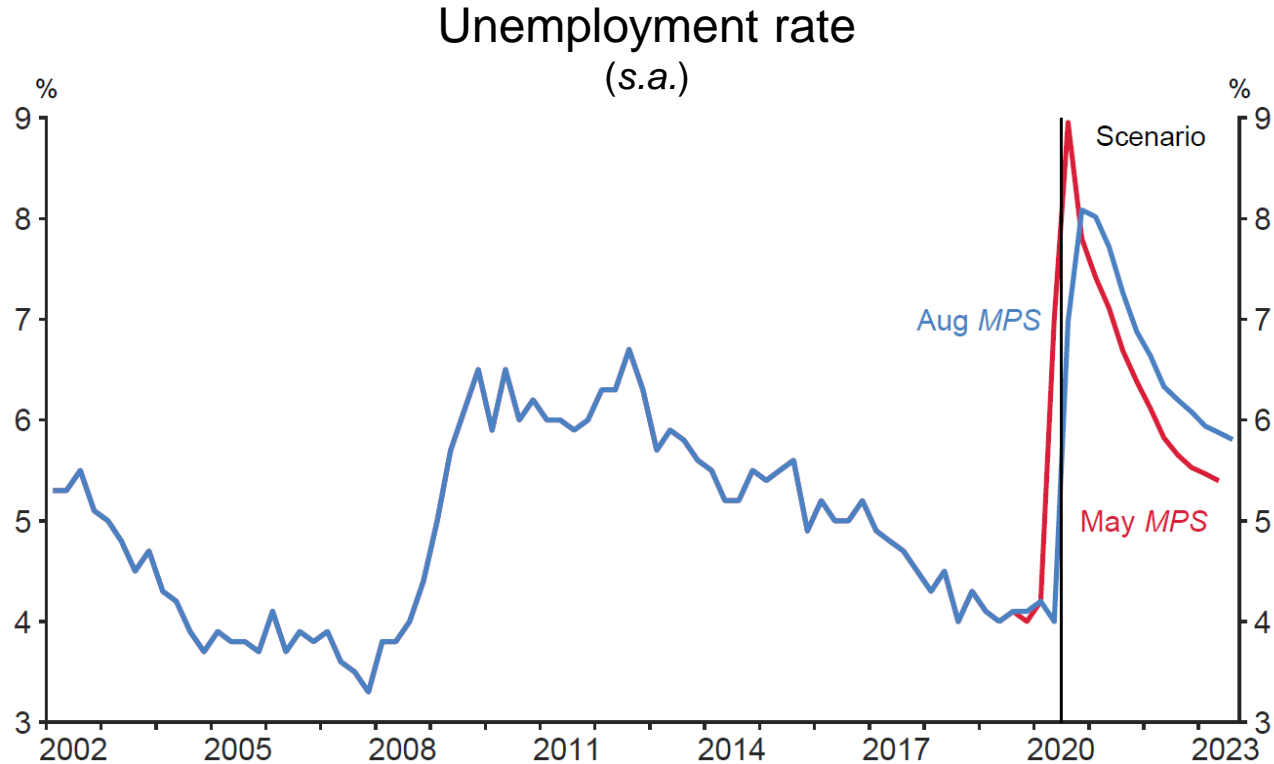
Source: RBNZ *Household Survey of Expectations*. Note: The question asks respondents “How worried are you about the following: Whether I will have a job in 12 months’ time”.

We expect employment to be below MSE for some time...



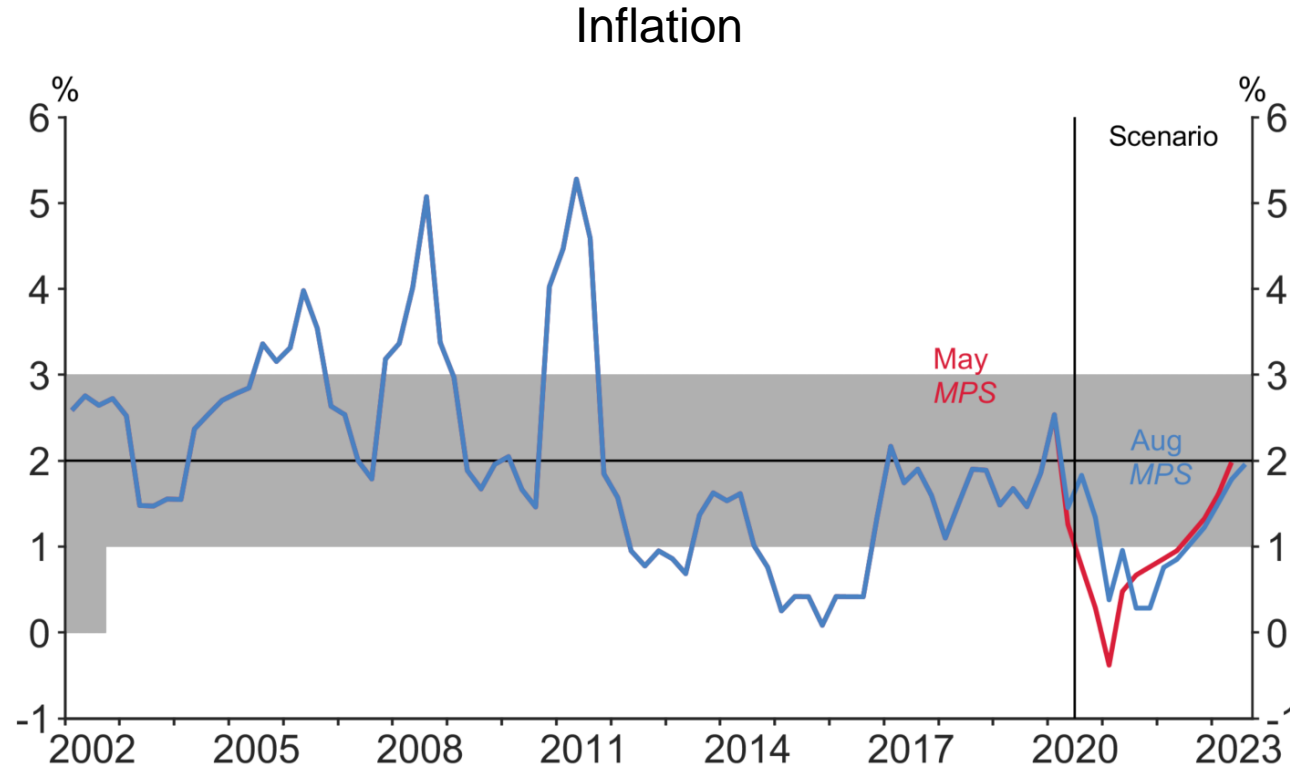


...and unemployment to rise...





...as inflation dips



Source: Stats NZ, RBNZ estimates.



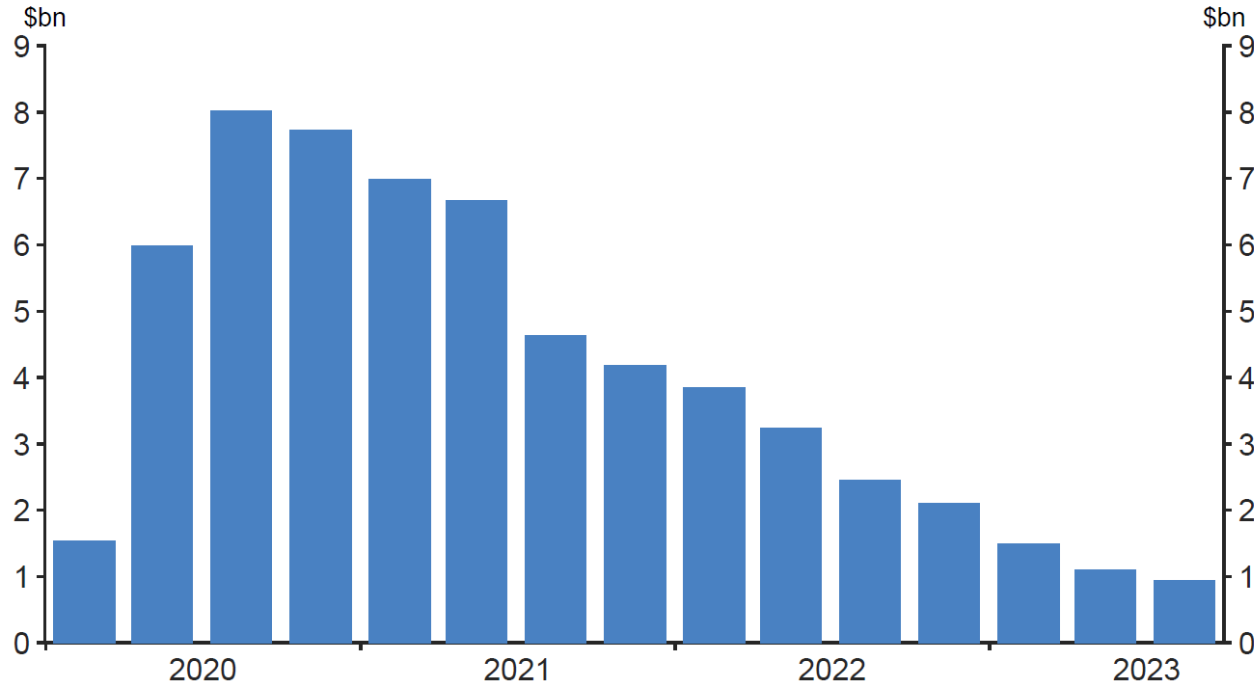
Policy responses to date

- Fiscal policy is providing considerable support to households and businesses. The fiscal envelope now exceeds \$60 billion.
- The OCR was cut 75bps to 0.25 percent in March, and the Monetary Policy Committee signaled this level for at least a year.
- A Large Scale Asset Purchase (LSAP) programme began in March. This involves the purchasing of up to \$100 billion of New Zealand government bonds, local government debt, and inflation-indexed bonds.
- The Bank is actively preparing to do more if required.

Fiscal spending cushions the economic impact of COVID-19 and supports a faster recovery



COVID-19 fiscal package



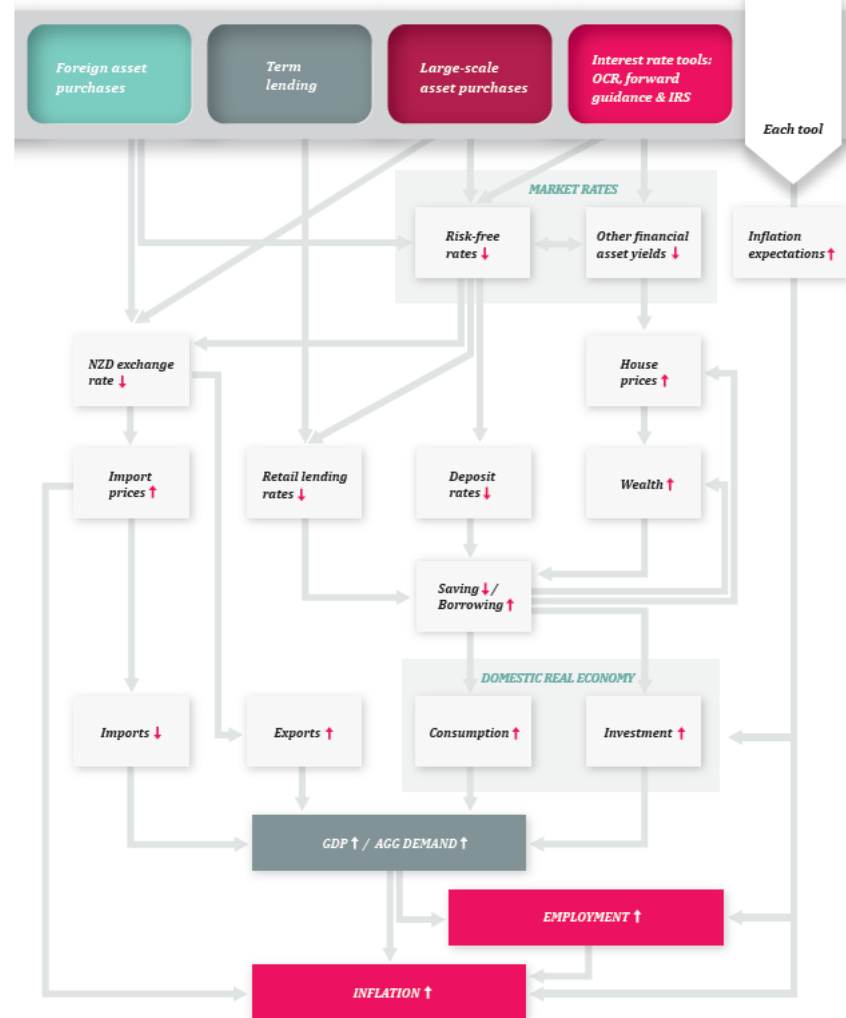
Source: Treasury, RBNZ estimates.

Note: These indicative estimates are derived from information outlined in Government releases.

Monetary policy transmission map

LSAPs support the Monetary Policy Committee's employment and inflation objectives through three main channels:

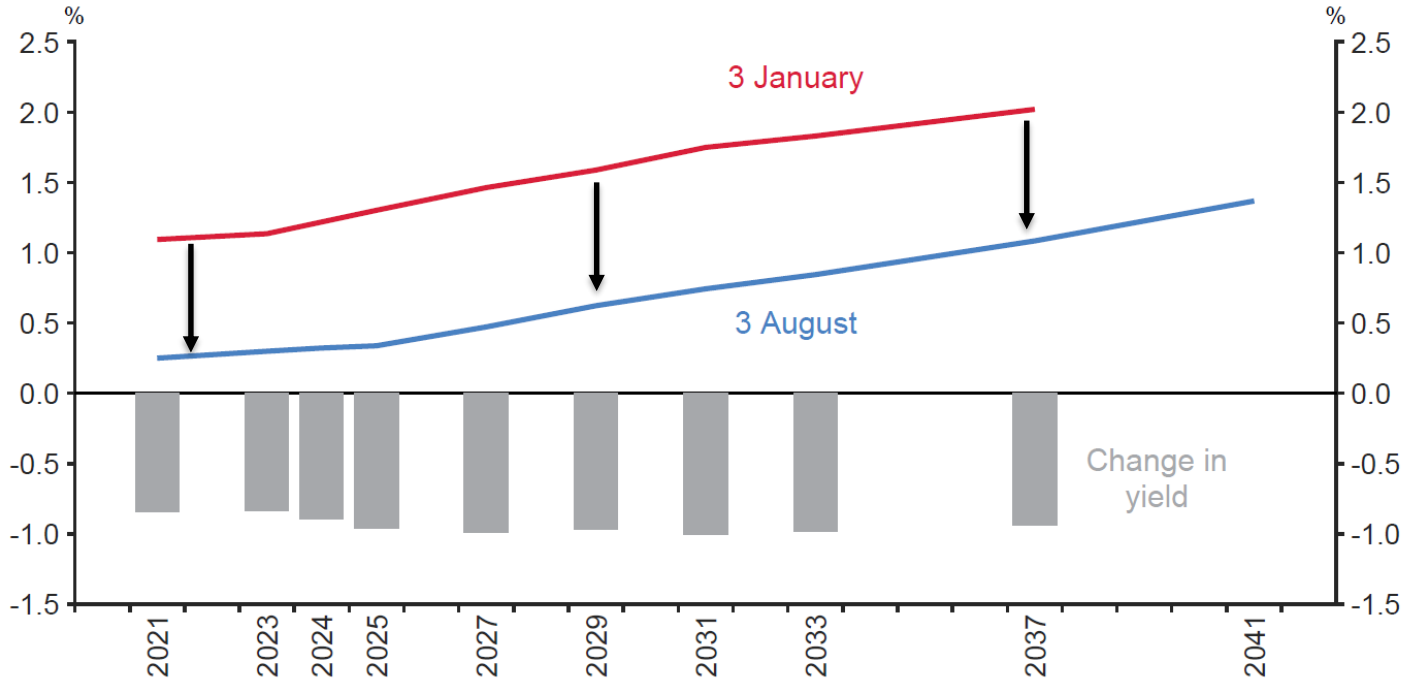
- Lowering interest rates throughout the economy
- Lowering the New Zealand dollar exchange rate
- Increasing inflation expectations





The LSAP programme has successfully lowered interest rates on government bonds

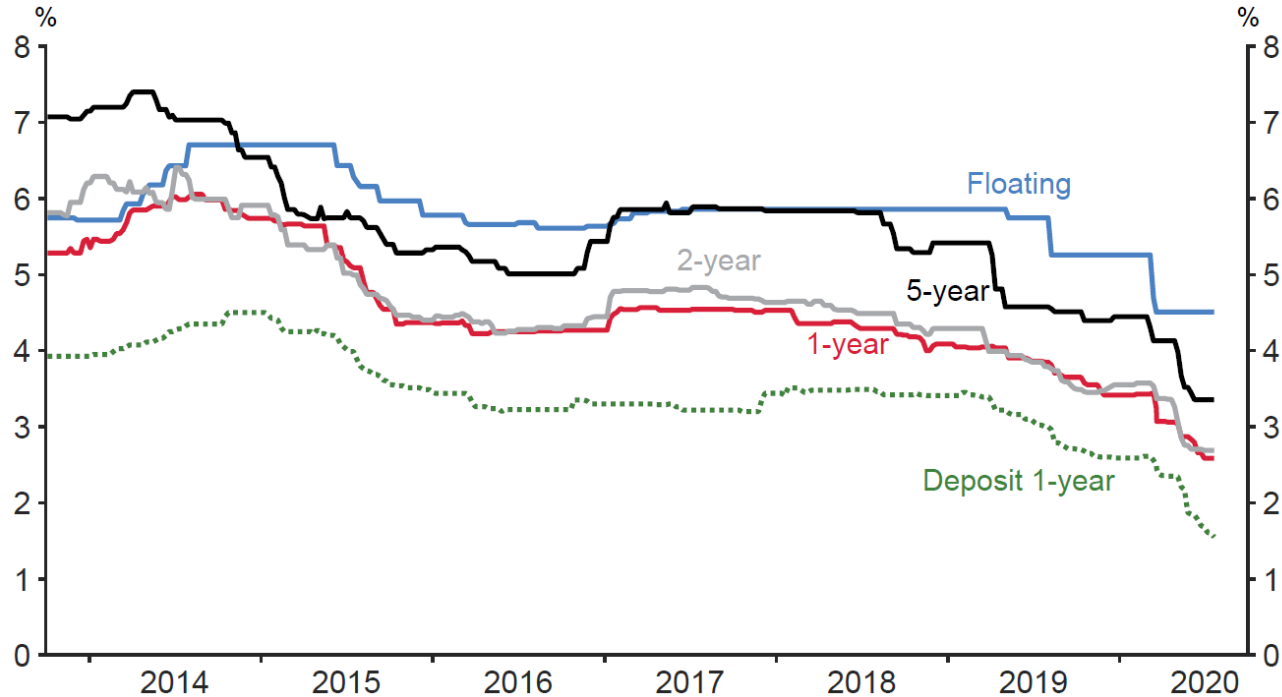
Interest rates on New Zealand Government bonds





Retail interest rates have fallen

Mortgage and deposit rates



Source: interest.co.nz, RBNZ estimates. Note: The rates shown for each term are the average of the latest rates on offer from ANZ, ASB, BNZ, and Westpac.



Summary

- The COVID-19 pandemic is having an unprecedented impact on the economy, despite activity rebounding with moves towards Alert Level 1
- Domestic activity continues to be suppressed by border restrictions and the weaker global economy
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Thank you

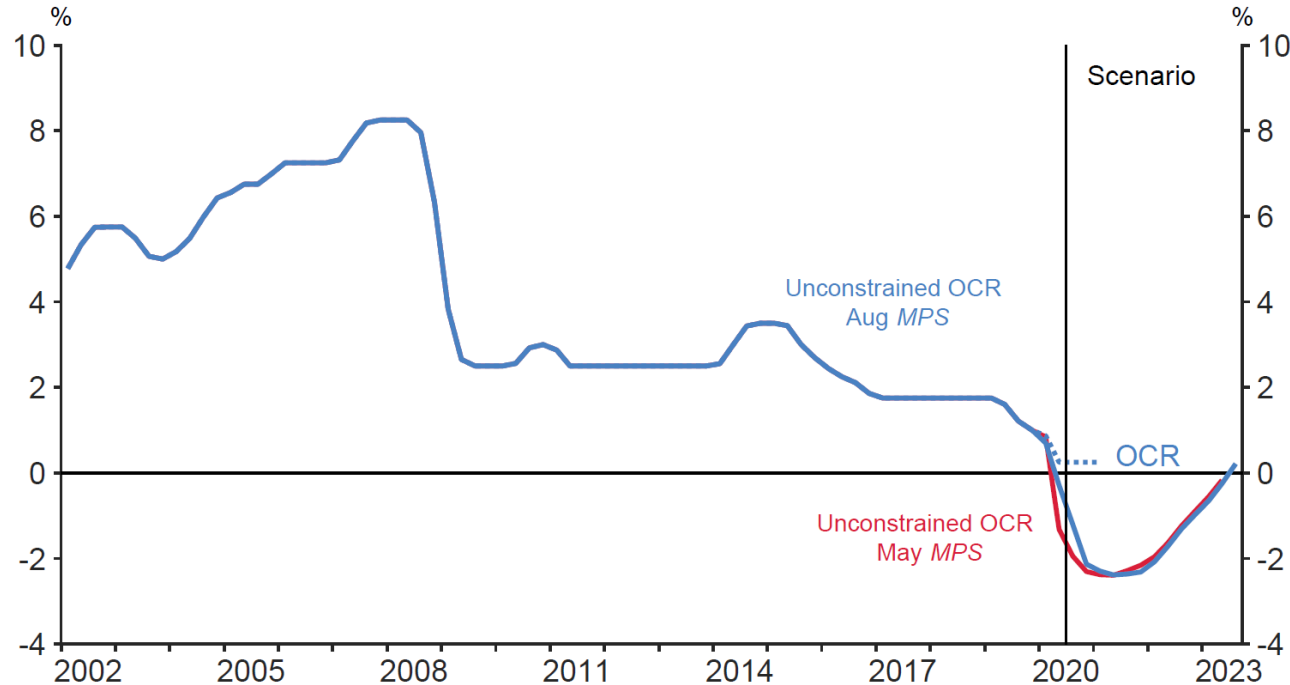


Extra slides



Monetary stimulus is needed to meet our targets over the medium term

Unconstrained Official Cash Rate

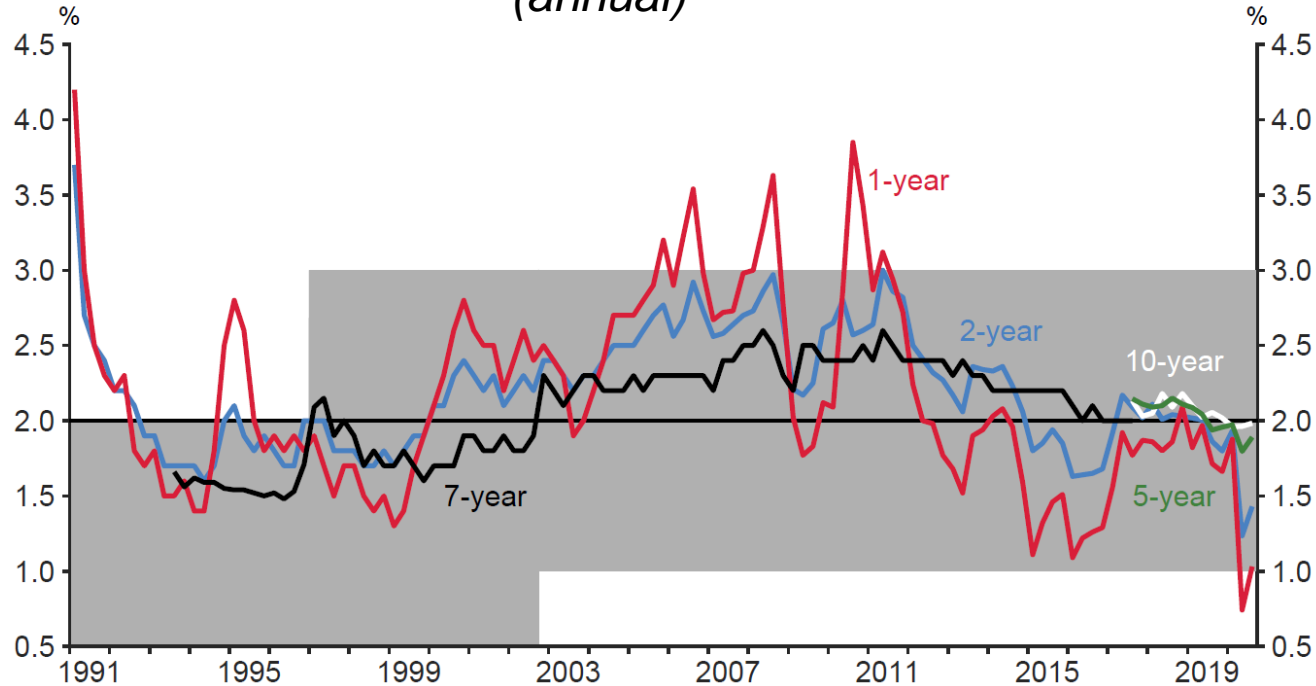


Source: RBNZ estimates. Note: Quarterly average.



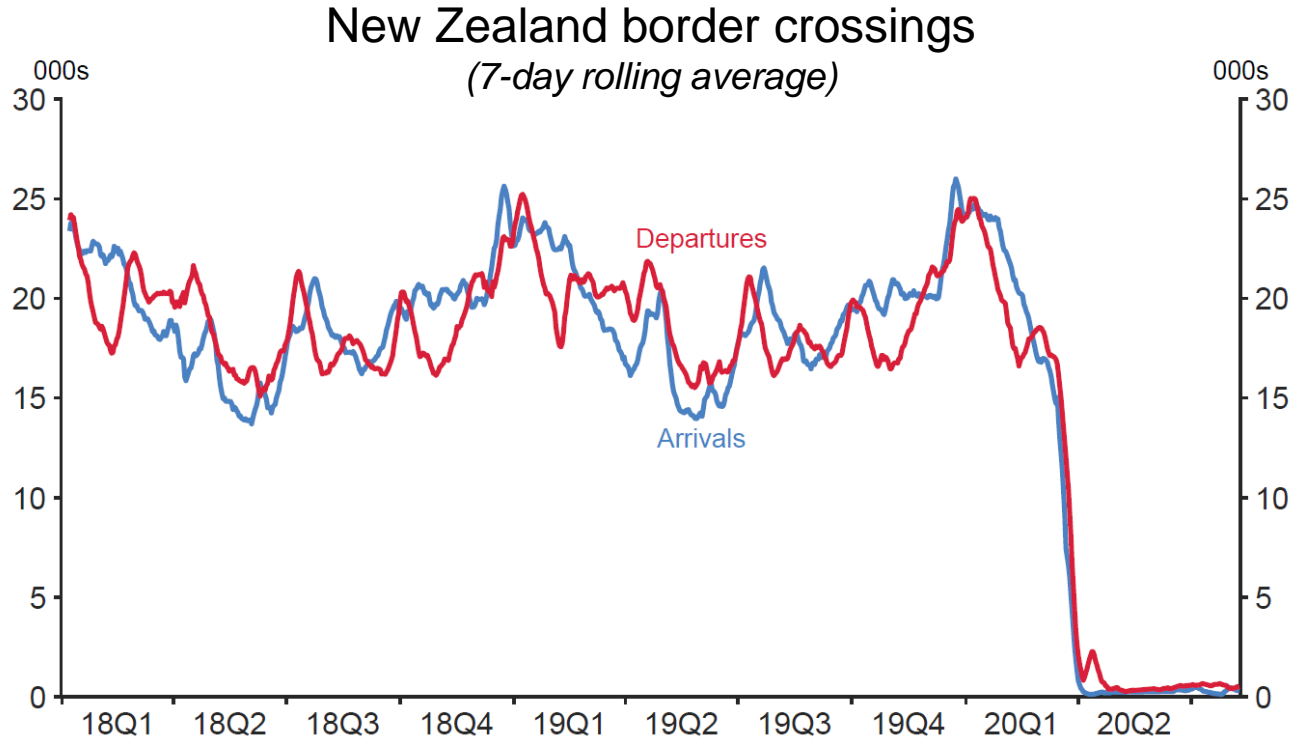
Inflationary pressures to ease over 2020

Inflation expectations
(*annual*)



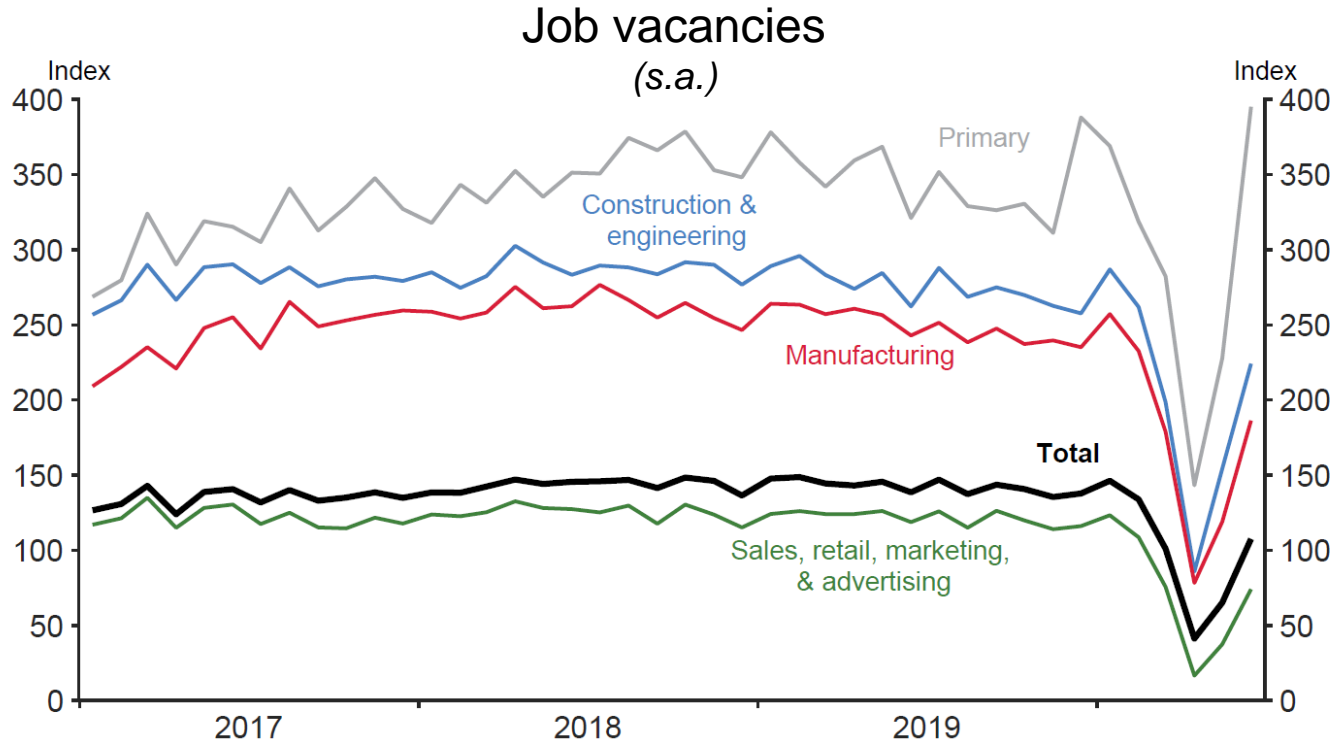


Border restrictions have particularly impacted the tourism and education sectors.





Weakness in labour demand is also reflected in falling job vacancies





Scenarios help to set policy

- Given the unparalleled global environment, the economic outlook is very uncertain.
- We have produced a baseline scenario to illustrate one possible path for the economy.
- Our scenario analysis has been updated to reflect the more positive data flow since the *May Statement*.
- Current estimates of the appropriate monetary policy stance are imperfect and subject to revision.

Key scenario assumptions in the August Statement



New Zealand GDP falls in 2020 and growth remains subdued for some time

Global growth also declines in 2020, suppressing global demand and inflation

Border restrictions remain in place until the end of 2021

No resurgence of cases in New Zealand and no further generalized lockdown