



Official Cash Rate set to remain restrictive

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The Monetary Policy Committee today voted to raise the Official Cash Rate (OCR) from 5.25% to 5.50%.

The Committee agreed the level of interest rates are constraining spending and inflation pressure. The OCR will need to remain at a restrictive level for the foreseeable future, to ensure that consumer price inflation returns to the 1-3% annual target range, while supporting maximum sustainable employment.

Global economic growth remains weak and inflation pressures are easing. This follows a period of significant monetary policy tightening by central banks internationally. International supply chain constraints have also eased following a period of disruption, and shipping costs have declined. The weaker global growth has led to lower export prices for New Zealand's goods.

In New Zealand, inflation is expected to continue to decline from its peak and with it measures of inflation expectations. However, core inflation pressures will remain until capacity constraints ease further. While employment is above its maximum sustainable level, there are now signs of labour shortages easing and vacancies declining.

Consumer spending growth has eased and residential construction activity has declined, while house prices have returned to more sustainable levels. More generally, businesses are reporting slower demand for their goods and services, and weak investment intentions. Businesses report that a lack of demand, rather than labour shortages, is now the main constraint on activity.



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There has been a return of net inward migration since international borders reopened. The Committee expects the pace of immigration to ease back toward pre-COVID-19 trend levels over coming quarters. While immigration has assisted to ease labour shortages, its net impact on overall spending is uncertain. The recent recovery in tourism spending, to around three-quarters of its pre-COVID-19 trend level, is also supporting demand.

The repair and rebuild facing significant regions of the North Island – due to the recent severe weather events - will support economic activity, in particular the horizontal construction sector. The timing of this predominantly government investment will be spread over several years. Broader government spending is anticipated to decline in inflation-adjusted terms and in proportion to GDP.

The Committee is confident that with interest rates remaining at a restrictive level for some time, consumer price inflation will return to within its target range of 1-3% per annum, while supporting maximum sustainable employment.

[Read the full statement and Record of meeting](#)

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