

MNI RBNZ Review – November 2022

Meeting Date: Wednesday, 23 November 2022

Link To Decision: <https://www.rbnz.govt.nz/hub/news/2022/11/higher-interest-rates-necessary>

Link To MPS: <https://www.rbnz.govt.nz/-/media/6f94404804da43e0a2257ea5c44fc825.ashx>

CONTENTS

- **Page 2:** MNI POV (Point of View)
- **Page 3-5:** RBNZ November Monetary Policy Review
- **Page 6-7:** Key Forecast Variables – November vs. August Statement
- **Page 8-10:** Sell-Side Analyst Views

MNI POV (Point Of View): MPC Ups Ante In War On Inflation

Data flow in the lead-up to the RBNZ's final monetary policy review of 2022 fuelled expectations that the Reserve Bank would take more drastic measures to contain price pressures as its inflation-fighting credibility is at stake. The RBNZ raised the Official Cash Rate by a record 75bp and clearly communicated that it intends to continue aggressive monetary tightening. The upsized rate hike took the policy rate to "officially contractionary" territory amid the "need to reach a higher level OCR sooner than previously anticipated."

In its statement, the Monetary Policy Committee recognised that "core consumer price inflation is too high, employment is beyond its maximum sustainable level, and near-term inflation expectations have risen." Members acknowledged that consumer price inflation significantly exceeded expectations and cited high-frequency data suggesting "that pricing pressure will be sustained over coming months."

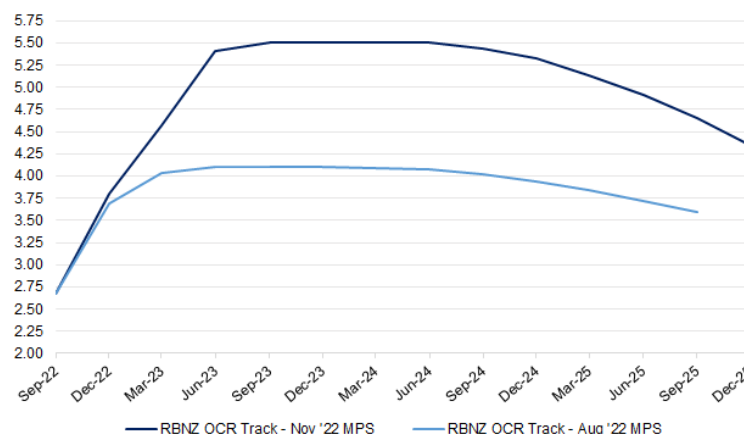
The Committee also took note of the pass-through from persistently elevated inflation to shorter-term inflation expectations. In the spirit of the "stitch in time" logic, members noted that allowing inflation to remain above the target range longer increases the risk of higher inflation expectations becoming embedded.

The ultra-tight labour market received increased scrutiny owing to its critical role in fuelling domestic price pressures. Acute labour shortages are pushing wages higher, with many people changing jobs or working additional hours to boost their income in high-inflation environment. Interestingly, capacity constraints reduced optimism about the tourism recovery, with some members noting that they could "inhibit the tourism recovery and add to overall inflation pressures."

The minutes of the meeting flagged a debate on the preferred magnitude of tightening, with 50bp, 75bp and 100bp considered as options. After agreeing that increasing the pace of rate hikes was appropriate, members considered the merits of raising the OCR by 75bp versus 100bp this time around. The fact that a super-sized 100bp rate hike was an option caught many off guard, with no sell-side desk projecting such an outcome.

Part of the hawkish twist in the RBNZ's rhetoric stemmed from their reassessment of the neutral OCR level. The Monetary Policy Statement indicated that that level is now estimated to be 3.6% (up from around 2% previously) owing to a material increase in inflation expectations. The revised neutral rate estimate implied that the RBNZ had more work to do on the tightening front before achieving sufficient contractionary effect.

Economic projections underscored the RBNZ's determination in containing inflation, even at the expense of economic growth. The Reserve Bank now expects New Zealand to enter a 12-month recession starting in 2Q2023, with a peak-to-trough GDP contraction of around 1%. Meanwhile, the OCR track was revised notably higher and now implies the policy rate to peak at 5.50% versus 4.10% forecast in the August Statement, with another 75bp rate rise at the next rate review. When this is being typed, swaps are fully pricing a 50bp rate hike in February, with a 61% chance of a 75bp move.



RBNZ November Monetary Policy Review Announcement

The Committee agreed that the OCR needs to reach a higher level, and sooner than previously indicated, to ensure inflation returns to within its target range over the medium term. Core consumer price inflation is too high, employment is beyond its maximum sustainable level, and near-term inflation expectations have risen.

Global consumer price inflation is broad based and remains heightened. Food and energy prices, and persistent core inflation, have combined to create very high headline inflation in many countries. Central banks are tightening monetary conditions in an effort to slow spending and reduce inflation pressure. The ongoing slowdown in global growth will affect New Zealand through both financial and trade channels, and impact on people's confidence due to uncertainty.

In New Zealand, household spending remains resilient, especially considering the rise in debt servicing costs, the fall in house prices, and low levels of consumer confidence. Employment levels are high, and income growth and household savings are supporting spending. The rebound in tourism is also supporting domestic demand.

The productive capacity of the economy is being constrained by broad-based labour shortages, and wage pressures are evident. Aggregate demand continues to outstrip New Zealand's capacity to supply goods and services, with a range of indicators continuing to signify broad-based inflation pressure.

Committee members agreed that monetary conditions needed to continue to tighten further, so as to be confident there is sufficient restraint on spending to bring inflation back within its 1-3 percent per annum target range. The Committee remains resolute in achieving the Monetary Policy *Remit*.

Summary Record of Meeting

The Monetary Policy Committee discussed developments affecting the outlook for inflation and employment in New Zealand. Inflation is currently too high and employment is beyond its maximum sustainable level. The Committee agreed it must continue to act decisively to return inflation to target and to fulfil its *Remit*.

The Committee discussed recent international economic developments. In many countries, elevated food and energy prices are contributing to high headline inflation, with high core inflation reflecting more broad based inflationary pressures. Most central banks have continued to tighten monetary conditions and to signal further interest rate increases in coming months. Financial market volatility remains high as central banks act to stem the rise in inflation in an environment of slowing and uncertain economic growth.

Expectations for global economic growth have declined further. For example, China's economy is facing headwinds emanating from the property sector, while measures to contain the spread of COVID-19 continue to cause production bottlenecks. The United States and Europe are, to varying degrees, experiencing the effects of high inflation, tighter financial conditions and associated economic uncertainty. The Committee agreed that the anticipated global growth slowdown will affect New Zealand through trade and financial channels, and increased economic uncertainty impacting on people's confidence.

The Committee observed that consumer price inflation in New Zealand in the September quarter was significantly stronger than expected. Measures of core inflation continued to rise and price pressures broadened. Survey measures and other high frequency data suggest that pricing pressure will be sustained over coming months. In addition, shorter term inflation expectations have increased as high inflation persists.

The Committee agreed that to achieve its *Remit* objectives, actual and expected inflation need to decline substantially. Members highlighted that the longer actual inflation remains above the target band, the more likely it is that higher inflation expectations become embedded.

The Committee discussed the labour market at length, given its importance in the current economic environment. Labour shortages remain a significant constraint on economic activity. Recent data highlight a material increase in employment, enabled by a strong lift in labour force participation to a record level. Measures of labour force utilisation are near record levels and firms continue to report severe difficulties finding labour.

High consumer price index (CPI) inflation and competition for workers are putting upward pressure on wages. The Committee observed that overall wage growth is not exceeding CPI inflation after accounting for productivity growth. While wage growth for people in the same job is generally not keeping pace with inflation, many people are changing jobs or increasing their hours worked to achieve real income growth. The Committee noted that public sector wage growth has lagged that in the private sector and agreed this lag represents an upside risk to wage pressure going forward.

The Committee observed the stronger than expected rebound in tourism since New Zealand's border reopened. Short-term visitor arrivals, international card spending data, and information gathered from recent business visits indicate that tourism spending will make a strong contribution to economic activity in coming months. However, some members noted that ongoing capacity constraints could, at some point, inhibit the tourism recovery and add to overall inflation pressures. In relation to New Zealand's goods exports, members observed that a lower New Zealand dollar is currently mitigating the impact of recent declines in international commodity prices.

The Committee discussed the recent Financial Stability Report and noted that the financial system remains resilient. In particular, members highlighted that recent stress tests demonstrate banks' resilience. The Committee was especially interested in the resilience of household balance sheets to scenarios of higher interest rates, reduced labour demand, and declining house prices. The Committee noted that while national house price indices have declined to mid-2021 levels, they are still above estimates of sustainable house prices and above levels that prevailed pre-COVID-19.

Household spending remains robust, especially considering the rise in debt servicing costs, the fall in house prices, and low levels of consumer confidence. Members observed that the large stock of household savings, in addition to income growth, may provide a buffer to support consumption now and in the future. However, members also noted that the ownership of savings is likely concentrated, leaving the majority of households exposed to high inflation and interest rates.

The Committee agreed that as debt servicing costs rise, spending decisions for many households will be increasingly constrained. These constraints would be most felt by recent home buyers with a high debt servicing commitment relative to their income. The Committee agreed that the impact of rising interest rates on households' spending and saving decisions is an important channel for monetary policy. In addition to constraining spending, higher interest rates also encourage saving and paying down of debt.

The Committee discussed domestic financial conditions, noting that wholesale interest rates have risen significantly since the August Statement, primarily due to higher-than-expected inflation in New Zealand and globally. Retail lending rates have also increased but remain lower than the levels wholesale rates might imply. Members observed that this reflects a combination of both the higher volume and the mix of current bank funding. Members noted that a gradual normalisation in bank funding conditions over the forecast period could result in sustained upward pressure on retail lending rates.

The Committee considered the economic projections. Members noted that a reduction in aggregate demand is projected to cause GDP in the New Zealand economy to temporarily contract by around 1% from 2023. Members noted that this reduction in aggregate demand was necessary to return inflation to target over the forecast period. Members agreed that the exact timing and extent of negative GDP growth was difficult to predict, but historical evidence suggests risks are skewed toward a likely short period of contraction. Members also agreed that the sooner supply and demand were better matched in the economy, the lower the overall cost of reducing inflation.

Members agreed that monetary policy primarily impacts on demand in the economy. However, any increase in the supply potential of the economy, such as through productivity improvements, would also assist in reducing inflation. However, members agreed that a significant increase in the economy's capacity to supply goods and services could not be relied on to reduce inflation pressures over the forecast horizon.

The Committee agreed that fiscal policy can also act to reduce demand in the economy. Members observed that in a higher inflation environment, a given level of government services would cost more to deliver. However, members noted that inflation would also lead to increased government revenues in nominal terms, potentially offsetting the rising cost of service delivery. On balance, members viewed the risks to inflation pressure from fiscal policies as skewed to the upside given the ongoing real demand for services.

The Committee received an update on the status of the Large Scale Asset Purchase (LSAP) portfolio and noted that sales of bonds in the LSAP portfolio to New Zealand Debt Management began in July. Members observed that the New Zealand government bond market continues to function normally under the current pace of LSAP sales and agreed to continue to evaluate this on an ongoing basis. The Committee agreed that the level of settlement cash balances is not a source of unexpected inflationary pressure and noted that overnight wholesale interest rates remain aligned to the OCR.

The Committee discussed the extent of additional monetary tightening required to achieve its Remit. Members agreed that the OCR needed to reach a level where the Committee could be confident it would reduce actual inflation to within the target range over the forecast horizon. Members agreed that this level had increased since the time of the August Statement due to the persistence of inflationary pressures resulting in a higher short-term nominal neutral interest rate.

The Committee discussed the size of the OCR increase to be delivered at this meeting. Increases of 50, 75 and 100 basis points were considered. The Committee discussed the relative merits of maintaining consistent increments in the OCR versus moving more quickly to reach the higher level of the OCR required. Members agreed that a larger increase in the OCR was appropriate, given the resilience of domestic spending, and the higher and more persistent actual and expected inflation outcomes.

The Committee gave consideration to an increase in the OCR of 75 or 100 basis points. On the balance of risks, the Committee agreed that a 75 basis point increase was appropriate at this meeting. Members highlighted that the cumulative tightening of monetary conditions delivered to date continues to pass through to the economy via the lagged transmission to effective retail interest rates.

On Wednesday 23 November, the Committee reached a consensus to increase the OCR from 3.5% to 4.25%.

Key Forecast Variables – November vs. August MPS

Key forecast variables			GDP growth Quarterly	CPI inflation Quarterly	CPI inflation Annual	Unemployment rate	TWI	OCR
2020	Mar		-1.1	0.8	2.5	4.2	70.9	0.9
	Jun		-10.4	-0.5	1.5	4.0	69.7	0.3
	Sep		13.7	0.7	1.4	5.3	72.0	0.3
	Dec		-0.4	0.5	1.4	4.9	72.9	0.3
2021	Mar		1.7	0.8	1.5	4.6	74.9	0.3
	Jun		2.3	1.3	3.3	3.9	74.7	0.3
	Sep		-3.9	2.2	4.9	3.3	74.4	0.3
	Dec		3.0	1.4	5.9	3.2	74.3	0.6
2022	Mar		-0.2	1.8	6.9	3.2	72.6	0.9
	Jun		1.7	1.7	7.3	3.3	72.1	1.6
	Sep		0.8	2.2	7.2	3.3	70.6	2.7
	Dec		0.6	1.7	7.5	3.2	70.0	3.8
2023	Mar		0.4	1.8	7.5	3.6	70.0	4.6
	Jun		-0.5	1.1	6.9	3.9	70.0	5.4
	Sep		-0.3	1.3	6.0	4.4	70.0	5.5
	Dec		-0.1	0.7	5.0	4.8	70.0	5.5
2024	Mar		-0.1	0.7	3.8	5.0	70.0	5.5
	Jun		0.0	0.5	3.3	5.3	70.0	5.5
	Sep		0.0	0.9	2.9	5.4	70.0	5.4
	Dec		0.2	0.4	2.6	5.6	70.0	5.3
2025	Mar		0.3	0.5	2.4	5.7	70.0	5.1
	Jun		0.5	0.5	2.3	5.7	70.0	4.9
	Sep		0.7	0.7	2.0	5.7	70.0	4.6
	Dec		0.7	0.4	2.0	5.6	70.0	4.4

Key Forecast Variables From November MPS/Source: RBNZ

Key forecast variables

		GDP growth Quarterly	CPI inflation Quarterly	CPI inflation Annual	Unemployment rate	TWI	OCR
2020	Mar	-1.2	0.8	2.5	4.2	70.9	0.9
	Jun	-10.3	-0.5	1.5	4.0	69.7	0.3
	Sep	13.7	0.7	1.4	5.3	72.0	0.3
	Dec	-0.4	0.5	1.4	4.9	72.9	0.3
2021	Mar	1.7	0.8	1.5	4.6	74.9	0.3
	Jun	2.4	1.3	3.3	3.9	74.7	0.3
	Sep	-3.8	2.2	4.9	3.3	74.4	0.3
	Dec	3.0	1.4	5.9	3.2	74.3	0.6
2022	Mar	-0.2	1.8	6.9	3.2	72.6	0.9
	Jun	1.8	1.7	7.3	3.3	72.1	1.6
	Sep	0.6	1.4	6.4	3.3	71.7	2.7
	Dec	0.2	0.8	5.8	3.5	71.7	3.7
2023	Mar	0.4	1.3	5.3	3.8	71.7	4.0
	Jun	0.0	0.9	4.5	4.1	71.7	4.1
	Sep	0.1	1.0	4.1	4.4	71.7	4.1
	Dec	0.2	0.6	3.8	4.5	71.7	4.1
2024	Mar	0.2	0.6	3.1	4.6	71.7	4.1
	Jun	0.2	0.5	2.6	4.7	71.7	4.1
	Sep	0.2	0.8	2.4	4.8	71.7	4.0
	Dec	0.3	0.3	2.2	4.9	71.7	3.9
2025	Mar	0.4	0.4	2.0	5.0	71.7	3.8
	Jun	0.5	0.4	1.9	5.0	71.7	3.7
	Sep	0.6	0.8	1.9	5.0	71.7	3.6

Key Forecast Variables From August MPS/Source: RBNZ

Sell-Side Analyst Views

ANZ

- As was widely expected, the RBNZ lifted the Official Cash Rate (OCR) 75bp to 4.25% today with the release of its Monetary Policy Statement (MPS). The tone of the Statement was even more hawkish than we expected. We have revised up our forecast OCR track, adding to our existing 75bp hike in February a 50bp hike in April and a 25bp hike in May, which would take the OCR to a peak of 5.75%.
- The 140bp upward revision to the forecast OCR peak is massive, but so too have been the upside surprises to inflation, inflation expectations, and the wage outlook in recent months. The RBNZ estimates that the short term nominal neutral interest rate is 3.6%, reflecting high inflation expectations.
- The RBNZ is making policy in a haze of uncertainty, and continues to be commendably open about that unavoidable fact. In such an environment, it makes sense to look at the costs of being wrong in either direction - and these simply aren't comparable.
- The RBNZ is now forecasting a recession, with GDP to fall 1% peak to trough, with four consecutive quarters of negative growth – that appears to be what they now believe is unfortunately necessary to bring inflation down from what's looking like regrettably sustained highs.

Barclays

- Despite having hiked by 400bp since the beginning of the cycle, the MPC remains hawkish, as price pressures and capacity constraints remain very much alive in the economy still. While removing the reference to "tighten at pace", the statement now says that the OCR needs to reach a "higher level and sooner than previously indicated" (*italics ours*). The bank appears prepared to hike until there is a contraction in aggregate demand, in order to bring demand and supply into more balance in order to reduce inflation sustainably.
- The committee considered a 100bp move today, and Governor Adrian Orr said that the MPC is "very eager" to reach a point where it can watch, worry and wait. Still, members did highlight that significant tightening had been delivered, which would pass to the economy with a lag. The lagged transmission suggests to us that the tightening will start to impact the economy into next year. With the next policy meeting only in February, we think the bank will see more reason to reduce the pace of hiking, as the deterioration in global growth will start flowing through to New Zealand's economy.
- Given the significantly hawkish tone of the statement and the governor's press conference, we now expect the RBNZ to take the terminal rate to 5.25%, by Q2 23. This is lower than the 5.5% that the bank's OCR path now shows the peak to be. We think the bank will deliver another 50bp hike in February, after which it will increase the cash rate by 50bp more, in 25bp increments at two meetings, even as the economy starts to contract visibly.

BNZ

- When it comes to cracking down on inflation, the RBNZ's Monetary Policy Committee (MPC) is clearly not going to die wondering. But the economy might well have to. These were the messages we took from today's very hawkish Monetary Policy Statement (MPS).
- It wasn't just, or even really, the 75bp hike the MPC delivered on the Official Cash Rate (OCR), which took it to 4.25%. That was at least half-expected and, for the record, was our formal pick. Yes, the MPC did discuss the case for 50 but admitted, at today's press conference, that it was more a debate between 75 and 100.
- It was the Bank's forecast of the OCR, however, that really hammered the message home. This inferred another +75bps for the February MPS, and +50bps for April's Monetary Policy Review (MPR), taking the policy rate to a peak of 5.50%. Recall the August MPS projected the OCR to peak at 4.10%.
- While the Bank is now projecting a more significant slowing in the real economy, its focus for now is clearly on CPI inflation, and crucially its near-term path. Governor Adrian Orr said as much at today's press conference.

Goldman Sachs

- The RBNZ lifted the Official Cash Rate (OCR) by 75bp to 4.25% today as expected, representing an acceleration in the pace of tightening. The forward guidance maintained that "monetary conditions needed to continue to tighten further" given elevated inflation and wage pressures, and the rising risk of a wage-price spiral further dragging up inflation expectations. The Monetary Policy Statement showed a peak OCR

of 5.5% (vs 4.1% in the August MPS), accompanied by lower GDP growth, a higher inflation profile given the stronger starting point, a sharp rise in the unemployment rate (to 5.7% by early 2025) and an outright recession in 2023 (peak-to-trough GDP decline of c.1%). Notably, the RBNZ explicitly noted its consideration for a 100bp hike today, but this was balanced against the lagged impact of policy tightening to date in favour of a 75bp increase.

- In our view, the RBNZ's hawkish guidance today is in part an attempt to maintain a tightening bias on overall financial conditions - consistent with Governor Orr's message in the press conference that the RBNZ's forecast of above 5% OCR 'confirm where wholesale interest rates have been for months. Looking ahead, we expect the RBNZ to continue to tighten to a peak OCR of 5%, and see the risk to our forecast of a 50bp hike in February as skewed to the upside particularly given Governor Orr left the option open in today's press conference. That said, we do expect the peak in global inflation to provide some easing to tradable inflation in NZ over the coming quarters, and in the event of a more material slowdown in the domestic economy we see the RBNZ's wage and non-tradable inflation forecasts as too high conditional on its forecast for the unemployment rate.

JP Morgan

- The RBNZ stepped up the pace again at today's MPS, delivering a 75bp hike to 4.25% as we and consensus expected (the market was pricing a little less). The minutes state the committee considered 75bp and 100bp moves, and the staff delivered a hawkish set of forecasts. The staff's projections flag more hiking to come in 1Q/2Q (peak OCR of 5.5% hit around mid-23), and now, this occurs in the teeth of an imminent recession starting in 2Q. In the press conference, Governor Orr described the recession as "shallow" – it accumulates to a 1%-pt decline between 1Q23 and 1Q24. The word "brief" was also used, though recovery doesn't start (in the sense of GDP expansion) until 4Q24.
- While the outlook is indeed challenging for NZ growth and asset prices, it also seems fair to assume the OCR path flagged today is not assured, and is partly intended to control mortgage conditions over the summer break (next meeting is in Feb) given the slippage between new and average mortgage rates that has already occurred. Members went with 75bp today highlighting "the cumulative tightening of monetary conditions...continues to pass through...via the lagged transmission to effective retail interest rates". It is surprising that the transmission debate becomes marginal only at such a chunky increment, though Governor Orr did say in the press conference that today's decision was about locking in the tightening implied by market rates. We still expect the RBNZ to hike another 50bp in February which would put the OCR at 4.75%. From there, most of the crystallization of earlier hikes will be baked in and if the staff's economic view is tracking, recession is already underway.

Kiwibank

- The statement was forceful and determined. Inflation rates are simply too high. And the credibility of the proud inflation-fighting central bank is being questioned. The OCR track – the RBNZ's clearest signalling tool – was shunted higher to 5.5%. More interest rate hikes are likely.
- The RBNZ highlighted the main transmission mechanism for rate rises is via indebted households, with the aim of lowering consumption. And it appears the RB will keep going until we see a mild recession. For the RBNZ, the troubling lift in inflation expectations was simply unacceptable. According to the RBNZ's own expectations survey, inflation will not return to the 1%-to- 3%yoy target band for 3-4 years. And a comfortable return to 2% is a decade away.
- Our focus now turns to the February meeting. And according to today's statement that might mean another 75bp hike in the cash rate. However, given that other central banks have, or are about to, slow the pace of rate hikes we expect them to moderate their language. We suspect the RBNZ (along with every other inflation fighting bank) will be in a position with weakening growth and improved inflation expectations.

TD Securities

- The RBNZ delivered a 75bps hike as we expected and managed to surpass hawkish expectations through its forecast of an OCR peak of 5.5% in Q2'23, from 4.1% previously - a whopping 140bps increase. Despite the OCR forecast to remain at 5.5% throughout 2023 and well into mid-2024, the RBNZ only expects a "shallow recession" which we found difficult to reconcile. The Bank may be underestimating the possibility of a more severe contraction in economic activity.
- Nevertheless, the Bank is not backing down, signalling that higher interest rates are necessary and an eagerness to quickly reach the OCR peak. Thus, the Bank is likely leaning towards a 75bps hike at the February meeting, contrary to our call for a 50bps hike. However, we get two key data prints before the February meeting- the Q4 inflation and labour reports. Given that the Bank appears to be reactive to data

related to its remit (i.e., labour and inflation), a downside miss may nudge the Committee to opt for a 50bps hike instead.

- In the Q&A, we found it interesting that Assistant Governor Silk noted that "monetary conditions have not been as contractionary" as expected and the neutral interest rate has probably risen, justifying the need for a higher peak in this OCR cycle. In the August MPS, the Committee already had doubts around its own neutral rate estimates. Indeed, new staff estimates pin the short-run nominal neutral rate at 3.6%, which implies a less restrictive monetary environment than previously thought when the OCR was raised to 3.0% in August.
- Our forecast pins the OCR peak at 5% in April next year, and we think this is still sufficient to rein in inflation after factoring in the cumulative tightening of monetary policy. The RBNZ has increased the OCR by a total of 325bps over the past 10 months, which marks a record pace of tightening. Monetary policy tends to work with a lag and another 125bps of increase by April next year raises the odds of a more severe contraction in economic activity that may have scarring effects.

Westpac

- The Reserve Bank remains on the warpath against inflation, lifting the Official Cash Rate by a record 75 basis points to 4.25% today and signalling much more to come. The RBNZ is increasingly concerned that inflationary forces are becoming embedded in the New Zealand economy, and indeed is now openly predicting that a recession will be needed to bring inflation under control.
- Given the RBNZ's inclinations (and it's not clear what would come along in the next few months to dissuade them from this) we've adopted the same forecast for the near term [as the Reserve Bank], with a peak OCR of 5.5% in April next year. We acknowledge the scale of the challenge that the RBNZ faces in breaking the cycle of rising prices and wages.
- But for the first time in a while, we're also thinking about the risk that the RBNZ could end up overcooking it on the inflation front. We now expect OCR cuts to begin in early 2024, six months earlier than we did previously. Those rate cuts are both earlier and faster than what the RBNZ is projecting.
- Make no mistake, the RBNZ is not just signalling a recession, it's forecasting a downturn on a similar scale to the Global Financial Crisis – different causes, but similar consequences. On the RBNZ's forecasts, economic activity continues to fall below its potential long after the recession has 'officially' ended. And the unemployment rate rises by several percentage points – albeit from a low starting point – just as it did in 2008-09.