

Research Economy Watch

17 June 2025

Annual CPI inflation to clear 3.0%?

- **Monthly price indices surprise to the upside**
- **And we see emerging upward pressure on oil prices**
- **This portends CPI inflation peaking at 3.1%**
- **Chance of RBNZ July pause rises further**
- **But, eventually, weak economy concerns should dominate**

May month selected price indices are unequivocally hawkish. On balance the monthly data has turned out to be more inflationary than we had expected. This has caused us to revise upwards our Q2 CPI pick to 0.8%, from 0.6% previously. Importantly, this is well above the RBNZ's 0.5% estimate for the quarter.

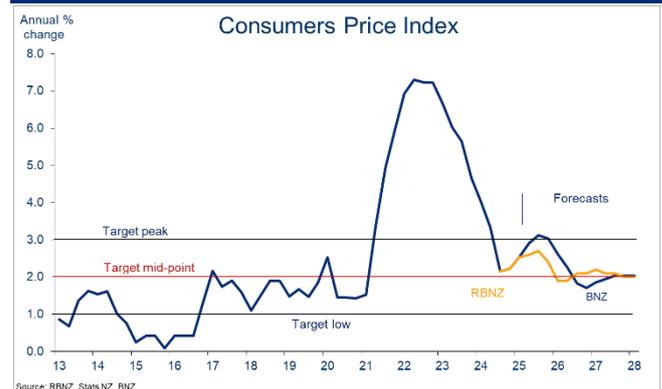
The main contributor to our shift was the reported 4.8% surge in the price of overseas accommodation prepaid in New Zealand. To be frank, it seems somewhat farcical to us that this category even exists in the New Zealand CPI. But it does.

The factors that bother us most were the jumps in the prices of fresh fruit and vegetables, meat and energy costs. Combined the upside surprise from these sources drove most of the rest of the change in our view. These price increases are most bothering because their impact on the real disposable incomes of households is largely unavoidable.

The increase in food prices reflects elevated global commodity prices. As commodity price inflation slows, or even reverses, this should become less of a problem going forward. But energy price increases are still coming thick and fast just in time for the coldest time of the year.

As if all this wasn't bad enough, the Israel-Iran war has resulted in a sharp reversal of recent oil price declines, and they threaten to head even higher yet. This is a completely different environment than that which saw the prices of petrol and diesel fall in the month of May. While domestic market players continue to suggest pump prices should not rise dramatically, unless freight traffic through the Strait of Hormuz is compromised, it still appears likely further cuts in petrol prices are now off the cards. We had further declines built into our inflation forecasts which have now been removed. Unfortunately, this means we have also nudged higher our quarterly CPI track for the second half of the year.

Inflation trending higher

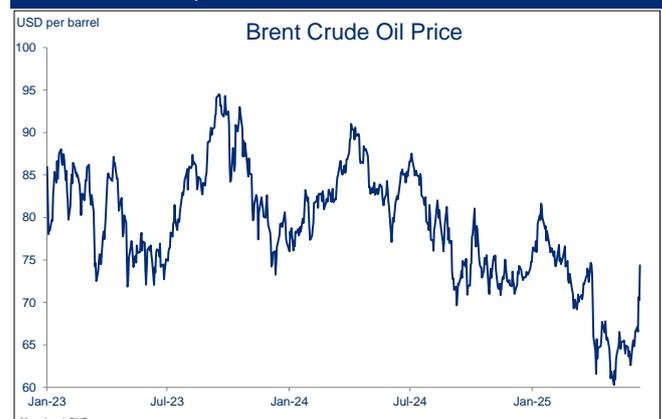


We had warned there was a risk that annual CPI would push through 3.0% sometime this year. We are now formally forecasting that to be the case. We now pick annual inflation to peak at 3.1% in Q3 2025.

That said, we still believe annual inflation will remain relatively well contained over the medium term and should get back towards the mid-point of the RBNZ's target band by Q3 2026. Indeed, we think slowing global demand, ongoing spare capacity in the New Zealand economy, slowing commodity price inflation and the potential reversal of any near-term oil price increases could well see inflation fall below 2.0% for a period of time.

But the current inflationary noise will intensify the RBNZ's headache. In the past the Bank has implied it would look through any short term uptick in prices especially if they were shock-driven.

An unwelcome spike



But, equally, the Bank was clear, when it released its May Monetary Policy Statement that it was very nervous about rising inflation expectations. And recall that one member of the Committee was sufficiently nervous to vote against the rate cut that was delivered. That Committee member is going to feel no less unnerved this time around, and may well acquire a few friends.

So the chances of the RBNZ holding fast at the July meeting have just taken a leap forward in light of today's data and the evolving global environment.

We were very tempted to change our rate call on the basis of these factors. But we still want to see the July 1 QSBO before making that decision. There is a very real chance that business confidence drops sharply in this survey. If it portends much weaker growth ahead, or an outright end to the expansion, in the manner that the combined PMI and PSI did, then there may well remain solid justification for a July move. Either way we see little reason to change our view that the cash rate will ultimately drop below 3.0%.

stephen_toplis@bnz.co.nz

Contact Details

BNZ Research

Stephen Toplis
Head of Research

Doug Steel
Senior Economist

Matt Brunt
Economist

Jason Wong
Senior Markets Strategist

Stuart Ritson
Senior Interest Rate Strategist

Mike Jones
BNZ Chief Economist

Main Offices

Wellington
Level 2, BNZ Place
1 Whitmore St
Private Bag 39806
Wellington Mail Centre
Lower Hutt 5045
New Zealand
Toll Free: 0800 283 269

Auckland
80 Queen Street
Private Bag 92208
Auckland 1142
New Zealand
Toll Free: 0800 283 269

Christchurch
111 Cashel Street
Christchurch 8011
New Zealand
Toll Free: 0800 854 854

This document has been produced by Bank of New Zealand (BNZ). BNZ is a registered bank in New Zealand and is only authorised to offer products and services to customers in New Zealand.

Analyst Disclaimer: The Information accurately reflects the personal views of the author(s) about the securities, issuers and other subject matters discussed, and is based upon sources reasonably believed to be reliable and accurate. The views of the author(s) do not necessarily reflect the views of the NAB Group. No part of the compensation of the author(s) was, is, or will be, directly or indirectly, related to any specific recommendations or views expressed.

BNZ maintains an effective information barrier between the research analysts and its private side operations. Private side functions are physically segregated from the research analysts and have no control over their remuneration or budget. The research functions do not report directly or indirectly to any private side function. The Research analyst might have received help from the issuer subject in the research report.

New Zealand: The information in this publication is provided for general information purposes only, and is a summary based on selective information which may not be complete for your purposes. This publication does not constitute any advice or recommendation with respect to any matter discussed in it, and its contents should not be relied on or used as a basis for entering into any products described in it. Bank of New Zealand recommends recipients seek independent advice prior to acting in relation to any of the matters discussed in this publication.

Any statements as to past performance do not represent future performance, and no statements as to future matters are guaranteed to be accurate or reliable.

Neither Bank of New Zealand nor any person involved in this publication accepts any liability for any loss or damage whatsoever which may directly or indirectly result from any advice, opinion, information, representation or omission, whether negligent or otherwise, contained in this publication.

USA: If this document is distributed in the United States, such distribution is by nabSecurities, LLC. This document is not intended as an offer or solicitation for the purchase or sale of any securities, financial instrument or product or to provide financial services. It is not the intention of nabSecurities to create legal relations on the basis of information provided herein.