

Research

Economy Watch

16 March 2026

NZ recovery under the pump

- **Soaring oil prices a major threat**
- **But bigger issue could be fuel availability**
- **The pressure on domestic supply is rising**
- **Exporter risks are elevated**
- **Consider your supply chains**

Let's get this straight, based on current information the world is not going to end. Fuels are expensive and are getting more so. Supply is heavily restricted. But demand will fall and alternative supplies will rise. And then, one day, the Strait of Hormuz will reopen. The problem is that this takes time. So, in the interim it is imperative that businesses, households and governments alike prepare for the worst while hoping for the best knowing that no matter what, a significant adjustment process is under way.

As petrol prices climb ever higher local talk is all about the impact on the cost of living and, in turn, the downward pressure this will put on household spending and GDP.

Similarly, concerns are raised about the rising input costs that businesses face and the fact that these costs will ultimately be passed on to consumers pushing headline CPI inflation higher. And if businesses can't pass on the costs, then profits will fall.

These worries are all valid. However, the biggest risk to the economy is not the movement in the price of fuel but the security of its supply both here in New Zealand and for the freight lines that carry our exports and imports across the world.

20% of the world's oil comes via the Strait of Hormuz but the impact on tradable oil products, as the Middle Eastern supply oil is refined, is a far greater percentage. And, in the case of New Zealand, the current dependency on the Middle East is huge as most of our refined fuels comes from South Korea and Singapore who, in turn, get around 70% of their crude product from the war-torn region.

The first question is will New Zealand run out of fuel domestically? Not for a while it would seem. If you include the total stocks in New Zealand and add to that the fuel already in transit then, according to MBIE, as of March 8 we had 58 days supply of petrol, 50 days of diesel and 47 days of jet fuel available.

That might sound like a decent buffer, but is it? Every day we don't get more fuel is a day closer to us having a restricted supply. And it doesn't look like the Strait of Hormuz will be opening any time soon. There are also lags in the system. Given that the last ships from the Middle East heading for Singapore and Korea are already on their way it will probably take 7 to 10 days for any future vessel to make the journey. The fuel then needs to get to New Zealand. On top of this, there will be lags in getting production back up and running. It's not just a matter of flicking a switch. And if you want to get really nervous, around half of the fuel inventory we currently have is in transit. If things really did turn to custard there is little to stop this fuel being redirected. That said, there is no suggestion that this might happen at the moment.

In general, New Zealand is not going to be at the top of the list for the limited fuel that will be available from Asian refineries, and it will be even further down the list if it wants fuel from anywhere else. Moreover, there is already some talk that Korea is contemplating reducing (or even stopping altogether) fuel exports so that it can bolster its own reserves. Similar talk is also emanating from China.

To say that the economy is at high risk of running out of fuel is an overstatement. Oil markets usually come up with some form of solution to avoid this. But, given the supply risks that abound, not only is there significant further upside risk to pump prices but the potential for rationing/restricted supply is very much non-zero.

And don't assume everyone else will be so much better than us because of where our oil is sourced and refined. What we are seeing represents a global supply problem. Few, if any, will have no consequences.

But there is probably a more immediate concern for New Zealand in that bunkering (the supply of fuel for use by ships) is under threat. New Zealand is particularly vulnerable given its dependence on trade and the fact that most of the goods traded are transported by sea, and over long distances.

A significant proportion of the freight that arrives in and departs from New Zealand comes on ships that are bunkered in Singapore. As already noted, roughly 70% of Singapore's oil comes from the Middle East so inflows into these facilities will soon come under pressure. Importantly,

Singapore does not keep a large stock of fuel for bunkering in reserve. Some sources suggest that on any given day there would only be 20 to 25 days of inventory available. How the Singaporeans moderate this problem will be of high importance to New Zealand exporters.

In New Zealand agriculture has been the shining light in an otherwise soggy economy over the last year or so. The last thing we need now is an interruption to its exports and an erosion of profitability in the sector.

From what we can tell, the threat of lost earnings seems relatively immediate. Already exporters are reporting sharp increases in freight costs and there is freight already at sea which will have to be rerouted.

Something that grabbed our attention is that there seems to have been a difference between dairy production and export volumes over the last few months. This suggests there may be inventory to be cleared which will now be exacerbated by the fact that current production, albeit in seasonal decline, is larger than normal. With prices where they are it would be a shame if exports are impeded. Even if there is no inventory build up freight issues will prevail.

Beef and lamb exports are also at a seasonal peak and will require moving including the requirement to redirect exports that would have gone to or via the Middle East.

Products such as onions and apples, which are more perishable, are even less able to cope with shipping disruption. And the Kiwifruit season will swing into full action in the not-too-distant future.

Bear in mind also that imports need to come into New Zealand to provide the ships needed for export. Any inbound restrictions are thus equally worrisome.

Of course, we shouldn't forget that oil is used in a vast number of other products required domestically including urea, plastics and the resins used in all sorts of packaging.

It is unlikely New Zealand will be a priority when there are supply restrictions and freight blockages, as we found out during COVID, so there could well be businesses that simply cannot get all their exports away or imported materials in.

We do not want to join the catastrophists' society, but we are also strong believers that businesses need to be thinking about the potential consequences for fuel and transport costs and the implications for wider supply chains.

Whatever happens, we know that with export earnings vulnerable and security of domestic supply under pressure New Zealand and New Zealanders are in for a bumpy ride even in the unlikely event that the Middle East crisis is resolved relatively quickly, and who believes that?

Forecast implications

Not surprisingly, we are being asked what all this does to our forecasts. The simple answer is that it throws them

into chaos because we, like everyone else, have little idea how all this will play out. We do, nonetheless, have strong views on direction and the wider implications of current developments.

We have already raised our inflation forecasts such that annual headline inflation averages over 3.0% for the whole of 2026 peaking at 3.6% in the June quarter. We haven't, however, really been able to take a clear view on second round effects from the oil price rises which will almost certainly see our inflation forecasts pushed even higher. At some point oil prices will tumble. When, exactly, is the big question.

Keep a very close eye on the currency. At TWI 66.4 it is well below the assumptions that most of us, including the RBNZ, had made. The RBNZ assumed the currency would sit around 68.0 over its forecast horizon. Where it is now is some 2.5% below that level and could add around 0.3% to annual inflation in the year ahead. This hasn't been fully built into our forecasts yet either.

In times of global uncertainty, the Kiwi dollar often wilts. It has clearly already done so since the conflict began. At the end of last week we published a report on the possible impact of the conflict on the NZD. Our view is that the NZD is likely to keep falling while the Strait of Hormuz is closed, given the deeper impact of its closure on the global and domestic economy. The more the NZD falls, the greater inflationary pressure faced by New Zealanders.

Rising inflation cuts spending power. When that inflation is centred on essential items it hurts even more. We expect to lower our forecasts for private consumption. Expect the next consumer confidence survey to look ugly as a forerunner to this. Spending on discretionary items will take the biggest hit.

Rising uncertainty will be a headwind to investment activity. The world was confusing enough without all this nonsense.

Rising input costs will also adversely impact business profitability which is another headwind to investment. Business confidence will fall.

And, last but not least, we are already seeing estimates of global growth being revised lower. This is unhelpful for our exporters in addition to the cost and logistics issues already in evidence.

It's nightmare time for the RBNZ. Supply shocks cannot be handled well by central banks. We have had plenty of recent evidence of this. We doubt the RBNZ will want to provide much guidance until there is greater clarity. Ultimately, though, the inflationary implications of this process are evident so the balance of risk tilts towards tighter monetary policy than previously thought especially given that there is a high risk that inflation expectations become unanchored.

In the week ahead, there are policy updates by a number of central banks across the world including the RBA and US

Fed. These will provide some guidance on their approach to addressing the inflationary consequences of the conflict, which the RBNZ can contemplate. Rate hikes by other central banks would add pressure on the RBNZ to follow, otherwise downward pressure on the NZD will become even more elevated. NZ's policy rate already sits below a number of other countries, representing an ongoing source of downside weight on the NZD, with the fall in the NZD/AUD cross rate to a level not seen since 2013 being a prime example.

All that said, we must acknowledge that the RBNZ will be reluctant to move quickly especially as it ponders the negative impact of everything that is happening on domestic demand.

Fiscal policy is usually the first line of attack when faced with a supply shock. But what exactly the response should

be in this environment is not at all clear. Whatever is or isn't done, the environment is not helping the Government's bid to get the budget back into balance and debt lower. Finance Minister, Nicola Willis, is clearly aware of the difficulties she now faces. In her interview with The Post over the weekend, she is quoted as saying "We can't deliver a Budget at the end of May that was designed for the conditions we were experiencing in January".

And don't forget there's an election around the corner. How the Government is seen to be handling this oil crisis could well play a big part in determining the election result, as will the positioning of all the other parties.

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.