

Research Economy Watch

17 April 2026

Oil inflation makes first appearance

- Soaring petrol and diesel prices reported in March data
- Second round effects not visible yet
- Food prices fall
- We still forecast 0.8% Q1 CPI increase, 3.0% annual
- Inflation to peak at 4.5% in Q2

There were three messages in today's monthly price indices:

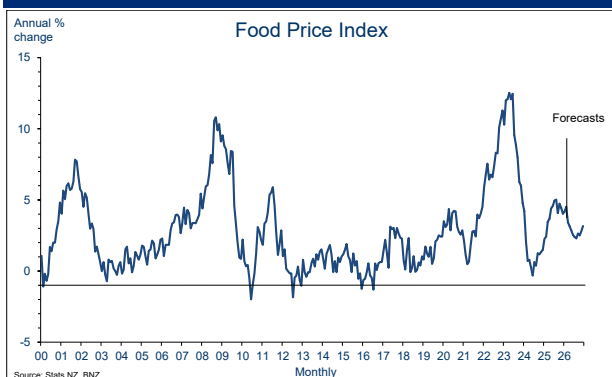
- rising fuel prices are already pushing headline inflation upwards
- food price inflation is softer than we expected
- we have no idea how to forecast airline prices on a monthly basis.

It was a pleasant surprise to see food prices fall in March. The -0.6% movement for the month was a long way from the modest increase we had assumed. There were two key reasons for this: fresh fruit and vege prices fell (especially kiwifruit) and anyone who does the regular shop would have noticed that cheese prices are well down from their peaks.

Annual food price inflation fell to 3.4%, its lowest reading since February 2025. The good news is that a better growing season for fresh fruit and veges will keep a cap on food price inflation for a few months as will last year's drop in the international price of dairy products. But that's where the good news ends. Global dairy prices have since rebounded and the broader food sector will be impacted by rising fertiliser, diesel and transport costs.

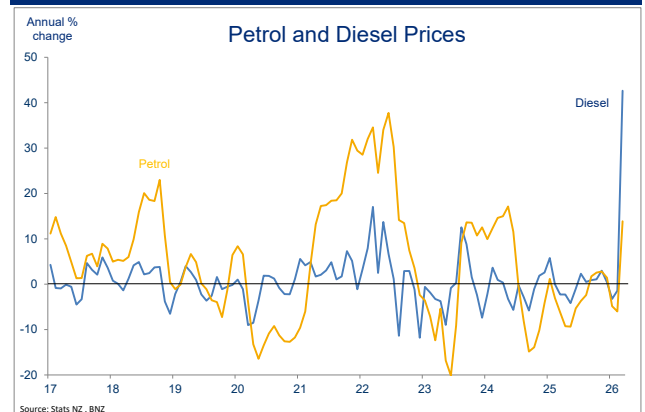
We expect annual food price inflation to start climbing again in the second half of this year.

Food price inflation falling



The second round impact of the oil crisis was never going to be apparent in today's data. Indeed, it may take many months to show up in some sectors. The initial movement in fuel prices, however, is there for all to see. Petrol prices rose 18.6% in the month and diesel was up a staggering 42.6%. Unfortunately, increases of a similar magnitude are likely to be reported in April. This is a key driver of our expectation that the June CPI will report a 2.0% increase in prices for the quarter alone.

Fuel prices surge

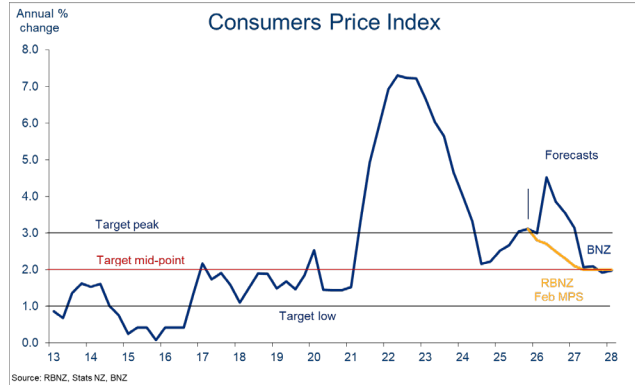


As for airfares, who knows how to forecast what Statistics New Zealand will print for them. For the record the official view is that domestic airfares fell 14.4% in March while international airfares rose 3.5%. The monthly volatility in these series is a clear argument against the helpfulness of a monthly CPI. Whatever conclusions you manage to glean from these data, we think we can all agree that air fares, both domestically and internationally, are already on the up, and aggressively so.

Recent analysis provided by Forsyth Barr suggested that Air New Zealand's domestic airfares are currently around 10% higher than this time last year and international fares between 20 and 25%. These sound about right to us. The official data show that for the March quarter as a whole domestic fares are 0.9% below the same period a year ago and 5.1% above for international. This implies there is a significant amount of inflation that will be reported from this sector in the quarters to come.

On balance there was nothing in today’s data to cause us to revise our inflation forecasts. We thus still believe the CPI rose 0.8% in the March quarter to be up 3.0% on year earlier levels. Also, we continue to believe headline inflation peaks at an annual 4.5% in Q2, 2026. We forecast headline inflation to remain outside the Reserve Bank’s target band until mid 2027 at the earliest.

Inflation surge approacheth



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

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