Research

Economy Watch

17 July 2026

Annual inflation to crack 4% in Q2

- **June's Selected Prices noisy, tad softer than expected**
- **Q2 CPI pick remains at 1.5% q/q, 4.1% y/y**
- **Near term inflation looks higher than RBNZ forecasts**
- **Supporting ongoing rate hikes**

Our primary interest in today's June Selected Price Indexes was whether they would alter our broad thinking for next week's Q2 CPI. In short, they don't.

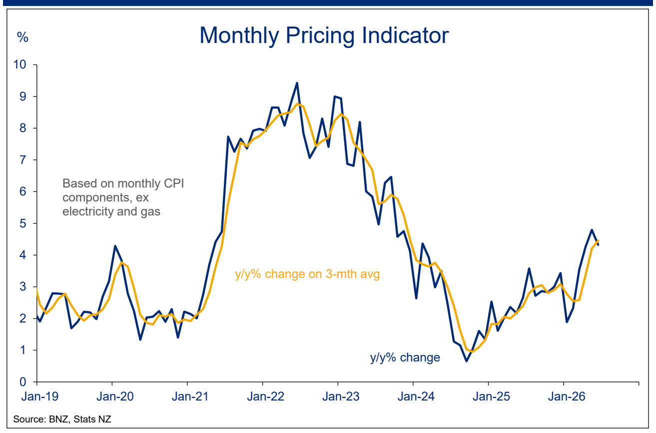
Today's monthly indicators stayed true to form albeit with considerable volatility in the details. The balance was a touch softer than our expectations, but in being the final month of the quarter was not enough to move our estimate for the June quarter outturn.

Our forecast for next Tuesday's Q2 CPI thus remains at 1.5% q/q and 4.1% y/y.

Weighting together the monthly indicators provide clear evidence that annual inflation lifted in Q2, from Q1's 3.1%, even though the monthly data only covers a touch under half of the overall CPI basket.

Importantly, it looks like the print will be higher than the RBNZ's 3.9% y/y forecast in its July MPR.

Clear signs inflation rose sharply in Q2



As for the detail, food prices rose 0.6% m/m in June, a smaller rise than we had pencilled in as fresh fruit and vegetable prices rose less than usual for this time of year.

Both international and domestic airfares also undershot our best guess priors. It remains to be seen if this is just a lag before increases show up in the data given how they are measured, or whether airfares will not lift as much in 2026 as we have assumed.

But the food and airfare downside surprises were largely offset by a bigger than assumed 9.1% m/m lift in overseas accommodation prepaid in NZ.

The other interest we had in today's figures was the base they set heading into Q3. For the components covered, the balance is a marginally lower starting point for that quarter than we currently have factored in. This gives a hint of downside risk to our current 3.8% annual inflation forecast for Q3.

Fuel prices remain a wild card for near-term inflation. Today's fuel prices were very close to our expectations. But we are in very fast-moving markets. Domestic fuel prices started July a bit lower than we had assumed. But renewed hostilities in the Middle East suggest some upside risk ahead compared to our prevailing assumption of a continued drift lower in fuel prices. The combination of these two developments might net off such that Q3 fuel price outcomes end up close to our current forecast.

We will reassess our Q3 estimate after the Q2 CPI release. For now though, our estimate for Q3 annual CPI inflation of 3.8% indicates upside risk to the 3.3% forecast the RBNZ published in its July MPR. This means the chance of a downside surprise deterring the Bank from raising interest rates is limited.

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