8 April 2026

RBNZ the Inflation Busters

- **RBNZ maintains clear tightening bias**
- **Even if inflation jump proves temporary**
- **Will act "decisively" if inflation remains stubborn**
- **Inflation expectations a key**
- **We leave our forecast rate track unchanged**

Forget Ghostbusters and welcome the Inflationbusters. If you hadn't worked it out yet, RBNZ Governor Breman today reinforced the fact that her world revolves around getting inflation back to the 2% mid-point of the Bank's target band come what may.

Anyone who was thinking a softer than expected economy might have the Monetary Policy Committee (MPC) thinking about easing should think again. Indeed, the Committee makes it clear that, short of a major downturn, the intention is to raise interest rates back towards the RBNZ's neutral estimate even if "the increase in near-term inflation is largely temporary".

The general discussion surrounds "the timing of any increase in the OCR" rather than whether or not any eventual increase is appropriate.

In contrast, it is clear that if the RBNZ thinks inflation might be becoming sustained it will act with some vengeance. In the words of the Committee if the "conditions are not met" that will keep inflation contained over the medium term then "decisive and timely increases in the OCR would be required". We read this as meaning rate increases will probably need to be sooner and more aggressive than the Bank's view when it produced its February Monetary Policy Statement.

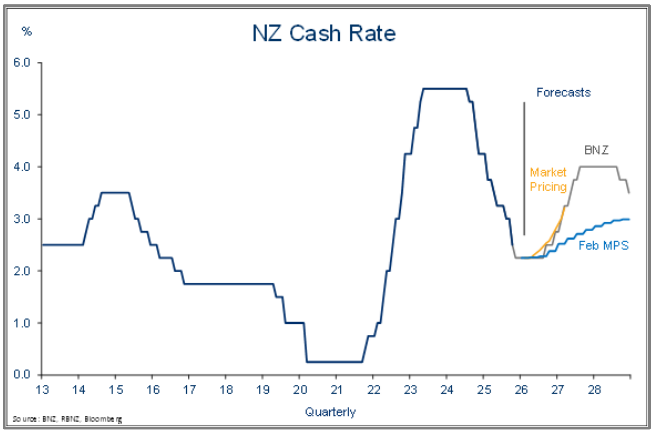
The "conditions" that the Bank is looking for is that core inflation and wage growth are contained and that medium and long-term inflation expectations remain around two percent. We think it almost certain that second round effects will see core inflation rise and, given that inflation expectations tend to follow headline inflation, that inflation expectations will rise too. Accordingly, the RBNZ will need to push rates more aggressively than it previously suggested. The only cautionary note, here, is that we don't know what "around two percent" actually means.

The RBNZ does stress that, in the current environment, weakening domestic demand and increased spare capacity will reduce the ability of businesses to raise prices. We concur. But it's a question of reduced ability, not no ability. Pressure on margins is severe so some pass through is inevitable.

There was nothing in today's statement that indicates we should change our view that the first rate hike should be in September with a series of rate hikes thereafter until such time that monetary conditions move to the tighter side of neutral. While some think we are being overly aggressive with our projections we reiterate that we are only talking about moving modestly through neutral. With the inflationary pressures that are so prevalent we think this represents a relatively conservative stance.

PS: Today's announcement of a ceasefire in the Middle East does not change our view.

Our Rate View Unchanged



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Full text of today's RBNZ OCR Review:

The Monetary Policy Committee today agreed to hold the OCR at 2.25 percent. Since the February Monetary Policy Statement, events in the Middle East have materially altered the outlook and the balance of risks for inflation and economic growth in New Zealand. In the near term, inflation is expected to increase and the economic recovery to weaken. The Committee is vigilant to any generalised inflationary pressure and stands ready to act to return inflation to its medium-term target.

The Middle East conflict has disrupted global supply chains, leading to significantly higher prices for oil and refined petroleum products. As a result, near-term inflation is increasing and economic growth is weakening in many countries. Global financial markets have been volatile and market interest rates have increased.

In New Zealand, the extent of the near-term increase in headline inflation will depend on how the conflict in the Middle East evolves and the magnitude and duration of the disruption to global supply chains and energy markets.

Medium-term inflationary pressure will depend on the extent to which higher costs influence price- and wage-setting behaviour by firms and workers in the economy. If medium-term inflation expectations increase, then inflation is likely to become more persistent. However, weak demand and spare productive capacity in the economy should constrain the degree to which higher costs can be passed on.

The current economic situation is different to 2022 when COVID-19 and Russia's invasion of Ukraine disrupted global supply chains and increased energy prices. Back then, demand was growing strongly, adding to inflation pressure.

The Committee's decision to hold the OCR balances the potential benefits of responding pre-emptively to the risk of higher medium-term inflation against the cost of unnecessarily stifling the economic recovery.

The Monetary Policy Committee is focused on ensuring that inflation returns to the 2-percent target midpoint over the medium term. This requires core inflation and wage growth to remain contained and medium- and long-term inflation expectations to remain around 2 percent. If these conditions are not met, decisive and timely increases in the OCR would be required.

Summary record of meeting – April 2026

Since the February Monetary Policy Statement, events in the Middle East have materially altered the outlook and the balance of risks for inflation and economic growth. Inflation is now expected to remain at the top of the Monetary Policy Committee's (MPC) 1 to 3 percent target band in the March 2026 quarter and increase considerably in the near term. Near-term economic activity is also expected to be weaker, dampening the medium-term inflationary effects of the Middle East conflict. There is a risk that inflation could be significantly higher and output markedly lower than currently expected.

The Committee's focus is on the medium-term outlook for inflation.

Conflict in the Middle East is leading to significant supply side disruptions

Conflict in the Middle East has significantly reduced the supply of oil, gas and other petrochemicals, including fertilisers, flowing from the Middle East through the Strait of Hormuz. The price of oil has increased substantially in the last month, while prices for many refined petroleum products have increased by even more. Oil and gas products are a key input into broader supply chains and are critical inputs for many sectors in New Zealand, such as transport, agriculture, and packaging.

The outlook for petrochemical prices depends on how the conflict in the Middle East evolves, the extent to which critical infrastructure is damaged, and how quickly supply chains adjust. Oil futures markets are volatile and currently suggest a relatively quick resolution to supply disruptions, with declines in oil prices expected over the coming months. The Committee believes the balance of risks to future oil prices is to the upside.

Global financial market volatility has increased in the wake of the shock. Equity prices have fallen in most jurisdictions, and the US dollar has appreciated against most currencies, reflecting expectations of weaker global growth. Financial markets have priced in expectations of higher central bank policy interest rates this year. However, at this stage, most advanced economy central banks have left interest rates unchanged at recent decisions.

Global inflation is expected to increase and growth to weaken

Prior to the onset of conflict in the Middle East, global economic growth had been resilient. Global inflation was also generally declining towards respective countries' inflation targets. Disruptions to global supply chains and higher oil prices are likely to lead to higher inflation and weaker growth in the near term, particularly in countries heavily dependent on Middle East oil and gas. This includes many of New Zealand's trading partners in Asia.

There is significant cross-country variation in the starting point for inflation, the fiscal and regulatory response to higher oil prices, and economic resilience to the shock. The monetary policy reactions across countries will likely differ.

Supply chain disruptions will lead to higher near-term inflation in New Zealand

Annual consumers price inflation increased to 3.1 percent in the December 2025 quarter, slightly above the Committee's 1 to 3 percent target band. Higher oil prices will result in higher headline inflation in the near term. The extent of this increase will depend on how the conflict in the Middle East evolves and the magnitude and duration of the disruption to supply chains.

The Committee has updated its forecast for consumers price inflation for the first and second quarters of 2026. This forecast is based on observed higher fuel prices and current futures pricing, which assumes that Dubai crude oil prices drop below USD100 per barrel by the end of June. The Committee also assumes some near-term pass through into other consumers price inflation components, particularly transportation, airfares and food prices. These assumptions result in an inflation forecast of 3.0 percent in the March quarter and 4.2 percent in the June quarter. The Committee see significant uncertainties around this forecast and will update it at coming monetary policy meetings.

Economic growth is expected to be weaker in the near term

Prior to the conflict, New Zealand's economic recovery was at an early stage. GDP growth of 0.2 percent in the December 2025 quarter was lower than expected, largely due to relatively weak household consumption and business investment. However, higher frequency indicators over January and February suggested that the recovery was gaining strength.

The Middle East conflict will result in weaker economic activity in the near term. Higher fuel prices are increasing costs, lowering profit margins for many businesses, and reducing household purchasing power. Increased global uncertainty is also expected to weigh on investment. Data received in recent weeks suggest a weakening in business activity and consumer confidence since the onset of the conflict. Recent discussions with businesses are consistent with a slowing in economic activity over March. Many firms reported that higher fuel prices are already being passed through to a range of other prices. Some firms are applying temporary fuel surcharges while others report difficulty in passing on cost increases.

The inflation outlook will depend on price setting behaviour and domestic demand

The Committee's mandate is to focus on ensuring that inflation returns to the target mid-point over the medium term. The outlook for medium-term inflation pressures depends on the size and persistence of the inflationary impulse stemming from higher oil prices and the extent to which it is offset by weaker demand in the economy.

In the near term, the Committee expects higher fuel prices to spill over into increased transport and food prices, reflecting the high energy intensity of these products. Short-term inflation expectations are increasing.

Returning inflation to the 2 percent target mid-point over the medium term requires core inflation and wage growth being contained, and medium- and long-term inflation expectations remaining around 2 percent. The extent to which these criteria are met will influence the scope for the Committee to look through current near-term inflation or whether tighter monetary policy is required. The Committee will be looking to timely indicators to help make this assessment, such as surveys of households and businesses, intelligence from business visits and high frequency price and activity information.

The Committee expects second round effects of the oil shock on price- and wage-setting behaviour and inflation expectations to be constrained to some extent by weak demand and excess productive capacity in the economy. At the time of the February Monetary Policy Statement, the Committee judged that the economy was operating well below its productive capacity. While energy supply constraints could reduce potential output in the near term, it is still likely that spare capacity persists for longer as higher fuel costs and rising uncertainty weaken economic activity. This is a different starting point compared to when COVID-19 and Russia's invasion of Ukraine in 2022 disrupted supply chains and increased energy prices. Back then, demand was growing strongly, adding to inflation pressure.

Domestic financial conditions have tightened since February

New Zealand wholesale interest rates have increased since the onset of the conflict. While this partly reflects expectations of OCR increases, some illiquidity in swap markets has accentuated these moves. Fixed-term mortgage rates have increased, with two-year rates up by around 20 basis points. This reduces the further stimulus that was expected in February from mortgage borrowers refixing at lower interest rates. Term deposit interest rates, particularly at the most popular six-month term, have not increased to the same degree.

The New Zealand dollar has depreciated somewhat in trade-weighted terms, consistent with broader moves in currency markets, posing some upside risk to inflation while benefitting exporters.

The Committee discussed risks to the medium-term outlook

The Committee noted that the balance of risks has shifted, and there are likely to be differences between the near term and medium term.

The Committee discussed the risk that the conflict has more persistent impacts on inflationary pressures. The Committee noted that current futures prices for oil imply a relatively quick resumption in oil supply and discussed the risk that supply chains could be disrupted for longer even if the conflict ends relatively soon.

The Committee discussed the risk of a larger change in price setting behaviour as firms seek to pass on higher fuel costs. This risk is accentuated by current tight business margins given weak activity and substantial cost pressures, which could limit the degree to which some firms are able to absorb further cost increases. This would result in inflation spreading beyond energy-intensive products into services, with core inflation and medium-term inflation expectations increasing and pushing up wage expectations.

The Committee also discussed the risk of a more pronounced decline in economic activity. Households have been cautious in the face of weak real income growth, high unemployment and house price weakness. Investment activity is also expected to remain weak. There is a risk that household and business caution becomes more pronounced, resulting in higher unemployment and weaker growth.

Business activity could also be constrained if it becomes difficult to secure productive inputs such as fuel, fertiliser or other products requiring petrochemicals such as plastic for packaging. This could accentuate disruptions in regional economies due to domestic energy constraints. At the same time, businesses and households are likely to adapt to adverse circumstances.

The Committee agreed to hold the OCR at 2.25 percent

The Committee noted that the net effect of the conflict in the Middle East on medium-term inflation pressures in New Zealand will depend on how the countervailing factors play out. It also noted that financial conditions had already tightened since the onset of conflict.

The Committee discussed the size and speed of any monetary policy response to the risks of higher medium-term inflation.

If the increase in near-term inflation is largely temporary, the Committee envisages gradually moving the OCR to more neutral levels as activity recovers and near-term inflationary pressures dissipate. However, any signs of significant second-round inflationary effects or increases in medium-term inflation expectations would require decisive and timely increases in the OCR to re-anchor inflation expectations. The Committee is vigilant to these risks.

On the timing of any increase in the OCR, members discussed that a pre-emptive response to medium-term inflation pressures could guard against the risk of inflation expectations becoming unanchored and reduce the extent of second round price increases. In turn, this could mean that monetary policy may need to tighten by less and result in output contracting by less than otherwise.

Conversely, the Committee noted the risk of reacting to higher near-term inflation and accentuating weakness in the real economy and labour market. Members noted that this could cause unnecessary volatility in output and employment if the conflict was resolved in the near term or if the economic outlook weakens by more than currently expected.

Some members placed more emphasis on the arguments in favour of an early monetary policy response, noting that further data and analysis would provide greater clarity about medium-term inflation pressures. Other members emphasised downside risks to growth and argued for more opportunity to judge the extent to which weaker growth balances the second-round effects of higher fuel prices.

On balance, the Committee decided to leave the OCR unchanged at this meeting. It will continue to assess the countervailing forces on the inflation outlook and stands ready to act decisively to ensure that inflation reaches the 2 percent mid-point of the target band in the medium term.

On Wednesday 8 April the Committee reached consensus to hold the OCR at 2.25 percent.

Attendees:
MPC members: Anna Breman (Chair), Carl Hansen, Hayley Gourley, Karen Silk, Paul Conway, Prasanna Gai
Treasury Observer: Struan Little
MPC Secretary: Chris Bloor

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