17 September 2026

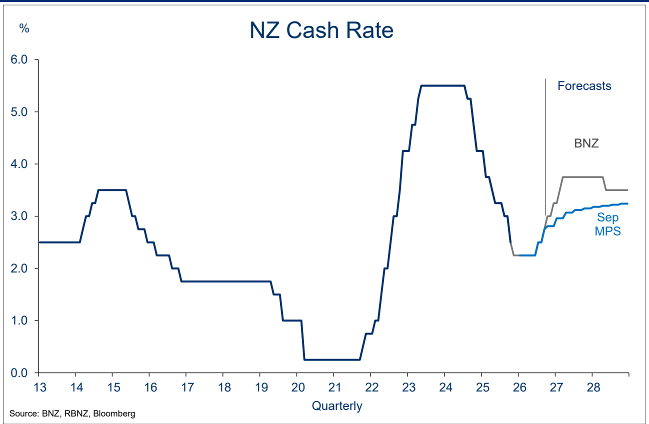
RBNZ to tighten in October

- **Inflationary pressures are surging**
- **Oil and NZD the key culprits**
- **GDP growth enough to support another move**
- **As economy expands at or above potential**
- **Ironically, its inflation that stymies growth**

When it produced its September Monetary Policy Statement the RBNZ gave a clear indication it had no intention of raising the cash rate by more than 25 basis points between now and the end of the year, and that any such increase was more likely to be at the December meeting than October. We were sceptical about the appropriateness of the stance but felt we had to accept the Bank's intent. The market did likewise in reducing the chance of a rate increase in October to a very low level.

But things have changed dramatically. So much so that we now think the Reserve Bank has no choice but to raise the cash rate 25 basis points in October. Accordingly, we have decided to reinstate the rate increase we previously removed on the Bank's advice. We make no other changes to our track which now sees 25 point increases at each meeting until the cash rate reaches 3.75%, which is now one meeting earlier thanks to the reinsertion.

Rate hike in October

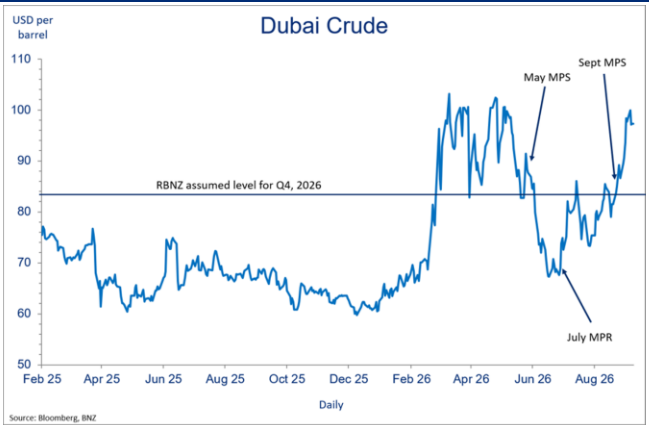


Oil has clearly been the big mover and shaker. Dubai Crude prices are currently 15% higher than what the RBNZ is assuming for the quarter ahead. This has caused us to revise upward our peak in headline CPI annual inflation to 4.2% in the December quarter of this year.

Component	qtr % chg prev qtr	% pt cont to chg	ann avg %chg	ann % chg
Expenditure on gross domestic product - June 2026 quarter				
Final consumption expenditure				
Private	0.0	0.02	1.3	0.9
General government	-1.7	-0.38	4.1	2.6
Gross fixed capital formation				
Residential buildings	4.4	0.28	0.3	6.0
Other fixed assets	0.3	0.05	3.1	4.6
Exports of goods and services	3.3	0.85	6.1	9.5
Imports of goods and services	-0.8	0.23	6.8	5.6
Change in inventories and balancing iten	..	-0.69	..	..
Expenditure on gross domestic product	**0.4**	**0.36**	**2.2**	**3.0**

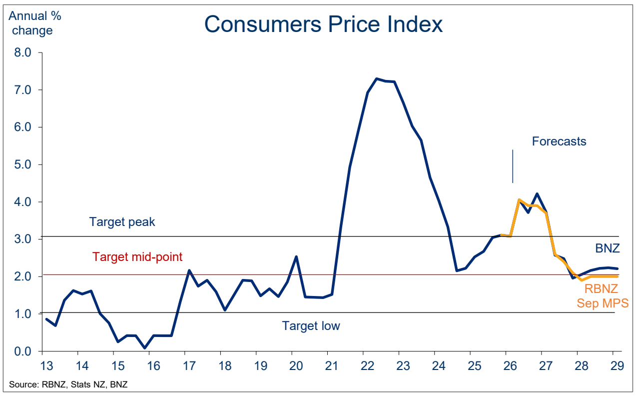
Industry	qtr % chg prev qtr	% pt cont to chg	ann avg %chg	ann % chg
Gross domestic product by industry – June 2026 quarter				
Agriculture, forestry, and fishing	-0.3	-0.01	1.7	1.7
Mining	-0.4	0.00	-5.6	-8.6
Manufacturing	0.4	0.04	1.8	5.4
Electricity, gas, water, and waste services	0.5	0.01	3.9	3.6
Construction	2.7	0.18	-1.1	3.7
Wholesale trade	1.3	0.06	5.8	7.4
Retail trade and accommodation	-1.0	-0.07	3.5	2.6
Transport, postal, and warehousing	-1.7	-0.07	0.8	-0.2
Information media and telecommunication	1.7	0.03	0.2	1.8
Financial and insurance services	0.3	0.02	0.2	1.2
Rental, hiring, and real estate services	0.3	0.05	1.5	1.4
Prof, scientific, technical, admin, and suppc	0.0	0.00	2.8	2.5
Public administration and safety	2.0	0.09	2.9	4.0
Education and training	0.1	0.00	-0.5	-0.1
Health care and social assistance	0.8	0.06	1.6	2.4
Arts, recreation, and other services	-0.8	-0.03	1.2	1.8
Unallocated(2)	-0.2	-0.01	2.4	2.9
Balancing item(3)	..	-0.10	..	..
Gross domestic product	**0.2**	**0.25**	**1.7**	**2.6**

Oil strikes again



Importantly, the RBNZ is looking for inflation expectations and pricing intentions to diminish. This will not happen if the headline reading continues to print so high.

Inflation too high, too long



In addition, our fears that the NZD would depreciate further if the RBNZ softened its stance have been justified. The NZD TWI now sits at 64.8 compared to an RBNZ assumption for it to sit at 66.9 for the foreseeable future. The gap is enough to add around 0.3% to our annual CPI forecast in addition to the oil price effect.

Currency under pressure

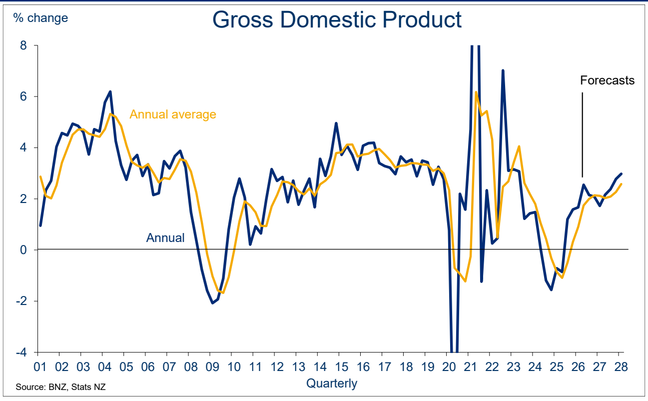
This morning's Fed decision and statement was further evidence that global central banks are becoming more concerned about inflation. If the RBNZ fails to follow suit, the currency's depreciation will not only be maintained but will accelerate.

This needs to be put in the context of the market now pricing a 70% chance of a tightening at the next meeting. All other things being equal, this means that if the tightening does not go ahead the currency will almost certainly take another leg down.

We should have confirmed our shift in stance days ago but wanted to see the whites in the eyes of today's GDP report before doing so just, on the off chance, it surprised to the downside and added to the RBNZ's nervousness.

In the event, it met our expectations and provides no reason why the Bank should hold back from hiking again in October. Not only was the 0.2% increase in GDP for the quarter above the RBNZ's zero expectation but, thanks to the revisions we had warned of, the annual increase in activity of 2.6% was well above the 2.1% the Bank had anticipated.

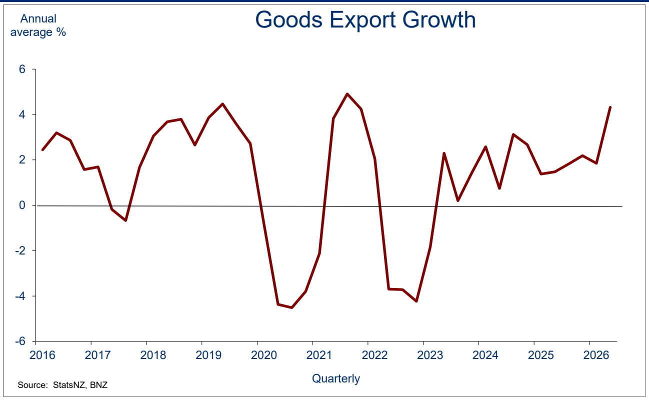
Above potential growth?



Given that New Zealand's potential growth rate is probably sub 2.0% at the moment the outturn means the output gap is probably closing much faster than the Reserve Bank is expecting. And we note that the current level of price pressure, against what has been a relatively weak economy and labour market, suggests that most of us may already be overestimating the extent of that output gap.

It will come as no surprise that the strongest contribution to economic growth is coming from strengthening exports via widespread production gains in the primary sector.

Exports to the rescue

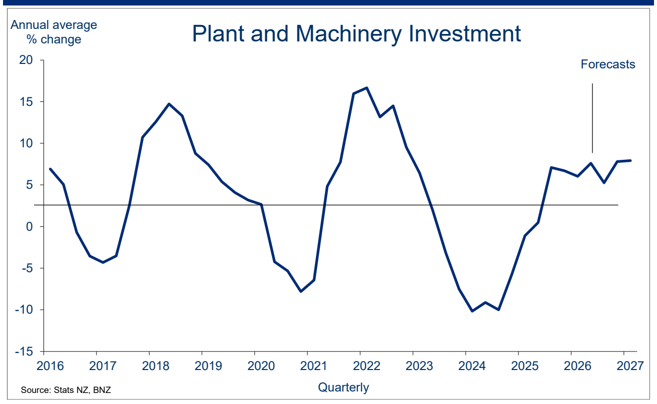


What will be equally unsurprising is that household spending suffered considerably from the drag on household disposable incomes caused by rising oil prices. There was zero private consumption growth in the June quarter in the expenditure accounts. This was replicated in the production accounts with retail trade and accommodation output down 1.0% for the quarter.

The surprise to us is the extent of the apparent recovery in construction activity which doesn't seem to fit with anecdotal evidence. Whatever the case, it is contributing to economic activity which must be good news.

Also contributing to economic activity is investment in plant and machinery which was up 3.0% for the quarter, 9.7% for the year. Again, this should be seen as a very positive sign for the economy.

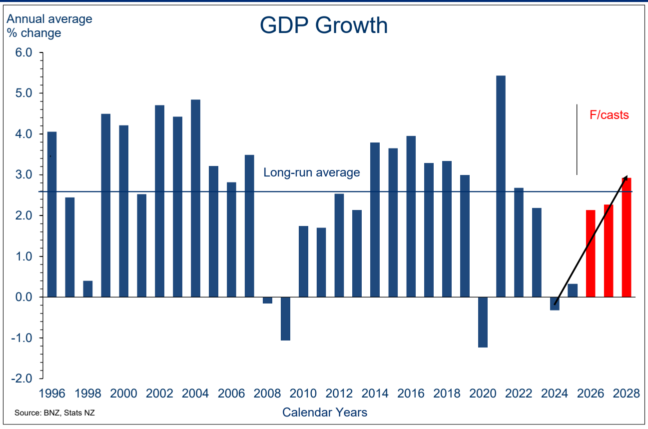
Investment good news



Today's data have done little to change our expectations for GDP going forward. We have made some minor adjustments to reflect the negative impact on spending from the current oil price movement. This means that we previously believed growth would be stronger in Q4 than Q3 but now it's the other way around.

Our forecast now sees the economy expanding a further 0.5% in Q3 before slowing to 0.4% a quarter later. Because last September quarter's solid bounce falls out of the annual calculation, annual growth actually drops to 2.2% in Q3 and 2.1% in Q4. It's hardly spectacular but with the strong headwinds we are facing into it's not that bad either, and it's much improved on the zero to negative readings of 2024 and 2025. Moreover, even at just 2.0% the expansion will still be eroding the spare capacity in the economy.

Better days ahead?



stephen_toplis@bnz.co.nz

Contact Details

BNZ Research

Stephen Toplis
Head of Research

Doug Steel
Senior Economist

Jason Wong
Senior Markets Strategist

Stuart Ritson
Senior Interest Rate Strategist

India Power
Economist

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