FRIDAY 17 JULY, 2026

Kiwi bank.

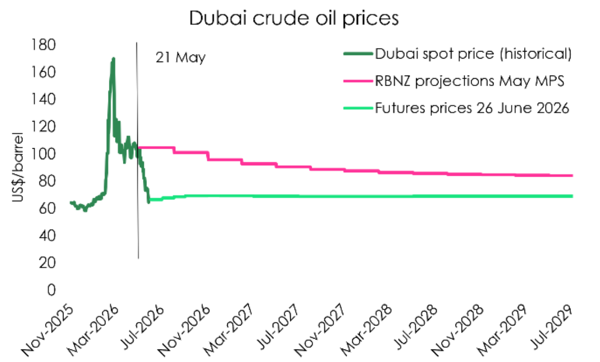
Our Take
Kiwibank economics.

Spike, Dig, Pass: Inflation will rise, but we'll dig in until it passes.

- The June quarter inflation numbers will be ugly. That's to be expected. The oil supply shock eased off a little in June, but not enough ease inflation fears. The consensus view is that June quarter inflation will print between 3.9% and 4.2%.
- March quarter inflation printed above the Reserve Bank's target band, at 3.1%. Not the best starting point. Food and petrol prices feed into that. And we aren't expecting pressures on those fronts to have eased off (quite the opposite).
- It's not just about how high inflation prints for the June quarter. But how long that inflationary pressure is sustained. In particular, if imported (tradable) inflation starts seeping into domestic (non-tradable) prices. That is the Reserve Bank's primary concern.

Last quarter we had a headline inflation print higher than we would have liked, 3.1%. Above the Reserve Bank's target band. An uncomfortable position in an oil crisis. Although we weren't surprised, we weren't happy. Not a good starting point for the war in Iran to kick off from. Since March, we have seen a peak in the cost of fuel and other petrochemical products. We know those price increases will feed directly into tradeable (imported) inflation.

We were forecasting inflation will peak to 4.2% in the second quarter data, out next week. This forecast was made before the tentative (now abandoned) US-Iran peace deal which saw the oil price take a tumble in June.



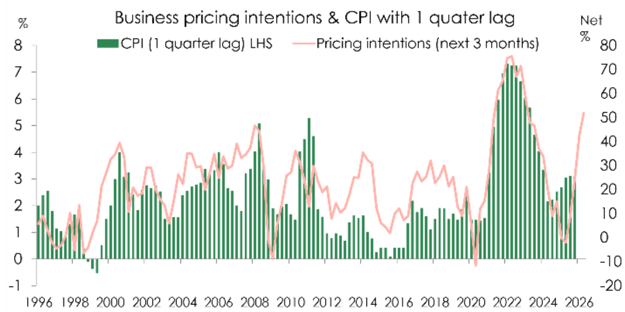
Source: Bloomberg, RBNZ May MPS, Kiwibank

The RBNZ has revised their forecasts down from 4.2% to 3.9% for the June quarter. They still expect inflation to remain above band in the September quarter, at 3.3%. Treasury hasn't updated their May budget forecast of 4.0%, but were quick to point our that it is now in the realm of possibility and much closer to the current consensus view.

We're excited to have inflation print lower than our models suggested back in May. That won't surprise us. In the March quarter, we saw the price of petrol spike 3.5% and diesel 11.3%. But it was in the June quarter where petrol and diesel prices really took off. The June selected price index data reveals that petrol and diesel prices are up 24% and 57% respectively for the year. This will flow through to the June inflation print.

From the RBNZ's perspective, it's the domestic components that matter more. It's the domestically generated inflation that they have some influence over.

The Quarterly Survey of Business Opinion also gives us an indication on where domestic prices are heading. Spoiler alert: it's up! We see that business pricing intentions for the next three months often map to inflation in the following quarter. In the first quarter of this year, roughly 43% (net) of



Source: Kiwibank; NZIER; StatsNZ

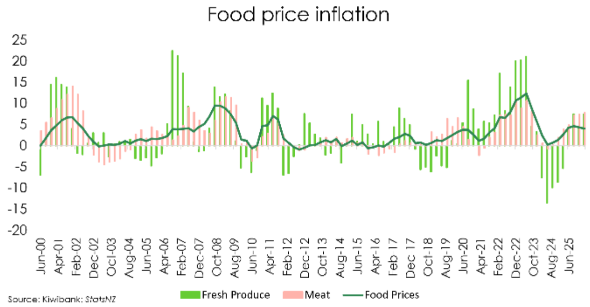
firms indicated an intention to increase prices. That's up from 25% in the last quarter of 2025. That intention may also feed into inflation in Q2 data.

The Reserve Bank's Chief Economist, Paul Conway, gave a speech on 14 July. He highlighted two key variables that gave the Bank impetus to lift interest rates in July, rather than later in the year. Firstly, inflation expectations in the 2, 5 and 10-year horizons. And secondly, the recent increase in the speed with which firms update their pricing.

Kiwi households and businesses are like crayfish in a pot, slowly climbing to a boil. When inflation rises consistently, year after year, expectations anchor to that pattern continuing. This is bad. Additionally, firms are updating prices more often. Leading to a higher chance for supply-shock driven price increases to become embedded in domestic markets. Again, bad news.

We have banged this drum before. Demand destruction and a soft labour market is weighing on inflation. For the RBNZ, it's only part of the picture. They don't see the disinflationary force of households pulling pack on spending as powerful enough to overcome businesses' pricing intentions. It's a painful story. Prices will go up, and the Bank's concern is that they won't come back down after the shock is over. The Reserve Bank's latest interest rate decision is not off the back of growing demand.

One main driver of inflationary pressure in the March quarter came from food prices, up 4.0%, mostly driven by fresh produce (up 7.4% yoy) and meat (up 7.7% yoy). We don't expect cost pressures to have eased in these sectors. The increased price of fertilizer and huge demand for NZ mince overseas is continuing to put upward pressure on food prices.



All in all, second quarter inflation will be high. That on its own shouldn't be enough to spook the RBNZ. The real cost of the oil crisis on inflation will come out in the third and fourth quarter data. With the way the war in the Middle East is re-escalating at the moment, we can't be confident that the supply shock will pass any time soon.