Economic recovery not the driver of prices

- Inflation data is out this week. The consensus view is that inflation for the June quarter will print at 1.4% for quarter-on-quarter, and 4.0% year-on-year. Despite being above the Reserve Bank's target band of 1-3%, we aren't panicking. The spike in the June quarter will be driven by fuel prices which have since eased.
- A weak Kiwi dollar and new trial scheme for easier travel between Australia and New Zealand for eligible Chinese passport holders supported strong tourism data. Visitor arrivals in May 2026 printed at 93% of pre-pandemic May 2019 arrivals.
- Electronic card spending data surprised to the downside, with spending falling 1.2% in June. The reversal from the May data is surprising given the drop in fuel prices in June. Households are exercising caution amidst economic uncertainty.

We're looking ahead to Tuesday's inflation print with pessimism. We know it will print high. Consensus sees it landing at 4.0% year-on-year and 1.4% for the quarter. 4.0% is well above the Reserve Bank's target band of 1-3%. We aren't panicking about this though, the inflation spike is expected. It will be driven by the increased oil prices we saw in April and May.

The important part, from the RBNZ's perspective, is the domestic (non-tradable) component of inflation. Domestic generated inflation will show how much (if any) of the fuel price increases are passing into local prices. The Reserve Bank wants to minimise the pass-through. This is why it hiked the interest rate in July and has warned that more hikes are likely before year end.

A lower inflation print, specifically a lower non-tradable inflation print, will give the Reserve bank more room to breathe. And this might mean we only see one more rate hike this year instead of two. A higher inflation print will give them steam to hike to 3% by the end of the year, as previewed in their May monetary policy statement.

Last week we had some high frequency data pointing to a mixed-recovery taking shape across the motu. Stats NZ released May migration data. Migration is showing signs of strength including positive net migration, with seasonally

adjusted net migration keeping above 0 since Jan 2025. But Kiwi Citizens are still leaving more than arriving.

Tourism data for May printed at 93% of pre-pandemic May 2019. On a yearly basis, there was an increase compared to May 2025 year. Tourism was supported by a weak Kiwi-Aussie exchange rate and new immigration rules making it easier for some Chinese passport holders to travel between NZ and Australia without a visitor visa.

We also saw June electronic card transactions released during the week. Spending trends suggest households remain cautious and sensitive to the geopolitical crisis. Electronic card spending fell 1.2% in June. This reversal to May data is surprising, given the drop in oil prices that saw petrol costs drop in June. This implies that households are saving rather than spending any perceived spare cash. If this persists, an increase in the savings rate will put downward pressure on inflation.

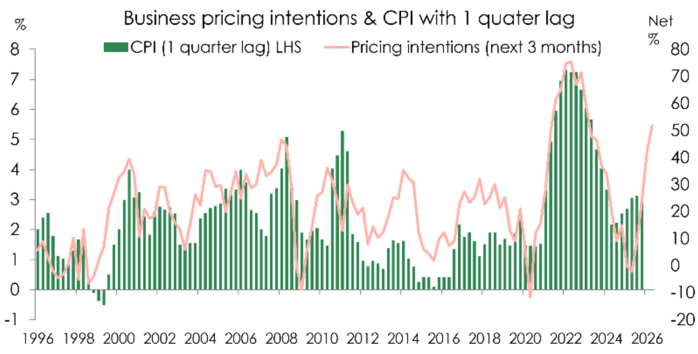
When households are cautious and have used up their savings buffers to overcome a difficult time (such as the spike in the price of petrol, diesel and more), they aren't likely to spend up a storm when cost pressures ease. We are more likely to see household spending track sideways until people are comfortable that their buffers are re-built.

The NZIER Quarterly Survey of Business Opinion for the June quarter showed business confidence improving modestly, with domestic trading activity remaining weak. While conditions in the Middle East improved in the June quarter, volatility still reigns supreme. We discuss the survey responses more in our chart of the week.

Chart of the Week: Businesses at the end of their tether poised to raise prices

The NZIER Quarterly Survey of Business Opinion (QSBO) for the June quarter came out last week. We review the responses and, in our chart of the week, we show how Kiwi businesses' intentions to raise prices, often correlate with inflation one quarter later.

The survey results give us an indication on where domestic prices are heading. Spoiler alert: it's up! In the first quarter of this year, roughly 43% (net) of 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.



Source: Kiwibank; NZIER; StatsNZ

It's not just households being crippled by the cost of living crisis. Kiwi businesses have been feeling the pressure on their costs for a long time now. Over the past two years, a significant proportion of firms have reported costs increasing. Importantly, a much smaller proportion expressed intent to increase prices. This indicated that price pass-through has been constrained by weak domestic economic conditions. It also suggests businesses have continued to have their margins eaten into.

The latest data reveals businesses are at the end of their tether. As our chart shows, in June a net 51.9% (rounded, seasonally adjusted) of businesses plan to increase prices in the next three months. Both the net proportion of firms planning to raise prices in the next three months and the net proportion that increased prices in the past three months has steadily risen from early 2025.

For more detailed analysis on the cost and price data from QSBO, be sure to read our take on the data from last week.

Our chart also shows a close relationship between the intention of businesses to increases prices and inflation one quarter later. The sharp increase in the net proportion of businesses intending to increase prices in the coming three months may be an indicator that inflation is set to face renewed upward pressure.

Because this data only reveals intentions for three months ahead, we wait with bated breath to see whether this spike will persist beyond the next quarter. Although domestic economic conditions remain tepid, the Reserve Bank's Chief Economist Paul Conway has highlighted price pass through is still a risk.

Conway's argument is that Kiwi households have become all too familiar with persistent cost of living pressures over the past half a decade. If these expectations of price increases become embedded, businesses will face less pushback when raising prices. And this could risk continual upward pressure on inflation, even though the economy is relatively weak.

"You're off mute!"

Markets, Mystics, & Mayhem

Ep 80: Hiking interest rates: WHY?!

The RBNZ has raised the interest rate to 2.5%. And we aren't happy. But we have a special guest on the podcast to help distract us from our foul mood. Mieneke Perniskie, Kiwibank Senior Dealer, Financial Markets joins us to discuss the implications for exchange rates.

The Kiwi dollar has taken a battering this year, off the back of the oil crisis. The Kiwi-Aussie exchange rate in particular has made our exports go on sale. Good news for exporters! And we can see it in Manufacturing PMI.

As the interest rates head to neutral (wherever that ends up landing), we speculate what the rest of the world is doing. And what that means for our rate differentials, and of course, currency.

Financial Markets

The comments below were provided by Kiwibank traders. Trader comments may not reflect the view of the research team.

In Markets - CPI the main event

It has been a week of two-halves. Local releases dominated the first half before US data and Fed-speak came to the fore in the second. Developments in the Gulf and equities provided additional input.

Rates markets remained on the back foot early in the week with Monday and Tuesday trade seeing a continuation of the selling seen post-decision. The year-end implied cash rate lifting to around 3.10%, or near 2 ½ 25-point tightenings by close on Tuesday. Two-year swaps were marked around 17-points higher than the Thursday close at 3.70% and the 10-year 14-points higher at 4.36%.

Monday opening saw an initial attempt at a small rally after the post-decision selloff fade early on. After the release of a 50.6 expansionary-territory PSI print, comments from an MPC member indicating that policy remained stimulatory, and later in the afternoon a jump in the RBNZ's GDP now Q2 and Q3 reads (released Monday due to the Friday holiday). Tuesday saw the pressure remain with a firmer QSBO and a speech by the RBNZ Chief Economist Paul Conway taken as hawkish by the market. As was noted in the MPR the prior week, general confidence and the extent to which recent cost increases were able to feed through into higher prices were seen as important considerations for medium-term inflation and policy going forward. The market viewed the speech as on the hawkish side, with particular notes around the behavioural response to cost shocks and whether these fade or become embedded, how policy may need to adapt depending on the inflation environment and how this may need policy to respond more firmly to re-anchor expectations, and how research on price setting behaviour sees a quicker pass-through on costs. Additionally, it was noted that there may be some upside risk to their Q3 inflation forecast. That was page 2 of 11, but markets had probably read enough by then. The QSBO reported a lift in business confidence in Q2, and of more interest for the RBNZ, a lift in inflation pressures reported by firms and a net 41% firms noting being able to pass those costs on.

The second half of the week was dominated by US CPI and various degrees of Fed-speak. US CPI printed lower with the core measure at 2.6% y/y against a 2.8% expected which sparked a reassessment of the priced tightening path with this sliding to well below one 25-point move priced. Fed-speak generally remained on the hawkish side though, noting concerns by various members about above-band inflation. Importantly Fed Chair Warsh, while referencing that the print was positive relative to expectations, though he was not for cherry-picking data. By the end of the week the front of the US curve had moved back to price in one 25-point move as highly likely, though this remained off the more than one that had been priced prior to CPI. The US moves did lend some strength to the NZ rates market that had to that point moved reasonably quicky post the RBNZ. The local rally appeared stilted and perhaps lacking a full degree of conviction ahead of the local CPI with year-end cash still pricing above 3%. The Q1 and Q2 2027 average cash pricing also remained significantly above the MPS forecasts, with Q1 marked around 18-points higher than the previously 3.00% assumed in the May projection. While Q2 was seen around 30-points higher at 3.37%. By the end of the week, December OCR was pricing at 3.06% (+6-points w/w) while 2-year was 3.62% (+10 w/w) and 10-year 4.35% (+13 w/w).

For the week, the key piece of information for us will be CPI. The QSBO perhaps provided new information last week, that is, that pricing power to a degree may be more apparent and potentially broad-based than thought. With the various releases from the RBNZ talking to this being a factor as to whether inflation will embed or not, will add even more weight to this dataset. Having noted this, the market remains vulnerable to a weaker than expected print not insofar as derailing a tightening cycle, but seeing a repricing jiggle of the timing up front i.e., perhaps 2+ tightenings by year-end trades to 1+ tightenings. Potentially the very front of the curve will be where the action is. Also adding some extra interest will be that we start to hit the main Central Bank decisions this week and next, including ECB, Fed, and BoJ. **Graham Huges – Trader, Financial Markets**

In FX – The focus is the CPI print for the Kiwi

While the NZD continues to benefit from relatively hawkish RBNZ expectations and improving domestic activity indicators, those positives were overshadowed last week by resilience in the USD, higher US yields, and softer global risk sentiment. The next major test for the currency will be tomorrow's CPI print and its implications for the RBNZ policy outlook.

After being well supported the previous week by the RBNZ's hawkish Monetary Policy Review and stronger domestic data, the NZD struggled to extend gains last week as global factors took centre stage. The key domestic catalyst remained the RBNZ's 25bp hike and accompanying guidance, which reinforced expectations that further tightening may be required. This, combined with June's strong BusinessNZ Performance of Manufacturing Index and improving business sentiment in the QSBO, helped underpin New Zealand rate expectations, with markets continuing to price around 75bp of additional tightening by mid-2027. The resulting outperformance of New Zealand short-end rates relative to Australia drove NZD/AUD to a high of 0.8370 by the end of the week.

However, support from domestic factors was offset by a firmer USD environment. After an initially quiet week, stronger-than-expected US labour market data, including a decline in jobless claims, alongside continued hawkish Fed commentary, helped the USD recover. Markets modestly increased the probability of further Fed tightening, pushing US yields higher and lifting the USD index from around 100.50 to 100.75. As a result, NZD/USD traded with a largely defensive tone, slipping from around 0.5850 to the low 0.5840s by week's end. The AUD also weakened, falling back below 0.7000, highlighting the broad-based nature of USD strength.

Risk sentiment was mixed through the week. Equity markets softened, led by renewed weakness in technology and semiconductor stocks amid concerns over AI-related investment spending. Asian equities were also under pressure, with both the Nikkei and KOSPI posting sizeable declines. Despite ongoing tensions in the Gulf region, oil prices moved lower, reflecting concerns around global demand and providing little support for commodity-linked currencies. **Mieneke Perniskie – Senior Dealer, Financial Markets.**

The Week's Key Events

- The key release coming up this week in NZ is inflation data for the June quarter of 2026.
- Australian labour market data is out this week, as is a slew of data from the UK including inflation, labour market, retail sales and consumer confidence.
- S&P are releasing PMI data for several key economies including the US, Japan and Australia.