

Our Take

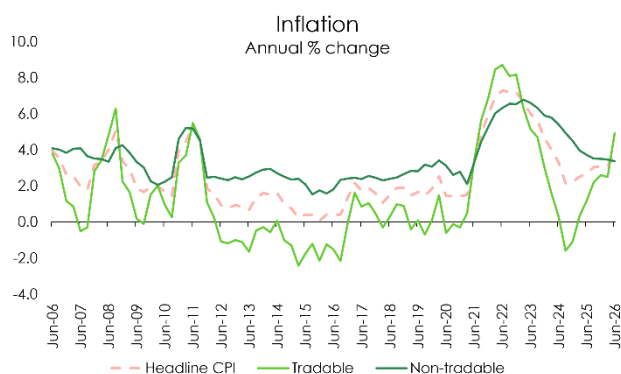
Kiwibank economics.

Importing the pain, exporting the gain.

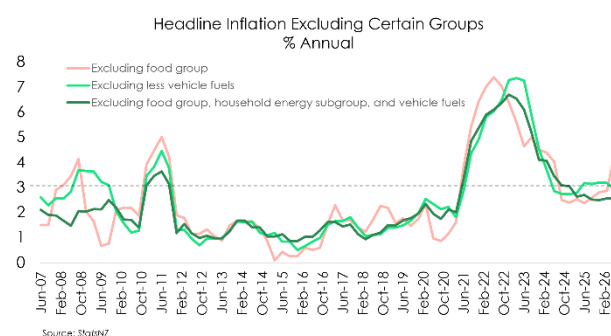
- The June quarter inflation numbers were nasty, we expect that nastiness to continue in the September quarter. The oil supply shock eased off, but not for long enough to ease inflation fears. Our view is that September quarter inflation will print at 4.0%. It didn't budge... it didn't bring relief... just more pain.
- We know that September quarter prices will largely be driven by fuel. Off-shore pressures will mean most of what we see will be imported from overseas. Domestic prices have other constraints though. None stronger than a consumer with no funds left to spend.
- The persistence of inflation is double sided, for the RBNZ. On the one hand, they remain uncomfortably far from their 2% mid-point target. On the other, heavier hand, petrol price spikes act like a tax on household consumption. It hurts growth.

We started the third quarter of 2026 with hope that the conflict in the Middle East was easing, and petrol prices were going in the right direction. Alas, that didn't last. At the end of September, oil prices had spiked once again, taking petrol prices and all other oil-derived products, along with it. Households have been stunned once again.

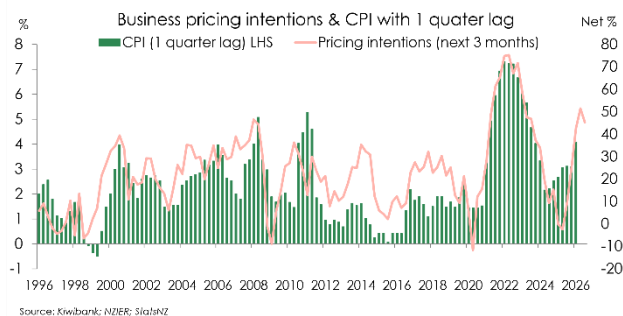
Our inflation numbers are likely to have taken another painful hit. We will see them on the 22nd of October. Our view is that headline inflation stayed the same, a painfully elevated 4.0% for the September quarter. With a likely 0.9% increase from the June quarter, it's far from ideal. The silver lining is that most inflation is coming from offshore. And that sort of inflation is outside the control/influence of the RBNZ.



Data from the June quarter showed that much of the headline price growth across the motu was driven by the spike in petrol, diesel and jet fuel. There was almost no evidence of domestic inflation pressures pushing the headline number up. In fact, if not for the petrol and diesel price increases in the June quarter, inflation would have been 2.9%. Lower than March at 3.1% and within the Reserve Bank's target band (narrowly).



The most promising feature of the June quarter data was a downward trend in domestic prices. In this quarter, we are on notice. Businesses have been reporting a desire to increase prices, as operating costs have pushed higher. We know they are constrained in large part by stretched consumers budgets. It's hard to hike prices when consumers simply walk away.



Kiwi households were no better off in the September quarter than in the June quarter. Therefore, the petrol pump is pushing down on their capacity to absorb higher prices from other directions. Demand for goods and services is still soft. Stats NZ electronic card spending data over the last few months has been easing.

Unfortunately, we are starting from an already elevated position. Inflation sits well above the Reserve Bank's target band, at 4.1%. It's frustrating. We hoped that June would see the peak in the conflict and therefore a peak in prices. That is no longer likely.

The other forces working against us are global inflation, and a weak currency. We are not the only nation facing higher prices, in fact, it is a global issue. And most central banks have been forced to fight higher inflation with higher interest rates. As interest rates around the globe have gone up, in many places faster than our own, that rate difference has weighed on the kiwi dollar. Our exporters are doing well as a result. They are successfully passing on higher costs and expanding their margins considerably, raking in the cash. Meanwhile, the average Kiwi is paying through the nose for imported fuel, and other goods and services. Money is coming in on one end and escaping just as quickly out of the other. A precarious balance.

The selected price indexes (SPI) for the months of July, August and September, showed some moderation. Compared to the June quarter, fuel prices actually eased in the September quarter, and food and housing rents were subdued. As the SPI makes up over half of the consumer price index, used to measure inflation, this gives us hope. This adds some down-side risk to our forecast, here's hoping for a lower inflation print than we're predicting. Maybe

even a 3.8% is in the realm of possibility. If this turns out to be the case, we'll be the first to celebrate being wrong. And just when you thought this was good news... we'll then have to look to the December quarter, in which we'll have record high petrol prices to contend with. But alas, we have to take it one quarter at a time.

The RBNZ projected that inflation would remain elevated in the near term, with most of the price effects still being direct from oil prices, rather than indirect from other goods and services. Even so, their forecast in September was for a headline inflation figure of 3.9%. We are expecting them to hike the interest rate one more time this year, the question is... will it be this month, or in December? The market is pricing in a higher chance of an October hike, this inflation print will tip the odds. The core inflation print will be key. The other key will be evidence of second round price effects. That is, if we see businesses passing on higher operating costs from oil, onto consumers.