ANZ Research

Forecast Update: CPI Inflation

17 March 2026

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Centralising higher oil prices into the inflation outlook

- The Middle East conflict is no longer shaping up to be a short, sharp shock. While it's extremely unlikely this will be the last word on the matter, we have updated our CPI forecast to account for assumed greater persistence in the inflation impulse.
- Volatility is likely to remain elevated, but we assume oil prices hold near USD100/bbl in the near term before easing to around USD75/bbl by year-end.
- We have also had to make assumptions about the extent to which the oil price shock broadens into other parts of the CPI basket, including the eventual payback dynamics and the implications for the output gap and medium-term inflation expectations.
- These assumptions see annual inflation peaking at 3.6% y/y in Q3 2026. However, base effects, together with the assumption that oil prices eventually normalise, see annual inflation troughing at 1.4% in Q3 2027 before stabilising around 2% over the medium term. There are risks on both sides of this.
- We do not think this updated outlook has immediate implications for our OCR call. However, in fast-moving situations such as this, assumptions can become out of date quickly.
- We will publish a separate note outlining two scenarios that would move the dial for monetary policy, alongside further discussion of the economic implications of this shock.

More inflation in the near term, but payback on the other side

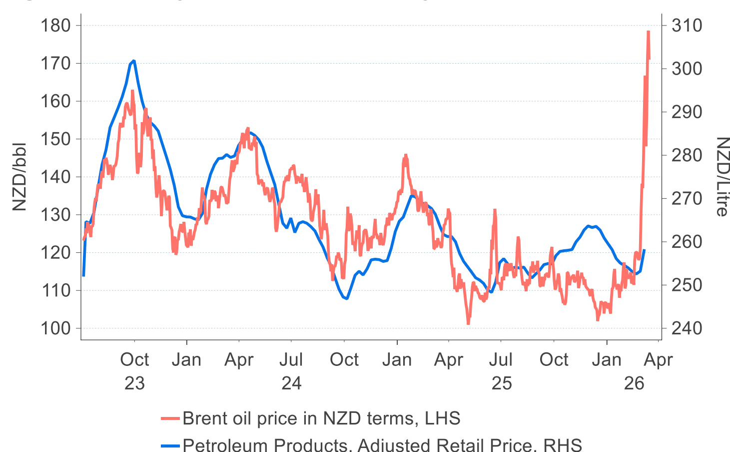
We have made our first attempt at centralising recent developments into our inflation forecast. We say "first attempt" because it is unlikely to be the last forecast update prompted by these events. As outlined below, we have had to make numerous assumptions that could quickly prove incorrect, but forecast we must, so this update is best interpreted as a sensible story given what we know so far.

The current quarter (Q1 2026)

Recent events have not yet moved the dial on our Q1 CPI forecast of +0.6%, with annual inflation slowing to 2.8% (data due 21 April). As we noted following today's February SPI release, while higher petrol prices are expected to add more to Q1 inflation than previously thought, most of the impact will likely show up in the Q2 CPI.

While petrol prices have surged in the month of March, for most of Q1 petrol prices were relatively stable (figure 1). According to MBIE data, the price rise as of 6 March was still relatively modest, but this week's data (to 13 March and out tomorrow) will show more of an impact. That means that for Q1 as a whole, fuel prices have only been sharply higher for 2-3 weeks of the quarter. So even though we're talking about a 20%+ increase in fuel prices, the bulk of that isn't going to be evident in quarterly inflation until Q2. That said, it is still possible we see a faster-than-expected reaction to the likes of airfares prices and tradable prices more broadly in the March Selected Price Indexes (SPI). A forecast revision to 0.7% seems more likely than 0.5% once we have the March SPI data in the bag (out 17 April).

Figure 1. Weekly petrol prices vs daily Brent crude in NZD



Source: Bloomberg, MBIE, Macrobond, ANZ Research

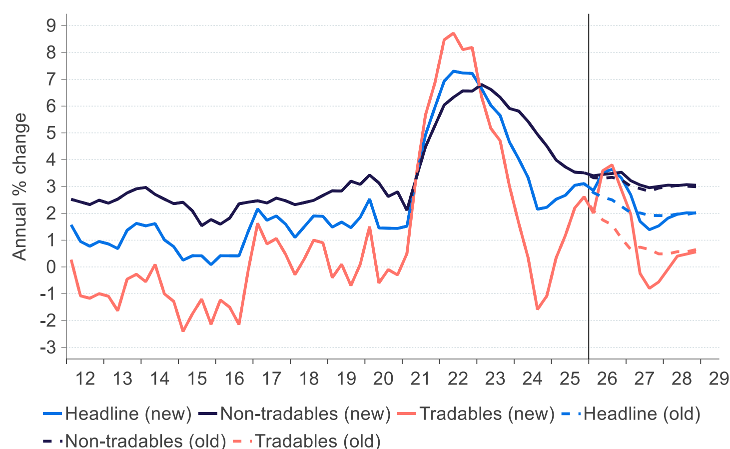
Next quarter (Q2 2026)

Unless petrol prices retrace to pre-shock levels within the next couple of weeks (which seems unlikely), the recent rise in fuel prices is likely to add more to CPI inflation in Q2 than Q1. It is also in Q2 that we'd expect to see the start of a broadening across the tradable side of the basket from recent NZD weakness, via higher freight costs, etc. There's also likely to be some early spillover into non-tradable inflation, through the likes of domestic airfares. Indeed, Q2 is the big one when it comes to changes to our forecast: we have upgraded our quarterly inflation pick from +0.4% q/q to 1.2% q/q. More than two thirds of that reflects the direct impact of higher fuel prices (which have around a 4% weight in the CPI), with the remainder reflecting spillovers to air transport and the like. Annual inflation is expected to accelerate from 2.8% in Q1 to 3.5% in Q2.

Beyond Q2 2026: Inflation peaks in Q3 2026, with payback in 2027

Changes to our forecast for quarterly inflation are relatively minor beyond Q2 2026, but base effects from preceding quarters have a meaningful impact on annual inflation – in both directions. We now expect annual inflation to peak at 3.6% in Q3 2026, before falling to 3.3% by the end of the year. As large quarterly rises in 2026 drop out of the annual calculation, annual headline inflation is expected to slow to 1.4% y/y in Q3 2027, before picking back up towards 2%. As Figure 2 shows (over page), the lion's share of the forecast change is to the more volatile tradable side of the CPI basket, with only a small spillover into non-tradable inflation over the next year or so.

Figure 2. CPI inflation forecast



Source: Stats NZ, Macrobond, ANZ Research

Key assumptions underpinning this forecast

We have had to make several assumptions to put this forecast together, and while some (possibly all) of them will be wrong, we can't put a forecast together without them, and we can't be 100% sure about in which direction we will be wrong. But since leaving our forecasts unchanged isn't a great option either, assume we must. Some of our high-level assumptions include:

- At the end of Q1 the oil price is USD100/bbl for Brent crude, it then falls to USD75 by the end of the year.
- The oil shock is material enough to spill over into other prices in the near term only.
- The Government does not alter fuel tax settings, and more broadly, maintains current discretionary fiscal policy settings.
- The output gap is little changed on balance over the forecast horizon. That is, any decline in economic activity in the near term impacts potential GDP by a similar magnitude, and the shock is sufficiently short lived that it doesn't have more persistent impacts on the balance between aggregate supply and demand over the medium term.
- Medium-term inflation expectations and price-setting behaviour remains consistent with inflation remaining around the 2% target midpoint throughout.
- Unable to do anything about a global supply shock, and also assuming it will be temporary, the RBNZ looks through it. And given the above two assumptions, the RBNZ starts normalising (hiking) the OCR towards neutral from December (i.e. our current OCR forecast is unchanged).
- Any impact on *effective* monetary and financial conditions from this shock (with offsets between higher risk premium pushing swap rates higher, higher inflation pushing real interest rates lower, and a lower real NZD) are not large enough or sustained enough to alter the trajectory for medium-term inflation.

Clearly the current situation carries the potential to challenge the above assumptions in a meaningful way. Our next note will investigate the implications for monetary policy should that turn out to be the case.

CPI forecasts

	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27	Mar-28	Jun-28	Sep-28	Dec-28
CPI (% qoq)	0.6	**0.6**	**1.2**	**1.1**	**0.3**	**0.1**	**0.2**	**0.8**	**0.4**	**0.4**	**0.4**	**0.9**	**0.4**
CPI (% yoy)	3.1	**2.8**	**3.5**	**3.6**	**3.3**	**2.7**	**1.7**	**1.4**	**1.5**	**1.8**	**2.0**	**2.0**	**2.0**

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