The Middle East conflict: Initial thoughts on the macroeconomic implications for NZ

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Contact
Miles Workman for more details.

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As events escalate, we recognise the profound human toll. Our analysis below sets out five key points: four outlining the main economic transmission channels relevant to New Zealand, and the fifth bringing these together and considering the implications for the RBNZ.

1) First-round inflation impacts (oil prices and the NZD)

In a textbook risk-off global oil supply shock, inflation in New Zealand is likely to bite first at the petrol pump, where fuel accounts for roughly 4% of the CPI basket. Around 20% of global oil consumption flows through the Strait of Hormuz, meaning any disruptions there will have a significant impact on world oil prices.

New Zealand's import prices depend not only on world prices but also the exchange rate. Fuel prices also tend to be amongst the fastest consumer prices to respond to movements in the NZD. But non-fuel tradable prices (around 38% of the CPI) tend to follow NZD movements in relatively quick succession too – often within the same quarter.

While the current situation is highly uncertain, a prolonged disruption scenario could see supply interruptions push oil above USD90/bbl (Brent oil price at time of writing: USD80). It's also likely that haven flows could drive a stronger USD in the near term, which would typically be reflected in a softer NZD, exacerbating the price move. But when it comes to working out what this means for the near-term CPI inflation outlook, persistence of the shock is key. For example, a 10% rise in fuel prices that only lasts a week before retracing may not move the dial on quarterly inflation much at all, but a *sustained* 10% rise could add as much as 0.2 ppts to quarterly inflation. All else equal, this is very much an upside risk to our near-term CPI forecast of +0.6% and +0.4% q/q in Q1 and Q2 respectively (RBNZ February MPS forecast also +0.6% and +0.4%). However, as we have noted previously, the January SPI release pointed to downside risk to our Q1 forecast, meaning we have a little more buffer than otherwise before we will cross the threshold to build these developments into our forecast. In theory, the RBNZ is in the same boat as us on that front.

2) Second round inflation impacts (global supply chains, freight costs, and inflation expectations)

Second-round impacts can cause the inflation impulse to broaden beyond the fuel and NZD impact on tradable prices. Global supply chains may need to be reorganised, adding to shipping disruptions and costs (including freight insurance), which in turn could add a little more persistence to the tradable price impulse. At that point, the risk that cost-push inflation broadens into domestic inflation pressures would start to intensify. It's not just about goods; many services industries use at least some transport/tradable inputs too. While this is a relatively small part of the overall inflation impulse, it is worth separating from our first point as it has potential to add to the overall "inflationary narrative", potentially bolstering medium-term inflation expectations. And that's when the RBNZ would become very concerned. Under that scenario, the RBNZ could quickly pivot from "looking through" what they previously characterised as a temporary supply shock to tightening monetary conditions abruptly – but they would very likely need to see this threat materialising in the data first.

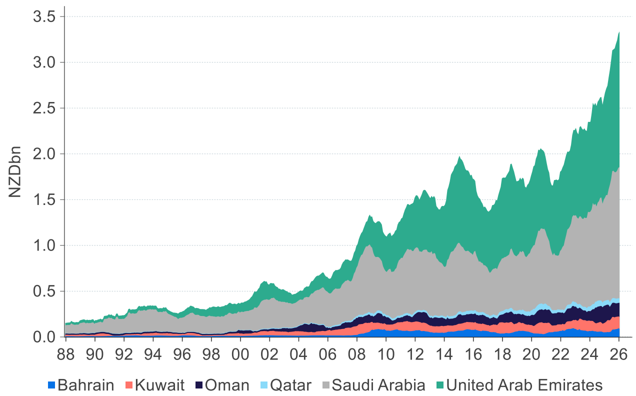
3) Economic activity takes a hit, but a lower NZD could provide a meaningful offset

A prolonged escalation with sustained volatility and a higher geopolitical risk premium would likely weigh on both global and domestic confidence, investment, and therefore growth. Reduced global trade volumes could dampen NZ activity and reduce inflation pressure (all else equal). However, it is exactly under these circumstances that we'd expect the NZD to soften, acting as a shock absorber. A meaningful NZD depreciation would limit the need for the RBNZ to lean against global and domestic activity headwinds with a lower-than-otherwise OCR – which, if inflation pressures are rising uncomfortably, might alleviate an awkward policy choice.

4) NZ's direct export exposure is small but not insignificant

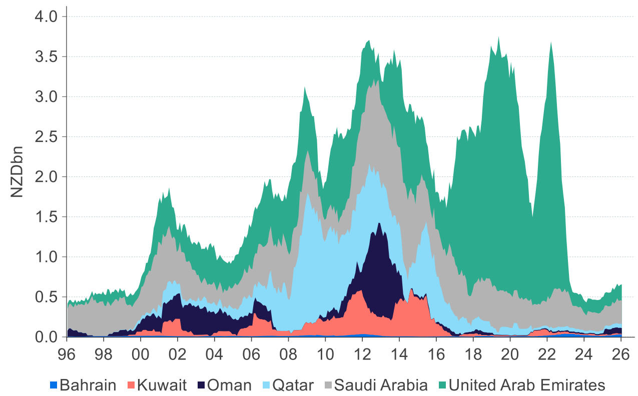
New Zealand's direct economic exposure to Iran is non-existent. However, the more important channel is the Gulf region as an export market and as a logistics chokepoint. New Zealand's goods exports to Gulf Cooperation Council (GCC) countries came in at just under NZD3.4bn in the year to January 2026 (a meaningful market, accounting for 4.2% of total goods exports), with exports highly concentrated in the UAE and Saudi Arabia and in dairy and meat. NZ's main commodity exports to the Middle East rely on open sea lanes including unimpeded access through the Strait of Hormuz, and alternative routes may be capacity-constrained and higher cost. On the imports side, annual goods imports from GCC counties came to NZD0.7bn in the year to January 2026 (0.8% of total imports). NZ's fuel import exposure is indirect: we import refined fuel from the likes of Singapore, South Korea, Malasia and Japan, where crude sourcing links back heavily to the Persian Gulf.

Figure 1. Exports to GCC counties



Source: Stats NZ, Macrobond, ANZ Research

Figure 2. Imports from GCC counties



Source: Stats NZ, Macrobond, ANZ Research

5) Bringing it all together / RBNZ implications

Oil shocks are very difficult for inflation-targeting central banks to navigate, because they are both inflationary and negative for growth, thus presenting potentially stark trade-offs. Central banks therefore tend to initially look through temporary oil price shocks, but telling the difference between a temporary shock and a more persistent one is never possible at the onset of an event such as this. The key is whether the initial oil price/NZD impulse broadens into something that bolsters medium-term inflation expectations, or whether weaker confidence, activity and trade volumes keep that in check. The RBNZ isn't going to know any sooner than anyone else which potential scenario we are in, but as a first port of call they are unlikely to react until it's clear that this is more than a temporary impulse to inflation. That would take some time to become clear. That said, with annual CPI inflation running at 3.1% at the end of 2025, the RBNZ's tolerance for further inflationary surprises over 2026 and beyond will be lower than if inflation were starting closer to the target midpoint. But compared to 2022, when oil prices surged to USD100/bbl following the onset of war in Ukraine, CPI inflation is much lower (2022 peak 7.3% y/y), fiscal policy is less expansionary, and spare capacity in the labour market is significant (the labour market was overheated in 2022).

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Sharon Zollner
Chief Economist, New Zealand

Telephone: +64 9 357 4094
Email: sharon.zollner@anz.com

General enquiries:
research@anz.com

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www.research.anz.com

David Croy
Senior Strategist

Market developments, interest rates, FX, unconventional monetary policy, liaison with market participants.

Telephone: +64 4 576 1022
Email: david.croy@anz.com

Matt Dilly
Agricultural Economist

Primary industry developments and outlook, structural change and regulation, liaison with industry.

Telephone: +64 21 221 6939
Email: matthew.dilly@anz.com

Miles Workman
Senior Economist

Macroeconomic forecast co-ordinator, economic developments, labour market dynamics, inflation, fiscal and monetary policy.

Telephone: +64 21 661 792
Email: miles.workman@anz.com

Matthew Galt
Senior Economist

Macroeconomic forecasting, economic developments, GDP, housing and credit dynamics.

Telephone: +64 21 633 469
Email: matthew.galt@anz.com

Natalie Denne
PA / Desktop Publisher

Business management, general enquiries, mailing lists, publications, chief economist's diary.

Telephone: +64 21 221 7438
Email: natalie.denne@anz.com

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