NZ Insight: As you were?

17 June 2026

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Key points

- In this note we lay out our thoughts on what the sharp fall in oil prices might mean for the OCR outlook in New Zealand.
- On balance, having worked so hard to set up a July hike, we still think the RBNZ will deliver it, but it is certainly not the (near) slam-dunk it was.
- Beyond that, the data will decide. The retracement in oil prices (if sustained) would ease near-term inflation, but support the cyclical recovery that was underway before the conflict. Some effects of the global supply shock will also linger and further disruption in the Middle East can't be ruled out.
- We are still comfortable forecasting a follow-up hikes in September and October, but we would characterise these as more data-dependent than previously. Given reduced upside risks stemming from the cost shock, less urgency may mean the RBNZ is comfortable with a slower pace of hikes. The RBNZ's OCR track in the September MPS may well imply a more gradual hiking cycle from there and/or a lower endpoint than the May track (with the forecast peak perhaps back down to 3% from 3.28%).
- Our OCR forecast might be unchanged, but three hikes because the economy is recovering would be a much more palatable scenario than three hikes because of an unpleasant cost shock that is bad for growth.

Oil prices sharply down

A Memorandum of Understanding has been reached to cease hostilities in the Middle East for 60 days and re-open the Strait of Hormuz. While details remain unclear and it is uncertain how quickly shipping flows will normalise, markets are celebrating. Oil prices have dropped sharply (Figure 1).

Figure 1. Global crude oil prices

Source: Bloomberg, Macrobond, ANZ Research

Markets are now trying to work out what it means for the outlook for monetary policy around the globe. It's obviously not the case that we can all pretend the oil shock never happened. Some effects of the global supply shock will linger and further disruption in the Middle East can't be ruled out. But the counterfactual for each economy has nonetheless suddenly become a lot more relevant now it is unwinding.

In this note we lay out our thoughts on what the sharp fall in oil prices might mean for the OCR outlook in New Zealand. As a reminder, we are forecasting hikes in July, September and October, taking the OCR to 3% (around the RBNZ's estimate of neutral).

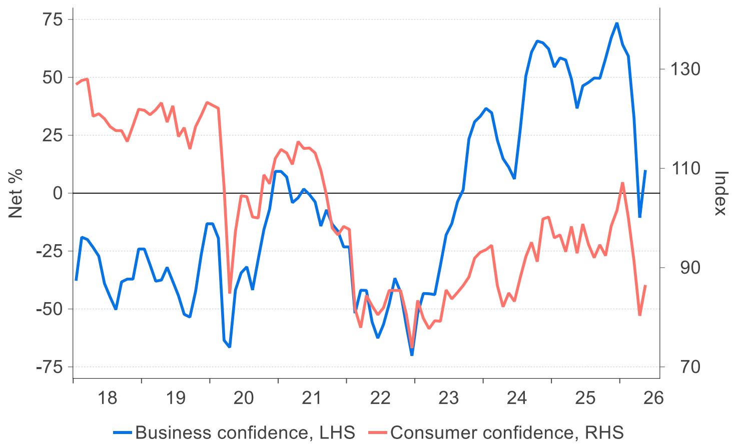
Ambiguity

The impact of the oil shock on medium-term inflation pressure was ambiguous, and the unwind of it is correspondingly unclear. A sharp lift in fuel prices boosts near-term inflation, but the confidence and disposable income shock reduces spending and thus inflation pressure elsewhere. In addition, the boost in tradable inflation in the near-term becomes a corresponding drag further out when the oil price falls or even just stops rising.

This week we already downgraded our peak (Q2) CPI forecast from 4.4% to 4.1% based on the April and May Selected Price Indexes, and lower oil prices obviously provide downside risk for tradable inflation. But the RBNZ's focus is on medium-term inflation. The RBNZ said in the May MPS that they did see the oil shock as inflationary in that regard: "*Our central projection assumes that the net effects of the conflict are inflationary, and therefore tighter monetary policy will be required*." However, they were at pains to stress the uncertainty around that, highlighting that a lot would depend on how firm wage and price setting behaviour evolved.

On that front, data in the last few months from both the ANZ Business Outlook survey and long-run inflation expectations has generally been reassuring. Increases in pricing intentions were muted compared to the lift in cost expectations, implying firms would absorb some of the cost shock. Wage-setting intentions actually retreated in response to the hit to expected profitability. But it's worth noting that both business and consumer confidence had already started to lift in May (Figure 2) and now seem likely to continue to do so. Expected cost increases will reduce with lower oil prices, but the better economic outlook might mean that firms decide they can now pass through cost increases more easily. How will those things net out? Uncertainty persists; ambiguity remains.

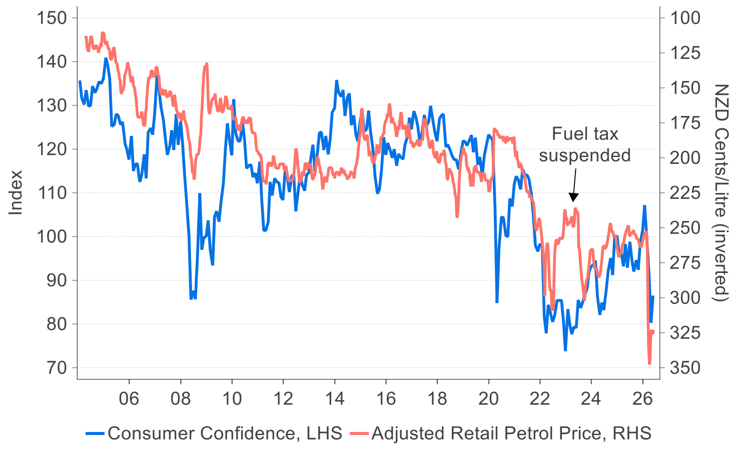
Figure 2. Business and consumer confidence



Source: Roy-Morgan, Macrobond, ANZ Research

Given the tight correlation between consumer confidence and petrol prices (Figure 3), we can presumably look forward to a bounce in consumer confidence if the fall in oil prices is durable and petrol prices continue to fall.

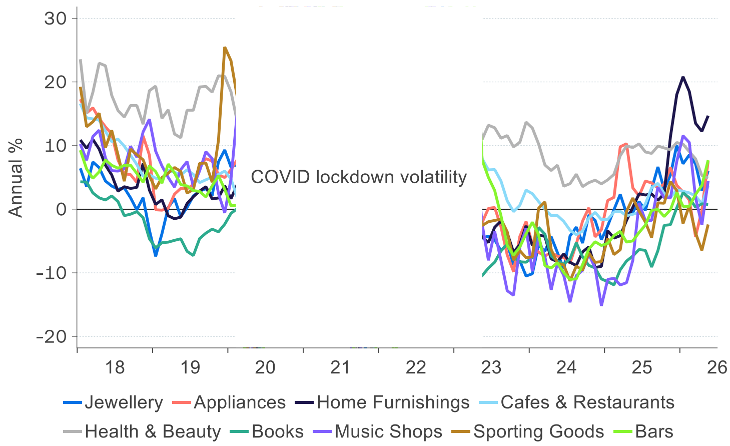
Figure 3. Consumer confidence and petrol price inflation



Source: Roy Morgan, MBIE, Macrobond, ANZ Research

And it's not just surveyed confidence: spending data has also suggested that the confidence shock was rapidly wearing off as petrol prices gradually eased: card spending bounced across a range of discretionary store types in May from hospitality to durables (seasonally adjusted) (Figure 4).

Figure 4. Discretionary card spending



Source: ANZ Research

The RBNZ wrote in the May MPS about what a sudden resolution to hostilities might mean, and the Governor was asked at the press conference about what this exact scenario might mean for a July hike: Her response: "*The key thing for us is how we see the inflation outlook over the medium term. We expect even now, there will be some supply disruptions that [are] lasting for quite some time, and that's likely to feed through. Our key focus is to very carefully read the data and see to what extent we see indirect effects, and also potentially second round effects. So I think that even if the conflict stops, we are likely to see some of those effects feeding through over time*". The market appears to be taking these comments at face value: pricing for a hike in July is still 19bp, i.e. about a 75% chance of a 25bp hike.

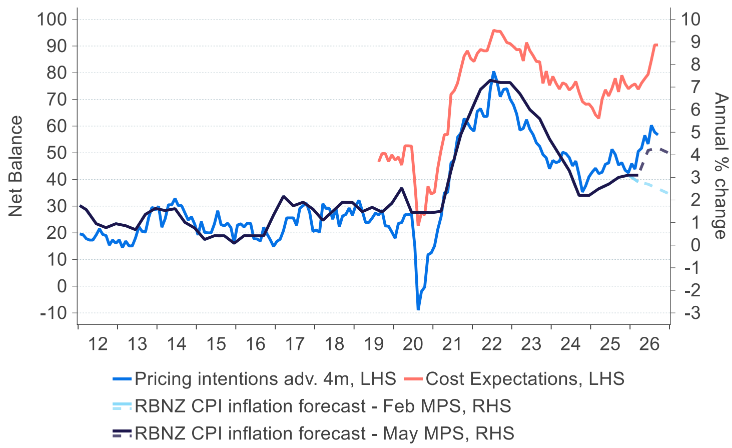
A hiccup or the flu?

Evidence has accumulated that the economy had more momentum than expected before the oil shock occurred. Our estimate and the RBNZ's is that the economy expanded 1% q/q in Q1. On current forecasts this will admittedly be sandwiched between two underwhelming quarters (the RBNZ's GDP Now measure is currently negative for Q2). But the important question is not how much the economy stalled in Q2 as uncertainty spiked. It is what Q3 growth will look like. How quickly will confidence and spending rebound? Will firms put investment and employment plans back into action or remain wary for some time?

Headwinds	Tailwinds
Wariness	Fonterra payout/capital return
Lower dairy prices	Stellar red meat prices
Higher interest rates	Confidence off its lows
Election uncertainty	Low NZD
Soft housing market	

A quick bounce-back in cyclical growth momentum would of course be good news. But more problematically, ANZBO was suggesting inflation pressures might have been unexpectedly making a comeback well before the Middle East conflict (Figure 5). Only the last three data points in the chart reflect impacts from the oil shock. Both expected costs and pricing intentions had been rebounding in a way inconsistent with the RBNZ's (and for that matter our) flat CPI inflation forecasts. They look perfectly consistent after headline inflation forecasts were revised up in response to the lift in oil prices, but that's coincidental.

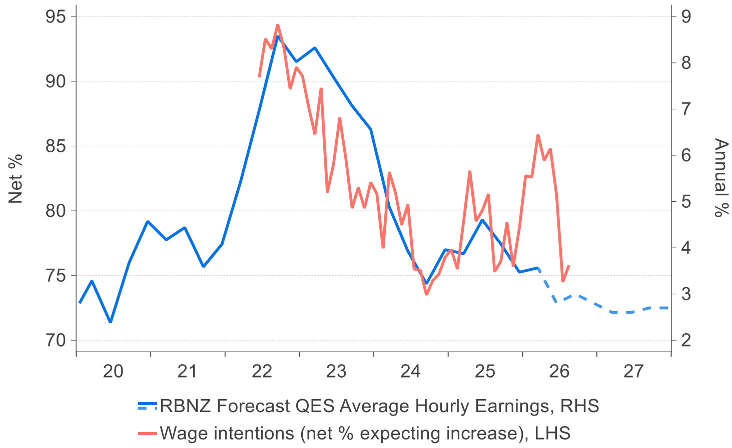
Figure 5. ANZBO cost expectations and pricing intentions, RBNZ Feb and May CPI forecasts



Source: Stats NZ, RBNZ, Macrobond, ANZ Research

Back in February, firms' wage-setting intentions were also signalling much stronger wage pressure than the RBNZ was counting on, though it's certainly worth bearing in mind this is a relatively new question in our survey and therefore doesn't have much of a track record yet. Wage-setting intentions receded quickly when the oil shock hit (Figure 6), but might they rebound now? Firms' wage-setting intentions arguably come much closer than any other variable to capturing what the RBNZ really cares about – firms' decision-making about prices and wages beyond near-term cost passthrough. Any rebound here would be notable.

Figure 6. ANZBO wage-setting intentions



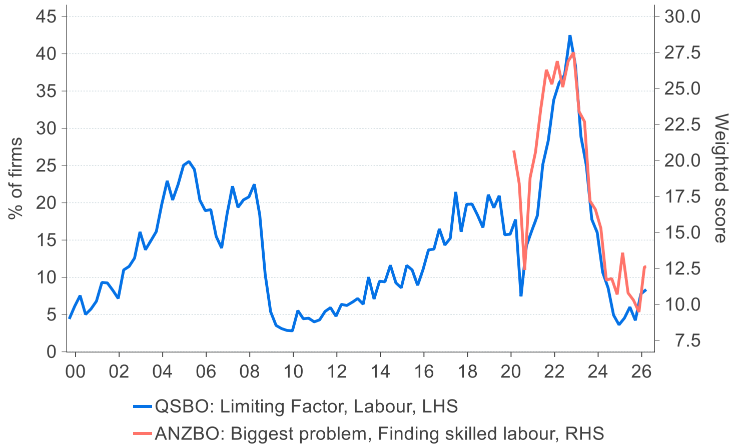
Source: RBNZ, ANZ, Macrobond, ANZ Research

The invisibles

As always, the RBNZ's modelling of the invisible inputs to their forecasts will be very important. How negative is the output gap? And is the neutral OCR still 3%?

The output gap is always difficult to diagnose in real time. But for the record, the RBNZ's best estimate is that it was -1% of GDP in Q1 and was to widen to -1.5% in Q2 as growth stalled in the quarter. In a special topic in the MPS, the RBNZ concluded that "there is strong evidence that the economy is operating with significant spare capacity", and that "movements in individual indicators are mixed, but are consistent with spare capacity having remained broadly stable over 2025, with signs of some reduction in spare capacity in the March 2026 quarter". Our own output gap indicators reach the same conclusion. The unemployment rate, at 5.3%, is well above our estimated NAIRU of 4.5%, and the QSBO shows relatively few firms reporting labour availability or capacity as limiting their output. Upcoming: the June ANZBO will include the "biggest problems" question – the weight firms place on difficulty finding skilled labour tends to match up with the measure from the NZIER's Quarterly Survey of Business Opinion, which feeds into RBNZ output gap estimates (Figure 7).

Figure 7. QSBO Difficulty finding skilled labour and ANZBO weight on it as a problem



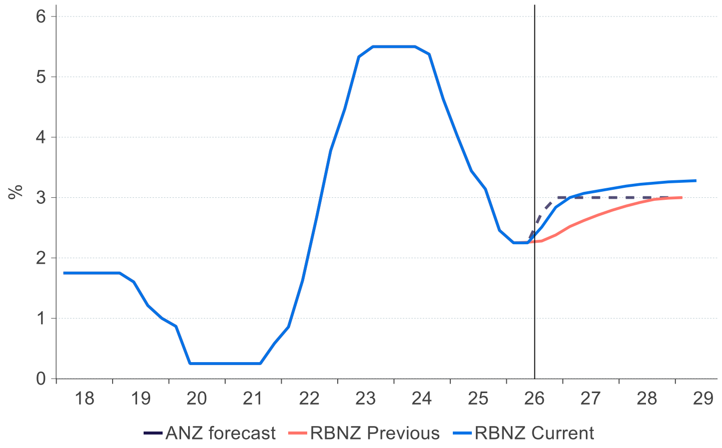
Source: NZIER, Macrobond, ANZ Research

As for the neutral OCR, a notable speech by Monetary Policy Committee member Prasanna Gai noted that in a world of synchronised, global supply shocks, policy rates may need to be set higher on average to achieve inflation-targeting objectives. Fellow committee member Carl Hansen noted that this was one of the factors informing his decision to vote for a hike already in May. The fact that this particular global supply shock has been partly, conditionally resolved does not change the conclusions of the paper. But in practice, the RBNZ tends to change its mind about neutral using the rear-vision mirror – when economic outcomes are not consistent with the assumed impact of monetary policy. Given the usual lags and the fact that there are always multiple conflicting things always going on in the economy, changing one's mind about the neutral OCR is a gradual, uncertain process. But it's fair to say it appears that the Committee as a group sees the risks tilted towards the neutral OCR being above 3% rather than below it, so this is a discussion that becomes more pertinent once the OCR gets to 3%.

The starting point matters

Indeed, the starting point for the OCR is arguably the single more important factor in the outlook for hikes over the next few months. It is at cycle lows, and as noted above, the data was starting to suggest that the final cut in November was a mistake. The Committee backed themselves into a bit of a corner with the 50bp cut in October – it was sold as bringing forward the 25bp November cut they had signalled, but the market concluded that ending a cutting cycle with a 50bp cut would be very strange, and fully priced an extra cut that was duly delivered. But we suspect the model was not calling for it. In that context, it's worth noting that the RBNZ's February MPS was already forecasting the OCR to go back to 3% starting sometime this year (Figure 8).

Figure 8. RBNZ February and May OCR projections, ANZ forecast

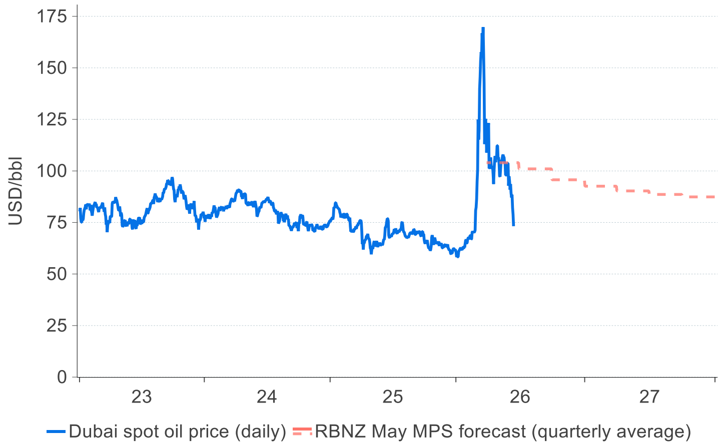


Source: RBNZ, Macrobond, ANZ Research

So we are just debating the timing. For now, we do not see a convincing reason to change our forecast timing of hikes: that the RBNZ will choose to get the OCR back to neutral promptly. It is entirely plausible that the high-frequency data could rebound very quickly over the next couple of months. Why should the economy fall into another deep hole? There is considerable uncertainty about the speed at which things will get back on track, but if oil prices stay low, then the base case has to be that the stall of the last few months is replaced by renewed forward momentum.

That said, the oil shock was a key part of why the RBNZ raised its OCR track, and crude oil is now tracking significantly below the RBNZ's May MPS assumptions (Figure 9). The RBNZ added up to 48bp to their OCR projection between the February and May MPSs, and there were few significant surprises in the data aside from the conflict in the Middle East contributing to that. If oil stays where it is now – reversing most of the spike – you'd expect that to take 25bp or more out of the RBNZ's OCR track all else equal.

Figure 9. RBNZ May MPS oil price assumption and current spot price



Source: RBNZ, Bloomberg, Macrobond, ANZ Research

Putting it all together

On balance, having worked so hard to set up a July hike, we still think the RBNZ will deliver it, but it is certainly not the (near) slam-dunk it was. We are also still comfortable forecasting a follow-up hike in September, but we would characterise it as more data-dependent than previously. The RBNZ's OCR track in the September MPS may well imply a more gradual hiking cycle from there and/or a lower endpoint than the May track (with the forecast peak perhaps back down to 3% from 3.28%). Certainly the worst-case scenarios for inflation and the OCR are looking less likely, so the need for insurance hikes is less. And given reduced upside risks stemming from the cost shock, less urgency may mean the RBNZ is comfortable with a slower pace of hikes. But the data will decide, and we are optimistic that this cyclical recovery is going to get back on track. Our OCR forecast might be unchanged, but three hikes because the economy is recovering would be a much more palatable scenario than three hikes because of an unpleasant cost shock that is bad for growth.

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