ECONOMIC BULLETIN

Inflation Forecast update.

09 Mar 2026 | **Satish Ranchhod**, Senior Economist | +64 9 336 5668 | +64 21 710 852 | satish.ranchhod@westpac.co.nz

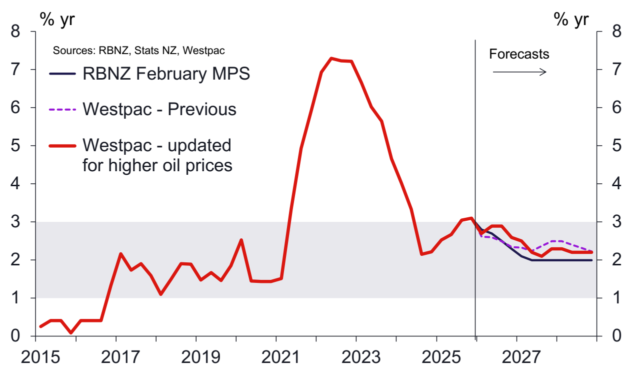
Higher oil prices to keep inflation close to the top of the RBNZ's target band

- **We have revised up our forecasts for New Zealand inflation over 2026 due to the significant rise in oil prices following the outbreak of war in the Middle East.**
- **We can't say with any certainty how long the conflict will last. However, we've already seen a sharp rise in domestic petrol prices. This note looks at some of the possible implications for overall inflation over the next couple of years.**
- **We now expect inflation will remain close to the top of the RBNZ's target band for most of this year, cooling only modestly to 2.6% by the close of 2026.**
- **Inflation is expected to remain higher than the RBNZ previously assumed over 2026.**
- **Even with a stronger near-term inflation outlook, the RBNZ is not likely to hike rates sooner than previously anticipated, reflecting the related downside risks for activity. We continue to expect the RBNZ will remain on hold until December.**
- **The extent of the lift in inflation is dependent on the duration and severity of the conflict in the Middle East, as well as related moves in the New Zealand dollar. In this note we also explore some alternative scenarios.**

We have revised up our forecasts for New Zealand inflation over 2026.

- We now expect inflation will remain close to the top of the RBNZ's target band for most of this year. We expect inflation will be around 2.9% in the June and September quarters, cooling only modestly to 2.6% by the end of this year. That's up from our previous end of year forecast for 2.3%.
- Inflation is expected to remain higher than the RBNZ previously assumed over 2026.
- Inflation is expected to drop back over 2027 to levels close to the midpoint of the RBNZ's target band.

Consumer price inflation forecasts

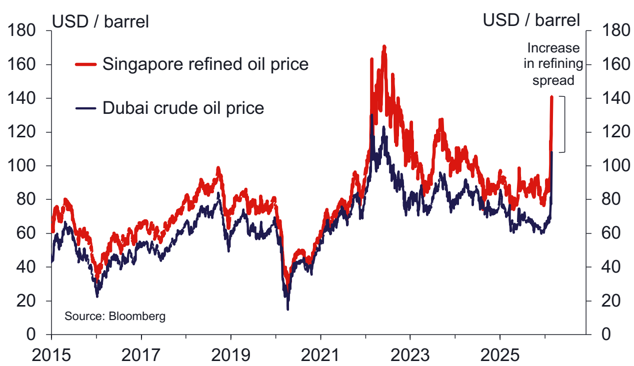


The upward revision to our inflation forecast is due to the significant rise in oil prices over the past week following the outbreak of war in the Middle East.

- Dubai oil prices climbed to over US$105/barrel over the past week, leaving them US$39 higher than they were prior to the conflict – an increase of 56%.

- As a rough guide, a US $10 increase in the price of oil adds around 11c/litre to domestic pump prices (assuming no change in the NZ dollar).
- Importantly, we've also seen a large increase in refining margins, which have blown out from around US$20/barrel to around US$35/barrel. That's seen the price of Singapore refined oil rising to US$140/barrel at the time of writing (up sharply from around US$93 prior to the conflict). That has a significant impact on the cost of petrol in New Zealand, meaning the rise in pump prices is likely to be even larger than implied by the lift in oil prices alone.
- It is not clear how long the conflict will last. We've assumed that oil prices and refining margins remain elevated through the June quarter, with the Singapore refined oil price averaging US$110 / barrel. That price is expected to ease back to a more normal level of around US$85/barrel through the latter part of the year.

Dubai and Singapore oil prices



Further pain at the pump coming.

- Petrol prices have responded quickly to the rise in oil prices. Since Friday the average price of 91 unleaded in New Zealand has risen 14c/ltr to $2.64 ltr at the time of writing.
- Our forecasts for oil prices implies that average pump prices for 91 unleaded could rise to around $2.90ltr around the country. That would add around $30/mth to the average household fuel bill.

Price pressures aren't limited to oil.

- Higher oil prices are also likely to result in higher cost of production for a range of other goods and services, especially if the conflict is prolonged. Such price rises are often referred to as the 'indirect' effect of an oil price rise.
- Those indirect impacts are likely to be most clearly evident in transport costs, like higher airfares and courier charges.
- Higher transport costs are also likely to push up operating costs in the economy more generally.
- Such increases tend to be around 30% of the direct impact of a lift in fuel prices, but take longer to manifest.

Supply chain disruptions could further compound inflation pressures.

- Combined with higher fuel and transportation costs, the conflict in the Middle East could result in some supply chain disruptions, impacting the availability of productive inputs or consumer goods, both here and in other regions.
- Such disruptions would further add to domestic cost pressures.

Cost pressures on the rise, but the strength of demand matters too.

- Increases in oil prices and the related supply disruptions will push up production costs for many businesses, both here and abroad.
- However, the impact on consumer prices also depends on the strength of domestic demand. In sectors where demand is already soft, businesses may not be able to pass on all of the increases in operating costs. In such circumstances, we could see a more limited rise in output prices, along with increased pressure on firms' margins.

The NZ dollar has fallen, which could compound the uplift in inflation.

- We're currently reviewing our forecasts for the NZ dollar, but we haven't made any changes at this stage (our current forecasts assume a rise in the NZD/USD over the remainder of this year to 0.63).
- The NZ dollar has lost ground over the past week. If that's sustained, or if the NZ dollar drops even further, the projected increase in inflation pressure will be even larger and potentially more widespread.

Inflation is still expected to drop back over 2027 to levels close to the midpoint of the RBNZ's target band.

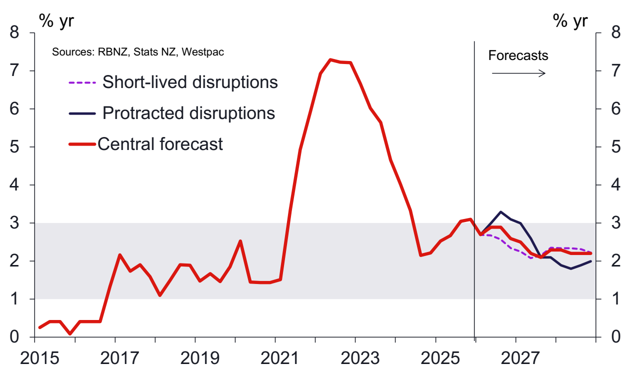
- When the conflict eventually comes to a close, oil prices are likely to retrace their recent gains, and the related increases in operating costs are also likely to reverse.
- That eventual fall in oil will pull overall inflation down to levels that are lower than we previously assumed (a pattern that is often seen in the wake of oil price spikes).

- In our updated projections, inflation is expected to ease to levels close to 2% over 2027, before rising back up to around 2.3% further ahead.

The extent of the lift in inflation is dependent on the duration and severity of the conflict in the Middle East.

- If the conflict is resolved swiftly, any up lift in inflation could be modest and short lived.
- However, a more protracted conflict could see a larger or more persistent rise in oil prices. In such circumstances, oil related increases in transport and operating costs would also be larger, as would supply chain disruptions. The impact of those supply chain disruptions could be much more pronounced than we've assumed here. Those conditions could see inflation rising to 3% or higher over much of 2026. In such circumstances, we are also likely to see weaker domestic activity, with increases in consumer prices weighing on household spending.
- Notably, if there is a particularly large near-term increase in oil prices, their eventual retracement could pull headline inflation below 2% for a period, especially if high petrol prices dampen domestic activity
- We've outlined some possible oil price/inflation scenarios in the table on the next page.

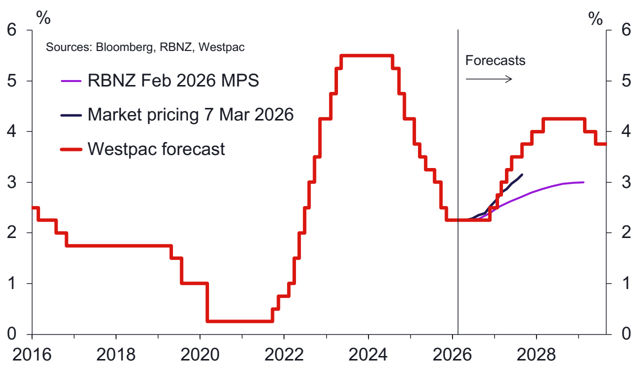
Inflation scenarios



Higher inflation reinforces on-hold stance from the RBNZ. We don't expect earlier rate hikes.

- Financial markets pricing for OCR hikes has been pulled forwards since the war broke out. At the time of writing, markets had fully priced in a hike in October, with a more than 50% chance of another hike priced in December.
- Even with a stronger near-term inflation outlook, the RBNZ is not likely to hike rates sooner than previously anticipated. We continue to expect the RBNZ will remain on hold until December.
- Higher interest rates now would not prevent the oil related rise in inflation already in train. However, interest rate rises would likely compound any downturn in activity stemming from the increase in oil prices. And at the current time, the economy already has higher than normal levels of unemployment.
- The conflict in Iran and related impact on oil prices adds to the risk that inflation remains in the upper part of the RBNZ's target band for an extended period. The RBNZ will be closely monitoring whether this results in higher inflation expectations, which could prolong any oil related uplift in inflation. This underscores the 'on hold' strategy of the RBNZ's February Monetary Policy Statement.
- In a severe event that materially dampens global and domestic growth, the RBNZ could even consider rate cuts.

Official Cash Rate



Inflation scenarios

	Central	Short lived conflict	Protracted conflict
Oil prices	• Oil prices and refining spreads elevated through June quarter, easing back through 2026 H2. • Singapore gas prices assumed to average US$110 ltr through 2026Q2, easing back to US$85 ltr by end of year.	• Rise in oil prices and refining spreads begins to normalise through June quarter. • Singapore gas prices assumed to average US$90 ltr through 2026Q2, easing back to US$85 ltr in 2026Q3	• Oil prices and refining spreads continue to rise, remaining elevated through September quarter, easing back in late 2026. • Singapore gas prices assumed to average US$120 ltr through 2026Q2, doesn't normalise until early 2027.
Petrol prices	• Nationwide 91-unleaded prices around $2.85 to $2.90 ltr through mid-2026.	• Nationwide 91-unleaded prices settle around $2.65 to $2.70 ltr through mid-2026.	• Nationwide 91-unleaded prices rise to around $2.95 to $3 ltr, or higher.
Indirect effects of higher oil prices	• Moderate boost to transport and other production costs. • Some limited supply chain disruptions	• Limited and short-lived increases in transport and other production costs. • Supply disruptions short lived.	• Large boost to transport and other production costs. • More pronounced supply chain disruptions.
Inflation – 2026	• Inflation peaks at 2.9% through mid-2026, easing to 2.6% by end of the year.	• Inflation 2.7% in Q2 2026, slowing to 2.3% by end of the year.	• Inflation rises above 3% through 2026.
Inflation – long term	• Inflation slows to 2.1% in 2027 as oil price rises reverse.	• Inflation slows to 2.2% in mid-2027 as oil price rises reverse.	• Inflation briefly slows over 2027 and dips below 2% in early 2028 as oil prices drop back and other related cost increases reverse.

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