

The Economic Outlook

Monetary Policy Statement, May 2026

This presentation represents the view of the Monetary Policy Committee (MPC), not of any individual member.

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The *Monetary Policy Statement* at a glance

- The Reserve Bank's *Monetary Policy Statement (MPS)* provides a quarterly picture of the New Zealand economy and where we think it is heading next.
- It sets out how the MPC has set monetary policy and how it plans to do so in the future.



Overview

- The Middle East conflict has materially altered the outlook and the balance of risk for inflation and economic growth globally and in New Zealand.
- The near-term economic growth outlook is weaker than previously assumed, and spare capacity in the labour market is likely to persist.
- Based on the current outlook for oil prices, CPI inflation is projected to peak at 4.3 in the September 2026 quarter.
- Inflation is projected to return to within the target band in the first half of 2027.
- The committee voted to hold the OCR at 2.25 percent. The OCR will likely increase at coming meetings.





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**THE MIDDLE EAST CONFLICT HAS
MATERIALLY ALTERED GLOBAL
ECONOMIC CONDITIONS.**

Shipping flows through the Strait of Hormuz have decreased.

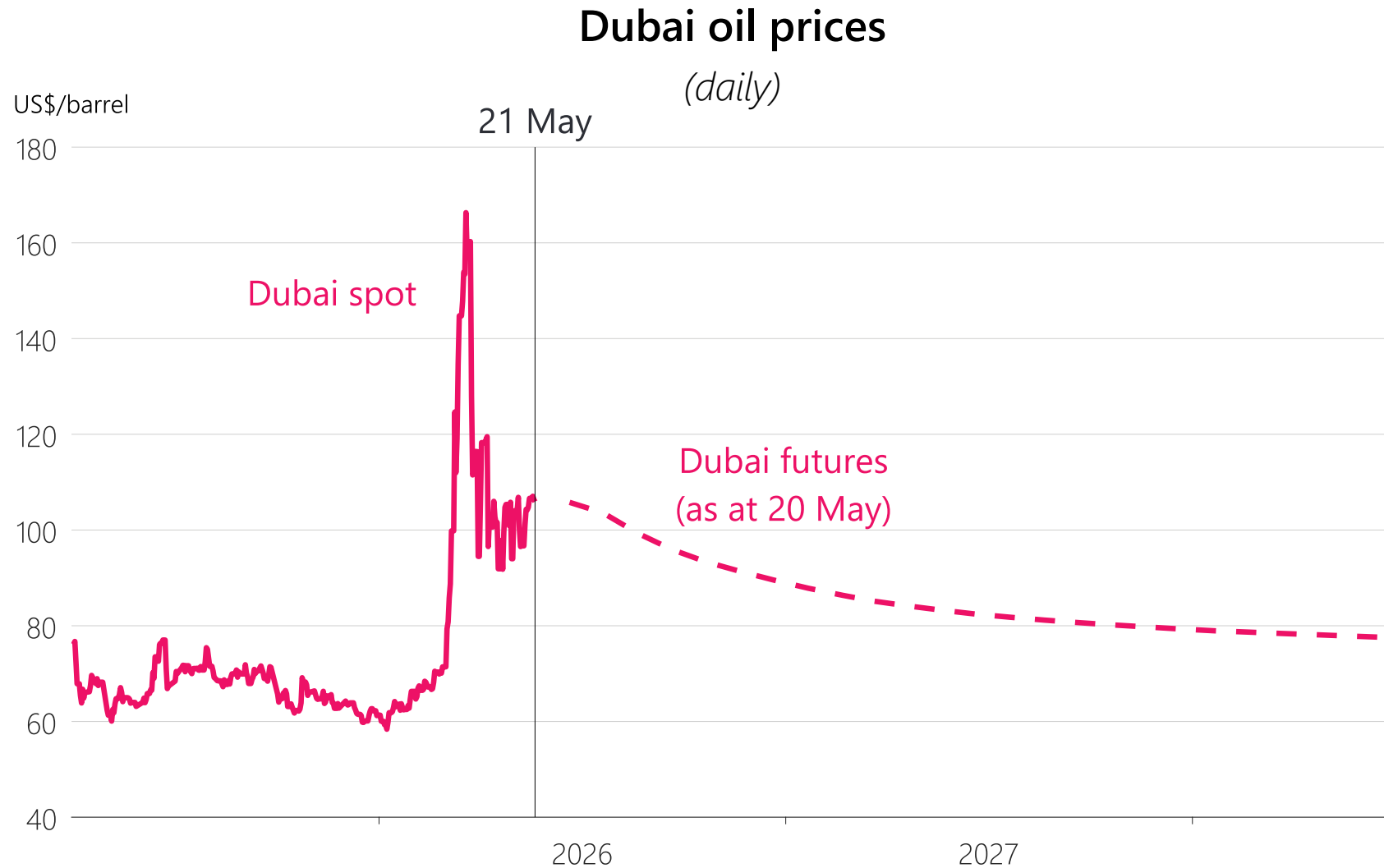
Shipping vessel flows through the Strait of Hormuz *(7-day average)*



Source: Bloomberg.



Disruptions in the Middle East have led to significantly higher oil prices.



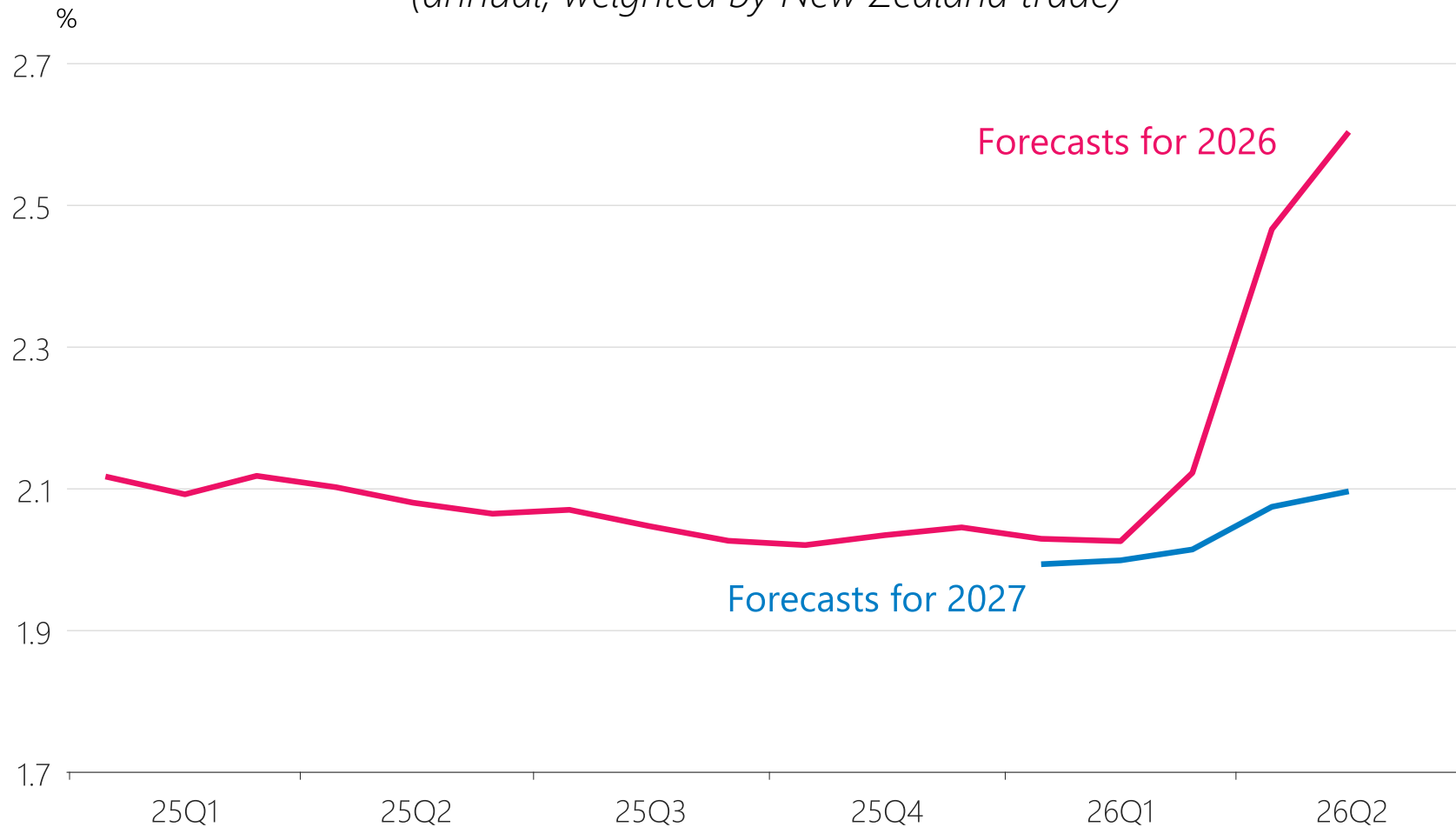
Source: Bloomberg, LSEG.



Global inflation forecasts have lifted in response to higher oil prices.

Consensus forecasts for global CPI inflation

(annual, weighted by New Zealand trade)

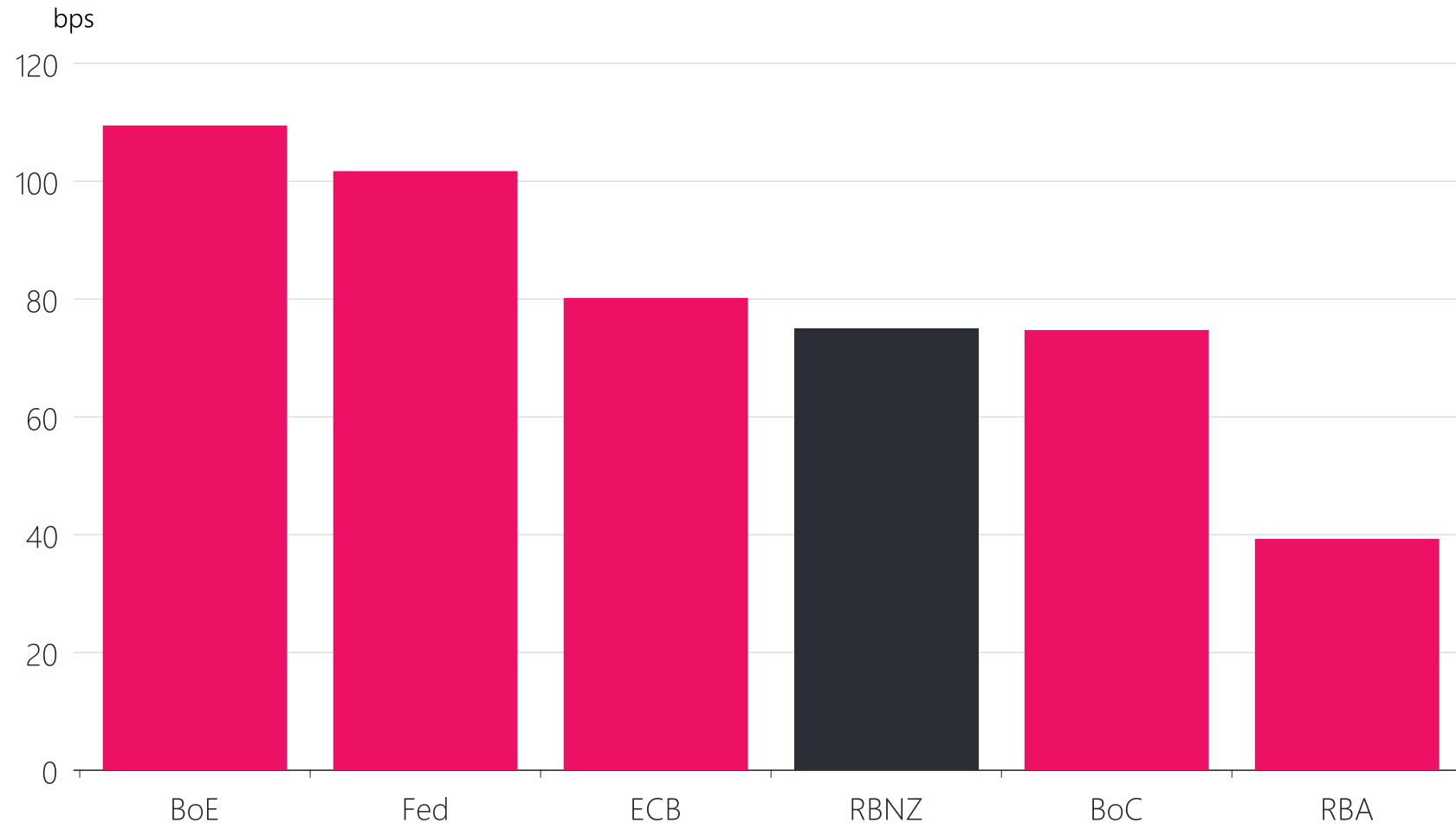


Source: Stats NZ, Haver Analytics, Consensus Economics, Bloomberg, RBNZ estimates.



Market participants have revised up expectations for policy rates since the conflict began.

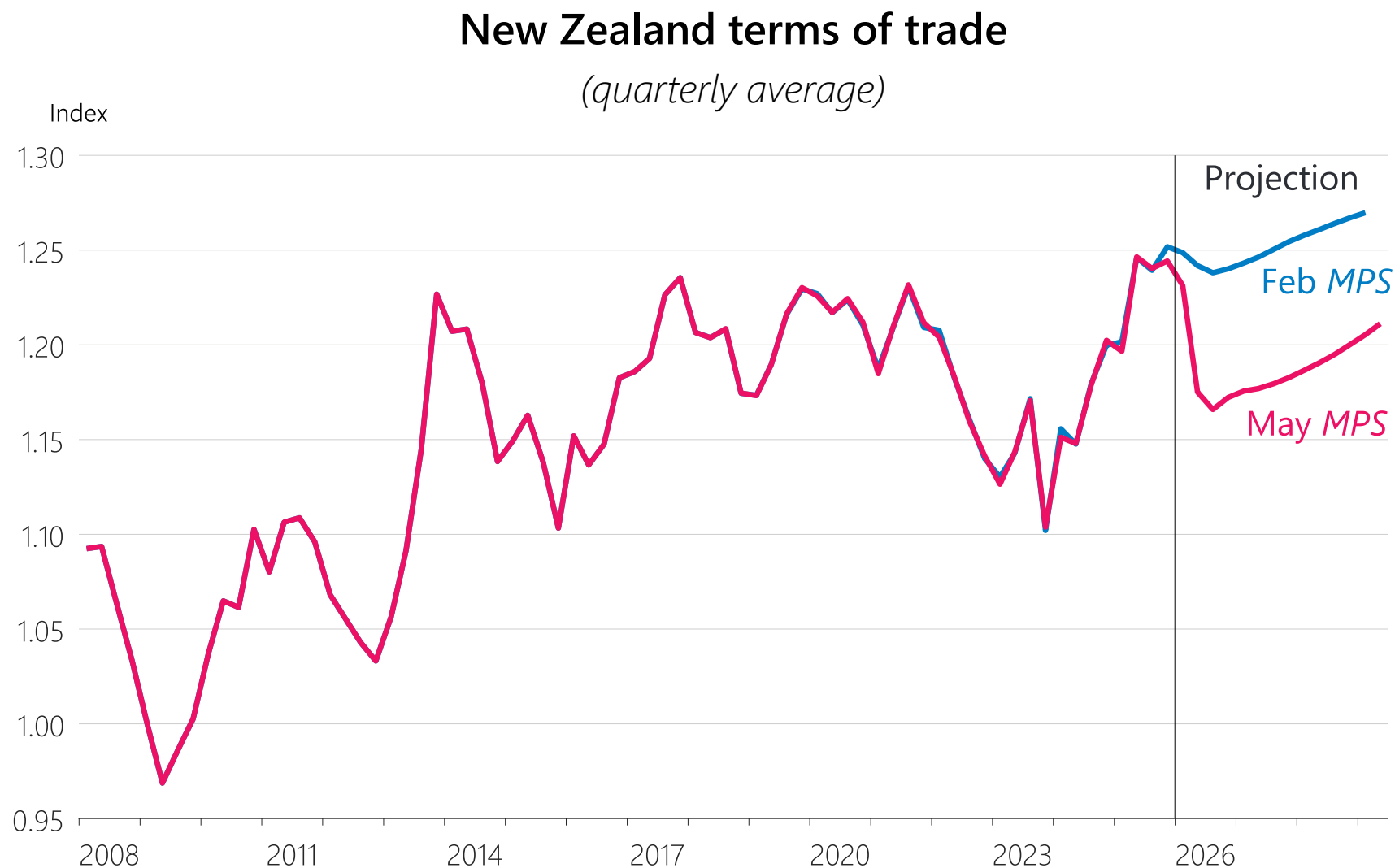
Change in 1-year-ahead policy rate policy rate expectations since 28 February



Source: Bloomberg.



Higher import prices are weighing on New Zealand's terms of trade.



Source: Stats NZ, RBNZ estimates.

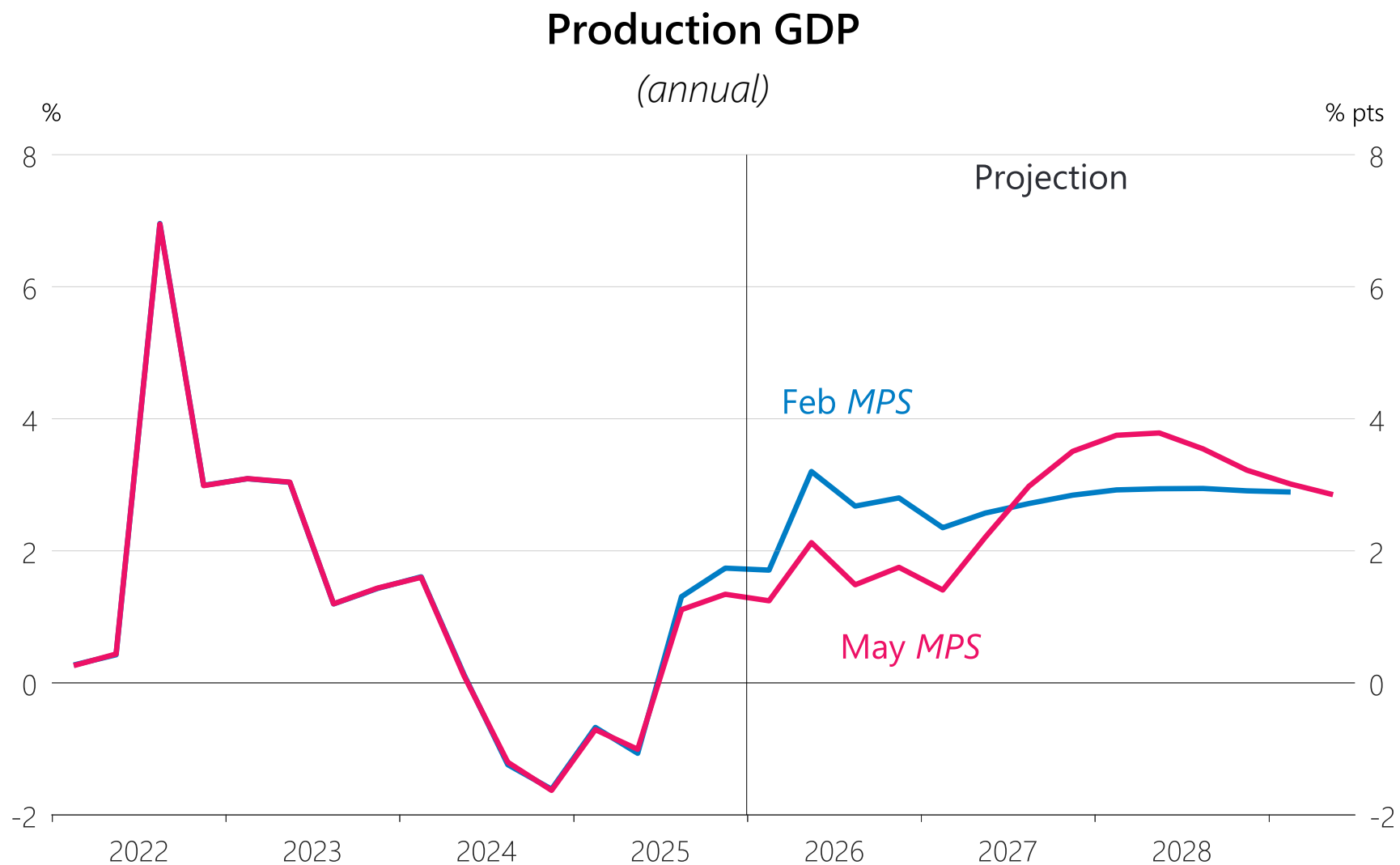




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**THE MIDDLE EAST CONFLICT WILL
SLOW THE ECONOMIC RECOVERY.**

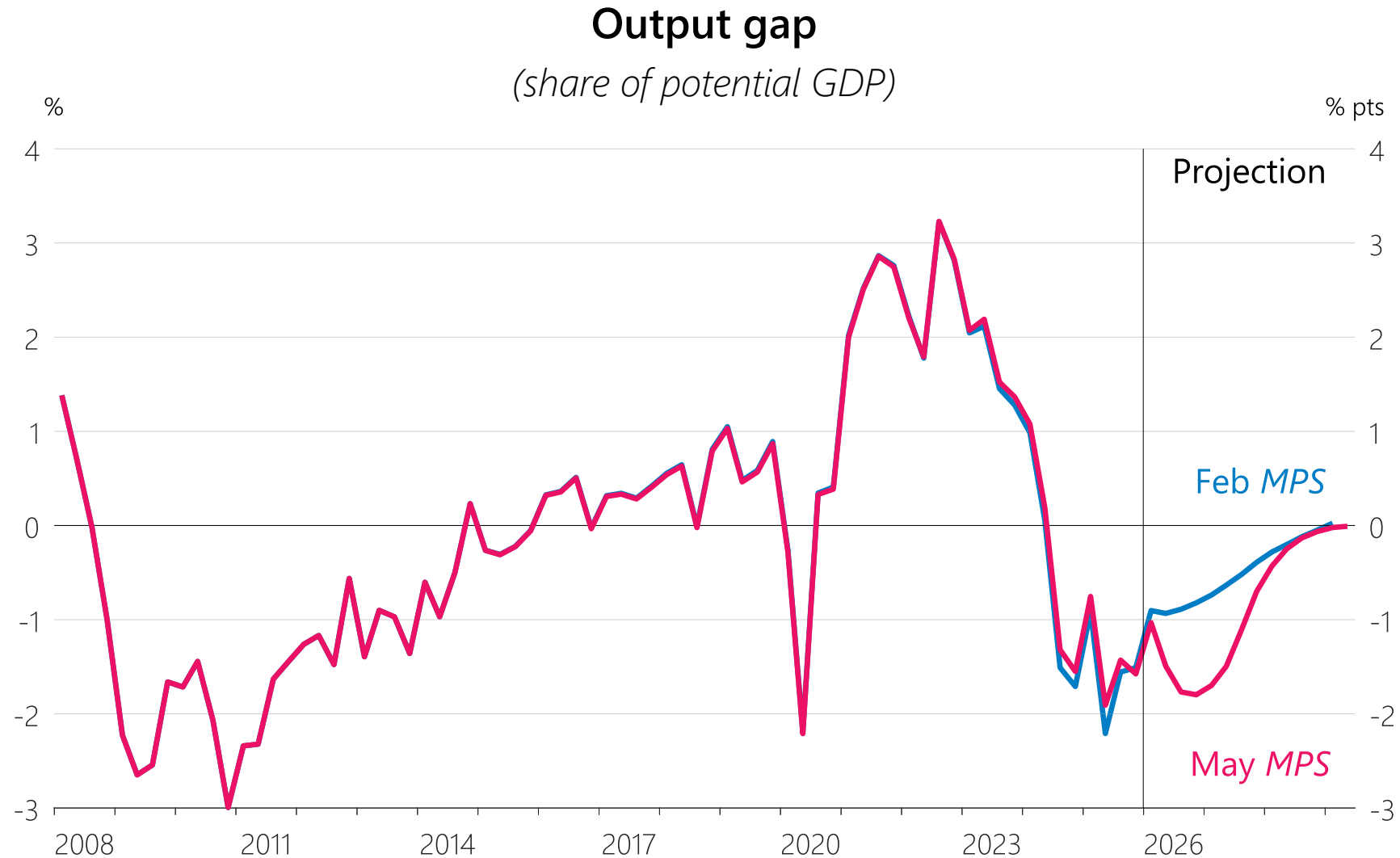
The Middle East conflict is projected to slow the economic recovery.



Source: Stats NZ, RBNZ estimates.



Spare capacity in the economy is likely to persist for longer than previously expected.



Source: Stats NZ, RBNZ estimates.

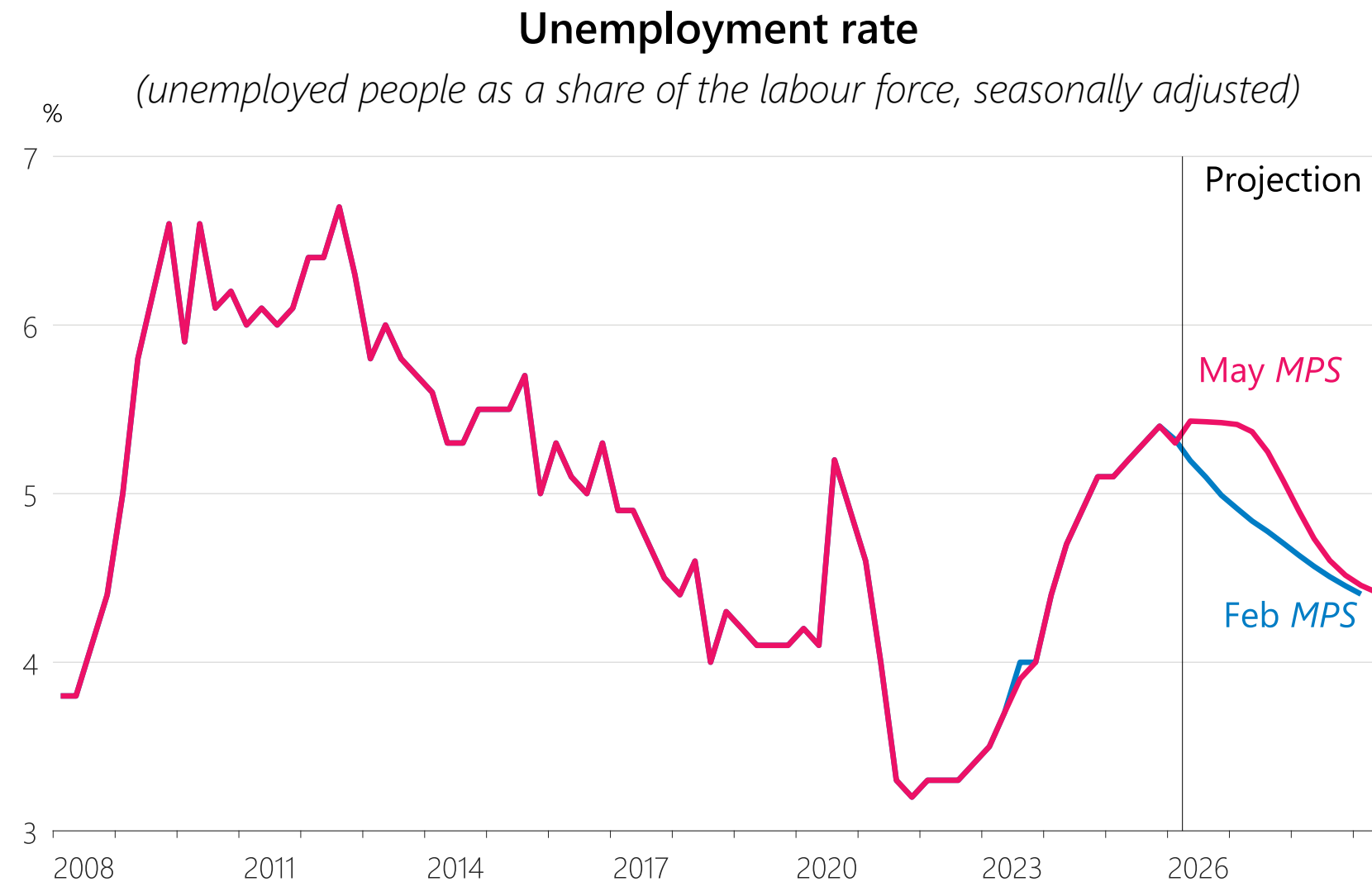




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**SPARE CAPACITY IN THE LABOUR
MARKET IS PROJECTED TO PERSIST.**

Spare capacity in the labour market is likely to persist for longer.

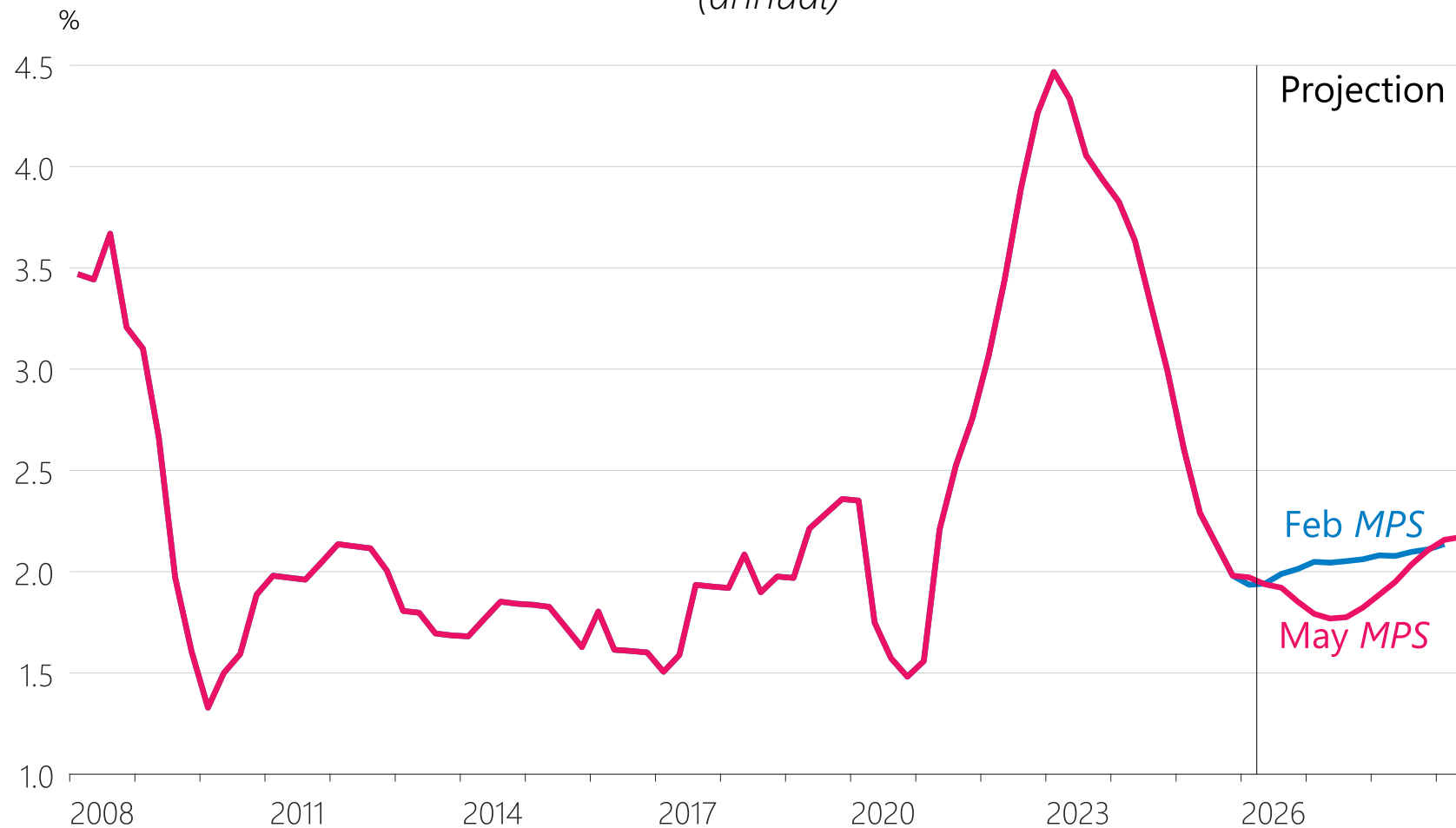


Source: Stats NZ, RBNZ estimates.



Spare capacity in the labour market is likely to limit wage growth.

Private sector LCI wage inflation
(annual)



Source: Stats NZ, RBNZ estimates.

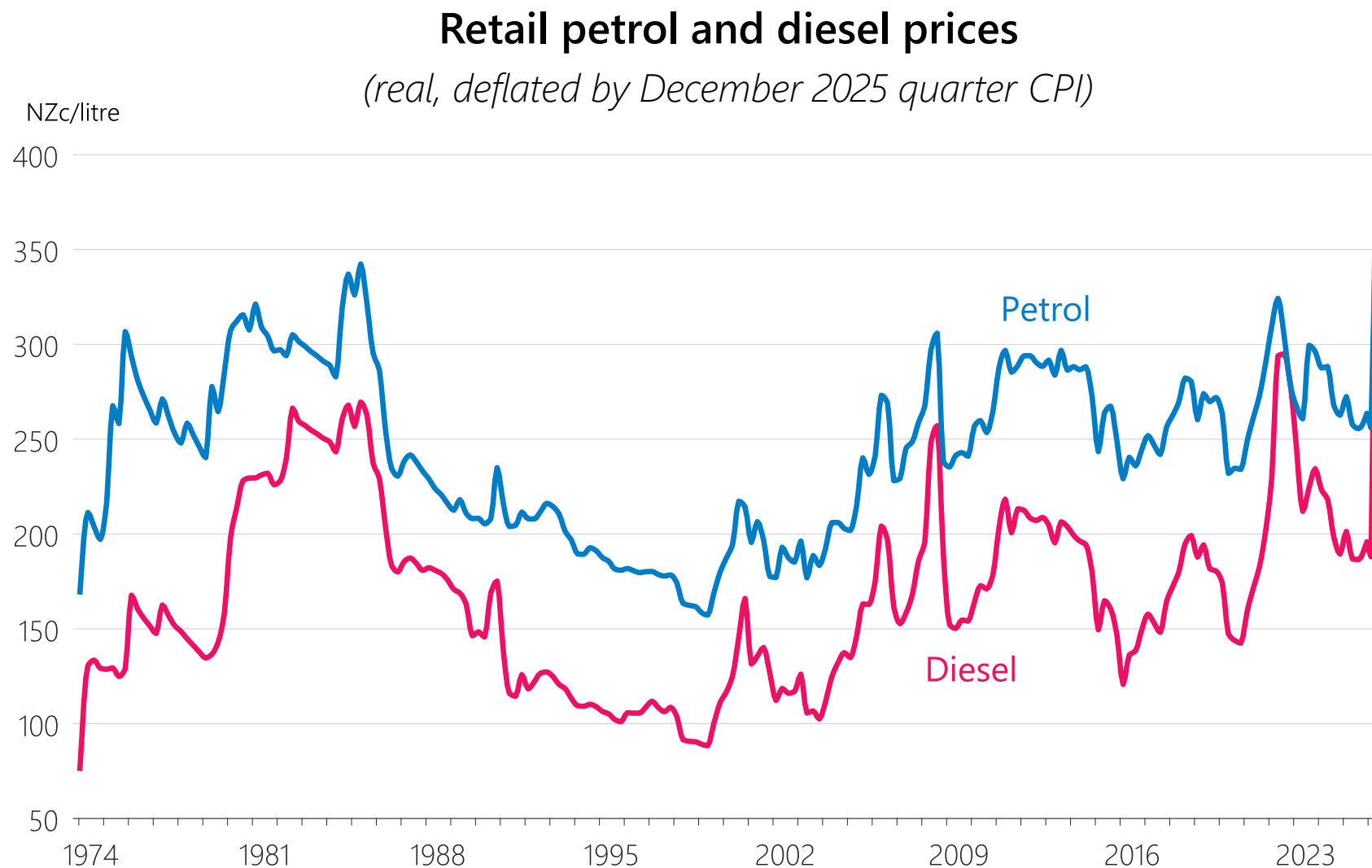




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**INFLATION WILL INCREASE SHARPLY IN
THE NEAR TERM, BEFORE RETURNING
TO THE TARGET BAND IN 2027.**

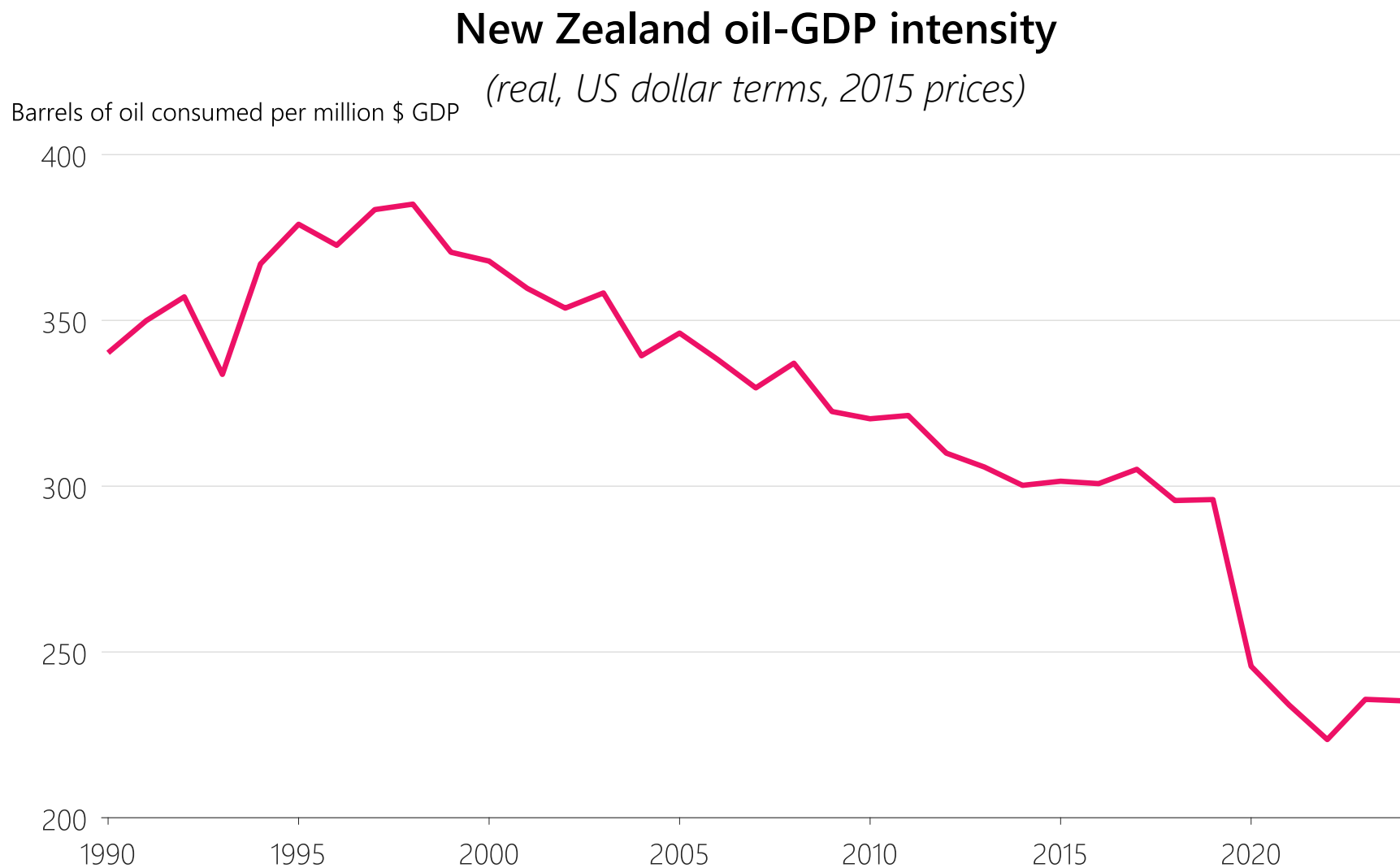
Disruptions to oil supply have increased domestic fuel prices.



Source: MBIE, RBNZ estimates.



The New Zealand economy has become less fuel intensive over time.



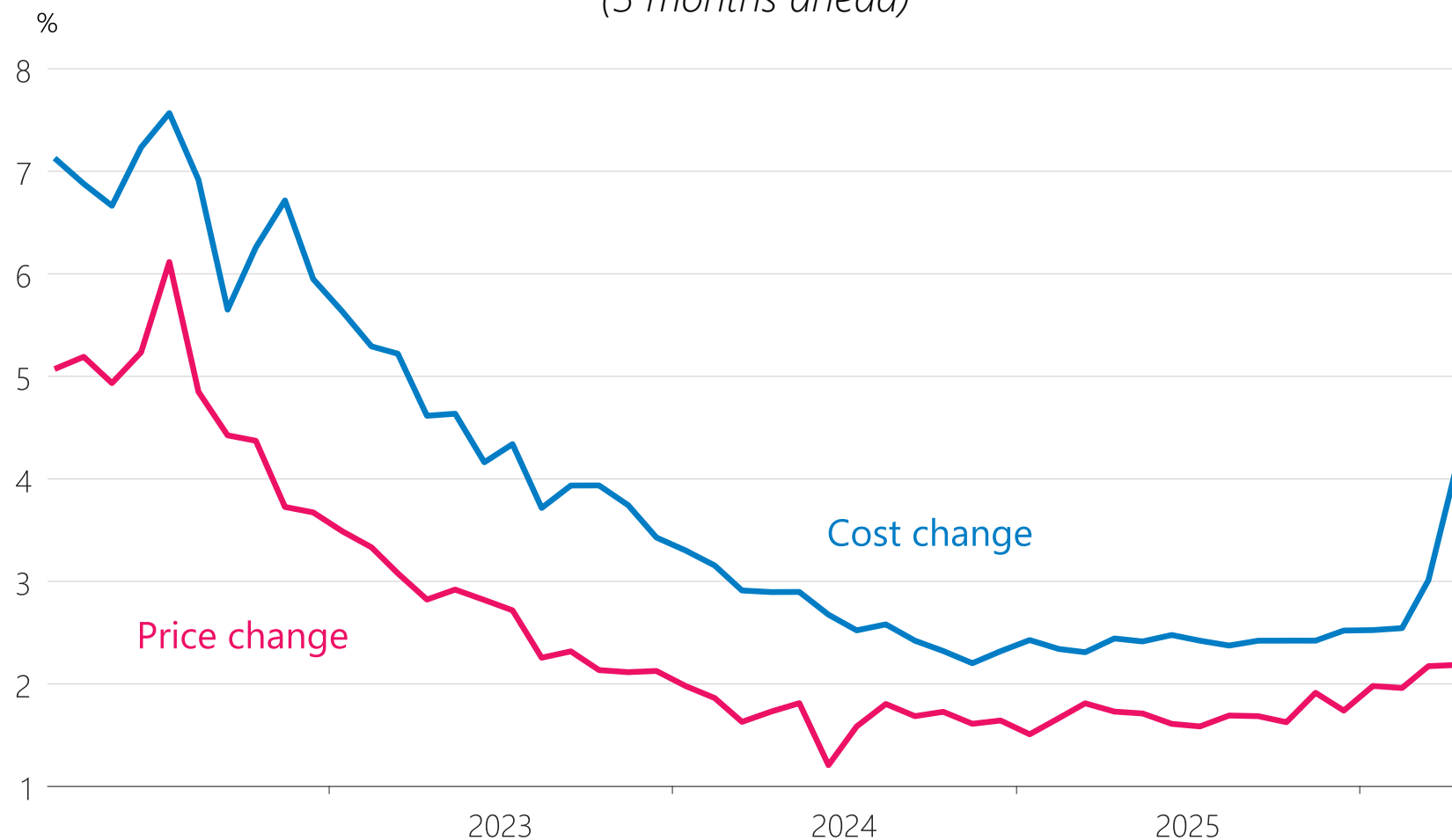
Source: Energy Institute, Our World in Data, OECD national accounts, World Bank, RBNZ estimates.



Businesses are facing increasing cost pressure and squeezed margins.

Expected change in businesses' prices and costs

(3 months ahead)



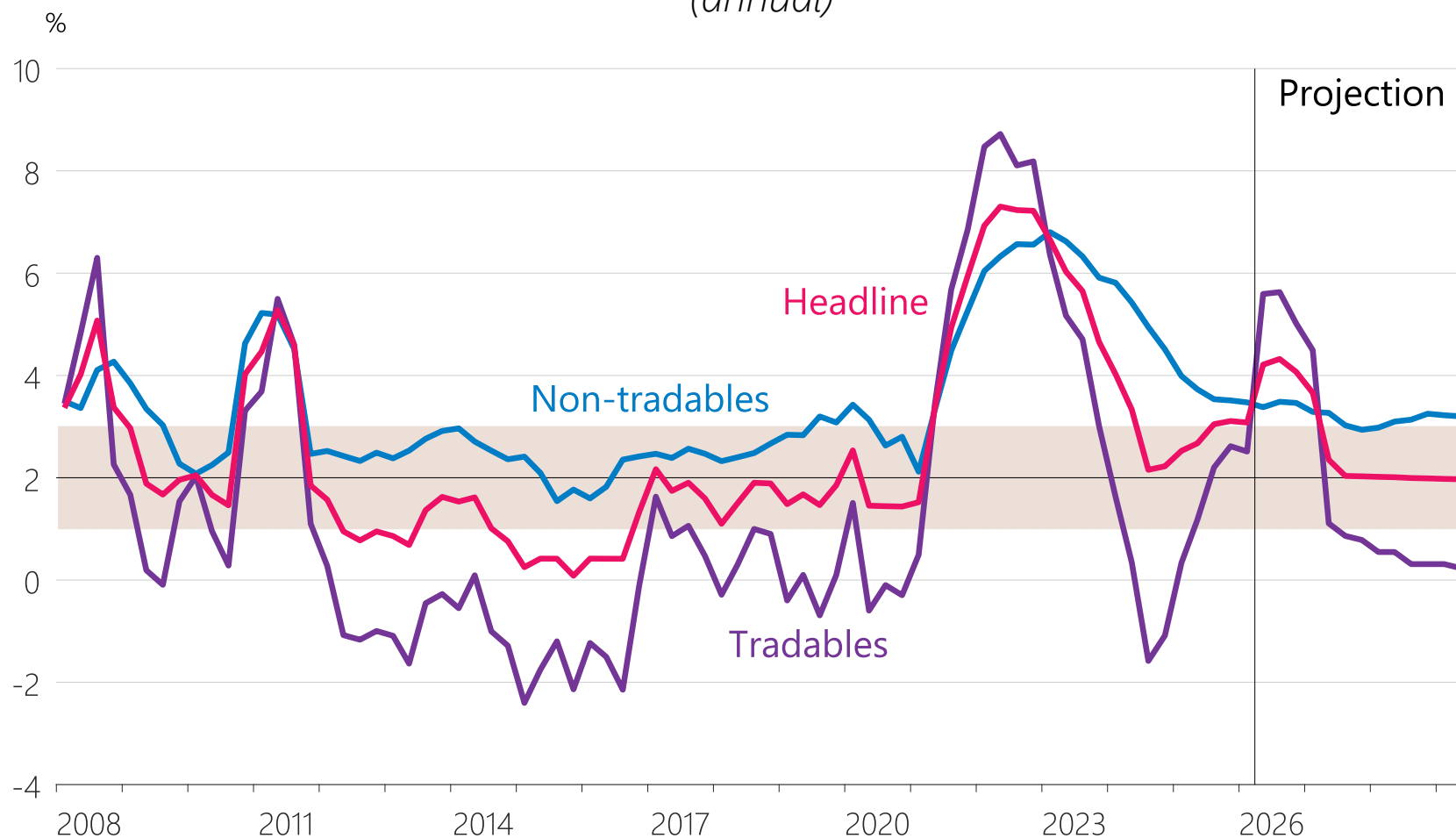
Source: ANZ.



Headline inflation will increase significantly before declining next year.

Headline, tradables, and non-tradables inflation

(annual)



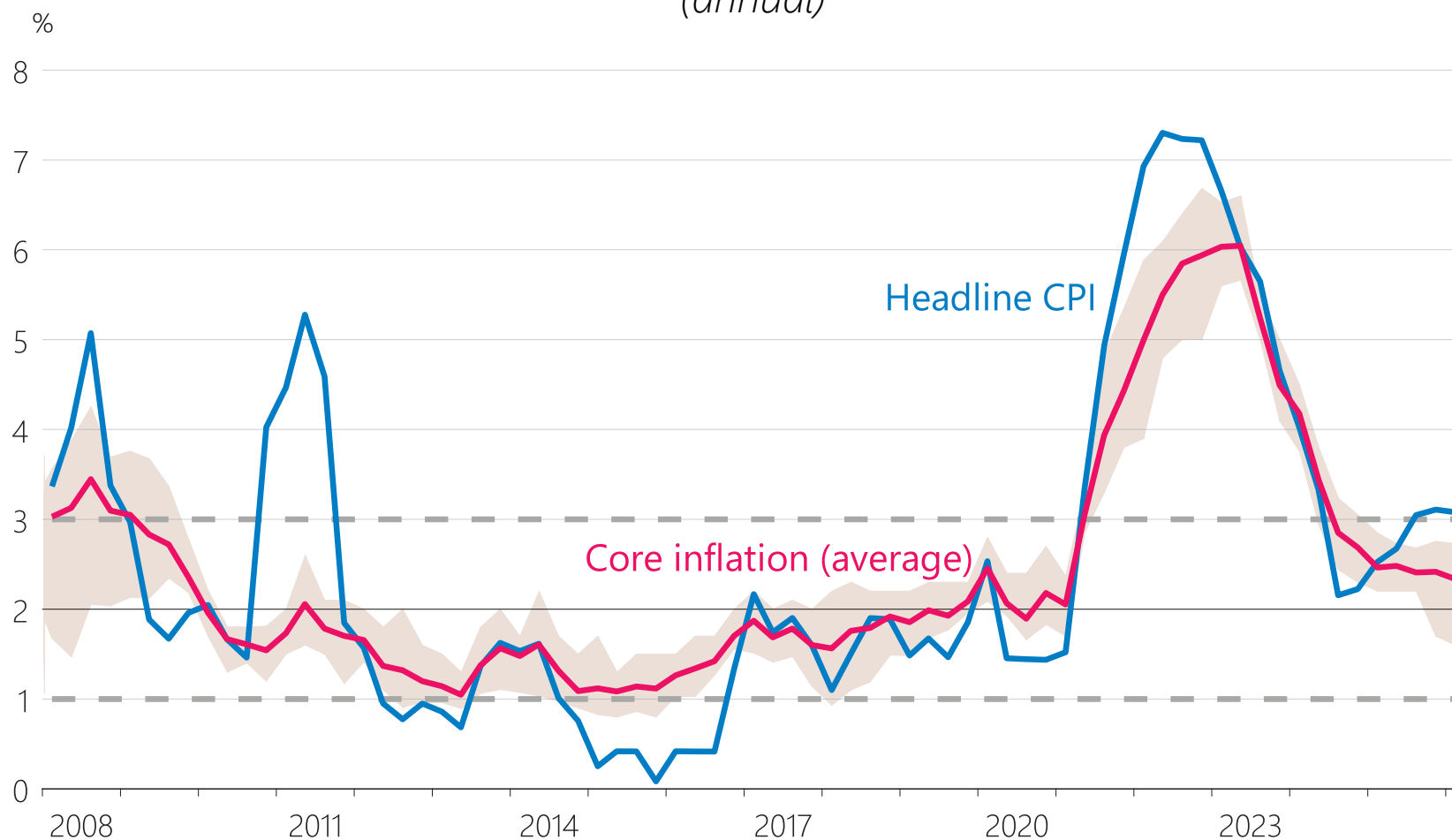
Source: Stats NZ, RBNZ estimates.



All measures of core inflation are within the MPC's target range for headline inflation.

Headline and core inflation measures

(annual)



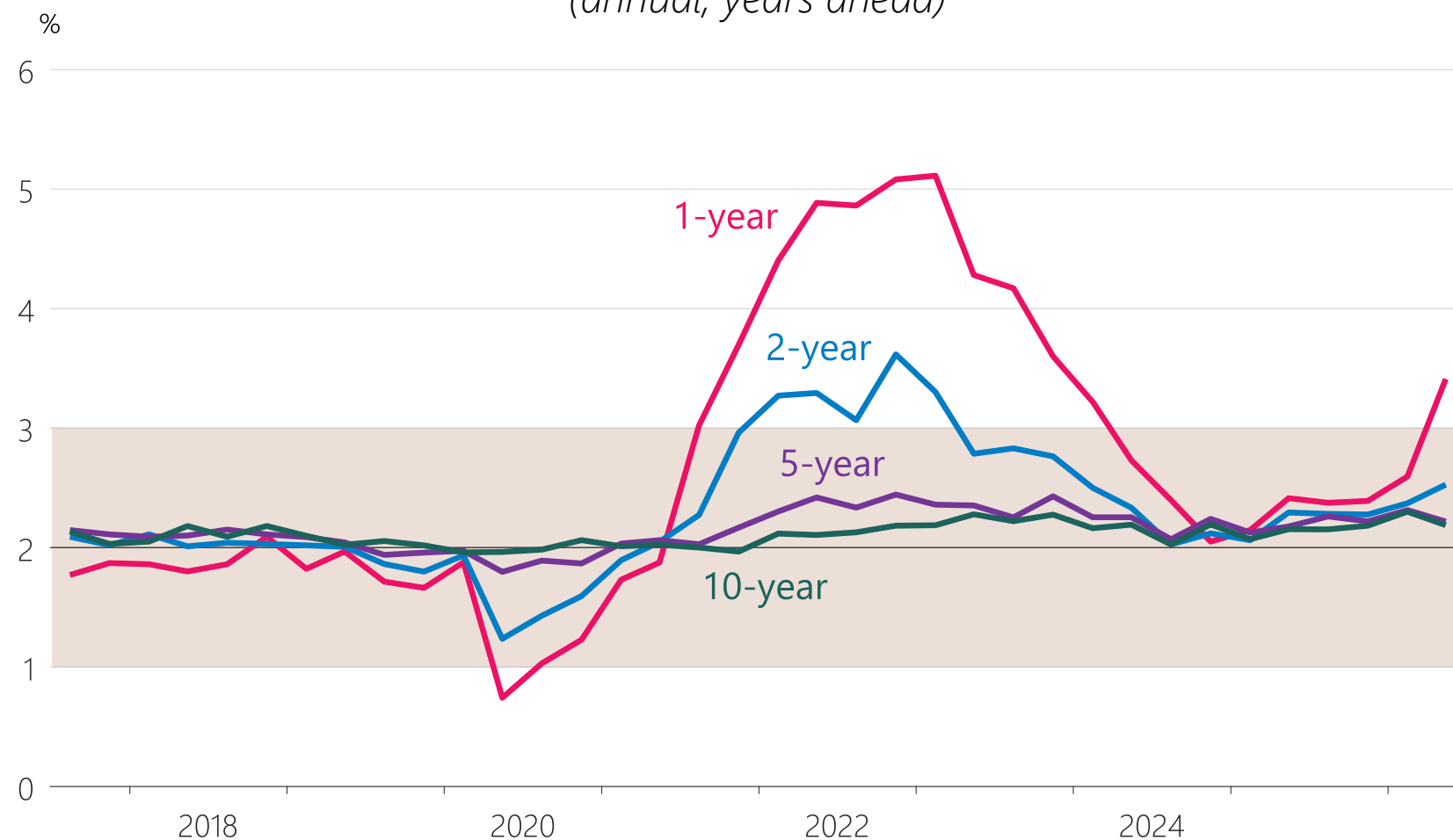
Source: Stats NZ, RBNZ estimates.



Shorter-term inflation expectations have lifted, but longer-term remain stable.

Inflation expectations of professional forecasters and business leaders

(annual, years ahead)



Source: RBNZ Survey of Expectations.

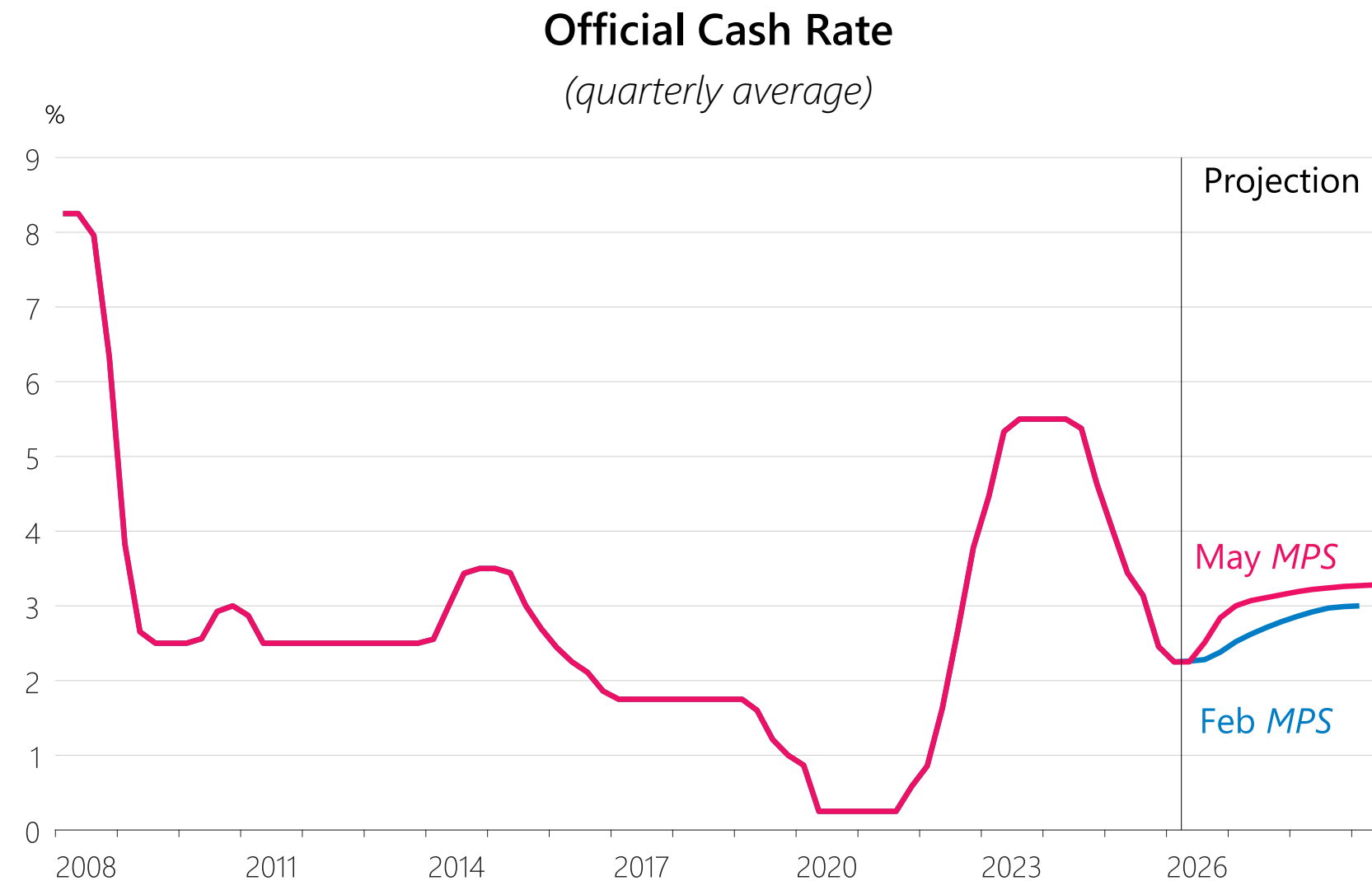




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OCR HELD AT 2.25%.

OCR on hold at 2.25%.



Source: RBNZ estimates.

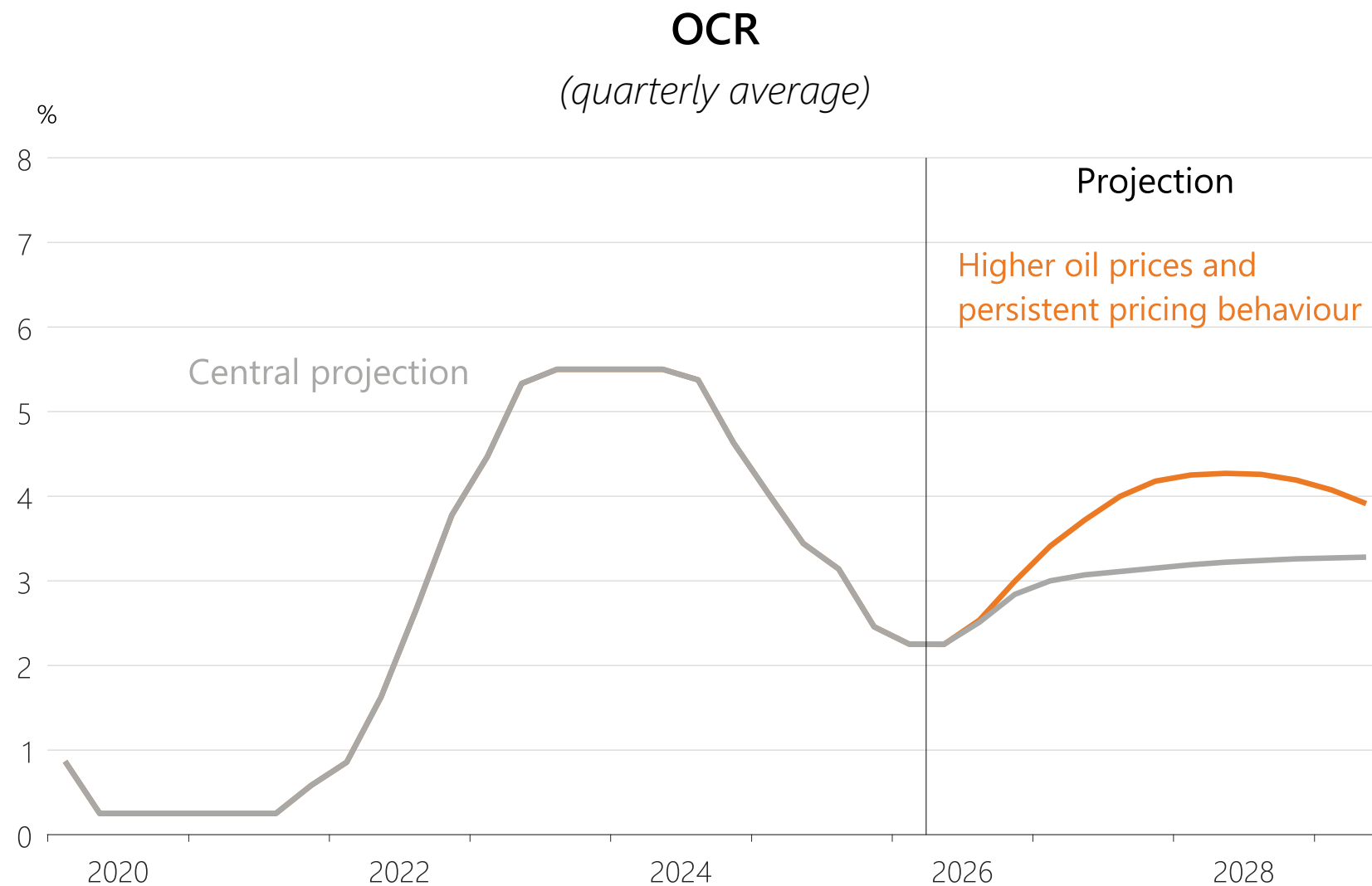




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**WE CONSIDER ALTERNATIVE SCENARIOS
THAT ILLUSTRATE HOW THE ECONOMY
COULD EVOLVE VERY DIFFERENTLY.**

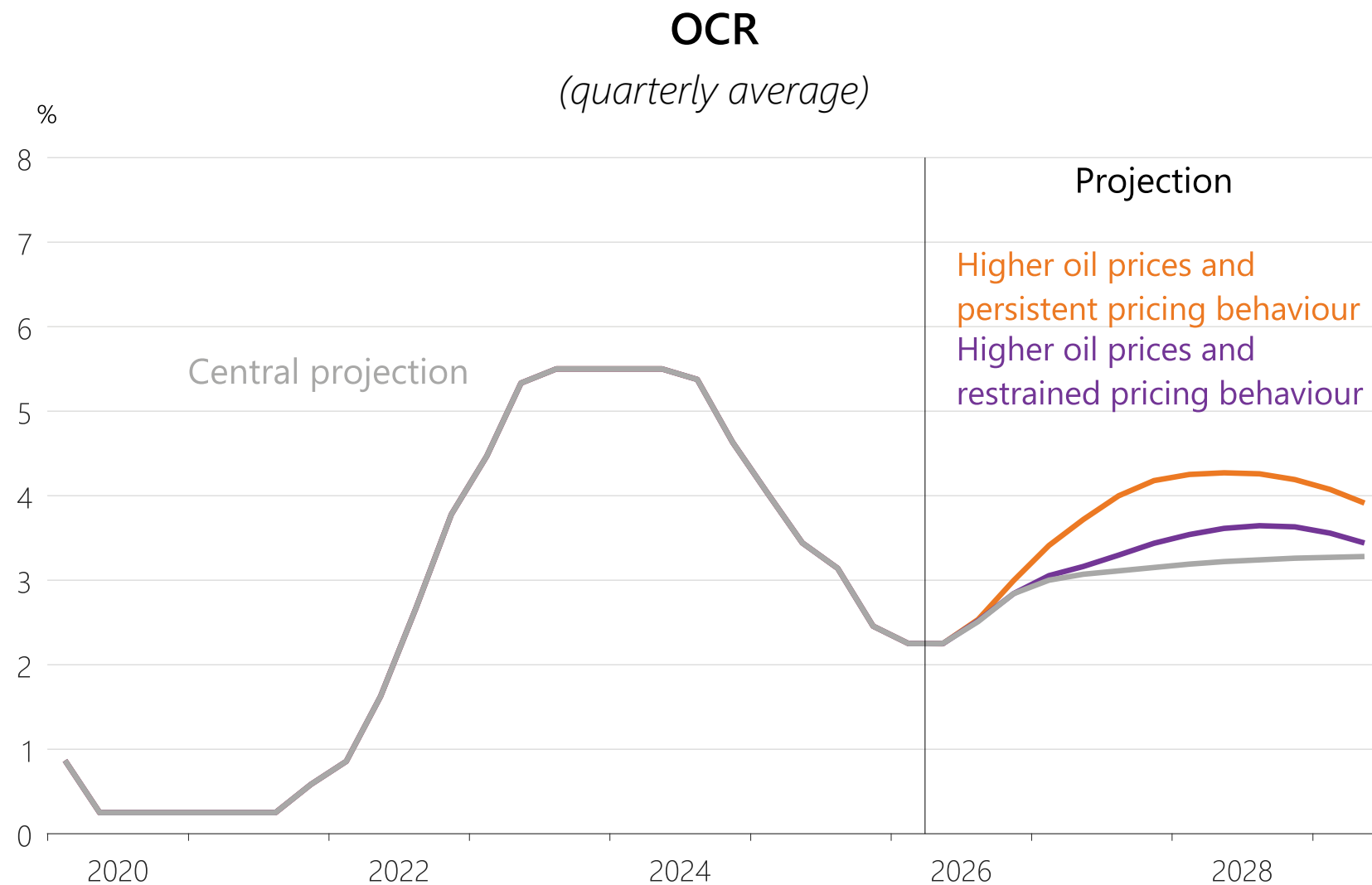
Higher global oil prices and persistent pricing behaviour requires a larger increase in the OCR.



Source: RBNZ estimates.



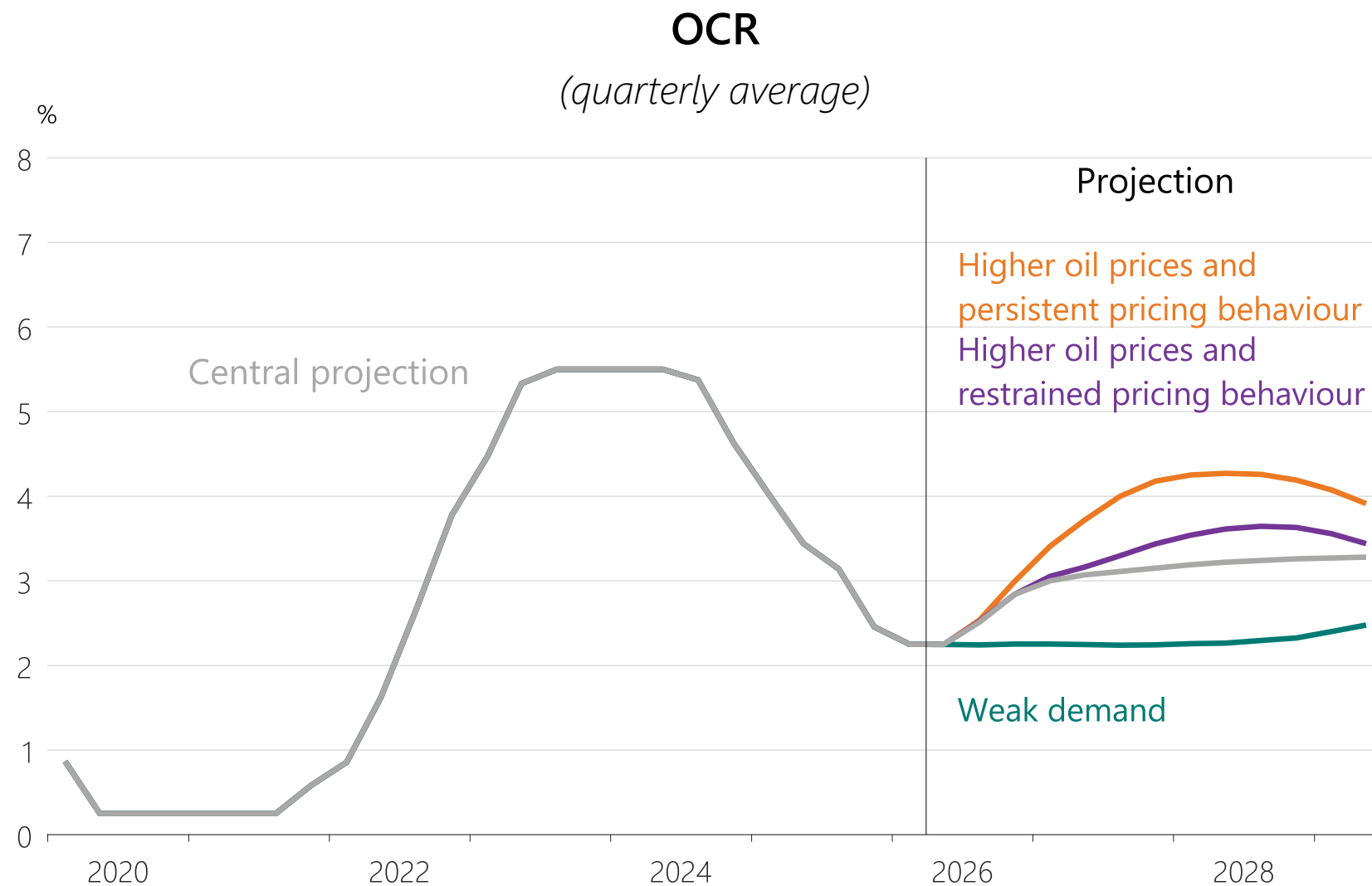
Higher oil prices and restrained pricing behaviour require a smaller increase in the OCR



Source: RBNZ estimates.



Weaker global and domestic demand could require the OCR to remain accommodative



Source: RBNZ estimates.



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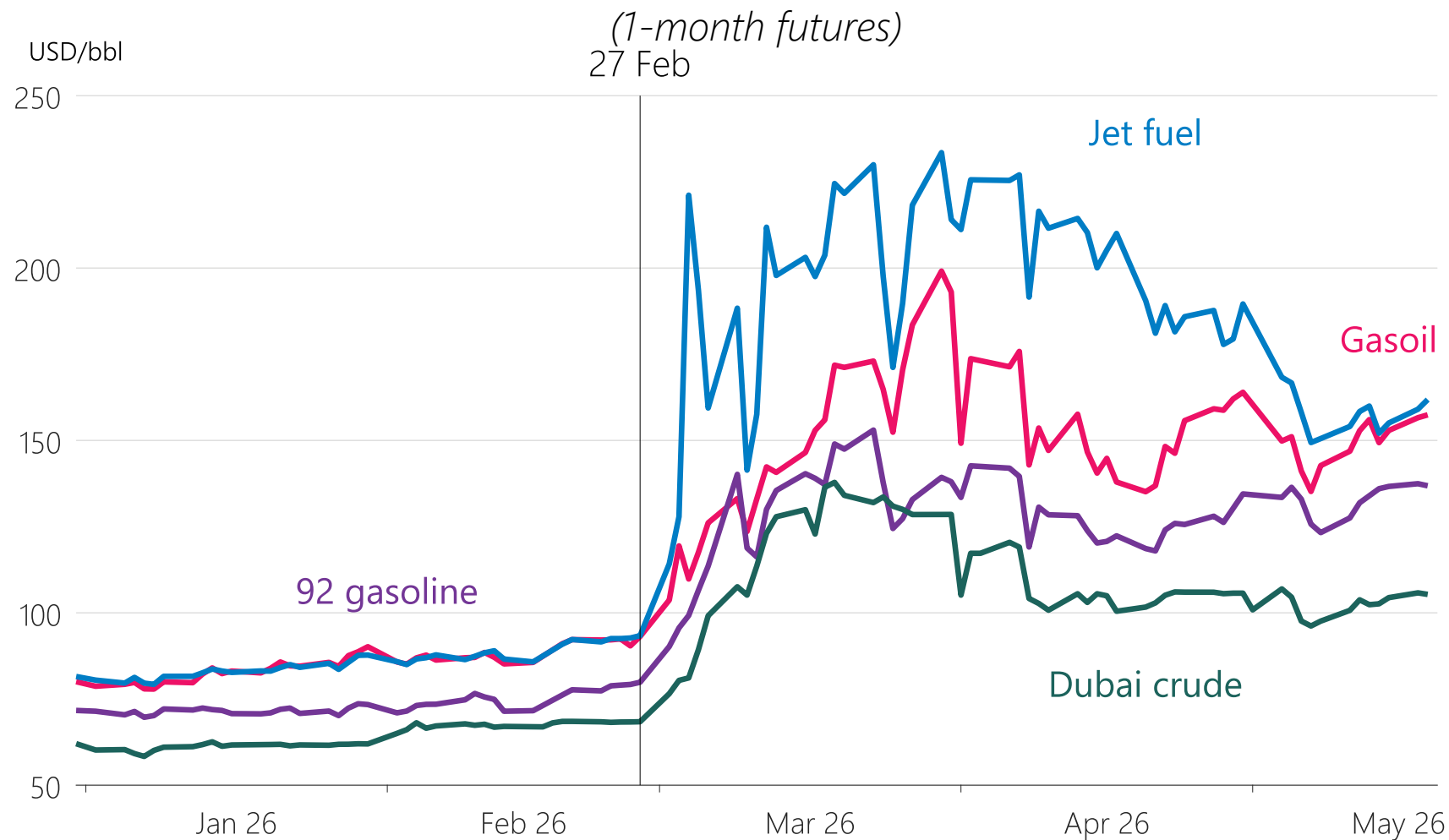


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APPENDIX.

Refined fuel prices have increased by more than crude oil prices.

Oil and Singapore refined product prices



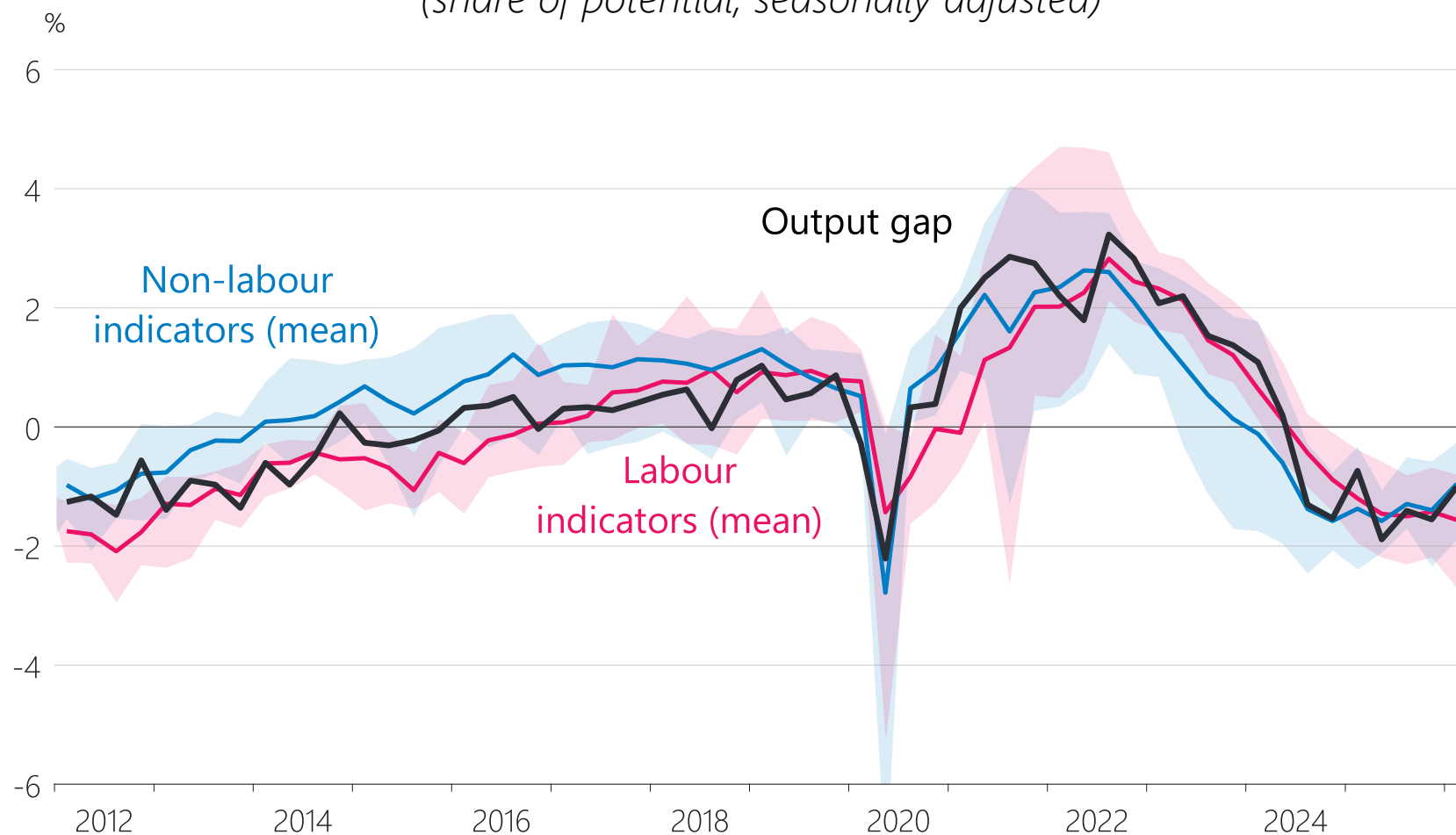
Source: Bloomberg.



Spare capacity was being gradually absorbed prior to the conflict.

Output gap and output gap indicators

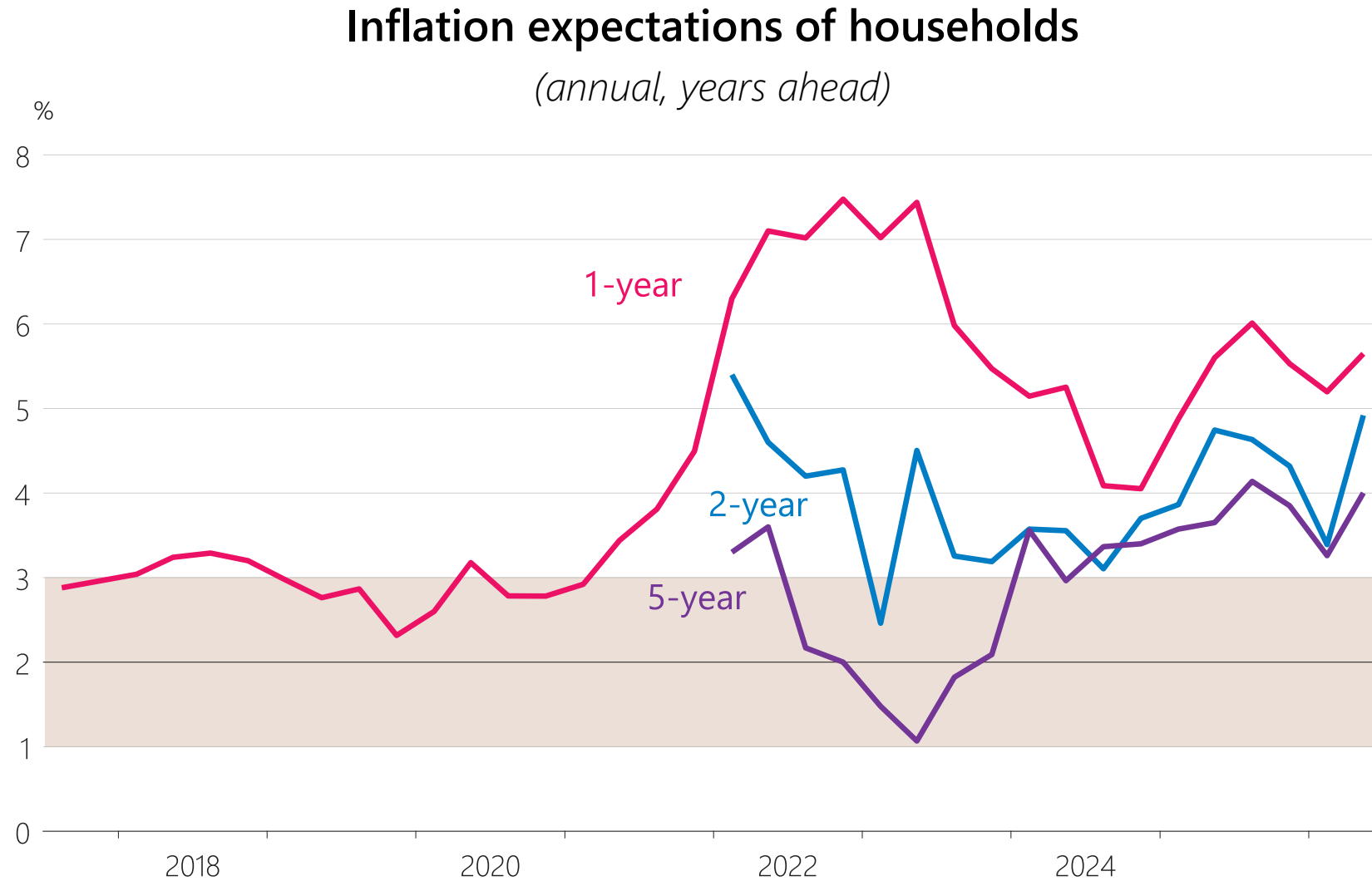
(share of potential, seasonally adjusted)



Source: NZIER, MBIE, Stats NZ, RBNZ estimates.



Household inflation expectations have increased at all horizons.



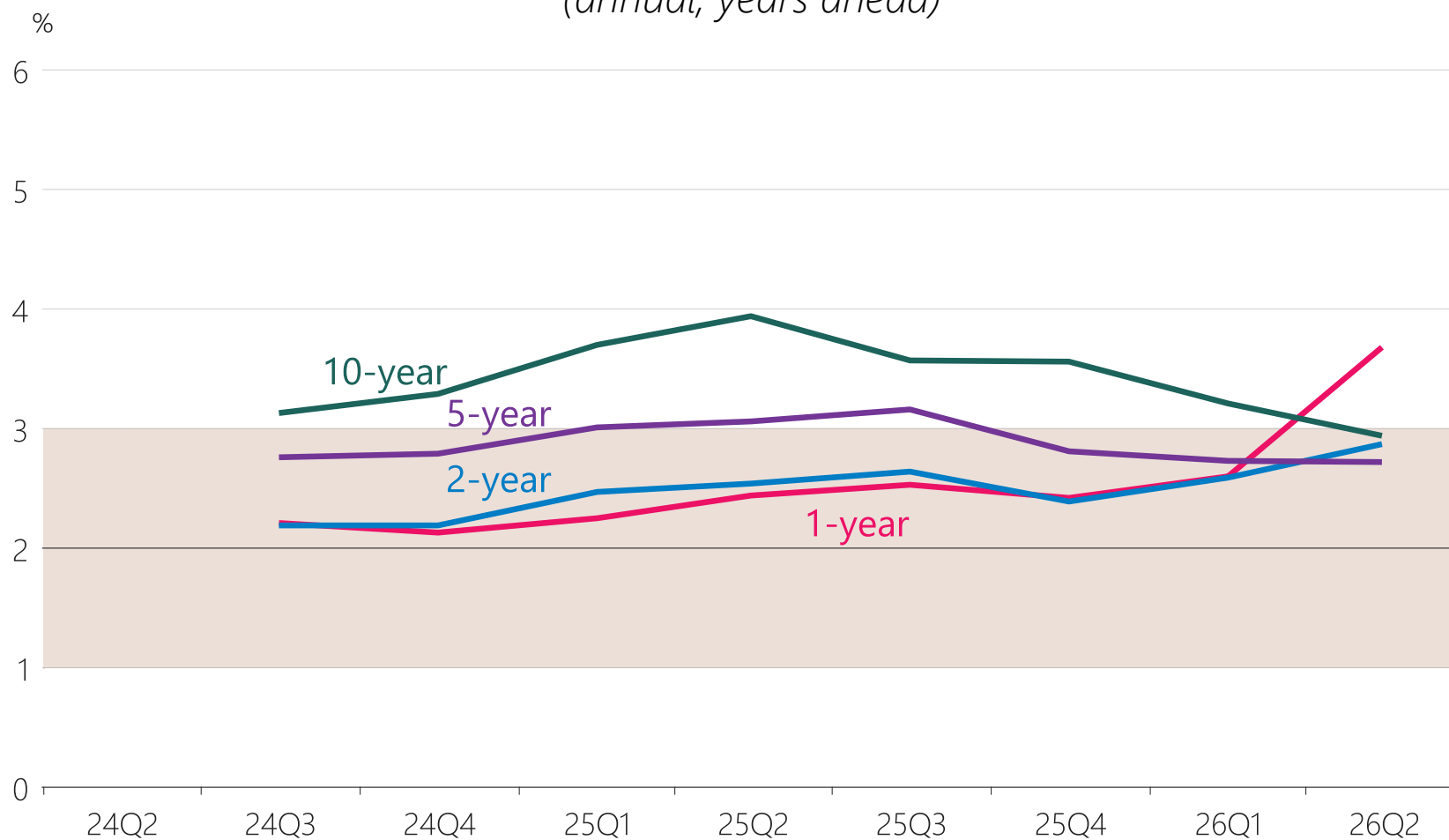
Source: RBNZ.



Business inflation expectations rose at shorter terms, but declined slightly at longer terms.

Inflation expectations of businesses

(annual, years ahead)



Source: RBNZ.

