Macro Note

New Zealand: Sticky inflation supports another RBNZ hike

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- New Zealand's consumer price inflation (CPI) eased to 3.7% y/y in 3Q26 from 4.1% y/y in 2Q26, while quarterly inflation slowed to 0.7% q/q from 1.5% q/q previously. Nevertheless, inflation remains above the Reserve Bank of New Zealand (RBNZ)'s 1%-3% target range and price pressures remain relatively broad-based.
- Petrol remained the largest contributor to annual inflation, even though fuel prices fell during the quarter. Meanwhile, international airfares, local authority rates and construction costs continued to record notable increases, suggesting that inflation pressures have become more widespread than implied by the headline moderation.
- While today's inflation outcome came in slightly below market expectations and the RBNZ's Sep forecast, we believe the inflation outlook has shifted higher since the Sep MPS due to rising oil prices, a weaker NZD and continuing signs of inflation persistence. We therefore revise our forecast and now expect the RBNZ to raise the OCR by 25bps to 3.00% on 28 Oct, and maintain the OCR at that level over our forecast horizon.

New Zealand's CPI rose 0.7% q/q in 3Q26, slowing from 1.5% q/q in the previous quarter. Annual inflation moderated to 3.7% y/y from 4.1% y/y, marking the first decline in headline inflation since the recent surge in fuel prices pushed inflation well above the RBNZ's target range. The latest outturn was slightly below the RBNZ's Sep forecast of 3.9% and market expectations of 3.8%.

The moderation was largely driven by fuel-related developments. Petrol prices fell 6.5% q/q after surging 20.1% q/q in 2Q26, making petrol the largest downward contributor to quarterly inflation. However, on an annual basis, petrol prices were still 19.1% higher than a year ago and remained the single largest contributor to headline inflation.

Beyond fuel, the details of the report suggest inflation pressures remain reasonably firm. International airfares rose 14.3% q/q, the largest increase since late 2022, reflecting higher fares to Europe and Asia. Local authority rates and payments, vegetables and construction costs also recorded notable increases during the quarter. Furthermore, more than 85% of the CPI basket recorded price increases over the past year, while only about 13% of items posted price declines, indicating that inflation pressures remain broad-based.

Although today's CPI report was marginally softer than expected, we do not believe it materially weakens the case for additional policy tightening. In fact, developments since the Sep Monetary Policy Statement (MPS) have arguably

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strengthened it. The RBNZ's primary concern has been whether the earlier fuel shock would spill over into broader inflation expectations and price-setting behaviour. While today's headline inflation rate eased, underlying inflation indicators remain elevated and several analysts have highlighted continued firmness in core inflation measures.

More importantly, the inflation outlook has become less favourable since the RBNZ's 2 Sep monetary policy meeting. Global oil prices have risen further amid renewed geopolitical tensions in the Middle East, while the NZD has weakened materially relative to the assumptions embedded in the Sep MPS. Both developments point to greater imported inflation pressures in the quarters ahead and increase the risk that headline inflation re-accelerates.

The RBNZ has already demonstrated a willingness to act pre-emptively to prevent inflation expectations from becoming unanchored, delivering consecutive 25bps hikes in Jul and Sep. Given persistent inflation above target, heightened imported inflation risks and market pricing that is now overwhelmingly skewed towards another increase, we believe the Committee will view an Oct hike as the path of least resistance.

Accordingly, we are revising our Official Cash Rate (OCR) forecast and now expect the RBNZ to raise the OCR by 25bps to 3.00% at its 28 Oct meeting. Thereafter, we expect policymakers to pause and assess the impact of the cumulative tightening already delivered, while monitoring the pass-through of higher energy prices and exchange-rate developments to inflation.

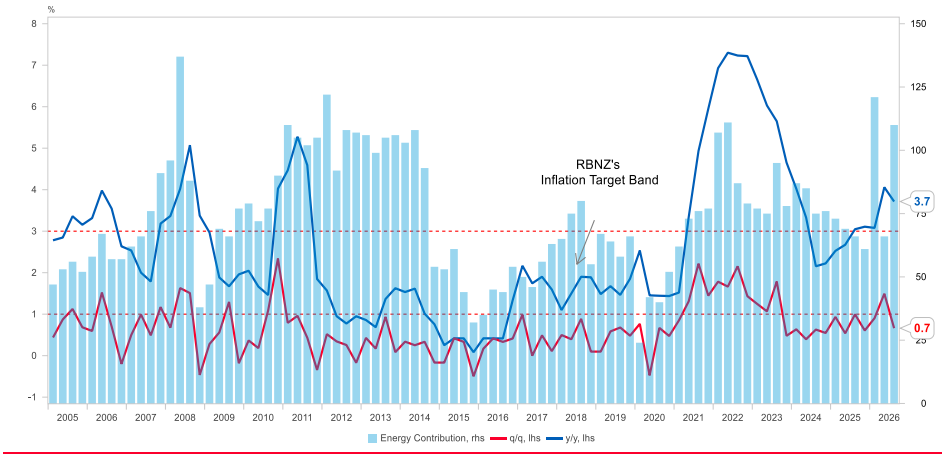
Our Forecast

%	As of 22 Oct	4Q26	1Q27	2Q27	3Q27
NZD Official Cash Target	2.75	3.00	3.00	3.00	3.00

Source: Global Economics & Markets Research

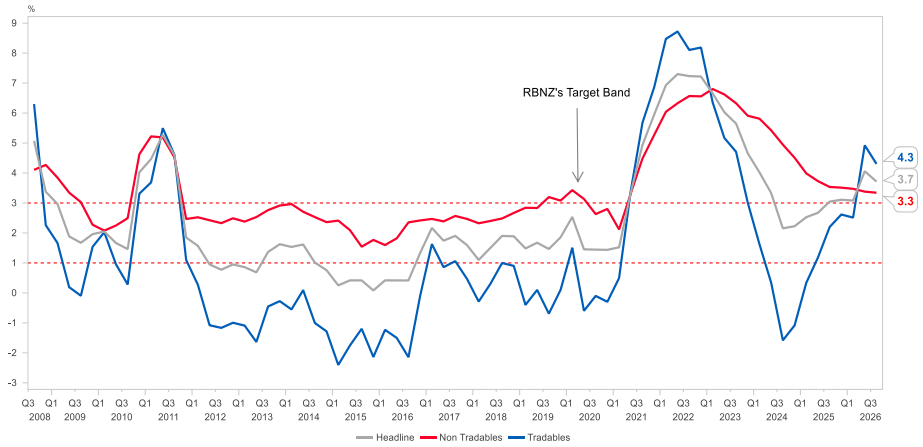
Inflation at 3.7%

Source: Macrobond, UOB Global Economics & Markets Research



New Zealand: Tradables vs Non-Tradables Inflation

Source: Macrobond, UOB Global Economics & Markets Research



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