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All Signal, No Noise

MARKET ANALYSIS

MNI RBNZ Preview – April 2026

Meeting Date: Wednesday, 8 April 2026

Statement Release Time: 14:00 NZST/03:00 BST

Press Conference Time: 15:00 NZST/04:00 BST

Link To Statement: https://www.rbnz.govt.nz/monetary-policy/monetary-policy-decisions

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MNI POV (Point Of View): Ongoing Pause, Weak Outlook

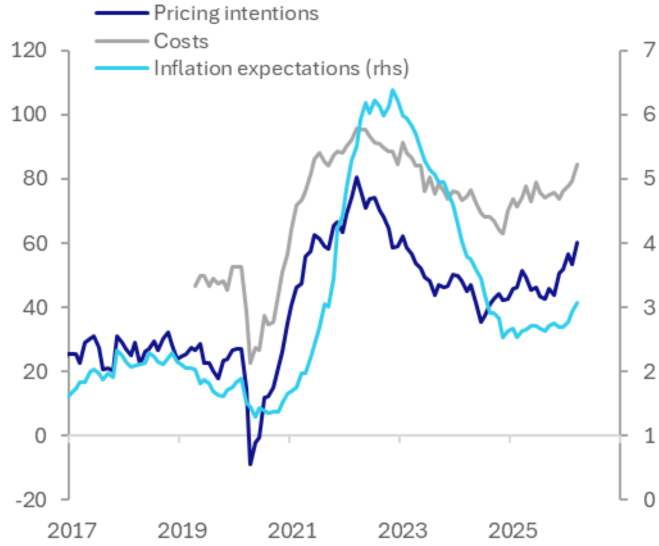
The RBNZ is unanimously expected on Bloomberg to leave rates at 2.25% when the MPC announces its decision on 8 April. It continues to believe that ongoing substantial excess capacity will put downward pressure on inflation bringing it back to the band. This view is likely to be maintained this month even with apparent upside risks to inflation in Q1 seen before the start of the Iran War, which has now exacerbated the situation. However, Governor Breman said in March that the impact of the conflict on fuel prices is currently assumed to be termporary but that view depends on the duration. For now though the RBNZ is in no hurry to tighten and is content to watch and wait.

Breman is likely to reiterate this month that given monetary policy lags, it is better for fiscal policy to respond to a supply shock, which it has with some fuel price relief. She also noted that increased market pricing for hikes since the start of the crisis has resulted in a tightening of financial conditions. Consistent with the weak growth outlook she said that "it's unlikely the RBNZ will be raising rates in the next six months" but a hike could be "appropriate" to deter second-round effects from the shock.

The pre-war inflation outlook was mixed with Q4 headline CPI above the top of the RBNZ's 1-3% target at 3.1% but its measure of underlying inflation from its sector factor model still within the band at 2.8% although 0.1pp higher than Q3. February food inflation was elevated. Central banks generally are monitoring that inflation expectations remain anchored despite higher fuel prices. Q1 1- and 2-year inflation expectations picked up to their highest since H1 2024 and so the upward trend in NZ price pressures was already having an impact before hostilities in the Middle East. Q2 data are published 13 May ahead of the 27 May RBNZ decision and updated staff forecasts.

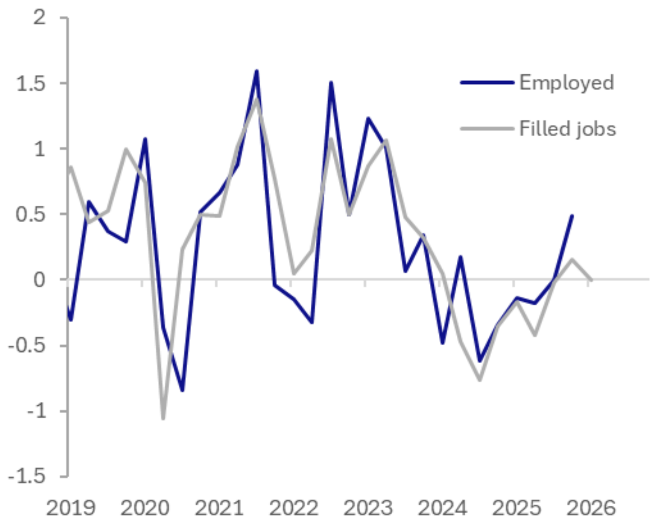
The ANZ business survey for March was the first information on the impact of the Iran War on NZ prices and activity. It showed a rise in price and cost components while activity and confidence indicators deteriorated. Unsurprisingly, cost expectations were higher - projected to be up 3.0% 3-months out up from 2.5% in February. A large share of this increase is expected to be passed onto customers, although not all of it, with pricing intentions up to 2.4% from 2.0%, the highest since July 2023. The retail sector exceeded that at 3%. Inflation expectations a year ahead rose to 3.1% up from 2.9% but late-March responses were elevated at 3.7%, according to ANZ. This data is likely to be monitored closely going into Q2 given it is timely and monthly. Statistics NZ won't release March selected price indices until 17 April and April on 15 May. The April ANZ survey is 30 April and May a few hours before the 27 May RBNZ decision.

Figure 1: ANZ business survey components



Source: Source: MNI – Market News/LSEG

Figure 2: Q1 average filled jobs lacklustre



Source: MNI – Market News/Statistics NZ/LSEG

Activity indicators have remained lacklustre since the February rate decision signalling that significant excess capacity persisted into 2026 and should make passing higher costs on difficult for producers and higher wage demands difficult for employees. Prior to the hostilities in the Middle East, Q4 NZ GDP disappointed rising only 0.25% q/q with both private consumption and GFCF contracting.

ANZ business confidence fell to 32.5 from 59.2, lowest since July 2024, while the activity outlook was down to 39.3 from 52.6, softest since August. March activity versus a year ago, which has a good correlation with GDP, moderated to 17.5 from 23.4 with both retail and construction falling sharply. In addition, filled jobs data for January/February suggest employment was flat on the quarter and the recovery may have stalled. Ongoing labour market softness adds to the case to keep monetary policy stimulative.

The uncertainty around the implications of the Iran War and the duration of elevated fuel prices have weighed on the economy at a time of a nascent recovery, which is likely to add to the MPC's sentiment to stay on hold for some time. It could be in the difficult position though where the growth outlook softens but price pressures and expectations are rising. Therefore, decisions are likely to be even more meeting-by-meeting and data dependent than usual with Q1 CPI released 21 April, Q2 inflation expectations 13 May, Q1 jobs/wages 6 May and Q1 real retail sales 22 May.

RBNZ-Dated OIS Pricing

Market pricing for tomorrow's RBNZ meeting outcome shows very little risk of a tightening, with just a 6% chance implied by OIS markets (current policy rate is 2.25%). A full hike is more than fully priced by the September meeting, with an OIS implied policy rate of 2.57%. That rises to 3.05% by the Feb 2027 meeting, so a little over 3 hikes priced between now and then. The end 2026 rate, for the Dec meeting, has an implied rate of 2.84%, so a little over 2 hikes priced in.

After the last policy meeting in Feb, the year-end implied rate (per OIS markets) troughed close to 2.50%. We surged through March, as the Iran conflict unfolded. On Mar 20 we got to highs around 3.40%, but in recent weeks the year-end implied rate has been under 3.00% for the most part.

RBNZ Feb Monetary Policy Summary Record Of Meeting

A significant easing in monetary policy since August 2024 is supporting a recovery in economic activity. Annual consumers price inflation increased to 3.1 percent in the December 2025 quarter, slightly above the Monetary Policy Committee's 1 to 3 percent target range. The Committee is confident, however, that with significant excess capacity in the economy, inflation will fall to around the mid-point of the target range over the next 12 months.

Headline inflation is expected to fall to near the mid-point of the target band
The Committee noted that headline inflation is most likely returning to the target band in the March 2026 quarter. Recent increases in inflation have been driven by higher tradables inflation, partly due to larger increases in volatile items such as food, international airfares, and overseas accommodation. Tradables inflation is expected to fall back over the next 12 months due to relatively stable import prices and some support from the recent appreciation in the New Zealand dollar.

Inflation has also been held up by some components of non-tradables inflation that are less sensitive to monetary policy, particularly administered prices. These are prices that are set or heavily influenced by central or local government. Inflation in these components has been due to a lagged response to previous high inflation and a range of structural factors. The Committee expects there to be less inflation in some administered prices over the coming year, such as electricity lines fees, university fees and vehicle licensing fees.

Components of the non-tradables basket that are sensitive to monetary policy have declined to around historic average levels. Measures of core inflation have remained stable, albeit mostly above the target midpoint. Rates of wage inflation remain consistent with inflation trending back towards 2 percent.

The Committee emphasised the importance that higher near-term inflation not become embedded in longer-run expectations. Inflation expectations for professional forecasters and business leaders increased slightly across all tenors, but long-term expectations remain close to the target mid-point. Inflation expectations of households have continued to decline from elevated levels.

Significant spare capacity remains
The Committee noted that there is still significant spare capacity in the economy. The output gap is estimated to be -1.5 percent of potential GDP in the December 2025 quarter.

Spare capacity in the labour market is substantial but stabilising. While the unemployment rate increased to 5.4 percent, key measures of employment strengthened over the December quarter. The labour market is expected to continue to strengthen as the nascent recovery in economic activity broadens through 2026.

Continued spare capacity, subdued wage growth and measures of core inflation within the target band provide the Committee with confidence that the conditions are in place to return and sustain inflation at 2 percent over the medium term.

Economic activity is now recovering
Economic activity began recovering over the second half of last year in response to strong export prices and supportive monetary policy settings. GDP increased by 1.1 percent in the September quarter, after falling 1.0 percent in the June quarter. The Committee noted that measured GDP data has been more volatile than usual, in part due to a range of temporary factors and measurement issues.

There are signs that the recovery is broadening across the economy, although the September quarter GDP likely overstates the true level of momentum in the economy. Residential and business investment both increased from low levels, and measures of investment intentions and building consent issuance have all increased. More timely measures of economic activity such as the QSBO, PMI, and PSI suggest that growth has been maintained in 2025Q4 and 2026Q1.

The economic recovery has been uneven across sectors and regions. Stronger activity has been observed in the rural economy and in the primary sector. Consumer spending has been constrained by low growth in employment income and the negative effect of falling real house prices on household wealth.

House prices have continued to edge downwards despite lower mortgage rates and a modest pick-up in housing market activity. This possibly reflects weak population growth and elevated long-term interest rates. House price growth is expected to gradually increase over 2026 and then grow at around the rate of household income growth over the medium term.

Household consumption is projected to increase over the medium term as past reductions in the Official Cash Rate (OCR) continue to support demand. The Committee noted that labour market conditions are likely to become more important relative to house prices in influencing consumption.

Government expenditure is assumed to grow at a subdued pace over the medium term, consistent with the Half Year Economic and Fiscal Update 2025 projections.

Domestic financial conditions have tightened since November
The New Zealand dollar Trade Weighted Index has appreciated, reflecting higher domestic interest rates and a weakening US dollar. Wholesale interest rates beyond 12 months have increased due to higher global interest rates and investor expectations of future increases in the OCR. Banks have passed these increases through to fixed-term mortgage rates.

The flow of mortgage borrowing priced in the 1–2-year terms increased substantially since November. While the average mortgage rate has declined to 5.1 percent, further downward adjustments are expected to be less than assumed in November.

Global growth has been resilient but risks remain high
The Committee noted that the global economy was more resilient than expected in 2025. Tariffs have had less impact on global growth than previously expected, while strong investment in artificial intelligence technology has supported exports from our trading partners in Asia. Expansionary fiscal policy has also supported growth in a number of economies. The Committee continues to expect trade barriers to present a headwind to growth, with trading partner growth expected to weaken slightly over 2026.

On a trade-weighted basis, global inflation has declined, but there has been significant divergence across countries. Tariff policies have increased inflation pressure in some economies such as the US, but these have been offset by disinflationary pressure in China and the broader Asia region.

Geopolitical developments over recent months have led to continued high economic uncertainty and financial market volatility. The US dollar has declined, while the prices of oil and precious metals have risen, along with sovereign bond term premia.

The domestic financial system remains stable
The Committee was briefed on financial system stability. Measures of domestic financial stress have eased as lower interest rates reduce debt servicing pressures. Non-performing housing loans have also declined, and banks expect further reductions in housing and commercial property impairments over 2026. The Committee agreed that there is currently no material trade-off between meeting its inflation objectives and maintaining financial system stability.

Risks to the outlook for inflation are balanced
There are upside and downside risks to the near-term outlook for inflation. The Committee noted the contribution that administered price inflation had played in recent inflation outturns and the risk that this could remain high for longer than currently assumed. Conversely, the Committee discussed the risk that volatile components of tradable inflation could fall more rapidly.

The Committee discussed the risks around firms' price-setting behaviour. While weak demand has constrained the ability of firms to pass on higher costs, the Committee noted the risk that changing price setting behaviour could result in higher inflation. In this context the Committee also discussed the risk that the output gap could be smaller than currently estimated, accentuating the risk that firms raise prices as demand improves. This could lead to more persistence in domestically generated inflation pressure that would require tighter monetary policy than otherwise.

Members noted risks regarding the speed of the economic recovery. The Committee noted the risk that household spending could be slower to recover than currently assumed, particularly if house price growth remains subdued.

This could lead to households continuing to maintain higher levels of precautionary saving. Conversely members noted a risk that higher export incomes and the return of capital to dairy farmers from the sale of Fonterra's consumer brands business could spur higher investment and consumer spending by farmers.

The global outlook is uncertain
The Committee noted that the global economic outlook continues to be highly uncertain. In the near-term, key uncertainties relate to the direction of global trade policy, market valuations of artificial intelligence investment and geopolitical tensions. Downside risks remain to growth in China as policy makers attempt to maintain growth targets in the face of weak domestic demand. Continued excess capacity and subdued demand in China could create greater disinflationary pressure.

Over the longer term, the Committee noted risks associated with unsustainable fiscal dynamics in several countries. This could put ongoing pressure on central bank independence and create conditions for more persistent global inflation. This could lead to higher long-term global real interest rates and create risks to global financial stability.

The Committee reached consensus to hold the OCR at 2.25 percent
The Committee discussed the monetary conditions required to achieve their medium-term inflation mandate.

The Committee agreed that the economic recovery remains nascent, and a premature normalisation of monetary conditions could dampen the recovery and lead inflation to undershoot the target. The Committee also considered the risk that policy remains accommodative for too long, leading inflation to persist above the mid-point of the target range for longer.

Members agreed that the monetary policy stance would need to remain accommodative for some time to support a sustained recovery in economic activity. There is a risk that prolonged caution on the part of households could slow the recovery in consumption activity, particularly in the context of a recent tightening in financial conditions. Members also noted global risks that could slow domestic economic recovery. Significant excess capacity, modest wage growth, and core inflation within the target band provides confidence that inflation will return to the midpoint of the target band.

Members noted the risk of inflation remaining more persistent, given surveys showing somewhat elevated inflation expectations and business pricing intentions. One member supported maintaining the OCR at current levels for now but noted that if economic activity recovers as expected, monetary stimulus could begin to be withdrawn somewhat earlier without compromising the economic recovery. Another member noted that responding too quickly to firms' pricing intentions could reinforce perceptions of strong demand and encourage firms to align on further price increases.

On Wednesday 18 February the Committee reached consensus to hold the OCR at 2.25 percent. The forward OCR path reflects a somewhat stronger economic outlook and balanced risks to inflation.

If the economy evolves as expected, monetary policy is likely to remain accommodative for some time. The Committee will continue to assess incoming data carefully. As the recovery strengthens and inflation falls sustainably towards the target midpoint, monetary policy settings will gradually normalise.

RBNZ February MPS – Key Forecast Variables

Key forecast variables

		GDP growth Quarterly	CPI inflation Quarterly	CPI inflation Annual	Unemployment rate	TWI	OCR
2024	Mar	0.2	0.6	4.0	4.4	71.6	5.5
	Jun	-0.6	0.4	3.3	4.7	71.4	5.5
	Sep	-1.3	0.6	2.2	4.9	70.9	5.4
	Dec	0.1	0.5	2.2	5.1	69.5	4.6
2025	Mar	1.1	0.9	2.5	5.1	67.8	4.0
	Jun	-1.0	0.5	2.7	5.2	69.1	3.4
	Sep	1.1	1.0	3.0	5.3	68.4	3.1
	Dec	**0.5**	0.6	3.1	5.4	66.4	2.5
2026	Mar	**1.1**	**0.6**	**2.8**	**5.3**	**67.8**	**2.2**
	Jun	**0.5**	**0.4**	**2.7**	**5.2**	**68.0**	**2.3**
	Sep	**0.6**	**0.8**	**2.5**	**5.1**	**68.0**	**2.3**
	Dec	**0.6**	**0.4**	**2.3**	**5.0**	**68.0**	**2.4**
2027	Mar	**0.7**	**0.4**	**2.1**	**4.9**	**68.0**	**2.5**
	Jun	**0.7**	**0.4**	**2.0**	**4.8**	**68.0**	**2.6**
	Sep	**0.7**	**0.8**	**2.0**	**4.8**	**68.0**	**2.7**
	Dec	**0.7**	**0.4**	**2.0**	**4.7**	**68.0**	**2.8**
2028	Mar	**0.7**	**0.4**	**2.0**	**4.6**	**68.0**	**2.9**
	Jun	**0.7**	**0.4**	**2.0**	**4.6**	**68.0**	**2.9**
	Sep	**0.7**	**0.8**	**2.0**	**4.5**	**68.0**	**3.0**
	Dec	**0.7**	**0.4**	**2.0**	**4.5**	**68.0**	**3.0**
2029	Mar	**0.7**	**0.5**	**2.0**	**4.4**	**68.0**	**3.0**

Source: RBNZ

MNI RBNZ WATCH: MPC To Hold, Eye Iran Impacts

By Daniel O'Leary

MELBOURNE - The Reserve Bank of New Zealand is likely to leave the Official Cash Rate at 2.25% at next Wednesday's meeting, looking through the initial impact of the Iran conflict while remaining alert to second-round inflation pressures later in the year.

Governor Anna Breman has signalled a standard central bank response to an oil shock, indicating policy is well placed to manage global volatility and its impact on inflation. Recent remarks by Breman and Chief Economist Paul Conway have also pushed back against tightening financial conditions, suggesting rate hikes are not imminent, a message likely to be reinforced during next week's press conference following the decision.

Market pricing has adjusted accordingly, with little expectation of a move next week, though traders still see at least one hike by September and the OCR rising to around 2.85% by year-end.

However, New Zealand – like Australia – remains exposed to a prolonged energy shock, making next week's communication key to understanding how the MPC assesses inflation risks and the potential for stagnation. (See MNI: Energy Shock, Stagflation Risks Cloud RBNZ Policy Path)

The MPC has held the rate steady since its last 25 basis point cut in October 2025. (See MNI RBNZ WATCH: Breman Notes Dec Hike Risk, Weak House Prices)

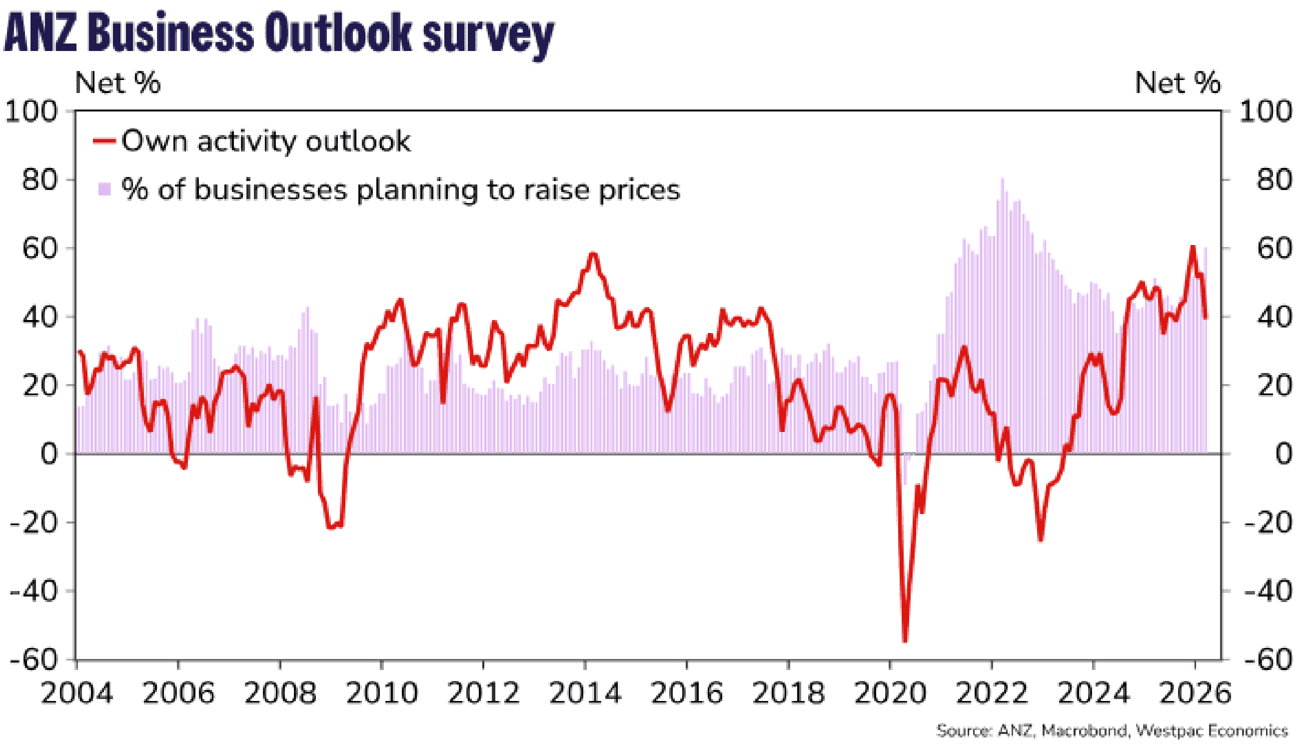
INFLATION EXPECTATIONS

Breman has emphasised vigilance against a near-term inflation spike becoming entrenched, as headline inflation was already above 3% and expected to rise further leading into the supply shock, while core measures also remain elevated.

Even so, the Bank is likely to reassert its confidence that increasing spare capacity and weak domestic demand will help drive inflation back to the 1-3% target band. Policymakers will focus on whether price-setting behaviour remains consistent with the target, placing greater weight on longer-term expectations, which are expected to remain anchored near 2%.

DATA AND OUTLOOK

However, price risks are tilted to the upside. A sustained inflation shock could shift pricing behaviour and wage dynamics. Recent data point to a fragile recovery, driving fears of future stagflation among former RBNZ economists, concerned that a failure to contain expectations could ultimately require a more aggressive policy response. Business confidence fell 26.7% in March and will more than likely continue to fall in April. (See chart)



GDP growth also remains soft, with Q4 expanding just 0.2% quarter-on-quarter, underscoring weak private demand. The outlook for 2026 has deteriorated, with higher fuel costs acting as a drag on consumption and downside risks to growth intensifying.

If demand remains subdued and external conditions deteriorate, policymakers may be forced to balance rising inflation pressures against a fragile economic backdrop.