



ECONOMIC BULLETIN

RBNZ July 2026 Monetary Policy Review.

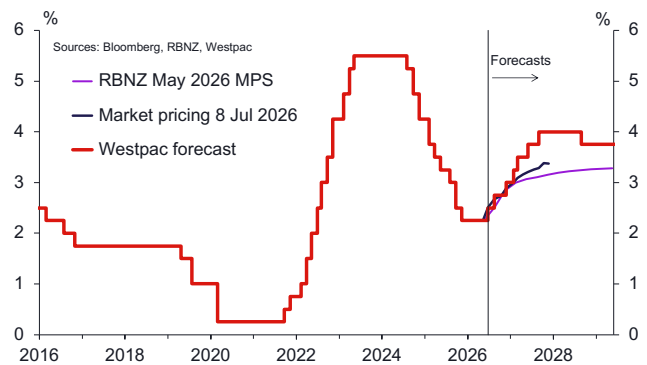


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Dovish hike?

- The RBNZ raised the OCR by 25bps to 2.5%. The decision was reached by consensus.
- The balance of the Committee seems unchanged: Gai, Gourley and Hansen remain hawkish while Breman, Conway and Silk remain more dovish.
- A key argument for the hike is a concern that financial conditions would have eased further if the OCR was left unchanged.
- The MPC seems to be comfortable with an end 2026 level of the OCR in the 2.75%-3% range – not very different from that shown in the May forecasts.
- Westpac expects follow-up 25 bp hikes in September and December and an unchanged sequence of 25bp increases through 2027. Hence the peak OCR of 4% is reached in September, instead of December 2027.

Official Cash Rate forecasts



OCR raised by 25bps to 2.50%.

Today the RBNZ raised the OCR by 25bps to 2.50%, in contrast to our expectations for an 'on hold' decision. The decision was reached by consensus and hence no vote was required.

A comparison of key quotes from the July MPR statement and Record of Meeting with that from the May MPS meeting is provided at the end of this document.

The RBNZ has recognised the fall in oil prices and inflation risks that has been seen since May. Their forecasts for inflation have been revised down such that annual inflation is expected to be 3.9% in Q2 and 3.3% in Q3. These forecasts are a bit lower than our own (3.7% for Q3 in our case) but still demand OCR increases in 2026 by the MPC's thinking.

The RBNZ recognizes that the risks around the global growth outlook are better balanced relative to those seen back in May when energy prices were much higher.

A key argument cited as supporting the case for an OCR hike today was the risk that an unchanged OCR might have prompted a further easing in financial conditions.

This could have occurred through some combination of expectations of a lower end 2026 OCR and a weaker exchange rate. This suggests the RBNZ remain comfortable with the end 2026 OCR in the 2.75-3% range given where market pricing has sat in the last week or so.

The RBNZ indicates some further tightening is likely over coming meetings but notes the timing of these interest rate increases remains uncertain. The strategy seems to be to bring the OCR back to the neutral zone. For now, an OCR in the low 3% area seems to be viewed as consistent with that objective. However, there is uncertainty around where the neutral OCR is. Prasanna Gai noted a risk the neutral rate is rising in this less certain geopolitical environment. Paul Conway noted in the press conference that short-term estimates of the neutral OCR are being boosted by the higher short term inflation profile and the resultant impact on short term inflation expectations.

The balance of the MPC appears unchanged: the hawks remain Gai, Gourley and Hansen while the more dovish group includes Breman, Silk and Conway. Gai and Gourley see upside risks to the inflation outlook while the rest see the inflation risks as better balanced.

The RBNZ's rhetoric on the key factors driving future OCR increases has shifted a little. In May the Governor emphasized the importance of indicators of second round pricing pressures, rising inflation expectations and wage pressures. No evidence has accumulated since May on these risks. Nevertheless, these factors are still seen as important, but now signs of strengthening domestic and global growth are being added to the list of relevant factors. Trends in financial conditions seem also to be on the list of relevant factors. The potential inflationary impact of the exchange rate is playing a role here.

The RBNZ also decided to bring forward slightly the time at which the LSAP portfolio will be fully extinguished to June 2027. This does not have any monetary policy implications and is portrayed as being largely technical in nature.

Westpac outlook – 4% peak in the OCR reached a little earlier in 2027.

Looking ahead, we continue to expect the 25bp increases in the OCR that we forecast prior to today's meeting – at the September and December meetings – although these will now leave the OCR 25bps higher at year end (at 3.0%) than we had forecast previously. Thereafter, we continue to forecast a peak OCR of 4.0% next year, although our central expectation is that this will now be reached three months earlier at the September 2027 MPS meeting. In the current uncertain environment, it goes without saying that the evolution of monetary policy will depend on how both global events and key data evolve (we summarise the near-term economic diary below). Therefore, as the RBNZ noted itself today, the exact timing of the tightening profile is highly uncertain and even the tightening we

forecast at the September 2026 meeting should not be regarded as a “done deal”.

Things to watch ahead of the 2 September meeting.

The RBNZ's next policy review is on 2 September, when it will also publish a full Monetary Policy Statement (MPS) and refreshed economic forecasts. How the RBNZ's policy stance evolves between now and then will depend on the path the Middle East conflict takes and what indicators and anecdotes continue to suggest about the impact of the conflict on New Zealand's economic recovery and inflation.

In contrast to the period ahead of today's meeting, there are many important domestic economic indicators scheduled for release ahead of the 2 September meeting. We think the following are the key ones to watch.

- **Q2 CPI** (21 July) and **July Selected Prices** (17 August): These pricing indicators will reveal whether the earlier surge in fuel prices has generated upward pressure across a broader range of goods and services.
- **Q3 RBNZ surveys** (13 August, 14 August, 21 August): Inflation expectations measures from the RBNZ's surveys of professional forecasters, households and businesses will be analysed closely to see whether there has been a reversal of the energy-induced increase in inflation expectations observed in Q2.
- **Q2 QSBO** (14 July) and **July/August ANZ Business Outlook** (30 July/31 August): The data-rich QSBO survey was likely in the field before Middle East tensions eased so it will be interesting to see where the NZIER provide a breakdown of early and late responses. The ANZ surveys may provide a timelier account of how businesses are responding to the easing of the conflict and the resulting decline in oil prices.
- **July/August PMI and PSI surveys** (mid-July/mid-August): These may provide some early insight as to whether GDP growth has resumed in Q3.
- **Q2 labour market surveys** (5 August): Employment and hours worked data from the HLFS and QES surveys will cast light on the performance of the economy in Q2, while the LCI will cast light on underlying inflation pressures.

In addition to the above, we will monitor a range of other high-frequency indicators, such as monthly data on filled jobs, consumer spending, building consents, housing market activity and prices, job ads and consumer confidence. We will also be paying close attention to developments in prices for New Zealand's key export commodities.

RBNZ comparison table July 2026 vs May 2026

Category	May 2026 quotes	July 2026 quotes
The next policy decision	<p>All Committee members agreed that increasing the OCR at upcoming meetings would likely be necessary to ensure higher near-term inflation does not feed through to higher medium-term inflation.</p> <p>The pace of OCR increases will depend on the relative influence of persistent wage- and price-setting behaviour versus weaker economic activity on medium-term inflation pressures.</p> <p>The Committee remains focussed on bringing medium-term inflation back to target and expect that OCR increases will be required this year.</p>	<p>The Committee agreed that while further OCR increases appear likely at upcoming meetings, their timing is highly uncertain.</p> <p>Future OCR decisions will depend on the Committee's judgement about how price-setting behaviour and excess productive capacity affect medium-term inflation pressures.</p> <p>Increasing the OCR at this meeting is intended, in part, to avoid an unwarranted further easing in financial conditions.</p>
The medium-term direction for the OCR	<p>On balance, the OCR will most likely need to increase sooner and by more than envisaged in the February Monetary Policy Statement.</p> <p>With inflation pressures increasing in coming months, these members agreed that OCR increases would be required to ensure inflation returns to target over the medium term.</p>	<p>With inflation still above target and economic activity expected to strengthen, some further reduction in monetary stimulus is likely to be required to return inflation to the 2 percent target mid-point.</p> <p>The Committee agreed that it was appropriate to start reducing the degree of monetary stimulus to ensure that inflation returns to target over the medium term.</p>
The neutral OCR	<p>These members noted the wide range of estimates for the neutral interest rate, making it difficult to assess the extent to which current monetary conditions are accommodative.</p>	<p>The Committee assessed that the current level of the OCR remains accommodative.</p> <p>However, members noted that there is some uncertainty around where to judge the current level of the neutral interest rate.</p> <p>Prasanna Gai noted that recent geoeconomic shocks may have increased New Zealand's neutral interest rate by reducing global productive capacity and raising investment demand relative to available global savings.</p>
The strength of economic activity	<p>Domestically, business contacts and surveys indicate weaker confidence and spending.</p> <p>Consumer confidence has fallen sharply, and the housing market remains weak.</p> <p>Near-term economic activity is likely to be weaker than assumed in the February Statement because of the Middle East conflict.</p> <p>These forecasts indicate a slower economic recovery in the near term, with the pace of economic growth increasing by the end of the year.</p>	<p>New Zealand's economic recovery was underway before the Middle East conflict, but lost momentum in the June quarter as the oil shock weighed on economic activity.</p> <p>Growth is expected to resume in the September quarter as these effects fade and confidence improves.</p> <p>The Committee noted that domestic economic activity slowed in the June 2026 quarter.</p> <p>Domestic economic growth is projected to resume in the September 2026 quarter.</p>
The global economic outlook	<p>The global economic backdrop remains uncertain.</p> <p>On balance, New Zealand's trading partners are expected to see weaker growth and higher inflation.</p> <p>The Middle East conflict poses downside risks to global economic activity.</p>	<p>Global growth has been resilient to the effects of tariffs and conflict in the Middle East, largely because of strong AI-related investment and spending on defence and economic security.</p> <p>The Committee noted that global economic activity had remained robust through 2025 and into early 2026, despite significant headwinds.</p> <p>Consensus forecasts imply that trade-weighted global inflation will moderate close to 2 percent in 2027.</p>
The labour market	<p>The labour market was stabilising, with employment growing modestly and annual wage inflation remaining at 2 percent in the March 2026 quarter.</p> <p>Unemployment remains elevated, indicative of spare capacity in the labour market.</p> <p>Wage pressures could also arise from labour shortages in some sectors and regions.</p>	<p>Over the medium term, inflation returning to the 2 percent target mid-point will lift household purchasing power and help support a sustained recovery in growth and employment.</p> <p>Members noted that high inflation erodes households' purchasing power and dampens domestic demand.</p> <p>Inflation declining towards the target mid-point will help to ensure a sustainable recovery in economic growth and a stronger labour market.</p>

Category	May 2026 quotes	July 2026 quotes
The short-term inflation outlook	<p>The ongoing conflict in the Middle East is weakening economic activity and increasing near-term inflation.</p> <p>First round direct and indirect effects from higher petrochemical prices will increase inflation this year.</p> <p>Annual headline inflation is expected to increase to a peak of 4.3 percent by the September 2026 quarter and to return to the target mid-point in mid-2027.</p>	<p>The forecast for near-term inflation has declined, given that current oil futures pricing is now significantly lower than assumed in the May Statement.</p> <p>Despite progress towards conflict resolution in the Middle East and the recent fall in energy prices, annual consumers price inflation is expected to remain above the Monetary Policy Committee's 1 to 3 percent target range in coming quarters.</p> <p>Annual headline inflation is expected to have peaked at 3.9 percent in the June 2026 quarter, before declining to 3.3 percent in the September 2026 quarter.</p>
The medium-term inflation outlook	<p>Currently, core inflation, wage growth, and medium- to long-term inflation expectations remain consistent with inflation returning to the 2-percent target mid-point over the medium term.</p> <p>The outlook for medium-term inflation pressures is also uncertain.</p> <p>However, weak demand and elevated unemployment will dampen medium-term inflation pressures.</p>	<p>Although energy prices have decreased, the effects of the shock will linger for some time and the outlook for medium-term inflation pressures remains uncertain.</p> <p>Spare capacity in the economy is expected to limit firms' ability to pass on higher costs, meaning many businesses may need to absorb them in margins. However, some firms may look to rebuild margins as demand recovers. If sustained, a lower exchange rate could also add to medium-term inflation pressures.</p>
The balance of risks for economic growth and inflation	<p>The Committee judges that the balance of risks is to the upside for inflation and to the downside for growth.</p> <p>Members noted that spare capacity in the domestic economy and weaker global demand could constrain firms' ability to pass on higher costs by more than assumed in the central projection.</p> <p>Lower spending by households in response to lower real income growth, persistently elevated unemployment, a weak housing market, and reduced resilience due to repeated shocks collectively pose downside risks to domestic economic activity.</p>	<p>The Committee judged that there are both risks to the upside and the downside.</p> <p>In the discussion, Prasanna Gai and Hayley Gourley assessed that risks were skewed to the upside, while Anna Breman, Paul Conway, Carl Hansen and Karen Silk viewed risks as broadly balanced.</p> <p>The Committee agreed that all these upside and downside risks are relevant for the medium-term inflation outlook and will be important for the monetary policy stance going forward.</p>
Key arguments advanced by more hawkish MPC members	<p>Three members (Carl Hansen, Hayley Gourley, Prasanna Gai) preferred to increase the OCR by 25 basis points, to 2.5 percent at this meeting.</p> <p>These members emphasised that, given the breadth of critical inputs that have been impacted by the conflict, first round indirect price increases could become more broad-based, feeding through to a greater risk of second round price increases.</p> <p>These members judged that removing stimulus now, while observing domestic economic developments, would help reduce medium-term inflation risks.</p> <p>Moving earlier was viewed as preferable, given upward pressure on neutral rates and that it may also limit the overall magnitude of the increase in the OCR and the negative impact on output.</p>	<p>Prasanna Gai noted that, despite the recent decline in energy prices, some indirect effects from earlier increases in energy-related input costs may also still flow through to consumer prices.</p> <p>Prasanna Gai also highlighted the risk that the Middle East shock could coordinate price-setting behaviour, licencing firms to pass on costs more readily than otherwise.</p> <p>Carl Hansen noted that lower energy prices could support a stronger recovery in household and business demand.</p>
Key arguments advanced by more dovish MPC members	<p>Three members (Anna Breman, Karen Silk, Paul Conway) judged that holding the OCR at 2.25 percent was appropriate at this meeting.</p> <p>These members emphasised that core inflation and wage growth remain contained and medium- and long-term inflation expectations remain around 2 percent.</p> <p>Indicators of economic activity have deteriorated, in some cases more quickly than anticipated.</p> <p>Spare capacity in the economy is likely to dampen second-round inflationary pressure.</p>	<p>Anna Breman, Paul Conway, Carl Hansen and Karen Silk viewed risks as broadly balanced.</p> <p>Anna Breman noted that if demand remains weak, firms may have less ability to pass higher costs on to consumers and intelligence from recent business engagements point to divergence in ability to pass on cost increases.</p> <p>Paul Conway noted uncertainty around how quickly the recovery will broaden beyond currently strong sectors and regions.</p> <p>Several members observed that household consumption and investment remain weak, reflecting caution and the lingering effects of repeated shocks.</p>

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