Reserve Bank of New Zealand
Te Pūtea Matua

Finding Signal in the Inflation Noise

Oil shocks, price setting, and the path back to 2 percent inflation

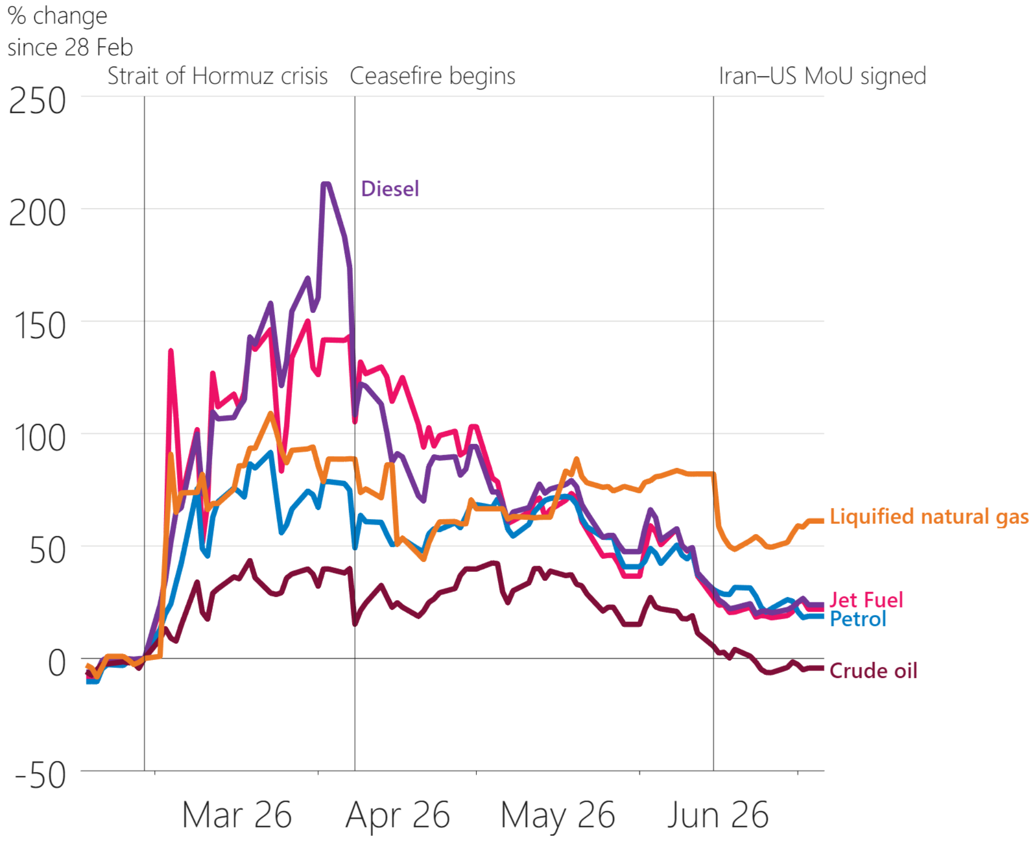
14th July 2026

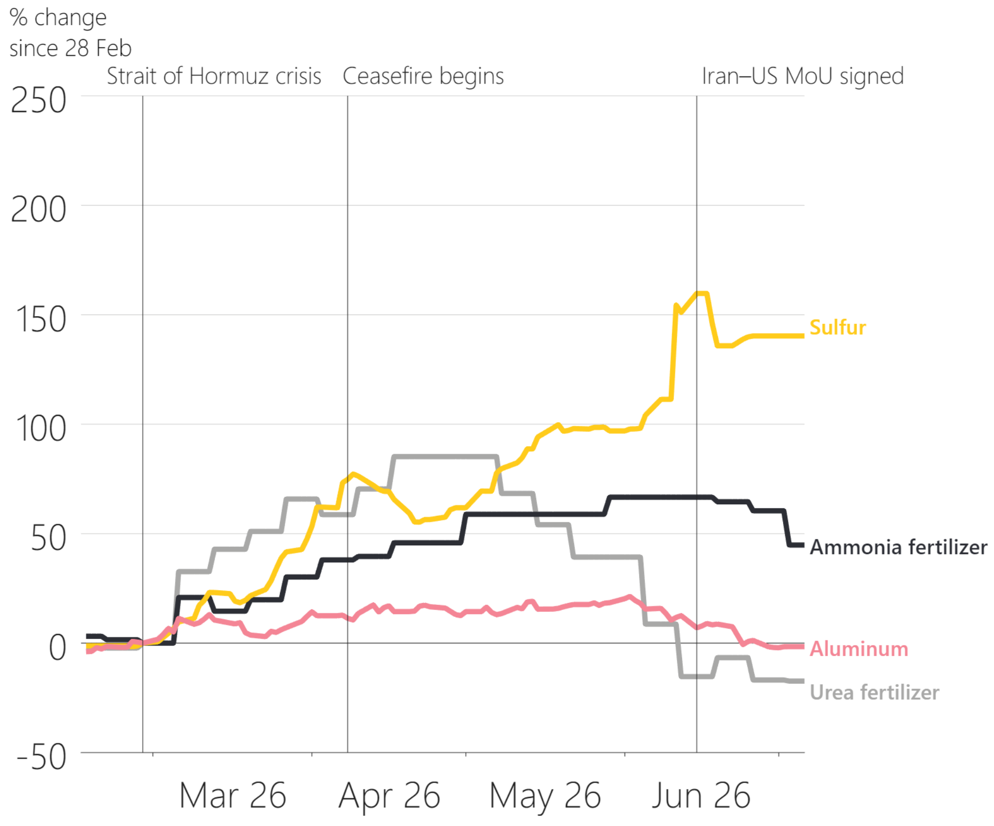
Key messages

- Shocks matter, context matters, but behaviour determines persistence
- High inflation changes attention and pricing behaviour
- Monetary policy needs to keep adapting its toolkit
- Policy cannot offset the real-income hit, but can prevent persistence

The current shock in context

Commodity prices have surged, but the disruption is (was?) easing.



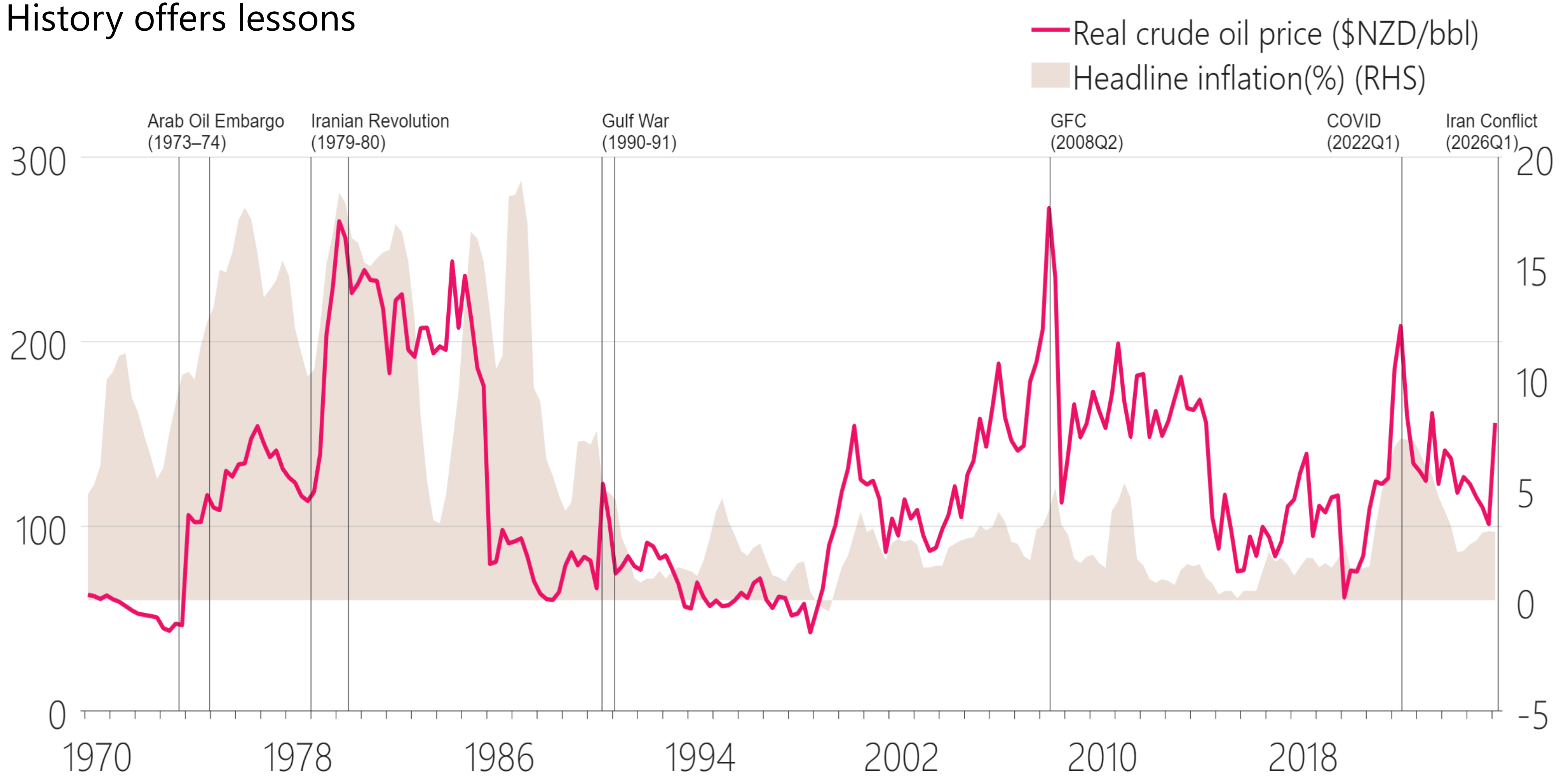


Commodity price changes since 28th February (Pre-conflict)

Sources: Bloomberg

The current shock in context

History offers lessons



Inflation and oil prices since 1970

Source: Federal Reserve Bank of St Louis & RBNZ

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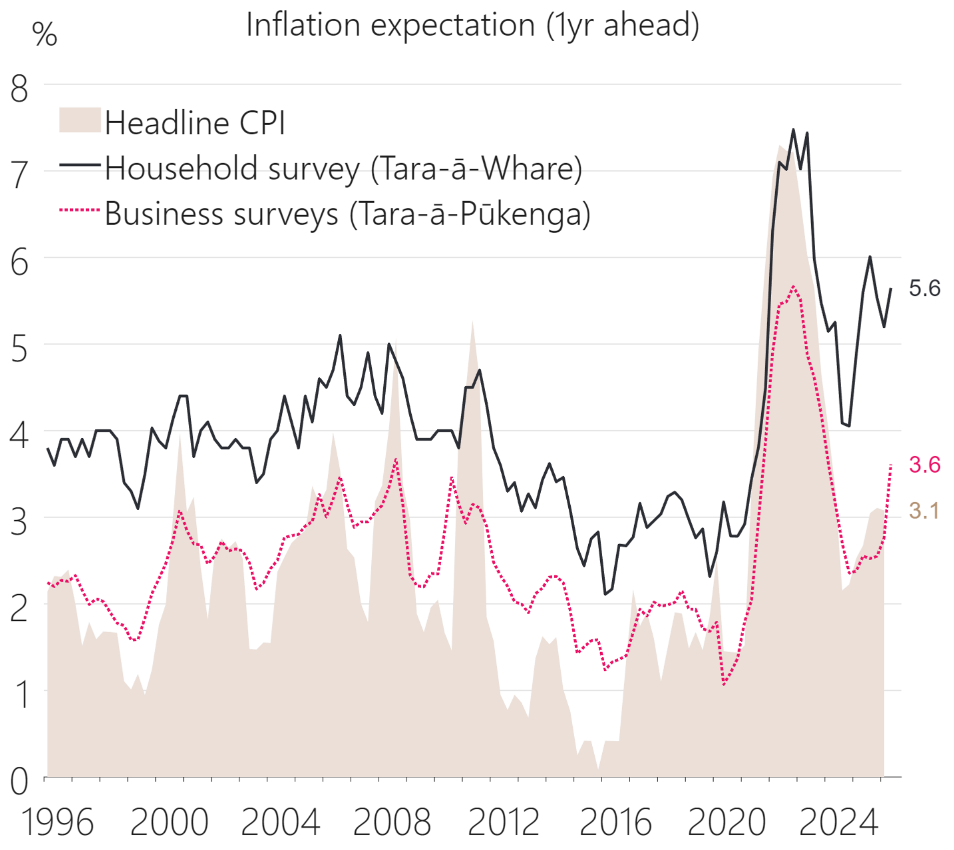
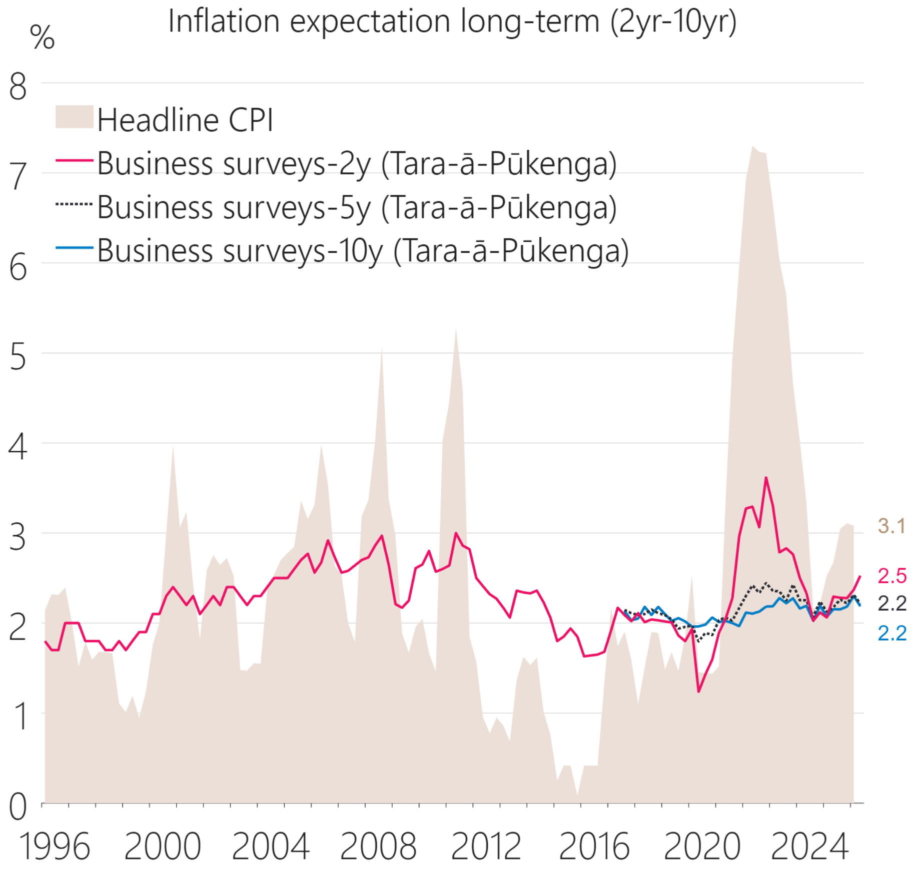
INFLATION EXPECTATIONS

Inflation expectations in NZ

Longer-term expectations remain much more stable than short-run expectations.

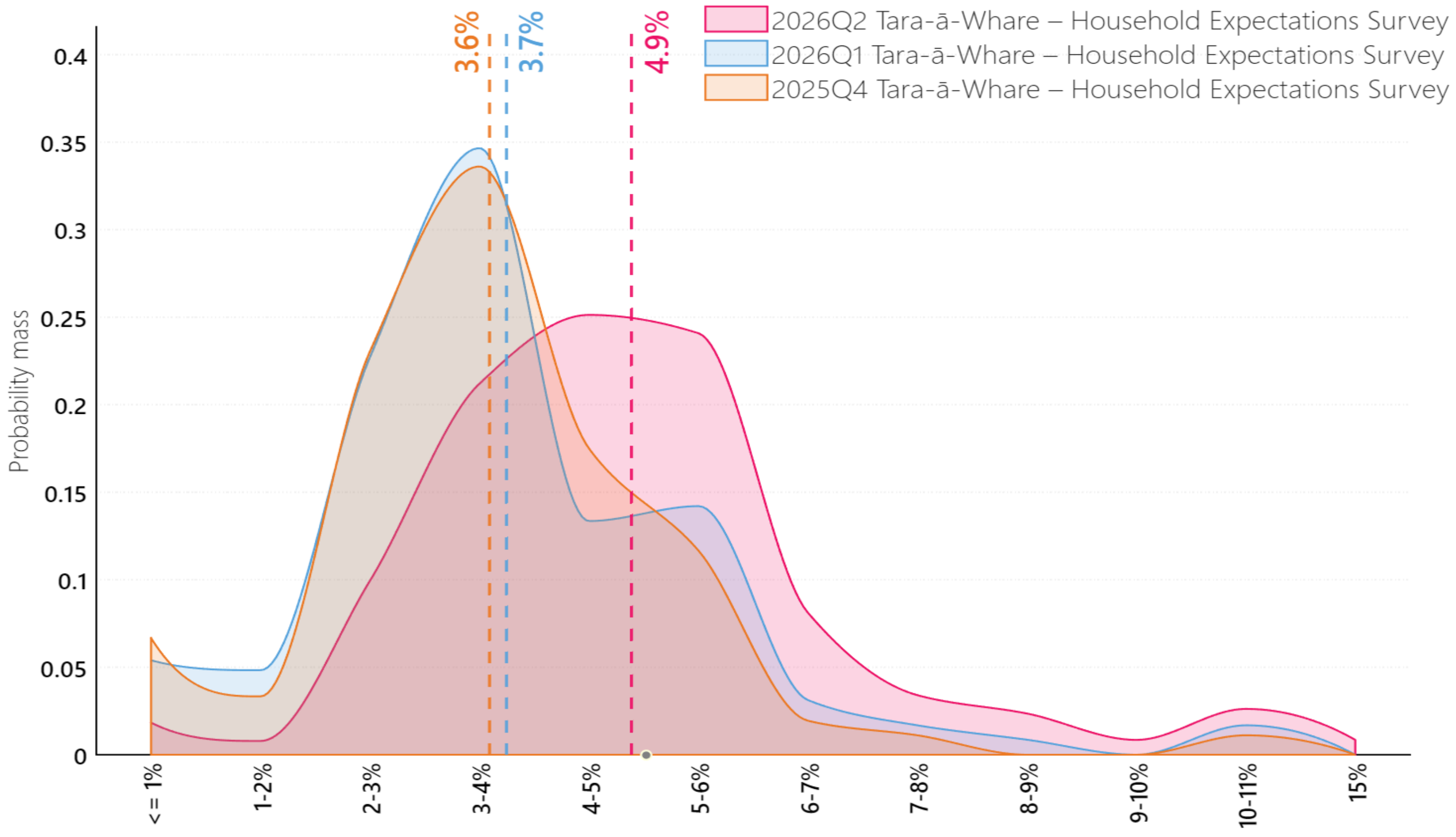




Source: RBNZ

Inflation expectations in NZ

Expectations have shifted higher and become more dispersed.



Distributions of household inflation expectations

Source: RBNZ

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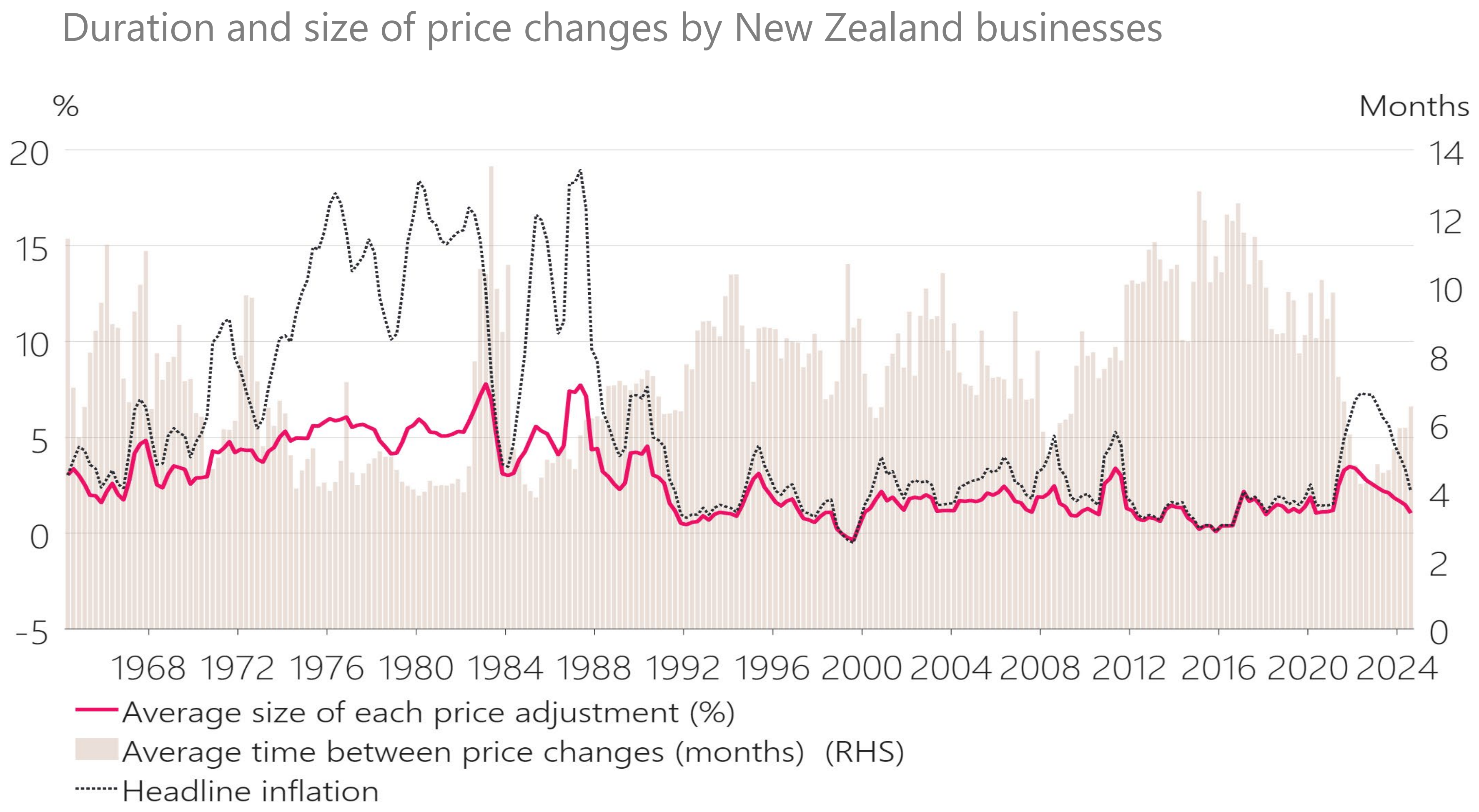
PRICE SETTING BEHAVIOUR

Price setting by firms

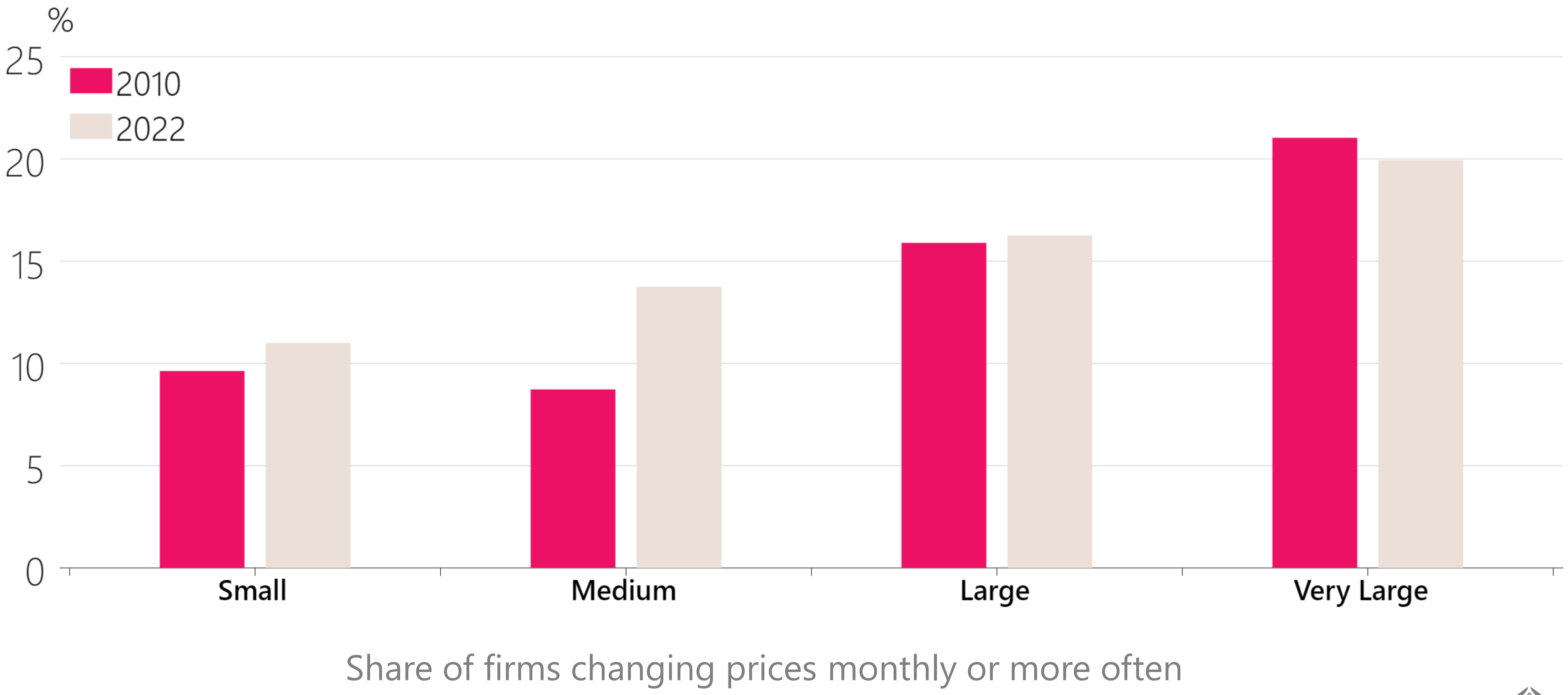
Price changes became more frequent over COVID



Source: RBNZ- Buckle, Ryan and Song (2026)

Price setting by firms

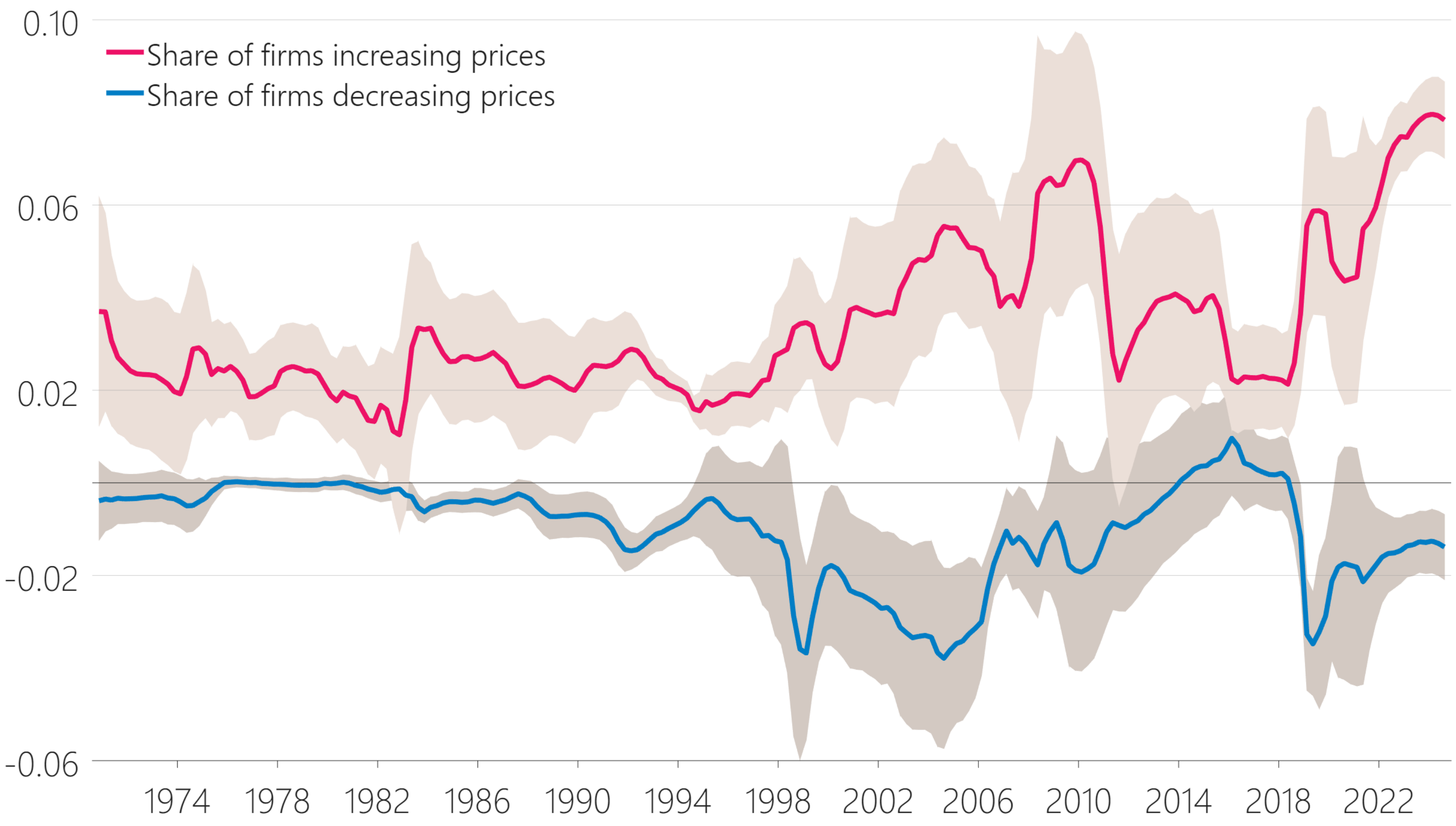
Larger firms change prices more frequently.



Source: RBNZ, Stannard, Chen & Ludvich (forthcoming)

Price setting by firms

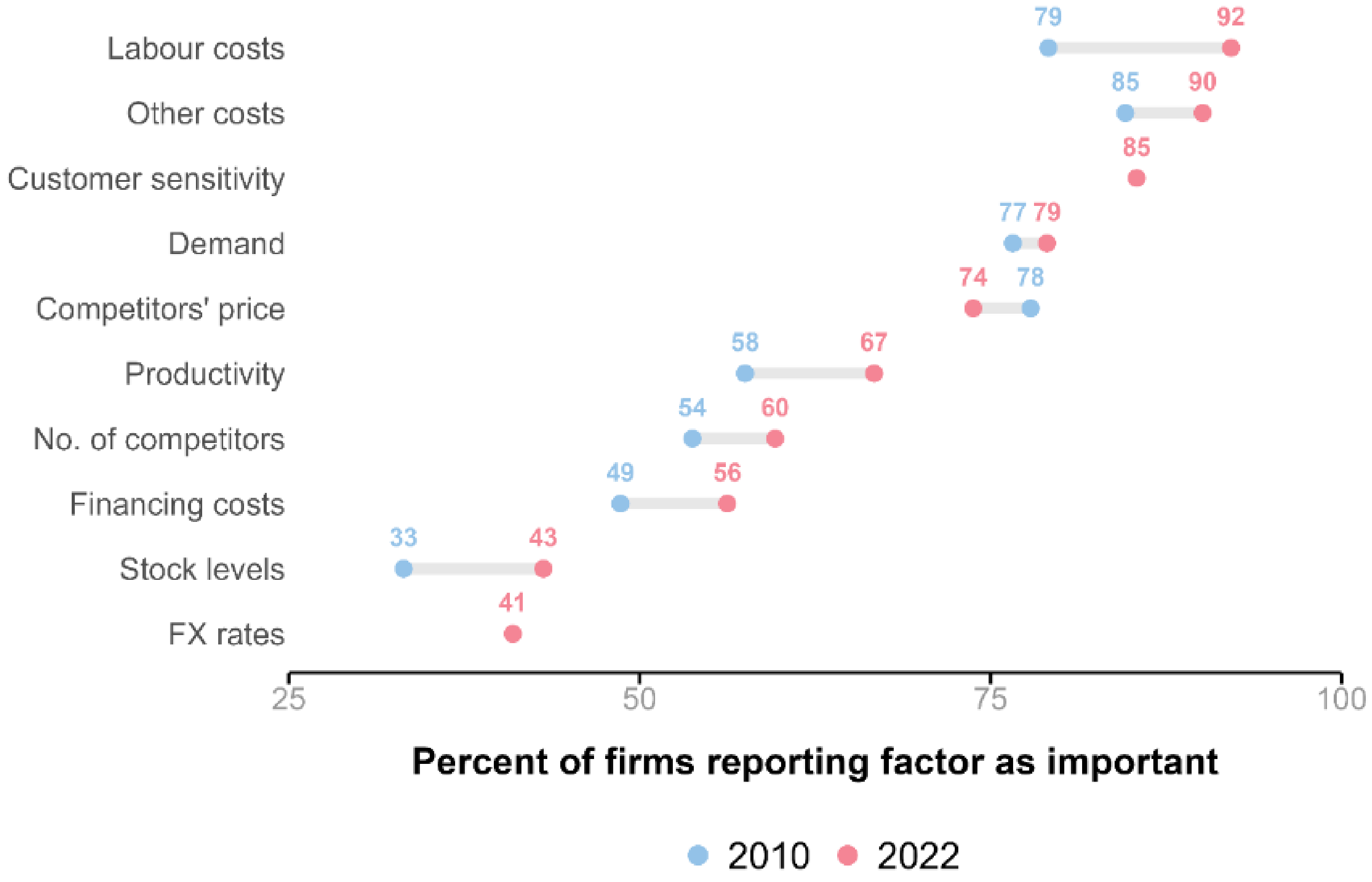
Firms are quicker to raise prices than to cut them



Source: RBNZ- Buckle, Ryan and Song (2026)

Price setting by firms

Labour and input costs dominate pricing decisions.



Source: RBNZ, Stannard, Chen & Ludvich (forthcoming)

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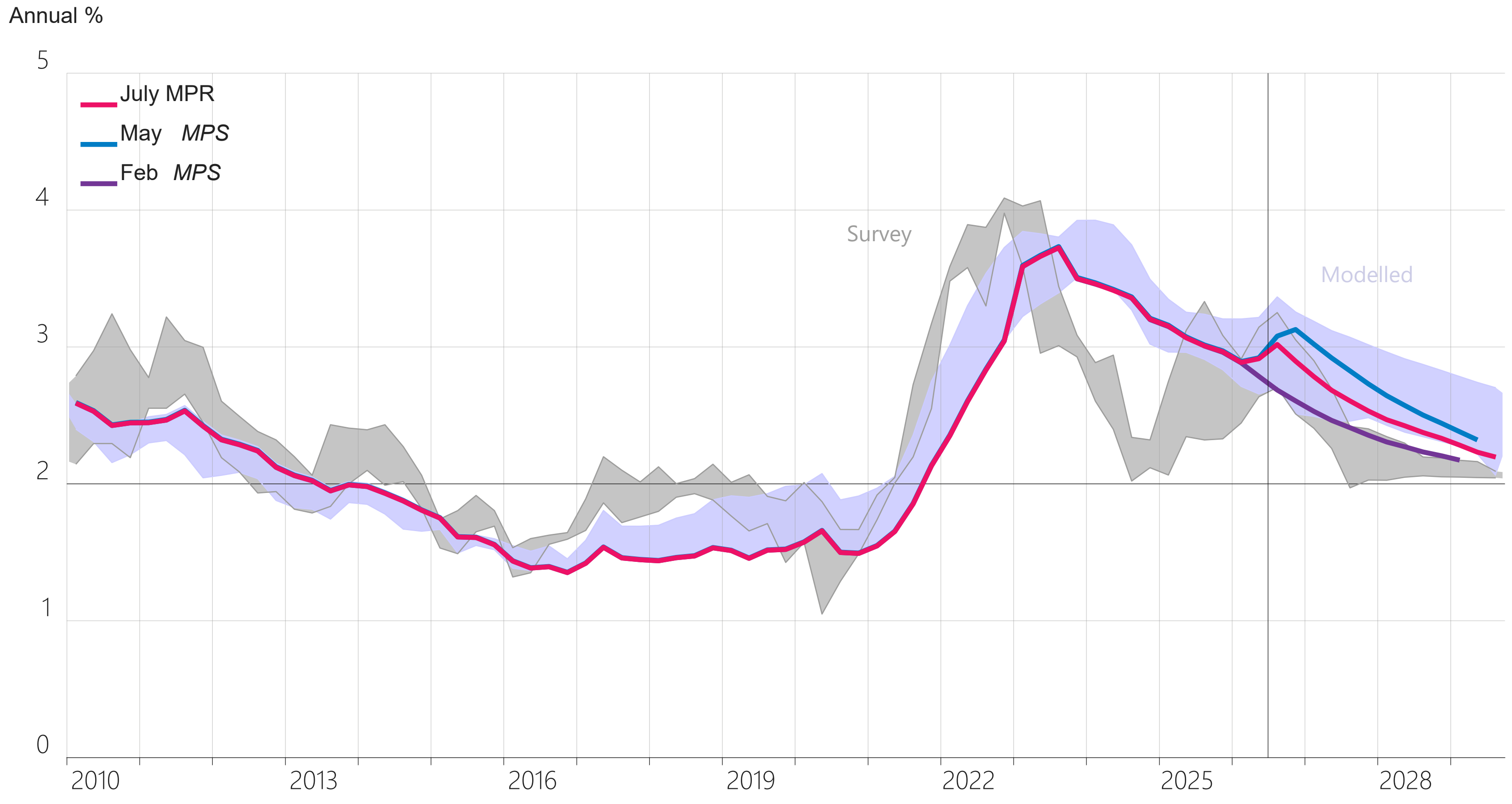
POLICY IMPLICATIONS

Implications for forecasting inflation

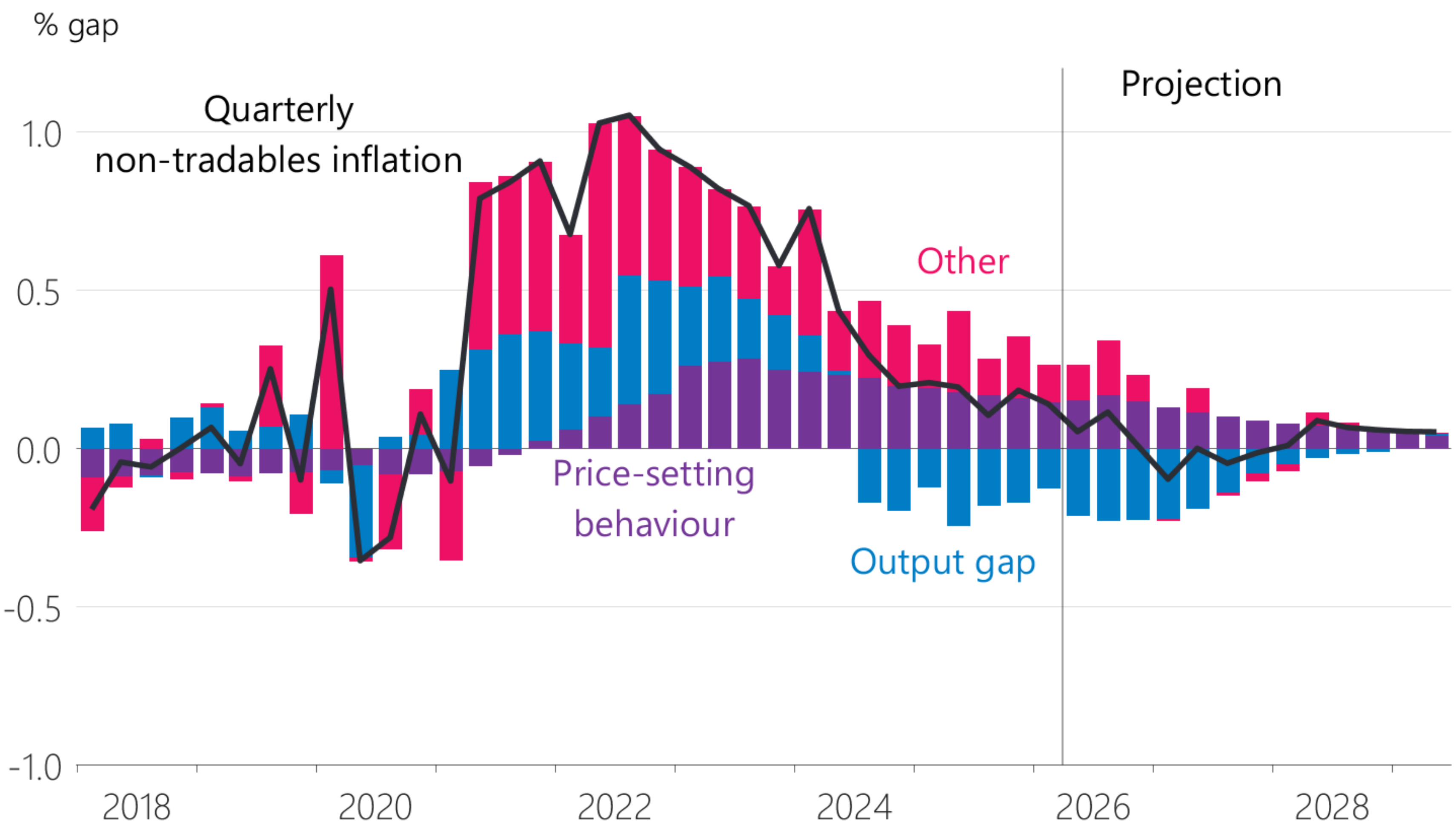
The best measures of price setting behaviour change through time



Price-setting behaviour

Source: RBNZ May MPS 2026

Implications for monetary policy



Source: RBNZ May MPS 2026

Conclusion

- Higher oil prices make New Zealand poorer
- Monetary policy can stop a temporary cost shock from becoming persistent inflation
- Anchoring inflation expectations at 2% is key
- If inflation becomes embedded, monetary policy will have to respond