

NEW ZEALAND OIL PRICE SHOCK RESPONSE

Monetary Policy Implications

Submitted to: Monetary Policy Committee, Reserve Bank of New Zealand

The Treasury - Te Tai Ōhanga

Hon. Nicola Willis, Minister of Finance

Ahead of the 8 April 2026 OCR Review

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Kieran Trass

Head of Market Research, Staircase Financial Management Ltd

kierant@staircase.co.nz | 021 0831 5285

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EXECUTIVE SUMMARY

The Strait of Hormuz crisis (commencing 28 February 2026) has pushed Brent crude from approximately US\$71 to above US\$100, peaking at US\$126. For New Zealand, this is **primarily a contractionary shock**, raising consumer prices while simultaneously compressing real incomes, eroding business margins, and weakening confidence. The economy enters this shock with an output gap of approximately –1.5 percent of potential GDP, unemployment at 5.4 percent, and well anchored inflation expectations of 2.37 percent. Core and demand driven inflation is already on a declining path toward the 2 percent midpoint.

A critical analytical distinction underpins this paper: the Reserve Bank's mandate is to control **demand driven inflation**. Oil price shocks are a supply side cost push event. Applying the OCR to fight oil driven CPI would compound the contractionary effect without reducing the price of oil by a single cent. The instrument does not match the transmission channel.

This paper sets out the case for a coordinated response using monetary, macroprudential, and fiscal instruments, each targeted at the transmission channel it is best suited to address. It examines the nature of the shock, the current macroeconomic conditions that favour a monetary offset, the housing channel risks and how they should be managed, and the complementary fiscal measures that would reinforce the monetary response. A consolidated set of recommendations follows the detailed analysis.

1. The Nature of the Shock

1.1 What Has Happened

The Strait of Hormuz crisis beginning 28 February 2026 disrupted a transit route through which approximately 20 percent of global oil supply passes. Brent crude rose from approximately US\$71 per barrel to above US\$100, peaking at US\$126. This has translated directly into New Zealand petrol prices rising 45 to 50 cents per litre and diesel up approximately 72 cents per litre. Tanker traffic through the Strait collapsed from approximately 138 vessels per day to a trickle, and the International Energy Agency authorised the release of 400 million barrels from emergency reserves, the largest coordinated drawdown in its history. Goldman Sachs has indicated Brent could reach US\$147 per barrel if the Strait remains closed, while the futures market prices oil at US\$86 in six months, illustrating the range of uncertainty facing policymakers.

For New Zealand, this is primarily a contractionary shock. Petrol accounts for roughly 3.5 percent of the CPI basket. A sustained rise in pump prices flows directly into household budgets, compresses discretionary spending, and drags on the fragile domestic recovery now beginning to take hold. Headline inflation may temporarily rise, but the underlying impulse is deflationary in its second round effects: weaker demand, softer hiring intentions, and deferred business investment.

1.2 Supply Side vs. Demand Side Inflation: A Fundamental Distinction

This distinction is the analytical heart of the paper. The Reserve Bank's mandate is to maintain price stability by controlling demand driven inflation, inflation that arises when spending in the economy exceeds productive capacity, causing businesses to raise prices because buyers will pay them. The OCR works by raising the cost of credit, reducing borrowing and spending, and therefore reducing demand pressure on prices.

Oil price shocks are categorically different. They are supply side cost push events: the price of a critical input rises, increasing costs across the economy, reducing real incomes, and compressing margins - all of which are contractionary, not expansionary, forces. The CPI rises not because demand is excessive, but because costs have increased. Raising the OCR in response to this kind of inflation would:

- Reduce household and business spending through higher credit costs - compounding the income compression already caused by higher fuel prices
- Weaken investment and employment - adding a financial squeeze on top of a cost squeeze
- Do nothing to reduce the price of oil - the transmission channel simply does not connect

The historical precedent is instructive: central banks that tightened into the 1973 and 1979 oil shocks deepened the recessions that followed, because they treated a supply shock as if it were a demand problem. The lesson from those episodes has been widely absorbed in modern monetary policy frameworks - supply side shocks should be looked through, not fought.

This paper does not propose fuel subsidies, price caps, or taxpayer funded energy substitution projects. As the New Zealand Initiative has argued, such measures suppress the price signals households and businesses need to adjust, and the historical record - 1973's "borrow and hope" and 1979's Think Big - confirms they defer pain rather than reduce it ([Wilkinson, NZ Herald, 26 March 2026](#)).

The proposal here operates through a different channel entirely: using the OCR to offset the contractionary demand effect of the shock, while macroprudential settings prevent cheaper credit from flowing into speculative housing. Price signals remain intact.

1.3 The Administered Price Complication

A second source of headline CPI overshoot is also supply side and also unresponsive to the OCR. Administered prices - council rates, electricity, and insurance - were running at 8.7 percent annual inflation as at December 2025. These components are entirely insensitive to OCR movements. The Reserve Bank cannot lower council rates by raising borrowing costs. Tightening monetary policy to address administered price inflation would impose real economic costs while achieving no reduction in those prices.

When administered prices and oil are disaggregated, the residual demand driven core - the only component the OCR can actually influence - is already tracking within or near the target band and declining.

2. Current Macroeconomic Conditions Favour a Monetary Offset

The New Zealand economy enters this shock with material spare capacity. The Reserve Bank's February 2026 Monetary Policy Statement identified an output gap of roughly -1.5 percent of potential GDP, unemployment at 5.4 percent, subdued wage growth, and core inflation within the 1 to 3 percent target band. Two year inflation expectations from the RBNZ's Survey of Expectations stand at 2.37 percent, well anchored near the midpoint target. Business and consumer confidence have only recently begun to improve, with the NZIER's January 2026 Quarterly Survey of Business Opinion showing tentative lifts in hiring and investment intentions.

The Reserve Bank's own Chief Economist, Paul Conway, reinforced the broader cost of living context in a speech on 25 March 2026. Conway noted that overall prices in New Zealand have risen 26 percent since the start of the pandemic, that real wages are only roughly 6 percent above pre-COVID levels, and that the purchasing power of New Zealand incomes sits approximately 20 percent below the average of the higher-income OECD economies we typically compare ourselves to. Critically, Conway stated that monetary policy "cannot solve New Zealand's cost-of-living crisis" and "does not create prosperity directly" but rather "creates the conditions in which prosperity can endure." He confirmed the MPC would be reassessing the inflation outlook at its April Monetary Policy Review in light of the Middle East conflict. This assessment from within the RBNZ supports the central argument of this paper: the dominant risk is contractionary, not inflationary, and the appropriate monetary response is to cushion demand rather than suppress it.

These are the conditions in which the Remit's flexibility provisions should be exercised. The MPC's mandate is to maintain price stability *over the medium term*, while minimising unnecessary instability in output, interest rates, and the exchange rate.

A rigid hold despite a large external supply shock, when spare capacity is significant, wages are contained, and expectations are anchored, would prioritise a near term headline number over the medium term trajectory of the real economy. The greater policy error in present conditions is inaction, not pre-emption.

2.1 The Inflation Fighting Objection Addressed

The de-anchoring objection deserves a direct answer. Three points respond to it:

First, inflation expectations in New Zealand are currently anchored at 2.37 percent, well within the band and not rising. De-anchoring risk is a concern when expectations begin drifting. They are not drifting. A time limited, supply side driven overshoot, clearly communicated as such, does not require a monetary policy response if expectations remain anchored.

Second, the RBNZ's own projections confirm that core, demand driven inflation is already converging to the 2 percent midpoint independently. The oil shock is a transitory overlay on an otherwise normalising inflation profile. Responding to the overlay with OCR tightening would be fighting the wrong battle at the wrong time.

Third, the asymmetry of risks at present is firmly toward the downside. With an output gap of -1.5 percent and unemployment at 5.4 percent, the cost of overtightening - needlessly extending the output gap and raising unemployment further - is substantially larger than the cost of allowing a transitory supply shock to pass through CPI while maintaining a supportive monetary stance.

3. Recommendation: A Phased OCR Reduction

As counter intuitive as it may first appear in light of the case for supporting the domestic economy through this trying time I recommend the Monetary Policy Committee deliver an initial 25 basis point OCR reduction on 8 April 2026, bringing the rate to 2.00 percent. The Committee should simultaneously signal that further cumulative easing could follow at subsequent reviews if three conditions hold: oil prices remain materially elevated (Brent sustained above US\$95); domestic demand indicators continue to weaken; and medium term inflation expectations remain anchored broadly consistent with the 2 percent midpoint target.

This is not a call for unconditional easing. It is an argument for forward guidance that makes the OCR path conditional on observable data. The Reserve Bank would be communicating that it recognises the dominant risk from this shock is a deeper growth slowdown and a worsening cost of living squeeze, not an overheating domestic economy.

The OCR has already been reduced nine times since August 2024, from 5.50 percent to 2.25 percent, because the Bank judged that inflation was returning to target and the economy needed support. The oil shock does not invalidate that assessment. It reinforces the need for continued support by adding a further contractionary force to an already soft economy.

4. Managing the Housing Channel

This is the paper's central design principle. Monetary easing through the OCR, combined with simultaneous macroprudential tightening for investors, allows the Committee to support the productive economy without providing the speculative housing market with cheaper fuel. The two instruments are independently calibratable - there is no analytical reason they must move in the same direction.

The Reserve Bank already has the tools and the framework. Current settings, effective since 1 December 2025, permit 25 percent of owner occupier lending above 80 percent LVR and 10 percent of investor lending above 70 percent LVR. DTI settings allow 20 percent of owner occupier lending above a DTI of 6 and 20 percent of investor lending above a DTI of 7. These thresholds are designed as guardrails that the Bank can tighten when risks shift.

A concurrent OCR cut warrants exactly such a shift, applied to both investors and, to a lesser degree, owner occupiers.

4.1 Temporary Investor Specific Tightening

Investor LVR: Reduce the investor LVR speed limit so that only a minimal share (no more than 5 percent) of new investor lending can be written above a 50 to 60 percent LVR. In practice, this means requiring a 40 to 50 percent deposit for almost all investor purchases of

existing housing stock. This is a meaningful tightening from the current 70 percent threshold with a 10 percent speed limit.

Investor DTI: Reduce the investor DTI threshold from 7 to 5 or 6, with the speed limit above that threshold reduced to no more than 5 to 10 percent. This constrains the total quantum of debt investors can take on relative to income, limiting the amplification effect of leveraged property speculation even where a large deposit is available.

4.2 Prudent Owner Occupier Adjustment

Owner occupiers should not be left entirely unguarded. The RBNZ's own consultation documents note that owner occupiers tend to experience financial stress at lower DTI ratios than investors. In a falling rate environment, there is a real risk that households stretch into debt levels that appear serviceable at temporarily low rates but become painful once inflation passes through and interest rates normalise. The recent cycle demonstrated this clearly: households that borrowed heavily during the low rate period of 2020 and 2021 faced severe servicing pressure when the OCR rose sharply from 2022.

I therefore recommend a modest tightening of the owner occupier DTI threshold from 6 to 5, while holding the speed limit at 20 percent. This would still allow a meaningful share of higher DTI lending for borrowers with strong individual circumstances, but it would reduce the tail risk of households entering debt commitments they cannot sustain once conditions normalise. Owner occupier LVR settings should remain at their current levels, as the 80 percent LVR threshold with a 25 percent speed limit already provides reasonable protection.

The logic is straightforward: if the purpose of cutting the OCR is to support household spending and business confidence, allowing a cohort of households to overcommit at the bottom of the rate cycle would ultimately undermine that objective. A modest DTI tightening for owner occupiers complements the more substantial investor restrictions and protects the very households the OCR cut is intended to help.

4.3 Essential Supply Side Exemptions

Any temporary tightening of macroprudential settings must preserve and, where necessary, extend the existing exemptions that protect housing supply. This is not a technical footnote. It goes to the heart of the economic contribution that residential property investors make.

Recent independent research by Infometrics, commissioned by the New Zealand Property Investors Federation (March 2026), provides the first rigorous quantification of this contribution. Using input output multiplier analysis based on the Stats NZ National Accounts, Infometrics estimates that private residential property investors directly or indirectly contributed \$24.8 billion in GDP to the New Zealand economy in the year to March 2024, equivalent to 5.9 percent of total GDP. Through this activity, residential property investors sustained an estimated 126,000 full time equivalent jobs, or 5.0 percent of all FTE.

The Infometrics analysis breaks that contribution into two channels. Investor spending on maintenance and improvement of existing properties contributed \$15.3 billion in GDP and sustained 43,100 FTE jobs. Investor spending on new builds contributed \$13.6 billion in GDP and sustained 103,400 FTE jobs.

The employment effect of new construction is disproportionately large because the residential building and construction services industries are highly labour intensive. These 103,400 jobs are spread across at least 20 industries, including residential building construction, construction services, wood product manufacturing, fabricated metal product manufacturing, scientific and engineering services, and food and beverage services.

The policy implication is direct. If macroprudential tightening inadvertently restricts investor lending for new builds, the employment and GDP consequences would be severe and broad based.

The following exemptions are therefore essential:

New builds. Construction lending and lending for newly built dwellings should remain fully exempt from the tighter LVR and DTI settings for both investors and owner occupiers. New construction adds net housing stock, alleviates medium term rent and price pressure, supports employment across the construction supply chain, and contributes materially to GDP. Restricting it would be counterproductive, particularly when the Infometrics data shows that new build investment by property investors alone sustains more than 100,000 FTE jobs across the economy.

Social and community housing. Lending associated with Kāinga Ora programmes, registered community housing providers, and qualifying affordable housing developments that add net new supply should likewise be exempt. If the State is to avoid carrying a significantly larger direct social housing provision burden, private and community sector investment in this space must not be choked off by macroprudential tightening.

These exemptions are consistent with the existing framework. The RBNZ's current policy already exempts construction loans, newly built homes, Kāinga Ora loans, refinancing, portability, bridging finance, and remediation lending. Extending the same logic to the tighter temporary settings is straightforward.

The tighter settings apply only to purchases of *existing* housing stock. This is where speculative demand concentrates and where the risk of cheaper credit inflating asset prices is greatest. The Infometrics data confirms that the economic multiplier from maintenance and improvement spending (\$4.1 billion of investor spend generating \$15.3 billion in GDP) is actually higher per dollar than from new builds (\$10.7 billion generating \$13.6 billion), because maintenance and improvement work is more profitable for the businesses involved. Even within the existing stock channel, property investors generate real economic activity and employment, but the macroprudential guardrails should still apply to prevent leveraged demand from running ahead of fundamentals.

4.4 Summary of Recommended Macroprudential Settings

The following table summarises the current and recommended temporary macroprudential settings. All recommended changes are temporary and conditional on data, with formal review at each Monetary Policy Statement.

Setting	Current	Recommended	Direction
Investor Settings			
LVR threshold	70%	50–60%	▼ Tighter
LVR speed limit	10%	5%	▼ Tighter
DTI threshold	7	5–6	▼ Tighter
DTI speed limit	20%	5–10%	▼ Tighter
Owner Occupier Settings			
LVR threshold	80%	80%	- Unchanged
LVR speed limit	25%	25%	- Unchanged
DTI threshold	6	5	▼ Modest
DTI speed limit	20%	20%	- Unchanged
Exemptions (Both Borrower Classes)			
New builds	Exempt	Exempt	✓ Preserved
Kāinga Ora / social housing	Exempt	Exempt	✓ Preserved
Construction loans	Exempt	Exempt	✓ Preserved
Refinancing / portability / bridging	Exempt	Exempt	✓ Preserved

Current LVR settings effective 1 December 2025. Current DTI settings effective 1 July 2024. "Threshold" = the LVR or DTI ratio above which lending counts toward the speed limit. "Speed limit" = the maximum share of a bank's new lending allowed above the threshold.

Consolidated Recommendations at a Glance

The following table brings together the monetary, macroprudential, and fiscal recommendations set out in this paper.

Policy Lever	Recommendation	Rationale
OCR	Cut 25bp to 2.00% on 8 April 2026	Offset contractionary supply shock; spare capacity, anchored expectations, demand inflation declining
Investor LVR	Tighten to 50–60% (from 70%)	Prevent cheaper credit fuelling speculative demand in existing housing stock
Investor DTI	Tighten to 5–6 (from 7)	Limit leveraged speculation even where large deposits available
Owner Occupier DTI	Modest tightening to 5 (from 6)	Prevent households over committing at the bottom of the rate cycle
New Builds / Social	All exemptions preserved	Protect the 103,400 FTE jobs sustained by new build investment
Fuel Excise	Temporary reduction; Brent sunset US\$85	Direct, immediate pump price relief for households and freight
Cost of Living	Targeted via WFF / Accommodation Supplement	Cushion demand compression for lower income households
Construction	Accelerated depreciation for new builds	Maintain supply pipeline during tighter credit period

Green = easing/preserved | Red = tightening | Amber = modest tightening | Blue = fiscal support

5. Supporting Measures for the Reserve Bank

Several steps would strengthen the effectiveness of this approach:

Temporality and review. Both the OCR easing path and the macroprudential tightening should be framed as temporary, targeted, and conditional on data, with a formal review at each Monetary Policy Statement. The Bank should publish the indicators it will use to govern both further easing and the eventual rollback of restrictions. This transparency anchors expectations and reduces the risk of policy surprises.

Clear communication. The MPC should explain directly that it is looking through a temporary headline inflation spike caused by an imported supply shock, while acting to prevent the contractionary second round effects from deepening the output gap. This is consistent with the flexible inflation targeting framework and with the Bank’s own language in the February 2026 MPS, which noted that inflation was expected to fall back toward the midpoint over the next 12 months.

Mortgage pass through monitoring. The RBNZ's own research indicates that a 100 basis point OCR reduction typically flows through to two year fixed mortgage rates by approximately 34 basis points within one month, with the peak effect at around six months. The Bank should monitor retail mortgage rate transmission closely and be prepared to use public commentary if banks fail to pass through the OCR reduction.

6. Complementary Fiscal Measures

Addressed to the Treasury and the Minister of Finance

We note that Treasury's Chief Strategist, Struan Little, in his speech to the 2026 New Zealand Capital Markets Forum on 19 March 2026, acknowledged the considerable economic uncertainty created by the Iran conflict. Treasury's own scenario modelling estimates that at oil prices around US\$100 a barrel, the CPI impact would be roughly 0.5 percentage points, and that growth would continue this year but below the baseline forecast. Little also noted that the economy had entered a growth phase, with 0.2 percent GDP growth in the December quarter, positive employment growth of 15,000 additional workers, rising dwelling consents, and improving business confidence. This is the fragile recovery our submission argues must be protected, not left exposed to the full force of an imported energy shock.

The fiscal measures proposed below are consistent with Treasury's own stated principle that shock responses should be timely, temporary and targeted, and with its emphasis on "bending the productivity curve up" through higher capital intensity and investment. The Infometrics data demonstrates that residential property investment contributes \$24.8 billion in GDP and sustains 126,000 jobs, and the proposed construction incentives mirror the logic of the Government's own Investment Boost policy, which Treasury recommended and which reduces effective tax rates on new capital investment. We are mindful of Treasury's concern about fiscal sustainability and the need to bend the debt curve down. Our fiscal proposals are designed to be self-extinguishing: the fuel excise reduction has a Brent price sunset trigger, the cost of living transfers are one off, and the construction incentives are temporary.

Monetary policy alone cannot absorb a shock of this magnitude without placing an unreasonable burden on a single instrument. The oil price spike is, in essence, an imported cost shock that directly affects household budgets, transport costs, and business input prices. Fiscal policy has tools that can address these transmission channels more quickly and more precisely than interest rate adjustments.

This submission respectfully invites the Treasury and the Minister of Finance to consider the following measures, which would reinforce the monetary and macroprudential adjustments recommended to the Reserve Bank:

Temporary fuel excise reduction or rebate. A targeted, time limited reduction in fuel excise duty would flow through to pump prices almost immediately, providing direct and

visible relief to households and transport dependent businesses. This is the fastest fiscal channel for offsetting the oil shock hit to disposable income. The measure should be explicitly temporary, with a sunset clause tied to a Brent price trigger (for example, reinstatement once the 20 day Brent average falls durably below US\$85).

Targeted cost of living support. The Government's 25 March announcement of a temporary \$50-per-week boost to the in-work tax credit for approximately 150,000 low-to-middle-income working families is a welcome and well-targeted first step. Delivered through the existing Working for Families infrastructure, with a petrol-price sunset trigger (91 octane below \$3/litre for four consecutive weeks) and funded within the operating allowance at an estimated cost of \$373 million, the measure is consistent with the principles this paper advocates: timely, temporary, targeted, and non-inflationary. The design also validates the channel this submission recommends - using existing transfer infrastructure rather than broad-based subsidies. We note, however, that the package is limited to working families with children and does not extend to superannuitants, beneficiaries, or single-income households without dependants who face the same fuel cost pressures. If oil prices remain elevated, a broader but still targeted measure may be warranted.

Accelerated depreciation or investment allowances for construction. If the macroprudential tightening recommended in Section 4 slows investor activity in existing housing stock, new build investment must remain attractive. A temporary accelerated depreciation allowance or investment incentive for residential new builds would complement the RBNZ's new build exemption and reinforce the supply side objective. The Infometrics data showing that new build investment by property investors sustains 103,400 FTE jobs across more than 20 industries makes the case for protecting this channel a fiscal priority as well as a monetary one.

Public communication of coordinated intent. The most powerful fiscal contribution may be a clear public signal that the Government and the Reserve Bank are aligned in recognising the oil shock as primarily a contractionary supply disruption, and that both arms of policy are oriented toward cushioning the domestic impact. Coordinated communication, even without formal joint action, would reinforce business and consumer confidence and reduce the risk that the shock triggers a self-reinforcing decline in spending and investment.

These fiscal measures complement the monetary and macroprudential adjustments in Sections 3 and 4. Together, they protect household budgets, maintain the private rental investment pipeline, and ensure that the construction sector-and the mum-and-dad investors who drive much of its activity-is not left exposed to the full force of an imported shock that monetary policy alone cannot absorb.

7. Metrics for Returning to Default Settings

The temporary macroprudential tightening and the OCR easing path should be governed by clear, observable indicators. The following metrics should be monitored at each MPS, with the macroprudential settings returning to their defaults and the OCR returning to its neutral trajectory once these conditions are durably met:

Oil prices. A sustained return of the 20 day Brent average below US\$85, indicating that the supply disruption has materially eased and the imported cost shock is abating.

Inflation expectations. Two year inflation expectations (RBNZ Survey of Expectations) remaining at or below 2.5 percent, confirming that medium term price expectations have not de anchored.

Core inflation. Trimmed mean and weighted median measures of CPI inflation returning within the 1 to 3 percent band and trending toward 2 percent.

Labour market. Unemployment stabilising or declining from its current 5.4 percent level, with the output gap narrowing as spare capacity is absorbed.

Housing credit and prices. Investor and owner occupier credit growth remaining moderate and house price inflation remaining within the Bank's range of sustainable estimates. If credit or prices accelerate despite tighter settings, the guardrails should be tightened further before being eased.

Exchange rate. The NZD trade-weighted index remaining broadly consistent with the RBNZ's current assumption of approximately 68. A material deterioration toward 64 to 66 would amplify the imported inflation shock and may warrant pausing further OCR easing.

8. Consequences of Inaction

If the OCR is held at 2.25 percent, macroprudential settings are left unchanged, and no fiscal support is provided while oil prices remain elevated, the likely outcomes include:

A deepening cost of living crisis. Households already under pressure from elevated mortgage servicing costs and subdued wage growth would face the additional burden of higher fuel and transport costs with no offsetting reduction in debt servicing. Consumer confidence, which has only recently begun to recover, would deteriorate.

A stalling business recovery. The tentative improvement in business hiring and investment intentions recorded in recent surveys would be unwound. Firms facing higher input costs and weakening demand would defer capital expenditure and reduce headcount, widening the output gap further.

A prolonged housing downturn with significant employment consequences. Mortgage rates, which have already risen despite OCR cuts as wholesale markets price in geopolitical risk, would remain elevated or rise further. Private rental investors—the 317,750 individuals, companies, and trusts who provide the majority of New Zealand’s rental housing—would face tighter cashflows, reduced willingness to hold stock, and weaker incentive to build. Turnover would stay depressed, construction activity would soften, and the mum-and-dad investors who sustain much of the residential building pipeline would pull back. The employment consequences in labour-intensive construction services would follow directly.

A harder eventual correction. Failing to cushion the shock early risks allowing a deeper deterioration in output and employment. This would likely require larger and more disruptive rate cuts later, at a point when the Bank’s credibility in managing a supply shock may already be under question.

Holding the line despite a large external supply shock, when the domestic economy is fragile, spare capacity is significant, and expectations are anchored, is not prudent caution. It is a choice to impose the full contractionary effect of imported energy prices on New Zealand households and businesses, with no offsetting support and no targeted safeguard against overborrowing.

9. Conclusion

The right response to a persistent oil price shock is not to force households and businesses to absorb the full contractionary effect of imported energy prices in the name of containing a temporary headline inflation spike. The better response uses all three available instruments: a measured, conditional reduction in the OCR to support aggregate demand; tighter investor specific and modestly tighter owner occupier LVR and DTI restrictions to prevent cheaper credit from fuelling overborrowing; and targeted fiscal measures to provide direct cost of living relief and protect supply side investment. Supply side exemptions for new builds and social housing preserve the construction pipeline and protect the private investors- predominantly mum-and-dad landlords-whose activity sustains rental supply, generates construction employment, and relieves the State of direct provision obligations it cannot afford to assume.

The overarching logic: the most effective response to a shock of this nature uses all available instruments, each targeted at the transmission channel it is best suited to address. The question is not whether oil prices are inflationary - they are, temporarily. The question is whether the OCR is the right instrument to respond, and the answer, in a small open economy with anchored expectations, a negative output gap, and demand inflation already returning to target, is no.

I urge the Monetary Policy Committee to begin the OCR adjustment at its 8 April 2026 review, and I invite the Treasury and the Minister of Finance to consider the complementary fiscal measures outlined in this submission as a matter of urgency.

Yours faithfully,



Kieran Trass

Head of Market Research, Staircase Financial Management Ltd

Ph: (09) 966-5560 | Mobile: (021) 0831-5285 | Email: kierant@staircase.co.nz

Appendix: Supporting evidence

Infometrics report *The Economic Contribution of Residential Property Investors* (March 2026), prepared for the New Zealand Property Investors Federation. Key findings referenced in this submission: \$24.8 billion GDP contribution (5.9% of total GDP); 126,000 FTE jobs sustained (5.0% of all FTE employment); \$10.7 billion of investor spending on new builds sustaining 103,400 FTE jobs; \$4.1 billion of investor spending on maintenance and improvement sustaining 43,100 FTE jobs; economic activity spread across all 109 industries in the Stats NZ classification.

Also referenced: Paul Conway, “Purchasing power and the real cost of living in New Zealand,” speech to the National Advisors Conference, Financial Advice New Zealand, 25 March 2026. Conway is the Reserve Bank’s Chief Economist, Director of Economics, and a member of the Monetary Policy Committee.

About the author. Kieran Trass is Head of Market Research at Staircase Financial Management Limited. He regularly featured in New Zealand media for property market and cycle analysis between 2002 and 2010. This series represents a return to independent policy commentary, grounded in official New Zealand data, RBNZ, OECD and IMF analysis, and peer-reviewed academic research. The work is not funded by or produced on behalf of any industry body, political party, or advocacy organisation.

Series note. *This is Paper one of a six-paper series on New Zealand monetary, fiscal, tax, and housing policy, developed in the first quarter of 2026. The companion papers are: (2) Housing, Capital Allocation, and Productivity (analytical thesis); (3) Capital Gains Tax, Interest Deductibility, and Loss Ringfencing (ministerial briefing); (4) Reducing Housing Subsidy Dependence (white paper); (5) Bridging the Deposit Gap - First Home Buyer Policy Architecture (white paper); (6) The Housing Compass - a System Performance Framework (white paper). An Integrated Thesis Summary synthesises findings across all six papers.*