

March 2023 Quarter CPI Preview

17 April 2023



This is not personal advice nor financial advice about any product or service. It does not take into account your financial situation or goals. Please refer to the Important Notice.



Contact

Miles Workman for more details.

Confused by acronyms or jargon? See a glossary [here](#).

The price is wrong

The bottom line

- We expect annual CPI inflation to remain steady at 7.2% in Q1 2023, a touch below the RBNZ's February MPS forecast of 7.3%.
- Underpinning that is an expectation that annual non-tradables inflation (aka domestic inflation) will accelerate from 6.6% in Q4 to 6.8%, and annual tradables inflation will slow from 8.2% to 7.4%.
- If our expectation is correct, annual non-tradable inflation will come in 0.3%pts below the RBNZ's February MPS forecast. However, we're not convinced a 'miss' this size will have much bearing on the RBNZ's broader strategy. Markets may disagree with this assessment on the day, but the RBNZ did signal a potential upgrade to their inflation outlook in the April Monetary Policy Review, owing to larger cyclone impacts and the potential for further fiscal expansion.
- Our forecast is for a follow-up 25bp OCR hike at the May MPS, taking the OCR to 5.5%, which appears to be the Committee's 'happy place', where they can 'watch, worry and wait'.

The view

Stats NZ will release CPI inflation figures for the March quarter next Thursday (20 April). We've pencilled in another painfully strong read of 1.7% q/q (7.2% y/y), led by food, housing and the usual Q1 increase in the excise duty on cigarettes and tobacco (the latter is indexed to inflation in the year to September, and that came in at a whopping 7.2% y/y).

For the RBNZ, non-tradable and core measures of inflation will be their primary concern, as both are at risk of being persistently too high to facilitate a sustained return of headline inflation to within the target band. That is, long after high global inflation (ie tradable) pressures have come down to earth, there is a real risk that domestic inflation proves sticky at high levels, potentially necessitating another round of rate hikes after the RBNZ has held the OCR at its 'watch, worry and wait' level for a few quarters (which they have signalled is 5.5%).

But sticky non-tradables appears to be a risk for later in the year (possibly 2024). Insofar as non-tradables inflation goes in Q1, the RBNZ's February MPS forecast of 1.9% q/q sets the hurdle to an upside surprise pretty high. We're certainly not ruling out the possibility of non-tradables coming in this strong, but our monitoring suggests it'll come in at 1.7% q/q (which is still around twice the pace of its 20-year average).

Should quarterly non-tradable inflation indeed come in 0.2%pts lower than the RBNZ's latest forecast, we're not convinced this can be interpreted as making a 25bp hike in May significantly less likely (although markets may disagree). It's worth remembering that the April Monetary Policy Review signalled that the RBNZ could be gearing up to revise their inflation outlook higher, hinting that cyclone impacts could be greater than they previously estimated – particularly if coupled with an unfunded increase in government spending. Further, while a downside surprise will certainly be welcomed by

Consumers Price Index – March 2023 Quarter

	Prev	ANZ	RBNZ
CPI – q/q	1.4%	1.7%	1.8%
CPI – y/y	7.2%	7.2%	7.3%
Tradable – q/q	1.4%	1.7%	1.7%
Tradable – y/y	8.2%	7.4%	7.4%
Non-tradable – q/q	1.5%	1.7%	1.9%
Non-tradable – y/y	6.6%	6.8%	7.1%

the RBNZ, non-tradable inflation at 1.7% q/q is still way too high to declare 'job done'. Annualised, 1.7% q/q is consistent with non-tradable inflation running at around 7%, which is pretty scary when you consider how sticky non-tradable inflation tends to be.

As we noted in [last week's Data Wrap](#), a lot still needs to go right from here before the RBNZ's OCR projection is consistent with a simple Taylor Rule: inflation and inflation expectations need to fall, and a negative output gap needs to open up. This all seems to be moving in the right direction, but inflation expectations are hardly in free fall, and the degree of stickiness in non-tradables inflation has plenty of scope to surprise later in the year.

Turning to the details, our expectation that quarterly inflation will come in at 1.7% is driven by:

- **A sharp rise in food prices.** Broadly, it's been a nasty cocktail for food prices, and there isn't much sign of this easing significantly in the near term. Extreme weather events, rising input costs, geopolitical tensions and ongoing labour shortages have all contributed to high food price inflation in recent quarters, with the monthly Food Price Index showing Q1 was no exception: food prices were up 3.3% in the three months to March (3mma basis), and we anticipate this will add 0.7ppt to quarterly CPI inflation.
- **Housing-related costs** are likely to remain a key contributor to quarterly inflation. We expect the housing and household utilities group increased 0.9% q/q, adding 0.3ppt to headline inflation. Within this group:
 - The Rent Price Index showed overall rents up 0.9% q/q (3mma basis) in Q1, which at almost 10% of the CPI basket contributes nearly 0.1ppt to headline inflation.
 - Construction costs are expected to have lifted 1.8% q/q, their slowest pace since March 2021. Construction costs tend to follow the housing market relatively closely, and that suggests further easing is on the cards over coming quarters as the residential construction pipeline continues to shrink. Again, at just under 10% of the CPI basket, construction costs are expected to add almost 0.2ppt to headline inflation.
- **The annual lift in the excise duty on cigarettes and tobacco** is expected to add 0.2ppt to headline inflation. The excise tax is indexed to annual CPI as at September, and that came in at a whopping 7.2% y/y.
- **The household contents and services group is expected to lift 1.1% q/q**, making a 0.1ppt contribution to headline. We've pencilled in a relatively small but broad-based lift on the likes of furniture through to appliances, including some small positive judgement owing to flooding and cyclone-related demand.
- **The transport group is expected to lift 0.7% q/q**, with second-hand cars experiencing a little more demand on the back of recent weather events, and capacity constraints preventing domestic and international airfares from declining as much as they normally would at this time of year. According to the MBIE petrol data we monitor, the (typically volatile) petrol component is expected to be little changed in the quarter. All up, the transport group is expected to add 0.1ppt to headline inflation.

- **Recreation & culture** is expected to add 0.1ppt to headline inflation as domestic accommodation services (and other related industries) work through the first summer uplift in international visitor arrivals since 2019/20.
- **The final 0.2ppt** consists of relatively small price rises across a wide variety of goods and services.

All up, there's every chance that the Q1 CPI data contain something for everyone. Chances are non-tradables inflation will surprise the RBNZ's forecast to the downside, and that could signal a little less persistence in inflation than otherwise (all else equal). However, non-tradables inflation will still be running way too hot, and it's still likely to accelerate from Q4 in y/y terms. Core measures could end up a bit of a mixed bag, but the sectoral factor model (released by the RBNZ at 3pm on CPI day) is likely to have some persistence to it. But even if CPI surprises to the downside, this may not deter the RBNZ from taking the OCR to their signalled 'happy place' of 5.5%. There's way too much upside pipeline inflation risk to let a small miss on Q1 CPI change the RBNZ's assessment of appropriate monetary conditions, particularly when inflation expectations are this high (figure 3).

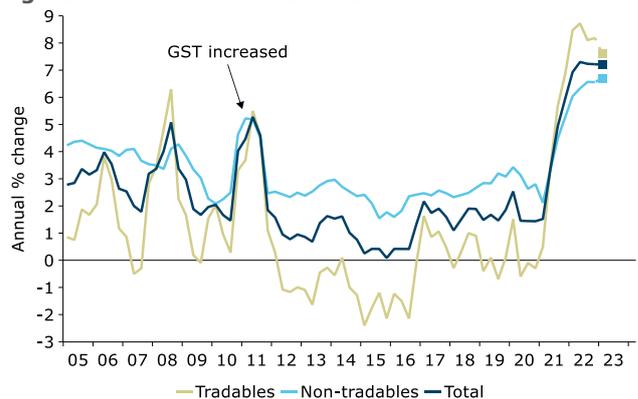
Lastly, Q1 CPI data certainly won't be the final word ahead of the May MPS. The Q1 labour market release and Budget 2023 are yet to come, and both could easily end up on the more inflationary side.

Table 1. ANZ Q1 CPI component-level forecast

	%	q/q%	%pt cont.
Total	1.7	1.7	1.72
Food	3.3	3.3	0.69
Housing & Household Utilities	0.9	0.9	0.33
Alcoholic Beverages & Tobacco	3.6	3.6	0.31
Transport	0.7	0.7	0.13
Miscellaneous Goods & Services	1.2	1.2	0.10
Recreation & Culture	0.8	0.8	0.07
Household Contents & Services	1.1	1.1	0.05
Education	1.8	1.8	0.03
Health	0.7	0.7	0.03
Communication	-0.4	-0.4	-0.01
Clothes & Footwear	-0.3	-0.3	-0.01

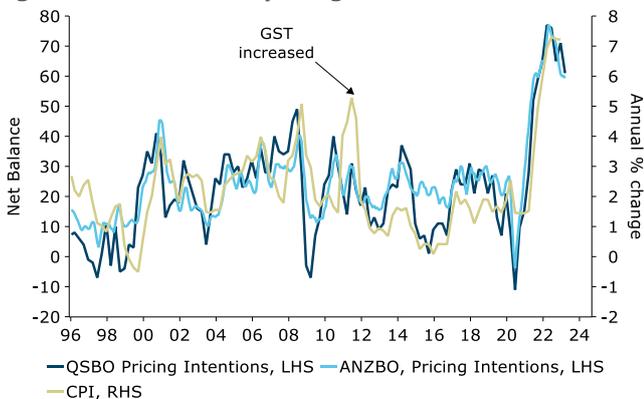
■ Quarterly % change ■ Percentage point contribution
Source: Stats NZ, Macrobond, ANZ Research

Figure 1. CPI inflation measures



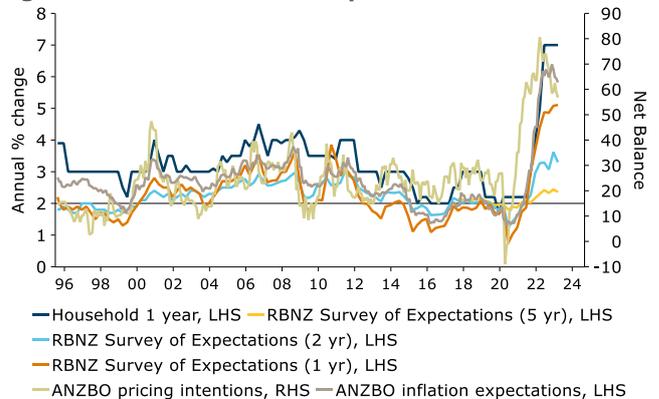
Source: Stats NZ, Macrobond, ANZ Research

Figure 2. Inflation and pricing intentions



Source: NZIER, Stats NZ, Macrobond, ANZ Research

Figure 3. Selected inflation expectations measures



Source: RBNZ, Macrobond, ANZ Research



Contact us

Meet the team

We welcome your questions and feedback. Click [here](#) for more information about our team.



Sharon Zollner
Chief Economist

Follow Sharon on Twitter
[@sharon_zollner](#)

Telephone: +64 9 357 4094
Email: sharon.zollner@anz.com

General enquiries:
research@anz.com

Follow ANZ Research
[@ANZ_Research](#) (global)



David Croy
Senior Strategist

Market developments, interest rates, FX, unconventional monetary policy, liaison with market participants.

Telephone: +64 4 576 1022
Email: david.croy@anz.com



Susan Kilsby
Agricultural Economist

Primary industry developments and outlook, structural change and regulation, liaison with industry.

Telephone: +64 21 633 469
Email: susan.kilsby@anz.com



Miles Workman
Senior Economist

Macroeconomic forecast co-ordinator, fiscal policy, economic risk assessment and credit developments.

Telephone: +64 21 661 792
Email: miles.workman@anz.com



Kyle Uerata
Economic Statistician

Economic statistics, ANZ proprietary data (including ANZ Business Outlook), data capability and infrastructure.

Telephone: +64 21 633 894
Email: kyle.uerata@anz.com



Natalie Denne
PA / Desktop Publisher

Business management, general enquiries, mailing lists, publications, chief economist's diary.

Telephone: +64 21 253 6808
Email: natalie.denne@anz.com

Important notice

Last updated: 1 September 2022

This document (which may be in the form of text, image, video or audio) is intended for ANZ's Institutional, Markets and Private Banking clients. It should not be forwarded, copied or distributed. The opinions and research contained in this document are (a) not personal advice nor financial advice about any product or service; (b) provided for information only; and (c) intended to be general in nature and does not take into account your financial situation or goals.

This document may be restricted by law in certain jurisdictions. Persons who receive this document must inform themselves about and observe all relevant restrictions.

Disclaimer for all jurisdictions: This document is prepared and distributed in your country/region by either: Australia and New Zealand Banking Group Limited (ABN11 005 357 522) (**ANZ**); or its relevant subsidiary or branch (each, an **Affiliate**), as appropriate or as set out below.

This document is distributed on the basis that it is only for the information of the specified recipient or permitted user of the relevant website (**recipients**).

This document is solely for informational purposes and nothing contained within is intended to be an invitation, solicitation or offer by ANZ to sell, or buy, receive or provide any product or service, or to participate in a particular trading strategy.

Distribution of this document to you is only as may be permissible by the laws of your jurisdiction, and is not directed to or intended for distribution or use by recipients resident or located in jurisdictions where its use or distribution would be contrary to those laws or regulations, or in jurisdictions where ANZ would be subject to additional licensing or registration requirements. Further, the products and services mentioned in this document may not be available in all countries.

ANZ in no way provides any financial, legal, taxation or investment advice to you in connection with any product or service discussed in this document. Before making any investment decision, recipients should seek independent financial, legal, tax and other relevant advice having regard to their particular circumstances.

Whilst care has been taken in the preparation of this document and the information contained within is believed to be accurate, ANZ does not represent or warrant the accuracy or completeness of the information. Further, ANZ does not accept any responsibility to inform you of any matter that subsequently comes to its notice, which may affect the accuracy of the information in this document.

Preparation of this document and the opinions expressed in it may involve material elements of subjective judgement and analysis.

Unless specifically stated otherwise: they are current on the date of this document and are subject to change without notice; and, all price information is indicative only. Any opinions expressed in this document are subject to change at any time without notice.

ANZ does not guarantee the performance of any product mentioned in this document. All investments entail a risk and may result in both profits and losses. Past performance is not necessarily an indicator of future performance. The products and services described in this document may not be suitable for all investors, and transacting in these products or services may be considered risky.

ANZ expressly disclaims any responsibility and shall not be liable for any loss, damage, claim, liability, proceedings, cost or expense (Liability) arising directly or indirectly and whether in tort (including negligence), contract, equity or otherwise out of or in connection with this document to the extent permissible under relevant law. Please note, the contents of this document have not been reviewed by any regulatory body or authority in any jurisdiction.

ANZ and its Affiliates may have an interest in the subject matter of this document. They may receive fees from customers for dealing in the products or services described in this document, and their staff and introducers of business may share in such fees or remuneration that may be influenced by total sales, at all times received and/or apportioned in accordance with local regulatory requirements. Further, they or their customers may have or have had interests or long or short positions in the products or services described in this document, and may at any time make purchases and/or sales in them as principal or agent, as well as act (or have acted) as a market maker in such products. This document is published in accordance with ANZ's policies on conflicts of interest and ANZ maintains appropriate information barriers to control the flow of information between businesses within it and its Affiliates.

Your ANZ point of contact can assist with any questions about this document including for further information on these disclosures of interest.

Country/region specific information: Unless stated otherwise, this document is distributed by Australia and New Zealand Banking Group Limited (**ANZ**).

Australia. ANZ holds an Australian Financial Services licence no. 234527. For a copy of ANZ's Financial Services Guide please [click here](#) or request from your ANZ point of contact.

Brazil. This document is distributed on a cross border basis and only following request by the recipient. No securities are being offered or sold in Brazil under this document, and no securities have been and will not be registered with the Securities Commission - CVM.

Brunei, Japan, Kuwait, Malaysia, Switzerland, Taiwan. This document is distributed in each of these jurisdictions by ANZ on a cross border basis.

Cambodia. The information contained in this document is confidential and is provided solely for your use upon your request.

This does not constitute or form part of an offer or solicitation of any offer to engage services, nor should it or any part of it form the basis of, or be relied in any connection with, any contract or commitment whatsoever. ANZ does not have a licence to undertake banking operations or securities business or similar business, in Cambodia. By requesting financial services from ANZ, you agree, represent and warrant that you are engaging our services wholly outside of Cambodia and subject to the laws of the contract governing the terms of our engagement.

Canada. This document is general information only, is intended for institutional use only – not retail, and is not meant to be tailored to the needs and circumstances of any recipient. In addition, this document is not intended to be an offer or solicitation to purchase or sell any security or other financial instrument or to employ a specific investment strategy.

Chile. You understand and agree that ANZ Banking Group Limited is not regulated by Chilean Authorities and that the provision of this document is not subject to any Chilean supervision and is not guaranteed by any regulatory or governmental agency in Chile.

Fiji. For Fiji regulatory purposes, this document and any views and recommendations are not to be deemed as investment advice. Fiji investors must seek licensed professional advice should they wish to make any investment in relation to this document.

Hong Kong. This document is issued or distributed in Hong Kong by the Hong Kong branch of ANZ, which is registered at the Hong Kong Monetary Authority to conduct Type 1 (dealing in securities), Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities. The contents of this document have not been reviewed by any regulatory authority in Hong Kong. If you are in any doubt about any of the contents of this document, you should obtain independent professional advice.

India. If this document is received in India, only you (the specified recipient) may print it provided that before doing so, you specify on it your name and place of printing.

Israel. ANZ is not a holder of a licence granted in Israel pursuant to the Regulation of Investment Advising, Investment Marketing and Portfolio Management Law, 1995 ("Investment Advice Law") and does not hold the insurance coverage required of a licensee pursuant to the Investment Advice Law. This publication has been prepared exclusively for Qualified Clients as such term is defined in the First Schedule to the Investment Advice Law. As a prerequisite to the receipt of a copy of this publication a recipient will be required to provide confirmation and evidence that it is a Qualified Client. Nothing in this publication should be considered Investment Advice or Investment Marketing as defined in the Investment Advice Law. Recipients are encouraged to seek competent investment advice from a locally licensed investment adviser prior to making any investment.

Macau. Click [here](#) to read the disclaimer for all jurisdictions in Mandarin. 澳门. [点击此处](#) 阅读所有司法管辖区的免责声明的中文版。

Myanmar. This document is intended to be general and part of ANZ's customer service and marketing activities when implementing its functions as a licensed bank. This document is not Securities Investment Advice (as that term is defined in the Myanmar Securities Transaction Law 2013).

Important notice

New Zealand. This material is for information purposes only and is not financial advice about any product or service. We recommend seeking financial advice about your financial situation and goals before acquiring or disposing of (or not acquiring or disposing of) a financial product.

Oman. ANZ neither has a registered business presence nor a representative office in Oman and does not undertake banking business or provide financial services in Oman. Consequently ANZ is not regulated by either the Central Bank of Oman (**CBO**) or Oman's Capital Market Authority (**CMA**). The information contained in this document is for discussion purposes only and neither constitutes an offer of securities in Oman as contemplated by the Commercial Companies Law of Oman (Royal Decree 4/74) or the Capital Market Law of Oman (Royal Decree 80/98), nor does it constitute an offer to sell, or the solicitation of any offer to buy non-Omani securities in Oman as contemplated by Article 139 of the Executive Regulations to the Capital Market Law (issued vide CMA Decision 1/2009). ANZ does not solicit business in Oman and the only circumstances in which ANZ sends information or material describing financial products or financial services to recipients in Oman, is where such information or material has been requested from ANZ and the recipient understands, acknowledges and agrees that this document has not been approved by the CBO, the CMA or any other regulatory body or authority in Oman. ANZ does not market, offer, sell or distribute any financial or investment products or services in Oman and no subscription to any securities, products or financial services may or will be consummated within Oman. Nothing contained in this document is intended to constitute Omani investment, legal, tax, accounting or other professional advice.

People's Republic of China (PRC). This document may be distributed by either ANZ or Australia and New Zealand Bank (China) Company Limited (**ANZ China**). Recipients must comply with all applicable laws and regulations of PRC, including any prohibitions on speculative transactions and CNY/CNH arbitrage trading. If this document is distributed by ANZ or an Affiliate (other than ANZ China), the following statement and the text below is applicable: No action has been taken by ANZ or any affiliate which would permit a public offering of any products or services of such an entity or distribution or re-distribution of this document in the PRC. So, the products and services of such entities are not being offered or sold within the PRC by means of this document or any other document. This document may not be distributed, re-distributed or published in the PRC, except under circumstances that will result in compliance with any applicable laws and regulations. If and when the material accompanying this document relates to the products and/or services of ANZ China, the following statement and the text below is applicable: This document is distributed by ANZ China in the Mainland of the PRC.

Peru. The information contained in this document has not been, and will not be, registered with or approved by the Peruvian Superintendency of the Securities Market (Superintendencia del Mercado de Valores, **SMV**) or the Lima Stock Exchange (Bolsa de Valores de Lima, **BVL**) or under the Peruvian Securities Market Law (Legislative Decree 6 861), and will not be subject to Peruvian laws applicable to public offerings in Peru. To the extent this information refers to any securities or interests, it should be noted the securities or interests may not be offered or sold in Peru, except if (i) such securities or interests were previously registered with the Peruvian Superintendency of the Securities Market, or (ii) such offering is considered a private offering in Peru under the securities laws and regulation of Peru.

Qatar. This document has not been, and will not be:

- lodged or registered with, or reviewed or approved by, the Qatar Central Bank (**QCB**), the Qatar Financial Centre (**QFC**) Authority, QFC Regulatory Authority or any other authority in the State of Qatar (**Qatar**); or
- authorised or licensed for distribution in Qatar, and the information contained in this document does not, and is not intended to, constitute a public offer or other invitation in respect of securities in Qatar or the QFC.

The financial products or services described in this document have not been, and will not be:

- registered with the QCB, QFC Authority, QFC Regulatory Authority or any other governmental authority in Qatar; or
- authorised or licensed for offering, marketing, issue or sale, directly or indirectly, in Qatar.

Accordingly, the financial products or services described in this document are not being, and will not be, offered, issued or sold in Qatar, and this document is not being, and will not be, distributed in Qatar. The offering, marketing, issue and sale of the financial products or services described in this document and distribution of this document is being made in, and is subject to the laws, regulations and rules of, jurisdictions outside of Qatar and the QFC. Recipients of this document must abide by this restriction and not distribute this document in breach of this restriction. This document is being sent/issued to a limited number of institutional and/or sophisticated investors (i) upon their request and confirmation that they understand the statements above; and (ii) on the condition that it will not be provided to any person other than the original recipient, and is not for general circulation and may not be reproduced or used for any other purpose.

Singapore. This document is distributed in Singapore by ANZ solely for the information of "accredited investors", "expert investors" or (as the case may be) "institutional investors" (each term as defined in the Securities and Futures Act Cap. 289 of Singapore). ANZ is licensed in Singapore under the Banking Act Cap. 19 of Singapore and is exempted from holding a financial adviser's licence under Section 23(1)(a) of the Financial Advisers Act Cap. 100 of Singapore. In respect of any matters arising from, or in connection with, the distribution of this document in Singapore, please speak to your usual ANZ contact in Singapore.

United Arab Emirates (UAE). This document is distributed in the UAE or the Dubai International Financial Centre (**DIFC**) (as applicable) by ANZ. This document does not, and is not intended to constitute: (a) an offer of securities anywhere in the UAE; (b) the carrying on or engagement in banking, financial and/or investment consultation business in the UAE under the rules and regulations made by the Central Bank of the UAE, the Emirates Securities and Commodities Authority or the UAE Ministry of Economy; (c) an offer of securities within the meaning of the Dubai International Financial Centre Markets Law (DIFCML) No. 12 of 2004; and (d) a financial promotion, as defined under the DIFCML No. 1 of 200. ANZ DIFC Branch is regulated by the Dubai Financial Services Authority (**DFSA**). ANZ DIFC Branch is regulated by the Dubai Financial Services Authority (**DFSA**). The financial products or services described in this document are only available to persons who qualify as "Professional Clients" or "Market Counterparty" in accordance with the provisions of the DFSA rules.

United Kingdom. This document is distributed in the United Kingdom by Australia and New Zealand Banking Group Limited (**ANZ**) solely for the information of persons who would come within the Financial Conduct Authority (**FCA**) definition of "eligible counterparty" or "professional client". It is not intended for and must not be distributed to any person who would come within the FCA definition of "retail client". Nothing here excludes or restricts any duty or liability to a customer which ANZ may have under the UK Financial Services and Markets Act 2000 or under the regulatory system as defined in the Rules of the Prudential Regulation Authority (**PRA**) and the FCA. ANZ considers this document to constitute an Acceptable Minor Non-Monetary Benefits (**AMNMB**) under the relevant inducement rules of the FCA. ANZ is authorised in the United Kingdom by the PRA and is subject to regulation by the FCA and limited regulation by the PRA. Details about the extent of our regulation by the PRA are available from us on request.

United States. Except where this is a FX-related document, this document is distributed in the United States by ANZ Securities, Inc. (**ANZ SI**) which is a member of the Financial Regulatory Authority (**FINRA**) (www.finra.org) and registered with the SEC. ANZSI's address is 277 Park Avenue, 31st Floor, New York, NY 10172, USA (Tel: +1 212 801 9160 Fax: +1 212 801 9163). ANZSI accepts responsibility for its content. Information on any securities referred to in this document may be obtained from ANZSI upon request. This document or material is intended for institutional use only – not retail. If you are an institutional customer wishing to effect transactions in any securities referred to in this document you must contact ANZSI, not its affiliates. ANZSI is authorised as a broker-dealer only for institutional customers, not for US Persons (as "US person" is defined in Regulation S under the US Securities Act of 1933, as amended) who are individuals. If you have registered to use our website or have otherwise received this document and are a US Person who is an individual: to avoid loss, you should cease to use our website by unsubscribing or should notify the sender and you should not act on the contents of this document in any way. Non-U.S. analysts may not be associated persons of ANZSI and therefore may not be subject to FINRA Rule 2242 restrictions on communications with the subject company, public appearances and trading securities held by the analysts. Where this is a FX-related document, it is distributed in the United States by ANZ's New York Branch, which is also located at 277 Park Avenue, 31st Floor, New York, NY 10172, USA (Tel: +1 212 801 916 0 Fax: +1 212 801 9163).

Vietnam. This document is distributed in Vietnam by ANZ or ANZ Bank (Vietnam) Limited, a subsidiary of ANZ.

This document has been prepared by ANZ Bank New Zealand Limited, Level 26, 23-29 Albert Street, Auckland 1010, New Zealand, Ph 64-9-357 4094, e-mail nzeconomics@anz.com, <http://www.anz.co.nz>