

Consumers Price Index Preview: September 2008 Quarter

(10:45 NZDT on Tuesday 21 October 2008)

Key points

- > **Headline inflation to reach near 5 percent, but this will be the peak in this cycle.**
- > **Food, petrol and local authority rates will be the main contributors.**
- > **Last quarter's CPI is yesterday's news, with a deteriorating global environment rapidly improving the medium-term inflation outlook.**

	ANZ	RBNZ	Market
Q3 CPI forecast	1.3% qoq 4.9% yoy	1.3% qoq 4.9% yoy	1.5% qoq 5.1% yoy

Headline inflation is expected to reach its highest rate since 1990. We expect a 1.3 percent increase for the September quarter, taking the annual rate of inflation to 4.9 percent. In comparison, market expectation is for a 1.5 percent rise in the quarter, for a 5.1 percent annual rate.

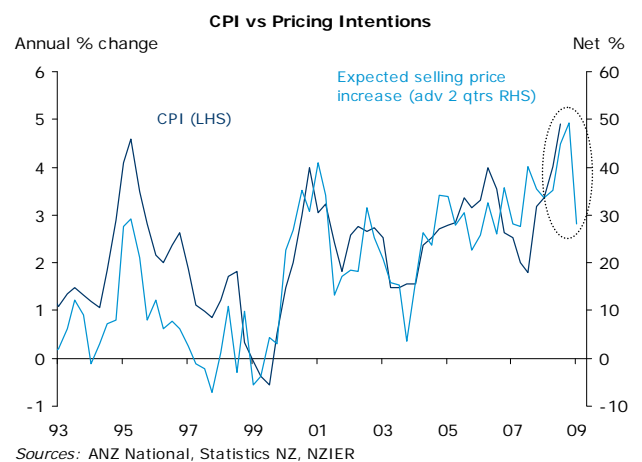
The usual suspects are pushing CPI higher again. Unsurprisingly, food prices will be the main contributor in the quarter, making a 0.6ppt contribution. Petrol prices rose around 4 percent during the September quarter, and this will add 0.2ppt to the CPI. Electricity price rises and still elevated construction costs, though easing, will also add to the CPI. **Government charges to also feature strongly in the quarter.** Local authority rates increases, which came into effect from 1 July, will add nearly 0.2ppt to the CPI. Other government related charges will also add to the CPI in the quarter, including the annual alcohol tax adjustment, a rise in road user charges, and higher vehicle relicensing charges, all of which came into force on 1 July. We estimate that government related charges likely account for almost a third of the quarterly CPI increase. **But not everything is going up,** and we expect last quarter's surprising absence of retail discounting to manifest in the September quarter figures.

The medium term inflation outlook is improving rapidly. While a structural aspect remains within the inflation dynamic (government charges, level versus the change in commodity prices, pressure to recoup lost margins etc), a rapidly deteriorating global backdrop and weakening domestic picture (notably demand for labour) is dominating. Though we expect some wariness towards various structural issues to remain, the stark reality is that financial stability and the flow-on effect from falling asset prices and

global ructions should now dominate the RBNZ's reaction function. In addition, interest rates are responding from an elevated level.

Financial market implications

We do not expect the September quarter CPI print to get in the way of an aggressive easing cycle from the RBNZ. With global events dominating, any market reaction is likely to be very heavily asymmetric, with a high number being read as "yesterday's news".



CPI Components	Quarterly % change	%-point contrib.	Annual % change
Food	3.5	0.6	9.3
Alcohol and Tobacco	2.3	0.2	3.6
Clothing and Footwear	-0.7	0.0	-0.6
Housing and Household Utilities	1.3	0.3	4.5
Household Contents and Services	-0.4	0.0	-0.8
Health	1.0	0.1	2.8
Transport	1.3	0.2	10.6
Communication	-0.5	0.0	-0.6
Recreation and Culture	0.1	0.0	-0.6
Education	0.1	0.0	3.7
Miscellaneous Goods and Services	0.3	0.0	2.1
All Groups	1.3	1.3	4.9
Tradables	1.4	0.6	5.8
Non-tradables	1.2	0.6	4.0

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- Group investment funds;
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ANZ (part of ANZ National Bank Limited), Level 7, 1 Victoria Street, Wellington 6011, New Zealand Phone 64-4-802 2000 Fax 64-4-496 8639 <http://www.anz.co.nz> e-mail ecnmcs@anz.com

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