

Consumers Price Index – 2018Q4

23 January 2019



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In the mix

- CPI increased 0.1% q/q in Q4 – below the 0.2% q/q rise incorporated in the RBNZ's November MPS but slightly above market expectations. Annual inflation was stable at 1.9% y/y.
- Weakness in CPI inflation was driven by tradable prices (-0.4% q/q), while more-persistent non-tradable inflation (+0.7% q/q) was solid. We think a case can nonetheless be made for a cautious tone from the RBNZ in **February, reflecting a softer growth outlook and global risks. But today's data will likely temper the overall change in tone versus November.**

Key points

CPI increased 0.1% q/q, slightly above market consensus and our own expectations (0.0%). This saw annual inflation stable at 1.9% y/y. Weakness was driven by tradable prices (-0.4% q/q, +0.9% y/y), which tend to have more transitory impacts. Non-tradable inflation rose 0.7% q/q, with annual inflation in this component ticking up to 2.7% from a downwardly revised 2.5% y/y print in Q3.

Today's print for CPI inflation was below the 0.2% q/q rise incorporated in the RBNZ's November MPS. But the mix matters. Non-tradable inflation was well **above the RBNZ's** expectation of 0.4% q/q, although countering this there were some downwards revisions over history (due to the reallocation of international pre-paid holidays from non-tradable to tradable CPI). The RBNZ will take comfort from non-tradable inflation holding up, but will be vigilant that weakness in tradable inflation might flow through to inflation expectations.

Reflecting the pick-up in domestic inflation, core inflation rose, following stabilisation through the middle of the year. Annual trimmed mean measures rose a touch across various levels of trim and are sitting at around 2%. The weighted median was stable at 2.2% y/y. Now the focus turns towards the **RBNZ's sectoral** factor model (3pm) for confirmation of the core inflation signal. Our own model estimate suggests it will tick up from 1.7% to 1.8% y/y.

Today's data were undeniably solid. And looking forward, we may see some further uplift in domestic inflation in the short term, given that GDP growth was stronger than previously thought over the year to March 2018 and the economy (particularly the labour market) is clearly stretched. But it is becoming increasingly apparent that economic momentum is now fading, with forward-looking indicators pointing to further gradual petering out. Resource pressures look to be past their peak, meaning a durable lift in domestic inflation will be harder to achieve. Add global risks to the mix, and it paints a picture of medium-term inflation that in our view looks set to disappoint.

The RBNZ's focus is forward-looking and it is the durability of stronger inflation that matters. We expect to see a more dovish RBNZ in time, **though today's** data will not contribute to any weaker tone as soon as next month. Global risks and a weaker domestic data flow will need to be acknowledged, however. It remains our view that OCR cuts will be required late this year to keep growth at or above potential and keep inflation close to the target midpoint.

Data summary

	% qtr	% ann
Headline CPI	0.1%	1.9%
Tradable	-0.4%	0.9%
Non-tradable	0.7%	2.7%

For those interested in the details, key price moves were as follows.

- Food prices provided a seasonal drag. Food prices fell 1.3% in the quarter. Combined with alcoholic beverages, these dragged 0.4%pts.
- Petrol price declines (-0.6%) weighed, but less than expected. This was offset by prices for passenger transport services, which reached their seasonal peak, up 7%. Overall, the transport group provided a +0.2%pt contribution.
- Durables and apparel prices both fell, but a little less than expected, providing a drag of 0.1%pts. This may reflect a dissipating impact of low import prices.
- Housing-related prices were in line with expectations. Rents increased 0.6% and purchase of housing rose 0.9%. The household and household utilities group contributed 0.2%pts to inflation, in line with recent years.
- Accommodation prices saw seasonal strength. They rose 5.3%, contributing 0.1%pt.
- Prices for miscellaneous goods and services saw some strength, up 0.7% q/q, contributing 0.1%pts. This is likely to reflect capacity pressures starting to make themselves felt.

Figure 1. Headline CPI inflation

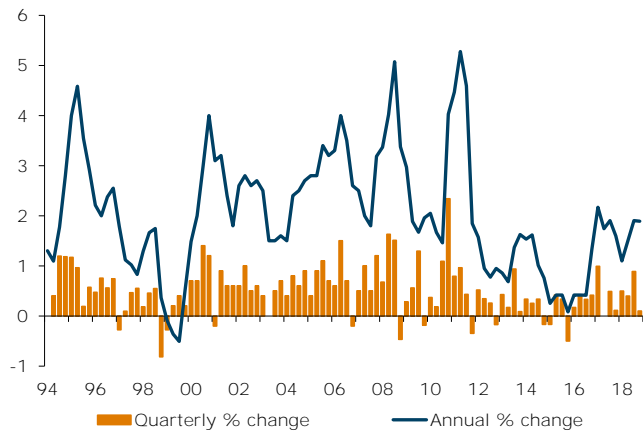


Figure 2. CPI inflation components

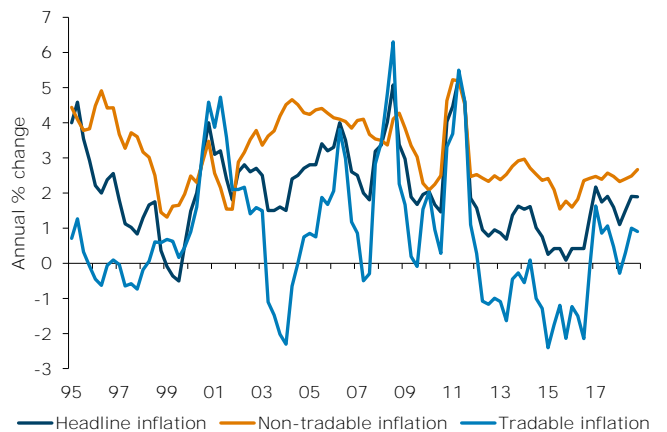


Figure 3. CPI groups – December 2018 quarter

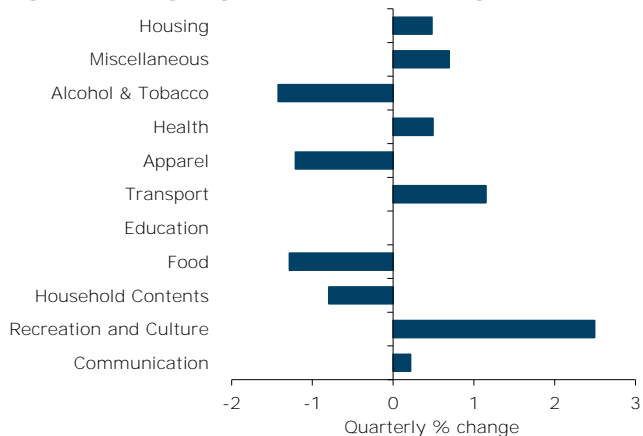
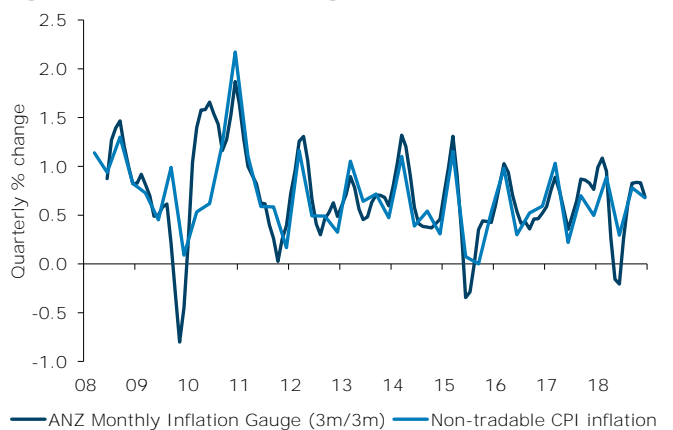


Figure 4. ANZ Inflation Gauge & non-tradables inflation



Source: Statistics NZ, ANZ Research



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