

Consumers Price Index – 2019Q2

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Over the hill

- CPI increased 0.6% q/q in Q2 – in line with ANZ and market expectations. Annual inflation picked up to 1.7% y/y from 1.5%, driven by higher petrol prices. Core measures of inflation ticked slightly higher.
- This print adds to the case that inflation pressures have stalled and more is needed from the RBNZ to get inflation back to 2%. It looks like Q2 will mark the peak in annual non-tradable inflation for some time. **We're expecting** the RBNZ to cut the OCR in August and November.

Key points

Headline CPI increased 0.6% q/q in Q2, in line with our and market expectations. This saw annual inflation pick up to 1.7% y/y from 1.5%. However, strength was driven by tradable prices, up 0.9% q/q (0.1% y/y), which was boosted by petrol price strength and will be transitory. Outside of petrol prices, there was some broader strength in tradable prices, likely reflecting recent NZD weakness.

Non-tradable inflation rose 0.3% q/q, boosted by rents, insurance, and restaurant meals. Annual non-tradable inflation was flat at 2.8% – a respectable five-year high, but still short of the 3% or more needed to see headline inflation comfortably and sustainably at 2%.

Core inflation measures did tick up slightly, despite the reasonably subdued non-tradable inflation print. Underlying inflation continues to track just short of 2%, following strength early in 2018. Annual trimmed mean measures reversed last **quarter's tick down, to sit around 2%** across various measures of trim. The weighted median also ticked up from 2.2 to 2.3% y/y, and inflation excluding food and energy increased from 1.5% to 1.7% y/y. The focus now turns to the **RBNZ's sectoral factor model at 3pm**.

All up, it looks like Q2 CPI is as good as it will get for domestic inflation for some time. The economic expansion has slowed, the global environment has become a headwind, and peak capacity pressure is behind us. Underlying inflationary pressures appear to have stalled below 2% and are set to move lower over the next year as spare capacity feeds into pricing.

There is nothing in today's release for the RBNZ to get excited about. Today's print for CPI inflation was in line with the 0.6% q/q rise incorporated in the **RBNZ's May MPS**. But petrol prices are volatile and recent strength will drop out of headline inflation in time. Non-tradable inflation was also in line with the **RBNZ's expectation of 0.3% q/q**, but the tick up in core inflation measures does suggest that the past build-up in capacity pressure had been effective in seeing underlying prices gradually rise.

That said, the RBNZ is forward-looking, and inflation is a lagging indicator. Given the deteriorating outlook for global growth and waning domestic capacity pressures, this print is unlikely to sway the RBNZ from an August cut. But, at the margin, the tick up in core inflation measures will give the RBNZ something to think about when providing guidance on further rate cuts beyond August. We think the domestic growth outlook will outweigh this recent blip in core inflation, and expect further cuts in August and November will take the OCR to 1%.

Data summary

	% qtr	% ann
Headline CPI	0.6%	1.7%
Tradable	0.9%	0.1%
Non-tradable	0.3%	2.8%

For those who love details, key price moves were as follows.

- **Petrol prices boosted headline inflation.** Petrol prices rose 5.8% q/q in the quarter, a little less than we expected. Partly offsetting this, domestic airfares fell 12.9%, which was also a bit weaker than expected. Overall, the transport group provided a 0.1%pt contribution.
- **Food prices provided a small seasonal rise.** Food prices rose 0.6% q/q with a strong rise in restaurant meals (boosted by the April minimum wage increase) and modest increases in other subgroups. Together with moderate increases in alcoholic beverage prices, this contributed 0.15%pts.
- **Housing-related prices continue to support domestic inflation.** Rents increased a solid 1.0% q/q and purchase of housing rose 0.7%. The household and household utilities group contributed 0.2%pts to inflation.
- **Seasonal lows in accommodation services and domestic airfares were a drag.** Domestic airfares fell by 12.9% q/q, and accommodation services dipped by 2%. Together these subtracted 0.1%pts.
- **Durables and apparel prices rose** more than expected, making a 0.15%pt contribution. This reflects a bounce back in discounted furniture prices from Q1, and likely reflects pass-through from the lower NZD.
- **Communication prices fell.** Prices were down 1.4% on the quarter, a smaller fall than expected, but consistent with their usual downward trend.
- **Prices for miscellaneous goods and services, including insurance, saw some strength.** The group was up 0.8% q/q, contributing 0.1%pts. A solid 1.4% increase in a range of insurance prices in the quarter contributed.

Figure 1. Headline CPI inflation

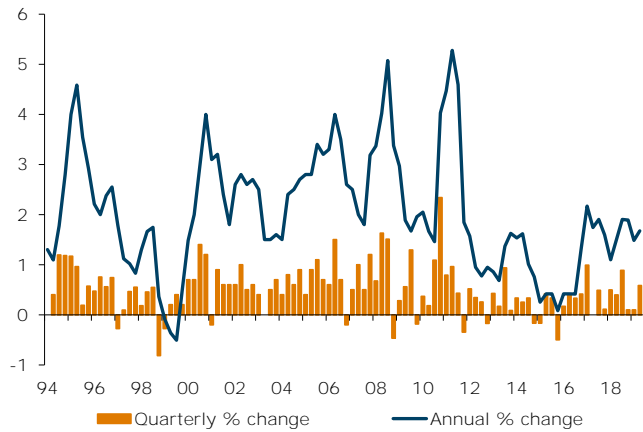


Figure 2. CPI inflation components

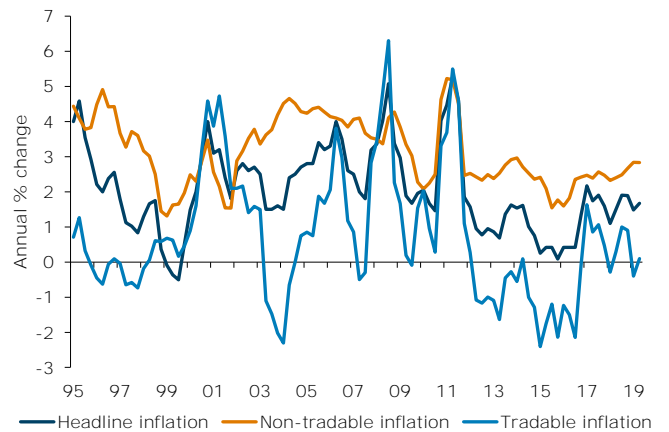


Figure 3. CPI groups – June 2019 quarter

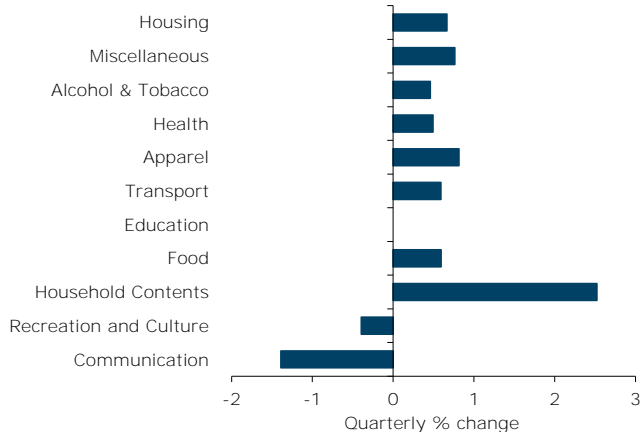
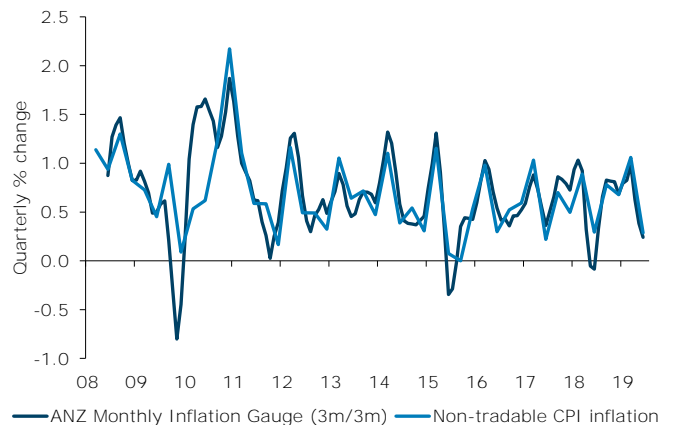


Figure 4. ANZ Inflation Gauge & non-tradables inflation



Source: Statistics NZ, ANZ Research



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