

Consumers Price Index – 2019Q3

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Inner strength

- CPI increased 0.7% q/q in Q3 – in line with ANZ forecasts, but stronger than the market or RBNZ expected.
- Nonetheless, annual inflation moved further away from the **RBNZ's 2% target midpoint**, ticking back down to 1.5% y/y from 1.7%. Core measures of inflation moved sideways, short of 2%.
- The RBNZ may find a glimmer of hope in the rise in domestic (non-tradable) inflation to 3.2% y/y. But **the RBNZ's focus will remain on the slowing economy**, which will see inflation continue to fall short over the next year. **To support the inflation outlook, we're** expecting cuts in November, February, and May, taking the OCR down to 0.25%.

Key points

Headline CPI increased 0.7% q/q in Q3, in line with ANZ's forecast but a bit stronger than market expectations. This saw annual inflation tick back down to 1.5% y/y from 1.7%. Non-tradable inflation rose 1.1% q/q, boosted by road user charges, property rates, domestic airfares, and rents. Annual non-tradable inflation rose sharply from 2.8% to 3.2% – the highest level since 2009 (excluding the GST-induced spike in 2011). Tradable prices continued to provide a drag, rising a soft 0.1% q/q (-0.7% y/y), with stronger food prices offset by a decline in apparel, durable goods, and petrol prices.

Despite the stronger non-tradable inflation print, movements across core inflation measures were mixed, but broadly consistent with underlying inflation tracking sideways. Underlying inflation continues to stabilise just short of 2%, following several years of undershooting:

- the weighted median was stable at 2.3% y/y;
- inflation excluding food and energy ticked up to 1.8%;
- annual trimmed mean measures actually fell from 2% to between 1.7% and 1.8%.

The focus now turns to the RBNZ's sectoral factor model at 3pm.

Today's print for CPI inflation was stronger than the 0.5% q/q rise incorporated in the RBNZ's August MPS, and importantly, was driven by strength in non-tradable components. Non-tradable inflation, up 1.1% q/q (3.2% y/y), was a strong upside surprise versus the RBNZ's expectation of 0.7% q/q (2.7% y/y).

While the print shows stronger inflationary pressure than the RBNZ was anticipating, there is plenty **to temper the RBNZ's excitement**. The RBNZ will have to weigh up a higher-than-expected starting point for CPI inflation against a weaker-than-expected outlook for domestic growth. The RBNZ is forward looking, and inflation is a lagging indicator, so the weaker growth outlook will win out. Business activity surveys suggest that near-term growth will be weak, capacity pressures are fading, and experienced costs and pricing intentions have slumped. Inflationary pressures have stalled below 2% and are set to remain low over the next year.

Data summary

	% qtr	% ann
Headline CPI	0.7%	1.5%
Tradable	0.1%	-0.7%
Non-tradable	1.1%	3.2%

In this context, while the RBNZ will take limited comfort from the stronger-than-expected starting point for CPI inflation. With headline inflation likely to linger below 2% for some time, inflation expectations are at risk of slipping further and reinforcing low inflation into the future. We're expecting OCR cuts in November, February, and May to take the OCR down to 0.25%.

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

- Housing-related prices continue to support domestic inflation.** Property rates increased a solid 4.9%, rents increased 0.8%, and purchase of housing rose 0.6% q/q. The household and household utilities group contributed a strong 0.3%pts to headline inflation.
- Food prices provided a small, unseasonal rise.** Food prices rose 1.3% q/q, with a strong rise in meat prices and modest increases in other subgroups. Together with modest increases in alcoholic beverage prices, this contributed 0.25%pts.
- Transport prices were up.** Road user charges boosted 'other private transport services' prices by 6.6% q/q. Offsetting this, petrol prices fell 0.8% in the quarter. On the upside, domestic airfares posted a surprisingly strong 15.7% rise. Overall, the transport group provided a 0.06%pt contribution.
- Durables and apparel prices fell.** Despite the weaker NZD, strong competition and soft demand appears to be weighing on retail sector pricing.
- Insurance costs increased further.** Dwelling insurance rose 1.5% in Q3, while other insurance products also posted moderate rises.
- Communication prices fell.** As expected, prices were down 1.1% on the quarter, consistent with their usual downward trend.

Figure 1. Headline CPI inflation

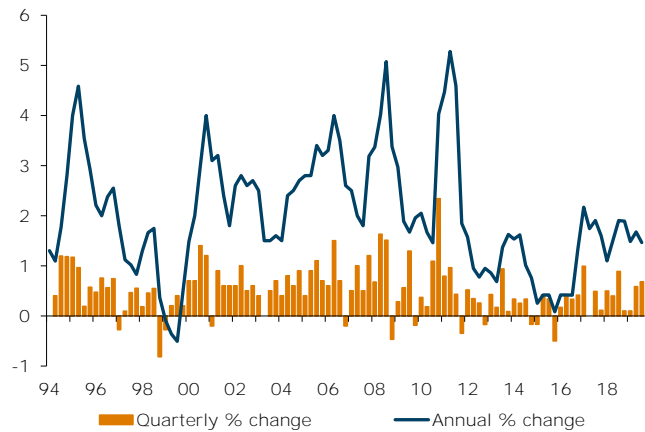


Figure 2. CPI inflation components

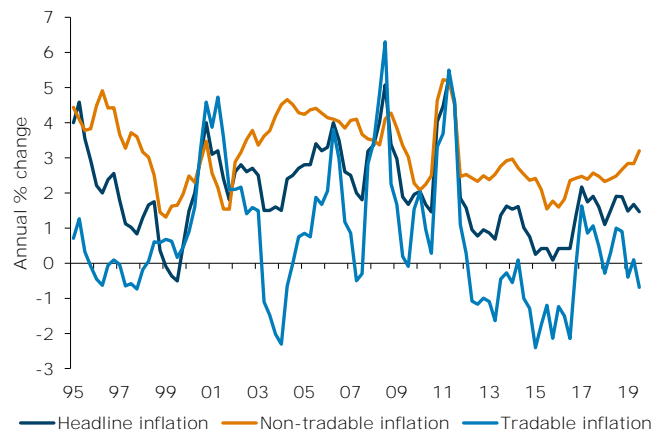


Figure 3. CPI groups – September 2019 quarter

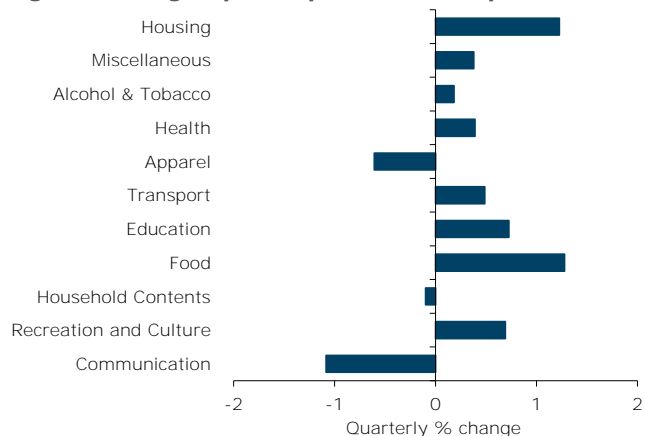
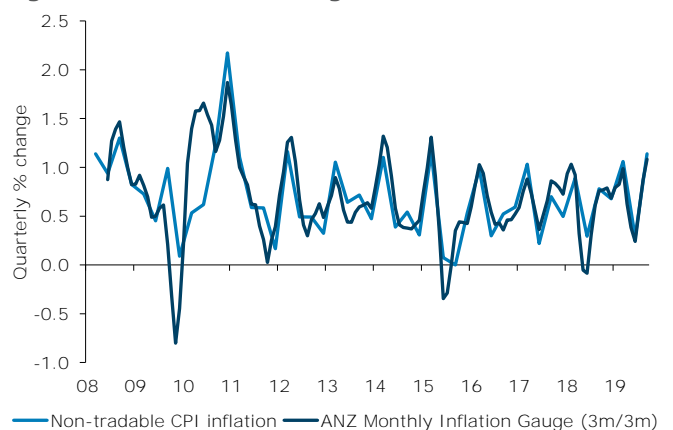


Figure 4. ANZ Inflation Gauge & non-tradables inflation



Source: Statistics NZ, ANZ Research



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