

## December 2018 Quarter CPI Preview

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## Contact

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## Giving the slip

- We expect headline CPI was flat in the December quarter, with annual inflation slipping from 1.9% to 1.8%. Tradable inflation is expected to print at -0.8% q/q, while non-tradable inflation is expected to post a 0.4% q/q rise. We expect that measures of core inflation will track broadly sideways.
- CPI in line with our expectations would add to the case we see building for a more dovish stance by the RBNZ in February. The RBNZ may take a degree of comfort from the fact that Q4 weakness is expected to be concentrated in tradable inflation. But the medium-term outlook for domestic inflation is more troubling. The RBNZ needs to see accelerating GDP growth to achieve a sustained lift in inflation, and the prospect of that is slipping away.

## Key points

December quarter CPI figures are released next Wednesday (23 January).

We expect headline CPI inflation will print at 0.0% q/q, with annual inflation dipping from 1.9% to 1.8%. This is lower than the 0.2% q/q (2.0% y/y) rise incorporated in the **RBNZ's** November MPS. CPI in line with our expectations may add to increased caution from the RBNZ in February, though the RBNZ is likely to take a degree of comfort from the fact that weakness is expected to be concentrated in tradable inflation, which tends to be more transitory. Tradable inflation is expected to print at -0.8% q/q (0.5% y/y after revisions; see page 2 for more details), driven largely by lower petrol and food prices.

We expect non-tradable inflation to post a 0.4% q/q rise, consistent with the **RBNZ's** November expectations. This would see annual non-tradable inflation moderate from 2.5% to 2.4% (after revisions), broadly continuing along its recent sideways track. After ticking up earlier in the year, core inflation has lost momentum and we see the range of measures tracking broadly sideways.

For the RBNZ, the medium-term outlook for non-tradable inflation is troubling. Domestic inflationary pressures appear fragile, in spite of clear capacity constraints and cost pressures. The RBNZ needs to see accelerating GDP growth to achieve a durable lift in inflation, but the prospect of that is slipping away. The economic cycle is losing steam, credit headwinds are set to take hold, and the peak in resource pressures appears to be behind us. Meanwhile, the global backdrop is looking less supportive, with downside risk to the fore. In our view, this suggests the midpoint of the inflation target will become more elusive, with OCR cuts required in time.

Our expectation for a flat CPI print reflects the following:

- **Food prices are expected to provide their usual seasonal drag.** Food prices fell 1.3% q/q in the quarter and alcoholic beverages also saw seasonal declines. Together, these are expected to detract 0.3%pts.
- **Secular forces continue to weigh, especially on tradable inflation.** Durable prices look set to drag in the quarter, reflecting seasonal sales and continued weakness in retail prices, in part due to weak import prices. The same factors are also contributing to non-existent inflation in apparel prices. Communications prices are also expected to continue to decline, dragging on inflation. These forces together are expected to subtract 0.1%pts from inflation.

### Consumers Price Index – December 2018 Quarter<sup>1</sup>

	Expected	Prev
CPI – q/q	0.0%	0.9%
CPI – y/y	1.8%	1.9%
Tradable – q/q	-0.8%	0.9%
Tradable – y/y	0.5%	1.0%
Non-tradable – q/q	0.4%	0.8%
Non-tradable – y/y	2.4%	2.5%

<sup>1</sup> Both non-tradable and tradable inflation will be revised from September 2017 next week. Headline inflation will not be affected. This table incorporates our estimates for how Q3 figures will be revised. See page 2 for more details. Charts on the next page use unrevised data.

- **Petrol price declines will also impact.** Petrol prices fell 3.5% in the quarter on the back of lower oil prices and some retracement in the NZD. This is expected to provide a 0.2%pt drag.
- **Airfares reached their seasonal peak.** Prices for international airfares will reach their seasonal peak, providing a 0.2%pt boost. However, domestic airfares are not expected to provide their usual contribution, after increasing strongly in Q3. Combined with lower petrol prices, price movements in the transport group are expected to make a very small positive contribution.
- **Housing-related prices continue to support domestic inflation.** Rents are forecast to increase 0.6% q/q and purchase of housing is expected to increase 1.3% q/q, with smaller contributions from property maintenance and higher electricity prices. The household and household utilities group is expected to boost CPI inflation by 0.2%pts.
- **Accommodation prices will see seasonal strength.** Accommodation prices are expected to have risen 6.9%, contributing 0.2%pts.

On the whole, we see risks to our flat Q4 CPI forecast as balanced. There is scope for an even lower tradable inflation outturn, reflecting weakness in imported prices and pass-through of lower petrol prices. On the other hand, there is scope for an upside surprise on non-tradable inflation if rents increase more than expected, as signalled by our ANZ Monthly Inflation Gauge.

A re-allocation of international pre-paid holidays from non-tradable to tradable CPI will result in some small revisions to these components from September 2017 onwards. This will not affect headline inflation. For the September 2018 quarter, we expect that tradable inflation will be revised from 1.0% to 0.8% y/y and non-tradable inflation will be revised from 2.5% to 2.4% y/y.

**Table 1. ANZ Q4 CPI component-level forecast**

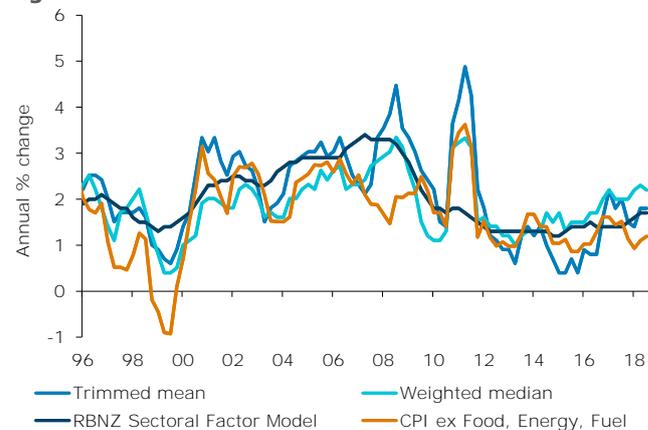
Groups	q/q%	%pt cont.
Food	-1.30	-0.25
Alcoholic beverages and tobacco	-0.47	-0.03
Clothing and footwear	-0.01	0.00
Housing and household utilities	0.70	0.17
Household contents and services	-1.03	-0.04
Health	0.29	0.01
Transport	0.23	0.03
Communication	-1.78	-0.05
Recreation and culture	1.61	0.15
Education	0.07	0.00
Miscellaneous goods and services	0.54	0.04
<b>Total</b>	<b>0.03</b>	<b>0.03</b>

**Figure 2. Headline, tradables and non-tradables inflation**



Source: Statistics NZ, ANZ Research

**Figure 1. Selection core inflation measures**



**Figure 3. ANZ Inflation Gauge & non-tradables inflation**





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