

March 2019 Quarter CPI Preview

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Final stand

- We expect headline CPI rose 0.3% in the March quarter, with annual inflation slipping from 1.9% to 1.7%. Tradable inflation is expected to print at -0.6% q/q, while non-tradable inflation is expected to post a 1.1% 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 that a cut in the OCR is not a matter of urgency. The RBNZ would likely take some comfort from stronger domestic inflation (lifting from 2.7% y/y to 2.8%), with weakness concentrated in the relatively volatile and transitory tradable component. However, the medium-term outlook for domestic inflation remains troubling. The RBNZ needs to see accelerating GDP growth to achieve a sustained lift in inflation, and we expect that by August it will be clear that an OCR cut is required to support this.

Key points

March quarter CPI figures are released next Wednesday (17 April).

We expect headline CPI inflation will print at 0.3% q/q, with annual inflation dipping from 1.9% to 1.7%. This is slightly higher than our previous forecast and the RBNZ's February MPS pick of 0.2% q/q (1.6% y/y), largely reflecting a bounce in petrol prices since then.

We expect tradable inflation to print at -0.6% q/q, weighed down by a fall in petrol prices and seasonal declines in international airfares. This will take annual tradable inflation down to 0.3% from 0.9% y/y.

Non-tradable inflation is expected to post a 1.1% q/q rise, consistent with the RBNZ's February expectations. This would see annual non-tradable inflation increase from 2.7% to 2.8%. The strong non-tradable print comes from seasonal strength in regulated prices, such as tobacco and education, as well as increases in housing-related prices. Core inflation has increased over the past year, but we see the suite of core measures tracking broadly sideways from here.

As is often the case, we expect to see a number of offsetting factors play out:

- **Regulated prices add to strength in non-tradable prices.** It's the time of the year for cigarette and tobacco tax hikes, and increases in education fees. Together, these contribute 0.3%pts.
- **Housing-related prices continue to support domestic inflation.** Rents and purchase of housing are both forecast to increase 0.7% 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 a little over 0.1%pts.
- **Petrol price falls weigh on headline inflation.** Petrol prices fell 7.5% in the quarter on the back of lower oil prices globally. This is expected to create a 0.4%pt drag.
- **Lower international airfares also drag on tradable prices.** Prices for international airfares will hit a seasonal trough, subtracting 0.2%pt. This drop will dominate a small rise in domestic airfares.
- **Food prices provide a small seasonal rise.** Food prices rose 1.1% q/q in the quarter, with strong increases in fruit and vegetables and moderate rises in other subgroups. Together, this is expected to contribute 0.2%pts.

Consumers Price Index – March 2019 Quarter

	Expected	Prev
CPI – q/q	0.3%	0.1%
CPI – y/y	1.7%	1.9%
Tradable – q/q	-0.6%	-0.4%
Tradable – y/y	0.3%	0.9%
Non-tradable – q/q	1.1%	0.7%
Non-tradable – y/y	2.8%	2.7%

On the whole, we see risks to our 0.3% Q1 CPI forecast as balanced, with the non-tradable pick in line with the signals from our ANZ Monthly Inflation Gauge. Tradable prices could increase more than expected if past declines in the NZD start to feed through more than we have incorporated. Alternatively, non-tradable inflation could be weaker than expected if the recent softening in domestic growth impacts pricing pressure more quickly than we expect.

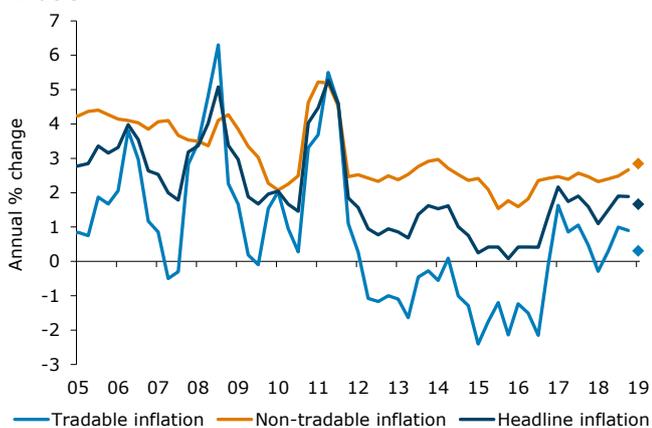
CPI in line with our expectations would add to the case that a cut in the OCR is not a matter of urgency. While inflation is a lagging indicator, the RBNZ would likely take a degree of comfort from the fact that past capacity pressure has helped push non-tradable inflation to its highest level in five years, and that weakness is concentrated in the volatile and transitory tradable component. This buys the RBNZ time to be sure that OCR cuts are required. We think the evidence will be unambiguous by August, after one more round of GDP and inflation data. However, a strong downside surprise to non-tradable inflation would add to the risk of a cut in the OCR before then.

While we are expecting a lift in non-tradable inflation next week, the medium-term outlook remains troubling. The economic expansion is losing steam, the global environment is no longer a tailwind, and the peak in capacity pressures appears to be behind us. Domestic inflationary pressures appear fragile, with early signs of waning capacity and cost pressures. The RBNZ needs to see accelerating GDP growth to achieve a sustained lift in inflation, and they are running out of growth drivers to achieve this.

Table 1. ANZ Q1 CPI component-level forecast

Groups	q/q%	%pt cont.
Food	-1.10	0.21
Alcoholic beverages and tobacco	4.12	0.30
Clothing and footwear	-0.35	-0.01
Housing and household utilities	0.57	0.14
Household contents and services	1.00	0.04
Health	0.33	0.01
Transport	-3.45	-0.50
Communication	-0.01	0.00
Recreation and culture	0.1	0.01
Education	1.92	0.04
Miscellaneous goods and services	0.66	0.05
Total	0.29	0.29

Figure 2. Headline, tradables and non-tradables inflation



Source: Statistics NZ, ANZ Research

Figure 1. Selected core inflation measures

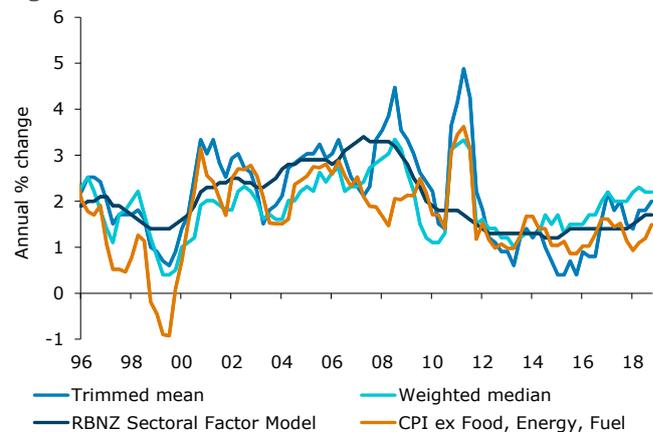
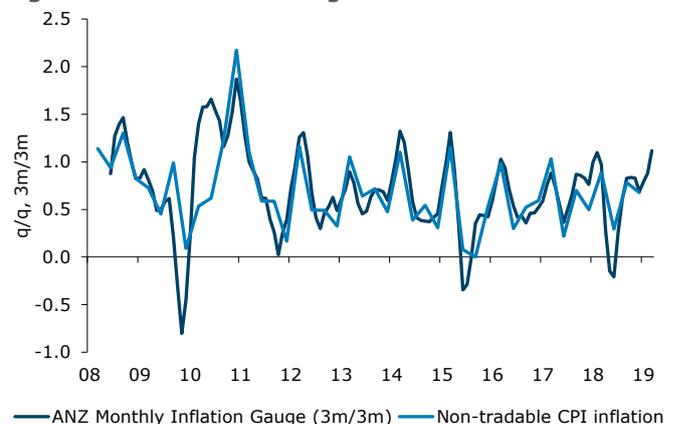


Figure 3. ANZ Inflation Gauge & non-tradables inflation





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