ANZ Research

June 2019 Quarter CPI Preview

11 July 2019

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Consumers Price Index – June 2019 Quarter

	Expected	Prev
CPI – q/q	0.6%	0.1%
CPI – y/y	1.7%	1.5%
Tradable - q/q	0.8%	-1.3%
Tradable - y/y	0.0%	-0.4%
Non-tradable - q/q	0.3%	1.1%
Non-tradable - y/y	2.8%	2.8%

As good as it gets

- We expect headline CPI rose 0.6% in the June quarter, with annual inflation ticking up from 1.5% to 1.7%. Tradable inflation is expected to print at 0.8% q/q, supported by higher fuel prices, with non-tradable inflation rising 0.3% q/q. Core inflation measures should continue to track broadly sideways.
- The Q2 inflation print should add to the case that inflation pressures have stalled and more is needed from the RBNZ to support the economy and get inflation back to 2%. The non-tradable (domestic) inflation print and core inflation measures will be crucial for the RBNZ, following several quarters of stability in the core measures. We're expecting Q2 will mark the peak in annual non-tradable inflation for now.

Key points

June quarter CPI figures are released next Tuesday (16 July).

We expect headline CPI inflation will print at 0.6% q/q, with annual inflation picking up from 1.5% to 1.7%. This is slightly lower than our previous forecast but in line with the RBNZ's May MPS pick. We expect tradable inflation to print at 0.8% q/q, boosted by a bounce back in petrol prices. This will take annual tradable inflation to 0.0% from -0.4% y/y.

Non-tradable inflation is expected to post a 0.3% q/q rise, consistent with the RBNZ's May expectations. This would see annual non-tradable inflation unchanged at 2.8%. The seasonally soft non-tradable print comes from declines in accommodation services and domestic airfares, offset by rises in housing-related prices, restaurant meals, and insurance costs. Core inflation has stabilised over the past year, and we expect it to track broadly sideways in Q2.

There are a few offsetting factors at play this quarter within the 0.6% q/q print:

- **Petrol prices are boosting headline inflation.** Petrol prices rose about 8% in the quarter on the back of higher oil prices globally. This is expected to contribute 0.4%pt.
- **Insurance is getting costly.** Our Monthly Inflation Gauge and numerous anecdotes suggest that a move to risk-based pricing in the insurance sector is seeing prices rise. We've pencilled in a 1.6% rise, contributing 0.1%pt, but there is a risk that this could be stronger.
- **Housing-related prices continue to support domestic inflation.** Stats NZ are incorporating a new rental series into the Q2 release, and that lifted 1.0% q/q. The new measure is higher, on average, so will add 0.1% to annual CPI inflation over time. The household and household utilities group is expected to boost CPI inflation by 0.2%pts.
- **Seasonal lows in accommodation services and domestic airfares will drag on non-tradable prices.** We expect both to have declined by 8% q/q. Together these subtract 0.2%pts.
- **Food prices provide a small seasonal rise.** Food prices rose 0.6% q/q in the quarter, with strong increases in restaurant meals and ready-to-eat meals and moderate rises in other subgroups. Together, these contribute 0.1%pt.

On the whole, we see risks to our 0.6% Q2 CPI forecast as balanced. Non-tradable inflation could be stronger than expected, particularly if insurance prices surprise to the upside. Alternatively, tradable prices have been persistently weaker than expected over the past year despite the lower exchange rate, and there is a risk that this weakness continues.

While we expect to see a pickup in annual inflation towards 2% in Q2, there are a few temporary factors at play which we think the RBNZ will look through. Mainly, the petrol price impact is transitory and petrol prices have already stabilised at a lower level. And even though annual non-tradable inflation has stabilised at a high level, recent strength has been supported by transitory factors rather than underlying capacity pressure. For example, insurance costs have risen, coinciding to a shift towards risk-based pricing in the sector. The minimum wage increases have contributed to a strong rise in restaurant meals prices this quarter, but outside of this category and time period, price pressures remain subdued.

We expect Q2 CPI to support the case that inflation pressures have stalled and more is needed from the RBNZ to support the economy and see inflation sustainably around target over the medium term. The non-tradable inflation print and core inflation measures will be crucial for the RBNZ, following several quarters of stability. Inflation is a lagging indicator, so even a stronger-than-expected non-tradable inflation print is unlikely to sway the RBNZ from an August cut. After all, the outlook for global growth has softened and domestic capacity pressures have waned. However, a downside surprise to non-tradable inflation would add to the case for the RBNZ to signal even further cuts are needed. We're expecting a 25bp cut in both August and November.

All up, we think Q2 will mark the peak in annual non-tradable inflation for now. The economic expansion has stalled, the global environment has become a headwind, and peak capacity pressure is behind us. The RBNZ needs to see accelerating GDP growth to achieve a sustained lift in inflation, and that is looking increasingly unlikely to occur.

Table 1. ANZ Q2 CPI component-level forecast

Groups	q/q%	%pt cont.
Food	0.6	0.12
Alcoholic beverages and tobacco	0.3	0.02
Clothing and footwear	0.2	0.01
Housing and household utilities	0.7	0.18
Household contents and services	1.1	0.05
Health	0.0	0.00
Transport	2.5	0.34
Communication	-2.4	-0.07
Recreation and culture	-1.6	-0.15
Education	0.2	0.00
Miscellaneous goods and services	0.6	0.05
Total	**0.6**	**0.6**

Figure 1. Selected core inflation measures

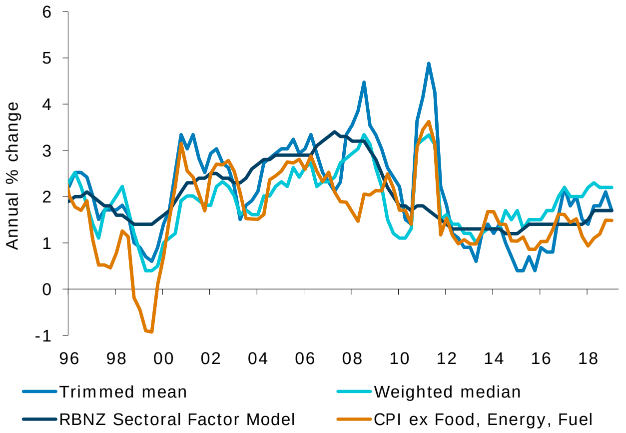


Figure 2. Headline, tradables & non-tradables inflation

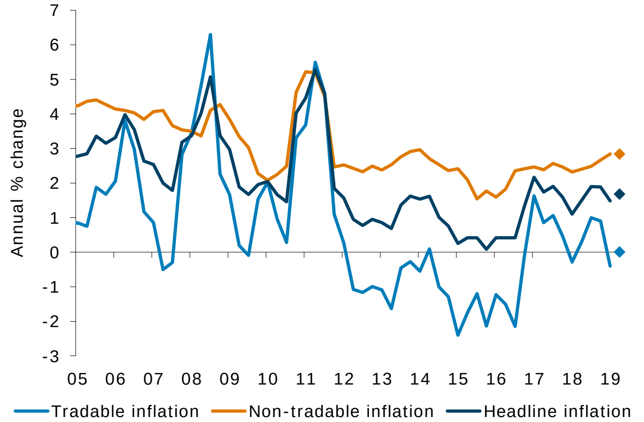
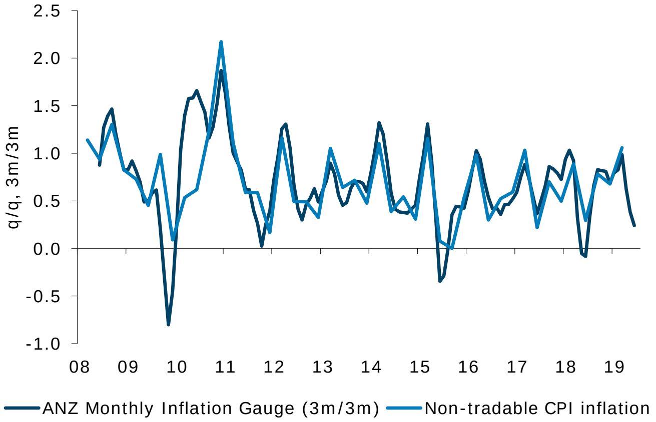


Figure 3. ANZ Inflation Gauge & non-tradables inflation



Source: Statistics NZ, ANZ Research

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