

Consumers Price Index – 2019Q4

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Close to target

- CPI lifted 0.5% q/q in Q4 – in line with ANZ forecasts, but stronger than the market (0.4%) and RBNZ’s November MPS forecast (0.2%).
- At 1.9%, annual inflation is running just 0.1%pts shy of the 2% target midpoint, but with non-tradeable inflation expected to remain close to 3% y/y and a lift in tradeable inflation in the pipeline, 2020 should bring a 2-handle.
- The RBNZ should be feeling pretty comfortable with the current state of play. Annual non-tradeable inflation is (and should broadly remain) where it needs to be, core measures of inflation are at or close to 2%, and the economic data pulse has recently improved. We expect the OCR will be on hold at 1% for the foreseeable future, barring global shocks.

Key points

Headline CPI increased 0.5% q/q in Q4, in line with our expectation, but stronger than both market expectations for a 0.4% q/q lift and the RBNZ’s November MPS forecast of 0.2% q/q.

The surprise versus the RBNZ’s forecast comes from stronger-than-expected tradeable inflation. This is the more volatile and less persistent type of inflation, given it is heavily influenced by exchange rate movements and global supply and demand dynamics. Tradeable inflation lifted 0.4% q/q (RBNZ: -0.2% q/q), reflecting recent NZD weakness. The lift is stronger than is typical for a December quarter (and stronger than the 0.2% we had pencilled in). A smaller seasonal dip in fruit and vegetable prices contributed.

Non-tradeable (domestic) inflation rose 0.6% q/q, with housing-related costs (rents and the purchase of housing) remaining a persistent driver. With the housing market picking up, this theme looks set to continue for a while yet.

Annual headline inflation lifted to 1.9% from 1.5% in Q3, with non-tradeable inflation dipping 0.1%pt from Q3 to 3.1% y/y and tradeable inflation lifting to 0.1% y/y from -0.7% y/y.

Looking through the volatility and focusing on the underlying inflation pulse, movements across core inflation measures suggest underlying inflation gradually intensified in Q4, and are now pretty much bang on the 2% target midpoint:

- the weighted median was stable at 2.3% y/y;
- inflation excluding food and energy ticked up 0.2%pts to 2.0%;
- annual trimmed mean measures lifted around 0.3%pts across most levels of trim, to be sitting exactly at the 2% target midpoint on average.

The RBNZ’s sectoral factor model will be released at 3pm. The last read was 1.7%.

We think the RBNZ will be pretty comfortable with today’s inflation read. Annual non-tradeable inflation is sitting comfortably around the 3% goldilocks zone, the solid lift in headline inflation should translate into higher near-term inflation expectations, and the broader data pulse has recovered with previous monetary stimulus filtering through – particularly to the housing market. It’s

Data summary

	% qtr	% ann
Headline CPI	0.5%	1.9%
Tradable	0.4%	0.1%
Non-tradeable	0.6%	3.1%

not a strong, “inflation’s getting out of hand” story by any means, and it’s backward looking, but it certainly affords the RBNZ time to watch how things evolve from here.

Looking forward, we think economic activity is poised to gradually accelerate over the year ahead and grow around trend over the medium term, with resurgence in the housing market, improving business sentiment and the promise of a little extra government spending on key infrastructure all supporting. Unless something untoward happens, we think the RBNZ will keep the OCR at its current, stimulatory, level of 1% for the foreseeable future.

For those who love details, some of the larger quarterly price moves were as follows:

- **Housing-related prices continue to support domestic inflation.** Rents increased 0.8% q/q, and purchase of housing rose 0.5% q/q. The housing and household utilities group contributed 0.1%pts to headline inflation.
- **Transport prices lifted 2.1% q/q**, making a 0.3%pt contribution to quarterly inflation. An 11.8% lift in domestic air travel and a 9.3% rise in international air transport drove much of this strength. Road passenger transport (chiefly vehicle hire prices) also posted a solid increase (up 6.7% q/q). Petrol prices lifted 1.6% q/q – a touch weaker than we were expecting.
- **The recreation and culture group rose 1.6% q/q**, making a 0.15%pt contribution. A 10.9% q/q lift in domestic accommodation services was a key driver.
- **Food prices provided a smaller seasonal drag than usual**, with the food group down 0.6% q/q – and making a -0.1%pt contribution. Minimum wage rises and solid global demand appear to be providing a bump.

Figure 1. Headline CPI inflation

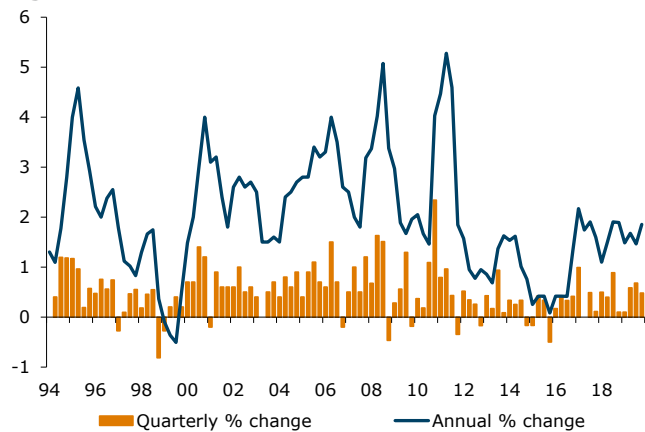


Figure 2. CPI inflation components

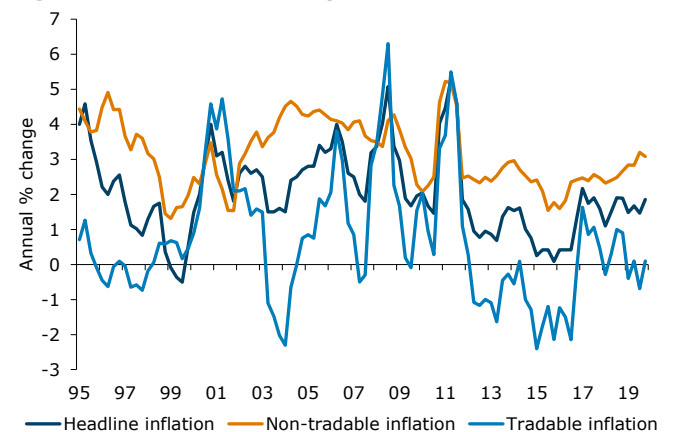


Figure 3. CPI groups – December 2019 quarter

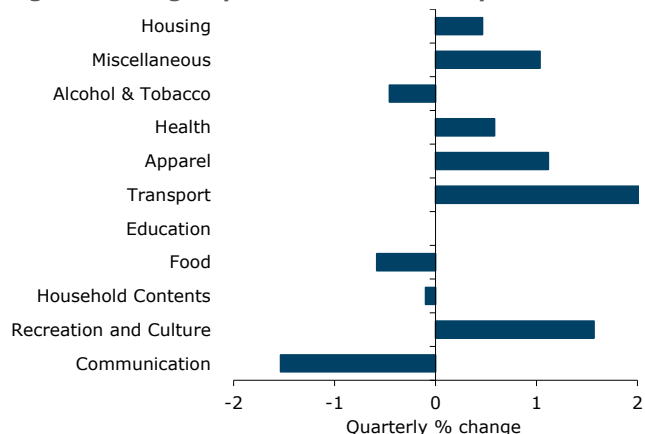
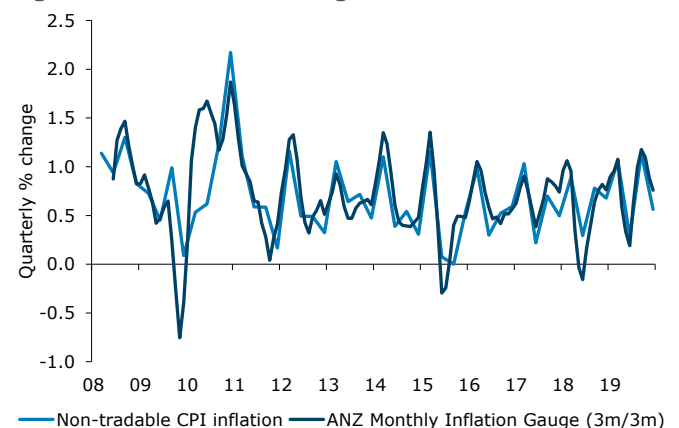


Figure 4. ANZ Inflation Gauge & non-tradables inflation



Source: Statistics NZ, ANZ Research



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