

Consumers Price Index – 2020Q1

20 April 2020



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Going out with a bang

- CPI lifted 0.8% q/q in Q1 – stronger than our (0.5% y/y) and market (0.4%) expectations.
- At 2.5%, annual headline inflation was running a touch stronger than the RBNZ's 2% target midpoint.
- But that's all ancient history now that we're in the midst of the most significant and synchronised global economic contraction in a generation.
- The outlook is for a very weak inflation pulse that's likely to persist for quite some time. This, alongside the significant contraction in employment that's already underway, means the RBNZ has its work cut out.

Key points

Headline CPI increased 0.8% q/q in Q1, stronger than anyone expected. Annual inflation accelerated 0.6%pts to 2.5%. This will probably be the strongest read for quite some time.

Non-tradable (domestic) inflation rose 1.4% q/q, to be up 3.4% y/y. This was well within the goldilocks zone, but with demand weak and employment falling off a cliff the porridge has since cooled – significantly.

Tradable inflation lifted 0.1% q/q, with the annual measure lifting 1.4%pts from Q4 as 2019's weak Q1 read (-1.3% q/q) dropped out of the annual calculation.

As expected, there wasn't much evidence of weaker core inflation in the Q1 data. Core inflation was very strong.

- the weighted median rose 0.5%pts to 2.8% y/y;
- inflation excluding food and energy ticked up 0.3%pts to 2.3%;
- annual trimmed mean measures lifted around 0.6%pts to 2.5-2.7% across all levels of trim.

The RBNZ's sectoral factor model will be released at 3pm. The RBNZ's read for Q4 ticked up 0.1%pt to 1.8%. It's unlikely this will pick up a 2-handle any time soon.

We are now in the midst of the most significant and synchronised economic contraction in a generation. Labour market conditions are loosening, and underlying inflation pressures diminishing. And there's plenty more to come. Even with extremely accommodative monetary and fiscal policy settings, the current economic crisis will prove difficult to recover from. Household incomes will be weak, and many will look to deleverage where they can. Businesses will remain cautious for some time, with investment and hiring expected to plunge.

We foresee annual headline inflation decelerating to the bottom of the RBNZ's 1-3% target band by the end of the year and remaining below this level throughout 2021, with only a gradual recovery thereafter. Risks to this outlook are skewed to the downside.

Data summary

	% qtr	% ann
Headline CPI	0.8%	2.5%
Tradable	0.1%	1.5%
Non-tradable	1.4%	3.4%

With this outlook in mind the Q1 read feels like ancient history, but for those who are into the details, some of the more significant price moves were as follows:

- As foretold by the monthly Food Price Index, the food group rose 2.0% q/q.
- The annual lift in tobacco excise tax made its usual hefty Q1 contribution, with cigarettes and tobacco up 11.1% q/q (a 0.3%pt contribution to headline CPI).
- Housing and household utilities (up 0.9% q/q) remained a key driver of headline inflation. But rent freezes and [a sharp slowdown in housing market activity](#) should put an end to that pretty quickly.
- Reflecting the recent plunge in oil prices, petrol prices fell 2.3% q/q. If prices at the pump are maintained around current levels, the decline next quarter will be closer to 15%.
- Domestic airfares fell 1.2% q/q as non-essential travel began to tail off significantly around half way through the quarter. It has since completely dried up.
- Accommodation services prices lifted 3% q/q. Our own monitoring suggested prices fell about this much. With international tourism out, weakness is on the cards.

Looking forward, there will be a little more uncertainty around these data than normal. Statistics NZ [released a note last week](#) outlining how the lockdown has meant they have had to use some alternative data sources and make some imputations in March. Given the lockdown extended into Q2, next quarter will be affected too. Lockdown disruption may result in some volatility in the CPI over the quarters ahead but we expect this will be relatively minor. By the time Statistics NZ are back in normal collection mode (hopefully Q3), we think the underlying inflation pulse will be very weak.

Figure 1. Headline CPI inflation

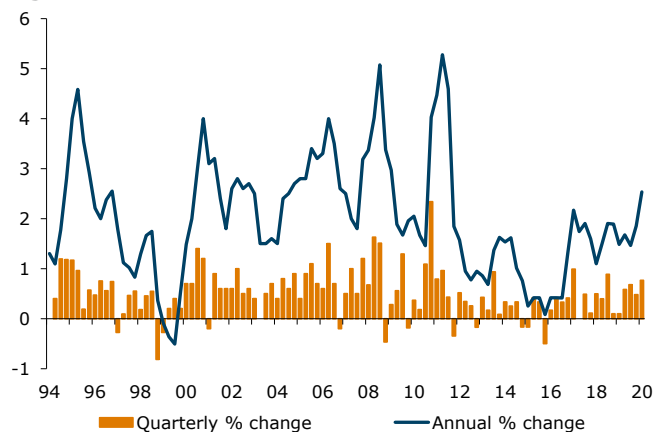


Figure 2. CPI inflation components

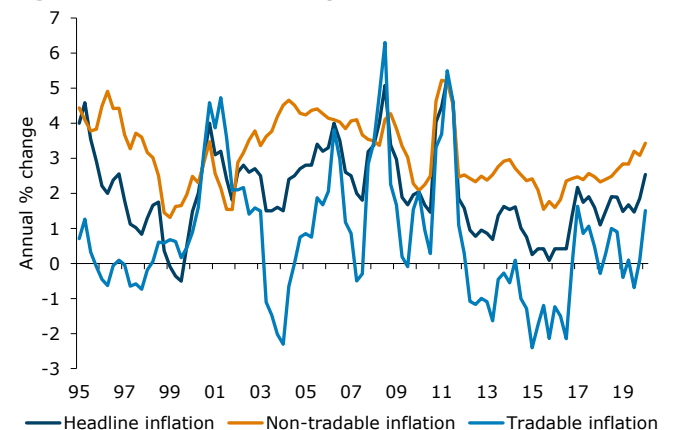


Figure 3. CPI groups – March 2020 quarter

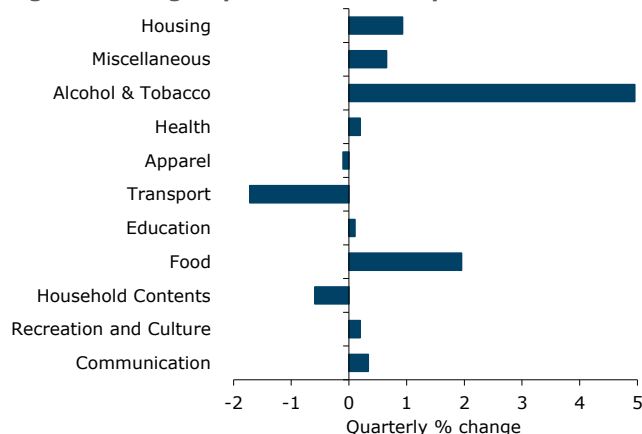
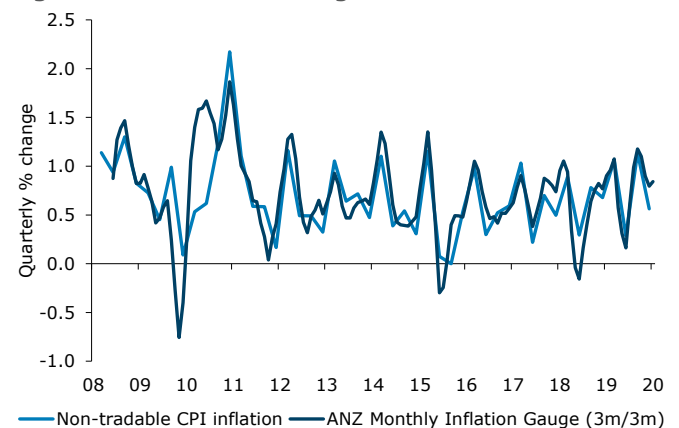


Figure 4. ANZ Inflation Gauge & non-tradables inflation



Source: Statistics NZ, ANZ Research



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