

December 2019 Quarter CPI Preview

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Within a whisker of the mid-point

- We expect headline CPI rose 0.5% q/q in the December quarter, with annual inflation accelerating to 1.9% from 1.5% in Q3. Non-tradable inflation is expected to print at 0.7% q/q (3.2% y/y), with tradable inflation up 0.2% q/q (-0.1% y/y).
- This is stronger than the RBNZ's November MPS forecast, owing mostly to stronger-than-expected tradable inflation. This is the less persistent type of inflation, but nonetheless it sees annual inflation come within a whisker of the target midpoint, and thus affords the Reserve Bank some scope to sit back and see how things evolve from here.

Key points

December quarter CPI figures are released next Friday (24 January).

We expect headline CPI inflation will print at 0.5% q/q, with annual inflation accelerating to 1.9% from 1.5%. This is stronger than the RBNZ's November MPS pick of 1.6%, owing largely to higher tradable inflation (ANZ: +0.2% q/q, RBNZ: -0.2% q/q). That said, at 0.7% q/q (3.2% y/y) we also think non-tradable (domestic) inflation will come in a touch stronger than the RBNZ's November forecast of 0.6% q/q (3.1% y/y). Taken together with some recent improvement in the data pulse, this suggests the Reserve Bank can afford to be patient with monetary policy settings – unless something untoward happens.

Annual non-tradable inflation has accelerated recently towards the goldilocks zone of around 3%. While some of this is policy induced (eg road user charges and tobacco excise), our [Monthly Inflation Gauge](#) suggests underlying inflation pressures have also intensified modestly. And that suggests core inflation measures may edge slightly closer to the target mid-point in Q4.

Indeed, recent data flow/developments are consistent with a little more pent-up inflation pressure than we have previously assumed:

- Q3 GDP revisions suggest the economy was running a little hotter in late 2018 and early 2019 than previously thought. However, the sharper deceleration in growth in the second half of last year suggests pipeline inflation pressures may struggle to intensify from here.
- Signalled downward revisions to annual net migration inflows (out next Thursday) suggest labour supply (and potential GDP) may have been a little lower than previously assumed, implying higher-than-otherwise pipeline wage and inflation pressure for a given rate of economic expansion.

Looking forward, the recent recovery in the housing market and business sentiment (but less so reported business activity), and the promise of a little extra government spending on key infrastructure – even if that is a slow burn, medium-term story – mean the balance of risks to our forecast of an OCR cut in May is skewed towards this happening later, if at all.

Admittedly, the recent improvement is off a pretty soft base and may not persist, but for now the RBNZ should be feeling pretty comfortable that previous easing in monetary policy is working its magic – albeit perhaps gradually.

Consumers Price Index – December 2019 Quarter

	Expected	Prev
CPI – q/q	0.5%	0.7%
CPI – y/y	1.9%	1.5%
Tradable – q/q	0.2%	0.1%
Tradable – y/y	-0.1%	-0.7%
Non-tradable – q/q	0.7%	1.1%
Non-tradable – y/y	3.2%	3.2%

Turning to the details of next week's release:

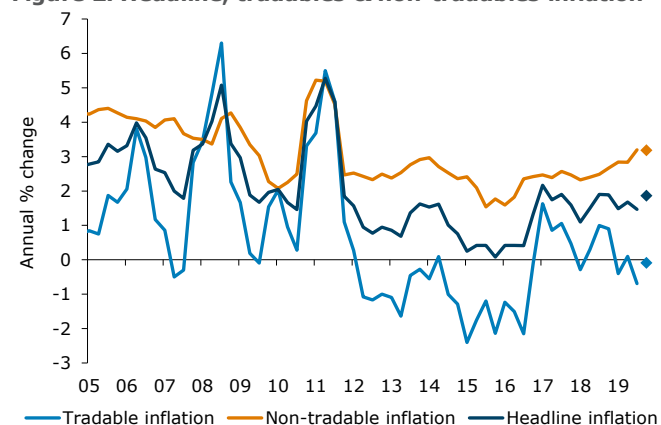
- A 2.9% q/q lift in the transport group is expected to make the largest contribution to quarterly inflation (0.4% pts), with petrol prices up around 5% q/q, holiday-season demand for vehicle hires supporting an 11% q/q rise in road passenger transport, and higher domestic air travel prices (up 7.7% q/q) all contributing.
- Housing and household utilities (up 0.6% q/q) are expected to contribute 0.2% pts to quarterly inflation, with persistent strength in rents (up 0.7% q/q) and purchase of housing (up 1.2% q/q) reflecting tightness in the housing market.
- If the Monthly Inflation Gauge is anything to go by, the recreation and culture group is also in for a solid quarterly lift, as accommodation services push seasonally higher (up 5.4% q/q).
- Food prices are expected to be the largest drag on quarterly inflation (-0.1% pts), but less than is typically the case for a December quarter as supply-side developments keep meat prices buoyed and restaurant meal inflation remains robust – a sector highly exposed to minimum wage rises. Likewise, seasonal competition for beer and wine sales are expected to see prices there dip slightly in the quarter.

We think a Q4 CPI print in line with our expectation will come and go with little fanfare. Inflation is likely to come within a whisker of the 2% target midpoint in Q4, and non-tradable inflation is in the goldilocks zone. We can add to that signs that the recent slowing in economic momentum is finding a floor, with the economy (at least the housing market) responding to previous monetary stimulus. All up, even though questions remain around the persistence of the recent improvement in the data pulse, for now, the RBNZ can afford to be patient.

Table 1. ANZ Q4 CPI component-level forecast

Groups	q/q%	%pt cont.
Food	-0.6	-0.11
Alcoholic beverages and tobacco	-0.7	-0.06
Clothing and footwear	-1.3	-0.05
Housing and household utilities	0.6	0.16
Household contents and services	-1.3	-0.05
Health	0.2	0.01
Transport	2.9	0.40
Communication	-1.2	-0.03
Recreation and culture	2.0	0.18
Education	0.1	0.00
Miscellaneous goods and services	0.8	0.06
Total	0.5	0.5

Figure 2. Headline, tradables & non-tradables inflation



Source: Statistics NZ, RBNZ, ANZ Research

Figure 1. Selected core inflation measures

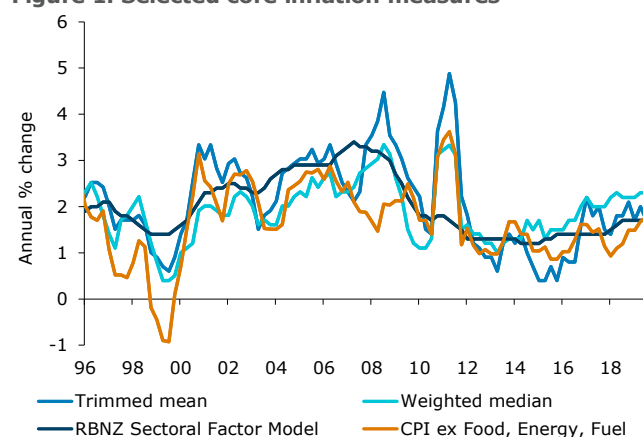
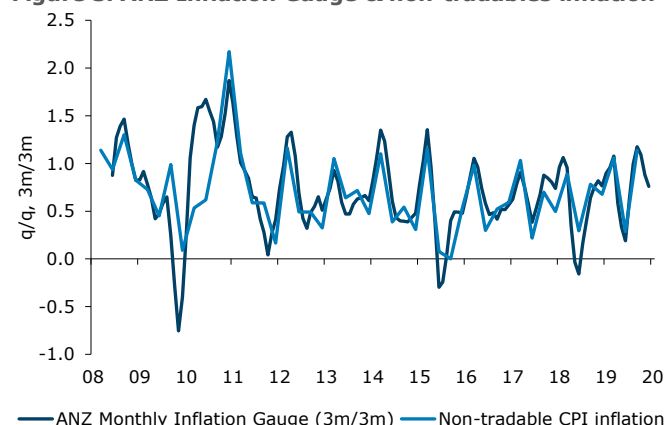


Figure 3. ANZ Inflation Gauge & non-tradables inflation





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