

March 2020 Quarter CPI Preview

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Downhill from here

- Headline CPI is expected to have lifted 0.5% q/q in the March quarter, with annual inflation accelerating to 2.2% from 1.9% in Q4. Non-tradable inflation is expected to print at 1.0% q/q (3.0% y/y), with tradable inflation at -0.3% q/q (1.1% y/y).
- Inflation was pretty much bang on the RBNZ's target midpoint before COVID-19 transformed from a risk to China's growth outlook to the largest global economic contraction since the Great Depression. In that context, what inflation did in Q1 is hardly relevant for monetary policy settings today. The RBNZ has already thrown the kitchen sink at it. But even with fiscal support in train, we think it'll need to add the bathroom vanity as well.

Key points

March quarter CPI figures will be released next Monday (20 April).

Economic activity was ticking along relatively smoothly before COVID-19 spoiled the party and brought the business cycle crashing to an extremely abrupt end. But don't expect to see too much evidence of weak core inflation in the Q1 CPI data; that's more of a story for Q2 and beyond.

We expect headline CPI lifted 0.5% q/q in Q1, with annual inflation accelerating 0.3% pts from Q4 2019 to 2.2%. Non-tradable inflation of 1.0% q/q will be just enough to see annual inflation hold on to its 3 handle – but its days are numbered. Annual tradable inflation is poised to lift a whole %pt from Q4 as 2019's weak Q1 read drops out of the annual calculation. However, if petrol prices remain around current levels then gravity will come calling in Q2.

Looking forward, there are a number of class-level price indices that might be difficult to measure while the country is under lockdown. We are experiencing such difficulties with our [Monthly Inflation Gauge](#), and suspect Statistics NZ may need to make some interpolations during this time. However, the dust will settle and a measured price level will eventually be observed. And when that happens, we're expecting to see a very weak underlying inflation pulse emerge.

Regardless of the policy response, the current economic crisis will prove difficult to recover from. Household incomes will be lower, and confidence dented. Businesses will be cautious for some time. Demand for goods and services both here and abroad will remain stagnant for a considerable period, and that implies a muted inflation outlook. We expect annual headline inflation to slow to just 1% by the end of the year and remain below this level for all of 2021, with only a gradual recovery thereafter. Risks to this outlook are skewed to the downside. With this outlook in mind, the Q1 CPI data certainly feels a lot less relevant than usual.

We think fiscal and monetary has a lot more work to do. Once COVID-19 risks are under control it will be time for fiscal policy to kick-start the economy. Consistent with a weaker economic outlook and the expected path of bond issuance, RBNZ QE is expected to roughly double to around \$60bn in order to support market functioning and ease monetary conditions further.

Consumers Price Index – March 2020 Quarter

	Expected	Prev
CPI – q/q	0.5%	0.5%
CPI – y/y	2.2%	1.9%
Tradable – q/q	-0.3%	0.4%
Tradable – y/y	0.1%	1.1%
Non-tradable – q/q	1.0%	0.6%
Non-tradable – y/y	3.0%	3.1%

Turning to the details of next week's release:

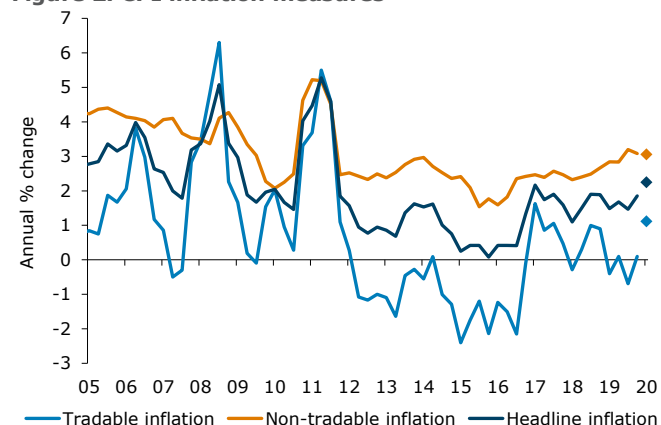
- A 1.9% q/q lift in the food group is expected to make the largest contribution to quarterly inflation (0.36% pts). This is a slightly stronger seasonal lift than usual, but not outside the recent historical range.
- The annual lift in tobacco excise tax is expected to make a 0.3%pt contribution in headline CPI.
- Housing and household utilities (up 0.7% q/q) are expected to contribute 0.16% pts to quarterly inflation, with persistent strength in rents (up 0.9% q/q) and purchase of housing (up 0.6% q/q) reflecting tightness in the housing market earlier in the quarter. Rent freezes and a sharp slowdown in housing market activity will stomp on this highly persistent inflation driver over the coming quarters.
- Global oil prices have plummeted. For petrol prices at the pump this has more than offset the drop in the NZD. Petrol prices are estimated to have fallen 4.5% q/q in Q1. And if prices at the pump are maintained around current levels, the decline next quarter will be closer to 15%.
- Domestic airfares are expected to fall around 3% q/q as non-essential travel began to tail off significantly around half way through the quarter. It has since completely dried up.
- If our Monthly Inflation Gauge is anything to go by, the recreation and culture group is in for an unseasonably weak quarter, with accommodation services prices expected to fall a little more than 1% q/q (they usually rise in Q1).

It's likely that the Q1 CPI read will get little market attention, given the absence of policy implications. Even core inflation measures will be discounted significantly given what lies ahead. Nonetheless, the data will be very interesting and are set to become much more so over the coming quarters.

Table 1. ANZ Q1 CPI component-level forecast

Groups	q/q%	%pt cont.
Food	1.9	0.36
Alcoholic beverages and tobacco	4.6	0.34
Clothing and footwear	-0.1	0.00
Housing and household utilities	0.7	0.16
Household contents and services	0.3	0.01
Health	0.3	0.01
Transport	-2.7	-0.38
Communication	-0.4	-0.01
Recreation and culture	-1.4	-0.13
Education	1.5	0.03
Miscellaneous goods and services	0.7	0.06
Total	0.5	0.5

Figure 2. CPI inflation measures



Source: Statistics NZ, RBNZ, ANZ Research

Figure 1. Selected core inflation measures

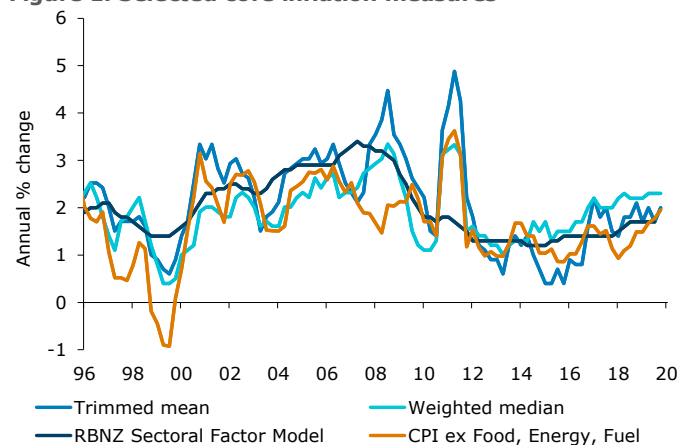
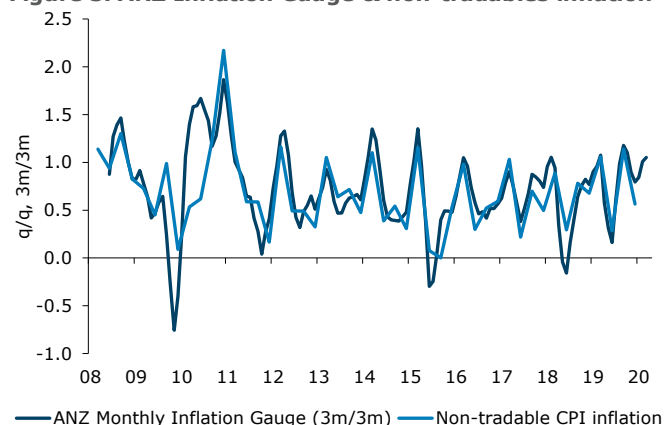


Figure 3. ANZ Inflation Gauge & non-tradables inflation





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