

September 2020 Quarter CPI Preview

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Contact

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Bump in the road

CPI is expected to have lifted 1.1% q/q (1.8% y/y) in Q3, reflecting a bounce after the 0.5% contraction in Q2. The data will be clouded by collection difficulties, methodological challenges, effects of COVID-19 disruption on prices, and volatility – along with a CPI re-weighting to boot. Policymakers will down-weight this data and look through the bumps, focusing instead on the road ahead where the outlook for inflation remains weak.

Key points

September quarter CPI figures will be released on Friday 23 October. We expect that CPI rose 1.1% q/q in Q3 following a 0.5% drop in Q2. This would see annual inflation tick up to 1.8%, after dropping from 2.5% to 1.5% in Q2.

Policymakers will take no comfort from seeing this acceleration, given that lockdown-induced bumpiness continues to play out in the data. Instead, they will be focused on the path ahead and the balance of risks. Although there is a little upside risk to our GDP forecasts, we remain of the view that the economy faces a slow recovery ahead. Demand will be slow to improve and firms will be operating with more spare productive capacity, reducing pressure on prices. The TWI is also elevated and global price pressures muted, while inflation expectations are low. All of this paints a picture of modest inflation, and a deceleration from here.

The RBNZ knows this. At the August MPS, the RBNZ also forecast a bounce of 1.1% q/q for Q3 – a temporary bump, amidst an otherwise weakening trend. At that time, their projections showed inflation weakening considerably over their forecast horizon, reaching a nadir of just 0.3% y/y in late 2021 – weaker than our own medium-term forecasts, which feature a trough of 0.7% y/y. Based on this subdued outlook, with unemployment also elevated and downside risks salient, the RBNZ has been putting [pedal to the medal](#) with monetary stimulus.

At this stage, we (and the RBNZ) won't know where the inflation pulse is settling until next year – potentially later if renewed COVID-19 restrictions are needed in future. Price movements will remain difficult to interpret and glean signal from, let alone forecast. There is a wider-than-usual band of uncertainty around our expectations for next week's CPI release.

A number of issues will affect the data this quarter:

- Collection difficulties and methodological challenges. For parts of the quarter, Stats NZ was unable to collect data in the usual way, survey responses were lower, and some prices were missing and had to be imputed.
- Effects of COVID-19 disruption on prices. Some parts of households' consumption baskets were unavailable during the quarter, while some services were temporarily free and some other goods have experienced supply disruptions. Unusual price movements should be expected.
- Volatility. Prices will remain volatile, reflecting the enormous disturbance caused by restrictions last quarter and the bounce-back in some prices. Renewed lockdowns this quarter will see volatility continue in Q4.
- CPI re-weighting. Stats NZ are updating household expenditure weights (last done in 2017). While weights are slow moving, this will affect how price movements are aggregated, adding to uncertainty about next week's outturn.

Consumers Price Index – September 2020 Quarter

	Expected	Prev
CPI – q/q	1.1%	-0.5%
CPI – y/y	1.8%	1.5%
Tradable – q/q	1.4%	-1.2%
Tradable – y/y	0.7%	-0.6%
Non-tradable – q/q	0.9%	0.0%
Non-tradable – y/y	2.9%	3.1%

With that uncertainty in mind, details of the release are as follows. The quarterly bounce in CPI is expected to be particularly strong on the tradable side (+1.4% q/q; 0.7% y/y), reflecting post-lockdown rebounds across clothing, durable goods and petrol prices. Non-tradable inflation is expected to lift 0.9% q/q (2.9% y/y).

Of the 1.1% q/q increase in headline CPI:

- Transport is expected to contribute 0.25%pts, on a partial rebound in petrol prices (2.7% q/q) after a 12% fall in Q2, plus recovery in transport services.
- Clothing and footwear are expected to contribute 0.1%pt, reflecting a partial recovery after COVID-related disruption. Similar partial bounces are expected in some other durables and electronics categories, roughly 0.1%pt combined.
- Recreational and cultural group is expected to contribute 0.1% q/q, reflecting a recovery in recreation prices as restrictions have eased, and a modest lift in accommodation services (2.2% q/q) after last quarter's slump (-14% q/q).
- Rate rises alongside increases in rents and homeownership costs will push housing and household utilities prices higher, contributing +0.2%pts. Increases in insurance premiums will contribute another 0.05%pts.
- A solid rise in food prices is expected (1.4% q/q), contributing +0.3%pts. Fruit and vegetable prices have risen 13%, due to shortages of particular produce. Grocery prices have eased following the spending flurry during Q2.

Core inflation measures may be tainted by noise in the data and will contain less signal than usual, especially since measures released by Stats NZ will be affected by structural breaks from the CPI re-weight. The sectoral factor model of core inflation released by the RBNZ at 3pm on October 23 will be less affected by these issues and likely have the most signal. But nonetheless, we won't know where the underlying inflation pulse is tracking until next year.

Table 1. ANZ Q3 CPI component-level forecast

Groups	q/q%	%pt cont.
Food	1.4	0.28
Alcoholic beverages and tobacco	0.2	0.02
Clothing and footwear	2.4	0.10
Housing and household utilities	0.9	0.24
Household contents and services	0.7	0.03
Health	0.7	0.03
Transport	1.8	0.24
Communication	-1.1	-0.03
Recreation and culture	1.0	0.09
Education	0.3	0.00
Miscellaneous goods and services	0.7	0.06
Total	1.1	1.1

Figure 1. CPI inflation measures

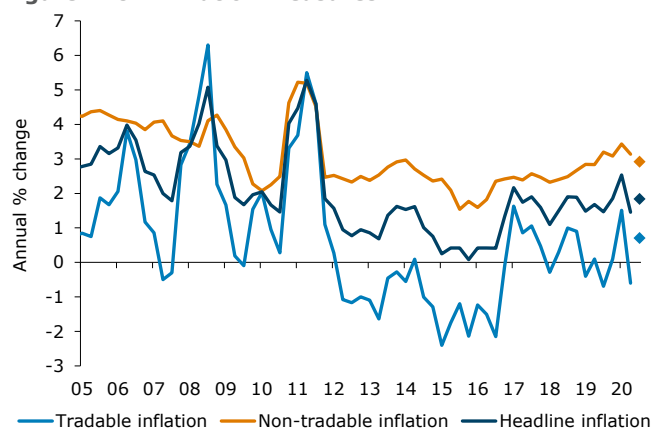


Figure 2. Selected core inflation measures

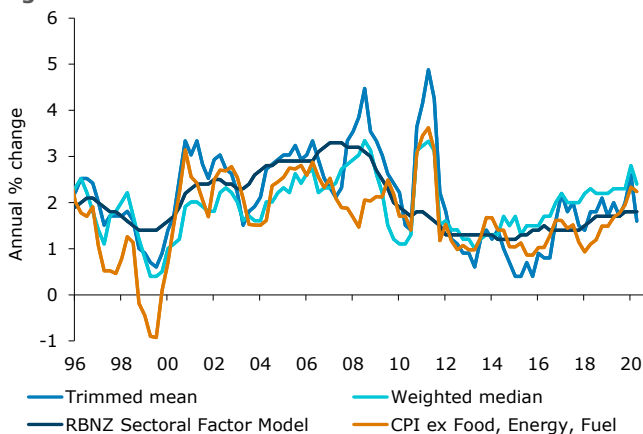
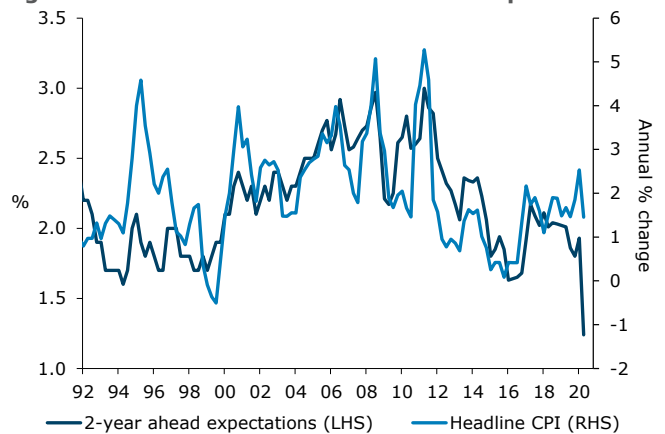


Figure 3. Headline inflation and inflation expectations



Source: Statistics NZ, RBNZ, ANZ Research



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