

Consumers Price Index – 2020Q4

22 January 2021



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Contact

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Disruption

- CPI saw a solid gain of 0.5% q/q (1.4% y/y) in Q4, which was a little stronger than we had expected (0.3% q/q, 1.2% y/y). But the themes we expected were there: the starting point for inflation is weak, but constriction cost inflation is solid, and other pockets of price pressure were evident on account of supply issues.
- The RBNZ will look through transitory price pressure, but encouragingly core inflation measures generally lifted and are sitting near 2%. These measures may ease a little as transitory cost pressures dissipate but this better-than-expected starting point is encouraging for the RBNZ nonetheless.
- We expect that the RBNZ will remain cautious about downside risks and maintain an easing bias, but a better starting point for core inflation does pose some risk that the RBNZ does not need to cut the OCR further if momentum in the economy can be maintained.

Key points

CPI increased 0.5% q/q, stronger than market (0.2%), our own forecast (0.3%), and RBNZ expectations at the time of the November MPS (0.2% q/q). Annual inflation was stable at 1.4% y/y.

Inflation continues to be affected by measurement difficulties that have made forecasting today's print more difficult than usual, and will make interpreting the underlying pulse murky for a while yet.

Consistent with our price monitoring, pockets of strength were evident in today's release, relative to what is usual this time of year. This reflected cost pressures due to supply disruption and potentially some payback from lockdown-induced weakness. We expect some short-term improvement in inflation from continued cost-push pressures, but this is expected to be temporary and the RBNZ will look through it.

Still, clearly momentum in today's data was more solid than generally expected. Although annual inflation remains well below the midpoint of the RBNZ's 1-3% target range, a continued deceleration was not evident and core inflation measures generally lifted. This will be an encouraging development for the RBNZ. Construction cost inflation was also solid as expected – symptomatic of this bright spot in the uneven economic recovery.

Over the medium term, the outlook is now looking more assured, reflecting better economic momentum, even as we face challenges ahead. Although some caution is needed, given the potential for retracement in some areas as cost pressures ease, a stronger starting point for inflation is no doubt a good thing for the RBNZ – supportive of inflation expectations continuing to improve. And a better-than-expected underlying inflation pulse makes getting back to target over the medium term just that little bit easier.

In the time ahead it may be difficult for underlying inflation to stay near 2%, and for headline inflation to lift durably, in light of domestic headwinds. As such, the RBNZ will remain vigilant to downside risks, with an easing bias until a sustained lift is seen. On balance, we think the economic recovery will show some signs of fragility into 2021 and that more stimulus will be deemed necessary to shore up the outlook. But a better starting point for core inflation does pose some risk that the RBNZ does not need to cut the OCR further if momentum in the economy can be maintained.

Data summary

	% qtr	% ann
Headline CPI	0.5%	1.4%
Tradable	0.2%	-0.3%
Non-tradable	0.7%	2.8%

Turning to the details:

- Non-tradable prices lifted 0.7% q/q as expected, to tick up from 2.6% to 2.8% y/y.
- Tradable prices rose 0.2% (-0.3% y/y), stronger than expected (-0.4% q/q). We had allowed for some pockets of strength on account of supply disruptions, but this impact was stronger than expected. This is an area where price monitoring is difficult.
- Food and alcoholic beverage prices fell as expected, subtracting 0.30%pts from headline CPI.
- Transport prices contributed 0.3%pts, with strength in vehicle prices, reflecting freight disruption. This was a bit stronger than expected, with new car prices and international airfares contributing.
- Construction costs rose 1.3% q/q in line with our forecast, but energy prices were a touch weaker than expected. Overall, the housing group contributed 0.1%pts.
- Recreational and cultural contributed 0.2%pts as forecast, with accommodation prices up 11%.
- As expected, clothing and footwear, durables and telecommunication equipment all rose more than usual, reflecting cost pressures from freight disruption and potentially some technical payback from lockdown-induced weakness. However, telecommunications equipment, clothing and footwear and some other miscellaneous services were even stronger than the judgement we allowed for this – together accounting for an extra 0.2%pts relative to our expectations.
- Core inflation measures generally rose and are sitting near 2%. Trimmed mean measures rose across all levels of trim, with the 15% trim pushing back to 2.0% y/y. CPI excluding food and transport rose from 1.7% y/y to 2.1%. The weighted median fell 0.1%pts, but is also sitting at 2.1% y/y. The RBNZ's sectoral factor model is released at 3pm.

Figure 1. Headline CPI inflation

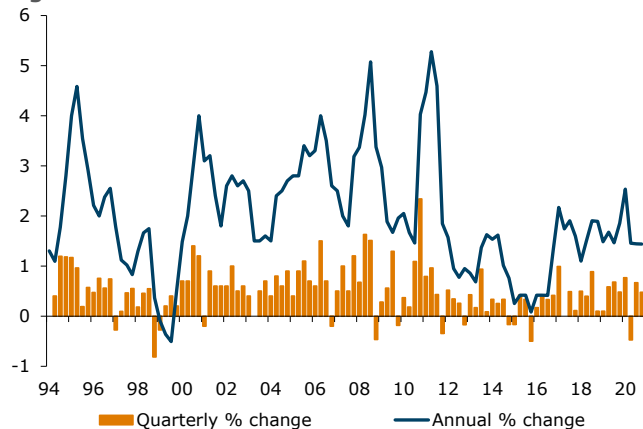


Figure 2. CPI inflation components

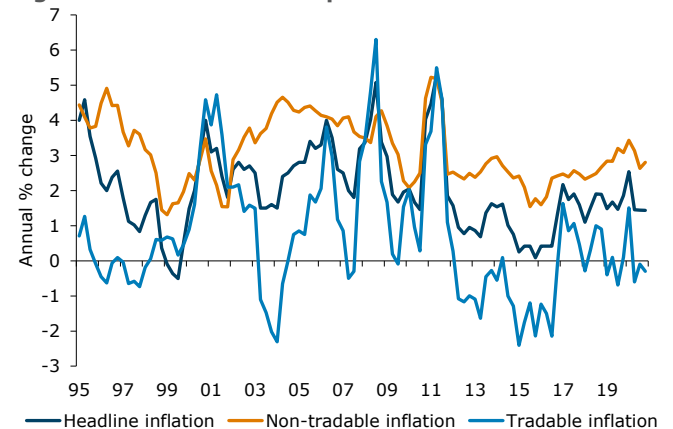


Figure 3. CPI groups – December 2020 quarter

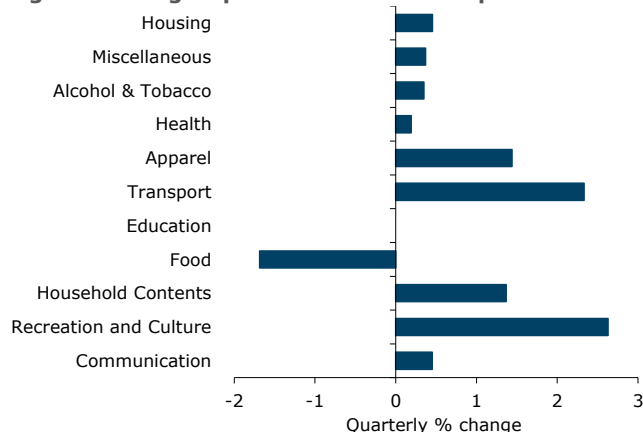
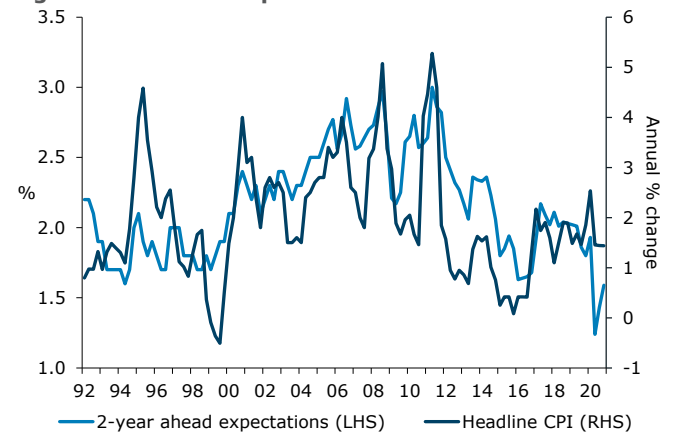


Figure 4. Inflation expectations & headline inflation



Source: Statistics NZ, RBNZ, ANZ Research



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