

## December 2021 Quarter CPI Preview

20 January 2022



This is not personal advice nor financial advice about any product or service. It does not take into account your financial situation or goals. Please refer to the Important Notice.



## Contact

Finn Robinson or Miles Workman for more details.

## High, but how high?

### The bottom line

We expect that consumer prices rose 1.5% q/q in the December quarter – seeing the annual rate of inflation accelerate to 6.0% y/y (from 4.9% in Q3). The actual number is highly uncertain, but what's clear is that the inflation dragon, which has been asleep for decades, has well and truly awoken. **Aggressive action** by the RBNZ will be needed for inflation to be tamed. It's very likely that next week's CPI data will be stronger than the 5.7% y/y print the RBNZ was expecting, and more worryingly, so too will be the trend in underlying inflation – meaning an even higher OCR track will likely be in the February MPS projection. And whenever Omicron arrives in the community, it's likely to cause similar levels of disruption as overseas – hurting growth but giving inflation yet another boost at the same time as inflation expectations have drifted steadily higher, above the RBNZ's target.

### The view

CPI inflation figures for the December quarter are released on Thursday next week.

We expect consumer prices rose 1.5% q/q (6.0% y/y) in the December quarter, versus 2.2% q/q (4.9% y/y) in September. A lower quarterly number might sound like good news, but it's not. The CPI is highly seasonal, with inflation usually slowing in Q4, as items like fresh fruit and vegetables fall in price. So a 1.5% q/q print is as much of a painful outlier as the 2.2% q/q rise we saw last quarter (figure 3, page 3).

Inflation is everywhere. COVID disruption and wider global inflation pressures are expected to see tradables prices rise 7.6% y/y in Q4 (5.7% previously), while domestic pressures (including surging construction costs, labour shortages, and rising government spending) should see non-tradables inflation lift to 5.1% y/y (4.5% previously). Inflation has well and truly shed the 'transitory' label that was being applied to it this time last year, and the challenge for the RBNZ will now be to rein in surging inflation pressures and smoothly return inflation to the 2% midpoint of their 1-3% target range. That won't be painless, at a time where rising costs and ongoing disruption from COVID have seen firms report stalling trading activity and **falling business confidence**, while cracks are finally **starting to appear** in what's been a housing market with nine lives.

Breaking down the 1.5% q/q rise in headline CPI in the December quarter:

- **Food prices** are expected to subtract 0.1ppts from headline inflation, with summer falls in seasonal produce bringing a temporary reprieve from surging food prices over the middle of 2021.
- **Petrol and other fuel prices** are expected to add 0.4ppts to headline, with petrol prices forecast to have risen 10.1% q/q, on higher oil prices and further NZD weakness against the USD over Q4.
- **Housing-related costs** are expected to add 0.4ppts, largely reflecting rising construction costs as new builds keep getting consented at a record pace, while labour and materials shortages drive up costs.

#### Consumers Price Index – December 2021 Quarter

	Expected	Prev
CPI – q/q	1.5%	2.2%
CPI – y/y	6.0%	4.9%
Tradable – q/q	2.0%	2.8%
Tradable – y/y	7.6%	5.7%
Non-tradable –q/q	1.3%	1.8%
Non-tradable – y/y	5.1%	4.5%

- 
- **Recreation and culture** should add 0.3ppts, reflecting the impact of ongoing global cost pressures on imported goods, as well as a summer surge in domestic accommodation costs.
  - The final 0.5ppts represents our attempt to capture the broad-based impact of ongoing COVID disruption on the price of imported goods and services. This is not a precise exercise – with a case in point being last quarter when the 2.2% quarterly CPI print came in 0.4ppts ahead of our 1.8% pick.

## Policy implications

It might be a new year, but the uncertainty and volatility that dogged the economy over the past two years are far from over. We've pencilled in a 6% annual inflation print – but anything from 5.5% to 6.5% (or even a bit higher) wouldn't be too surprising.

What's more important for monetary policy is that the inflation surge we're seeing is looking more and more persistent.

Globally, inflation has continued to build rapidly. In the US, inflation jumped to 7.0% y/y in December, and given how New Zealand's inflation often follows global trends (figure 2, over), that'll be another boost from the tradables side. In the 2010s, globalisation kept the prices of imported goods and services either stable or falling – contributing to below-target inflation for much of the decade. But for now, that script has been flipped on its head – and with the Omicron variant stressing already-fragile supply chains, global price pressures are still intense. Fortunately, central banks around the world have gradually come to the same conclusion as the RBNZ – that inflation is here to stay, and needs to be shown the door with rate hikes. That should gradually reduce global pressure on inflation.

Domestically, the labour market is well beyond anything that could be described as consistent with low and stable inflation. Jobs growth was accelerating at the end of 2021, indicating a good [chance](#) that unemployment declined in Q4, in contrast to our expectation that Delta would cause a small uptick. If the record-high participation rate were to decline, a dynamic that's been seen in other countries with large COVID [outbreaks](#), then unemployment could pretty soon have a 2-handle. That's very inflationary – especially considering that robust employment intentions and job vacancies indicate labour demand isn't letting up.

The biggest concern for the RBNZ is the surge in non-tradables inflation – which is only going to be reinforced by the inflationary labour market. The RBNZ needs to get ahead of any potential wage-price spiral if they want to bring inflation back to target over their forecast horizon. And while they have been far quicker than their international peers to end asset purchases and raise interest rates, it's very likely that both the labour market and inflation are already further from target than the RBNZ (or we) predicted back when the November MPS projections were published.

To be clear, downside risks to growth are building, with the housing market now cooling rapidly and COVID continuing to hold back activity. But with some of the downside activity risks due to the constrained supply side, the simple equation that 'weaker growth = weaker inflation' doesn't necessarily hold anymore. But more fragile growth does unfortunately increase the risk of an eventual hard landing in response to tighter policy.

Speaking of things going wrong, there's the small matter of the Omicron variant. It's incredibly infectious, and there's a consensus that it's a matter of when, not if, it arrives. The international experience suggests a short-lived but ferocious bout of disruption and shortages. Another one-off spike in inflation is not helpful when inflation expectations and core inflation are already drifting higher and higher.

All up, even with growth headwinds building, it's looking like inflation will be a more persistent foe over 2022 than initially thought – especially as pandemic disruptions continue through into the new year. That implies the RBNZ will need to do more than otherwise to engineer a return to target – and we think that'll involve the [OCR rising](#) to 3% in early 2023.

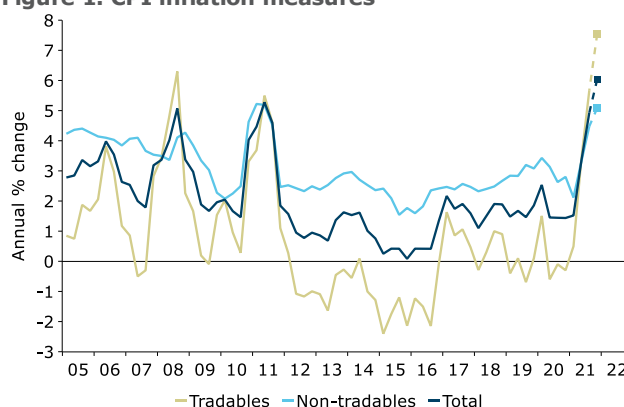
Obviously, uncertainty around any forecast at present is enormous. A lot has to go right for the RBNZ to be able to keep hiking for that long, quite apart from that high. And there are upside risks as well. Odds of a forecast revision before April 2023 are roughly 99%. But precise numerical OCR forecasts aside, the key theme of our updated view is that inflation is not going away on its own, and unless something dramatic happens, the RBNZ is going to have to keep on hiking right through a housing slowdown. Buckle up.

**Table 1. ANZ Q4 CPI component-level forecast**

	%	q/q%	%pt cont.
<b>Total</b>		<b>1.5</b>	<b>1.55</b>
Transport	5.3	5.3	0.69
Housing & Household Utilities	1.2	1.2	0.39
Recreation & Culture	3.3	3.3	0.27
Miscellaneous Goods & Services	1.5	1.5	0.12
Household Contents & Services	2.4	2.4	0.10
Clothes & Footwear	2.0	2.0	0.08
Health	1.0	1.0	0.04
Education	0.1	0.1	0.00
Alcoholic Beverages & Tobacco	-0.1	-0.1	-0.01
Communication	-0.7	-0.7	-0.02
Food	-0.6	-0.6	-0.12

■ Quarterly % change ■ Percentage point contribution  
Source: Stats NZ, Macrobond, ANZ Research

**Figure 1. CPI inflation measures**



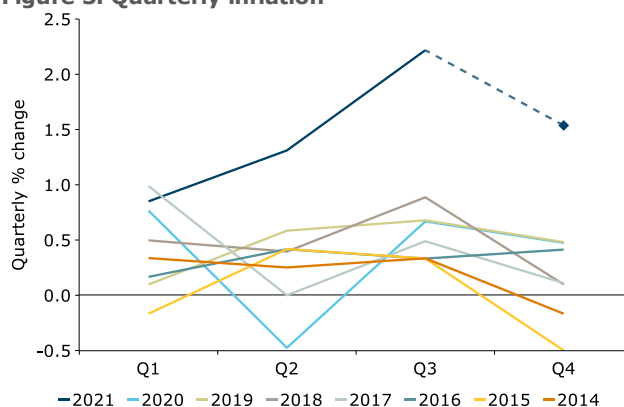
Source: Stats NZ, Macrobond, ANZ Research

**Figure 2. US and NZ inflation**



Source: BLS, Stats NZ, Macrobond, ANZ Research

**Figure 3. Quarterly inflation**



Source: Stats NZ, Macrobond, ANZ Research



## Contact us

---

### Meet the team

We welcome your questions and feedback. Click [here](#) for more information about our team.



**Sharon Zollner**  
Chief Economist

Follow Sharon on Twitter  
[@sharon\\_zollner](#)

Telephone: +64 27 664 3554  
Email: [sharon.zollner@anz.com](mailto:sharon.zollner@anz.com)

General enquiries:  
[research@anz.com](mailto:research@anz.com)

Follow ANZ Research  
[@ANZ\\_Research](#) (global)



**David Croy**  
Senior Strategist

Market developments, interest rates, FX, unconventional monetary policy, liaison with market participants.

Telephone: +64 4 576 1022  
Email: [david.croy@anz.com](mailto:david.croy@anz.com)



**Susan Kilsby**  
Agricultural Economist

Primary industry developments and outlook, structural change and regulation, liaison with industry.

Telephone: +64 21 633 469  
Email: [susan.kilsby@anz.com](mailto:susan.kilsby@anz.com)



**Miles Workman**  
Senior Economist

Macroeconomic forecast co-ordinator, fiscal policy, economic risk assessment and credit developments.

Telephone: +64 21 661 792  
Email: [miles.workman@anz.com](mailto:miles.workman@anz.com)



**Finn Robinson**  
Economist

Macroeconomic forecasting, economic developments, labour market dynamics, inflation and monetary policy.

Telephone: +64 21 629 553  
Email: [finn.robinson@anz.com](mailto:finn.robinson@anz.com)



**Kyle Uerata**  
Economic Statistician

Economic statistics, ANZ proprietary data (including ANZ Business Outlook), data capability and infrastructure.

Telephone: +64 21 633 894  
Email: [kyle.uerata@anz.com](mailto:kyle.uerata@anz.com)



**Natalie Denne**  
PA / Desktop Publisher

Business management, general enquiries, mailing lists, publications, chief economist's diary.

Telephone: +64 21 253 6808  
Email: [natalie.denne@anz.com](mailto:natalie.denne@anz.com)



## Important notice

Last updated: 15 October 2021

**This document is intended for ANZ's Institutional, Markets and Private Banking clients. It should not be forwarded, copied or distributed. The opinions and research contained in this document are (a) not personal advice nor financial advice about any product or service; (b) provided for information only; and (c) intended to be general in nature and does not take into account your financial situation or goals.**

This document may be restricted by law in certain jurisdictions. Persons who receive this document must inform themselves about and observe all relevant restrictions.

**Disclaimer for all jurisdictions:** This document is prepared and distributed in your country/region by either: Australia and New Zealand Banking Group Limited (ABN11 005 357 522) (**ANZ**); or its relevant subsidiary or branch (each, an **Affiliate**), as appropriate or as set out below.

This document is distributed on the basis that it is only for the information of the specified recipient or permitted user of the relevant website (**recipients**).

This document is solely for informational purposes and nothing contained within is intended to be an invitation, solicitation or offer by ANZ to sell, or buy, receive or provide any product or service, or to participate in a particular trading strategy.

Distribution of this document to you is only as may be permissible by the laws of your jurisdiction, and is not directed to or intended for distribution or use by recipients resident or located in jurisdictions where its use or distribution would be contrary to those laws or regulations, or in jurisdictions where ANZ would be subject to additional licensing or registration requirements. Further, the products and services mentioned in this document may not be available in all countries.

ANZ in no way provides any financial, legal, taxation or investment advice to you in connection with any product or service discussed in this document. Before making any investment decision, recipients should seek independent financial, legal, tax and other relevant advice having regard to their particular circumstances.

Whilst care has been taken in the preparation of this document and the information contained within is believed to be accurate, ANZ does not represent or warrant the accuracy or completeness of the information. Further, ANZ does not accept any responsibility to inform you of any matter that subsequently comes to its notice, which may affect the accuracy of the information in this document.

Preparation of this document and the opinions expressed in it may involve material elements of subjective judgement and analysis. Unless specifically stated otherwise: they are current on the date of this document and are subject to change without notice; and, all price information is indicative only. Any opinions expressed in this document are subject to change at any time without notice.

ANZ does not guarantee the performance of any product mentioned in this document. All investments entail a risk and may result in both profits and losses. Past performance is not necessarily an indicator of future performance. The products and services described in this document may not be suitable for all investors, and transacting in these products or services may be considered risky.

ANZ expressly disclaims any responsibility and shall not be liable for any loss, damage, claim, liability, proceedings, cost or expense (Liability) arising directly or indirectly and whether in tort (including negligence), contract, equity or otherwise out of or in connection with this document to the extent permissible under relevant law. Please note, the contents of this document have not been reviewed by any regulatory body or authority in any jurisdiction.

ANZ and its Affiliates may have an interest in the subject matter of this document. They may receive fees from customers for dealing in the products or services described in this document, and their staff and introducers of business may share in such fees or remuneration that may be influenced by total sales, at all times received and/or apportioned in accordance with local regulatory requirements. Further, they or their customers may have or have had interests or long or short positions in the products or services described in this document, and may at any time make purchases and/or sales in them as principal or agent, as well as act (or have acted) as a market maker in such products. This document is published in accordance with ANZ's policies on conflicts of interest and ANZ maintains appropriate information barriers to control the flow of information between businesses within it and its Affiliates.

Your ANZ point of contact can assist with any questions about this document including for further information on these disclosures of interest.

**Country/region specific information:** Unless stated otherwise, this document is distributed by Australia and New Zealand Banking Group Limited (**ANZ**).

**Australia.** ANZ holds an Australian Financial Services licence no. 234527. For a copy of ANZ's Financial Services Guide please request from your ANZ point of contact.

**Brazil, Brunei, India, Japan, Kuwait, Malaysia, Switzerland, Taiwan.** This document is distributed in each of these jurisdictions by ANZ on a cross-border basis.

**Cambodia.** The information contained in this document is confidential and is provided solely for your use upon your request. This does not constitute or form part of an offer or solicitation of any offer to engage services, nor should it or any part of it form the basis of, or be relied in any connection with, any contract or commitment whatsoever. ANZ does not have a licence to undertake banking operations or securities business or similar business, in Cambodia. By requesting financial services from ANZ, you agree, represent and warrant that you are engaging our services wholly outside of Cambodia and subject to the laws of the contract governing the terms of our engagement.

**Chile.** You understand and agree that ANZ Banking Group Limited is not regulated by Chilean Authorities and that the provision of ANZ Research is not subject to any Chilean supervision and is not guaranteed by any regulatory or governmental agency in Chile.

**European Economic Area (EEA): United Kingdom.** ANZ is authorised in the United Kingdom by the Prudential Regulation Authority (**PRA**) and is subject to regulation by the Financial Conduct Authority (**FCA**) and limited regulation by the PRA. Details about the extent of our regulation by the PRA are available from us on request. This document is distributed in the United Kingdom by Australia and New Zealand Banking Group Limited ANZ solely for the information of persons who would come within the FCA definition of "eligible counterparty" or "professional client". It is not intended for and must not be distributed to any person who would come within the FCA definition of "retail client". Nothing here excludes or restricts any duty or liability to a customer which ANZ may have under the UK Financial Services and Markets Act 2000 or under the regulatory system as defined in the Rules of the Prudential Regulation Authority (**PRA**) and the FCA. ANZ is authorised in the United Kingdom by the PRA and is subject to regulation by the FCA and limited regulation by the PRA. Details about the extent of our regulation by the PRA are available from us on request.

**Fiji.** For Fiji regulatory purposes, this document and any views and recommendations are not to be deemed as investment advice. Fiji investors must seek licensed professional advice should they wish to make any investment in relation to this document.

**Hong Kong.** This publication is issued or distributed in Hong Kong by the Hong Kong branch of ANZ, which is registered at the Hong Kong Monetary Authority to conduct Type 1 (dealing in securities), Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities. The contents of this publication have not been reviewed by any regulatory authority in Hong Kong.





## Important notice

**India.** If this document is received in India, only you (the specified recipient) may print it provided that before doing so, you specify on it your name and place of printing.

**Myanmar.** This publication is intended to be general and part of ANZ's customer service and marketing activities when implementing its functions as a licensed bank. This publication is not Securities Investment Advice (as that term is defined in the Myanmar Securities Transaction Law 2013).

**New Zealand.** This material is for information purposes only and is not financial advice about any product or service. We recommend seeking financial advice about your financial situation and goals before acquiring or disposing of (or not acquiring or disposing of) a financial product.

**Oman.** ANZ neither has a registered business presence nor a representative office in Oman and does not undertake banking business or provide financial services in Oman. Consequently ANZ is not regulated by either the Central Bank of Oman or Oman's Capital Market Authority. The information contained in this document is for discussion purposes only and neither constitutes an offer of securities in Oman as contemplated by the Commercial Companies Law of Oman (Royal Decree 4/74) or the Capital Market Law of Oman (Royal Decree 80/98), nor does it constitute an offer to sell, or the solicitation of any offer to buy non-Omani securities in Oman as contemplated by Article 139 of the Executive Regulations to the Capital Market Law (issued vide CMA Decision 1/2009). ANZ does not solicit business in Oman and the only circumstances in which ANZ sends information or material describing financial products or financial services to recipients in Oman, is where such information or material has been requested from ANZ and the recipient understands, acknowledges and agrees that this document has not been approved by the CBO, the CMA or any other regulatory body or authority in Oman. ANZ does not market, offer, sell or distribute any financial or investment products or services in Oman and no subscription to any securities, products or financial services may or will be consummated within Oman. Nothing contained in this document is intended to constitute Omani investment, legal, tax, accounting or other professional advice.

**People's Republic of China (PRC).** This document may be distributed by either ANZ or Australia and New Zealand Bank (China) Company Limited (**ANZ China**). Recipients must comply with all applicable laws and regulations of PRC, including any prohibitions on speculative transactions and CNY/CNH arbitrage trading. If this document is distributed by ANZ or an Affiliate (other than ANZ China), the following statement and the text below is applicable: No action has been taken by ANZ or any affiliate which would permit a public offering of any products or services of such an entity or distribution or re-distribution of this document in the PRC. Accordingly, the products and services of such entities are not being offered or sold within the PRC by means of this document or any other document. This document may not be distributed, re-distributed or published in the PRC, except under circumstances that will result in compliance with any applicable laws and regulations. If and when the material accompanying this document relates to the products and/or services of ANZ China, the following statement and the text below is applicable: This document is distributed by ANZ China in the Mainland of the PRC.

**Qatar.** This document has not been, and will not be:

- lodged or registered with, or reviewed or approved by, the Qatar Central Bank (**QCB**), the Qatar Financial Centre (**QFC**) Authority, QFC Regulatory Authority or any other authority in the State of Qatar (**Qatar**); or
- authorised or licensed for distribution in Qatar,

and the information contained in this document does not, and is not intended to, constitute a public offer or other invitation in respect of securities in Qatar or the QFC. The financial products or services described in this document have not been, and will not be:

- registered with the QCB, QFC Authority, QFC Regulatory Authority or any other governmental authority in Qatar; or
- authorised or licensed for offering, marketing, issue or sale, directly or indirectly, in Qatar.

Accordingly, the financial products or services described in this document are not being, and will not be, offered, issued or sold in Qatar, and this document is not being, and will not be, distributed in Qatar. The offering, marketing, issue and sale of the financial products or services described in this document and distribution of this document is being made in, and is subject to the laws, regulations and rules of, jurisdictions outside of Qatar and the QFC. Recipients of this document must abide by this restriction and not distribute this document in breach of this restriction. This document is being sent/issued to a limited number of institutional and/or sophisticated investors (i) upon their request and confirmation that they understand the statements above; and (ii) on the condition that it will not be provided to any person other than the original recipient, and is not for general circulation and may not be reproduced or used for any other purpose.

**Singapore.** This document is distributed in Singapore by the Singapore branch of ANZ solely for the information of "accredited investors", "expert investors" or (as the case may be) "institutional investors" (each term as defined in the Securities and Futures Act Cap. 289 of Singapore). ANZ is licensed in Singapore under the Banking Act Cap. 19 of Singapore and is exempted from holding a financial adviser's licence under Section 23(1)(a) of the Financial Advisers Act Cap. 100 of Singapore. In respect of any matters arising from, or in connection with, the distribution of this publication in Singapore, please speak to your usual ANZ contact in Singapore.

**United Arab Emirates (UAE).** This document is distributed in the UAE or the Dubai International Financial Centre (**DIFC**) (as applicable) by ANZ. This document does not, and is not intended to constitute: (a) an offer of securities anywhere in the UAE; (b) the carrying on or engagement in banking, financial and/or investment consultation business in the UAE under the rules and regulations made by the Central Bank of the UAE, the Emirates Securities and Commodities Authority or the UAE Ministry of Economy; (c) an offer of securities within the meaning of the Dubai International Financial Centre Markets Law (DIFCML) No. 12 of 2004; and (d) a financial promotion, as defined under the DIFCML No. 1 of 200. ANZ DIFC Branch is regulated by the Dubai Financial Services Authority (**DFSA**). ANZ DIFC Branch is regulated by the Dubai Financial Services Authority (**DFSA**). The financial products or services described in this document are only available to persons who qualify as "Professional Clients" or "Market Counterparty" in accordance with the provisions of the DFSA rules.

**United States.** Except where this is a FX-related document, this document is distributed in the United States by ANZ Securities, Inc. (**ANZ SI**) which is a member of the Financial Regulatory Authority (**FINRA**) ([www.finra.org](http://www.finra.org)) and registered with the SEC. ANZSI's address is 277 Park Avenue, 31st Floor, New York, NY 10172, USA (Tel: +1 212 801 9160 Fax: +1 212 801 9163). ANZSI accepts responsibility for its content. Information on any securities referred to in this document may be obtained from ANZSI upon request. This document or material is intended for institutional use only – not retail. If you are an institutional customer wishing to effect transactions in any securities referred to in this document you must contact ANZSI, not its affiliates. ANZSI is authorised as a broker-dealer only for institutional customers, not for US Persons (as "US person" is defined in Regulation S under the US Securities Act of 1933, as amended) who are individuals. If you have registered to use this website or have otherwise received this document and are a US Person who is an individual: to avoid loss, you should cease to use this website by unsubscribing or should notify the sender and you should not act on the contents of this document in any way. Non-U.S. analysts: Non-U.S. analysts may not be associated persons of ANZSI and therefore may not be subject to FINRA Rule 2242 restrictions on communications with the subject company, public appearances and trading securities held by the analysts. Where this is an FX-related document, it is distributed in the United States by ANZ's New York Branch, which is also located at 277 Park Avenue, 31st Floor, New York, NY 10172, USA (Tel: +1 212 801 916 0 Fax: +1 212 801 9163).

**Vietnam.** This document is distributed in Vietnam by ANZ or ANZ Bank (Vietnam) Limited, a subsidiary of ANZ.

This document has been prepared by ANZ Bank New Zealand Limited, Level 26, 23-29 Albert Street, Auckland 1010, New Zealand, Ph 64 9 357 4094, e-mail [nzeconomics@anz.com](mailto:nzeconomics@anz.com), <http://www.anz.co.nz>