

March 2022 Quarter CPI Preview

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Contact

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Uncertain – but certainly too high

The bottom line

We're forecasting that annual CPI inflation reached 7.4% in the March quarter – up from 5.9% at the end of 2021. But uncertainty is high in the wake of Omicron disruption and the commodity price volatility resulting from the invasion of Ukraine. Whatever the headline figure ends up being, we know the underlying inflation impulse is already far too strong for the RBNZ's comfort – and will likely have moved further in the wrong direction in the past three months. This should prompt the RBNZ to act aggressively (including, we think, a [50bp OCR hike this afternoon](#)) in order to get back in front of the inflation curve.

The view

CPI inflation figures for the March quarter are released on Thursday next week. We expect consumer prices rose 2.2% q/q (7.4% y/y) in the March quarter 2022, versus 1.4% q/q (5.9% y/y) in the December 2021 quarter. As usual these days, uncertainty abounds. The world economy has seen an intense bout of commodity price volatility in the wake of the Russian invasion of Ukraine – and it's uncertain exactly to what extent rising commodity prices will show up in Q1's consumer prices. That's on top of the already considerable noise created by Omicron disruption domestically.

Breaking down the 2.2% q/q rise in headline CPI in the March quarter:

- **Transport costs** are expected to add 0.6ppts to the headline figure. Of that, we estimate 0.4ppts comes from the surge in petrol prices over the March quarter. Spot prices for WTI oil surged from about USD75/barrel at the start of January to a peak of well over USD120/barrel as a result of the Russian invasion of Ukraine. Oil prices may have ended the quarter at 'just' USD100/barrel, but that's still a significant increase compared to the December quarter, when oil prices traded between USD65 and USD80/barrel. The temporary cut to [fuel excise tax announced by the Government](#) has reduced the impact of rising petrol prices (this will primarily impact the Q2 inflation figure). But if the tax cut is phased back out, that will cause higher inflation in later quarters.
- **Housing-related costs** are anticipated to have added 0.6ppts to the quarterly print. Of that, 0.1ppts reflects rising rents, and 0.4ppts reflects rising construction costs. House prices have started to fall – but that usually only correlates with lower construction cost inflation after about six months. Plus, cost expectations for construction firms in our [ANZ Business Outlook](#) showed no signs of slowing over the March quarter.
- **Food prices** are expected to add 0.5ppts to headline inflation, with the monthly Food Price Index posting a 7.6% annual gain in the year to March 2022. Global food prices have surged in the wake of the Russian invasion of Ukraine (the 'breadbasket of Europe'), and combined with Q2's 6% minimum wage hike, that could add further pressure in coming months.

Consumers Price Index –
March 2022 Quarter

	Expected	Prev
CPI – q/q	2.2%	1.4%
CPI – y/y	7.4%	5.9%
Tradable – q/q	2.8%	1.3%
Tradable – y/y	8.9%	6.9%
Non-tradable –q/q	1.9%	1.5%
Non-tradable – y/y	6.5%	5.3%

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- **Alcoholic beverages and tobacco** should contribute about 0.2ppts, reflecting overall strength in prices, plus the annual increase in the tax on tobacco products, which is pegged to annual inflation in the year to September in the previous quarter (4.9%).
 - **The rest** reflects broad-based rises in most groups of the CPI basket, barring communication (see table 1, over).

The exact breakdown of Q1 inflation is pretty uncertain. And given that Q1 saw the Omicron wave peak, and global commodity prices surge in the wake of the Russian invasion, it's very possible that tradables (ie imported) inflation comes in even hotter than the 8.9% y/y print we've pencilled in (vs 6.9% in Q4). For what it's worth, the current trend globally is for inflation to beat analyst estimates. In an environment where inflation expectations are becoming [dangerously elevated](#), an upward surprise would only increase the risk of expectations becoming unanchored from the RBNZ's 2% target midpoint.

But most important for the RBNZ will be the core inflation pulse. In the December quarter, all the key measures of core inflation were above the RBNZ's 1-3% target range for annual CPI inflation – even the slow-moving sectoral factor model. We're forecasting that non-tradables (ie domestic) inflation accelerated to 6.5% in Q1 from 5.3% previously, highlighting just how much of the inflation pulse is being generated by domestic sources.

Rising inflation expectations and [an extremely tight Kiwi labour market](#) create their own feedback loop of rising prices – supported by the very strong starting point for domestic inflation pressures. That speaks to the RBNZ needing to hike interest rates aggressively over this year to get ahead of the inflation curve – they have been drifting further and further behind, despite having three 25bp hikes under their belt. At this point, inflation is rising considerably faster than the OCR is.

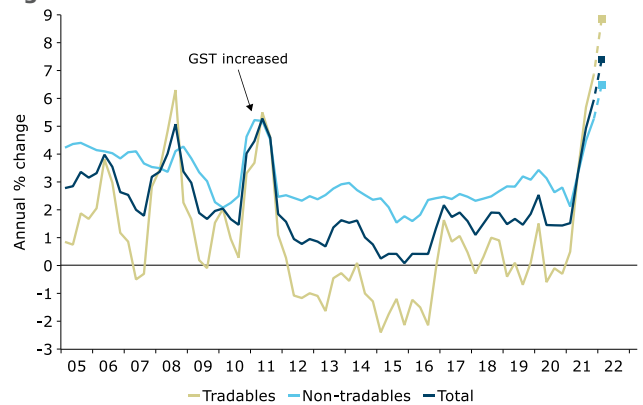
In the February MPS forecast (a meeting where a 50bp hike was seriously discussed, despite neither the market nor analysts anticipating it) the RBNZ forecast a 6.6% peak in CPI inflation in Q1, with non-tradables not exceeding 6.1%. If we're right, that forecast is already looking very dated – and with inflation already only forecast to return to 2% in Q1 2025 in the February MPS, further upside inflation surprises will need to be reflected directly in both forecast and actual aggressive OCR moves.

Table 1. ANZ Q1 CPI component-level forecast

	%	q/q%	%pt cont.
Total	2.23	2.2	2.23
Transport	4.5	4.5	0.60
Housing & Household Utilities	1.9	1.9	0.59
Food	2.8	2.8	0.53
Alcoholic Beverages & Tobacco	2.7	2.7	0.22
Miscellaneous Goods & Services	1.5	1.5	0.13
Household Contents & Services	1.3	1.3	0.06
Recreation & Culture	0.5	0.5	0.04
Health	0.8	0.8	0.03
Education	1.6	1.6	0.03
Clothes & Footwear	0.1	0.1	0.00
Communication	-0.1	-0.1	0.00

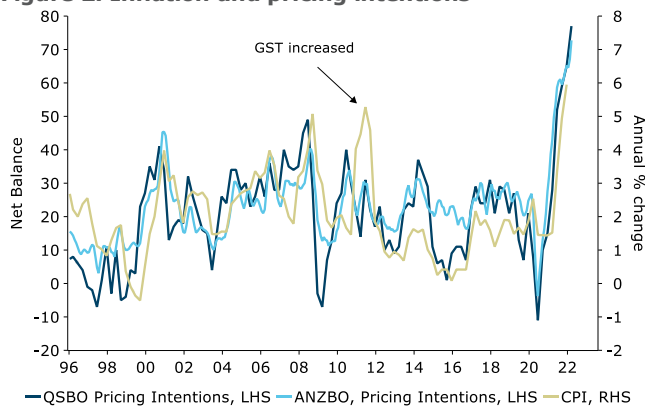
■ Quarterly % change ■ Percentage point contribution
 Source: Stats NZ, Macrobond, ANZ Research

Figure 1. CPI inflation measures



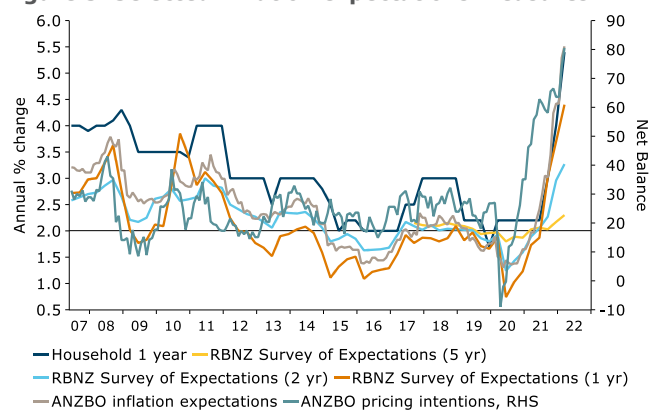
Source: Stats NZ, Macrobond, ANZ Research

Figure 2. Inflation and pricing intentions



Source: Stats NZ, NZIER, Macrobond, ANZ Research

Figure 3. Selected inflation expectations measures



Source: Stats NZ, RBNZ, Macrobond, ANZ Research



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