

# June 2022 Quarter CPI Preview

14 July 2022



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## Contact

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## More inflation pain

### The bottom line

We're forecasting that annual CPI inflation hit 7.1% in Q2 – a slight increase from Q1's already-strong 6.9% print. Uncertainty remains high, with global commodity prices being buffeted by geopolitical developments, and trading-partner inflation continuing to surge. Domestic inflation risks are firmly to the upside, given still-high inflation expectations and an extremely tight labour market. We expect annual non-tradables inflation remained high at 6.0%, while tradables is expected to have nudged up to 8.7% y/y (8.5% previously). The RBNZ is unlikely to find any comfort in next week's data – and that should see another 50bp hike **delivered** at the August MPS, despite downside growth risks piling up. If we were to see a non-negligible upside surprise to the CPI print, another 50bp in October would be game on. The RBNZ has no leeway to take any chances on the inflation front.

### The view

June quarter CPI inflation figures are released on Monday 18 July. We're expecting that consumer prices lifted 1.5% q/q (7.1% y/y), versus 1.8% q/q (6.9% y/y) in Q1. A strong tradables (ie mostly imported) inflation number is likely, given global commodity price movements in the wake of the Russian invasion of Ukraine. Oil traded above USD100/barrel for most of the quarter, which should help push annual tradables inflation to 8.7% (8.5% previously). Non-tradables (ie mostly domestic) inflation is anticipated to hold steady at an annual rate of 6.0% – worryingly high. The challenge with the domestic inflation pulse is not so much the peak, but how long it may last. With still-strong inflation expectations and an ever-tighter labour market, the answer, in all likelihood, is too long. That will keep the pressure on the RBNZ to keep going with OCR hikes – even with downside growth risks piling up.

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

- **Transport costs** are expected to add 0.4ppts to the headline figure. That's mostly a petrol price story. We estimate petrol prices were up 6.5% q/q (32.8% y/y) in the three months to June, adding 0.3ppts to the quarterly inflation print for Q2.
- **Housing-related costs** are anticipated to have added 0.4ppts. The rent price index was up 1.2% in the three months to June, adding an estimated 0.1ppts to quarterly inflation. Construction costs are anticipated to have lifted another 2.9% q/q (16.4% y/y), adding 0.3ppts. With the housing market **cooling**, construction costs should start to ease. But with the labour market tightening, there's no immediate end in sight for strong domestic inflation pressures.
- **Food prices** have had another uncomfortably strong quarter, with the food price index lifting 1.4% q/q (6.6% y/y). That's likely to add 0.3ppts to headline CPI. Risks to food prices remain to the upside, with labour costs rising, and fuel prices still high – although recent falls in some food commodity prices may offer some respite.

### Consumers Price Index – June 2022 Quarter

	Prev	ANZ	RBNZ
CPI – q/q	1.8%	<b>1.5%</b>	<b>1.4%</b>
CPI – y/y	6.9%	<b>7.1%</b>	<b>7.0%</b>
Tradable – q/q	2.4%	<b>1.9%</b>	<b>2.3%</b>
Tradable – y/y	8.5%	<b>8.7%</b>	<b>9.1%</b>
Non-tradable – q/q	1.5%	<b>1.1%</b>	<b>0.9%</b>
Non-tradable – y/y	6.0%	<b>6.0%</b>	<b>5.7%</b>

- **The remaining 0.4ppts** is distributed pretty widely over the rest of the CPI basket, reflecting the broad-based nature of the inflation pulse that we're seeing (see table 1).

Next week's data will be a reminder that even though downside growth risks are accumulating, public enemy number 1 remains inflation. Underlying inflation pressures have continued to build – and with non-tradables inflation likely to remain far too high over the next year, the pressure is on for the RBNZ to rein inflation in.

That said, it is currently **our expectation** that the RBNZ will pause hiking at the end of this year, as demand falls away a little faster than they currently anticipate. A soggy outlook for **consumer spending** and a housing market **in decline** should take significant heat out of the economy. Now that we're a full 12 months past the record-low mortgage rates seen during 2021, many mortgage-holding households will be feeling the effect of higher interest rates. We're forecasting another 50bp hike in August, followed by 25bps in both October and November. From there, we are forecasting the RBNZ to pause, with the OCR at 3.5%, as signs of slowing demand become evident.

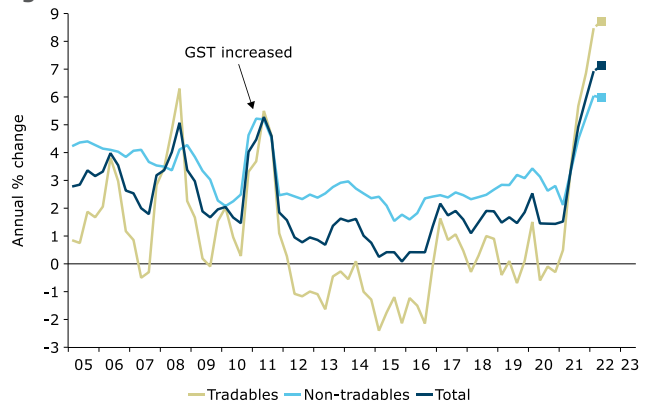
However, everything comes down to inflation. The RBNZ will need to see firm evidence that they've hit demand hard enough to contain inflation. If that evidence fails to emerge, then don't expect the RBNZ to ease off the interest rate brakes any time soon – even if growth starts to fall away. And any meaningful upside surprise to the CPI starting point in Monday's data would make another 50bp hike in October considerably more likely. In the May MPS, the RBNZ expected non-tradables to ease to 5.7% in Q2, versus our expectation it stayed flat at 6.0%. If we're right, that would suggest a more persistent domestic inflation pulse than the RBNZ has forecast.

**Table 1. ANZ Q2 CPI component-level forecast**

	q/q%	%pt cont.
<b>Total</b>	<b>1.5</b>	<b>1.45</b>
Housing & Household Utilities	1.4	0.44
Transport	3.1	0.42
Food	1.3	0.25
Recreation & Culture	1.0	0.09
Miscellaneous Goods & Services	1.0	0.08
Alcoholic Beverages & Tobacco	0.8	0.07
Household Contents & Services	1.6	0.07
Clothes & Footwear	1.6	0.06
Health	0.3	0.01
Education	0.0	0.00
Communication	-1.4	-0.03

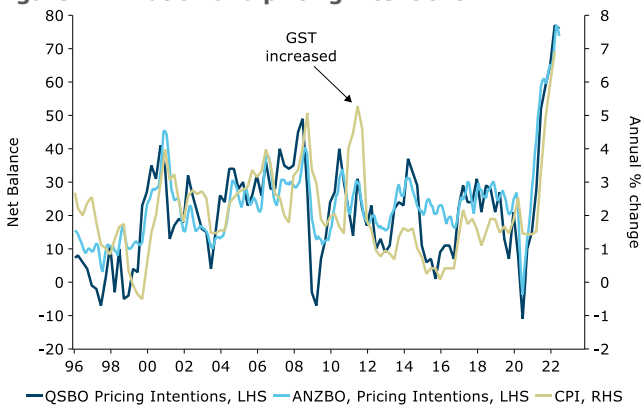
■ Quarterly % change ■ Percentage point contribution  
Source: Stats NZ, Macrobond, ANZ Research

**Figure 1. CPI inflation measures**



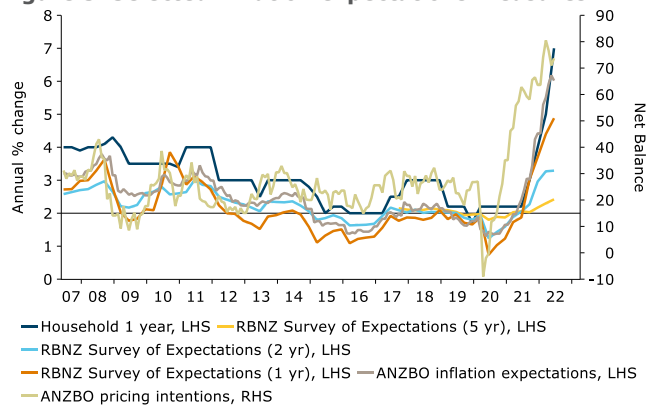
Source: RBNZ, Stats NZ, Bloomberg, Macrobond, ANZ Research

**Figure 2. Inflation and pricing intentions**



Source: NZIER, Stats NZ, Macrobond, ANZ Research

**Figure 3. Selected inflation expectations measures**



Source: Stats NZ, ANZ, RBNZ, Macrobond, ANZ Research



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