ANZ Research

September 2023 Quarter CPI Preview

12 October 2023

Contact

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Consumers Price Index – September 2023 Quarter

	Prev	ANZ	RBNZ
CPI – q/q	1.1%	**2.2%**	**2.1%**
CPI – y/y	6.0%	**6.1%**	**6.0%**
Tradables - q/q	0.8%	**2.5%**	**2.9%**
Tradables - y/y	5.2%	**5.5%**	**5.8%**
Non-tradables - q/q	1.3%	**1.9%**	**1.7%**
Non-tradables - y/y	6.6%	**6.5%**	**6.2%**

Pouring fuel on the fire

The bottom line

- We expect annual CPI inflation reaccelerated to 6.1% y/y in Q3, slightly above the RBNZ's August MPS forecast of 6.0% y/y.
- Specific drivers include the end of the fuel excise, road-user charges and public transport subsidies (which together add roughly 0.6%pts to the headline), sharply higher oil prices (which have also lifted fuel prices), and a big jump in local authority rates bills.
- Beyond that, broader domestic inflation pressures are expected to remain intense. We expect annual non-tradables inflation to barely budge, falling from 6.6% to 6.5%, still roughly twice the level consistent with the RBNZ's overall CPI target, and higher than the RBNZ expects (6.2%). That will highlight upside risks to the RBNZ's forecast that non-tradables inflation is going to start to plummet from Q4.
- Our assessment is that overall, the CPI report will reinforce questions around whether an OCR of 5.50% is going to prove sufficient to get sticky domestic inflation down within an appropriate timeframe. But at this stage, whether the RBNZ will feel sufficient urgency to hike in November or whether they will feel they can wait for more evidence (with the next decision being in February) is hard to pick.

The big picture

Stats NZ will release CPI inflation figures for the September quarter next Tuesday (17 October). We anticipate that the report will highlight that the inflation problem has by no means been solved, and that there are still real question marks around whether an OCR of 5.50% is sufficient to get inflation sustainably back to target in an acceptable time frame. The RBNZ noted at the October Monetary Policy Review the risk that rates "may need to remain at a restrictive level for a more sustained period of time". On one hand, this is an acknowledgment of upside risks. But it also indicates a preference for 'high for longer' rather than 'higher', as long as there is deemed to be a choice. The CPI data will be important in determining the RBNZ's perceived options.

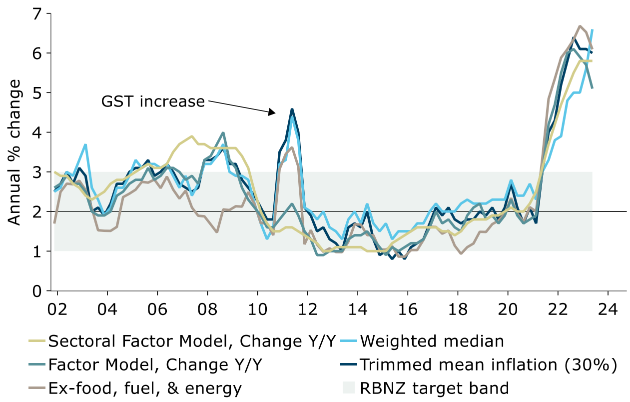
Our forecast for headline inflation of 2.2% q/q is a touch higher than the RBNZ's (2.1% q/q), but there's plenty of noise from one-off boosts due to the end of transport subsidies, sharply higher oil prices and the seasonal boosts from government-related charges. That creates plenty of scope for a headline surprise on the day in either direction, but the RBNZ will look through that to a large extent. The Committee will be wary of the potential impacts on inflation expectations of any upside surprise, regardless of the cause, but they'd likely wait to see if there's any damage done rather than assuming the worst.

Helpfully for the RBNZ, in that context, Stats NZ have updated the CPI weights this quarter, with petrol's weight falling meaningfully from 4.9% to 3.9% (reflecting lower spending due to previous price falls). That 1ppt reduction in the context of our estimate of a 20% q/q increase in petrol prices in the quarter shaves 0.2%pt off the quarterly headline inflation rate, all else equal – and 0.5%pt off quarterly tradables inflation. As a result of the reweighting, we now see tradables inflation 'surprising' the RBNZ on the downside at 2.5% q/q (RBNZ August MPS: 2.9% q/q). As petrol prices rise again, the weight will too. It's noise. But it's helpful at the margin for now, as is the higher weight on food prices just as they start to fall!

Much more importantly for the RBNZ, we expect non-tradables inflation to surprise on the upside at 1.9% q/q (RBNZ: 1.7% q/q). Stripping out the seasonal components, non-tradables is expected to print at 1.5% q/q (sa), annualising to over 6.1% y/y, which we suspect will cause alarm.

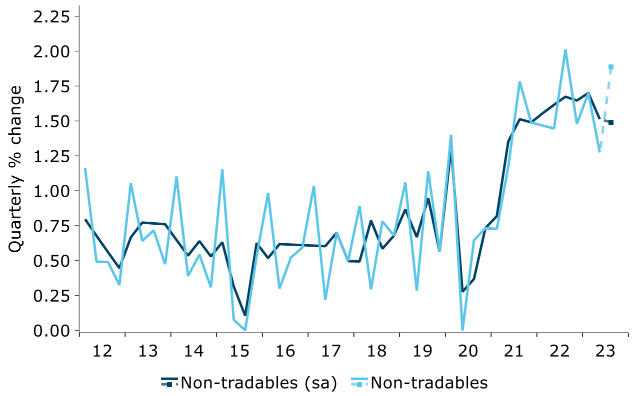
The suite of core measures will be closely watched for signs of moderation in Q3. We don't forecast these measures, but we do expect to see an easing across the suite (some of which were still rising in Q2!). But in the bigger picture the core measures are likely to remain far too high for comfort.

Figure 1. Core inflation measures



Source: Stats NZ, RBNZ, Macrobond, ANZ Research

Figure 2. Non-tradables inflation



Source: Stats NZ, Macrobond, ANZ Research

The details

- **Transport costs** are expected to add 1.0%pts to headline inflation. The combination of the end of subsidies to the fuel excise duty, road-user charges and public transport are estimated to add roughly 0.6%pt to headline inflation. In addition, oil prices have risen sharply in recent months, exacerbated by a weaker NZD. MBIE fuel price monitoring suggests petrol prices increased nearly 20% in the quarter, while diesel prices have risen close to 11%. While the RBNZ can generally look through transitory fuel price shocks, in a high-inflation environment with heightened risks of passthrough into other goods and services, and to inflation expectations, the RBNZ may not be sure it has the usual luxury of doing so.
- **Housing-related costs** are expected to add 0.5%pts to the quarterly headline figure. Within this group:
  - The Rent Price Index rose 1.2% q/q (4.2% y/y) in Q3. That's expected to add 0.1%pts to headline inflation. The recent surge in migration at a time of slowing new housing supply is placing significant upward pressure on rents. Annual rent increases for new tenancies are rising at 7.2% y/y currently, but the rent component of the CPI takes into account tenancies over the past 8-10 years and as a result, tends to evolve very slowly. That suggests rent inflation is set to emerge as a key driver of non-tradables throughout next year.

- Construction costs are expected to have lifted 0.9% q/q in Q3, adding 0.1%pts to overall inflation. While cost pressures in the construction sector have moderated over the past few quarters, and demand is cooling under the burden of higher interest rates, the rebound in the housing market and construction intentions may yet allow for ongoing price increases. That's what construction sector pricing intentions in our Business Outlook survey suggest.
- Council rates on property are expected to have lifted 8.0% q/q in Q3, adding 0.3%pts to headline inflation. Rates only enter the CPI in Q3, and there have been some sizeable increases this year. While the RBNZ will likely look through the impact of rates increases, they are symptomatic of broad-based inflation pressures across the economy.

- **Food price inflation** has moderated this quarter, likely reflecting the combination of falling global food prices finally finding their way onto domestic shelves, a normalisation in fresh fruit and vegetable prices from severe weather disruption earlier in the year, and growing resistance from consumers to sustained price increases. The 0.7% q/q increase in food prices in the three months to September is expected to add 0.2%pts to quarterly headline inflation in Q2.
- **Recreational and culture** is expected to add 0.1%pt to headline inflation. The ongoing recovery in international tourism, in conjunction with the temporary boost from the FIFA World Cup at a time where capacity pressures remain, is likely to culminate in solid price growth.
- **Miscellaneous goods and services** are expected to add over 0.1%pt to headline inflation, the bulk of which reflects the continued strength in insurance cost inflation. Broad-based inflation pressures across the economy continue to spread, adding to inflation's persistence.
- **The final 0.3%pt** consists of broad-based price rises across all the other CPI groups.

The view

Monetary policy is clearly working in terms of cooling the economy and inflation pressures; pricing indicators across a range of surveys show that. The debate is around whether it's happening fast enough to ensure the inflation decline doesn't stall.

Inflation starting point surprises absolutely matter; they are what drove the OCR higher so quickly last year. But they matter via their impact on *forecast* inflation, not in isolation. And the important context in that regard: after we seasonally adjust the RBNZ's forecasts, it seems the RBNZ are expecting non-tradables inflation to fall from an average of around 1.5% q/q (sa) across the first three quarters of this year (including their Q3 forecast), to just 0.8% q/q (sa) in Q4. Non-tradable inflation tends to evolve smoothly. So short either an abrupt capitulation in the economic data or a hefty fall in the core inflation measures in this Q3 CPI read (neither of which we expect), we believe the RBNZ is going to have to revise up its non-tradable inflation forecasts meaningfully come November.

That may not immediately result in a hike. It's going to take a solid body of evidence to draw the Committee back to the hiking table, naturally. But we do think that evidence will accrue; the question is one of timing.

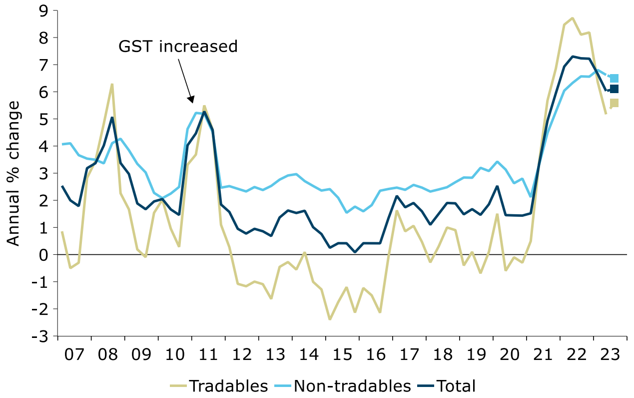
Table 1. ANZ Q3 CPI component-level forecast

	q/q%	%pt cont.
Total	**2.2**	**2.16**
Transport	6.2	1.02
Housing & Household Utilities	1.4	0.48
Food	0.7	0.15
Miscellaneous Goods & Services	1.5	0.13
Recreation & Culture	1.3	0.12
Alcoholic Beverages & Tobacco	1.0	0.09
Household Contents & Services	1.1	0.05
Clothes & Footwear	1.0	0.04
Health	0.9	0.04
Education	1.3	0.02
Communication	0.7	0.02

■ Quarterly % change ■ Percentage point contribution

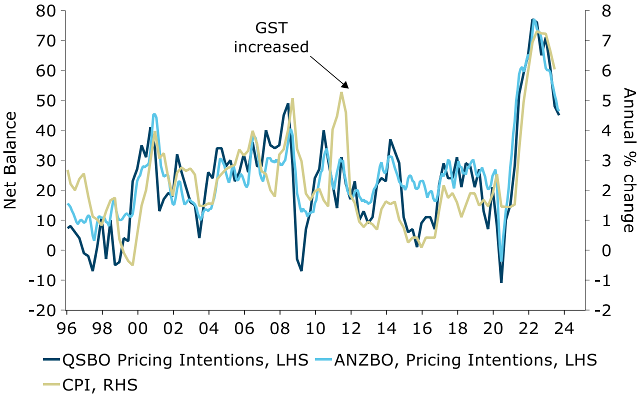
Source: Stats NZ, Macrobond, ANZ Research

Figure 3. CPI inflation measures



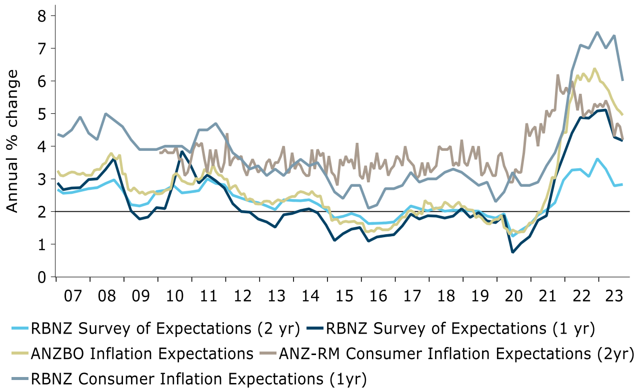
Source: Stats NZ, Macrobond, ANZ Research

Figure 4. Inflation and pricing intentions



Source: NZIER, Stats NZ, Macrobond, ANZ Research

Figure 5. Selected inflation expectations measures



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

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