ANZ Research

March 2023 Quarter CPI Review

20 April 2023

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

Miles Workman for more details.

Confused by acronyms or jargon? See a glossary here.

Data summary

	% qtr	% ann
Headline CPI	1.2%	6.7%
Tradable	0.7%	6.4%
Non-tradable	1.7%	6.8%

Relatively good, absolutely bad

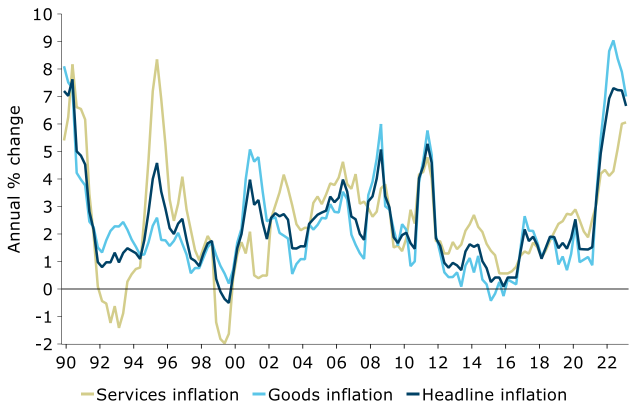
- Annual CPI inflation decelerated to a still-eye-watering 6.7% in Q1, weaker than our forecast of 7.2%, and a decent clip below the RBNZ's February MPS forecast of 7.3%. But the surprise was largely in the tradables component (the more volatile and less persistent kind of inflation).
- Non-tradables inflation (the sticky kind of inflation) came in at 1.7% q/q, weaker than the February MPS forecast of 1.9% q/q but in line with our forecast. This 'miss' vs. the RBNZ's forecast didn't prevent annual non-tradables inflation from accelerating – it's now running at 6.8% y/y, which is more than double the ~3% annual pace that has historically been associated with headline inflation running close to the 2% target midpoint. In fact, annual non-tradables inflation is at a record high! So despite the weaker non-tradables starting point and weaker headline, we don't think the sound of corks popping will be resonating through the RBNZ's offices tonight.
- Core inflation measures were a mixed bag. CPI excluding food, fuel, and energy fell to 6.5% y/y (6.7% previously). Trimmed mean measures eased at almost all levels of trim, but was flat at 6.1% at the 30% trim-level. Meanwhile, weighted median inflation accelerated 0.6% points to 5.6%.
- Tradables inflation (largely imported) came in at 6.4% y/y (8.2% previously), well below our and the RBNZ's forecast of 7.4%. There was a fair bit of 'noise' in this read – nothing new!
- All up, these data mean the RBNZ will be heading into its second consecutive MPS with a downside starting point surprise for non-tradable inflation under the belt. That's great news, but there are offsets: there could be more fiscal stimulus to lean against (we'll know more on Budget day), and that the RBNZ may have more cyclone-related inflation to bake into their outlook (as signalled in the April Monetary Policy Review). So while markets may be chomping at the bit to price in cuts from late 2023/early 2024, we're not convinced the Monetary Policy Committee will be eager to deliver them any time soon – inflation went their way today, but the war on high and sticky inflation is far from won.
- We continue to expect a 25bp hike at next month's MPS. Today's data is likely not enough to be seen by the RBNZ as warranting a pause, but it should rule out another 50bp hike.

Big picture and monetary policy implications

There's plenty in the Q1 CPI data for both the doves and the hawks to focus on, and while these data do tell a better relative story than the February MPS, it's still a pretty bad picture in an absolute sense. Inflation is still running near a multi-decade high, and annual non-tradables inflation, alongside a few other measures of typically-sticky inflation, were still accelerating as at Q1. While it is important for the RBNZ to appropriately account for the lags with which monetary policy typically works, we think it's a bit of a stretch to think today's data will give them good reason to blink before taking the OCR to 5.5%. In particular, the weaker starting point for non-tradables inflation versus the RBNZ's February MPS forecast needs to be weighed up against the potential for more fiscal stimulus come Budget 2023, potential green shoots emerging in the housing market, and the fact that the RBNZ has signalled they will likely revise up their estimates of the inflation impacts of Cyclone Gabrielle in the May MPS.

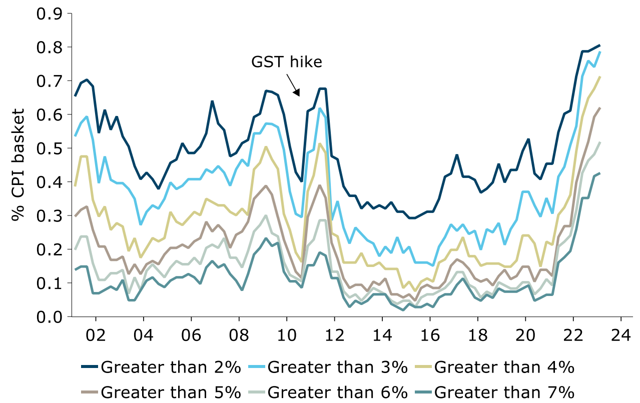
Scratching under the surface of today's data, the fact that 81% of the CPI basket was running above 2% (figure 2) doesn't bode well for either the persistence of inflation or inflation expectations. Meanwhile, the rotation from goods to services inflation (figure 1) suggests sticky inflation risks have not yet turned a corner, even though headline inflation has. Services inflation tends to be driven more by labour market pressures than goods inflation is (the latter being determined more by global factors and the NZD). As a result, services inflation can be quite persistent and difficult to tame. Indicators of labour market stretch have certainly improved of late, but they remain at levels consistent with building inflation pressures, with businesses still reporting that labour availability is their biggest problem. Until labour supply and demand are back in balance, high and sticky underlying inflation remains a key risk.

Figure 1. Goods and services inflation



Source: Stats NZ, Macrobond, ANZ Research

Figure 2. Proportion of the CPI basket running greater than X% y/y



Source: Stats NZ, Macrobond, ANZ Research

Given all that, we're not convinced the Q1 CPI data provide enough of a signal to shift the dial on our OCR call. Yes, all else equal, the Q1 CPI alters the balance of risks towards less tightening being needed overall (vs the February MPS), but not enough in our view to make a pause in May more likely than a 25bp hike. It should, however, rule out another 50bp hike. Next stop: the Q1 labour market release and then Budget 2023.

The details

Turning to the details, of the 1.2% q/q increase in consumer prices in the March quarter:

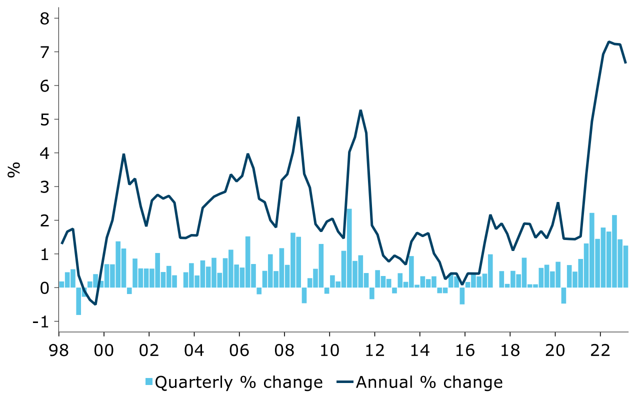
- Food prices (18.0% of the CPI basket) lifted 3.7% q/q, stronger than the 3.3% suggest by the Food Price Index. Food prices continue to be pushed higher by supplier and regulatory costs, labour shortages, and extreme weather events.

- Housing-related costs (28.3% of the CPI basket) remain a key driver, rising 1.0% q/q – again stronger than the 0.9% q/q we pencilled in. Rent prices were up 1.1% q/q, to be up 4.3% y/y. Housing construction costs also rose 1.1% q/q, which is slightly below the historical average of 1.3% q/q, and well down from the ~4.5% q/q growth rates recorded in 2021 and mid-2022. Further deceleration is expected over 2023 as higher interest rates bite, but potential green shoots in housing suggest new upside risks are emerging.

- The transport group (14.2% of the CPI basket) *fell* 1.3% q/q, much weaker than the 0.7% rise we expected. Petrol prices declined 2.6% q/q, explaining the bulk of our forecast miss. We pencilled in a flat q/q read based on monitoring weekly petrol prices, but these have become a less reliable indicator of late. Domestic airfares fell 3.7% q/q to be still up a whopping 53.7% y/y (also weaker than our expectation). International airfares fell 4.3% q/q, again this was weaker than expected. All up, the transport group explains a large share of our forecast miss. This group tends to be volatile.
- The recreation and culture group (8.5% of the CPI basket) lifted 0.7% q/q, a touch weaker than the 0.8% q/q we had pencilled in. Anecdotally, the tourism reopening has put a lot of pressure on tourism hotspots, retail and accommodation, with labour scarcity making it a challenge to meet this increase in demand. However, that pressure was less evident in accommodation services (up just 0.6% q/q) and recreational and cultural services (up 1.3% q/q). Audio-visual and computing equipment prices fell 4.1% q/q.
- Household contents and services (4.2% of the CPI) fell 0.5% q/q, weaker than the 1.1% lift that we had pencilled in, potentially hinting at smaller flooding/cyclone impacts than we assumed, and possibly more margin squeeze by retailers in the face of softening household demand. That said, this component is also heavily weighted towards tradables inflation, explaining a decent share of the miss to our forecast.

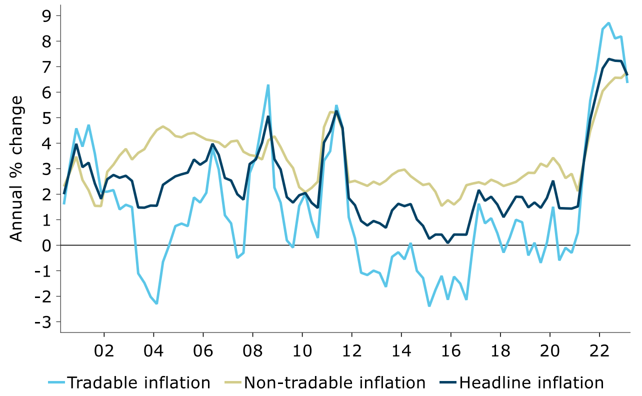
All up, the overs and unders relative to our forecast don't appear to be a game changer for the broader CPI outlook. The starting point for inflation is lower, but that's largely (though not exclusively) a tradables story. For the RBNZ, the outlook matters at least as much as the starting point, and we still have a potentially stimulatory Budget to digest, along with tentative green shoots emerging in the housing market that may yet require further action by the RBNZ (if they deem this a threat to getting inflation back to target). Then there's potentially stronger inflationary and capacity impacts owing to the cyclone (mentioned in this month's Monetary Policy Review) for the RBNZ to consider. With the RBNZ's upper estimate of the short-run neutral OCR around 5.4%, it would appear the hurdle to pause before taking the OCR to 5.5% is pretty high. The RBNZ needs to be very confident that monetary policy settings are contractionary enough to tame inflation, as if not, a new and economically damaging second round of OCR hikes would likely be needed later on. The stakes are high, and too high for the RBNZ to blink just yet.

Figure 3. Headline CPI inflation



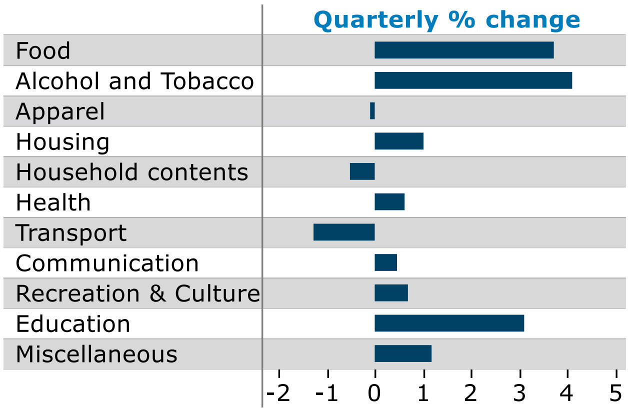
Source: Stats NZ, Macrobond, ANZ Research

Figure 4. CPI inflation components



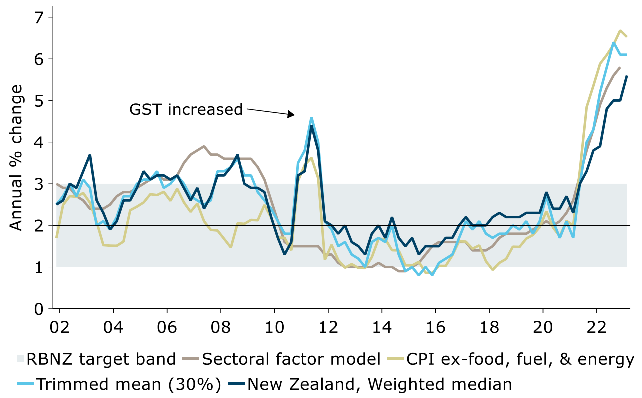
Source: Stats NZ, Macrobond, ANZ Research

Figure 5. CPI groups – March 2023 quarter



Source: Stats NZ, Macrobond, ANZ Research

Figure 6. Core inflation measures



Source: Stats NZ, RBNZ, 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 9 357 4094
Email: sharon.zollner@anz.com

General enquiries:
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

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

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

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

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

Important notice

Last updated: 18 April 2023

The opinions and research contained in this document (which may be in the form of text, image, video or audio) are (a) not personal financial advice nor financial advice about any product or service; (b) provided for information only; and (c) intended to be general in nature and do 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 by ANZ Bank New Zealand Limited (ANZ Centre, 23-29 Albert Street, Auckland 1010, New Zealand). This document is distributed in your country/region by Australia and New Zealand Banking Group Limited (ABN11 005 357 522) (**ANZ**), a company incorporated in Australia or (if otherwise stated), by its subsidiary or branch (herein collectively referred to as **ANZ Group**). The views expressed in this document are those of ANZ Economics and Markets Research, an independent research team of ANZ Bank New Zealand Limited.

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 Group 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 Group would be subject to additional licensing or registration requirements. Further, any products and services mentioned in this document may not be available in all countries.

ANZ Group in no way provides any personal 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 Group does not represent or warrant the accuracy or completeness of the information, except with respect to information concerning ANZ Group. Further, ANZ Group 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 Group 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. Any 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 Group 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 Group may have an interest in the subject matter of this document. They may receive fees from customers for dealing in any 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 any 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 Group's policies on conflicts of interest and ANZ Group maintains appropriate information barriers to control the flow of information between businesses within the group.

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

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

Brazil. This document is distributed on a cross border basis and only following request by the recipient. No securities are being offered or sold in Brazil under this document, and no securities have been and will not be registered with the Securities Commission - CVM.

Brunei, 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.

Canada. This document is general information only, is intended for institutional use only – not retail, and is not meant to be tailored to the needs and circumstances of any recipient. In addition, this document is not intended to be an offer or solicitation to purchase or sell any security or other financial instrument or to employ a specific investment strategy.

Chile. You understand and agree that ANZ is not regulated by Chilean Authorities and that the provision of this document is not subject to any Chilean supervision and is not guaranteed by any regulatory or governmental agency in Chile.

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 document 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 document have not been reviewed by any regulatory authority in Hong Kong. If you are in any doubt about any of the contents of this document, you should obtain independent professional advice.

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.

Israel. ANZ is not a holder of a licence granted in Israel pursuant to the Regulation of Investment Advising, Investment Marketing and Portfolio Management Law, 1995 ("Investment Advice Law") and does not hold the insurance coverage required of a licensee pursuant to the Investment Advice Law. This publication has been prepared exclusively for Qualified Clients as such term is defined in the First Schedule to the Investment Advice Law. As a prerequisite to the receipt of a copy of this publication a recipient will be required to provide confirmation and evidence that it is a Qualified Client. Nothing in this publication should be considered Investment Advice or Investment Marketing as defined in the Investment Advice Law. Recipients are encouraged to seek competent investment advice from a locally licensed investment adviser prior to making any investment.

Macau. Click here to read the disclaimer for all jurisdictions in Mandarin. **澳门.** 点击此处阅读所有司法管辖区的免责声明的中文版。

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

Important notice

New Zealand. This document is distributed in New Zealand by ANZ Bank New Zealand Limited. The material is for information purposes only and is not financial advice about any product or service. We recommend you seek 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 (**CBO**) or Oman's Capital Market Authority (**CMA**). 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. So, 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.

Peru. The information contained in this document has not been, and will not be, registered with or approved by the Peruvian Superintendency of the Securities Market (Superintendencia del Mercado de Valores, **SMV**) or the Lima Stock Exchange (Bolsa de Valores de Lima, **BVL**) or under the Peruvian Securities Market Law (Legislative Decree 6 861), and will not be subject to Peruvian laws applicable to public offerings in Peru. To the extent this information refers to any securities or interests, it should be noted the securities or interests may not be offered or sold in Peru, except if (i) such securities or interests were previously registered with the Peruvian Superintendency of the Securities Market, or (ii) such offering is considered a private offering in Peru under the securities laws and regulation of Peru.

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. To the extent that this document contains any statements of opinion and/or recommendations related to an investment product or class of investment product (as defined in the Financial Advisers Act 2001), this document is distributed in Singapore by 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 2001 of Singapore). ANZ is licensed in Singapore under the Banking Act 1970 of Singapore and is exempted from holding a financial adviser's licence under Section 23(1)(a) of the Financial Advisers Act 2001 of Singapore. In respect of any matters arising from, or in connection with, the distribution of this document 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**). 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 Kingdom. 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 Financial Conduct Authority (**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 considers this document to constitute an Acceptable Minor Non-Monetary Benefits (**AMNMB**) under the relevant inducement rules of 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.

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) 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 our website or have otherwise received this document and are a US Person who is an individual: to avoid loss, you should cease to use our 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 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 a 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.