

NZ Insight: New monthly price indexes

15 November 2023



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Contact

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New monthly price indexes

- Stats NZ have begun publishing several new monthly price indexes (charts on page three) that takes the coverage of the CPI basket released in advanced from around 28% to 45%.
- While these new monthly price indexes do not amount to a monthly CPI, they will help to improve analysts' forecasting ability due to the significant volatility among some of these components and as a result, potentially lead to reduced market volatility on the day of the quarterly CPI release.
- We hope this serves as the first step toward the production of a stable monthly CPI, as is the international standard.
- The October data were softer than we had expected, and in turn we have revised our Q4 CPI forecast from +0.9%q/q to +0.6%q/q. All else equal, this reduces the likelihood the RBNZ will hike as soon as February, although our medium-term inflation forecasts are unchanged.

Christmas has come early for inflation forecasters

Stats NZ has begun publishing several new monthly price indexes that takes the coverage of the CPI basket released in advanced from around 28% to 45%. These data are published at the same time as the food and rent price indexes, giving us around 15% of that quarter's CPI each month. The final month of data for the quarter will be published roughly one week prior to the quarterly CPI release. Collectively, the monthly price indexes cover just over half of tradable inflation and just under 40% of non-tradables inflation.

The new indexes are in addition to the already published food price index (18.8% of the CPI basket) and rent price index (9.5% of the CPI basket).

The new additions are:

- Alcohol and tobacco (7.1% of the CPI basket)
- Petrol (3.9% of the CPI basket) and diesel (0.3% of the CPI basket)
- Domestic (0.7% of the CPI basket) and international airfares (2.0% of the CPI basket)
- Domestic (0.7% of the CPI basket) and international accommodation services (2.2% of the CPI basket)

Together, these components of the CPI accounted for nearly 38% of our forecast miss on Q3 headline CPI, with these components tending to be relatively volatile.

Moving forward, we expect these price indexes will meaningfully reduce uncertainty surrounding our near-term CPI forecasts. This should also reduce market volatility on the day of the quarterly CPI release, although markets are now likely to put more weight on the release of the monthly indexes, particularly the third month of the quarter (released about a week prior to the quarterly release), as there is now greater scope for analysts to revise their forecasts.

The details

The October data were much softer than we had expected:

- **Food prices** fell 0.9% m/m in October, slightly softer than our forecast of 0.6% m/m. The details highlighted that the decline was broad-based, rather than limited to fruit and vegetable prices, and we expect food prices will be a drag on the CPI over the coming quarters.
- **Rents** (stock measure) rose 0.4% m/m, in line with our forecast. We expect to see further strong monthly increases moving forward, reflecting the demand impulse from large net migration inflows. These impacts are likely to take some time to be fully reflected in the CPI rent measure. Strong growth in new tenancies highlight demand pressures in the pipeline, with the flow measure of rents up 6.1% y/y.
- **Airfares** fell sharply. Domestic airfares fell 9.4% m/m, and international airfares fell 7.5% m/m. Airfares are now normalising from high levels as supply capacity improves. This has disrupted usual seasonal patterns.
- **Alcohol and tobacco** rose 1.3% m/m, largely reflecting a 2.7% m/m increase in tobacco. The increase in tobacco is unusual given large price increases only tend to occur in the March quarter, when increases to the tobacco excise tax are implemented.
- **Accommodation services** rose, but by less than our assumption. Domestic accommodation prices rose 2.8% m/m, much softer than the usual seasonal pattern. Overseas accommodation rose 2.7% m/m.
- **Petrol** price fell 1.1% m/m in October. Recent falls in oil prices have surprised us, and while oil markets remain volatile, we have revised our Q4 petrol price assumption lower. Diesel prices rose 2.7% m/m.

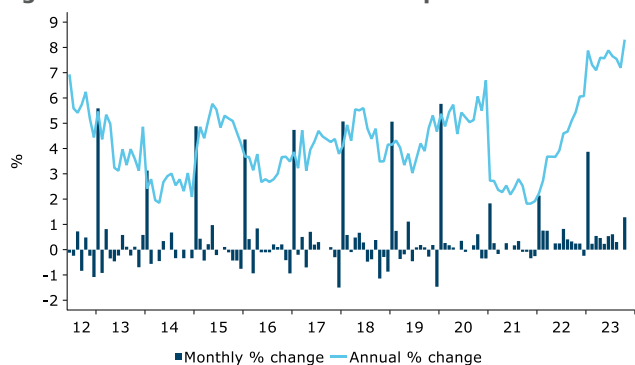
Implications

All up, given softer-than-expected data we have revised our Q4 headline CPI forecast from 0.9% q/q to 0.6% q/q. This, in part, reflects weaker fuel prices, although importantly we have revised our non-tradables forecast lower from 1.1% q/q to 0.9% q/q. The bulk of the revision to non-tradables reflects lower domestic airfares, and to a lesser extent a softer increase in domestic accommodation services. These are noisy components, and our medium-term inflation outlook remains unchanged.

We still expect Q4 non-tradables inflation to come out higher than the RBNZ August forecast of 0.8% q/q. However, the expected miss is now much smaller, and is looking less likely to be a smoking gun for a hike as soon as February. We continue to believe that non-tradable inflation will not dissipate as quickly as the RBNZ is forecasting. But recent helpful starting point surprises on inflation and the labour market make it more plausible that the job can be done with an OCR of 5.50%.

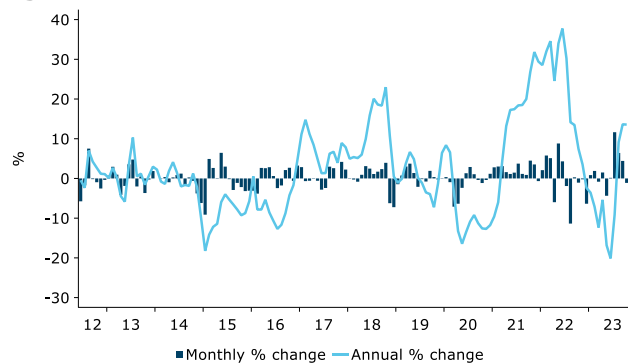
Selected Price Indexes

Figure 1. Alcohol and Tobacco Group



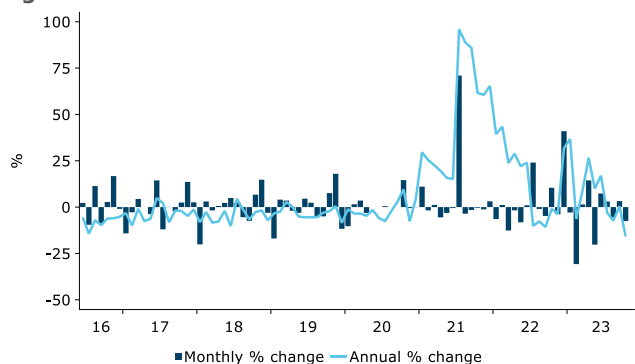
Source: Stats NZ, Macrobond, ANZ Research

Figure 2. Petrol



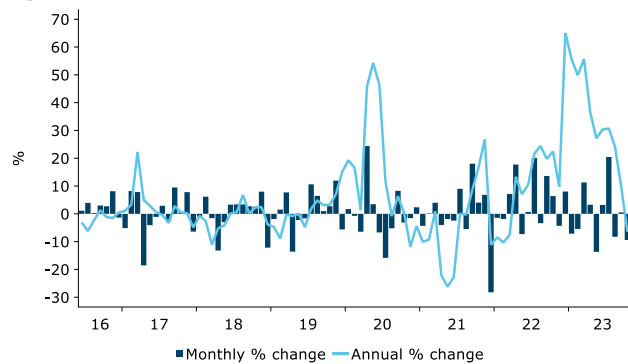
Source: Stats NZ, Macrobond, ANZ Research

Figure 3. International airfares



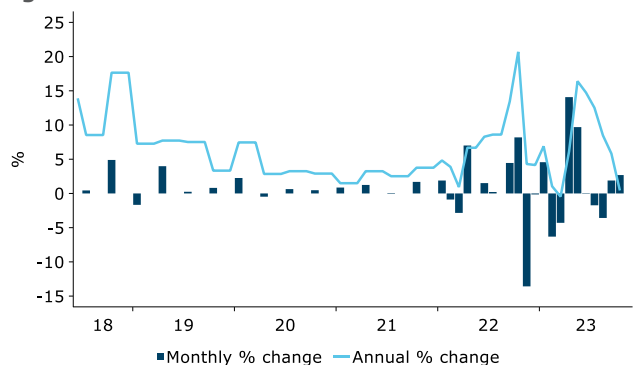
Source: Stats NZ, Macrobond, ANZ Research

Figure 4. Domestic airfares



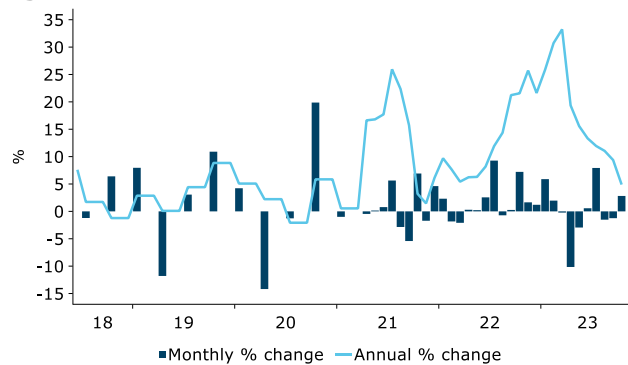
Source: Stats NZ, Macrobond, ANZ Research

Figure 5. Overseas accommodation



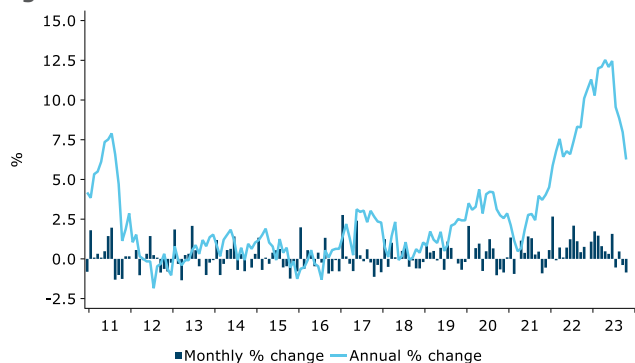
Source: Stats NZ, Macrobond, ANZ Research

Figure 6. Domestic accommodation



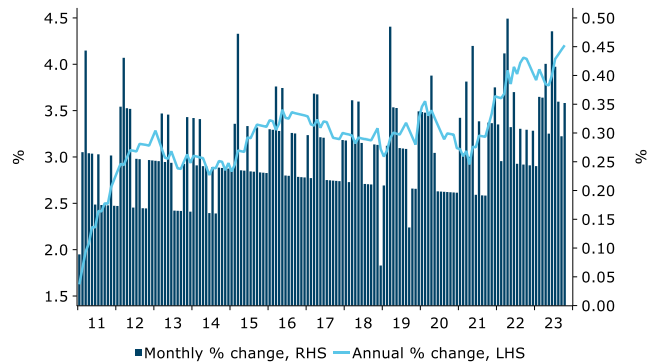
Source: Stats NZ, Macrobond, ANZ Research

Figure 7. Food



Source: Stats NZ, Macrobond, ANZ Research

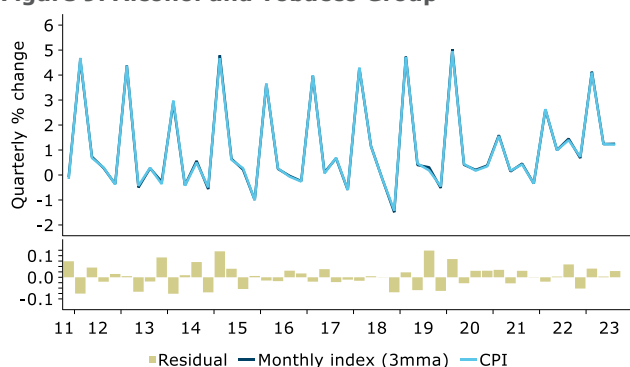
Figure 8. Rents



Source: Stats NZ, Macrobond, ANZ Research

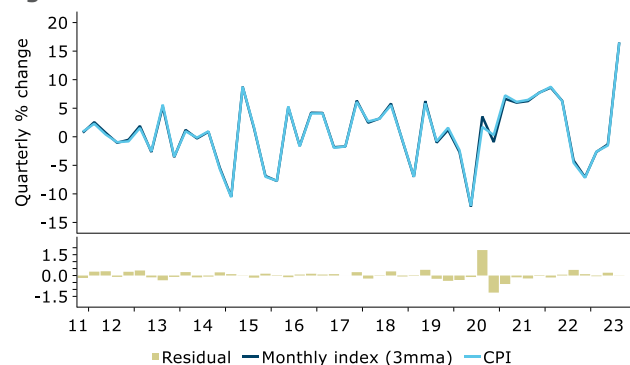
Comparison with CPI

Figure 9. Alcohol and Tobacco Group



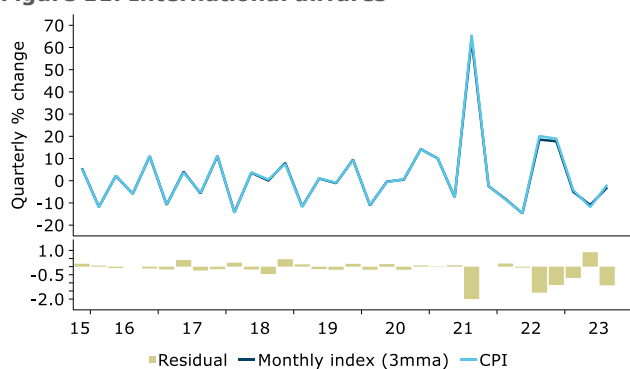
Source: Stats NZ, Macrobond, ANZ Research

Figure 10. Petrol



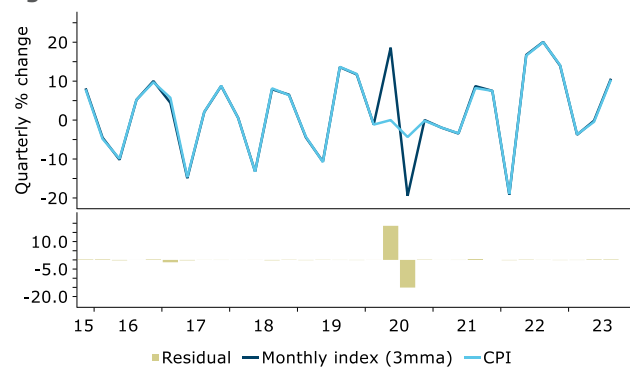
Source: Stats NZ, Macrobond, ANZ Research

Figure 11. International airfares



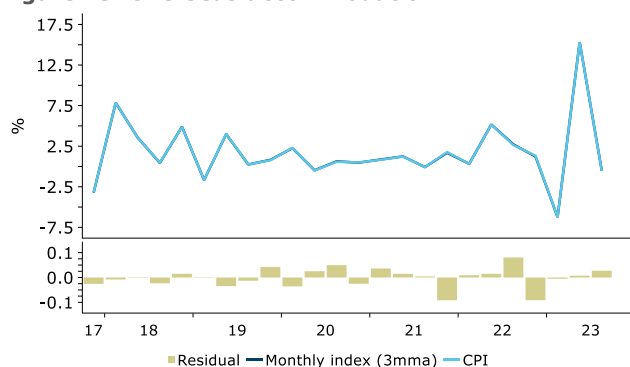
Source: Stats NZ, Macrobond, ANZ Research

Figure 12. Domestic airfares



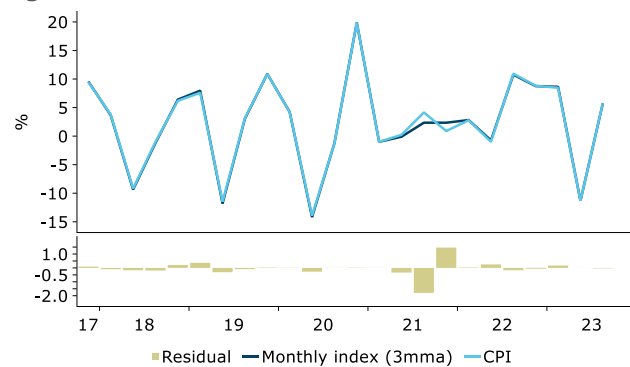
Source: Stats NZ, Macrobond, ANZ Research

Figure 13. Overseas accommodation



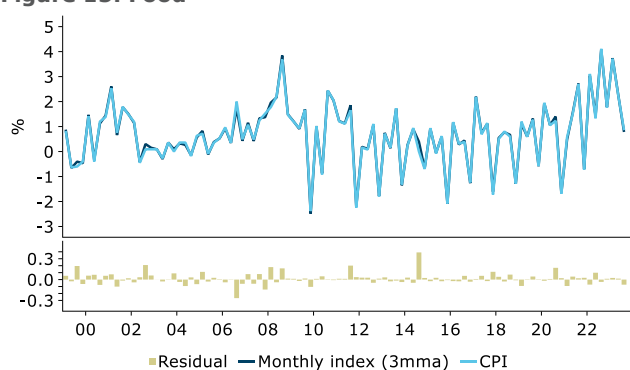
Source: Stats NZ, Macrobond, ANZ Research

Figure 14. Domestic accommodation



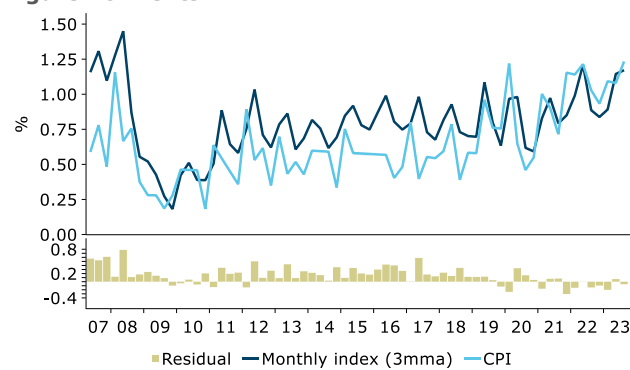
Source: Stats NZ, Macrobond, ANZ Research

Figure 15. Food



Source: Stats NZ, Macrobond, ANZ Research

Figure 16. Rents



Source: Stats NZ, Macrobond, ANZ Research



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Last updated: 18 April 2023

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