ANZ Research

December 2023 Quarter CPI Review

24 January 2024

Contact

Henry Russell or Sharon Zollner for more details.

Confused by acronyms or jargon? See a glossary here.

Data summary

	% qtr	% ann
Headline CPI	0.5%	4.7%
Tradable	-0.2%	3.0%
Non-tradable	1.1%	5.9%

Getting there

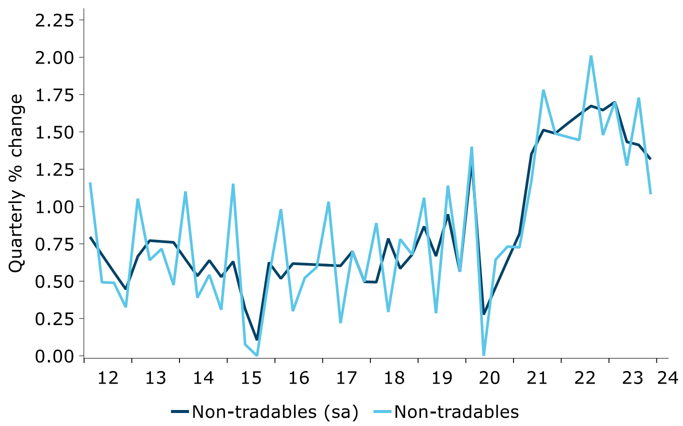
Bottom line

- Annual CPI inflation decelerated from 5.6% to 4.7% y/y in Q4, in line with our forecast, and below the RBNZ's November MPS forecast of 5.0%. While we were on the money with the headline, the details showed a downside surprise on the tradables side offset by a small upward surprise in non-tradable inflation. The RBNZ would have preferred the opposite.
- Non-tradables inflation came in at 5.9% y/y, above our and the RBNZ's forecast of 5.7% y/y. The surprise relative to our forecast looks to have been driven by the volatile household energy component, which the RBNZ is likely to look through.
- The suite of core measures took a step down, boding well for the inflation outlook for the rest of the year. CPI excluding food, fuel, and energy fell to 4.1% y/y (5.2% previously). Trimmed mean measures largely eased. At the 30% trim level, inflation eased from 5.5% y/y to 5.0% y/y. Weighted median inflation eased from 5.0% y/y to 4.4% y/y.
- Tradables inflation (largely imported) came in at 3.0% y/y (4.7% previously), below our forecast of 3.4% y/y and miles below the RBNZ's forecast of 4.0% y/y.
- The details of today's data support our view that domestic-driven inflation pressures are easing, albeit a little more slowly than the RBNZ anticipated in November. The RBNZ has signalled intolerance for upside surprises, but we think there's enough progress evident to satisfy the Committee that things remain on track. We continue to expect that core domestic disinflation will continue over 2024, allowing cuts from August.

Big picture

Today's CPI release showed ongoing progress for the RBNZ in its inflation fight, albeit much of that is coming via tradables inflation. The small upward surprise on non-tradables inflation will not please the RBNZ: after seasonal adjustment the quarterly impulse softened only a touch to 1.3% q/q from its average around 1.5% q/q across the first three quarters of the year (Figure 1). That said, over half of the miss relative to our forecast was driven by the volatile household energy component, which the RBNZ will look through.

Figure 1. Non-tradables inflation



Source: Stats NZ, Macrobond, ANZ Research

Despite the higher starting point for non-tradables today, we remain confident that core domestic disinflation will continue over 2024. We don't see enough in today's data to change our view of OCR cuts from August. That said, a lot still needs to go right, and the inflation outlook is not without its challenges. OCR cuts remain highly conditional. Hikes still can't be completely ruled out either, but we don't see today's data as sufficiently alarming to bring February realistically into play – the weaker Q3 GDP data is an offset, and the labour market data is yet to come but expected to show a meaningful fall in inflation pressures.

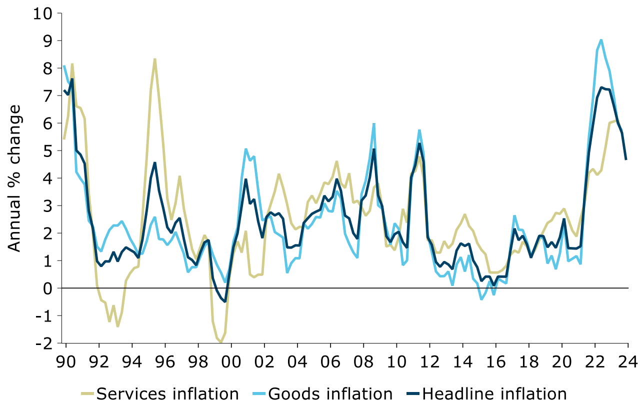
While weak tradables inflation is providing a helpful tailwind to the RBNZ currently, there are certainly risks that could change quickly. Shipping costs having more than doubled since the turn of the year due to tensions in the Red Sea. But, for a lot of the components that saw extreme price increases over the past few years such as, food, airfares and fuel, prices are now returning to a new normal.

Extreme inflation continues to fade, and in some instances sharp deflation is now occurring. The proportion of the CPI basket running in excess of the 2% target fell from 84% to 73%, and the proportion of the basket experiencing extreme inflation continued to ease (Figure 3). The proportion of the basket in outright deflation rose from 11% to close to 18%.

Encouragingly, core inflation measures moderated across the suite, signalling that monetary policy transmission from weak activity to disinflation is occurring. This is the enduring form of disinflation that the RBNZ needs to see, versus swings in volatile tradables (largely imported) components. That said, there's still plenty of stickiness across domestic and services components and the RBNZ certainly won't be declaring victory prematurely.

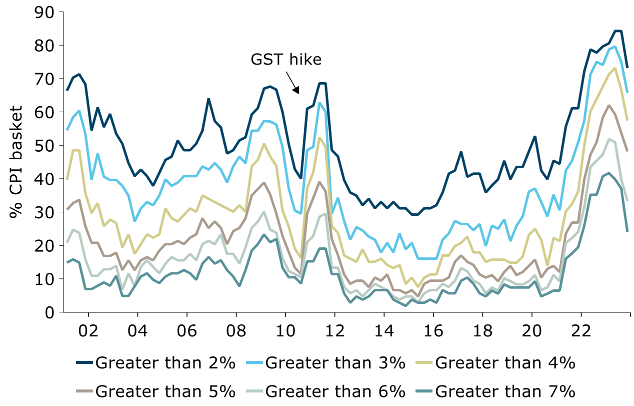
Disinflation to date remains much more concentrated among goods components (Figure 6). Services inflation fell from 5.6% y/y to 4.7% y/y, although the bulk of this was explained by the drop in airfares. Outside of transport services, services inflation remains sticky – sticky but not stuck: deteriorating labour market conditions and easing wage growth should lead to falls in the coming quarters, offsetting persistence across rents and other housing-related services.

Figure 2. Goods and services inflation



Source: Stats NZ, Macrobond, ANZ Research

Figure 3. Proportion of the CPI basket running greater than X% y/y



Source: Stats NZ, Macrobond, ANZ Research

The details

Breaking down the details of the 0.5% q/q increase in consumer prices in the December quarter:

- **Food prices** (18.8% of the CPI basket) fell 1.2% q/q. Recovering fresh produce supply from earlier weather-related disruption, lower imported food prices finally hitting NZ shelves, and softness across meat and dairy prices are likely to see food price inflation continue to ease across 2024.
- **Housing-related costs** (27.8% of the CPI basket) rose 0.8% q/q – stronger than the 0.5% q/q we pencilled in. Rent prices were up 1.1% q/q, to be up 4.5% y/y. Housing construction costs also rose 0.7% q/q, stronger than our expectation of 0.5% q/q. Weak construction demand and the resolution of material and labour shortages suggest price pressures should continue to fade, but it’s certainly one to watch.
- **The transport group** (13.5% of the CPI basket) fell 0.3% q/q, much weaker than the 0.7% increase we expected. The fall relative to forecast was attributed to falling vehicle prices. The recent moderation in petrol prices has not been fully reflected in the quarterly CPI, but the impacts are likely to be felt in Q1. International airfares rose in the quarter for the first time in a year, but prices still have scope to fall further.
- **Miscellaneous goods and services** (7.3% of the CPI basket) rose 1.5% q/q, slightly weaker than forecast. Strong price growth is being underpinned by the continued surge in insurance costs, which lifted 3.3% q/q.
- **The recreation and cultural group** (9.7% of the CPI basket) rose 1.1% y/y, weaker than the 1.8% q/q we had pencilled in. Persistent price growth in recreation and culture services is likely related to the ongoing recovery in tourism.

Monetary policy implications

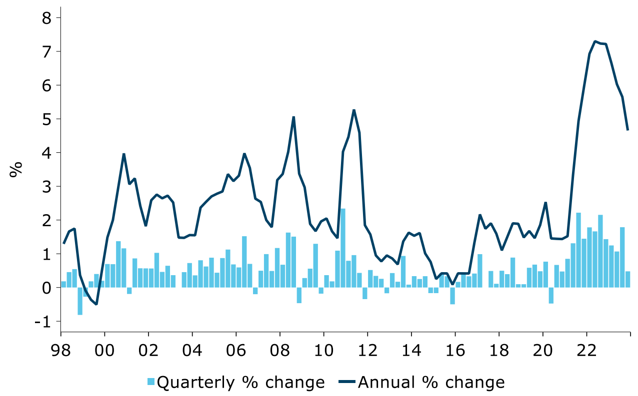
As we noted last week, we now expect the RBNZ to be in a position to begin easing from August, while noting the two-sided risks surrounding our call. August remains our central scenario after today’s data. The non-tradable surprise will keep the RBNZ wary and that will be evident in the tone of the upcoming MPS, but we don’t think today’s data sufficient to bring a hike in February seriously into play, given:

- half of the non-tradable surprise relative to our forecast was driven by household energy;
- the offsetting downward surprise seen in Q3 GDP; and
- signs of decent progress in bringing core inflation down.

The economy is slowing, the labour market is deteriorating, and the output gap is now likely negative. The RBNZ is winning the war – just not quite as fast as they’d hoped.

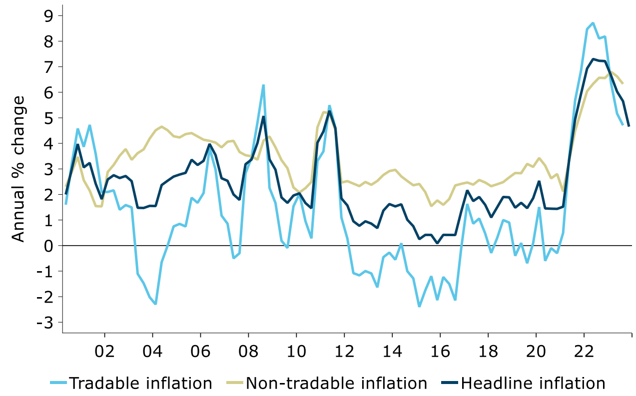
Inevitably, these data do shift the risk profile slightly toward a later start to cuts. But monetary policy acts with long and variable lags and we are confident that the preconditions for core disinflation have been met. We think the RBNZ can stay the course. But as always, the data will decide. The upcoming Q4 labour market data will be key, given our call is contingent on a rapid loosening of labour market tightness. Forward indicators continue to suggest that is the case. The RBNZ will want to see inflation expectations (13 February) show meaningful progress lower, in line with the core measures.

Figure 4. Headline CPI inflation



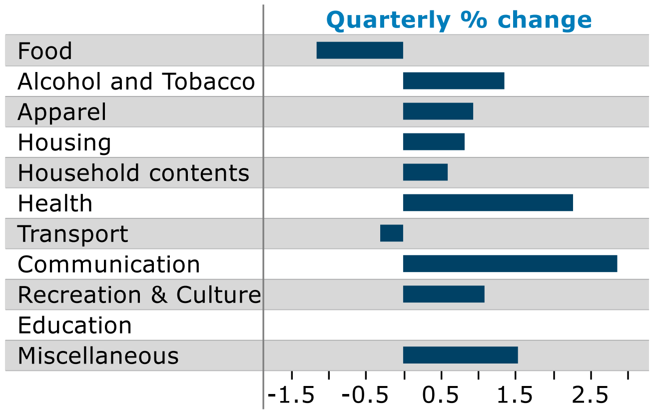
Source: Stats NZ, Macrobond, ANZ Research

Figure 6. CPI inflation components



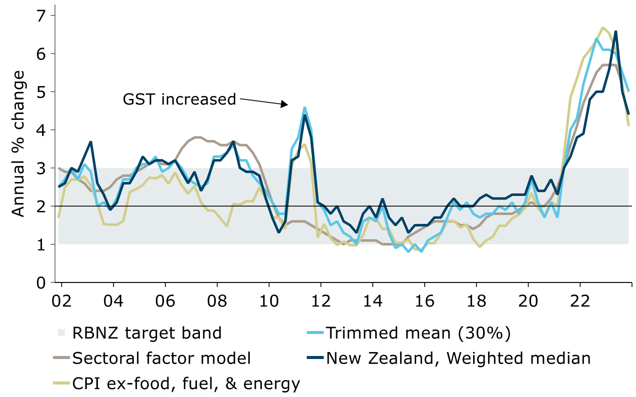
Source: Stats NZ, Macrobond, ANZ Research

Figure 5. CPI groups – December 2023 quarter



Source: Stats NZ, Macrobond, ANZ Research

Figure 7. 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

Henry Russell
Economist

Macroeconomic forecasting, economic developments, labour market dynamics, inflation and monetary policy.

Telephone: +64 21 629 553
Email: henry.russell@anz.com

Andre Castaing
Economist

Macroeconomic forecasting, economic developments, housing and monetary policy.

Telephone: +64 21 199 8718
Email: andre.castaing@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.