

# March 2025 Quarter CPI Review

17 April 2025

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## Data summary

	% qtr	% ann
Headline CPI	0.9%	2.5%
Tradable	0.8%	0.3%
Non-tradable	1.1%	4.0%

## Nothing much to see here

### Bottom line

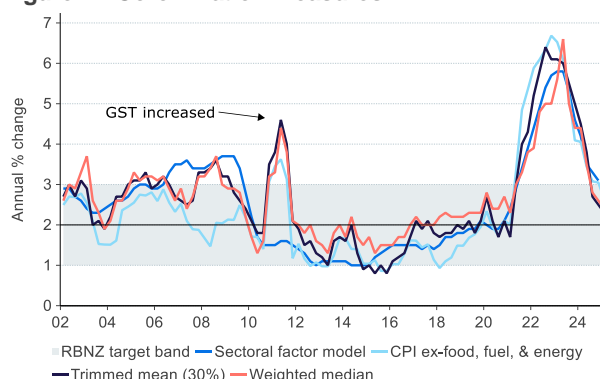
- Annual CPI inflation accelerated 0.3% pts to 2.5% in Q1 (+0.9% q/q), in line with our expectation and a smidgen above the RBNZ's February MPS forecast of 2.4%.
- Non-tradable inflation (largely domestic driven) continues to slow, down 0.5% pts to 4.0% y/y. That's a little stronger than both our and the RBNZ's expectation of 3.8%. However, this surprise can largely be teed up to a 22.6% rise in tertiary education following a review by Stats NZ of fees-free eligibility for the period. Importantly, this isn't a signal of stronger-than-expected underlying inflation.
- Core measures of inflation remain comfortably within the 1-3% target band, with most measures decelerating.
- Tradable inflation (largely imported) came in at 0.3% y/y, as expected.
- Looking through the noise, the trajectory for underlying inflation was broadly in line with our forecast in Q1. However, the outlook is looking a little softer than previously. Just yesterday, we trimmed a little near-term momentum from our economic outlook (see this [note](#) for details) and with today's data in the bag, we'll incorporate that into our CPI forecast (out next week). Big picture: a slightly weaker underlying inflation pulse in the near term is nothing the RBNZ can't fix with a touch of monetary stimulus. We remain comfortable with our expectation that the OCR will trough at 2.5%.

### Big picture and monetary policy implications

Headline inflation accelerated from 2.2% in Q4 to 2.5% in Q1 as higher tradable inflation (the more volatile side of the CPI basket) more than offset further non-tradable disinflation.

Looking through some of the more volatile parts of the basket, underlying disinflation appears very much intact. Annual non-tradable inflation slowed a little less than expected, but the upward surprise was driven by fees-free tertiary education policy, as opposed to a stronger underlying demand and inflation pulse. Meanwhile, the suite of core inflation measures produced by Stats NZ continued to drift lower: the ex food, fuel and energy measure slowed 0.4% points to 2.6% y/y, the weighted median fell 0.2% points to 2.4% using the 2020 weights and came in at 2.2% on the new 2024 weights, and the 30% trimmed mean measure fell 0.2% points to 2.3% using the 2020 weights and came in at 2.2% on the new weights. Completing the suite of core measures, the RBNZ's sectoral factor model will be released at 3pm. But as the chart shows, it's all going to plan.

Figure 1. Core inflation measures



Source: Stats NZ, RBNZ, Macrobond, ANZ Research

Looking forward, and as we noted in yesterday's [OCR call change](#), New Zealand's fragile economic recovery is starting to look a little less assured. Some activity indicators have shown tentative signs of stalling lately, and that's before we consider the possibility that elevated economic uncertainty (owing to global factors) causes some firms to hit the pause button on their investment and hiring plans and some households to delay their spending – particularly on big-ticket items. To ensure the recovery remains on track and CPI inflation doesn't undershoot target in the medium term, we now think a little monetary stimulus will be required. We've pencilled in 25bp cuts all the way to 2.5% by October, but wouldn't rule out a 50bp cut in May – we'll have to see how the high-frequency data and global situation evolves between now and then. Importantly, today's data is unlikely to add to nor subtract from the RBNZ's sense of urgency to ease monetary conditions. But come the May MPS, the change in the RBNZ's outlook is likely to matter more than any starting point surprises in the "dated" tier 1 data. Big picture: while the outlook is looking a little softer, the RBNZ is well placed to step in and cement New Zealand's economic recovery. Recent global developments skew the risks towards a *delayed* recovery, not a *derailed* one!

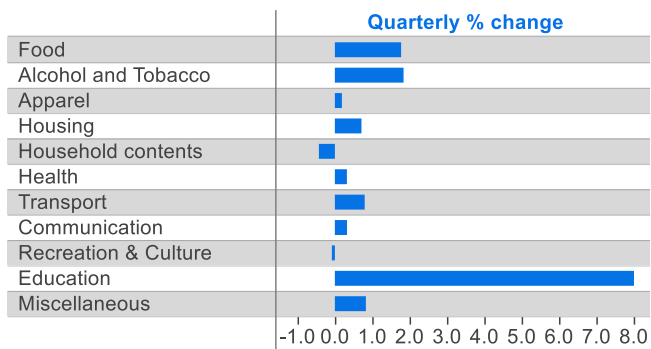
### The details

Breaking down the details of the 0.9% q/q rise in the Q1 CPI:

- **The food group** (18.45% of the CPI) lifted 1.8%, adding 0.3%pts to quarterly inflation and reflecting a seasonal rise in fruit and vegetables and grocery food. Of note, restaurant and ready to eat meals rose a modest 0.2% q/q – the weakest quarterly rise for this group since Q3 2014 and likely reflecting relatively modest wage growth.
- **The transport group** (typically one of the more volatile components of the CPI and 14.3% of the CPI) rose 0.8% q/q, making a 0.1% point contribution to headline inflation. This was a little stronger than expected. Within this group, a 4.6% q/q rise in petrol prices was more than offset by seasonally lower prices for international air travel (down 7.7% q/q).
- **The alcoholic beverages and tobacco group** (5.3% of the basket) rose 1.8% q/q, adding 0.1%pts. This was driven largely by higher cigarettes and tobacco prices (up 3.9% q/q) following the annual increase in excise tax.
- **The housing group** (29.4% of the CPI basket) rose 0.7 q/q, making a 0.2% point contribution to quarterly inflation. Rents were up 0.7% q/q (stronger than expected) and housing construction costs rose 0.6% q/q – also stronger than expected, but well below the historical average of around 1.2% q/q. Annual inflation for new housing is now running at 1.9%, its slowest pace since Q3 2010.
- **Miscellaneous goods and services** (7.2% of the basket) rose 0.8% q/q, a touch below our forecast. Strength here continues to reflect rising insurance costs, but at 1.1% this came in a little below our expectation.
- **The Education group was the biggest surprise vs our forecast.** Stats NZ have reviewed fees-free eligibility for the period and that's seen the tertiary education component rise 22.6% q/q. The contribution of this surprise to headline inflation vs our forecast comes in at 0.1%pts (at 1 decimal place).
- **Other parts of the CPI were broadly as expected**, in that they didn't make significantly stronger or weaker contributions to quarterly inflation than anticipated.

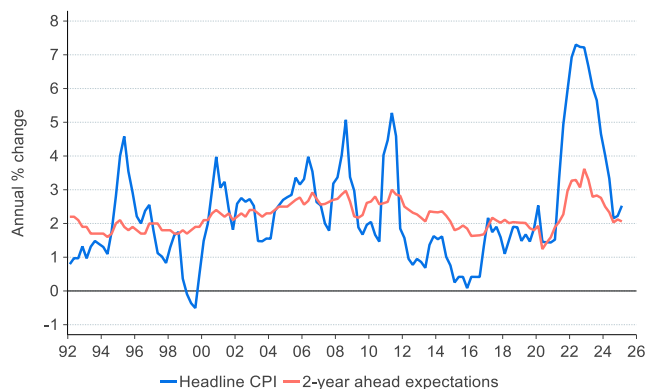
Looking through the usual surprises in some of the details, the main drivers of inflation in Q1 were close to forecast, and the trajectory for underlying disinflation is going the right way for the RBNZ. Looking forward, we think it'll take a lower OCR than previously thought to stabilise CPI inflation around 2% over the medium term. Our updated CPI forecast will be published in next week's Data Wrap (out 24 April) – Happy Easter!

Figure 2. CPI groups – March 2025 quarter



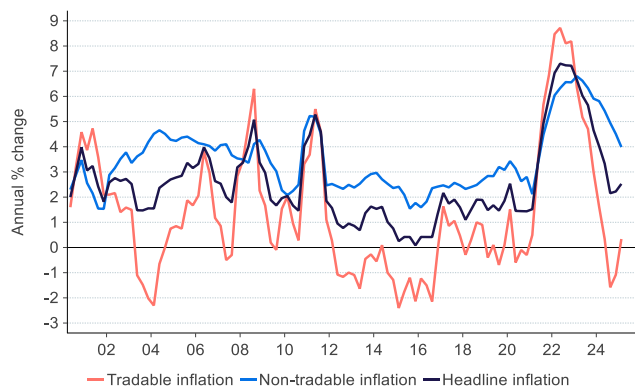
Source: Stats NZ, Macrobond, ANZ Research

Figure 3. Headline inflation vs inflation expectations



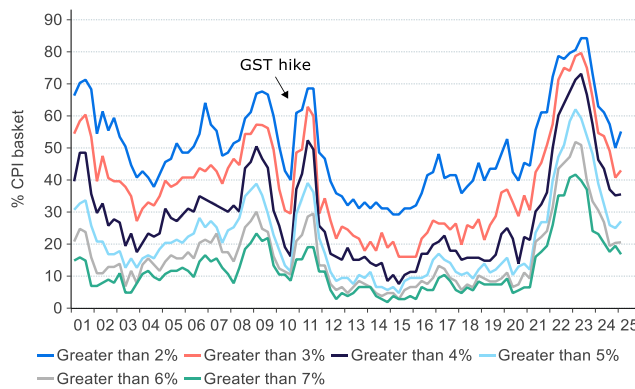
Source: Stats NZ, RBNZ, Macrobond, ANZ Research

Figure 4. CPI inflation components



Source: Stats NZ, RBNZ, Macrobond, ANZ Research

Figure 5. Proportion of CPI basket running greater than X%



Source: Stats NZ, Macrobond, ANZ Research

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