June 2025 Quarter CPI Review

21 July 2025

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Data summary

	% qtr	% ann
Headline CPI	0.5%	2.7%
Tradable	0.3%	1.2%
Non-tradable	0.7%	3.7%

Could have been worse

Bottom line

- Annual CPI inflation accelerated 0.2% pts to 2.7% in Q2 (+0.5% q/q). That was weaker than our expectation but close to the RBNZ's May MPS forecast of 2.6% y/y.
- Non-tradable inflation (largely driven by domestic factors) slowed 0.3%pts to 3.7% y/y, in line with the RBNZ's forecast and weaker than our expectation.
- Measures of core inflation remained within the 1-3% target band, but the main measures we focus on were either unchanged or higher.
- Tradable inflation (largely imported) came in at 1.2% y/y, weaker than our expectation but stronger than the May MPS forecast.
- Today's data were closer to the RBNZ's May forecast than we anticipated, suggesting that while today's data cannot be characterised as "comfortable", it doesn't present a roadblock to further OCR cuts. Indeed, a little less near-term inflation strength than we thought was likely means the RBNZ can feel a bit more confident putting weight on the broad-based deterioration in the high-frequency data we've seen of late (e.g. PMI, PSI, housing, filled jobs, etc). We continue to pencil in OCR cuts for August, November and February, but today's data suggest the easing we've long been expecting could arrive a little more quickly.

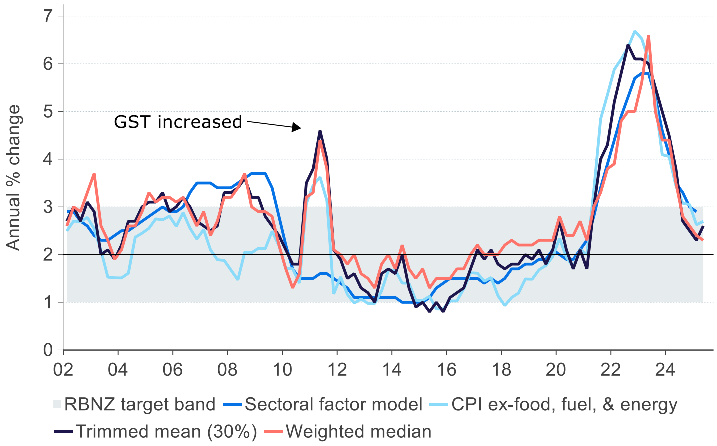
Big picture and monetary policy implications

Headline inflation accelerated from 2.5% in Q1 to 2.7% in Q2 as higher tradable inflation (the more volatile side of the CPI basket) more than offset ongoing non-tradable disinflation.

Looking through some of the more volatile parts of the basket, the signal on underlying disinflation was mixed in Q2. Annual non-tradable inflation continued to drift lower, but annualised seasonally adjusted non-tradable inflation lifted from 3.2% to 3.6% (from 0.8% q/q in Q1 to 0.9% q/q in Q2) and services inflation accelerated 0.5% pts to 4.7%. Meanwhile, the suite of core inflation measures produced by Stats NZ were mixed: the ex food, fuel and energy measure lifted 0.1% points to 2.7% y/y, the 30% trimmed mean measure rose 0.2% points to 2.4% (2024 weights), and the weighted median was stable at 2.2% (using the 2024 weights). Completing the suite of core measures, the RBNZ's sectoral factor model will be released at 3pm. While all measures remain in the 1-3% target band, a breach in Q3 can't be ruled out, but the signal on broader economic momentum suggests any breach would be temporary.

Today's data sent some mixed messages as regards the underlying state of inflation. Headline measures were certainly lower than we expected, but many of the core measures continue to suggest the RBNZ needs to remain attentive to upside inflation risks going forward. But here and now, disinflation progress appears to be going to plan, meaning the RBNZ can continue to ease monetary conditions and get this economy back on its feet. Indeed, the recent loss in economic momentum (evidenced by a contractionary PMI, PSI, softening housing market, stagnant filled jobs, sub-par consumer and business sentiment, and more) combined with further disinflation progress in Q2 suggests the risks are skewed towards the RBNZ concluding that downside medium-term inflation risks are starting to outweigh near-term upside inflation risks. If the RBNZ focuses too heavily on the former, they may very well cause inflation to undershoot the target mid-point over the medium term, causing unnecessary harm to households and businesses and increasing the odds that the OCR will eventually need to sail just that little bit closer to the effective lower bound this cycle just to ensure inflation stabilises at target.

Figure 1. Core inflation measures



Source: Stats NZ, RBNZ, Macrobond, ANZ Research

In short, today's data add to the case for another OCR cut in August and suggest risks are tilting towards further easing being delivered sooner than our expectation of cuts only at Monetary Policy Statements. We have long been expecting the RBNZ will need to cut the OCR more than they have recently been signalling, and with today's data not the roadblock we thought it was going to be, the risk of a follow-up cut in October is now looking higher. Labour market data in early August will be important.

The details

Breaking down the details of the 0.5% q/q rise in the Q2 CPI:

- **The food group** (18.45% of the CPI) lifted 1.6%, adding 0.3%pts to quarterly inflation and reflecting seasonal strength in fruit and vegetables and higher grocery prices. Of note, prices for restaurant and ready-to-eat meals (which tend to move with the minimum wage) recorded their weakest Q2 rise since 2017 (up 0.9% q/q).

- **The housing and household utilities group** (29.4% of the CPI basket) rose 0.8% q/q, making a 0.2% point contribution to quarterly inflation. As foreshadowed by the SPIs, electricity prices contributed half of the rise, bolstered by the 1 April increase in lines charges. Rents (up 0.8% q/q) were the next-largest driver. Meanwhile, housing construction costs fell 0.1% q/q, weaker than our expectation and pointing to significant spare capacity in the construction sector. Looking forward, indicators for rents inflation suggest further disinflation is in store for this sub-group. And with construction activity still soft, it's hard to see this sub-group picking up any time soon. Electricity lines charges, on the other hand, are set to rise for the next few years, but annual increases are expected to be smaller than this year.

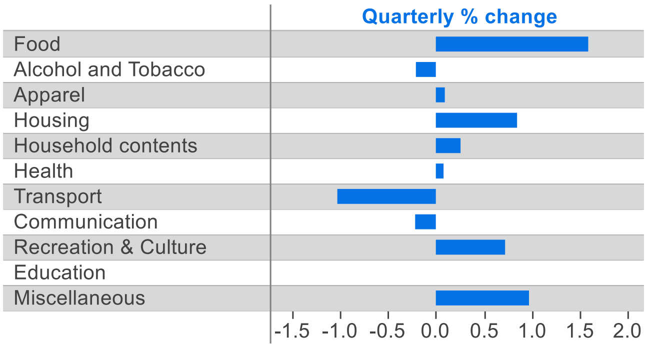
- **The transport group** (typically one of the more volatile components of the CPI and 14.3% of the basket) fell 1.0% q/q, subtracting 0.1% pts from headline inflation. This was a little weaker than we expected. Within this group, a 4.8% q/q fall in petrol prices and a decline in rental cars (reflecting soft domestic discretionary spending and still-subdued short-term visitor arrivals), more than offset the $25 increase in vehicle licensing fees that occurred in Q1 but was included in the Q2 data.

- **Miscellaneous goods and services** (7.2% of the basket) rose 1.0% q/q, a touch above our forecast, but insurance costs (which have been a big driver of inflation for this group in recent quarters) came in softer than our expectation at 0.7%, owing to 1.3% fall in vehicle insurance.

- **Other parts of the CPI were broadly as expected,** and didn't make significant contributions to quarterly inflation.

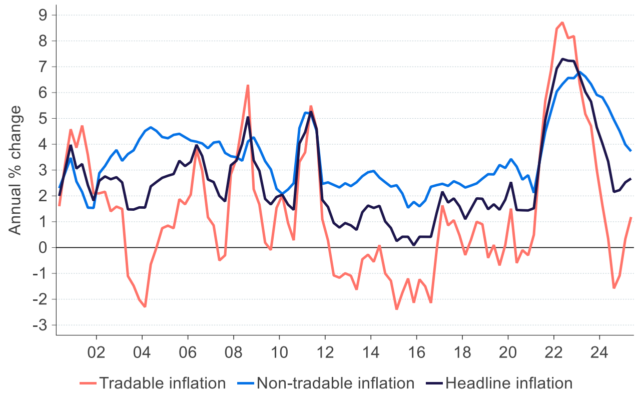
Looking through the usual surprises in some of the details, the main drivers of inflation in Q2 were close to forecast: quarterly inflation was mostly related to food and housing. For Q3, risks are tilting towards annual inflation accelerating a little further, but given the state of economic momentum we don't think an upward trajectory can persist. We expect spare economic capacity to manifest once more in the CPI data by the end of the year and across 2026, with risks of an undershoot eventually necessitating a little monetary stimulus. Our updated CPI forecast will be published in this week's Data Wrap (out Friday).

Figure 2. CPI groups – June 2025 quarter



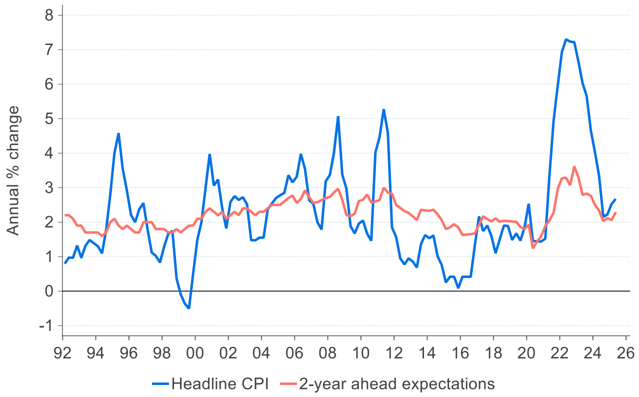
Source: Stats NZ, Macrobond, ANZ Research

Figure 4. CPI inflation components



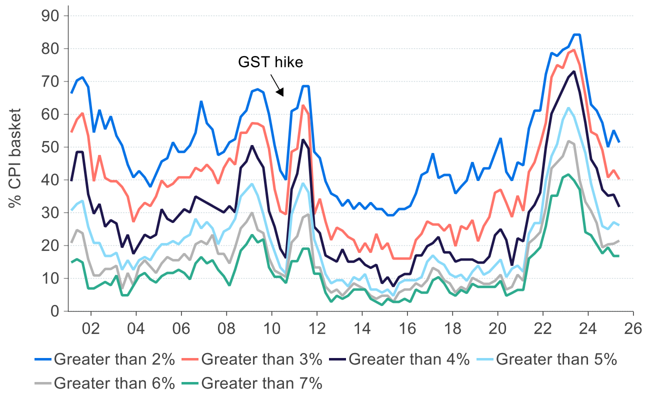
Source: Stats NZ, Macrobond, ANZ Research

Figure 3. Headline inflation vs inflation expectations



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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Last updated: 17 June 2025

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