ANZ Research

September 2025 Quarter CPI Review

20 October 2025

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Data summary

	% qtr	% ann
Headline CPI	1.0%	3.0%
Tradable	0.8%	2.2%
Non-tradable	1.1%	3.5%

Kissing the band

Bottom line: not a game changer

- Annual CPI inflation accelerated 0.3% pts to 3.0% in Q3 (+1.0% q/q). That was mildly weaker than our expectation of 3.1% (although it was closer than it looks – at 2dp headline inflation came in at 3.04% y/y). Today's data were in line with the RBNZ's August MPS forecast.
- Non-tradable inflation (largely driven by domestic factors) slowed 0.2%pts to 3.5% y/y, in line with the RBNZ's forecast and slightly weaker than our expectation of 3.6%.
- Measures of core inflation either fell or were stable in the quarter. All main measures of core inflation remained in the 1-3% target band.
- Tradable inflation (largely determined by global factors, including movements in the NZD) came in at 2.2% y/y, in line with our expectation.
- In October, the RBNZ acknowledged that inflation likely accelerated in Q3, noting that this presented an upside risk to inflation expectations (causing persistently higher inflation than otherwise). Clearly the high frequency data and inflation expectations are a must-watch between now and the November MPS, but today's data certainly don't present any challenge to the RBNZ's August forecast: underlying inflation is slowing largely as forecast. We continue to expect a 25bp cut in November.

Big picture and monetary policy implications

Headline inflation accelerated from 2.7% in Q2 to 3.0% in Q3 as higher tradable inflation (the more volatile side of the CPI basket) more than offset ongoing but gradual non-tradable disinflation.

Looking through some of the more volatile parts of the basket, the signal on underlying disinflation was a little more encouraging:

- Annual non-tradable inflation continued to slow.
- Annualised seasonally adjusted non-tradable inflation was stable at 3.6% (0.9% q/q).
- Services inflation slowed 0.3% pts to 4.4%.
- The ex-food, fuel and energy measure fell 0.2% points to 2.5% y/y.
- The 30% trimmed mean measure fell 0.2% points to 2.2%, 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 there were parts of the CPI that suggest the RBNZ can't completely relax about current elevated inflation pressures, it's important to note that the acceleration in annual headline inflation was driven by the volatile tradable side of the basket (meaning payback in coming quarters is likely), and that the lacklustre state of economic momentum implies there is plenty more underlying disinflation in the pipeline.

In the October Monetary Policy Review, the Committee noted that "headline inflation is projected to have reached 3.0 percent in the September 2025 quarter, reflecting large increases in administered prices, food prices, and the prices of other tradable goods and services" They were spot on. All up, today's CPI release shouldn't move the dial for the RBNZ in either direction. We maintain our expectation that the RBNZ will deliver a 25bp cut in November.

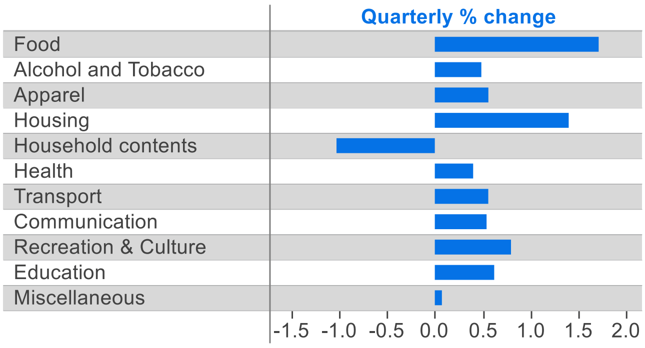
The details

Breaking down the details of the 1.0% q/q rise in the Q3 CPI:

- The **housing and household utilities group** (29.4% of the CPI basket) rose 1.4% q/q, making a 0.5%pt contribution to quarterly inflation. As expected, local council rates accounted for the bulk of this (up 8.8% q/q). Electricity prices (up 3.2% q/q) continued to add pressure, while rents (up 0.3% q/q) and the purchase of new housing (up just 0.1% q/q) remain subdued relative to their historical average rates of increase. Spare capacity in the residential construction sector and the stagnant housing market suggest price pressures will remain modest across these components.
- The **food group** (18.45% of the CPI) lifted 1.7%, adding 0.3%pts to quarterly inflation with fruit and vegetable and meat prices a little stronger than their seasonal norm.
- The **transport group** (typically one of the more volatile components of the CPI and 14.3% of the basket) lifted 0.6% q/q, adding 0.1%pts to headline inflation. The annual increase in vehicle levies and higher international airfares were behind the rise.
- The **recreation and culture** group rose 0.8% q/q, adding almost 0.1%pts. This reflected small rises across the sub-indexes, including accommodation.
- **Other parts of the CPI** were broadly as expected, and didn't make significant contributions to quarterly inflation. Early childhood education was close to our expectation, up 2.5% q/q despite the broadening of the Family Boost eligibility. Insurance was a bit of a mixed bag, up 0.4% q/q overall, but with further evidence that dwelling insurance inflation is moderating (0.0% q/q).

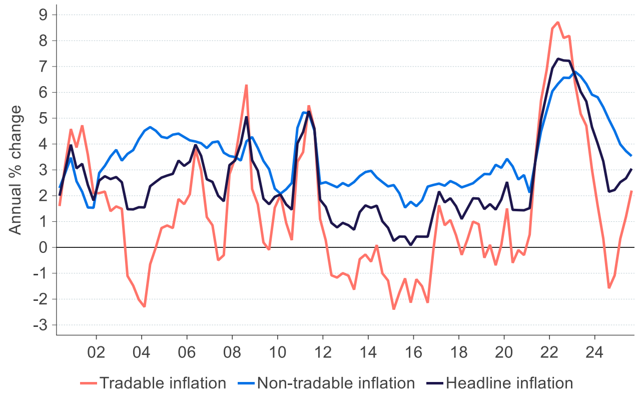
Looking through the usual surprises in some of the volatile components, the main drivers of inflation in Q3 were close to forecast: more than half of quarterly inflation was owing to council rates and food. Looking forward, the state of economic momentum suggests CPI inflation won't have a 3-handle for long. Our updated CPI forecast will be published in this week's Data Wrap (out Friday).

Figure 1. CPI groups – September 2025 quarter



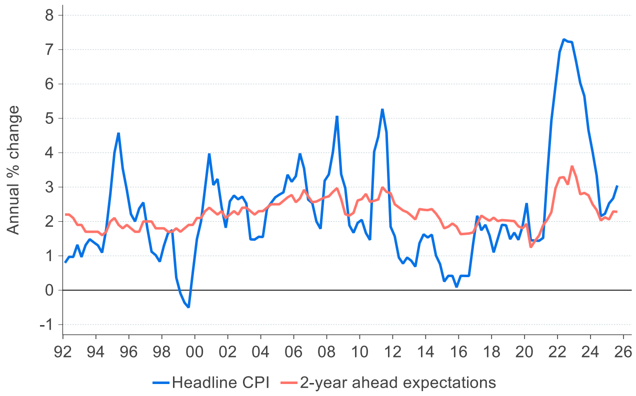
Source: Stats NZ, Macrobond, ANZ Research

Figure 3. CPI inflation components



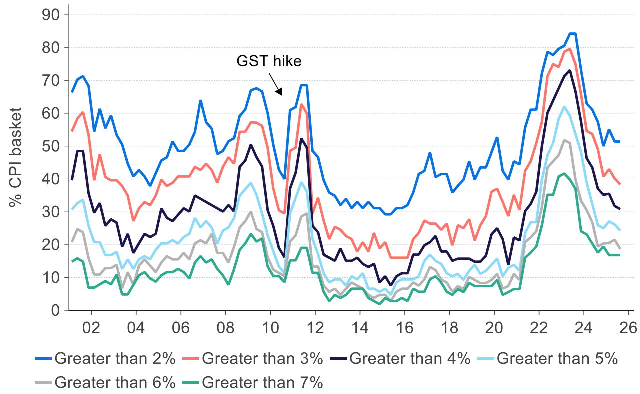
Source: Stats NZ, Macrobond, ANZ Research

Figure 2. Headline inflation vs inflation expectations



Source: Stats NZ, RBNZ, Macrobond, ANZ Research

Figure 4. Proportion of CPI basket running greater than X%



Source: Stats NZ, Macrobond, ANZ Research

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