

NEW ZEALAND ECONOMICS JUNE 2016 QUARTER CPI PREVIEW

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CONTRIBUTORS

Philip Borkin
Senior Economist
Telephone: +64 9 357 4065
E-mail: philip.borkin@anz.com

LOW HEADLINE BUT FIRMIING DOMESTIC PRESSURES

KEY POINTS

- **Q2 CPI figures are released next Monday (18 July).** We expect a 0.5% q/q headline CPI increase, which is a touch below the RBNZ's pick. Annual inflation is expected to lift to 0.5%, which would be the highest in 18 months, although still the seventh consecutive quarter below 1%.
- **Headline inflation is clearly low**, and looks set to remain below the RBNZ's target mid-point for some time yet given the dampening influence of the NZD. **However, we suspect the Q2 CPI figures will show mounting evidence that domestic inflation pressures are lifting off lows**, which would be consistent with the economy's solid underlying performance and ongoing absorption of spare capacity. Where capacity pressures are most intense (construction), price tension will be clear.
- **In short, we expect a low headline, but solid non-tradable print.** **Non-tradable prices** are estimated to have lifted 0.6% q/q (2.1% y/y), which is in line with the signal from our Monthly Inflation Gauge. **Tradable prices** are estimated to have risen 0.5% q/q (-1.6% y/y).
- In terms of the details:
 - **Petrol prices should make a 0.3%pt contribution.** This is after they knocked 0.4%pts off headline inflation in each of the prior two quarters. Food prices will be up 0.3% q/q.
 - **Housing group prices should make a large positive contribution.** We are assuming an acceleration in construction cost inflation (to 1.6% q/q), which would be double Q1's increase. Rental inflation is expected to be steady at 0.6% q/q, while household energy prices are estimated to have lifted 1.5% q/q – the strongest in two years.
 - **An ongoing competitive retail environment should be evident.** Prices in the household contents and services group are assumed to fall 1.0% q/q, led by furniture and household appliances. Clothing and footwear prices will be largely unchanged, while ongoing falls in the likes of telecommunication and audio visual equipment will be seen.
- **Statistics NZ 'core' measures (while still below 2%), should tick slightly higher.** We are expecting a ¾% to 1½% annual range. Low, but at least off the lows.
- **We expect the figures to cloud the upcoming August decision.** The RBNZ acknowledges that price and wage setting behavior is more backward-looking than previously thought, therefore a low "actual" CPI outturn matters, and the NZD will push out prospects for any immediate rise in headline inflation. At the same time, the RBNZ more directly controls non-tradable inflation. And if we are correct with our 0.6% q/q expectation, then Q2 will be the third consecutive quarter it has come in above the RBNZ's expectations.

CONSUMERS PRICE INDEX – JUNE 2016 QUARTER

	Expected	Prev
CPI – q/q	0.5%	0.2%
CPI – y/y	0.5%	0.4%
Tradable - q/q	0.5%	-0.9%
Tradable - y/y	-1.6%	-1.2%
Non-tradable -q/q	0.6%	1.0%
Non-tradable - y/y	2.1%	1.6%

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