

JUNE 2017 QUARTER CPI PREVIEW

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TIP-TOEING

- **We expect headline inflation to ease back to 1.9% in Q2**, from Q1's 2.2% y/y result.
- **Various core measures are expected to print in the 1.5%-2.2% range.** That's in the "zone" but not enough of a broad-based story to shift the RBNZ away from its cautious stance, particularly with forward inflation signals mixed.
- **We retain our view that core inflation will lift slowly**, with developments in the labour market (wages) key.

KEY POINTS

- **We expect a 0.2% q/q lift in the headline CPI for the June 2017 quarter** (released 18th July), which would see annual inflation ease back to 1.9% from Q1's 2.2% print.
- **Some of the typically volatile components will provide offsetting movements in the quarter.** Food prices will make another positive contribution (+0.1%pts) despite already recording the largest quarterly lift in 6½ years in Q1. Poor autumn weather has led to a spike in fruit and vegetable prices, which is looking unlikely to unwind until new season product hits the shelves in spring. A drop in petrol prices will largely offset this (-0.1%pts). In fact, falling petrol looks set to drag heavily on Q3 figures as well, dragging annual inflation down to 1.8% (if not below) as the inflation boost from oil prices globally does a sharp U-turn.
- **The housing group will again make a positive contribution (+0.8% q/q)**, which has been almost an unflinching theme of late. We expect the purchase of housing component to rise by 1.5% q/q, which is roughly the average of the preceding 12 months. We have pencilled in a 0.7% q/q lift in rents, although partial MBIE data does suggest some downside risk to that. Household energy costs are expected to have lifted 0.8% q/q.
- **The broader domestic inflation picture will be a little more hit and miss.** That has certainly been the signal from our Monthly Inflation Gauge of late, where non-housing related price pressure is few and far between. In fact, we see overall non-tradable inflation at just 0.3% q/q in Q2, which would hold annual growth at 2.5% y/y.
- **Core inflation measures should be broadly steady.** In Q1, some measures of core inflation were actually back above the target-midpoint. The weighted median and 10% trimmed mean were both at 2.2%. However, it wasn't across the board. Headline inflation excluding food, petrol and energy was steady at 1.6%, and the RBNZ's Sectoral Factor Model also was stable at 1.5% – where it has been for six consecutive quarters. We are not expecting much change in this picture in Q2.
- **Across other details:**
 - **There will be the usual seasonal movements**, although the June quarter is typically the 'cleanest' from a seasonality point of view. Domestic airfares especially are expected to fall sharply (although this seasonality has only been a recent phenomenon). Prices for accommodation services should also fall, while clothing and footwear prices should lift.

Consumers Price Index – June 2017 Quarter

	Expected	Prev
CPI – q/q	0.2%	1.0%
CPI – y/y	1.9%	2.2%
Tradable - q/q	0.0%	0.8%
Tradable - y/y	1.0%	1.6%
Non-tradable -q/q	0.3%	1.0%
Non-tradable - y/y	2.5%	2.5%

2017Q2 CPI PREVIEW

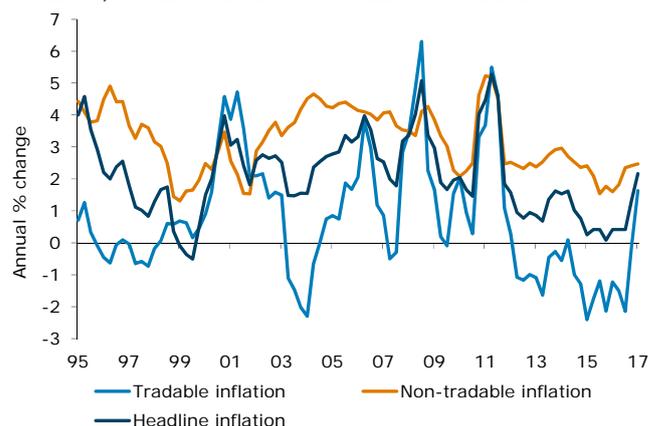
- **The extremely competitive retail landscape, and NZD strength, will continue to be evident.** We expect furniture and household textiles prices to more than unwind their Q1 bounce. We have also pencilled in a small fall in new car prices. Despite already falling sharply of late, audio-visual and telecommunication prices should continue their secular downtrend. After hitting 1.6% y/y in Q1, tradable inflation is forecast to drop to 1.0%.
- **Inflation signals remain mixed.** The economy is increasingly butting up against capacity pressures, construction cost inflation remains rampant, and firms' pricing intentions are ticking higher. However, recent oil price falls will likely see headline inflation fall back to the lower half of the RBNZ's target band over the coming 12 months and that can alter inflation expectations. The recent spike in food prices should at least partly unwind at some stage, although the lift in New Zealand's export commodity prices does mean it is not all one-way traffic. The deflationary impact of technology is ever present and there remain numerous questions over the global inflationary environment, with core inflation measures rolling over in some countries of late (but especially in the US).
- **That's an environment that will leave the RBNZ cautious,** irrespective of the Q2 inflation figures.
- **It is developments in the labour market that leave us with the belief that domestic inflation pressures will broaden and rise in time.** While it has been MIA to date, we believe we are on the cusp of a lift in wage inflation as firms are forced to respond to skill shortages, cost of living pressures and government policy changes (around migration and gender pay equality). That should eventually warrant a shift in stance and ultimately the gradual removal of monetary policy stimulus.

ANZ Q2 CPI component-level forecast

Groups	q/q%	%pt cont.
Food	0.7	0.1
Alcoholic beverages and tobacco	0.1	0.0
Clothing and footwear	0.6	0.0
Housing and household utilities	0.8	0.2
Household contents and services	-1.0	0.0
Health	0.2	0.0
Transport	-1.4	-0.2
Communication	-0.6	0.0
Recreation and culture	0.2	0.0
Education	0.3	0.0
Miscellaneous goods and services	0.3	0.0
Total	0.2	0.2

Source: ANZ, Statistics NZ

Headline, tradable and non-tradable CPI inflation



Source: ANZ, Statistics NZ

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