CONSUMERS PRICE INDEX – 2017Q4

NO COMEBACK IN SIGHT

BOTTOM LINE

- Headline CPI inflation was considerably weaker than expected in Q4.
- There are very few signs of a broad-based lift in domestic price pressures, with ongoing signs of meaningful retail discounting, especially in some big-ticket categories.
- Today’s data, along with our belief that the economy is set to go through somewhat of a near-term growth wobble, see us pushing out our expectation for the first OCR hike to mid-2019 (from November 2018).

KEY RESULTS

- Headline CPI rose a modest 0.1% q/q in Q4, which was well below consensus (0.4%) and RBNZ (0.3%) expectations. This saw annual inflation drop back to 1.6% y/y. Tradable prices fell 0.3% q/q (0.5% y/y), while non-tradable prices rose 0.5% q/q (2.5% y/y). Relative to our own expectations (0.4% q/q), the majority of surprise was on the tradable side, although non-tradable inflation was a touch weaker too.

- As has been the case for the past few quarters, some of the more volatile components made broadly offsetting contributions. Food prices fell (-1.7% q/q) as they typically do in December quarters as new-season produce hits the shelves. This accounted for a -0.3%pt drag. This was offset by a 6.1% q/q bounce in petrol prices (+0.2%pt contribution) as well as seasonal increases in domestic and international airfares (a combined +0.2%pt contribution).

- In what is now a familiar story, the housing group again made a positive contribution (+0.6% q/q). Implied construction costs (purchase of housing) rose 1.3% q/q, which saw annual inflation in this component broadly stable at 5.3% y/y. Rents rose 0.5% q/q, which is a broadly similar pace as the past 12 months, but it does remain at odds with anecdote, which implies far larger gains.

- But a key focus is whether domestic inflation pressures are broadening, and there is still a stark lack of evidence of this – arguably even less than suggested by our Monthly Inflation Gauge. Non-tradable inflation ex housing rose just 0.3% q/q, while non-tradable inflation ex government charges and tobacco rose 0.4% q/q. Annual growth in both dropped to 1.9% y/y, from 2.2%. In seasonally adjusted terms, non-tradable inflation rose 0.6% q/q, down from 0.8% q/q in Q3.

- There were also clear signs of ongoing retail-related price falls – more than we had expected. Prices for apparel (-1.2% q/q), furniture (-0.4% q/q), appliances (-3.1% q/q), and audio equipment (-2.1% q/q) all experienced meaningful falls, reinforcing the intensely competitive backdrop. New car prices plunged 6.2% q/q – we wonder if this might imply dealers are being forced to liquidate stock against a backdrop of softer big-ticket item spending.

- Core and underlying measures generally softened, and some dropped out of the 1½-2% range that has been evident of late. Headline inflation ex food, fuel and energy prices rose 0.3% q/q, which saw annual inflation

DATA SUMMARY

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<tr>
<td>Headline CPI</td>
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<td>Tradable</td>
<td>-0.3%</td>
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<td>Non-tradable</td>
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drop to 1.1% y/y (from 1.5%). The weighted median and trimmed mean measures were at 2.0% and 1.5% y/y respectively, although for the latter it is in part due to the basket re-weighting. But even without the reweight, it still would have fallen from 2.0% to 1.7%.

- That leaves the bias for the RBNZ’s Sectoral Factor Model estimate (out at 3pm today) to be on the ‘subdued’ side. Our own model estimate suggests it will print at 1.5%, although it overstated that result last quarter too. And in terms of the broadness of price increases, we estimate that 42% of the CPI basket is currently experiencing an annual price increase over 2% – down from 43% in Q3.

- At this stage, we retain a view that domestic inflation will rise and broaden in time, largely predicated on our belief that through the combination of skill shortages and government policy changes, wage inflation will continue to lift. However, we acknowledge that it is far from a clear picture. Other policies (such as the free first year of tertiary education) will have a mechanical offsetting impact. And together with recent movements in oil and the NZD (until today!), the impact of structural deflationary forces, and the fact we see growth over the coming 12 months or so only at trend, and not above, it remains a murky picture.

- In this environment the RBNZ will remain cautious. Accordingly, we have pushed out our expectation for the first OCR hike to mid-2019 (from November this year), though one could certainly make a case for having a flat-lined profile altogether until the balance of risks becomes clearer.

Source: ANZ, Statistics NZ
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