

CONSUMERS PRICE INDEX – 2017Q1

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STRONG HEADLINE, MIXED DETAIL

BOTTOM LINE

- **Headline inflation rose by more than expected in Q1, with one-offs leading the way and some core measures** (trimmed mean and weighted median back above 2%) **also lifting**. However, the details were far more mixed (while admittedly stronger than we had expected), with inflation outside of one-offs and housing far more tame. Inflation excluding food, petrol and energy was stable at 1.6% y/y.
- **Core and underlying measures of inflation are grinding higher, but only modestly so.**
- **We expect the RBNZ's sectoral factor model to show a slight tick up from 1.5% to 1.6%.**
- **With the economy increasingly butting up against capacity pressures, we do expect domestic inflation pressures to broaden further beyond housing and into the labour market.**
- **However, there is still only modest evidence of this occurring at this stage** (although the latest equal pay ruling should add some impetus). And with the impact of food and petrol price gains set to be temporary, and plenty of questions surrounding the global inflationary backdrop, it is certainly not guaranteed that headline inflation remains around current levels for a sustained period.
- **Today's data reinforces that the next move in the OCR will be up.** While acknowledging the uplift in some core inflation gauges, **we doubt there is enough evidence in the breadth of moves to spur the RBNZ into shifting its stance just yet**, especially with financial and credit conditions tightening independently of the OCR.

KEY RESULTS

- **Headline CPI inflation was 1.0% q/q in Q1, which was above consensus expectations (0.8%).** Helped by base effects, annual inflation lifted to 2.2% y/y, which is the highest rate since Q3 2011. Tradable prices rose 0.8% q/q (1.6% y/y), while non-tradable prices rose 1.0% q/q (2.5% y/y).
- **As expected, food, petrol and tobacco prices made large positive contributions.** Food and petrol prices together made a 0.6%pt contribution, while tobacco (in what has now become a typical seasonal increase) added a further 0.3%pts.
- **Outside of these moves, the inflationary pulse was more benign** (although admittedly not as benign as we had expected). There were various hits and misses relative to our expectations, but little in the way of a clear theme.
- **Housing group prices made another positive contribution.** Implied construction costs rose 1.0% q/q, lifting annual inflation in this component to 6.7%. Rental inflation posted a 0.8% q/q lift, which is the largest lift in two years. It had been surprisingly benign of late despite housing pressures.

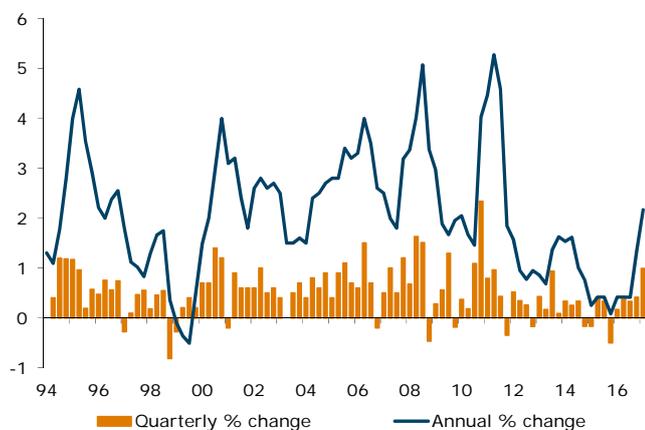
DATA SUMMARY

	% qtr	% ann
Headline CPI	1.0%	2.2%
Tradable	0.8%	1.6%
Non-tradable	1.0%	2.5%

2017Q1 CPI REVIEW

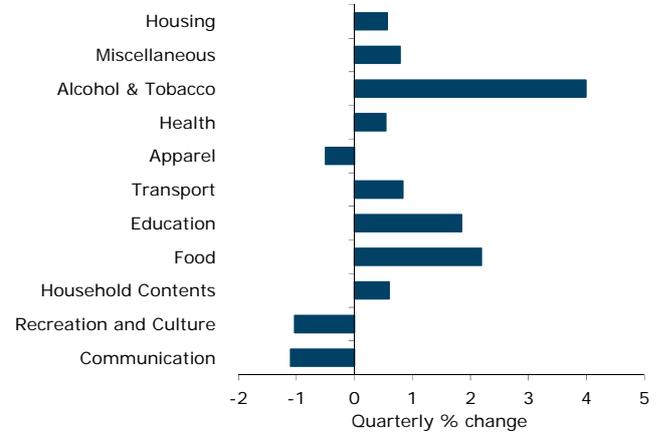
- But outside of housing, domestic price pressures remained somewhat scant.** Services inflation rose just 0.1% q/q, while annual non-tradable inflation excluding the housing group was unchanged at 1.9%. Annual non-tradable inflation excluding government charges and tobacco actually dipped a touch, from 2.4% to 2.3%. It is consistent with the signal from our Monthly Inflation Gauge.
- Deflationary forces in the retail space continue to be seen** (although perhaps not quite as much as we had expected). Price falls were seen in some durable-type goods (new cars, appliances, audio visual equipment). Additionally, clothing and footwear prices (-0.5% q/q) and international airfares also recorded falls (-10.7% q/q). The latter is a seasonal move. However, the likes of furniture and household textiles bounced back after falling in Q4.
- Core and underlying measures were mixed, but a touch higher overall.** In seasonally adjusted terms, headline inflation rose 1.0% q/q, which is the largest lift since Q2 2011, while headline inflation excluding food, petrol and energy was 0.5% q/q, keeping annual inflation in this measure stable at 1.6%. The 10% trimmed mean and weighted median both rose to 2.2% y/y.
- In terms of the distribution of price increases,** we estimate that 48% of the CPI basket recorded annual price growth above 2%. That is the highest since Q4 2011. That's another sign core inflation pressures are rising.

FIGURE 1. HEADLINE CPI INFLATION



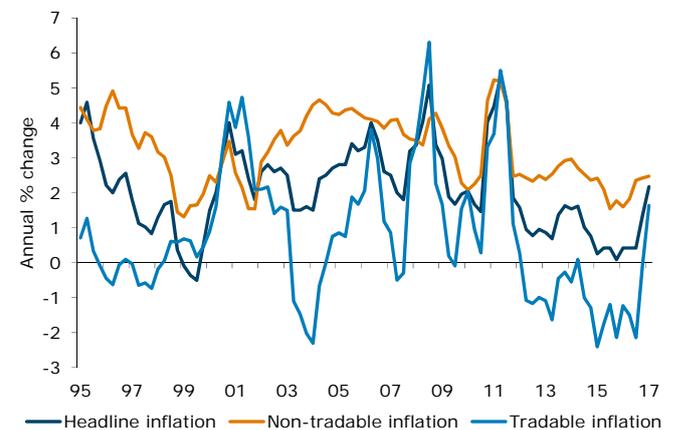
Source: ANZ, Statistics NZ

FIGURE 2. CPI GROUPS – MARCH 2017 QUARTER



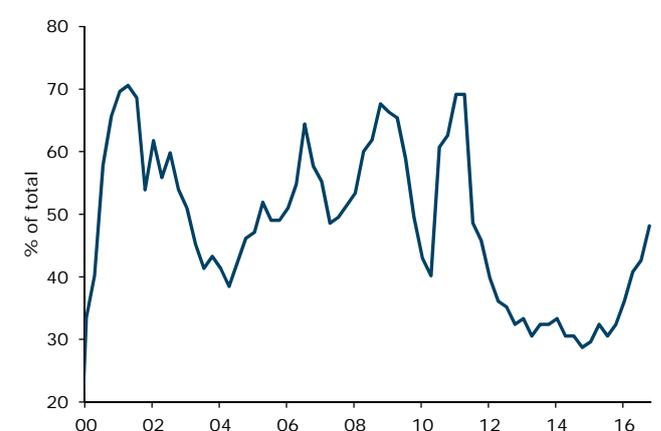
Source: ANZ, Statistics NZ

FIGURE 3. CPI INFLATION COMPONENTS



Source: ANZ, Statistics NZ

FIGURE 4. PROPORTION OF CPI BASKET WITH ANNUAL INFLATION ABOVE 2%



Source: ANZ, Statistics NZ

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