

CONSUMERS PRICE INDEX – 2017Q2

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CONTRIBUTORS

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OH INFLATION, WHERE ART THOU?

BOTTOM LINE

- **Headline inflation eased back to 1.7% y/y in Q2, and underlying details were soft.** While the housing group continues to provide upward impetus, it remains a story of very limited price pressures elsewhere. Core and underlying measures actually eased a touch in the quarter.
- **In many ways, there is a “necessities” vs “fun” dynamic,** with the prices for the former items generally rising, but prices for more discretionary type spending falling.
- **Together with the recent soft GDP figures, today’s data and the mixed forward-looking inflation signals will leave the RBNZ fully vindicated in its ultra-cautious stance** and no doubt the market will shift more towards its view.
- **While our own view is that domestic inflation pressures will eventually rise and broaden, that hinges heavily on the labour market** (and wage growth specifically). The RBNZ is not going to react until it sees actual evidence of this and the risks are clearly building that this theme will not only be delayed, but will be surmounted by growing evidence of structural disinflationary forces.

KEY RESULTS

- **Headline CPI was unchanged in Q2,** which was below consensus expectations (+0.2% q/q) and saw annual inflation ease back to 1.7% y/y after reaching the highest level since 2011 in Q1 (2.2% y/y). Tradable prices dipped 0.2% q/q (0.9% y/y), while non-tradable prices rose 0.2% q/q (2.4% y/y).
- **As expected, some of the more volatile components made offsetting contributions.** Food prices rose 0.7% q/q (0.1%pt contribution) as poor autumn weather led to a spike in fruit and vegetable prices. This was offset by a 1.9% q/q drop in petrol prices (-0.1%pts) as the earlier inflationary impulse from global oil prices goes into reverse.
- **The housing group again made a positive contribution** (0.8% q/q; 0.2%pts), which has been an almost unailing theme of late. Implied construction costs (purchase of housing) rose a strong 1.8% q/q, seeing annual inflation in this category sit at 6.4%. Energy prices posted a decent 1.5% q/q lift. Rental inflation rose, but only a modest 0.4% q/q, which remains a somewhat perplexing dynamic given the supposed housing-shortage thematic.
- **But beyond housing, domestic inflation pressures effectively remain absent.** In fact, they looked to have softened a little further in the quarter. While partly seasonal, non-tradable inflation less the housing group prices fell 0.3% q/q (1.8% y/y), while non-tradable inflation less government charges and tobacco was just 0.1% q/q (2.2% y/y). This benign picture is certainly consistent with the broad signal from our Monthly Inflation Gauge.
- **In terms of some of the outsized movements in other components,** domestic airfares plunged 15% q/q, while accommodation services fell 8.1% q/q. Both falls reflect seasonal forces, but weakness exceeded our

DATA SUMMARY

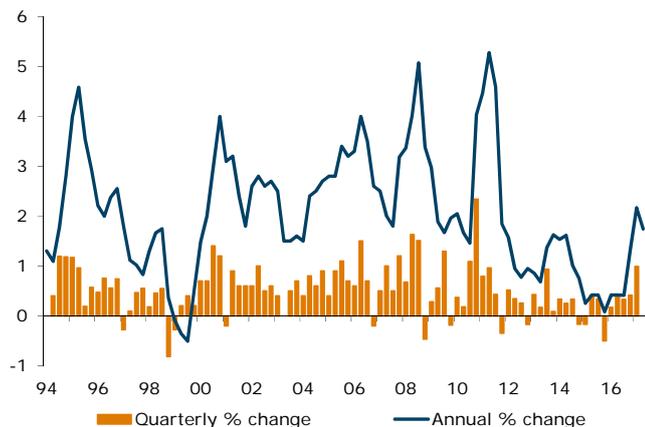
	% qtr	% ann
Headline CPI	0.0%	1.7%
Tradable	-0.2%	0.9%
Non-tradable	0.2%	2.4%

2017Q2 CPI REVIEW

expectations, and in many ways is a little surprising given anecdotes of hospitality sector price increases associated with the British and Irish Lions rugby tour.

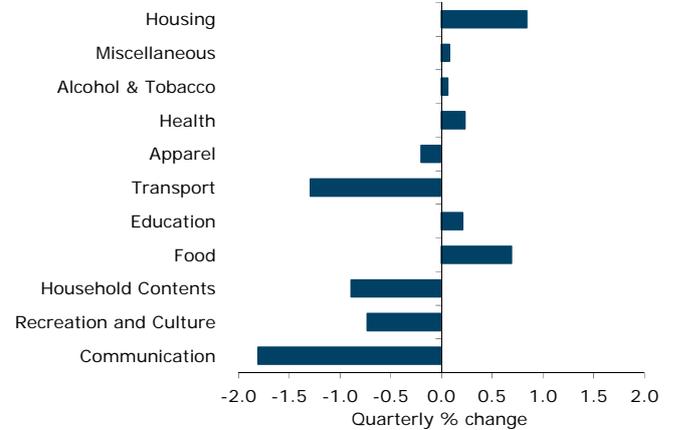
- The impact of the strong NZD and retail sector competition also remains evident.** Clothing and footwear prices fell 0.2% q/q, when typically prices lift in Q2. Prices for the household contents and services group dropped 0.9% q/q. The downtrend in some perennial negative contributors (telecommunication equipment: -13% q/q; and audio visual equipment: -5.4% q/q) accelerated. Some of the softness perhaps puts the recent weakness in the value of ECT retail spending in a little more context.
- If anything, core and underlying inflation measures were a touch weaker in the quarter.** After both rising to 2.2% in Q1, the weighted median and trimmed mean eased back to 2.0% and 1.8% respectively in Q2. Headline inflation ex food, energy and fuel was just 1.4% y/y. In seasonally adjusted terms, headline inflation actually fell 0.1% q/q. Moreover, for the first time in five quarters, the proportion of CPI components with annual inflation above 2% fell in the quarter, dropping from 48% to 40%.
- It is therefore hard to see a lift in the RBNZ's Sector Factor Model** when it is released this afternoon. Our own estimates point to further stability at 1.5%, although there is perhaps a hint of downside risk.

Figure 1. Headline CPI inflation



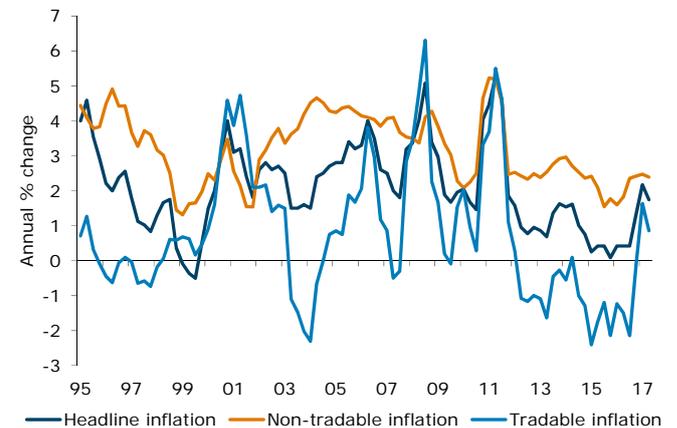
Source: ANZ, Statistics NZ

Figure 2. CPI groups – June 2017 quarter



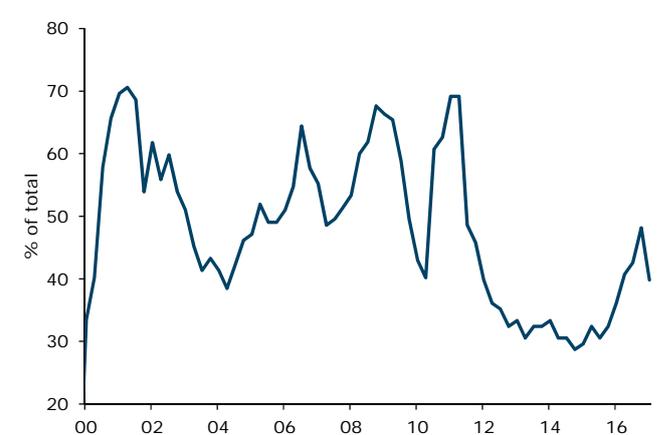
Source: ANZ, Statistics NZ

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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