In the mix

- CPI increased 0.1% q/q in Q4 – below the 0.2% q/q rise incorporated in the RBNZ’s November MPS but slightly above market expectations. Annual inflation was stable at 1.9% y/y.

- Weakness in CPI inflation was driven by tradable prices (-0.4% q/q), while more-persistent non-tradable inflation (+0.7% q/q) was solid. We think a case can nonetheless be made for a cautious tone from the RBNZ in February, reflecting a softer growth outlook and global risks. But today’s data will likely temper the overall change in tone versus November.

Key points

CPI increased 0.1% q/q, slightly above market consensus and our own expectations (0.0%). This saw annual inflation stable at 1.9% y/y. Weakness was driven by tradable prices (-0.4% q/q, +0.9% y/y), which tend to have more transitory impacts. Non-tradable inflation rose 0.7% q/q, with annual inflation in this component ticking up to 2.7% from a downwardly revised 2.5% y/y print in Q3.

Today’s print for CPI inflation was below the 0.2% q/q rise incorporated in the RBNZ’s November MPS. But the mix matters. Non-tradable inflation was well above the RBNZ’s expectation of 0.4% q/q, although countering this there were some downwards revisions over history (due to the reallocation of international pre-paid holidays from non-tradable to tradable CPI). The RBNZ will take comfort from non-tradable inflation holding up, but will be vigilant that weakness in tradable inflation might flow through to inflation expectations.

Reflecting the pick-up in domestic inflation, core inflation rose, following stabilisation through the middle of the year. Annual trimmed mean measures rose a touch across various levels of trim and are sitting at around 2%. The weighted median was stable at 2.2% y/y. Now the focus turns towards the RBNZ’s sectoral factor model (3pm) for confirmation of the core inflation signal. Our own model estimate suggests it will tick up from 1.7% to 1.8% y/y.

Today’s data were undeniably solid. And looking forward, we may see some further uplift in domestic inflation in the short term, given that GDP growth was stronger than previously thought over the year to March 2018 and the economy (particularly the labour market) is clearly stretched. But it is becoming increasingly apparent that economic momentum is now fading, with forward-looking indicators pointing to further gradual petering out. Resource pressures look to be past their peak, meaning a durable lift in domestic inflation will be harder to achieve. Add global risks to the mix, and it paints a picture of medium-term inflation that in our view looks set to disappoint.

The RBNZ’s focus is forward-looking and it is the durability of stronger inflation that matters. We expect to see a more dovish RBNZ in time, though today’s data will not contribute to any weaker tone as soon as next month. Global risks and a weaker domestic data flow will need to be acknowledged, however. It remains our view that OCR cuts will be required late this year to keep growth at or above potential and keep inflation close to the target midpoint.

Data summary

<table>
<thead>
<tr>
<th>Component</th>
<th>% qtr</th>
<th>% ann</th>
</tr>
</thead>
<tbody>
<tr>
<td>Headline CPI</td>
<td>0.1%</td>
<td>1.9%</td>
</tr>
<tr>
<td>Tradable</td>
<td>-0.4%</td>
<td>0.9%</td>
</tr>
<tr>
<td>Non-tradable</td>
<td>0.7%</td>
<td>2.7%</td>
</tr>
</tbody>
</table>
For those interested in the details, key price moves were as follows.

- Food prices provided a seasonal drag. Food prices fell 1.3% in the quarter. Combined with alcoholic beverages, these dragged 0.4%pts.
- Petrol price declines (-0.6%) weighed, but less than expected. This was offset by prices for passenger transport services, which reached their seasonal peak, up 7%. Overall, the transport group provided a +0.2%pt contribution.
- Durables and apparel prices both fell, but a little less than expected, providing a drag of 0.1%pts. This may reflect a dissipating impact of low import prices.
- Housing-related prices were in line with expectations. Rents increased 0.6% and purchase of housing rose 0.9%. The household and household utilities group contributed 0.2%pts to inflation, in line with recent years.
- Accommodation prices saw seasonal strength. They rose 5.3%, contributing 0.1%pt.
- Prices for miscellaneous goods and services saw some strength, up 0.7% q/q, contributing 0.1%pts. This is likely to reflect capacity pressures starting to make themselves felt.

Source: Statistics NZ, ANZ Research
This document is intended for ANZ’s institutional, professional or wholesale clients, and not for individuals or retail persons. It should not be forwarded, copied or distributed. The information in this document is general in nature, and does not constitute personal financial product advice or take into account your objectives, financial situation or needs.

This document may be restricted by law in certain jurisdictions. Persons who receive this document must inform themselves about and observe all relevant restrictions.

**Disclaimer for all jurisdictions:** This document is prepared and distributed in your country/region by either: Australia and New Zealand Banking Group Limited (ABN11 005 357 522) (ANZ); or its relevant subsidiary or branch (each, an Affiliate), as appropriate or as set out below.

This document is distributed on the basis that it is only for the information of the specified recipient or permitted user of the relevant recipient (recipients).

This document is solely for informational purposes and nothing contained within is intended to be an invitation, solicitation or offer by ANZ to sell, or buy, receive or provide any product or service, or to participate in a particular trading strategy.

Distribution of this document to you is only as may be permissible by the laws of your jurisdiction, and is not directed to or intended for distribution or use by recipients resident or located in jurisdictions where its use or distribution would be contrary to those laws or regulations, or in jurisdictions where ANZ would be subject to additional licensing or registration requirements. Further, the products and services mentioned in this document may not be available in all countries.

ANZ in no way provides any financial, legal, taxation or investment advice to you in connection with any product or service discussed in this document. Before making any investment decision, recipients should seek independent financial, legal, tax and other relevant advice having regard to their particular circumstances.

Whilst care has been taken in the preparation of this document and the information contained within is believed to be accurate, ANZ does not represent or warrant the accuracy or completeness of the information Further, ANZ does not accept any responsibility to inform you of any matter that subsequently comes to its notice, which may affect the accuracy of the information in this document.

Preparation of this document and the opinions expressed in it may involve material elements of subjective judgement and analysis. Unless specifically stated otherwise: they are current on the date of this document and are subject to change without notice; and, all price information is indicative only. Any opinions expressed in this document are subject to change at any time without notice.

ANZ does not guarantee the performance of any product mentioned in this document. All investments entail a risk and may result in both profits and losses. Past performance is not necessarily an indicator of future performance. The products and services described in this document may not be suitable for all investors, and transacting in these products or services may be considered risky.

ANZ expressly disclaims any responsibility and shall not be liable for any loss, damage, claim, liability, proceedings, cost or expense (liability) arising directly or indirectly and whether in tort (including negligence), contract, equity or otherwise out of or in connection with this document to the extent permissible under relevant law. Please note, the contents of this document have not been reviewed by any regulatory body or authority in any jurisdiction.

ANZ and its Affiliates may have an interest in the subject matter of this document. They may receive fees from customers for dealing in the products or services described in this document, and their staff and introducers of business may share in such fees or remuneration that may be influenced by total sales, at all times received and/or apportioned in accordance with local regulatory requirements. Further, they or their customers may have or have had interests or long or short positions in the products or services described in this document, and may at any time make purchases and/or sales in them as principal or agent, as well as act (or have acted) as a market maker in such products. This document is published in accordance with ANZ’s policies on conflicts of interest and ANZ maintains appropriate information barriers to control the flow of information between businesses within it and its Affiliates.

Your ANZ point of contact can assist with any questions about this document including for further information on these disclosures of interest.

**Country/region specific information:** Unless stated otherwise, this document is distributed by Australia and New Zealand Banking Group Limited (ANZ).

**Australia.** ANZ holds an Australian Financial Services licence no. 234527. For a copy of ANZ’s Financial Services Guide please click here or request from your ANZ point of contact. If trading strategies or recommendations are included in this document, they are solely for the information of ‘wholesale clients’ (as defined in section 761G of the Corporations Act 2001 Cth).

**Brazil, Brunei, India, Japan, Kuwait, Malaysia, Switzerland, Taiwan.** This document is distributed in each of these jurisdictions by ANZ on a cross-border basis.

**Cambodia.** This document is distributed in Cambodia by ANZ Royal Bank (Cambodia) Limited (ANZ Royal Bank). The recipient acknowledges that although ANZ Royal Bank is a subsidiary of ANZ, it is a separate entity to ANZ and the obligations of ANZ Royal Bank do not constitute deposits or other liabilities of ANZ and ANZ is not required to meet the obligations of ANZ Royal Bank.

**European Economic Area (EEA): United Kingdom.** ANZ is authorised in the United Kingdom by the Prudential Regulation Authority (PRA) and is subject to regulation by the Financial Conduct Authority (FCA) and limited regulation by the PRA. Details about the extent of our regulation by the PRA are available from us on request. This document is distributed in the United Kingdom by Australia and New Zealand Banking Group Limited ANZ solely for the information of persons who would come within the FCA definition of “eligible counterparty” or “professional client”. It is not intended for and must not be distributed to any person who would come within the FCA definition of “retail client”. Nothing here excludes or restricts any duty or liability to a customer which ANZ may have under the UK Financial Services and Markets Act 2000 or under the regulatory system as defined in the Rules of the Prudential Regulation Authority (PRA) and the FCA. ANZ is authorised in the United Kingdom by the PRA and is subject to regulation by the FCA and limited regulation by the PRA. Details about the extent of our regulation by the PRA are available from us on request.

**Fiji.** For Fiji regulatory purposes, this document and any views and recommendations are not to be deemed as investment advice. Fiji investors must seek licensed professional advice should they wish to make any investment in relation to this document.

**Hong Kong.** This publication is issued or distributed in Hong Kong by the Hong Kong branch of ANZ, which is registered at the Hong Kong Monetary Authority to conduct Type 1 (dealing in securities), Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities. The contents of this publication have not been reviewed by any regulatory authority in Hong Kong.

**India.** If this document is received in India, only you (the specified recipient) may print it provided that before doing so, you specify on it your name and place of printing.