Economic Bulletin.

11 October 2019

Preview of CPI September quarter 2019.

- We expect a 0.6% rise in the Consumer Price Index (CPI) for the September quarter.
- This would see annual inflation drop from 1.7% to 1.4%, as some large price increases from a year ago drop out.
- Our forecast is slightly above the Reserve Bank's estimate, particularly on the non-tradables side.
- Easy monetary policy has supported a gradual lift in non-tradables inflation over the last couple of years.

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We expect the Consumer Price Index, released next Wednesday, to show a modest 0.6% rise for the quarter. The annual inflation rate is expected to fall from 1.7% to 1.4%, due to some unusually large price increases a year ago that weren't replicated this year.

The details for the September quarter are largely unremarkable in themselves, but they will be significant to the Reserve Bank. Our quarterly forecast of 0.6% is a little higher than the RBNZ's forecast of 0.5%, and more importantly the difference is largely on the non-tradables side, where we expect a 0.9% rise against the RBNZ's forecast of 0.7%. A stronger than expected result for the RBNZ would give some reassurance that easy monetary policy is having its intended effects, though the pace of improvement has been glacial.

Forecast details.

Much of the expected rise in consumer prices over the quarter comes from seasonal items: food, domestic airfares and local body rates. Overall, our forecast equates to a 0.4% rise in seasonally adjusted terms – consistent with annual inflation running in the lower half of the Reserve Bank's 1-3% target range.

Food prices rose by 1.3% for the quarter, led by gains in vegetables and meat. The latter was boosted by the outbreak of African Swine Fever in China, which has squeezed global supplies of pork and created a new demand for other proteins. There was also a notable rise in prices for dining out, which may have been a delayed response to the large minimum wage hike in April.

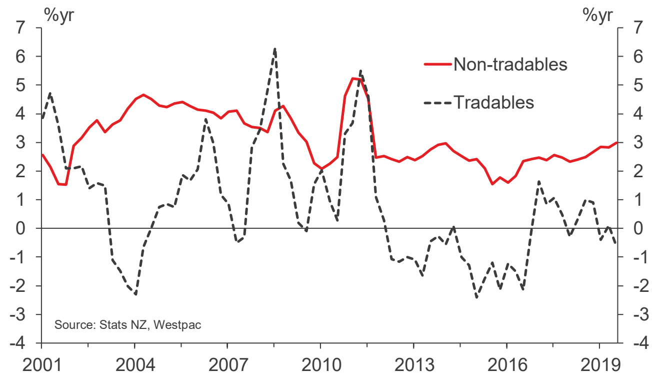
Local body rates, which are reviewed once a year, rose by an estimated 3.8%. That follows an unusually large 5.1% increase last year, which coincided with the three-yearly long-term planning process for local authorities. Last year, many smaller regions in particular recognised the need to ramp up their spending and investment to meet strong population growth.

Petrol prices were about 1% lower on average over the September quarter. That contrasts with a sharp rise in prices a year ago, which was compounded by the introduction of Auckland's regional petrol tax. This difference, along with the smaller increase in local body rates, accounts for all of the expected drop in the annual inflation rate.

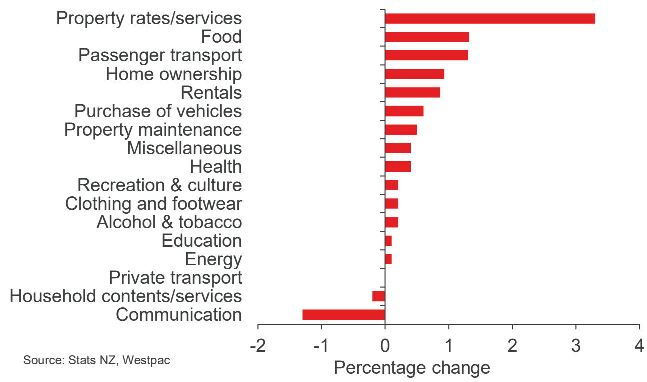
Overall, our forecast reflects a balance between gradually rising non-tradables inflation and still-weak tradables inflation. Non-tradable inflation pressures are more a product of the domestic economy, which means that they tend to be more responsive to monetary policy settings. Our forecast would see annual non-tradables inflation rise to 3%, its highest in over five years.

In contrast, tradables inflation is expected to stay in negative territory, as global inflation pressures remain subdued. The recent fall in the New Zealand dollar will give import prices a modest boost, with the impact on consumer prices most likely to come through in the first half of next year.

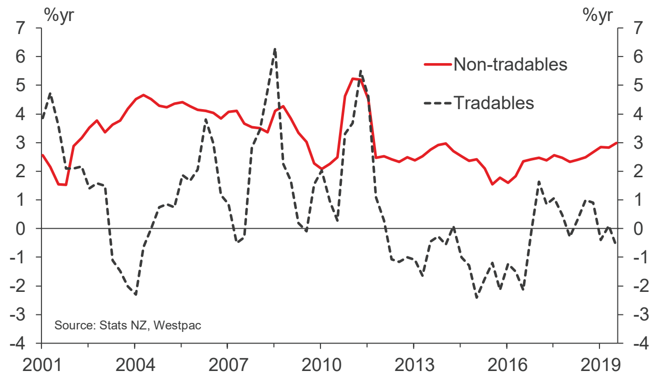
Annual inflation forecast



Contributions to Q3 inflation forecast



Tradables and non-tradables inflation



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