

Still on the low side

June quarter CPI preview: 16 July, 10:45am

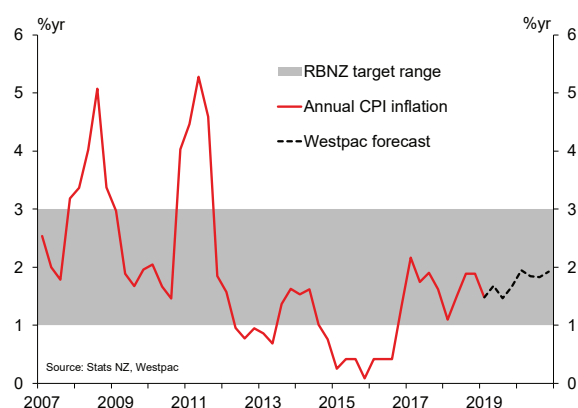
10 July 2019

- We expect a 0.6% rise in the Consumer Price Index (CPI) for the June quarter, which would lift annual inflation from 1.5% to 1.7%.
- Higher fuel prices account for about half of the expected increase for the quarter. We expect measures of underlying inflation to hold steady.
- A new method for measuring rents will lead to a small lift in the overall inflation rate from here on.
- Our forecast is in line with the Reserve Bank's view, and would not stand in the way of a further OCR cut in August.

We expect next Tuesday's CPI release to show a modest 0.6% rise in prices for the June quarter, led by a bounce in fuel prices. That would see the annual inflation rate lift slightly from 1.5% to 1.7%, although the various measures of 'core' inflation are likely to be more or less unchanged. Inflation remains close to, but below, the 2% midpoint of the Reserve Bank's target range.

Our forecast of inflation for the June quarter (and indeed for the rest of the year) is much in line with what the Reserve Bank expected in its May *Monetary Policy Statement*. With risks to the global economy mounting, the RBNZ has already indicated that a further OCR cut is likely at its August review. We think it would take a substantial upside surprise, with annual inflation reaching 2% or more, to make the RBNZ hesitate.

Annual inflation forecast



Forecast details

The CPI is largely free of seasonal influences in the June quarter, so at face value a 0.6% increase would be a relatively strong result. However, about half of that reflects short-term movements in fuel prices. Petrol prices had already risen sharply by the end of March, and were about 6% higher on average over the June quarter. Price pressures elsewhere are expected to remain modest.

Food prices rose by 0.6%, which is about average for a June quarter. There was a strong lift in prices for dining out and takeaways, no doubt reflecting the large increase in the minimum wage in April. However, vegetable prices were unusually low for this time of year.

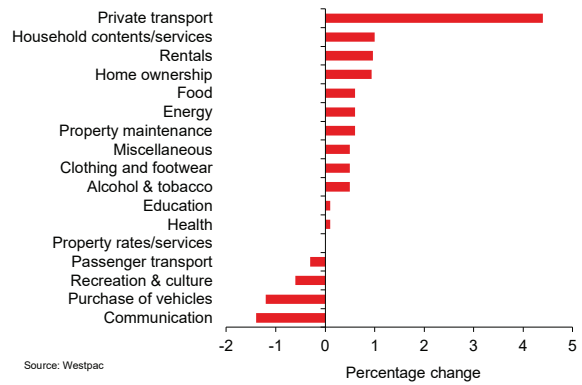
Housing remains a positive contributor to overall inflation. We expect a further rise in prices for newly-built homes and real estate fees. However, the rate of increase in both measures has slowed lately, in line with the cooling in house sale prices.

In contrast, rents are set to make a larger than usual contribution. From this quarter Stats NZ will use a new method of calculating rents, which better captures the evolution of the stock of rental homes. The new measure has tended to rise at a faster rate than the old one, and if that pattern continues it would lift the overall inflation rate by up to 0.1% per year – not a game-changer, but every little bit matters in the current low-inflation environment.

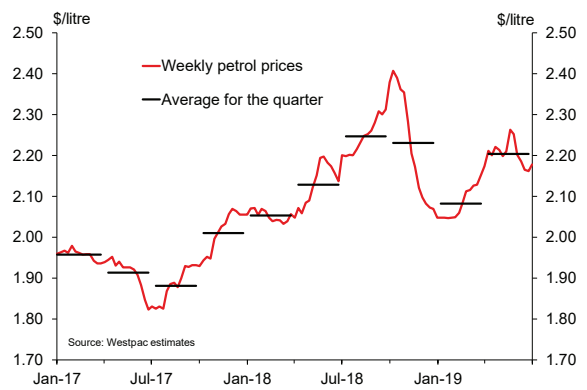
Inflation pressures are expected to remain subdued in the import-heavy categories such as household goods and electronics. Import prices for consumer goods have risen over the last year, partly reflecting the lower New Zealand dollar. However, firms report that they are finding it difficult to pass on cost increases.

Michael Gordon
Senior Economist

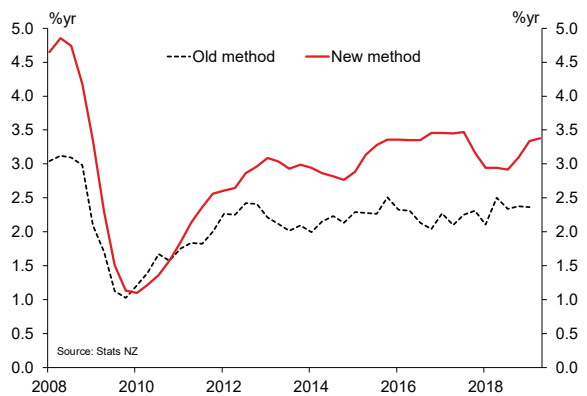
Contributions to Q2 inflation forecast



Petrol prices



CPI rents, annual change



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