

Economic Bulletin.

16 April 2020



Preview of March quarter CPI: 20 April, 10:45am.

- We expect a 0.4% rise in consumer prices for the March quarter, lifting the annual inflation rate to 2.1%.
- The quarterly increase is expected to be driven by the annual increases in tobacco excise and education fees, and a bigger than usual increase in food prices.
- We expect airfares to register the largest decline, though this is where the effects of the Covid-19 pandemic are most uncertain.
- We don't expect this release to be market-moving, with markets more focused on how the lockdown progresses.

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We expect next Monday's Consumers Price Index (CPI) release to show a 0.4% rise for the March quarter. Our estimate is in line with market forecasts, and a touch below the 0.5% increase that the Reserve Bank expected in its February *Monetary Policy Statement*.

The CPI is normally one of the timeliest data releases, coming just a few weeks after the end of the quarter. But the swiftly moving response to the Covid-19 pandemic has left even this release looking dated. Inflation has been comfortably within the target range up to now, but is likely to soften again in the near term (our June quarter forecast is currently under review). In any case, RBNZ policy will be focused on the employment and financial stability impacts of Covid-19 rather than the details of recent inflation.

Stats NZ have indicated that Covid-19 didn't significantly affect their ability to measure prices during the March quarter. Most prices are surveyed either mid-quarter or mid-month, so they will have preceded the announcement of the lockdown period. Measuring prices will be more challenging during the June quarter though, especially when a number of services such as dining out and sporting events simply won't be available.

The March quarter typically features a number of large seasonal price movements in both directions. On the plus side are the annual increases in education fees and tobacco excise (note that this year is the last of the legislated '10% plus inflation' increases in tobacco excise). The biggest negative is a sharp drop in airfares, coming off the peak travel period in summer. We've allowed for a bigger than usual fall, to account for the discounting that was appearing during the quarter before the travel restrictions began.

Food prices rose almost 2% for the quarter. That was more than the usual seasonal increase, and takes annual food price inflation to an 11-year high. Meat prices were higher, following the rise in international prices as China sought alternatives to pork during its African Swine Fever outbreak. Dairy product

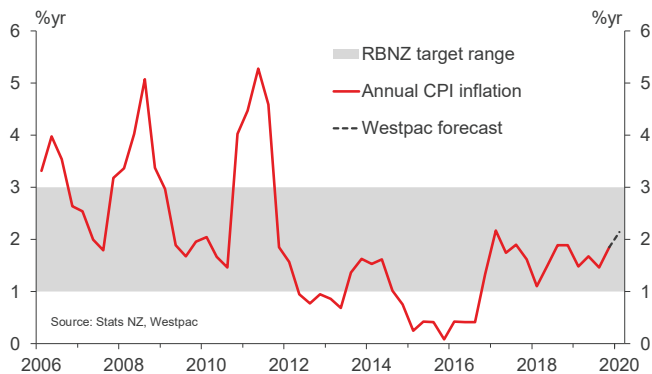


prices also rose, reflecting the increase in the projected farmgate milk price for this season. Both factors will also have contributed to a rise in restaurant and takeaway prices over the quarter.

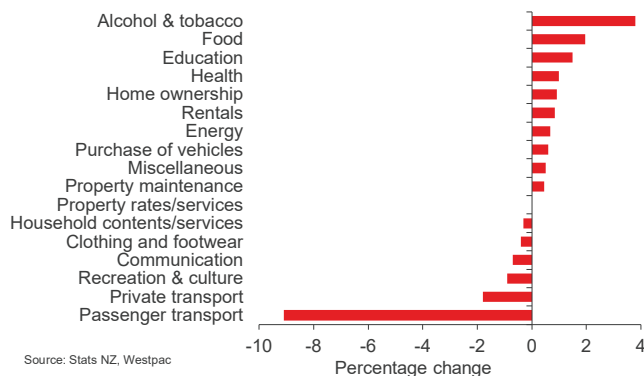
Rents rose by 0.9%, a similar pace to previous quarters. Note that Stats NZ switched to a new method of measuring rents a year ago, which has lifted the annual inflation rate slightly over the last year. New dwelling prices are also expected to have ticked up as the housing market has regained some momentum.

Petrol prices fell sharply in late March as world oil prices plunged. However, they were only 2.8% lower on average over the quarter – that’s less than they fell in the same quarter last year, and is one of the reasons we expect a rise in the annual inflation rate. The recent drop in prices will, however, carry over significantly into the June quarter.

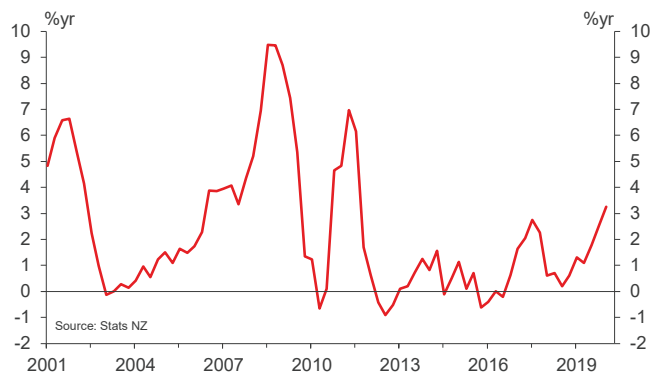
Annual inflation forecast



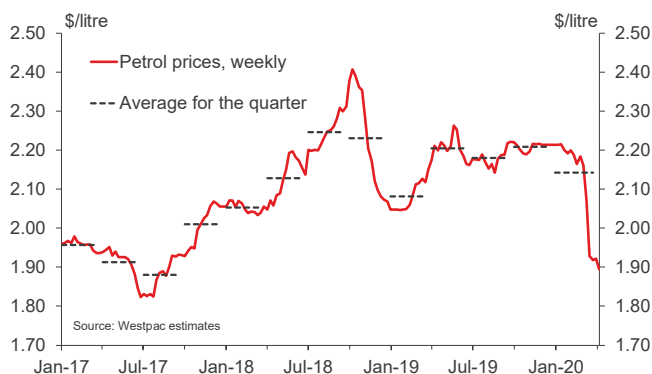
Contributions to Q1 forecast



Food prices



Petrol prices



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