

Economic Bulletin.

16 October 2020



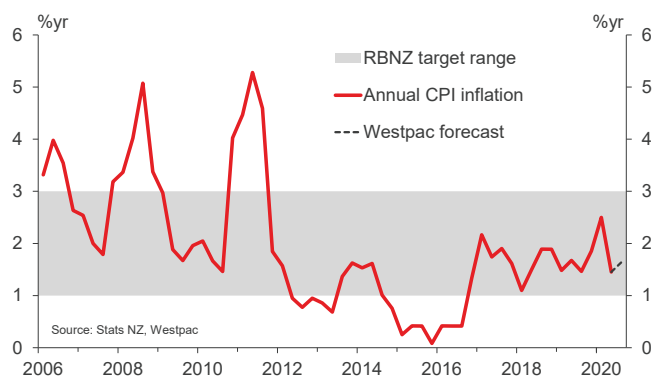
Preview of September quarter CPI: 23 October, 10:45am.

- We expect a 0.9% rise in consumer prices for the September quarter, lifting the annual inflation rate slightly to 1.6%.
- Food, fuel and local body rates made the biggest contributions to the quarter.
- We expect that Covid-19 will have a disinflationary impact over time, although the near-term impact may have been more mixed.
- Our forecast is below the Reserve Bank's estimate of 1.1%. An upside surprise would be the more meaningful risk in terms of future monetary policy moves.

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Annual inflation forecast



Next Friday's release is likely to show a moderate, largely seasonal increase in consumer prices over the September quarter. We're expecting a 0.9% increase for the quarter, which would lift the annual inflation rate slightly from 1.5% to 1.6%.

Our forecast is slightly below the 1.1% quarterly increase that the Reserve Bank forecast in its August *Monetary Policy Statement*. A modest downside surprise in the latest quarter probably wouldn't sway the RBNZ, which is already braced for weaker inflation over the next couple of years as the Covid-19 shock weighs on economic activity. An upside surprise would be more significant for monetary policy, challenging the need for the further easing measures that the RBNZ is developing.

Forecast details.

The main contributor for the quarter is likely to be the annual increase in local body rates, which we peg at around 4% on average this year, compared to an almost 5% increase last year. Some of the main centres saw large increases, while many smaller regions adopted low or zero increases to ease the financial pressure on ratepayers in the wake of Covid-19.



The other significant contribution to the quarter was an estimated 3.5% rise in petrol prices, following a steep fall in the previous quarter. Fuel excise duty was increased at the start of the quarter, and prices at the pump have been fairly steady since then. Petrol also accounts for most of the expected rise in the annual inflation rate, as prices fell slightly in the same quarter last year.

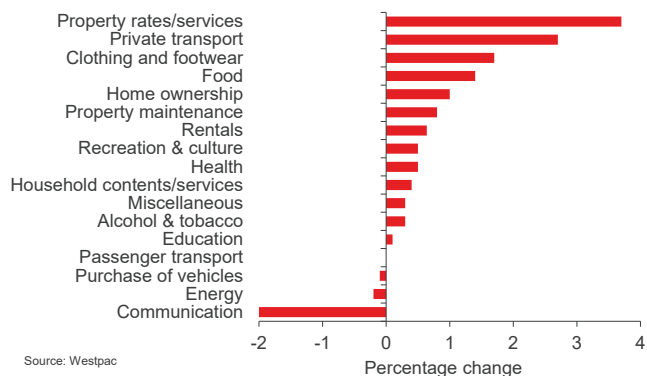
The impact of Covid-19 on consumer prices is as yet unclear. We think that it will prove to be a disinflationary shock over time, requiring ongoing stimulus from the Reserve Bank in order to meet its inflation target. However, the impact on prices won't be all one-way, especially in the near term.

Food prices, and especially vegetable prices, normally rise in the September quarter, and this time they were boosted further by supply chain disruptions that resulted from Covid-19 restrictions. However, this is likely to be a temporary effect that will unwind in the coming quarters.

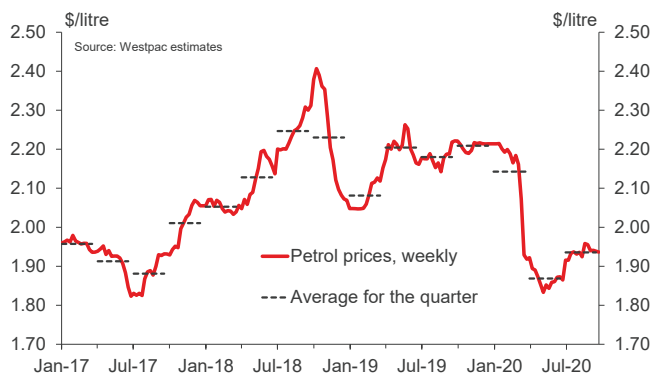
There have also been anecdotes of supply disruptions for some imported household goods, which could lead to price hikes (or at least an absence of discounting). We've been keeping an eye on various prices, and there have been some instances but so far it doesn't seem to be a widespread issue. The December quarter, with the pre-Christmas shopping rush, may be the real test.

Covid-19 restrictions have also hindered the measurement of prices to some degree, though not enough to move the dial significantly on the CPI as a whole. The most significant impact has been on overseas airfares, which normally see a seasonal increase in the September quarter (and a much larger one in the December quarter). With the international borders closed, this item has been zeroed out in the CPI, which means that the inflation rate will be a little lower in the next two quarters than it otherwise would have been.

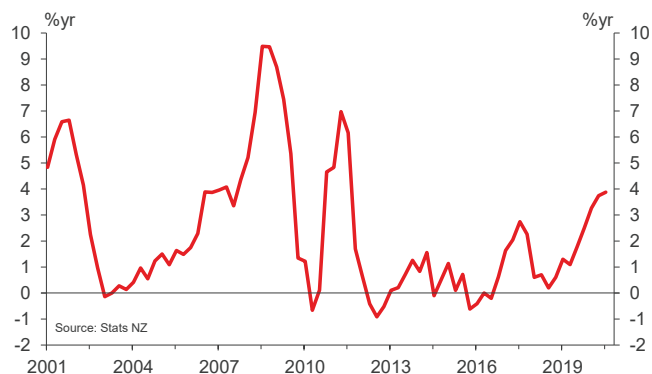
Contributions to Q3 CPI forecast



Petrol prices



Food prices



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