

# Fill 'er up

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

- We estimate that the Consumer Price Index (CPI) rose by 0.7% in the June quarter, lifting annual inflation to a still-subdued 0.5%.
- The sharp fall in petrol prices that drove inflation towards zero last quarter has largely been unwound.
- Elsewhere, inflation pressures have been subdued to date, with the weaker New Zealand dollar not expected to have a significant impact just yet.

New Zealand's annual inflation rate slowed to near-zero in the March quarter, as low underlying inflation was compounded by a short, sharp plunge in world oil prices. With fuel prices having rebounded since then, we expect the June quarter figures, released next Thursday, to tell a more representative story. Inflation pressures have remained subdued to date, due to spare capacity in the local economy, soft global inflation and the strong New Zealand dollar. However, with the latter now reversing course, we expect to see annual inflation closer to the Reserve Bank's target next year.

We expect a 0.7% rise in the CPI for the quarter, of which about 0.5 percentage points is due to fuel. The combination of a modest rebound in oil prices and a weaker New Zealand dollar means that standard petrol prices have reversed most of their March quarter decline. In addition, the deep discounting seen in some regions has come to an end, though we're not sure what impact this will have on the overall result.

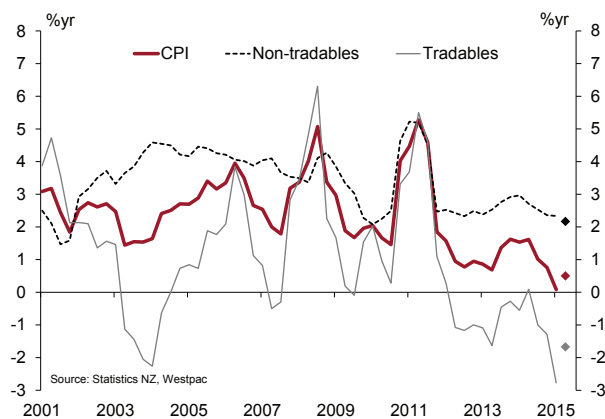
Outside of oil, we expect tradable goods inflation to remain modestly negative. While the NZD trade-weighted index was down 2% on average over the quarter, we find that exchange rate movements typically take the best part of a year to fully pass through to tradables prices.

Non-tradables inflation, which is driven more by domestic conditions, is expected to remain subdued, slowing to a five-year low of 2.2%yr. One particular aspect will be notable for its absence: electricity prices are normally a significant plus in the June quarter CPI. But this year saw a steep cut to lines charges in Wellington, which offset price hikes elsewhere.

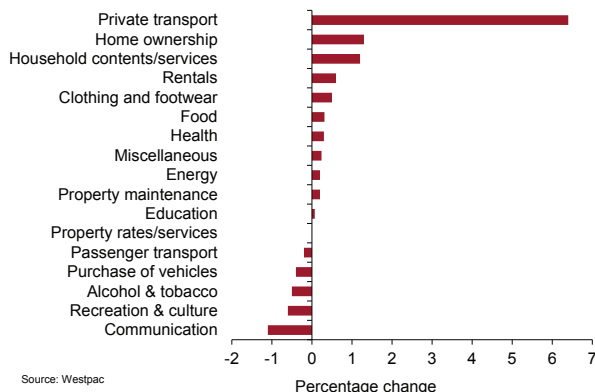
Our forecast of a 0.7% quarterly increase in the CPI is quite a bit higher than the Reserve Bank's forecast of 0.4% in its June *Monetary Policy Statement*, with the difference coming on the tradables side (excluding fuel). However, we suspect that a stronger than expected outturn would actually be welcomed by the Reserve Bank, which has set its sights on dragging inflation back towards the middle of its 1-3% target range.

**Michael Gordon**  
Senior Economist

### CPI inflation



### Components of quarterly inflation



## Westpac economics team contact details

**Dominick Stephens**, Chief Economist  
+64 9 336 5671

**Michael Gordon**, Senior Economist  
+64 9 336 5670

**Felix Delbrück**, Senior Economist  
+64 9 336 5668

**Satish Ranchhod**, Senior Economist  
+64 9 336 5669

Any questions email:  
economics@westpac.co.nz

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