Westpac

Institutional Bank

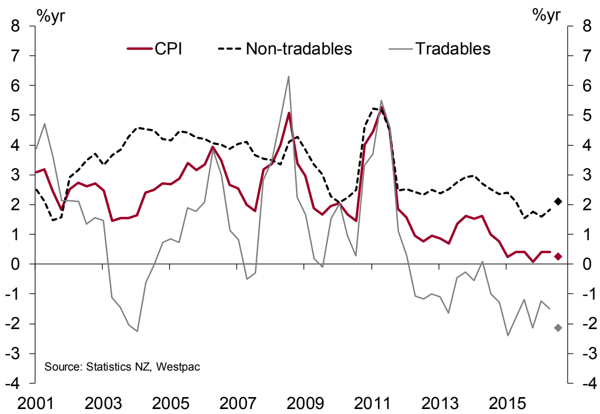
14 Oct 2016

Getting around

September quarter CPI preview: 18 October, 10:45am

- We expect a 0.2% rise in the Consumer Price Index for both the September quarter and year.
- Transport will account for most of the soft outcome, with cheaper fuel, airfares and vehicle registrations.
- Housing-related price increases are likely to have continued to outstrip general prices.
- Annual inflation is expected to tick up again in the following quarters, but a sustained return to the inflation target is by no means assured.

CPI inflation



The September quarter Consumer Price Index (CPI), released next Tuesday, will once again show that price pressures in New Zealand have remained very subdued. We expect a 0.2% increase for the quarter, which would see the annual inflation rate fall from 0.4% to 0.2%.

A slowdown in annual inflation won't come as a surprise to the market, or to the Reserve Bank, which made a forecast similar to ours in its August Monetary Policy Statement. However, it will mark two full years where annual inflation has been below 1%, and this could elicit fresh criticism about whether the RBNZ is meeting its inflation target. Indeed, this week's speech by the RBNZ's chief economist seemed to be aimed at pre-empting any such criticism.

Like the RBNZ, we expect annual inflation to tick up again in the next quarter, and to move back within the 1-3% target band over the next year, as some temporary depressing factors drop out. But a sustained return to the inflation target is by no means assured – a renewed rise in the New Zealand dollar, or a further drop in inflation expectations, would make the task that much harder.

Details

The effects of sharply lower world oil prices extended into the September quarter. We estimate that petrol prices were about 2% lower over the quarter, and airfares are likely to have declined. Interestingly, the impact of cheaper fuel on airfares has been modest to date – airlines have instead responded by adding new routes and capacity. This increased capacity is likely to push airfares down further over time.

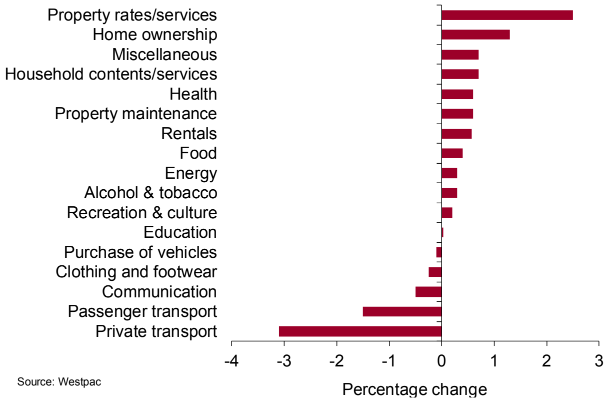
The other big negative influence on the CPI this quarter is a sharp reduction in ACC levies on vehicle registrations. This came in two stages, in July last year and again this year, so it will have the effect of depressing the annual inflation rate for two years straight. This is one of the reasons why we expect annual inflation to pop higher in the second half of next year, when the impact of this levy will drop out of the calculation.

The main positive influences on the CPI will once again be in the housing-related areas. Annual changes in local body rates are mostly recorded in the September quarter; we estimate that they rose 3% this year. That will be the smallest increase in many years, following a large 'catch-up' increase of 6% last year.

With the growing strain on the building industry, new dwelling prices and maintenance costs are likely to see further sizeable increases. We expect continued steady growth in rents, with growing regional divergences – accelerating in Auckland, but cooling in Canterbury as the housing stock is gradually restored.

Michael Gordon
Senior Economist

Components of quarterly inflation forecast



Source: Westpac

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