Research

Economy Watch

14 February 2024

More Signs Inflation Retreating

- **Monthly price indicators on softer side, on balance**
- **Amid lots of noise**
- **Q1 CPI q/q pick stays at 0.6%, y/y rounds down to 3.9%**
- **Supports view annual inflation continues to retreat**

Today's January selected prices released by Statistics NZ looked a bit softer than they might have been, on balance.

The sum of today's indicators suggests some downward pressure to our thoughts for near term CPI. It might not be a lot, but it is important enough to more than offset some upside to our Q1 CPI priors that was creeping in following some fuel price increases over recent weeks.

Of course, Q1 CPI depends on what these monthly indicators reveal for February and March as well as the many other prices not covered in the monthly release. But taking today's mild downside surprise into account and keeping some reasonable assumptions for the next couple of months for the various components nudges our estimate for the CPI index a touch lower. While this is not enough to change our Q1 quarterly CPI inflation estimate from 0.6%, it does round down our estimate for annual inflation in Q1 to 3.9%. We previously expected 0.6% q/q and 4.0% y/y for Q1 CPI, which happened to be what the RBNZ published in its November MPS.

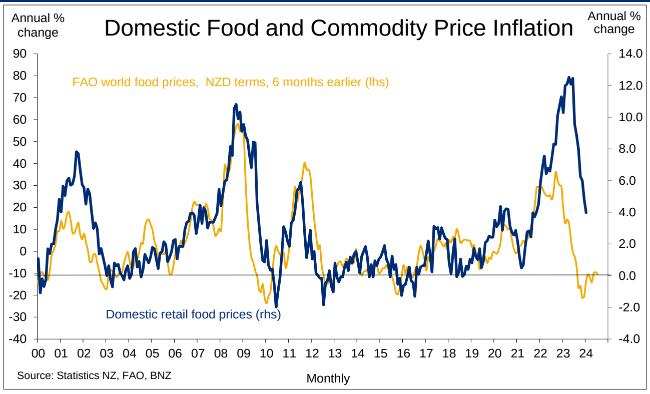
Much more important than the precise estimate is that today's numbers affirm the strong likelihood that annual headline inflation is continuing to fall at a decent clip. A 3.9% print in Q1 CPI annual inflation, or thereabouts, would be another step down from Q4's 4.7% and Q3's 5.6%. It supports our view that annual CPI inflation will be back inside the RBNZ's target band by the second half of this year.

Lower headline inflation can be helpful in lowering inflation expectations which, as seen in yesterday's RBNZ survey, eased in the latest quarter.

Details in the monthly price figures always need to be treated with some caution given considerable volatility.

Food prices rose 0.9% m/m in January. But food prices typically rise in January and often but more than what we saw in today's release. Food prices didn't rise quite as much as we had pencilled in. Annual food price inflation continues to track down from previously very elevated levels – reaching 4.0% y/y in January down from a whopping 10.3% a year ago. Further easing in annual food price inflation is expected over coming months, given offshore price and currency movements and the usual lag to domestic prices.

Food Price Inflation Easing



Rents rose 0.3% m/m in January, to be up 4.5% on a year ago. We have long expected upward pressure on rents with population growth so strong, but today's figures weren't as strong as we had pencilled in for the month.

Elsewhere, we wondered if airfares would drop in the month, but the double-digit declines reported were bigger than we might have imagined. It remains to be seen what the next few months bring but today's figures are supportive of the meaningful declines we have built in for both domestic and international airfares for Q1 as a whole.

Fuel prices fell in the month and were a bit under what we judged in the month, but we think this will be more than offset if the gains we have already observed for February to date stick.

The increases in cigarettes and tobacco prices (heavily influenced by increases in excise tax as is usually the case at this time of year) along with prepaid overseas accommodation prices were a bit larger than what we might have guessed for the month.

We'd expect these relatively new monthly prices to invariably show a lot of ups and downs in the details. And that is indeed what we got again today. But looking through the humps and bumps, compared to what might have been, the balance is marginally softer than what was implicit in our prior Q1 CPI calculations.

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