Research

Economy Watch

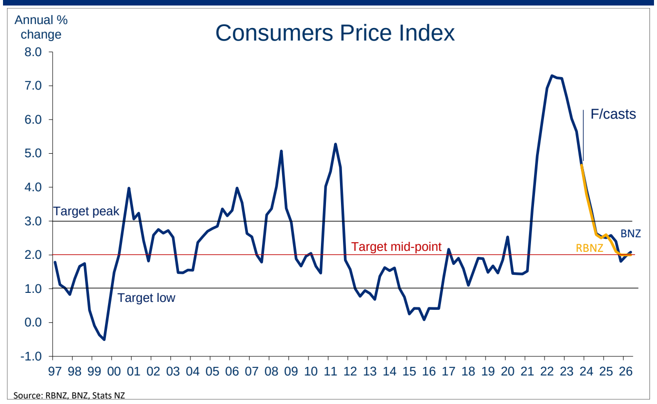
17 April 2024

CPI Nothing to Write Home About

- **CPI rises 0.6% quarter, 4.0% for the year**
- **Higher than RBNZ's published forecast**
- **But the Bank saw it coming when doing the April Monetary Policy Review**
- **CPI still headed into target range in Q3**
- **A precursor to rate cuts**

There was nothing in today's CPI release that should have changed anyone's view of the world. The 0.6% increase in the March quarter was bang on consensus as was the 4.0% annual reading. Sure, the numbers were greater than the RBNZ projected when it produced its February Monetary Policy Statement but, in our opinion, it's not enough to spook the Bank.

No discernible difference

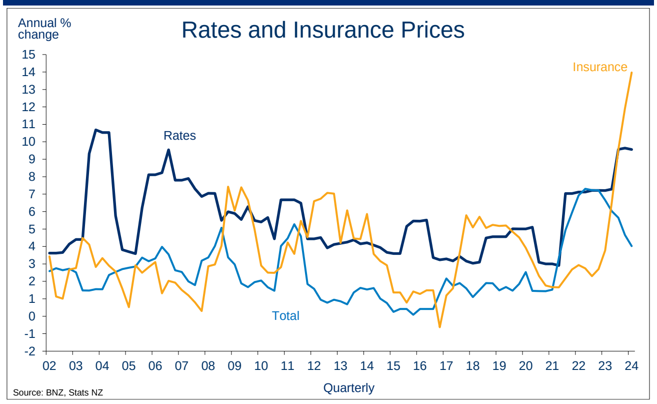


To start with, don't forget that when the RBNZ produced its April Monetary Policy Review (MPR) it warned there was a good chance inflation would print higher than it had anticipated. And, yet, even with that acknowledgement, the Bank still chose to produce a statement that was mildly more dovish than its February missive. We thus doubt today's outturn was much of a surprise to the folk at the RBNZ.

One also has to take into consideration what's driving the variation. Overseas accommodation prepaid in New Zealand rose 6.8% in the quarter and contributed 0.13 of the 0.63 quarterly movement. This is the sort of thing that should be looked through.

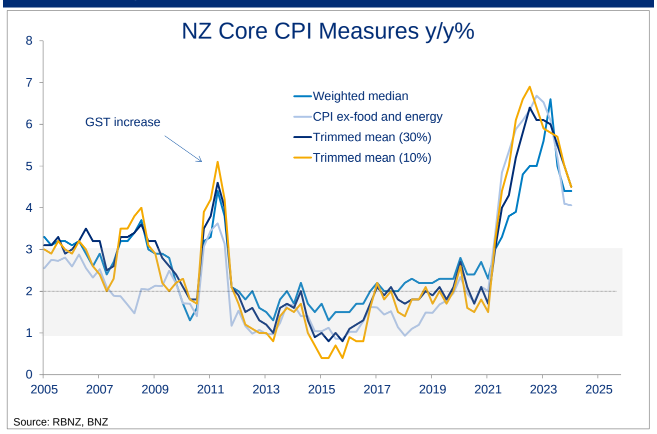
Some will focus on the fact that the 1.6% increase in non-tradables inflation came in well above the RBNZ's 1.1% projection. In times gone by we too would have focussed on this but we got the feeling from the April MPR that the Bank had started to place less relevance on the non-tradables measure. We certainly think this would be an appropriate stance to take given that many of the significant current drivers of non-tradables inflation, such as insurance, rates and tobacco taxes, are largely unaffected by monetary policy.

RBNZ's frustration



More important to us is what the core measures are doing. In this regard, while the broader trends in these measures are still downward there was the sense that the decline took a pause in the quarter. Annual inflation in the 10% trimmed mean did fall to 4.5% from 5.0% but the weighted median got stuck on 4.4% and CPI ex food and energy stalled at 4.1%. We wait with interest to see what the RBNZ's sectoral model produces this afternoon.

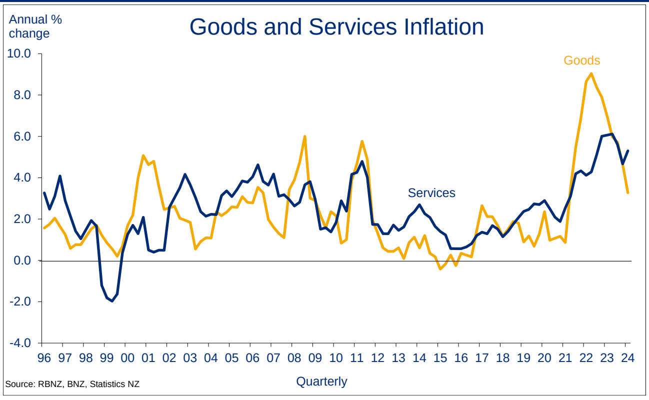
Core the key



The RBNZ should be overjoyed with the trend in goods prices. The 0.3% quarterly increase comes on the back of a 0.1% increase in the December 2023 quarter. Annual goods price inflation fell to 3.3% from 4.7% a quarter ago and a peak of 9.0% back in Q2 2022.

What the Bank will be less enamoured with is that services inflation remains elevated at an annual 5.3%. Some of this reflects the same factors that are "distorting" non-tradables but strength in wage flow-on into services prices, still elevated construction cost inflation (albeit rapidly falling) and elevated rent inflation will all be disconcerting for the Monetary Policy Committee.

Services a nuisance



So, while we believe there was nothing in today's data that might spook the central bank, equally, there was nothing in the data that would have the Bank scurrying to bring forward its rate cut agenda.

We still believe the Bank can cut rates before the end of this year but that's because we, and the Bank, are forecasting that annual inflation will be well within its 1.0% to 3.0% target band when the September quarter CPI is published in October.

In light of today's data we will have another close look at our inflation trajectory but, as things stand, our initial expectation is that prices will rise 0.5% in the June quarter taking the annual reading down to 3.4%.

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