

# Research Economy Watch

15 April 2025

## Further Price Pressure Revealed

- **March Selected Prices a bit higher than expected**
- **On overseas accommodation prepaid in NZ**
- **Our Q1 CPI q/q estimate unchanged at 0.9%**
- **But y/y estimate now rounds up to 2.5%**
- **Q1 CPI due on Thursday**

Today's Selected Price Indexes support our view that annual inflation will push higher in Q1, from Q4's 2.2%. The focus of today's Selected Price Indexes for March was to see if they collectively altered estimates for Thursday's Q1 CPI. In short, they did, at the margin.

The balance of indicators came in a touch stronger than they might have. But it wasn't because of signs of heightened general inflation pressure. Rather it was due entirely to overseas accommodation prepaid in NZ, the price of which jumped 8.8% m/m when it often falls in March. There remains a broad question, which we have raised before, of what overseas accommodation prices are doing in NZ's CPI in the first place? But they currently are and so need to be included in CPI forecasts.

Our pick for Q1 CPI was already at the top end of initial market polls. We see a 0.9% q/q gain in Thursday's Q1 CPI figures. The influence of the balance of today's indicators do not alter this, but, through the quirks of rounding, are sufficient to nudge up our pick for annual inflation in Q1 to 2.5% from 2.4%. The RBNZ forecast 0.8% q/q and 2.4% in its February MPS.

A tick higher is neither here nor there in the big picture and arguably means less if it is driven by idiosyncratic factors like overseas accommodation prepaid in NZ. But it would mean the downside risk to inflation the RBNZ noted in its recent Monetary Policy Review would be from a higher starting point, and, thus, provide some risk to inflation expectations. We don't think such a minor deviation would prevent the RBNZ from continuing to lower its cash rate. But such things are worth keeping an eye on, while also monitoring the mayhem offshore.

The balance of other prices were about as we thought, at least on net. Food prices were marginally higher than our priors, while alcoholic beverages, tobacco, and airfares were a bit lower than expected. All within the usual bounds of monthly volatility so nothing to alter our broader view.

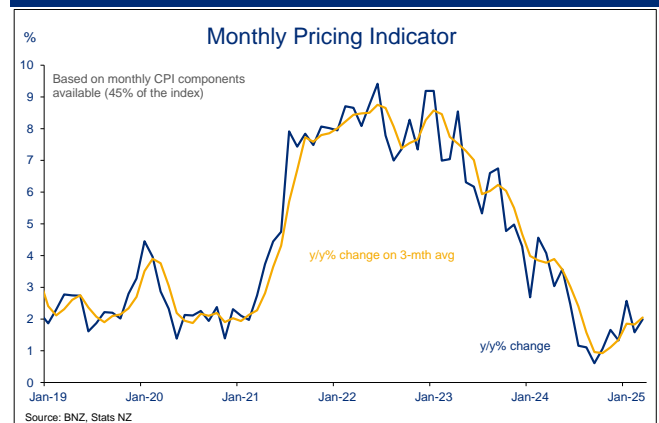
Rents rose 0.3% m/m. A tick higher than we had pencilled in, but very much consistent with our broad view that annual rent inflation is easing. Today's figures for March, and the delayed publication of February's figures, which matched our thinking, confirm this. Annual rent inflation was 3.3% in March, a marked slowing from 4.6% a year ago.

This fits with our thinking that annual non-tradeable inflation continues to ease. As does annual inflation in restaurant meals and ready-to-eat food (ease to 2.3%) and outright annual deflation in domestic accommodation prices (down 15.1%).

Petrol fell 2.1% m/m and diesel prices declined 2.3% m/m. These declines were not quite as big as we thought they would be given a range of indicators. Recent drops in crude oil prices and a stronger NZD suggest downward pressure remains on domestic fuel prices.

Weighting together the data that was released today shows annual inflation at 2.0% in the month and on a smoothed 3-month average basis. But these indicators cover less than half the CPI, so guidance to the full index needs to be treated with caution.

### Benign but rising



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