

Research Economy Watch

15 May 2025

Prices Volatile But Upward Undercurrent

- **Selected prices very volatile**
- **Net upside risk to Q2 CPI, especially to RBNZ's view**
- **Food price inflation continues to push higher**
- **Electricity price lift not as big as we had feared**
- **Airfare surge looks holiday related**

Today's April Selected Price Indexes displayed a heap of volatility, as is often the case in these monthly indicators. Some caution is warranted before jumping to conclusions on what they collectively mean for Q2 CPI.

At this point, we suggest there is some upside risk to our current 0.6% q/q pick for Q2 CPI. While it is not enough to have us formally raise our forecasts, today's figures support our view that the Q2 CPI will print higher than the RBNZ's February MPS projection of +0.4%.

It is but one factor for the RBNZ to contemplate for its May MPS. There is plenty else to consider including how much a higher CPI outcome might influence inflation expectations (we get some updates on those tomorrow) and, of course, the volatile and uncertain global economic outlook. We will publish our full MPS preview Monday next week.

Electricity prices did not lift as much as they might have in the month, while food prices rose by more than we had assumed. At least relative to our priors, these netted to about square but the details suggest a firmer undercurrent.

We had a lot of interest in electricity prices in today's release. Not only because this is the first time those prices have been included in the monthly price indicators, but because we have long built in a significant lift in power prices associated with previously announced regulatory changes.

While the 2.3% increase in electricity prices in April is material, it was not as much as we had pencilled in. Further increases are possible, but today's outcome raises the chances the price gain we have factored in for the second quarter is a bit high, or occurs over a longer period than we have currently assumed. That puts focus on May data for more insight into this.

Food prices rose 0.8% m/m, to be up 3.7% y/y. Volatility in fruit and vegetable prices was part of this, but meaningful upside price pressure in the areas of grocery and restaurant meals are a bit more troubling given these price increases are more likely to persist. Annual food price inflation continues to lift following gains in currency-adjusted world food prices.

Perhaps the best example of volatility was in international airfares which rose 24.7% m/m. We assumed a large monthly gain, but not that large. We suspect a lot of the lift is related to the timing of Easter, ANZAC day, and school holidays in April. Indeed, Stats NZ noted that 'the more expensive air travel costs coincided with school holidays and consecutive long weekends throughout April'. It would seem fair to assume a decent unwind in May as demand falls. However, if that doesn't happen it would add upside to our estimate of Q2 CPI.

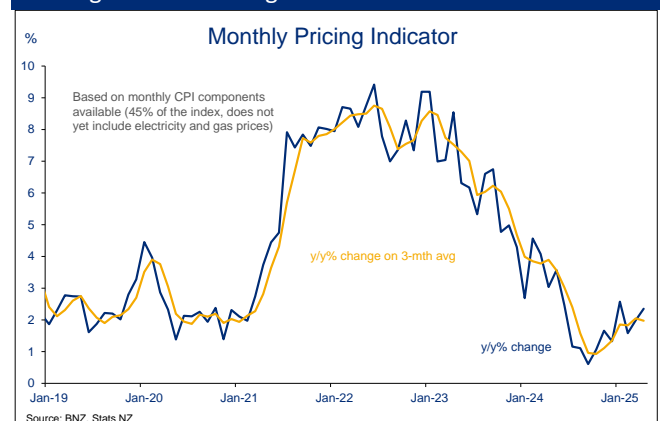
Overseas accommodation prepaid in NZ dropped 5.6% m/m, unwinding a decent chunk of the odd looking 8.8% gain in the previous month. Domestic accommodation prices eased 2.1% m/m, not quite as much of a decline as we assumed and likely also influenced by holiday timing such that some unwind could be expected.

Rents rose 0.2% m/m, as expected. Annual rent inflation continues to ease, reaching 3.0% in April from 4.6% a year ago. We remain of the view that annual rent inflation will continue falling as buoyant supply meets curtailed demand.

Fuel prices eased in the month, broadly in line with expectations. Our CPI forecasts include further declines in fuel prices.

Weighting together the bulk of indicators from today shows annual inflation at 2.4% y/y in the month and 2.0% y/y on a smoothed 3-month average basis. Nothing too threatening there. The monthly figures cover less than half of the CPI, so guidance to the full index needs to be treated with some caution. Our forecast for annual CPI inflation in Q2 remains at 2.8%.

Nothing too threatening here



doug_steel@bnz.co.nz

Contact Details

BNZ Research

Stephen Toplis
Head of Research

Doug Steel
Senior Economist

Matt Brunt
Economist

Jason Wong
Senior Markets Strategist

Stuart Ritson
Senior Interest Rate Strategist

Mike Jones
BNZ Chief Economist

Main Offices

Wellington
Level 2, BNZ Place
1 Whitmore St
Private Bag 39806
Wellington Mail Centre
Lower Hutt 5045
New Zealand
Toll Free: 0800 283 269

Auckland
80 Queen Street
Private Bag 92208
Auckland 1142
New Zealand
Toll Free: 0800 283 269

Christchurch
111 Cashel Street
Christchurch 8011
New Zealand
Toll Free: 0800 854 854

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