Research

Economy Watch

16 September 2025

Less chance of inflation band breach

- **Monthly indicators largely in line**
- **Airfares lower than expected**
- **Q3 CPI pick unchanged at 0.9% q/q and 3.0% y/y**
- **But now less likely to nudge above 3%**

Selected price indexes for August were largely in line with expectations. While our Q3 CPI pick remains unchanged at 0.9% q/q and 3.0% y/y, the underlying decimals suggest there is now less chance that annual inflation goes above the 3% mark.

The key drivers of our view that the CPI rose 0.9% in Q3 remains higher food prices, a substantial lift in local authority rates, and higher energy costs.

Our Q3 CPI pick is the same as the RBNZ forecast in the August MPS. Governor Hawkesby acknowledged at the time there was a 50/50 risk that annual inflation nudges above the top of the 1-3% target range. While the monthly price indicators are notoriously volatile and only cover 46.5% of the CPI basket, the RBNZ will be comforted by a reduced likelihood of inflation breaching 3%.

If annual CPI inflation doesn't breach the band, it should help keep inflation expectations contained. Indeed, business and consumer inflation expectations eased marginally in August. The RBNZ signalled in August that they are likely to look through the near-term spike in inflation and continue to reduce the Official Cash Rate, as long as medium-term inflation pressures remain subdued.

Today's data supports our view that annual inflation will peak in Q3 and then begin to decline from Q4. The unders and overs were in the more volatile components. In particular domestic (-4.6% m/m) and international airfares (-11.2% m/m) were softer than what we had pencilled in. Declining airfare prices could reflect increasing airline capacity both to and within New Zealand. However, we would expect some of this weakness to unwind in the coming months.

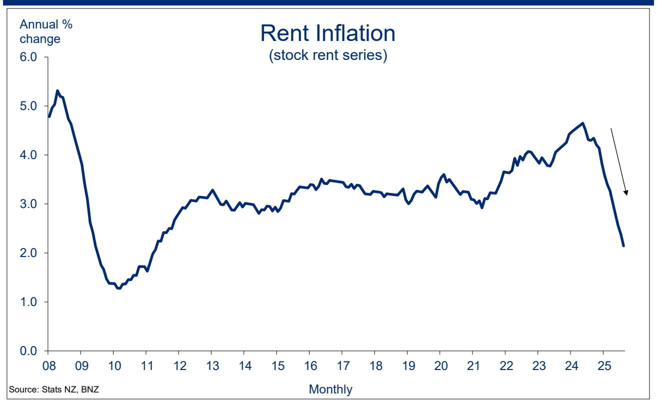
Providing some offset, electricity and gas prices (both up 0.4% m/m) were marginally firmer than our priors. We have subsequently built in a bit more inflation for these components into Q3. In particular, gas prices are expected to lift as demand bumps up against limited domestic supply. Higher energy prices are a headwind for both households and commercial users.

Elsewhere, there was a seasonal fall in the price of domestic accommodation services (-3.3% m/m) and a modest drop in petrol prices (-0.4% m/m) as anticipated.

The high expenditure weight items were in line with our priors. Food prices lifted 0.3% m/m with annual food price inflation remaining at 5.0%. Annual food price inflation is expected to ease next year. We should get further confirmation of easing global commodity prices in the GDT dairy auction overnight.

There were no surprises in rental prices either (+0.1% m/m). Annual rental inflation eased to 2.1% y/y and continues to put downward pressure on annual CPI inflation. Looking ahead, we think annual rent inflation is likely to dip below 2%. REINZ data released this morning continues to show a subdued housing market. Compared to a year ago, house prices are up 0.4% y/y. It all says prices are wobbling around little change and consistent with our flat-to-marginally positive house price view for calendar 2025.

Annual rent inflation easing



Overall, there was nothing in today's data to stand in the way of another rate cut from the RBNZ on October 8. GDP (Thursday) and the QSBO (on October 7) are the next two key data releases which will help us assess the economy's position ahead of the RBNZ's meeting.

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