Research

Economy Watch

16 October 2025

Annual CPI expected to peak in Q3

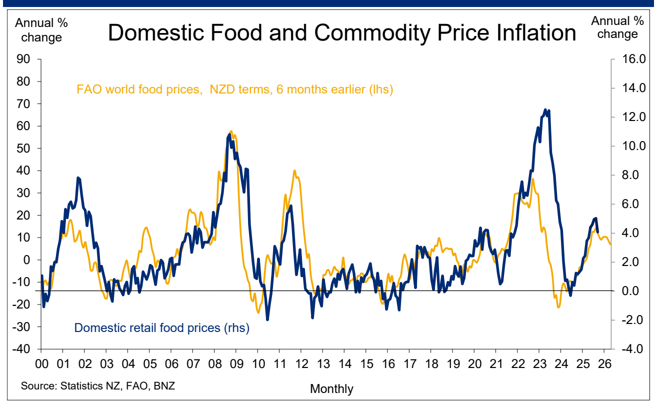
- **Monthly indicators affirm Q3 CPI annual pick at 3.0%**
- **Details round down Q3 CPI quarterly pick to 0.9%**
- **Food prices drop**
- **Sets a lower base for Q4 CPI**

Broadly speaking, today's selected prices for September support our view that annual CPI peaked in Q3 and will ease in Q4. The monthly prices were a touch on the softer side relative to our priors and set a lower base going into Q4. It provides early evidence that the current bout of inflation is slowly starting to unwind. This should help ease some concerns around inflation persistence, with RBNZ Chief Economist Conway noting yesterday it is nerve wracking with CPI close to the top of the target band.

As the last month in the quarter, September movements only have a small bearing on Q3 CPI. Our annual estimate remains at 3.0%. However, our quarterly pick now rounds down to 0.9% (previously 1.0%). The RBNZ also forecast 0.9% q/q and 3.0% y/y in its August MPS but noted in its October MPR that there is a material possibility Q3 CPI prints above 3.0%.

Softness in the month was largely due to food prices which fell 0.4% m/m, where we had pencilled in +0.4% m/m. It is the first time they have outright fallen since February. Declines across food groups were relatively broad based. We have been of the view that annual food price inflation will follow easing commodity price inflation. There are signs now that the unwinding in commodity prices over recent months is starting to feed through to domestic retail food prices. Annual food price inflation dropped from 5.0% to 4.1% and we believe this has further to go in time.

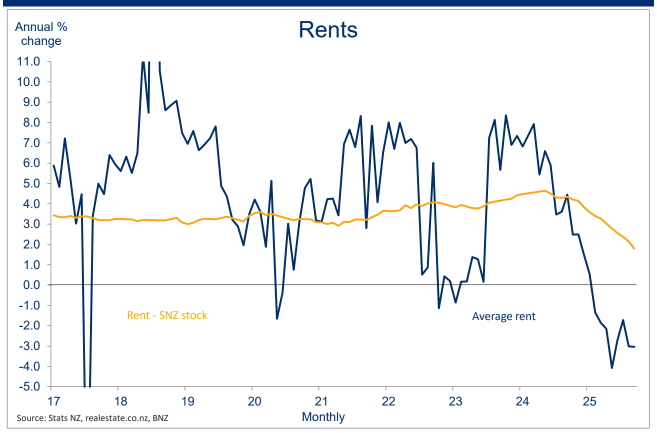
Commodity prices easing



Larger than expected gains for airfares provided some offset. Domestic (+11.0% m/m) and international (+10.7% m/m) airfares are both volatile but lifted more than usual seasonal patterns in September.

Rent prices were unchanged on the month as annual rent inflation dropped to 1.8%. It is the first time below the 2.0% mark since 2011, partly reflective of the demand consequences of slow population growth and net inward migration. Stats NZ use the total stock of rent in the CPI, and this measure tends to be relatively slow moving. However, advertised rent prices on new vacancies are still declining. This suggests that the downtrend in stock annual rent inflation has further to go.

Rent subdued



Looking forward, we expect annual headline CPI inflation to fall from its Q3 peak. The lower base in September poses some downside risk to our pick for Q4 CPI (currently at 2.8% y/y). However, we are conscious that fuel prices have been tracking higher than we have pencilled in for October to date. The weak New Zealand dollar continues to put upward pressure on tradeable prices, including fuel prices. Indeed, petrol and diesel prices both lifted 0.9% m/m in September.

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