

Research Economy Watch

16 January 2026

Another quarter of 3% annual inflation?

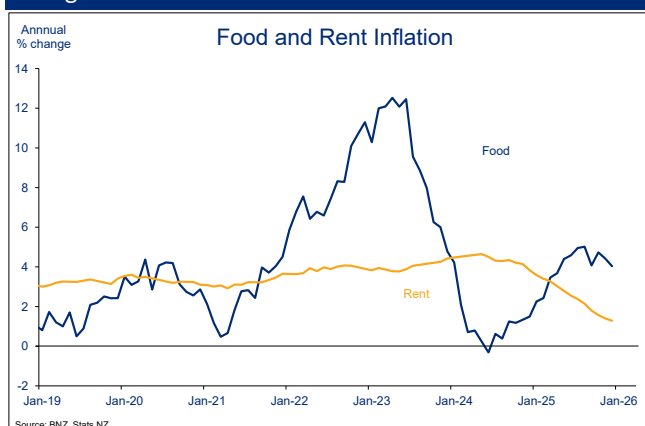
- **Selected prices firmer than expected**
- **Airfares, accommodation prices surprise on upside**
- **Rent, food prices subdued**
- **Our Q4 CPI forecast finalised at 0.4% q/q, 2.9% y/y**
- **Adds to view that CPI will print above RBNZ forecast**
- **Core annual inflation still seen easing**

A couple of the headlines from today's selected prices looked benign enough on the inflation front, but they were more than offset by chunky gains in some of the details. The key takeaway is that today's figures support our view that next Friday's Q4 CPI is likely to print above the RBNZ's November MPS forecasts.

Food prices eased 0.3% m/m in December, seeing annual inflation ease to 4.0% from 4.4%. We think annual food price inflation has further to soften given recent easing in global commodity prices. December's food prices were even a touch lower than we pencilled in.

Weakness in the house rental market continues to weigh on rent inflation, as expected. Rents rose 0.1% m/m. That is soft enough to see annual rent inflation continue sliding, to 1.3% in December. We also think this will ease further over coming months, a view supported by the flow measure of rents (think new tenancies) dipping back below year earlier levels in December (-0.3% y/y).

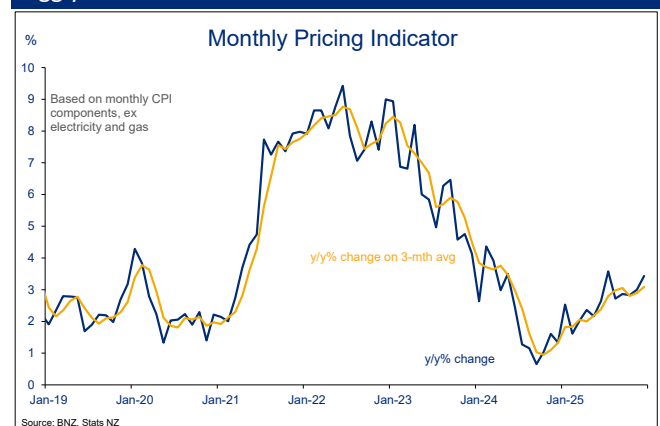
Easing



However, the soft looking monthly outturns for food and rent were more than offset by very strong monthly increases in both international and domestic airfares as

well as domestic accommodation prices. We had assumed some strong gains, but the likes of the 32.9% m/m increase in international airfares was above what we had plugged into the spreadsheets.

Niggly



We already thought that next week's Q4 CPI would print higher than the RBNZ's 0.2% q/q and 2.7% y/y forecasts contained in the November MPS. Today's data simply add to the case.

We nudge our own forecast up a tick to 0.4% q/q and 2.9% y/y following today's data. In fact, our annual inflation forecast is closer to rounding up to 3.0% rather than rounding down. So we suggest the balance of risk around our 2.9% are tilted a touch more to the upside than downside. This suggests there is a reasonable chance that annual CPI inflation stays at 3.0% in Q4, matching Q3.

Other monthly prices were close to our expectations including vehicle fuels that rose mildly in the month and electricity and gas prices that both saw large increases in the month, of 1.5% and 1.9% respectively. While no surprise, the 12.2% hike in electricity prices and 17.5% lift in gas prices remain a significant drag on household disposable incomes.

At one level, our forecast for annual CPI inflation to print 0.2% above the RBNZ's forecast shouldn't overly trouble the Bank, especially because the latest wriggle has been driven by very volatile components like airfares. They could just as easily surprise on the downside in due course.

On another level, a hint of some persistence in annual inflation around the top of the Bank's target band can risk upward pressure on inflation expectations. And especially when it is combined with better-looking growth indicators of late – like from the QSBO, building consents, and this morning's PMI – any upside inflation surprise to the Bank is likely to support the more hawkish tone the Bank took at its November MPS.

We don't think the run of data is enough to have the Bank hiking its cash rate soon. But the data flow so far in the New Year firmly supports the case that the next move in interest rates is up and that the balance of risk is accumulating toward this happening earlier than the Q1 2027 timeline the RBNZ indicated at its November MPS.

We currently have a first hike pencilled in for February 2027, the market is pushing for September/October 2026 with a hike by December seen as a certainty. We would not argue strongly that the market is mispriced given what we have seen in the data to date. The direction risk is clear.

As for some of the drivers of inflation in next Friday's Q4 CPI, expect the cost of household energy (predominantly electricity prices) to make another material positive contribution to quarterly inflation along with transport fuels, international airfares, and accommodation prices. Today's data reinforced our thinking in these areas. The biggest offset is expected to come from lower food prices, which today's data confirmed is likely to be the case.

The various CPI core measures will be worth monitoring too, given the material movements in the likes of food and energy prices. Our forecasts show CPI ex food and energy annual inflation easing to 2.3% from 2.5% and non-tradeables just edging down to 3.4% from 3.5%. Easing in core inflation measures may provide the RBNZ an element of comfort if headline inflation surprises on the high side.

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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