

# Research Economy Watch

17 February 2026

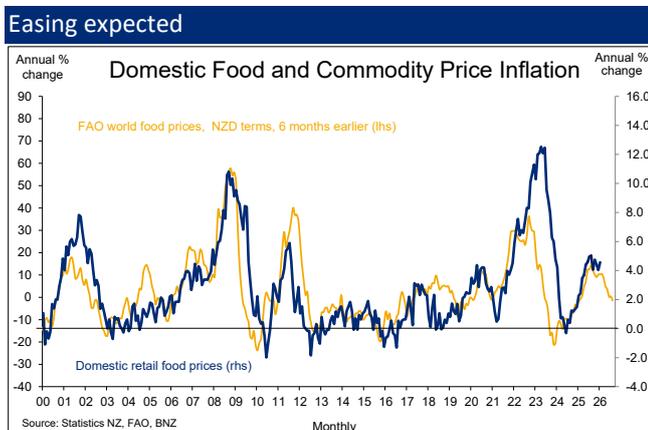
## Annual inflation to ease, but how fast?

- **January prices close to our priors**
- **Q1 CPI pick stays at 0.5% q/q and 2.7% y/y**
- **Fruit and veg prices jump higher**
- **Offset by softer overseas accommodation**
- **Unlikely to meaningfully move the dial for the RBNZ**

Selected prices for January were close to our expectations on net. Being the first month of the quarter, they provide our first clear insight into Q1 CPI. Working through the unders and the overs, there was nothing in today's data to alter our +0.5% q/q and +2.7% y/y pick for Q1 CPI. They support our view that headline annual inflation will ease in Q1 following the lift to 3.1% in Q4.

Relative to our priors, there were two surprises which conveniently offset one another. First, there was a chunky 10.1% m/m drop in the price of overseas accommodation prepaid in New Zealand. We continue to question why this component is included in the CPI, but it is and was a clear disinflationary force in January.

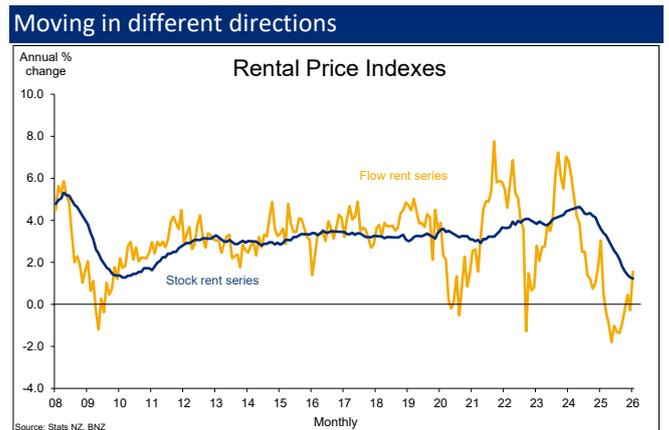
Second, food prices were even firmer than the decent increase we had pencilled in, rising 2.5% m/m. They often lift on seasonal grounds in January, but fruit and vegetable prices surged +6.7% m/m, likely influenced by heavy rain damage on crops. There is a risk that these higher prices persist with stormy weather continuing across the country in February. Annual food price inflation lifted to 4.6% from 4.0%. We continue to forecast this to ease in time, reflecting recent declines in global commodity prices, although there is a risk of near-term stickiness driven by domestic factors such as adverse weather.



Fuel and rent prices are two other components which we expect to affirm the easing trend in annual inflation. Petrol prices fell 2.4% m/m, close to our priors, in part reflecting

the appreciation of the New Zealand dollar. We believe domestic fuel price declines have further to go. The stock measure of rents was unchanged on the month as expected, with annual rent inflation falling to 1.2% y/y, the lowest on record for the series dating back to 2007. This partly reflects the low level of net migration at present.

Interestingly, there was a 5.6% m/m lift in the flow measure of rental properties. While this measure does not feed directly into the CPI, it could be an early indicator of a turn in the rental market. We wouldn't jump to that conclusion yet given it is only one month and concentrated in the South Island ex-Canterbury. We will monitor the flow measure, to assess whether or not it is signalling something broader.



Finally, we noted that airfares would be in focus following their large gains in December. We expected a decent unwind in January. Domestic and international airfares declined 5.5% and 13.8% m/m respectively in January. More unwinding is required in February to support the pullback in prices we have built in for Q1 CPI.

The RBNZ will update its latest inflation forecasts in its February MPS tomorrow. These will be higher in the near term as the Bank will include the starting point surprise from the Q4 CPI. Today's data is likely too late in the process to be incorporated, but we think it would've been unlikely to meaningfully move the dial regardless. The big question is how quickly the CPI gets back to 2%, and what does the RBNZ have to do with the cash rate to get there.

Today's data are supportive of annual inflation easing in Q1 but come with a couple of monthly moves via food and rent indicators that raise the risk that inflation may be a touch stickier than expected. These are worth keeping an eye on.

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