Research

Economy Watch

18 September 2026

Monthly prices offer no major surprises

- **Monthly prices mostly as expected**
- **But round our annual Q3 CPI forecast up**
- **We now see it at 3.8% y/y**
- **Ahead of 4.2% y/y in Q4**
- **RBNZ forecast 3.9% y/y for both Q3 and Q4**

This morning's August Selected Price Indexes were generally close to our expectations, although marginally firmer all things considered.

The mild upside surprise is enough to nudge our estimate for annual CPI inflation up to 3.8% in Q3 although, due to the vagaries of rounding, our quarterly pick remains unchanged at 0.7% q/q.

A bunch of the monthly indicators were very close to our expectations. Food prices rose 0.3% m/m in August, close to the 0.2% we had pencilled in. Rents were flat on month, matching our prior. And domestic airfares fell 10.9% m/m, partially unwinding a large increase the previous month, and close to our best guess for this volatile component.

The volatile components sprung a few surprises as tends to be the case. International airfares rose firmly, against a typical seasonal decline, to be up 21.5% y/y. That said, higher airfares make sense to us. It just takes time for changes to show up in the data given measurement methods.

The upside surprise in the month was partially offset by a 6.3% m/m decline in the price of overseas accommodation pre-paid in NZ.

Petrol and diesel prices were also very close to our expectations, rising 2.0% m/m and 8.6% m/m respectively. Relative to a year ago, petrol prices were 17.9% higher and diesel prices were up a whopping 45.8%.

We caution these gains are only the start of another significant lurch higher. Indications for fuel prices in September-to-date suggest hefty gains for the month, following large price increases in crude oil and refined product prices as well as a softening in the NZ dollar. Such things are why we are already forecasting annual inflation to lift to 4.2% in Q4 this year. Today's data does not alter that expectation, but it tilts the balance of risk around it a touch more to the upside.

Q3 CPI is published a few days before the RBNZ's October meeting. We see annual inflation a tick below the 3.9% y/y the Bank published in its September MPS. Our estimate is still dependent on September's monthly indicators and the roughly half of the other CPI components that are not covered in the monthly data.

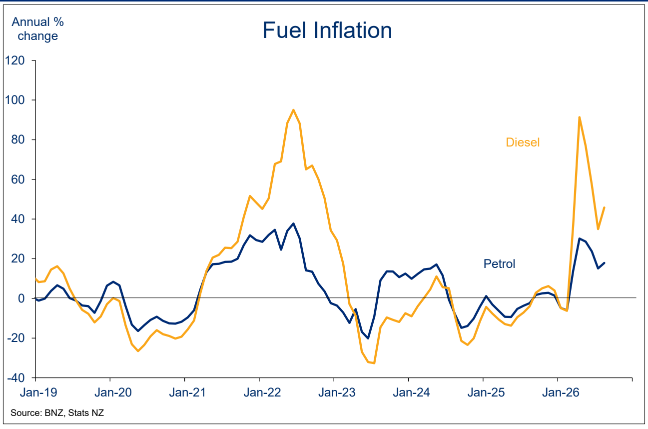
Of more concern is that, if we were right on Q4 annual CPI inflation lifting to 4.2%, it will be a meaningful 0.3% above the RBNZ's published forecast of 3.9%. And a softening NZ dollar threatens to keep inflation elevated for longer than the RBNZ had factored in.

It is the accumulation of upside risks to medium term inflation that we think will be of concern to the monetary authorities. And is why we think the Bank will continue to remove monetary stimulus ahead.

The RBNZ can look through short term relative price shocks. But the longer these persist the more difficult it is to do so.

The longer headline inflation is elevated the more likely it is to influence inflation expectations and firms' pricing behaviour. These are factors that the RBNZ has indicated are important for policy decisions.

Renewed pain at the pump



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