17 November 2026

Annual inflation heading back above 4%

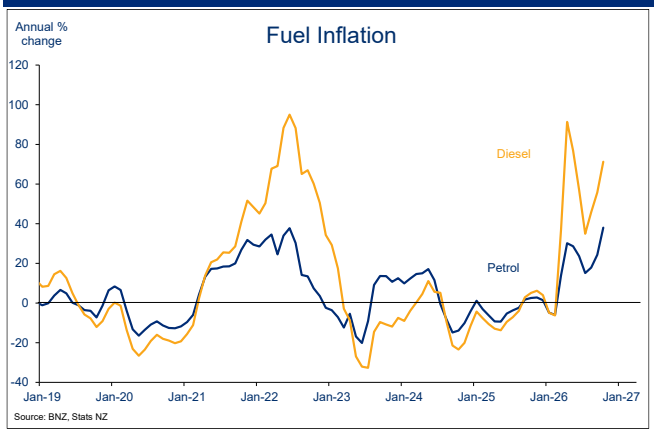
- **October selected prices broadly as expected**
- **Large fuel price gains no surprise**
- **Domestic airfares, accommodation prices above priors**
- **Q4 CPI forecast remains at 4.3%**

We already thought annual inflation was going to be above 4% in the final quarter of 2026. Today's October Selected Prices data has simply reinforced that view.

It should surprise no one that large fuel price increases featured prominently in today's data. Petrol's 11.9% m/m lift and diesel's 11.1% m/m increase, while very large, were close to our priors.

Fuel prices have dropped in November to date, and offshore spot and future oil prices suggest further falls are likely. These moves are factored into our CPI forecasts but if fuel prices were to not fall into year's end, it would have upward influence on our Q4 CPI pick.

Fuelling up, before November easing



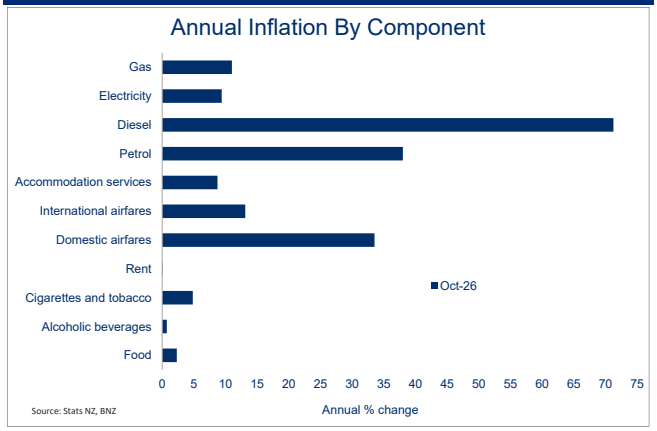
Most of the components in today's monthly data were very close to our expectations. Food prices fell 0.4% m/m, taking annual food price inflation to 2.3% from 2.4% in September. Annual inflation in electricity and gas prices remain high at 9.4% and 11.0% respectively.

Rents were flat in the month and next to flat for the year, as expected, according to the stock measure that most directly feeds into the CPI. However, the flow measure suggests some mild pick up is possible over coming quarters.

Domestic airfares and accommodation both posted firmer prices than we had pencilled in. Alongside elevated fuel costs, the additional lift in airfare prices may be the result of more school holiday days in October this year compared to last. If that is an influential factor, we may see some price unwind in these components in the November data. If we don't, it suggests some mild upside risk to our Q4 CPI expectations.

The price strength in airfares and accommodation together with signs of pick up in the price of restaurant meals and ready-to-eat food may also be related to rising demand from more international visitors. If so, this demand and price pressure may well be more persistent.

Some big moves

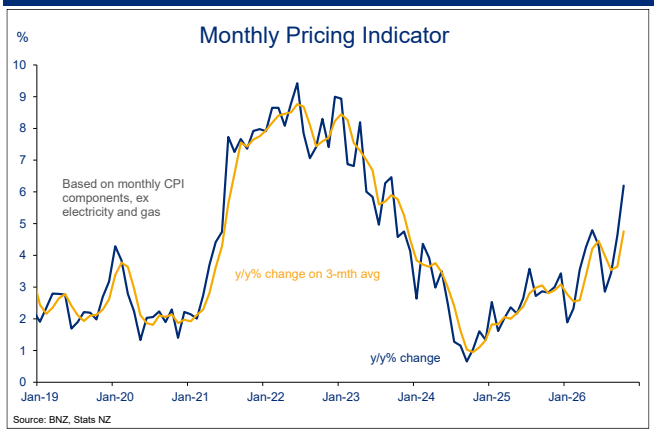


Overall, there is nothing in today's release to alter our view that Q4 annual CPI inflation will be 4.3%. If anything, it introduces a touch of upside risk but it is well within the margin of error at this point of the quarter. Likewise, we don't think this data will meaningfully change the RBNZ's thoughts on Q4 annual inflation which it forecast at 4.4% at its October MPR.

Today's data may not change views on Q4 CPI inflation, but it does affirm the notion that inflation is well outside the RBNZ's target range.

Our weighted index of the monthly indicators (excluding electricity and gas which have a limited history) shows annual inflation lifting to 6.2% in October. A further sharp jump from September's 4.6%. It is a chunky gain in what is roughly half of the overall CPI basket.

Hefty



More importantly, we saw nothing in today's data that alters our thoughts that core inflation is too high. That remains the bigger issue for policy. And is an important factor in why we think the RBNZ should lift its cash rate at its December meeting.

High headline inflation also raises the risk that people start expecting inflation, increasing the chance that inflation becomes embedded. Were it to do so, the cost of getting rid of inflation rises.

We get an update on the most closely followed inflation expectations measures this afternoon, those of professional economists and forecasters. Household inflation expectations arrive on Friday, and business inflation expectations next Tuesday. Collectively this data will help assess the risk of inflation becoming embedded.

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