



# ECONOMIC BULLETIN

## CPI review, March quarter 2024.



17 Apr 2024 | **Satish Ranchhod**, Senior Economist | +64 9 336 5668 | +64 21 710 852 | satish.ranchhod@westpac.co.nz

### The devil is in the detail

- Consumer prices rose 0.6% in the March quarter, with prices up 4% over the past year.
- The March quarter result was a little below our forecast, but above the RBNZ’s last published projection.
- Imported inflation pressures are easing.
- However, domestic inflation pressures remain strong, and are much stronger than the RBNZ assumed. Non-tradables inflation is lingering at high levels long after the start of the RBNZ’s tightening cycle.

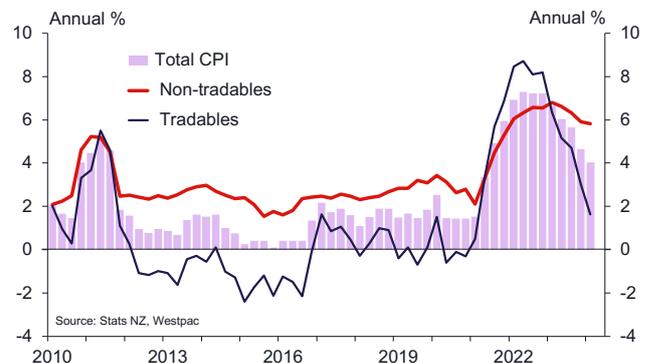
Consumer price inflation

	Dec 2023	Mar 2024		
	Actual	Actual	Westpac	RBNZ
<b>Headline inflation</b>				
Quarterly	0.5	<b>0.6</b>	0.8	0.4
Annual	4.7	<b>4</b>	4.2	3.8
<b>Non-tradables inflation</b>				
Quarterly	1.1	<b>1.6</b>	1.4	1.1
Annual	5.9	<b>5.8</b>	5.6	5.3
<b>Tradables inflation</b>				
Quarterly	-0.2	<b>-0.7</b>	-0.2	-0.8
Annual	3.0	<b>1.6</b>	2.1	1.5

### Inflation’s easing, but domestic pressures are stronger than the RBNZ expected.

Consumer prices rose by 0.6% in the March quarter. That saw the annual inflation rate dropping to 4.0%, down from 4.7% at the end of last year. That’s the lowest annual inflation has been since June 2021.

Contributions to inflation



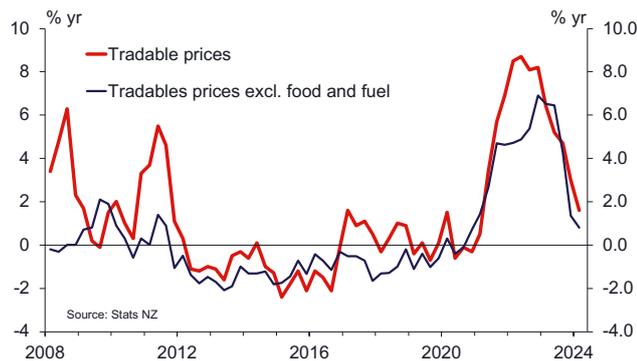
Today’s result was a little below our forecast for a 0.8% rise, but in line with the average market forecast.

The March quarter inflation result was above the RBNZ's last published forecast for a 0.4% rise. The RBNZ's forecast was finalised back in February (before the release of the monthly price data), and in its April policy review the RBNZ signalled they were already braced for a higher result.

However, the devil was in the detail. While overall inflation was in line with market expectations, that's masking some big differences across the economy, and some important trends for the RBNZ.

The softness in the March quarter was entirely due to lower tradable prices, with falls for items like used cars and apparel. That saw tradable prices falling 0.7% over the quarter, with annual tradables inflation falling from 3.0% at the end of 2023 to 1.6% now. That softness reflects the downturn we're seeing in retail spending, with households dialling back their spending in many areas such as apparel, furnishings and appliances. We expect spending will remain soft over the year ahead. That softness is a sign that monetary policy is working to restrain demand.

#### Tradables inflation

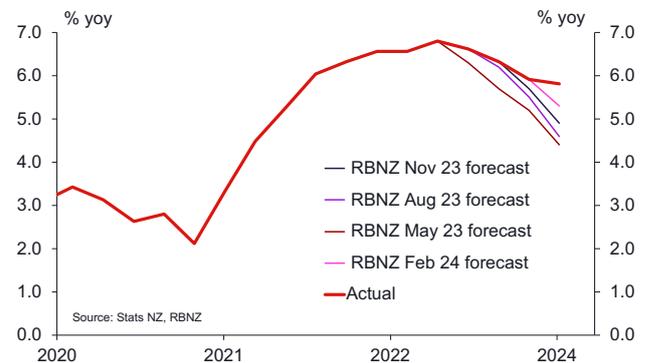


In contrast, domestic inflation was hotter than we or the RBNZ had expected. Non-tradable prices were up 1.6% over the quarter - higher than our own forecast (+1.4%) and much higher than the RBNZ's forecast for a 1.1% rise. Non-tradables inflation has now surprised the RBNZ on the upside for the past four quarters. Upside surprises to our non-tradables forecast were spread across the economy. On an annual basis, non-tradables inflation remains elevated at 5.8%. Notably, non-tradables excluding construction costs remains elevated at 6.3% and has eased only slightly since the RBNZ first raised the OCR back in 2021.

#### Non-tradables inflation



#### Non-tradables keeps surprising the RBNZ to the upside

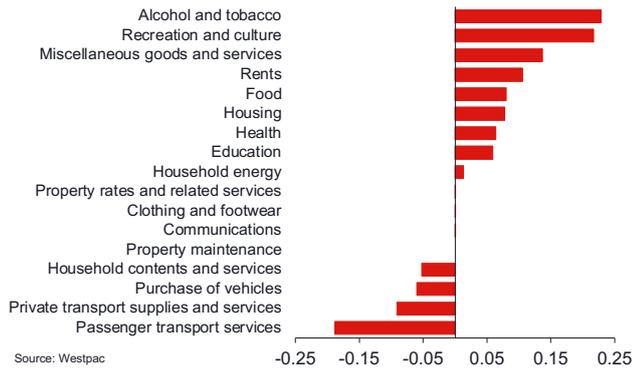


Core inflation measures have been dropping back, but remain elevated at rates of over 4%, consistent with lingering strength in domestic prices. Measures of domestic core inflation continue to hover around 6%.

#### In the detail.

- Underpinning March's lift in prices was a 6.5% rise in tobacco prices (related to the annual increase in tobacco excise).
- We also saw a solid 1.2% increase in housing rents. Rents are one of the largest components of the CPI, accounting for 9% of the basket, and the 4.7% rise over the past year is the largest since 1999.
- The cost of purchasing a newly built home was up 0.8% over the quarter. That's much lower than seen over the past few years, but still a firm rise.
- We also saw firmness in recreational costs, including a large increase in overseas accommodation costs corresponding to the Taylor Swift concerts in Australia (aka. Swiftflation).
- On the downside, we saw sizeable falls in the prices of many imported items including used cars, fuel and apparel.

**Contributions to March quarter inflation forecast  
(percentage points)**



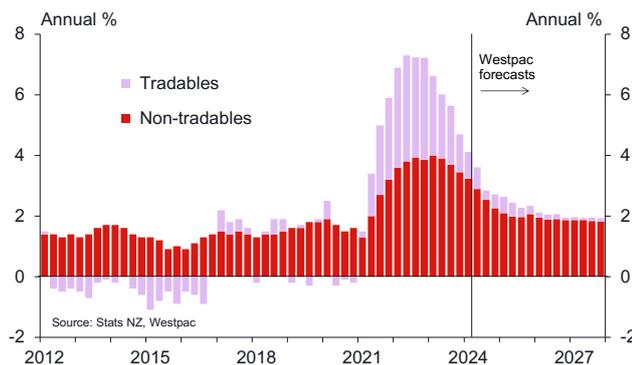
**Implications.**

Inflation is dropping back, and it's set to fall within the RBNZ's 1% to 3% target band by the end of this year. But we're still a long way from the 2% midpoint – we don't think that will be reached until late 2025 at the earliest.

The divergence between the domestic and imported components of inflation illustrates the big concerns that the RBNZ is trying to balance. Inflation is coming down, and that will be important for stabilising inflation expectations.

However, domestic inflation is still running at rates that are much higher than the Monetary Policy Committee is comfortable with, more than two years after the hiking cycle began. And it continues to look 'sticky'. As a result, inflation is likely to linger above 2% for an extended period, and rate cuts won't be on the table in the near term.

**Contributions to inflation**



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