

# More of the same

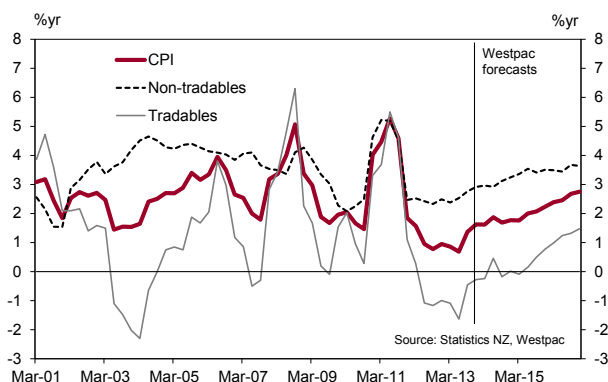
## Q1 CPI preview: 16 April, 10:45am

- We expect a 0.4% rise in the Consumer Price Index (CPI) for the March quarter, leaving annual inflation unchanged at 1.6%.
- Prices are gradually accelerating across a broad range of categories, as the economy heads towards full capacity and the inflation-dampening effect of the New Zealand dollar fades.
- However, a slower increase in food prices in the year to March is expected to keep overall inflation in check.
- Inflation will continue to edge higher over the next couple of years. A short pause in that ascent, as we're anticipating, would have no real implications for monetary policy.

With the New Zealand economy now well into its expansion phase, annual inflation is now turning higher as well, rising from a 14-year low of 0.7% in June last year to 1.6% last December. We expect it to hold at that pace in the March quarter figures, released next Wednesday. However, this would be only a temporary breather, with inflation creeping back up to and beyond the Reserve Bank's 2% target midpoint over the next couple of years.

We'll be looking in particular for evidence of home-grown inflation pressures as the economy starts to use up its spare capacity. There is already a distinct housing-related flavour to the recent pickup in annual inflation, which has been strongest in Canterbury but is increasingly spreading to the rest of the country. The RBNZ is well aware that domestically-generated inflation pressures tend to follow economic upswings with a lag, and that once allowed to develop they can be difficult to drive out again.

CPI inflation

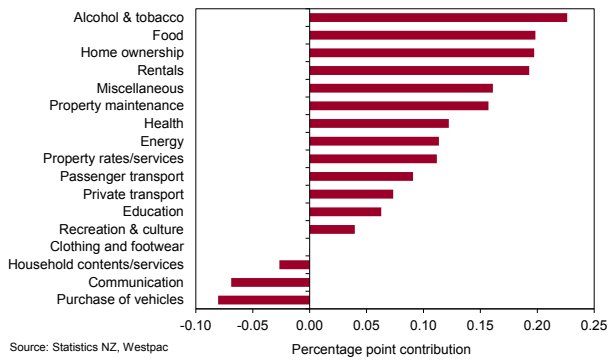


### Details

We estimate that consumer prices rose 0.4% in the March quarter, a fairly normal seasonal increase that would leave the annual inflation rate unchanged at 1.6%. The drivers of the CPI on a quarterly basis are often idiosyncratic and seasonal; in this case, the major positive contributions are expected to come from another hefty increase in tobacco excise (up 11.3%), annual changes in tertiary education fees, and a seasonal increase in food prices. These should be partly offset by seasonal declines in items such as overseas airfares, package holidays, books and stationery.

On an annual basis, we see the rate of inflation ticking up across most categories, with the notable exception of food prices, which rose by less than we expected in the first two months of the quarter. That may have been due to temporary discounting; the food price index for the March month (released on Friday) will shed some light on this.

## Contributions to annual inflation



We expect to see a further acceleration in prices for the housing-related categories such as new dwellings, rents and property maintenance. Housing construction costs have risen particularly quickly in Canterbury, as have rents, as the post-earthquake rebuild has picked up the pace. But in the last few quarters there have been signs of housing-related price pressures starting to seep out into the rest of the country as well, and we would expect this to continue.

In looking for drivers of the pickup in annual inflation, it's also important to watch what's happening at the lower end of the chart above. Prices of imported and import-competing goods, such as household contents, recreational goods and clothing, have been falling for some time as a result of the rising New Zealand dollar, helping to keep the overall inflation rate low. But their rate of decline is now slowing, with the NZ dollar still at a high level but no longer consistently rising the way it had in previous years.

## Market implications

Our forecast is a touch lower than the RBNZ's expectation of a 0.5% increase for the quarter (1.7% annual), and is likely to be at the lower end of the range of market forecasts. We note that this week's *Quarterly Survey of Business Opinion* found a growing number of firms reporting price increases over the last three months, though we don't feel that our forecast is at odds with this survey. We expect to see faster price increases (or slower price declines) across a wide range of groups, but for this quarter at least – we see them being trumped by a slower rate of increase in the highly-weighted food category.

A modest shortfall in inflation along the lines of what we're expecting would have little implication for the RBNZ's strategy. Having gone to great lengths to establish the case for an extended series of rate hikes, the RBNZ is unlikely to be too concerned if inflation reaches the 2% midpoint of its inflation target slightly later than anticipated. We expect another 25 basis point increase in the OCR at the 24 April review, with indications of more to come.

**Michael Gordon**  
Senior Economist

## Westpac economics team contact details

**Dominick Stephens**, Chief Economist  
+64 9 336 5671

**Michael Gordon**, Senior Economist  
+64 9 336 5670

**Felix Delbrück**, Senior Economist  
+64 9 336 5668

**Anne Boniface**, Senior Economist  
+64 9 336 5669

Any questions email:  
economics@westpac.co.nz

For email address changes contact:  
WNZResearch@westpac.co.nz

## Disclaimer

**Things you should know:** Each time someone visits our site, data is captured so that we can accurately evaluate the quality of our content and make improvements for you. We may at times use technology to capture data about you to help us to better understand you and your needs, including potentially for the purposes of assessing your individual reading habits and interests to allow us to provide suggestions regarding other reading material which may be suitable for you.

If you are located in Australia, this material and access to this website is provided to you solely for your own use and in your own capacity as a wholesale client of Westpac Institutional Bank being a division of Westpac Banking Corporation ABN 33 007 457 141 AFSL 233714 ('Westpac'). If you are located outside of Australia, this material and access to this website is provided to you as outlined below.

This material and this website contain general commentary only and does not constitute investment advice. Certain types of transactions, including those involving futures, options and high yield securities give rise to substantial risk and are not suitable for all investors. We recommend that you seek your own independent legal or financial advice before proceeding with any investment decision. This information has been prepared without taking account of your objectives, financial situation or needs. This material and this website may contain material provided by third parties. While such material is published with the necessary permission none of Westpac or its related entities accepts any responsibility for the accuracy or completeness of any such material. Although we have made every effort to ensure the information is free from error, none of Westpac or its related entities warrants the accuracy, adequacy or completeness of the information, or otherwise endorses it in any way. Except where contrary to law, Westpac and its related entities intend by this notice to exclude liability for the information. The information is subject to change without notice and none of Westpac or its related entities is under any obligation to update the information or correct any inaccuracy which may become apparent at a later date. The information contained in this material and this website does not constitute an offer, a solicitation of an offer, or an inducement to subscribe for, purchase or sell any financial instrument or to enter a legally binding contract. Past performance is not a reliable indicator of future performance. The forecasts given in this material and this website are predictive in character. Whilst every effort has been taken to ensure that the assumptions on which the forecasts are based are reasonable, the forecasts may be affected by incorrect assumptions or by known or unknown risks and uncertainties. The ultimate outcomes may differ substantially from these forecasts.

Transactions involving carbon give rise to substantial risk (including regulatory risk) and are not suitable for all investors. We recommend that you seek your own independent legal or financial advice before proceeding with any investment decision. This information has been prepared without taking account of your objectives, financial situation or needs. Statements setting out a concise description of the characteristics of carbon units, Australian carbon credit units and eligible international emissions units (respectively) are available at [www.cleanenergyregulator.gov.au](http://www.cleanenergyregulator.gov.au) as mentioned in section 202 of the Clean Energy Act 2011, section 162 of the Carbon Credits (Carbon Farming Initiative) Act 2011 and section 61 of the Australian National Registry of Emissions Units Act 2011. You should consider each such statement in deciding whether to acquire, or to continue to hold, any carbon unit, Australian carbon credit unit or eligible international emissions unit.

### **Additional information if you are located outside of Australia**

**New Zealand:** The current disclosure statement for the New Zealand division of Westpac Banking Corporation ABN 33 007 457 141 or Westpac New Zealand Limited can be obtained at the internet address [www.westpac.co.nz](http://www.westpac.co.nz). Westpac Institutional Bank products and services are provided by either Westpac Banking Corporation ABN 33 007 457 141 incorporated in Australia (New Zealand division) or Westpac New Zealand Limited. For further information please refer to the Product Disclosure Statement (available from your Relationship Manager) for any product for which a Product Disclosure Statement is required, or applicable customer agreement. Download the Westpac NZ QFE Group Financial Advisers Act 2008 Disclosure Statement at [www.westpac.co.nz](http://www.westpac.co.nz).

**China, Hong Kong, Singapore and India:** Westpac Singapore Branch holds a wholesale banking licence and is subject to supervision by the Monetary Authority of Singapore. Westpac Hong Kong Branch holds a banking license and is subject to supervision by the Hong Kong Monetary Authority. Westpac Hong Kong branch also holds a license issued by the Hong Kong Securities and Futures Commission (SFC) for Type 1 and Type 4 regulated activity.

**Disclaimer continued overleaf.**

## Disclaimer continued

Westpac Shanghai and Beijing Branches hold banking licenses and are subject to supervision by the China Banking Regulatory Commission (CBRC). Westpac Mumbai Branch holds a banking license from Reserve Bank of India (RBI) and subject to regulation and supervision by the RBI.

**U.K.:** Westpac Banking Corporation is registered in England as a branch (branch number BR000106), and is authorised and regulated by the Australian Prudential Regulatory Authority in Australia. WBC is authorised in the United Kingdom by the Prudential Regulation Authority. WBC is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority in the United Kingdom. Details about the extent of our regulation by the Prudential Regulation Authority are available from us on request. Westpac Europe Limited is a company registered in England (number 05660023) and is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. This material and this website and any information contained therein is directed at a) persons who have professional experience in matters relating to investments falling within Article 19(1) of the Financial Services Act 2000 (Financial Promotion) Order 2005 or (b) high net worth entities, and other persons to whom it may otherwise be lawfully communicated, falling within Article 49(1) of the Order (all such persons together being referred to as “relevant persons”). The investments to which this material and this website relates are only available to and any invitation, offer or agreement to subscribe, purchase or otherwise acquire such investments will be engaged in only with, relevant persons. Any person who is not a relevant person should not act or rely upon this material and this website or any of its contents. In the same way, the information contained in this material and this website is intended for “eligible counterparties” and “professional clients” as defined by the rules of the Financial Services Authority and is not intended for “retail clients”. With this in mind, Westpac expressly prohibits you from passing on the information in this material and this website to any third party. In particular this material and this website, website content and, in each case, any copies thereof may not be taken, transmitted or distributed, directly or indirectly into any restricted jurisdiction.

**U.S.:** Westpac operates in the United States of America as a federally licensed branch, regulated by the Office of the Comptroller of the Currency. Westpac is also registered with the US Commodity Futures Trading Commission (“CFTC”) as a Swap Dealer, but is neither registered as, or affiliated with, a Futures Commission Merchant registered with the US CFTC. Westpac Capital Markets, LLC (“WCM”), a wholly-owned subsidiary of Westpac, is a broker-dealer registered under the U.S. Securities Exchange Act of 1934 (‘the Exchange Act’) and member of the Financial Industry Regulatory Authority (‘FINRA’). This communication is provided for distribution to U.S. institutional investors in reliance on the exemption from registration provided by Rule 15a-6 under the Exchange Act and is not subject to all of the independence and disclosure standards applicable to debt research reports prepared for retail investors in the United States. WCM is the U.S. distributor of this communication and accepts responsibility for the contents of this communication. If you would like to speak to someone regarding any security mentioned herein, please contact WCM on +1 212 389 1269. All disclaimers set out with respect to Westpac apply equally to WCM.

Investing in any non-U.S. securities or related financial instruments mentioned in this communication may present certain risks. The securities of non-U.S. issuers may not be registered with, or be subject to the regulations of, the SEC in the United States. Information on such non-U.S. securities or related financial instruments may be limited. Non-U.S. companies may not be subject to audit and reporting standards and regulatory requirements comparable to those in effect in the United States. The value of any investment or income from any securities or related derivative instruments denominated in a currency other than U.S. dollars is subject to exchange rate fluctuations that may have a positive or adverse effect on the value of or income from such securities or related derivative instruments.

The author of this communication is employed by Westpac and is not registered or qualified as a research analyst, representative, or associated person under the rules of FINRA, any other U.S. self-regulatory organisation, or the laws, rules or regulations of any State. Unless otherwise specifically stated, the views expressed herein are solely those of the author and may differ from the information, views or analysis expressed by Westpac and/or its affiliates.

For the purposes of Regulation AC only: Each analyst whose name appears in this report certifies that (1) the views expressed in this report accurately reflect the personal views of the analyst about any and all of the subject companies and their securities and (2) no part of the compensation of the analyst was, is, or will be, directly or indirectly related to the specific views or recommendations in this report.