

# Lower and lower

## December quarter CPI preview: 21 January, 10:45am

- We estimate that the Consumer Price Index (CPI) was flat over the December quarter, bringing annual inflation down a notch to 0.9%.
- Lower fuel prices and a seasonal fall in food prices are expected to be balanced out by higher airfares and ongoing housing-related price rises.
- The recent plunge in world oil prices will tip inflation even further below the Reserve Bank's target over 2015.

We expect yet another subdued outturn from next Wednesday's CPI release, which could see annual inflation fall below 1% for the second time in the last few years. Soft overseas inflation, a strong New Zealand dollar, and moderate but not spectacular economic growth have continued to keep inflation in check. The recent plunge in oil prices will help to cement the low-inflation story over this year, though it will play only a small part in next week's figures.

Quarterly movements in the CPI tend to be dominated by seasonal factors – more often than not it registers a small drop in the December quarter, as fresh produce prices recede from their winter peaks. So our forecast of a flat outturn would actually be one of the higher December quarter readings in recent years, and largely reflects the fact that food prices rose less than usual last winter, and hence didn't have as far to fall over spring/summer.

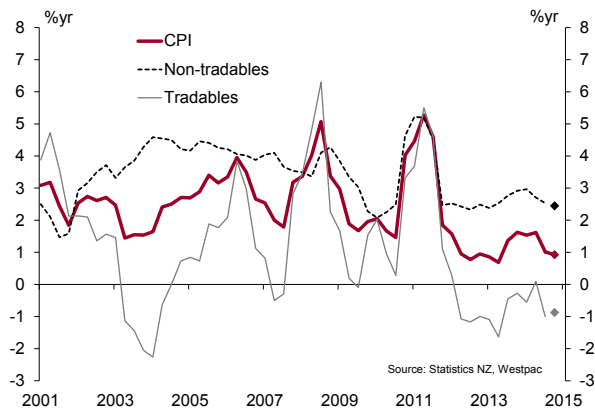
Petrol prices were about 5% lower on average over the December quarter. However, that only has a small impact on the annual inflation rate, as petrol prices were also down 3.5% in the same quarter a year ago. The real fireworks will come in the March quarter; based on current fuel prices, annual inflation could come very close to zero in the early part of this year.

The biggest uncertainty around our forecast is airfares and package holidays, which saw an unusually large seasonal increase in the December 2013 quarter. We're assuming that this wasn't repeated to the same degree in 2014, and is the main reason why we expect the annual inflation rate to recede slightly.

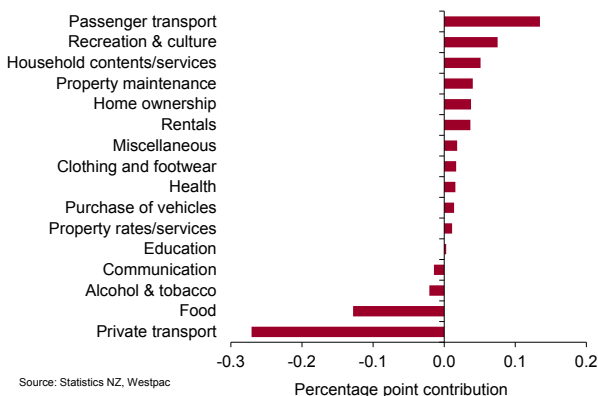
Going beyond the quarterly details, the picture remains one of falling tradables prices, against persistent but not yet accelerating inflation for non-tradable goods and services. While the New Zealand dollar softened over the quarter, exchange rate movements can take as much as a year to flow through to consumer prices. The housing market remains the most significant source of domestic inflation, with rising rents, construction and maintenance costs.

**Michael Gordon**  
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**CPI inflation**



**Forecast contributions to quarterly inflation**



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