

# Economic Bulletin.

14 October 2021



## Preview of September quarter CPI: Monday 18 October, 10:45am.

- We expect the upcoming Consumers Price Index will show that New Zealand consumer prices rose by 1.5% in the September quarter.
- That would see annual inflation rising to 4.2%, up from an annual rate of 3.3% last quarter and the highest annual inflation rate since 2011's GST related spike.
- Underlying inflation is being boosted by a potent cocktail of supply-side pressures and strong domestic demand.
- Our forecast for September quarter inflation is slightly higher than the RBNZ factored into their last set of published forecasts.

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Consumer price inflation is set to reach a ten-year high in the September quarter, boosted by a potent cocktail of supply-side pressures and strong domestic demand. We're forecasting a quarterly rise of 1.5%. That would take the annual inflation rate to 4.2%, up from an annual rate of 3.3% last quarter and the highest annual rate since 2011's GST related spike.

New Zealand is currently being buffeted by a perfect storm of inflation pressures. Much of this is a result of offshore factors. Disruptions to global manufacturing have resulted in shortages of many consumer goods and production inputs. That's been reinforced by a lack of international shipping capacity, which has resulted in transport costs for many goods rising rapidly in recent months. And on top of those factors, we've also seen global oil prices effectively doubling over the past year.

Adding to those global factors have been cost pressures specific to New Zealand. Most notably, the closure of our borders means that many businesses are struggling to source specialised labour. That's seen wage costs pushing higher as businesses compete to attract staff.

But the strength in inflation is not just due to rising costs. Prior to the Delta outbreak, domestic demand had been rising much faster than had been expected. In sectors like construction, firm demand has meant that businesses have greater scope to pass on cost increases into final prices, rather than taking a hit on margins.

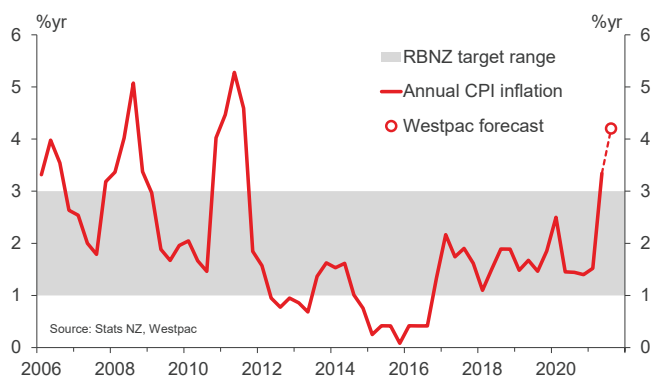
Furthermore, and of particular importance for the RBNZ, strong demand also means that inflation pressures are likely to persist even when the current supply-side pressures ease off. While the Delta-outbreak may moderate some of those demand side pressures in the short-term, we're still looking at a strong medium-term inflation outlook.



Our forecast for September quarter inflation is slightly higher than the 1.4% rise the RBNZ factored into their last set of published forecasts. A result in line with our forecast would reinforce the RBNZ's existing policy stance. The RBNZ is expecting strong inflation pressures over the coming year and has signalled the likelihood of further rate hikes over the coming months.

With widespread cost pressures and firm domestic demand, we expect that measures of underlying inflation (like the RBNZ's sectoral inflation model and Stats NZ's core inflation measures) will also push higher this quarter. Most core inflation measures are already running above 2%.

### Annual inflation forecast



### Details.

Food prices are expected to be the largest upside contributor to consumer prices in the September quarter, with a 2.7% rise expected. Underlying that rise have been strong increases in the prices for groceries, meat/poultry, and fruit and vegetables in recent months.

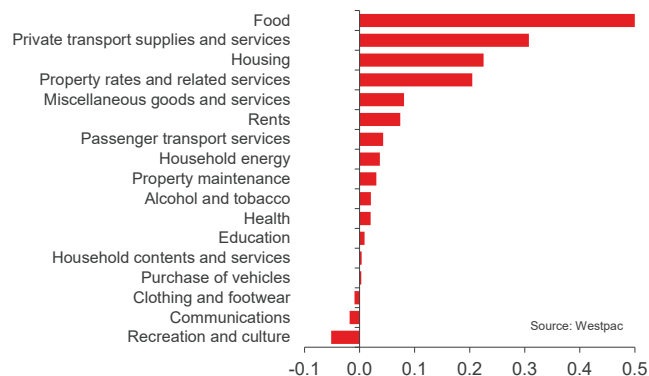
Petrol prices have also risen strongly in recent months, with local pump prices up 6.8%. Global oil prices have continued to push higher in recent months, and the related increase in transport costs is also boosting prices in the economy more generally.

Housing and construction costs are again expected to be significant contributors to overall inflation. Building activity has been charging higher over the past year, with low interest rates and the strong housing market encouraging development activity. At the same time, supply and staff shortages have seen input costs climbing and related pressure on margins. Combined, those conditions have seen the cost of building a new home rising rapidly. We've pencilled in a 2.5% increase in building costs for the quarter.

Housing costs will also be boosted this quarter by the annual increase in local council rates. This year we're expecting a larger than usual rise of 6.9%.

The key uncertainty around our forecasts is transport costs. With the popping of the travel bubble with Australia last quarter and reinstatement of health restrictions in August, we may see some volatility in the prices of items such as domestic airfares. The reinstatement of Covid activity restrictions could also be a drag on the prices of some services, like dining out.

### Contributions to Q3 CPI forecast (percentage points)



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