



# ECONOMIC BULLETIN

CPI preview, December quarter 2023 –  
Wednesday 24 January, 10:45am.



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

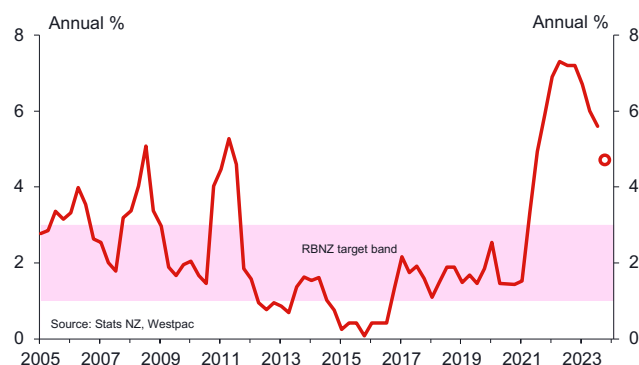
## Inflation's down, but not out

- Inflation is set to again fall short of the RBNZ's forecasts. We expect that next week's update will show that consumer prices rose by 0.5% in the December quarter, leaving them up 4.7% over the past 12 months. In contrast, the RBNZ's last published forecasts assumed a 0.8% rise over the quarter (+5.0% for the year to December).
- Our lower inflation forecast reflects softness in the prices for volatile items like international airfares and food over the past quarter, as signalled by Stats NZ's expanded suite of monthly price indicators.
- The bigger question is what's happening to the underlying trend in prices. We expect most core inflation measures – including measures of domestic price pressures – will moderate, but remain at levels well above the RBNZ's target range.

### Consumer price inflation

	Sep 2023	Dec 23	
	Actual	Westpac f'cast	RBNZ f'cast (Nov MPS)
Headline inflation			
Quarterly	1.8%	0.5%	0.8%
Annual	5.6%	4.7%	5.0%
Non-tradables inflation			
Quarterly	1.7%	0.8%	0.9%
Annual	6.3%	5.6%	5.7%
Tradables inflation			
Quarterly	1.8%	0.0%	0.7%
Annual	4.7%	3.2%	4.0%
Core inflation (excl food and energy)			
Annual	5.2%	4.1%	-

### Annual inflation (incl. Westpac forecasts)



### December quarter inflation – Leaving on a jet plane.

Inflation in New Zealand is continuing to drop back. We estimate that consumer prices rose by 0.5% over the December quarter. That would see the annual inflation

rate slowing to 4.7%, down from 5.6% in the year to September. While that is still uncomfortably high, it would be the lowest annual inflation rate since June 2021.

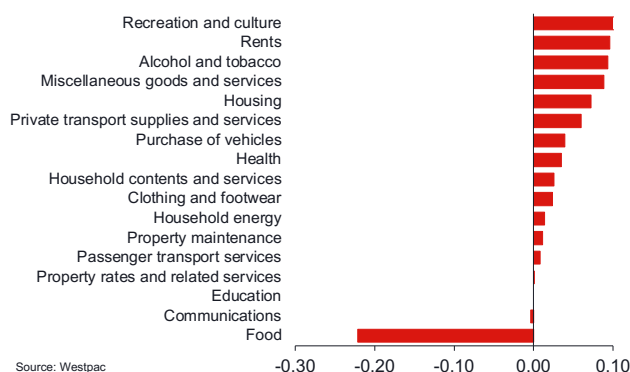
December's inflation report will be the first quarterly update since Stats NZ began releasing an expanded suite of monthly price data. Those additional monthly updates have provided data on some of the more volatile components of the CPI which can drive the swings in inflation. Updates over the past few months have revealed softness in some specific categories:

- Food prices are estimated to have fallen 1.1%. That's mainly due to the seasonal fall in vegetable prices, as well as softness in the prices for groceries.
- The December quarter also saw softness in transport prices. That includes petrol prices which dropped from nearly \$3/ltr at the start of the quarter to around \$2.60/ltr by the close of the year. The past few months also saw a muted 3% rise in international airfares, along with a nearly 8% fall in the cost of domestic airfares (airfares usually rise sharply over the holiday period, especially in the case of international flights).

Combined, food, airfares and petrol account for around 25% of the CPI, and softness in these areas mean that the overall CPI is likely to post only a modest rise in the December quarter.

On the upside, there continues to be strength in rents, which account for 9% of the CPI, and which are estimated to have risen by an average of 1% in the December quarter. More generally, we're continuing to see prices push higher for many services across the economy, including holiday accommodation and insurance.

#### Contributions to December quarter inflation forecast (percentage points)



### RBNZ to be surprised on the downside (again).

Our forecast for a 0.5% rise in consumer prices is lower than the RBNZ's last published forecast for a 0.8% increase. However, that is mainly due to the softness in the prices of volatile items noted above. The RBNZ's forecast was published in late November – before most of the new monthly price data was released. Given the sharp

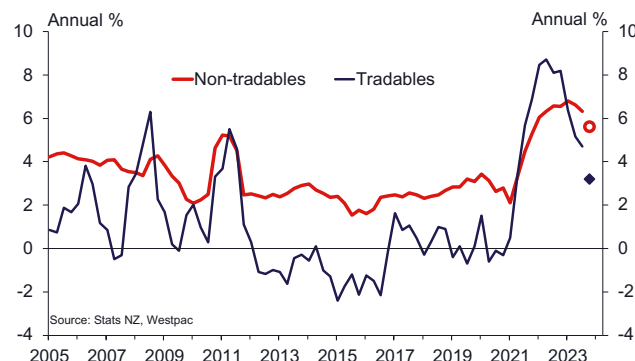
swings in items like international airfares – which is likely to have been as much of a surprise to the RBNZ as it has been to ourselves and other analysts – we suspect the RBNZ is already braced for a lower result.

Swings in inflation associated with volatile items like food and petrol are not the key focus for monetary policy. The RBNZ is more concerned with the longer-term underlying trend in consumer prices, especially prices for domestically produced goods and services (sometimes referred to as non-tradable prices). On this front, we expect that next week's data will show that although the various measures of core inflation have continued to soften, they are still running at levels that are well above the RBNZ's 1% to 3% target range.

Importantly, domestic inflation pressures look like they have remained strong and are tracking close to the RBNZ's expectations. We estimate that non-tradable prices rose by 0.8% over the December quarter, leaving them up 5.6% over the past year. That's just fractionally below the RBNZ's forecast for a 0.9% quarterly rise / 5.7% annual increase.

In contrast, the imported tradable components of inflation look set to fall well short of the RBNZ's forecast for a 0.7% rise. In fact, we estimate that tradables prices were effectively flat over the past three months.

#### Tradables and non-tradables inflation (incl. Westpac forecasts)



### Where could we be surprised?

The risks to our forecasts are balanced. There is a possibility that prices for some services surprise to the upside. Prices for a range of services have risen sharply over the past year, and wage growth remains elevated. We could also see a pickup in the cost of purchasing a newly built home, which was softer than expected last quarter (some business surveys are pointing to ongoing cost pressures in the construction sector).

On the downside, soft consumer spending through the final months of 2023 may have been an even larger drag on the prices of many items, especially in the case of household durables.

But while we see two-sided risks to our own forecasts, the risks to the RBNZ's forecast are skewed to the downside.

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