



# New Zealand June quarter 2025 inflation review

July 2025

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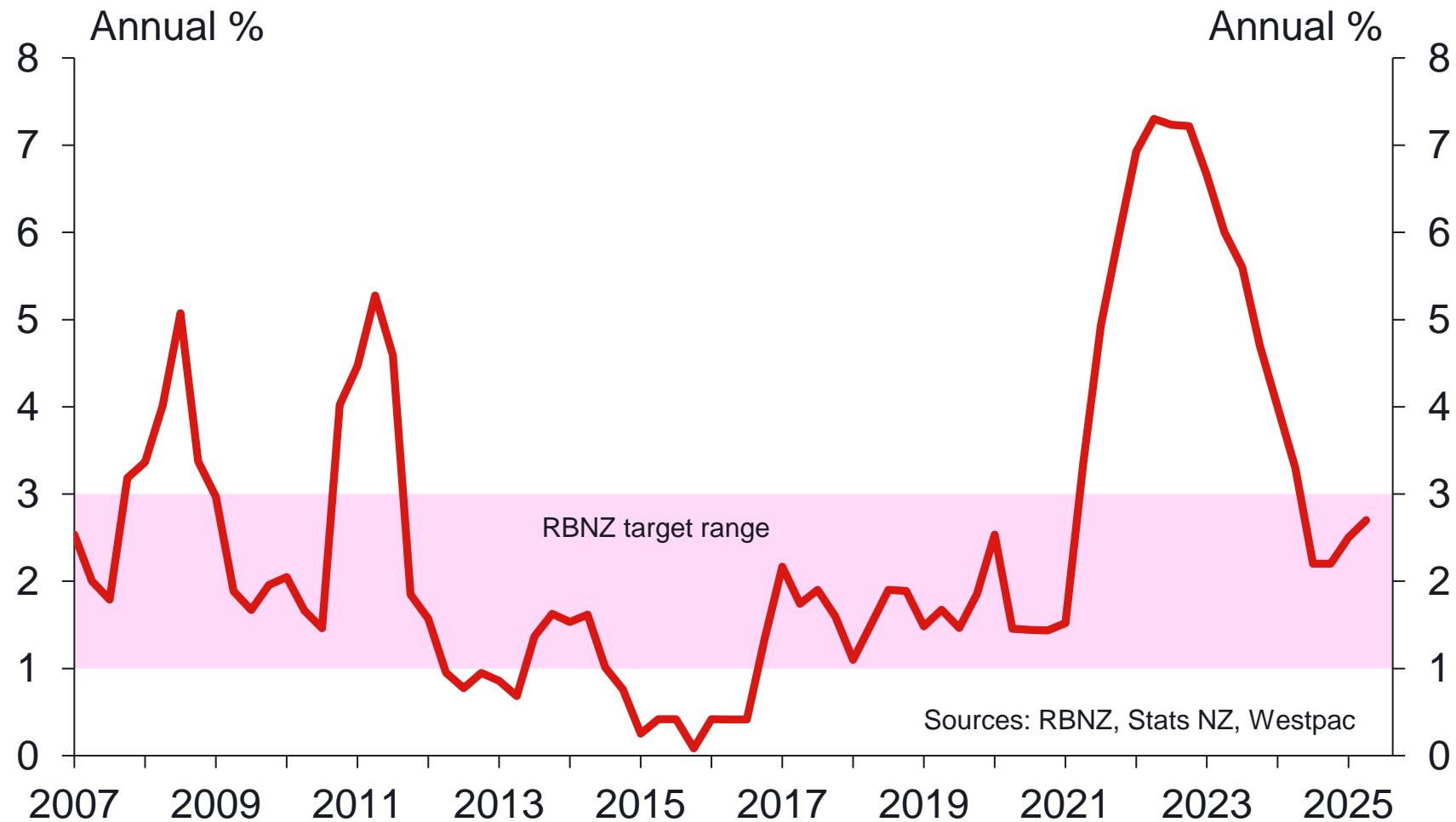
# Core inflation stabilising, but not low.

- New Zealand consumer prices rose 0.5% in the June quarter. That saw annual inflation rising to 2.7%, up from 2.5% in the year to March.
- The June quarter result was just slightly lower than our forecast for a 0.6% rise.
- Under the surface, inflation is looking 'contained' rather than 'soft.'
- The various measures of core inflation (which smooth through volatile quarter-to-quarter movements in prices and instead track the underlying trend in inflation) remained within the RBNZ's target band. However, the decline in core inflation seen over the past year came to a halt this quarter, with most core inflation measures remaining a bit above 2%.
- Domestic (non-tradables) inflation is slowing, with softness in service sector prices, as well as an easing in rents and construction costs. Even so, overall non-tradables inflation is easing only gradually with continued increases in administered costs, like rates and electricity.
- Tradables inflation (items that can be imported or exported) picked up to 1.2% in the year to June. That's a stark change from last year when import prices had been flat or falling.
- Earlier weakness in tradable prices was a key driver of the down trend in inflation in recent years. While we don't expect high rates of tradables inflation going forward, it won't have the same dampening impact on inflation that it previously did. That's important as it will limit the downside for overall inflation.
- We expect inflation will rise to around 3% through the latter part of the year, boosted by higher food prices and administered costs.

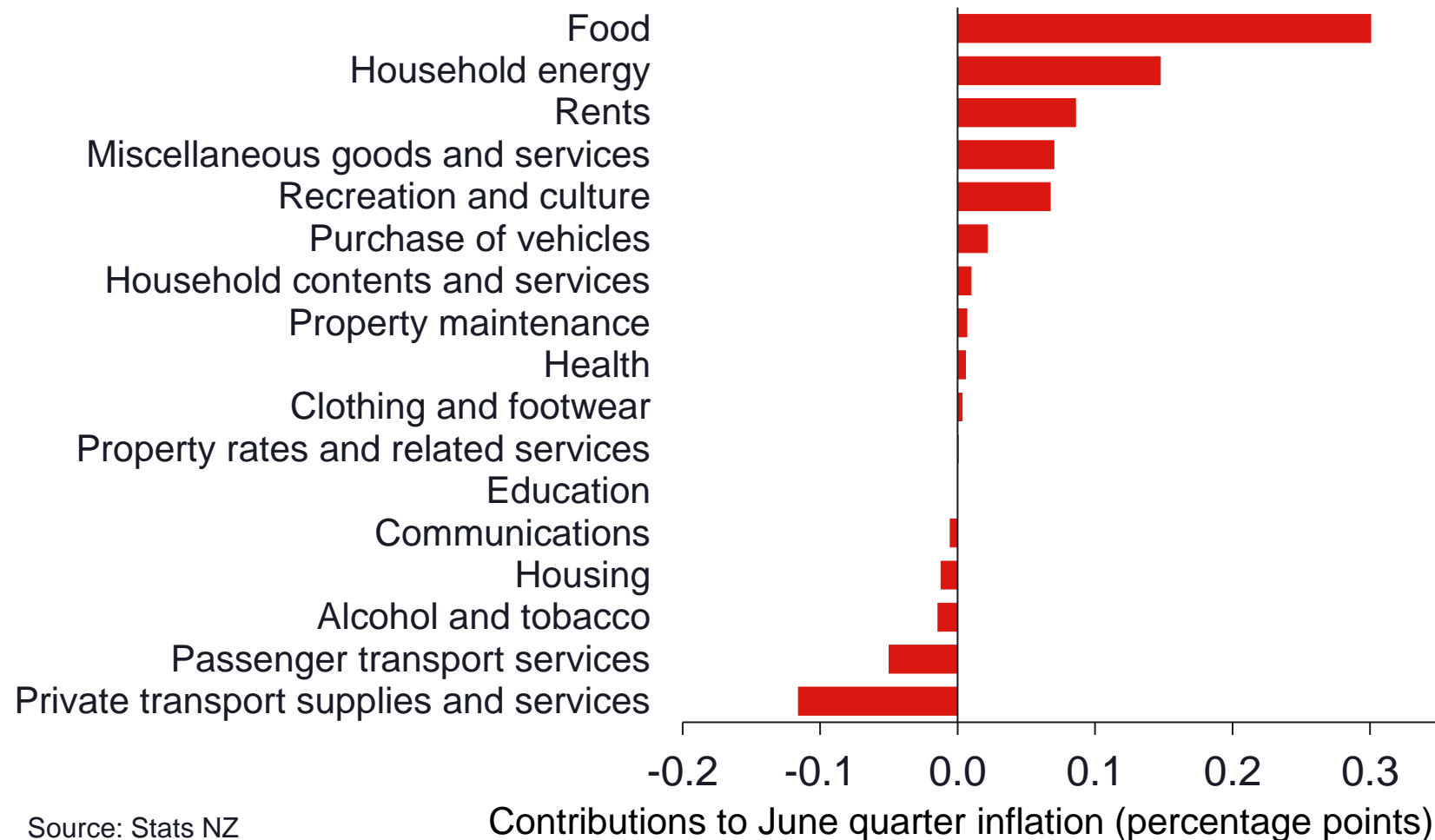
# RBNZ easing to continue, but it will remain cautious.

- While the June quarter inflation result was in line with the RBNZ's last published forecast from its May policy statement, the more recent policy statement in July indicated that it was braced for a stronger result on the day. We suspect the result was actually a little on the low side of what the RBNZ anticipated at the time of its last interest rate review in early July.
- Looking ahead, the June quarter inflation report won't have done much to change the RBNZ's mind relative to the cautious easing bias it signalled at its recent policy review, especially given the continued (albeit gradual) easing in non-tradables inflation.
- We continue to expect another 25bp cut in August.
- However, with headline inflation pushing higher, we suspect the RBNZ will be cautious about the extent and timing of any further rate cuts.
- Inflation is set to rise to the top of the RBNZ's target band. And while much of that uplift is due to volatile items like food prices, core inflation is stabilising above 2%, rather than continuing to ease.
- The RBNZ will also be mindful about cutting too quickly now, especially as the full impact of the 225bp of rate cuts over the past year is yet to be felt. Large number of borrowers will be refixing their mortgages over the coming months, and many will see sizeable falls in their interest costs.
- The RBNZ will be watching how inflation expectations track over the coming months. If these remain contained, it will be easier to look through the pickup in inflation now in train.

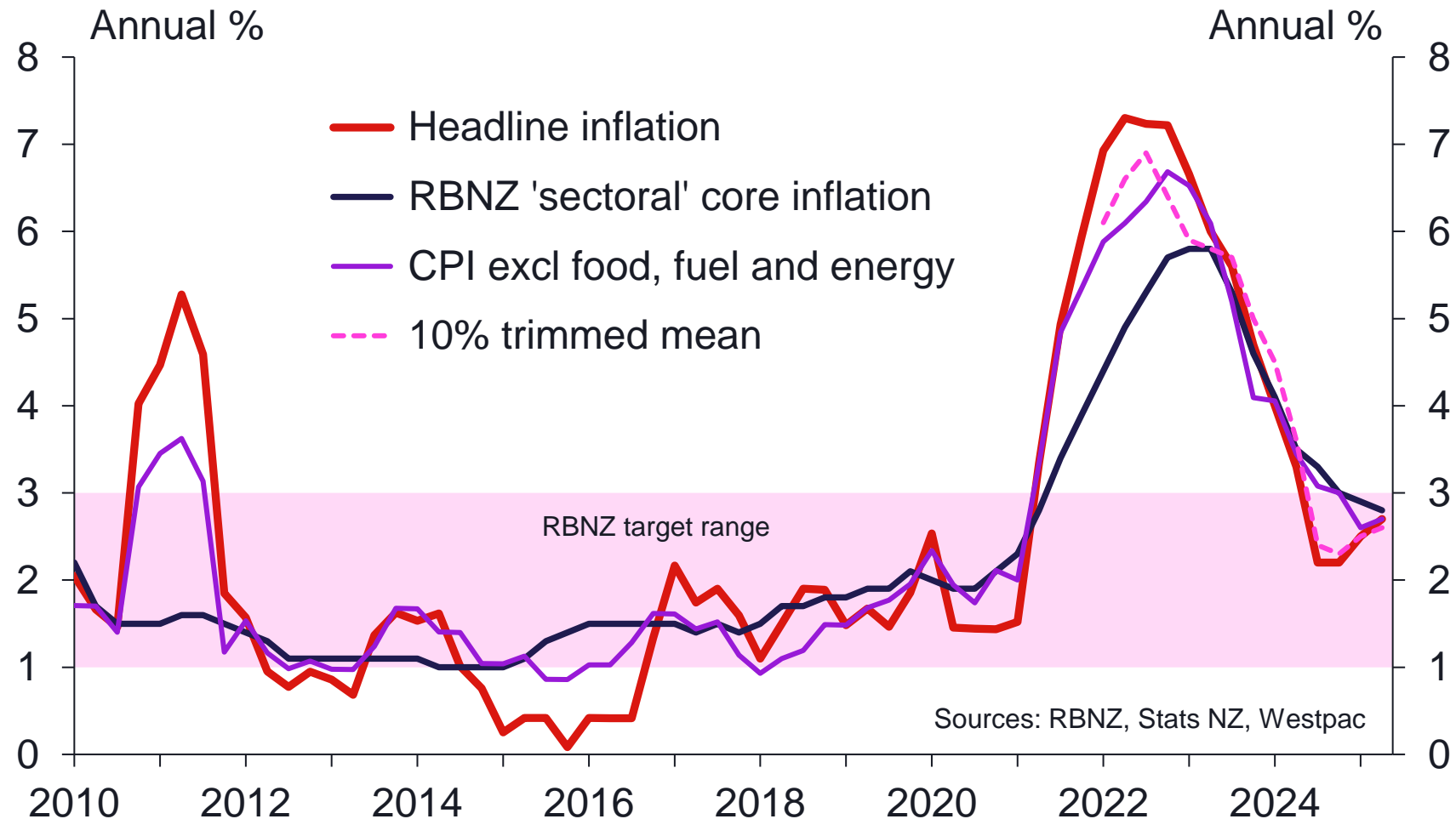
# Annual inflation lifted to 2.7% in the June quarter, close to RBNZ and market forecasts.



# The June quarter saw increases in food and energy prices, while petrol prices dropped back.



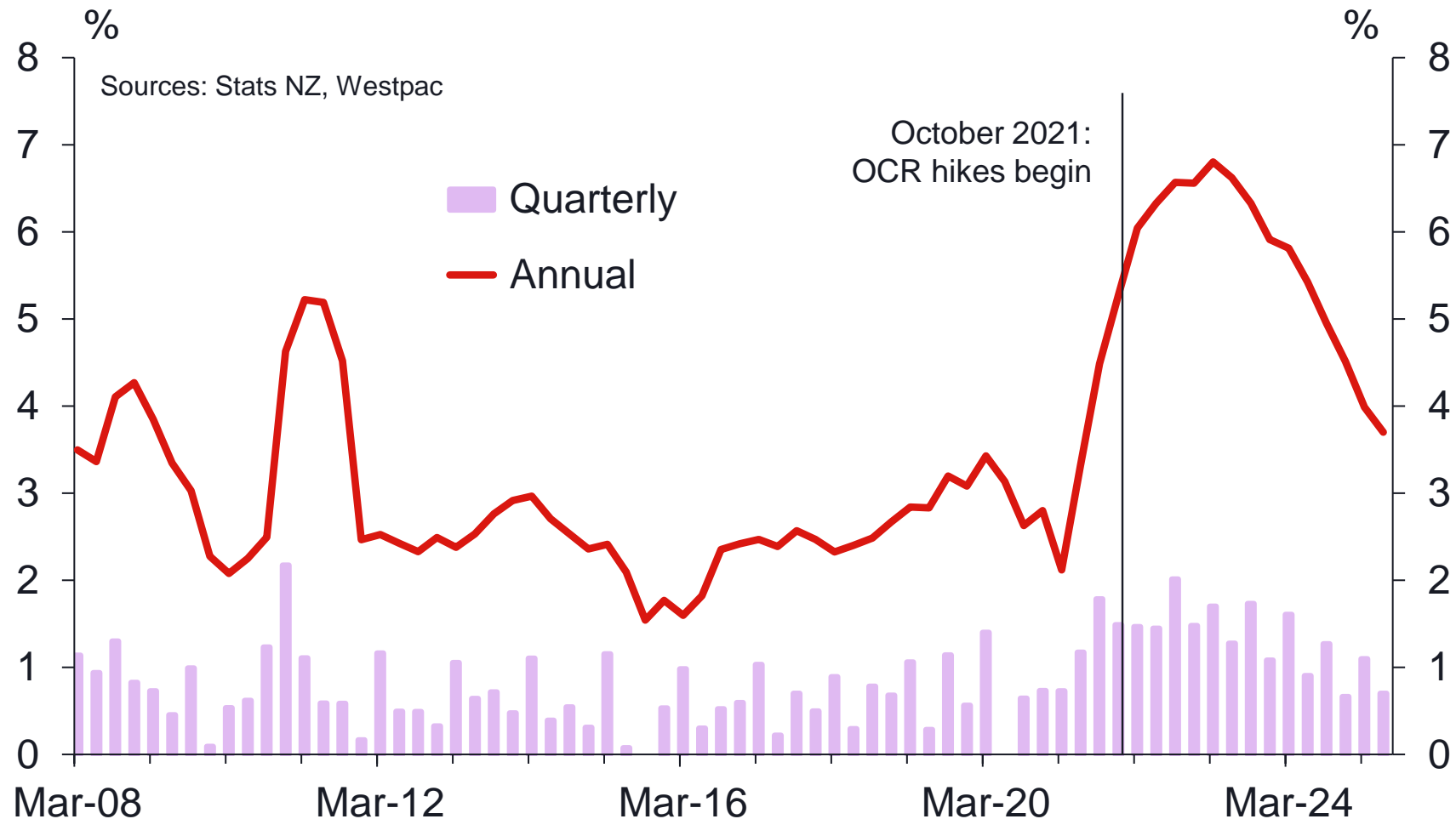
# Under the surface, core inflation has remained contained, but is lingering above 2%.





# Non-tradables inflation

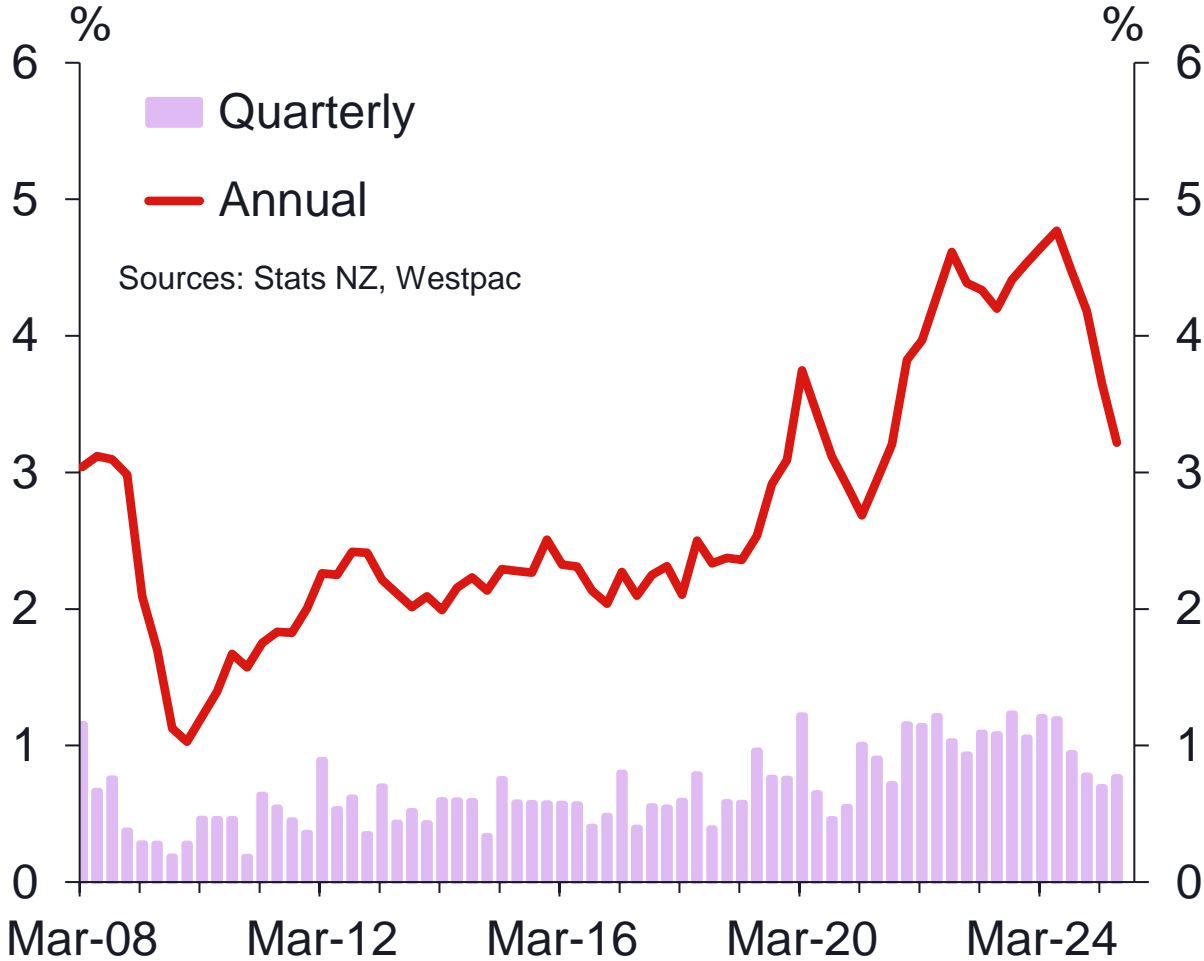
# Domestic (non-tradables) inflation is continuing to cool...gradually.



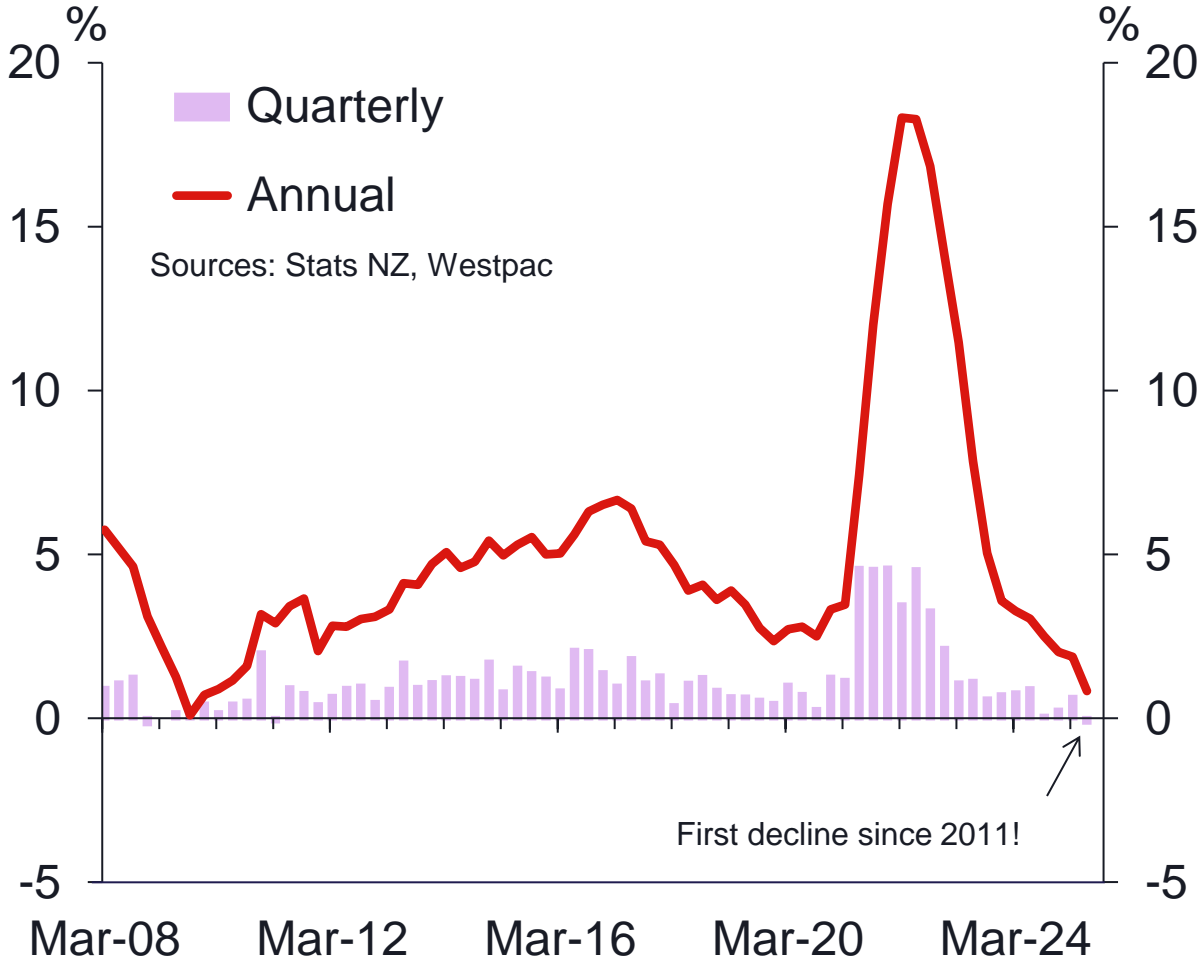


# Housing cost inflation is dropping back...

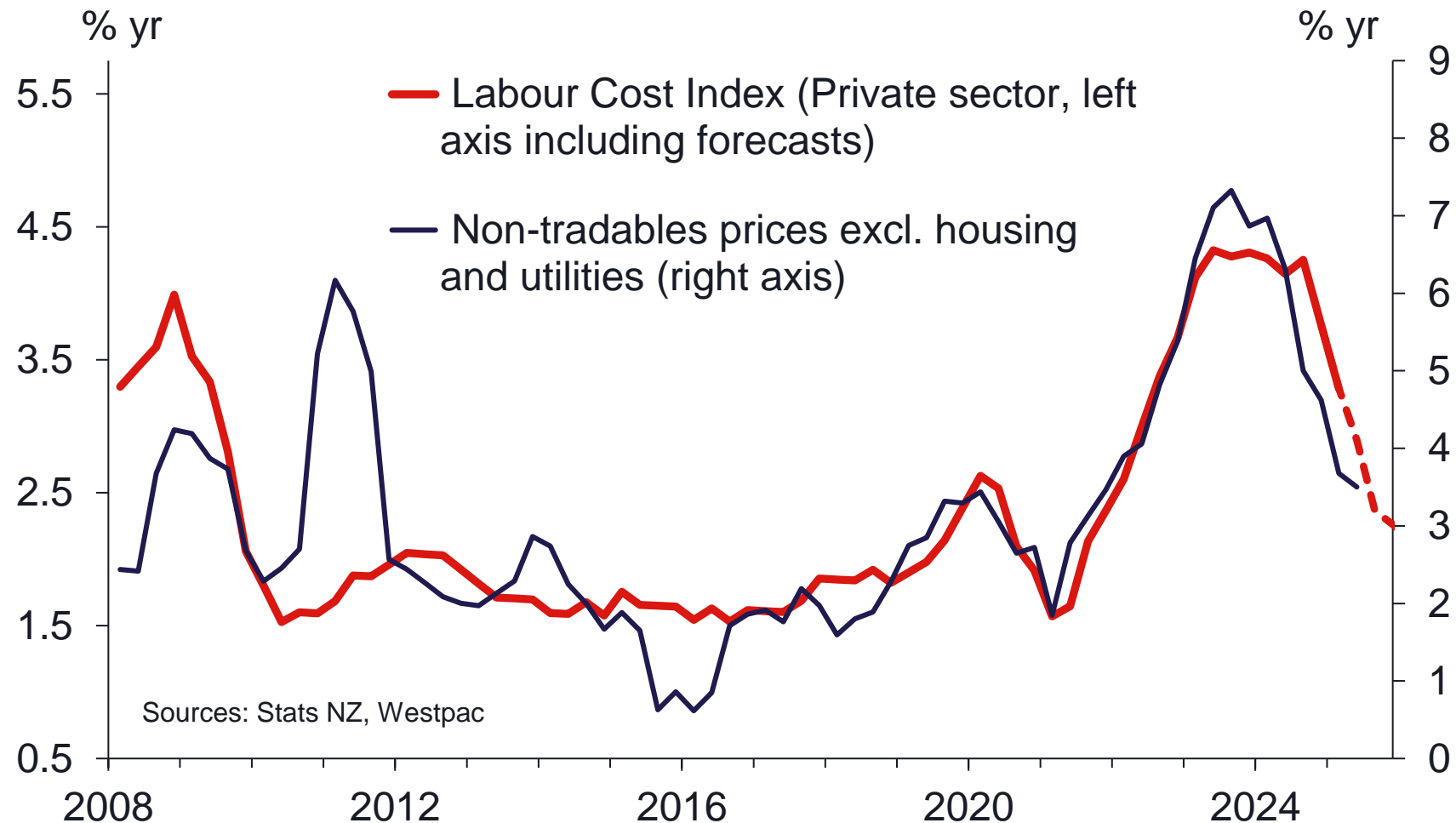
## Rents



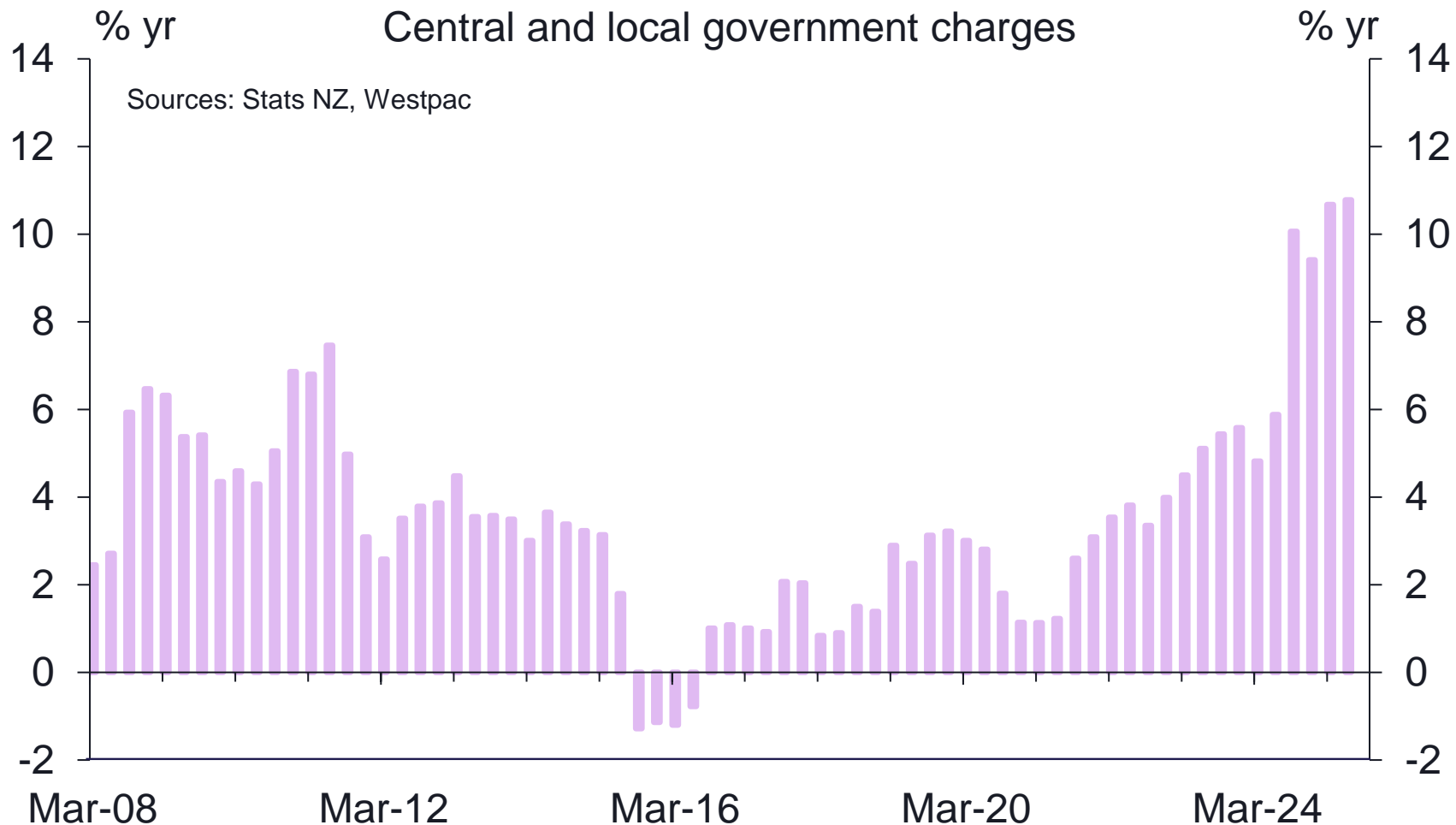
## Construction



**...and service sector inflation continues to ease consistent with the cooling in domestic demand...**



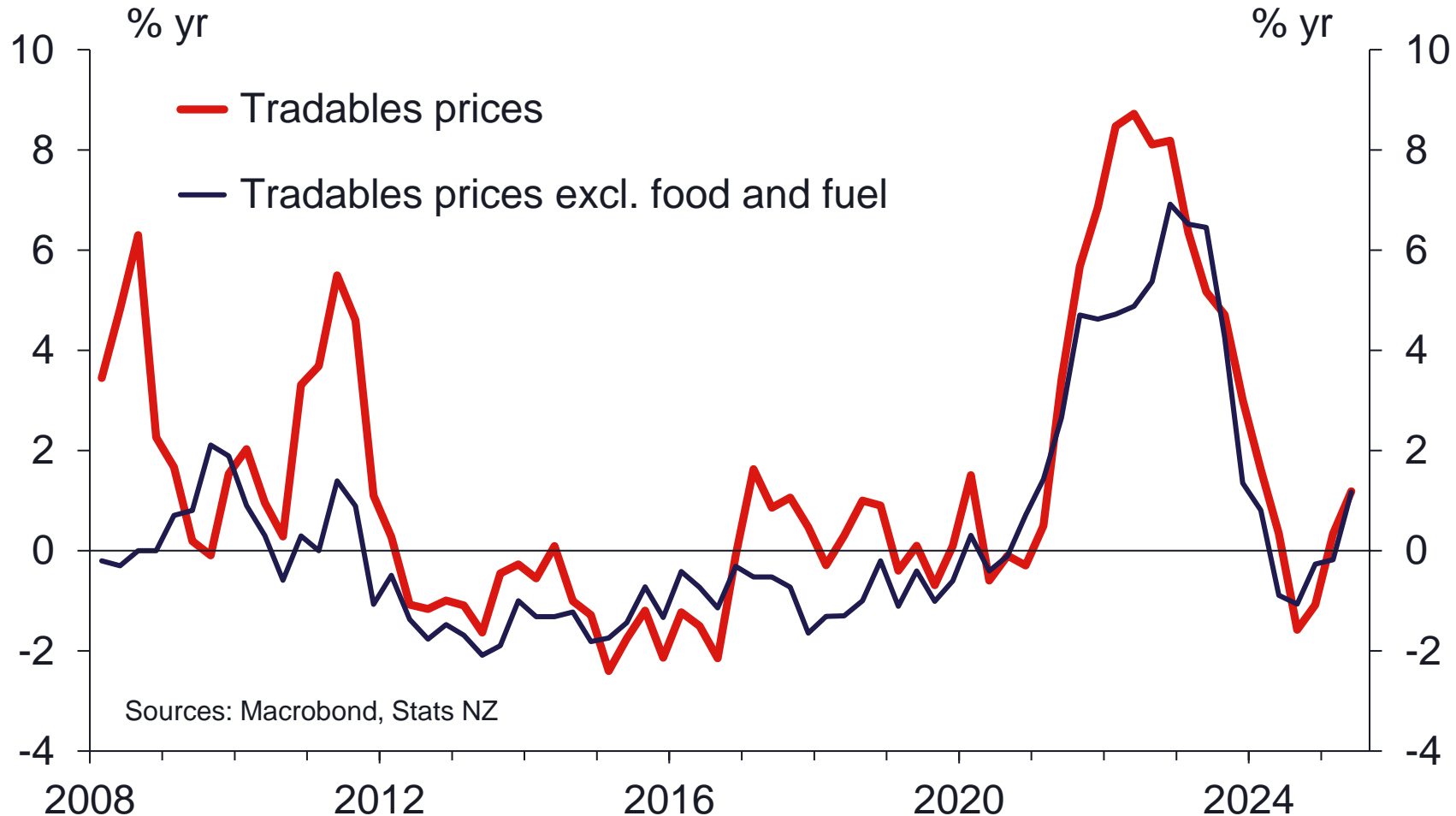
**...but large and ongoing increases in government charges are limiting the easing in total non-tradables.**



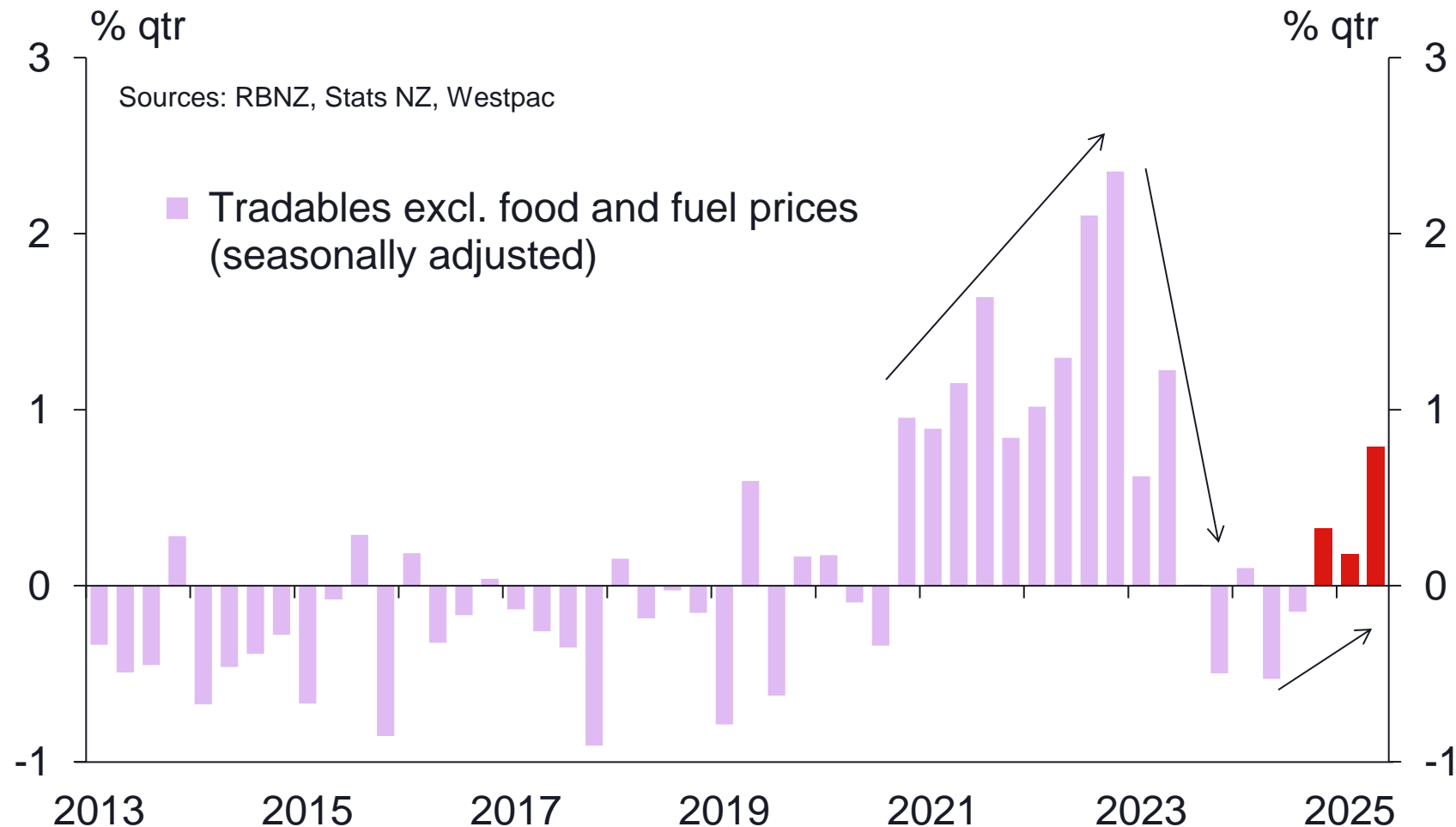


# Tradables inflation

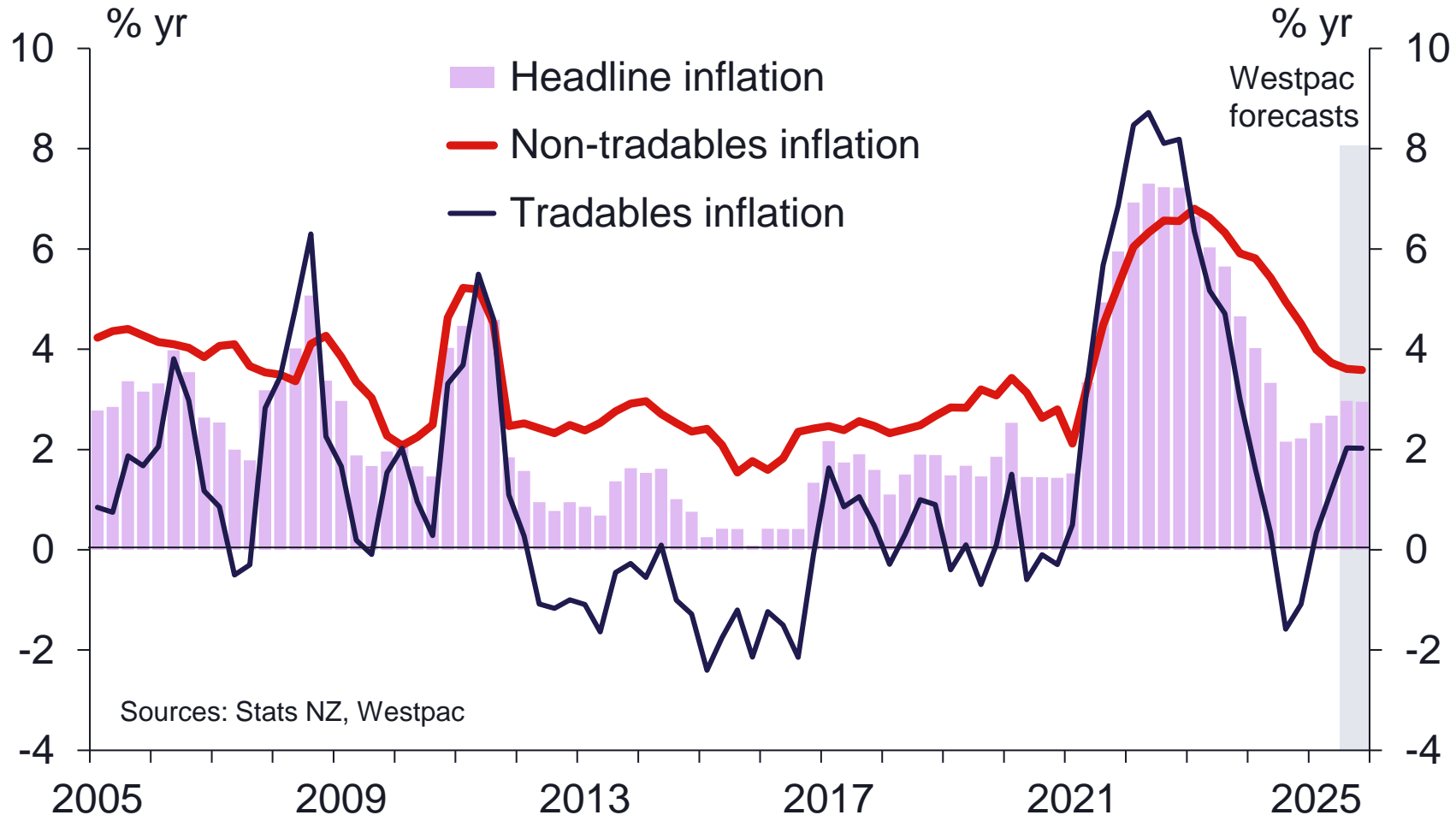
# Food prices have pushed tradables higher, but the pickup in imported inflation has been more general.



# The earlier fall in import prices that pulled down inflation last year has run its course...



**...and a lift in imported inflation will push inflation back up towards 3% through the latter part of the year.**

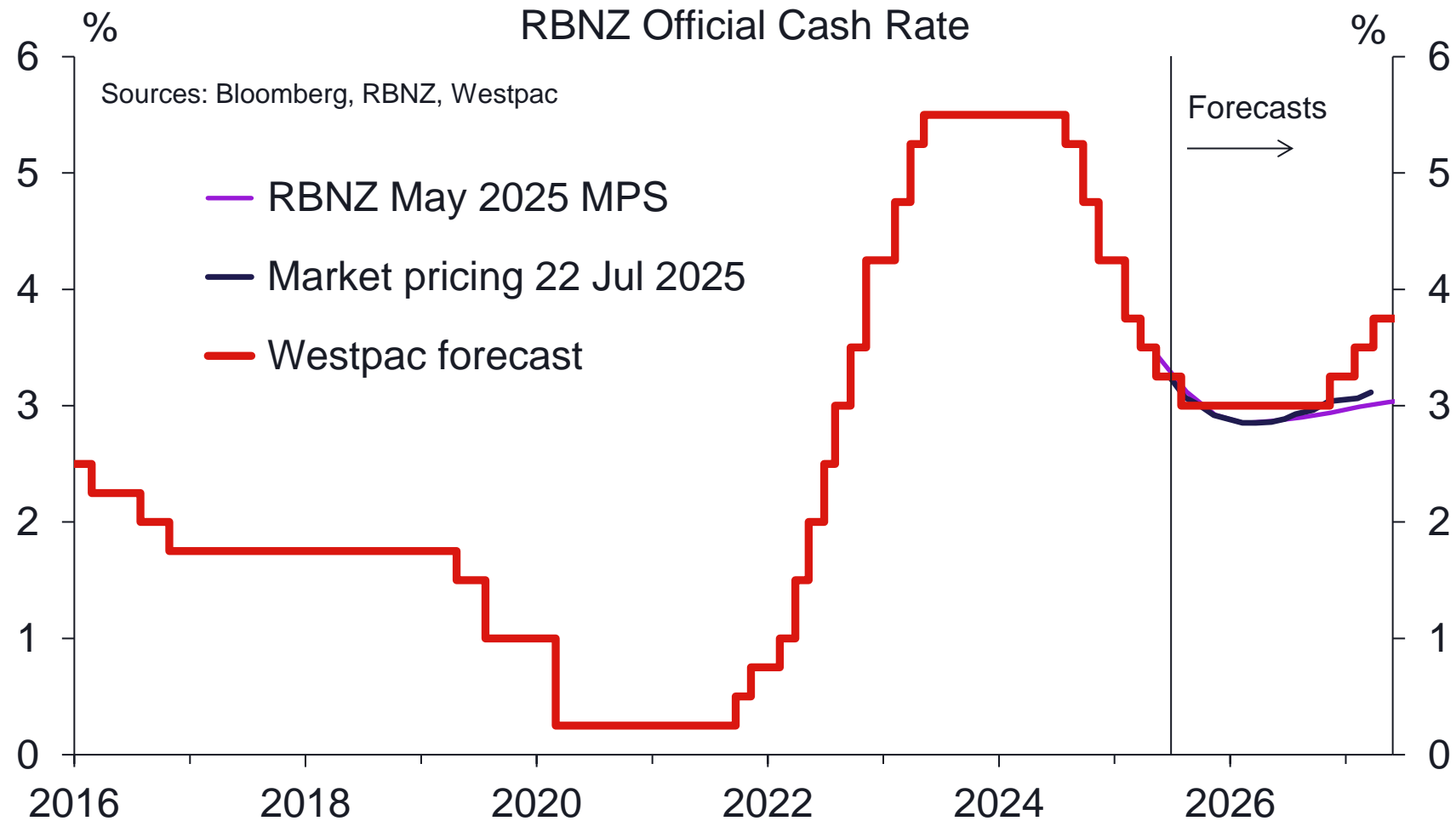




# RBNZ Official Cash Rate



# RBNZ to cut in August, but will be cautious about the extent and time of further cuts.



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