



# ECONOMIC BULLETIN

CPI review, September quarter 2024.



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

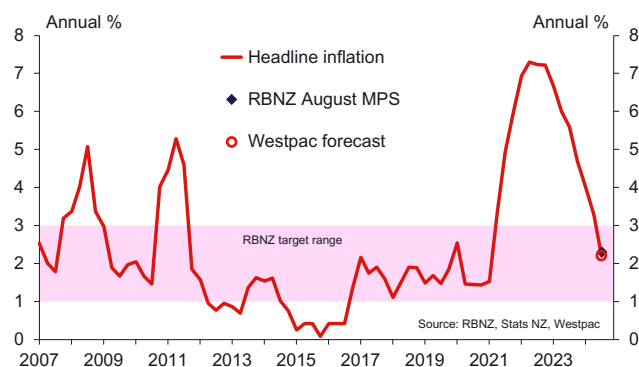
## The inflation dragon is back in its cave

- Consumer prices rose by 0.6% in the September quarter. That saw annual inflation fall to 2.2%, the first time it's been in the RBNZ's target band since 2021.
- Inflation has been pulled down by a sharp fall in imported prices. Domestic inflation has been easing, but more gradually.
- While there were some large quarter-to-quarter swings (in part related to policy changes), the broader trend in inflation is down. Inflation is set to track close to 2% over the coming year.
- We continue to expect a 50bp cut from the RBNZ at their 27 November meeting.

### Consumer price inflation

|                         | Jun-24 | Sep-24 | Sep-24 forecast |      |
|-------------------------|--------|--------|-----------------|------|
|                         | Actual | Actual | Westpac         | RBNZ |
| Headline inflation      |        |        |                 |      |
| Quarterly               | 0.4    | 0.6    | 0.7             | 0.8  |
| Annual                  | 3.3    | 2.2    | 2.2             | 2.3  |
| Non-tradables inflation |        |        |                 |      |
| Quarterly               | 0.9    | 1.3    | 1.3             | 1.4  |
| Annual                  | 5.4    | 4.9    | 5.0             | 5.1  |
| Tradables inflation     |        |        |                 |      |
| Quarterly               | -0.5   | -0.2   | -0.1            | -0.2 |
| Annual                  | 0.3    | -1.6   | -1.5            | -1.6 |

### Annual headline inflation



Inflation is back inside the RBNZ's target band for the first time since 2021.

Consumer prices rose 0.6% in the September quarter. That saw the annual inflation rate fall to 2.2%, down from 3.3% in the year to June.

The result was a little below our forecast and was also lower than the RBNZ's last published forecast.

## What underpinned inflation in the September quarter?

Underpinning September's rise in consumer prices was another big increase in local council rates (+12.2%) and a large increase in food prices (+1.3%, including a seasonal rise in vegetable prices). There was also an increase in healthcare costs related to the reintroduction of prescription fees, with the price of pharmaceutical products rising 17%.

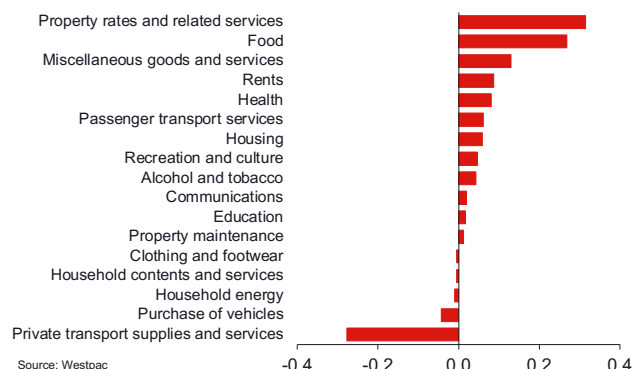
On the housing front, rents were up 0.9% in the September quarter, leaving them up 4.5% over the past year. Housing construction costs were up only 0.1%, with competitive pressures one factor contributing to the low result.

Balanced against those increases, the September quarter saw a 6.5% fall in petrol prices. There has also been softness in the prices of a range of imported durable consumer goods. Notably, new and used motor vehicle prices were down 0.6% and 2.8% respectively. There has also been softness in apparel prices.

Inflation in the September quarter was also pulled down by the introduction of the FamilyBoost early childhood education rebate scheme which began on 1 July 2024.

- This policy allows eligible families to claim up to 25% of their weekly childcare fees (up to a maximum of \$975 every three months).
- Early childhood education costs account for 0.6% of the CPI, and the 22.8% reduction in those costs shaved 0.3ppts off inflation in the September quarter.
- If not for that policy change, the quarterly inflation rate would have been 0.9%.
- This policy change will dampen the annual inflation figures over the next few quarters, before dropping out of the calculations in September next year.

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



## Annual and core inflation: trending back to target.

Of more note than the quarter-to-quarter swings in prices is the continued downtrend in annual inflation, which has been steadily falling for around two years now.

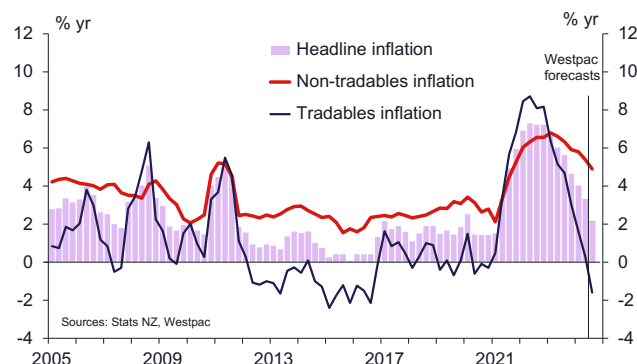
The downtrend in headline inflation is mainly due to the low level of tradables prices (mainly imported retail goods).

- Tradable prices fell by 0.2% this quarter, leaving them down 1.6% over the past year. The drop in tradables inflation has been stark – this time last year annual tradables inflation was running at +4.7%.
- The fall in tradables prices has in part been due to falls in global prices as international supply conditions have improved over the past couple of years.
- The downward pressure on prices has been somewhat amplified by the pressures on household budgets and the related weakness in discretionary spending. That's resulted in softness in the prices of a range of consumer goods.

Domestic (non-tradable) price pressures have also been easing, but more gradually.

- Non-tradable prices rose 1.3% in the September quarter, with the annual rate slowing to 4.9%. While that's down from 5.4% last quarter, it's still well above long-run averages.
- Notably, non-tradables inflation has been pulled down by the change to early childcare costs (if not for that change, annual non-tradables inflation would have been 5.2%). However, the impact of that policy change is balanced against the reintroduction of prescription fees, which had a similar sized impact.
- Under the surface, we are seeing some notable differences in domestic costs. Inflation in service sectors is easing back, consistent with the downturn in economic growth and softening in the labour market. But at the same time, we're still seeing continued large increases in some non-discretionary expenses, like local council rates. That mix of conditions is likely to continue for some time, meaning that overall non-tradable inflation will remain at firm levels for a while yet.

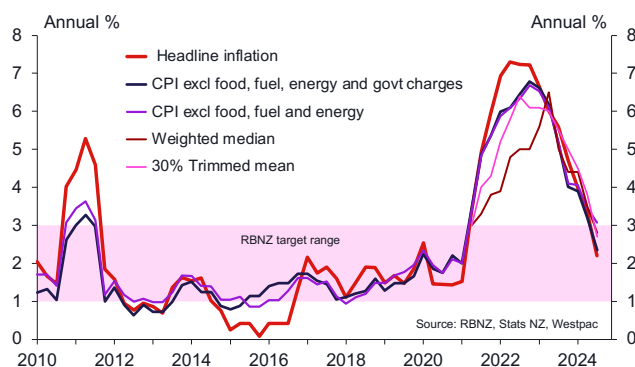
### Inflation components



Even with the ‘stickiness’ in domestic prices, overall inflation is trending down. That was reflected in the various measures of core inflation (which smooth through volatile quarter-to-quarter price movements, and instead track the underlying trend in prices). Most measures of core inflation have been dropping back and are now close to 3%, or in some cases a little below.

- Inflation excluding food, fuel and energy costs eased from 3.4% to 3.1% previously.
- 30% trimmed mean inflation fell from 3.8% to 2.7%
- Weighted median inflation fell from 3.5% to 2.8%.

#### Headline and core inflation



### Implications.

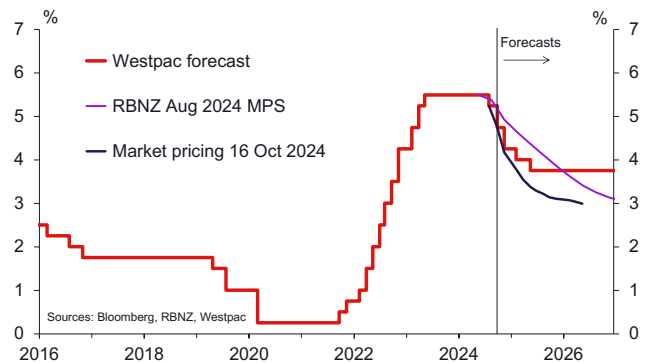
Inflation is at long last back in the RBNZ’s target band, and it looks set to track close to 2% over the year ahead. Consistent with that more-contained inflation outlook, we expect that the RBNZ will deliver another jumbo-sized 50bp cut in November, with further but more gradual cuts next year.

But although the RBNZ will now be feeling more comfortable about how inflation is tracking, the underlying details of today’s inflation report highlight some key areas to watch that could be important for the stance of monetary policy.

First, domestic inflation is still elevated, and not just because of items like council rates. That ‘stickiness’ in domestic prices will be important for how far and fast inflation eases, especially with interest rates now moving down.

At the same time, we are seeing weakness in the prices of imported consumer goods and household spending is still weak. With tradable prices heavily influenced by offshore conditions, the RBNZ often tends to de-emphasise surprises on this front in their policy deliberations. However, continued softness on this front would raise the risk of inflation falling below 2% next year.

#### Official Cash Rate forecasts



# CONTACT

**Westpac Economics Team** | [westpac.co.nz/economics](https://westpac.co.nz/economics) | [economics@westpac.co.nz](mailto:economics@westpac.co.nz)

**Kelly Eckhold**, Chief Economist | +64 9 348 9382 | +64 21 786 758 | [kelly.eckhold@westpac.co.nz](mailto:kelly.eckhold@westpac.co.nz)

**Satish Ranchhod**, Senior Economist | +64 9 336 5668 | +64 21 710 852 | [satish.ranchhod@westpac.co.nz](mailto:satish.ranchhod@westpac.co.nz)

**Darren Gibbs**, Senior Economist | +64 9 367 3368 | +64 21 794 292 | [darren.gibbs@westpac.co.nz](mailto:darren.gibbs@westpac.co.nz)

**Michael Gordon**, Senior Economist | +64 9 336 5670 | +64 21 749 506 | [michael.gordon@westpac.co.nz](mailto:michael.gordon@westpac.co.nz)

**Paul Clark**, Industry Economist | +64 9 336 5656 | +64 21 713 704 | [paul.clark@westpac.co.nz](mailto:paul.clark@westpac.co.nz)

Past performance is not a reliable indicator of future performance. The forecasts given in this document 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.

# DISCLAIMER

## Things you should know.

Westpac Institutional Bank is a division of Westpac Banking Corporation ABN 33 007 457 141 ("Westpac").

## Disclaimer.

This material contains general commentary, and market colour. The material 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 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 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. 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.

## Country disclosures.

**Australia:** Westpac holds an Australian Financial Services Licence (No. 233714). This material is provided to you solely for your own use and in your capacity as a wholesale client of Westpac.

**New Zealand:** In New Zealand, Westpac Institutional Bank refers to the brand under which products and services are provided by either Westpac or Westpac New Zealand Limited ("WNZL"). Any product or service made available by WNZL does not represent an offer from Westpac or any of its subsidiaries (other than WNZL). Neither Westpac nor its other subsidiaries guarantee or otherwise support the performance of WNZL in respect of any such product. The current disclosure statements for the New Zealand branch of Westpac and WNZL can be obtained at the internet address [www.westpac.co.nz](http://www.westpac.co.nz).

**China, Hong Kong, Singapore and India:** This material has been prepared and issued for distribution in Singapore to institutional investors, accredited investors and expert investors (as defined in the applicable Singapore laws and regulations) only. Recipients in Singapore of this material should contact Westpac Singapore Branch in respect of any matters arising from, or in connection with, this material. 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 licence 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 activities. This material is intended only to "professional investors" as defined in the Securities and Futures Ordinance and any rules made under that Ordinance. Westpac Shanghai and Beijing Branches hold banking licenses and are subject to supervision by the China Banking and Insurance Regulatory Commission (CBIRC). Westpac Mumbai Branch holds a banking license from Reserve Bank of India (RBI) and subject to regulation and supervision by the RBI.

**UK:** The contents of this communication, which have been prepared by and are the sole responsibility of Westpac Banking Corporation London and Westpac Europe Limited. Westpac (a) has its principal place of business in the United Kingdom at Camomile Court, 23 Camomile Street, London EC3A 7LL, and is registered at Cardiff in the UK (as Branch No. BR00106), and (b) authorised and regulated by the Australian Prudential Regulation Authority in Australia. Westpac is authorised in the United Kingdom by the Prudential Regulation Authority. Westpac is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. 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 communication is being made only to and is directed at (a) persons who have professional experience in matters relating to investments who fall within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "Order") or (b) high net worth entities, and other persons to whom it may otherwise lawfully be communicated, falling within Article 49(2)(a) to (d) of the Order (all such persons together being referred to as "relevant persons"). Any person who is not a relevant person should not act or rely on this communication or any of its contents. The investments to which this communication 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 communication or any of its contents. In the same way, the information contained in this communication is intended for "eligible counterparties" and "professional clients" as defined by the rules of the Financial Conduct Authority and is not intended for "retail clients". With this in mind, Westpac expressly prohibits you from passing on the information in this communication to any third party. In particular this communication and, in each case, any copies thereof may not be taken, transmitted or distributed, directly or indirectly into any restricted jurisdiction. This communication is made in compliance with the Market Abuse Regulation (Regulation(EU) 596/2014).

### **Investment recommendations disclosure.**

The material may contain investment recommendations, including information recommending an investment strategy. Reasonable steps have been taken to ensure that the material is presented in a clear, accurate and objective manner. Investment Recommendations for Financial Instruments covered by MAR are made in compliance with Article 20 MAR. Westpac does not apply MAR Investment Recommendation requirements to Spot Foreign Exchange which is out of scope for MAR.

Unless otherwise indicated, there are no planned updates to this Investment Recommendation at the time of publication. Westpac has no obligation to update, modify or amend this Investment Recommendation or to notify the recipients of this Investment Recommendation should any information, including opinion, forecast or estimate set out in this Investment Recommendation change or subsequently become inaccurate.

Westpac will from time to time dispose of and acquire financial instruments of companies covered in this Investment Recommendation as principal and act as a market maker or liquidity provider in such financial instruments.

Westpac does not have any proprietary positions in equity shares of issuers that are the subject of an investment recommendation.

Westpac may have provided investment banking services to the issuer in the course of the past 12 months.

Westpac does not permit any issuer to see or comment on any investment recommendation prior to its completion and distribution.

Individuals who produce investment recommendations are not permitted to undertake any transactions in any financial instruments or derivatives in relation to the issuers covered by the investment recommendations they produce.

Westpac has implemented policies and procedures, which are designed to ensure conflicts of interests are managed consistently and appropriately, and to treat clients fairly.

The following arrangements have been adopted for the avoidance and prevention of conflicts in interests associated with the provision of investment recommendations.

- (i) Chinese Wall/Cell arrangements;
- (ii) physical separation of various Business/Support Units;
- (iii) and well defined wall/cell crossing procedures;
- (iv) a "need to know" policy;
- (v) documented and well defined procedures for dealing with conflicts of interest;
- (vi) steps by Compliance to ensure that the Chinese Wall/Cell arrangements remain effective and that such arrangements are adequately monitored.

**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. All disclaimers set out with respect to Westpac apply equally to WCM. 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.

