ECONOMIC BULLETIN

CPI preview, September quarter 2025 – Monday 20 October, 10:45am.

16 Oct 2025 | **Satish Ranchhod**, Senior Economist | +64 9 336 5668 | +64 21 710 852 | satish.ranchhod@westpac.co.nz

Temporary rise to the top of the target band

- **We estimate that New Zealand consumer prices rose by 1.0% in the September quarter. That's slightly lower than our previous forecast, reflecting the softness in rents and food prices seen in the latest monthly update from Stats NZ.**
- **The annual inflation rate is expected to rise to 3.0%, up from 2.7% in the year to June.**
- **Our forecast for quarterly inflation is slightly higher than the RBNZ's forecast (+0.9% qtr), but we have the same forecast for the annual inflation rate. With much of the uplift in prices related to temporary factors or administered prices, a result in line with our forecast is unlikely to be a major concern to the RBNZ.**
- **In addition to a large annual increase in local council rates, the September quarter also saw large increases in food prices and household energy costs. However, inflation in more interest rate-sensitive areas, including housing costs, has been cooling.**
- **The various measures of core inflation are expected to remain contained in the upper part of the RBNZ's 1-3% target band.**

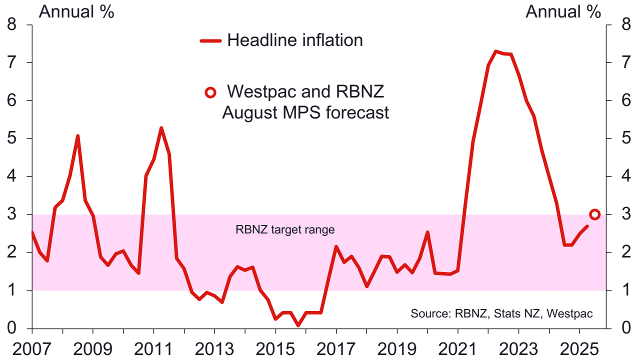
Consumer price inflation

	Jun-25 actual	Sep-25 forecast	
		Westpac	RBNZ (Aug MPS)
Headline inflation			
Quarterly	0.5%	1.0%	0.9%
Annual	2.7%	3.0%	3.0%
Non-tradables inflation			
Quarterly	0.7%	1.2%	1.0%
Annual	3.7%	3.6%	3.5%
Tradables inflation			
Quarterly	0.3%	0.8%	0.8%
Annual	1.2%	2.1%	2.1%

Inflation heading back to the top of the target band.

We expect the September quarter inflation report (out on 20 October) will show that consumer prices rose 1.0% over the past three months. That would see the annual inflation rate rising to 3.0%, up from 2.7% in the year to June.

Annual headline inflation



Underpinning September's rise in consumer prices are large increases in two key areas.

- **Food prices** (19% of the CPI) have risen 1.8% in the past three months, compounding the large increases seen earlier in the year. As well as the usual seasonal increase in vegetable prices, recent months have also seen large increases in meat prices.
- The September quarter will also see the annual increase in **local council rates**. We estimate that rates rose an average of 8% across the country this year. That's a bit lower than the past two years, but still a large rise.

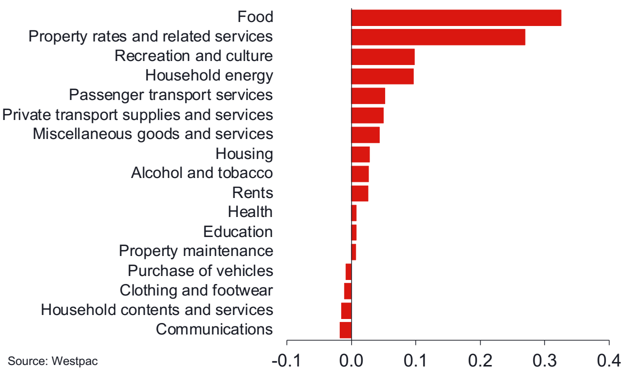
Also boosting inflation this quarter have been continued large increases in household energy prices (3% of the CPI) mainly as a result of higher electricity charges.

While we don't expect large price declines in other areas, there are a few categories that are likely to see much lower-than-usual rises. Of note are the two big housing categories – housing rents and the cost of purchasing a newly built home, which together account for around 20% of the CPI.

- Stats NZ's monthly inflation updates have highlighted very weak growth in **housing rents** in recent months, with average rents across the country estimated to be up just 0.2% in the September quarter. That's the smallest September quarter increase since 2009. It comes against a backdrop of low population growth and increases in supply, with particularly weak growth in areas like Wellington.
- We also expect a muted 0.3% rise in the **cost of building a new home**. That reflects the stark downturn in home building over the past year and related increases in competitive pressures.

More generally, we expect muted price rises in a range of discretionary spending areas including clothing and household durables, consistent with the continued softness in retail spending.

Contributions to September quarter inflation forecast (percentage points)

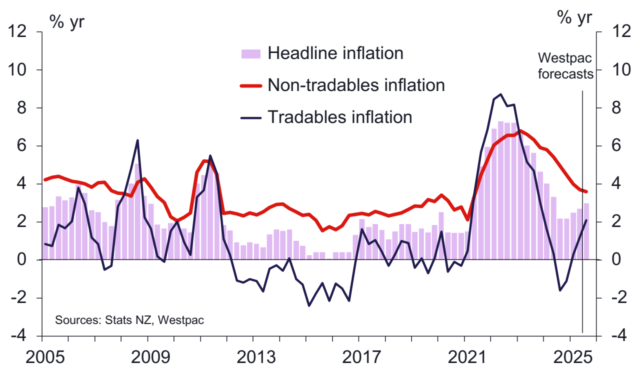


Our updated forecast is slightly lower than our earlier forecast for a 1.1% rise, reflecting the softness in rents and food prices in Stats NZ's September Selected Prices update.

In terms of the big CPI groups, we expect that domestically oriented **non-tradables** prices will rise 1.2% over the quarter. That would see annual non-tradables inflation slowing to 3.6%, down from 3.7% last quarter and the lowest level since 2021. Non-tradables inflation has been gradually cooling over the past couple of years, reflecting the softness in economic activity, and related muted growth in wages and service sector prices. However, domestic inflation is still lingering above historic averages due to the continued large increases in administered prices, like council rates.

On the imported front, we expect **tradables** prices will rise by 0.8% for the September quarter. That would see annual tradables inflation rising to 2.1%. That's a stark change from the past year when tradable prices had been flat or falling, with much of that turnaround due to the recent rise in food prices.

Inflation components



How do our forecasts compare to the RBNZ's assumptions?

Our forecast for a 1.0% quarterly rise in consumer prices is a little above the RBNZ's last published forecast for a 0.9% increase. However, we have the same forecast for annual inflation (+3.0%yr). Much of the difference will relate to administered prices, like electricity charges, that have risen sharply since the RBNZ finalised its forecast.

With much of the expected pickup in inflation likely to be temporary (for instance, the recent rise in food price inflation), a result in line with our forecasts is unlikely to be a major concern for the RBNZ. And like the RBNZ, we expect inflation will drop back next year.

Core inflation to remain contained.

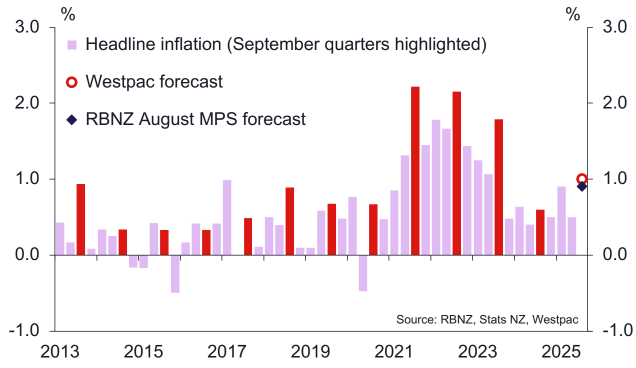
With much of the current rise in inflation driven by increases in a few specific areas, the RBNZ will be paying close attention to the various measures of core inflation. (Core inflation measures smooth through the quarter-to-quarter volatility in inflation and instead track the underlying trend in prices.)

Most measures of core inflation have drifted back towards or inside the RBNZ's 1% to 3% target band in recent months. However, they are generally running at levels in the upper part of the RBNZ's target band, rather than at low levels. We expect that will remain the case this quarter. Some measures may nudge slightly higher. For instance, we expect that CPI excluding food, fuel and energy costs will rise to 2.7% (from 2.6% previously).

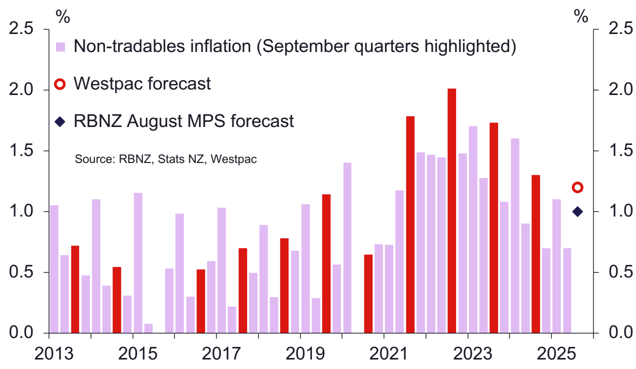
Where could we be surprised?

The main uncertainty around our forecast are prices for discretionary household items, like apparel, furnishings and other durable items. Household spending has been subdued in recent months, and that could have an even larger dampening impact on prices than we had assumed. However, prices for some items like cars can have sizeable swings – both up and down – on a quarter-to-quarter basis.

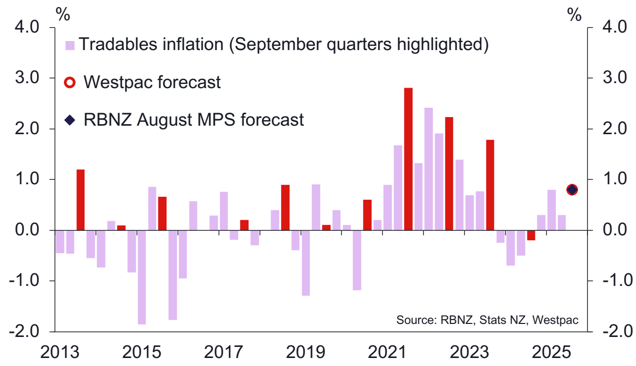
Quarterly CPI inflation



Quarterly non-tradables inflation



Quarterly tradables inflation



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