CPI REVIEW CHARTPACK

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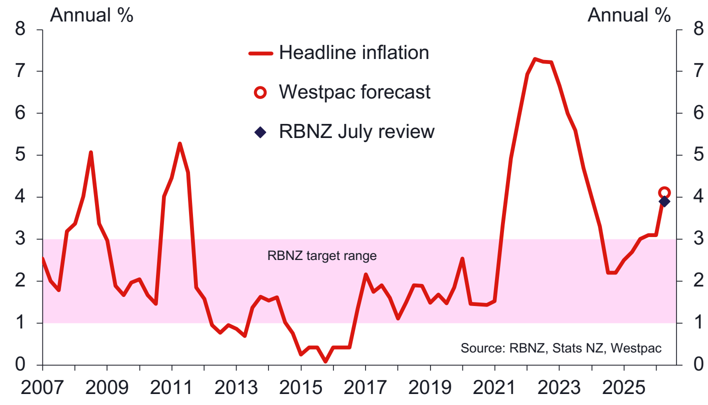
Overview

NZ inflation 4.1% in the year to June, higher than RBNZ expected.

- New Zealand consumer prices rose 1.5% in the June quarter.
- That saw the annual inflation rate rising to 4.1% - up from 3.1% in the year to March and the highest level in two years.
- The result was in line with our expectations.
- However, the result was slightly above the RBNZ's updated July forecast for 3.9% annual inflation. Much of that surprise is likely related to volatile items like holiday accommodation. Consequently, the result will not be a major surprise to the RBNZ.
- Under the surface, core inflation has been contained, with limited signs of spillover from high oil prices.
- Even so, the various measures of core inflation have lingered above 2% for some time.
- In addition, fuel prices have risen again in recent days, while recent business surveys point to the risk of a broadening in pricing pressures.
- We continue to expect OCR increases in September and December.

Annual headline inflation



June quarter inflation

		Mar	Jun
CPI	Qtr%	0.9	1.5
	Yr%	3.1	4.1
Non-tradables	Qtr%	1.1	0.6
	Yr%	3.5	3.4
Tradables	Qtr%	0.7	2.7
	Yr%	2.5	4.9

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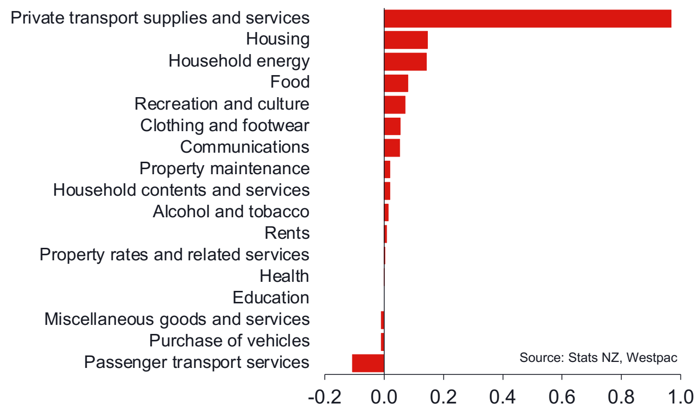
Key drivers

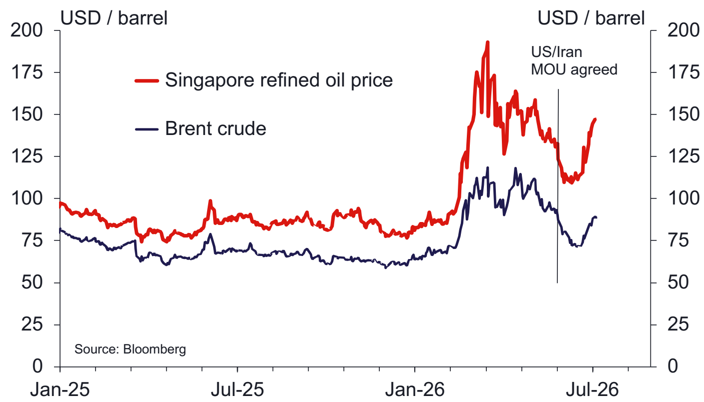
Energy and food costs pushed inflation higher.

- The main driver of June's spike in consumer prices was the sharp rise in fuel prices since the start of the Middle East war. Petrol prices rose 20% over the June quarter and diesel prices were up an eye-watering 47%.
- Electricity prices rose 4% over the June quarter and are up 12% over the past year. That was slightly lower than the 12.5% rise in the year to March. But before that the last time we saw increases this large was 1989.
- Food prices rose 0.4% over the quarter and were up 2.8% over the past year.
- Notably, the June quarter also saw a 1.6% rise in the cost of a newly built home following very muted gains over the past year. Construction firms have reported increases in building costs in recent months, with at least some of that stemming from the increase in global oil prices. That's flowed through to higher transport costs, as well as higher costs for materials like PVC piping.

Contributions to June quarter inflation (percentage points)



Oil prices

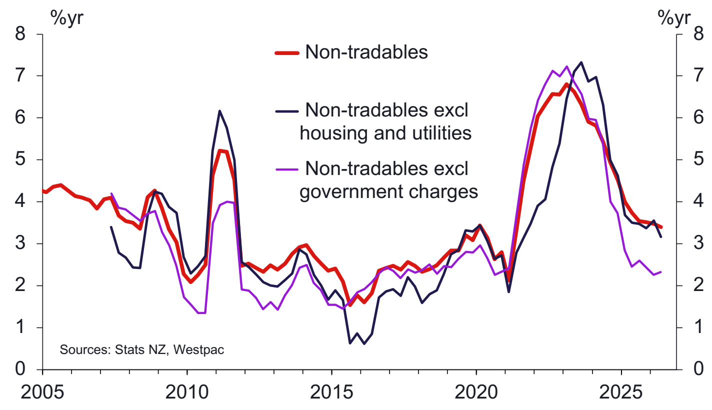


Tradables and non-tradables

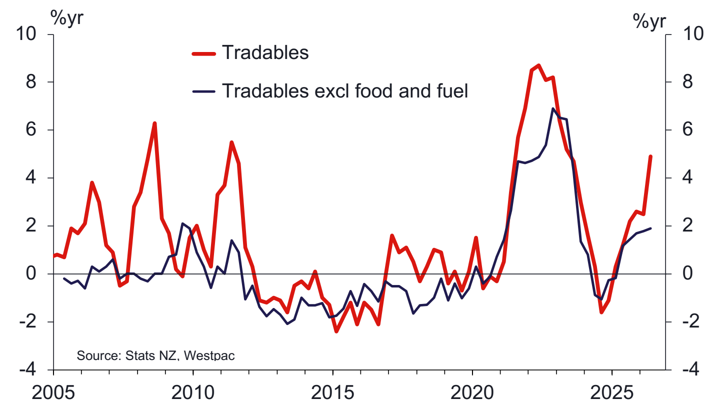
Domestic pressures firm but contained, while imported pressures are pushing higher.

- Prices in the domestically oriented non-tradables group rose 0.6% over the quarter (as expected). That saw annual non-tradables inflation edging down just slightly to 3.4% from 3.5% last quarter.
- While there continues to be firmness in administered prices (like household energy and local council rates), other domestic prices have been easing. In part, that's due to the softness in housing rents. However, the cooling in domestic prices has been more widespread, with non-tradables excluding housing and utilities costs (which also omits rates) slowing to 3.2%yr, down from 3.5% in the year to March.
- On the imported front, tradables prices rose by 2.7% over the June quarter (just slightly more than expected). Tradable prices were up 4.9% over the past year. That's up sharply from the 2.5% rise in the year to March.
- Higher fuel costs have been a significant driver of the rise in imported inflation. However, the lower New Zealand dollar is also playing an important role, with the NZD trade-weighted exchange rate down almost 4% over the past year. Excluding food and fuel costs, tradables prices were up 1.9% over the past year – the largest rise since 2023. Furthermore, with significant increases in operating costs in the wake of the Middle East war, imported inflation pressures are set to remain firm over the coming months.

Non-tradables inflation



Tradables inflation



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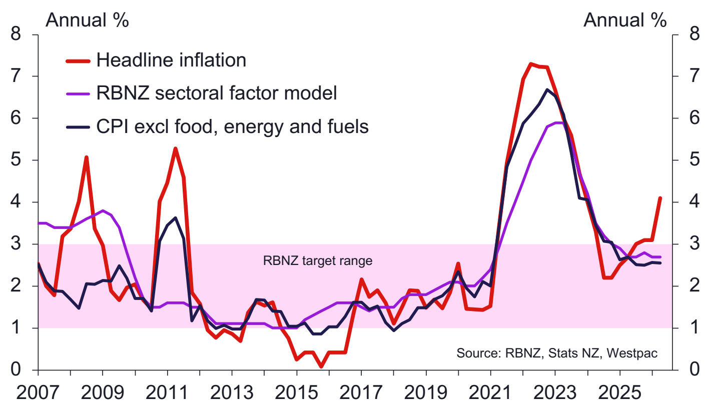
Core inflation

Underlying inflation pressures contained for now.

- While fuel prices did push inflation sharply higher over the past few months, a key focus for the RBNZ is what's been happening to other prices in the economy. In particular, are we seeing signs of a broader pick-up in inflation pressures?
- At this stage, we're not seeing signs that fuel prices are spilling over into a more generalise increase in inflation. Most key measures of core inflation remained contained within the RBNZ target band, and several edged back slightly.
- Stats NZ produces a measure of inflation excluding food, household energy, vehicle fuels and government charges. While that excludes a lot of essential household spending, the remaining prices still account for two-thirds of the CPI, and those prices are likely to be ones that are related to the strength of demand and the labour market. Prices in this group were up 2% over the past year and have been tracking around this level for the past two years.
- While measures of core inflation are tracking within the RBNZ's target band, they're not 'low'. Despite a sharp slowdown in economic growth and softness in the labour market, the various measures of core inflation have lingered above the 2% midpoint of the RBNZ's target range for an extended period.

Headline and core inflation



Core inflation measures (annual)

	Mar	Jun
CPI ex-fuel inflation	3.2	2.9
CPI ex-fuel and food	3.0	2.9
CPI ex-fuel, food and household energy	2.6	2.5
30% trimmed mean	2.3	2.6
RBNZ sectoral factor model	2.7	2.7

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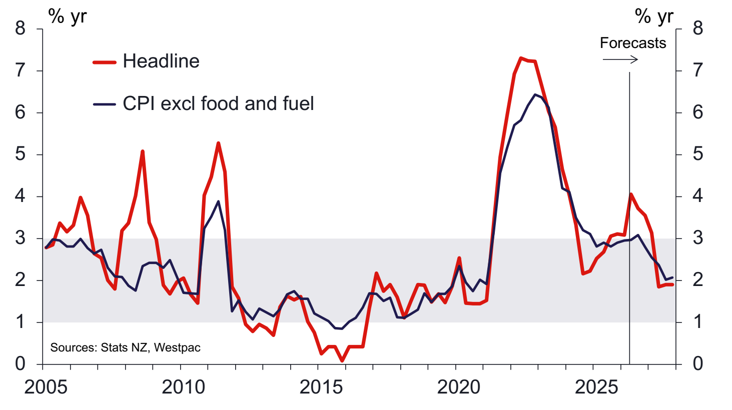
Outlook

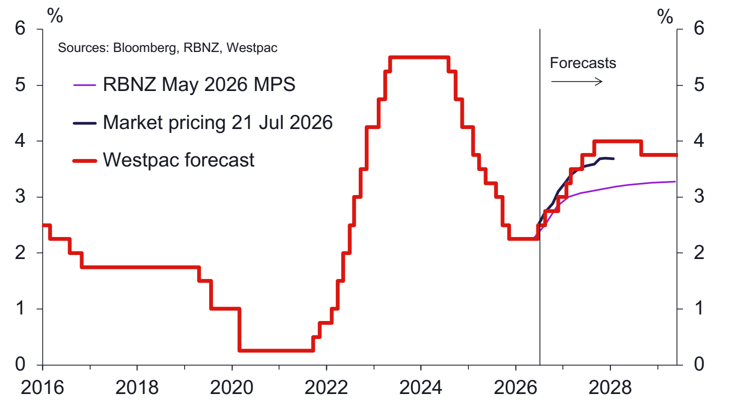
Gradual easing in inflation, measured hikes in interest rates.

- The June quarter result is likely to be the peak in the inflation cycle (though that will depend on what happens in the Middle East and the related impacts on oil prices). Even so, headline inflation is likely to remain above 3% through the latter part of the year.
- We continue to expect that the RBNZ will deliver further increases in the OCR through the back part of the year. While we did not see a pick up in underlying inflation, measures of core inflation remain firm. And with high oil prices pushing higher again, the RBNZ will remain conscious of the risk of a broadening in inflation pressures.
- Interest rate increases are likely to be at a measured pace, dependent on the strength of economic conditions more generally. We continue to expect that 25bp hikes are most likely at the RBNZ's September and December policy meetings.

Inflation forecasts



Official Cash Rate forecasts



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