

# Research Economy Watch

18 January 2024

## Inflation decline accelerating

- We pick 0.5% for Q4 CPI
- Non-tradables still too high for RBNZ
- But should it really be so concerned?
- We lower our Q1 CPI forecast
- Back into the target band before too long

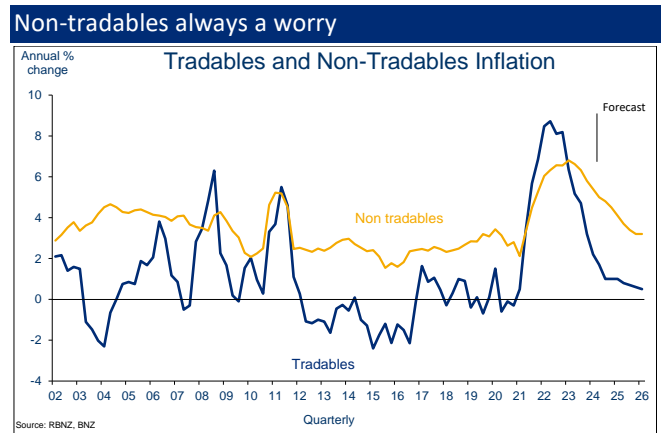
Our expectations for next week's Q4 Consumer Price Index are unchanged following the release today of December month selected price indexes by Statistics New Zealand. There were the usual unders and overs in the outcomes relative to our forecasts but, on balance, nothing to change our view of a 0.5% quarterly increase for the quarter, delivering a 4.7% annual movement.

As we have noted previously, if we are right the quarterly outturn will be 0.3% below the RBNZ's 0.8% pick. This is a meaningful difference. Those unaware of the idiosyncrasies of the Reserve Bank of New Zealand might easily conclude that such a difference would have our central bank moving towards a more dovish tilt. But, following the downside surprise to the Q3 CPI, the RBNZ played down the outcome because it was driven by inflation declines in the tradables sector.

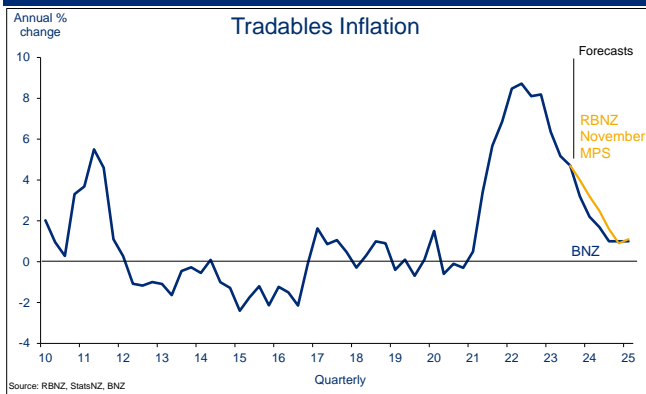
It will be no different this time around. Our tradables/non tradables breakdown has been adjusted slightly in light of today's data but it's still tradables doing most of the work in getting headline inflation down. We are looking for tradables prices to fall 0.1% in the quarter. This is miles away from the RBNZ's November MPS forecast of 0.7%. In contrast, we think non-tradables inflation will be 0.1% higher than the RBNZ's 1.0% projection.

In short, don't expect the Q4 outturn to have the RBNZ rushing to lower rates. Indeed, we wouldn't be surprised if we get some push back from the Bank when Chief Economist Paul Conway delivers his January 30 speech.

We continue to question the value of the non-tradables\tradables split. We think the difference between the two is too blurred in many instances. Even in the non-tradables sector, tradables prices can have a substantial impact on non-tradables prices. Moreover, a significant proportion of non-tradables prices are unrelated to the domestic demand conditions that the RBNZ can influence. And here's an interesting stat for you, since the beginning of the century non-tradables inflation has averaged 3.4% while tradables has averaged just 1.4%. Surely there must be some acceptance that non tradables will tend to remain stickily high?



### All about tradables



Now we are not arguing that the RBNZ should ignore the price pressures from this sector, nor are we suggesting it should be comfortable with inflation at current lofty levels, but we do believe it should focus less on non-tradables. As an aside, we don't see many central banks around the planet talking about the importance of this split. Indeed, we can't think of any that have made much of it in the recent past.

We are, however, very much believers in the importance of core inflation in its various guises and are keen to see what comes of these measures when the data are published next week.

While the December month data has not changed our view of this quarter's CPI it has, nonetheless, caused us to revise down our forecasts for Q1. That's because the starting point for the quarter is lower than we had anticipated albeit not enough to move the dial for Q4. We are thus lowering our Q1 CPI forecast to 0.6% (from 0.9%) which drops the annual to 4.0%. This does not meaningfully change our medium-term view but does increase the chances that annual inflation will be back within the target band before the end of this year.

So far this year's data have been on the soggy side in terms of economic activity and is broadly suggestive of a lower headline inflation profile than was previously the case. The good news is that this should be sufficient to stop the Reserve Bank from hiking rates at its February meeting but, given the way that it appears to be interpreting the data at the moment it seems unlikely the Bank will want to condone in any way the almost 100 basis points of rate cuts currently priced in by the market for the remainder of this year.

[stephen\\_toplis@bnz.co.nz](mailto:stephen_toplis@bnz.co.nz)



# Contact Details

## BNZ Research

**Stephen Toplis**

Head of Research  
+64 4 474 6905

**Doug Steel**

Senior Economist  
+64 4 474 6923

**Jason Wong**

Senior Markets Strategist  
+64 4 924 7652

**Stuart Ritson**

Senior Interest Rate Strategist  
+64 9 9248601

**Mike Jones**

BNZ Chief Economist  
+64 9-956 0795

## Main Offices

**Wellington**

Level 2, BNZ Place  
1 Whitmore St  
Private Bag 39806  
Wellington Mail Centre  
Lower Hutt 5045  
New Zealand  
Toll Free: 0800 283 269

**Auckland**

80 Queen Street  
Private Bag 92208  
Auckland 1142  
New Zealand  
Toll Free: 0800 283 269

**Christchurch**

111 Cashel Street  
Christchurch 8011  
New Zealand  
Toll Free: 0800 854 854

This document has been produced by Bank of New Zealand (BNZ). BNZ is a registered bank in New Zealand and is only authorised to offer products and services to customers in New Zealand.

**Analyst Disclaimer:** The Information accurately reflects the personal views of the author(s) about the securities, issuers and other subject matters discussed, and is based upon sources reasonably believed to be reliable and accurate. The views of the author(s) do not necessarily reflect the views of the NAB Group. No part of the compensation of the author(s) was, is, or will be, directly or indirectly, related to any specific recommendations or views expressed.

BNZ maintains an effective information barrier between the research analysts and its private side operations. Private side functions are physically segregated from the research analysts and have no control over their remuneration or budget. The research functions do not report directly or indirectly to any private side function. The Research analyst might have received help from the issuer subject in the research report.

**New Zealand:** The information in this publication is provided for general information purposes only, and is a summary based on selective information which may not be complete for your purposes. This publication does not constitute any advice or recommendation with respect to any matter discussed in it, and its contents should not be relied on or used as a basis for entering into any products described in it. Bank of New Zealand recommends recipients seek independent advice prior to acting in relation to any of the matters discussed in this publication.

Any statements as to past performance do not represent future performance, and no statements as to future matters are guaranteed to be accurate or reliable.

Neither Bank of New Zealand nor any person involved in this publication accepts any liability for any loss or damage whatsoever which may directly or indirectly result from any advice, opinion, information, representation or omission, whether negligent or otherwise, contained in this publication.

**USA:** If this document is distributed in the United States, such distribution is by nabSecurities, LLC. This document is not intended as an offer or solicitation for the purchase or sale of any securities, financial instrument or product or to provide financial services. It is not the intention of nabSecurities to create legal relations on the basis of information provided herein.