

Research Economy Watch

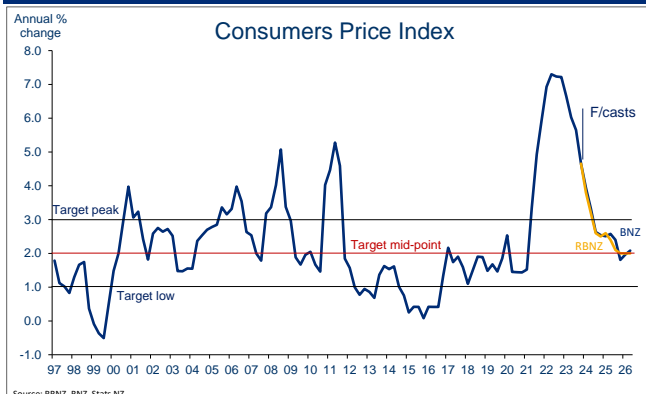
17 April 2024

CPI Nothing to Write Home About

- **CPI rises 0.6% quarter, 4.0% for the year**
- **Higher than RBNZ's published forecast**
- **But the Bank saw it coming when doing the April Monetary Policy Review**
- **CPI still headed into target range in Q3**
- **A precursor to rate cuts**

There was nothing in today's CPI release that should have changed anyone's view of the world. The 0.6% increase in the March quarter was bang on consensus as was the 4.0% annual reading. Sure, the numbers were greater than the RBNZ projected when it produced its February Monetary Policy Statement but, in our opinion, it's not enough to spook the Bank.

No discernible difference



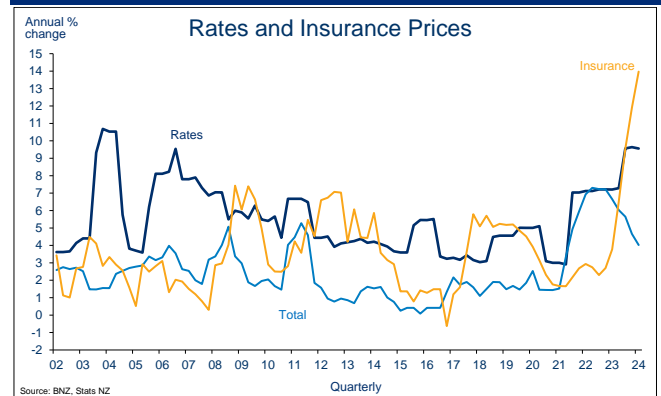
To start with, don't forget that when the RBNZ produced its April Monetary Policy Review (MPR) it warned there was a good chance inflation would print higher than it had anticipated. And, yet, even with that acknowledgement, the Bank still chose to produce a statement that was mildly more dovish than its February missive. We thus doubt today's outturn was much of a surprise to the folk at the RBNZ.

One also has to take into consideration what's driving the variation. Overseas accommodation prepaid in New Zealand rose 6.8% in the quarter and contributed 0.13 of the 0.63 quarterly movement. This is the sort of thing that should be looked through.

Some will focus on the fact that the 1.6% increase in non-tradables inflation came in well above the RBNZ's 1.1% projection. In times gone by we too would have focussed

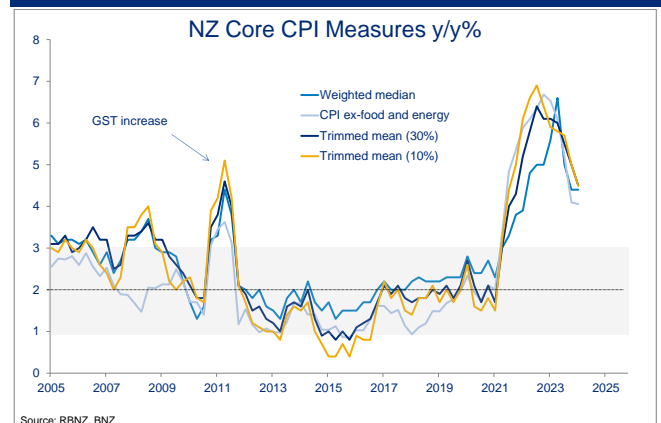
on this but we got the feeling from the April MPR that the Bank had started to place less relevance on the non-tradables measure. We certainly think this would be an appropriate stance to take given that many of the significant current drivers of non-tradables inflation, such as insurance, rates and tobacco taxes, are largely unaffected by monetary policy.

RBNZ's frustration



More important to us is what the core measures are doing. In this regard, while the broader trends in these measures are still downward there was the sense that the decline took a pause in the quarter. Annual inflation in the 10% trimmed mean did fall to 4.5% from 5.0% but the weighted median got stuck on 4.4% and CPI ex food and energy stalled at 4.1%. We wait with interest to see what the RBNZ's sectoral model produces this afternoon.

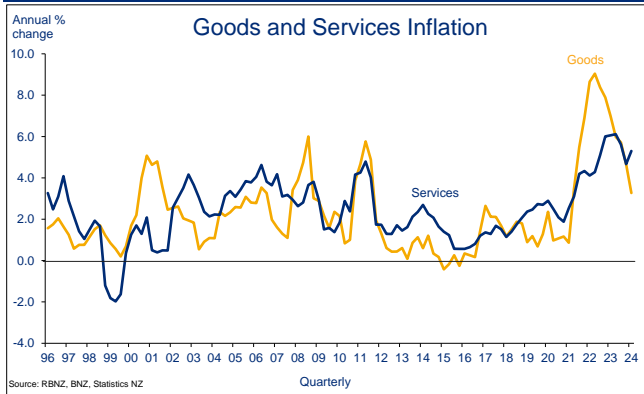
Core the key



The RBNZ should be overjoyed with the trend in goods prices. The 0.3% quarterly increase comes on the back of a 0.1% increase in the December 2023 quarter. Annual goods price inflation fell to 3.3% from 4.7% a quarter ago and a peak of 9.0% back in Q2 2022.

What the Bank will be less enamoured with is that services inflation remains elevated at an annual 5.3%. Some of this reflects the same factors that are “distorting” non-tradables but strength in wage flow-on into services prices, still elevated construction cost inflation (albeit rapidly falling) and elevated rent inflation will all be disconcerting for the Monetary Policy Committee.

Services a nuisance



So, while we believe there was nothing in today’s data that might spook the central bank, equally, there was nothing in the data that would have the Bank scurrying to bring forward its rate cut agenda.

We still believe the Bank can cut rates before the end of this year but that’s because we, and the Bank, are forecasting that annual inflation will be well within its 1.0% to 3.0% target band when the September quarter CPI is published in October.

In light of today’s data we will have another close look at our inflation trajectory but, as things stand, our initial expectation is that prices will rise 0.5% in the June quarter taking the annual reading down to 3.4%.

stephen_toplis@bnz.co.nz

Contact Details

BNZ Research

Stephen Toplis
Head of Research

Doug Steel
Senior Economist

Jason Wong
Senior Markets Strategist

Stuart Ritson
Senior Interest Rate Strategist

Mike Jones
BNZ Chief Economist

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.