

December 2024 Quarter CPI Preview

16 January 2025



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Contact

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Consumers Price Index – December 2024 Quarter

	Prev	ANZ	RBNZ
CPI – q/q	0.6%	0.5%	0.4%
CPI – y/y	2.2%	2.2%	2.1%
Non-tradables – q/q	1.3%	0.8%	0.8%
Non-tradables – y/y	4.9%	4.7%	4.7%
Tradables – q/q	-0.2%	0.2%	-0.2%
Tradables – y/y	-1.6%	-1.2%	-1.5%

Underlying disinflation continues

The bottom line

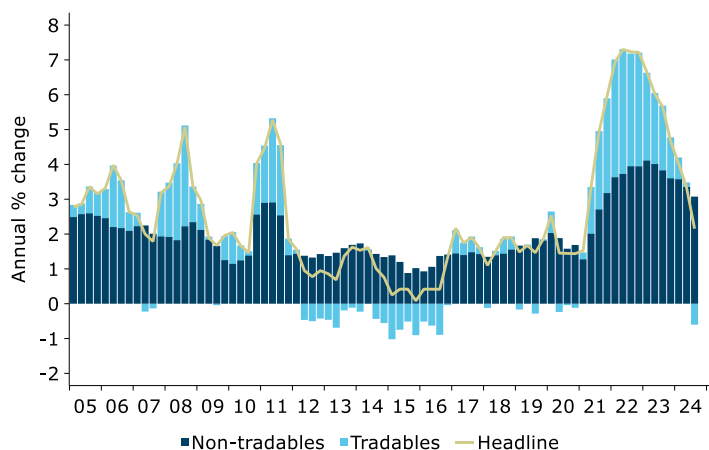
- Annual CPI inflation is expected to have ended 2024 at 2.2% (+0.5% q/q), unchanged from Q3 and a touch above the RBNZ's forecast of 2.1% y/y (0.4% q/q).
- Non-tradable (domestically driven) inflation is expected to come in at 0.8% q/q (4.7% y/y), in line with the RBNZ's forecast.
- Tradable (largely imported) inflation is expected to print at +0.2% q/q (-1.2% y/y), stronger than the RBNZ's forecast of -0.2% q/q.
- The key measures of core inflation that Stats NZ produce are expected to land within the upper half of the 1-3% target band.
- For the RBNZ, an outturn close to our expectation is unlikely to take a 50bp cut in February off the table. Beyond that, the trajectory for core and potentially-sticky domestic (non-tradable) inflation will determine where the OCR eventually settles.

Big picture

The Q4 CPI data will be released at 10:45am Wednesday 22 January. We expect annual headline inflation to come in unchanged at 2.2%, with non-tradable inflation continuing its gradual deceleration (while remaining well above the goldilocks ~3% level that's typically been associated with headline inflation running around 2%).

Annual tradable inflation is expected to lift slightly, but remain negative, buying the RBNZ time for growth in domestic (non-tradable) prices to continue slowing as tight monetary conditions do their work. But as figure 1 shows, tradable deflation is typically short-lived, meaning the RBNZ still needs to see further progress on the non-tradables front over 2025. And with recent GDP data and key capacity indicators (eg out of the NZIER's QSBO) suggesting the economy is operating with a considerable degree of spare capacity, we think they'll get it.

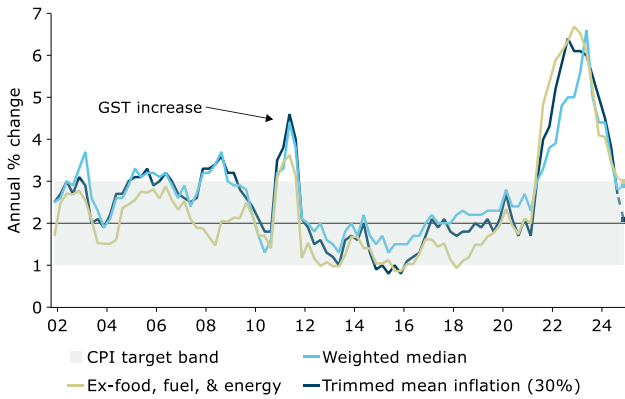
Figure 1. Tradables and non-tradables contribution to annual inflation



Source: Stats NZ, Macrobond, ANZ Research

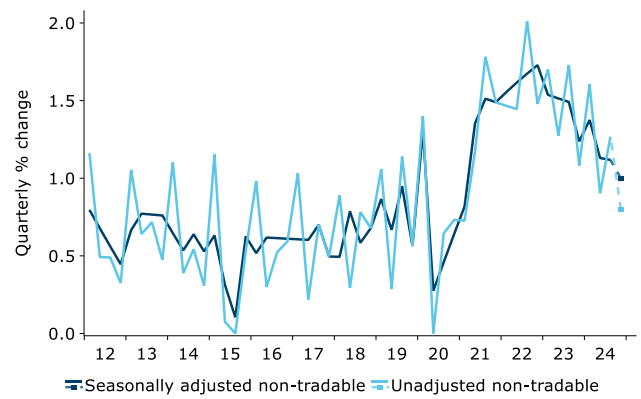
Core measures of inflation, such as inflation excluding food, fuel and energy, the 30% trimmed mean, and the weighted median are expected to land within the upper half of the 1-3% target band (figure 2). Seasonally adjusted non-tradable inflation is expected to come in around 1.0% q/q, slower than Q3's 1.1% but still above the pre-pandemic average (figure 3).

Figure 2. Core inflation measures



Source: Stats NZ, Macrobond, ANZ Research

Figure 3. Seasonally adjusted non-tradable inflation



Source: Stats NZ, Macrobond, ANZ Research

Looking to the CPI outlook for 2025, it's fair to say that recent NZD weakness and strength in oil prices could see annual headline inflation reaccelerate for a time. For the RBNZ that would become concerning if inflation expectations followed suit. However, it's very common for tradable inflation to prove more volatile than forecast (given how hard it is to forecast the exchange rate and global commodity prices), and the RBNZ tends to look through the bulk of temporary fluctuations in tradable prices.

The pace of disinflation across non-tradable and core inflation measures is ultimately going to determine where the OCR settles. At the current juncture, indicators for the output gap suggest further disinflation across these measures will continue over 2025. The RBNZ's task is to get these measures to eventually stabilise at a level consistent with headline inflation running at 2% beyond 2025 (ie once all the noise in tradable inflation has washed out). Working to their central assumption that the neutral OCR is around 3%, a higher tradable inflation outlook for 2025 than previously thought is unlikely to take a 50bp cut in February off the table, but an upwards recalibration to the non-tradable and core inflation outlook could certainly see the RBNZ reassess how low the OCR eventually goes this year. Given upside sticky domestic inflation risks, we remain comfortable with our terminal OCR assumption of 3.5%.

The details

Breaking down our forecast for headline inflation to come in at 0.5% q/q:

- **The transport group** (typically one of the more volatile components of the CPI) is expected to make a 0.1% pt contribution to headline inflation as weaker petrol prices (-1.3% q/q) are more than offset by seasonally higher prices for air travel (domestic up 9.4% q/q, international up 6.9% q/q).
- **Housing-related costs** are expected to add 0.1% pts to the quarterly headline figure. Rents are expected to have lifted 0.8% q/q, but there is a little more uncertainty here than usual after changes in MBIE's tenancy bond lodgement system resulted in the exclusion of a rents index in the December SPI. The cost of building a new house is expected to lift 0.5% q/q. This is well below its historical average pace of 1.2% q/q, reflecting weak residential investment demand.

- The **recreation and culture** group is expected to make a 0.1% point contribution, driven by a 2.3% q/q rise in overseas accommodation and a 6.2% q/q rise in domestic accommodation.
- **Miscellaneous goods and services** are expected to add 0.1%pts to headline inflation, mostly reflecting continued strength in insurance.
- **The health group** is expected to add 0.04%pts, as the aging population continues to keep pressure on demand for health services.
- **Food price inflation** is expected to subtract 0.1%pts, owing largely to the seasonal decline in fruit and vegetable prices.
- **The remaining groups** are expected to make small contributions (table 1).

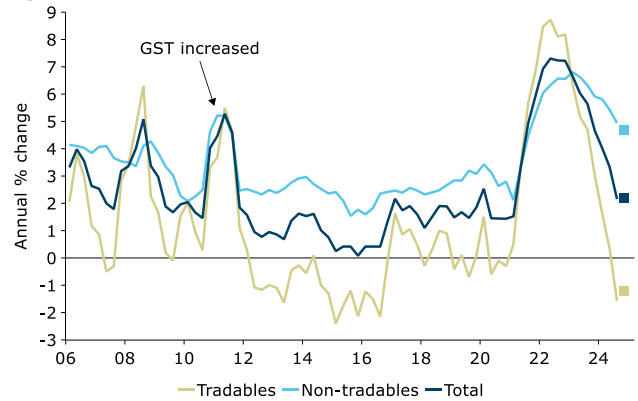
Table 1. ANZ Q4 CPI component-level forecast

	%	q/q%	%pt cont.
Total		0.5	0.52
Transport		0.8	0.15
Housing & Household Utilities		0.4	0.15
Recreation & Culture		1.2	0.14
Miscellaneous Goods & Services		1.0	0.09
Health		1.0	0.04
Communication		0.9	0.02
Household Contents & Services		0.4	0.02
Clothes & Footwear		0.4	0.02
Alcoholic Beverages & Tobacco		0.1	0.01
Education		0.0	0.00
Food		-0.5	-0.11

■ Quarterly % change ■ Percentage point contribution

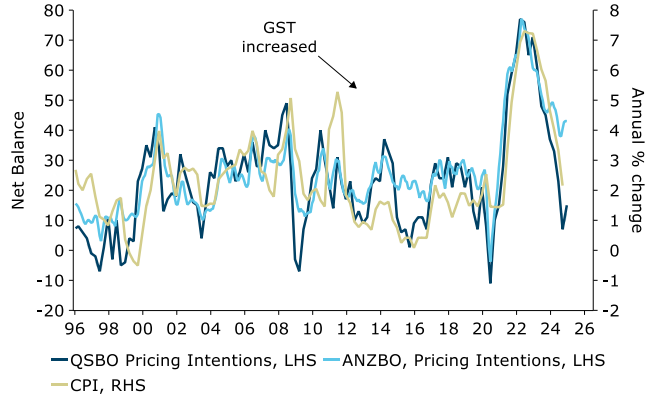
Source: Stats NZ, Macrobond, ANZ Research

Figure 4. CPI inflation measures



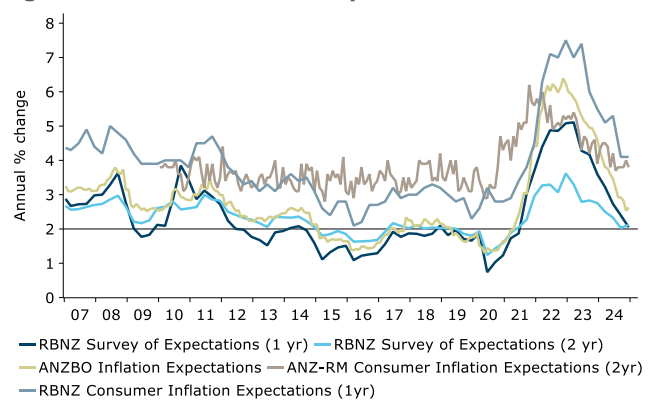
Source: Stats NZ, Macrobond, ANZ Research

Figure 5. Inflation and pricing intentions



Source: NZIER, Stats NZ, Macrobond, ANZ Research

Figure 6. Selected inflation expectations measures



Source: RBNZ, Roy Morgan, Macrobond, ANZ Research



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