March 2025 Quarter CPI Preview

10 April 2025

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Consumers Price Index – March 2025 Quarter

	Prev	ANZ	RBNZ
CPI – q/q	0.5%	**0.8%**	**0.8%**
CPI – y/y	2.2%	**2.4%**	**2.4%**
Non-tradables - q/q	0.7%	**0.9%**	**0.9%**
Non-tradables - y/y	4.5%	**3.8%**	**3.8%**
Tradables - q/q	0.3%	**0.6%**	**0.7%**
Tradables - y/y	-1.1%	**0.2%**	**0.3%**

Headline up, underlying trend down

The bottom line

- Annual CPI inflation is expected to have accelerated 0.2%pts to 2.4%, unchanged from our previously published pick and in line with the RBNZ's February MPS forecast.
- Under the hood, annual non-tradable inflation is expected to slow 0.7%pts to 3.8% (unchanged from previous and in line with the RBNZ) as tradable inflation accelerates 1.3% pts to 0.2% (a smidgen below the RBNZ's forecast of 0.3% y/y).
- There are a few quirks this quarter. Our forecast incorporates updated CPI weights (out today), and also carries a little more uncertainty than is typical this far out from release day – we don't yet have the March SPI data.
- Given downside risks to the medium-term outlook (owing to US tariff policy and the subsequent hit to economic confidence), an upside surprise on the day could be looked through by the market and policy makers alike. Conversely, a downside surprise is less likely to be dismissed.

Some quirky things you should know

Stats NZ published tables from the latest CPI review today, which included updated weights (based on changes in household spending patterns) and added some new items into the CPI basket while taking some out (we'll get more info on this alongside the Q1 CPI release). The net impact of weight changes on our Q1 CPI forecast was minimal, not moving the dial at 1dp.

Our first run over these weight changes also suggests minimal impact on the medium-term outlook, with a mix of ups and downs across some of the components of the CPI basket (council rates, insurance, household energy) that we expect to be relatively elevated over the forecast horizon and less sensitive to changes in the OCR (ie. non-market prices). We will undertake further analysis of the weight changes prior to updating our medium-term CPI forecast following the Q1 release. Any material implications for the medium-term outlook will be discussed in that forecast update, which, given the upcoming Easter holiday season, won't be until our Data Wrap 24 April.

Another quirk we've had to manage this quarter is the delayed release of the Selected Price Indexes for the final month of the quarter – these data are usually out by now but have been delayed until two days prior to the CPI release (ie 15 April). Further, the February SPI release didn't include the rental price index, but we expect to get that on the 15th too. Many of our stakeholders prefer having a CPI forecast a week ahead of the big day, so we've provided that based on our forecast for the March SPI and February rents. We will deal with any implications to our forecast in our Quick Reaction to these data next Tuesday.

For the March SPI, we expect our CPI-weighted index to fall 0.3% m/m as weaker petrol prices (-4% m/m) and a seasonal decline in accommodation services offset a small rise in food (0.4% m/m) and rents (+0.2% m/m). Airfares are expected to be mixed (domestic up, international down). Our placeholder for rents in February is +0.2% m/m. It's also worth noting that the SPI data tends to carry more volatility across the components than we can confidently incorporate into a forecast, with airfares, accommodation and petrol being the usual culprits.

Big picture

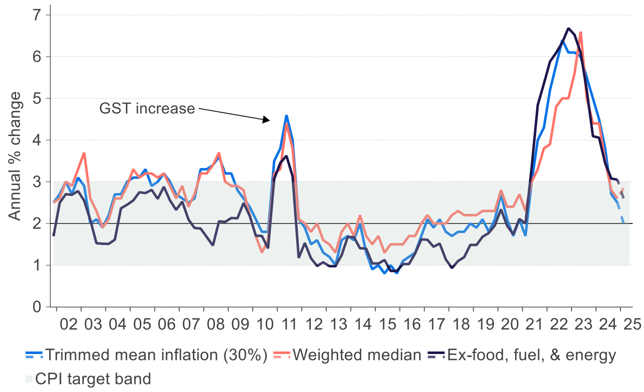
The Q1 CPI data will be released at 10:45am Thursday 17 April. We have pencilled in an acceleration in headline inflation from 2.2% in Q4 to 2.4%, as rising tradeable inflation offsets ongoing non-tradable disinflation.

As always, the RBNZ will be most concerned with the signal these data provide for the trajectory for underlying inflation – a signal that typically comes from non-tradable, services, and core inflation measures.

Annual non-tradable is expected to slow 0.7% pts to 3.8%. That's good progress from its peak of 6.8% y/y in March 2023, but still north of the ~3% goldilocks zone that has historically been consistent with headline inflation around 2%. But with indicators of spare capacity (including from the labour market) continuing to signal further domestic disinflation ahead and downside growth risks intensifying, we think the RBNZ can be confident that underlying disinflation progress will continue.

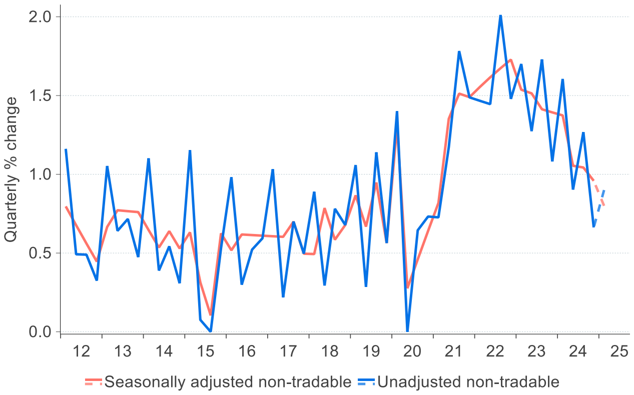
Core measures of inflation, such as inflation excluding food, fuel and energy, the 30% trimmed mean, and the weighted median are expected to land within the upper half of the 1-3% target band (figure 2). Seasonally adjusted non-tradable inflation is expected to come in around 0.8% q/q, slower than Q4's 1.0% but still above the pre-pandemic average (figure 3).

Figure 1. Core inflation measures



Source: Stats NZ, RBNZ, Macrobond, ANZ Research

Figure 2. Seasonally adjusted non-tradable inflation



Source: Stats NZ, Macrobond, ANZ Research

The more volatile tradable side of the CPI basket is expected to pivot from drag to driver in Q1, lifting from -1.1% y/y in Q4 to +0.2% y/y. That relatively sharp turn is expected to more than offset non-tradable disinflation, and push headline inflation higher. Importantly, the RBNZ is very likely to look through near term strength in tradable inflation as this is the type of inflation that doesn't tend to stick around.

Looking forward, there's a lot more to the CPI outlook than what the starting point implies for the trajectory of underlying inflation. US tariffs and subsequent global market wobbles are going to have some impact. Oil prices are lower, but the NZD can also be relied on to do its job (remain weak when NZ's earning capacity is diminished and at times of uncertainty). And while the direct impacts of US tariffs on NZ are expected to be relatively small, and many of the direct impacts on our largest trading partners can be at least partially offset by macroeconomic policy, the potential confidence impacts are a lot harder to quantify at this stage. These could be minor (ie not passing the hurdle to cut the OCR 25bp more than otherwise) or they could be quite significant.

For New Zealand, the magnitude of the impact from the "confidence shock" could easily be larger than the direct and indirect impacts of tariffs. But these confidence impacts will depend on the extent firms delay plans to invest and hire, and the extent households delay consumption. And that, in turn, will depend on how long global market volatility and uncertainty remains heightened. Putting it all together, it's fair to assume that because of recent global wobbles the outlook for activity and medium-term inflation will be weaker than otherwise, but the magnitude of the impact is still not clear. We will incorporate these developments into our CPI forecast as best we can once we have the Q1 data in the bag.

The details

Breaking down our forecast for headline inflation to come in at 0.8% q/q:

- **The food group** is expected to rise 1.6%, adding 0.3%pts to quarterly inflation and reflecting a seasonal rise in fruit and vegetables and grocery food. Of note, restaurant and ready to eat meals are expected to rise a relatively modest 0.3% q/q – the weakest quarterly rise for this group since Q3 2014 and likely reflecting relatively modest wage growth.

- **The transport group** (typically one of the more volatile components of the CPI) is expected to rise 0.7% q/q, making a 0.2% pt contribution to headline inflation, driven by stronger petrol prices (up 4% q/q). Seasonally lower prices for international air travel (down 7% q/q) are expected to provide some offset.

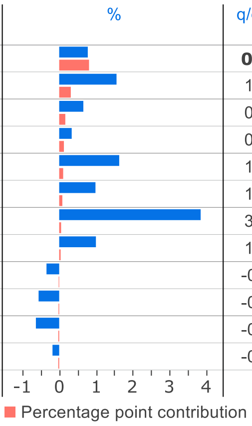
- **The alcoholic beverages and tobacco group** is expected to rise 1.6% q/q, adding 0.1%pts. This is driven largely by higher cigarettes and tobacco prices (up 3.8% q/q) following the annual increase in excise tax (which is indexed to September quarter CPI inflation).

- **Housing-related costs** are expected to add 0.1% pts to the quarterly headline figure. Rents are expected to have lifted 0.5% q/q and the cost of building a new house is expected to lift 0.2% q/q, well below its historical average pace of 1.2% q/q.

- **Miscellaneous goods and services** are expected to add 0.1%pts to headline inflation, mostly reflecting continued strength in insurance.

- **The remaining groups** are expected to make small contributions (table 1).

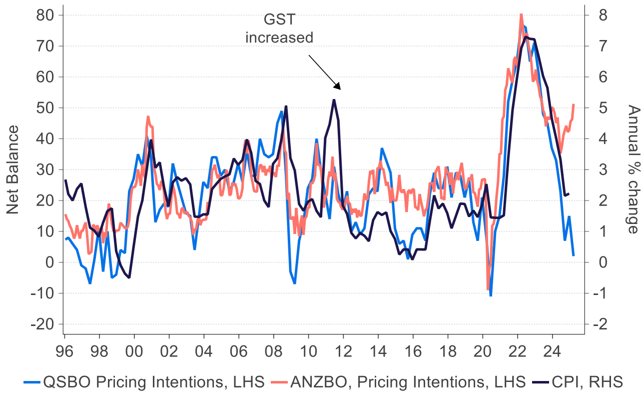
Table 1. ANZ Q1 CPI component-level forecast



	q/q%	%pt cont.
Total	**0.8**	**0.81**
Food	1.6	0.32
Transport	0.7	0.17
Housing & Household Utilities	0.3	0.13
Alcoholic Beverages & Tobacco	1.6	0.11
Miscellaneous Goods & Services	1.0	0.09
Education	3.8	0.05
Health	1.0	0.04
Clothes & Footwear	-0.3	-0.01
Communication	-0.6	-0.02
Household Contents & Services	-0.6	-0.02
Recreation & Culture	-0.2	-0.03

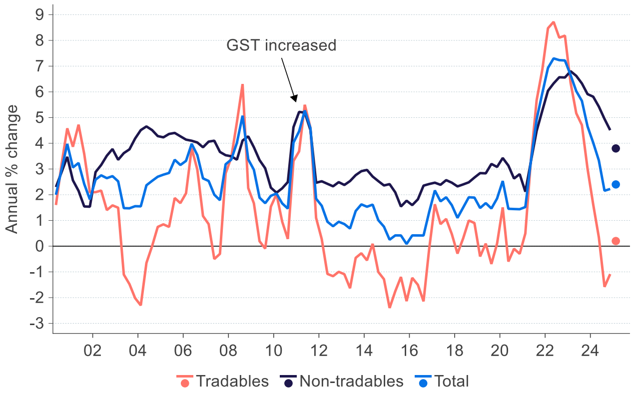
Source: Stats NZ, Macrobond, ANZ Research

Figure 3. Inflation and pricing intentions



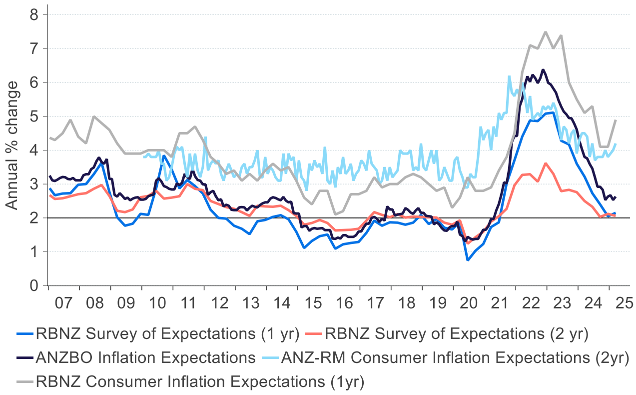
Source: NZIER, Stats NZ, Macrobond, ANZ Research

Figure 4. CPI inflation measures



Source: RBNZ, Stats NZ, Macrobond, ANZ Research

Figure 5. Selected inflation expectations measures



Source: Stats NZ, RBNZ, Macrobond, ANZ Research

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