



ECONOMIC BULLETIN

CPI review, March quarter 2025.



17 Apr 2025 | **Satish Ranchhod**, Senior Economist | +64 9 336 5668 | +64 21 710 852 | satish.ranchhod@westpac.co.nz

Inflation's contained, but set to linger above 2%.

Consumer price inflation

	Mar-25	Dec-24	Forecast	
			Westpac	RBNZ (Feb MPS)
Headline inflation				
Quarterly	0.9%	0.5%	0.8%	0.8%
Annual	2.5%	2.2%	2.4%	2.4%
Non-tradables inflation				
Quarterly	1.1%	0.7%	0.9%	0.9%
Annual	4.0%	4.5%	3.8%	3.8%
Tradables inflation				
Quarterly	0.8%	0.3%	0.7%	0.7%
Annual	0.3%	-1.1%	0.3%	0.3%

Consumer prices rose 0.9% in the March quarter. That saw the annual inflation rate rising to 2.5%, up from 2.2% in the year to December.

The March quarter inflation result was a little above the 0.8% rise that we and the RBNZ were expecting.

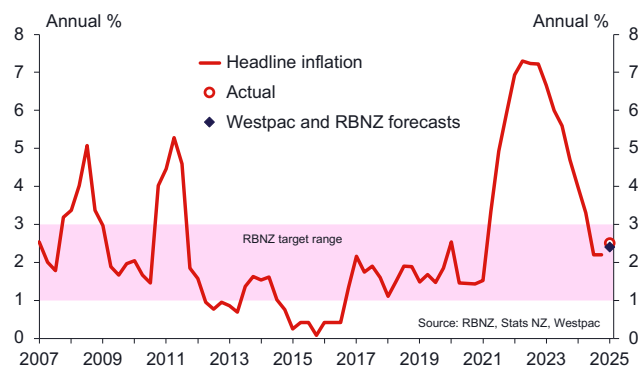
However, the RBNZ's forecast was finalised back in February. Since that time, we've seen large increases in the prices of volatile items like food and overseas holiday costs, which are not the key focus for monetary policy.

In addition, today's result was boosted by a change in how tertiary education costs are measured – if not for that change, inflation would have been as we forecast.

More generally, the underlying trend in inflation is looking well contained, with measures of core inflation trending back to levels consistent with the RBNZ's target band.

Looking ahead, inflation is likely to linger in the upper part of the RBNZ's target band over the remainder of this year, with the drop in the NZ dollar limiting the chances of inflation falling below 2%.

Annual headline inflation



What underpinned inflation in the March quarter?

Much of the rise in consumer prices in the March quarter was related to large price movements in a few specific areas:

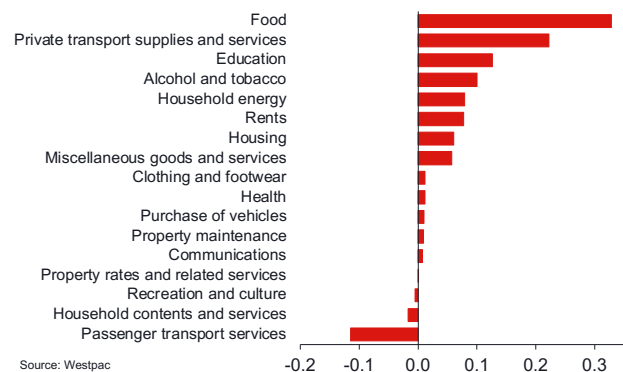
- Food prices (18% of the CPI) were the largest contributor to quarterly inflation, rising up 1.8% over the quarter. That was mainly due to a large 3% rise in grocery food prices, with higher prices for items like milk and cheese as dairy prices have risen.
- Petrol prices (3.5% of the CPI) were also a large contributor to inflation, with prices 4.6% higher in the March quarter than they were in December.
- There have also been increases in the cost of chocolate and other snack foods (just in time for the Easter holidays).
- The March quarter also saw the annual increase in the tobacco excise tax, with cigarette and tobacco prices up 3.8%.

Balanced against those price rises, the March quarter saw an 8% fall in international airfares, which typically decline at this time of year.

There were a couple of other notable price movements:

- There was a 23% increase in tertiary education costs. This was due to a measurement change related to how fee-free programs are measured. If not for this change, tertiary education costs would have been up 5%. This very large surprise accounts for the bulk of the upside surprise to our non-tradables forecast.
- Average housing rents were up 0.7% over the past three months. Rents are the largest component of the CPI and we typically see larger increases at this time of year. However, this year's increase was the lowest March quarter result since 2019.
- The cost of purchasing a newly built home was up 0.6% in March quarter and is up just 1.9% over the past year. That's the smallest annual increase since 2010 and reflects the protracted downturn in building activity over the past year. We're forecasting homebuilding activity will remain subdued over the year ahead.
- We also saw further solid increases in insurance premiums over the past three months. However, after very large increases over the past year, the pace of those rises is now easing off as many insurance policies have rolled on to higher premiums.

Contributions to March quarter inflation forecast (percentage points)



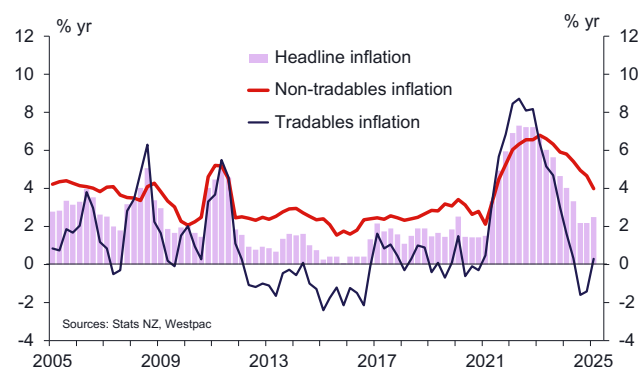
Annual and core inflation – Contained, despite quarterly volatility.

Annual inflation rose to 2.5% in the March quarter. That's up from 2.2% in the year to December, but still well within the RBNZ's 1% to 3% target band.

The recent uptick in annual inflation is due to a turn-around in tradable prices (mainly imported goods).

- Tradable prices rose 0.8% in the March quarter, leaving them up 0.3% over the past year. Looking at the longer-term trend, tradables inflation remains low, but prices aren't dropping like they did last year when the combination of lower import costs and soft domestic spending resulted in prices falling for many consumer goods, like furnishings and apparel.
- Looking ahead, we don't expect a return to the high rates of tradables inflation that we saw in the wake of the pandemic. However, with the drop in the NZ dollar since late last year and prices already picking up, tradables inflation is expected to continue pushing higher over the coming months. That's important as it will limit the downside for overall inflation over the remainder of this year.

Inflation components

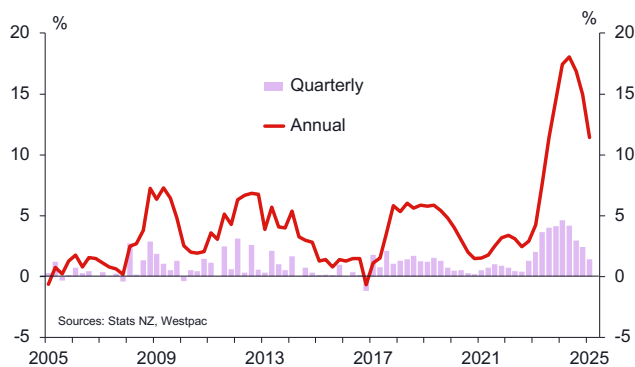


Domestic prices (aka. non-tradables) were also stronger than we or the RBNZ expected, with prices rising by 1.1% in the March quarter. In annual terms, non-tradables

inflation has cooled, but by less than expected, slowing to 4.0%, down from 4.5% in the year to December.

- As noted above, the stronger than expected non-tradables inflation in the March quarter was mainly due to the large increase in education costs, rather than increases in the more cyclical components of domestic prices.
- Looking at non-tradable prices more generally, we are seeing pressures easing, consistent with the softness in domestic activity which has seen muted growth in wages and service sector prices. We've also seen an easing in rents and subdued increases in the cost of new housing. Last, insurance costs, which have underpinned much of the strength in inflation over the past year, are also easing.

Insurance costs

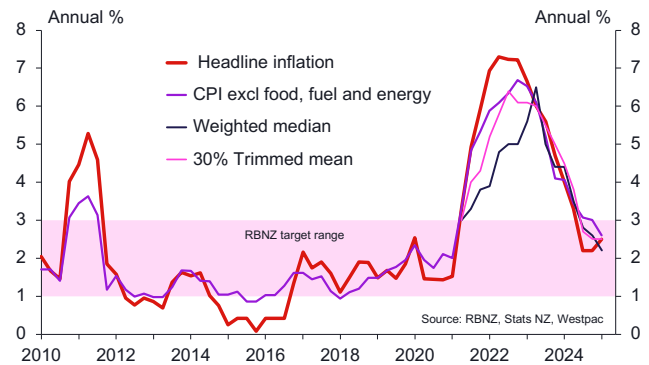


Looking at the longer-term trend in consumer prices, inflation pressures are looking well contained. That was evident in the various measures of core inflation which have continued to trend down and are now back inside the RBNZ's target band. (Core inflation measures smooth through volatile quarter-to-quarter movements and instead track the underlying trend in prices. They are a key focus for the RBNZ when assessing the strength of inflation pressures.)

In terms of specifics:

- Inflation excluding food, fuel and energy costs fell to 2.6% from 3.0% previously.
- Trimmed mean inflation fell to 2.3% from 2.4% previously.
- Weighted median inflation fell to 2.2% from 2.6%.

Core inflation



Outlook.

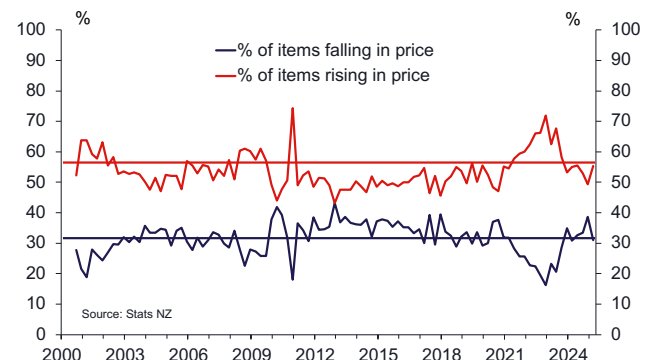
Inflation is comfortably inside the 1% to 3% target band, and we expect that it will remain there over the year ahead. Even so, it's likely to linger above 2%. While domestic price pressures are gradually easing, there are still some pockets of pressure (like local council rates). In addition, imported price pressures won't be the large drag that they were last year.

Importantly, the drop in the New Zealand dollar since late last year will add to import costs over the coming quarters, and that will limit the downside for inflation over the remainder of this year.

That picture of a floor in inflation was also evident in the distribution of price changes – the number of goods that rose in prices picked up, while the number that recorded a decline fell.

We're now watching to see how the domestic economy responds to the sharp easing in borrowing costs which is working its way through the economy. And of course, we're keeping a close eye on global conditions and the New Zealand dollar which are clouding the longer-term outlook for imported inflation.

Distribution of price changes – pricing behaviour has normalised



CONTACT

Westpac Economics Team | westpac.co.nz/economics | economics@westpac.co.nz

Kelly Eckhold, Chief Economist | +64 9 348 9382 | +64 21 786 758 | kelly.eckhold@westpac.co.nz

Satish Ranchhod, Senior Economist | +64 9 336 5668 | +64 21 710 852 | satish.ranchhod@westpac.co.nz

Darren Gibbs, Senior Economist | +64 9 367 3368 | +64 21 794 292 | darren.gibbs@westpac.co.nz

Michael Gordon, Senior Economist | +64 9 336 5670 | +64 21 749 506 | michael.gordon@westpac.co.nz

Paul Clark, Industry Economist | +64 9 336 5656 | +64 21 713 704 | paul.clark@westpac.co.nz

Past performance is not a reliable indicator of future performance. The forecasts given in this document are predictive in character. Whilst every effort has been taken to ensure that the assumptions on which the forecasts are based are reasonable, the forecasts may be affected by incorrect assumptions or by known or unknown risks and uncertainties. The ultimate outcomes may differ substantially from these forecasts.

DISCLAIMER

Things you should know.

Westpac Institutional Bank is a division of Westpac Banking Corporation ABN 33 007 457 141 ("Westpac").

Disclaimer.

This material contains general commentary, and market colour. The material does not constitute investment advice. Certain types of transactions, including those involving futures, options and high yield securities give rise to substantial risk and are not suitable for all investors. We recommend that you seek your own independent legal or financial advice before proceeding with any investment decision. This information has been prepared without taking account of your objectives, financial situation or needs. This material may contain material provided by third parties. While such material is published with the necessary permission none of Westpac or its related entities accepts any responsibility for the accuracy or completeness of any such material. Although we have made every effort to ensure the information is free from error, none of Westpac or its related entities warrants the accuracy, adequacy or completeness of the information, or otherwise endorses it in any way. Except where contrary to law, Westpac and its related entities intend by this notice to exclude liability for the information. The information is subject to change without notice and none of Westpac or its related entities is under any obligation to update the information or correct any inaccuracy which may become apparent at a later date. The information contained in this material does not constitute an offer, a solicitation of an offer, or an inducement to subscribe for, purchase or sell any financial instrument or to enter a legally binding contract. Past performance is not a reliable indicator of future performance. Whilst every effort has been taken to ensure that the assumptions on which the forecasts are based are reasonable, the forecasts may be affected by incorrect assumptions or by known or unknown risks and uncertainties. The ultimate outcomes may differ substantially from these forecasts.

Country disclosures.

Australia: Westpac holds an Australian Financial Services Licence (No. 233714). This material is provided to you solely for your own use and in your capacity as a wholesale client of Westpac.

New Zealand: In New Zealand, Westpac Institutional Bank refers to the brand under which products and services are provided by either Westpac or Westpac New Zealand Limited ("WNZL"). Any product or service made available by WNZL does not represent an offer from Westpac or any of its subsidiaries (other than WNZL). Neither Westpac nor its other subsidiaries guarantee or otherwise support the performance of WNZL in respect of any such product. The current disclosure statements for the New Zealand branch of Westpac and WNZL can be obtained at the internet address www.westpac.co.nz.

China, Hong Kong, Singapore and India: This material has been prepared and issued for distribution in Singapore to institutional investors, accredited investors and expert investors (as defined in the applicable Singapore laws and regulations) only. Recipients in Singapore of this material should contact Westpac Singapore Branch in respect of any matters arising from, or in connection with, this material. Westpac Singapore Branch holds a wholesale banking licence and is subject to supervision by the Monetary Authority of Singapore. Westpac Hong Kong Branch holds a banking licence and is subject to supervision by the Hong Kong Monetary Authority. Westpac Hong Kong branch also holds a license issued by the Hong Kong Securities and Futures Commission (SFC) for Type 1 and Type 4 regulated activities. This material is intended only to "professional investors" as defined in the Securities and Futures Ordinance and any rules made under that Ordinance. Westpac Shanghai and Beijing Branches hold banking licenses and are subject to supervision by the China Banking and Insurance Regulatory Commission (CBIRC). Westpac Mumbai Branch holds a banking license from Reserve Bank of India (RBI) and subject to regulation and supervision by the RBI.

UK: The contents of this communication, which have been prepared by and are the sole responsibility of Westpac Banking Corporation London and Westpac Europe Limited. Westpac (a) has its principal place of business in the United Kingdom at Camomile Court, 23 Camomile Street, London EC3A 7LL, and is registered at Cardiff in the UK (as Branch No. BR00106), and (b) authorised and regulated by the Australian Prudential Regulation Authority in Australia. Westpac is authorised in the United Kingdom by the Prudential Regulation Authority. Westpac is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. Details about the extent of our regulation by the Prudential Regulation Authority are available from us on request. Westpac Europe Limited is a company registered in England (number 05660023) and is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority.

This communication is being made only to and is directed at (a) persons who have professional experience in matters relating to investments who fall within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "Order") or (b) high net worth entities, and other persons to whom it may otherwise lawfully be communicated, falling within Article 49(2)(a) to (d) of the Order (all such persons together being referred to as "relevant persons"). Any person who is not a relevant person should not act or rely on this communication or any of its contents. The investments to which this communication relates are only available to and any invitation, offer or agreement to subscribe, purchase or otherwise acquire such investments will be engaged in only with, relevant persons. Any person who is not a relevant person should not act or rely upon this communication or any of its contents. In the same way, the information contained in this communication is intended for "eligible counterparties" and "professional clients" as defined by the rules of the Financial Conduct Authority and is not intended for "retail clients". With this in mind, Westpac expressly prohibits you from passing on the information in this communication to any third party. In particular this communication and, in each case, any copies thereof may not be taken, transmitted or distributed, directly or indirectly into any restricted jurisdiction. This communication is made in compliance with the Market Abuse Regulation (Regulation(EU) 596/2014).

Investment recommendations disclosure.

The material may contain investment recommendations, including information recommending an investment strategy. Reasonable steps have been taken to ensure that the material is presented in a clear, accurate and objective manner. Investment Recommendations for Financial Instruments covered by MAR are made in compliance with Article 20 MAR. Westpac does not apply MAR Investment Recommendation requirements to Spot Foreign Exchange which is out of scope for MAR.

Unless otherwise indicated, there are no planned updates to this Investment Recommendation at the time of publication. Westpac has no obligation to update, modify or amend this Investment Recommendation or to notify the recipients of this Investment Recommendation should any information, including opinion, forecast or estimate set out in this Investment Recommendation change or subsequently become inaccurate.

Westpac will from time to time dispose of and acquire financial instruments of companies covered in this Investment Recommendation as principal and act as a market maker or liquidity provider in such financial instruments.

Westpac does not have any proprietary positions in equity shares of issuers that are the subject of an investment recommendation.

Westpac may have provided investment banking services to the issuer in the course of the past 12 months.

Westpac does not permit any issuer to see or comment on any investment recommendation prior to its completion and distribution.

Individuals who produce investment recommendations are not permitted to undertake any transactions in any financial instruments or derivatives in relation to the issuers covered by the investment recommendations they produce.

Westpac has implemented policies and procedures, which are designed to ensure conflicts of interests are managed consistently and appropriately, and to treat clients fairly.

The following arrangements have been adopted for the avoidance and prevention of conflicts in interests associated with the provision of investment recommendations.

- (i) Chinese Wall/Cell arrangements;
- (ii) physical separation of various Business/Support Units;
- (iii) and well defined wall/cell crossing procedures;
- (iv) a "need to know" policy;
- (v) documented and well defined procedures for dealing with conflicts of interest;
- (vi) steps by Compliance to ensure that the Chinese Wall/Cell arrangements remain effective and that such arrangements are adequately monitored.

U.S: Westpac operates in the United States of America as a federally licensed branch, regulated by the Office of the Comptroller of the Currency. Westpac is also registered with the US Commodity Futures Trading Commission ("CFTC") as a Swap Dealer, but is neither registered as, or affiliated with, a Futures Commission Merchant registered with the US CFTC. Westpac Capital Markets, LLC ("WCM"), a wholly-owned subsidiary of Westpac, is a broker-dealer registered under the U.S. Securities Exchange Act of 1934 ("the Exchange Act") and member of the Financial Industry Regulatory Authority ("FINRA"). This communication is provided for distribution to U.S. institutional investors in reliance on the exemption from registration provided by Rule 15a-6 under the Exchange Act and is not subject to all of the independence and disclosure standards applicable to debt research reports prepared for retail investors in the United States. WCM is the U.S. distributor of this communication and accepts responsibility for the contents of this communication. All disclaimers set out with respect to Westpac apply equally to WCM. If you would like to speak to someone regarding any security mentioned herein, please contact WCM on +1 212 389 1269. All disclaimers set out with respect to Westpac apply equally to WCM.

Investing in any non-U.S. securities or related financial instruments mentioned in this communication may present certain risks. The securities of non-U.S. issuers may not be registered with, or be subject to the regulations of, the SEC in the United States. Information on such non-U.S. securities or related financial instruments may be limited. Non-U.S. companies may not be subject to audit and reporting standards and regulatory requirements comparable to those in effect in the United States. The value of any investment or income from any securities or related derivative instruments denominated in a currency other than U.S. dollars is subject to exchange rate fluctuations that may have a positive or adverse effect on the value of or income from such securities or related derivative instruments.

The author of this communication is employed by Westpac and is not registered or qualified as a research analyst, representative, or associated person under the rules of FINRA, any other U.S. self-regulatory organisation, or the laws, rules or regulations of any State. Unless otherwise specifically stated, the views expressed herein are solely those of the author and may differ from the information, views or analysis expressed by Westpac and/or its affiliates.

