



# **NZ CHART PACK: EVERYTHING YOU ALWAYS WANTED TO KNOW ABOUT INFLATION\***

## **\*BUT WERE AFRAID TO ASK**

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# Inflation pulse firmer than expected before the oil shock.

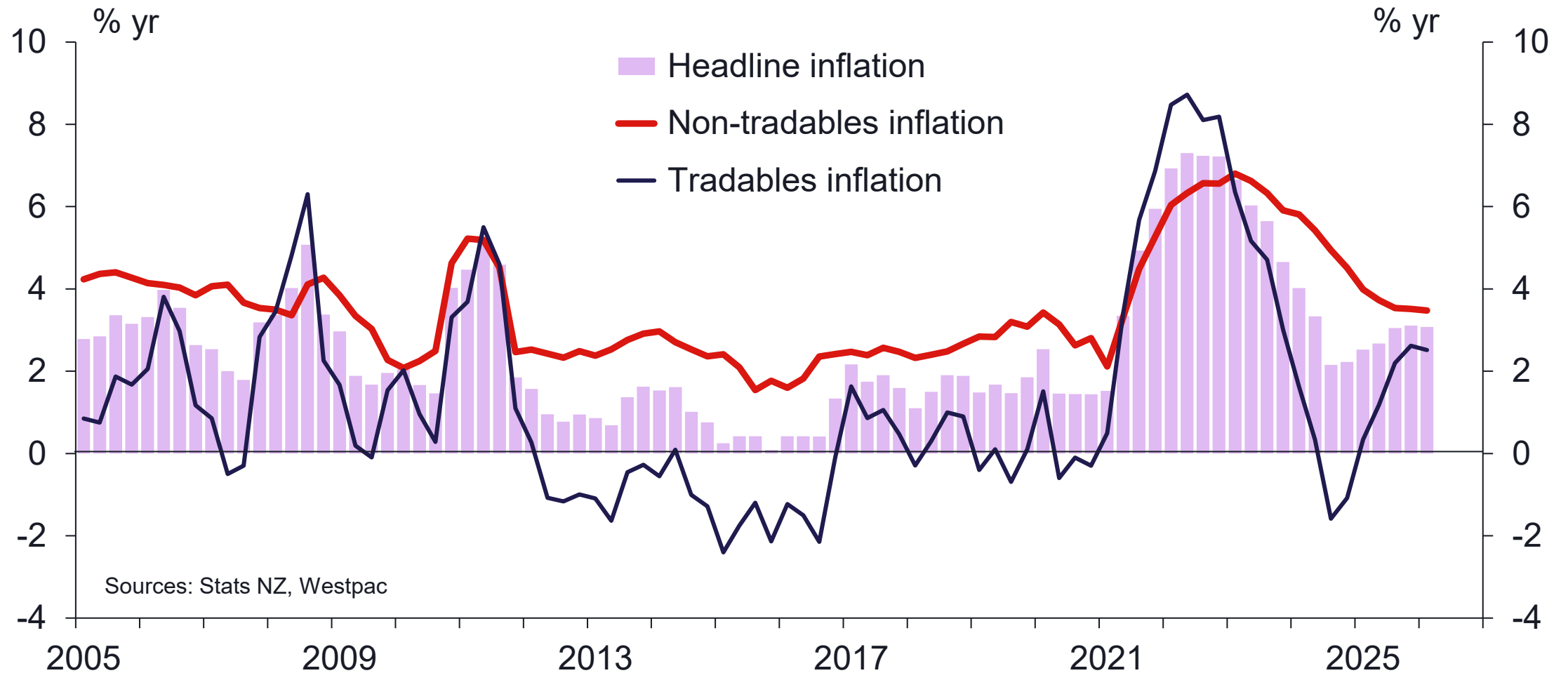
## Overall

- New Zealand consumer prices rose 0.9% in the March quarter. That saw the annual inflation rate remain unchanged at 3.1%.
- The result was above our forecast (0.7% qtr / 2.8%yr) and the RBNZ's updated April forecast for 3%yr.
- As discussed below, we've revised up our inflation forecasts and now expect inflation to peak at 4.5% in mid-2026 (page 17).

## What contributed to inflation in the March quarter?

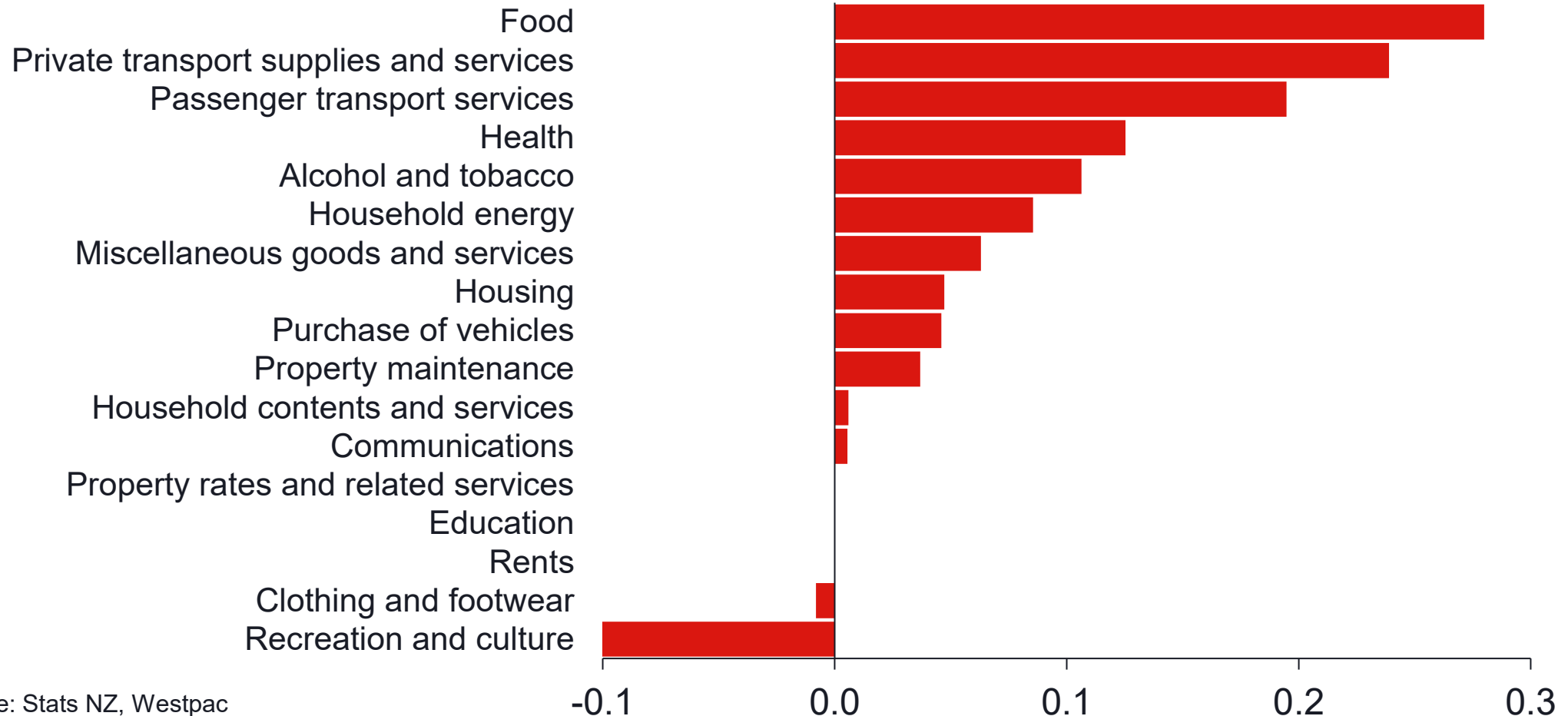
- The March quarter saw large increases in food prices (+1.5%).
- There were also large increases in transport costs. The sharp rise in oil prices over the past few weeks has left petrol prices up 3.5% over the quarter, with diesel prices up 11%. Notably, we also saw the early stages of spillovers from high fuel prices into other costs, with domestic airfares up 9% over the quarter.
- The March quarter also saw continued increases in electricity charges and the annual increase in the tobacco excise tax. There was also a big rise in vehicle registration costs and health care costs (the later related to the annual roll-over in the subscription subsidy).
- On the downside, we saw a fall in overseas holiday accommodation costs (-4%) and international airfares (-7%). Both of those declines are seasonal.

# March quarter inflation +0.9%qtr, +3.1%yr – above Westpac and RBNZ forecasts.



# Food, fuel and administered prices underpinned March's rise in consumer prices, but strength in other areas too.

Contributions to March quarter inflation forecast (percentage points)



Source: Stats NZ, Westpac

# Domestic and imported costs firm.

## Non-tradables

- Prices in the domestically oriented non-tradables group rose 1.1% over the quarter (above expectations). That saw annual non-tradables inflation remaining unchanged at 3.5%.
- Non-tradables inflation has been lingering above historic averages. In part, that's due to the continued large increases in administered prices, like electricity charges. However, prices in other areas have also been firm. Non-tradables excluding housing and utilities costs (which also omits rates) was 3.5% for the year (up from 3.4% at the end of last year). In seasonally adjusted terms, quarterly non-tradables inflation has been running at a rate of around 0.9% for most of the past year.

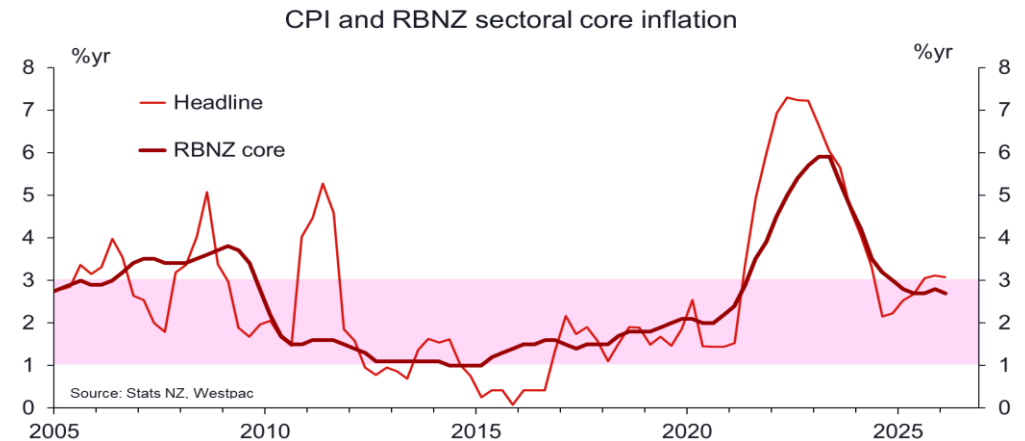
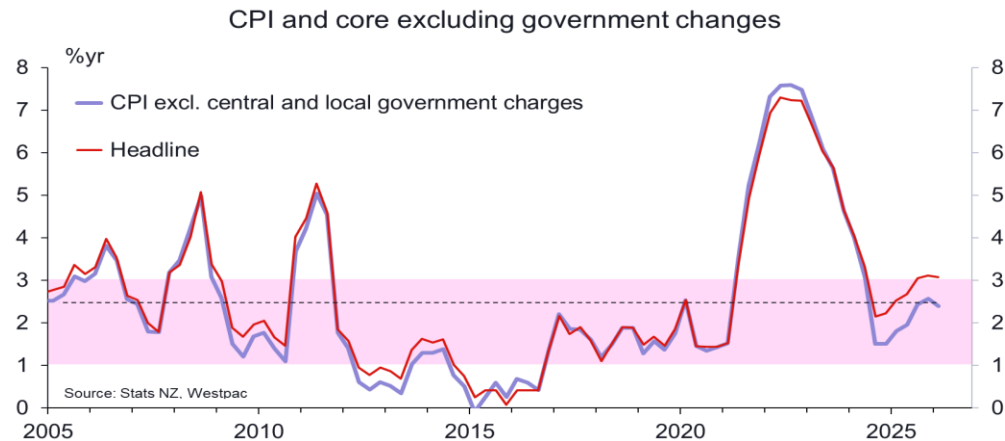
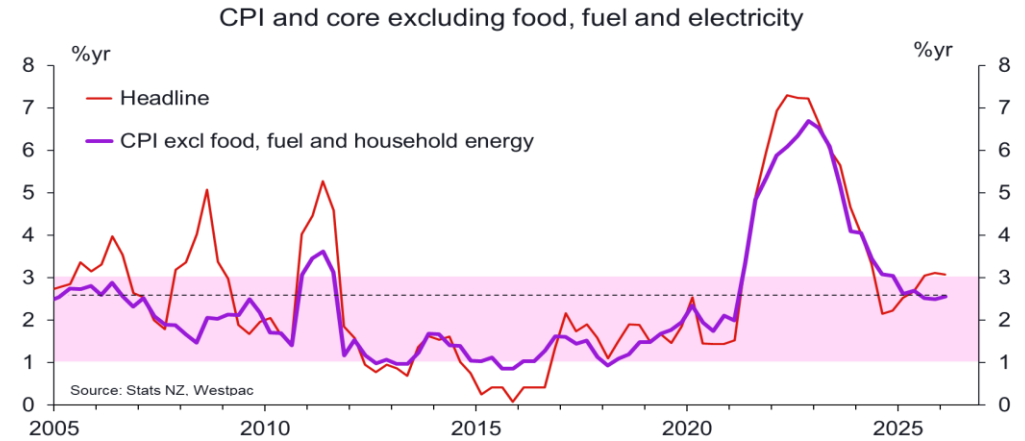
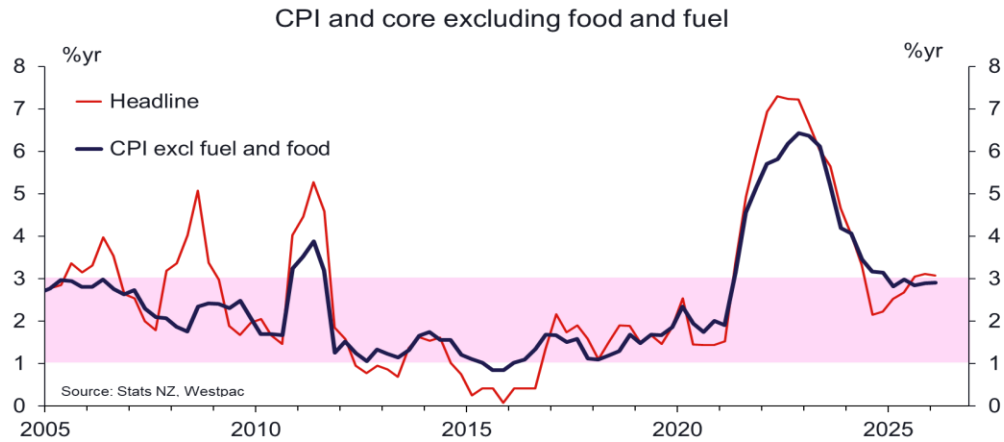
## Tradables

- Tradables inflation was also hotter than expected in the March quarter (0.7 qtr, 2.5% yr), with increases seen across a range of discretionary spending categories. That saw annual tradables inflation excluding food and fuel rising to 1.8% (up from 1.7% at the end of last year and the highest it's been since September 2023).
- Over the coming quarters, tradable price inflation is set to accelerate sharply. As well as increases in global fuel and transport charges, supply chain disruptions are already pushing up the prices for many imported goods.

# Core inflation isn't low. And it's not just administered costs.

- Despite dropping back over the past year, key measures of core inflation remain in the upper part of the RBNZ's target band. (Note: core inflation measures smooth through the quarter-to-quarter swings in inflation and track the underlying trend in prices). For example:
  - CPI ex-fuel inflation: +3.2% yr (vs +3.2% previously)
  - CPI ex-fuel and food: +3.0% yr (vs +2.9% previously)
- Another commonly quoted measure is CPI excluding food, fuel and household energy, which has been soft at 2.6% in the year to March. However, that's not low, especially compared to the past couple of decades.
- The RBNZ's own measure, the sectoral factor model of core inflation, was 2.7% in the March quarter. While that's down slightly from the end of last year, this measure has really been tracking sideways over the past year.
- Other measures like the 30% trim mean and weighted median are lower at 2.3% yr and 1.6% yr respectively.
- Similarly, core inflation excluding central and government charges is also running at a lower level – 2.4% in the year to March. Though again, that's not low compared to history.
- There's no single or measure of core inflation. However, looking at all of these measures, we haven't seen inflation in New Zealand falling to 'low' levels over the past year. That's despite weak growth over the past year and a soft labour market.
- That resilience in core inflation will be important for the RBNZ, highlighting the firm starting point for inflation even before the recent oil price shock.

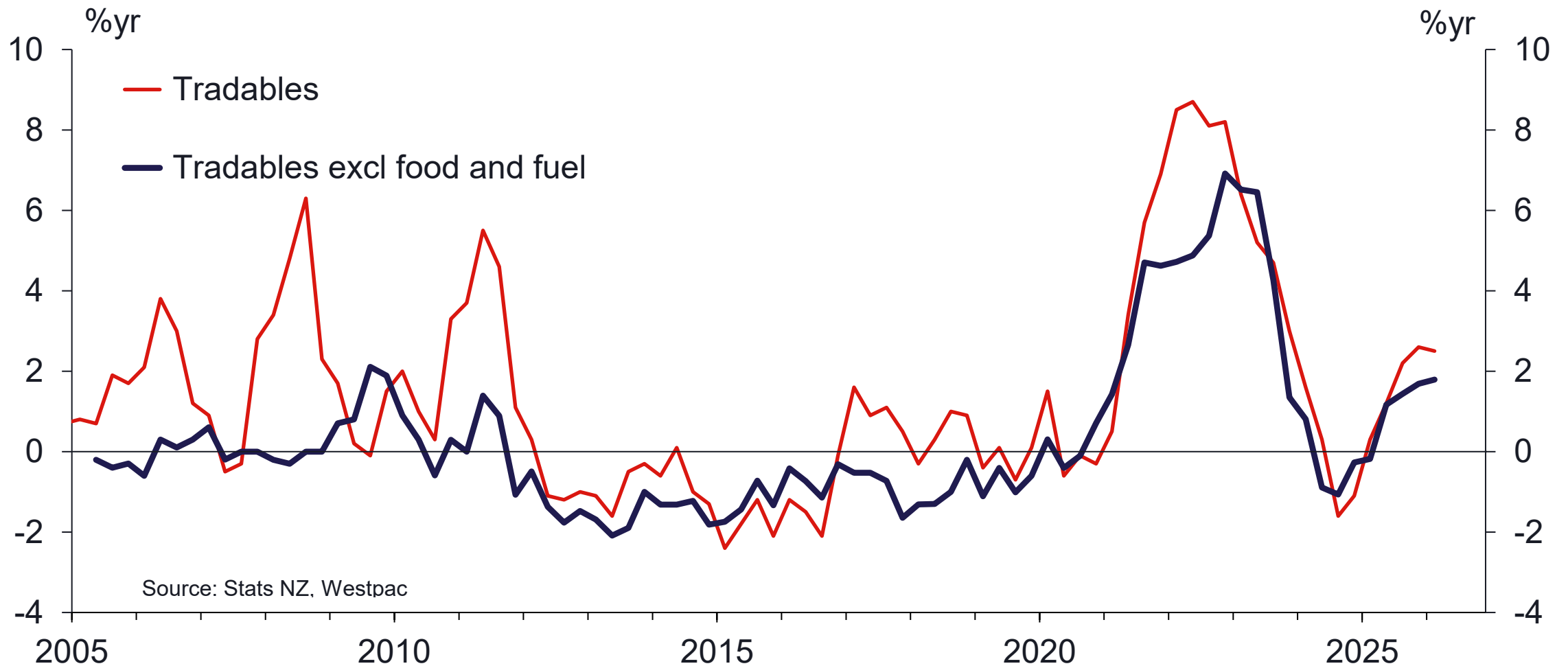
# Core inflation – not just food and fuel.



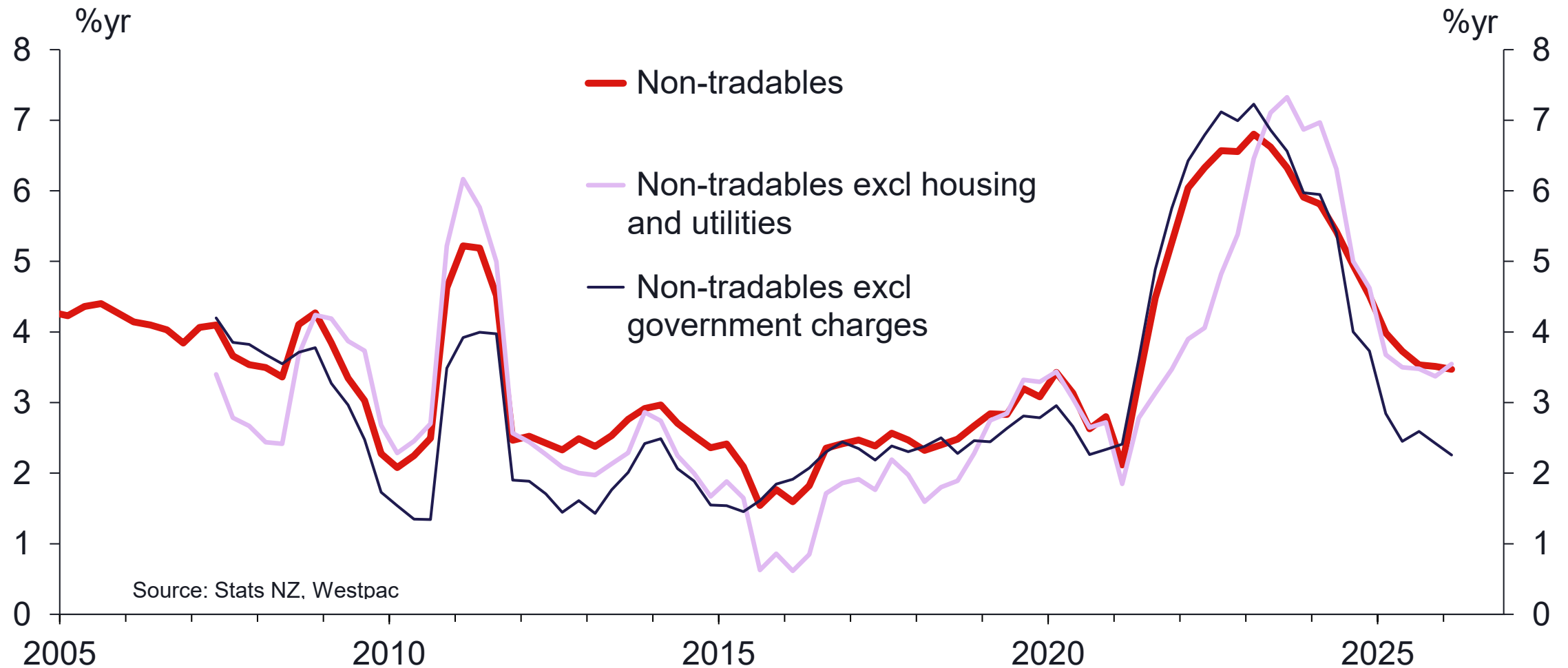
# Where to for inflation?

- Inflation is going to go higher.
- Tradables is a big part of the reason, and not just fuel.
- Non-tradables isn't low.
- Government and administered prices continuing to post very large increases.
- Construction costs likely to rise.
- Other non-tradables (those costs related to the labour market) average, but will that remain the case?
- Rents low

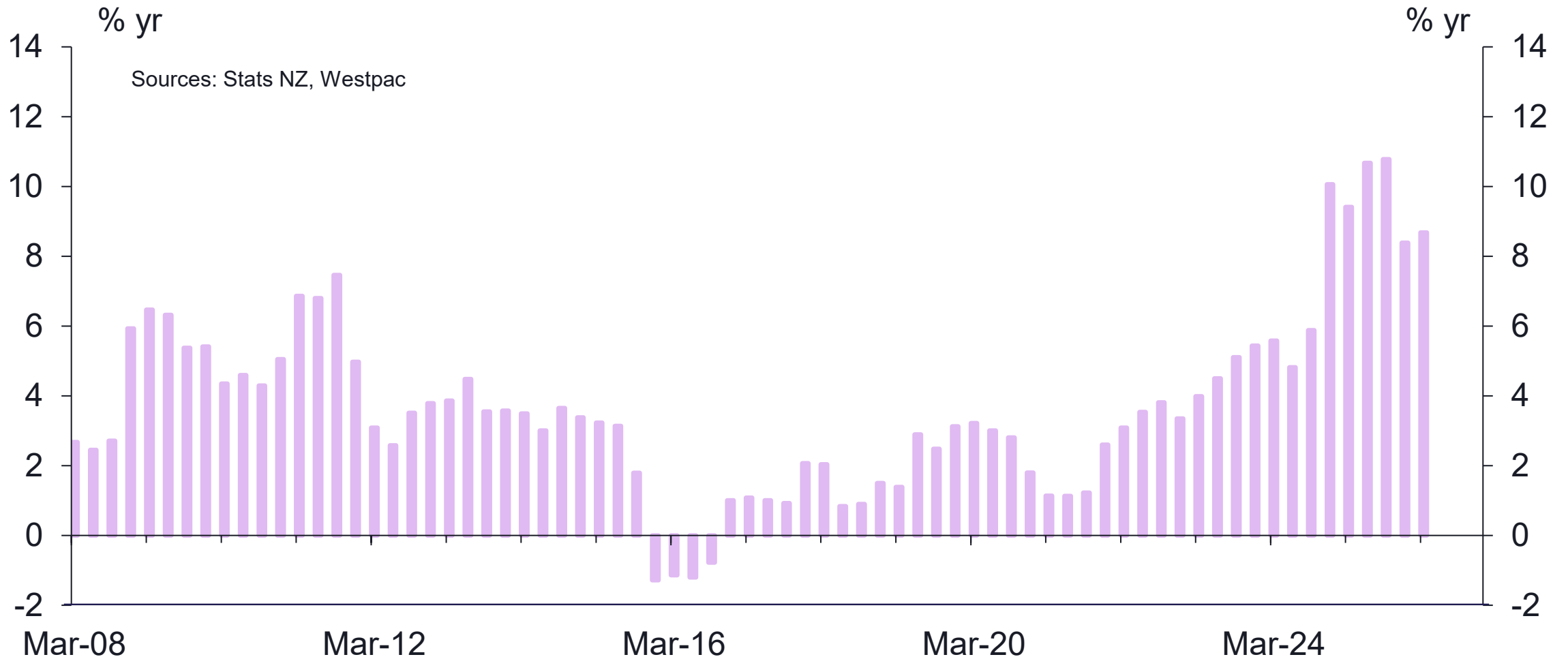
# Tradables up even excluding food and fuel, more to come.



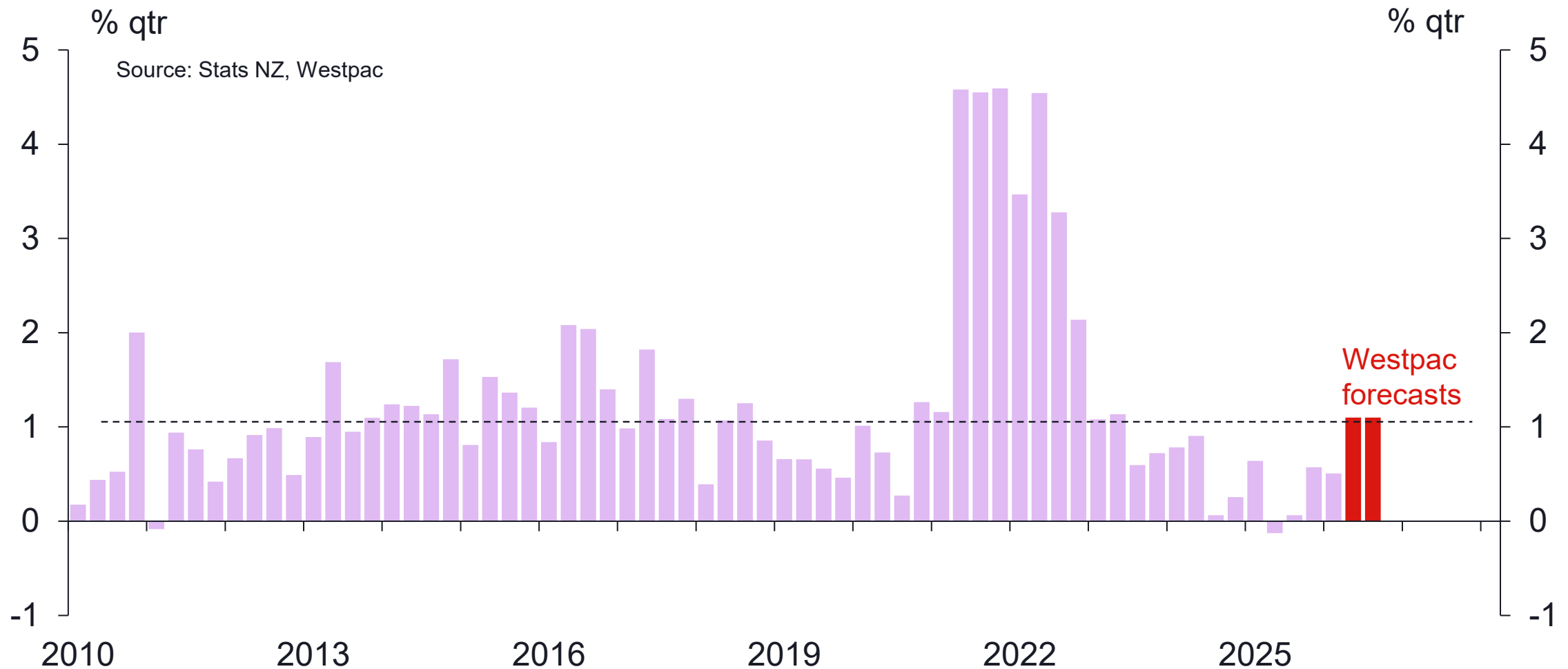
# Non-tradables much more clouded.



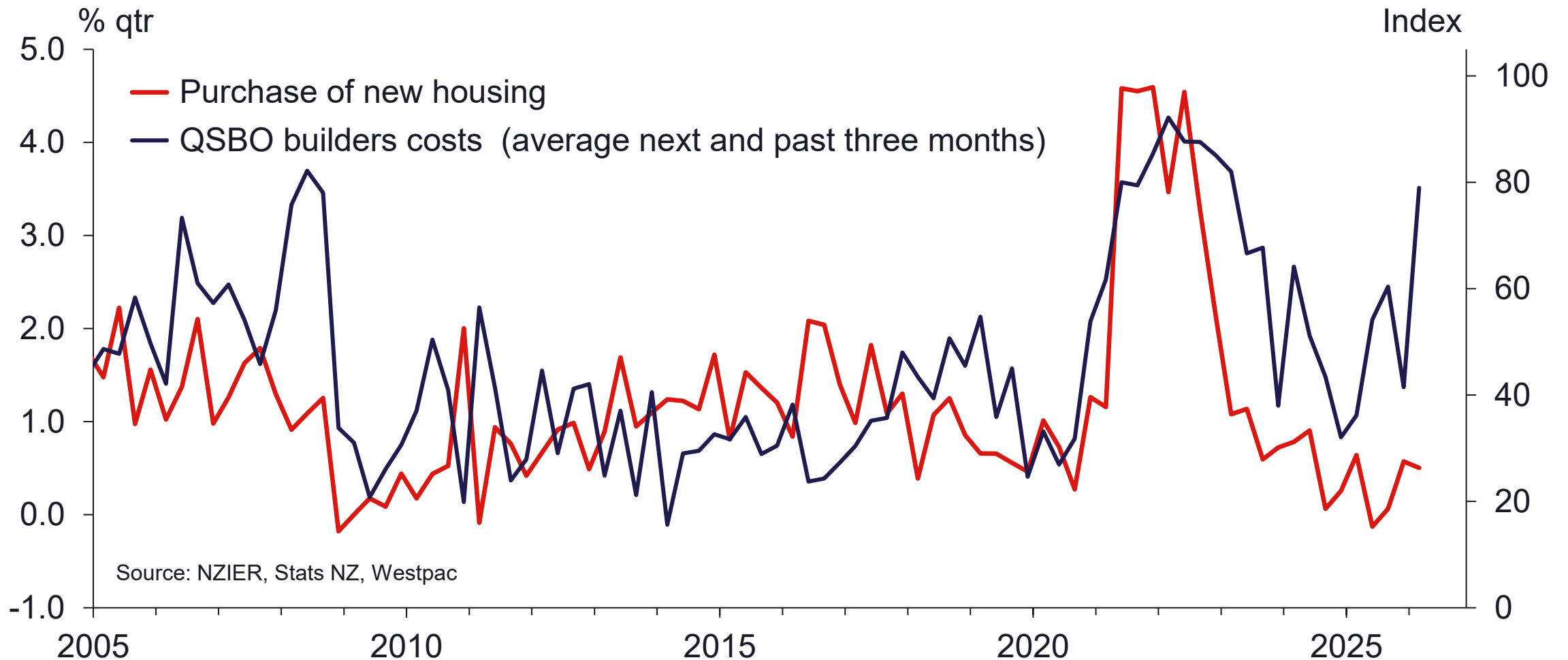
# Central and local government charges still elevated, expected to remain so.



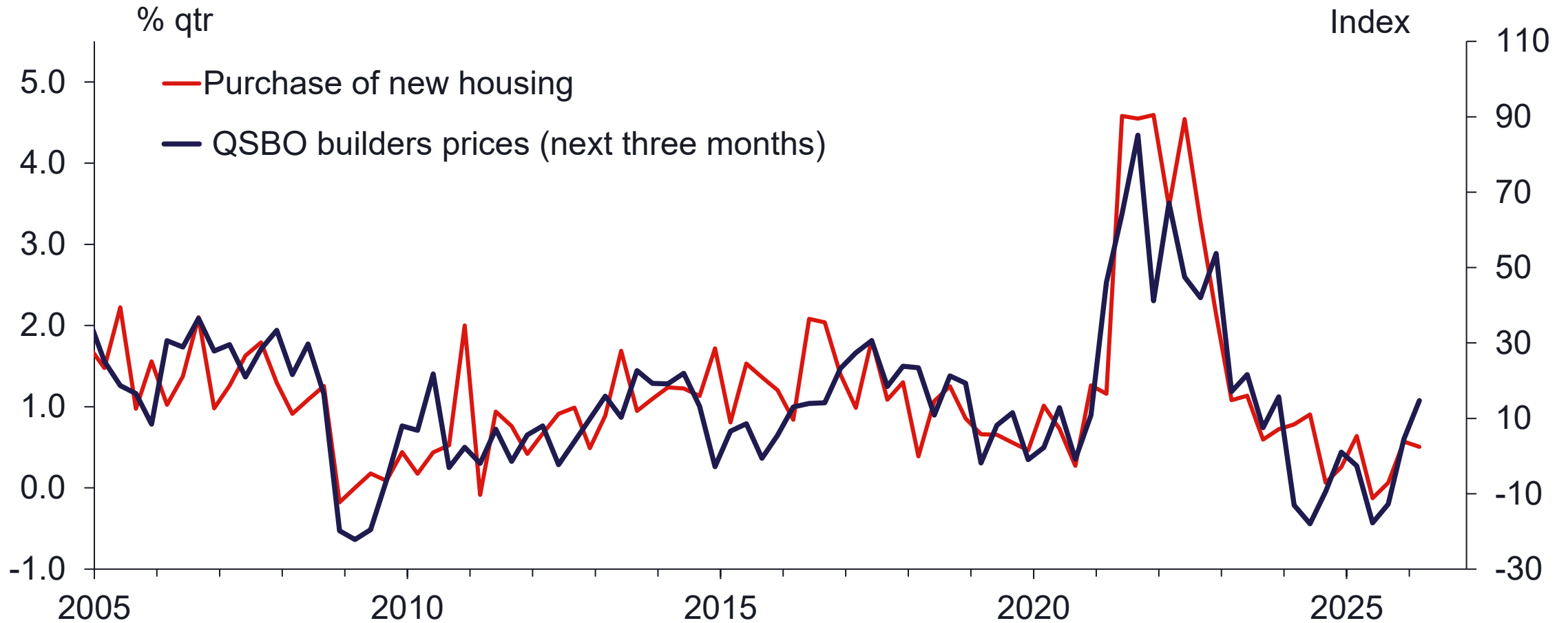
# Purchase of new housing (10% of the CPI) - has been a big driver of overall inflation, where's it going now?



# Building firms reporting big increases in costs...

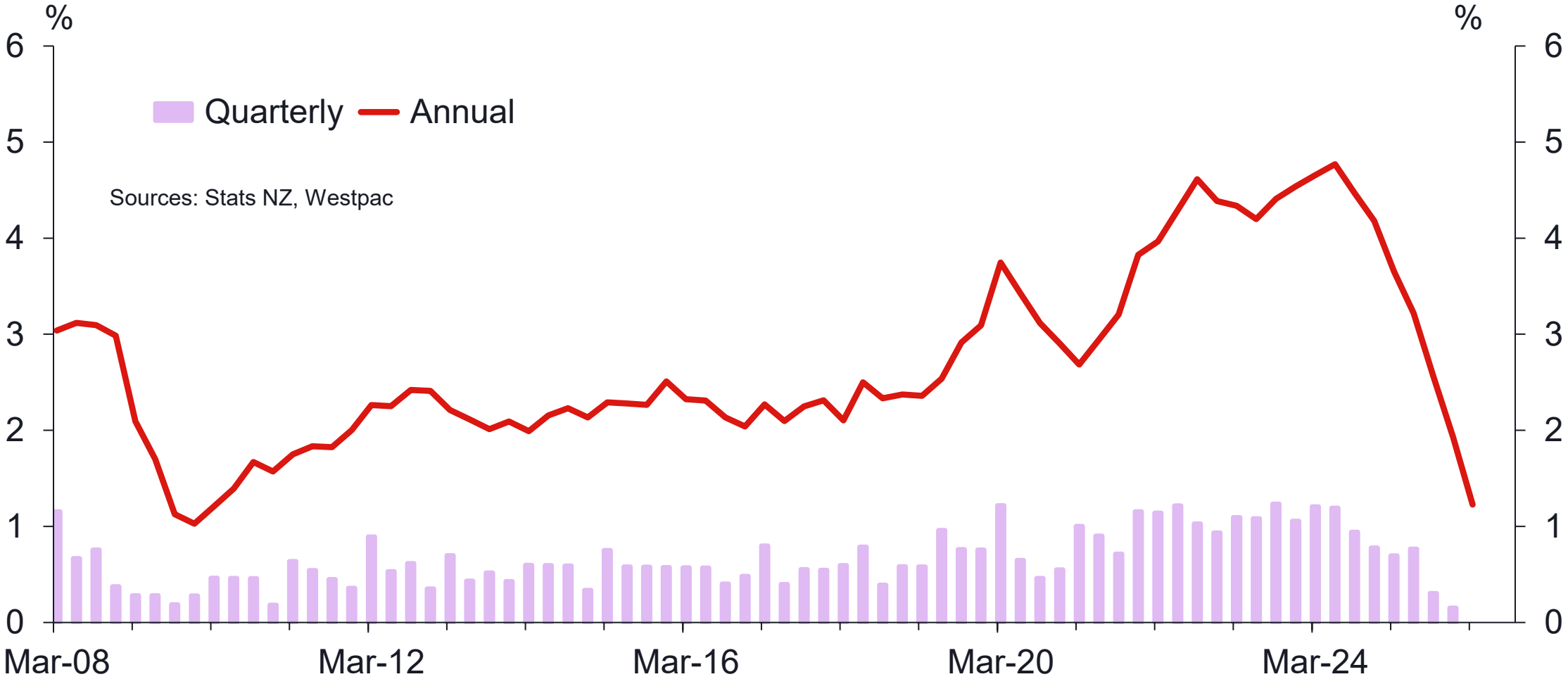


# ..but is it passing through to prices?

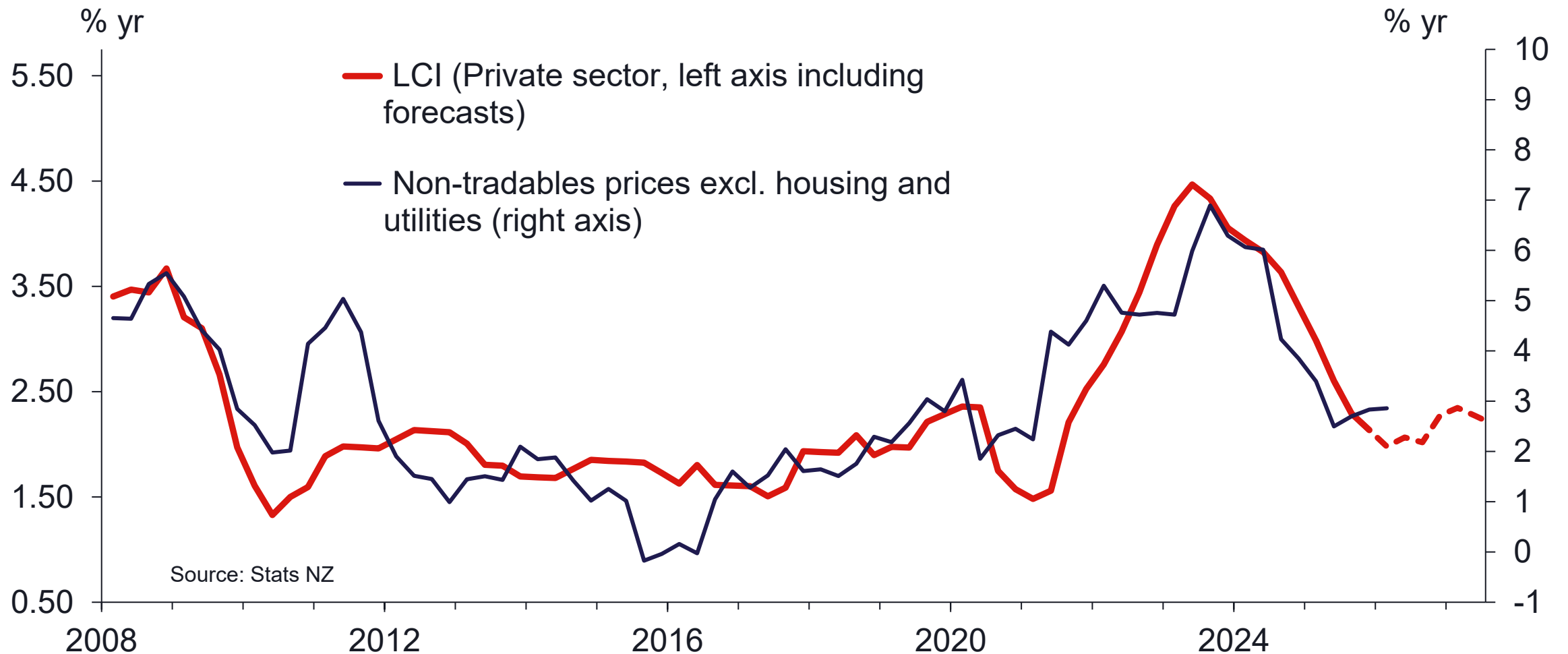


Source: NZIER, Stats NZ, Westpac

# Rents (10% of the CPI) – Very weak, likely to remain so for some time



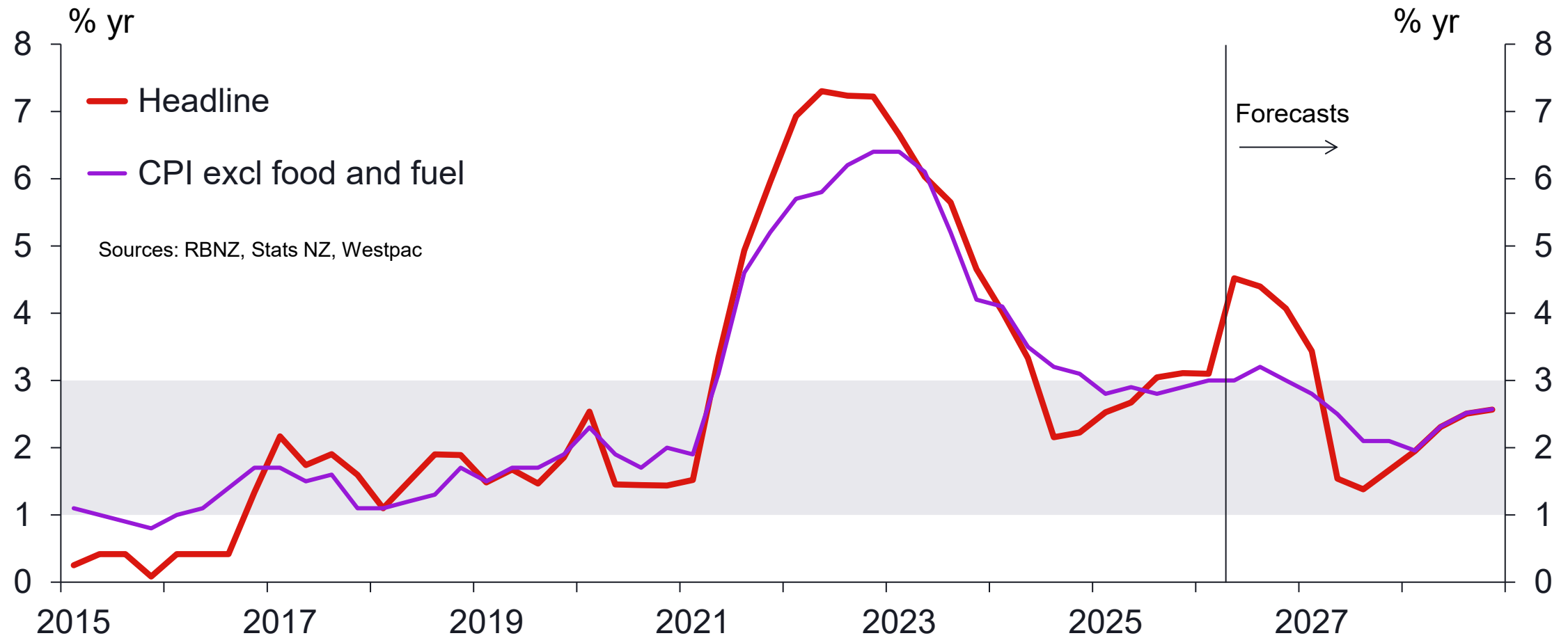
# Non-tradables excluding housing and utilities compared to wages – Likely to rise, but how far. Domestic demand soft.



# Updated inflation forecast - The worst is yet to come.

- We've updated our inflation forecasts for the stronger than expected March quarter result. However, the outlook remains murky, particularly beyond the current quarter. Crucially, the outlook will be highly dependent on the evolution of tensions in the Middle East and the related (potentially large) moves in oil prices.
- We now expect inflation will rise to 4.5% in mid-2026 (previously 4.3%).
- Further ahead, inflation is expected to ease only gradually, slowing to 4.1% by the end of this year.
- The lift in inflation is mainly due to the rise in petrol and diesel prices. We also expect to related costs increases in other industries.
- However, while cost pressures are widespread, there are questions about how much of this will pass through to output prices and how enduring those pressures will be, especially given the softness in domestic economic conditions.
- Headline inflation is still expected to slow materially over 2027 as the impact of earlier oil price increases dissipates.
- In contrast, core inflation is expected to remain elevated this year, and only slow gradually further head. Core inflation is only expected to ease back towards the mid-point of the RBNZ target band over 2027, rather than falling to low levels.

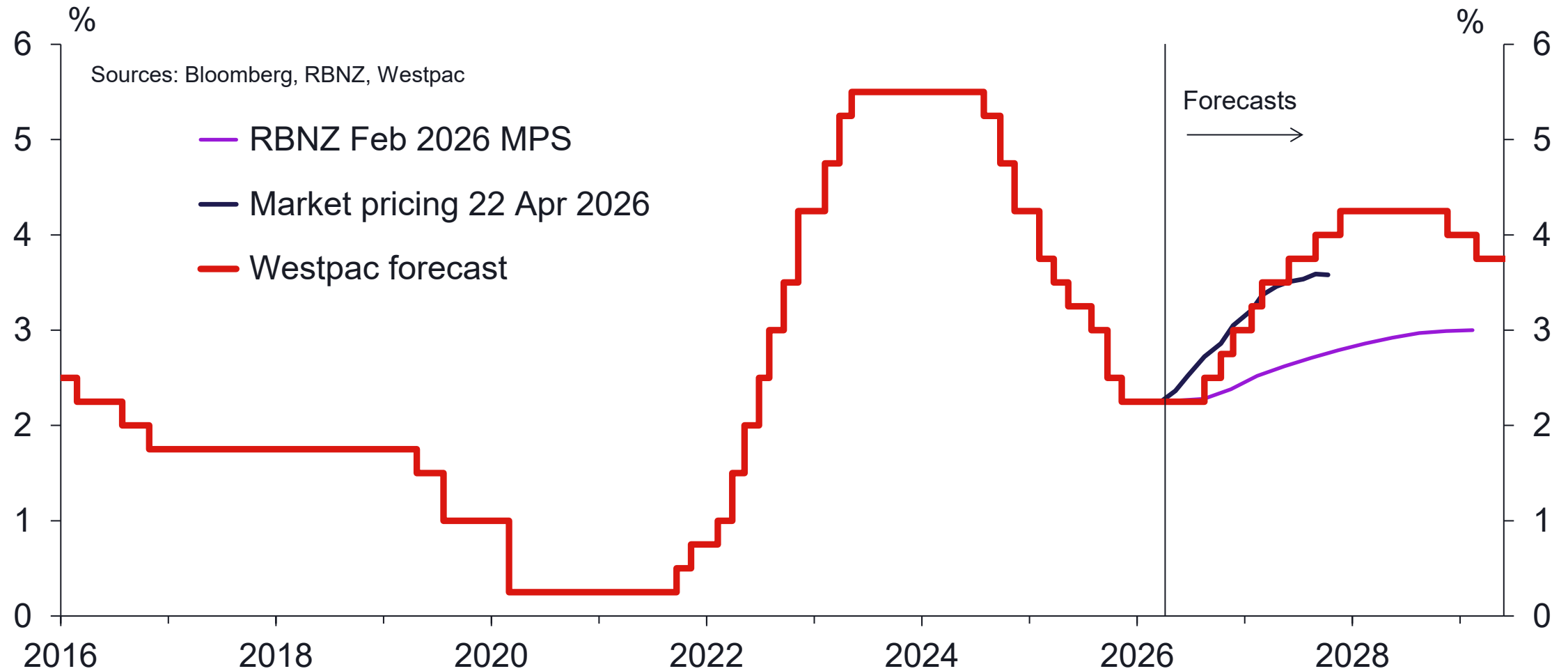
# But wait...the worst is yet to come.



# Balancing act.

- The RBNZ can't offset the rise in oil prices that has already occurred. But they are concerned about whether there is a more generalised and long lasting rise in inflation. That's something they can't ignore.
- The starting point for inflation is already higher than desired. Some of that is due to cyclical factors, some of it is due to other costs.
- Cost pressures are rising, but will the inflation impulse be sustained?
  - Widespread cost pressures (that will likely get worse) and an elevated starting point.
  - But soft labour market and constrained consumer spending could limit the pass through of cost rises into output prices. Businesses are also likely to be cautious about their spending.
- The past few years showed that inflation can be corrosive and have long lasting negative effects on households and businesses.
- Earlier rate hikes might limit the long term pain in terms of inflation. But that would weigh on economic conditions and the already soft labour market. That would increase the risk that medium term inflation falls to undesirably low levels when the oil price does eventually fall.
- [We expect the RBNZ will begin raising the OCR in September](#), with the balance of risks tilted towards an earlier start should evidence of second-round inflation impacts accumulate.

# Official Cash Rate forecasts



# Quick links



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