

Research Economy Watch

12 September 2024

Monthly Prices Affirm Q3 CPI View

- **Monthly prices close to our priors, on net**
- **Nothing to alter our Q3 CPI view**
- **Annual Q3 inflation to print well inside target band**
- **Lower oil prices making their presence felt**
- **We see Q2 GDP at -0.4% q/q**

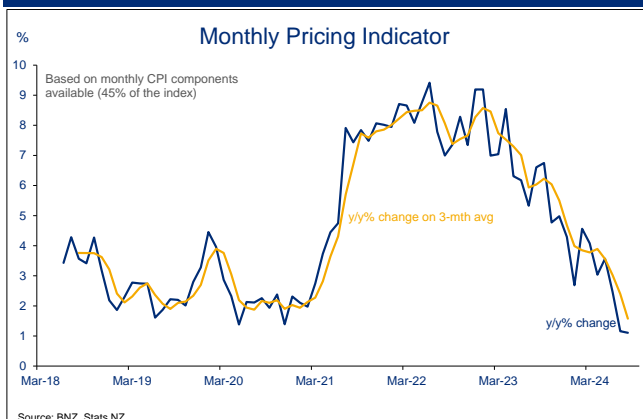
Today's selected prices data for August gives us no cause to alter our general thinking for Q3 CPI. There was a range of ups and downs in the details, which is usually the case for these wobbly monthly indicators, but the overall net result was close to our priors.

By the same token that supports the case that annual CPI inflation will print well inside the RBNZ's 1% to 3% target band in Q3 and well below Q2's 3.3% y/y. This is more evidence annual inflation is still falling. Our pick for Q3 remains at 2.2%; little different to the RBNZ's 2.3% published in its August MPS.

Of course, the Q3 CPI result will depend on the September indicators as well as all the other quarterly components not covered in the monthly figures. We say this knowing there are some large changes likely in some of the quarterly components, such as a big increase in local authority rates.

The CPI components not covered in these monthly figures are important to think about when looking at the tradeable-heavy monthly prices and our estimate of weighting them together which shows annual inflation for the monthly prices easing to 1.1% in August.

Tradeable-heavy monthly inflation lower



Today's data revealed more evidence of the influence of falling international oil prices on domestic prices. In August, petrol prices fell 1.7% m/m and diesel prices dropped 2.8% m/m. And we have already seen further declines in early September. Recently lower international oil prices also play with the grain of falls in domestic and international airfares in the month.

This is all helpful for lowering headline inflation, but need not necessarily change the way the RBNZ sees the broad inflation outlook. The Bank may choose to look through the first-round effects of a slump in oil prices, at least in the first instance. There is an offsetting influence as lower fuel prices provide a boost to the purchasing power of disposable incomes to be spent elsewhere. And, in any case, there is always a risk of further rapid change in oil prices in either direction.

Getting towards the midpoint of the inflation target band is helpful as it can help solidify inflation expectations near 2% and allow further OCR reduction. However, other indicators, like some stickiness in firms' pricing intentions and still elevated non-tradeables inflation might encourage the Bank to stick with a measured approach to rate reduction.

There is also the real economy to factor in with the latest run of high frequency activity data printing, at least, less bad than a few months ago. And recent partial indicators for next week's Q2 GDP suggesting the quarter's growth will be no worse than the RBNZ expected. After factoring in all the indicators, our Q2 GDP estimate sits at -0.4% which is tick less negative than the -0.5% published in the August MPS.

All up, we haven't seen anything materially different to the Bank's expectations on balance to suggest that it will substantially alter its previously indicated policy prognosis. Our base case remains that the OCR will be reduced in 25bp increments. But there remains much to watch. Ahead of the October meeting, we get next week's Q2 GDP figures and the QSBO in early October. Then, ahead of the November meeting, Q3 CPI, Q3 labour market data, and Q4 inflation expectations will likely be among the indicators most closely followed by the RBNZ.

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