

Research Economy Watch

14 November 2024

Q4 CPI Forecast Stays Put

- **Monthly prices close to expectations**
- **No change to our Q4 CPI forecast**
- **Food prices drop in October; it's seasonal**
- **More signs of rent inflation easing**

Today's Selected Prices data for October were generally close to our expectations. There were no major surprises, although the net of all the monthly price indicators put together was marginally on the softer side.

It is not enough to change the rounding on our estimate for Q4 CPI annual inflation which stays a 2.3%, but gives a whiff of downside risk to it. The RBNZ forecast 2.3% y/y for Q4 CPI in its August MPS. So, we see nothing here to materially alter the RBNZ's view of the world.

We wouldn't overstate the downside as we are mindful of the recent push lower in the NZD, the flipside of USD strength following the US election, and the upward pressure it will exert on tradeable prices. Petrol prices were flat in today's monthly figures, but there appears to have been some mild uplift to date in November.

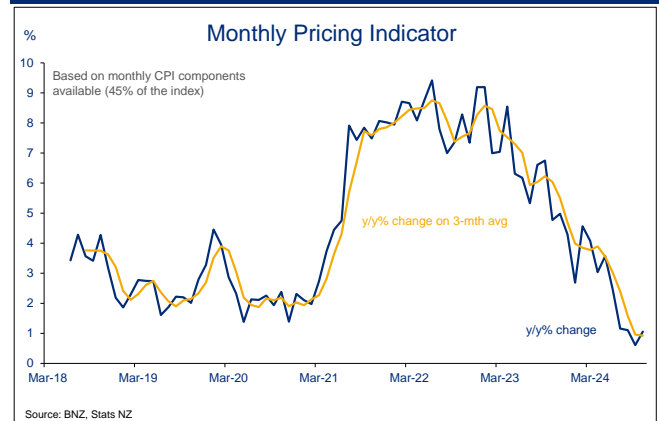
By the same token, it is important to note that while the NZD is lower against the USD, the NZ TWI is currently very close to the 69.5 that the RBNZ used in its August projections.

The generally low inflationary pulse from the tradeable-heavy monthly figures remains clear, albeit with a hint of stabilisation. Our estimate of weighting them together shows annual inflation in the monthly prices of 1.1% in October.

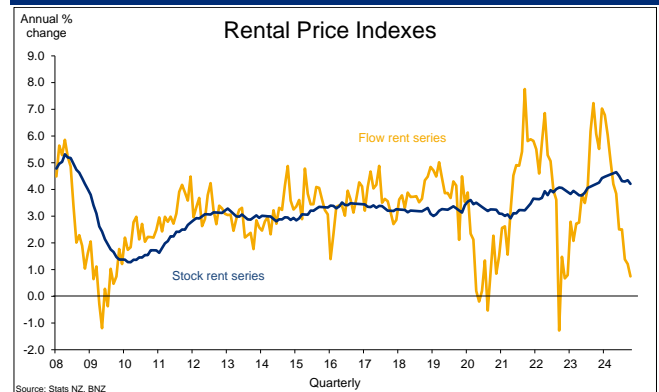
Food prices fell 0.9% m/m in October, not far from the 0.6% decline we had pencilled in. Food prices tend to drop at this time of year on seasonal vegetable prices. Vegetable prices fell 7.2% in the month. Food prices were flat in the month on a seasonally adjusted basis. Overall food prices were up 1.2% on a year ago.

Rents rose 0.2% m/m in October in line with our priors. This fits with our thinking that there remains downward pressure on rent inflation. It is not yet entirely obvious from the stock measure of rents (think existing tenancies), although its annual inflation rate did tick down to 4.2% in October, from 4.3% in September, and a recent peak of 4.6% in May.

Low inflationary pulse



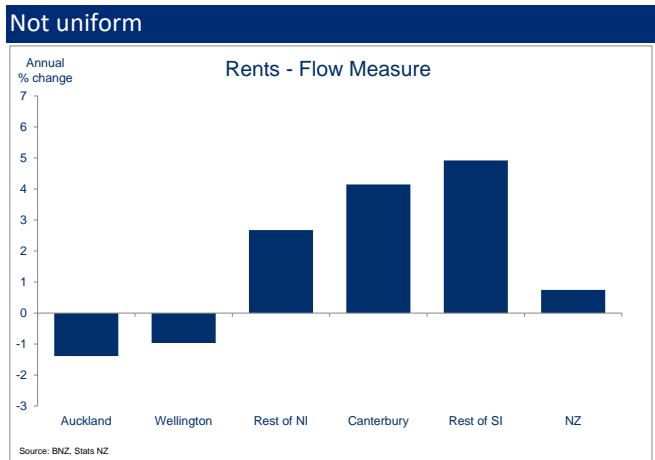
Rent inflation easing



Softening rent inflation is much clearer in the flow measure of rents (think new tenancies) which rose a marginal 0.1% in October, taking its annual inflation down to 0.7% and significantly lower than its previous peak of 7.2% just over a year ago. Slower new rent inflation is being driven by weakness in Auckland and Wellington with outright falls in new rents compared to a year ago in those major cities.

Incidentally, a similar pattern of relative and outright weakness in Auckland and Wellington compared to elsewhere was evident in October house prices, according to the REINZ figures released this morning. That data showed NZ house prices 1.1% lower than a year earlier, with Auckland and Wellington underperforming with annual declines of 3.0% and 2.0% respectively.

The flow measure of rents increases our confidence that annual rent inflation in the CPI will continue to ease over coming quarters.



Restaurant meals and ready-to-eat food prices were as subdued as expected, rising 0.1% m/m, while alcoholic beverages (+0.3% m/m), cigarettes and tobacco (+0.8% m/m) and domestic accommodation (+5.9% m/m) were stronger than we had pencilled in for the month.

Some of these are very volatile. Take domestic accommodation prices for instance. Despite the monthly increase, prices are still 8.3% lower than a year ago. We are cautious on taking too much signal from the latest monthly wriggle, but such things are worth keeping an eye on in the months ahead.

Domestic airfares rose 2.6% m/m, while international airfares eased 0.4% m/m. Both were marginally softer than our priors, but well within the usual margin of error for these often very volatile components. In fact, we could say that for today’s monthly figures in general.

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