Research

Economy Watch

14 February 2025

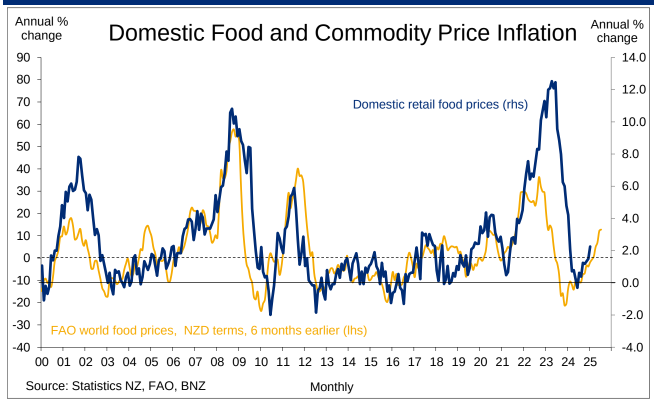
Food and Fuel Prices Higher in January

- **Monthly prices wriggle higher**
- **Driven by tradeable goods**
- **We nudge our Q1 CPI forecast up to 0.6% q/q**
- **Non-tradeable prices softer than expected**
- **RBNZ can look through noise**
- **Anchored inflation expectations helpful**

The balance of January's selected price indices suggests a bit more upside to Q1 CPI calculations. The monthly prices are heavy on tradeable goods and that is what drove the generally firmer looking outcome.

Food prices rose 1.9% m/m. A lot of this is seasonal, but it also suggests some of the upside influence we have been expecting from higher commodity prices is already starting to come through. Annual food price inflation pushed up from 1.5% in December to 2.3% in January. We expect a bit more upside here over the months ahead, given a lag between offshore pricing and influence of a lower NZD.

Upward pressure here



Fuel prices also punched higher in January. Petrol rose 4.0% m/m and diesel lifted 5.8%. Volatility is the name of the game here. There is a decent chance of an unwind in February given observed price drops over recent weeks, as international crude oil prices have retreated.

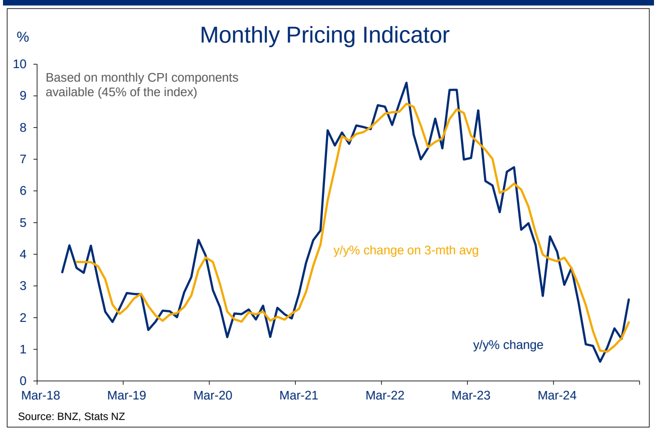
Airfares fell in the month, with international fares down 11.7% m/m and domestic fares down 1.3%. However, these drops were not quite as big as we have seen in previous Januarys so represent something of an upside surprise.

There is always a lot of noise in monthly prices. But as the first month of the quarter, January's figures set the base for Q1 so should not be ignored. We nudge our estimate for Q1 CPI up to 0.6% q/q from 0.5%. The RBNZ published 0.5% for that quarter back in its November MPS.

A Q1 CPI a point or two higher than what the RBNZ was previously thinking is unlikely to throw it off its broad policy thoughts. Even more so if such moves are driven by volatile components. We remain of the view that the RBNZ will lower its cash rate by 50 basis points at next week's meeting, to 3.75%.

However, the price movements will be on the central bank's watch list. Our weighted average of the monthly indicators shows an upswing in inflation over recent months. This broad trajectory fits with our thinking that there is more upside risk than downside to near term CPI inflation prints as the influence from the likes of higher commodity prices and a lower NZD come through in the months and quarters ahead. These things need to be monitored closely.

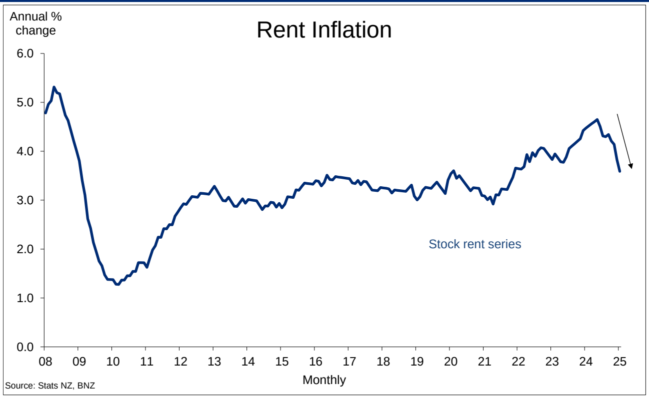
Upswing to be monitored



In contrast to the general tradeable-driven strength in today's data, many of the (admittedly reasonably limited number of) non-tradeable components came in a bit softer than they might have otherwise. This includes rents, domestic accommodation, and restaurant meals.

Rents rose 0.1% m/m. This is the smallest monthly gain since September 2019. Annual rent inflation has slowed to 3.6%, from 4.5% a year ago, and looks set to slow materially further.

Rapid slowing underway



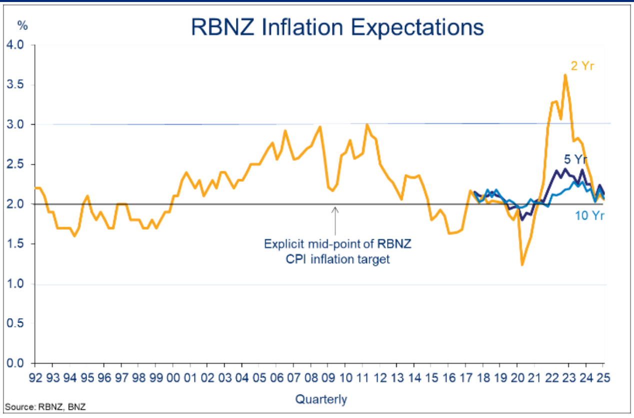
Restaurant and ready-to-eat meal prices were flat in the month, seeing annual inflation fall to 2.8% from 6.7% a year ago. The month-to-month easing is against the general movement in food inflation at present.

Our CPI inflation forecasts over the year or so ahead continue to be the balance of increasing tradeable inflation and easing non-tradeable inflation. Those themes remain intact and reinforced by today's data.

The RBNZ had similar dynamics forecast in its November MPS. While the RBNZ will be watching near term risks as these opposing forces play out, the Bank has previously expressed a degree of comfort in being able to look through near term volatility with inflation comfortably back in its target band.

Yesterday's easing in medium term inflation expectations can only support the Bank's confidence to look through near term volatility. The 2, 5, and 10-year ahead inflation expectation series all edged marginally lower. The data show inflation expectations are well anchored with all the relevant CPI series close to 2%.

Inflation expectations well anchored



doug_steel@bnz.co.nz

Contact Details

BNZ Research

Stephen Toplis
Head of Research

Doug Steel
Senior Economist

Matt Brunt
Economist

Jason Wong
Senior Markets Strategist

Stuart Ritson
Senior Interest Rate Strategist

Mike Jones
BNZ Chief Economist

Main Offices

Wellington
Level 2, BNZ Place
1 Whitmore St
Private Bag 39806
Wellington Mail Centre
Lower Hutt 5045
New Zealand
Toll Free: 0800 283 269

Auckland
80 Queen Street
Private Bag 92208
Auckland 1142
New Zealand
Toll Free: 0800 283 269

Christchurch
111 Cashel Street
Christchurch 8011
New Zealand
Toll Free: 0800 854 854