

New Zealand Economic Watch

CPI review: Food for thought

Tradables down, CPI eases to 4.7%yoy from 5.6%

Food prices fell every month in the December 2023 quarter and were the main driver of today's softer than expected outcomes vs the RBNZ's assumptions. While these outcomes reflect faster progress towards the inflation target, the composition of CPI continues to reflect sticky housing and services inflation. See: [New Zealand Economic Watch: CPI preview: Volatile, but welcome disinflation 22 January 2024](#). Housing and household utilities, the largest contributor to the December 2023 was mainly driven by higher prices for rent, construction, and council rates.

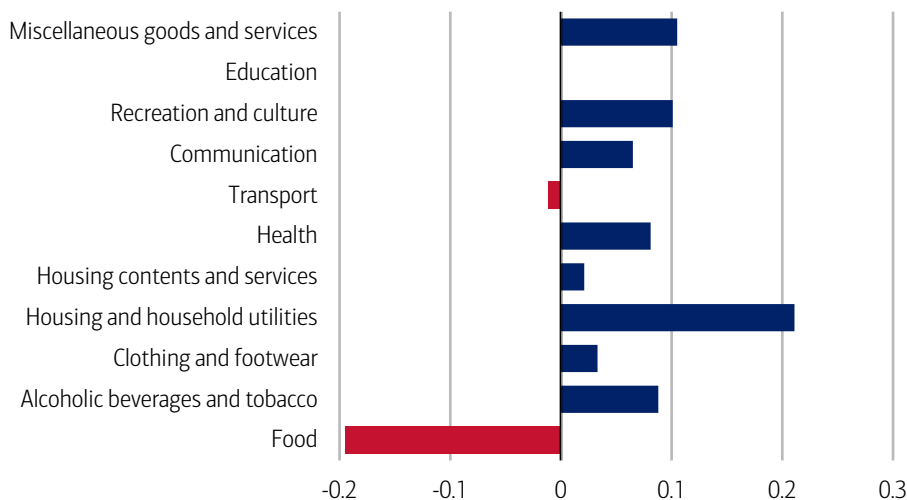
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Exhibit 1: A decline in food prices pushes inflation down

QoQ change, ppt contributions



Source: StatsNZ

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Downgrades to forecasts and guidance

A 0.5%qoq rise in headline CPI is the smallest increase since December 2020. Indeed, annual inflation easing to 4.7%yoy from 5.6% while above target, represents the fifth consecutive quarter of slower inflation growth and is now at the lowest level since September 2021.

These outcomes continue to reflect traction from high rates, which along with softer demand should see the RBNZ downgrading its hawkish stance, in our view. However, as domestic inflation remains sticky, we would not expect a full dovish pivot at the February 28 meeting.

The RBNZ is now a single inflation mandate Reserve Bank, so sustainable employment will not be in focus going forward. That said, slower growth in labour demand on the back of softer growth would help ease inflation pressures. Labour market data for the December quarter will be released on February 7 just after the RBNZ's Chief Economist is due to deliver a speech on Policy Challenges and Recent economic data on Jan 30.

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