

New Zealand Economic Watch

CPI preview: Volatile, but welcome disinflation

We see CPI up 0.4%qoq in 4Q, easing to 4.5%yoy

Inflation data for the December quarter will be released on Jan 24th and we expect a soft 0.4%qoq print, which would take annual CPI down to 4.5%yoy (vs consensus at 4.7%yoy) from 5.6%yoy on the back of base effects. The RBNZ assumption is for CPI to ease to 5% on the back of a 0.8%qoq rise. While there are still signs of sticky inflation, monthly leading indicators point to ongoing easing pressures, particularly for volatile items (Exhibit 1).

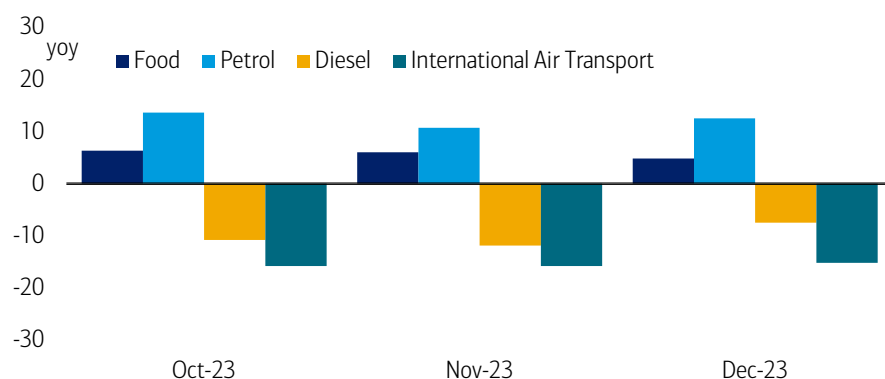
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Exhibit 1: Volatile items ease in 4Q

Pushing inflation down faster than the RBNZ expects



Source: StatsNZ

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While food prices recorded falls for the last four months, rent inflation remains high and rising current leases were up 1.4% in December. Services such as restaurant meals and ready-to eat food prices increased by 7.1%. The RBNZ will focus on domestic pressures and signs that high interest rates continue to restrain activity and prices.

The RBNZ at odds with data

Following the unexpected contraction in 3Q GDP (See: [New Zealand Economic Watch: GDP review: Growth can't be manufactured 14 December 2023](#)), inflation data is expected to print well below the RBNZ's assumption. The Bank expects CPI to reach the top of the inflation target in 2H 2024 so faster progress towards the target would be a welcome development.

Softer aggregate demand combined with softer inflation will be reflected in the updates to the RBNZ's forecasts. While we don't think one soft inflation and growth print would be enough for the Bank to shift its hawkish/neutral guidance to a dovish stance, economic data is consistent with further traction from high rates and suggests the next move is a cut. We see the start of the cutting cycle in 2Q 2024. See: [Australia Economic Viewpoint: Year Ahead 2024: No landing down under 22 November 2023](#)

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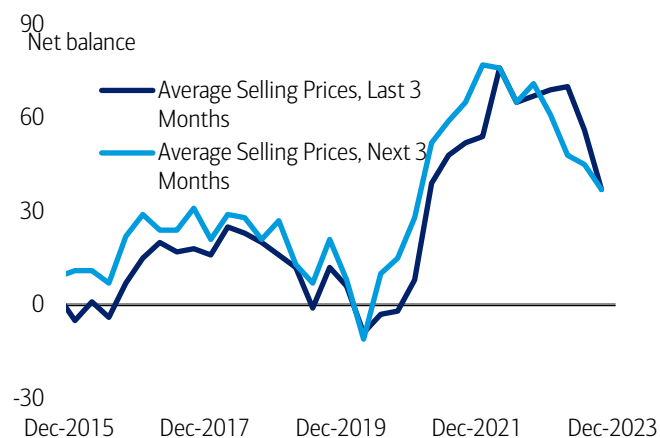
Soft enough to pivot?

CPI data is set to surprise to the downside relative to the RBNZ's forecasts; the Bank will also pay attention to the composition of inflation to ensure a sustained return to target. The new Government has removed the RBNZ's dual mandate so that the Bank is only focused on targeting inflation (between 1-3% in the medium-term) and no longer must worry about the balance between CPI and sustainable employment.

Encouragingly, business inflation expectations continue to ease (Exhibit 2). Yet these measures remain above pre-pandemic levels. Rent inflation is easing, but the pace is still slow given strong net migration. See: [Australia Economic Viewpoint: Year Ahead 2024: No landing down under 22 November 2023](#). Recent data suggests new leases are rising at a slower pace than those already in place (Exhibit 3), pointing to lower prices ahead.

Exhibit 2: Business inflation expectations ease

Another positive sign for the RBNZ

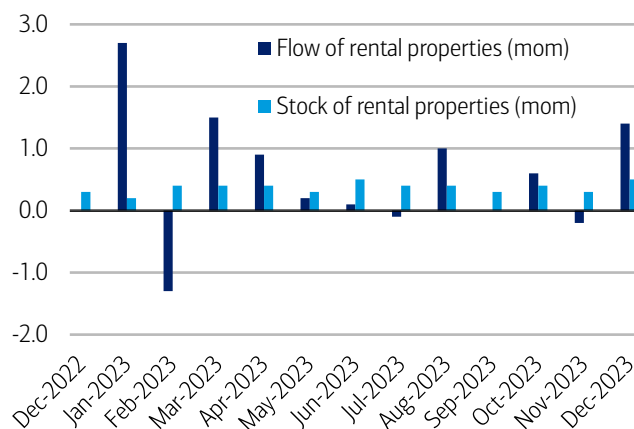


Source: REINZ, Macrobond

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Exhibit 3: Rental prices are easing

Though at a slow pace



Source: StatsNZ

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Before the RBNZ's first monetary policy meeting of the year on February 28, we will get an updated labour market report, house prices and retail spending.

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