

New Zealand economic update

4Q CPI report

CPI report: not the smoking gun for RBNZ rate hike

New Zealand's headline CPI came in above expectations in 4Q, rising 1.2%q/q (JPMorgan and consensus 1.0%). The annual rate of headline inflation, at 3.2%oya, is now back above the RBNZ's 1-3%oya target band. The good news for New Zealand households, however, is that non-tradables inflation (inflation that is generated domestically, and not influenced by the exchange rate) rose just 0.7%q/q (JPMorgan 0.8%q/q), taking the annual rate to 3.5% from 3.7% in 3Q. The fall in the annual rate of non-tradables inflation will be welcomed by the central bank. The RBNZ has been fighting non-tradables inflation above 4%oya since 2003 (chart).

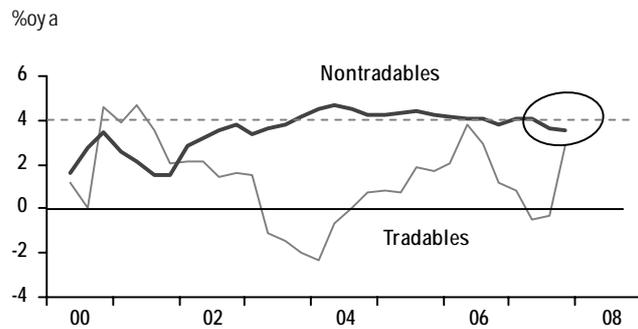
The spike in the headline rate of inflation was driven predominantly by the transport group (i.e., petrol prices were up 5.2%q/q), up 3.2% over the quarter. Excluding the increase in petrol prices, the headline CPI would have risen 1.0%q/q. Rising food prices also had a significant impact over the quarter, rising 1.5%q/q. Prices for housing and housing utilities rose a solid 0.9%q/q.

All-in-all, the report supports the RBNZ's prudent tightening bias, as the headline rate is running above the central bank's target band, but does not provide a smoking gun for RBNZ officials to deliver another tightening. JPMorgan maintains its view that the RBNZ will keep the official cash rate unchanged at an elevated 8.25% for the foreseeable future, as the upside risks to inflation remain. The upside risks to inflation are likely to come from a government keen to buy its way back into power with generous tax cuts, and a cashed-up agricultural sector (record high dairy prices are inflating the incomes of those in the industry).

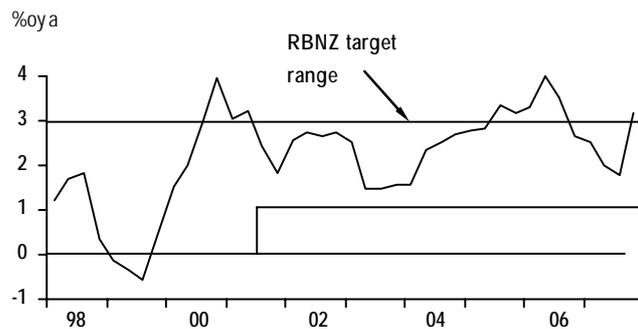
NZ trimmed mean supports our RBA rate hike call

New Zealand's trimmed mean is closely correlated to Australia's (chart). Today's reading of 0.9%q/q supports JPMorgan's forecast that Australia's trimmed mean will have also risen 0.9%q/q over the fourth quarter, and the RBA will tighten policy once more as a result.

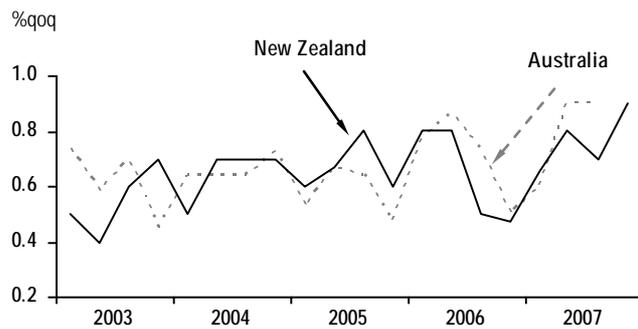
New Zealand: CPI - tradables and non-tradables



New Zealand: CPI - all items



CPI: trimmed mean (removing most volatile 30%)



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