

New Zealand economic update

Producer prices

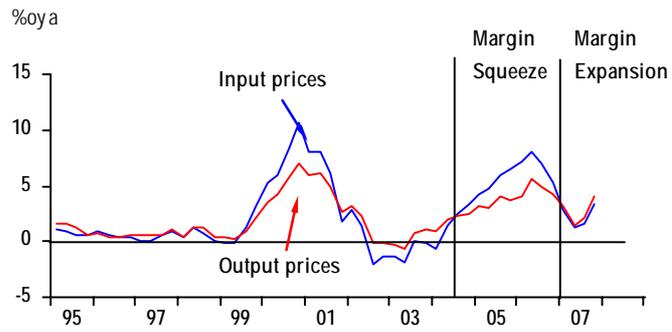
NZ PPI comes in a little stronger than market expectations; firms are passing on higher costs

New Zealand's PPI posted a stronger than expected 1.5%q/q gain in output prices (JPMorgan and consensus 1.0%q/q) in 4Q. The increase in output prices was higher than the increase in input prices over the quarter; suggesting producers are passing on their increased costs and regaining some lost margins. Input prices rose 1.3%q/q over 4Q. The annual growth in output prices is now running at 4%oya (up from 2.1% in 3Q), and input prices are up 3.4% (from 1.7% in 3Q). Over the fourth quarter, higher oil prices paid by fuel wholesalers caused the largest contribution to the increase in input prices. Meanwhile, higher dairy prices caused the dairy product manufacturing index to bounce 15%q/q, the largest quarterly rise since the series was constructed in 1994, making the largest contribution to the output index.

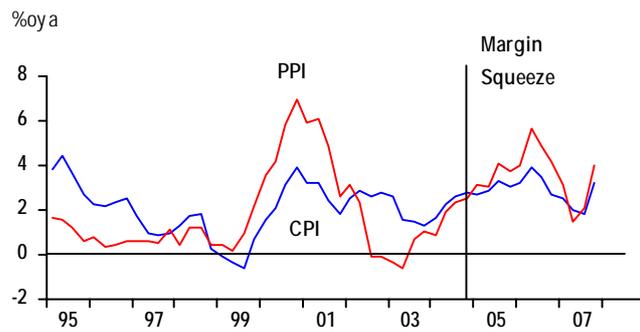
Over the past year, the restoration of producer margins has led to a greater pass-on of input costs, and the inflation build up in the pipeline continues to grow (first chart). Today's report suggests producers continue to pass on higher costs down the line. The key question is whether firms pass on these increased costs to the consumer. To date, the pass-on of higher producer prices to the department store shelves, however, has been muted (second chart), reflecting a squeeze in firm's margins. Food and petrol prices are soaring, and are being passed directly onto the consumer (the 4Q CPI report recorded a 1.5%q/q increase in food prices, and a 5.2% jump in fuel prices).

Today's report merely backs up the CPI report already released for the fourth quarter (New Zealand's CPI rose 1.2%q/q in 4Q), showing headline inflation is above the RBNZ's 1-3% target band at 3.2%oya. The RBNZ will remain staunchly on hold in coming quarters, with the downside risks to New Zealand's growth from a cooling housing market and the recent drought being offset by elevated inflation and the government's expansionary fiscal policy..

New Zealand: PPI input vs. output prices



New Zealand: PPI vs. CPI



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