JPMorgan
Helen Kevans (61-2) 9220-3250
Helen.e.kevans@jpmorgan.com

Economic Research
Sydney
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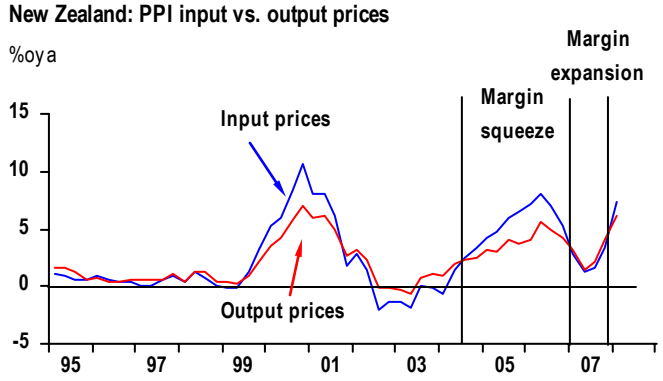
New Zealand economic update

March quarter producer prices

Producer input prices in New Zealand unexpectedly spiked 2.3%q/q in 1Q (JPMorgan 1.5%, consensus 1.1%), up sharply from the 1.3% rise in the previous quarter. Output prices also grew at a much faster rate than expected, rising 1.8%q/q (JPMorgan 1.4%, consensus 1.3%), up from 1.5% in 4Q.

The significantly faster rate of growth in input prices over output prices in 1Q confirms that producers are finding it difficult to pass rising costs on to consumers, leaving profit margins squeezed. This is of little surprise given the sharp slowdown in domestic demand in recent months, which has diminished pricing power.



The main driver in the rise in output prices was the dairy product manufacturing index, up 14%q/q, owing to higher export prices of milk powder, cheese and butter. From a year ago, the dairy product manufacturing index rose 50%, which marked the highest annual rise on record. Making the largest downward contribution to the outputs index was the livestock and cropping farming index, down 8.4%q/q, owing to lower domestic prices for lamb, steers and bulls.

The surge in input prices was driven by the electricity generation and supply index, alongside higher crude and oil prices. Prices paid by power companies surged 42%q/q in 4Q as, owing to the drought, low hydro lake levels boosted wholesale electricity costs, essentially meaning that companies paid more for power. Making a downward contribution to the inputs index was the meat and meat product manufacturing index, down 8.6%q/q, due to lower prices of sheep and lamb, and cattle and calves.

On monetary policy, with significant price pressures in the pipeline, there is little scope for the RBNZ to ease monetary policy any time soon. Inflation pressures are already widespread. Headline inflation in 1Q rose to 3.4%, holding well-above the RBNZ's 1-3% target band. JPMorgan maintains its view that, given widespread inflationary pressures, the RBNZ will not begin easing monetary policy until 4Q. Our forecast calls for a 25bp cut in the OCR in October, and another 25bp cut in December.

New Zealand: PPI vs. CPI