

Hints of inflation in Q3

- The Q3 CPI was slightly stronger than expected, but inflation remains muted.
- The reduction in ACC vehicle levies weighed on inflation over the quarter, but the RBNZ looks through such movements.
- We continue to expect the RBNZ to cut the OCR in November, with risks of an additional cut early next year.

The Q3 CPI rose 0.2% qoq and yoy, higher than ASB's and the RBNZ's quarterly forecasts, though in line with the RBNZ's annual expectation. The **still-muted quarterly outcome stems from one-off movements such as the fall in the ACC vehicle licensing levy**. However, reasonable price increases in both the construction sector and wider household contents will give the RBNZ some reassurance that pockets of inflation pressure exist.

Tradable inflation was stronger than expected over the quarter, despite falling petrol prices and the recent strength in the NZD. Tradable inflation was 0% over the quarter, compared to our forecast of a 0.3% fall (RBNZ implied forecast -0.2%). **The RBNZ will also take comfort from the fact that key measures of core inflation were steady over the quarter, even as headline annual inflation fell slightly.** Annually, the trimmed 10% mean remained at 0.8% and the weighted median sat steady at 1.7% for the year.

We continue to expect the RBNZ to cut the OCR in November. There remains the risk of a further cut in 2017, but this CPI outcome does not add to the case for such a move.

Q2 2016 CPI %	Actual	ASB	RBNZ	Market
CPI qoq	0.2	0.0	0.1	0.0
CPI yoy	0.2	0.1	0.2	0.1
Non-tradable qoq	0.3	0.2	0.4	
Non-tradable yoy	2.1	2.0	2.2	
Tradable qoq	0.0	-0.3	-0.2	
Tradable yoy	-2.1	-2.5	-2.3	

Key drivers of the Q3 result included:

- **A 2.0% lift in construction prices over the quarter.**
- **A 28.5% fall in vehicle servicing and repairs (on the ACC levy).**
- **A 1.1% lift in audio-visual equipment.**

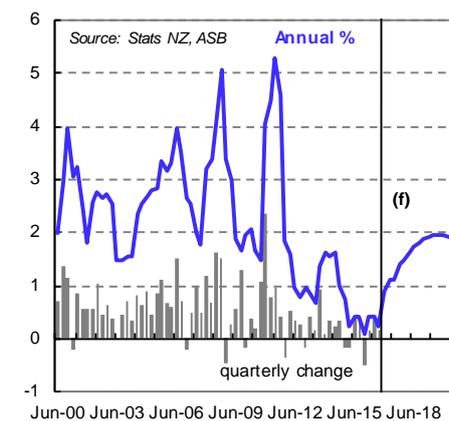
Construction prices continue to be a key driver of inflation as capacity issues, especially in the North Island, continue to bite. On an annual basis, construction costs are now sitting 6.3% higher than this time last year.

Outside of the construction sector, domestically-generated inflation pressures remain subdued. Rent prices were restrained, as tenancy bond data had suggested, and the annual lift in council rates was also limited.

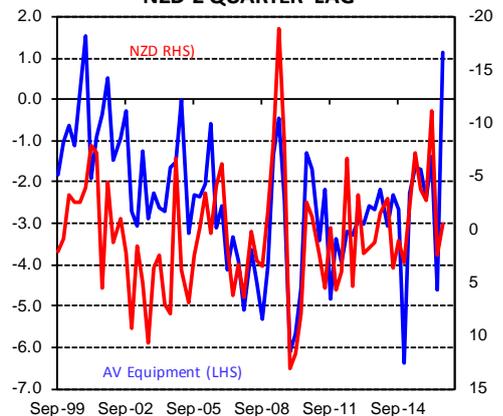
Price increases in household contents and audio-visual equipment were more surprising, particularly given the recent strength in the NZD. Audio-visual equipment rose 1.1% over the quarter, the first price rise since December 2001. However, it remains to be seen whether these price lifts are sustainable. For example, if the NZD remains high, this should drag on tradable inflation in the near future.

We expect inflation to lift slowly from here on out as economic growth and a tighter labour market generate more domestic inflation.

NZ CPI INFLATION



**AV EQUIPMENT
NZD 2 QUARTER LAG**



CPI breakdown Q%	Mar-16	Jun-16	Sep-16
Food	1.2	0.3	0.4
Alcohol & tobacco	3.7	0.3	-0.1
Clothing & footwear	-0.4	0.9	-0.2
Housing & h/h utilities	0.6	1.0	1.1
H/h contents & services	1.7	-1.0	2.3
Health	-0.1	0.2	1.3
Transport	-3.6	1.0	-3.0
Communication	0.4	-0.3	-0.5
Recreation and culture	-0.9	-0.7	0.7
Education	2.5	0.3	0.1
Misc. goods & services	0.2	0.3	0.5
CPI	0.2	0.4	0.2
Tradable	-0.9	0.6	0.0
Non-tradable	1.0	0.3	0.3
CPI Annual	0.4	0.4	0.2

ASB Economics & Research			Phone	Fax
Chief Economist	Nick Tuffley	nick.tuffley@asb.co.nz	(649) 301 5659	(649) 302 0992
Senior Economist	Jane Turner	jane.turner@asb.co.nz	(649) 301 5853	
Senior Rural Economist	Nathan Penny	nathan.penny@asb.co.nz	(649) 448 8778	
Economist	Kim Mundy	kim.mundy@asb.co.nz	(649) 301 5661	
Economist	Daniel Snowden	daniel.snowden@asb.co.nz	(649) 301 5657	
Publication and Data Analyst	Judith Pinto	judith.pinto@asb.co.nz	(649) 301 5660	

Consensus Economics
Forecast Accuracy Award
Winner 2013 & 2014

[Click here to read the latest ASB Economic Reports](#)

In business, **ambition** leads and success follows

Consensus Economics
Forecast Accuracy
Award Winner
2014 New Zealand

<https://reports.asb.co.nz/index.html>

[@ASBMarkets](#)

ASB Economics

ASB North Wharf, 12 Jellicoe Street, Auckland

Disclaimer

This document is published solely for informational purposes. It has been prepared without taking account of your objectives, financial situation, or needs. Before acting on the information in this document, you should consider the appropriateness and suitability of the information, having regard to your objectives, financial situation and needs, and, if necessary seek appropriate professional or financial advice.

We believe that the information in this document is correct and any opinions, conclusions or recommendations are reasonably held or made, based on the information available at the time of its compilation, but no representation or warranty, either expressed or implied, is made or provided as to accuracy, reliability or completeness of any statement made in this document. Any opinions, conclusions or recommendations set forth in this document are subject to change without notice and may differ or be contrary to the opinions, conclusions or recommendations expressed elsewhere by ASB Bank Limited. We are under no obligation to, and do not, update or keep current the information contained in this document. Neither ASB nor any person involved in the preparation of this document accepts any liability for any loss or damage arising out of the use of all or any part of this document.

Any valuations, projections and forecasts contained in this document are based on a number of assumptions and estimates and are subject to contingencies and uncertainties. Different assumptions and estimates could result in materially different results. ASB does not represent or warrant that any of these valuations, projections or forecasts, or any of the underlying assumptions or estimates, will be met.