CPI shows signs of levelling out

Tuesday 19 April 2016 *By Miriam Bell*

The Reserve Bank's juggling act has not become any easier despite signs that inflation may have bottomed out.

The consumer price index (CPI) rose 0.2% in the March quarter, after a fall of 0.5% in the December 2015 quarter.

Most inflation measures picked up, suggesting inflation may have bottomed out but it is still very weak, well below the bottom of the 1% to 3% target of the Reserve Bank.

That would normally prompt the bank to cut the cash rate to try to stimulate inflation. But on the other hand, Real Estate Institute data shows house price inflation has picked up substantially after what seemed to be a slowdown earlier in the year.

The CPI increase was driven by higher prices for cigarettes, food and housing. Housing-related prices continue to be the main upward contributor, up 3% in the year. This rise was led by higher prices for rent (up 2.3%) and newly-built houses excluding land, up 5%.

Petrol prices were the biggest drag on inflation, down 7.7% for the quarter.

The CPI increased 0.4% in the year to the March 2016 quarter, up from a 0.1% increase for the year to the December 2015 quarter.

Economists said an OCR cut was still likely but might be pushed further out by the news.

Jane Turner, at ASB, said the data was encouraging for the Reserve Bank and it might decide to wait until June for the next cut.

"In saying this, given the persistent strength in the TWI, we cannot entirely discount an April cut as the decision will remain a close call."

"Inflation may have bottomed out, but the RBNZ still faces a challenge getting it up to its 'near 2%' target on a sustained basis. We expect another cut soon, as signalled in the March Monetary Policy Statement. Today's data won't have changed the equation much, although possibly providing some reassurance that inflation is at least heading in the right direction. It's a close call, but, on balance, we expect the cut to come in June rather than April," HSBC said.

Ben Jarman, at JP Morgan, said it would come down to how anxious bank officials were about the strength of the exchange rate versus the renewed lift in the housing market.