

# CPI falls to the bottom of the Reserve Bank's inflation target, as the Government's fees-free education policy drags on overall price gains over the quarter

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The Government's fees-free education policy is a major factor behind consumer price index (CPI) prices falling to the very bottom of the Reserve Bank's inflation target.

Inflation rose 0.5% over the March quarter for an annual increase of 1.1% – putting it at the very bottom of the Reserve Bank's 1-3% inflation mandate.

This is down from 1.6% in the year-to-December.

But the drop is only expected to be temporary, according to Westpac Senior Economist Michael Gordon.

“We expect that a lower New Zealand dollar will give a boost to tradables prices (or lead to smaller declines) over the rest of this year.

And as the weak inflation through mid-2017 drops out, the year-on-year comparison will become more favourable for the Reserve Bank.”

As expected, tobacco and alcohol, as well as housing and household utilities added the most to the CPI over the quarter but were largely offset by the Government's fees-free tertiary education policy.

From the start of the year, all New Zealand students who finished school in 2017, or will finish school during 2018, qualify for a year of free provider-based tertiary education or industry training.

In total, education prices fell 5.6% over the quarter, led by a 16% fall in tertiary and other post-school education prices.