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Falling transport costs and flat food prices dragged annual inflation to just above the 1% to 3% target band during the June quarter

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The Reserve Bank of New Zealand in Wellington, 2024

Annual inflation has fallen to 3.3% after consumer prices rose just 0.4% in the June quarter, according to data released by Statistics New Zealand on Wednesday.

This marks a major milestone in the Reserve Bank's war on inflation, with the headline rate now the lowest it has been since inflation first left the target band in June 2021.

Economists predicted the **June inflation rate would be 3.4%** and the central bank, which set its forecast back in May, was expecting 3.6% — all down from 4% in the March quarter.

This result puts headline inflation tantalisingly close to the 1% to 3% target range and could pave the way for interest rate cuts before the end of the year.

In a note prior to the data release, ANZ's chief economist Sharon Zollner said she wasn't expecting it to be a "hallelujah moment".

"But it [will] mark real progress and, importantly, the end of a run of upwards surprises versus RBNZ's expectations," she said last Thursday.

Domestic inflation printed **well above forecasts** in the March data and scared the central bank into discussing hiking interest rates during their May meeting.

This latest release will be more reassuring for the policymakers with both imported and local inflation easing. Tradable prices fell 0.5% during the June quarter while non-tradables rose 0.9%.

The annual increases were 0.3% and 5.4%, compared to RBNZ's forecast for 1.1% and 5.3% and down from 1.6% and 5.8% in March.

Cheaper transport, costly insurance

During June, transport costs fell for a third quarter in a row with petrol prices and airfares both falling. Food prices rose at their slowest annual pace since 2018, just 0.2%, as fresh produce supplies recovered from the extreme weather events last year.

More moderate prices in restaurants, local holiday accommodation, and retail shops also contributed to an improved headline inflation rate.

On the other side of the ledger, housing-related costs continue to be the largest contributor to inflation with a 1.1% increase during the quarter.

Rents, which rose 1.2% in the past three months, tend to track income growth and are slow to respond to higher interest rates. They are expected to ease as unemployment rises.

Higher electricity prices also increased housing inflation and construction costs kept rising, albeit at a slower rate with activity in the sector having tanked.

Finally, insurance costs were up 3.1% with previous rounds of inflation and increased weather-related risks flowing through to premiums.

It is this kind of stubborn services inflation, which is driven by earlier cost increases, that has been difficult for monetary policy to tamp down in the domestic economy.

ASB has estimated that inflation in a basket of "cost-driven" items—such as local authority rates, insurance, and indexed taxes on tobacco and alcohol—may be running as high as 10%.

While the significant decline in headline inflation appears to set the scene for an **easing in monetary policy**, the RBNZ is unlikely to act unless it sees core inflation falling as well.