

New Zealand Watch

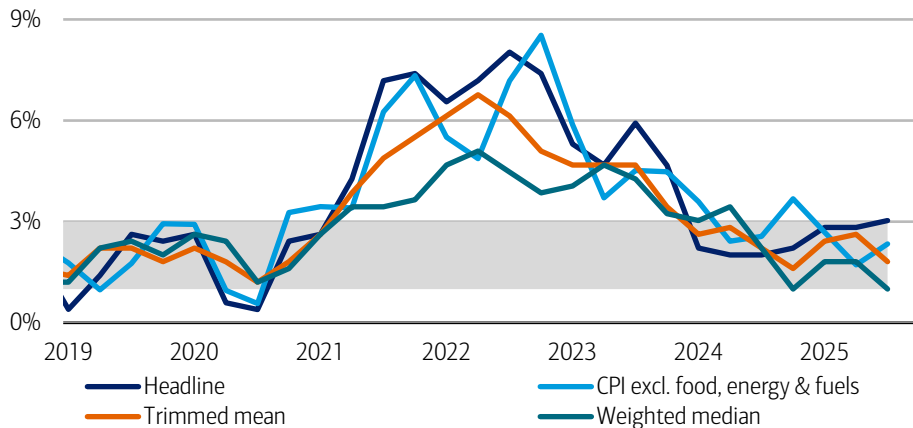
3Q CPI review: Inflation peaks, disinflation ahead

Inflation hits the top of the RBNZ target band

Inflation rose 1.0% q/q and 3.0% y/y in 3Q to reach the top of the RBNZ's target band, broadly in line with market and RBNZ expectations. Strong rises in food prices and housing & utilities contributed 0.78ppt of the 1.0% q/q increase. But underlying price pressures remain soft as rising inflation mostly reflects temporary factors in acyclical sectors. Core inflation was soft, with trimmed mean rising 0.4% q/q and 2.2% y/y and weighted median increasing 0.2% q/q and 2.2% y/y, and both rising by under 2% on a 6m annualized basis (Exhibit 1). We still expect the RBNZ to cut by 25bps in Nov, but see risks of a 50bps cut given weak growth and disinflationary forces.

Exhibit 1: Headline inflation rises due to volatile prices, while core measures soften

Headline, core, trimmed mean and weighted median (6-month annualized, %)



Source: Stats NZ

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Underlying prices pressures are weak

Tradeable and non-tradeable inflation continues to converge. Tradables inflation increased to 2.2% y/y (0.8% q/q) in 3Q led by meat and poultry and overseas accommodation (Exhibit 2). Non-tradables inflation eased to 3.5% y/y (1.1% q/q) alongside weak domestic demand, reaching the lowest level since 2021. Excluding government charges, non-tradeable prices rose 2.6% y/y.

AUD/NZD: bullish macro but RSI>70

Fundamentals look bullish for AUD/NZD: the RBA's easing cycle looks almost complete and the Bank could deliver its final cut in November or December (AU quarterly CPI on 29 October will be key), the outright level of rates in NZ looks high and a deeper or more aggressive easing cycle than our economists' base case is more likely than a shallower or delayed easing cycle, and there is likely more upside for AU fiscal policy because of a rally in precious metals than for NZ. Technical strategy matters, though, perhaps especially for AUD/NZD. With a weekly RSI of 75 and market jitters about credit quality in the US (our bank analysts are not concerned about contagion – see report: [US Banks 19 October 2025](#)), patience may be required. For now, we wait a for RSI to move below 70 or AUD/NZD to trade closer to 1.12 but retain our year-end target of 1.15.

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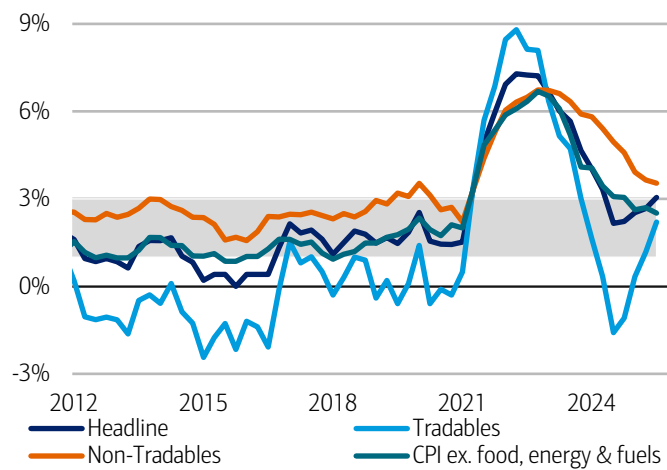
Food and utilities inflation rises in 3Q

Food prices (18.5% of the CPI) increased strongly as expected, up 1.7% q/q and contributing over 0.3ppt of the 3Q rise (Exhibit 6). Household utilities also rose strongly, with property rates and related services increasing 8.2% q/q (measured annually in 3Q) and household energy prices increasing 2.9% q/q. On the downside, telecommunications fell 3.7% q/q and petrol prices (4% of the CPI) remained flat. Looking ahead, food price inflation remains strong and the monthly selected price indices will be key for gauging near-term inflationary pressure.

The breadth of inflationary pressures has softened, with the number of CPI components above 3% y/y falling below 60% despite the increasing headline CPI (Exhibit 3). These components, particularly foods and administered rates, heavily outweighed the bottom 5 contributors to inflation (Exhibit 7).

Exhibit 2: Tradable prices driving higher near-term inflation, while non-tradables continue to ease

Headline, core, tradable and non-tradeable CPI inflation (% y/y)

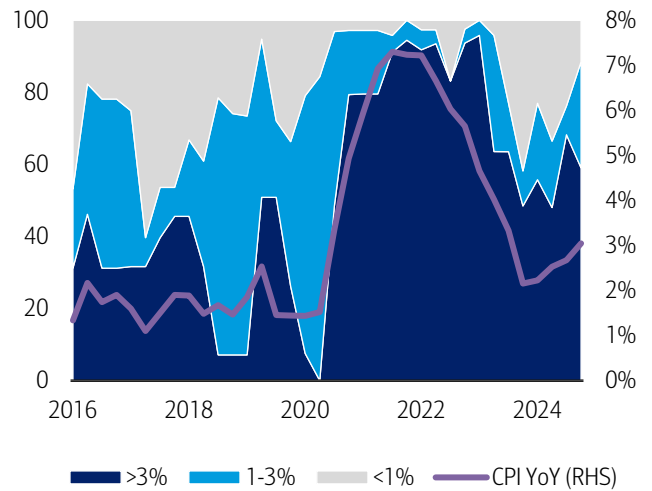


Source: Stats NZ

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Exhibit 3: Inflation breadth has fallen despite the increase in CPI

NZ major components inflation % to CPI categorized by y/y%

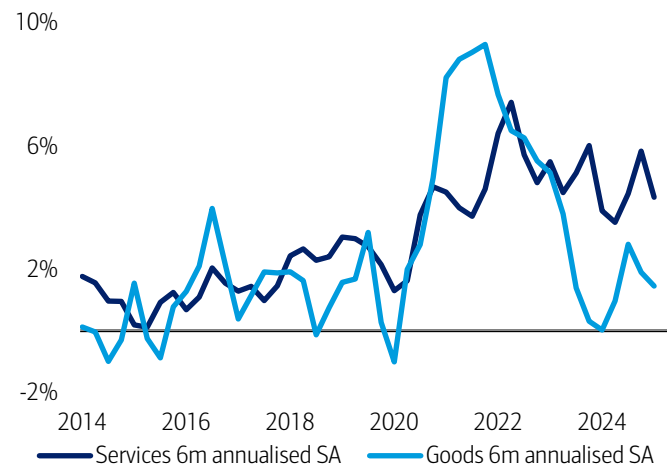


Source: Stats NZ

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Exhibit 4: Services inflation remains well above goods inflation

Goods and services inflation (6m annualized)

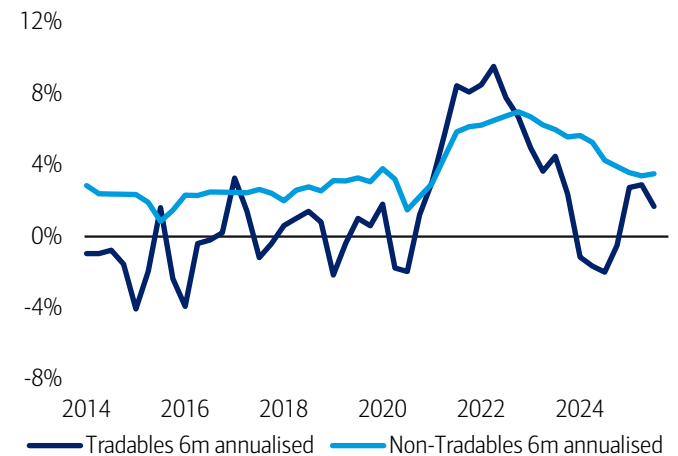


Source: Stats NZ

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Exhibit 5: Tradables inflation has picked up while non-tradables continues to ease

Tradables and non-tradables inflation (6m annualized)



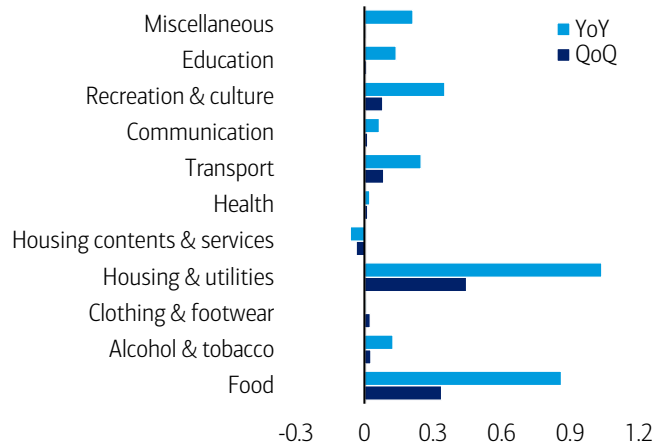
Source: Stats NZ

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Exhibit 6: Rising inflation driven by food, housing & utilities, but underlying price pressures are soft

Inflation q/q and y/y contributions (ppt) by CPI component

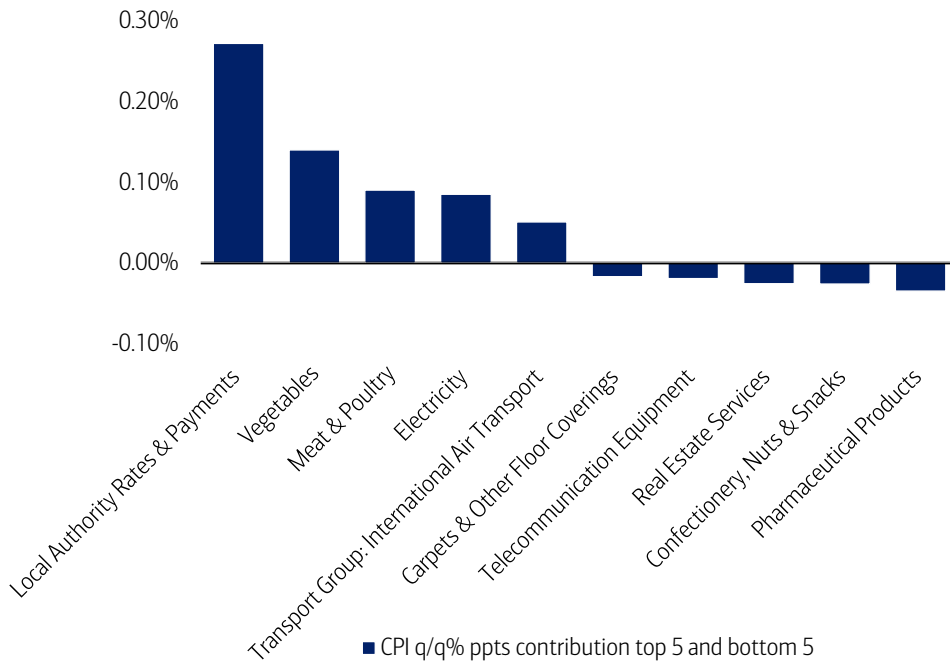


Source: Stats NZ

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Exhibit 7: Housing rates, food and electricity outweigh the bottom 5 contributors to CPI

3Q CPI qq% pts contribution by the top 5 and bottom 5 contributors



Source: Stats NZ

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