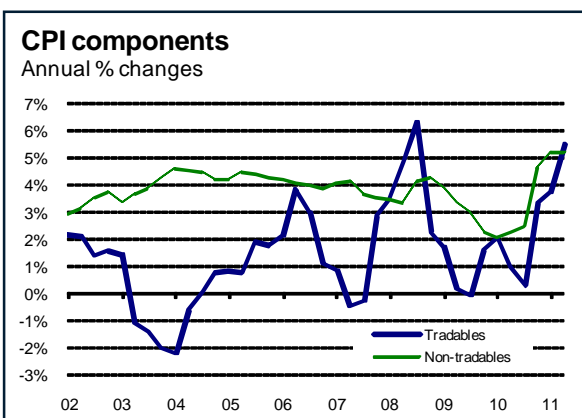
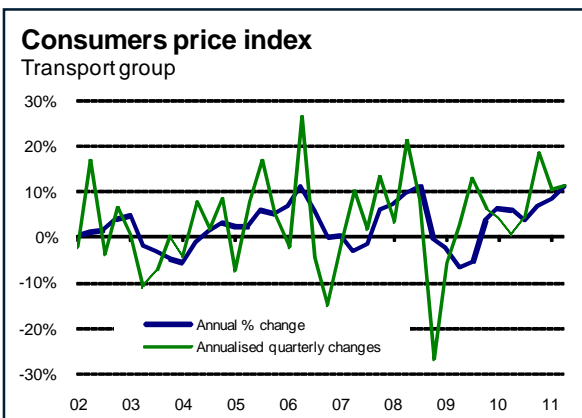
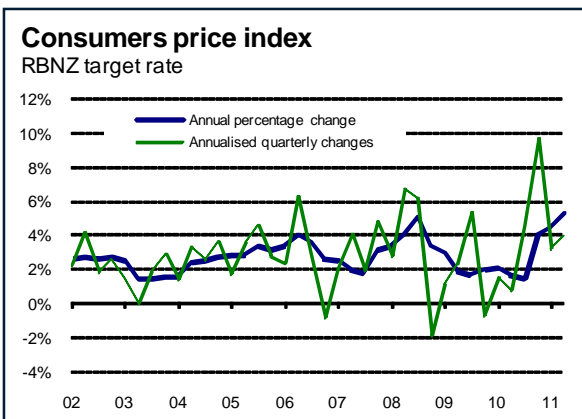




	Jun-11	Mar-11	Dec-10	Sep-10
<b>Headline inflation</b>				
Quarter on previous quarter	1.0%	0.8%	2.3%	1.1%
Annual % change	5.3%	4.5%	4.0%	1.5%
<b>Subgroups - annual % changes</b>				
Transport	11.0%	8.2%	6.6%	3.7%
Food	7.0%	4.8%	4.6%	0.1%

*Data source: Statistics New Zealand*



## Food and fuel prices drive CPI

The consumers price index rose 1.0% in the June quarter, pushing the annual headline figure to a 21-year high of 5.3%. Accounting for the October rise in GST, annual inflation is now around the 3% mark. However, much of the rise in food and fuel prices over the last few months has been a result of temporary or one-off factors. Spare capacity in the domestic economy will keep underlying inflation in check over the rest of 2011.

The largest contributor to the rise in the CPI during the June quarter was the transport subgroup, which rose 2.7% for the quarter. Petrol prices lifted 4.0% in the quarter, but with petrol prices having come back over the last few weeks the transport subgroup may be more stable during the September quarter.

The food subgroup rose 1.1% during the June quarter and made the next most significant contribution to the CPI. Part of the increase in food prices over the last few months has been due to temporary factors such as the Queensland floods, so growth in food prices is likely to moderate during the second half of 2011.

Higher electricity prices saw the housing and household utilities subgroup rise 0.9% in the June quarter. Electricity production has been fully under the Emissions Trading Scheme since July 2010, but some retailers have been staggering their price increases.

Underlying price pressures will moderate over the next six months as growth in food and energy prices eases. Even though the June quarter CPI rise is largely a result of temporary factors, it was notably ahead of the Reserve Bank's Expectations. When placed alongside the relatively strong GDP growth in March, it is looking increasingly likely that the Reserve Bank will begin lifting rates in December.