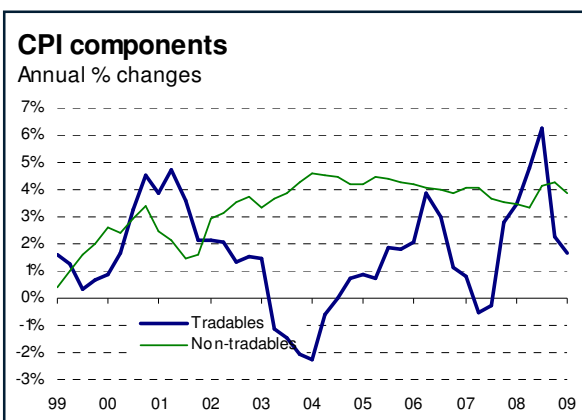
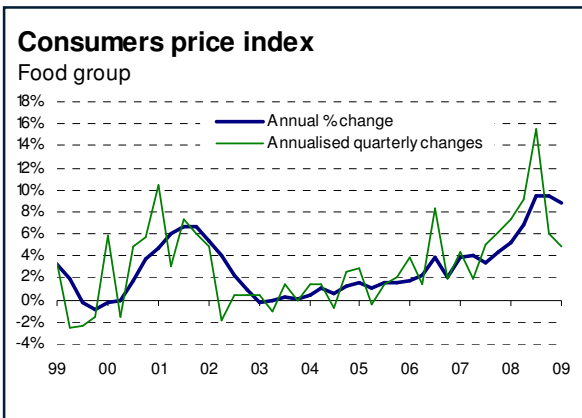
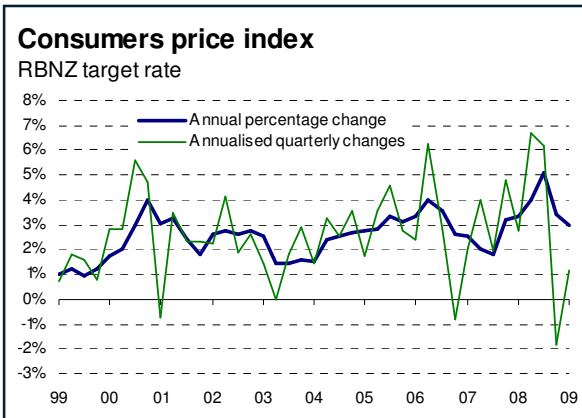




	Mar-09	Dec-08	Sep-08	Jun-08
Headline inflation				
Quarter on previous quarter	0.3%	-0.5%	1.5%	1.6%
Annual % change	3.0%	3.4%	5.1%	4.0%
Subgroups - annual % changes				
Food	8.8%	9.4%	9.5%	6.9%
Housing	3.6%	4.3%	4.7%	5.0%

Data source: Statistics New Zealand



Non-tradable inflation on target to fall

Further sharp declines in prices in the transport industry (down 2.6% on March 2008) saw annual inflation fall to within the RBNZ's target band for the first time since September 2007 – with consumer prices in March up 3.0% on March 2008. With non-tradable inflation softening, we expect inflation to continue falling over 2009.

Although non-tradable inflation has remained strong (up 3.8% on a year earlier), quarterly growth in consumer prices eased to 0.7% in March. Given that March is historically a strong month for consumer prices (as many industries, including education, reset prices in this month) this is a surprisingly weak result. To put this growth in perspective, this was the slowest March quarter growth in non-tradable prices since 2001.

Non-tradable inflation has been held up by strong growth in electricity prices over the past year, even as growth in other household costs has eased. With the drought now well behind us we expect electricity prices to moderate – leading to further soft out-turns for non-tradable price growth.

Food price inflation remained remarkably strong over the March quarter – rising 1.2% on September, and 8.8% on March 2008. The lift in food prices accounted for half of the increase in consumer prices over the past year. The most significant contributor to the lift in food prices was higher grocery prices – up 8.9% on March 2008.

With economic activity continuing to contract over the first half of 2009, we expect to see inflationary pressures continue to melt away. As a result, the Reserve Bank's primary focus in the short-term will be on supporting economic activity – implying that they have room to cut rates further if need be.