

Food prices up, credit rating threatened - ONE News, 16 July 2009

The cost of feeding a family is getting higher even though inflation is at its lowest point in nearly two years.

The Consumer Price Index (CPI) rose 1.9% for the year to June.

International food demand, seasonal price fluctuations and the Kiwi dollar is making it increasingly expensive to buy food.

Restaurant meals are nearly 5% higher than last year but cooking your own meat, poultry and fish costs 11.3% more today.

Also consumers are paying more for fruit and vegetables, which are up 8.3%.

But there is good news at the pump with consumers paying less to fill up - petrol is down by nearly a fifth and diesel two fifths.

The cost of international air travel is down a whopping 20.7% while package holidays are 7% cheaper.

But bigger pay packets are unlikely.

"Some employers are trying to get a zero movement which is very unreasonable when you look at the position workers face, with cost of living and that sort of thing," says Peter Conway, CTU Secretary.

But Finance Minister Bill English says this is something that is experienced during a recession.

"All of these things are pretty tough on people who see their incomes being knocked back but it's the kind of resilience we need to get through a recession," says English.

But as the recession draws to a close, prices are likely to go up again, killing any hope of respite.

"We don't see wages going up any time soon and the prices will go up earlier than that so we think it is going to get tougher to buy food before it gets easier," says Raewyn Fox of the Federation of Family Budgeting Services.

Credit rating threatened

The easing in inflation pressures comes as New Zealand is again put on notice of a possible sovereign credit downgrade by one of the big three credit rating agencies.

Fitch has moved New Zealand's outlook from stable to negative, warning that unless the country starts saving more and borrowing less from foreigners over the next one to two years, the nation stands to lose its prized AA+ credit rating.

It is a move that would mean higher interest bills. The warning is similar to the one issued by Standard and Poors earlier this year, but since reversed after the budget.

The New Zealand dollar has fallen over half a cent on the news so far. As for the inflation, that is a symptom of the country's 15-month recession.

The demand for goods and services have slumped as consumers have tightened their belts, and that has freed up resources, taking pressure off prices.

It is great for consumers, looking for bargains, but cold comfort for those joining the dole queue, as firms cut jobs because of falling orders.

For the Reserve Bank it is essential as it needs tame inflation, so it can aid recovery and keep interest rates low for the next year, as promised.

It will not let inflation slide too far though as no inflation can lead to a dangerous cycle of falling prices and wages.

But with economies on the mend because of huge government spending around the globe, a big worry is high inflation will make a nasty comeback.

It is a risk, so borrowers and savers, need to be mindful when making decisions, that the low interest rates of recent times, could be a distant memory in a couple of years.