

ANZ MONTHLY INFLATION GAUGE

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SUMMARY

- Prices in the ANZ Monthly Inflation Gauge¹ lifted 0.3% m/m in June following a string of weak monthly outturns. The Gauge is up 2.4% y/y and has been trending sideways over Q2 after losing momentum in early 2018.
- At -0.2% q/q, the Gauge is pointing to a weak print for non-tradables inflation in Q2, with inflation outside of housing remaining soft.

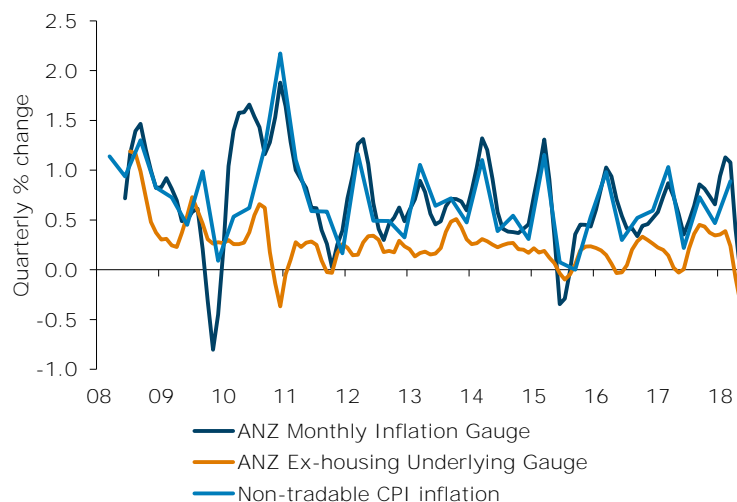
FOR MORE INFLATION, BLOW INTO THE MOUTHPIECE

The ANZ Monthly Inflation Gauge rose 0.3% m/m (+2.4% y/y) in June with domestic airfares making the largest contribution (0.12%pts). Together, purchase of housing, vehicle insurance and life insurance contributed 0.14%pts to the m/m rise. Declines in the price for sea passenger transport and rents made a partial offset. The latter reflecting the seasonal lull after the student-induced bustle earlier in the year.

Inflation in the ANZ Monthly Gauge has been tracking sideways after losing momentum earlier in the year. In annual terms, the Gauge was up 2.4% in June, slowing from 3.1% in February and below the 12-month average of 2.7%. Looking through some of the policy-induced noise, the ex-tobacco, alcohol and tertiary education fees Gauge also moderated, running at 2.3% y/y. **But it's the Underlying Ex-housing Gauge that really highlights the lack of broadening inflationary pressures**, at just 0.8% y/y.

At -0.2% q/q, the Gauge implies a weak non-tradables CPI inflation print in Q2 (scheduled to be published on 17 July). While much of this weakness is owing to earlier monthly outturns, **June's bounce back was** much smaller than anticipated, and points to downside risks around our previous (and the RBNZ's May MPS) expectation of 0.3% q/q (2.4% y/y) for non-tradables inflation in Q2. Given **the Gauge's recent performance** against CPI non-tradables (the Gauge q/q has had an average error of zero with a range of $\pm 0.4\%$ pts since late-2010) **it looks like we're in for a weak one.** Our Q2 CPI Preview will be out later this week after June food prices are released on Thursday.

Figure 1. Quarterly inflation measures



Source: ANZ Research, Statistics NZ

¹ Data is subject to revision. All quarterly and annual movements are on a 3-month average basis unless otherwise stated.

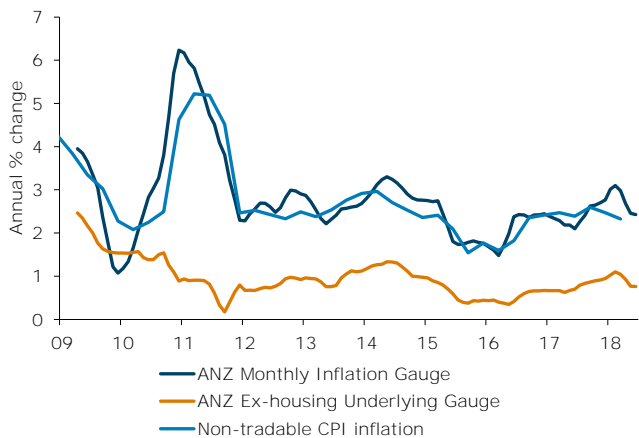
ANZ MONTHLY INFLATION GAUGE

	Monthly Inflation Gauge (Index)	Monthly Inflation Gauge (m/m%)	Implied Inflation Gauge (q/q%)	Actual non-tradable CPI (q/q%)
Feb-17	1292	0.2		
Mar-17	1296	0.3	0.9	1.0
Apr-17	1295	-0.1		
May-17	1297	0.2		
Jun-17	1300	0.2	0.4	0.2
Jul-17	1305	0.4		
Aug-17	1308	0.2		
Sep-17	1312	0.3	0.9	0.7
Oct-17	1313	0.1		
Nov-17	1316	0.2		
Dec-17	1321	0.4	0.7	0.5
Jan-18	1333	0.9		
Feb-18	1331	-0.1		
Mar-18	1329	-0.2	1.1	0.9
Apr-18	1326	-0.2		
May-18	1327	0.1		
Jun-18	1332	0.3	-0.2	

The following charts show both the ANZ Monthly Inflation Gauge measures for selected components and the associated CPI data from Statistics New Zealand (SNZ).

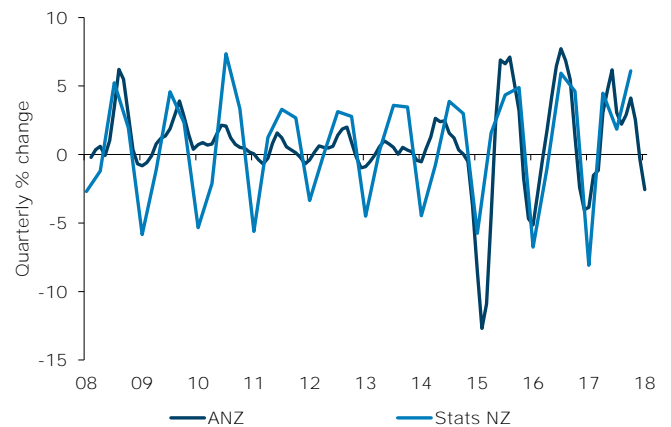
There is an ongoing process of alignment of the Gauge with the sources and methodology used by SNZ². This month we have included 'Overseas accommodation prepaid in New Zealand' within the accommodation services component. Data was observed for May/June 2018 and extrapolated back to October 2017 to coincide with its inclusion in the CPI basket for the December 2017 quarter. Purchase of housing has been decelerating since June 2017, with the Gauge measure slightly higher over this time. The Gauge estimates this component rose 0.9% in the June quarter. The ANZ domestic air transport sources and methodology was updated in late 2016 to include Jetstar air routes.

Figure 2. Annual inflation measures



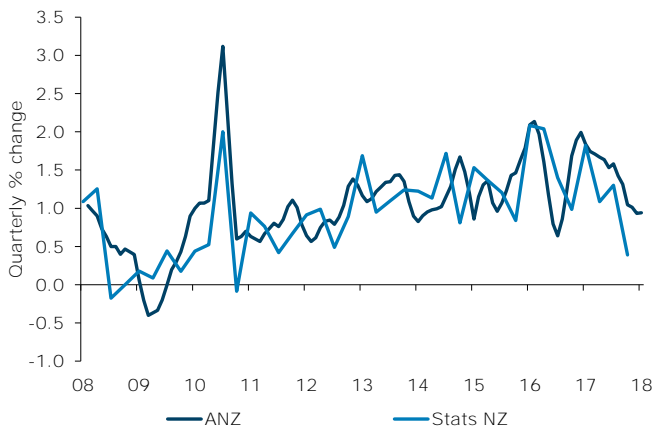
Source: ANZ Research, Statistics NZ

Figure 3. Accommodation services



Source: ANZ Research, Statistics NZ

Figure 4. Purchase of housing



Source: ANZ Research

Figure 5. Domestic air transport



Source: ANZ Research, Statistics NZ

² SNZ Consumers Price Index sources and methods are available on their website [here](#).

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