

NEW ZEALAND ECONOMICS

ANZ MONTHLY INFLATION GAUGE

January 2015

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SUMMARY

- Prices in our Gauge rose 0.2% in the month of December, with a 0.1% monthly rise outside of the housing group. Prices rose in four groups and fell in one, with prices unchanged in the remaining three.
- Prices rose 0.4% in the December quarter, with a 0.1% quarterly lift in the Ex-housing Gauge. We expect a low Q4 official inflation print next week. While partly petrol-fuelled, the reasons for subdued inflation are broader.
- Modest price increases in our Monthly Inflation Gauge are consistent with the OCR remaining firmly on hold.

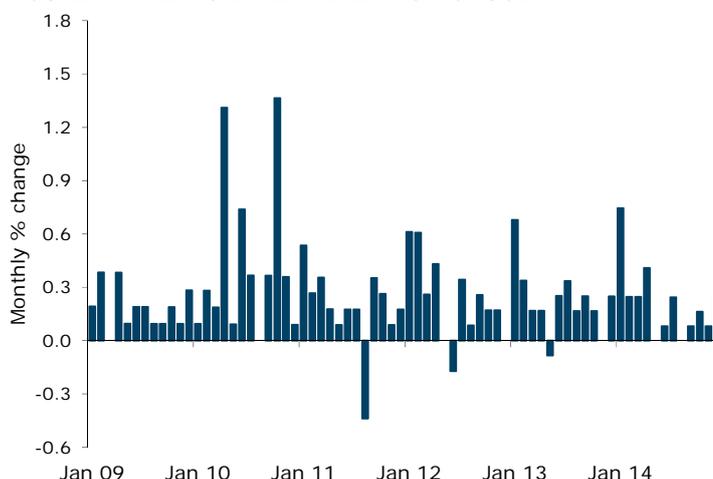
TICKING UP

Measures from our **Monthly Inflation Gauge** provide a **directional signal of broad trends and movements in non-tradable CPI inflation** produced by Statistics New Zealand, but at a monthly frequency. Differences in methodology and coverage mean the Gauge will not exactly mirror the official series. We also produce an Underlying Gauge that adjusts for indirect taxes and tertiary education fees, while our Ex-housing Gauge removes housing group prices.

Prices in our Gauge rose 0.2% in December. Rises in life and healthcare insurance pushed up prices in the miscellaneous goods & services group. Higher physiotherapy fees pushed up healthcare prices. Increases for zoo admission, golf green fees, and holiday parks pushed up recreation & culture group prices. Price pressures remained acute in the housing group, with further rises in construction costs and dwelling rents, consistent with anecdotal reports of a squeeze in rental accommodation in Auckland. There was a scattering of price falls, with lower domestic airfares and falls for bus and rail fares contributing to a second successive fall in transport group prices, with offsetting increases in sea passenger transport and higher parking fees.

Prices rose 0.4% in the December 2014 quarter, a fraction higher than in November, but below the RBNZ 0.5% pick for quarterly non-tradable CPI inflation. There are no signs of a broad-based lift in inflation, with prices in our ex-housing Underlying Gauge holding at a 0.1% quarterly rate.

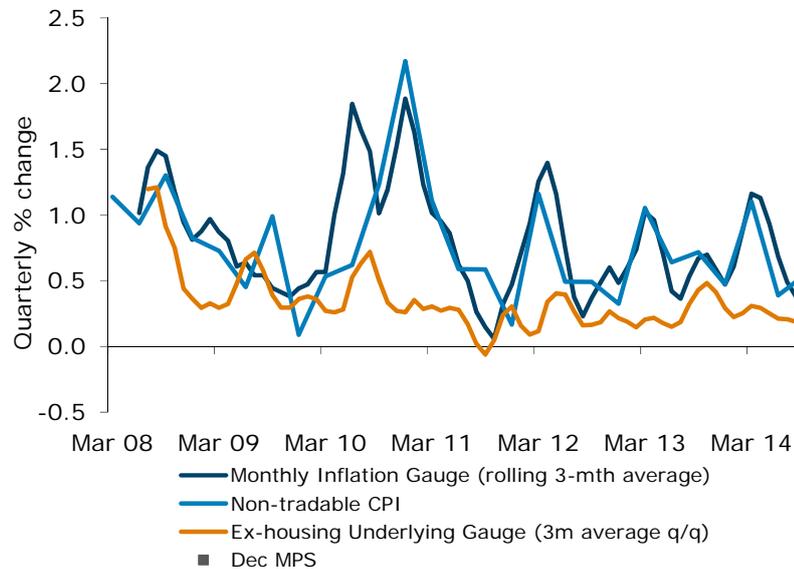
FIGURE 1: ANZ MONTHLY INFLATION GAUGE



Source: ANZ

ANZ MONTHLY INFLATION GAUGE

FIGURE 2: MONTHLY INFLATION GAUGE AND NON-TRADABLE CPI



Source: ANZ, Statistics NZ, RBNZ

We expect a low inflation print next week when the official Q4 CPI figures are released; our own pick is -0.2%, taking the annual rate down to 0.8%. It's normal to see a weak CPI print in the December quarter; seasonality plays a role. Throw in declines in petrol prices, a high NZD suppressing tradable inflation, and aggressive retail competition and you get an annual inflation rate that is receding. The story is far broader than that though. Our Gauge portends another soft read for non-tradable prices too. Conjecture will continue to surround what is driving this; is it cyclical or structural? Downward revisions to GDP (meaning less pressure on capacity) may partly explain why domestic-related inflation remains so low at this juncture in the economic cycle. We expect ongoing subdued reads from the Gauge – we're seeing no inflation pick-up, despite a still-solid growth backdrop. It is looking more like a structural shift in the evolution of inflation as opposed to merely timing differences or cyclical factors.

	Monthly Inflation Gauge (Index)	Monthly Inflation Gauge (m/m%)	Implied Inflation Gauge (q/q%)	Actual non-tradable CPI (q/q%)
Mar-13	965	-0.1	1.0	1.1
Apr-13	967	0.2		
May-13	966	-0.1		
Jun-13	968	0.3	0.4	0.6
Jul-13	972	0.3		
Aug-13	973	0.2		
Sep-13	976	0.2	0.7	0.7
Oct-13	977	0.2		
Nov-13	977	0.0		
Dec-13	980	0.2	0.5	0.5
Jan-14	987	0.7		
Feb-14	989	0.2		
Mar-14	992	0.2	1.2	1.1
Apr-14	996	0.4		
May-14	996	0.0		
Jun-14	997	0.1	0.7	0.4
Jul-14	999	0.2		
Aug-14	999	0.0		
Sep-14	1000	0.1	0.3	0.5
Oct-14	1002	0.2		
Nov-14	1002	0.1		
Dec-14	1005	0.2	0.4	

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