

NEW ZEALAND ECONOMICS

ANZ MONTHLY INFLATION GAUGE

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SUMMARY

- Prices rose 0.2% in September¹, which, whilst typical, is a benign story still.
- Accommodation and insurance provided a small lift.
- Amidst a still-subdued picture the Underlying Ex-housing Gauge has firmed of late. This suggests there are pockets of rising prices outside of indirect taxes and housing, though the rate (0.3%, 3m/3m) is hardly anything to get excited about.

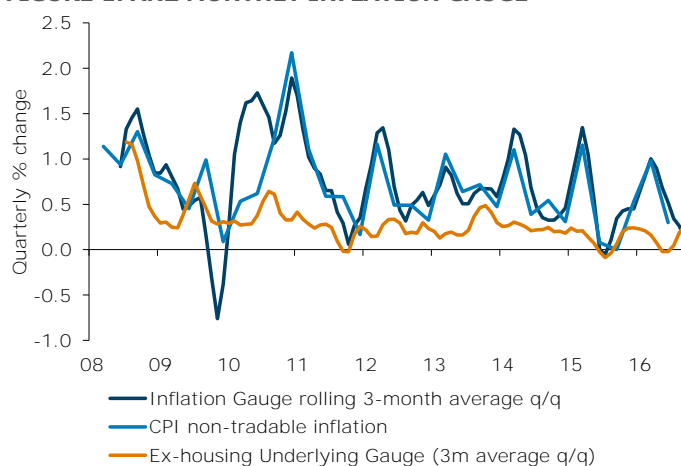
STILL DOZY BUT SIGNS OF LIFE TOO

Prices from the Gauge lifted 0.2% in September. Reasonable gains in accommodation services and insurance provided impetus, supported by the health and housing groups. **Price lifts in construction and property maintenance costs are still evident, though recent surges have eased somewhat.** Transport and telecommunication costs fell modestly in September.

Inflationary pressures are still dozy, though we did detect some action:

- The seasonally adjusted series was also up 0.2% in the month – respectable.
- The Underlying Ex-housing Gauge rose 0.3% (3m/3m), its biggest gain in two years (see the clear uptick in the orange line in the chart below). **That's still** subdued, but if these early signs of inflation outside of a buoyant housing sector continue, we may be on the cusp of something more interesting.
- Accommodation prices lifted across the board, a hat-tip to a strong tourism sector. Rises in vehicle and health insurance offset a fall in life insurance costs.
- Rents managed to register a small gain having eased for the previous three months. In a world where high house prices would normally push more people into the rental market, we should see more life in this measure.
- Of the 36 main series feeding into the 8 key groups, 22 were unchanged, while 10 were up and 4 were down.

FIGURE 1: ANZ MONTHLY INFLATION GAUGE



Source: ANZ, Statistics NZ

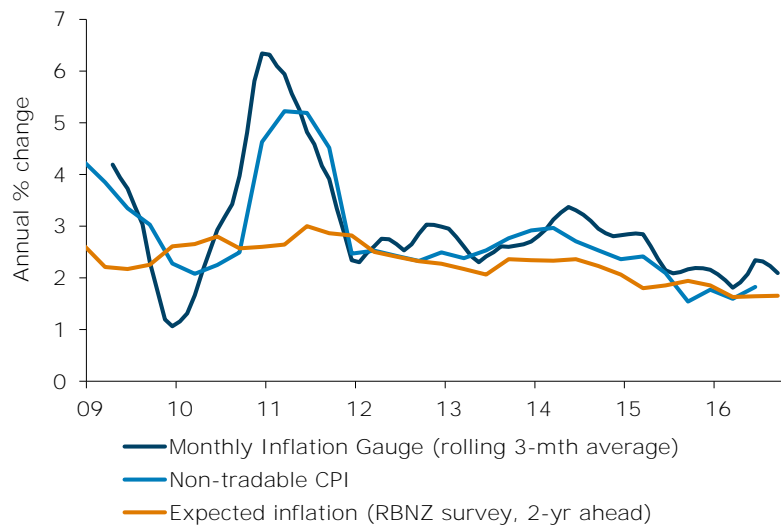
¹ Our **Monthly Inflation Gauge** provides a **directional signal of broad trends and movements in non-tradable CPI inflation** produced by Statistics NZ, but at a monthly frequency. Differences in methodology and coverage mean the gauge will not exactly mirror the official series. We also produce an underlying ex-housing gauge that adjusts for indirect taxes and tertiary education fees and removes housing group prices.

ANZ MONTHLY INFLATION GAUGE

Annual inflation (3-month) from the Gauge is subdued and lost ground in September, rising only 2.1%. This is historically low for the Gauge and reflects the current environment where inflation expectations are low and there are signs the relationship between growth and inflation has broken down. While there are pockets of prices inching forward, by-and-large there isn't much evidence of inflation picking up. And of course one-offs such as the July fall in vehicle registration fees continue to suppress inflation. That said, the underlying gauge is showing signs of starting to move, albeit off an anaemic starting point.

Subdued inflation keeps the bias for the OCR tilted lower.

FIGURE 2: ANNUAL INFLATION MEASURES



Source: ANZ, Statistics NZ, RBNZ

	Monthly Inflation Gauge (Index)	Monthly Inflation Gauge (m/m%)	Implied Inflation Gauge (q/q%)	Actual non-tradable CPI (q/q%)
May-15	1254	-0.1		
Jun-15	1255	0.1	0.0	0.1
Jul-15	1257	0.2		
Aug-15	1259	0.2		
Sep-15	1261	0.2	0.3	0.0
Oct-15	1262	0.1		
Nov-15	1265	0.2		
Dec-15	1267	0.2	0.5	0.5
Jan-16	1274	0.6		
Feb-16	1278	0.3		
Mar-16	1280	0.2	1.0	1.0
Apr-16	1282	0.2		
May-16	1283	0.1		
Jun-16	1287	0.3	0.5	0.3
Jul-16	1283	-0.3		
Aug-16	1285	0.1		
Sep-16	1288	0.2	0.1	

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