

NEW ZEALAND ECONOMICS

ANZ MONTHLY INFLATION GAUGE

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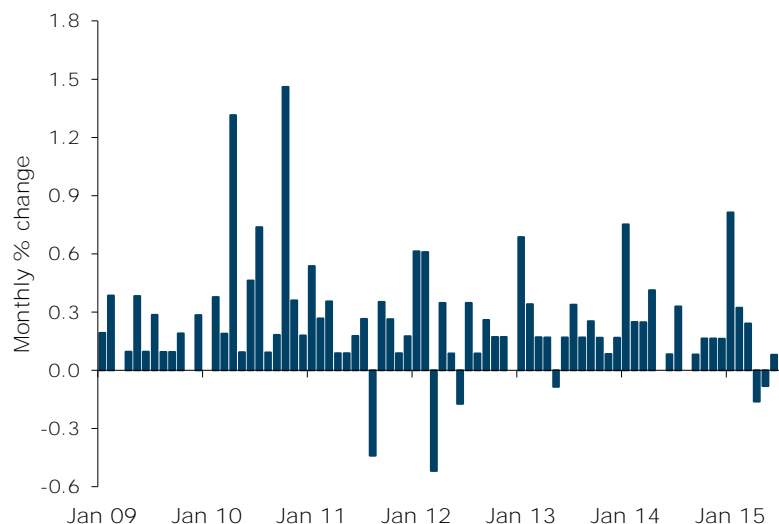
SUMMARY

- Our Monthly Inflation Gauge posted a 0.3% increase in July. This is the highest monthly rise since February, but is typical for the month of July.
- Upward contributions were housing-centric, led by rises in local authority rates (seasonal), construction costs and rents, offsetting lower vehicle licensing fees.
- Prices from our Underlying Ex-housing Gauge were flat in July, and were down slightly in the three months to July.
- On a rolling three-month basis, our Monthly Inflation Gauge is up just 0.1%, suggesting Q3 non-tradable CPI is on track for another moderate quarterly print and the first sub 2% annual print in 14 years.
- Low inflation and sub-trend growth suggest further OCR cuts are warranted.

RATE OF CHANGE

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 Ex-housing Gauge that adjusts for indirect taxes and tertiary education fees and removes housing group prices.

FIGURE 1: ANZ MONTHLY INFLATION GAUGE



Source: ANZ

Prices in our Gauge rose 0.3% in July, following a 0.1% June increase and a 0.1% fall in May. Prices rose in two groups, fell in two, and were unchanged in the remaining four.

Housing group prices featured. This month saw more than a 6% increase in local authority rates, and increases in dwelling rents, construction costs and dwelling maintenance fees. Higher prices for zoo admissions and ten-pin bowling fees pushed up prices in the recreation & culture group, offsetting falls in golfing green fees and hotel & holiday park tariffs.

ANZ MONTHLY INFLATION GAUGE

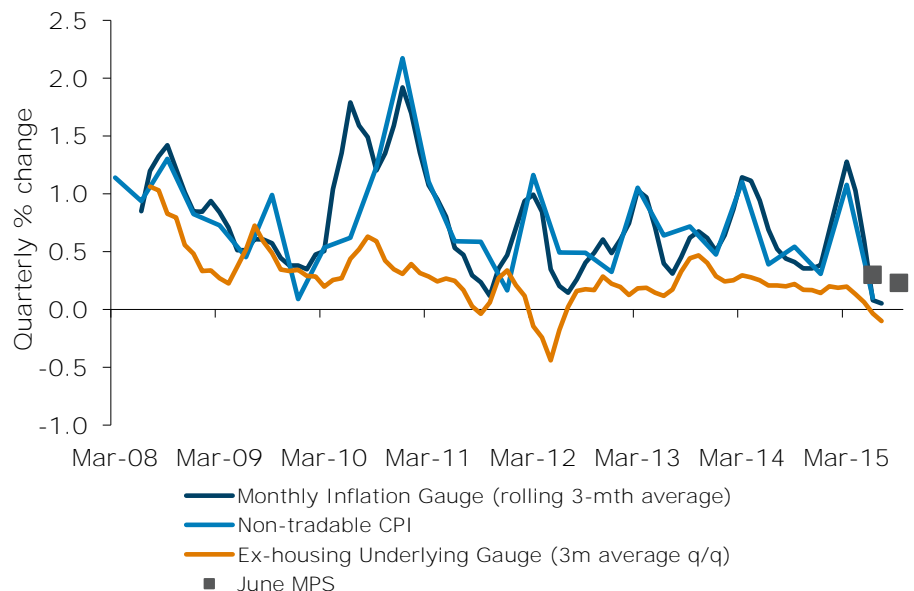
Partly offsetting these moves were sizeable falls in motor vehicle licensing fees, which knocked 0.2 percentage points off the monthly Gauge. While there were falls of around 40% for many types of motor vehicles, fees for motorcycles and trailers were unchanged. Lower domestic airfares also helped push down prices in the transport group, although rail passenger fares rose. Lower premiums for car insurance pushed down miscellaneous goods & services prices. There was a scattering of rises and falls elsewhere.

Prices in the Underlying Ex-housing Gauge were flat. Stripping out price rises from the housing group and the direct impact of lower vehicle licensing fees delivered an unchanged outturn, with prices on this measure down 0.1% over the three months to July.

Price movements from the Gauge are still running at a low quarterly rate. Our Underlying Ex-Housing Gauge (refer orange line in the chart below) has shown a clear trend; **it's one of moderation.** Plugging in last year's August and September outturns for the coming two months would deliver a modest 0.4% quarterly rise for Q3 non-tradable CPI prices, which would see annual non-tradable inflation fall below the RBNZ's inflation target midpoint for the first time since 2001Q4. Doing a similar exercise for the Underlying Ex-housing Gauge would deliver a flat quarterly outturn.

The OCR is headed lower. Core inflation is closer to 1% than the middle of the policy band. The economy is growing at a below-trend pace so there is little demand impetus to push non-tradable inflation back up. The NZD is lower but that will primarily push up tradable inflation as opposed to non-tradable inflation (though there is some seepage from the NZD into non-tradable prices). Global risks are evident. We see the RBNZ eventually returning the OCR to 2.5%; **it's just a question of how fast we get there and whether we go beyond that level.**

FIGURE 2: MONTHLY INFLATION GAUGE AND NON-TRADABLE CPI



Source: ANZ, Statistics NZ, RBNZ

ANZ MONTHLY INFLATION GAUGE

	Monthly Inflation Gauge (Index)	Monthly Inflation Gauge (m/m%)	Implied Inflation Gauge (q/q%)	Actual non-tradable CPI (q/q%)
Jan-14	1206	0.8		
Feb-14	1209	0.2		
Mar-14	1212	0.2	1.1	1.1
Apr-14	1217	0.4		
May-14	1217	0.0		
Jun-14	1218	0.1	0.7	0.4
Jul-14	1222	0.3		
Aug-14	1222	0.0		
Sep-14	1223	0.1	0.4	0.5
Oct-14	1225	0.2		
Nov-14	1227	0.2		
Dec-14	1229	0.2	0.4	0.3
Jan-15	1239	0.8		
Feb-15	1243	0.3		
Mar-15	1246	0.2	1.3	1.1
Apr-15	1244	-0.2		
May-15	1243	-0.1		
Jun-15	1244	0.1	0.1	0.1
Jul-15	1248	0.3		

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