

## NEW ZEALAND ECONOMICS

### ANZ MONTHLY INFLATION GAUGE

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#### SUMMARY

- Our Monthly Inflation Gauge posted a 0.2% increase in November. This is slightly higher than the average rate for this time of year, and follows two months of milder than usual increases.<sup>1</sup>
- Prices in the Gauge were up 0.3% in the three months to November. That's still sub-par for this time of year.
- Prices in the Underlying Ex-housing Gauge rose 0.1% in November (+0.2% 3m/3m) and are beginning to lift, albeit from low levels.
- Low inflation keeps further interest rate stimulus on the cards. But the odd price rise on the back of capacity pressure is beginning to surface and is something to watch.

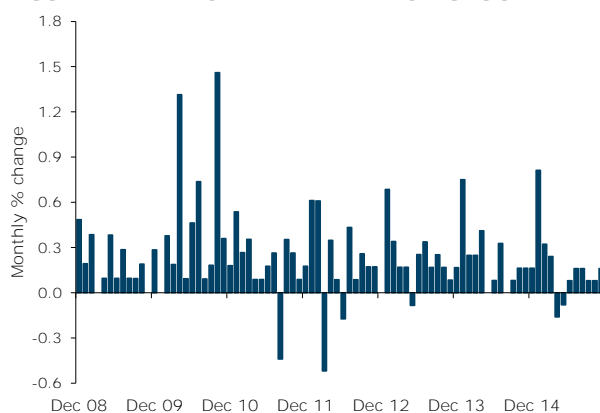
#### A SCATTERING

**Prices in our Gauge rose 0.2% in November, which followed 0.1% increases in each of the prior two months.** Prices rose in four groups and were unchanged in the remaining four.

**Interestingly, this month's data showed the odd price increase on the back of pressure on capacity in some pockets.** The tourism sector is booming, with higher motel and hotel tariff rates consistent with anecdotes highlighting the lack of suitable accommodation capacity. Despite earlier-announced cuts to passenger airfares, the low number of discounted airfares on some main trunk and provincial routes contributed to an increase in measured domestic airfares in November.

The month also saw a scattering of price increases in other areas, including swimming pool admissions, boat hire fees, cinema and gym admissions, vehicle parking fees, and some regional bus fares. Higher postal charges and higher maintenance fees for telecommunications services pushed up communication group prices. Rising dwelling rents and construction costs pushed up housing group prices. However, there were also some modest price falls, including for long-distance rail passenger fares, optometry services and accountancy fees.

**FIGURE 1: ANZ MONTHLY INFLATION GAUGE**



Source: ANZ

<sup>1</sup> 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

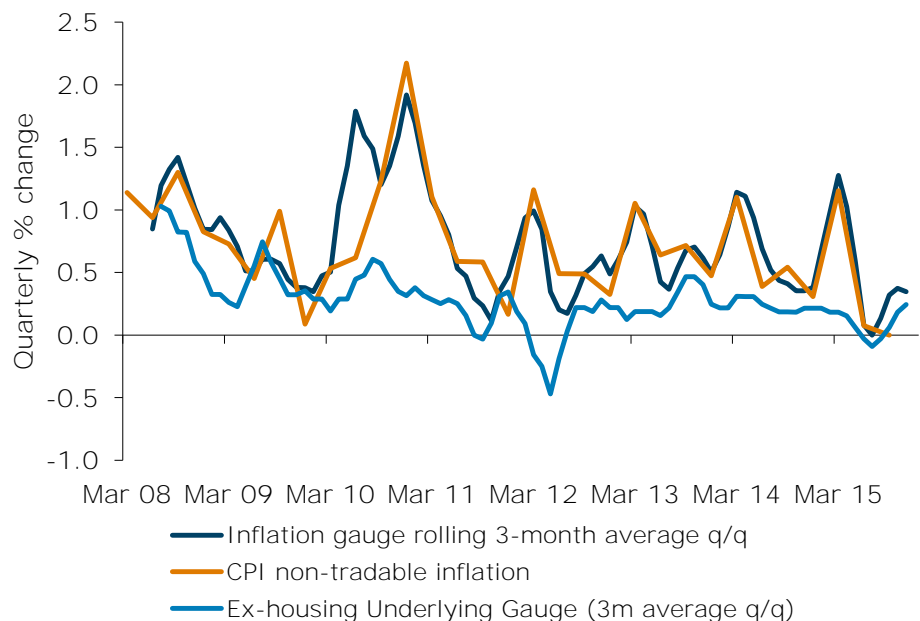
**While this month's outturn is slightly firmer than the seasonal norm, the trend in prices from the Gauge remains sedate, with prices up just 0.3% on a three-month rolling basis.** That's still sub-par and suggests it will be some time before core inflation heads back towards the RBNZ's target mid-point. That said, inflation is also not collapsing, so outright deflation is not on the cards.

**Prices in our Underlying Ex-housing Gauge**, which strips out housing group prices and the impact of changes in indirect taxation and government charges, **rose just 0.1% in November.** On a three-month rolling basis, prices are up 0.2%, which also remains sedate. However, the latter is actually a lift from recent months and so there are hints of an upward trend beginning to develop, which is worth keeping an eye on (see figure 2).

**Despite improving signs emerging on the activity side of the ledger, and a more balanced risk profile, still-low rates of inflation keep the risk profile tilted towards a lower OCR.** The link between the activity and pricing sides of the economy has become more blurred of late, with questions remaining over whether it is cyclical or structural forces dominating the inflation process.

**While this week's OCR decision will be a close call, we're in the chill out and relax (chillax) camp, favouring a hold.** It is clear that the economy is firming. The RBNZ can tick that box; monetary policy works. The issue is how and whether this translates into inflation, given the complex interweave of structural and cyclical factors. The next few results from our Gauge and the Q4 CPI data in January won't solve the conundrum but will certainly help shed more light on it.

**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	1208	0.8		
Feb-14	1211	0.2		
Mar-14	1214	0.2	1.1	1.1
Apr-14	1219	0.4		
May-14	1219	0.0		
Jun-14	1220	0.1	0.7	0.4
Jul-14	1224	0.3		
Aug-14	1224	0.0		
Sep-14	1225	0.1	0.4	0.5
Oct-14	1227	0.2		
Nov-14	1229	0.2		
Dec-14	1231	0.2	0.4	0.3
Jan-15	1241	0.8		
Feb-15	1245	0.3		
Mar-15	1248	0.2	1.3	1.2
Apr-15	1246	-0.2		
May-15	1245	-0.1		
Jun-15	1246	0.1	0.1	0.1
Jul-15	1248	0.2		
Aug-15	1250	0.2		
Sep-15	1251	0.1	0.3	0.0
Oct-15	1252	0.1		
Nov-15	1254	0.2		

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