

## NEW ZEALAND ECONOMICS

### ANZ MONTHLY INFLATION GAUGE

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#### CONTACT

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#### SUMMARY

- Our Monthly Inflation Gauge posted a 0.2% increase in December, about par for the course for this time of year.<sup>1</sup> Prices in the Gauge were up 0.3% in the December quarter.
- Prices in the Underlying Ex-housing Gauge were flat in December (+0.2% 3m/3m). Continued low readings from this measure do not point to a pending lift in core inflation from official CPI statistics.
- A low inflation backdrop provides the RBNZ with the luxury of maintaining accommodative policy settings. The risk profile remains that the OCR moves even lower.

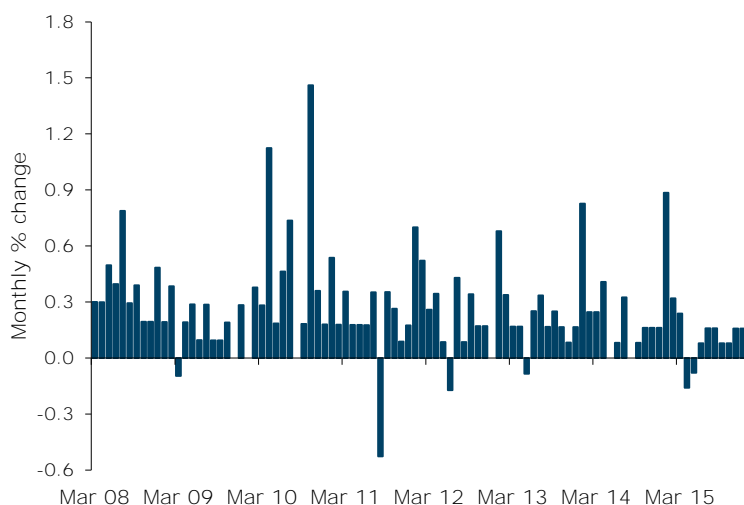
#### SEDATE

**Prices in our Gauge rose 0.2% in December, which followed 0.2% increases in November and a 0.1% October rise.** In December, prices rose in four groups and were unchanged in the remaining four.

**Capacity pressures in the booming tourism sector have continued to manifest themselves,** generating further increases for accommodation tariffs, which, along with increases for newspaper and magazine prices, pushed up prices in the recreation & culture group. The housing group remained an inflationary beacon, with increases in both construction costs and dwelling rents. Higher charges for broadband internet pushed up communication group prices, whereas increases for vehicle insurance contributed to higher prices in the miscellaneous goods & services group.

The month also saw a scattering of price increases in other areas, including vehicle parking fees, ten-pin bowling admissions, and rail passenger and sea ferry fares. There were also some modest price falls through the gauge, including for domestic airfares, health insurance, and cinema admissions.

**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

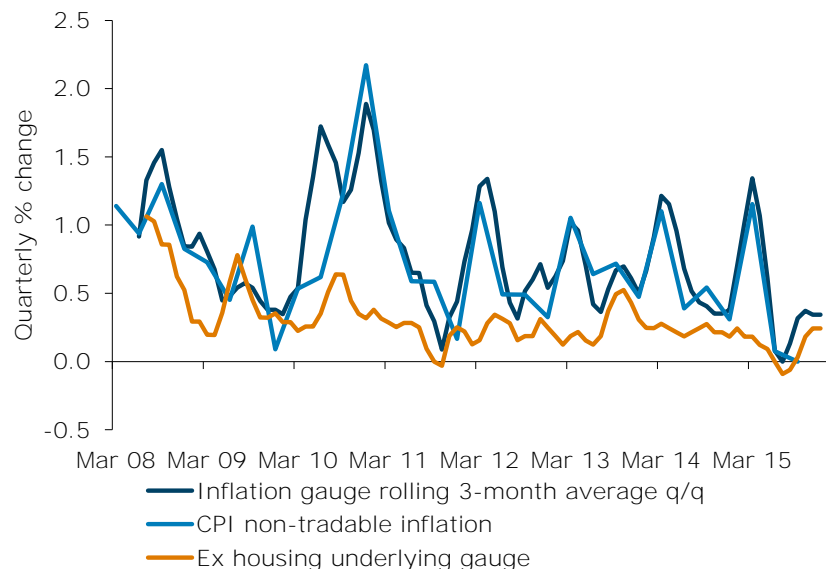
**Despite some signs of uplift in certain sectors, the overall trend in prices from the Gauge remains sedate, with prices up just 0.3% on a three-month rolling basis.** That's still sub-par and suggests non-tradable and core inflation readings will remain well below the RBNZ's target mid-point for a while yet. By the same token, however, prices are not collapsing, so deflation fears look misplaced.

**Prices in our Underlying Ex-housing Gauge**, which strips out housing group prices and the impact of changes in indirect taxation and government charges, **were flat in December.** On a three-month rolling basis, prices are up 0.2%, the same as the previous month, with the trend plateauing at low levels. Contained readings from this measure do not point to a pending pick-up in core inflation despite some measures of core CPI inflation showing signs of starting to move up in the Q3 CPI report. Next week's CPI report for Q4 will help confirm whether this is the case or not.

**Our core view is for a prolonged period of stability in OCR settings.** The link between the activity and pricing sides of the economy currently appears less clear cut than traditional historical relationships would imply. This could be a temporary (albeit persistent) aberration, but there is a growing likelihood that low rates of core inflation could have a structural element to them.

**Despite the economy having turned the corner and interest rate sensitive pockets responding to the 100bps of OCR cuts, global concerns and continued low rates of inflation keep the risk profile tilted towards a lower OCR.** The next few readings from our Gauge and forthcoming CPI data will certainly help shed more light as to whether the inflation backdrop provides any hurdles to the OCR moving lower still.

**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 | 1220                            | 0.8                            |                                |                                |
| Feb-14 | 1223                            | 0.2                            |                                |                                |
| Mar-14 | 1226                            | 0.2                            | 1.2                            | 1.1                            |
| Apr-14 | 1231                            | 0.4                            |                                |                                |
| May-14 | 1231                            | 0.0                            |                                |                                |
| Jun-14 | 1232                            | 0.1                            | 0.7                            | 0.4                            |
| Jul-14 | 1236                            | 0.3                            |                                |                                |
| Aug-14 | 1236                            | 0.0                            |                                |                                |
| Sep-14 | 1237                            | 0.1                            | 0.4                            | 0.5                            |
| Oct-14 | 1239                            | 0.2                            |                                |                                |
| Nov-14 | 1241                            | 0.2                            |                                |                                |
| Dec-14 | 1243                            | 0.2                            | 0.4                            | 0.3                            |
| Jan-15 | 1254                            | 0.9                            |                                |                                |
| Feb-15 | 1258                            | 0.3                            |                                |                                |
| Mar-15 | 1261                            | 0.2                            | 1.3                            | 1.2                            |
| Apr-15 | 1259                            | -0.2                           |                                |                                |
| May-15 | 1258                            | -0.1                           |                                |                                |
| Jun-15 | 1259                            | 0.1                            | 0.1                            | 0.1                            |
| Jul-15 | 1261                            | 0.2                            |                                |                                |
| Aug-15 | 1263                            | 0.2                            |                                |                                |
| Sep-15 | 1264                            | 0.1                            | 0.3                            | 0.0                            |
| Oct-15 | 1265                            | 0.1                            |                                |                                |
| Nov-15 | 1267                            | 0.2                            |                                |                                |
| Dec-15 | 1269                            | 0.2                            | 0.3                            |                                |

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