

NEW ZEALAND ECONOMICS

ANZ MONTHLY INFLATION GAUGE

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SUMMARY

- Prices from the Gauge rose 0.5% in January¹ and are up 2.2% y/y.
- The largest contribution came from higher tobacco and cigarette prices, as has become typical in January.
- The underlying gauge was flat.
- Rents have been levelling off, which is somewhat puzzling given tightening housing supply.

ALL SMOKE AND NO FIRE

Prices from the Gauge lifted 0.5% in January, a slightly more modest rise than we typically see at this time of year. The annual rate eased from 2.3% to 2.2%.

Tobacco and cigarettes made the largest contribution (0.4 percentage points), on a 9% increase. Purchase of housing, dwelling insurance and property maintenance services rounded out the top four.

Rents – a major contributor of late – didn't feature this month.

Technically rents actually fell, which is at odds with tightening housing supply. Whether that reflects monthly noise remains to be seen. Declines were also noted in accommodation services and domestic air services.

Inflationary nuances were generally tame.

- The seasonally adjusted series showed a small dip (0.1%).
- The Underlying Ex-housing Gauge was flat.
- Of the 36 main series feeding into the eight key groups, 24 were unchanged, nine were up and three were down.

Once again we are left musing over the path for inflation.

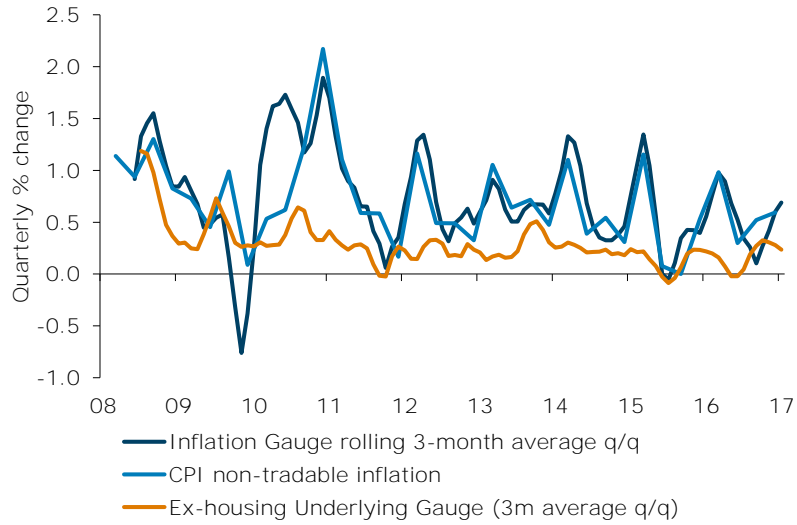
The past few months we've noted some early signs of movement, but a failure of anything to manifest in a material, sustained fashion over a succession of months. This may reflect the reality of dealing with inherently volatile monthly data. Or it may reflect the continuing evolution of inflation and price-setting behaviour itself.

The onus is clearly on inflation to turn up to the party (and, we'd say, spend a bit of time there!) before the OCR should be moved up. Apart from the obvious (housing), there is not much to go on at this stage.

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.

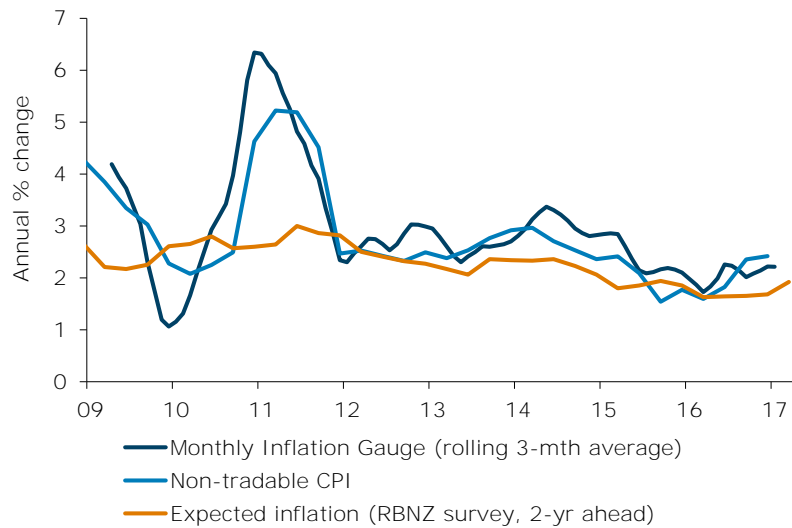
ANZ MONTHLY INFLATION GAUGE

FIGURE 1: ANZ MONTHLY INFLATION GAUGE



Source: ANZ, Statistics NZ

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%)
Sep-15	1261	0.2	0.3	0.0
Oct-15	1262	0.1		
Nov-15	1264	0.2		
Dec-15	1266	0.2	0.4	0.5
Jan-16	1273	0.6		
Feb-16	1277	0.3		
Mar-16	1279	0.2	1.0	1.0
Apr-16	1281	0.2		
May-16	1282	0.1		
Jun-16	1286	0.3	0.5	0.3
Jul-16	1282	-0.3		
Aug-16	1284	0.1		
Sep-16	1287	0.2	0.1	0.5
Oct-16	1290	0.2		
Nov-16	1291	0.1		
Dec-16	1295	0.3	0.6	0.6
Jan-17	1301	0.5		

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