

NEW ZEALAND ECONOMICS

ANZ MONTHLY INFLATION GAUGE

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SUMMARY

- Our Monthly Inflation Gauge posted a 0.3% increase in February, in line with seasonal norms. Prices from the Gauge rose 0.8% 3m/3m.¹
- Stripping out the February increase in tertiary fees and housing group prices, the Underlying Ex-housing Gauge rose 0.1%, with the 3-month increase stable at a (low) 0.2% rate.
- While we can see that some traditional inflation drivers are alive and well, dormant inflation pressures in general flag a benign inflation backdrop and offer the allure of an even lower OCR.

USUAL SUSPECTS

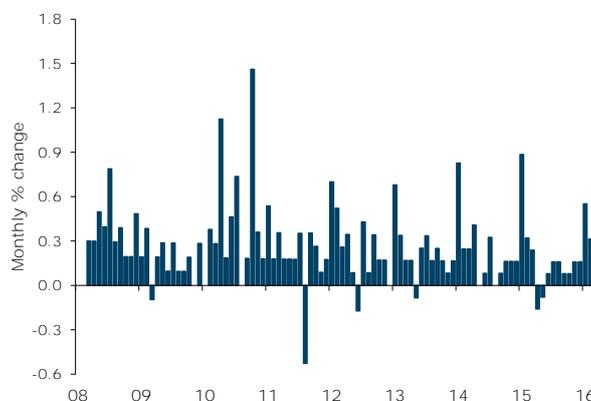
Prices in our Gauge rose 0.3% in February. Prices rose in five groups, fell in one and were unchanged in the remaining three.

Price rises in the housing group contributed three quarters of the monthly increase in the Gauge. February saw a higher-than-usual seasonal increase in dwelling rents, construction costs and dwelling maintenance fees. **That's a sign** that some traditional drivers of inflation (house prices & residential construction activity) are alive and well.

February also saw price rises in other pockets. Tertiary fees went up by 3%, in line with the (lower) annual maximum fee movement limit set out by the Government. Transport prices were pushed up by a lift in parking fees, higher domestic airfares, and higher passenger bus and ferry fares, whilst long-distance rail fares fell in February. Health insurance fee increases reversed previous declines and pushed up miscellaneous goods prices. Higher broadband internet fees pushed up communications group prices for a fourth consecutive month.

It was not one-way traffic. Accommodation prices fell for the first time in four months, although this will be partly seasonal. Nevertheless, anecdotes **we're** hearing continue to highlight capacity constraints in tourism accommodation. Prices were unchanged in the health group, with small increases in GP fees offset by lower dentist charges.

FIGURE 1: ANZ MONTHLY INFLATION GAUGE



Source: ANZ

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

A lack of generalised pricing pressure is apparent when examining the analytical series. **Prices from our Underlying Ex-housing Gauge rose 0.1% in the month.** On a three-month rolling basis, prices were up 0.2%, the same as the previous month, with the trend plateauing at a low level (see Figure 2). **There are pockets of pricing pressure, to be sure, but they remain scattered.**

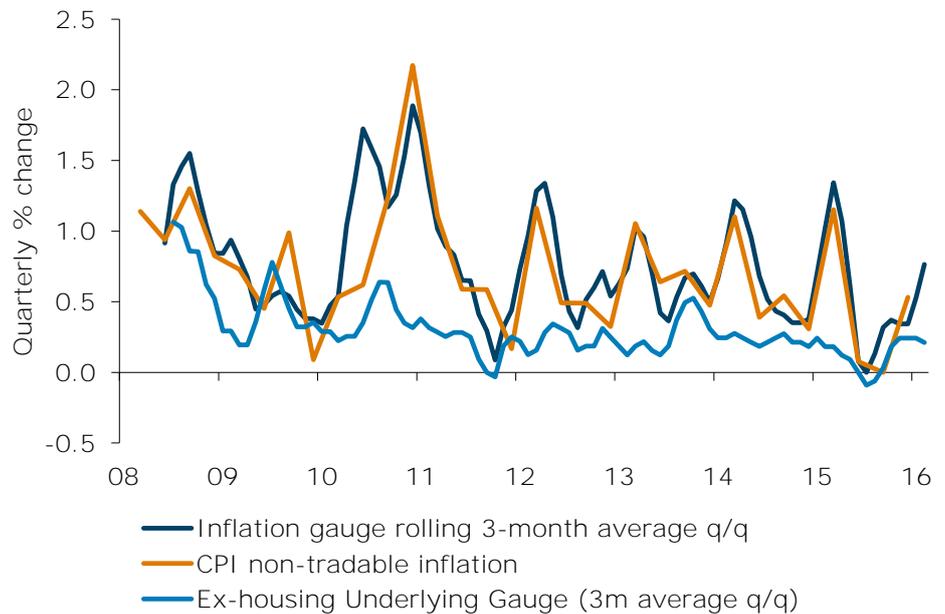
Our Gauge points to subdued Q1 inflation signals. Plugging in, say, a 0.2% increase for March (the average increase for the past three years) would deliver a 1% increase in quarterly prices from the Gauge, signalling a reasonably firm Q1 print for quarterly non-tradable inflation. **But that's a tad below normal for Q1,** which is boosted by seasonal tuition fee increases and tobacco excise tax hikes. However, a similar exercise for the Underlying Ex-housing Gauge would deliver just a 0.2% March quarter rise.

So we have a continued picture of low inflation, amongst some of the usual suspects (housing related) and one-offs.

The longer this goes on the more the evidence mounts that the economy has transitioned to a period of structurally low inflation. The global experience is also suggestive of this, although firming core CPI inflation in the US suggests a need for caution over declaring inflation vanquished just yet.

Low inflation will continue to offer the allure of a lower OCR.

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	0.5
Jan-16	1276	0.6		
Feb-16	1280	0.3		

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