SUMMARY

- The ANZ Monthly Inflation Gauge rose 0.6% m/m in August, bringing the year-on-year change to 2.8%, 0.3% pts above July’s print.¹
- Inflation appears to be evolving as expected, with momentum building as a number of temporary factors play out. But with GDP growth expected to soften, we don’t see this persisting into the medium term.

I PIKI AKE TE TĀMI AHUMONI (INFLATION CLIMBED UPWARDS)

The ANZ Monthly Inflation Gauge rose 0.6% m/m (+2.8% y/y) in August. The result was driven largely by a 13.3% m/m rise in accommodation services, which made a 0.49%pt contribution. This reflects a strong month for prices of overseas accommodation prepaid in New Zealand (a recent addition to the accommodation component of the CPI basket), likely reflecting a mix of recent NZD weakness and seasonal demand. Domestic air transport made a 0.07%pt contribution, rising 5.9% m/m but not quite retracing July’s 6.3% fall. Purchase of housing continues to move down the ranks, rising just 0.2% m/m, making a 0.02%pt contribution. This was broadly offset by rents, which were the largest monthly drag, down 0.1% and contributing -0.02%pts. Of the 36 subcomponents in the Gauge, 12 rose, 20 were flat and 4 fell – all consistent with recent ranges.

In annual terms, the Gauge picked up a little momentum in August, accelerating 0.3%pts to 2.8% y/y. A similar uptick was recorded across the underlying indices, with the ex-tobacco, alcohol and tertiary fees index and the ex-housing index lifting to 2.7% y/y and 1.1% y/y respectively. In the current cost-push environment (eg higher minimum wages, NZD weakness, and higher fuel prices) this is hardly a surprise. The real test will be over the next year or so, once the economy has navigated some of the policy-induced noise, with growth in housing-related prices continuing to wane at the same time as the impact of weaker business investment and employment intentions plays out. While non-tradables inflation appears to be holding up in the near term (consistent with the Reserve Bank’s forecast), our expectation is that economic activity will be insufficient to sustain non-tradables inflation at (or slightly above) the 3% annual rate needed to keep headline inflation around 2% over the medium term.

Figure 1. Annual inflation measures

Source: ANZ Research, Statistics NZ

¹ Data is subject to revision. All quarterly and annual movements are on a 3-month average basis unless otherwise stated.
Figure 2: Quarterly inflation measures

Figure 3: Price moves by direction

Source: ANZ Research, Statistics NZ
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