

NEW ZEALAND ECONOMICS ANZ MONTHLY INFLATION GAUGE

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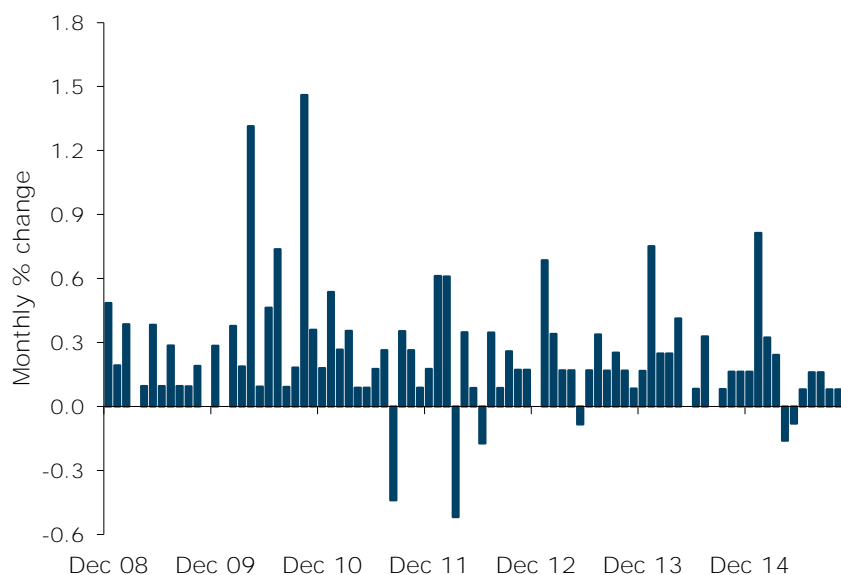
SUMMARY

- Our Monthly Inflation Gauge¹ posted a 0.1% increase in October, the second consecutive month that was milder than the usual seasonal increase.
- Prices in the Gauge were up 0.4% in the three months to October. That's sub-par for this time of year.
- Prices in the Underlying Ex-housing Gauge were unchanged in October and up just 0.2% over the last three months.
- Low inflation keeps further interest rate stimulus on the cards.

MILD LIFT

Prices in our Gauge rose 0.1% in October, following a 0.1% increase in September and a 0.2% lift in August. Like the September outturn, the October result was marginally softer than the average historical monthly increase for this time of year (0.2%).

FIGURE 1: ANZ MONTHLY INFLATION GAUGE



Source: ANZ

Price rises in the housing and transport groups provided the major upward impetus to the Gauge in October. The housing group remained an inflationary standout, with both dwelling rents and construction costs lifting. Rising airfares, long-distance rail fares and higher parking fees pushed up transport group prices. That said, lower airfares for some provincial routes were offset by higher fares between some major destinations. There was also a scattering of price increases for items in other groups, including increases for GP visits, life insurance premiums and golf green fees.

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

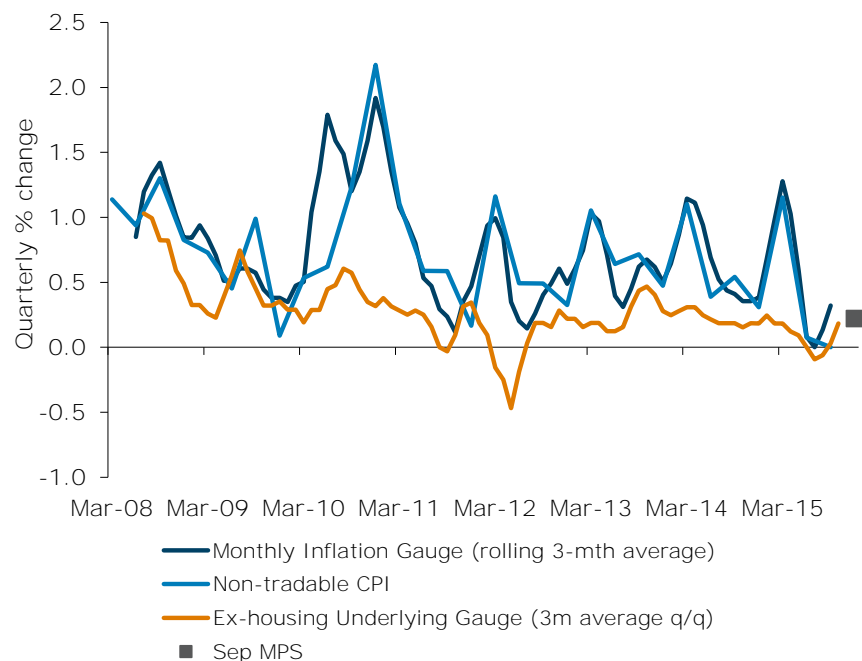
We continue to see offsetting price movements. Lower holiday park and motel accommodation tariffs helped push down accommodation prices, while vehicle insurance fees continued to unwind some of their sharp August increase. Lower international parcel fees helped push down postage prices. There was little movement in other components of the Gauge over the month.

Only a slight rising trend in prices is evident, with **prices up 0.4% on a three-month rolling basis**. This is more modest than average quarterly increases for this time of year and is consistent with inflation continuing to track below the RBNZ annual inflation target midpoint of 2%. However, overall prices are not going down, suggesting deflation fears some may have are 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, **continue to depict a very benign generalised inflation backdrop**. Prices by this measure were unchanged in October and are just 0.2% higher versus the previous three months. Domestically based pricing pressures remain MIA for all intents and purposes, which continues to highlight the possibility that we are in a period of structurally low inflation. It is too soon to claim we are in a new paradigm, but this ongoing benign pricing backdrop is providing more and more food for thought, nonetheless.

Ongoing low inflation signals keep the risk profile tilted to further OCR cuts. The consensus has converged on December. However, we are more agnostic on whether further easing will be delivered in December or early next year. We believe there is enough improvement being seen across the forward-looking activity data to justify a pause. Historically, an improving economy would see non-tradable inflation turn back up and the lower NZD provides further upward impetus to prices. However, monetary policy works with a long lag. The persistence of low inflation reads and uncertainty over the link between the demand and pricing side of the economy give the RBNZ ample rationale to tweak either now (December) or later.

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	1206	0.8		
Feb-14	1209	0.2		
Mar-14	1212	0.2	1.1	1.1
Apr-14	1217	0.4		
May-14	1217	0.0		
Jun-14	1218	0.1	0.7	0.4
Jul-14	1222	0.3		
Aug-14	1222	0.0		
Sep-14	1223	0.1	0.4	0.5
Oct-14	1225	0.2		
Nov-14	1227	0.2		
Dec-14	1229	0.2	0.4	0.3
Jan-15	1239	0.8		
Feb-15	1243	0.3		
Mar-15	1246	0.2	1.3	1.2
Apr-15	1244	-0.2		
May-15	1243	-0.1		
Jun-15	1244	0.1	0.1	0.1
Jul-15	1246	0.2		
Aug-15	1248	0.2		
Sep-15	1249	0.1	0.3	0.0
Oct-15	1250	0.1		

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