

NEW ZEALAND ECONOMICS

ANZ MONTHLY INFLATION GAUGE

June 2015

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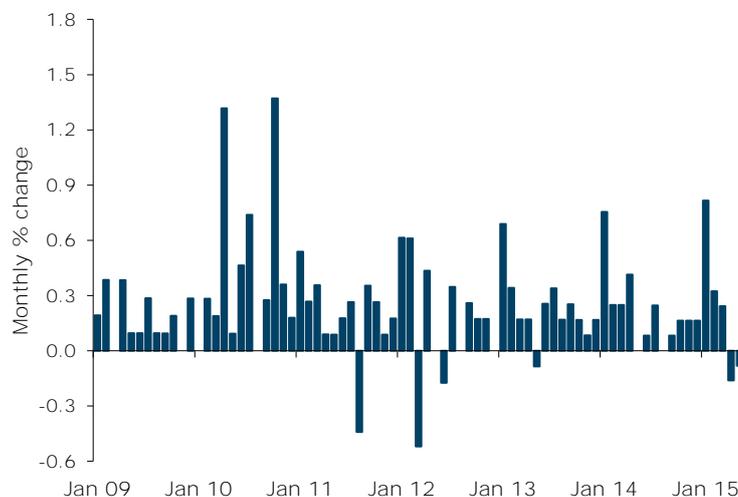
SUMMARY

- Falls in the miscellaneous goods & services, recreation & culture and transport groups contributed to a 0.1% fall in the May Monthly Inflation Gauge. This is the **first time we've seen two** consecutive monthly falls.
- Prices were flat in the housing group, with our Underlying Ex-housing Gauge also down 0.1% (+0.1% in the 3 months to May).
- Given typically benign June month outturns, the quarterly read from our Monthly Inflation Gauge looks **likely to significantly undershoot the RBNZ's** March *MPS* 0.5% projection for quarterly non-tradable inflation in Q2.
- Inflation is trending lower. The OCR should be lower too.

MISSING IN ACTION

Measures from our **Monthly Inflation Gauge** provide a **directional signal of broad trends and movements in non-tradable CPI inflation** produced by Statistics New Zealand, 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.

FIGURE 1: ANZ MONTHLY INFLATION GAUGE



Source: ANZ

Prices in our Gauge fell 0.1% in May, following a 0.2% fall in April. This is the first time we've seen consecutive monthly falls. Prices fell in four groups, rose in one, and were unchanged in the remaining three. Falls for accommodation services were partly seasonal, underpinning lower recreation & culture group prices despite higher gym fees. Falls for vehicle insurance and accountancy services contributed to a fall in miscellaneous goods & services prices, whereas low rail transport fares pushed down transport prices. Increases in internet fees pushed up communications group prices.

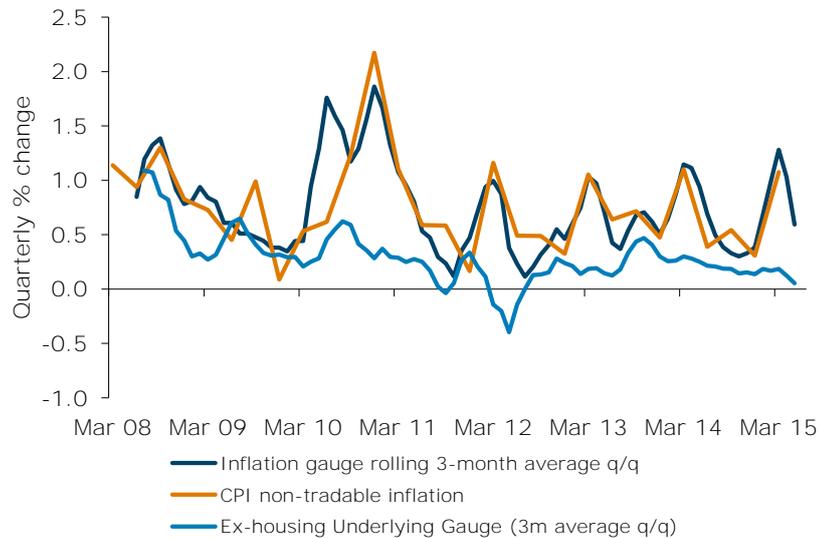
Prices in the Underlying Ex-housing Gauge also fell 0.1%. Housing group prices were unchanged, with rising electricity and construction costs offset by a further fall in rents. Nationwide rents from the tenancy bond data actually rose in May, but our rental component is based on a three-month average.

ANZ MONTHLY INFLATION GAUGE

Prices in the headline Gauge rose 0.6% in the three months to May but price rises outside of government charges and housing remain virtually non-existent, with just a 0.1% increase over this period.

The trajectory of price rises is also slowing. Plugging in a 0.2% monthly rise for June (the average June outturn for the past two years) would deliver just a 0.1% Q2 rise in the Gauge and a flat quarterly outturn for the Ex-housing Underlying Gauge, both well below the RBNZ's March MPS pick of a 0.5% increase in Q2 non-tradable prices. Despite the economy entering its fifth year of expansion, signs of generalised inflationary pressure have remained absent.

FIGURE 2: MONTHLY INFLATION GAUGE AND NON-TRADABLE CPI



Source: ANZ, Statistics NZ, RBNZ

There is a clear trend in our Ex-housing Underlying Gauge (the lowest line in the chart above); it's down. We can postulate on a number of levels as to why this might be. Higher productivity keeping unit labour costs low; a shift in households' spending patterns, with increased focus on saving; deflationary currents from lower tradable prices dampening non-tradable prices too; and technology (of both the disruptive and conventional sort) altering inflationary dynamics (think Uber and online hotel and accommodation booking). Perhaps it is also about how the nature of jobs is changing and what that is doing to wage-bargaining power. **Maybe it's just better-**anchored inflation expectations. Theories abound and they are not much more than that. But the data is speaking for itself.

The OCR should be lower. The RBNZ has an inflation target, not a growth or a housing one. Of course the three are interconnected and asset prices are now a consideration in setting the OCR, but one dominates; one policy instrument (OCR) equals one target (inflation).

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	1203	0.8		
Feb-14	1206	0.2		
Mar-14	1209	0.2	1.1	1.1
Apr-14	1214	0.4		
May-14	1214	0.0		
Jun-14	1215	0.1	0.7	0.4
Jul-14	1218	0.2		
Aug-14	1218	0.0		
Sep-14	1219	0.1	0.3	0.5
Oct-14	1221	0.2		
Nov-14	1223	0.2		
Dec-14	1225	0.2	0.4	0.3
Jan-15	1235	0.8		
Feb-15	1239	0.3		
Mar-15	1242	0.2	1.3	1.1
Apr-15	1240	-0.2		
May-15	1239	-0.1		

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