

# NEW ZEALAND ECONOMICS

## ANZ MONTHLY INFLATION GAUGE

January 2017

### CONTACT

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### SUMMARY

- Prices from the Gauge rose 0.3% in December<sup>1</sup> and are up 2.3% y/y.
- The largest contributions came from rents, purchase of housing and accommodation services.
- We are starting to detect more broad-based gains with prices in six of the eight major groups increasing.

### ALIGNMENT

**Prices from the Gauge lifted 0.3% in December, the largest rise since June.** That is on the firm side of typical increases for this time of year. The annual rate increased to 2.3% (from 2.2%).

**Rents again made the largest upward contribution**, rising 0.4%, and this comes on the heels of a similar move last month. Lifts in the 'purchase of housing' component rounded out another month where price increases were dominated by the housing group. There were also positive contributions from vehicle insurance, accommodation services and domestic air transport.

#### **We are starting to detect more broad-based price gains.**

- The seasonally adjusted series also rose 0.3% in the month, and we have seen a solid run of increases since May (excluding the fall in July that was related to vehicle licensing fees). On a 3m/3m basis, prices are up 0.7%.
- The Underlying Ex-housing Gauge lifted 0.2%.
- In terms of their relative contributions, housing elements continue to be top of the list. Rents and purchase of housing took the top two spots in the month. However, there are price pressures emerging in the likes of health and miscellaneous goods and services (dwelling insurance).
- Of the 36 main series feeding into the eight key groups, 24 were unchanged, while 11 were up and one was down.

**That combination is hardly suggesting the inflation genie is bursting out of the bottle.** The annual rate of growth in our gauge (2.3% y/y or 2.2% y/y in the 3-month average) is still historically low. Outside of housing, inflation is very low (0.7% y/y in our Underlying Ex-housing Gauge). Inflation is coming off a low base, with tradable inflation (which is not included in this domestic gauge of pricing pressures) being suppressed by the elevated NZD.

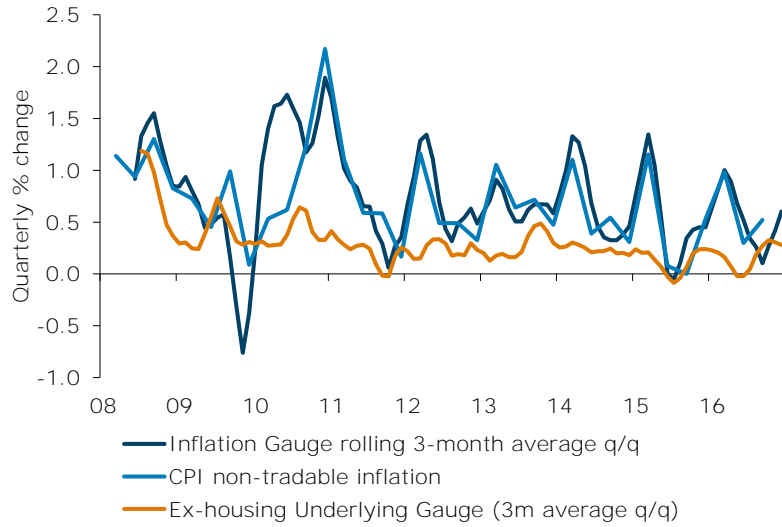
**Nonetheless, inflation signals are showing signs of aligning with strength across the economy and diminishing capacity.** With momentum across the economy strong and spare capacity being absorbed, the inflation pulse is likely to beat a tad faster. With that comes the reality that the OCR will not stay this low indefinitely.

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<sup>1</sup> 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.

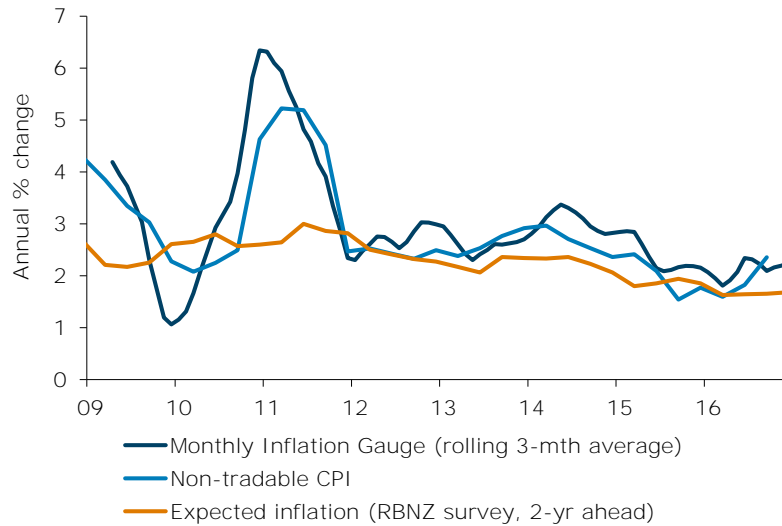
# ANZ MONTHLY INFLATION GAUGE

**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%)
Aug-15	1259	0.2		
Sep-15	1261	0.2	0.3	0.0
Oct-15	1262	0.1		
Nov-15	1265	0.2		
Dec-15	1267	0.2	0.5	0.5
Jan-16	1274	0.6		
Feb-16	1278	0.3		
Mar-16	1280	0.2	1.0	1.0
Apr-16	1282	0.2		
May-16	1283	0.1		
Jun-16	1287	0.3	0.5	0.3
Jul-16	1283	-0.3		
Aug-16	1285	0.1		
Sep-16	1288	0.2	0.1	0.5
Oct-16	1291	0.2		
Nov-16	1292	0.1		
Dec-16	1296	0.3	0.6	

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