

NEW ZEALAND ECONOMICS ANZ MONTHLY INFLATION GAUGE

March 2015

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SUMMARY

- Higher housing group prices and a seasonal lift in tertiary fees contributed to a 0.3% rise in the February Monthly Inflation Gauge. Our underlying ex-housing Gauge was flat.
- Prices in the Gauge rose 1.0% 3m/3m, which is about par for the course for this time of year. Quarterly price rises from the underlying ex-housing gauge were steady at just 0.2%.
- Our Gauge depicts split inflation dynamics. **We're seeing** inflation from housing (and government charges) but a very benign picture beyond that.
- Amidst a solid growth picture this continues to flag the possibility of a structural shift in the evolution of inflation on some levels. If sustained, this would mean even lower interest rates for longer.

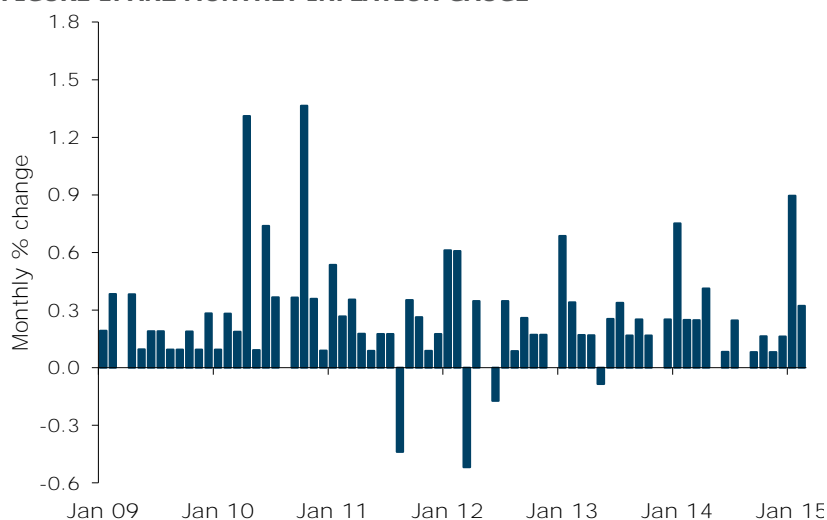
RENTAL SQUEEZE

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 Gauge that adjusts for indirect taxes and tertiary education fees, while our ex-housing gauge removes housing group prices.

Prices in our Gauge rose 0.3% in February. A close to 4% seasonal rise in tertiary fees pushed up prices in the education group. Price pressures remained acute in the housing group, with further increases in dwelling rents – consistent with anecdotal reports – which points to upside risks to current benign rates of CPI rental inflation. Construction costs also moved higher.

Underlying prices excluding the housing group were flat in February (following a 0.2% lift in January). Increases in domestic airfares, rail passenger fares and parking fees pushed up transport group prices, but ferry fares fell. Recreation & culture group prices fell due to lower holiday park accommodation tariffs. There were a few offsetting movements elsewhere.

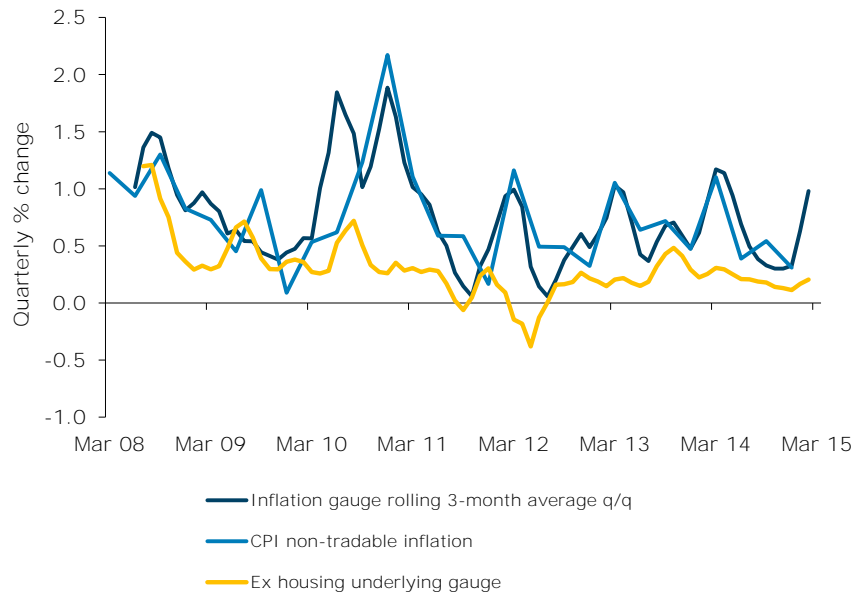
FIGURE 1: ANZ MONTHLY INFLATION GAUGE



Source: ANZ

ANZ MONTHLY INFLATION GAUGE

FIGURE 2: MONTHLY INFLATION GAUGE AND NON-TRADABLE CPI



Source: ANZ, Statistics NZ, RBNZ

Prices rose 1.0% in the three months to February, the highest rate in close to a year. This is partly seasonal given the impact of January increases in tobacco taxes and February increases in tuition fees. Stripping these out leaves a 0.6% quarterly lift, closer to the inflation target midpoint on an annualised basis.

Price rises in the underlying ex-housing gauge were steady at just 0.2% q/q. Low for sure, but there are also few signs of looming deflation emerging in the wider non-tradable regimen. That said, the longer we see subdued non-tradable inflation reads – and we’ve been seeing them for a while against a solid growth backdrop – the greater the evidence of a structural shift in the evolution of inflation on some levels. Such a structural shift – if the evidence continues to print that way – would be consistent with even lower interest rates for longer. For now, the jury remains out.

	Monthly Inflation Gauge (Index)	Monthly Inflation Gauge (m/m%)	Implied Inflation Gauge (q/q%)	Actual non-tradable CPI (q/q%)
Jan-14	987	0.8		
Feb-14	989	0.2		
Mar-14	992	0.2	1.2	1.1
Apr-14	996	0.4		
May-14	996	0.0		
Jun-14	997	0.1	0.7	0.4
Jul-14	999	0.2		
Aug-14	999	0.0		
Sep-14	1000	0.1	0.3	0.5
Oct-14	1002	0.2		
Nov-14	1002	0.1		
Dec-14	1004	0.2	0.3	0.3
Jan-15	1013	0.9		
Feb-15	1016	0.3		

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