A solid undercurrent

Summary
The ANZ Monthly Inflation Gauge fell 0.4% m/m (up 2.9% y/y) in October, kicking Q4 off on a softer note. However, we think the headline could be understating the underlying pulse. There was only one area of significant weakness in the Gauge – the recently-volatile accommodation services component – and the number of components to lift in the month hit an 8-year high. Excluding accommodation services, the index lifted 0.3% m/m, but remained at 2.4% y/y.

Key points
The ANZ Monthly Inflation Gauge fell 0.4% m/m (+2.9% y/y) in October, with accommodation services nose-diving 20.2%, making a -0.7%pt contribution. This component of the Gauge has been throwing a bit of a wobbly of late (figure 4) after the incorporation of prepaid holidays, which have been highly volatile on a monthly basis. We will continue to work towards aligning the sources and methods to those used by Stats NZ and are cautious about putting too much weight on the monthly outturn. After all, the Gauge did overestimate the quarterly rise in the accommodation services component of the CPI in Q3, and this could be payback from that. Excluding accommodation services, the Gauge rose 0.3% (+2.4% y/y). Hairdressers (up 4.7% m/m), rents (up 0.4%), dwelling insurance (up 4.0%) and vehicle servicing and repairs (up 1.6%) together contributed 0.25%pts to the monthly change.

Upon closer inspection, the underlying details were pretty solid. 16 of the 36 categories lifted in the month, which is well above the average of 10 since the Gauge’s conception – a tentative signal that, just maybe, inflation is broadening. That said, most monthly gains were small.

Annual inflation in the Gauge was steady at 2.9% in October, up from 2.4% June, but is still below 3.1% recorded in early 2018. The ex-housing Gauge was also steady at 1.2% y/y.

Looking through the noise, the October Gauge suggests inflationary pressures are at least tracking sideways heading into Q4, but it’s still early days. A bounce in accommodation services in November wouldn’t come as a surprise.

Figure 1. Quarterly 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.
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<th>Monthly Inflation Gauge (Index)</th>
<th>Monthly Inflation Gauge (m/m%)</th>
<th>Implied Inflation Gauge (q/q%)</th>
<th>Actual non-tradable CPI (q/q%)</th>
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**Figure 2. Annual inflation measures**

Source: ANZ Research, Statistics NZ

**Figure 3. Price moves by direction**

Source: ANZ Research

**Figure 4. Gauge vs gauge ex-accommodation services**

Source: ANZ Research
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