

## NEW ZEALAND ECONOMICS ANZ MONTHLY INFLATION GAUGE

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### SUMMARY

- Prices in the Monthly Inflation Gauge rose 0.3% in June, following a 0.1% rise in May. Prices in the Gauge were up 0.5% 3m/3m, while annual inflation from the Gauge rose to 2.5%.<sup>1</sup>
- **That's a** larger than normal increase for June and we are also seeing a drift higher in our seasonally adjusted estimates of late.
- Contributions were led by the housing and household utilities group, though a range of price increases outside of housing are also apparent (ex-housing up 0.2% m/m).
- Domestic inflation looks to be past its lows with rising pressures from obvious sectors such as housing. Time will tell whether the lift outside of housing is monthly noise or substance.

### A SNOOZY DRAGON

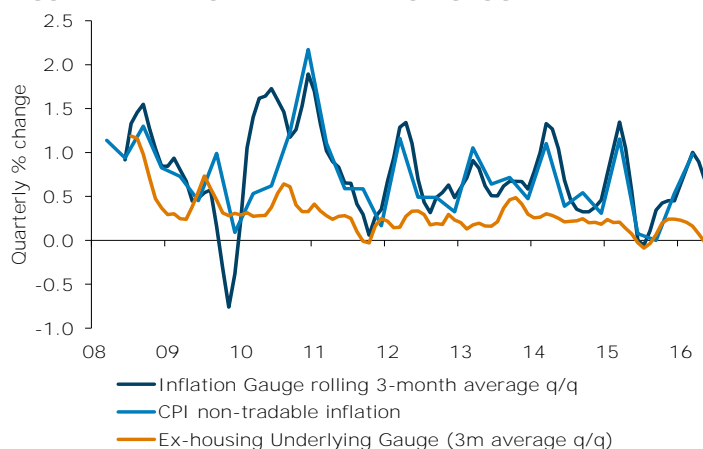
**Prices from the Gauge registered a 0.3% lift in June, following a 0.1% rise in May.** To put June's rise in perspective, the past five years have seen movements of 0.2%, -0.2%, 0.3%, 0.1% and 0.1%, so a 0.3% lift is at the high end of experience.

**The largest contribution came from the housing and household utilities group**, courtesy of gains in construction, property maintenance services and electricity. Construction costs in particular are showing clear signs of accelerating.

**This month we also noted price rises outside of housing.** Ex-housing prices increased 0.2% m/m, the largest rise since January 2014. **That's still only up a** meagre 0.6% on the year, and time will tell whether the stronger monthly result is noise or substance. The recreation and culture (accommodation), transport (domestic air, road, sea transport) and miscellaneous groups all showed rises.

**Prices increased 0.5% over the quarter.** That's above the Reserve Bank's expectation for non-tradable CPI inflation presented in the June *MPS*.

**FIGURE 1: ANZ MONTHLY INFLATION GAUGE**



Source: ANZ, Statistics NZ

<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

**We are starting to see a drift higher in the seasonally adjusted series,** which has shown rises of 0.2%, 0.3% and 0.4% in the past three months.

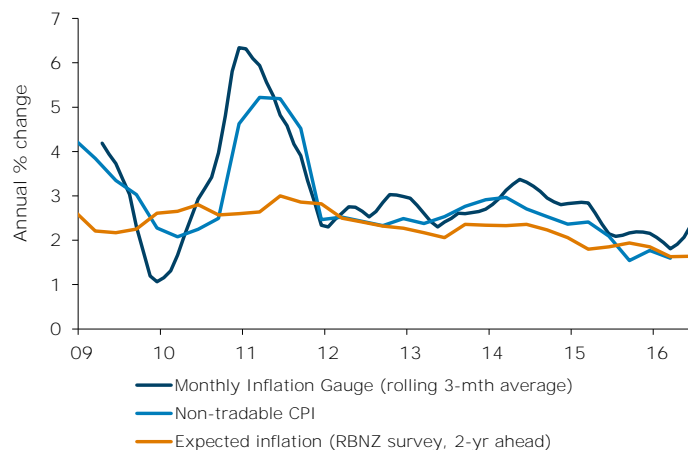
**It is looking increasingly like we are past the lows for domestic inflation.**

Annual inflation in the Gauge ticked up to 2.5%. Pockets of pricing pressure are more prevalent in some sectors than others; housing appears to be accelerating. Annual inflation from the underlying ex-housing gauge remained far more subdued at 0.6% y/y, though it too has picked up a smidgen of late.

**A general lift in prices ties in with strength across the economy.** As resources become more difficult to source (think labour for building a house), prices move up. The inflationary dragon in some pockets such as housing is certainly not asleep. However, major deflationary forces remain in the form of technology, global trends and the stubbornly elevated NZD. **So it's a slowly awakening dragon that's still somewhat dozy, albeit with housing fire in its breath.**

**The outlook for the OCR is delicately placed.** Our gauge provides evidence that non-tradable inflation is accelerating. It needs to because tradable inflation is keeping headline inflation low and the high NZD means more of the same. But non-tradable inflation is the piece the RBNZ has most control over and should hold more sway.

**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%)
Feb-15	1255	0.3		
Mar-15	1258	0.2	1.3	1.2
Apr-15	1255	-0.2		
May-15	1254	-0.1		
Jun-15	1255	0.1	0.0	0.1
Jul-15	1257	0.2		
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	

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