

## Buttering Up

The price of the basket of New Zealand's key export commodities continued to rise in August. This was reflected in a 1.4 percent increase in the **ANZ World Commodity Price Index**. Compared to the same time last year, commodity prices have risen 36 percent.

Six commodities registered a lift in prices in the month of August, with an equal number of commodities recording a fall in prices.

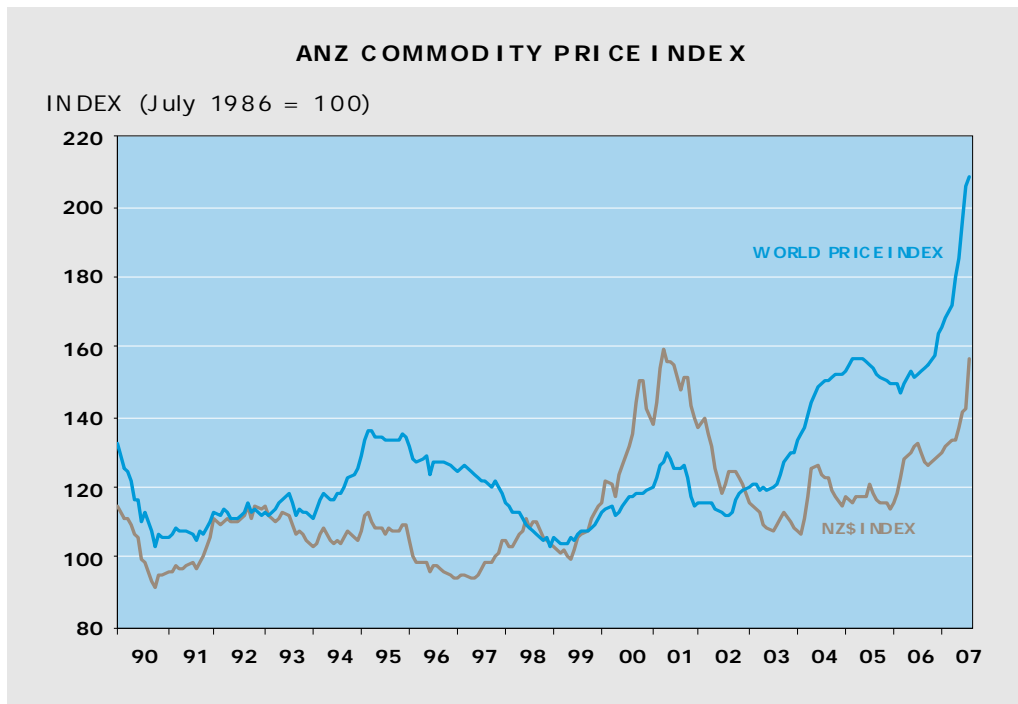
Dairy prices continued to govern the overall direction of the Commodity Price Index, with a further push higher in August. However, the 3.1 percent increase in dairy prices this month was notable for being the smallest monthly rise for the commodity since October last year. The momentum in rising milk powder prices looks to have stalled, but the other non-powder products (butter, cheese and casein) are still making gains.

Seafood and beef prices recorded the next largest increases in August. Seafood posted its fourth successive monthly increase, lifting 2.7 percent from July. Beef posted its fifth consecutive monthly rise, lifting 1.4 percent. Other commodities to record price increases were wool, sawn timber and kiwifruit.

Six commodities recorded weaker prices, led by an 8.1 percent drop in the price of aluminium. Other commodities to register large price declines were skins (down 4.4 percent), apples (down 3.5 percent) and lamb (down 1.6 percent). Venison and logs also recorded modest price declines.

The rapid drop in the value of the NZ dollar over month resulted in a surge in the **ANZ NZ Dollar Commodity price Index**, which jumped 10 percent in the month of August. All commodities, except aluminium, registered a rise in NZ dollar prices in the month of August.

NZ dollar commodity prices are now within a whisker of levels last seen in 2001, when the NZ dollar was sub US 45 cents. The contrast highlights the significant role - and good news story for the economy - rising commodity prices will have on the economic outlook, despite the NZ dollar remaining historically high.



**Commodity Price Index Weights** are based on contributions to merchandise exports. Weights for the 2007 year are: Wool 0.048; Beef 0.103; Lamb 0.137; Venison 0.015; Skins 0.027; Dairy 0.333; Apples 0.018; Kiwifruit 0.044; Logs 0.032; Sawn Timber 0.056; Wood Pulp 0.034; Seafood 0.068; Aluminium 0.085.

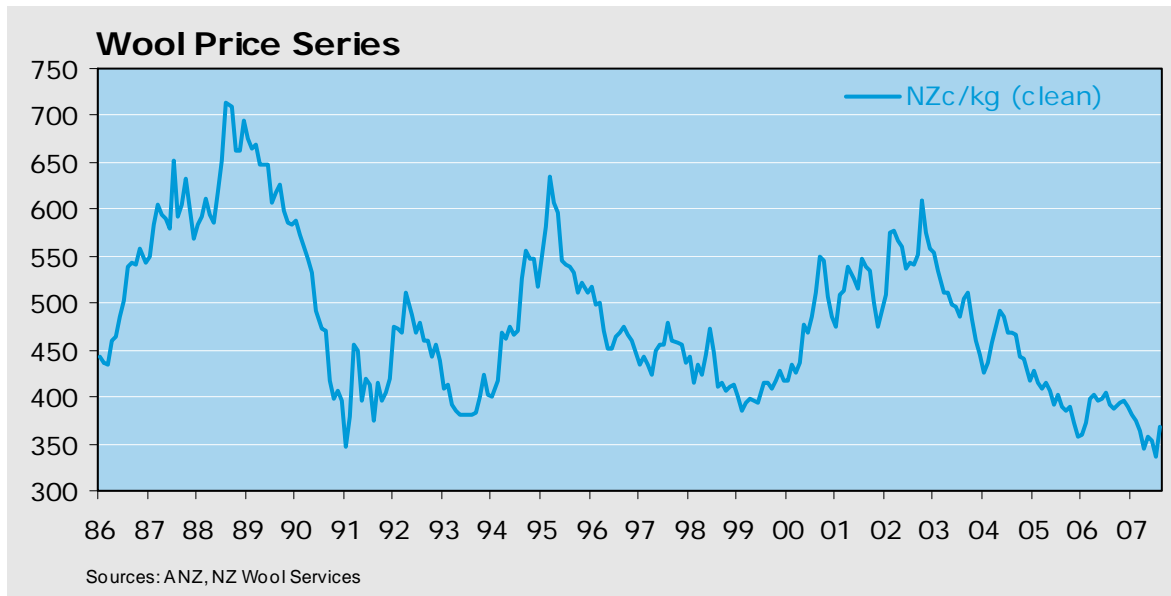
	World Price Index	Monthly % Change	Annual % Change	NZ\$ Index	Monthly % Change	Annual % Change
Aug-02	112.4	0.1	-10.3	124.9	3.4	-15.6
Aug-03	121.2	1.0	7.8	108.9	1.3	-12.8
Aug-04	150.7	0.9	24.3	123.3	-0.3	13.2
Aug-05	153.9	-0.9	2.1	118.0	-2.7	-4.3
Aug-06	153.0	0.5	-0.6	130.4	-1.7	10.5
Feb-07	168.6	1.4	13.0	131.9	1.7	11.7
Mar-07	172.0	2.0	17.1	134.0	1.6	8.7
Apr-07	180.4	4.9	20.9	133.9	-0.1	4.5
May-07	185.1	2.6	21.1	137.5	2.7	5.5
Jun-07	196.7	6.3	29.8	141.2	2.7	7.4
Jul-07	205.7	4.6	35.1	142.7	1.1	7.5
Aug-07	208.6	1.4	36.3	156.9	10.0	20.3

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Forthcoming ANZ Commodity Price Index to be published: 4 October 2007.

## FEATURED COMMODITY: WOOL

New Zealand is the second largest producer of wool in the world, behind Australia, with coarse fibre dominating our wool production. Coarse wools are ideal for use in carpet production, hand-knitting yarns and blankets. About 70 percent of the NZ clip is 33 microns or more in diameter. This contrasts with Australian wool, of which over 90 percent is less than 28 microns. New Zealand is by far the largest producer of coarse wools, contributing over 40 percent of the world total. On a clean basis, crossbred wool accounts for about 89 percent of New Zealand's wool production, followed by mid-micron and merino (at about 5 percent each).



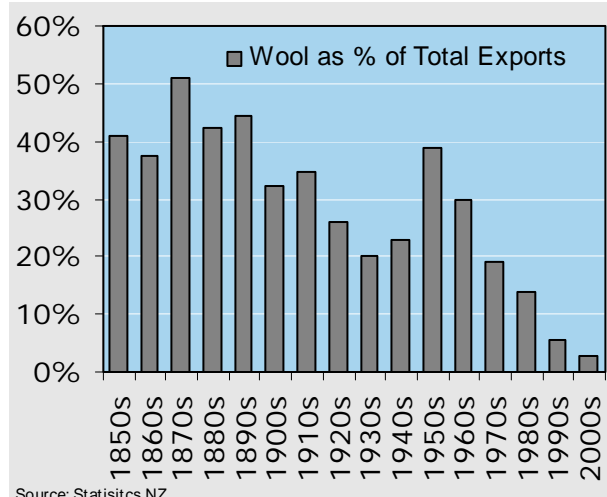
The NZ dollar coarse wool market indicator dipped below a 15-year low at the start of the current season. This coincided with the NZD/USD exchange rate hitting a post float high, and the Chinese government declaring that its 2007 wool import quota was already full, mid-way through the year. The latest news is that the Chinese quota issue has now been resolved (at least for the meantime) and the exchange rate has since eased. Thus the NZD indicator price firmed 9.5 percent in August, reflecting a 0.9 percent lift in the world indicator price and the remainder reflecting the weakening in the value of the kiwi dollar.

Previous lows in wool prices have occurred in the 1986, 1991, 1993 and 1999. Despite the latest improvement, the general long-term trend in wool prices has been distinctly downward. This partly reflects a switch away from woollen products towards synthetic goods. The cause of this trend is easy to identify. Hands up those that still wear woollen socks and singlets, or use a woollen blanket in preference to a duvet? Wool accounts for only 1 percent of world textile fibre usage. The balance is fairly evenly split between cotton and synthetic fibres. As a result of the decline in world-wide demand for woollen products, wool has only accounted for an estimated 15 percent of NZ's gross farm income in recent years, compared with 35 percent twenty years ago.

In the year to June 2007, unprocessed wool earned NZ\$801m in exports, which represents 2.3 percent of NZ's total merchandise export receipts. This figure jumps to a little under NZ\$1b with the inclusion of carpets and other woollen products.

The five largest markets for NZ's wool exports are: China (22% of total wool exports), Australia (15%), United Kingdom (10%), Italy (10%) and India (7%).

There are about 14,000 wool growers in NZ. The South Island produces just over half of NZ's wool production. Total wool production has declined in line with falling sheep numbers. As at 30 June 2007, NZ's sheep flock has been estimated at around 39 million, down from a peak of 70 million in 1982.



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