

Leather gets the boot

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The next issue of the *ANZ Commodity Price Index* is scheduled for release on: 7 January 2009 at 3pm.

Commodity prices weaken in November. Another month of weakness was noted in international commodity prices in November, with the ANZ Commodity Price Index recording a 7.2 percent fall in the price of New Zealand's export basket. This is the fourth successive monthly drop in the series, and equates to a 21 percent cumulative fall in the index since July.

Eight down, two up. The price of eight commodities recorded a fall in November, two commodities recorded a rise and three were unchanged from the preceding month. Pelt prices recorded the largest drop, slumping 41 percent from October. Double-digit declines (all between 12 and 13 percent) were recorded for beef, wool, lumber, aluminium and dairy. Even seafood prices were knocked back in November, posting the first monthly decline in 18 months (-0.6 percent). Lamb and kiwifruit were the two commodities to record a lift in prices in November, rising 4.3 and 0.3 percent, respectively.

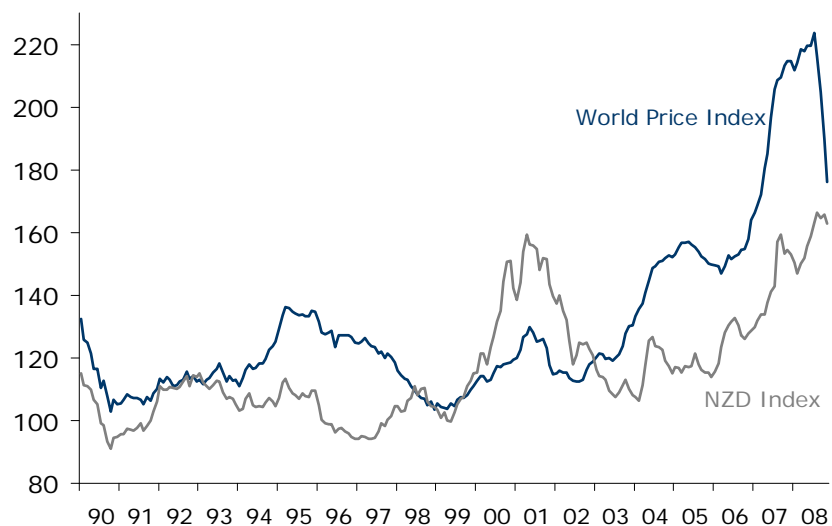
Broad-based weakness detected. Pelt prices were hardest hit in November (see feature article on page three) and are just off their all time low. In addition, beef prices dropped to a 4½ year low, wool to a 6½ year low, sawn timber to a 7½ year low and aluminium to a 3 year low. Dairy prices have tumbled for the third consecutive month. One year ago international dairy prices were at an all time high. Twelve months later and the dairy price series has nearly halved, falling 43 percent.

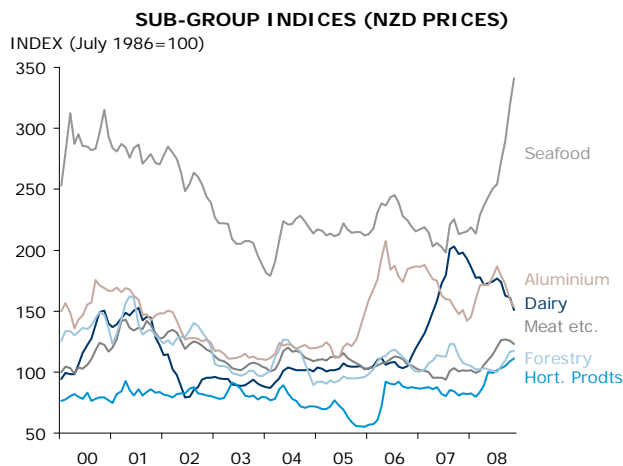
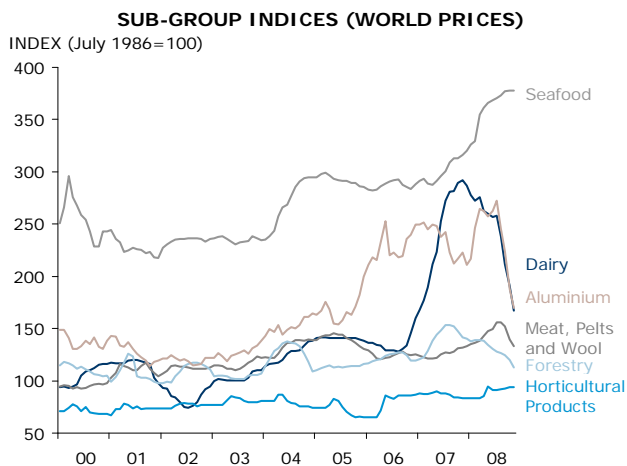
Lamb spared the chop. Lamb prices have been insulated from the general downturn in commodity prices, with wholesale lamb prices in the United Kingdom hitting a 30 month high in November. However, this peak may be short-lived, as the latest weekly prices have since weakened.

Kiwi dollar index down. The ANZ New Zealand Dollar Commodity Price Index recorded a 1.8 percent fall in the month of November. This indicates that although the currency softened further in the month, it failed to match the drop in value of the commodities that we monitor. But looking at the overall level of NZD prices over the past few months, it is clear that a weaker currency is acting as a buffer to falling commodity prices.

ANZ COMMODITY PRICE INDEX

INDEX (July 1986=100)





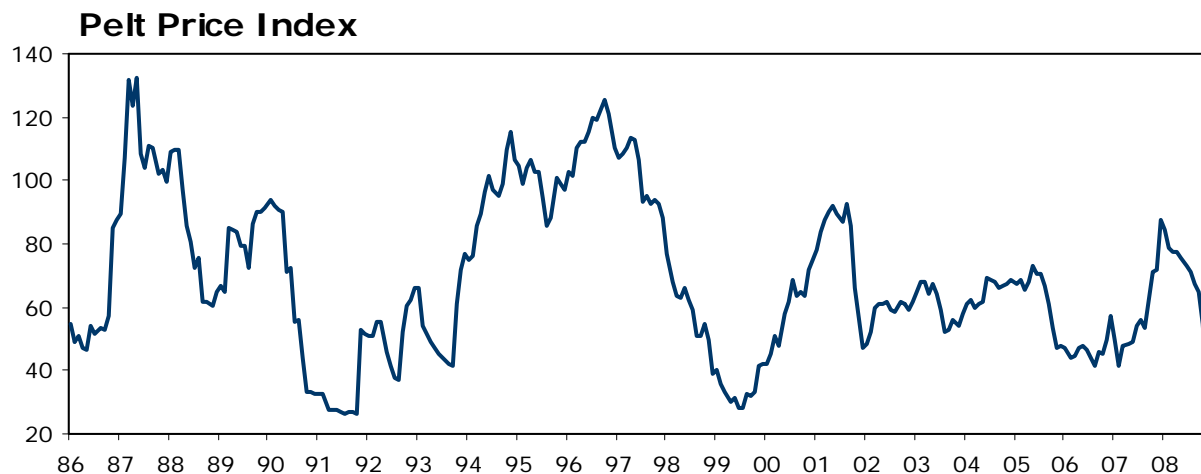
	World Price Index	Monthly % Change	Annual % Change	NZ\$ Index	Monthly % Change	Annual % Change
Nov-03	130.2	2.0	10.4	110.2	-2.4	-10.4
Nov-04	152.6	0.5	17.2	117.5	-1.3	6.6
Nov-05	150.1	-0.9	-1.6	115.3	0.0	-1.9
Nov-06	158.0	2.1	5.3	127.8	1.3	10.8
Nov-07	214.7	0.8	35.9	154.5	0.8	20.9
May-08	219.7	0.9	18.7	155.6	2.5	13.2
Jun-08	219.6	0.0	11.6	158.8	2.1	12.5
Jul-08	223.5	1.8	8.7	163.2	2.8	14.4
Aug-08	216.0	-3.4	3.5	166.4	2.0	6.1
Sep-08	204.9	-5.1	-2.1	164.6	-1.1	3.3
Oct-08	189.8	-7.4	-10.9	165.7	0.7	8.2
Nov-08	176.1	-7.2	-18.0	162.8	-1.8	5.4

Commodity Price Index weights are based on contributions to merchandise exports. Weights for the 2008 year are: Wool 0.043; Beef 0.086; Lamb 0.130; Venison 0.012; Skins 0.025; Dairy 0.382; Apples 0.020; Kiwifruit 0.043; Logs 0.034; Sawn Timber 0.050; Wood Pulp 0.034; Seafood 0.060; Aluminium 0.083

Featured Commodity: SKINS

New Zealand has a significant slice of the international trade in sheep skins. After hitting a high last year, pelt prices have taken a turn for the worse. The outlook for pelt prices will be largely determined by world-wide economic fortunes, additional production sourced from Asia and, to a lesser degree, by designer fashion trends.

Globally, the leather industry produces about 1.7 billion square metres of leather a year, with a total value that is estimated at about US\$40 billion. New Zealand produces 10 percent of the world's unprocessed sheep skins, but only one percent of beef hides. Hides and skins are a by-product of the meat industry, and typically represent between 5 and 15 percent of the value of an animal.



Source: ANZ

When we featured pelt prices in this article last year they had reached a three-year high. Thirteen months later, the series has turned sharply down and is currently at a nine-year low. Moreover, if the latest weekly prices we monitor continue through to December, the series will hit a new all time low next month.

Recent weakness in pelt prices is a reflection of weaker demand for leather and leather products, caused by a slowing global economy, combined with lower production caused by increased prices for chemicals, energy and freight.

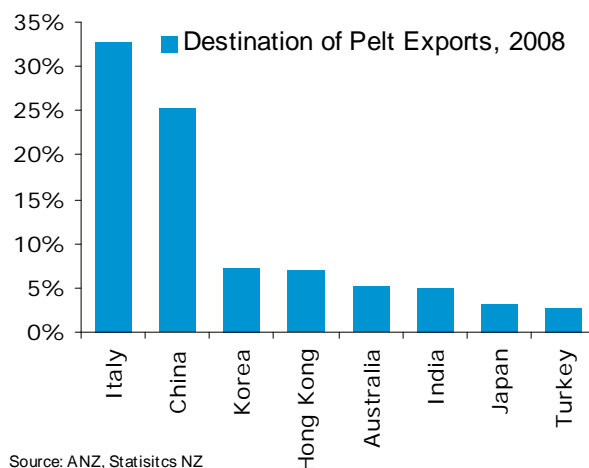
Other influences on pelt prices have been a switch in consumer preference and increased production from Asia. There has been a general switch away from the use of leather. About 60 percent of all leather production world-wide is used to make footwear, with a further 16 percent used for garment production. The balance goes to uses including fashion items, furniture, and sporting goods. Over recent years, the fashion houses of Europe have shunned the use of leather and this switch has ultimately been reflected in the prices paid to New Zealand sheep farmers.

Another cause of weaker pelt prices has been an increase in the production from Asia, particularly China. In the ten years to 2006 (the latest available data), China's leather production has more than doubled. Although the quality of product from China is generally poorer, the increased supply on the world's market has nevertheless caused a weakening in pelt prices. Drought induced animal slaughter has also resulted in an above average level of production.

In the twelve months to June 2008, exports of hides, skins and leather totalled \$488m, or about 1.2 percent of our total merchandise export receipts.

Italy is the largest destination for New Zealand's exports, taking a third of our total hides and skins exports. Our next largest market is China, taking 25 percent. Exports to China have grown strongly over recent times. The value of pelt exports to China have doubled in the past two years. The next largest markets are Korea, Hong Kong, Australia and India.

Italy takes a larger proportion of our exported beef hides in an unprocessed form. The main market for our processed hides is Australia, where they are used in footwear and furniture. Our sheep skins exports are sent to a more widespread area, particularly garment manufacturers in Asia, Australia and the United States.



Source: ANZ, Statistics NZ

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- Adjudicated bankrupt;
- Prohibited by an Act or by a court from taking part in the management of a company or a business;
- Subject of an adverse finding by a court in any proceeding that has been taken against them in their professional capacity;

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- Superannuation schemes and bonds;
- Group investment funds;
- Life insurance products;
- Derivative products including interest rate and currency forward rate contracts and options; and
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- Making an automatic payment or payment through another electronic delivery mechanism operated by the Bank.

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