

## A fairy dairy tale ending

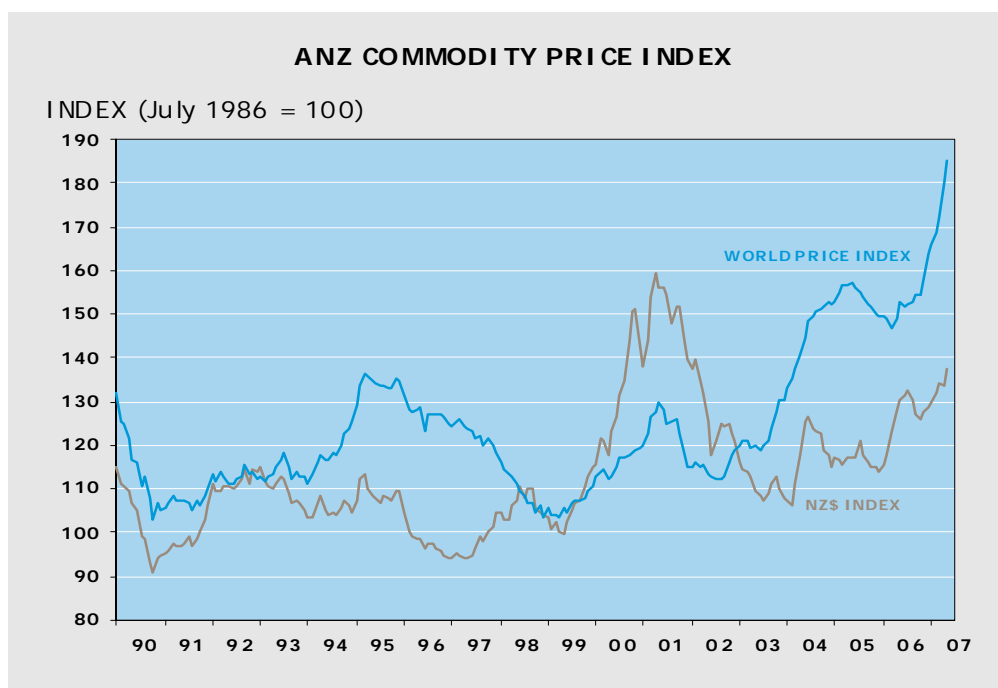
The prices of New Zealand's key exports pushed higher in May. The **ANZ World Commodity Price Index** increased 2.6 percent from last month, with annual growth in the index rising to 21.1 percent.

The end of the New Zealand dairy season was greeted by a further 5.8 percent lift in world dairy prices. Compared to the same month last year, dairy prices have risen 74 percent in world prices and 49 percent in NZ dollar terms. This rapid rise in international dairy prices will boost dairy farm incomes as the 2008 dairy season progresses.

The latest rise in commodity prices was also mirrored in eight other commodities, led by a 6.9 percent rise in the price of sawn timber. The price of wool rose 3.9 percent and the prices received for new season kiwifruit reaching the European market increased 3.2 percent. Venison prices lifted 2.2 percent to a 5-year high (*refer to page 3*). The price of seafood and skins both rose 1.2 percent, while the price of logs and beef posted modest rises. The only commodities to record a weakening in price in May were aluminium and lamb, with declines of 0.8 and 0.9 percent, respectively.

The level of the New Zealand dollar was little changed against our major trading partners over the month of May, and consequently the **ANZ NZ Dollar Commodity Price Index** rose 2.7 percent – almost identical to the rise in the index in world terms. The New Zealand Dollar commodity price index is 5.5 percent higher than a year ago.

High international commodity prices represent a massive income boost to the New Zealand economy. Unfortunately, the more impetus being provided by strong commodity prices (while welcome to parts of the economy) the greater the resistance the Reserve Bank needs to provide (via interest rates) to slow the economy.



**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.

|        | <b>World Price Index</b> | <b>Monthly % Change</b> | <b>Annual % Change</b> | <b>NZ\$ Index</b> | <b>Monthly % Change</b> | <b>Annual % Change</b> |
|--------|--------------------------|-------------------------|------------------------|-------------------|-------------------------|------------------------|
| May-02 | 113.5                    | -1.7                    | -12.6                  | 125.4             | -5.1                    | -19.7                  |
| May-03 | 120.0                    | 0.3                     | 5.7                    | 109.5             | -3.0                    | -12.7                  |
| May-04 | 144.5                    | 2.6                     | 20.4                   | 125.5             | 6.6                     | 14.6                   |
| May-05 | 157.1                    | 0.3                     | 8.7                    | 117.2             | -0.1                    | -6.6                   |
| May-06 | 152.8                    | 2.4                     | -2.7                   | 130.3             | 1.7                     | 11.2                   |
|        |                          |                         |                        |                   |                         |                        |
| Nov-06 | 158.0                    | 2.1                     | 5.3                    | 127.8             | 1.3                     | 10.8                   |
| Dec-06 | 164.0                    | 3.8                     | 9.4                    | 128.7             | 0.7                     | 12.9                   |
| Jan-07 | 166.2                    | 1.3                     | 11.1                   | 129.7             | 0.8                     | 12.2                   |
| 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                    |

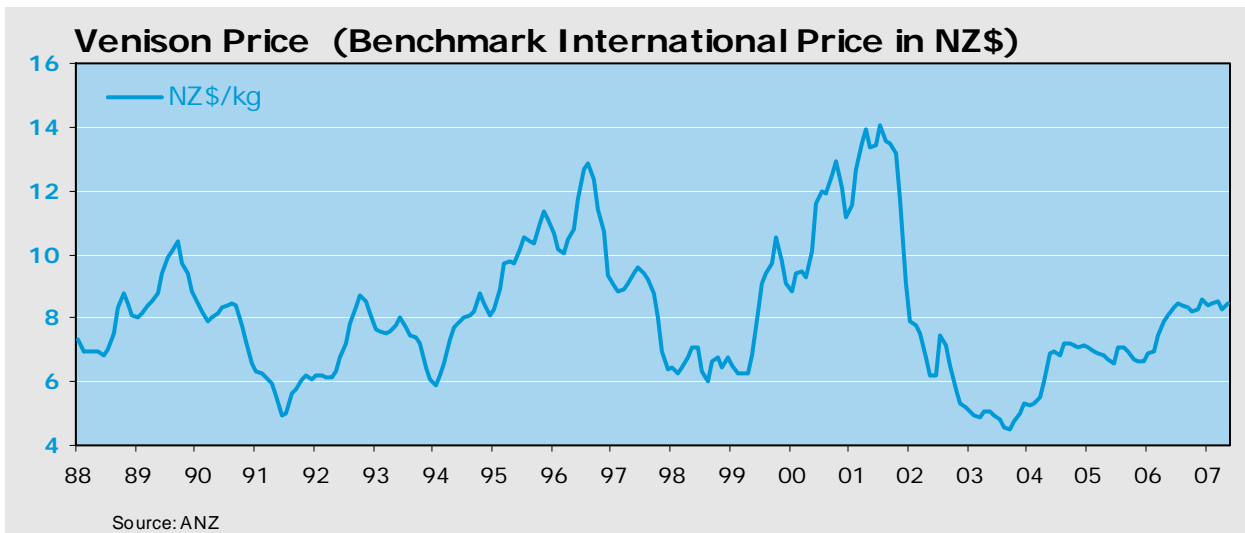
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## FEATURED COMMODITY: VENISON

When the early European settlers arrived in New Zealand they also brought with them red deer for release into the wild for hunting. The feral stock quickly spread to the point that by the 1950s they were regarded as a pest, raising concerns about their impact on the indigenous environment. The NZ Forest Service employed hunters during the 1950s and 1960s to reduce numbers. The first exports of venison from feral deer occurred in the 1960s and established an export market in Europe. The trade in feral deer was so successful that by the late 1970s it was feared that the source would soon be exhausted. At this point farmers began trapping animals for the purpose of farming them, and thus, deer farming in NZ, as an industry in its own right, was born.

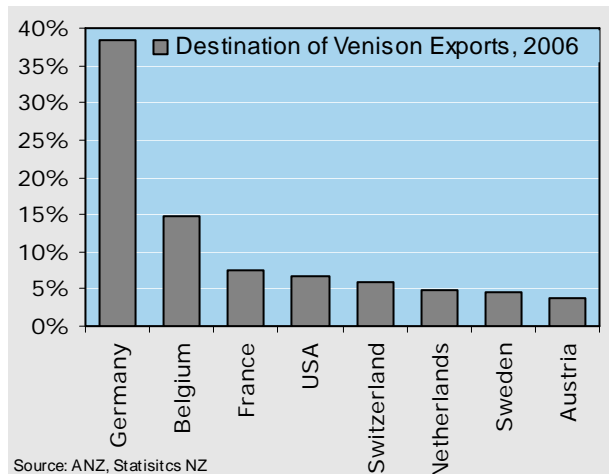
Over the next 35 years, commercial farming of deer in NZ has grown so rapidly that New Zealand now leads the rest of the world in terms of the number of deer farmed. There are approximately 1.7 million deer farmed in New Zealand, which equates to half of the world's farmed deer population. On an inter-Island basis, the split is roughly 40 percent of deer in the North Island and 60 percent in the South Island. Reflecting the original imported wild population, the majority of New Zealand's deer herd (about 85 percent) is red deer and the balance is predominantly elk (also known as wapiti) or elk crosses. The 1980s saw the creation of the "Cervena" trademark. This was part of an ambitious marketing strategy by the NZ Game Industry Board, designed to distinguish NZ deer meat from all other venison, with the trademarked assurance that the meat has been naturally produced and processed.



The world price of venison has always been on a rollercoaster ride. Influences include: economic conditions in Germany, variations in supply from NZ, and resistance to price peaks. The current indicator price has recently firmed to €4.7/kg, which is at its highest level since the end of 2001. When converted into New Zealand dollars, venison prices are currently sitting at a five-year high. The outlook for the indicative international price of venison is steady, demand is becoming more widespread during the year and, to use other people's words, "the industry is quietly confident".

New Zealand exported \$270 million of venison in the twelve months to April 2007, which represented less than one percent of our total merchandise exports. The export of velvet, deer hides and other co-products pushes the total deer industry export figure to \$320 million.

By far the largest share of our venison exports is shipped to Germany. The next largest destinations are all European countries with the exception of the United States. Venison is an important part of traditional German diet in autumn and winter, with strong links to the autumn hunting season – when game meats are in high demand. Venison, and a range of other game foods, is a common feature on German menus at this time.



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