

## Milk's metamorphosis into a butter"fly"

The price level of New Zealand's basket of key export commodities continues to push higher. This was confirmed by a 4.7 percent increase in the **ANZ World Commodity Price Index** in the month of July, to hit a new high. The level of commodity prices have risen 35 percent from a year ago – the strongest annual percentage increase since the start of the series over twenty years ago.

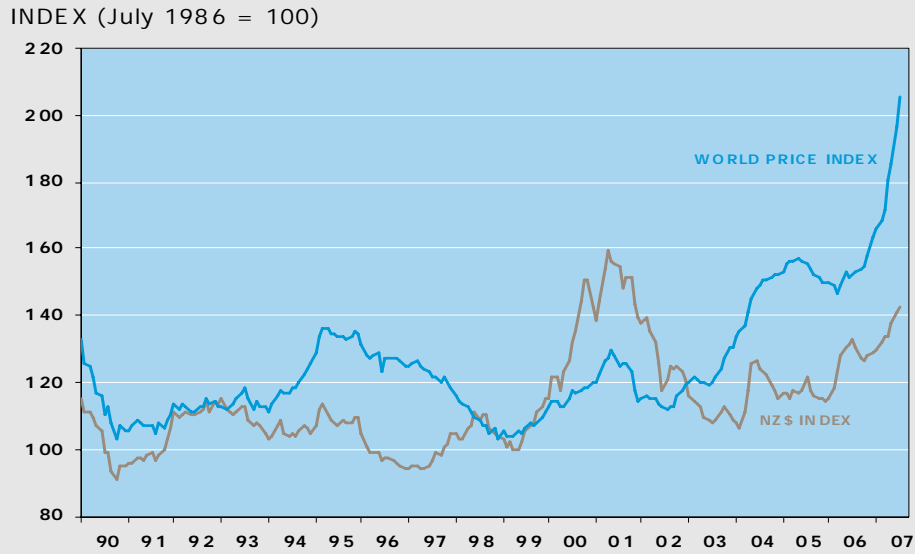
The much heralded rise in international dairy prices was, once again, the catalyst for the surge in the index in July. Dairy prices increased a further 7.8 percent last month. Over the past 12 months, global dairy prices have more than doubled, surging 111 percent from a year earlier. If we remove the spectacular rise in the price of dairy products, the ANZ World Commodity Price Index would have risen 1.3 percent in the month of July, with an annual price increase of 5.6 percent.

Price rises were also recorded for nine other commodities. Sawn timber prices rose 5.9 percent in July, with prices up 27 percent from where they stood a year ago. Lamb prices made a second successive monthly rise (up 3.8 percent), and a welcome respite from eight months of falling prices preceding this turnaround. The price of skins, aluminium, venison and seafood all recorded price rises between 1½ and 2½ percent in July. Lastly, logs, kiwifruit and beef recorded modest price rises ranging between ¼ and ½ percent. Partially offsetting these gains were falls in the prices of apples (down 1.9 percent) and wool (down 1 percent).

A rise in the value of the New Zealand dollar last month dampened the rise in the **ANZ NZ Dollar Commodity Price index**, which increased 1.1 percent in July. The NZ Dollar appreciated 3.8 percent against the US dollar in July, and on a trade-weighted basis our currency rose 2.3 percent.

The level of the NZ dollar made a hasty retreat from its post float high in late July, but nevertheless remains at elevated levels. Meanwhile, as dairy farmers are enjoying high prices – even in local currency terms – the NZ dollar price of wool hit a 20-year low in July. Beef and lamb farmers are also finding times tough. The international price of beef and sheepmeat is at a similar level to last year, but when converted into NZ dollars, the price of both commodities has eased about 20 percent from a year ago.

## ANZ COMMODITY PRICE INDEX



**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.

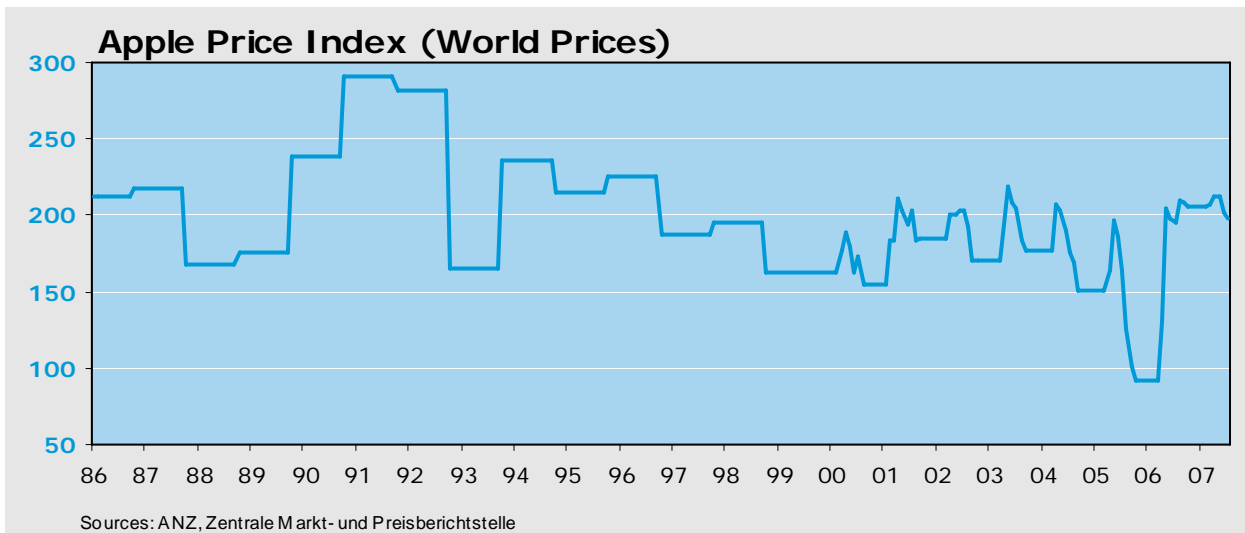
	World Price Index	Monthly % Change	Annual % Change	NZ\$ Index	Monthly % Change	Annual % Change
Jul-02	112.3	-0.4	-10.3	120.8	2.4	-21.9
Jul-03	120.0	0.7	6.9	107.5	-0.7	-11.0
Jul-04	149.3	0.5	24.4	123.7	-2.4	15.1
Jul-05	155.3	-0.5	4.0	121.3	3.4	-1.9
Jul-06	152.3	0.5	-1.9	132.7	0.9	9.4
Jan-07	166.2	1.3	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
Jun-07	196.5	6.2	29.7	141.1	2.6	7.3
Jul-07	205.7	4.7	35.1	142.7	1.1	7.5

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## FEATURED COMMODITY: APPLES

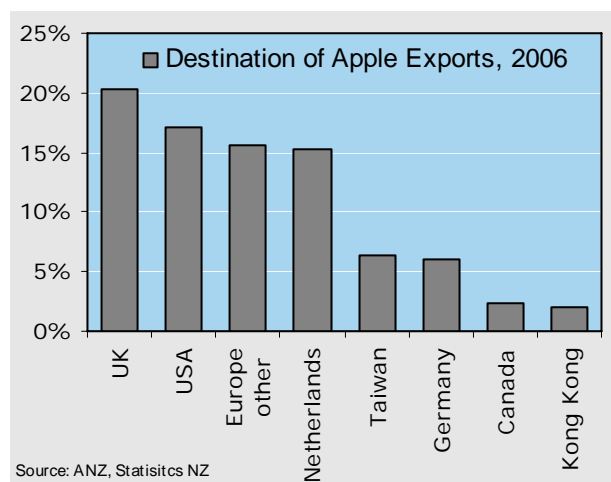
Apples were introduced into New Zealand when the Rev Samuel Marsden planted the first apple trees in Kerikeri in 1819. After another eighty years, the first trial shipment of apples was successfully exported to the United Kingdom in 1899. As offshore demand grew over the next fifty years, so did the number of apple orchards in New Zealand. A growing pipfruit industry prompted the government in 1948 to give statutory powers to the New Zealand Apple and Pear Marketing Board (NZAPMB) to control the purchase and marketing of export apples and pears. In the early 1990s, the NZAPMB introduced the "ENZA" brand to distinguish New Zealand pipfruit in the world marketplace. ENZA Limited became the marketing arm of the NZAPMB and continued to be responsible for the sales of all export-grade apples and pears from New Zealand. The NZAPMB was corporatised in 2000, with shares issued to all ENZA suppliers. Three years later the operations of ENZA were acquired by Turners & Growers, pushing up the number of export destinations to over fifty countries.



The international trade in apples is a hard-fought marketplace, with New Zealand competing with other southern hemisphere apple producers, as well as all other alternative fruits. New Zealand accounts for less than 1 per cent of world-wide apple production. However, as only a small proportion of the global apple production actually makes it to the export market, New Zealand's share of global apple trade rises to 6½ per cent. International prices for apples hit a low in 1993 and again in 2005, caused by an oversupply of product combined with a declining trend in global apple consumption. Accentuating the fall in price was increased competition from other southern hemisphere producers (Argentina, South Africa and Chile). Over the past decade, China has become the world's leading producer of apples. China produces 25 million tonnes of apples, with a global export market share of about 20 per cent.

New Zealand's pipfruit industry has a total production of approximately 525,000 tonnes of apples; of which 320,000 tonnes are exported, 140,000 tonnes are processed into juice and other products, leaving 55,000 tonnes being sold as fresh fruit on the domestic market.

The total value of apple exports last year was \$393 million, which represents just over 1 per cent of the total value of our merchandise trade. The largest single market for our apple exports is the United Kingdom, which takes about a fifth of our apple exports, by value. Next is the USA and Netherlands, with 17 and 15 per cent, respectively.



A widely heralded omission from the opposite chart is Australia. In 1921, Australia imposed a ban on the importation of NZ apples to keep out fireblight — a bacterial infection that causes shoots and twigs to wither and die. Despite the risk of infection through New Zealand fruit being very low, Australia has maintained its 'biological' ban. However, last year the ban was formally lifted, but Australia imposed very stiff conditions, which are still proving to be a stumbling block before trans-Tasman trade can resume.

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