

Embargoed until 1am Thursday 8 February

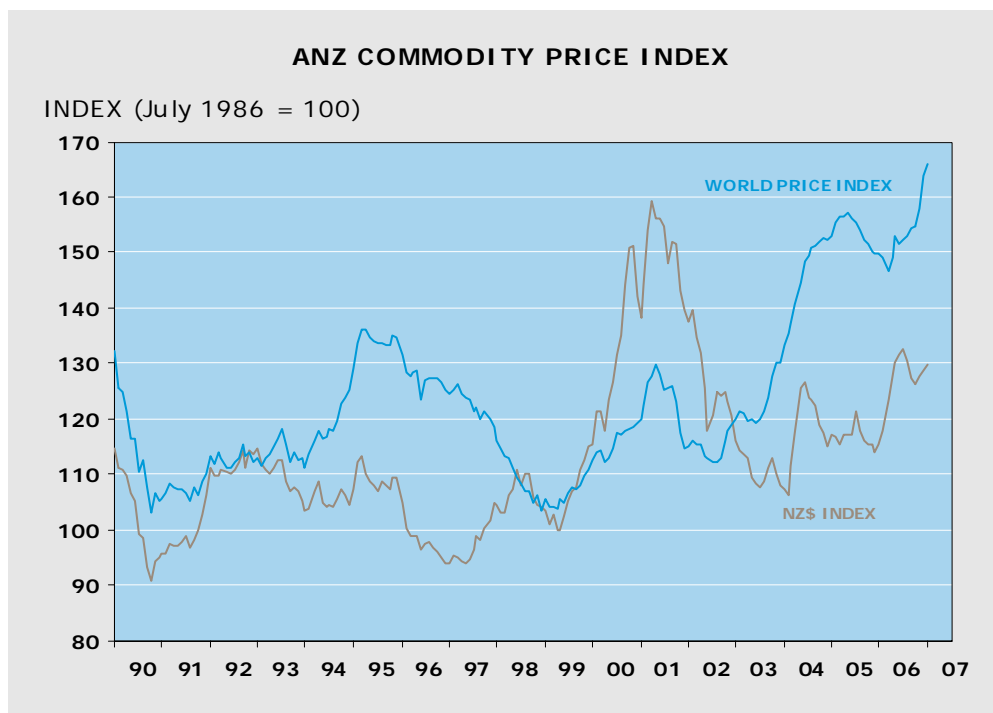
HOT TO TROT

The prices received for New Zealand's key exports continue to push higher. This was revealed by a 1.3 percent rise in the **ANZ World Commodity Price Index** in January and follows a 3.8 percent rise in December. The latest rise lifts the series to a new all time high. The index is 7.9 percent higher than the previous peak in May 2005.

Underpinning the latest strength has been a rapid rise in dairy prices. The dairy component of the index rose 4.9 percent in January, compounding monthly rises of 9.8 percent in December and 8.9 percent in November. As we mentioned in our previous *Commodity Price Index* report, the surge in dairy prices coincides with the drought facing Australian farmers. Removing the dairy component from the index reveals a 0.3 percent drop in the series, following a 0.9 percent rise in December.

Apart from dairy prices, the other commodities to post large price movements in January were rises in kiwifruit (up 3.1%), logs (up 2.7 percent) and seafood (up 0.9 percent). Offsetting this were large declines in skins, wool and aluminium (with decreases of 11.9, 2.0 and 1.1 percent, respectively).

When converted into local prices, the **ANZ NZ Dollar Commodity Price Index** rose 0.7 percent in the month of January. This reflects a 1.3 percent increase in the value of the kiwi dollar against our major trading partners. Compared to a year ago, NZ dollar commodity prices have risen 12.1 percent, with a 1.6 percent decline in the level of the kiwi dollar.



Commodity Price Index Weights are based on contributions to merchandise exports. Weights for the 2006 year are: Wool 0.051; Beef 0.116; Lamb 0.152; Venison 0.014; Skins 0.028; Dairy 0.313; Apples 0.025; Kiwifruit 0.042; Logs 0.028; Sawn Timber 0.059; Wood Pulp 0.029; Seafood 0.073; Aluminium 0.070.

	World Price Index	Monthly % Change	Annual % Change	NZ\$ Index	Monthly % Change	Annual % Change
Jan-02	115.1	0.4	-4.0	137.4	-1.6	-0.7
Jan-03	120.2	1.1	4.4	116.1	-3.9	-15.5
Jan-04	133.3	2.3	10.9	107.4	-0.7	-7.5
Jan-05	153.1	0.7	14.9	117.1	1.8	9.0
Jan-06	149.6	-0.2	-2.3	115.6	1.4	-1.3
Jul-06	152.3	0.5	-1.9	132.7	0.9	9.4
Aug-06	153.0	0.5	-0.6	130.4	-1.7	10.5
Sep-06	154.3	0.8	1.2	127.3	-2.4	9.5
Oct-06	154.7	0.3	2.1	126.1	-0.9	9.4
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	166.1	1.3	11.0	129.6	0.7	12.1

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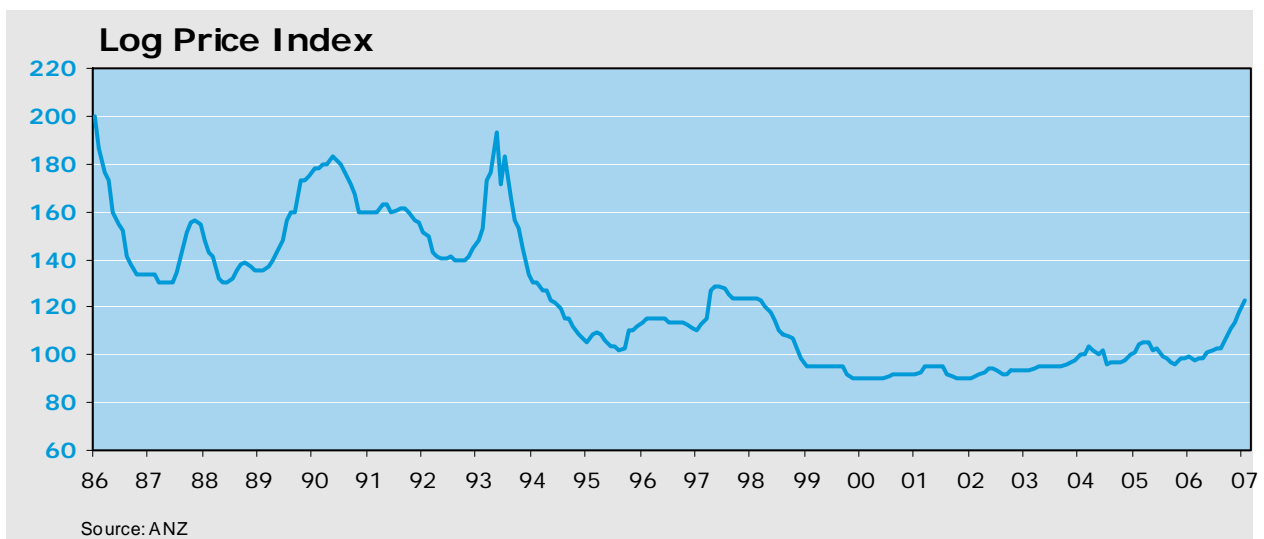
Forthcoming ANZ Commodity Price Index to be published: 7 March 2007.

FEATURED COMMODITY: LOGS

Mid-way through last century, the NZ Government undertook a strategic investment in forestry. The thrust of the initiative involved providing research, extensive plantings and a forestry management programme. The ultimate goal of the venture was to generate new employment opportunities and also earn foreign exchange from NZ's comparative advantage in forestry production. (Shorter growing times of NZ's plantations compare favourably with most softwood plantations in the Northern Hemisphere.)

While the ownership of our forestry assets has shifted into private hands, NZ is nevertheless enjoying the fruits of the investment made last century. New Zealand's forestry-based sector is now the third largest exporter, behind meat and dairy products. On the world stage, New Zealand supplies about 1 percent of the global trade in softwood lumber. Pinus radiata is the dominant production species and accounts for about 90% of the country's total plantation area. Over two thirds NZ's total plantation area is located in the North Island, with the central North Island accounting for roughly half of this.

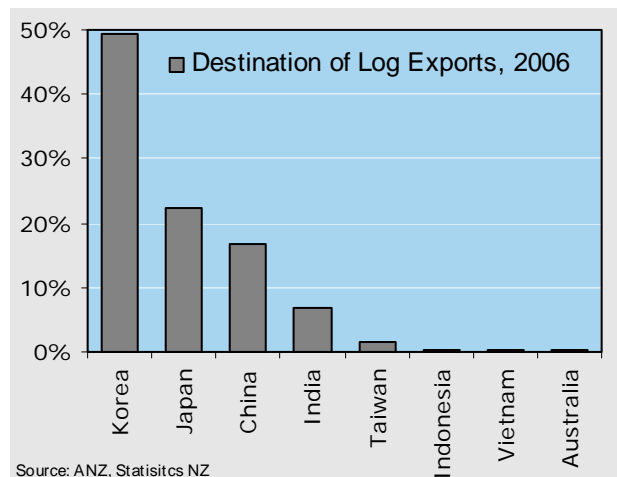
Last year NZ's total forestry harvest was in the vicinity of 24 million m³, of which 15 million m³ was further processed in New Zealand into lumber, panel products, joinery, furniture and pulp & paper products. The balance was exported as logs and poles (about 37 percent). This share has risen from around 10 percent in the 1960s. The forestry and logging sector directly employs about 8,000 people, with another 15,000 in the down-stream wood processing industries.



Export log prices have strengthened from a relatively flat period since the turn of the century. In the latest month, our log price index hit a nine-year high. Log stocks are low and supply is tight. Demand is increasing, especially from several Asian markets, with healthy demand from both the packaging and ply sectors.

In the 2006 calendar year, New Zealand log exports totalled \$596 million. Asia is a major destination of our log exports. Korea takes nearly half of our log exports, and Japan over 20 percent. South Korean mill owners turn our logs into plywood, panels and timber. Radiata pine is used in Japan primarily for packaging materials and other lower valued end-uses. Elsewhere, logs are used in the production of plywood, wood pulp, paper, packaging products, sawn lumber and composite panel products.

New Zealand's annual plantation harvest is set to double by 2025. As such, forestry is forecasts to be New Zealand's leading export industry and a top five global supplier. These goals are ambitious but attainable, due to a combination of the growing world population and large areas of new forest reaching a harvestable age at the right time.



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