

NEW ZEALAND ECONOMICS ANZ COMMODITY PRICE INDEX

Data for November 2011,
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CONTACT:

Steve Edwards
Economist

Telephone: +64 9 357 4065
E-mail: Steve.Edwards@anz.com

SILLY SEASON

The ANZ Commodity Price Index dropped 1.0 percent in November, the sixth consecutive monthly decrease. An easing in commodity prices was seen in twelve of the seventeen commodities we monitor. Only one commodity recorded a lift in prices and four commodity prices were unchanged in the month of November.

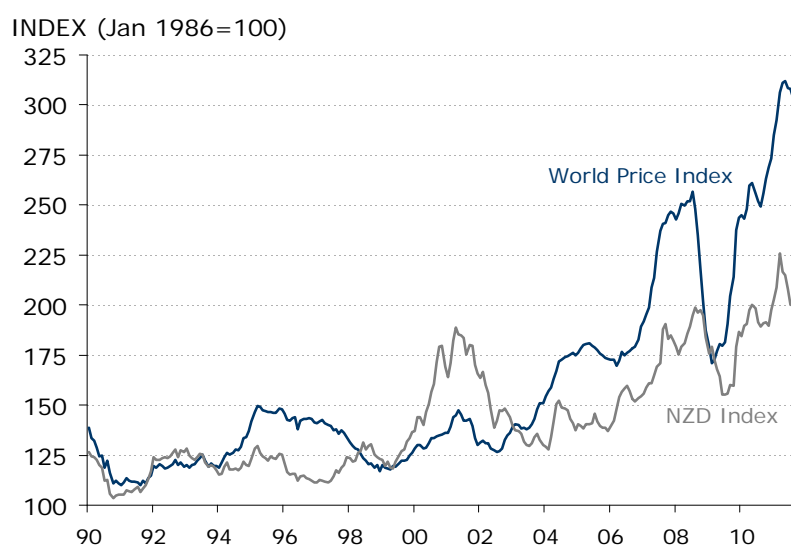
The price of butter recorded the largest fall, easing 6 percent from a month earlier; cheese and aluminium prices recorded a 5 percent reduction; wood pulp and wool prices dropped 4 percent; logs and skins eased 2 percent; and casein, kiwifruit, lamb, lumber and beef prices slipped 1 percent.

The only bright spot this month was a rise in **the price of whole milk powder, which lifted 4 percent**. The prices of seafood, apples, skim milk powder and venison were unchanged.

The New Zealand dollar weakened in value against all our major trading partners in November. This depreciation more than offset the slide in international commodity prices, resulting in **a 1.2 percent lift in the ANZ NZD Commodity Price Index**.

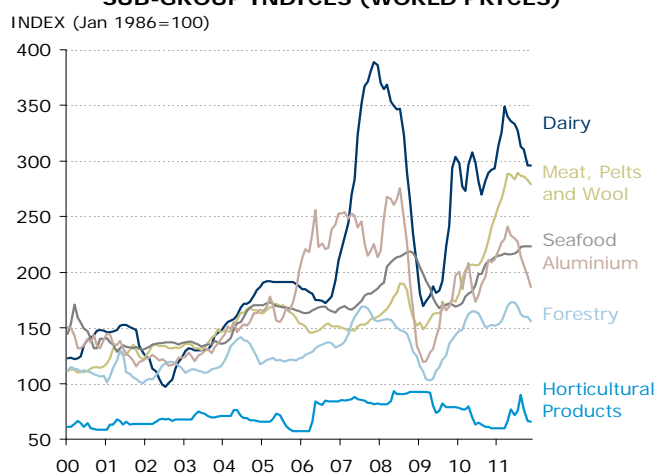
From the peak measured in March, the NZD Commodity Price Index has dropped over 10 percent, with the series roughly where it was at the start of the year. Nevertheless **the overall level of the index remains elevated** at 27 percent above the 10-year average recorded from 2000-2009. The World Price Index is 65 percent above its average for the same period.

ANZ COMMODITY PRICE INDEX

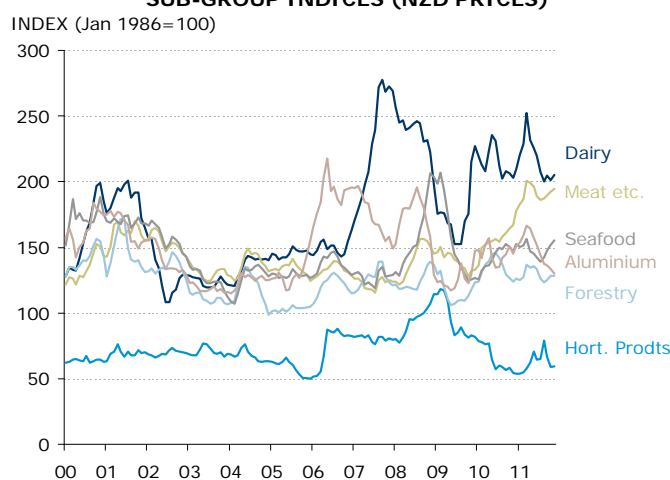


ANZ COMMODITY PRICE INDEX

SUB-GROUP INDICES (WORLD PRICES)



SUB-GROUP INDICES (NZD PRICES)



	World Price Index	Monthly % Change	Annual % Change	NZ\$ Index	Monthly % Change	Annual % Change
Nov-07	246.8	..	35.1	184.7	..	20.2
Nov-08	201.9	..	-18.2	195.0	..	5.6
Nov-09	237.7	..	17.8	179.4	..	-8.0
Nov-10	268.9	..	13.1	189.7	..	5.8

Jun-11	308.5	-1.2	20.6	208.0	-3.3	4.9
Jul-11	308.0	-0.2	22.2	200.3	-3.7	4.7
Aug-11	303.8	-1.4	22.0	200.0	-0.2	5.7
Sep-11	297.7	-2.0	16.5	200.3	0.2	4.9
Oct-11	287.4	-3.5	9.1	199.1	-0.6	3.9
Nov-11	284.6	-1.0	5.8	201.5	1.2	6.2

Commodity Price Index weights are based on contributions to merchandise exports. Weights for the 2011 year are: Wool 3.3%; Beef 8.8%; Lamb 12.4%; Venison 0.9%; Skins 2.0%; Dairy 41.6%; Apples 1.5%; Kiwifruit 4.5%; Logs 6.1%; Sawn Timber 4.7%; Wood Pulp 2.8%; Seafood 5.9%; Aluminium 5.5%

FEATURED COMMODITY: WOOL

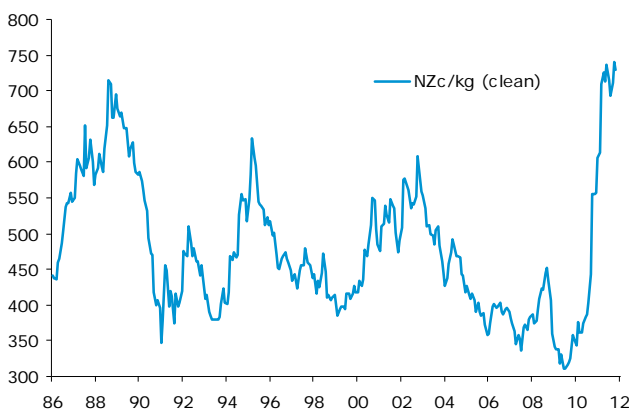
New Zealand is the second largest producer of wool. Our export clip is predominately coarse wools, used in carpet production, yarns and blankets. The proportion of our total merchandise exports that wool accounts for has been on a steady downward trend for the past sixty years, and now represents only around two percent of our total export basket.

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 general longer-term trend in wool prices has been distinctly downward. This partly reflects a switch away from woollen products towards synthetic goods. So it wasn't surprising that when the global financial crisis hit, the NZ dollar coarse wool market indicator dropped to the lowest level measured since the start of our series in 1986.

However, over the past year and a half, wool prices have rebounded, largely on the back of the return of Chinese buyers, some restocking of supply chains and the rapid rise in cotton prices, which hit an all-time high earlier this year. However the level of cotton and synthetic prices has dropped as a result of global economic fears. Wool prices have held up as a result of reduced supply locally and in Australia, primarily as a consequence of wool traders selling down inventories while the price has been so high.

WOOL PRICE SERIES

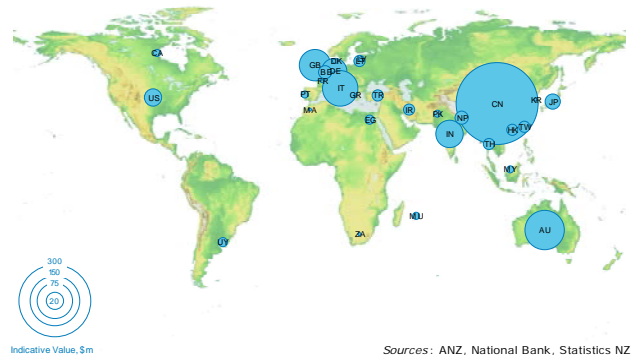


Sources: ANZ, NZ Wool Services

Wool accounts for only 1 percent of world textile fibre usage. The balance is fairly evenly split between cotton and synthetic fibres.

It has been estimated that wool now accounts for only 15 percent of NZ's gross farm income. This compares with 35 percent twenty years ago. Likewise, wool as a proportion of our total exports has been on a steady decline over the past sixty years. Back in the 1950s, wool accounted for about 40 percent of New Zealand's total merchandise exports. In the twelve months to October 2011, unprocessed wool earned NZ\$902m in exports, which represents less than 2 percent of NZ's total merchandise export receipts. This figure jumps a further NZ\$116m with the inclusion of carpets and other woollen products.

Destination of NZ's Wool Exports



The two largest markets for New Zealand's wool exports are China (44 percent of total wool exports) and Australia (11 percent). China's share has grown considerably over the past three years. Nearly all (94 percent) of New Zealand's carpet exports are sent to Australia.

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 2011, NZ's sheep flock has been estimated at around 32 million, under half of the peak of 70 million in 1982.

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This publication has been prepared by ANZ National Bank Limited, Level 7, 1 Victoria Street, Wellington 6011, New Zealand, Phone 64-4-802 2000, Fax 64-4-496 8639, <http://www.anz.co.nz> and e-mail nzeconomics@anz.com.