

AN ALUMINIUM EXTRUSION

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The next issue of the *ANZ Commodity Price Index* is scheduled for release on: 3 April 2008 at 3pm.

The level of prices of NZ's key commodities increased in February. After dipping last month, the ANZ Commodity Price Index rose 0.9 percent in February. Seven of the component commodity series recorded a rise in prices in the month of February, three commodity prices were unchanged and three commodity prices recorded a decline.

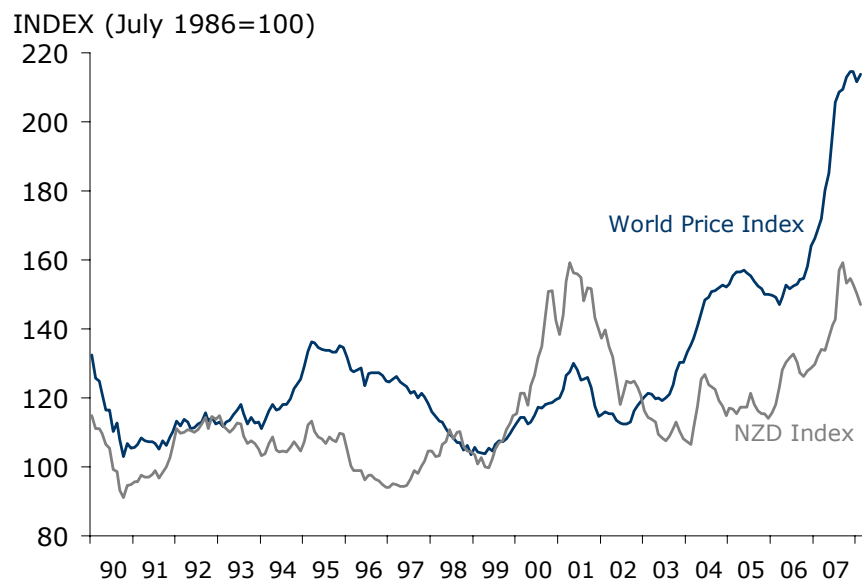
A surge in aluminium prices underpinned the latest monthly rise.

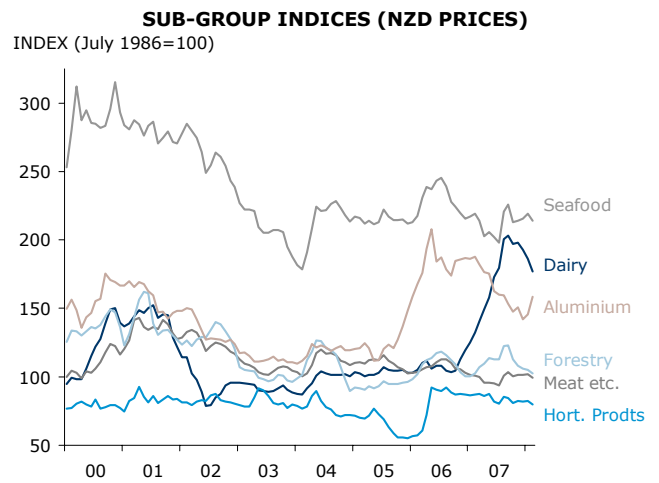
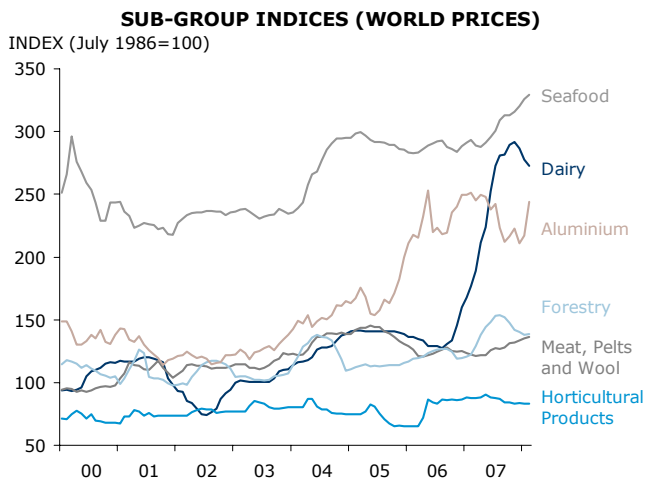
Aluminium prices increased 12.5 percent from January. The sudden jump in aluminium prices reflects a significant shutdown of smelting capacity in China – the effect of power disruptions caused by a very severe snow storm. Excluding the surge in aluminium prices, the commodity price index would have been unchanged in the month. Meat prices were on the rise in February. Beef prices lifted 4.3 percent, venison prices increased 2.8 percent and the price of lamb rose 1.2 percent. Other price increases were recorded in wood pulp (up 1.3 percent), seafood (1.0 percent) and sawn timber (0.4 percent).

Dairy, skins and wool recorded price declines. Dairy prices eased a further 1.8 percent in February. This is the third successive monthly decline in international dairy prices, and have retraced 6.6 percent off the peak in November. In addition, skin prices fell 6.8 percent in the month and wool prices slipped 0.3 percent.

The kiwi flies again. With the exception of Australia (which was unchanged), the New Zealand dollar rose in value against all our major trading partners in February. Consequently, the ANZ NZD Commodity Price Index dropped 2.2 percent in February.

ANZ COMMODITY PRICE INDEX





	World Price Index	Monthly % Change	Annual % Change	NZ\$ Index	Monthly % Change	Annual % Change
Feb-03	121.3	0.9	4.5	114.3	-1.6	-18.2
Feb-04	135.5	1.7	11.7	106.4	-0.9	-6.9
Feb-05	155.3	1.4	14.6	116.8	-0.3	9.8
Feb-06	149.2	-0.3	-3.9	118.1	2.2	1.1
Feb-07	168.6	1.4	13.0	131.9	1.7	11.7
Aug-07	208.6	1.4	36.3	156.9	10.0	20.3
Sep-07	209.4	0.4	35.7	159.3	1.5	25.1
Oct-07	213.1	1.8	37.8	153.2	-3.8	21.5
Nov-07	214.7	0.8	35.9	154.5	0.8	20.9
Dec-07	214.7	0.0	30.9	153.1	-0.9	19.0
Jan-08	211.7	-1.4	27.4	150.3	-1.8	15.9
Feb-08	213.7	0.9	26.7	147.0	-2.2	11.4

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

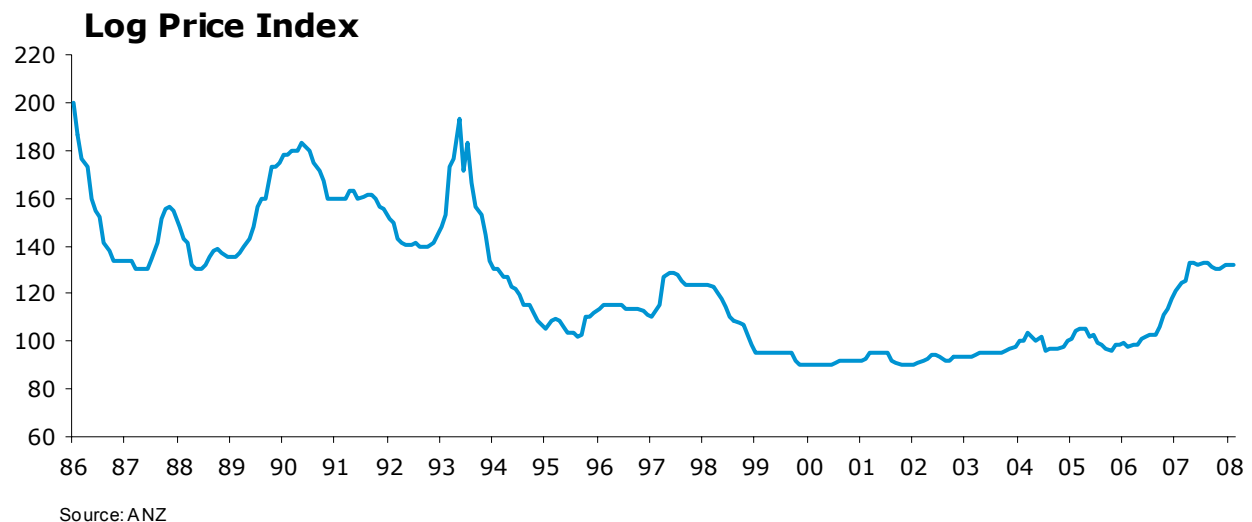
Featured Commodity: LOGS

New Zealand has a comparative advantage in forestry production. Forestry-based exports account for 10 percent of our total merchandise exports, of which logs account for nearly a fifth. After a six-year gradual rise and then a surge in late 2006, international log prices have stabilised. Anecdotal evidence and the outlook for the global economy point to a reduced level of demand over 2008.

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 of NZ's total plantation area is located in the North Island, with the central North Island accounting for roughly half of this.

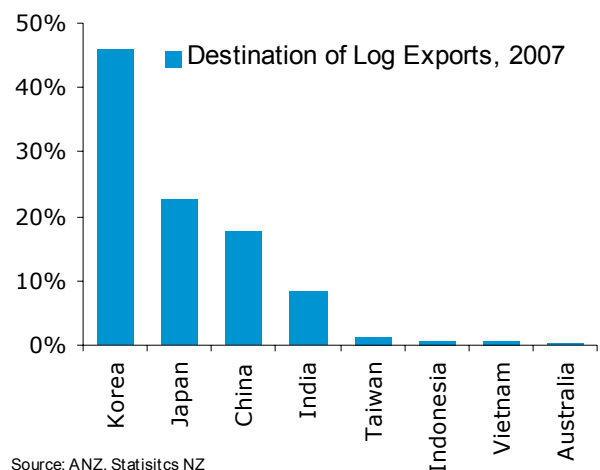
Last year the volume of NZ's total forestry exports was in the vicinity of 10 million m³. About 4 million m³ was further processed in New Zealand into lumber, panel products, joinery, furniture and pulp & paper products and the balance (about 60 percent) was exported as logs and poles. This share has risen from around 10 percent in the 1960s – a time when the export of logs was a fledgling industry. The forestry and logging sector directly employs about 8,000 people, with another 15,000 in the down-stream wood processing industries.



Over 2006 international export log prices strengthened, following a slow rise since the turn of the century. Part of this growth can be explained by China's growing demand for forest product imports, which was used to feed global demand for Chinese products such as furniture and panels, as well as growing demand within China itself. Since the middle of last year, log prices have by-and-large moved sideways. Early indications for 2008 point to a weakening in demand from Japan and Korea, with a stronger yen and won reducing demand for exporting crating lumber in these two nations, and increased ocean freight charges also affecting demand. Both countries are presently buying on a limited immediate needs only basis.

In the 2007 calendar year, New Zealand log exports totalled \$676 million. This represented 1.8 percent of the value of our total merchandise exports.

Asia is the major destination of our log exports. Korea takes nearly half of our log exports, and Japan over 20 percent. In fact, the top four export destinations combined took 95 percent of our log exports. 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.



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