

NEW ZEALAND ECONOMICS ANZ COMMODITY PRICE INDEX

Data for December 2011,
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YEAR OF TWO HALVES

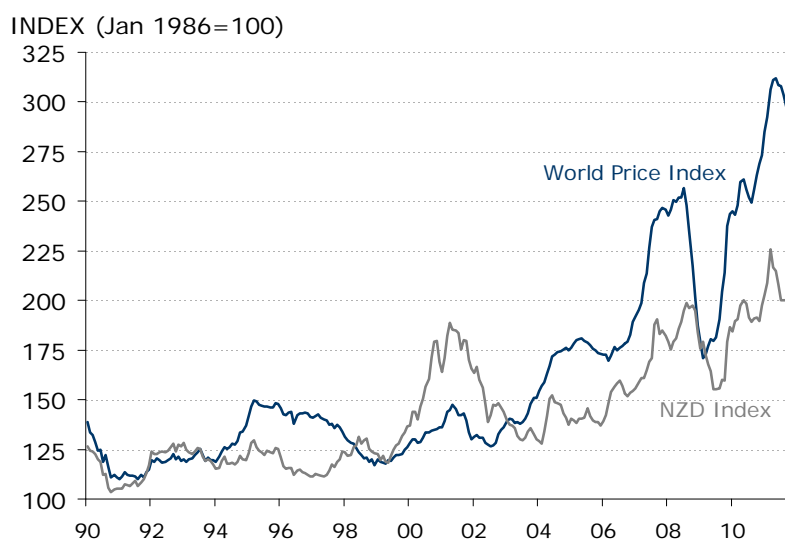
The ANZ Commodity Price Index finished the 2011 year on a weaker note. **The index slipped 0.8 percent in the month of December**, dropping to its lowest level in a year. Since the peak in the series in May 2011, the overall level of commodity prices has retreated 10 percent, over seven consecutive months of decline.

Eleven commodities recorded an easing in their price levels in the month of December, two commodities recorded price rises and four were unchanged. **The largest declines were in the price of wool and skins**, which both fell 7 percent, log prices declined 5 percent and lamb prices slipped 4 percent. The price of aluminium, kiwifruit and wood pulp all dropped 3 percent. The prices of skim milk powder, butter, casein and sawn timber all eased by 1 percent or less.

Beef prices rebounded 12 percent in December, up from a weaker figure measured in November. The series now sits narrowly below a new record high. The price of cheese lifted 1 percent in December. No change was recorded in the price of seafood, apples, whole milk powder or venison.

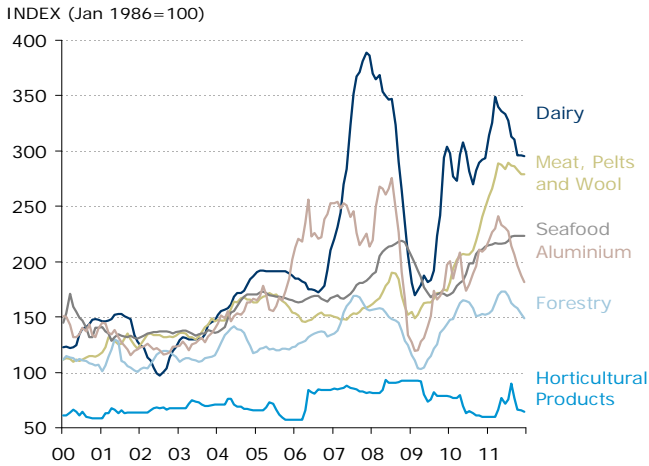
The New Zealand dollar was little changed in the December month, resulting in **a decline in the ANZ NZD Commodity Index of a similar magnitude** (-0.6 percent) to the fall in world prices. A declining exchange rate has broadly mirrored the recent easing in world commodity prices, buffering the NZD index which has remained relatively stable over the second half of last year.

ANZ COMMODITY PRICE INDEX

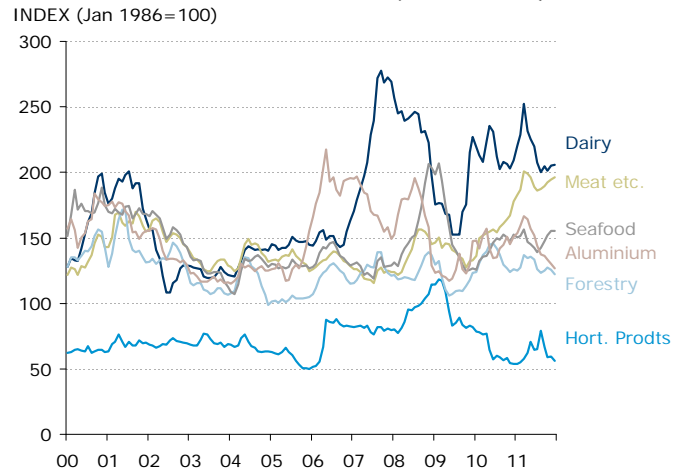


ANZ COMMODITY PRICE INDEX

SUB-GROUP INDICES (WORLD PRICES)



SUB-GROUP INDICES (NZD PRICES)



	World Price Index	Monthly % Change	Annual % Change	NZ\$ Index	Monthly % Change	Annual % Change
Dec-07	246.0	..	30.1	182.4	..	18.2
Dec-08	187.5	..	-23.8	183.8	..	0.8
Dec-09	243.7	..	29.9	186.8	..	1.6
Dec-10	273.1	..	12.1	197.4	..	5.7

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	286.9	-3.6	9.0	198.8	-0.7	3.8
Nov-11	283.8	-1.1	5.5	200.9	1.1	5.9
Dec-11	281.7	-0.8	3.1	199.7	-0.6	1.2

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: BEEF

New Zealand is the eighth largest exporter of beef and veal in the world. Beef export receipts last year accounted for nearly 4½ percent of New Zealand's total exports. The three main markets are domestic, North America and Asia. North America makes up 49 percent of total export volumes and Asia 38 percent. Asian exports are predominantly secondary cuts, compared with manufacturing in North America. Consequently, the value per tonne shipped to Asia was \$5,740 in the 2010–11, compared with \$5,360 per tonne in North America.

Production

EXPORT BEEF SLAUGHTER COMPOSITION SEPTEMBER YEAR					
(000)	Steer	Heifer	Cow	Bull	Total
2008-09	594	405	856	482	2,337
2009-10	595	400	819	482	2,250
2010-11	576	403	866	434	2,278
2011-12f	581	417	884	436	2,318

Sources: ANZ, National Bank, Beef + Lamb NZ

The expansion of the dairy herd over the last 10 years has meant there is now a larger contribution of dairy beef to total production. Cull dairy and beef cows now account for 38 percent of total slaughter at 866 thousand head. Reared dairy bull calves also make up the large majority bull slaughter.

In 2011-12, the outlook is for a 1.8 percent increase in export cattle slaughter to 2.32 million head. The increase in 2011-12 is primarily driven by an expected increase in the cow and heifer slaughter linked to the dairy herd expansion in the South Island, but tempered by the export of dairy stock.

The 2010-11 export cattle slaughter increased 1.2 percent to 2.28 million. Again this was primarily driven by an increased cull cow slaughter (+5.7 percent) but offset by a reduction in the steer slaughter (-3.2 percent) as a flow-on from a 14 percent reduction in the beef breeding cows in the 2007 to 2010 period. The reduction in beef breeding cows was a combination of dairy expansion and drought in key producing regions in the North Island.

Markets

Overall total beef export earnings increased by 13 percent in 2010–11. This was primarily driven by a lift in pricing which increased by 16 percent to \$5,920 per tonne despite a stronger NZ Dollar. Total export volumes decreased by 3 percent.

New Zealand's main markets are domestic, North America and North Asia. The domestic market

accounts for approximately 20 percent of total production and is mainly prime cuts such as steak. North and South Asia account for 26 and 12 percent of total exports volumes respectively and a similar account in value. The majority of exports to this market are secondary cuts such as chuck roll and short rib. North America is still New Zealand's largest market export destination taking 49 percent of volume and making up 45 percent of total export earnings.

BEEF AND VEAL EXPORTS SEPTEMBER YEAR					
World Region	Fob \$m	Total shipped tonnes	\$ per shipped tonne	% of total value	% of total volume
EU	177	13,875	12,755	8%	4%
North America	943	175,902	5,363	45%	49%
Middle East	69	10,166	6,751	3%	3%
North Asia	557	92,828	5,999	26%	26%
South Asia	228	43,859	5,197	11%	12%
Pacific	85	11,295	7,527	4%	3%
Other	52	8,686	5,968	2%	2%
Total	2,111	356,610	5,918*		

* average weighed price of all markets

Sources: ANZ, National Bank, Statistics NZ

One consequence of the global economic slowdown has been consumers, particularly in the USA, switching to cheaper sources of protein, or cheaper cuts of the same protein (trading down from steaks to burgers). This trend was one of the main drivers of improved beef returns in 2010–11.

In addition, many beef exporting countries, notably in the Southern Hemisphere, have suffered from unsustainable slaughter and production, an appreciation of their currencies and unfavourable government intervention. Brazil who account for a quarter of world beef trade have only seen a small upturn in exports with ongoing animal health restrictions into Europe, competition from other land uses such as grains, currency appreciation and a bigger focus on domestic consumption limiting exports. This has led to greater opportunities for New Zealand in the lucrative European market, where export returns per tonne are double most other markets. Total export earnings from Europe have subsequently jumped 50 percent in 2010–11.

Elsewhere in the US, Texas' worst drought in history has led to the largest one-year decline in the state's cow herd. This is expected to limit their ability to flood Asian markets, as market access has been slowly regained since BSE in 2003, as well as increasing their import requirements. The main Asian markets remain fickle, but food safety issues with other protein sources have helped support imports and demand for beef.

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