

NEW ZEALAND ECONOMICS ANZ COMMODITY PRICE INDEX

Data for October 2011,
released on 1 November
2011

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The next issue of the *ANZ Commodity Price Index* is scheduled for release on: 1 December at 1pm.

MILKY DIP

The ANZ Commodity Price Index slipped for a fifth successive month. The index fell by 3.5 percent in October. This is the largest monthly decrease since February 2009. The cumulative drop in the index since the May peak has been 7.9 percent. Ten commodities recorded a fall in prices in the month of October, two commodity prices lifted and five commodity prices were unchanged.

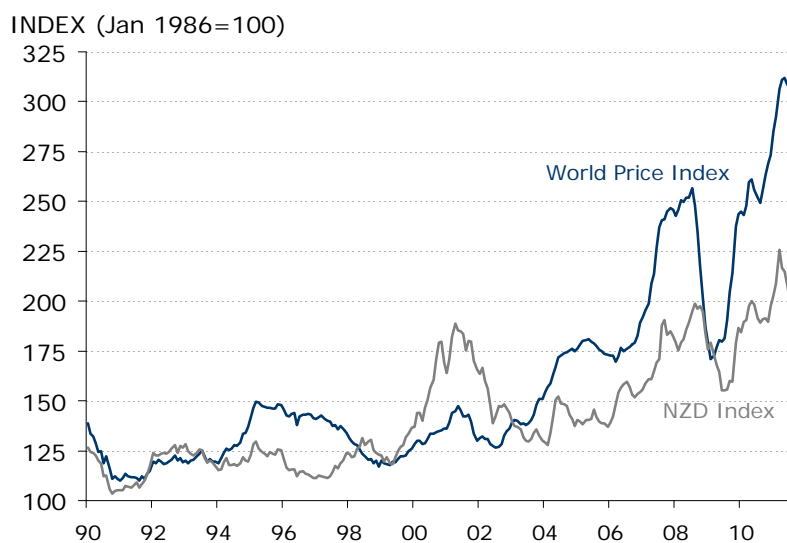
The largest fall was in the price of kiwifruit, down 17 percent. This is consistent with the traditional season pattern as the export season winds down. The largest contribution to the decline in the overall index came from several dairy products. Cheese prices fell 7 percent, skim milk powder and butter prices dropped 6 percent, whole milk prices decreased 4 percent and casein prices slipped 1 percent. Other large falls in the commodity basket were seen in the prices of aluminium and beef, which eased 5 and 4 percent respectively. In addition, the price of lamb and sawn timber both dropped 1 percent.

Wool and skins were the only commodities to record a lift in prices. Skins prices rose 3 percent and wool prices inched up 1 percent.

The NZ dollar weakened in value across all of our major trading currencies. This dampened the impact of the fall in world commodity prices but couldn't totally offset the weaker tone. As a consequence, **the ANZ NZD Commodity Price Index slipped 0.6 percent** in October.

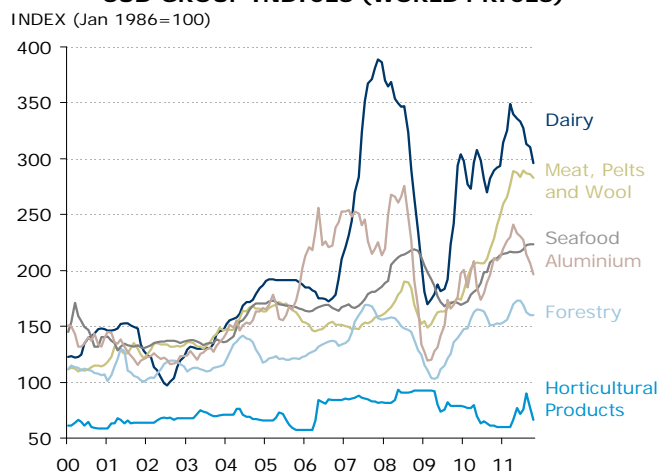
The latest easing takes both the world and the NZ dollar priced indices **back to the levels that prevailed at the start of the year**, but encouragingly the indices remain significantly above their historical averages.

ANZ COMMODITY PRICE INDEX

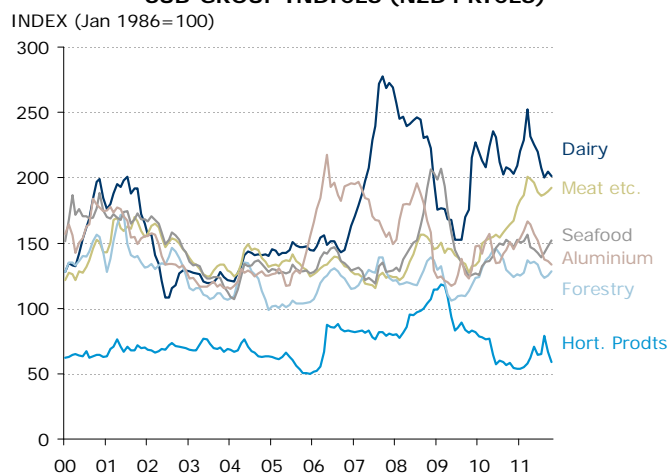


ANZ COMMODITY PRICE INDEX

SUB-GROUP INDICES (WORLD PRICES)



SUB-GROUP INDICES (NZD PRICES)



	World Price Index	Monthly % Change	Annual % Change	NZ\$ Index	Monthly % Change	Annual % Change
Oct-07	245.0	..	36.9	183.1	..	20.7
Oct-08	217.7	..	-11.2	197.6	..	7.9
Oct-09	214.0	..	-1.7	159.6	..	-19.2
Oct-10	263.4	..	23.1	191.6	..	20.1

May-11	312.1	0.4	19.6	215.1	-0.7	7.6
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

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: KIWIFRUIT

New Zealand has a sizeable slice of the global trade in kiwifruit. From its roots 100 years ago, the industry has grown into a \$1 billion annual export earner. However, the recent discovery of a bacterial disease called *pseudomonas syringae pv actinidiae* (PSA) is expected to severely affect production over the next 3 years or longer.

Kiwifruit was first introduced to NZ in 1904, when a Whanganui teacher brought "yang tao" seeds back from China, and gave them to an orchardist friend. Propagation over the next 16 years saw plantings in Auckland, Fielding, Wanganui and Tauranga. It was another 30 years before the first commercial shipment, 13 tonnes of "chinese gooseberries", were exported to England. The name kiwifruit was introduced in the late 1950s, coinciding with the first shipments that were exported to the USA.

In 1977, the New Zealand Kiwifruit Marketing Licensing Authority was established. A decade later this organisation developed to be a single desk seller of NZ kiwifruit – the New Zealand Kiwifruit Marketing Board (NZKMB). In 1997, the NZKMB chose to differentiate New Zealand kiwifruit, to avoid confusion with product from other competing nations. Thus the ZESPRI™ brand and trademark was created for NZ kiwifruit, and ZESPRI International Ltd was established as the marketing subsidiary. In the late 1970's, NZ kiwifruit growers began experimenting with the cultivation of a golden kiwifruit. Seeds were imported from China, and after a lengthy selection and nurturing process, the yellow-fleshed kiwifruit (ZESPRI™ GOLD) variety was introduced to the world in 1999. The Bay of Plenty is the hub of kiwifruit production in New Zealand, with over three-quarters of the national crop harvested in the region. A small, but increasing, share of ZESPRI™ kiwifruit production is now being grown offshore, in an effort to build a year-round supply programme for the brand.

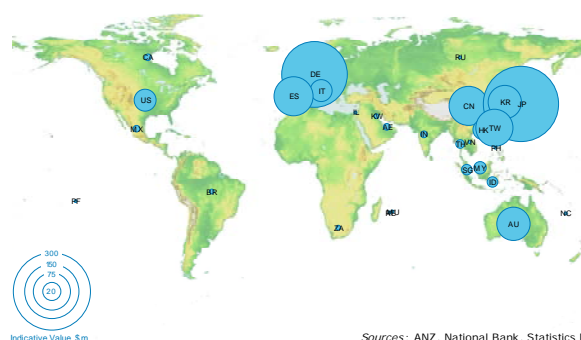
New Zealand is the world's third largest kiwifruit producer, behind Italy and China, with Chile growing in importance. With world-wide kiwifruit plantings relatively stable, variations in production levels are, largely, dependent on weather conditions in the key producing nations (NZ, Italy, China, Chile and France). Consequently, global kiwifruit production can vary considerably from year to year, with a knock-on effect on world prices. NZ kiwifruit commands a price premium, reflecting high quality, innovative marketing strategies and strong branding.

Prices were stronger last year and things have remained steady this season but the higher NZD has reduced returns at the orchard-gate. However, production yields were very good this season and have helped provide an offset for lower pricing, especially for Gold.

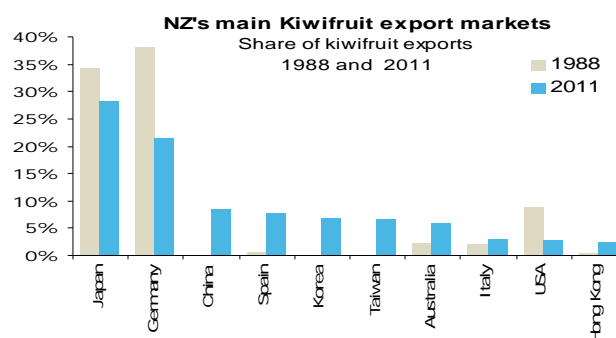
An outbreak of PSA is estimated to cut kiwifruit production from above 110 million trays, to 75 million trays over the next several years. These reductions are likely to lead to an increase in grower prices. Higher prices are likely due to increased competition for limited supply from packhouses and the smaller crops being shipped to the highest returning markets. However, this will be insufficient to compensate growers for the loss of production.

New Zealand exported \$1.1 billion of kiwifruit in the twelve months to September 2011, which represents 2¼ percent of our total merchandise exports. About 72 percent of kiwifruit exports were the classic ZESPRI™ GREEN kiwifruit, with a rising share (27 percent) of exports from ZESPRI™ GOLD.

Destination of NZ's Kiwifruit Exports



Japan is our largest single market for kiwifruit exports, taking over a quarter of the total value of exports, followed by countries in Europe, Asia and Australia. In the 1980s Japan and Western Europe were our main markets for kiwifruit exports. Over the last two decades Asia has increased its share of kiwifruit exports, with the proportion sent to China, Korea, Taiwan and HK in particular lifting from next to nothing to a quarter of all kiwifruit exports.



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