Sky high

The ANZ World Commodity Price Index lifted 6.1% m/m in March to reach a record high. The strength in the index was driven primarily by the sharp lift in dairy prices.

In local currency terms the index gained 7.4% m/m to also reach a record high, supported by a 0.4% reduction in the Trade Weighted Index (TWI).

Global shipping costs continue to trend higher, meaning a smaller portion of the overseas returns is making it back to our local producers. The Baltic Dry Index – a lead indicator of economic activity – lifted a whopping 25% during March. Container shortages are really starting to bite, with NZ exporters finding it increasingly difficult to source containers and secure space on ships. Delays at various ports loading and unloading ships are causing havoc with shipping schedules, and resulting in ships skipping some ports to make up time. Shipping issues are expected to plague global trade for many months to come.

Source: ANZ, Stats NZ

NZ Commodity Price Index and shipping costs

Source: ANZ, Bloomberg
**Dairy** prices lifted 12.7% in March, to reach the highest level in 7 years. Whole milk powder is now 43% higher than a year ago and strong gains were also recorded for skim milk powder and butter. On the other hand, cheese prices are very similar to a year ago. Cheese is not included in Fonterra’s farmgate milk price calculation, which is heavily weighted to milk powders. Dairy prices are currently being supported by strong global demand, combined with a steady milk supply in the main dairy-exporting nations.

The **meat and fibre** index lifted 1.1% in March and is now 5.9% higher than a year ago. Beef prices eased marginally in March but this sector is still up 17% y/y. Lamb prices lifted 1.6%, and the sector is hopeful prices will continue to firm as restaurants gradually reopen in our main European and US markets. Lamb is a traditional dish for Easter consumption in the UK. Wool prices lifted sharply in March, gaining 9.9%. The industry still has a long way to go to recover fully, with shearing costs still considerably higher than the value received for the wool shorn on many farms.

The **horticulture** index is unchanged, as prices for new season produce are yet to flow through. Ships laden with early-season kiwifruit have already left New Zealand and will be on the shelves in Asian markets very soon. A record crop of kiwifruit is expected this season but it will be logistically challenging to find sufficient staff to pick the fruit at the optimal time. The apple industry is also facing similar issues due to the limited availability of foreign workers and insufficient local labour to meet the seasonal demand.

The **forestry** index gained 1.9% in March. Log prices are now the highest since May 2014, having lifted 25% in the past year. Unfortunately, the high cost of shipping is presently offsetting much of the recent price gains. Demand for higher-grade logs used domestically is also strong due to the construction boom. The availability of timber in some parts of New Zealand is tight, as sawmills continue to close due to a lack of profitability.

**Aluminium** prices have firmed for the past couple of months, gaining 5.6% in March. Aluminium is now worth 35% more than a year ago. Tightening supply in China, due to shutdowns of plants for environmental reasons, has bolstered pricing. Demand for aluminium is expected to rise significantly this year.

### Sub group indices (world prices)

<table>
<thead>
<tr>
<th>Month</th>
<th>World Price Index</th>
<th>Monthly % Change</th>
<th>Annual % Change</th>
<th>NZD Index</th>
<th>Monthly % Change</th>
<th>Annual % Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mar-17</td>
<td>283.5</td>
<td>..</td>
<td>23.0</td>
<td>209.5</td>
<td>..</td>
<td>16.5</td>
</tr>
<tr>
<td>Mar-18</td>
<td>300.0</td>
<td>..</td>
<td>5.8</td>
<td>220.0</td>
<td>..</td>
<td>5.0</td>
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<tr>
<td>Mar-19</td>
<td>301.8</td>
<td>..</td>
<td>0.6</td>
<td>231.6</td>
<td>..</td>
<td>5.3</td>
</tr>
<tr>
<td>Mar-20</td>
<td>284.2</td>
<td>..</td>
<td>-5.8</td>
<td>245.1</td>
<td>..</td>
<td>5.8</td>
</tr>
<tr>
<td>Oct-20</td>
<td>291.3</td>
<td>2.0</td>
<td>-2.3</td>
<td>231.9</td>
<td>2.5</td>
<td>-5.6</td>
</tr>
<tr>
<td>Nov-20</td>
<td>294.0</td>
<td>0.9</td>
<td>-5.5</td>
<td>226.6</td>
<td>-2.3</td>
<td>-10.9</td>
</tr>
<tr>
<td>Dec-20</td>
<td>299.2</td>
<td>1.8</td>
<td>-0.4</td>
<td>224.5</td>
<td>-0.9</td>
<td>-5.9</td>
</tr>
<tr>
<td>Jan-21</td>
<td>311.9</td>
<td>4.3</td>
<td>5.2</td>
<td>231.2</td>
<td>3.0</td>
<td>-1.6</td>
</tr>
<tr>
<td>Feb-21</td>
<td>322.1</td>
<td>3.3</td>
<td>11.0</td>
<td>237.3</td>
<td>2.6</td>
<td>0.1</td>
</tr>
<tr>
<td>Mar-21</td>
<td>341.6</td>
<td>6.1</td>
<td>20.2</td>
<td>254.9</td>
<td>7.4</td>
<td>4.0</td>
</tr>
</tbody>
</table>

Commodity Price Index weights are based on contributions to merchandise exports. Weights for the 2020 year are: Wool 1.2%; Beef 11.3%; Lamb 11.9%; Venison 0.5%; Skins 0.6%; Dairy 41.4%; Apples 2.8%; Kiwifruit 8.1%; Logs 9.4%; Sawn Timber 3.0%; Wood Pulp 1.9%; Seafood 4.9%; Aluminium 3.1.

Source: ANZ
Meet the team

We welcome your questions and feedback. Click here for more information about our team.

**Sharon Zollner**  
Chief Economist  
Follow Sharon on Twitter @sharon_zollner  
Telephone: +64 27 664 3554  
Email: sharon.zollner@anz.com

**David Croy**  
Senior Strategist  
Market developments, interest rates, FX, unconventional monetary policy, liaison with market participants.  
Telephone: +64 4 576 1022  
Email: david.croy@anz.com

**Susan Kilsby**  
Agricultural Economist  
Primary industry developments and outlook, structural change and regulation, liaison with industry.  
Telephone: +64 21 633 469  
Email: susan.kilsby@anz.com

**Liz Kendall (maternity leave)**  
Senior Economist  
Research co-ordinator, publication strategy, property market analysis, monetary and prudential policy.  
Telephone: +64 27 240 9969  
Email: elizabeth.kendall@anz.com

**Miles Workman**  
Senior Economist  
Macroeconomic forecast co-ordinator, fiscal policy, economic risk assessment and credit developments.  
Telephone: +64 21 661 792  
Email: miles.workman@anz.com

**Finn Robinson**  
Economist  
Macroeconomic forecasting, economic developments, labour market dynamics, inflation and monetary policy.  
Telephone: +64 21 629 553  
Email: finn.robinson@anz.com

**Kyle Uerata**  
Economic Statistician  
Economic statistics, ANZ proprietary data (including ANZ Business Outlook), data capability and infrastructure.  
Telephone: +64 21 633 894  
Email: kyle.uerata@anz.com

**Natalie Denne**  
PA / Desktop Publisher  
Business management, general enquiries, mailing lists, publications, chief economist’s diary.  
Telephone: +64 21 253 6808  
Email: natalie.denne@anz.com
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