

NEW ZEALAND ECONOMICS ANZ COMMODITY PRICE INDEX

Data for September 2011,
released on 3 October 2011

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

FROM A BOIL TO A SIMMER

The ANZ Commodity Price Index slipped for a fourth successive month. The index eased 1.3 percent in September, for a cumulative drop of 4 percent since the peak in May. Ten commodities recorded a fall in prices in the month of September, three lifted and four were unchanged.

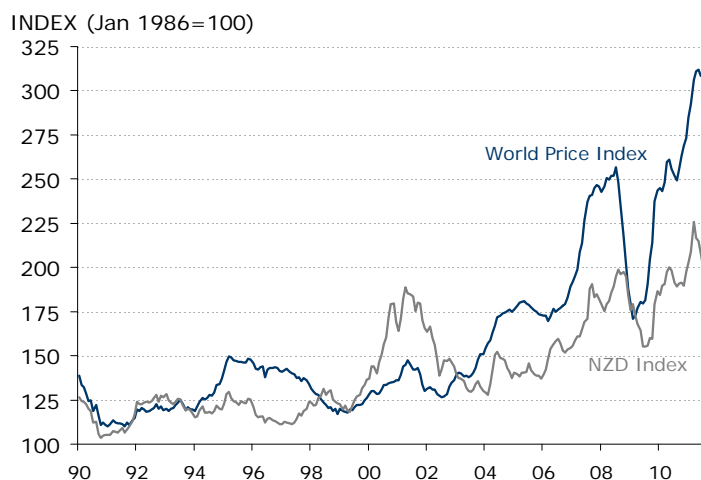
The largest fall was in the prices of apples, which fell 23 percent. This is consistent with the traditional seasonal easing in fruit prices in the Northern Hemisphere as the price premium for southern exporters peters out. This seasonal trend was also reflected in a 4 percent drop in kiwifruit prices. Aluminium prices also dropped 4 percent in the month. Butter prices led the overall fall in dairy prices, dropping 3 percent, followed by a 2 percent drop in skim milk powder prices. The price of logs, beef, wool and cheese all eased by 1 percent in September. Sawn timber prices slipped by a quarter of a percent.

By contrast, seafood prices posted a small lift in commodity prices, lifting half a percent in September, with smaller rises of a quarter of a percent measured in the prices of sheepmeat and skins. The prices of wood pulp, casein, whole milk powder and venison were unchanged from a month earlier.

The NZ dollar weakened across the major trading currencies. When converted into a local currency measure **the ANZ NZD Commodity Price Index lifted by 0.4 percent** – the first monthly rise since March.

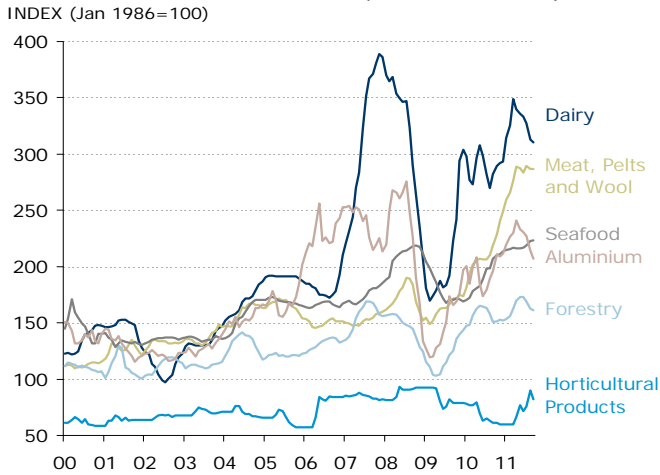
While we've seen a retracement in commodity prices in both local and international terms over the past few months, **the overall level of both series remains elevated.** The level of commodity prices in world terms is 94 percent higher than the long-run average. In New Zealand dollar terms the NZD index is 44 percent higher than the long-term benchmark. Strong commodity prices remain a key pillar of support for the economy.

ANZ COMMODITY PRICE INDEX

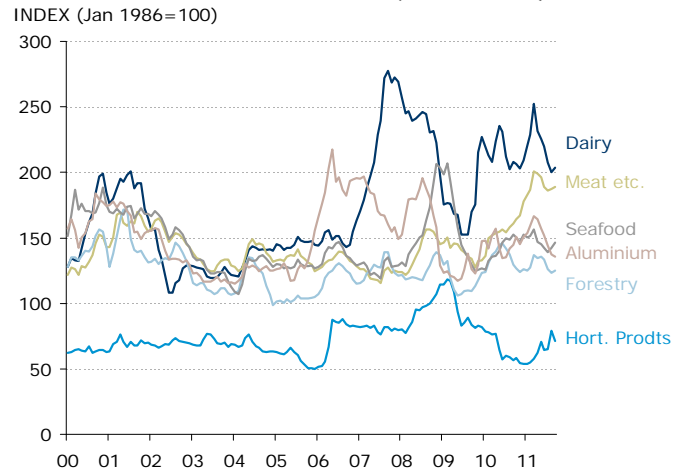


ANZ COMMODITY PRICE INDEX

SUB-GROUP INDICES (WORLD PRICES)



SUB-GROUP INDICES (NZD PRICES)



	World Price Index	Monthly % Change	Annual % Change	NZ\$ Index	Monthly % Change	Annual % Change
Sep-07	241.1	..	35.1	190.7	..	24.5
Sep-08	235.1	..	-2.5	196.3	..	3.0
Sep-09	204.4	..	-13.1	160.0	..	-18.5
Sep-10	255.7	..	25.1	190.9	..	19.3

Apr-11	311.0	1.6	19.8	216.8	-3.9	9.8
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	299.8	-1.3	17.3	200.7	0.4	5.1

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: VENISON

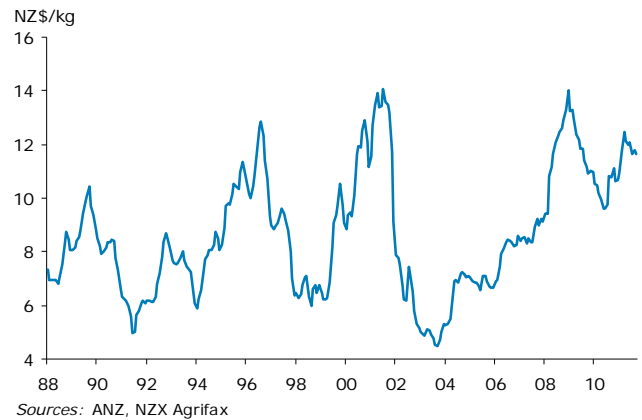
Commercial deer farming began in New Zealand in the late sixties. Production has steadily grown over the past four decades, so that today venison and deer products account for around \$250 million in export earnings. Large price fluctuations for venison have been the norm.

When the early European settlers arrived here they brought with them red deer for release into the wild for hunting. The feral stock quickly spread to the point that by the 1950s they were regarded as a pest, with concerns about their impact on the indigenous environment. The NZ Forest Service employed hunters in the 1950s and 1960s to reduce numbers. The first exports of venison from feral deer occurred in the 1960s and established an export market in Europe. The trade in feral deer was so successful that by the mid-1970s it was feared that the source would soon be exhausted. At this point farmers began trapping animals for the purpose of farming them, and thus, deer farming in NZ as an industry in its own right was born.

Over the next 35 years, commercial farming of deer in NZ has grown so rapidly that New Zealand is now a major player on the world stage, in terms of the number of deer farmed. There are approximately 1.2 million deer farmed in New Zealand, with roughly 40 percent of deer in the North Island and 60 percent in the South Island. Reflecting the original imported wild population, about 85 percent of New Zealand's deer herd is red deer and the balance is predominantly elk (also known as wapiti) or elk crosses. The 1980s saw the creation of the "Cervena" trademark. This was part of an ambitious marketing strategy by the NZ Game Industry Board, designed to distinguish NZ deer meat from all other venison, with the trademarked assurance that the meat has been naturally produced and processed.

The world price of venison has always been on a rollercoaster ride. Influences include economic conditions in Germany, variations in supply from NZ, changing tastes of consumers (venison is one of the healthiest protein sources) and resistance to price peaks. Last month the European indicator price for venison inched up to hit a new record high of €6.90/kg. When converted into NZ dollars, the stronger local currency has dented the venison price, but it remains a third higher than the long-run historical value. To a degree, this reflects limited supply after the run-down of the NZ breeding herd over the past 7 years. Ironically, a high venison price can be detrimental to demand, as chefs weigh-up the costs of including venison on their menus, compared with competing red meats.

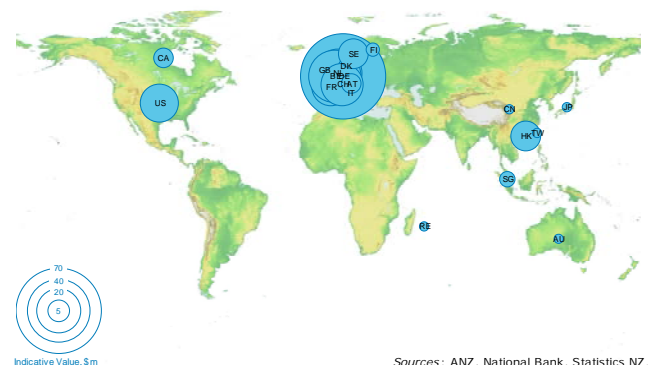
Venison Price
(Benchmark International Price in NZ\$)



New Zealand exported \$221 million of venison in the twelve months to August 2011, which represented one of the lowest annual levels in five years. The export of velvet, deer hides and other co-products pushes the total deer industry export figure in excess of \$250 million.

The deer farming industry has put increasing effort into extending the reach of venison in export markets. Nevertheless, by far the largest share (about a third) of our venison exports continues to be shipped to Germany. The next largest destinations are mainly European countries, the United States and Hong Kong.

Destination of NZ's Venison Exports



Venison is an important part of the traditional German diet in autumn and winter, with strong links to the autumn hunting season, when game meats are in high demand. Venison and a range of other game foods are a common feature on German menus at this time. The game export season starts in September, with the majority of meat exported in October and November.

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