

ASB New Zealand Commodity Price Indices As at Friday 12th May 2017

	Index *	1 Week %	Year % **
Total NZD	175.4	0.6%	17.9%
Total SDR	183.2	0.1%	22.9%
Total USD	182.1	-0.2%	19.5%
Dairy USD	192.1	0.0%	47.3%
Sheep/beef USD	197.1	-0.2%	6.4%
Forestry USD	166.2	-0.3%	8.8%
NZD/USD	0.6864	-0.8%	1.3%

* For all indices 1997 average = 100

** Percentage change since same week last year

Farm input cost inflation climbing off lows

Following an extended period where input prices were outright declining, **farm input costs are climbing off lows**. For example, the farm expense price index rose at annual rate of 0.6% during the March quarter, posting its first annual lift since June 2015.

Over 2015 and 2016, **input prices in the rural sector were weak** as demand from the dairy sector, in particular, was weak during the dairy downturn. Moreover, farm input inflation was weaker than price inflation in the wider economy, as measured by the Consumers Price Index (CPI).

However, with the recovery in the milk price and with most other sectors doing well, **we expect to see some inflation return in farm inputs over coming years**. In particular, we expect to see a further lift in feed prices (via dairy demand) and livestock prices (via beef & sheep sector demand). Local feed grain prices, in particular, are good bellwether for input price inflation. Also, the buoyant horticulture and viticulture sectors are putting pressure on prices, as well as supply of other inputs such as fenceposts, for example.

In other words, farm input inflation is going to rise. **Rising input prices will put the squeeze on agricultural price margins, taking the some of the gloss off what are otherwise generally good prices.**

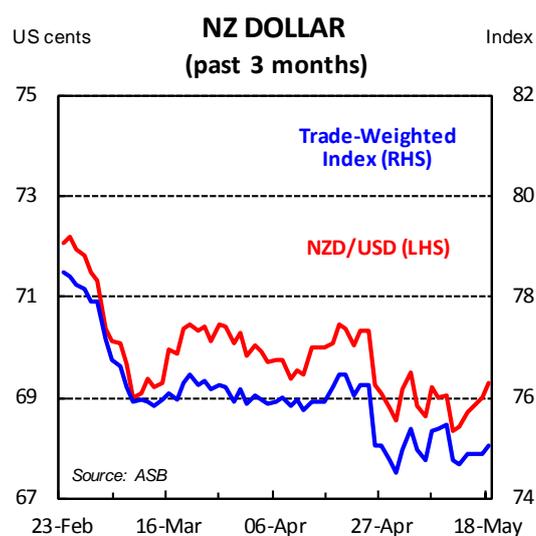
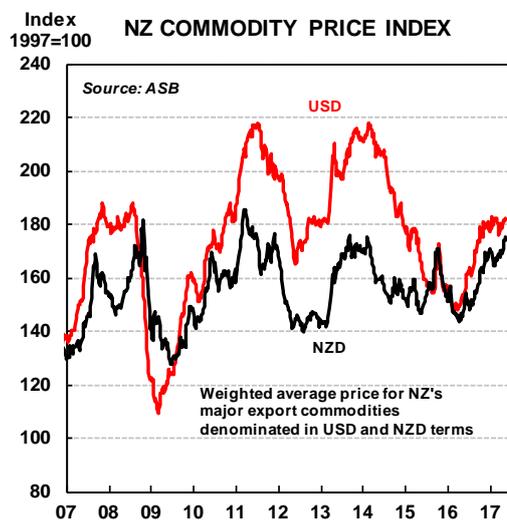
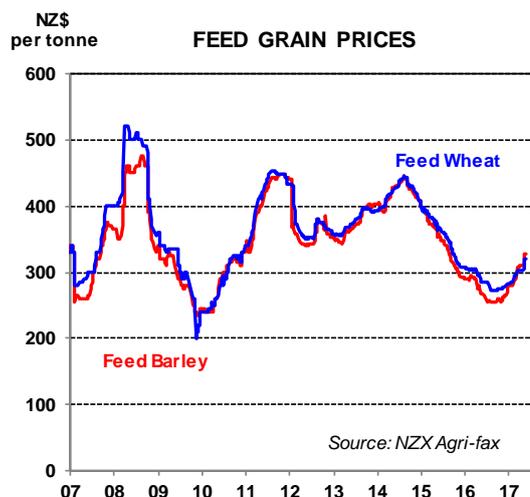
ASB NZ Commodity Price Index

NZ commodity prices fell a touch in USD terms last week. However, this was offset by a weak local currency, resulting in the index rising 0.6% in NZD terms.

Looking at the components, the Sheep/Beef index slipped 0.2%, dragged down by 0.8% falls in the prices of wool and beef. The Forestry index also nudged down 0.3% as log prices dipped 0.8%. Dairy prices were unchanged over the previous week, although prices lifted again at this week's dairy auction.

Currency Markets

It was a soft week for the NZD after the Reserve Bank surprised markets by indicating it was in no rush to raise the key Overnight Cash Rate. **As at the time of writing, the NZD was trading at 0.6833 against the USD.**



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