

Commodities Weekly

For the week ending Friday 31st August



Rising feed prices driving farm expense inflation

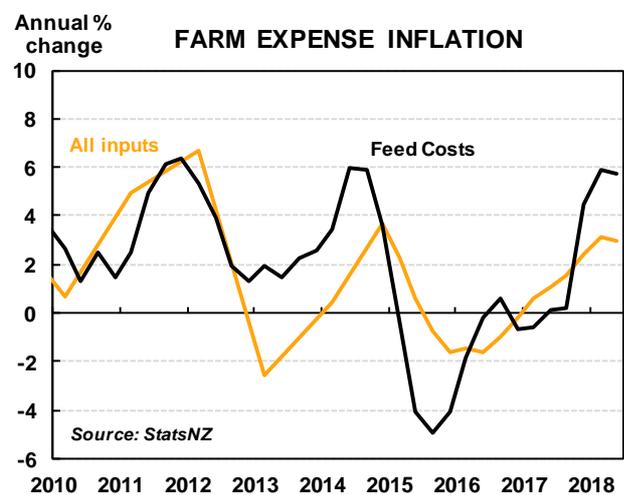
Dry weather offshore and relatively healthy local demand pushing up feed prices

Farm input prices continue to rise. In annual change terms, farm input prices rose 3.0% in June 2018. **Rising feed prices are driving much of the overall rise.** Over the same period, feed prices jumped 5.8%. This jump is a marked turnaround, after feed prices were largely unchanged in the year to June 2017.

Fuel prices have also climbed rapidly over the past year. Since June 2017, fuel prices have lifted 20%, with this lift coinciding with rising global oil prices, the weaker NZ dollar as well as rising fuel taxes.

Looking over the year ahead, **we expect input prices to continue rising at a similar pace.** Dry weather offshore is likely to keep the price of imported feed such as palm kernel high. Moreover, prices and incomes are relatively healthy across most sectors, and, as a result, livestock prices as well as feed prices are likely to continue to tick higher.

The one exception to this rule is likely to be wages. Wage pressures are likely to be relatively muted this year, but at the same time finding good farm workers will remain a challenge for the sector.



Week ending 31 August

The ASB Commodity Price Index fell 0.4% in USD terms in the week ending 31st August. However, a weaker NZD/USD saw the Index lift 0.7% in NZD terms.

Looking at the components, dairy, forestry and fruit prices all fell last week. The weakness in dairy prices extended to this week's dairy auction where overall prices fell 0.7%.

Meanwhile, weak business confidence data dragged the NZD/USD lower last week. This weakness has continued into this week as negative market sentiment has weighed on currencies like the NZD. **As at the time of writing, NZD was trading at US\$0.6550.**

ASB New Zealand Commodity Price Indices As at Friday 31st August 2018

	Index*	Week %	Year %**
Total NZD	114.1	0.7%	6.6%
Total SDR	98.6	-0.4%	-1.5%
Total USD	90.8	-0.4%	-2.5%
Dairy USD	82.6	-0.8%	-9.9%
Sheep/beef USD	98.6	0.2%	4.1%
Forestry USD	98.1	-0.8%	-3.4%
Fruit USD	94.7	-1.0%	1.2%
NZD/USD	0.6624	-1.0%	-8.5%

* For all indices 2014 average = 100

** Percentage change since same week last year

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