

# Commodities Weekly

For the week ending Friday 10<sup>th</sup> May



## Farm expense inflation cools, but temporarily so

**While annual inflation has fallen, feed cost inflation, in particular, may fire again**

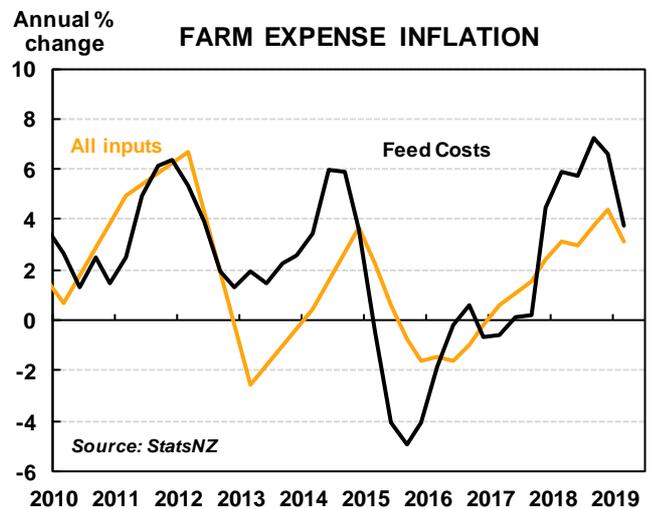
**Farm input inflation has cooled a little lately.** In annual change terms, farm input prices slowed to 3.1% in March 2019 from 4.4% in December 2018.

**Falling feed price inflation drove much of the overall decline in farm input inflation.** Annual feed price inflation slowed to 3.7% in the March 2019 year, from the 6.6% annual rise in calendar 2018. **Fuel prices also slowed their march higher over the past year.** Fuel prices are now 3.5% higher than a year ago, after jumping as much as 26% at one stage back in 2018.

Looking over the year ahead, **we expect farm input price inflation to reignite.** We anticipate that rising dairy prices will lift the demand for feed and thus lead feed prices higher.

Recall that we forecast the 2019/20 milk price to rise to \$7.00/kg, with risks skewed to the upside.

**One key exception to this rule is likely to be wages.** Wage pressures are likely to remain modest this year, but at the same time finding good farm workers will remain a challenge for the sector.



### Week ending 10 May

**The ASB Commodity Price Index eased by 0.4% last week in USD terms.** However, a weaker NZD/USD saw the Index lift a touch in NZD terms (up 0.3%).

**Forestry and fruit prices led the fall in USD terms, both dipping 0.7%.** Falling beef and wool prices led overall sheep/beef prices lower, while lamb prices were unchanged. Falling whole milk powder prices led dairy prices lower overall, despite price rises in most other dairy commodities.

The NZD/USD fell last week on heightened US-China trade tensions, with NZD interest rates also lower. **As at the time of writing, the NZD/USD was trading at 0.6540.**

### ASB New Zealand Commodity Price Indices As at Friday 10<sup>th</sup> May 2019

	Index*	Week %	Year %**
Total NZD	108.8	0.3%	4.5%
Total SDR	101.9	-0.4%	1.3%
Total USD	101.8	-0.4%	-1.7%
Dairy USD	105.9	-0.2%	3.4%
Sheep/beef USD	95.5	-0.4%	-6.8%
Forestry USD	99.5	-0.7%	-4.1%
Fruit USD	102.7	-0.7%	-0.8%
NZD/USD	0.6599	-0.7%	-6.0%

\* For all indices 2017 average = 100

\*\* Percentage change since same week last year

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