

Commodities Weekly

For the week ending Friday 16th February



Farm expense inflation is back

After a lull, farm input prices are rising again

Farm input prices are rising. In annual change terms, farm input prices rose 2.5% in December 2017.

Moreover, **the period of low or falling input prices is over.** At one stage, during the worst of the dairy downturn, input prices were falling 1.6% on an annual basis.

Some key inputs are driving the lift. For example, feed prices jumped 4.5% in annual terms, while fuel prices spiked 11.8%. While temporary factors such as recent dry weather and the lift in oil prices are contributing to these rises, we think the underlying demand for inputs are a driver as well.

Looking over 2018, **we expect input prices to generally rise further.** Prices and incomes are strong across most sectors, and, as a result, feed prices in particular are likely to continue to rise.

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

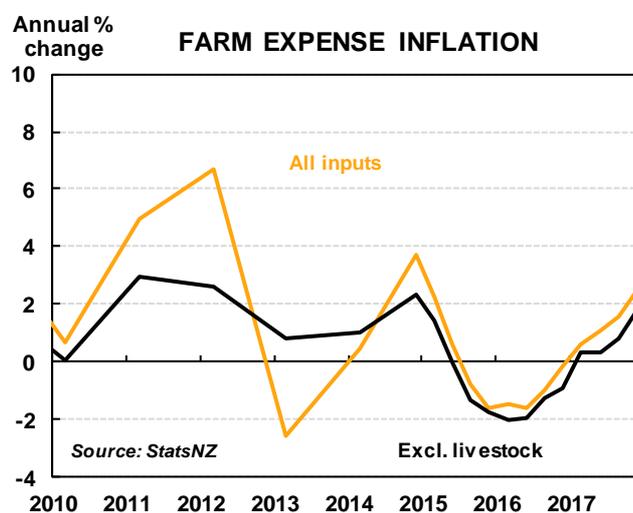
Week ending 16 February

The ASB Commodity Price Index posted a 1.6% gain in USD terms in the week ending 16 February. However, a 2.0% lift in the NZD against the USD saw the Index dip 0.4% in NZD terms.

The Index strength in USD terms was broad-based.

Sheep/beef, forestry and fruit prices all lifted by around 2.0% over the week. Dairy prices also rose, albeit more modestly, firming by 1%.

Meanwhile, the NZD strengthened against most of the major currencies last week. The NZD has maintained its recent strength this week and, **as at the time of writing, was trading at US\$0.7370.**



ASB New Zealand Commodity Price Indices As at Friday 16th February 2018

	Index*	Week %	Year %**
Total NZD	107.5	-0.4%	3.2%
Total SDR	99.5	0.7%	-1.7%
Total USD	95.4	1.6%	5.9%
Dairy USD	91.4	1.0%	-1.8%
Sheep/beef USD	95.5	1.9%	18.8%
Forestry USD	107.4	2.0%	8.6%
Fruit USD	96.5	2.0%	-0.8%
NZD/USD	0.7389	2.0%	2.6%

* For all indices 2014 average = 100

** Percentage change since same week last year

ASB Economics & Research

Chief Economist
Senior Rural Economist
Senior Economist
Senior Economist
Senior Economist, Wealth
Economist
Data & Publication Manager

Nick Tuffley
Nathan Penny
Jane Turner
Mark Smith
Chris Tennent-Brown
Kim Mundy
Judith Pinto

nick.tuffley@asb.co.nz
nathan.penny@asb.co.nz
jane.turner@asb.co.nz
mark.smith4@asb.co.nz
chris.tennent-brown@asb.co.nz
kim.mundy@asb.co.nz
judith.pinto@asb.co.nz

Phone

(649) 301 5659
(649) 448 8778
(649) 301 5853
(649) 301 5657
(649) 301 5915
(649) 301 5661
(649) 301 5660

www.asb.co.nz/economics

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