

Commodities Weekly

For the week ending Friday 15th May

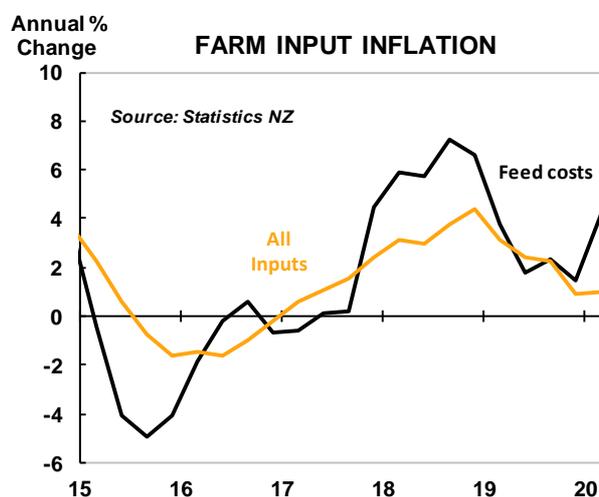


Farm input price inflation lower for longer

Indeed, we wouldn't rule out some price deflation over 2020 or 2021

Farm input inflation remained low over the March quarter. Annual inflation for the quarter printed at 1.0%, largely unchanged from the December quarter. Notably, annual inflation has fallen from 4.4% back in 2018.

From here, we expect farm input inflation to remain low, and if anything, to fall further. With the economy in recession, demand for inputs will be low and thus there will be downward pressure generally on prices. In particular, **we expect wage inflation to fall and to remain low over 2020 and beyond.** The unemployment rate is likely to rise to 9-10% over 2020. Accordingly, the additional supply of workers will help keep a lid on wages. In addition, we expect low fuel price inflation following the plunge in oil prices this year. Similarly, inflation of oil-based products like fertiliser is also likely to fall and remain low.



Feed price inflation is the wildcard. Weather and feed availability will remain key as seen already this year as drought pushed feed prices higher. Generally, though, we expect low input price inflation over 2020 and 2021 and wouldn't rule out price deflation at some point.

Week ending 15 May

The ASB Commodity Price Index lifted in all denominations last week. Notably, the Index jumped 4.3% in NZD terms as the NZD/USD slipped 3.5%, while the Index posted a more modest 0.7% gain in USD terms. **Surging forestry prices (up 12.3%) accounted for the Index gains in USD terms.**

Moreover, the massive price lift and the weaker NZD/USD has taken forestry prices back to near record levels in NZD terms.

The NZD slid lower last week, ending the week down 3.5% against the USD. This week the NZD has rebounded. **As at the time of writing, the NZD was trading at US\$0.6120.**

ASB New Zealand Commodity Price Indices As at Friday 15th May 2020

	Index*	Week %	Year %**
Total NZD	105.0	4.3%	-4.3%
Total SDR	90.2	0.9%	-11.7%
Total USD	88.4	0.7%	-12.9%
Dairy USD	90.3	-0.7%	-14.6%
Sheep/beef USD	76.7	-2.6%	-19.5%
Forestry USD	90.4	12.3%	-8.2%
Fruit USD	103.4	-3.5%	2.5%
NZD/USD	0.5932	-3.5%	-9.0%

* For all indices 2017 average = 100

** Percentage change since same week last year

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