

Commodities Weekly

For the week ending Friday 16th August



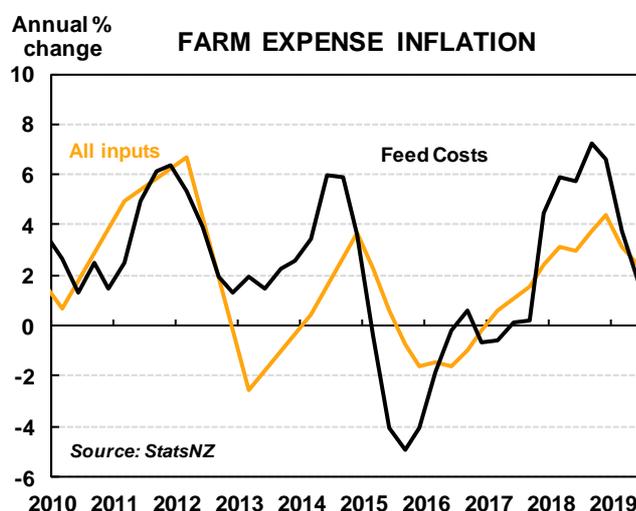
Farm expense inflation softening

Notably feed price inflation has slowed so far this year

Farm input prices continue to rise, but the pace of increase has slowed. In annual change terms, farm input prices rose 2.5% in June 2019, down from a peak of 4.4% back in December 2018.

Notably, feed price inflation has slowed. Over the June 2019 year, feed prices rose just 1.8%. This is a marked slowdown after feed prices were lifting at an annual pace of 7.2% as recently as September 2018. **In contrast, fertiliser inflation remains high.** June fertiliser prices rose 9.3% in annual terms.

Looking over the year ahead, **we expect farm input price inflation to remain relatively subdued.** Farmer confidence is very low and likely to remain weak over the remainder of the year. Moreover, compliance costs (which are not captured in the farm expense price data) continue to rise and put the squeeze on farm budgets. Together these factors are constraining farm input demand and are acting to limit upward pressure on input prices. We note that this view however is weather dependent. So far the winter has favourable, but weather and growing conditions can deteriorate quickly, and flow through to feed prices in particular.



Week ending 16 August

A softer NZD/USD pushed the ASB Commodity Price Index 0.5% higher in NZD terms last week. Meanwhile, in USD terms the Index was flat last week.

Looking at the components, sheep/beef prices continued their good recent run, rising 0.4% over the week. In contrast, forestry and fruit prices fell, while dairy prices were unchanged.

The NZD weakened against most of the major currencies 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\$0.6370.**

ASB New Zealand Commodity Price Indices As at Friday 16th August 2019

	Index*	Week %	Year %**
Total NZD	107.0	0.5%	1.1%
Total SDR	98.6	0.2%	0.1%
Total USD	97.6	0.0%	-1.2%
Dairy USD	97.6	0.0%	2.9%
Sheep/beef USD	104.3	0.4%	-1.2%
Forestry USD	85.4	-0.6%	-12.3%
Fruit USD	101.7	-0.6%	4.6%
NZD/USD	0.6429	-0.6%	-2.3%

* For all indices 2017 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

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