



Embargoed until 10:45am – 16 February 2006

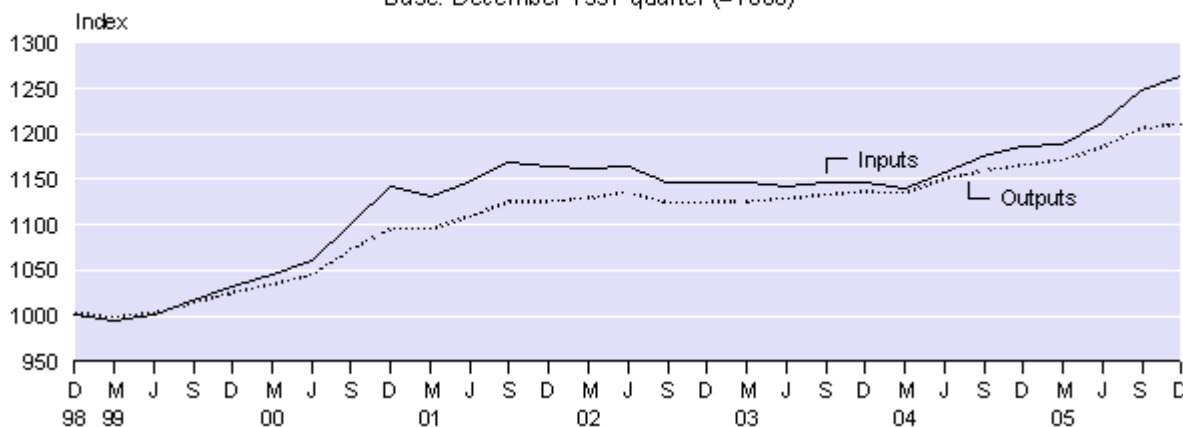
Producers Price Index December 2005 quarter

Highlights

- The PPI outputs index rose 0.3 percent in the December 2005 quarter.
- Output prices rose 3.9 percent between the December 2004 and December 2005 quarters.
- Output prices for electricity generation and supply rose 8.8 percent in the December 2005 quarter.
- The PPI inputs index rose 1.2 percent in the December 2005 quarter.
- Input prices rose 6.5 percent between the December 2004 and December 2005 quarters.
- Input prices for electricity generation and supply rose 11.2 percent in the December 2005 quarter.

Producers Price Index

All industries – inputs and outputs
Base: December 1997 quarter (=1000)



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Government Statistician

16 February 2006
Cat 70.906 Set 05/06 – 131

There is a companion Media Release published – [Producers Price Index: December 2005 quarter](#).

Commentary

Outputs

Output prices for all industries in the Producers Price Index (PPI) rose 0.3 percent in the December 2005 quarter, following increases of 1.8 percent and 1.2 percent in the September 2005 and June 2005 quarters, respectively. This is the seventh consecutive quarterly increase in the PPI outputs index. However, the increase in the current quarter is the lowest quarterly movement in the PPI outputs index since a fall of 0.1 percent in the March 2004 quarter.

The most significant upward contribution to the PPI outputs index for the December 2005 quarter came from the electricity generation and supply index, which rose 8.8 percent, its fifth consecutive quarterly increase. The rise in the current quarter was driven by higher wholesale prices for electricity. In the year to the December 2005 quarter, the electricity generation and supply index rose 28.9 percent.

Another significant contribution to the latest quarterly increase came from the mining index, which rose 7.7 percent in the December 2005 quarter. This was the largest quarterly increase in the index since the June 2004 quarter, when the index rose 11.5 percent. Respondents cited higher crude oil export prices, higher spot prices for gold and increased world prices for exports of coal as reasons for the rise in the mining index.

The construction index also made a significant contribution to the increase in output prices for the December 2005 quarter, rising 1.2 percent. The rise in the construction index this quarter was mainly driven by a 1.2 percent increase in the construction trade services index due to increasing costs for electrical installation and site preparation services (resulting from rising labour costs and high fuel prices). The increase in the construction index was its twenty-seventh consecutive quarterly rise since a fall of 0.2 percent in the March 1999 quarter. Additionally, the current quarter's index number represents the highest level in output prices for the construction index since the series began in the June 1994 quarter.

Downward contributions to the PPI outputs index in the December 2005 quarter came from the meat and meat product manufacturing index, the livestock and cropping farming index and the wholesale trade index. The meat and meat product manufacturing index fell 7.3 percent in the December 2005 quarter, the largest quarterly decrease since the series began in the June 1994 quarter. The main driver for the decrease was lower export prices for edible offal.

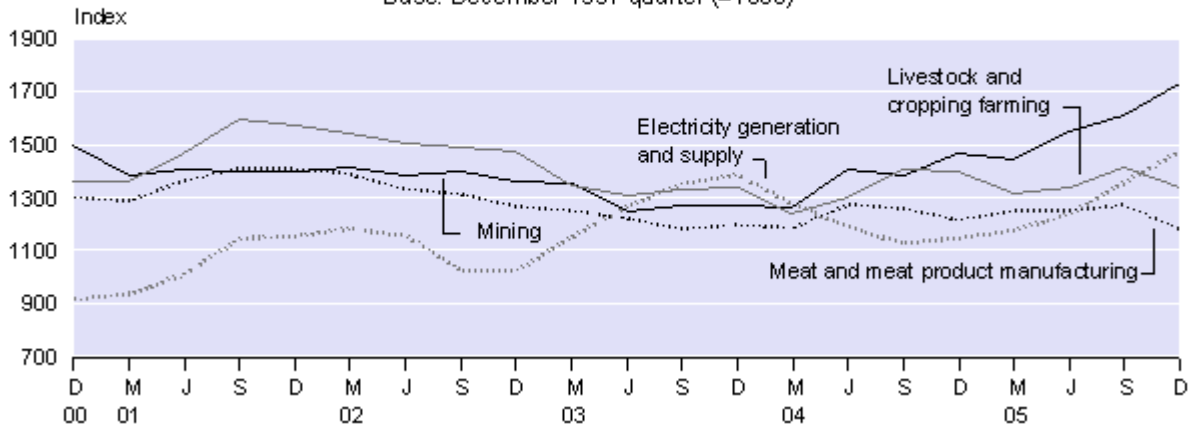
The livestock and cropping farming index fell 5.2 percent in the December 2005 quarter, following increases of 5.7 percent and 1.5 percent in the September 2005 and June 2005 quarters, respectively. The main driver for the fall in the December 2005 quarter was lower farmgate prices for beef and cattle, and sheep and lamb.

The wholesale trade index fell 0.9 percent in the December 2005 quarter, its first quarterly decrease since a fall of 0.6 percent in the March 2004 quarter. The fall in the latest quarter was mainly driven by the mineral, metal and chemical wholesaling sector, which reflected falling wholesale prices for petrol and diesel.

In the year to the December 2005 quarter, the PPI outputs index rose 3.9 percent, compared with rises of 2.6 percent in the year to the December 2004 quarter and 1.1 percent in the year to the December 2003 quarter.

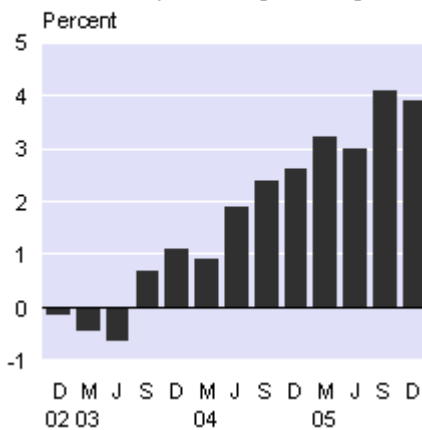
Producers Price Index

Outputs index – selected industries
Base: December 1997 quarter (=1000)



PPI Outputs

Annual percentage change



Producers Price Index

Outputs – all industries

Quarter	Percentage change from previous quarter	Percentage change from the same quarter, previous year
Dec 2003	0.4	1.1
Mar 2004	-0.1	0.9
Jun 2004	1.3	1.9
Sep 2004	0.8	2.4
Dec 2004	0.5	2.6
Mar 2005	0.5	3.2
Jun 2005	1.2	3.0
Sep 2005	1.8	4.1
Dec 2005	0.3	3.9

Inputs

Input prices for all industries in the PPI increased 1.2 percent in the December 2005 quarter, the seventh consecutive quarterly upward movement since a fall of 0.5 percent in the March 2004 quarter. The increase in the current quarter follows increases of 2.9 percent in the September 2005 quarter, and 2.0 percent in the June 2005 quarter.

As with the PPI outputs index, the most significant upward contributor to the PPI inputs index for the December 2005 quarter was the electricity generation and supply index. With regard to inputs, this index rose 11.2 percent in the latest quarter, following increases of 14.0 percent in the September 2005 quarter and 6.4 percent in the June 2005 quarter. The increase in the December 2005 quarter reflects higher generation costs due to lower lake levels. In the year to the December 2005 quarter the electricity generation and supply index rose 40.1 percent.

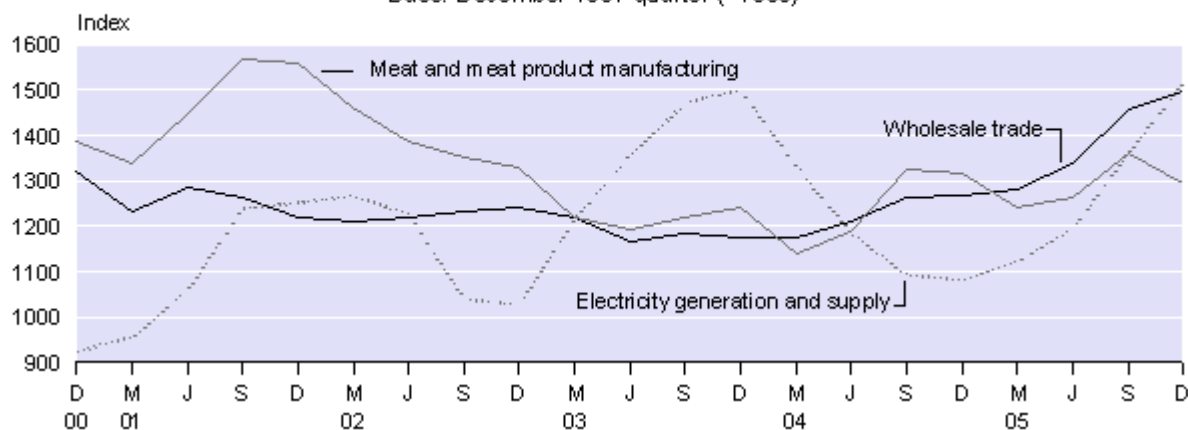
The wholesale trade index rose 2.6 percent in the December 2005 quarter and made the second most significant upward contribution to the PPI inputs index. The higher prices in the wholesale trade index were predominantly driven by the higher cost of crude oil. The third most significant upward contribution to the PPI inputs index in the December 2005 quarter came from the air transport index, which rose 4.8 percent. This was mainly driven by higher aviation fuel costs (due to increasing world market prices).

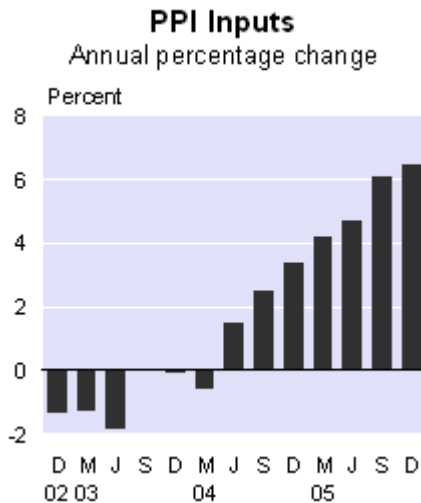
The meat and meat product manufacturing index was the only major downward contributor to partly offset the price increases in the PPI inputs index in the December 2005 quarter. The meat and meat product manufacturing index fell 4.7 percent, following a 7.6 percent rise in the September 2005 quarter. The index fell due to lower wholesale prices for meat (especially cattle and calves, and sheep and lamb).

In the year to the December 2005 quarter, the PPI inputs index rose 6.5 percent, following an increase of 3.4 percent in the year to the December 2004 quarter and a fall of 0.1 percent in the year to the December 2003 quarter. The 6.5 percent increase in the year to the December 2005 quarter is the highest since an 8.1 percent rise in the year to the June 2001 quarter.

Producers Price Index

Inputs index – selected industries
Base: December 1997 quarter (=1000)





Producers Price Index

Inputs – all industries

Quarter	Percentage change from previous quarter	Percentage change from the same quarter, previous year
Dec 2003	0.0	-0.1
Mar 2004	-0.5	-0.6
Jun 2004	1.6	1.5
Sep 2004	1.5	2.5
Dec 2004	0.9	3.4
Mar 2005	0.3	4.2
Jun 2005	2.0	4.7
Sep 2005	2.9	6.1
Dec 2005	1.2	6.5

Fuel prices

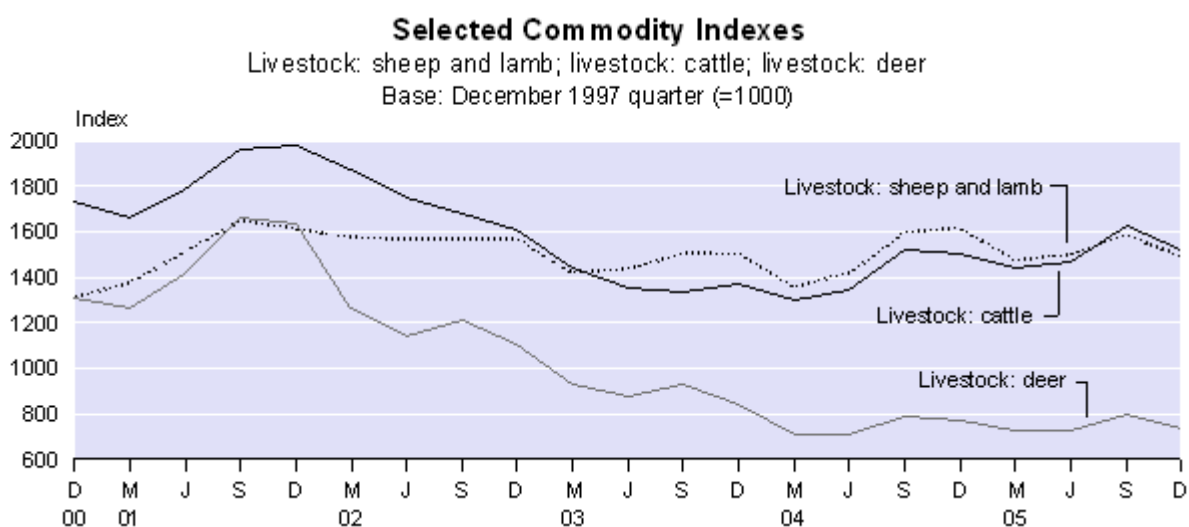
In the December 2005 quarter, different fuel types included within the PPI showed contradictory price movements. Crude oil prices (both imported crude oil as well as exported crude and condensate) rose as a result of increasing US dollar prices on the world market. However, wholesale prices for fuels, particularly automotive petrol and diesel, recorded a price decrease. This is consistent with the Consumers Price Index movement for petrol in the December 2005 quarter (a 3.0 percent fall, due to the observed price falls 'at the pump' during the December 2005 quarter). The price of aviation fuel also rose this quarter, for the same reason as crude oil (ie as a result of increasing world market prices).

Furthermore, a number of respondents cited fuel prices as a reason for increasing their output prices in the December 2005 quarter, which contradicts the fact that wholesale and retail prices for fuels actually fell this quarter. The reason for this is that many respondent have prices for their own output that are set or are included in contracts, often for six- or twelve-month periods, and while petrol prices have fallen in this quarter, they are still higher than where they were earlier in the year. Additionally, petrol prices remain at a high level. Subsequently, many respondents have taken a long-term perspective when reporting fuel prices as a reason for their own price increases in the December 2005 quarter.

Commodities

In the December 2005 quarter, the three main livestock commodity indexes recorded falls. The livestock: deer index fell 8.5 percent, reflecting lower auction prices for venison, the livestock: cattle index fell 6.4 percent, as a result of lower wholesale prices for breeding calves, and the livestock: sheep and lamb index fell 6.0 percent, due mainly to lower auction prices for sheep and lamb.

On an annual basis, the livestock: deer index recorded a fall of 4.6 percent, and the livestock: sheep and lamb index fell 7.7 percent in the year to the December 2005 quarter. Despite the latest quarterly fall in the index for livestock: cattle, the index recorded a rise of 1.3 percent in the year to the December 2005 quarter, due to increases in the September 2005 quarter (10.4 percent) and the June 2005 quarter (1.9 percent).



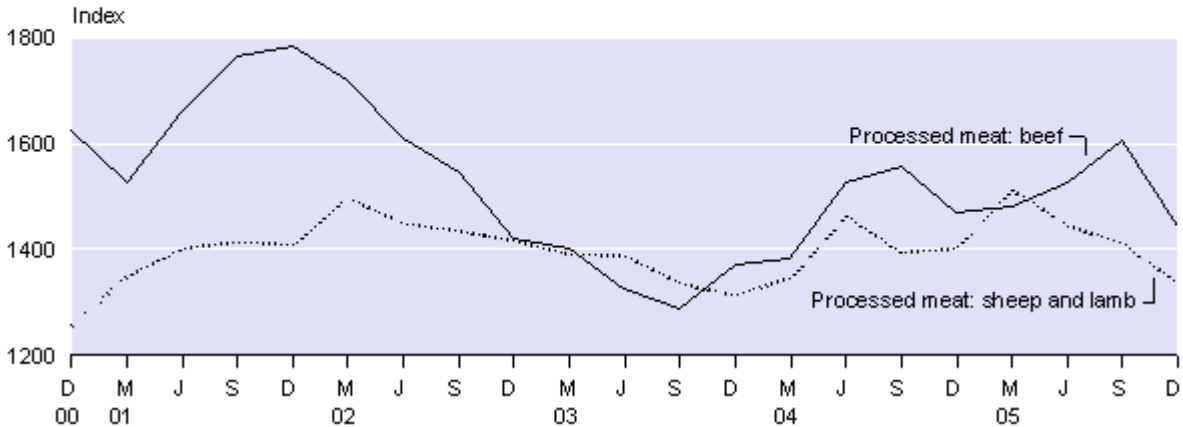
The processed meat indexes also recorded falls in the December 2005 quarter. The processed meat: beef index recorded a quarterly fall of 10.1 percent, due mainly to lower export prices for beef, and the processed meat: sheep and lamb index a fall of 5.2 percent, due to lower export prices for lamb cuts (bone-in, frozen and chilled). The fall in the processed meat: beef index in the latest quarter is the first fall since the December 2004 quarter and follows rises of 5.0 percent and 3.1 percent in the September 2005 quarter and June 2005 quarter, respectively. The processed meat: sheep and lamb index recorded its third consecutive quarterly decrease in the December 2005 quarter, following falls of 2.4 percent in the September 2005 quarter and 4.4 percent in the June 2005 quarter.

Annually, from the December 2004 quarter to the December 2005 quarter both processed meat indexes recorded falls, with the processed meat: beef index falling 1.8 percent and the index for processed meat: sheep and lamb falling 4.6 percent.

Selected Commodity Indexes

Processed meat: sheep and lamb; processed meat: beef

Base: December 1997 quarter (=1000)



The index for pulp increased 4.3 percent in the December 2005 quarter, due mainly to higher world prices for mechanical wood pulp. This follows a fall of 3.3 percent in the September 2005 quarter and a rise of 0.2 percent in the June 2005 quarter. Annually, the pulp index increased 2.4 percent from the December 2004 quarter to the December 2005 quarter.

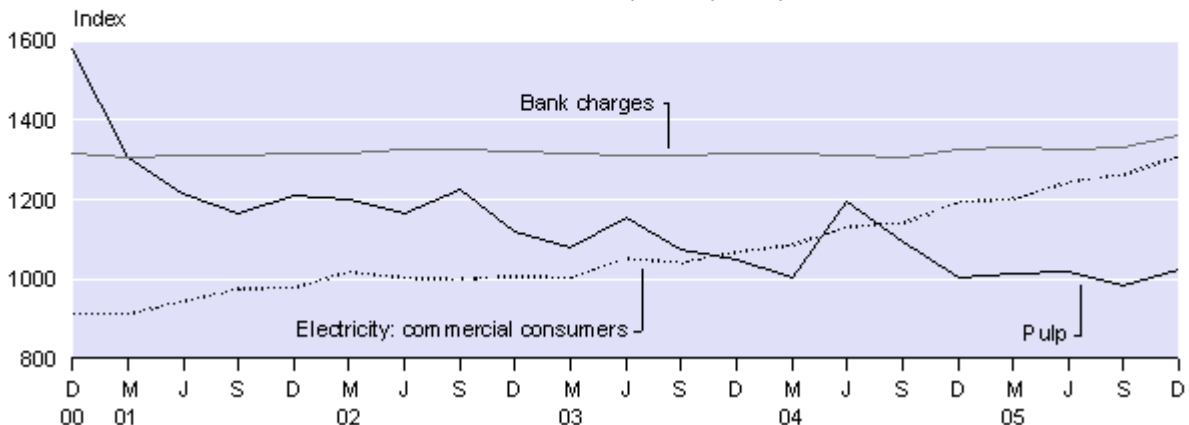
In the December 2005 quarter, the electricity: commercial consumers index rose 3.7 percent, driven by higher prices due to increased costs of supply. The increase in the current quarter is the ninth consecutive quarterly increase since a decrease of 0.9 percent in the September 2003 quarter and follows increases of 1.4 percent and 3.7 percent in the September 2005 and June 2005 quarters, respectively. In the year to the December 2005 quarter, the electricity: commercial consumers index rose 9.8 percent.

The index for bank charges rose 2.4 percent in the December 2005 quarter, driven mainly by higher charges on foreign currency payments. This follows a rise of 0.3 percent in the September 2005 quarter and a fall of 0.1 percent in the June 2005 quarter. Annually, from the December 2004 quarter to the December 2005 quarter the index for bank charges increased 2.9 percent.

Selected Commodity Indexes

Bank charges; electricity: commercial consumers; pulp

Base: December 1997 quarter (=1000)



Impact of exchange rates

When calculating the PPI, prices collected on the fifteenth day of the middle month in the quarter are generally used to represent the entire quarter. Prices collected for imported goods are often denominated in foreign currencies. These are converted to New Zealand dollars using the exchange rate at the time of pricing.

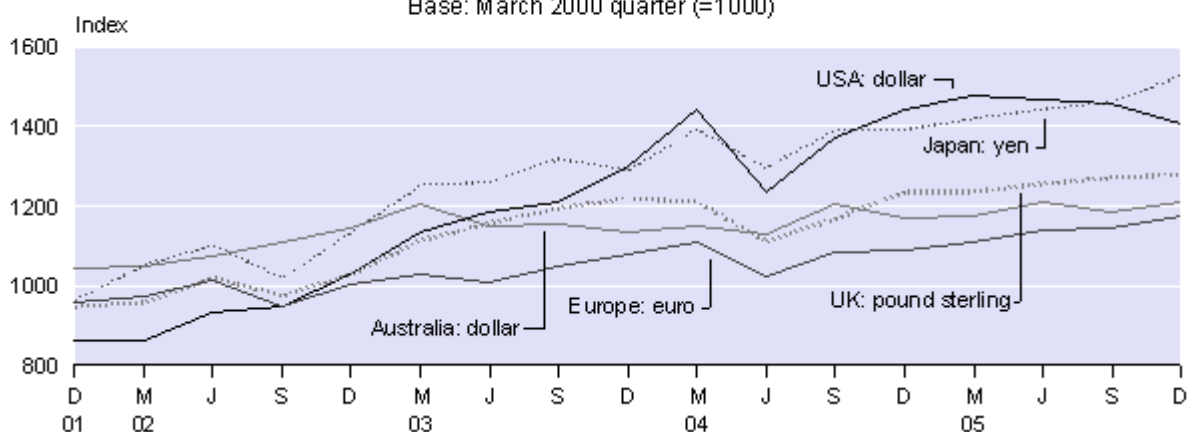
The New Zealand dollar showed mixed movements between currencies in the December 2005 quarter. The New Zealand dollar appreciated against the currencies of four of the country's five major trading partners in this quarter and depreciated against the US dollar. The table below shows changes in the value of the New Zealand dollar in foreign currency denominations from the September 2005 quarter to the December 2005 quarter.

Exchange Rates
(Published by Westpac Bank)
Bank selling rates for NZ\$1.00

	USA (NZ\$:US\$)	UK (NZ\$:Pound)	Australia (NZ\$:AUS\$)	Japan (NZ\$:Yen)	Europe (NZ\$:Euro)
15 August 2005	0.7024	0.3873	0.9105	76.5030	0.5628
15 November 2005	0.6766	0.3893	0.9307	79.9384	0.5765
Percentage change	-3.7	0.5	2.2	4.5	2.4

Producers Price Index

Index of exchange rates
Base: March 2000 quarter (=1000)



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Technical notes

Price index interpretation

Price indexes are used to measure the changes in the level of prices, not the actual level of the prices themselves.

The Producers Price Index (PPI) measures prices relating to the production sector of the economy. By comparison, the Consumers Price Index measures prices relating to the household sector and the Labour Cost Index measures prices in the labour market.

The PPI is made up of two types of indexes: the outputs index, which measures changes in the prices received by producers; and the inputs index, which measures changes in the cost of production (excluding labour and capital costs).

The Farm Expenses Price Index (FEPI) measures price changes specific to the inputs into the farming industry.

PPI outputs index

The outputs index measures changes in prices received by producers.

The outputs index covers the prices of:

- primary products
- manufactured goods
- revenue from renting and leasing
- the provision of services
- capital work undertaken by own employees
- margins on goods purchased for resale.

The outputs index excludes:

- interest and dividends
- royalties and patent fees
- receipts from insurance claims
- government cash grants and subsidies
- goods and services tax (GST) and other indirect taxes.

These indexes are designed to measure price changes at a level corresponding to the prices received before the addition of commodity taxes or deduction of subsidies.

PPI inputs index

The inputs index measures price changes in costs of production, excluding labour and depreciation costs.

The inputs index covers the prices of:

- materials
- fuels and electricity
- transport and communication
- commission and contract services
- rent and lease of land, buildings, vehicles and plant
- business services
- insurance premiums less claims.

The inputs index excludes:

- wages and salaries (measured in the Labour Cost Index)
- capital expenditure/depreciation (measured in the Capital Goods Price Index)
- ACC levies, land tax, government licence fees, road user charges
- rates
- royalties, patent fees
- bad debts and donations.

GST is excluded when measuring input prices for 45 of the 47 industry inputs indexes. The assumption is made that those involved in activities in these industries are 'registered persons, or businesses' who provide 'taxable supply'. GST paid on intermediate consumption is recoverable under the GST credit offset system and therefore is effectively not part of the ultimate input price. Exceptions include the finance and ownership of owner-occupied dwellings indexes, which include some 'GST exempt' and non-recoverable GST activities. Interest costs are excluded because they are regarded as a cost of capital and not as a payment for a good or service.

Government charges are excluded when they are used to raise tax revenue rather than the payment for a good or service purchased from the government. This is consistent with the System of National Accounts.

Farm Expenses Price Index

The Farm Expenses Price Index (FEPI) measures price changes of fixed inputs of goods and services to the farming industry. It does not fully measure changes in the production costs of farming. This is because production costs are not solely dependent on price movements, but are also dependent on factors that affect productivity, such as technological advances, management efficiency and climate fluctuations.

Capital expenditure and depreciation are not covered. (For price indexes of capital expenditure, refer to the Capital Goods Price Index.)

Coverage

The indexes are calculated quarterly from price quotes, which are collected mainly by postal survey. Approximately 13,000 individual commodity items are surveyed from about 3,000 respondents. Prices are generally collected each quarter, according to those prevailing on the fifteenth of the middle month of the quarter being measured. Prices may be obtained monthly or annually, depending on the nature of the item.

Calculation

The PPI and FEPI are Laspeyres base-weighted price index series. The weightings are determined by the relative importance of commodities and businesses within the industry or industry group. Information from various surveys and censuses and other sources is used to determine the weightings. Further information about this is available on request.

Industry classification

The PPI inputs and outputs indexes cover all the major market industry groups as defined by the Australian and New Zealand Standard Industrial Classification 1993 (ANZSIC). Index numbers for industry indexes based on this classification are available from the June 1994 quarter.

The all industries inputs index is made up of 47 industry indexes. Outputs indexes are not available for public administration and defence; education; health and community services; cultural and recreational services; and personal and other services industries, as reliable estimates of output prices have yet to be developed.

Customised price indexes

Statistics New Zealand has a large number of unpublished sub-industry and representative commodity price indexes. These indexes are available at a small charge to cover dissemination costs.

Back series of indexes

Statistics New Zealand will provide tables of the complete back series of the current PPI and FEPI indexes on request.

More information

For more information, follow the [link](#) from the Technical notes of this release on the Statistics New Zealand website.

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Timing

Timed statistical releases are delivered using postal and electronic services provided by third parties. Delivery of these releases may be delayed by circumstances outside the control of Statistics New Zealand. Statistics New Zealand accepts no responsibility for any such delays.

Next release ...

Producers Price Index: March 2006 quarter will be released on 17 May 2006.

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Tables

The following tables can be downloaded from the Statistics New Zealand website in Excel 97 format. If you do not have access to Excel 97 or higher, you may use the [Excel file viewer](#) to view, print and export the contents of the file.

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