

Embargoed until 10:45am – 19 November 2008

Producers Price Index: September 2008 quarter

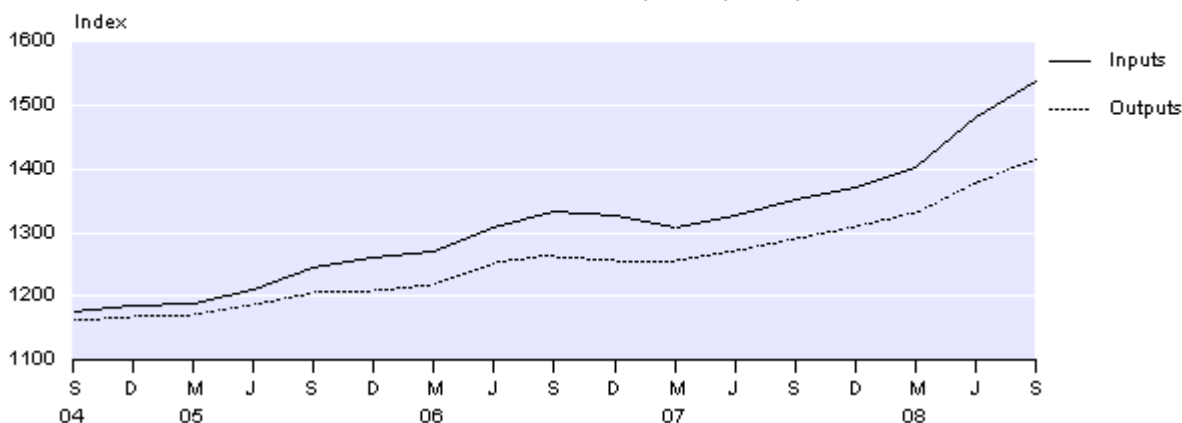
Highlights

- The Producers Price Index (PPI) outputs index rose 2.8 percent.
- Output prices for wholesale trade rose 4.3 percent.
- Output prices rose 9.8 percent between the September 2007 and September 2008 quarters.
- The PPI inputs index rose 3.7 percent.
- Input prices for wholesale trade rose 8.1 percent.
- Input prices rose 13.6 percent between the September 2007 and September 2008 quarters.

Producers Price Index

All industries – inputs and outputs

Base: December 1997 quarter (=1000)



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19 November 2008
ISSN 1178-0622

See also [Producers Price Index: September 2008 quarter – Media release](#).

Commentary

Outputs

Output prices for all industries in the Producers Price Index (PPI) rose 2.8 percent in the September 2008 quarter, following rises of 3.5 percent in the June 2008 quarter and 1.8 percent in the March 2008 quarter. Wholesale trade and dairy cattle farming were the major contributors to the rise in the latest quarter.

Producers Price Index Outputs <i>All industries</i>		
Quarter	Percentage change from previous quarter	Percentage change from same quarter, previous year
Sep 2006	1.0	4.9
Dec 2006	-0.6	4.1
Mar 2007	-0.2	3.1
Jun 2007	1.2	1.4
Sep 2007	1.6	2.0
Dec 2007	1.4	4.0
Mar 2008	1.8	6.1
Jun 2008	3.5	8.5
Sep 2008	2.8	9.8

The wholesale trade index (up 4.3 percent) made the largest contribution to the increase in output prices in the September 2008 quarter. The rise in this index followed rises of 6.0 percent in the June 2008 quarter and 2.9 percent in the March 2008 quarter. The main driver of the index was mineral, metal and chemical wholesaling, due to higher wholesale prices for various fuel types. In the year to the September 2008 quarter, the wholesale trade index rose 17.3 percent, the largest annual rise since the series began in the June 1994 quarter. This compares with relatively smaller rises of 1.4 percent in the year to the September 2007 quarter, and 7.1 percent in the year to the September 2006 quarter.

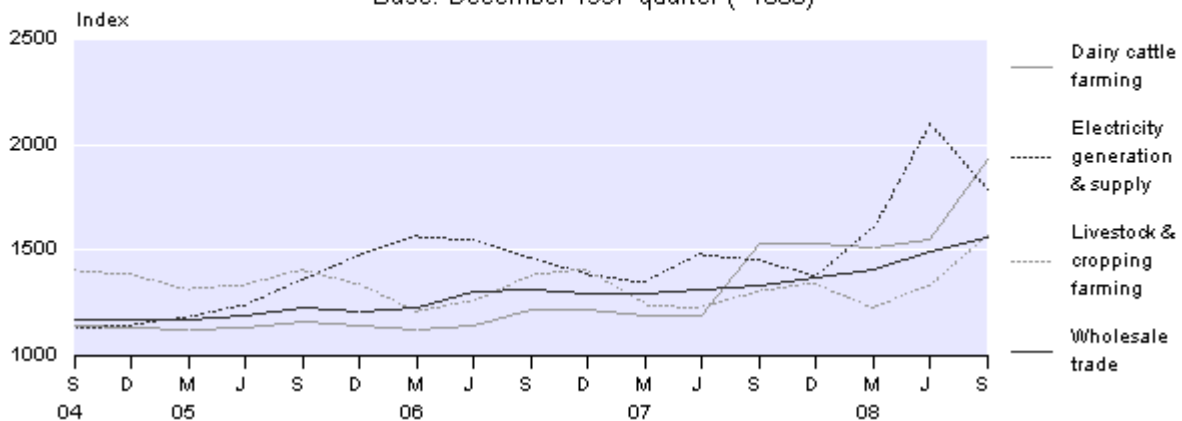
The dairy cattle farming index (up 24.4 percent) made the second-largest contribution to the increase in output prices. This rise follows a 2.1 percent rise in the June 2008 quarter, and a 1.3 percent fall in the March 2008 quarter. Driving up this index was a higher farmgate price for whole-milk solids. Change in the whole-milk payout is only shown in the PPI each September quarter, so the movement reflects the increase in price between the September 2007 and September 2008 quarters. In the year to the September 2008 quarter, the dairy cattle farming index rose 25.6 percent, following a 25.7 percent rise in the year to the September 2007 quarter, and a smaller rise of 5.0 percent in the year to the September 2006 quarter.

The livestock and cropping farming index rose 17.5 percent in the September 2008 quarter, following an 8.2 percent rise in the June 2008 quarter, and an 8.4 percent fall in the March 2008 quarter. This latest rise is the largest quarterly increase since the series began in the June 1994 quarter. Higher prices for both prime beef and prime lamb livestock were the main contributors to the rise in the latest quarter. In the year to the September 2008 quarter, the livestock and cropping farming index rose 19.8 percent, following falls of 5.6 percent in the year to the September 2007 quarter, and 1.8 percent in the year to the September 2006 quarter.

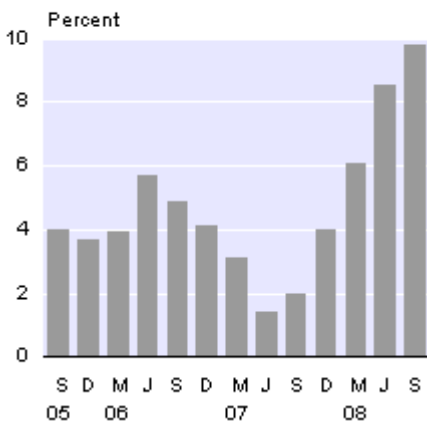
The main downward contributor to the overall rise in output prices was the electricity generation and supply index (down 15.0 percent). This fall followed a record 30.9 percent rise in the June 2008 quarter, and a 16.4 percent rise in the March 2008 quarter. The fall was driven by the electricity generation sub-index, with respondents citing spot market conditions and improvements in the hydro lake levels as reasons for lower average electricity generation prices. In the year to the September 2008 quarter, the electricity generation and supply index rose 22.7 percent, compared with a 0.8 percent fall in the year to the September 2007 quarter, and a 7.8 percent rise in the year to the September 2006 quarter.

In the year to the September 2008 quarter, the PPI outputs index rose 9.8 percent. This annual movement is the largest rise since a 10.0 percent rise in the year to the March 1987 quarter.

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



PPI Outputs
Annual change



Inputs

Input prices for all industries in the PPI rose 3.7 percent in the September 2008 quarter, compared with rises of 5.6 percent in the June 2008 quarter and 2.3 percent in the March 2008 quarter. The September 2008 quarter is the sixth consecutive quarter in which the inputs index has risen.

Producers Price Index Inputs <i>All industries</i>		
Quarter	Percentage change from previous quarter	Percentage change from same quarter, previous year
Sep 2006	1.8	7.0
Dec 2006	-0.3	5.3
Mar 2007	-1.6	2.8
Jun 2007	1.4	1.3
Sep 2007	2.1	1.6
Dec 2007	1.4	3.3
Mar 2008	2.3	7.3
Jun 2008	5.6	11.8
Sep 2008	3.7	13.6

The wholesale trade index rose 8.1 percent in the September 2008 quarter, and made the most significant upward contribution to the PPI inputs index. The rise followed 6.4 percent and 3.7 percent rises in the June and March 2008 quarters, respectively. Higher prices in the mineral, metal, and chemical wholesaling index (attributable to increases in imported crude oil prices) were the main drivers for the latest rise. In the year to the September 2008 quarter, the wholesale trade index rose 25.2 percent, which is the largest annual increase since the series began in the June 1994 quarter. This rise compares with a 4.1 percent fall in the year to the September 2007 quarter, and a 14.9 percent rise in the year to the September 2006 quarter.

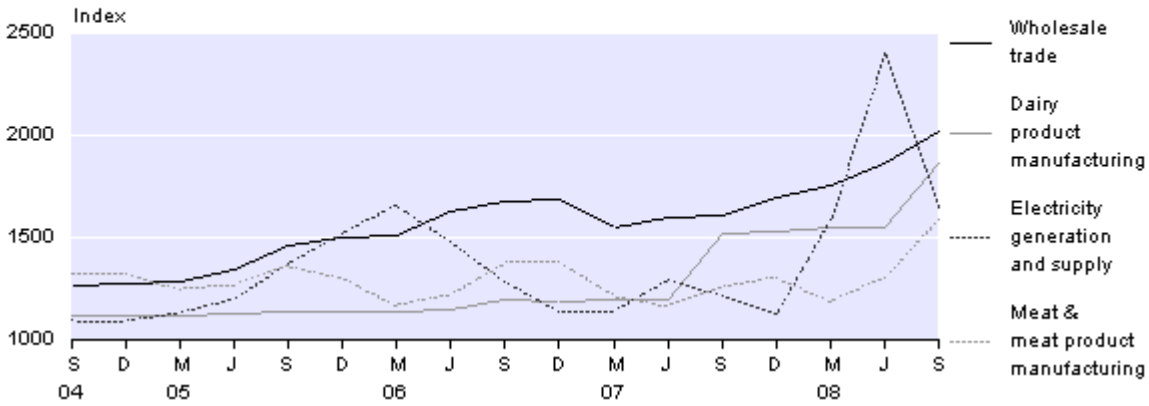
The second most significant contributor to the PPI inputs index was a 20.2 percent increase in the dairy product manufacturing index. The main driver to the September 2008 quarter's rise was higher whole-milk prices at the farmgate. As mentioned in the Outputs commentary, the change in this whole-milk payout is only shown in the PPI each September quarter. Annually, from the September 2007 quarter to the September 2008 quarter, the dairy product manufacturing index rose 22.9 percent, following a 27.3 percent rise in the year to the September 2007 quarter, and a smaller rise of 5.1 percent in the year to the September 2006 quarter.

The meat and meat product manufacturing index (up 22.3 percent) was the third most significant contributor to the rise in input prices in the September 2008 quarter. This latest increase is the largest quarterly rise since the series began in the June 1994 quarter, and compares with a 9.5 percent rise in the June 2008 quarter, and an 8.6 percent fall in the March 2008 quarter. The latest rise was mainly driven by higher prices for both prime beef, and prime sheep and lamb livestock at the farm gate. In the year to the September 2008 quarter, the meat and meat product manufacturing index rose 27.0 percent, which is the highest recorded rise since the series began. This rise compares with a 8.7 percent fall in the year to the September 2007 quarter.

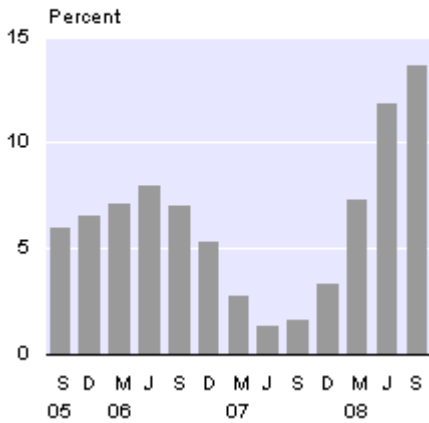
Partly offsetting the overall rise in input prices in the September 2008 quarter was a fall in the electricity generation and supply index (down 31.5 percent). This fall is the largest since the series began in the June 1994 quarter, and compares with rises of 50.8 percent and 41.7 percent in the June and March 2008 quarters, respectively. The purchase of bulk electricity occurred at lower prices, due to spot market conditions and an improvement in hydro lake levels (as cited by respondents). Despite the latest quarterly fall, the electricity generation and supply index rose 35.0 percent in the year to the September 2008 quarter. This rise compares with falls of 5.2 percent and 5.9 percent in the years to the September 2007 and 2006 quarters, respectively.

Input prices for all industries recorded a 13.6 percent increase in the year to the September 2008 quarter, which is the largest annual rise since a 15.9 percent rise in the year to the September 1985 quarter. The latest increase compares with rises of 1.6 percent in the year to the September 2007 quarter and 7.0 percent in the year to the September 2006 quarter.

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

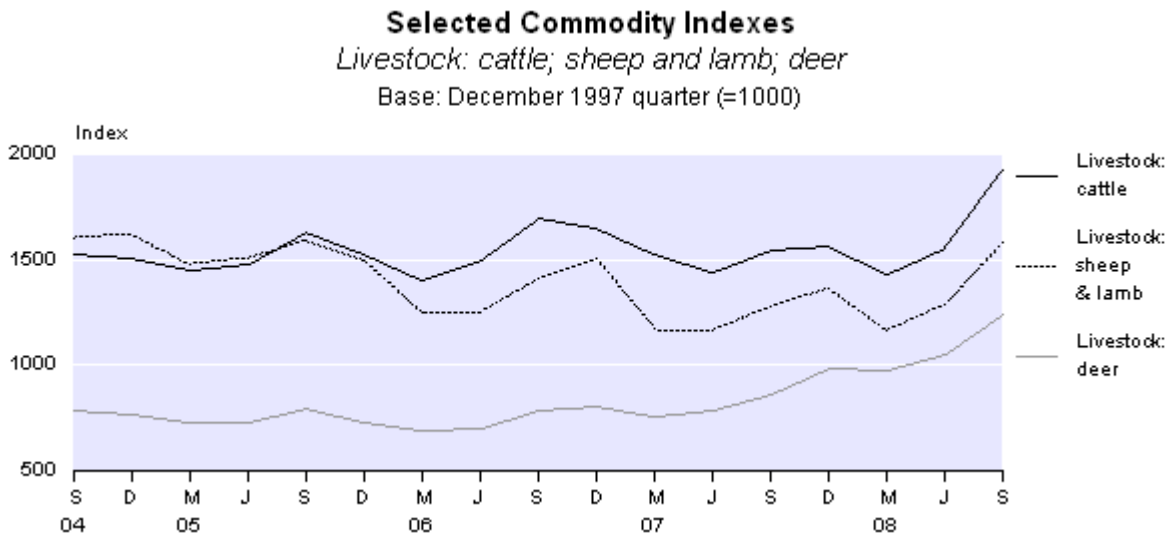


PPI Inputs
Annual change



Commodities

All three of the published commodity indexes for livestock recorded movements that were the largest rises since the series began in the June 1994 quarter. The movements included rises of 23.8 percent for cattle, 22.6 percent for sheep and lamb, and 18.3 percent for deer.



The 23.8 percent rise in the livestock: cattle index followed an 8.4 percent rise in the June 2008 quarter, and an 8.2 percent fall in the March 2008 quarter. Higher farmgate prices across the board for bulls, steers and cows drove this index up in the latest quarter. In the year to the September 2008 quarter, the livestock: cattle index rose 24.2 percent, the largest increase since a 26.8 percent rise in the year to the December 2000 quarter.

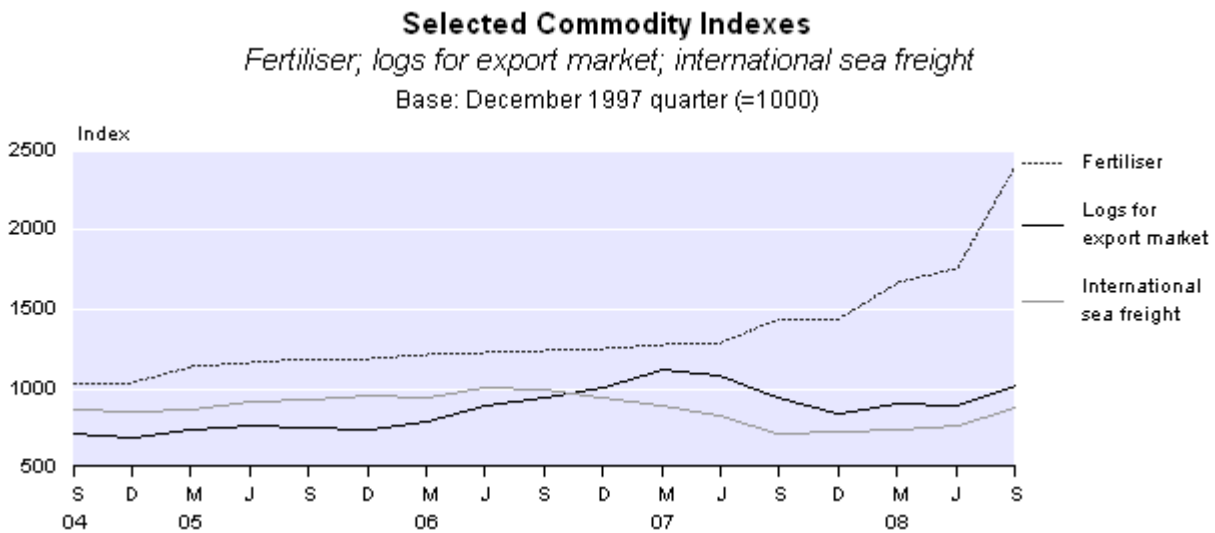
The 22.6 percent rise in the livestock: sheep and lamb index followed a 10.4 percent rise in the June 2008 quarter, and a 14.4 percent fall in the March 2008 quarter. This index was driven up by the higher prices farmers received for prime lamb livestock. In the year to the September 2008 quarter, the sheep and lamb index rose 23.6 percent, the largest increase since a 38.2 percent rise in the year to the September 2001 quarter.

Livestock: deer rose 18.3 percent, following a 7.5 percent rise in the June 2008 quarter, and a 0.5 percent fall in the March 2008 quarter. Driving up this index were higher farmgate prices for both hinds and stags. In the year to the September 2008 quarter, the livestock: deer index rose 43.3 percent, which is the largest annual increase since the series began in the June 1994 quarter.

The largest mover among the published commodities indexes was fertiliser (up 36.4 percent). This latest movement was the largest rise since the series began and followed rises of 5.3 percent in the June 2008 quarter, and 15.6 percent in the March 2008 quarter. Higher prices for various phosphatic fertilisers were recorded, a result of high world demand and suppliers' prices. The 66.3 percent rise in the year to the September 2008 quarter was also the largest annual rise since the series began in the June 1994 quarter.

The logs for export market rose 15.2 percent in the September 2008 quarter, the largest quarterly rise since the series began in the June 1997 quarter. Higher prices were received for export logs, due to a combination of the depreciating New Zealand dollar and a low volume of logs exported (as cited by respondents). In the year to the September 2008 quarter, the logs for export market index rose 8.6 percent, compared with a flat movement (up 0.3 percent) in the year to the September 2007 quarter.

Also rising in the September 2008 quarter was the international sea freight index (up 16.1 percent). The latest rise in this index follows rises of 3.2 percent in the June 2008 quarter, and 0.5 percent in the March 2008 quarter, and is the largest since the series began in the June 1994 quarter. Prices for sea freight were driven up by fuel bunkering adjustments, coupled with the depreciating New Zealand dollar. In the year to the September 2008 quarter, the international sea freight index rose 22.7 percent, the largest annual increase since a 23.8 percent rise in the year to the December 2000 quarter.



Impact of exchange rates

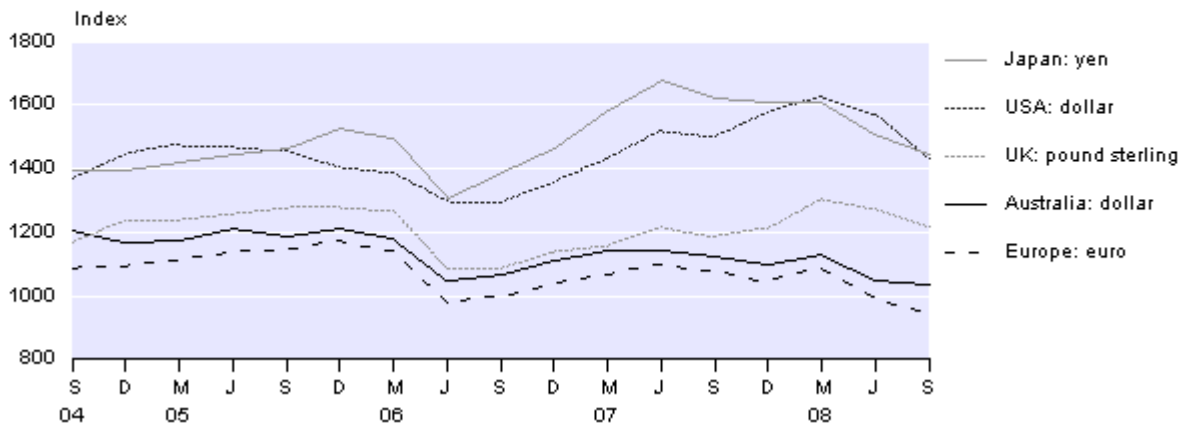
When calculating the PPI, prices collected on the fifteenth day of the middle month in the quarter are generally used to represent the entire quarter. Prices collected for imported goods are often denominated in foreign currencies. These currencies are converted to New Zealand dollars using the exchange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

The New Zealand dollar depreciated against the currencies of the country's five major trading partners in the September 2008 quarter. The table below shows changes in the value of the New Zealand dollar in foreign currency denominations, from the June 2008 quarter to the September 2008 quarter.

Exchange Rates Bank selling rates for NZ\$1.00					
	USA (NZ\$:US\$)	UK (NZ\$:pound)	Australia (NZ\$:AUS\$)	Japan (NZ\$:yen)	Europe (NZ\$:euro)
15 May 2008	0.7572	0.3886	0.8052	79.0570	0.4878
15 August 2008	0.6909	0.3699	0.7941	75.6480	0.4649
Percentage change	-8.8	-4.8	-1.4	-4.3	-4.7

Source: Westpac Banking Corporation.

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



Note about the Farm Expenses Price Index

From this release onwards, the Farm Expenses Price Index will be produced for the March quarter of each year only. As indicated in the June 2008 quarter Hot Off the Press, this change is due to reprioritisation of some parts of Statistics New Zealand's output programme. If you would like more information about this change, please contact Litia Tapu at 04 931 4600.

Price index developments

Statistics New Zealand began work in 2004 on a progressive redevelopment of PPIs. This involves re-evaluation of the items that are priced and the weights that are applied to them. At this stage the redevelopment applies only to output indexes, with new input indexes to be finalised once all of the output indexes have been redeveloped.

The following published indexes have been redeveloped and took effect from the September 2008 quarter:

- PPIQ.SUA07 – Fishing
- PPIQ.SUK – Finance and insurance
- PPIQ.SUK01 – Finance
- PPIQ.SUK02 – Insurance
- PPIQ.SUK03 – Services to finance and insurance
- PPIQ.SUL02 – Ownership of owner-occupied dwellings

There have also been redevelopments within the business services index (PPIQ.SUL04):

- Computer services
- Other business services

For more information please see the technical notes section of this release.

For technical information contact:

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Wellington 04 931 4600

Email: info@stats.govt.nz

Next release ...

Producers Price Index: December 2008 quarter will be released on
16 February 2009.

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 input indexes. The assumption is made that those involved in activities in these industries are 'registered persons, or businesses' that 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 the 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 goods or a service.

Government charges are excluded when they are used to raise tax revenue rather than the payment for goods or a 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.)

The Farm Expenses Price Index is now produced for the March quarter of each year only.

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.

Data quality

All care has been used in the surveying, processing, analysing and extracting of data for the Producers Price Index. However, all data are subject to possible statistical uncertainty. These variations may result, for example, from uncertainty introduced during non-response imputation, reporting difficulties for respondents, or errors made during processing survey results.

Statistics New Zealand adopts procedures to detect and minimise avoidable variation and eliminate errors, but they may still occur and they are not quantifiable. At higher levels of aggregations, much of the individual variability often cancels out. The PPI data have been checked for the published indexes, and also for underlying indexes, to identify any remaining uncertainty and detectable errors. These are corrected or re-estimated, where possible.

Ongoing work to redevelop, reweight and enhance price indexes has the potential to change the underlying indexes. Accordingly, these data may be subject to revisions in the future.

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

Price index development

The following is a detailed analysis of the output indexes affected by redevelopments that took place in the September 2008 quarter.

Fishing

The index in this publication that is affected by the changes is:

PPIQ.SUA07 – Fishing

Information used to redevelop this index comes from the Annual Enterprise Survey and companies involved in the industry.

The only significant change since the industry was last redeveloped in 1997 has been a decrease in live, fresh or chilled fish that is sold, and a similar level of increase in prepared and preserved fish. This is likely to have occurred through a combination of classification and distinction differences between the 1997 redevelopment and now, and also through the decreased volumes of unprocessed fish that are now sold.

Output Commodity Weights for the Fishing Industry <i>June 2008 quarter</i>	
Commodity	Weight (%)
Prepared and preserved fish	69.44
Fish: live, fresh or chilled	13.27
Crustaceans, not frozen; oysters; other aquatic invertebrates: live, fresh or chilled	11.94
Fishing services	2.58
Other	2.77

The 'other' group includes commodities such as non-financial intangible assets (ie fishing quota leases); and management consultant services.

Finance and insurance

The indexes in this publication that are affected by the changes are:

- PPIQ.SUK – Finance and insurance
- PPIQ.SUK01 – Finance
- PPIQ.SUK02 – Insurance
- PPIQ.SUK03 – Services to finance and insurance

Information used to redevelop this index comes from the Annual Enterprise Survey and companies involved in the industry.

Output Commodity Weights for the Finance and Insurance Industries <i>June 2008 quarter</i>	
Commodity	Weight(%)
Financial intermediation services indirectly measured	46.81
Life insurance	8.46
Insurance and pension services	6.67
Commercial rent/office lease	6.36
Other property insurance services	5.04
Other	26.65

The 'other' group includes income earned from motor vehicle insurance, credit granting services, deposit services, health insurance, general liability insurance services, management fees, financial leasing services, portfolio management services, investment banking, securities brokerage and processing, other non-life insurance services, trust services and accident insurance.

Ownership of owner-occupied dwellings

The L02 ownership of owner-occupied dwellings output index has been redeveloped, with effect from the September 2008 quarter.

This affects index PPIQ.SUL02.

The ownership of owner-occupied dwellings index covers households which own their own homes, and which notionally rent them back to themselves. The index is therefore a notional index.

The changes made as a result of the redevelopment relate to reweighting only, based on the 2006 Census data. The representative commodities used for this index were reweighted to account for the increase in the number of rental properties in the three main centres (Auckland, Wellington and Christchurch) compared with the rest of the country; and to also account for increases in the numbers of one and two-bedroom rentals compared with three plus bedroom rentals.

There have been no changes in the output commodity weights since it was last redeveloped in 1997 because owner-occupied dwellings remain the only output.

Computer services

The index in this publication that is affected by the changes is:

PPIQ.SUL04 – Business services

Information used to redevelop this index comes from the Annual Enterprise Survey, the Information Communication Technology Survey and companies involved in the industry.

The most significant changes since the industry was last redeveloped in 1997 have been the decrease in the demand for data processing services, and the growth in software maintenance and database services. These reflect changes in the organisation of business processes as well as the development and uptake of new technologies.

Output Commodity Weights for Computer Services <i>June 2008 quarter</i>	
Commodity	Weight (%)
Computer hardware maintenance and repair	28.27
Software maintenance	28.27
Computer consultancy	23.24
Database services	14.24
Recorded media	3.67
Other	2.33

Other business services

The PPI output index for other business services has been redeveloped, and takes effect from the September 2008 quarter. The index in this publication that is affected by the changes is as follows:

PPIQ.SUL04 – Business services

Information used to redevelop this index comes from the Annual Enterprise Survey and companies involved in the industry.

The most significant changes since the industry was last redeveloped in 1997 have been the increase in the demand for employment placement services, and the growth in other business activities such as call centre outsourcing services.

Output Commodity Weights for Other Business Services <i>June 2008 quarter</i>	
Commodity	Weight (%)
Management consultant services	21.46
Advertising services	20.18
Other business services	17.68
Placement and supply services of personnel	14.37
Building-cleaning services	7.95
Investigation and security services	7.66
Other royalties (including copyrights, patents and brands)	3.53
Market research and public opinion polling services	1.61
Other	5.55

For further information on the redevelopment, please contact Patricia Jennings at info@stats.govt.nz.

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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Tables

The following tables are printed with this Hot Off The Press and can also be downloaded from the Statistics New Zealand website in Excel format. If you do not have access to Excel, you may use the [Excel file viewer](#) to view, print and export the contents of the file.

1. Producers Price Index, outputs – index numbers
2. Producers Price Index, inputs – index numbers
3. Producers Price Index, outputs, percentage change from previous quarter
4. Producers Price Index, inputs, percentage change from previous quarter
5. Producers Price Index, outputs – selected industries
6. Producers Price Index, inputs – selected industries
7. Producers Price Index, selected commodities – index numbers and percentage changes