



Firming Up

Confidence abounds within the National Bank *Business Outlook* survey. A net 50 percent of respondents expect better times over the year ahead. This takes confidence back to levels seen in February. When we look at the sectoral mix, there is a pretty consistent picture: firms' assessment towards the general economy is extremely perky. Even the agriculture sector has recorded an improvement in business confidence in the month despite the drought, though the level continues to lag those of the other sectors.

We continue to pay close attention to firms' own activity expectations – a key lead barometer that tracks economic growth. Perkinness towards the general economy is spilling over into firms' assessment towards their own business, with a net 43 percent of respondents expecting better times ahead. This is the highest level for the own activity reading since May 1999 and reverses the lull seen in March.

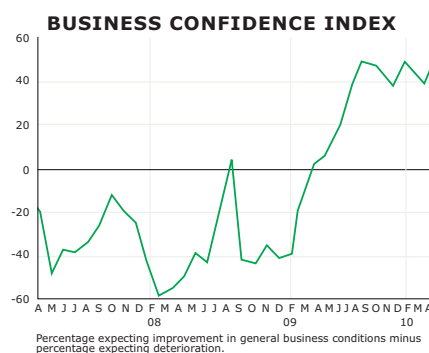
Importantly, the improvement is pretty well across all sectors. Despite still low levels of building consent issuance and the likelihood of private commercial construction activity slowing, the construction sector recorded not only the largest monthly increase in their own activity outlook, but also has the highest level.

The positive expectations towards their own businesses look to be spilling over into other survey indicators.

- Profit expectations are up 7 percentage points to a net 26 percent expecting higher profits over the year ahead – a level not seen since May 1999.
- A net 13 percent expect to be hiring staff over the year ahead – a jump of four points on last month. This is the highest reading since February 2005.
- A net 10 percent of businesses expect to be investing more. This is up only marginally on the month prior but the trend has been improving for a year.

- Export intentions have risen to its highest level since September 2007. A net 35 percent expect stronger export volumes over the year ahead, an improvement of 10 percentage points.

Our composite growth indicator from the survey continues to strengthen. It is now signalling year-on-year growth of 5 percent over the coming year.



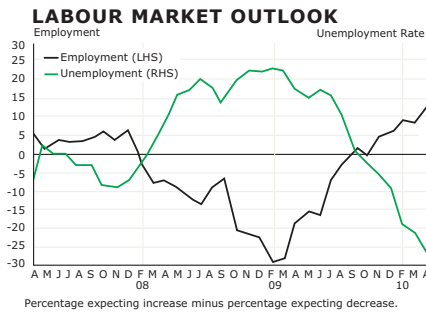
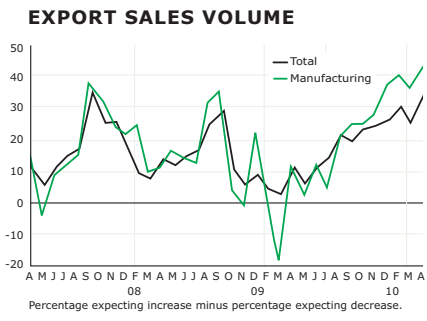
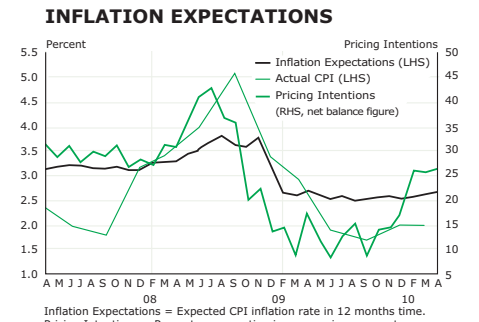
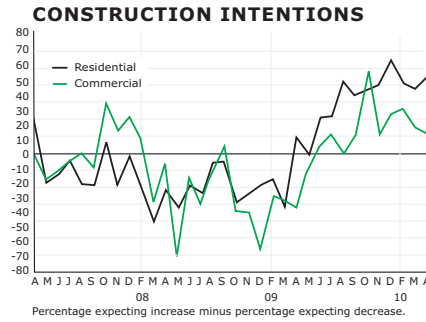
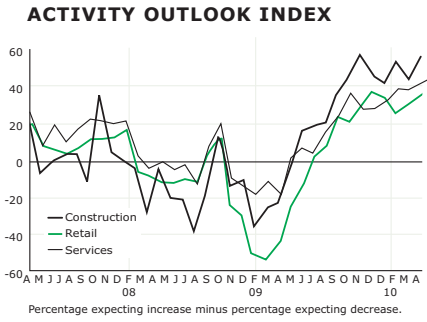
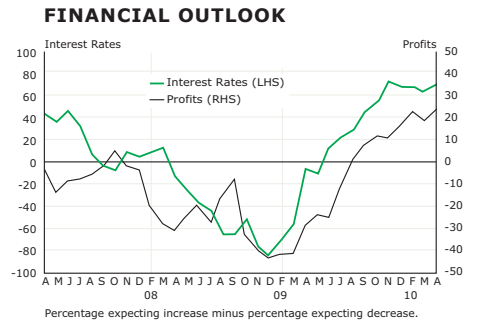
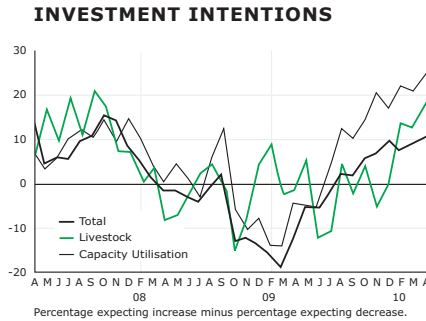
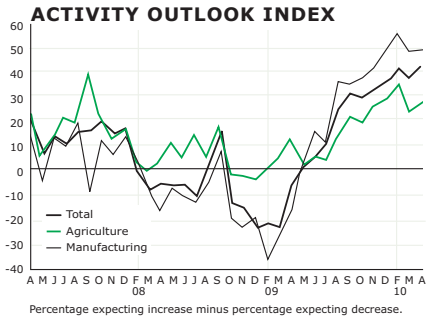
If there is an element of caution that must accompany stronger economic prospects, it is the outlook for inflation. The latest CPI data point to inflation remaining contained. But inflation expectations rose marginally and pricing intentions in our survey continue to nudge up. A net 26 percent expect to be increasing prices over the year ahead. This is up only marginally on March and is not at a level that brings inflation tremors. Yet the trend remains up, particularly in the service sector which tends to be a sticky type of inflation dynamic. Based on the service sector pricing intentions reading, non-tradable ex-housing inflation look set to rise from the current 2.2 percent level towards close to 4 percent by the end of the year.

For the first time since March 2001, more respondents expect the unemployment rate to fall than rise. With this also comes stronger expectation that interest rates will rise, with a net 72 percent expecting higher interest rates over the year ahead.

That firms' assessment towards their own business and their wider outlook continues to improve despite expectations of higher interest rates is comforting.

Slowly but surely the economic recovery is firming - or what seems to be accelerating. The survey is flagging the potential for a typical strong pro-cyclical upswing in momentum, with the possibility of 4 to 5 percent growth in the year ahead. At this stage, investment intentions are lagging the pick-up in firms' own activity expectations. But there is no doubting the improving trend. We take particular heart from the rising trajectory for profits. Now we know 2009 was a poor year on the profits front (the amount of company tax paid was down 12 percent on 2008, after adjusting for changes to the company tax rate) so the uplift is somewhat of a bungee cord dynamic at play. But if expectations reading is maintained and matched by reality, then increased hiring and investment will naturally follow. In fact we already seem to be seeing this occurring across some listed companies. If it continues and small-to-medium sized enterprises follow, then the "statistical" recovery that started in mid 2009 will have some real legs.

SURVEY RESULTS	TOTAL PREVIOUS MONTH	
April 2010	MONTH	
Business Confidence	49.5	42.5
Activity Outlook	43.0	38.6
Exports	34.5	24.9
Investment	10.2	9.3
Livestock	17.6	12.5
Capacity Utilisation	24.5	20.9
Residential Construction	50.0	42.8
Commercial Construction	12.9	17.5
Employment	13.4	8.7
Unemployment Rate	-4.1	6.1
Profits	26.1	19.2
Interest Rates	71.8	64.5
Pricing Intentions	26.4	25.5
Ease of Credit	8.7	2.0
Inflation Expectations	2.67	2.64



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The Bank (in respect of itself and its principal officers) makes the following investment adviser disclosure to you pursuant to section 41A of the Securities Markets Act 1988.

The Bank (in respect of itself and its principal officers) makes the following investment broker disclosure to you pursuant to section 41G of the Securities Markets Act 1988.

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The Bank is a registered bank and, through its staff, is experienced in providing investment advice about its own securities and, where applicable, the securities of other issuers. The Bank has been selling securities, and providing investment advice on those securities, to customers as a core part of its business for many years, drawing on the extensive research undertaken by the Bank and its related companies and the skills of specialised staff employed by the Bank. The Bank is represented on many bank, finance and investment related organisations and keeps abreast of relevant issues by running seminars and workshops for relevant staff and having its investment adviser staff attend external seminars where appropriate. The Bank subscribes to relevant industry publications and, where appropriate, its investment advisers will monitor the financial markets.

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The Bank is a member of the following professional bodies relevant to the provision of investment advice:

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- Associate Member of Investment Savings & Insurance Association of NZ;
- Financial Markets Operations Association; and
- Institute of Finance Professionals.

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The Bank (and its subsidiaries), through its ultimate parent company Australia and New Zealand Banking Group Limited, has professional indemnity insurance which covers its activities including those of investment advisers it employs.

This insurance covers issues (including 'prior acts') arising from staff fraud, electronic crime, documentary fraud and physical loss of property. The scope of the insurance also extends to third party civil claims, including those for negligence. The level of cover is of an amount commensurate with the size and scale of the Bank.

The insurer is ANZcover Insurance Pty Limited.

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- Adjudicated bankrupt;
- Prohibited by an Act or by a court from taking part in the management of a company or a business;
- Subject of an adverse finding by a court in a proceeding that has been taken against them in their professional capacity;
- Expelled from or has been prohibited from being a member of a professional body; or
- Placed in statutory management or receivership.

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At the time of providing this disclosure statement it is not practicable to provide accurate disclosure of the fees payable for all securities that may be advised on. However, this information will be disclosed to you should you seek advice from one of the Bank's investment advisers on a specific investment.

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When a security is sold by the Bank, the Bank may receive a commission, either from the issuer of a security or from an associated person of the Bank. Whether that commission is received and, if received, its value depends on the security sold. At the time of providing this disclosure statement it is not practicable to provide a detailed list of each security that may be advised on, the name of the issuer of that security and the rate of the commission received by the Bank. However, this information will be disclosed to you should you seek advice from one of the Bank's investment advisers on a specific investment.

In addition to the interest that the Bank has in products of which it is the issuer, the Bank, or an associated person of the Bank, has the following interests or relationships that a reasonable person would find reasonably likely to influence the Bank in providing the investment advice on the securities listed below:

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The Bank provides investment advice on the following types of securities:

- Debt securities including term and call deposits, government stock, local authority stock, State-Owned Enterprise bonds, Kiwi bonds and corporate bonds and notes;
- Equity securities such as listed and unlisted shares;
- New Zealand and overseas unit trusts;
- Share in a limited partnership;
- Superannuation schemes and bonds;
- Group investment funds;
- Life insurance products;
- Derivative products including interest rate and currency forward rate contracts and options; and
- Other forms of security, such as participatory securities.

PROCEDURES FOR DEALING WITH INVESTMENT MONEY OR INVESTMENT PROPERTY

If you wish to pay investment money to the Bank you can do this in several ways such as by:

- Providing cash;
- Providing a cheque payable to the relevant product or service provider and crossed 'not transferable'; or
- Making an automatic payment or payment through another electronic delivery mechanism operated by the Bank.

Investment property (other than money) may be delivered to the Bank by lodging the relevant property (for example, share certificates) with any branch of the Bank offering a safe custody service, or by posting (using registered post) the documents or other property to a branch of the Bank, identifying your name, account number and investment purpose. Any investment money lodged with the Bank for the purchase of securities offered by the Bank, its subsidiaries or any third parties will be deposited in accordance with your instructions, to your nominated account or investment. Such money will be held by the Bank according to usual banking terms and conditions applying to that account or the particular terms and

conditions relating to the investment and will not be held by the Bank on trust unless explicitly accepted by the Bank on those terms. Any investment money or property accepted by the Bank on trust will be so held until disbursed in accordance with your instructions. Any investment property lodged with the Bank will be held by the Bank as bailee according to the Bank's standard terms and conditions for holding your property.

Record Keeping

The Bank will keep adequate records of the deposit of investment moneys or property and all withdrawals and dealings with such money or property, using the account/investment number allocated to your investment. You may have access to those records upon request.

Auditing

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PO Box 540 Wellington 6140
Phone: +64 4 802 2361
Fax: +64 4 473 4928
Email: economic@bnbz.co.nz
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