



## A trot to a walk

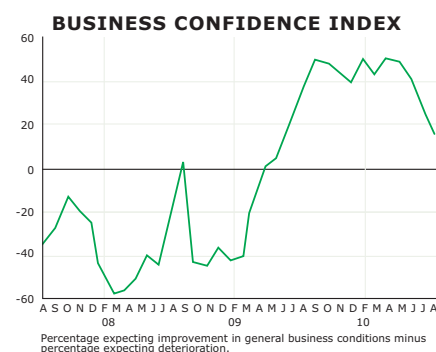
After recovering in the first half of 2010, the economic patient is showing signs of regressing. Business confidence continues to ebb lower. A net 16 percent of respondents still expect general business conditions to improve in 12 month's time, but this is down 12 points on the month prior. The good news is that confidence is still in positive territory. The bad news is that confidence is down 34 points from the peak reached in February and an easing trend has been apparent for four months.

We've referred to the last few months as seeing momentum wane from a gallop to a canter to a trot. The risk is building that we take a further step down to a mere walk.

Firms' own activity expectations also continue to soften, albeit from healthy levels. A net 26 percent of businesses expect better times for their own business over the year ahead, down 6 points from last month. This takes firms' activity expectations to broadly "average" levels, which a glass-half full description would describe as still respectable. But a glass half-empty view would take it as somewhat disconcerting to see firms' own activity expectations recede (or level out) so early in the recovery process. We say early in the recovery process because while the economy is into its second year of expansion, we have only recovered three quarters of the output loss during the recession - and that is assuming a robust 0.7 percent expansion in the third quarter!

All surveyed measures softened in the month. Profit expectations were down 5 points. A net 4 percent expect to be making more money over the year ahead, compared to a long-run average of 7. A net 4 percent expect to be hiring staff over the year ahead, below its long-run average of 6, and down 4 points on the month prior. A net 3 percent of firms expect to be investing more in the coming year, down 2 points from last month and compared to a long-run average of plus 12. Investment intentions are now negative for two of the five major subgroups (agriculture and construction) and flat for services.

When we roll the collated movements into our composite growth indicator, it is flagging year-on-year growth of around 3 percent by early next year. Respectable, but hardly stellar going by the standards of past recovery periods following recessions.



Export intentions bucked the easing trend. A net 31 percent of businesses expect to be exporting more over the year ahead. This is encouraging on two levels. First, improved export performance is critical in giving some spine and backbone to growth. No longer can NZ.Inc rely on the "borrow and spend" dynamic of old, under the veil of better income generation in the future. Today's consumption must be increasingly determined by today's income. We appear on the right track. Second, despite global wobbles, exporters continue to plough ahead, a dynamic that no doubt reflects the increasing diversification of our export base. Two decades ago, almost 35 percent of our merchandise exports went to the United States and Europe. Now, Asia and Australia take nearly two-thirds (63 percent), and their performance is a far cry from Yanky doodle / Europe et al, whom no longer looks so dandy and hit an all-time low, taking only 21 percent of our merchandise exports.

Pricing intentions barely budged in the month. A net 32 percent of businesses expect to be raising prices over the year ahead. Firming pricing intentions in retailing and manufacturing were offset by anticipated declines in construction and the service industry. At current levels, pricing intentions are consistent with 4 percent inflation, a relatively demure picture considering the anticipated boost

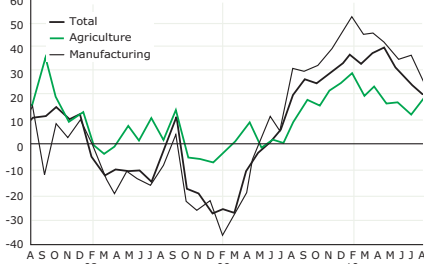
to inflation courtesy of GST and other one-offs in the second half of 2010.

Amongst the hurly-burly of economic developments, there are a host of possible cadavers and so-called fundamentals or *scumdamentals* that are driving confidence. Businesses have a right to feel cautious. We have the reality to contend with, which is that you don't get out of a financial crisis in 18 months. There is the temptation for pessimism to sink in when equity market sentiment is weak. However, equity markets' correlation with lead indicators looks somewhat of a blind leading the blind exercise. At the other extreme we still have semblances of optimism: a lot are simply getting on with business.

Right now we have an economy that appears to be settling into a moderate expansion phase, albeit with clear risks. There's growth all right, but it doesn't feel like it for a lot of folks. Such is the base-effect reality of recovering from lows. On top of that we have an economy embarking in deep-rooted structural change that involves massive portfolio and resource reallocation as the economy shifts from being spending centric to one of being more earnings (i.e. export) driven. Resources (labour and capital) take time to mobilise. The term "this time is different" insofar as describing recoveries is typically a grave-yard for economists. But things have shifted and are certainly pointed that way at present.

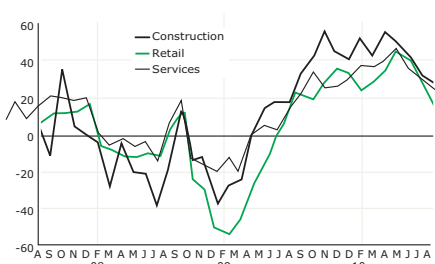
SURVEY RESULTS	TOTAL PREVIOUS	
	August 2010	MONTH
Business Confidence	16.4	27.9
Activity Outlook	25.7	32.4
Exports	31.3	28.8
Investment	3.1	4.8
Livestock	9.5	4.2
Capacity Utilisation	21.1	19.3
Residential Construction	-10.5	10.0
Commercial Construction	12.2	6.1
Employment	4.3	8.3
Unemployment Rate	8.5	3.5
Profits	3.6	9.4
Interest Rates	76.0	83.1
Pricing Intentions	31.7	31.4
Ease of Credit	-3.9	-3.4
Inflation Expectations	3.08	3.17

**ACTIVITY OUTLOOK INDEX**



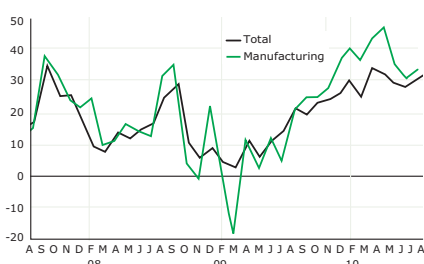
Percentage expecting increase minus percentage expecting decrease.

**ACTIVITY OUTLOOK INDEX**



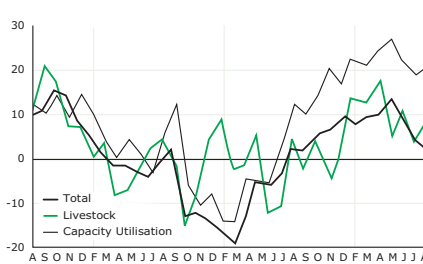
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**EXPORT SALES VOLUME**



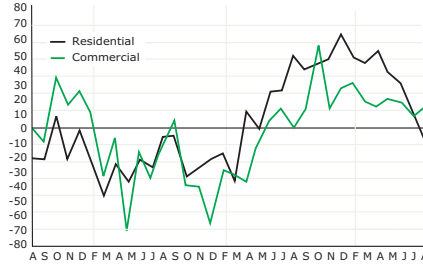
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**INVESTMENT INTENTIONS**



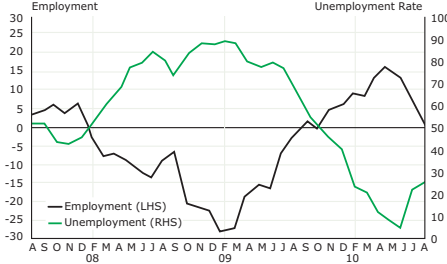
Percentage expecting increase minus percentage expecting decrease.

**CONSTRUCTION INTENTIONS**



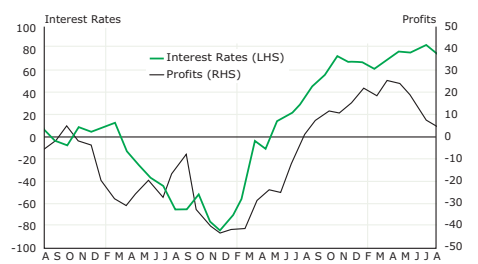
Percentage expecting increase minus percentage expecting decrease.

**LABOUR MARKET OUTLOOK**



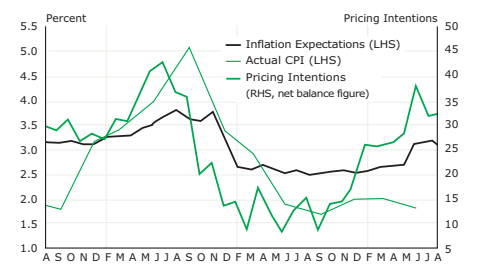
Percentage expecting increase minus percentage expecting decrease.

**FINANCIAL OUTLOOK**



Percentage expecting increase minus percentage expecting decrease.

**INFLATION EXPECTATIONS**



Inflation Expectations = Expected CPI inflation rate in 12 months time. Pricing Intentions = Percentage expecting increase minus percentage expecting decrease.

**DISCLOSURE INFORMATION**

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.

**Qualifications, experience and professional standing**

**Experience**

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.

**Relevant professional body**

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

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

**Professional indemnity insurance**

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.

**Dispute resolution facilities**

The Bank has a process in place for resolving disputes. Should a problem arise, you can contact any branch of the Bank for more information on the Bank's procedures or refer to any of the Bank's websites.

Unresolved complaints may ultimately be referred to the Banking Ombudsman, whose contact address is PO Box 10-573, Wellington.

**Criminal convictions**

In the five years before the relevant investment advice is given none of the Bank (in its capacity as an investment adviser and where applicable an investment broker) or any principal officer of the Bank has been:

- Convicted of an offence under the Securities Markets Act 1988, or the Securities Act 1978 or of a crime involving dishonesty (as defined in section 2(1) of the Crimes Act 1961);
- A principal officer of a body corporate when that body corporate committed any of the offences or crimes involving dishonesty as described above;
- 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 any 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.

**Fees**

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.

**Other interests and relationships**

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:

- ANZ Investment Services (New Zealand) Limited (ANZIS), as a wholly owned subsidiary of the Bank, is an associated person of the Bank. ANZIS may receive remuneration from a third party relating to a security sold by the Investment Adviser.
- UDC Finance Limited (UDC), as a wholly owned subsidiary of the Bank, is an associated person of the Bank. UDC may receive remuneration from a third party relating to a security sold by the Investment Adviser.
- The Bank has a joint venture relationship with ING (NZ) Holdings Limited (ING). ING and its related companies may receive remuneration from a third party relating to a security sold by the Investment Adviser.

**Securities about which investment advice is given**

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**

The Bank's systems and operations are internally audited on a regular basis. The financial statements of the Bank and its subsidiaries are audited annually by KPMG. However, this does not involve an external audit of the receipt, holding and disbursement of the money and other property.

**Use of Money and Property**

Money or property held by the Bank for a specific purpose communicated to the Bank (e.g. the purchase of an interest in a security) may not be used by the Bank for its own purposes and will be applied for your stated purpose. No member of the Bank's staff may use any money or property deposited with the Bank, for their own purposes or for the benefit of any other person. In the absence of such instructions, money deposited with the Bank may be used by the Bank for its own purposes, provided it repays the money to you upon demand (or where applicable, on maturity), together with interest, where payable.

**DISCLAIMER**

The Bank does not provide investment advice tailored to an investor's personal circumstances. It is the investor's responsibility to understand the nature of the security subscribed for, and the risks associated with that security. To the maximum extent permitted by law, the Bank excludes liability for, and shall not be responsible for, any loss suffered by the investor resulting from the Bank's investment advice.

Each security (including the principal, interest or other returns of any security) the subject of investment advice given to the investor by the Bank or otherwise, is not guaranteed, secured or underwritten in any way by the Bank or any associated or related party except to the extent expressly agreed in the terms of the relevant security.

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