

PERSPECTIVE

THE NATIONAL BANK CORPORATE AND COMMERCIAL BANKING



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ECONOMIC OUTLOOK: BRACE FOR A ROUGH RIDE

BY CAMERON BAGRIE, THE NATIONAL BANK'S CHIEF ECONOMIST

AS FAR AS NEW ZEALAND IS CONCERNED, WE ARE FACING AN UNPALATABLE TRIFECTA OF GLOBAL RECESSION, HEAVY RELIANCE ON OFFSHORE CAPITAL AND THE NEED FOR HOUSEHOLDS TO DE-LEVERAGE THEIR BALANCE SHEETS.

It all stems from the changes in the global environment, and the key issue is not whether New Zealand will be impacted, rather by what degree.

In the first instance we need to appreciate that the world has changed – significantly. Borrowers held the upper hand over the preceding decade. The pendulum has swung from borrowers to investors. Around the globe, investors are now spoilt for choice in terms of where to put their cash, and capital is scarce. For business, this means greater attention to traditional fundamentals including cashflow, yield, and doing the basics well.

To fully understand the scale of change, ask yourself a simple question. Following collapses across a number of finance companies in New Zealand, how long do you think it will take before we are back to the way things were? By this we mean warts and all: mispriced risk (mum and dads investing money for a marginal rate above banks), speculative land banking galore, 80-plus companies in the sector and some questionable behaviour (no disrespect to the good players). Three, five, ten years? Never? Hard to see it not being a very long time, and once you appreciate this, start to think about the scale of what has happened around the globe across the financial system, and response from investors. The similarities are endless.

We are now in the midst of the deepest and most pronounced global recession we have seen in more than 30 years. New Zealand will not be immune and for business owners, the real consequences are likely to linger for some time. What's ahead? There are several conditions to watch:

Do not underestimate the significance of New Zealand's current account rebalancing process. Even prior to the current global malaise, the unbalanced nature of growth (too much



spending, not enough earning) always meant we were set for an "adjustment" at some stage. Current world conditions are merely fostering a sharper, less orderly adjustment. A lower currency will be a key part of the rebalancing process.

The credit channel of monetary policy will play a huge role. The credit channel has been hugely influential in determining asset valuations on the way up. The prior cycle was driven by the supply of money as opposed to the price, notably from offshore, and New Zealand was a key beneficiary. This makes the global process of de-leveraging all the more important for our prospects.

Beyond the financial crisis, this is a household story. It is household balance sheets that are in need of repair. This is a fundamental distinction from previous credit cycles, which have tended to be business centric. Household de-leveraging is a process that will take time, particularly in light of rising unemployment.

The next leg of the cycle: productivity and jobs. A tougher economic environment is now resulting in job losses. While this will set off 'round two' for domestic sectors such as retailing and housing, it does bring some positives in that its by-product is better productivity, and productivity growth is a necessary condition

for a turn in the business cycle and sustained stronger economic performance.

The alphabet of recoveries: a BIG U. 2009 will be a challenging year, and that's putting things optimistically. However, we need to recognise that the seeds of recovery are being sown, although we need to see improvements in structural areas such as productivity before an upturn will take hold. Policymakers are working aggressively to stabilise conditions. History has shown that the deeper the correction the bigger the bounce, and we expect this cycle to be no different.

On the positive side, this environment should present opportunities for consolidation and building scale. We should not lose sight of New Zealand's long-term prospects, which courtesy of Asia look better than they did in the decade prior. In the current environment it is still a question of concentrating on the basics: relationships; identifying areas of comparative advantage; driving productivity growth. If there is a bright side to current developments, it's that times of stress cause changes to be put in action. And we are clearly seeing signs of that already, which we believe (despite a deep hole in 2009) will form the foundation to a stronger future.

RESILIENCE IN A CHANGING MARKET

SOME OWNERS AND MANAGERS ARE LAYING PLANS TO SURVIVE AND PROSPER IN THIS MARKET, BY PUTTING SYSTEMS IN PLACE AND BUILDING STRONG TEAMS. YOU TOO CAN BUILD A PLATFORM FOR SUCCESS IN THESE STORMY TIMES.

The sharply changing marketing conditions are naturally THE topic of the moment, while conversations are typically starting with "How are you coping?" and "What are you doing?". From our perspective, we are seeing some companies whose focus is purely on controlling their day-to-day activities, while others are experiencing rapid growth in new markets or sectors. The impacts are by no means the same for all businesses.

Many customers are asking what tips we have for them in managing through this turbulent market. Here's what we suggest:

- There is great experience in the New Zealand business community – people who have experienced conditions akin to these in the past. Previous owners or managers could provide tips or insights. If you don't have access to such people, why not get involved with a mentor, or join in our 'advisory' forums.
- Confront the brutal facts now – there is no room for complacency in these conditions.
- You need access to those facts – make sure you have strong financial systems in place, as these are critical to management.
- Identify the easiest 10 percent of costs to take out of your business – and do so.
- Love your customers, now more than ever, and do what you can to encourage them to protect their revenue streams.
- Seek efficiencies in your supply chain; do what you can to speed payments in and to seek more advantageous terms with suppliers.
- Be nimble. Can fixed costs be moved to variable? Consider your options.
- Have people around you that you can depend on.
- Boards of directors are there to make the hard calls and add value. There aren't many successful companies out there without Boards. If you don't have a Board or access to independent advice, now is the time to address that.
- Assets are re-pricing. There could be opportunities to gain through astute purchases, so keep an eye out.
- Be open to opportunities. It's a cliché – but do think outside that square.
- Communicate regularly with your banker – even over-communicate! These are extraordinary times, and it's times like these when good relationships come into their own.

Please contact your National Bank Relationship Manager for further insight.

INTRODUCING – COMMERCIAL BANKING WAIKATO

WITH OVER 160 YEARS EXPERIENCE IN THE BANKING INDUSTRY OUR COMMERCIAL BANKING TEAM IN WAIKATO IS FOCUSED ON RELATIONSHIPS.

"We're committed to assisting New Zealanders succeed in their business," says Keith Goddard, Regional Manager Commercial Banking Waikato. "Our team of Relationship Managers work together with our product specialists in cash management and foreign exchange to build strong relationships with clients, and offer them a serious commitment to service."

"Staffing has been very stable over the past couple of years and with the right mix of youth and experience, we are in good shape moving into 2009."

"We're adopting a proactive stance to the market conditions at the moment. We're maintaining regular contact with our customers and having in-depth conversations to ensure we understand their business and what's affecting them. We need to know what they are experiencing. It's all about those financial risks, and being able to manage them."

Unique to the Waikato is the extent of the dairy and agricultural sector, which remains the backbone of the Regional economy. Many of

the businesses that the Waikato Commercial Banking team deal with are directly or indirectly involved in producing or providing services for this sector. Waikato's Relationship Managers maintain close contact with their own rural colleagues and industry professionals to ensure that they keep up-to-speed with the industry changes.

KEITH GODDARD
Regional Manager Commercial Banking Waikato
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Left to right: Hamish Booth, Karen Kiernan, Lyn Steenstra, David Berkers, Duncan Pitcaithly, Keith Goddard, Jared Eyes, Kristie van der Molen, Ken Edge, Gary Brodie.

THRIVING IN PRINT

AT PRESENT FEW WOULD BE BOLD ENOUGH TO PULL OUT THE CHEQUEBOOK FOR A BIG PURCHASE. BUT FAR FROM BEING COWED BY PREVAILING SENTIMENT, HAMILTON-BASED PRINT HOUSE LIMITED IS SUFFICIENTLY CONFIDENT IN ITS OWN FUTURE TO MAKE A SIGNIFICANT INVESTMENT IN NEW PRINTING EQUIPMENT.



Print House CEO Brett Phillips keeps an eye on quality with The National Bank's Keith Goddard and Jared Eyes.

"We take a fairly conservative approach to operating the business, especially in regard to cash. But there also has to be an eye on the opportunities," says Chief Executive Officer Brett Phillips.

"New equipment will make the business more efficient and The National Bank has supported us in this."

Print House's commitment to providing solutions that make its clients look good is positioning it above the fall out affecting other sectors, though growth has slowed in the last six months and may steady this year.

"In the 25 years I've been involved in this business, we have typically grown by five to ten percent per annum, broken only by events such as the 1987 crash, the Asian crisis and dot.com bomb."

While Print House monitors several key performance indicators, significantly there has been little change in two key factors, the number of quotes prepared and the ratio accepted.

"Some customers are looking to tighten their budgets and some see print as a necessary evil, while others see the need to increase promotions to maintain market share. Either way the aim is to offer clients options that are

mutually agreeable and ensure we continue to produce their work," Mr Phillips says.

Nationwide, the printing industry is highly competitive with total installed capacity far exceeding client demand. Technological advances and customer expectations also create a need for ongoing investment. Understanding the market is essential.

Print House has taken on those demands by developing its own management information system software to monitor every aspect of the business and identify potential efficiency gains. Accurate information, at the touch of a button, has improved all aspects of the business.

Long term relationships with clients and others is another key component of Print House's business model and extend to include its banker, The National Bank.

"We have always had an open book policy with The National Bank. They have been very supportive and if there are any problems with what we are doing we talk about it straight away. To date I don't remember any issues arising at all."

Sustainable business

Print House has extended its commitment to excellence to become one of a few players in the industry to be awarded 'Chain of Custody'

certification from two global organisations, The Forest Stewardship Council, and The Programme for the Endorsement of Forest Certification. These audited programmes require wood-based products such as paper to be sourced from sustainable and well managed forests.

In the United States and Europe certification is often a prerequisite for print suppliers. Print House expects it to become more common in New Zealand over the next few years as the move to sustainable practices becomes entrenched. Print House is also gaining Enviromark accreditation, a New Zealand waste management standard, that encourages the use of vegetable inks and waste minimisation practices that are often beneficial for the bottom line.

"We need to educate our clients. We are creating options so they can make the choice. Taking the right steps towards making a difference is the key."

Effective governance

Commercial Banking Relationship Manager at The National Bank, Jared Eyes, says the internal reporting systems and governance Print House has in place are second to none.

The commitment to excellence at Print House starts at the top with the Board. For nine years Print House has had an independent director whose marketing and business background complement the printing industry skills of the other Board members.

"Solutions he has suggested based on his experience have saved us thousands and at the same time his marketing concepts have helped cement business relationships," Brett Phillips says.

Succession planning has long been part of Print House's practice. Brett Phillips bought into the company as a young manager. Now the General Manager and Operations Manager have taken similar steps.

"Sustainability must cover all aspects of our business, not just the environmental issues. We believe a commitment to excellence in all aspects of the business positions us to meet whatever challenges the future holds," Brett Phillips says.



Graham Turley

**INTRODUCING GRAHAM TURLEY,
MANAGING DIRECTOR COMMERCIAL**
Graham leads the Corporate and Commercial Banking business in New Zealand representing teams that focus on delivering relationship management to customers in the corporate, property finance and commercial sectors.

"Strong relationships are fundamental to banking and are crucial in times of market turbulence. Customers who work closely

with their relationship managers will have an understanding of the opportunities available to fund future growth."

Graham Turley comes to the Managing Director Commercial role with over 20 years experience in corporate finance and debt capital markets.

He has previously led ANZ's Corporate Finance team in New Zealand, responsible for providing corporate and acquisition financing and investment to corporate and institutional customers. Immediately prior to taking up the role of Managing Director Commercial, Graham also led ANZ Group's global ANZ Capital business.

Graham graduated from Massey University with a Bachelor of Business Studies and Diploma of Horticulture (Dist) and is a Chartered Accountant and a member of the Institute of Chartered Accountants of New Zealand.

Nigel Williams, the former Managing Director of Institutional, Corporate & Commercial, is now based in Sydney having taken up the role of Managing Director of Institutional (Australia) for ANZ Group. Nigel Williams retains his position as Deputy Chairman of the NZX Board of Directors, and he will continue to be a member of the Government Capital Markets Taskforce.

WIN A COPY OF OUTLIERS: THE STORY OF SUCCESS

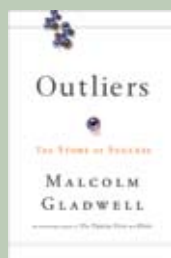
We're interested in your thoughts on the issues we've raised in this issue of Perspective. Drop us a line with your comments, or ideas for other topics you'd like us to cover in future issues.

Two respondents will be drawn at random to receive a copy of Malcolm Gladwell's new book *Outliers: The Story of Success*.

With this book, Malcolm Gladwell asks why some people succeed while so many more fail to reach their potential. In his entertaining and readable

style, he examines the lives of successful outliers from Mozart to Bill Gates for the germs of success. He argues that successful people "rise on a tide of advantages, some deserved, some not, some earned, some just plain lucky."

To enter the draw to win *Outliers: The Story of Success*, email perspective@bnz.co.nz with your comments by 29 May 2009.



THE NATIONAL BANK AND THE NEW ZEALAND RETAIL DEPOSIT GUARANTEE SCHEME

ANZ National Bank Limited has a guarantee under the New Zealand retail deposit guarantee scheme for its call and term deposits. Investor eligibility criteria, a maximum guarantee limit per investor and a 12 October 2010 termination date apply. Full details of the scheme, the conditions and a copy of the deed of guarantee are available, free of charge on www.treasury.govt.nz.



The National Bank
of New Zealand

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