



## The "dilemma"

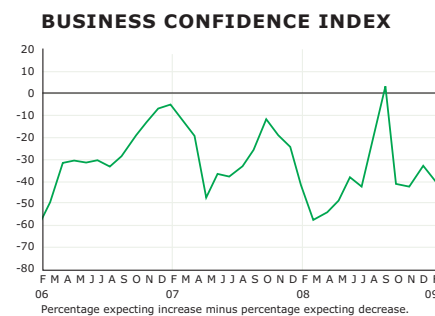
2009 has started how 2008 ended. Businesses remain downbeat. A net 41 percent of businesses expect worse times over the year ahead. This is down 6 percentage points from the final read of 2008.

The messages across the survey remain sombre – a term with perhaps optimistic connotations, given the aggregate picture. Firms' own activity expectations improved a tad, but with a net 20 percent expecting worse times for their own business over the year ahead, the improvement is one of shifting from the worst on record to the second worst. Sentiment within the retail sector remains uniformly pessimistic with a whopping 52 percent expecting worse times ahead for their own business over the coming year.

The mover and shaker in this month's survey is employment intentions. A net 29 percent expect fewer staff over the coming year, a 7 percentage point jump (deterioration) from the end of 2008. With the exception of construction, employment intentions are uniformly worse across all sectors and either at or close to historical lows. Likewise, investment intentions hit a new low, with a net 15 percent expecting to reduce investment over the coming year. These are key supply-side inputs that tell us the downturn has moved beyond firms seeing lower sales, with businesses now having to respond themselves via less productive capacity. That means less investment and fewer jobs.

Across other survey indicators, profit expectations were up (or less negative) by a marginal amount but still perilously low, with a net 41 percent expecting lower profits over the year ahead. Export intentions eased from plus 9 to plus 4. Views towards the unemployment rate have reached a historical high, with 87 percent expecting it to increase. Pricing intentions remain low, supporting continued expectations of interest rate cuts. One-year ahead inflation expectations have eased from 3.2 percent to 2.7 percent, a level not seen since mid-2004.

Against the backdrop of stimulus in the form of aggressive interest rate cuts, a falling currency and fiscal stimulus, it is perhaps disconcerting to see the aggregate message from the survey remain so poor. Indeed, we've had to rescale the chart (again) that shows our composite growth indicator from the survey versus GDP. At current levels, it's consistent with sub -2 percent growth. Ouch! The recession that started in early 2008 has yet to trough, let alone show any signs of recovery.



It's clear that the economy faces deep-rooted challenges. The most significant is from offshore, with the global economy deteriorating by the day, as the ripple effects from the biggest financial crisis in eighty years extends beyond the financial system and into the real economy, spending, investment, and jobs.

Yet, the current downturn is not only a reflection of economic dynamics. It's rapidly becoming a symptom of game theory, as behavioural aspects to the economic cycle take over. No one is doubting the economic challenges ahead and the scale of developments. But there are non-linear and behavioural (animal spirits, bulls, bears, etc.) aspects in every economic cycle.

The most widely referred to example of game theory is the *prisoner's dilemma*. Two suspects are arrested by the police. The police have insufficient evidence to convict. After being separated, both prisoners are offered exactly the same deal. If one testifies (defects) against the other and the other remains silent,

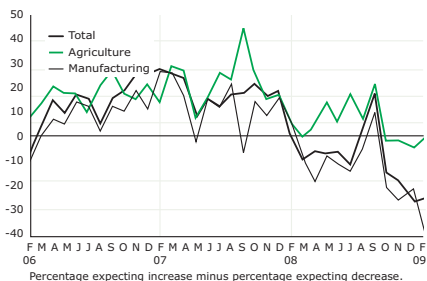
the betrayer goes free but the silent partner in crime receives a 10-year sentence. If both remain silent, both prisoners are sentenced to only six months in jail for a lesser charge. If each informs on the other, each receives a five-year sentence. Both suspects must choose to do-b-in the other or remain silent. How should the prisoners respond?

The "dilemma" faced by the suspects is that, whatever the other does, each is better off confessing than remaining silent. How does that work? If you both co-operate, you (yourself individually) could have done better by defecting and dobbing in your accomplice. If you both defect, it's not pretty, but better than an outcome of staying silent yourself and seeing your accomplice defect. The general principle is that the outcome obtained when both confess is worse for each than the outcome they would have obtained had both remained silent. In such instances the rational choice leads the two players to defect, even though each player would benefit more if they played co-operatively.

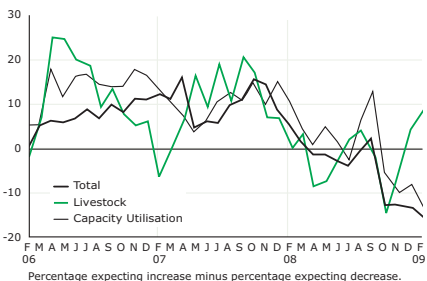
And so it extends to the economy. The rational or optimal solution is for all to hold our breath (co-operate) and ride through the biggest global downturn of our time. Don't pull down the shutters for fear of making it worse. Unfortunately, simple game theory, individual circumstances and human nature suggests otherwise.

SURVEY RESULTS	TOTAL	PREVIOUS MONTH
<b>February 2009</b>		
Business Confidence	-41.2	-35.0
Activity Outlook	-20.1	-21.5
Exports	4.1	8.8
Investment	-15.4	-13.4
Livestock	8.3	4.3
Capacity Utilisation	-13.7	-7.6
Residential Construction	-17.4	-21.4
Commercial Construction	-29.2	-64.7
Employment	-29.1	-22.2
Unemployment Rate	86.9	86.0
Profits	-41.3	-42.9
Interest Rates	-69.0	-82.0
Pricing Intentions	14.8	14.1
Inflation Expectations	2.68	3.15

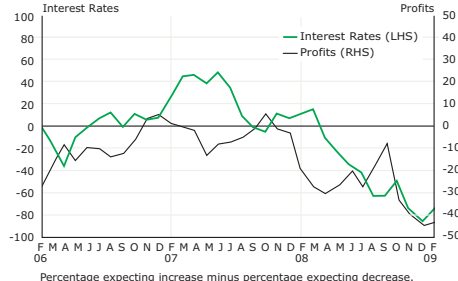
**ACTIVITY OUTLOOK INDEX**



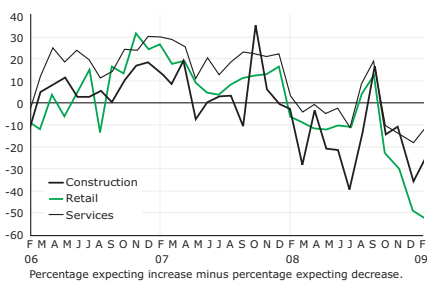
**INVESTMENT INTENTIONS**



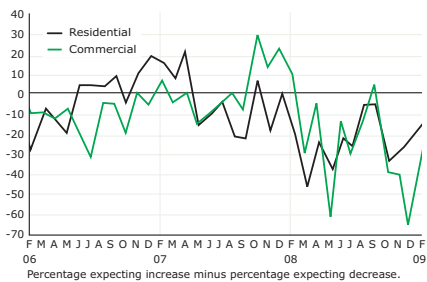
**FINANCIAL OUTLOOK**



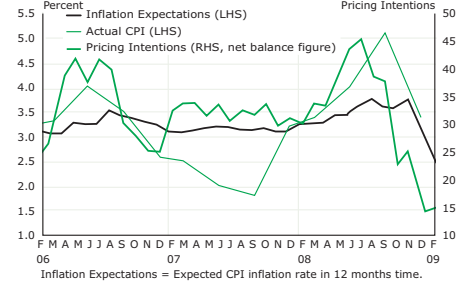
**ACTIVITY OUTLOOK INDEX**



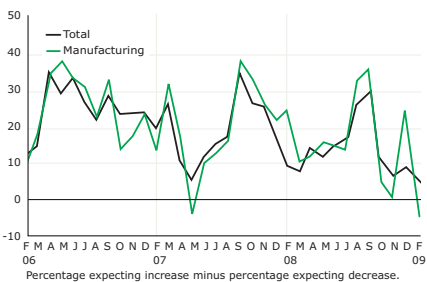
**CONSTRUCTION INTENTIONS**



**INFLATION EXPECTATIONS**



**EXPORT SALES VOLUME**



**LABOUR MARKET OUTLOOK**



**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, or an associated person of the Bank, 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.

This document has been prepared by ANZ National Bank Limited (the "Bank"), is provided for informational purposes only and does not constitute an offer to sell or solicitation to buy any security or other financial instrument. No part of this document can be reproduced, altered, transmitted, copied to or distributed to any other person without the prior express permission of the Bank.

This document is a necessarily brief and general summary of the subjects covered and does not constitute advice. You should obtain professional advice before acting on the basis of any opinions or information contained in it. The information contained in this document is given in good faith, has been derived from sources perceived by it to be reliable and accurate and the Bank shall not be obliged to update any such information after the date of this document. Neither the Bank nor any other person involved in the preparation of this document accepts any liability for any opinions or information (including the accuracy or completeness thereof) contained in it, or for any consequences flowing from its use.



Text finalised 23 February 2009

PO Box 540 Wellington 6140

Phone: +64 4 802 2361

Fax: +64 4 473 4929

Email: [economics@bnz.co.nz](mailto:economics@bnz.co.nz)

You can now receive this report via email, as soon as it's released.

Just visit [www.nationalbank.co.nz/subscribe](http://www.nationalbank.co.nz/subscribe) to register.