



The parachute

Good news – optimists outnumber pessimists. A net 2 percent expect general business conditions to improve over the next 12 months. Confidence was up across all segments.

Importantly, firms' expectations of their own activity clawed back into positive territory. A net 4 percent of firms expect better times ahead, up from -4 percent last month. The construction sector is now the most optimistic, while retailing is the only sector expecting reduced activity.

Most other indicators in the survey also turned marginally for the better. Profit, investment and employment all ticked up. But the dog still has fleas. All remain firmly negative, and below Asian crisis levels. The outlook for profits remains weak, with a net 24 percent expecting a deterioration over the year ahead. This is naturally putting the kibosh on hiring and investing. The labour market outlook is still particularly poor. A net 16 percent of firms expect to hire fewer staff, with hiring expectations now being negative since February 2008. The economy continues to contract, it is just that the rate of descent has slowed.

Exports bucked the general improving trend, slipping slightly in the month. A net 6 percent of firms expect to increase exports in the year ahead. Continued weak global demand and a rising currency (excluding the NZD/AUD) is not a pleasant mix.

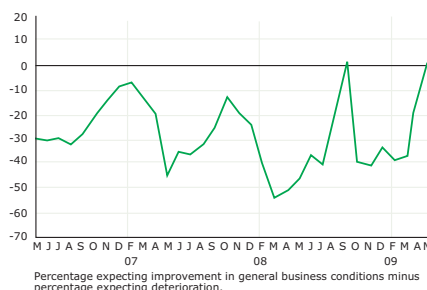
Pricing intentions remain low. A tight trading environment has meant businesses have limited ability to raise prices. Pricing intentions across the service sector in particular have changed massively over the past five months and point to low 'core' inflation ahead.

On the face of it, the winner in this month's survey is construction, which has now become head cheer-leader when it comes to overall confidence and perceptions towards their own business. Yet this is too clever by half. Employment intentions in construction are the second lowest across the 5 sub-groups.

Investment intentions took a step backward in the month, and a net 19 percent of construction related businesses expect prices to fall.

Last month we put the improvement in business confidence and other survey measures down to the bungy-cord dynamic. After such an extended period of decline it is only natural to expect a base to be forming across the economy or the pace of contraction to moderate. The same applies this month. Green shoots are emerging. Of course Pandas eat green shoots so we are far from out of the woods. There will remain tension between the *change* versus the outright *level* of activity.

BUSINESS CONFIDENCE INDEX



We fully expect the economy to regain forward momentum in the second half of 2009 as this bungy-cord dynamic plays through. Of course this will be more technical than anything else, with the unemployment rate still tracking up. Just as early 2008 did not feel like a recession in a traditional sense, the recovery will likely remain patchy as we move along the bottom of the bath tub (before coming up the other side). Even on the assumption that we return to solid growth in 2010, it will not be until 2011 that the economy returns to late 2007 levels.

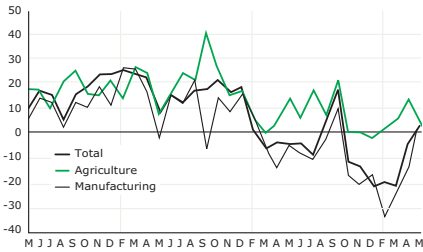
Nonetheless, the hope is that improvements in confidence can become self-fulfilling. Confidence surveys play an important role in both New Zealand and overseas (e.g. the US ISM, Eurozone PMI's and Japanese Tankan survey are closely watched).

New Zealand's economic data is released with a long delay, so current and leading information on the economy is keenly sought.

Once confidence improves, a spiral of success can quickly take hold as improving perception encourages spending, profits, investment and jobs. Pent-up-demand typically unleashes upswings that are inversely proportional to downturns. It all starts by getting back that feel-good factor. At current levels of confidence, particularly in relation to jobs, investment and profits, we have a way to go. But May has seen New Zealand take another small step in the right direction.

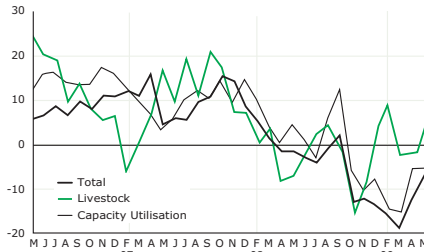
SURVEY RESULTS	TOTAL	PREVIOUS MONTH
May 2009		
Business Confidence	1.9	-14.5
Activity Outlook	3.8	-3.8
Exports	5.8	10.3
Investment	-5.4	-12.4
Livestock	6.1	-1.7
Capacity Utilisation	-4.4	-4.3
Residential Construction	0.0	9.5
Commercial Construction	-9.1	-36.4
Employment	-16.0	-19.1
Unemployment Rate	72.8	76.8
Profits	-23.7	-29.5
Interest Rates	-8.2	-2.3
Pricing Intentions	12.4	17.6
Inflation Expectations	2.65	2.73

ACTIVITY OUTLOOK INDEX



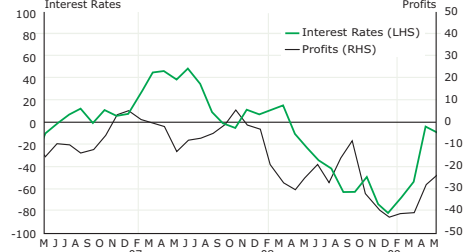
Percentage expecting increase minus percentage expecting decrease.

INVESTMENT INTENTIONS



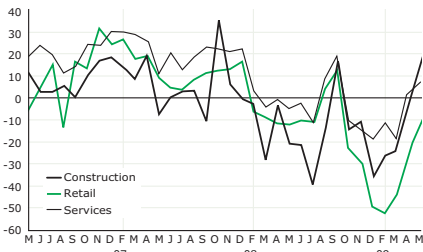
Percentage expecting increase minus percentage expecting decrease.

FINANCIAL OUTLOOK



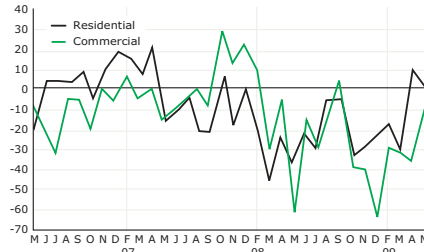
Percentage expecting increase minus percentage expecting decrease.

ACTIVITY OUTLOOK INDEX



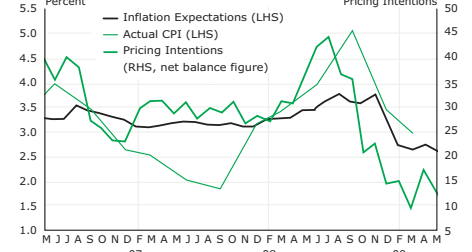
Percentage expecting increase minus percentage expecting decrease.

CONSTRUCTION INTENTIONS



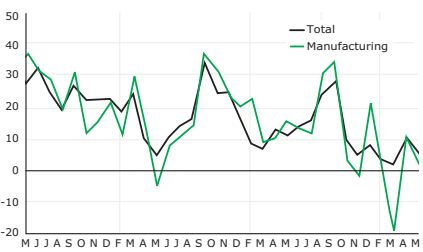
Percentage expecting increase minus percentage expecting decrease.

INFLATION EXPECTATIONS



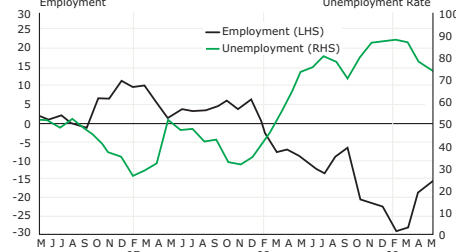
Inflation Expectations = Expected CPI inflation rate in 12 months time. Pricing Intentions = Percentage expecting increase minus percentage expecting decrease.

EXPORT SALES VOLUME



Percentage expecting increase minus percentage expecting decrease.

LABOUR MARKET OUTLOOK



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 party 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 commised 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 to, copied 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 22 May 2009
 PO Box 540 Wellington 6140
 Phone: +64 4 802 2361
 Fax: +64 4 473 4928
 Email: economics@nbnz.co.nz
 You can now receive this report via email, as soon as it's released.
 Just visit www.nationalbank.co.nz/subscribe to register.