



Banding together

Business confidence has taken a breather after a meteoric rise. A net 48 percent expect better times ahead, down at the margin on September. The construction sector continues to set the bar in terms of poise, with a net 75 percent expecting better times ahead. Conversely, confidence eased across the service, retail and manufacturing industries. Despite the turn, the level remains robust and healthy.

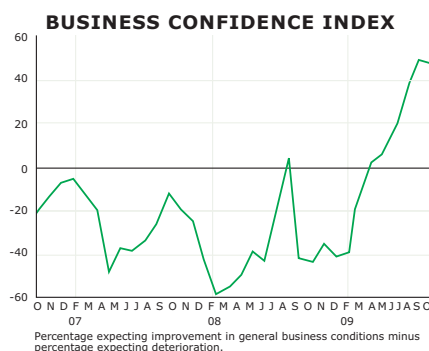
Firms' perception towards their own ground likewise dipped, but the movement is insignificant. A net 31 percent expect better times ahead for their own firms. It is hard to describe the readings as anything other than stabilising at elevated levels. Profit expectations continue to lift. A net 12 percent expect a better bottom line over the coming 12 months – the best reading in 5 years. This is encouraging in terms of driving the next leg of the economic cycle, namely investment and jobs. Investment intentions have risen 4 percentage points to +6. Conversely, employment intentions dipped 2 percentage points to zero. The movements are well within the normal volatility we would expect from month-to-month. Yet the movements portend of a lack of conviction when it comes to committing cold hard cash to areas such as employment and investment. Balance sheet consolidation and de-leveraging continue to dominate.

Growth readings from the survey are unchanged on the month prior. Firms' own activity expectations are flagging 4 percent growth. Our composite growth indicator from the survey is gradually gaining momentum and pointing to 2 1/2 percent growth.

The construction sector is at the forefront of the confidence readings. Construction ranks number one for business confidence (+75), own activity expectations (+58), employment (+20), profits (+27) and investment (+12). All the readings are up sharply on the month prior.

Looking across the survey we are wary of drawing strong conclusions when we look at both the levels and changes in key variables.

Agriculture generally remains at the less optimistic end. The service industry showed the largest dip in firms' own activity expectations and employment, and failed to follow the aggregate lift in investment and profits. Levels are not portending of anything telling (excluding employment). Until we see a few more months of data, we'll reserve judgement on the sectoral mix. Suffice to say that growth in this month's survey looks marginally narrower than in the months prior.



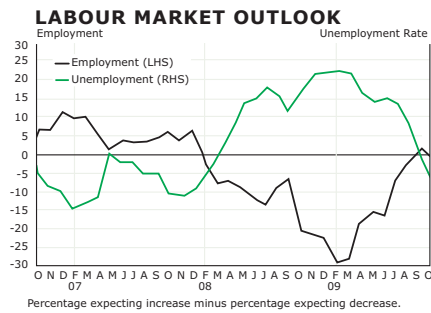
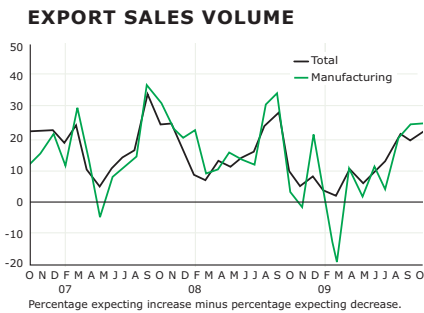
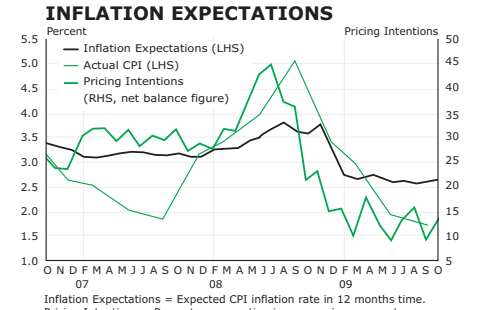
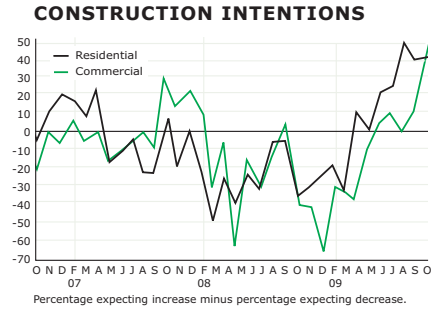
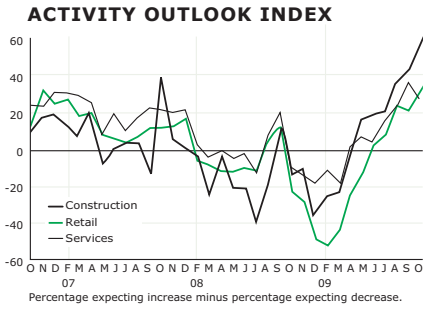
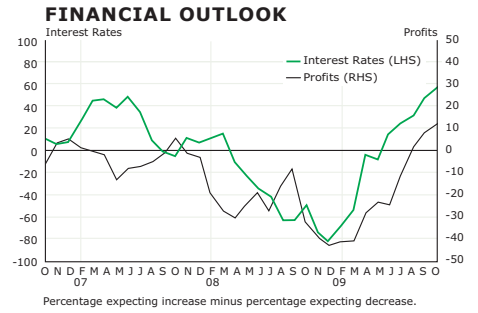
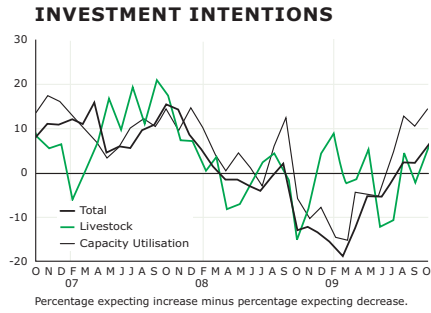
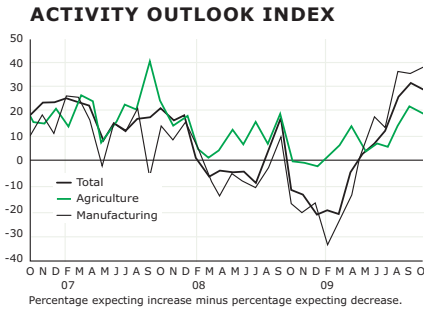
Across other survey indicators, export intentions improved a tad, indicating that recovering global demand is dominating the higher New Zealand dollar. Pricing intentions picked up in the month, but a net 14 percent reading is still indicative of a low overall level of inflation. A net 57 percent of businesses expect interest rates to rise over the coming year.

With momentum improving across the economy, it is inevitable that interest rates will rise from the extraordinary low levels they currently reside. To what degree and when this occurs remain subject to debate. A number of factors urge caution. Growth is coming from a low base. The New Zealand dollar is casting a dark shadow over prospects. The labour market remains weak. Yet, momentum is building, and if the survey is correct, it is coming from the area of the economy where inflation can quickly be generated. There is a worrying undercurrent of inflation pressure that permeated through in the September quarter CPI figures. Inflationary pressure from non-contestable pockets of the economy continues to dominate.

More inflation from these pockets mean a greater growth sacrifice from contestable areas of the economy if aggregate inflation pressure is going to sit within the 1 to 3 percent policy band. House prices are picking up and if left unchecked, risk returning New Zealand to it's borrow and spend habits of old and a widening current account deficit. If such imbalances extend, then the Reserve Bank will no doubt live up to the age old adage of taking away the punchbowl just as the party starts to rock.

It is at this juncture that monetary policy needs mates. The Reserve Bank has limited control over the currency, but there is no need to risk inflaming the meteoric rise seen to date. In the early stages of the cycle it is preferable for fiscal policy to take the lead in unwinding policy stimulus. The Minister of Finance has indeed flagged a sustained period of fiscal restraint so as not to burden the next generation with excessive debt. This will involve small tax changes (think ACC levies) and less spending (we pay if we want the service). The government balance sheet improves, but at the expense of the private sector's. Unpopular for sure, but probably marginally less so than seeing interest rates knock the tradable sector into submission or unfairly burdening the next generation with debt.

SURVEY RESULTS	TOTAL PREVIOUS MONTH	
October 2009		
Business Confidence	48.2	49.1
Activity Outlook	30.5	32.2
Exports	22.9	9.3
Investment	5.8	2.0
Livestock	5.2	-2.4
Capacity Utilisation	14.4	10.2
Residential Construction	41.2	38.9
Commercial Construction	47.4	11.1
Employment	-0.3	1.8
Unemployment Rate	40.6	50.0
Profits	11.9	7.6
Interest Rates	57.4	47.8
Pricing Intentions	14.2	8.9
Ease of Credit	7.5	21.4
Inflation Expectations	2.60	2.57



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.

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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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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.

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- 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.

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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:

- 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.
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- 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.

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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.

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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.

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