



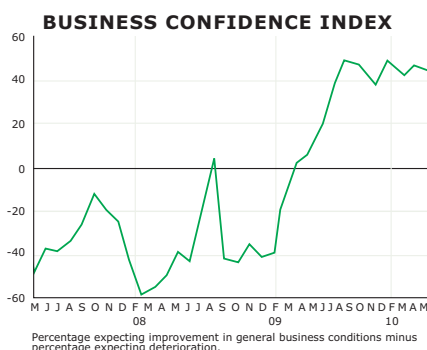
Feeling Great

Nothing seems to be denting the air of optimism towards prospects for the New Zealand economy. A net 48 percent of respondents in this month's survey expect general business conditions to improve in 12 month's time. This is down two points from the net 50 percent reading in April, but remains at very high levels historically. Looking at the sectoral picture, all sectors bar manufacturing recorded a fall in expectations over the general economy. In terms of the absolute level of confidence, the construction sector remains the most optimistic even though it showed the biggest drop in the month. The agriculture sector continues to have the lowest level of confidence.

When we look at businesses' assessment of their own activity, they seem to go from strength to strength. A net 45 percent of respondents expect better times ahead for their own business in a year's time, an increase of 2 points. This is the highest own activity reading since May 1999. The construction sector once again has the highest absolute level of own activity reading. But the biggest increase in the month was recorded in the retail sector, which rose 10 points. The agriculture sector recorded a 6 point drop in their own activity reading, no doubt impacted by drought conditions in certain parts of the country.

Turning to the other activity gauges, employment intentions rose 3 points to a net 16 percent now expecting to hire additional staff. This is the highest reading since April 2002, and is at a level which is consistent with around 4 percent employment growth. Unsurprisingly, a net 11 percent of respondents expect the unemployment rate to fall one year from now, up from a net 4 percent expecting a fall last month. Investment intentions rose 4 points to a net 14 percent expecting to invest more. This is now above the historical average level and suggests we

are on track for positive business investment growth, though at a gradual pace rather than anything more substantial at this stage. Profit expectations was the only activity gauge to post a decline in the month, down 2 points to a net 24 percent. But it is still at a healthy level which, if translated into actual profits, should see firms act on their investment and hiring intentions.



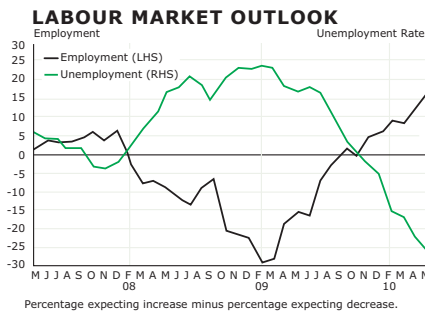
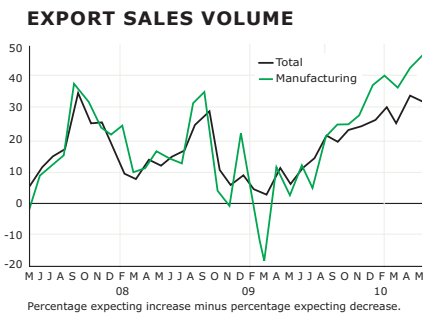
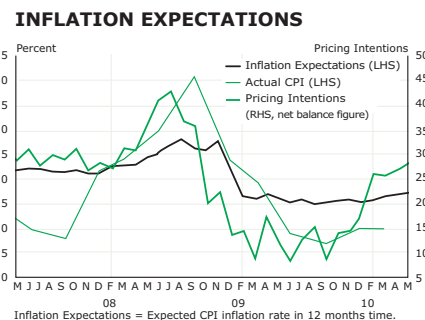
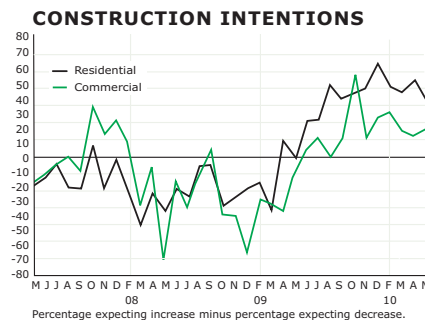
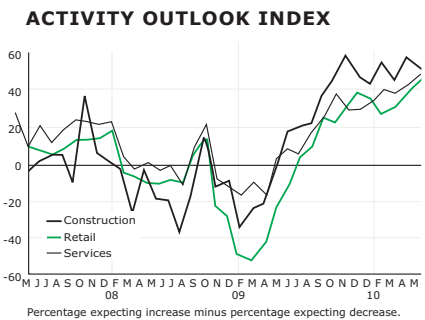
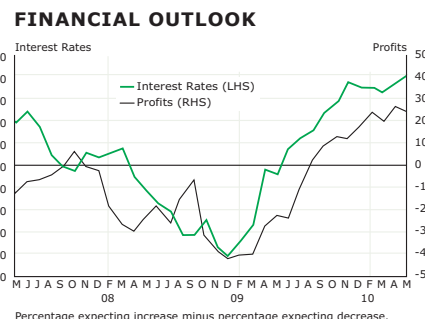
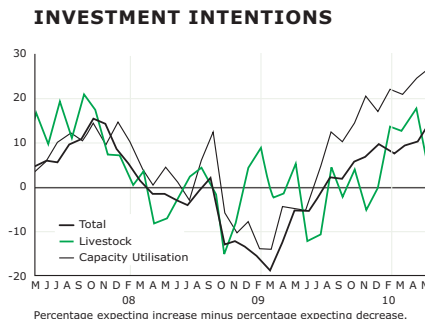
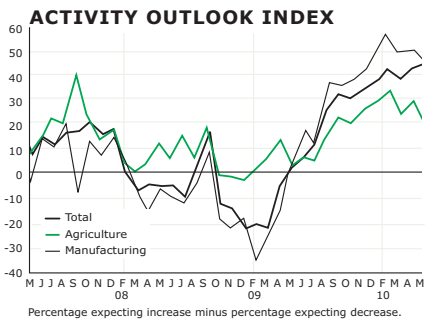
Our composite growth indicator from the survey continues to point towards a strong recovery ahead. The composite indicator is at a level which is consistent with over 5 percent year-on-year growth by the end of this year.

While the growth story is very much welcome news, the inflationary undertone from this month's survey is not. Inflation expectations were unchanged at 2.7 percent, but will surely rise once respondents start to factor in the GST increase announced at the Budget. Pricing intentions rose to a net 28 percent now expecting to push prices higher. This is a level which is consistent with around 3 percent annual headline inflation, and this is before accounting for GST changes. Adding to the inflation story is a further increase in capacity utilisation, a sign that the recovery is starting to use up spare resources in the economy at perhaps a quicker rate than we would have expected.

If we were to base monetary policy decisions solely on this month's National Bank *Business Outlook*, then a rate rise next week is a done deal. In fact, a net 79 percent of respondents expect interest rates to head higher in a year's time.

The past month has seen the New Zealand dollar tumble, increasing unease towards the sovereign debt crisis in Europe, a selloff in global equities, mixed economic messages and an economy friendly Budget. Much of these developments were too late in the month to be captured by the survey. Beyond that, firms simply seem to be focusing on what they can control and getting on with business. We take encouragement from this. But with so much going on after the close off date for this month's survey (14 May), next month's survey reading promises to provide some real insights into businesses' thinking about the array of contrasting forces at play.

SURVEY RESULTS May 2010	TOTAL PREVIOUS MONTH	
Business Confidence	48.2	49.5
Activity Outlook	45.3	43.0
Exports	32.7	34.5
Investment	13.6	10.2
Livestock	5.0	17.6
Capacity Utilisation	27.0	24.5
Residential Construction	36.0	50.0
Commercial Construction	17.8	12.9
Employment	15.9	13.4
Unemployment Rate	-10.9	-4.1
Profits	24.4	26.1
Interest Rates	79.4	71.8
Pricing Intentions	28.1	26.4
Ease of Credit	13.7	8.7
Inflation Expectations	2.69	2.67



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 adviser 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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