



Canter to a trot?

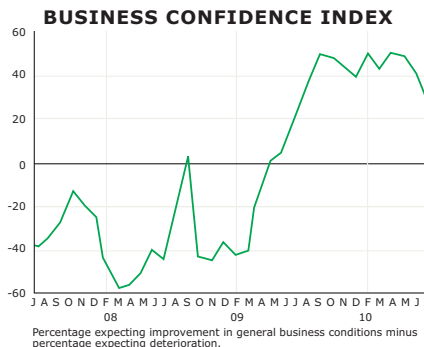
Business confidence fell for the third consecutive month in July. A net 28 percent of respondents still expect general business conditions to improve in 12 month's time, down 12 points on the month prior.

The fall in business confidence was broad-based, but were led by the manufacturing and agriculture sectors, which both posted declines of 14 points. A "glass half-full" view is that the level of confidence, both at the aggregate and at the individual sectoral level, is still well above the historical average. A "glass half-empty" take on things is that the level of business confidence has almost halved since its recent peak in February this year, and that the rate of decline (the so called second derivative) is increasing. We characterised last month's decline in confidence as the economy merely shifting from a gallop to a canter. Perhaps this month is seeing a shift from a canter to a trot.

Firms' own activity expectations held up better, though it did still fall 7 points to a net 32 percent expecting better activity over the year ahead. All sectors bar manufacturing recorded declines in the own activity reading. Granted, the increase of 1 point in manufacturers' own activity assessment is margin-of-error stuff. But at least the level, with a net 42 percent expecting an improvement in their own business, suggests this sector is still faring quite well. The 1 point fall in export intentions also suggest that there has been no discernable impact from any wobbles in trading partner activity as yet, although we need to remember that China now takes 10 percent of NZ's merchandise exports and the only discernible wobbles in that area are of the speed variety.

Sifting through the tea leaves, there was an almost universal decline in employment intentions, investment intentions and profit expectations across all sectors. A net 8 percent of respondents expect to hire staff in the year ahead, a fall of 5 points. This is still at a level which indicates positive jobs growth. However, at a sectoral level, the employment intentions readings have turned negative for retail and agriculture. Somewhat surprisingly, employment intentions for construction bucked the trend to post a 4

point increase in the month. Perhaps this is due to the industry losing workers to Australia, and having to recruit more employees, rather than a sign that things are expected to pick up.



Worryingly from a supply side perspective is the 5 point decline in investment intentions to +5, below the historical average. At this stage in the economic cycle, we would have expected a stronger rebound in private sector investment by now, particularly given the sharp contraction seen during the recession. The current investment intentions reading do not portend of a marked pick up in the near-term. Not helping the investment case is the fact that profit expectations have fallen 10 points to a net 9 percent expecting an improvement to the bottom line in a year's time. The largest decline was in the agricultural sector, where a net 2 percent now expect a lower profitability this month, compared to a net 15 percent expecting an improvement last month. Perhaps farmers are already factoring in the possibility of downward revisions to the payout forecast after the recent fall in global dairy prices?

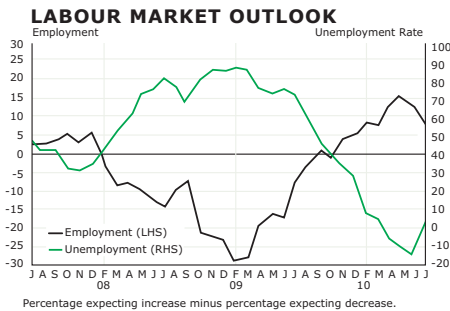
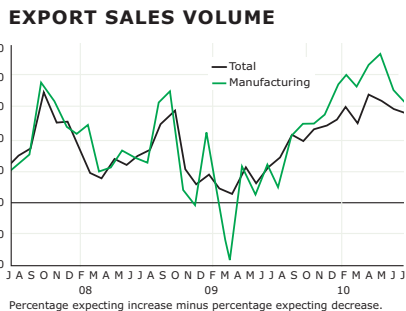
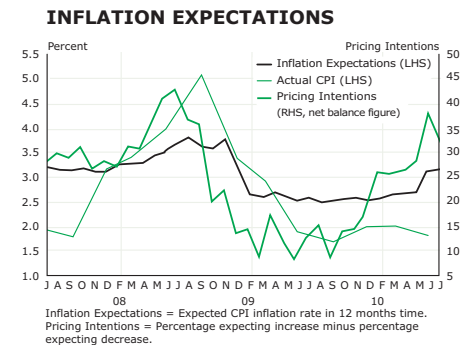
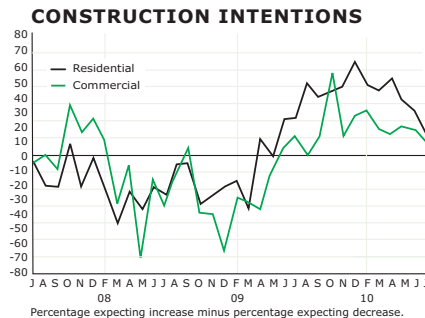
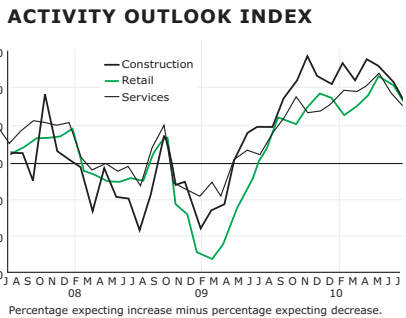
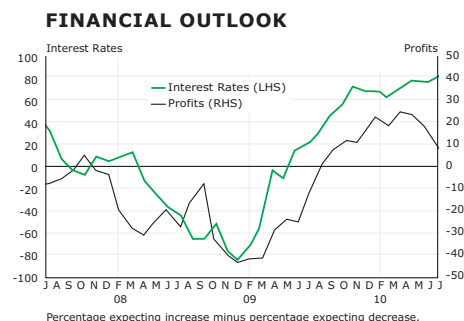
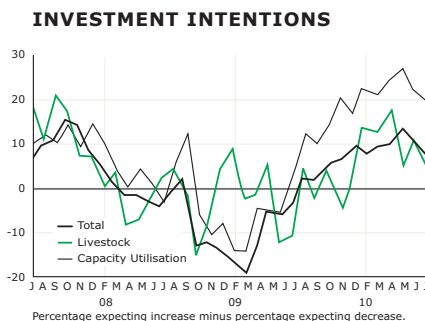
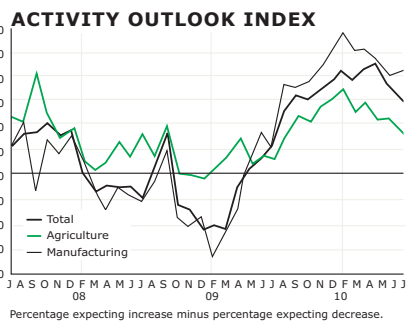
The movements in this month's survey are beyond what could be put down to usual monthly volatility and the past three months has seen a clear change in direction. Our composite growth indicator is still pointing towards year-on-year growth in the 3 percent region by late this year, but this is down on the 4 percent plus it was flagging a few months back. Growth momentum is easing (or at least expectations towards it), but is far from being snuffed out.

If there is a silver lining in this month's survey, it is the pullback in pricing

intentions after last month's surge. A net 31 percent of respondents expect to be putting prices up, down from a net 39 percent in June. The fall in pricing intentions was uniform across all sectors. With GST set to rise on 1 October, what is perhaps surprising is the fact that this reading is not even higher given that almost all firms selling to the final consumer will have to pay higher GST. Perhaps this is an indication of the tough demand environment firms are facing, and the reality that there will be a lot of consumer resistance to price rises, no matter what the cause. But we still expect the RBNZ to remain vigilant and guard against any spill-over into generalised wage and price setting behaviour from the coming spike higher in headline inflation. The fact that surveyed inflation expectations ticked up a little to 3.2 percent from 3.1 percent will not have gone unnoticed by the RBNZ.

Tomorrow's OCR decision is set to see the RBNZ raise interest rates by another 25 basis points to 3 percent. The majority of respondents are already resigned to the fact that interest rates are heading higher, with a net 83 percent expecting rates to rise over the next 12 months compared to a net 78 percent in the previous month. But with signs that the economy is not surging away and momentum is levelling out, we find it difficult to envisage rates will move up every six weeks.

SURVEY RESULTS	TOTAL PREVIOUS MONTH	
July 2010	MONTH	
Business Confidence	27.9	40.2
Activity Outlook	32.4	38.5
Exports	28.8	30.3
Investment	4.8	10.2
Livestock	4.2	11.1
Capacity Utilisation	19.3	22.3
Residential Construction	10.0	28.1
Commercial Construction	6.1	15.6
Employment	8.3	13.4
Unemployment Rate	3.5	-14.6
Profits	9.4	18.8
Interest Rates	83.1	78.4
Pricing Intentions	31.4	38.6
Ease of Credit	-3.4	2.7
Inflation Expectations	3.17	3.1



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.

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- 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:
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 - 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.

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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:

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- 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.
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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

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