



The umbrella

Confidence continues to rise. A net 6 percent of our respondents expect general business conditions to improve over the next 12 months, up 4 percentage points on May. Leading the charge is the construction industry with a net 46 percent expecting better times ahead, the highest reading since 1999. Conversely, sentiment within the agriculture sector slipped and it's hard to go past the reality check that a dairy payout forecast of \$4.55 / kg milk solids will be having.

Firms' own activity expectations continued to nudge higher as well. A net 8 percent expect better times ahead. Improving sentiment was apparent in all the major sub-groups, bar services.

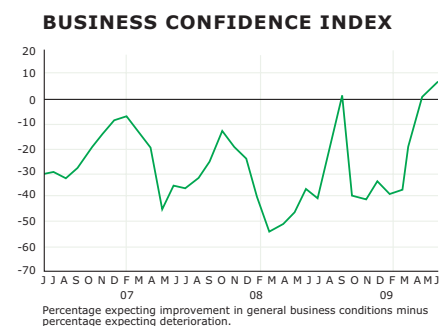
These movements are welcome. The firms' own activity expectations reading, by itself, is now pointing to positive growth. But, like last month, the dog still has fleas. Profit, employment and investment intentions remain stuck in groundhog day, barely budging on the month prior. A net 24 percent of firms expect lower profits. Profit expectations was up in retailing and manufacturing, but down in agriculture, construction and the service industries. Employment intentions fell marginally. The labour market outlook remains particularly poor with a net 17 percent expecting to hire fewer staff in the year ahead, down 1 percentage point on May. A net 6 percent of firms expect to be investing less, again down marginally from the previous month. Recovery will not become self-fulfilling until investment and hiring pick up. These are naturally lagged responses, but critical nonetheless.

Our composite growth indicator – which comprises own activity, profit, employment and investment expectations – remains negative. The economy continues to contract. But like last month, the positive spin is that the pace of contraction is occurring at a slower rate.

Across the remainder of the survey, export intentions picked up, but with only a net 11 percent expecting exports to

increase over the year ahead, the index remains low. Pricing intentions continue to fall. A net 9 percent expect to raise prices over the year ahead, down 3 percentage points on the month prior. There is simply no pricing power left in the economy and we may well see inflation fall below the bottom of the 1 to 3 percent target band.

This month we introduced a new question, relating to the ease of finding credit. This is in recognition of the critical role the process of credit creation and facilitation play within the economy. The past decade has seen a growing portion of literature devoted to the "credit channel of monetary policy". The operation of this channel over the past year has been a key reason why central banks have used the traditional monetary policy lever more aggressively. Internationally there are a host of surveys that report on the availability of credit, and these – such as the US Federal Reserve Senior Loan Officer Survey – are closely watched.



A net 17 percent expect credit to be more difficult to get over the coming year. Those engaged in the construction industry perceive access to credit as improving over the year ahead (+5 percent), while the service sector perceives access to credit as "tight" (-24 percent).

This is difficult to benchmark, as is normally the case when you first start building a time series. However, surveys such as the Fed's Senior Loan Officer Survey generally report the availability of credit being restrictive, around a net

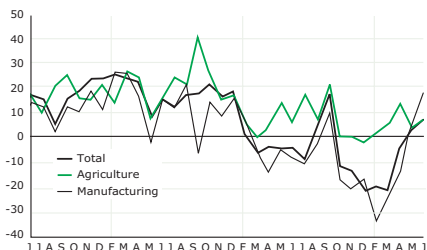
minus 40 to 60 percent (depending on which sub component). Obviously, this comes from the supply side of credit, whereas we are assessing perceptions from the demand side. But it is nonetheless interesting to view the relativities, which remain stark.

These divergences highlight a key difference between the likes of the United States and New Zealand. The former is stuck in a systemic downturn. As house prices fall, spending stops. Profits decline. Jobs are lost as cost cutting starts. Mortgages can't be paid. We see forced house sales. House prices fall.....jobs are lost, credit quality deteriorates, banks start making losses, credit is tightened, house prices fall, and the spiral is in motion. The outlook for asset prices and the underlying strength of the financial system are key elements.

Obviously, economic conditions have altered the rules and terms on which credit is offered. It would be folly to think that, six quarters into a recession, things in New Zealand would remain the same. Yet, if there is one insinuation we could possibly take from our survey, it is that while credit conditions have tightened, the credit pendulum has not swung too far. The umbrella provided when days were sunny and life buoyant, has not been completely withdrawn now that it has started to rain.

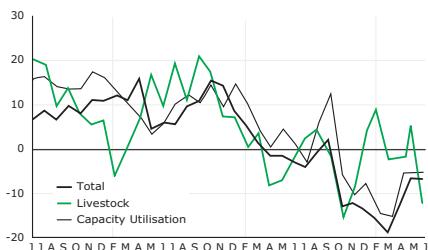
SURVEY RESULTS	TOTAL	PREVIOUS MONTH
June 2009		
Business Confidence	5.5	1.9
Activity Outlook	8.3	3.8
Exports	10.7	5.8
Investment	-5.6	-5.4
Livestock	-12.3	6.1
Capacity Utilisation	-4.8	4.4
Residential Construction	22.2	0.0
Commercial Construction	4.4	-9.1
Employment	-16.6	-16.0
Unemployment Rate	75.4	72.8
Profits	-24.2	-23.7
Interest Rates	15.1	-8.2
Pricing Intentions	8.5	12.4
Ease of Credit	-17.3	...
Inflation Expectations	2.56	2.65

ACTIVITY OUTLOOK INDEX



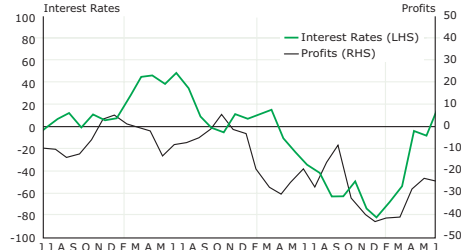
Percentage expecting increase minus percentage expecting decrease.

INVESTMENT INTENTIONS



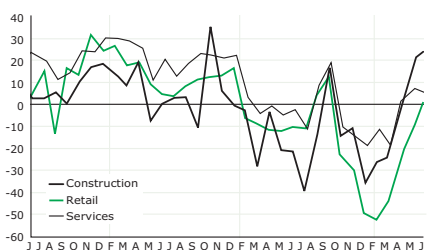
Percentage expecting increase minus percentage expecting decrease.

FINANCIAL OUTLOOK



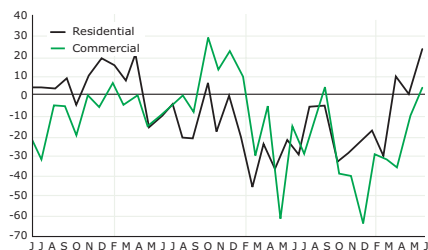
Percentage expecting increase minus percentage expecting decrease.

ACTIVITY OUTLOOK INDEX



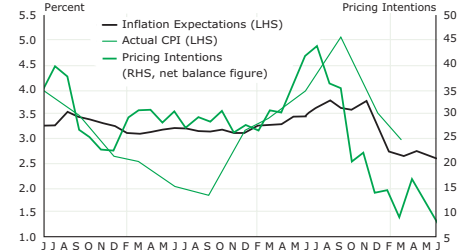
Percentage expecting increase minus percentage expecting decrease.

CONSTRUCTION INTENTIONS



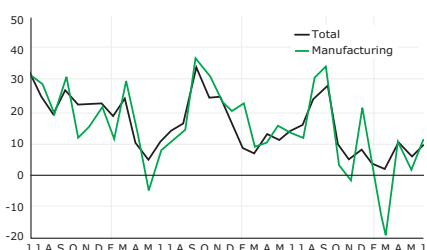
Percentage expecting increase minus percentage expecting decrease.

INFLATION EXPECTATIONS



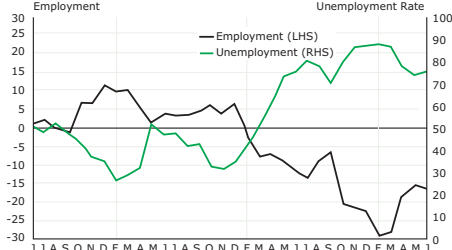
Inflation Expectations = Expected CPI inflation rate in 12 months time. Pricing Intentions = Percentage expecting increase minus percentage expecting decrease.

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 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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