



Light at the end of the tunnel?

Business confidence took another big jump higher in the month, recording its highest reading since March 2002. A net 19 percent of respondents expect general business conditions to improve over the next 12 months, up 13 percentage points from the previous month. Confidence improved across all sectors, with manufacturers posting the largest increase. Surprisingly, confidence in the agriculture sector also improved, though the level remains entrenched in negative territory and rural folk remain the most pessimistic compared to other sectors.

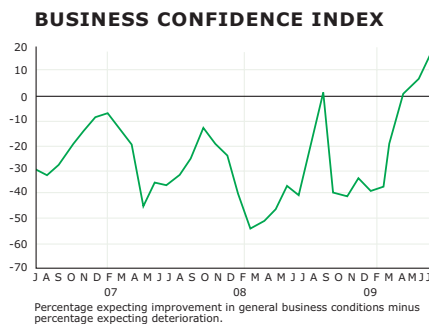
Firms' own activity expectations also recorded a lift, with a net 13 percent of respondents expecting improvements in their own businesses in the coming 12 months, compared to a net 8 percent in June. The sectoral breakdown is mixed, with the services sector recording the biggest increase, with retailing and construction also up while the manufacturing and agriculture sectors showed declines. Unfortunately this mix is not what we would refer to as pointing to a sustainable and quality recovery.

One interesting observation from this month's survey is the fact that the level of business confidence has exceeded that of firms' activity expectations. This is something that has not occurred for over a decade, with the last time being May 1999. No doubt with increasing signs of stabilisation emerging around the globe, and increasing talk of an end to the global recession by year's end, confidence in the future has perked up, even if some are not exactly seeing it in their own business. Improved confidence is an important step towards recovery, and we appear to be making that first step. But of course the feel good factor is not sufficient in itself and at some stage the substance check will be provided by what firms see in their own business.

Looking at the other key indicators, investment, employment and profit expectations all showed improvements as well. However, they all remain in

negative territory. Pressure on the bottom line remains, with a net 14 percent of firms expecting lower profits in the year ahead. Investment intentions improved from -6 to -2. The labour market situation does not look to be turning around anytime soon, with a net 7 percent of firms still looking to shed staff. However, this is an improvement from the previous month's -17 reading, suggesting the pace of job cuts is easing. A net 74 percent of respondents expect the unemployment rate to continue rising.

Our composite growth indicator – which comprises own activity, profit, employment and investment expectations – continues to improve and is flagging the possibility that the economy will stop contracting soon. And though it is not suggesting that growth is set to accelerate away anytime soon, it does make a welcome change from worrying about how deep we might fall.



Looking through the other results of the survey, export intentions rose to a net 14 percent expecting an increase over the year ahead, an indication that external demand might be starting to improve. A net 13 percent of respondents expect to increase prices, up 4 percentage points. However, this is not going to make the Reserve Bank Governor lose any sleep, for the level is still consistent with annual inflation remaining at the bottom of the 1 to 3 percent target band.

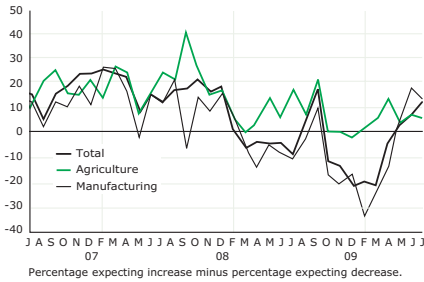
Looking at our new survey question relating to the ease of getting credit, there

was a slight improvement from the previous month, though a net 15 percent of respondents still expect credit to be more difficult to obtain over the coming year. There was a noticeable deterioration amongst retailers, where a net 29 percent expect access to credit to be more difficult, up from a net 4 percent last month. The agriculture sector was another expecting access to credit to get more difficult.

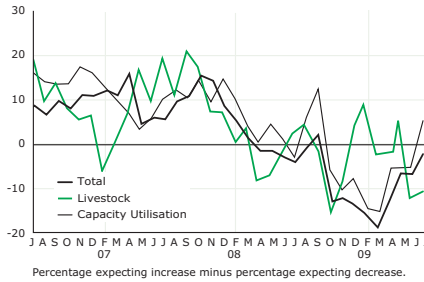
Overall, this month's survey suggests that the light at the end of the recession tunnel may be just around the corner. We are still cautious about the outlook, for we have not really seen the full impact of rising unemployment and reduced rural incomes yet. And the stubbornly elevated New Zealand dollar is obviously not doing our exporters much good. But we have to respect what our respondents are telling us. More people (migration) and that feel good factor are powerful dynamics. The outlook is improving, and so it should after six quarters of contraction. Challenges remain, not least the need for the economy to rebalance. Still, going through the rebalancing process against the backdrop of positive growth is more bearable than in an environment of contracting activity.

SURVEY RESULTS	TOTAL PREVIOUS	
July 2009	MONTH	
Business Confidence	18.7	5.5
Activity Outlook	12.6	8.3
Exports	14.2	10.7
Investment	-2.3	-5.6
Livestock	-10.4	-12.3
Capacity Utilisation	3.2	-4.8
Residential Construction	23.5	22.2
Commercial Construction	11.1	4.4
Employment	-6.8	-16.6
Unemployment Rate	74.3	75.4
Profits	-13.8	-24.2
Interest Rates	22.8	15.1
Pricing Intentions	12.9	8.5
Ease of Credit	-15.1	-17.3
Inflation Expectations	2.60	2.56

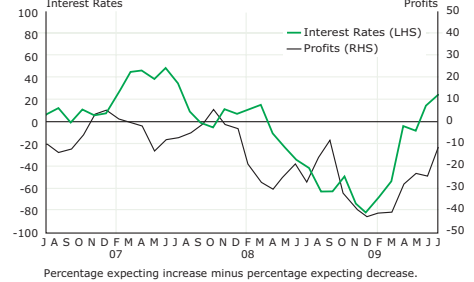
ACTIVITY OUTLOOK INDEX



INVESTMENT INTENTIONS



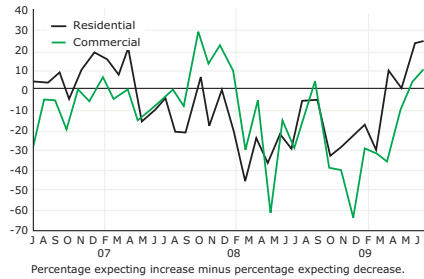
FINANCIAL OUTLOOK



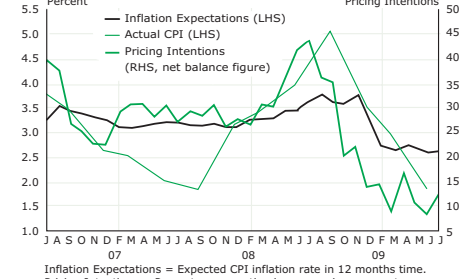
ACTIVITY OUTLOOK INDEX



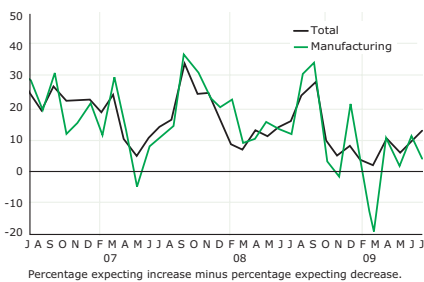
CONSTRUCTION INTENTIONS



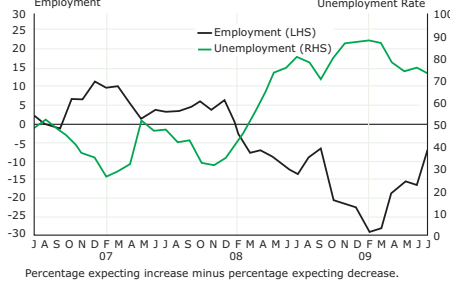
INFLATION EXPECTATIONS



EXPORT SALES VOLUME



LABOUR MARKET OUTLOOK



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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The National Bank
of New Zealand

Text finalised 27 July 2009
PO Box 540 Wellington 6140
Phone: +64 4 802 2361
Fax: +64 4 473 9258
Email: economics@inbnz.co.nz
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Just visit www.nationalbank.co.nz/subscribe to register.