



Springtime

There seems to be no holding the economy back. Confidence surged again in August. A net 34 percent of respondents expect better times over the next 12 months, up 16 percentage points on July. The construction industry remains at the forefront of renewed optimism with a net 64 percent expecting better times ahead, levels last seen in the early 1990s.

Why the continued jump in confidence?

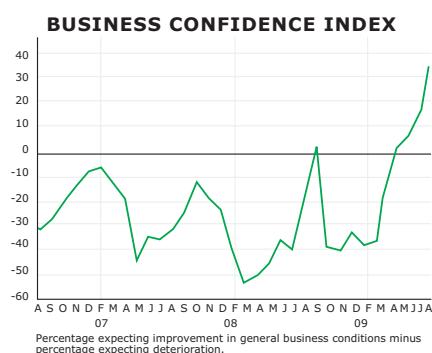
There are a host of candidates ranging from rejuvenated confidence towards the housing market and spill over perception into the wider economy, improving global prospects, recovering equities and even the honeymoon period that the Government seems to have settled into. On top of that, we would include relief. After 18 months of recession, surely things can only get better! If we can navigate through the largest financial crisis in 80 years, with the unemployment rate rising to 6 percent and house prices only falling 10 percent, then bring it on! Damn the doomsayers, grab your wallet, we're going shopping.

Virtually all survey indicators improved in the month. Firms' own activity expectations are at close to a five-year high. A net 26 percent expect better times ahead and the jump is across all major segments including retailing, manufacturing, agriculture, construction and services. Profit expectations are back in the black, although only marginally so. Employment expectations are correspondingly less negative. Job losses continue but at a marginal rate of decline. This is still a far cry from the rate required to soak up new entrants into the workforce that natural population growth and migration brings, but at least it is moving in the right direction. Investment intentions have turned marginally positive. Export intentions have risen to a 10-month high. The only indicator to turn down in the month was commercial construction intentions, which fell back to zero. But this is more than compensated for by surging perception towards residential investment, with a net 48 percent expecting better times

ahead – the highest reading since 1994!

Firms' own activity expectations – a key lead indicator – is flagging 3 percent growth. Our composite growth indicator from the survey is more sedate on the recovery, but still well in positive territory.

Momentum, once unleashed, is a powerful dynamic and the economic cycle is as much about getting a feel for behaviour, as it is about the economic fundamentals. And there is no doubting a better feel-good factor is developing, despite the unemployment rate moving up sharply. With each passing day it seems more money is being lured out after taking refuge on the sidelines. Positive perception towards the property market, is at the forefront. Improving migration trends and a perceived housing shortage are influential. But a lot of the renewed exuberance seems to be premised on a quick return to "normal" conditions, which in turn is being interpreted as the way things were in 2006/07, prior to the financial crisis.



There is a huge amount of tension within the economic system. At one extreme we need to respect the nuances from confidence surveys. Time and time again they have proven to be an important bell-wether for the economy. Every economic cycle contains a strong behavioural aspect that is arguably more important than the laws of economics. Confidence matters. Pent-up demand can quickly be unleashed as confidence picks up. Economists and policymakers are notoriously bad at recognising such dynamics and hence tend to

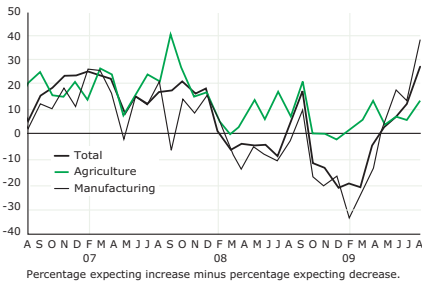
underestimate downturns and upturns. The latter seems to be unfolding at present.

At the other extreme there are clear challenges. A host of key structural gauges, such as the current account deficit and household savings rates, are telling NZ.Inc to save for tomorrow, as opposed to spend for today. But of course we need some spending to be moving forward. However, a durable upturn needs to be an earnings-driven recovery, as opposed to one that is housing led. The currency is hobbling that, although the downstream implications are not overly visible across the survey.

While we should be cheerful that the property market is responding to policy stimulus and helping the economy emerge from recession, we should not be surprised that it is keen to push on. However, a "mini-boom" in the housing market risks exacerbating existing problems if it is, in the words of RBNZ Governor Bollard, followed by a return to our old "borrow and spend habits". If we move down that path it has a response from policymakers written all over it, and not necessarily of the OCR variety. The alternative is letting NZ borrow and spend its way out of a debt-fuelled consumption jam, then face an inevitable "adjustment". Standing idly by and watching another binge unfold just doesn't pass the smell test.

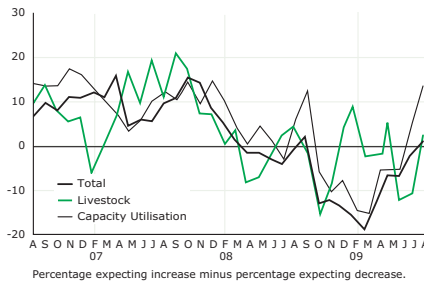
SURVEY RESULTS	TOTAL PREVIOUS	
August 2009	MONTH	
Business Confidence	34.2	18.7
Activity Outlook	26.0	12.6
Exports	21.2	14.2
Investment	2.3	-2.3
Livestock	4.6	-10.4
Capacity Utilisation	12.7	3.2
Residential Construction	47.6	23.5
Commercial Construction	0.0	11.1
Employment	-2.6	-6.8
Unemployment Rate	63.6	74.3
Profits	1.0	-13.8
Interest Rates	30.7	22.8
Pricing Intentions	15.2	12.9
Ease of Credit	6.4	-15.1
Inflation Expectations	2.52	2.6

ACTIVITY OUTLOOK INDEX



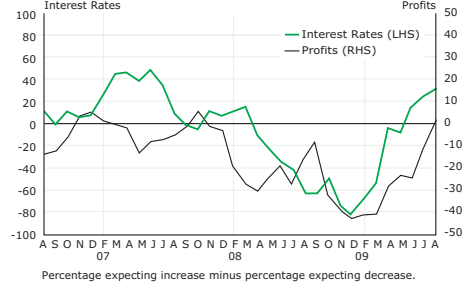
Percentage expecting increase minus percentage expecting decrease.

INVESTMENT INTENTIONS



Percentage expecting increase minus percentage expecting decrease.

FINANCIAL OUTLOOK



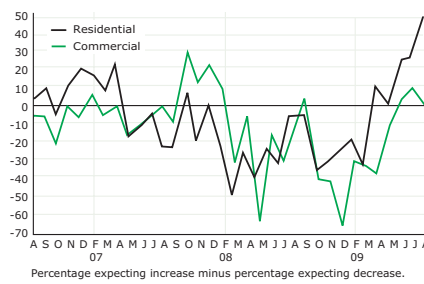
Percentage expecting increase minus percentage expecting decrease.

ACTIVITY OUTLOOK INDEX



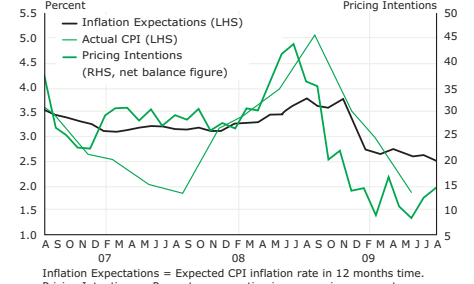
Percentage expecting increase minus percentage expecting decrease.

CONSTRUCTION INTENTIONS



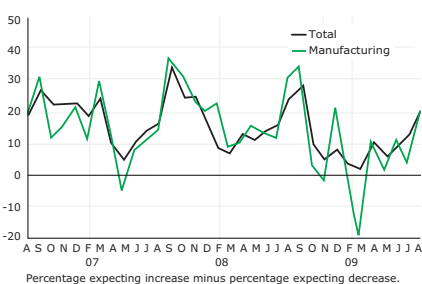
Percentage expecting increase minus percentage expecting decrease.

INFLATION EXPECTATIONS



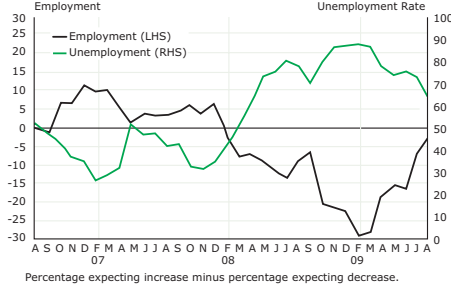
Inflation Expectations = Expected CPI inflation rate in 12 months time. Pricing Intentions = Percentage expecting increase minus percentage expecting decrease.

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 a 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 an 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.

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