



Christmas cheer

Business confidence softened further in December – the third successive monthly decline. A net 39 percent expect better times ahead, down 4 percentage points on November's reading. Confidence was down across all the major sub-groups.

Despite the slight fall in confidence, the glass remains half full. The overall level of confidence remains robust, and noticeably so across all the major segments. Confidence is still strongest in the construction industry, but is now closely followed by retailing, services and manufacturing.

The general spirit of the remainder of the survey is one of improvement.

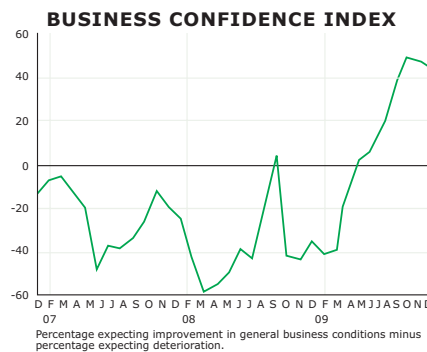
- Firms' own activity expectations nudged up a further 3 percentage points. A net 37 percent expect better times for their own business over the year ahead. Significantly, this improvement was underpinned by improved perceptions across services, manufacturing and agriculture while the domestic juggernauts of construction and retailing eased a tad.
- A net 16 percent of businesses expect higher profits over the year ahead – the highest reading since early 2002.
- Employment intentions nudged higher. A net 6 percent expect to be hiring staff over the year ahead. To be fair the movement is marginal, but the trend is still up.
- A net 10 percent expect to be investing more over the year ahead, up 3 percentage points on last month, and the highest reading since late 2007.
- Export intentions remain resilient in the face of the NZ dollar. A net 26 percent expect to be exporting more over the year ahead, which is back to pre-Lehman levels.

The sectoral picture across each measure is somewhat mixed. But generally speaking the construction sector showed an easing trend while others picked up the baton. Construction has gone from being top of the pops for activity, profits, employment and investment to rank 2nd, 4th, 3rd and 1st respectively.

The North Island showed an improving trend and is now most optimistic when it comes to own activity, profits and investment. Conversely, perception across all these indicators eased in the South Island, although the south remains more optimistic regarding hiring staff.

When we roll such readings from the survey into our composite growth indicator, the economy could well be on track for 3 to 4 percent growth. Let the good times roll.

With economic improvement there is the inevitable pressure on prices. While inflation expectations eased a tad, pricing intentions nudged higher. A net 18 percent expect to be pushing up prices over the coming year. This is still low but the trend has been rising for three months.



Significantly this month we have seen pricing intentions across the service industry rise to a 13-month high. Intent does not necessarily match reality (although the correlation is pretty good) but this is the sticky sort of inflation that can prove to be persistent. Nonetheless, it remains early days to be making overly sweeping statements in such regards and we'll take our lead from multiple months' readings as opposed to one.

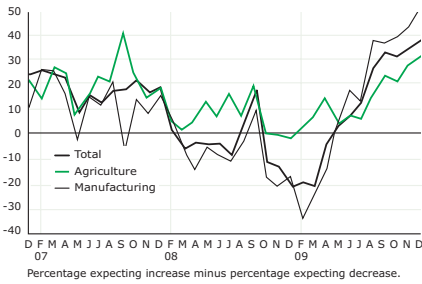
An improving trend in the soft data such as confidence surveys has now been apparent for nine months. Based on the historical correlation with growth, the scene is set for a respectable upswing across the economy. Yet, uncertainty remains as to how much of the

improvement emanates from base effects or the feel-good factor from simply emerging from recession. When you are down, everything looks up. What is clear is that proven evidence in the so-called hard data is required over the coming months. Intent must be matched by reality. For firms to commit to hiring and investing, they need to see a sustained pick-up in demand. A sustained pick-up in demand requires hiring and investment to ensure the recovery is on a solid footing. And so for the coming months we are back to watching the chicken and the egg.

Some believe this conundrum will be resolved in the coming three months. If indeed it is, the argument follows that interest rates will be moving up in early 2010. Certainly most respondents (sixty nine percent) concur that rates will move up over the coming year. But after an eighteen month period of sub-trend growth you'd think it would require more than three months of improvement before you had too many concerns about the party beginning to rock too much, thereby necessitating taking away the punchbowl.

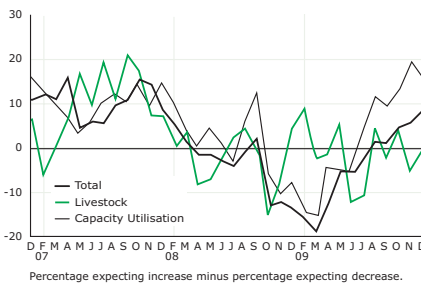
SURVEY RESULTS	TOTAL PREVIOUS MONTH	
December 2009	MONTH	
Business Confidence	38.5	43.4
Activity Outlook	36.9	33.7
Exports	25.6	23.9
Investment	9.8	6.8
Livestock	0.0	-4.4
Capacity Utilisation	17.1	20.7
Residential Construction	63.0	45.2
Commercial Construction	25.0	10.8
Employment	6.4	5.3
Unemployment Rate	28.9	35.2
Profits	16.4	11.1
Interest Rates	69.3	73.0
Pricing Intentions	17.7	14.8
Ease of Credit	5.4	5.2
Inflation Expectations	2.54	2.61

ACTIVITY OUTLOOK INDEX



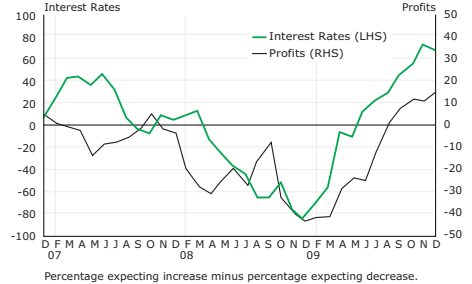
Percentage expecting increase minus percentage expecting decrease.

INVESTMENT INTENTIONS



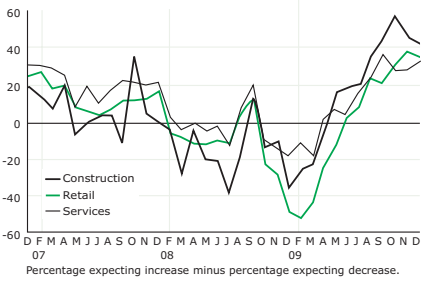
Percentage expecting increase minus percentage expecting decrease.

FINANCIAL OUTLOOK



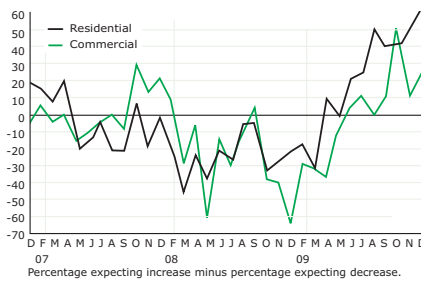
Percentage expecting increase minus percentage expecting decrease.

ACTIVITY OUTLOOK INDEX



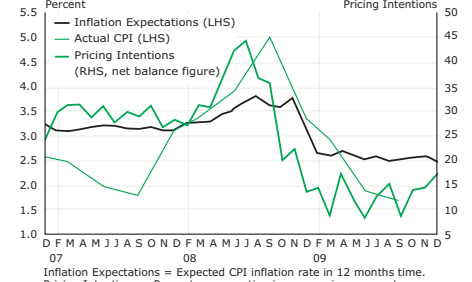
Percentage expecting increase minus percentage expecting decrease.

CONSTRUCTION INTENTIONS



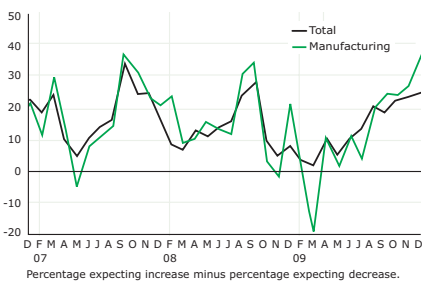
Percentage expecting increase minus percentage expecting decrease.

INFLATION EXPECTATIONS



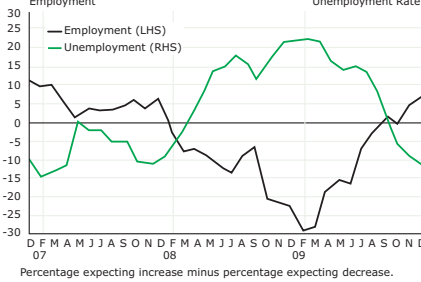
Inflation Expectations = Expected CPI inflation rate in 12 months time. Pricing Intentions = Percentage expecting increase minus percentage expecting decrease.

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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