



## Up, up and away?

Business confidence has hit a decade high. A net 50 percent of respondents expect better times ahead, up 11 percentage points on December last year. This is the highest reading for business confidence since April 1999. Confidence was up across the manufacturing, agriculture, construction and service subgroups. Retailing bucked the trend with confidence falling 14 points.

Firms' own activity expectations (the key lead barometer that tracks economic growth) followed headline confidence, with a net 42 percent of respondents expecting an improvement over the coming year – up from the net 37 percent in December. Confidence is strongest across the manufacturing, construction and service areas.

Profit and employment expectations have also started the year with a positive tone. A net 23 percent expect higher profits over the year ahead. A net 9 percent expect to be hiring over the coming year. Both compare well relative to their long-run averages and augur well for a broadening of the economic recovery. Export intentions continue to lift with a net 31 percent expecting better volumes over the year ahead.

When we roll such readings from the survey into our composite growth indicator, the economy could well be on track for 4 percent growth. So 2010 has started with good cheer.

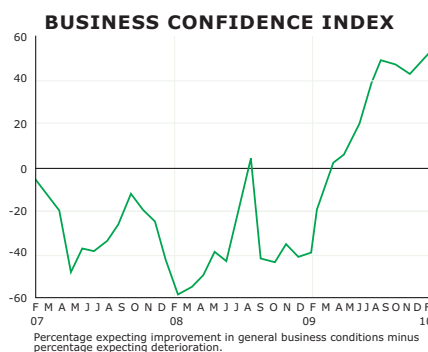
Two aspects from this month's survey went against the improving trend.

- Retailing confidence slipped. In fact retailing was the only sector to record a fall in confidence, firms' own activity expectations, investment and employment. The latter two in particular are telling. A net 7 percent of retailers expect to cut employment and a net 6 percent to be investing less – a turnaround from positive readings at the end of 2009.
- Investment intentions eased. A net 8 percent expect to be investing more over the coming year but this is down

2 percentage points on the last reading. Such a decline is well within the margin of error, so we'll hold judgment. However, the failure to follow the reads from employment, profits and activity expectations suggests there are deeper forces keeping firms in a holding pattern.

Pricing intentions nudged higher.

A net 26 percent expect to be pushing up prices over the coming year. This is neither here-nor-there in terms of what it flags for the inflation outlook. And inflation expectations, while up slightly to 2.6 percent, had nonetheless been stable since mid 2009. But still, the trend in pricing intentions has been rising for five months and ultimately it is the direction that counts. Once again we see service sector pricing intentions on an upwards trajectory. This is a sticky sort of inflation that can prove to be persistent and tends to correlate well with underlying inflation. Intent does not necessarily match reality, but the direction is up and so too eventually will be the path for interest rates. A net 69 percent expect higher rates over the year ahead.

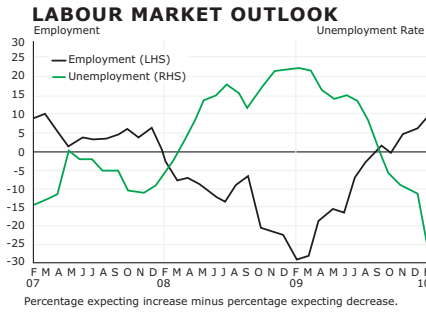
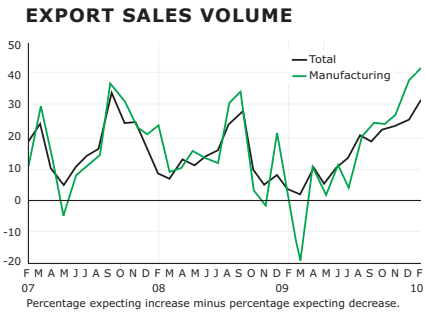
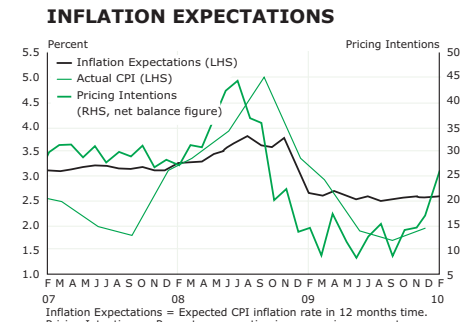
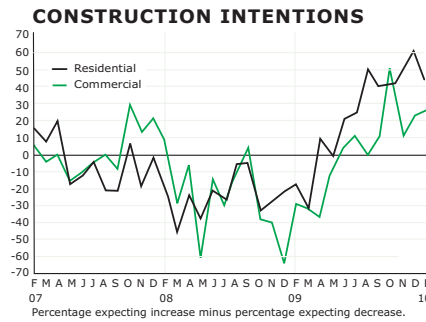
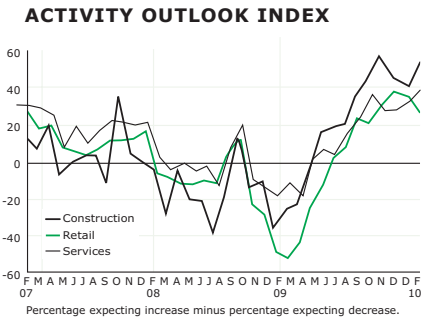
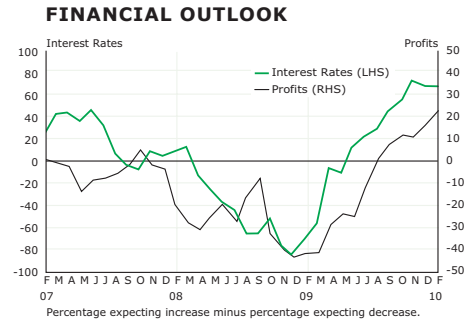
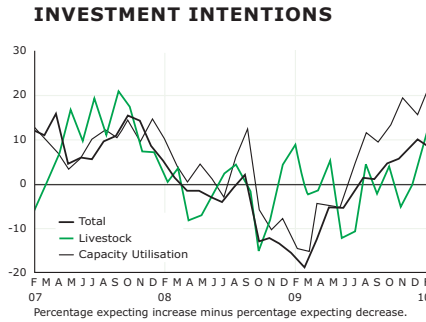
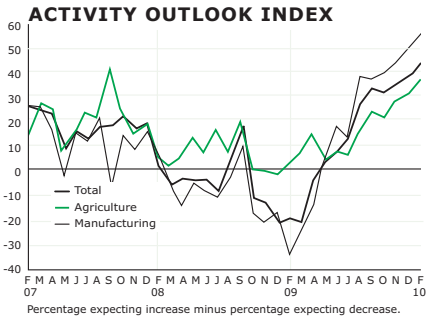


Collectively, we are once again left with an impression that all is well with economic prospects given readings from so-called "soft" economic data (of which confidence surveys are a part). Yes, we acknowledge that positive confidence readings are only natural when you emerge from recession with somewhat of an "it can't possibly get any worse"

attitude filtering through the responses. But we have been on an improving trend now for just under a year. Growth has followed. Admittedly it's not strong, but growth is still growth. We also take considerable heart from the robustness of confidence in what has generally been a barrage of poor news over the past month. Since the start of the year we've had the start of a Greek tragedy, unemployment moving up sharply and the housing market hitting a wall. Positives have been apparent but generally are few and far between.

The coming months for the economy are going to be telling. Stepping back, we continue to see underlying improvement. Yet it would be folly not to be mindful of wider forces. There are still significant global forces at play. Amongst all the hurly-burly, changes to the tax system are also pending. While scant on details, there is clearly going to be behavioural responses in anticipation, with the housing market already suffering indigestion. Such dynamics are going to introduce a huge amount of "noise" into economic statistics as the economy adjusts to a new normal. At this juncture, it will be critical to focus on the big picture and not get caught up in the noise as we sift through the tea leaves.

| SURVEY RESULTS           | TOTAL PREVIOUS |      |
|--------------------------|----------------|------|
| February 2010            | MONTH          |      |
| Business Confidence      | 50.1           | 38.5 |
| Activity Outlook         | 41.9           | 36.9 |
| Exports                  | 30.8           | 25.6 |
| Investment               | 7.6            | 9.8  |
| Livestock                | 13.8           | 0.0  |
| Capacity Utilisation     | 22.2           | 17.1 |
| Residential Construction | 46.7           | 63.0 |
| Commercial Construction  | 29.5           | 25.0 |
| Employment               | 9.3            | 6.4  |
| Unemployment Rate        | 10.3           | 28.9 |
| Profits                  | 23.2           | 16.4 |
| Interest Rates           | 69.4           | 69.3 |
| Pricing Intentions       | 25.8           | 17.7 |
| Ease of Credit           | 8.8            | 5.4  |
| Inflation Expectations   | 2.56           | 2.54 |



**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, financial 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.

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- 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.

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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.

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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.

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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.

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