



A gallop to a canter

Business confidence eased in June. A net 40 percent of respondents expect general business conditions to improve in 12 month's time. But this is down 8 points from the previous month. Confidence fell the most in the construction sector, down 14 points. While easing, the level of economy-wide business confidence still looks decidedly robust.

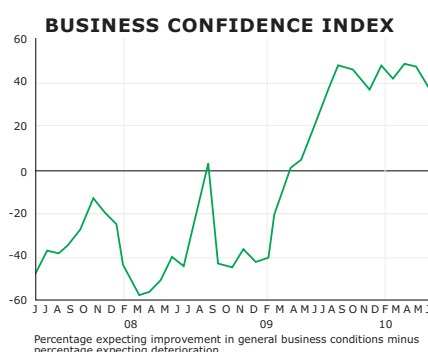
We could get cute and put the drop down to seasonal factors. But on a seasonally adjusted basis, confidence actually fell by more. Besides, we do not find the seasonal pattern stable enough to rely on such estimates. Whichever way you cut it, confidence has eased. But stepping back we need to acknowledge the level, which is still well above its historical average. We'd characterise this month's move as shifting from a gallop to a canter.

The same nuances are apparent across the rest of the survey. Firms' own activity expectations eased. A net 39 percent expect activity for their own business to be better over the year ahead, down from a net 45 percent in May. The biggest decline in own activity expectation was in the services sector, which fell 11 points. Profit expectations fell 5 points to a net 19 percent expecting an improvement in the year ahead. Investment intentions fell 4 points to a net 10 percent, and employment intentions fell 3 points to a net 13 percent. The employment intentions reading, where a net 13 percent expect to be hiring in the year ahead, is still indicative of a healthy appetite by firms to take on staff, which should be reflected in ongoing employment growth.

So directionally, the message is clearly down, but from a robust level. We also note that movements of a couple of points can be considered within the margin of error.

The survey period for this month encompassed some fairly significant contrasting events. The New Zealand Government unveiled an economy friendly Budget and Fonterra announced a better than expected forecast payout for the 2010/11 season. Leaning against the grain were volatile global markets as the sovereign debt crisis in Europe escalated earlier in the month. The Reserve Bank of New Zealand also increased the Official Cash Rate by 25 basis points to 2.75

percent but this was well signalled and really too late to materially impact the survey results.



Such contrasts are apparent in the survey detail. Agricultural confidence bucked the easing trend, albeit marginally but off a lower base than the economy-wide sentiment, no doubt buoyed by the Fonterra news. The improved confidence in the agricultural sector was mirrored in their assessment of their own activity, which rose by 2 points. There was a noticeable 13 point lift in investment intentions in the agricultural sector, which suggests that farmers are preparing to play catch-up after deferring on farm investment and maintenance over the past couple of years. All are encouraging but confidence (activity, employment, investment) across the rural sector is still lagging the economy wide average.

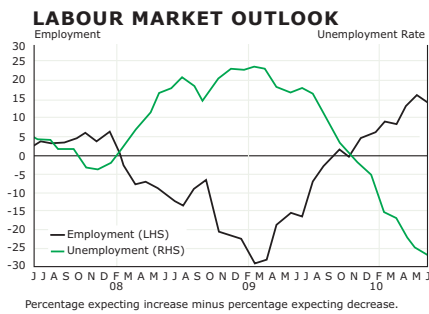
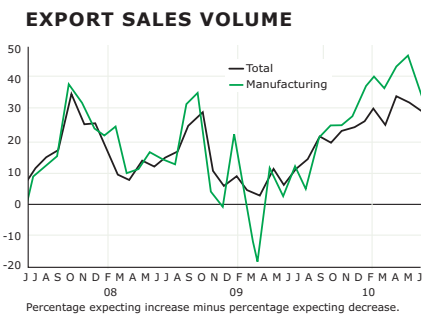
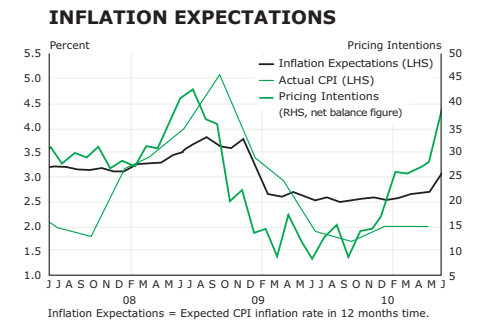
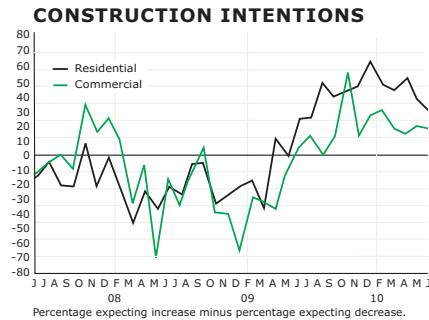
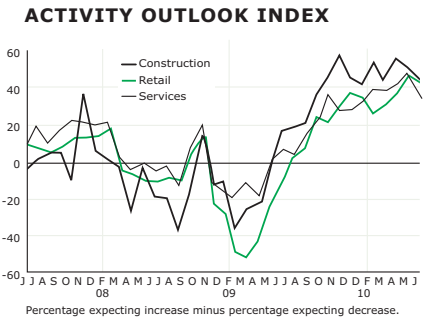
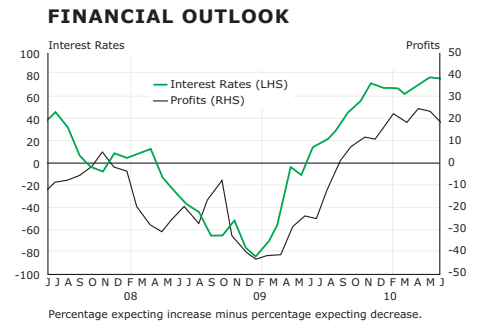
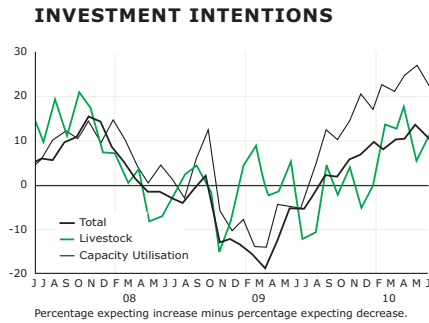
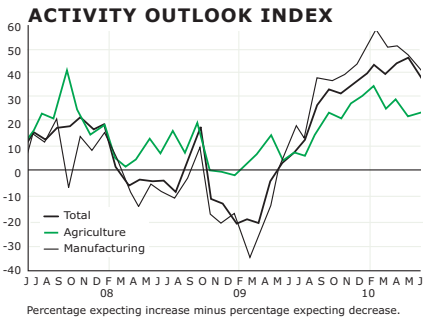
The overall level of investment intentions has fallen below its historical average, and does not point to a strong rebound in business investment anytime soon. We also note that only a net 3 percent of respondents expect it to be easier to get credit in the year ahead, down 11 points. This is an area worth watching, as the ability for firms to invest is dependent on getting access to credit. So far, firms seem to be taking a cautionary view in terms of how the flow-on from the global scene could pan out. A sustained pick-up in investment remains the missing ingredient for a broadening of the recovery, and a critical component of expanding productive capacity.

On a more encouraging note, sovereign debt concerns in Europe did not seem to materially impact on export intentions, with only a 3 point decline being recorded.

This month saw notable increases in the inflation and pricing gauges. Inflation expectations jumped from 2.7 percent last month to 3.1 percent, the highest since December 2008. A net 39 percent of respondents intend to put their prices up, an increase of 11 points with the rise recorded across all sectors. The increase in GST from 1 October is clearly behind these movements, and should not unduly alarm the Reserve Bank of New Zealand. But the Bank will want to ensure that such pricing intentions do not become entrenched, and spill over into broader wage and price setting behaviour.

The process of monetary policy stimulus removal has already begun. Most respondents continue to expect higher interest rates over the coming 12 months, so further increases in the Official Cash Rate will not come as too much of a shock for businesses. Our composite growth indicator from the survey is still consistent with positive growth ahead, and is pointing towards year-on-year growth of above 4 percent by the end of this year. This is respectable growth but does not portend of a sizeable cyclical rebound given the extent of the downturn in 2008 and 2009. The hope is the recovery remains consistent with this and the Reserve Bank doesn't have to take away the punchbowl in fear of the party really starting to rock.

SURVEY RESULTS	TOTAL	PREVIOUS
June 2010		MONTH
Business Confidence	40.2	48.2
Activity Outlook	38.5	45.3
Exports	30.3	32.7
Investment	10.2	13.6
Livestock	11.1	5.0
Capacity Utilisation	22.3	27.0
Residential Construction	28.1	36.0
Commercial Construction	15.6	17.8
Employment	13.4	15.9
Unemployment Rate	-14.6	-10.9
Profits	18.8	24.4
Interest Rates	78.4	79.4
Pricing Intentions	38.6	28.1
Ease of Credit	2.7	13.7
Inflation Expectations	3.10	2.69



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 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.

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:
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 - Associate Member of Investment Savings & Insurance Association of NZ;
 - Financial Markets Operations Association; and
 - Institute of Finance Professionals.

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The insurer is ANZcover Insurance Pty Limited.

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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);
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- 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;
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- 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.

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The Bank provides investment advice on the following types of securities:

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- 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

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- 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.

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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.

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