



Taking a breather

The recovery in business confidence has halted. A net 30 percent of businesses expect better times for the economy over the coming year, down 3 points on the month prior. Business confidence was up in the retailing and manufacturing sectors but down in agriculture, construction and services.

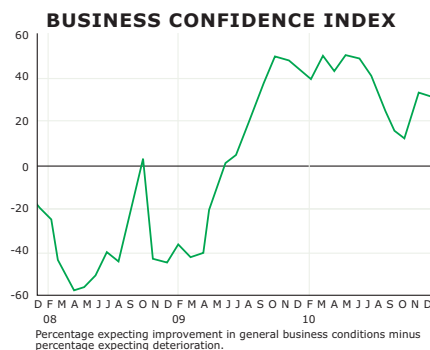
A quick look over the remainder of the survey reveals:

- Firms' own activity expectations were unchanged. A net 35 percent of firms still expect better times for their own business over the year ahead.
- Profit expectations mirrored the stability in firms' own activity expectations. A net 15 percent still expect profits to be up over the coming year.
- Employment intentions rose from +12 to +13. Investment intentions increased from +7 to +8.
- Export intentions lifted 3 points. A net 24 percent of businesses expect to increase volumes over the coming 12 months – somewhat shy of its +33 average.
- Residential investment intentions fell sharply. A mere 3 percent expect the outlook to be better over the coming year, down 28 points on November's reading. Apart from seismic-related activity in Christchurch, prospects across the rest of the country remain anaemic.
- Pricing intentions have lifted 4 points compared to November. But at +22 this is hardly flagging an inflationary undercurrent. This should allow the RBNZ to support returning momentum across the economy via supportive monetary policy and low interest rates for a considerable while yet.

On the whole, while there have been minimal movements across the key gauges, the levels look respectable. Firms' activity expectations are well above their historical average of +26. The same

applies for employment but not so for investment.

Respondents still appear to be taking a wait and see attitude before committing cold hard cash to capex. They've waited and waited, and are still not sure what they see. Confidence has merely stabilised around mid-year levels after a September quarter lull. The housing market remains the key dinner table bellwether insofar as the feel-good factor is concerned, and is lagging behind momentum across the general economy.



Record-high export commodity prices, a low NZD/AUD and supportive monetary policy would normally be the ingredients that hold the promise of significantly better times ahead.

Yet there are still enough factors to keep businesses cautious about prospects, hence the failure to kick-on and see the improving trend in confidence over October and November extend into December. We use the term "cautious" because the readings from the survey remain respectable.

The issue is really one of limited acceleration or preparedness to act. Factors holding businesses back from taking more decisive action include: mother nature (weather and earthquakes), weakening land and house prices, a strong focus on repairing balance sheets, job uncertainty, and Chicken Little's perennial fear.

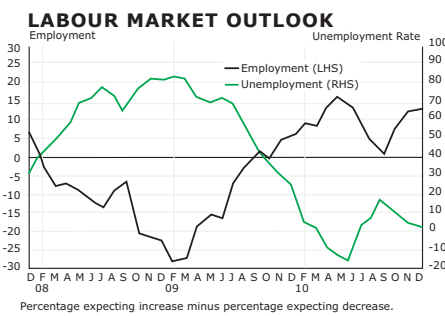
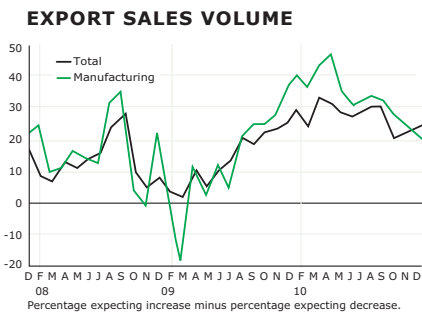
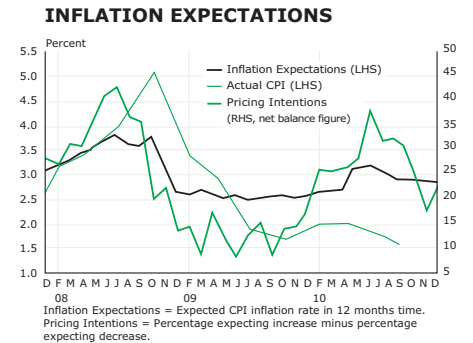
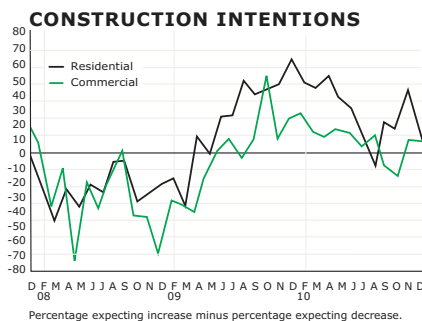
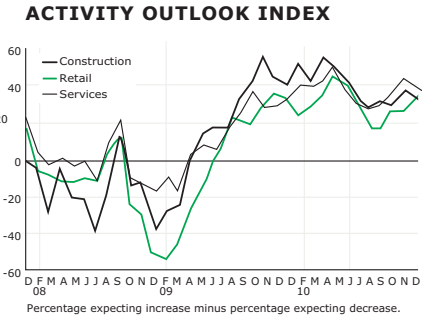
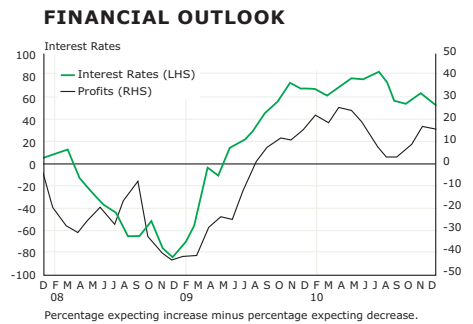
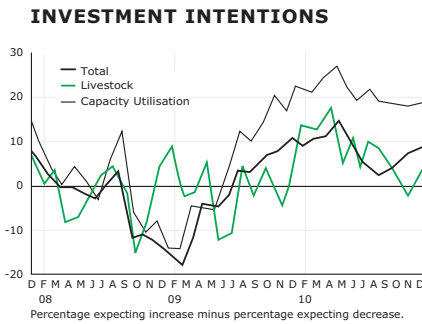
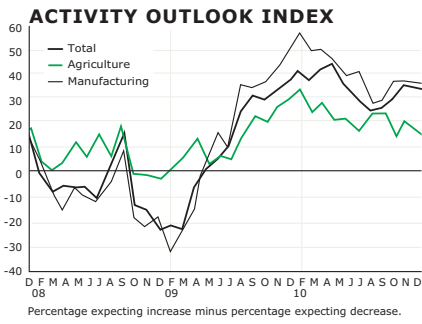
As the door closes on 2010, attention turns to 2011. This year has been a grind. It will neither go down as an annus horribilis, nor a beacon of prosperity. Grumpy growth has been the theme.

Nonetheless, the seeds of a robust recovery are being sown. It takes time for germination to take hold. 2010 was not about getting growth per se. It was about setting the scene for growth that will ultimately prove to be enduring. Flash Harry's need not apply.

The deleveraging headwind for the domestic economy will abate over 2011. But it will not be replaced by a re-leveraging tailwind. The economy continues to face an elongated process of getting some spine and backbone to support spending demands.

We must earn our way to growth before we can spend it. About the only certainty in 2011 is likely to be uncertain times. This is about a fundamental change in society's DNA as well as economic forces. But when you look at places such as the United Kingdom, Greece, Ireland, the USA, and big pockets of Europe, I know where I'd rather be.

SURVEY RESULTS	TOTAL PREVIOUS MONTH	
December 2010		
Business Confidence	29.5	33.2
Activity Outlook	34.5	35.3
Exports	24.3	20.8
Investment	8.3	6.6
Livestock	5.1	-2.5
Capacity Utilisation	16.7	16.5
Residential Construction	2.9	31.1
Commercial Construction	5.3	6.2
Employment	12.5	11.5
Unemployment Rate	2.5	3.1
Profits	14.8	15.4
Interest Rates	53.7	61.1
Pricing Intentions	21.6	17.7
Ease of Credit	11.8	10.7
Inflation Expectations	2.84	2.86



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.

This document has been prepared by ANZ National Bank Limited (the "Bank"), is provided for informational purposes only and does not constitute an offer to sell or solicitation to buy any security or other financial instrument. No part of this document can be reproduced, altered, transmitted to, copied to or distributed to any other person without the prior express permission of the Bank.

This document is a necessarily brief and general summary of the subjects covered and does not constitute advice. You should obtain professional advice before acting on the basis of any opinions or information contained in it. The information contained in this document is given in good faith, has been derived from sources perceived by it to be reliable and accurate and the Bank shall not be obliged to update any such information after the date of this document. Neither the Bank nor any other person involved in the preparation of this document accepts any liability for any opinions or information (including the accuracy or completeness thereof) contained in it, or for any consequences flowing from its use.



Text finalised 14 December 2010

PO Box 540 Wellington 6140

Phone: +64 4 802 2361

Fax: +64 4 473 4929

Email: economics@bnbz.co.nz

You can now receive this report via email, as soon as it's released.

Just visit nationalbank.co.nz/subscribe to register.