



Seismic jolt

Quarterly percentage change

Overall, the nationwide measure of economic activity slipped 0.1 percent in March.

Eight regions recorded a rise in economic activity in the March quarter, while six regions registered a drop. Economic activity in Canterbury was hit by the Christchurch earthquake, resulting in the region's largest quarterly drop in economic activity since the start of our series in 1975. Strong rises in regional activity were evident in Gisborne and Manawatu-Whanganui.

Economic activity in the South Island dropped 1.7 percent, while the North Island recorded a 0.3 percent rise in activity. New Zealand excluding Canterbury recorded a 0.2 percent rise in economic activity.

Year-on-year growth

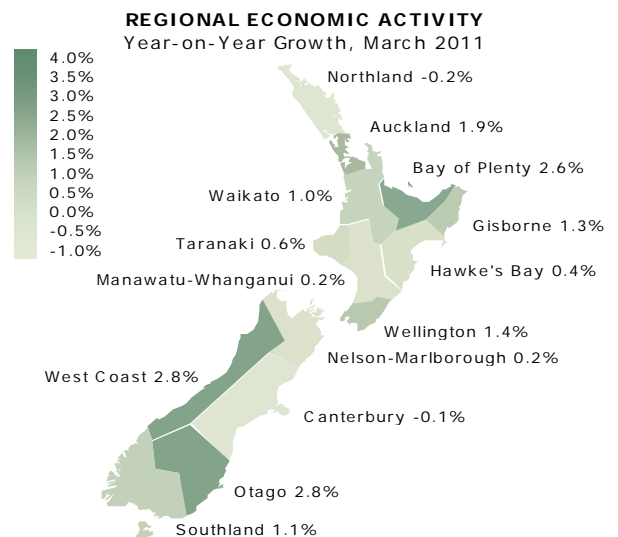
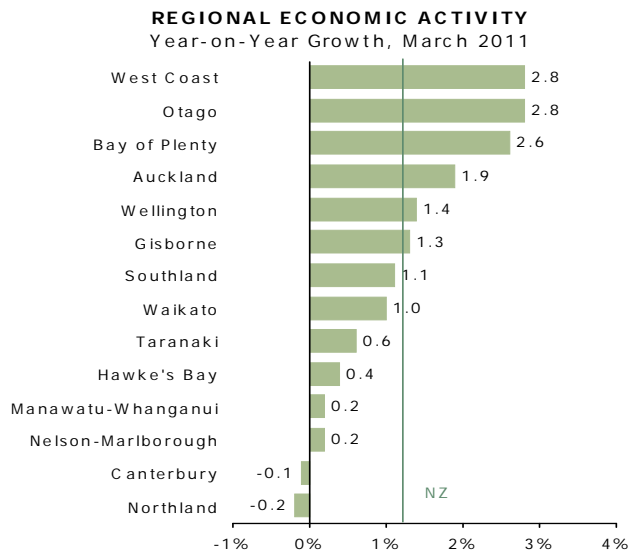
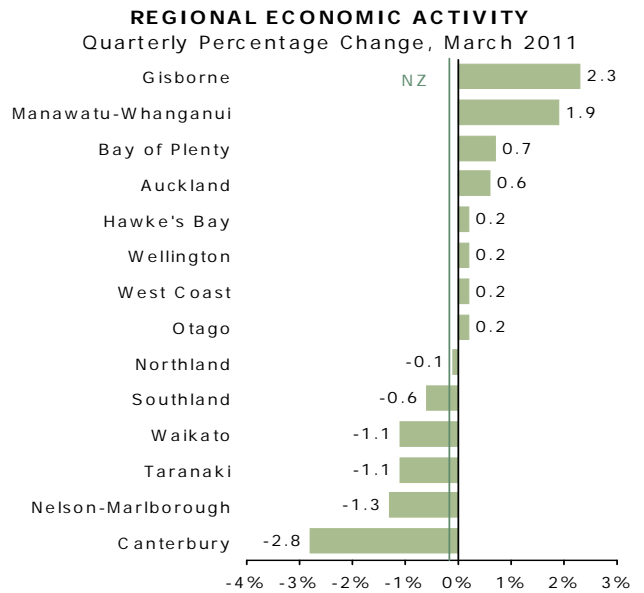
When compared with the preceding quarter, year-on-year economic growth slowed across all regions.

At -0.2 percent, Northland recorded the lowest annual average rate of economic growth, marginally weaker than Canterbury's -0.1 percent decline. At the other extreme, the West Coast and Otago jointly secured the top annual average rate of economic growth, increasing 2.8 percent from a year earlier.

The annual average rate of economic growth for NZ as whole was 1.2 percent. The North Island, at 1.4 percent, had twice the rate of increase of the South Island, at 0.7 percent.

March quarter at a glance

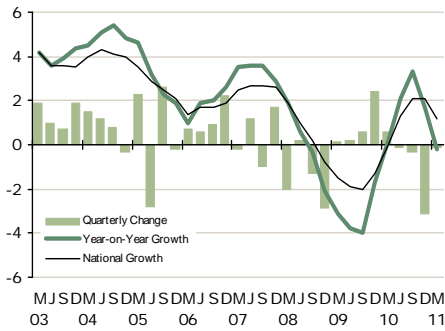
- **Retail interest rates** were lower across the curve, reflecting the cut to the Official Cash Rate following February's earthquake.
- **The exchange rate** was weaker across all our major trading partners.
- **Commodity prices** hit a new record high, both in world and local-priced terms.
- **Business confidence** was hit by the earthquake, with the nationwide measure dropping to an 18-month low.
- **Consumer confidence** fell to a two-year low following Christchurch's earthquake.
- **Retail sales** were not available for inclusion this quarter, due to delayed data collection following the earthquake. We have proxied data for retail using regional Paymark electronic card transaction data.
- **House sales** inched up in the March quarter. Canterbury recorded the largest fall and Auckland the largest increase.
- **Dwelling approvals** eased over most districts, with Canterbury registering the largest decline.
- **Commercial building permits** dropped at the national level, with Nelson-Marlborough recording the largest fall.
- **Employment** lifted in most regions. Manawatu-Whanganui had the largest increase and Southland the largest decrease.
- **The unemployment rate** improved at the nationwide level.
- **New car registrations** slipped nationally.



Regional Summaries

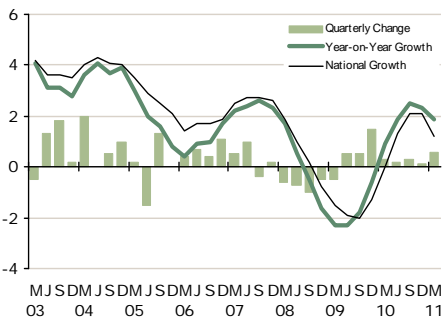
Northland

Northland posted a 0.1 percent drop in economic activity, matching the nationwide drop. The region recorded the highest level of business confidence, the first time that Northland has topped the business survey in thirteen years. Stronger rural real estate sales, new car registrations and a lift in internet job advertising were noted for the region. Offsetting this was deteriorating consumer confidence, which slipped to a two-year low. Weakness in some indicators was also seen in the region, with Northland recording the highest unemployment rate, longest time to sell a house and the largest drop in Paymark transaction volumes.



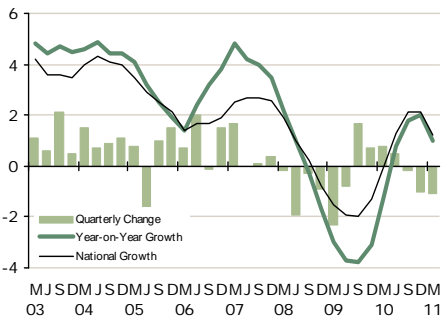
Auckland

Auckland recorded its eighth consecutive rise in economic activity, lifting 0.6 percent in the three months since the end of last year. The region's real estate market was noticeably stronger in the March quarter, with an 11 percent rise in house sales versus the December quarter. The median number of days to sell a house was the lowest across the regions, at 39 days. Rural real estate sales were also stronger, lifting 5 percent in the March quarter and contrasting with a 3 percent drop nationally. Paymark electronic sales volumes rose faster than the nationwide measure and surveyed consumer confidence was down, but remained marginally in positive territory – at a time when it slipped into negative territory nationally.



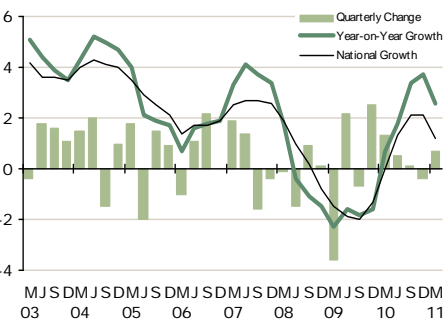
Waikato

For the first time since 1996, Waikato recorded the highest level of consumer confidence across the regions. Waikato also recorded the second highest level of business confidence across the nation. The number of house sales in the region lifted 9 percent, although the median days to sell a dwelling rose 2 days, to 71 days. Waikato recorded weaker levels of building consents for both residential and commercial construction projects. Residential building approvals slipped 10 percent and the issuance of commercial building permits dropped 14 percent. Rural real estate sales were weaker, driven by a 16 percent fall in large farm sales.



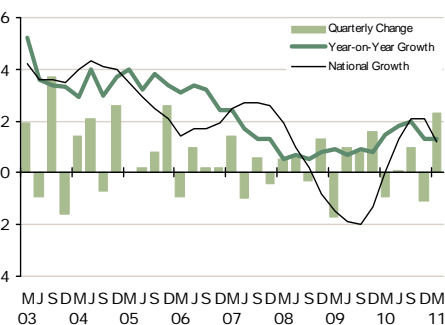
Bay of Plenty

The Bay of Plenty's labour market perked up in the March quarter. The number of people employed rose 3.2 percent in the latest survey, more than twice the nationwide rate of increase. The number of registered job seekers dropped 1 percent, contrasting with a 2 percent rise nationally. This shaved a whole percentage point off the region's unemployment rate, which improved from 7.6 percent in December to 6.6 percent in March. The lift in new car and commercial motor vehicle registrations in the region surpassed the nationwide figures; however the number of new tractor registrations eased, after a surge in registrations in the December quarter.



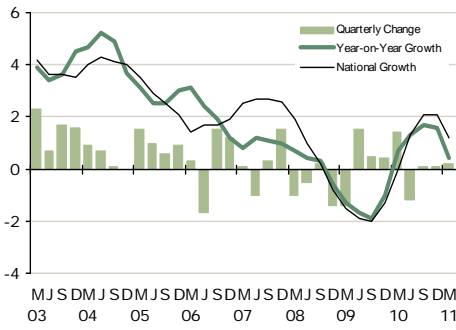
Gisborne

Gisborne recorded the strongest lift in economic activity over the March quarter. Paymark sales volumes in the region lifted 4 percent, with values in the March quarter breaching \$100 million for the first time. The number of permits issued for proposed residential and commercial building projects increased 14 and 15 percent respectively, whereas nationally, both measures were weaker. The number of house sales lifted 9 percent but the median time to sell a house in the region was 76 days in the March quarter, compared with only 46 days nationally. Section sales increased to an 18-month high, and rural real estate sales inched up. New car registration weakened 14 percent and employment eased marginally.



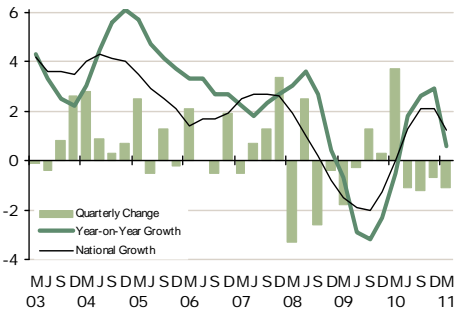
Hawke's Bay

New motor vehicle registrations increased in the Hawke's Bay across all three types (car, commercial and tractors). Commercial and tractor registrations saw noteworthy rises, increasing 20 and 69 percent, respectively. Paymark electronic sales volumes lifted 3 percent, which was the second strongest percentage increase across the regions. The labour market deteriorated in the quarter. Employment edged lower and registered job seekers lifted. Consequently, the region's unemployment rate rose to 7.4 percent in March, up from 6.8 percent in December. Business confidence eased to a two-year low and commercial building permits dropped 19 percent, also dropping to a two-year low.



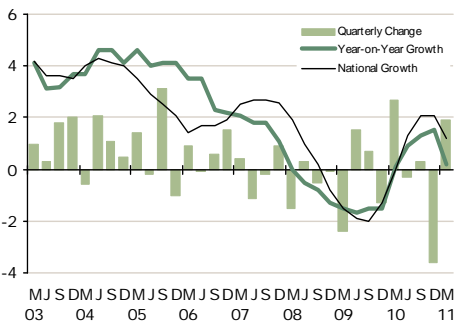
Taranaki

Taranaki registered a large drop in rural real estate sales in March, with sizeable falls recorded for both farms and lifestyle blocks. The number of dwelling approvals fell 15 percent, to hit a new low, and the number of commercial building permits eased 4 percent. The number of house sales lifted 7 percent, with the median time to sell a house easing by one day, to 55 days. The number of new tractor registrations lifted to a three-year high, which is perhaps the first tangible sign of the improved level of commodity prices feeding through into spending. Business confidence was the third highest across the regions, but consumer sentiment fell marginally below the nationwide average.



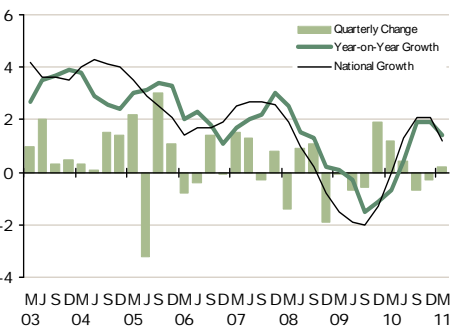
Manawatu-Whanganui

Following a drop in the December quarter, economic activity in the region rebounded in March. Manawatu-Whanganui posted the largest rise in employment, lifting 4.3 percent from a slump in December but still below the strong figure published in September 2010. The number of house sales rose 9 percent, to touch its highest level in a year. The median time to sell a house shortened from 66 days in December to 52 days in March. Rural real estate sales volumes lifted 10 percent, underpinned by a 21 percent rise in the sale of lifestyle blocks. New car registrations dropped 10 percent and tractor registrations slipped to a new low, after a strong surge in the preceding quarter.



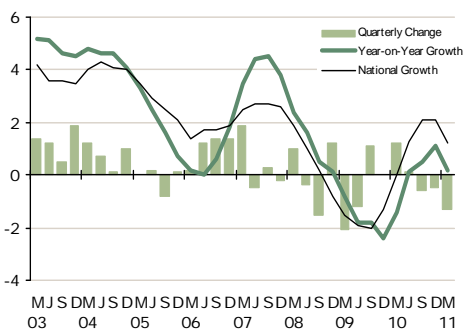
Wellington

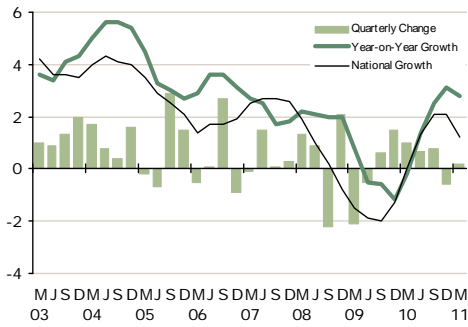
Consumer confidence among Wellingtonians slipped in the March survey but remained on the positive side of the ledger. Wellington new car registrations recorded an 8 percent lift in March, lifting the series to its highest level since June 2010. Both residential and commercial building permits lifted in March, with respective increases of 11 and 12 percent. The increase in commercial building projects was more notable, reaching the highest quarterly level since December 2008, whereas residential permits only lifted to a 9-month high. The number of house sales in Wellington eased 3 percent, dropping to its lowest level since December 2008. The median time to sell a house in Wellington lengthened to a two-year high of 46 days.



Nelson-Marlborough

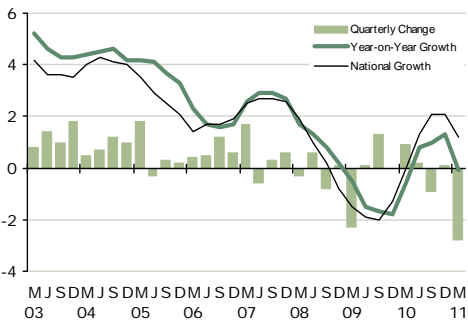
A relatively low level of sentiment was measured in both business and consumer surveys in Nelson-Marlborough over the March quarter. The number of commercial building permits fell 20 percent, to a new record low, and the number of residential dwelling approvals slipped 11 percent, also to a new low. The region recorded a large rise in registered job seekers, but a 2.7 percent lift in employment kept the region's unemployment rate at a nationwide low of 4.3 percent. The number of houses sold in the region dropped 6 percent, to its lowest level in over a year. New motor vehicle registrations increased over all three types (car, commercial and tractors), but commercial registrations posted the strongest rise across New Zealand in March, following a slump in the December quarter.





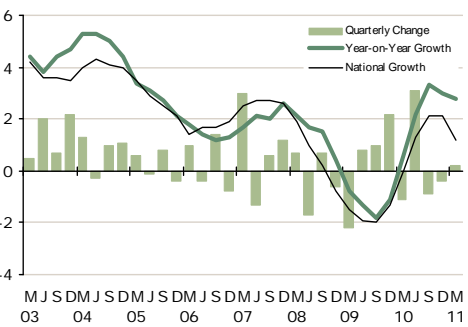
West Coast

The West Coast posted a modest rise in economic activity in March. The numbers of commercial and residential building permits issued in the region both rebounded in March, after dropping in December. There was a easing in the number of house sales in the region, but the number of days to sell a house shortened by a full fortnight, from 79 days in December to 64 days in March. Paymark electronic sales volumes slipped in March, contrasting with a modest rise nationwide. New car registrations slipped 4 percent, drifting down to its lowest level since December 2009. However, new tractor registrations lifted to an 18-month high.



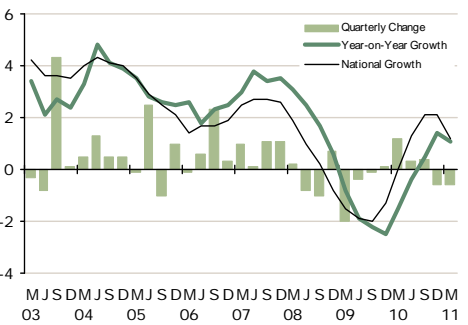
Canterbury

Not surprisingly, the Christchurch earthquake dented economic activity in the region, although some of the monthly indicators were beginning to recover prior to the event. Canterbury recorded the lowest level of consumer confidence in New Zealand, but the level of sentiment remains higher than during darkest period of the global financial crisis. The number of house sales plummeted 26 percent from the December quarter and new car registrations dropped 15 percent. The level of surveyed employment and Paymark electronic sales volumes both fell 1 percent. Business confidence remained relatively upbeat despite the earthquake. Commercial building permits registered only a modest drop, but this includes the first half of the quarter, preceding the earthquake.



Otago

After a drop in the December quarter, Otago recorded a large lift in employment in March. The region's unemployment rate improved to 4.6 percent, down from 5.7 percent in the preceding quarter. The number of rural real estate sales increased, underpinned by a lift in farm sales, which hit a two-year high. New motor vehicle registrations rose across all three vehicle types, with the largest relative lift being a 26 percent rise for commercial vehicles. The number of house and section sales in Otago dipped 4 and 5 percent respectively, and the median time to sell a house remained at a two-year high.



Southland

After a strong rise in December, employment in Southland dropped 3.3 percent. Businesses and consumers in Southland both recorded low levels of surveyed economic sentiment. The issuance of residential and commercial building permits weakened in March, both easing to 12-month lows. The number of house sales in Southland dipped slightly but rural real estate sale numbers rose to a 2½ year high, on the back of a 26 percent lift in farm sales. Paymark electronic sales volumes rose 1.2 percent in the quarter, more than twice the 0.5 percent nationwide rate of increase.



The National Bank

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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.

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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.

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