



Looking for substance

The economic patient is beginning to show real signs of life. Our respondents have continued to perk up. A net 38 percent of businesses expect better times for the economy over the coming year, up 24 points on April. General business confidence has now lifted 47 points in two months, more than reversing the post-quake decline seen March. All five sub-sectors showed a material lift.

Importantly, firms' own activity expectations have shown the same improving tone. Lifting general business confidence is one thing. But ultimately the test for the economic outlook is what firms think about their own business prospects.

A net 40 percent of businesses expect better times ahead for their own business, up 10 points on April's reading. Firms' own activity expectations are now higher than pre-earthquake levels, and are at levels last seen in March to May of 2010.

Other indicators continue to turn for the better. Profits expectations lifted from +8 to +23. Employment intentions rose from +6 to +13. Investment intentions lifted from +6 to +15. All have risen above their long-term averages. The lift in profit expectations is particularly encouraging as it foretells real cash flow being available to be put to work. Conversely, export intentions dipped a tad. Residential investment intentions receded after a large rise last month. However, the level – a net 33 percent expecting a lift – remains healthy.

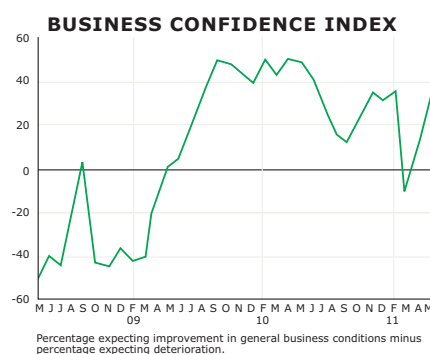
Pricing intentions and inflation expectations have started to drift up. One-year ahead inflation expectations have risen to 3.3 percent (previously 3 percent) and pricing intentions lifted 6 points. A net 34 percent of businesses expect to be raising prices over the year ahead, with the increase most pronounced in the service sector. The lift is not worrying, as yet, but watch this space.

Slicing and dicing the regional and sectoral picture reveals few sustained trends. Suffice to say that the underlying nuances are of incremental improvement.

Canterbury has shown the most remarkable turnaround in sentiment over the past two months and resides near the top of the rankings on most measures, though this is far from clear cut.

Canterbury is second in the confidence stakes, fifth equal in regard to own activity expectations, second on the profit expectations ranking, and first when it comes to the outlook for employment and residential investment.

Our composite growth indicator from the survey continues to strengthen. It is pointing to 4¹/₂ percent economic growth over the year ahead.



Last month, one commentator pointed out that improving business confidence (and more importantly, the subset of real barometers such as firms' own activity expectations) last year proved to be a head-fake, given how the economy ended up faring in 2010. This time last year, the composite indicator from the survey was pointing to the same lofty rate of expansion over the year ahead as this month's survey. Reality failed to live up to expectation then.

Of course circumstances can change, and they certainly did from mid 2010. But even abstracting from that, there appeared to be a disconnect between reality and substance. About the only certainty at present is uncertainty itself, a by-product of the global financial crisis.

Is history set to repeat? Are respondents in denial, wearing rose-tinted glasses that will soon fall off again? Or alternatively, are they stuck in a mindset

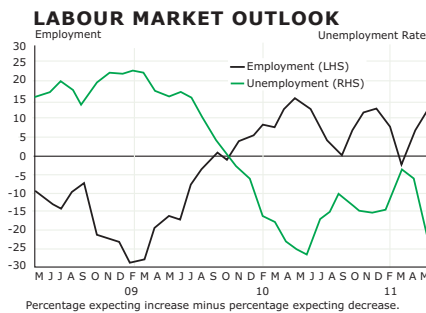
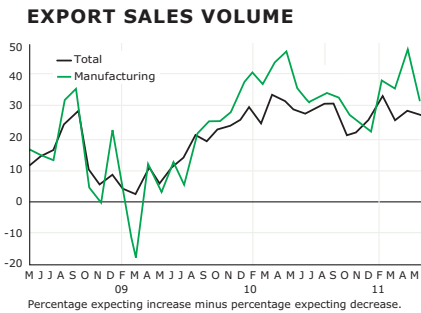
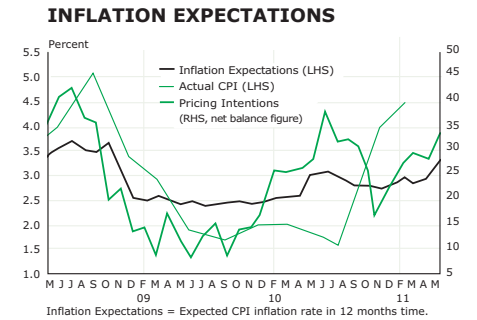
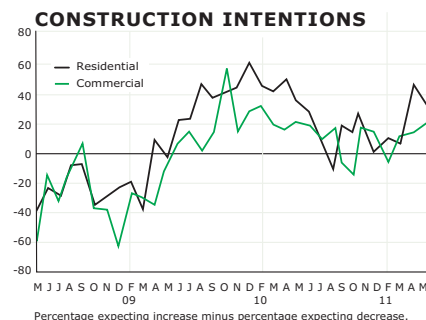
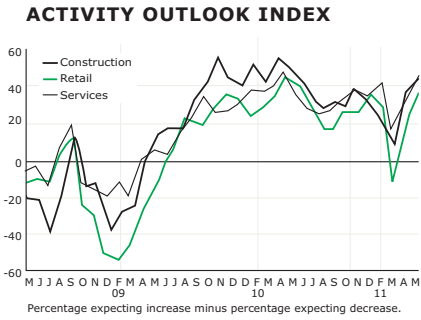
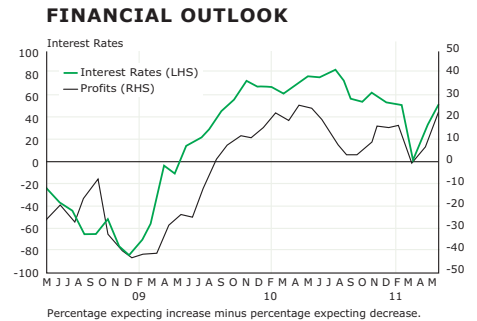
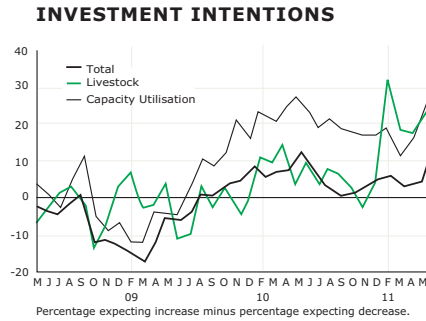
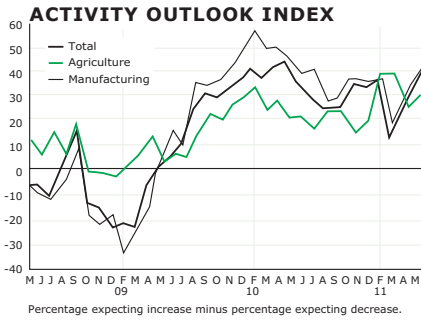
of depression (things can't possibly get any worse and so they must get better). Or are they, having reached an acceptance that slow growth is this economy's lot, simply getting on with business? Or is this the start of something big?

It is precisely these sorts of dichotomies that make such surveys relevant. Of course no economic indicator will prove adept and timely at all junctures of the business cycle. If they were, we wouldn't need official statistics, let alone economists to interpret them!

But time and time again business confidence surveys have proven adept at picking turning points in the business cycle. The views of businesses matter. It is real-time information. It is still far from perfect. The surveys need to be read in conjunction with other information as well.

It pays to use as many indicators as possible, and trust none of them. Head-fakes, understatement and overstatement will come and go. The economy is a complicated beast. The problem with selectively dismissing, or focusing on indicators, is that you never know till after the fact whether you should have done the former or the latter. But for what it's worth, this indicator is firmly pointing up.

SURVEY RESULTS	TOTAL	PREVIOUS MONTH
May 2011		
Business Confidence	38.3	14.2
Activity Outlook	39.7	29.5
Exports	28.2	28.6
Investment	14.8	6.1
Livestock	26.2	17.8
Capacity Utilisation	28.7	16.4
Residential Construction	33.4	48.4
Commercial Construction	20.7	15.1
Employment	12.6	5.9
Unemployment Rate	-4.9	22.9
Profits	23.1	7.5
Interest Rates	52.3	30.3
Pricing Intentions	34.2	27.8
Ease of Credit	12.8	5.4
Inflation Expectations	3.30	3.04



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.

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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.

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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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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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