

### Balance of Payments – June 2008 quarter

#### Key points

- > **The current account deficit deteriorated sharply in Q2 – driven by imports and the investment income deficit.**
- > **Worse than expected net exports imply further downside risk to Q2 GDP released next week.**
- > **A weak economy, lack of fiscal headroom (deteriorating cash position, although low levels of Government debt) and stubbornly high external deficit is not a good mix in the current environment.**

#### Assessment

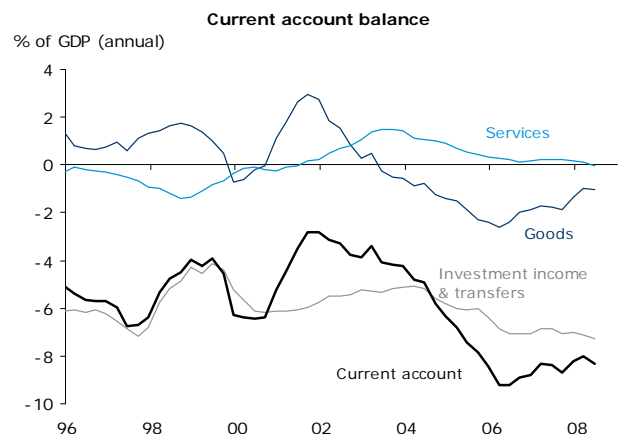
**The seasonally adjusted current account deficit deteriorated sharply in the June quarter**, widening by \$1,097 million to \$4,623 million. A larger goods and services deficit – particularly driven by both goods and services imports – made the largest contribution to the wider deficit. A larger investment income deficit due to higher profits achieved by foreign firms operating in NZ and a fall in income earned by NZ investments offshore also made a contribution. In annual terms, the current account deficit grew from a revised 8.0 percent of GDP in the March quarter, to an estimated 8.3 percent in the June quarter – well wider than market (and our) expectations.

**The import numbers suggest further downside risk to GDP.** It was the import numbers in today's release that provided the biggest surprise. While June quarter OTI data showed import values increasing 8.1 percent (with volumes up 5.4 percent), we suspected that a large portion of this was due to the importation of oil-related capital equipment that was unlikely to be included in the BoP (and SNA) accounts due to ownership reasons. The data today suggests this will not be the case. To be fair this should have a minimal impact on GDP due to it "netting out" with an increase in investment. However, services imports were also stronger than expected due to spending related to oil exploration and it is this that poses downside risk to our -0.5 percent estimate of June quarter GDP growth. But we see little point changing our estimate this close to the release, and will instead highlight the risk.

**There were some interesting dynamics in terms of how the deficit was funded in the quarter.** For the first time since June 2006, the quarterly current account deficit was primarily financed by a withdrawal of NZ investment offshore (\$5.2 billion). Now the data is extremely volatile on a quarterly basis so we need to be careful

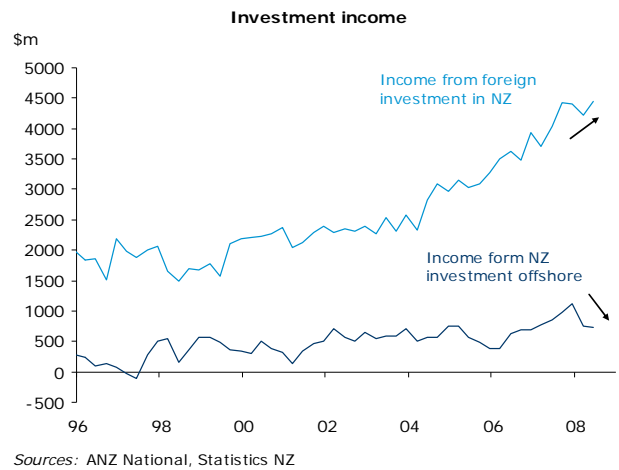
making sweeping assessments, yet we can't help but feel this is related to the credit events offshore over the past 12 months.

	Goods Balance \$m	Services Balance \$m	Invt. & Trsf. Balance \$m	Current Account Balance \$m	Annual CAB as % of GDP
Jun-06	170	-236	-2,778	-2,843	-9.3
Sep-06	-1,435	-658	-2,578	-4,671	-8.9
Dec-06	-1,221	239	-3,019	-4,001	-8.8
Mar-07	-342	1,032	-2,960	-2,270	-8.3
Jun-07	21	-192	-2,984	-3,154	-8.4
Sep-07	-1,632	-649	-3,187	-5,467	-8.7
Dec-07	-428	97	-3,150	-3,481	-8.2
Mar-08	294	933	-3,335	-2,109	-8.0
<b>Jun-08</b>	<b>-68</b>	<b>-444</b>	<b>-3,399</b>	<b>-3,911</b>	<b>-8.3</b>
<b>ANZ</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-3,092</b>	<b>-7.7</b>
<i>Market</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-3,303</i>	<i>-7.8</i>



**We find it difficult to envisage a material improvement in the current account deficit for some time.** With the terms of trade now levelling out (to falling) and a higher cost associated with servicing the existing large stock of debt (82 percent of GDP in a net sense), it is difficult to envisage a material improvement in the current account position, even from these extended levels. This is particularly so when we consider that the rotation of growth away from the domestic side of the economy to the export sector will be stymied by

recent events and a softer global growth climate. Historically, improvements in the deficit have been dominated by import adjustments as opposed to improved export competitiveness. Hence, looking at the domestic economy, there looks another leg to go. In the meantime, and whilst running such deficits, NZ will remain very susceptible to swings in global sentiment and the “credit” nature of global events.



#### 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.

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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.

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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.

##### 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.
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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.

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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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