

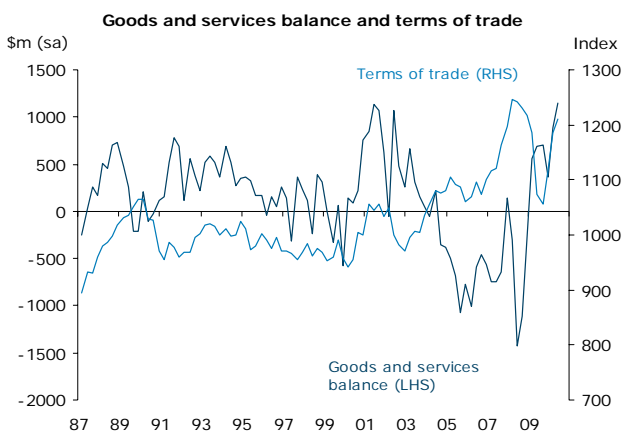
DATA REVIEW

ASSESSMENT

The current account deficit came in larger than market expectations at -\$880m. For the year, the deficit stands at -3 percent of GDP, higher than the -2.4 percent recorded in Q1. A strong trade surplus was offset by a higher investment income deficit.

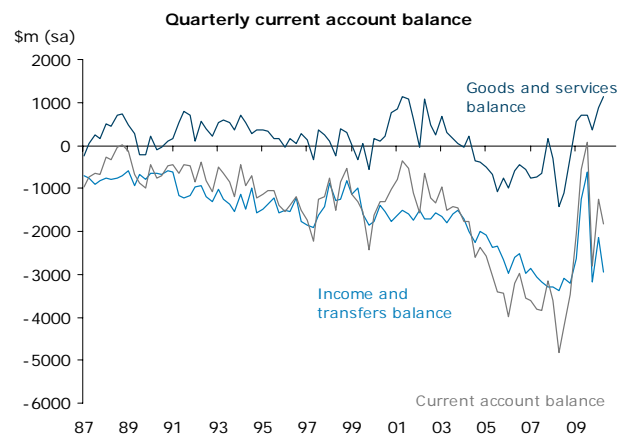
	Goods Balance (\$m) sa	Services Balance (\$m) sa	Invst. & Trsf. Balance (\$m) sa	Current Account Balance (\$m) sa	Current Account Balance (\$m) actual	Annual CAB as % of GDP
Dec-07	91	53	-3,287	-3,143	-3,619	-8.1
Mar-08	-316	15	-3,303	-3,604	-2,098	-7.9
Jun-08	-1,234	-187	-3,389	-4,810	-3,939	-8.3
Sep-08	-934	-177	-3,095	-4,206	-6,123	-8.6
Dec-08	78	-341	-3,207	-3,469	-4,074	-8.8
Mar-09	727	-160	-2,620	-2,054	-587	-8.0
Jun-09	713	-19	-1,264	-570	262	-5.7
Sep-09	595	112	-624	83	-1,547	-3.2
Dec-09	296	65	-3,168	-2,808	-3,332	-2.8
Mar-10	936	-55	-2,135	-1,254	159	-2.4
Jun-10	1,226	-76	-2,964	-1,814	-880	-3.0
ANZ	-	-	-	-	-1,800	-3.5
Market	-	-	-	-	-600	-2.8

High commodity prices continue to help drive an improvement in New Zealand's trade balance. In seasonally adjusted terms, the goods balance has increased to \$1,226m in Q2 from \$936m in the previous quarter. This marks the seventh consecutive quarterly trade surplus and is the largest goods balance since the series began in 1987. Given where commodity prices are and the lags that are still to flow through into our merchandise trade data, we can expect our goods export numbers to move higher still, maintaining a trade surplus into the end of the year. Import values were up marginally, driven by an increase in intermediate goods. Consumption good imports increased slightly, whereas the value of capital goods fell.



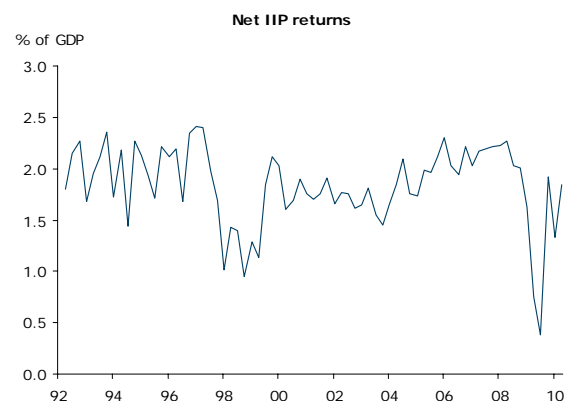
Sources: ANZ, National Bank, Statistics NZ

It is a different story on the services balance however. While visitor arrivals have managed to hold and even grow slightly, the composition has changed, with less coming from the higher spending countries and more from Australia, who then to have shorter stays and spend less per day. This has resulted in the services balance heading into deficit for the second consecutive quarter in seasonally adjusted terms. With the higher spending Japanese, European and American tourist numbers unlikely to be growing given challenges in their respective economies, the services trade balance is unlikely to see much of a material improvement in the near-term.



Sources: ANZ, National Bank, Statistics NZ

Also weighing on the current account is a turn in the profit cycle. While this is positive for the business sector, this results in a larger investment income deficit. In seasonally adjusted terms, the invisibles deficit has increased to \$2,964m from \$2,135m in the previous quarter. The increase in the investment income was driven by a \$480m increase in foreign investors' earnings on investment in New Zealand, which largely reflected a rise in income earned by foreign direct and portfolio investors from their equity investment in New Zealand companies.



Sources: ANZ National, Statistics NZ

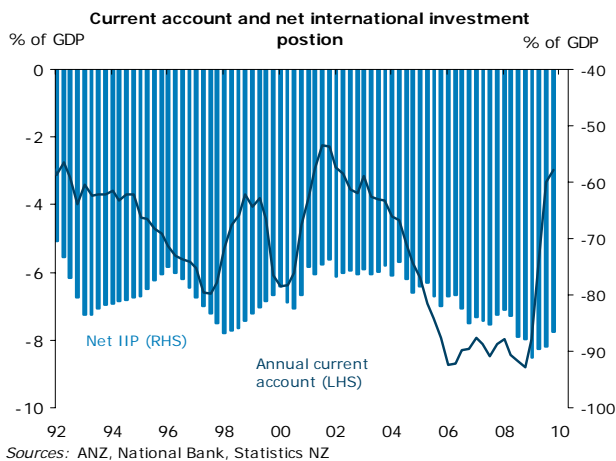
DATA REVIEW

The June quarter introduced the usual annual revisions. There were some methodological changes with major changes to the income component of the Balance of Payments statistics. These included using IRD data to estimate the value of compensation of employee debits from non-resident workers in New Zealand; as well as estimates of investment income inflows and outflows of companies, individuals, estates, trusts and partnerships. These changes lifted the value of investment income credits and debits and while they tended to narrow historical estimates of the current account deficit, changes over the last few years have been broadly offsetting.

Revisions have also lowered New Zealand's external debt. New survey estimates now suggest a significantly lower amount of portfolio investment in New Zealand from overseas whereas estimates of portfolio investment by New Zealanders overseas were revised up. In combination these revisions had the effect of lowering our net external overseas investment position by approximately \$5.6bn. At 86.5 percent of GDP our net external liabilities remain very high but from a slightly less uncomfortable starting point.

get New Zealand to materially alter its savings behaviour.

There are no monetary policy implications from today's release, though we note that there is some upside risk to our 0.7 percent pick for tomorrow's Q2 GDP release. Based on the current account numbers, the net export sector now looks likely to make a positive contribution to Q2 GDP growth (we were initially expecting a slight negative contribution). However, it is not material enough to see us alter our 0.7 percent pick. However, we note that nominal GDP looks to be weaker than we had initially thought, likely via a lower GDP deflator.



IMPLICATIONS

The current account deficit has peaked, and we expect it to widen further from here. Continued profit improvement as the economy continues its gradual recovery, alongside an expected pick-up in import demand eventually, will be the main drivers of the widening deficit. However, we do not expect a return to current account deficits of 7 percent plus. In the current environment, that would be a recipe for a credit rating downgrade. Instead, we see a sustainable current account deficit in the 4 to 5 percent range, which is where we seem to be headed, absent a material structural change that will

DATA REVIEW

NEW ZEALAND 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.
- ING (NZ) Holdings Limited (ING), as a wholly owned subsidiary of the Bank, is an associated person of the Bank. ING and its related companies, including ING (NZ) Limited, may receive remuneration from a third party relating to a security sold by the Investment Adviser.
- Direct Broking Limited (DBL), as a wholly owned subsidiary of the Bank, is an associated person of the Bank. DBL 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:



DATA REVIEW

- 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.

NEW ZEALAND 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.

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