

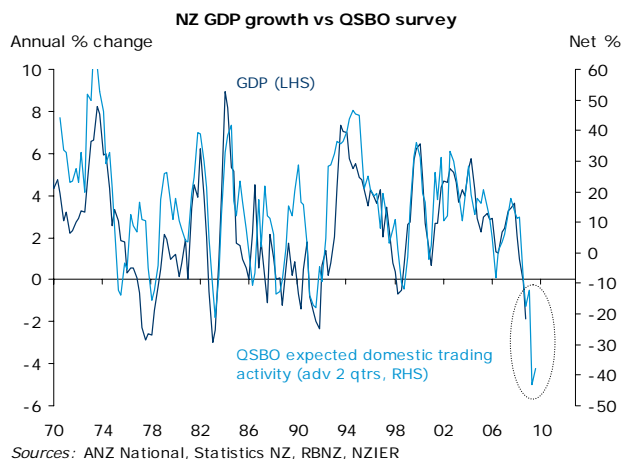
Quarterly Survey of Business Opinion: March 2009 quarter

Key points

- > Today's QSBO survey makes for grim reading, with the economy contracting at an alarming rate.
- > The labour market continues to deteriorate and investment plans are on hold – both disconcerting signs.
- > The RBNZ's forecast for a strong H2 rebound is looking unlikely and the recent tightening in monetary conditions is clearly unwarranted.
- > Monetary conditions need to ease a lot further.
- > The currency is the relative price that needs to adjust lower to support the economy.
- > However, given global forces restraining the NZD's adjustment and today's glum confidence reading, the odds now shift towards the OCR heading towards 2 percent. Today's RBA decision will likely be key in so far as influencing whether the RBNZ's April move is a 25 or 50bp cut.

Assessment

Headline business confidence stabilised at depressed levels, but that is where the good news ends. A net 65 percent of firms expect the general business situation to deteriorate over the next six months. This is broadly unchanged from a net 64 percent in the December quarter. On a seasonally adjusted basis, headline business confidence improved from -77 to -58. However, the majority of other activity indicators within the survey deteriorated, and in some cases to record lows, highlighting that the economy continues to deteriorate at an alarming rate.



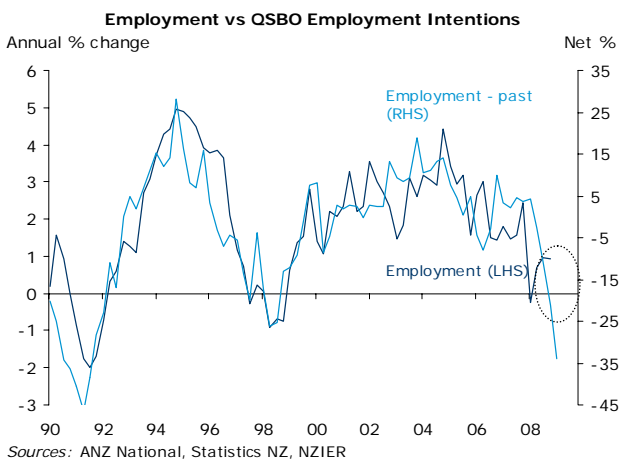
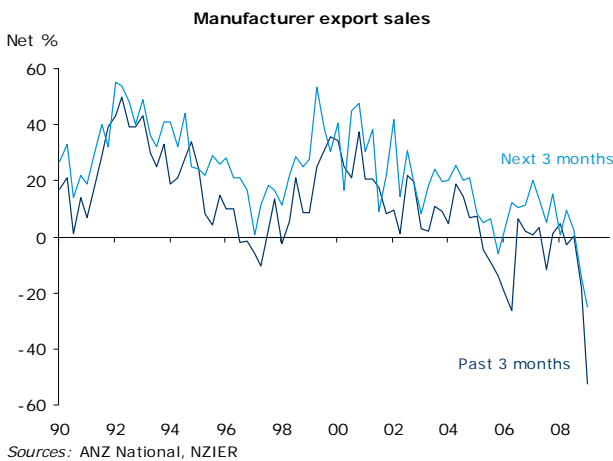
The domestic trading activity reading points to a potentially larger contraction in March quarter GDP. On a seasonally adjusted basis, a net 47 percent of firms reported a fall in their own activity – the worst reading since 1970. This implies another large contraction in GDP, and potentially bigger than the 0.9 percent fall recorded in Q4. The expected domestic trading activity

reading (for the next three months) showed a slight improvement from December's record low, but is still the second worst reading on record. Based on the historical relationship with annual GDP growth, current levels are pointing to a contraction in excess of 4 percent.

	Headline business confidence		Domestic trading activity – next 3 mths		CUBO	Avg selling price – next 3 mths
	actual	s.a.	actual	s.a.		
Q1 2007	-15	-8	16	18	0.9182	40
Q2 2007	-37	-26	9	14	0.9156	35
Q3 2007	-27	-32	15	11	0.9134	34
Q4 2007	-26	-38	14	12	0.9204	35
Q1 2008	-64	-57	-10	-9	0.9262	45
Q2 2008	-64	-53	-23	-18	0.9237	49
Q3 2008	-19	-25	-8	-12	0.9079	28
Q4 2008	-64	-77	-41	-43	0.8878	-3
Q1 2009	-65	-58	-39	-38	0.8633	-6

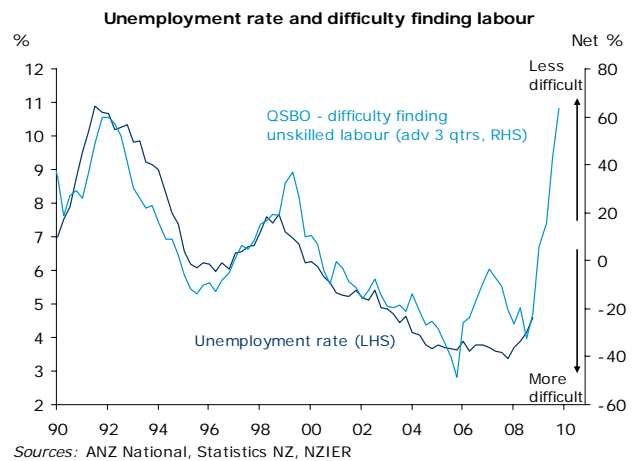
Weakness was broad-based. Across all regions, confidence remains at very depressed levels. Interestingly, merchants are less pessimistic than before, but they have been one of the hardest hit so far. Their level of activity remains at very low levels. Services firms are really starting to feel the brunt of the recession now, with a net 46 percent reporting a decrease in activity in the March quarter and a net 36 percent expecting further deterioration in the coming quarter. Both these numbers are at record lows. Interestingly, architects reported a sharp drop off in work from the government over the next 12-24 months. Given that we are relying on government spending to provide a base level of support for the economy, this is not a welcome development.

The impact from the global recession is showing through. Not only is the weak domestic economy having an influence, but sharply lower trading partner growth is also now weighing heavily on activity. This is no better seen than in the manufacturing sector. A net 57 percent of manufacturers reported a decrease in output in the March quarter – the highest since the series began in 1962. A net 52 percent reported lower export orders. The outlook remains grim, with a net 64 percent reporting a decrease in new orders, a net 35 percent expecting output to fall in the next three months, and a net 25 percent expecting lower export sales. With the global recession expected to intensify in the near-term, the flow-on impact from this will continue to be felt through this year. The fact that most of the survey responses were received when the NZD/USD was in the low 0.50s suggests that conditions facing manufacturer exporters are now worse given where the currency currently resides.



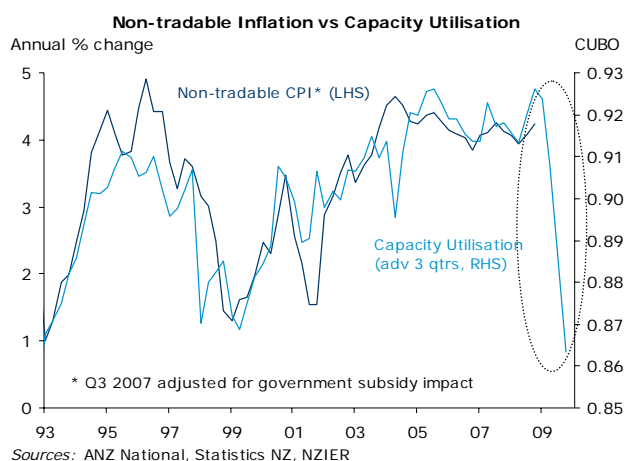
The labour market continues to deteriorate at a rapid pace. A net 34 percent of firms shed staff in the March quarter, and a net 36 percent expect lower staff levels over the next three months. Not only this, but firms continue to cut back on the number of hours their staff work, with a net 43 percent reporting a drop in over-time worked (up from -29 percent) and expectations for the next

three months are at a record low. There is little doubt that the unemployment rate is set to rise sharply over the coming 12 months. Therefore, it is not surprising that firms are finding it significantly easier to find staff (those that are still employing anyway), with a net 42 percent and net 63 percent reporting that it had become easier to find skilled and unskilled staff respectively – both the highest in over 30 years. These levels surpass the period in the early 1990s when the unemployment rate was over 10 percent.



It is the same story for investment. Firms are not only on a hiring freeze, but investment plans are being shelved as well, with investment intentions falling to record low levels. A net 46 percent of firms plan less investment in buildings, and a net 44 percent intend to invest less in plant and machinery over the next 12 months. The former suggests to us that the recent strength in commercial building consent issuance will not be maintained. However, the latter also poses concerns in terms of the economy's growth potential when a recovery does develop.

Considerable slack is opening up in the economy. Capacity utilisation fell to 86.3 percent in the March quarter, down from 88.8 percent in December, and is at the lowest levels since June 1992. While the fall in capacity pressures in the last survey was largely driven by exporting manufacturers, the easing in pressures was universal across both builders and manufacturers in the March quarter survey.



Inflation is clearly not an issue at present. For the second consecutive quarter, more firms intend to cut their selling prices than raise them, with a net 6 percent planning on lowering their prices in the next three months. This follows a net 2 percent that actually cut their prices in the past three months – the first time in nearly 10 years. With capacity pressures easing rapidly, and the labour market turning, the medium-term drivers of inflation are significantly more favourable and should see inflation remain comfortably within the RBNZ's target band over the next few years. Construction costs look set to weaken significantly, with a net 22 percent of builders planning to reduce their prices over the next three months.

The bottom line from today's survey is that the economy is still contracting and yet to bottom. While there have been some indicators of late, particularly in relation to the housing market, that point to conditions stabilising, it is clear that with the labour market deteriorating rapidly, this momentum will not be sustained. The RBNZ's expectation of a strong rebound in activity over the second half of this year is looking increasingly unlikely.

Implications

Today's QSBO result highlights the weakness in the NZ economy, and that the recent tightening in monetary conditions is unwelcome and risks exacerbating the downturn. With the global economy still mired in recession and NZ exporters now feeling the brunt of this, it reinforces our view that the currency needs to be the key release valve to help stabilise the economy. A lower currency is also a much needed relative price signal in order to engineer the rebalancing of the economy away from consumption towards the earnings sector (ie exports).

With the RBNZ's statement last week about the rise in longer-term interest rates being unwarranted and inconsistent with the monetary policy outlook only having a temporary effect, and today's QSBO showing a deeper downturn than what the RBNZ projected in their March *Monetary Policy Statement*, the risks have now shifted to the RBNZ having to do more. While the RBNZ essentially kept 50 basis points of easing up their sleeve in the March *Statement* (flagging a 2.5 percent OCR trough) versus a potential floor of 2 percent (effectively zero real rates), the odds now shift towards such reserves being used. The only debate now will surround the timing, with today's RBA decision (and the market heavily split between a pause and a cut) and concerns about OCR comparabilities likely to determine 25 versus 50 basis points for April.

	Dec-07	Mar-08	Jun-08	Sep-08	Dec-08	Mar-09	Decade Average
Business Confidence - actual	-26	-64	-64	-19	-64	-65	-19
- s.a.	-38	-57	-53	-25	-77	-58	-19
Experienced domestic trading activity – actual	10	-7	-22	-34	-39	-45	6
- s.a.	6	-8	-19	-32	-43	-47	6
Expected domestic trading activity – actual	14	-10	-23	-8	-41	-39	10
- s.a.	12	-9	-18	-12	-43	-38	10
Capacity Utilisation (CUBO)	0.9204	0.9262	0.9237	0.9079	0.8878	0.8633	0.9052
Average selling price – past 3 months	28	42	47	36	9	-2	17
Average selling price – next 3 months	35	45	49	28	-3	-6	23
Costs – past 3 months	45	59	68	59	42	29	32
Costs – next 3 months	49	62	71	52	27	21	31
Difficulty finding labour – skilled	-46	-36	-19	-5	20	42	-30
Difficulty finding labour – unskilled	-33	-22	6	16	43	63	-8
Investment intentions – Buildings	-8	-18	-18	-20	-42	-46	-11
Investment intentions – Plant & Machinery	-3	-15	-17	-16	-39	-44	-1
Employment intentions – past 3 months	4	4	-3	-11	-21	-34	0
Employment intentions – next 3 months	14	0	-6	-7	-32	-36	2

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.
- 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.

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.

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 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 This document has been prepared by ANZ National Bank Limited.

ANZ (part of ANZ National Bank Limited), Level 7, 1 Victoria Street, Wellington 6011, New Zealand Phone 64-4-802 2000 Fax 64-4-496 8639 <http://www.anz.co.nz> e-mail ecnmcs@anz.com

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.

UNITED STATES DISCLAIMER

This document is being distributed in the United States by ANZ Securities, Inc. ("ANZ S") (an affiliated company of Australia and New Zealand Banking Group Limited ("ANZBG" and the Bank), which accepts responsibility for its content. Further information on any securities referred to herein may be obtained from ANZ S upon request. Any US person(s) receiving this document and wishing to effect transactions in any fixed income securities referred to herein should contact ANZ S 1177 Avenue of the Americas, New York, NY 10036 USA, Tel: 1-212-801-9160, Fax: 1-212-801-9163, not its affiliates.

This document is issued on the basis that it is only for the information of the particular person to whom it is provided. This document may not be reproduced, distributed or published by any recipient for any purpose. This document does not take into account your personal needs and financial circumstances. Under no circumstances is this document to be used or considered as an offer to sell, or a solicitation of an offer to buy.

In addition, from time to time ANZBG, the Bank, ANZ S, their affiliated companies, or their respective associates and employees may have an interest in any financial products (as defined by the Australian Corporations Act 2001), securities or other investments, directly or indirectly the subject of this document (and may receive commissions or other remuneration in relation to the sale of such financial products, securities or other investments), or may perform services for, or solicit business from, any company the subject of this document. If you have been referred to ANZBG, the Bank, ANZ S or their affiliated companies by any person, that person may receive a benefit in respect of any transactions effected on your behalf, details of which will be available upon request.

The information herein has been obtained from, and any opinions herein are based upon, sources believed reliable. The views expressed in this document accurately reflect the author's personal views, including those about any and all of the securities and issuers referred to herein. The author however makes no representation as to its accuracy or completeness and the information should not be relied upon as such. All opinions and estimates herein reflect the author's judgement on the date of this document and are subject to change without notice. No part of the author's compensation was, is or will be directly or indirectly related to specific recommendations or views expressed in this document. ANZBG, the Bank, ANZ S, their affiliated companies, their respective directors, officers, and employees disclaim any responsibility, and shall not be liable, for any loss, damage, claim, liability, proceedings, cost or expense ("Liability") arising directly or indirectly (and whether in tort (including negligence), contract, equity or otherwise) out of or in connection with the contents of and/or any omissions from this communication except where a Liability is made non-excludable by legislation.