

NEW ZEALAND ECONOMICS DATA REVIEW

NZIER QSBO – DECEMBER 2010 QUARTER

11 January 2011

CONTRIBUTORS

Mark Smith
Economist

Telephone: +64 4 802 2199
E-mail: Mark.Smith2@anz.com

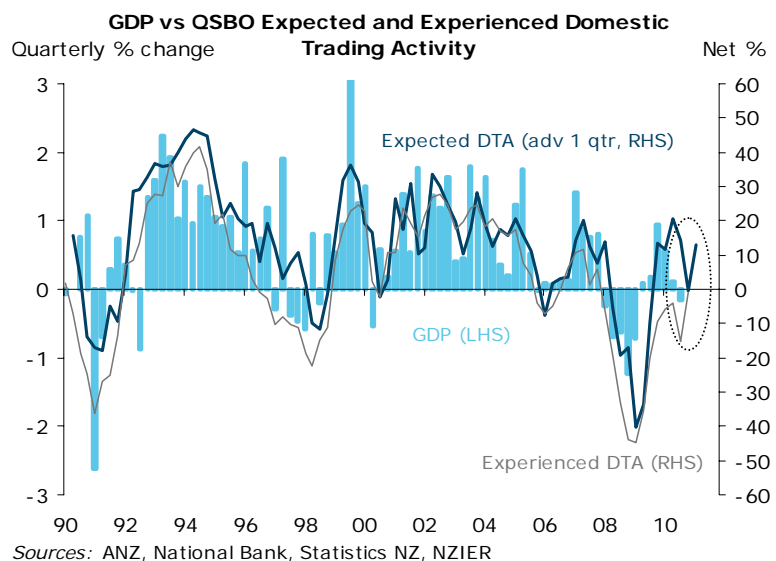
Sharon Zöllner
Senior Economist

Telephone: +64 4 576 1062
E-mail: Sharon.Zollner@anz.com

DOUBLE DIP RECESSION LIKELY TO HAVE BEEN AVOIDED

KEY POINTS

- Today's Q4 QSBO survey showed widespread signs of improvement. Confidence improved the most in large firms, particularly in the upper North Island. Domestic Trading Activity (DTA) in the Canterbury region slumped as a result of the earthquakes but was relatively upbeat in other regions.
- The improvement in expected trading activity is consistent with a solid start to 2011. We see better prospects for 2011 on the back of increased rural incomes, an unleashing of pent-up demand, earthquake reconstruction work and activity relating to the Rugby World Cup.
- The broad story is one of firms finding conditions tough, and with limited scope to push through price rises. Investment intentions have stabilised just above historical averages and firms still intend to take on more workers. Profitability remains weak, so something has to give.
- In terms of the implications for the RBNZ, today's data reinforces their "on hold" message, with no rate hike before June at the earliest.



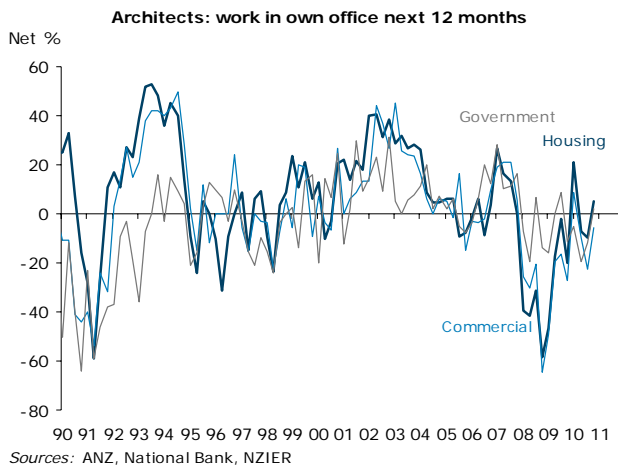
DATA REVIEW

DATA WRAP

The QSBO mirrored the improvement seen in National Bank *Business Outlook*. **The key takeout is the recovery in sentiment from very low levels. General business sentiment and the domestic trading activity picked up.** Measures of capacity utilisation and average selling price expectations both eased.

	Headline business confidence		Domestic trading activity s.a.		CUBO	Avg selling price – next 3 mths
	actual	s.a.	past	expected		
Q1 2008	-64	-53	-6	-5	0.9262	45
Q2 2008	-64	-56	-19	-19	0.9237	49
Q3 2008	-19	-32	-33	-17	0.9079	28
Q4 2008	-64	-71	-44	-40	0.8878	-3
Q1 2009	-65	-52	-45	-34	0.8633	-6
Q2 2009	-25	-18	-35	-10	0.9070	7
Q3 2009	36	22	-20	14	0.8842	13
Q4 2009	31	24	-10	12	0.9107	24
Q1 2010	22	35	-6	20	0.9054	27
Q2 2010	18	24	-4	14	0.9076	40
Q3 2010	6	-8	-15	-1	0.9039	30
Q4 2011	8	3	-1	13	0.8900	22

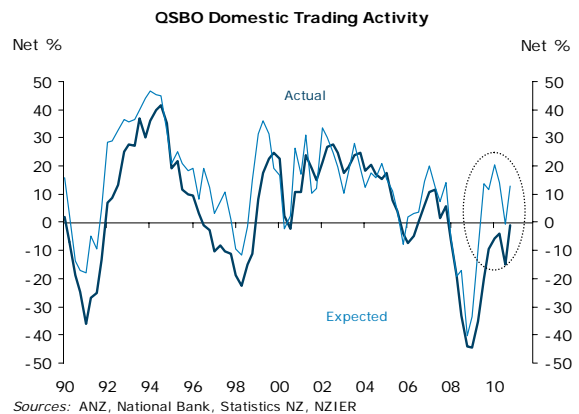
The improvement in sentiment was broad-based across sectors. Both architects' assessment of work, and building sector indicators rebounded. Earthquake related reconstruction is likely to be influential. The manufacturing sector outlook improved as production and new orders rose. Confidence in the services sector stabilised in the December quarter, but volumes in financial services remain at recessionary lows.



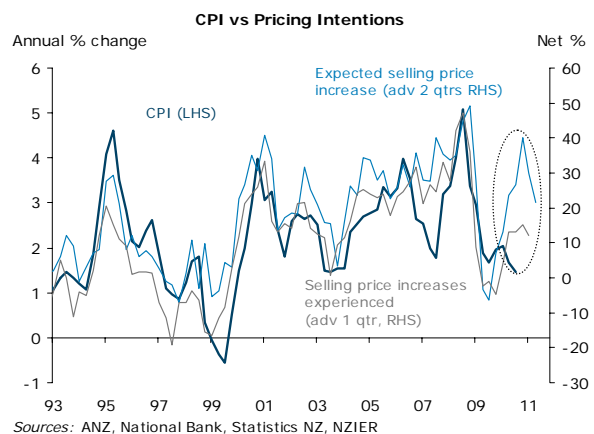
Despite anecdotal reports of weak Christmas trading activity, QSBO readings for own activity for merchants improved (to +11 from -19). NZIER note that as the survey ended in mid-December it did not fully capture the last few weeks of pre-Christmas

shopping. Accordingly, the degree of optimism in the QSBO may be a touch overstated if anecdotes of a poor Christmas for retailing prove to be correct.

The improvement in sentiment was driven by the upper North Island and by large firms. **The Canterbury earthquake was influential in weighing down sentiment.** Domestic trading activity in the Canterbury region fell sharply (to -33 from -6), whereas activity outside of Canterbury improved significantly (to +4 from -15).



Businesses are starting to realise that the pick-up in economic activity is more muted than past cyclical recoveries, and are adjusting down their expectations of future activity. However, the large gap between actual and expected domestic trading activity suggests that firms continue to be surprised by the sluggishness of the economic recovery.



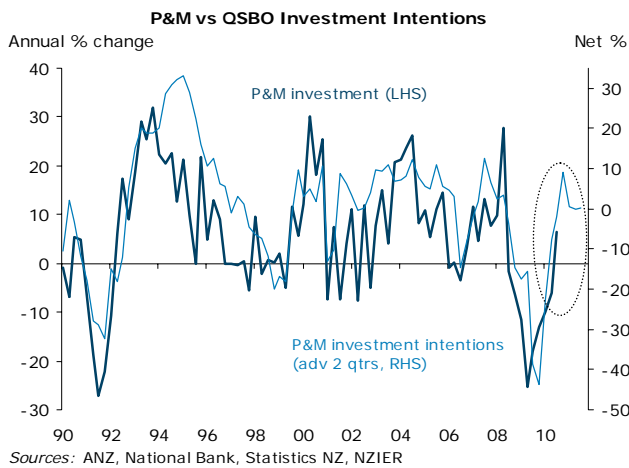
The broad story is one of firms finding the business climate very tough, and being unable to pass on price increases. Pricing intentions fell from +30 to +22, which was to be expected following the GST increase. Past selling price increases edged down from +15 to +12. Overall,

DATA REVIEW

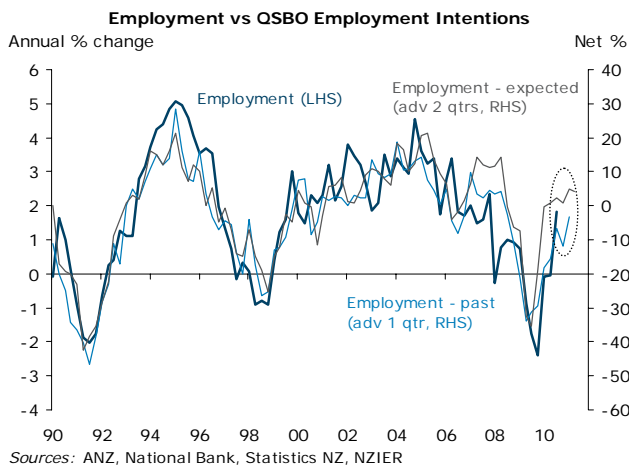
this is consistent with annual CPI inflation peaking below 5 percent in 2011.

Largely as a consequence of higher activity, and a smaller proportion of firms reporting increased average costs (to +26 from +29), experienced profitability improved a tad (to -21 from -30). However, net balances still remain well in negative territory and below historical averages.

Investment intentions have stabilised and remain marginally above long-run averages, but this is low for this point in the cycle. A firming in investment intentions is needed to boost supply-side capacity and ensure a more enduring recovery.

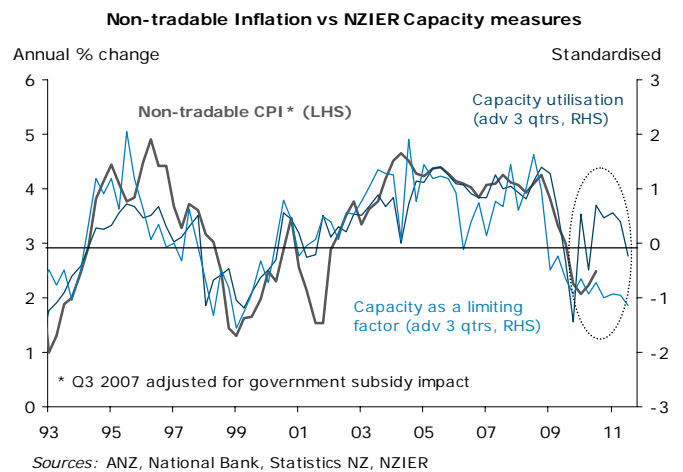


Labour market indicators strengthened. Hiring intentions have stabilised at positive levels, and unskilled labour remains relatively easy to find, although less so than during the recession. Skilled labour is more difficult to find and if this worsens it is likely to put upward pressure on wages.



Despite the prospect of a higher wage bill and reasonably low corporate profitability, survey measures conveyed a reassuring message for

trend inflation. Seasonally adjusted capacity utilisation eased from 0.904 to 0.890, with the decline largely attributable to lower capacity utilisation for builders. After remaining at reasonably elevated levels this measure has moved closer to historical averages. An alternative gauge of capacity pressures (capacity as a limiting factor) suggests capacity pressures remain relatively benign, with the lack of demand still the key factor holding back business expansion.



ASSESSMENT

The tick-up in business sentiment was consistent with the recovery in business sentiment shown by the National Bank Business Outlook. Whilst an improving tone was evident and widespread, the key takeout is a recovery in sentiment from very low levels.

Readings for domestic trading activity are consistent with close to trend rates rather than anything more substantial. This is disappointing for a supposed recovery. The RBNZ's December MPS GDP forecasts (+0.4 percent for 2010Q4 and +0.5 percent for 2011Q1) are certainly consistent with today's QSBO readings. Benign inflation readings from the survey are likely to alleviate any concerns the RBNZ may have about the inflation trajectory remaining contained.

Over the end of 2010 and into early 2011 we still expect the NZ economy to expand, but at a slower pace compared to past recoveries. Ongoing deleveraging is acting as a formidable headwind and there are various other "niggle factors" that are likely to check the pace of expansion. While a double dip recession is likely to have been avoided, activity is likely to remain below pre-recession peaks for a while yet. With fiscal policy set to move to a more restrictive stance and with the global recovery looking far from assured,



DATA REVIEW

monetary policy support is still needed. **Overall, our view is that the economy has started to grow again, but at a moderate pace.**

However, we still expect growth to pick up over 2011. The improvement in QSBO readings for expected domestic trading activity is consistent with a solid start to 2011. We see better prospects for 2011 on the back of increased rural incomes, an unleashing of pent-up demand, earthquake reconstruction work and activity relating to the Rugby World Cup.

In terms of the implications for the RBNZ, today's data reinforces their "on hold" message. The benign inflation outlook conveyed by the QSBO suggests the RBNZ will refrain from raising the OCR until the June MPS at the earliest.

	Jun-09	Sep-09	Dec-09	Mar-10	Jun-10	Sep-10	Dec-10	Average
Business Confidence – actual	-25	36	31	22	18	6	8	-8
– s.a.	-18	22	24	35	24	-8	3	-8
Experienced domestic trading activity – actual	-38	-21	-5	-7	-7	-16	4	11
– s.a.	-35	-20	-10	-6	-4	-15	-1	11
Expected domestic trading activity – actual	-13	23	11	15	11	9	11	15
– s.a.	-10	14	12	20	14	-1	13	15
Capacity Utilisation (CUBO)	0.9070	0.8842	0.9107	0.9054	0.9076	0.9039	0.8900	0.8889
Average selling price – past 3 months	-1	-5	4	13	13	15	12	28
Average selling price – next 3 months	7	13	24	27	40	30	22	33
Costs – past 3 months	25	19	15	20	24	29	26	46
Costs – next 3 months	17	16	21	25	36	38	32	45
Profitability – past	-44	-39	-14	-19	-16	-30	-21	-18
Profitability – expected	-24	-3	-2	-2	-6	-14	-5	-7
Difficulty finding labour – skilled	42	25	13	9	-2	-4	-7	-16
Difficulty finding labour – unskilled	67	48	37	33	23	19	19	16
Investment intentions – Buildings	-29	-16	-15	-5	-8	-10	-8	-15
Investment intentions – Plant & Machinery	-23	-8	-2	9	0	0	0	-2
Employment intentions – past 3 months	-31	-29	-18	-15	-7	-12	-3	-6
Employment intentions – next 3 months	-19	0	1	2	1	5	4	-2

IMPORTANT NOTICE

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.
- OnePath (NZ) Limited, as a wholly owned subsidiary of the Bank, is an associated person of the Bank. OnePath and its related companies 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:

- Providing cash;



IMPORTANT NOTICE

- 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 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. (Member of FINRA [www.finra.org] and registered with the SEC) ("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 277 Park Avenue, 31st Floor, New York, NY 10172 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.