DATA SUMMARY

<table>
<thead>
<tr>
<th></th>
<th>Latest</th>
</tr>
</thead>
<tbody>
<tr>
<td>Headline business confidence (actual)</td>
<td>-11</td>
</tr>
<tr>
<td>Headline business confidence (s.a.)</td>
<td>-9</td>
</tr>
<tr>
<td>Domestic trading activity (s.a., past)</td>
<td>15</td>
</tr>
<tr>
<td>Domestic trading activity (s.a., expected)</td>
<td>16</td>
</tr>
<tr>
<td>CUBO (actual)</td>
<td>93.5%</td>
</tr>
<tr>
<td>Avg selling price – next 3 months</td>
<td>21</td>
</tr>
</tbody>
</table>

DOWN, BUT NOT OUT

THE BOTTOM LINE

- **Pessimism among businesses persisted into 2018.** Sentiment improved only slightly, with an uncertain policy environment, capacity pressures and intense margin pressures persisting into 2018.

- **But firms’ own activity measures continue to hold up.** Reported activity over the past three months picked up 5%pts to net 15%. Expectations for the three months ahead were broadly stable at 16% – still pointing to reasonable levels of activity in H1, but nothing to write home about.

- **Overall, we are left with the impression of an economy running at reasonable pace, but with late-cycle headwinds looming.** Capacity and cost pressures remain intense, and firms are still looking to increase prices (although the key issue remains how much success they will actually have). However, hiring intentions slipped as firms grapple with difficulty finding labour and rising labour costs.

KEY RESULTS

- **Headline business confidence lifted 2%pts to -9% (sa) in Q1;** a small contrast to our own Business Outlook survey, which fell slightly reflecting higher exposure to agriculture. Pessimism persisted among manufacturers, retailers and services, with the building sector slipping further (as profitability took a dive). By region, pessimism was particularly acute in Manawatu-Whanganui, Marlborough and Gisborne.

- **Importantly, despite ongoing pessimism in headline confidence, firms’ experienced domestic trading conditions picked up slightly,** with a net 15% of firms reporting an increase in their own activity (versus +10% in Q4). Looking forward, a net 16% of firms expect their own activity to pick up in Q2, down from 17% in the previous survey, but consistent with a reasonable pace of GDP growth.

- **One factor that may be weighing on growth expectations is the fact that capacity pressures remain intense.** Capacity utilisation rose to a high of 93.5% (from 92.8%), driven by the export-intensive manufacturing sector. That said, the number of firms reporting capacity as a major limiting factor dipped 3%pts to net 15%. Labour shortages remain a major problem, with a net 44% and 29% of firms reporting skilled and unskilled labour respectively are difficult to find (down slightly from December).

- **Profitability remained weak at net -7% in the quarter.** There was a particularly sharp drop in construction, down 23%pts to -24%. That said, economy-wide expectations of profitability for Q2 rebounded from negative territory to 0% (from -6%). For the building sector, expectations are down 5%pts to net 4%.

- **Experienced costs picked up for a net 31% of firms (up 2%pts).** And while expectations dipped slightly for Q2, cost pressures remain intense. While firms intend to pass these cost increases on, the net number of firms expecting to raise prices in Q2 dipped 10%pts to 21%.
Pessimism has weighed on firms’ intentions to invest in new buildings, while intentions to invest in plant and machinery picked up 7%pts to 17%, reflecting both the difficulty finding labour and an outlook for higher labour costs. Businesses have become a bit more cautious about hiring, with intentions dropping by 6%pts to net 6% (the lowest since 2013).

Overall, we are left with the impression of an economy running at a reasonable pace, but with late-cycle headwinds looming. Capacity and cost pressures remain intense, and firms are looking to increase prices. Firms’ hiring intentions are one to watch going forward, as we see ongoing strength in the labour market as a pre-requisite to an ongoing lift in underlying inflationary pressures.
This document is intended for ANZ’s institutional, professional or wholesale clients, and not for individuals or retail persons. It should not be forwarded, copied or distributed. The information in this document is general in nature, and does not constitute personal financial product advice or take into account your objectives, financial situation or needs.

This document may be restricted by law in certain jurisdictions. Persons who receive this document must inform themselves about and observe all relevant restrictions.

Disclaimer for all Jurisdictions: This document is prepared and distributed in your country/region by either: Australia and New Zealand Banking Group Limited (ABN11 005 357 522) (ANZ); or its relevant subsidiary or branch (each, an Affiliate), as appropriate or as set out below.

This document is distributed on the basis that it is only for the information of the specified recipient or permitted user of the relevant website (recipients).

This document is solely for informational purposes and nothing contained within is intended to be a recommendation, invitation, solicitation or offer by ANZ to sell, or buy, receive or provide any product or service, or to participate in a particular trading strategy.

Distribution of this document to you is only as may be permissible by the laws of your jurisdiction, and is not directed to or intended for distribution or use by recipients resident or located in jurisdictions where its use or distribution would be contrary to those laws or regulations, or in jurisdictions where ANZ would be subject to additional licensing or registration requirements. Further, the products and services mentioned in this document may not be available in all countries.

ANZ in no way provides any financial, legal, taxation or investment advice to you in connection with any product or service discussed in this document. Before making any investment decision, recipients should seek independent financial, legal, tax and other relevant advice having regard to their particular circumstances.

Whilst care has been taken in the preparation of this document, ANZ does not make any representation as to the accuracy of the views expressed in this document. Further, ANZ does not accept any responsibility to inform you of any matter that subsequently comes to its notice, which may affect the accuracy of the information in this document.

Preparation of this document and the opinions expressed in it may involve material elements of subjective judgement and analysis.

Unless specifically stated otherwise: they are current on the date of this document and are subject to change without notice; and, all price information is indicative only. Any opinions expressed in this document are subject to change at any time without notice.

ANZ does not guarantee the performance of any product mentioned in this document. All investments entail a risk and may result in both profits and losses. Past performance is not necessarily an indicator of future performance. The products and services described in this document may not be suitable for all investors, and transacting in these products or services may be considered risky.

ANZ expressly disclaims 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 this document to the extent permissible under relevant law. Please note, the contents of this document have not been reviewed by any regulatory body or authority in any jurisdiction.

ANZ and its Affiliates may have an interest in the subject matter of this document. They may receive fees from customers for dealing in the products or services described in this document, and their staff and introducers of business may share in such fees or remuneration that may be influenced by total sales, at all times received and/or apportioned in accordance with local regulatory requirements. Further, they or their customers may have or have had interests or long or short positions in the products or services described in this document, and may at any time make purchases and/or sales in them as principal or agent, as well as act (or have acted) as a market maker in such products. This document is published in accordance with ANZ's policies on conflicts of interest and ANZ maintains appropriate information barriers to control the flow of information between businesses within it and its Affiliates.

Your ANZ point of contact can assist with any questions about this document including for further information on these disclosures of interest.

Country/region specific information: Unless stated otherwise, this document is distributed by Australia and New Zealand Banking Group Limited (ANZ).

Australia. ANZ holds an Australian Financial Services licence no. 234527. For a copy of ANZ’s Financial Services Guide please click here or request from your ANZ point of contact. If trading strategies or recommendations are included in this document, they are solely for the information of ‘wholesale clients’ (as defined in section 761G of the Corporations Act 2001 Cth).

Brazil, Brunei, India, Japan, Kuwait, Malaysia, Switzerland, Taiwan. This document is distributed in each of these jurisdictions by ANZ on a cross-border basis.

Cambodia. This document is distributed in Cambodia by ANZ Royal Bank (Cambodia) Limited (ANZ Royal Bank). The recipient acknowledges that although ANZ Royal Bank is a subsidiary of ANZ, it is a separate entity to ANZ and the obligations of ANZ Royal Bank do not constitute deposits or other liabilities of ANZ and ANZ is not required to meet the obligations of ANZ Royal Bank.

European Economic Area (EEA): United Kingdom. ANZ is authorised in the United Kingdom by the Prudential Regulation Authority (PRA) and is subject to regulation by the Financial Conduct Authority (FCA) and limited regulation by the PRA. Details about the extent of our regulation by the PRA are available from us on request. This document is distributed in the United Kingdom by Australia and New Zealand Banking Group Limited ANZ solely for the information of persons who would come within the FCA definition of “eligible counterparty” or “professional client”. It is not intended for and must not be distributed to any person who would come within the FCA definition of “retail client”. Nothing here excludes or restricts any duty or liability to a customer which ANZ may have under the UK Financial Services and Markets Act 2000 or under the regulatory system as defined in the Rules of the Prudential Regulation Authority (PRA) and the FCA. ANZ is authorised in the United Kingdom by the PRA and is subject to regulation by the FCA and limited regulation by the PRA. Details about the extent of our regulation by the PRA are available from us on request.

Fiji. For Fiji regulatory purposes, this document and any views and recommendations are not to be deemed as investment advice. Fiji investors must seek licensed professional advice should they wish to make any investment in relation to this document.

Hong Kong. This publication is issued or distributed in Hong Kong by the Hong Kong branch of ANZ, which is registered at the Hong Kong Monetary Authority to conduct Type 1 (dealing in securities), Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities. The contents of this publication have not been reviewed by any regulatory authority in Hong Kong.

India. If this document is received in India, only you (the specified recipient) may print it provided that before doing so, you specify on it your name and place of printing.

Myanmar. This publication is intended to be general and part of ANZ’s customer service and marketing activities when implementing its functions as a licensed bank. This publication is not Securities Investment Advice (as that term is defined in the Myanmar Securities Transaction Law 2013).
New Zealand. This document is intended to be of a general nature, does not take into account your financial situation or goals, and is not a personalised adviser service under the Financial Advisers Act 2008 (FAA).

Oman. ANZ neither has a registered business presence nor a representative office in Oman and does not undertake banking business or provide financial services in Oman. Consequently ANZ is not regulated by either the Central Bank of Oman or Oman’s Capital Market Authority. The information contained in this document is for discussion purposes only and neither constitutes an offer of securities in Oman as contemplated by the Commercial Companies Law of Oman (Royal Decree 74/1974) or the Capital Market Law of Oman (Royal Decree 80/98), nor does it constitute an offer to sell, or the solicitation of any offer to buy non-Omani securities in Oman as contemplated by Article 139 of the Executive Regulations to the Capital Market Law (issued vide CMA Decision 1/2009). ANZ does not solicit business in Oman and the only circumstances in which ANZ sends information or material describing financial products or financial services to recipients in Oman, is where such information or material has been requested from ANZ and the recipient understands, acknowledges and agrees that this document has not been approved by the CBO, the CMA or any other regulatory body or authority in Oman. ANZ does not market, offer, sell or distribute any financial or investment products or services in Oman and no subscription to any securities, products or financial services may or will be consummated within Oman. Nothing contained in this document is intended to constitute Omani investment, legal, tax, accounting or other professional advice.

People’s Republic of China (PRC). This document may be distributed by either ANZ or Australia and New Zealand Bank (China) Company Limited (ANZ China). Recipients must comply with all applicable laws and regulations of PRC, including any prohibitions on speculative transactions and CNV/CHN arbitrage trading. If this document is distributed by ANZ or an Affiliate (other than ANZ China), the following statement and the text below is applicable: No action has been taken by ANZ or any affiliate which would permit a public offering of any products or services of such an entity or distribution or re-distribution of this document in the PRC. Accordingly, the products and services of such entities are not being offered or sold within the PRC by means of this document or any other document. This document may not be de-listed, re-distributed or published in the PRC, except under circumstances that will result in compliance with any applicable laws and regulations. If and when the material accompanying this document relates to the products and/or services of ANZ China, the following statement and the text below is applicable: This document is distributed by ANZ China in the Mainland of the PRC.

Qatar. This document has not been, and will not be:
- lodged or registered with, or reviewed or approved by, the Qatar Central Bank (QCB), the Qatar Financial Centre (QFC) Authority, QFC Regulatory Authority or any other authority in the State of Qatar (Qatar); or
- authorised or licensed for distribution in Qatar, and the information contained in this document does not, and is not intended to, constitute a public offer or other invitation in respect of securities in Qatar or the QFC. The financial products or services described in this document have not been, and will not be:
  - registered with the QCB, QFC Authority, QFC Regulatory Authority or any other governmental authority in Qatar; or
  - authorised or licensed for offering, marketing, issue or sale, directly or indirectly, in Qatar.

Accordingly, the financial products or services described in this document are not being, and will not be, offered, issued or sold in Qatar, and are not being, and will not be, sold, offered, issued or distributed by, or on behalf of, ANZ or any of its Affiliates. This document does not, and is not intended to constitute: (a) an offer of securities anywhere in the UAE; (b) the carrying on or engagement in banking, financial and/or investment consultation business in the UAE under the rules and regulations made by the Central Bank of the UAE, the Emirates Securities and Commodities Authority or the UAE Ministry of Economy; (c) an offer of securities within the meaning of the Dubai International Financial Centre Markets Law (DIFCML) No. 12 of 2004; and (d) a financial promotion, as defined under the DFSCML No. 1 of 2001. ANZ DIFC Branch is regulated by the Dubai Financial Services Authority (DFSA). This document is distributed by Singapore by the Singapore branch of ANZ solely for the information of "accredited investors", "expert investors" or (as the case may be) "institutional investors" (each term as defined in the Securities and Futures Act Cap. 289 of Singapore). ANZ is licensed in Singapore under the Banking Act Cap. 19 of Singapore and is exempted from holding a financial adviser’s licence under Section 23(1)(a) of the Financial Advisers Act Cap. 100 of Singapore.

United Arab Emirates (UAE). This document is distributed in the UAE or the Dubai International Financial Centre (DIFC) (as applicable) by ANZ. This document does not, and is not intended to constitute: (a) an offer of securities anywhere in the UAE; (b) the carrying on or engagement in banking, financial and/or investment consultation business in the UAE under the rules and regulations made by the Central Bank of the UAE, the Emirates Securities and Commodities Authority or the UAE Ministry of Economy; (c) an offer of securities within the meaning of the Dubai International Financial Centre Markets Law (DIFCML) No. 12 of 2004; and (d) a financial promotion, as defined under the DFSCML No. 1 of 2001. ANZ DIFC Branch is regulated by the Dubai Financial Services Authority (DFSA). This document is distributed in Vietnam by ANZ or ANZ Bank (Vietnam) Limited, a subsidiary of ANZ.

Vietnam. This document is distributed in Vietnam by ANZ or ANZ Bank (Vietnam) Limited, a subsidiary of ANZ.