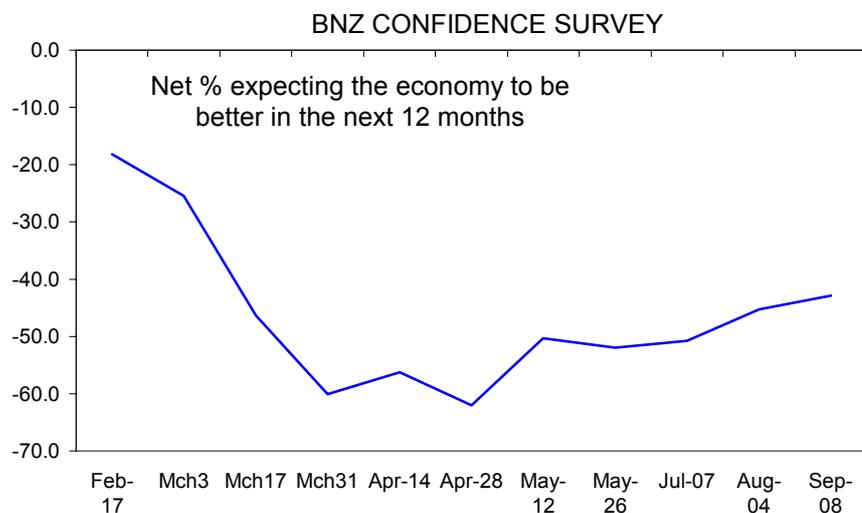


PESSIMISM EASES AGAIN

In spite of the approaching general election, hikes in petrol prices, bad news about apple growers and some other exporters, dry weather conditions down south, and worries about US economic growth following Hurricane Katrina, the extent of pessimism among respondents in our monthly survey has eased slightly. Pessimism still dominates but as time goes by we shall slowly get a feel for where the neutral level sits in our survey and one suspects it is somewhere in the highly negative area.



In our survey of the past four days a net 43% of respondents said they feel pessimistic about the economy over the next 12 months. This is an improvement from a net 45% pessimistic last month and is the best result since early March. Perhaps the most meaningful thing to take from our still developing survey is that while us economists can see growing evidence of slowing economic growth there is not as yet some surprising big deterioration in sentiment happening away from our eyes which will potentially catch us by surprise – as happened with the eventual recession in 1998. But we are very wary of such surprises jumping up.

When commenting on conditions in their own industries we found the following main threads.

- General comments about things easing off slightly.
- Fewer comments than previous months about labour shortages.
- Forestry still tough.
- Fishing bad.
- Farming mixed with good weather and lambing in most areas, only mild concern about the coming year with expectations of a falling NZD offsetting easing international commodity prices.
- Construction – comments mixed to positive.
- Information technology mainly very strong.
- Manufacturing, difficult but not collapsing by any means.
- Real estate, mixed with evidence of price rises slowing and a few falls, but listings still in short supply.
- Tourism – almost all negative comments.

BNZ CONFIDENCE SURVEY

Survey Date	Better %	Same %	Worse %	Net %	# of respondents	# of comments
17 February	20.3	41.1	38.5	-18.2	423	-
3 March	17.2	40.2	42.6	-25.5	687	224
17 March	8.5	36.5	54.9	-46.4	550	294
31 March	6.1	27.7	66.2	-60.1	393	201
13 April	6.0	31.8	62.2	-56.3	336	165
28 April	6.2	25.6	68.2	-62.1	340	185
12 May	7.2	35.2	57.6	-50.3	304	148
26 May	6.1	35.8	58.1	-52.0	179	81
7 July	9.0	31.3	59.8	-50.8	502	279
4 August	7.2	40.2	52.5	-45.3	276	166
8 September	14.9	27.3	57.8	-42.9	289	190

INDUSTRY COMMENTS SUBMITTED BY RESPONDENTS

This month – as one would naturally expect – there were a lot of comments regarding what different outcomes of the general election might produce regarding business growth etc. We have weeded those out because they don't give any insight into where things are now and because things are so tight this election one or both of the main blobs are likely to hit the phones and try to get us into trouble for saying stuff they don't like. If this refers to you – please look up the word “democracy” in your dictionary.

Accountancy

- CA Firm - Signs of less activity in the business sector, certainly things are at a more sane level for us as Accountants
- Some changes in investment and tax practice loom depending on elections.
- Chartered accountant Nelson. More work than we need with a lack of trained staff. Productivity suffering through the need to spend time training rather than doing the work.
- Rural chartered accountancy practice - no change from last 6 months.
- Accountants - there seems to be plenty of work but a lot of firms seem to have surplus capacity after expanding over recent years.
- High levels of work. Very high taxation levels subdue many SME owners from expanding.
- Still as busy as ever. Clients in the service industries appear to be holding up very well, however the export dominated sector is really struggling at local level.
- I work as an insolvency practitioner. We have noticed an increase in the number of appointments coming through our office.
- Chartered accountants. Increasing salaries which we are really struggling to recover, means lower income levels going forward. Still busy, but signs that clients businesses are slowing, particularly in the Auckland market. As one client put it, "Auckland businesses shut their doors six weeks ago and have not opened them since". Because in some instances our clients are struggling to employ competent accountants, the client records are not being presented to us in a reliable form. This in turn creates a greater compliance cost for the client when we correct the position. The clients are not happy about meeting this additional cost.

Advertising

- Has been a slow year for the signage industry but things are now starting to move again. Historically it is always slow election year.
- Signage - After a short period of low volume sales have increased against same period last year but the increase is less than previous years increase. Customers are taking a little longer to pay but seem confident in the future.

Agriculture

- Agricultural machinery sales & service. Margins are very tight and sales harder to negotiate. Oversupply of trade machinery sitting around. Prospect of dry season and water shortages already do not auger well for good grain harvest which in turn leaves our clients with less liquid cash for regular machinery replacement. We expect the cheque books to be kept firmly in the back pocket in the foreseeable future.
- Dairy - Fuel costs and inability to pass these on are creating concern. High dollar continues to create negative thoughts.
- I'm a kiwifruit grower and industry predictions at the moment are for lower returns due to the high dollar and lower market returns.
- Buoyant short term things looking really good as weather is behaving itself. Medium term concern in market place over land prices and Fonterra direction.
- Farming and retailing performing well in Eastland.
- Agriculture, Sheep and Beef Farming, Steady, I believe any drop in commodity prices could be offset by the NZ dollar devaluing. A mild winter has set farmers up for a good lamb drop.
- Dairying. Brilliant Spring so far. Market outlook continues to be favourable.
- Farming - Sheep and Beef<. Warm and dry spring, so far so good, grass market still strong. At half-way stage, lambing % and survival looks good. Greatest recent concern has been building a satisfactory profit projection into budget forecast for next 12 months, (before the latest major fuel price rise round), and more significantly, my debt: equity ratio is very favourable, so I wonder just how people with high debt ratios are managing the subtle but ever present cost rises. I look forward to the NZD softening over the summer, but not to bracing myself for the inevitable fuel cost driven inflation that's looming.
- Farming. Likely impact from rising fuel costs flowing down to the rural sector who are unable to pass these on. Will also be dependant on who is the new govt.
- Kiwifruit looks rather sad at this stage because of crop volume, exchange rate and freight charges.
- A wonderful spring up north for the pastoral sector - one of the best to date. The fuel prices however are of great concern.
- Pastoral farming - South Is. v good lambing so far, but getting dry. Irrigation restrictions could put lamb finishing under real pressure.
- Kiwifruit Very bad with poor at the gate returns and high compliance costs. People are still planting when the net return after all payments will be about .70c a tray.
- Agricultural & Viticulture equipment. Early start to season. Sales well ahead of expected. Not seeing any drop-off in spending at this point.
- Fresh produce exporters. Final results for onions sold in Europe better than expected. Final results for apples sold in Europe lower than expected.
- Same - sheep and beef farming.
- Apple grower, fruit sold below cost production esp. braeburn. Present outlook extremely concerning, equity being eroded , land capital gain has saved us for present.

Armed Services

- Lots of opportunities but shortage of skilled people (defence)

Automotive Repairs

- Have been surprised at sales over the winter months which is traditionally our quiet time. Hard to factor in how much of the increase is from the continual stream of price increases from suppliers especially steel products.

Boat Building

- Better than ever. The baby boomers are starting to spend their money instead on something they can enjoy rather than investing.

Business Consulting

- The strong demand for support for SME's continues with retailers looking to profit from the political largess promised.
- Business Management / Chartered Accountant: Continues seriously busy.

Business Representation Organisation

- Noticing slow down in payment of subscriptions (treated in some respects as "discretionary"). Comments around the traps indicate slowing in many sectors - but certainly not talking recession.

Construction/Property Development

- Residential Construction - after a slowish few winter months when sales were a little down, we almost believed press comments concerning a slowing property market, however Spring has arrived and with lawnmowers out so are the buyers. Our sales have jumped up again and we are now ahead of last years sales figures for the end of August.
- Construction. We have noticed an increase in tenders coming through but market is still very competitive.
- Construction/Land development in Kapiti - still running hot, perhaps not red hot, but still no real sign of a slow down.
- Land development, Kapiti. No signs of slowdown. Builder enquiry for sections still strong.
- Building. Prices firm with expected cost push reflecting ex fuel increases , carriers already increased prices 8% 1st Sept. Public attitude never a better or cheaper time to build (editor's note – as a member of the public I'd disagree about the cheapest time and don't intend getting a particular project contracted until things ease off a lot more.)
- Fewer projects in pipe line.
- Property development. It is taking longer than previously to achieve sales for bare land.
- Property development Northland, the planning delays by local authorities are appalling, charges have escalated and demands are beyond the pale.
- Floor sander, next 18 months will be better.
- In the building industry, residential, we have got positive forward momentum. In the Hamilton and the greater Waikato market there seems to be no stopping it for the next 12months.

Credit Reporting and Debt Collections

- Conditions Firming. In expansion mode and looking for more skilled staff.

Education Including Exports

- This industry segment has been badly managed, the dollar is too high, and New Zealanders will one day have to admit that there is a segment of our society that is racist and have not treated overseas students well.
- Tertiary Education. Student numbers from China may have stabilised. English language students are still falling. Increasing emphasis on students from other countries and numbers are going up but at a slower rate than the Chinese student numbers are falling. The Middle East is becoming an area of interest.
- No change. Bad! High dollar, over regulated industry and with poor Govt policy in number of areas.
- Education is still facing uncertainty around domestic enrolments and foreign student enrolments with forecasts indicating a continuing downturn. The continuing stalemate around academic pay increases is making the situation worse and Universities are continuing to have pressure applied to hold the line on fees affecting future quality and financial stability in the sector.
- Early Childhood Education. Looking shaky. Government money being thrown at the sector is misdirected and will not improve quality or access.
- Things are poor in the tertiary education sector. Falling student numbers along with rising student debt is taking a toll.

Engineering

- Phones are quiet. Competitors report this as well.
- Engineering supplies - continues to trade above the corresponding last year's period and this growth was last month in strong double digits perhaps due to some strong project growth in the area. However the affects of the continuing petrol prices on the market have yet to bite.
- Manufactured Engineering Exports: for the next 4 months orders are 50% of the same time last year.

Film Industry

- Slump

Fishing

- The fishing industry is going through the toughest time for many years. High dollar, high fuel prices, low quota levels, high ACC and ever increasing compliance costs will see a number of smaller owner/operators disappear from our industry in the next 2 years, especially if the Party ends up in an influential position after the elections.
- Lobster fishing is at its seasonal low at the moment but prices are surprisingly strong due to low landings in Australia and Tasmania, who compete with NZ on the Asian markets. Fin fishing is very depressed in the top of the South Island due to poor prices being paid for fish. The high dollar is accentuating this.

Finance

- Some of the possible coalitions don't bare thinking about ! Business quietening down now in anticipation of the election. 2nd tier Financier.
- Building Society- recent upsurge in mortgage demand for both business and residential (owner occupiers). Shortage of funds (to lend) looming.

Financial Planning

- Surprising amounts of money around. Most (if not all) going off-shore. A lot of extreme ugliness on the debenture front as finance coys look to roll their books with deposits drying up. D day approaching, maybe??

Foreign Services Industry

- We have noticed a drop-off in business activity for the same base of clients over the July, August months although September to date is looking better. (Ed. Note. Not sure what industry is referred to here – mercenaries?)

Forestry/Sawmilling

- Improvement looks some way off yet. Main negative issues Kyoto, RMA, high NZD, labour shortages and soft international markets.
- Forestry: Everyone in the wood products supply chain above sawmills are doing well. Sawmills, contractors and forestry companies are breaking even at best. Sawmills are locked into selling at wholesale prices to retailers with high margins. Expect further sawmill closures over the next 6 months.
- Sawmilling, Local market: Highly competitive because exporters switching production into local market because of high dollar. When local market subsides there will be casualties.
- Logging Contractor. - We had a slow first half of the year, but have achieved budget for last two months. Demand has risen slightly. Sawmilling- Last two months have also shown a bit of a lift.
- Forestry and wood processing. While USD prices are quite good the exchange rate severely reduces our NZD revenue. Continuing high rates without an expectation of a fall make conditions bleak. An 8-10% fall would alter our view.

Hospitality

- Boutique Bar; trade remains slow (15% below norm.) now for 4th consecutive month. All adjacent retailers & Hospitality outlets feeling same; some much worse.

Human Resources

- Our industry is recruitment and we specialise in the areas of finance, accounting and banking. We are experiencing demand for candidates at all levels from support through to senior management. At present trying to source good quality, experienced people such as qualified accountants or banking professionals has been a challenge. We are job rich and candidate short - nothing new to what is being said across the media at present. In a recent employment trends survey we ran earlier this year we found that 53% of our clients were expecting to recruit in the next three months and were planning to

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use a recruitment company to do. We do not see this changing in the foreseeable future and the demand for staff in newly created roles has not slowed due to the upcoming election.

Information Technology

- IT consulting - currently strong fees with organisations continuing to implement enhancements to existing systems. Next 6 months looks strong based on known work.
- Very slow.
- Not quite sure why things have gone berserk within the IT & Consulting industry in Wellington but the level of current activity is enormous. Trying to find competent development staff is a nightmare.
- Consistent work to be found. IT industry, Oracle Database.
- Spending in IT seems to be steadily improving.
- IT - The general trend is there is still plenty of work but a general shortage of good skilled engineers. On the whole the industry is in good shape.
- Plodding along (design/internet).
- IT Solutions and Services, Medium to Large business: Ongoing work from businesses looking to get smarter in terms of process and systems. General aversion to major expenditure (>\$1M) but where business case exists to invest in smarter business systems the decisions are being made.

Insurance Broking

- We see our market getting softer with rates reducing and we will be faced with a struggle to maintain the same gross income.

Investment Banking

- A lot of activity at the moment but there is higher than normal price sensitivity and reluctance to commit. The reluctance is expressed in a backdrop of oil prices (international & domestic effects), election outcomes and how they might reflect in interest rates & activity.
- There is a very high level of activity in the M&A market with Private Equity funds and specialist forestry funds raising an unprecedented level of money from investors globally and searching for opportunities. Australia/NZ are seen as a very active M&A market with some of the private equity funds diverting resources from Asia to this market. Deals are therefore fully priced and this is encouraging sales of businesses, giving companies the opportunity to rationalise their portfolio of businesses and focus on their core businesses. Bankers are very aggressive in providing financing, and most deals are being completed.
- M&A activity is still very busy.

Legal

- Busy days.
- Legal services - property work is slowing down and debtors are also slow to pay.
- Legal (property). Things have stopped dead in their tracks. Fairly typical pre-election behaviour but compounded by petrol-price jitters.

Local Government

- Building Permits and Resource Consents starting to level off. Property sales on the decline.
- I think the Can of Worms will be opened soon after the election, and all the hedging and fudging will be swept aside so that we can see the real world. Early work is being done on 10 year Plans,(LTCCP) assisted by standard models from Treasury and BERL. The household rates invoice for 2015 looks frightening.

Manufacturing

- Has been slower but picking up again, it wont be out of control but it will be busier than it has been - manufacturing for construction industry.
- Manufacturing Engineering: Exporter, sales seem slightly softer, high exchange rate remaining harder than expected, just a continual cycle of improving operations to remain the same.

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- High Kiwi dollar hurts. We had hoped to have some relief by now. Fuel surcharges along with war risk surcharges and all the other miscellaneous charges that the airlines/freight companies hook you with are not making our exports any easier.
- Manufacturing. Recent increase in the value of the NZ\$ making it very difficult to continue exporting. Local(NZ)market is slowing at a faster rate in the past 3 months than in the previous year.
- Blind Manufacture & Wsale – same.
- Manufacturing accessories for clothing industry. Made in China products taking over from all major manufacturing units.
- Manufacturing/ Distributor- Building Industry: The last couple of months has seen a significant drop off compared to last year. I believe this level of activity will continue into next year, but not get any worse. The sales levels are following the drop off in building permit approvals.
- Textile Manufacturing is difficult - competitive pressures from Chinese imports.
- Manufacturing - revenue forecasts down, moving into a period of uncertainty.
- Manufacturing/ light engineering. Fuel prices will impact in regions on all commodities as freight in and out is increased along with direct fuel costs for the business

Market Research

- Increasing competition from smaller, boutique companies who have much lower overheads than the multinationals.

Medical

- GP - Before the election things are static - winter illness still around with coughs and colds- too many cancers being diagnosed- patients seem happy with work - those employed in building have less work ahead of them - no sign of a hard landing at this stage – real estate in the under 500,000 in our area of North Shore selling well but less in the over 1,000,000.
- Prescription Numbers are decreasing. Increased petrol prices are lowering foot traffic.

Metals Distribution

- Demand is subdued across the economy, reflecting both softening consumer markets and increasing fully fabricated items.

Niche Exports

- Value photo albums - we'll feel better when the dollar drops

Packaging

- Oil prices are the excuse to push resin prices up and therefore the main raw materials for all plastic packaging. Couple this with the NZ\$ staying high and exports are taking a real hit. Domestic markets (both NZ and AUS) remain very competitive leading to changes in ownership.

Printing

- Print/copying. Currently growth has plateaued but still reasonably robust although just as competitive as ever.
- Things are looking good. Colour is the big thing in the world of photocopiers and our company is in a very strong position to capitalise on this.

Publishing

- Industry ploughing along with strong advertising revenues despite (maybe because of) uncertainty surrounding election.

Pulp & Paper

- Basically getting slaughtered by the high NZD & rising costs in transport.

Real Estate – Commercial

- Commercial Property investor - Market is hot, with lots of activity. I like the look of some of the quality developments in Auckland, particularly Mt Wellington and Botany.
- Christchurch office rents on the rise as there is very little good office space available and rents are too low to make building a new building economical. Christchurch retail rents are static.
- Wellington. Commercial/Industrial booming, very strong demand from investors and tenants for all types of space pushing rentals and values up steeply.

Real Estate - Residential

- Worse – Queenstown. However if Labour gets in and puts on the proposed CGT on overseas investments I would expect much of the money to come back into NZ into the share market and also property and especially here.
- I'm a valuer, doing solely residential valuations, the bulk for refinance. Work is down about 25 to 30% on a couple of months ago. Have had two requests for mortgagee sale valuations this week, from two different lenders. These are the first I've had for three or four years. Not sure if this is significant or just a coincidence.
- Residential real estate Howick/Pakuranga/Bucklands Beach - phones are not ringing as much in the last week or so (this is usual before and after a general election), real shortage of good listings, good listings (well priced and tidy) are selling fast (usually in the first week), huge demand price ranges \$300,000 (nothing to offer) to \$600,000; noticeably quieter above \$600,000. Prices seem to be still creeping up.
- Property investment - quite hard making figures work but they are there - just need to be a little more creative. (Don't know if the writer refers to residential or commercial property – or rural!)
- Property Valuation - extremely busy with high demand on our services from all property sectors.
- Real Estate. Usual seasonal effects with fewer listings for sale and fewer sales. Prices appear steady. Likely to pick up again with spring and summer sales.
- Property market still seems to be slowing up though some areas (eg Hamilton) still going strong.
- Real estate sales on Hibiscus Coast: Market demand fluctuating to steady but buyers cautious and concerns over leaky homes and market peaking. Values show small increases but sales a little mixed. Mid to lower range likely to drop a little next year, upper range may stay at present levels. Small seasonal surge expected over Spring and Summer. Oil prices and lower immigration likely to impact.
- Residential Valuations in Auckland. Substantially slower recently and I think that this will be the norm for a while as the Housing Market sales "Dry Up".
- Northland, North Kaipara, consistent interest & sales to match.
- Wellington. Residential steady, no drop in value. Demand for good property, not too many properties for sale keeping demand ahead of supply. Commercial/Industrial booming, very strong demand from investors and tenants for all types of space pushing rentals and values up steeply.
- Extremely quiet in comparison to the same time last year. The shortage of available stock continued through last month, but there are signs of an increase. More appraisals are being sought indicating people thinking of making a Real Estate decision. A good "bank" of buyers still exists with properties that are going to the market selling quite easily. Some vendors seeing the stock shortage as a means to asking a higher price, but this is only hindering their sale as buyers are more educated. They have access to a lot more information to help them arrive at a decision, and so are making more informed decisions.
- Residential landlord - things looking fine. Some capital costs coming up, but all properties tenanted. No big rent increases, but no falls either. Stable.
- Nelson Property management. Winter has suddenly ended and good houses are in short supply again. Come on the hot months with hoards of new people in town.
- Residential Real Estate Auckland Eastern Suburbs - Patchy. Still some high prices being achieved, some low ones occasionally too. If homes are on the market for more than 4 weeks they aren't getting much attention from buyers.
- Sales outnumbering listings at present.
- Wary buyers who are slow to move but at the same time a shortage of listings. Prices edging lower at a slow rate.

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- Cautious demand. I say cautious because generally speaking buyers have the sensation they are buying at a market peak. So they want extra assurance they have bought well. Continuing shortage of listings and prices rising, most strongly in the bottom half of the market, where investors and first home buyers are competing.

Retail

- Customer numbers in shop are down. Enquiries by phone etc also down. Sales however have been steady but there is an underlying quietness in the market. Maybe it is in anticipation of an election?
- Apparel Retail. A general slowing after an unusually warm winter.
- Grocery retailing - sales are holding up surprisingly well. Solid increases on last year being recorded, some of this may be due to small price increases starting to filter through.
- Fuel prices are causing a reduction on spend in other profit centres. We are a fuel /convenience retailer.
- Furniture retail still quiet in Auckland and no improvement in sight.
- Business has flattened out at retail due possibly to increasing petrol prices and also the electioneering which traditionally depresses sales during the campaign.
- Very good. Retail industry is showing some improvement this last quarter.
- Flooring Retail - Sales still limited by installation labour resource, slower showroom activity in August (we thought because of election), but last two weeks the high activity has returned. Indications are very solid sales right through until after Christmas.
- I work in an Economic Development Agency and meet many people from a variety of industries. I am noticing the jitters appearing in a number of industries especially retail. In addition my partner works in furnishing manufacturing where the last two weeks have seen a great caus (Ed. Note - words ended here)

Road Construction

- We can't get the quality staff we need to spend the money at the rate it's being thrown at us

Security

- Steady growth

Tourism

- Soft since January, but Lions Tour in June/July will prop up yearly results.
- Tourism/backpacking: Aug was slightly up on last year, and YTD is a fraction below LY. Your bird flu scenario has given us the skitters.....
- Tourism. Not looking good for the coming tourism season - advance bookings lagging last year by 10% (and that wasn't a good year either!)
- OK but petrol etc must bite in due course.
- At the higher end currency does not seem to be playing a major part. Forward bookings are coming in well. The lower end of the spectrum from long haul markets though appears to be slowing a tad.
- Budget accommodation - with the effect of high petrol prices and exchange rate (high NZ Dollar) these all have the potential to impact over the next year. We are seeing fewer guests and there are more options (over-supply in some locations) available as competition increases.
- We are in Tourism and things have been a lot slower this winter and our bookings for the summer are down from this time last year.
- Accommodation . Have a higher occupancy than this time last year.
- Tourism numbers down and high dollar effecting spending power of those arriving.

Transport

- Road Transport. It is now apparent from the decline in freight volumes that increased petrol costs have eroded the discretionary spending available to consumers. Business is slowing down noticeably.
- Shipping: Volumes relatively steady, but lighter than last year. Charter rates and fuel high.

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Veterinary

- High Diesel costs are affecting our farm Vet vehicle running costs. Some concern about our farming clients closing their cheque books, though animal health has less discretionary spending in it.
- Veterinary service about same in Waikato but mild winter means less probs as such workload down . Less mastitis, down cows etc.

Wholesaling

- Tyre Wholesaling. Suppliers putting prices up steeply. Distribution costs increasing and having difficulty passing costs on to retailers. Debtors days increasing as collecting money becoming more difficult.

Wine

- OK for the moment but there will be some volume pressures in the next 3-5 years. However, weaker NZ\$ would allow better margins to be made.
- Winery. The exchange rates are hurting.

The BNZ Confidence Survey is run on the first Thursday of each month. In the Weekly Overview email sent to the 8,000 non-BNZ email addresses on our database respondents are asked to click on a URL which takes them to a survey site. Respondents are asked if they feel the economy will get Better, Worse or stay the Same over the next 12 months. Respondents may also make comments if they wish. Results are collated each Tuesday and released that night in this publication to media and WO readers.

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