

CONFIDENCE STILL HIGH

Our monthly confidence survey has revealed a net 3% of respondents expect the economy will deteriorate over the coming year. This is a slight decline from a net 2% positive in October but is still the fourth highest reading since the survey started in 2005. The result is consistent with other surveys showing the business sector appears to have taken negative factors such as collapsing finance companies, the global liquidity crisis, and easing housing market in their stride.

Out of 27 comments on the residential property market six were positive, two neutral, and 19 were negative. In other words reports from the front overwhelmingly show real estate as weak. Interestingly however one or two respondents did note an improvement in recent weeks. There remain vendors unwilling to reduce asking prices apparently unaware that buyers are less eager now. Listings shortages are evident in some areas however.



Some of the interesting points we have picked up from comments made include the following.

- Staff shortages remain as bad as ever.
- Construction activity is still very strong though with one or two weak patches.
- Engineering activity remain strong.
- In the horticultural sector times appear hard - the same for sheep and beef.

BNZ CONFIDENCE SURVEY

Survey Date	Better %	Same %	Worse %	Net %	# of respondents	# of comments
2 February 06	3.9	27.5	68.7	-64.8	517	387
1 March	8.6	37.2	54.2	-45.5	301	200
6 April	18.8	33.5	47.6	-28.8	382	256
4 May	18.8	39.5	41.7	-22.9	271	152
1 June	16.1	41.7	42.1	-26	254	149
6 July	16.8	39.3	43.9	-27	321	202
10 August	17.5	45.0	37.5	-20.1	269	171
7 September	19.0	40.7	40.3	-21.2	226	145
12 October	19.9	41.2	38.9	-19.0	216	138
2 November	23.1	44.0	32.9	-9.7	350	243
7 December	27.5	44.2	28.3	-0.9	233	158
1 February 2007	26.0	48.9	25.1	0.9	235	160
8 March	24.8	39.2	36.0	-11.3	222	150
4 April	24.0	41.9	34.1	-10.2	246	159
3 May	18.0	33.7	48.2	-30.2	255	170
7 June	8.9	29.1	62.0	-53.2	316	227
5 July	13.3	43.4	43.4	-30.1	286	165
2 August	14.9	31.1	53.9	-39.0	241	159
13 September	17.7	39.1	43.3	-25.6	215	143
4 October	31.6	38.5	29.9	1.7	234	132
5 November	31.4	34.5	34.1	-2.7	223	141

INDUSTRY COMMENTS SUBMITTED BY RESPONDENTS

NOTE: THESE ARE NOT OUR COMMENTS BUT THOSE SUBMITTED BY RESPONDENTS TO OUR MONTHLY SURVEY.

We exclude comments which don't say anything about current business conditions in an industry and are instead mainly rants and raves. Also some comments are chopped off or indecipherable and those in capital letters are also left out.

Accountancy

- Chartered Accountant - climatic conditions affecting horticultural, sheep and beef farmers. Plus high dollar and "high interest rates make for bad looking budgets.
- Chartered Accountancy - plenty of work but difficulty hiring experienced staff. Number of clients have noticed a significant drop off especially related to the building industry. Still people buying rentals but reduced number.
- Accounting - very busy. Lots of new business enquiries. Staff shortages still a problem. All in all, there is no sign of a let up. did someone say something about a downturn?

Agriculture

- We are suppliers to the dairy industry. Dairy farmers received their biggest-ever cheque for an October; seeing the money in their hands has caused an increase in confidence and immediate spending. With drought conditions at crisis level in Australia, this will probably flow through to even higher receipts to the NZ farmer in the 08 year. We exceeded October's budget by 37% and we expect that pattern to continue for the next 12 months at least, such is the confidence of the industry.
- Sheep n Beef at a very low ebb brought about by a barrage of on going bad news. Still drying east coast, Flat store market, high Dollar, PPCS operating loss (albeit amongst significant shift in their debt position) ever High interest rates, wool low constant and dribble in how to fix it, AND Not the best Statements flowing from or miss quoted comments from Meat and wool Chair all adding to low confidence however expect the industry returns the same for next year.. Dairy , High inflation environment e.g. cows / farms etc. most farmers now commenting no better off as everything has inflated accordingly. Not the case if you look at dairy on a P:E

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Bases 8:1 still sound and is currently better than last three years. very confident of continuing commodities performance three years into future. Expecting Payout to continue + 5.50 for 3 yrs.

- Its difficult to see much upside to sheep or beef pricing with conditions as they are \$ wise. Perhaps only tightness of current supply might help in the short term.
- Remain the same in the Beef Industry (on a constant exchange rate) - Farmer
- Excellent. Agricultural machinery spare parts.

Building Materials & Supplies

- Timber building products: Higher prices for lower quality raw material plus falling demand will reduce volumes and squeeze margins.

Business Consulting

- Environmental consulting - lots of work out there
- Business Consulting. Clients saying sales are falling in a large number of consumer categories.

Construction

- Record growth for us in the commercial construction sector. Looking forward into next 2 years it seems current activity levels could continue.
- Construction - building consent approvals. New dwelling applications are running 48% ahead of the same time last year.
- Margins in developing property are thinning with rising costs across the board, processing of resource and build consents taking even longer, and consumer demand slowing as higher interest rates begin to bite. Maybe still cycling lower before improvement so standing aside for at least 6 months...unless prime opportunity comes along.
- It is still next to impossible to find a builder for the next several months for a home remodel in the Wairarapa.
- Building Industry - manufacturer / supplier - things are definitely more competitive and slower. Commercial side in particular has dropped off in the last couple of months.
- Construction, Auckland, significant large projects are finally coming to market, good medium size projects are packed around them, currently market is competitive as we come out of a slow patch. mid 2008 will see the resources in the market available become a very real problem again.
- Building Construction Industry - BOP area Past few months steady, but definite fall in enquiry level. Clientele more patient, taking longer to make decisions. Expect residential construction to stay steady with no sign of picking up - next 3/4 months
- Construction Architectural Draughting_activity moderating plenty of work at a better more realistic pace.

Education

- Music Education - getting plenty of calls for 2008 starts.
- Difficult - Education
- In education sector, high NZ dollar is seriously affecting the number of international students.
- Export Education. Still not great, but exchange differential to Aussie dollar is helping as they are our main competitors.

Engineering

- NZ is picking up and Aust is going very well. (Industry is Engineering servicing)
- Demand is still outstripping supply by a considerable margin because of the shortage of skilled staff. There is no sign of this changing in the short term. (Professional services - Engineering)

Finance

- Property Finance - Slowly but surely, more and more deals are falling by the wayside. Even those that have previously been "ok'd", Lender's are either pulling out due to lack of funds or the interest/fee costs at present have made the project unviable. Have started looking abroad for funds and may have to continue doing so for some time yet.
- Finance Industry; number of players in all sectors down; plenty of opportunity for those with liquidity
- Merchant banking ok

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Food Manufacturing

- Food Manufacturing. Not doing too badly on the domestic front. Exports holding up but will likely get tougher during H108

Forestry/Manufacturing/Sawmilling

- Log export prices are being affected by lousy exchange rate. Short of exchange rate control !@#\$%^&* , must be high on Dr Cullen's list of tasks to complete , can't see things getting a lot better in the next 12 months.

Health and Fitness

- Health & Beauty Industry - very positive
- Health Care: Dollars from the government are tight. There is a severe shortage of medical personnel (physicians and nurses).
- Pharmaceuticals. Subsidised medicines volume continues to grow but margins controlled and costs (particularly freight) increasing. Non-subsidised starting to stall and prices edging up. Having to work harder and smarter to keep up.

Horticulture

- Kiwifruit is looking very sad with the exchange rate hurting, if you are doing average production with none of the other incentives available gained it's a grim story. xxx will have to work hard to regain the confidence of the growers. Post harvest facilities are creaming while growers struggle - Phew!!!
- Horticulture is taking a hiding from the present level of the dollar and increasing costs set against static overseas prices. Anticipated returns for Kiwifruit and Avocado have fallen well short of pre season expectations, and apple exports, especially to the US, have growers contemplating other activities. The longer term outlook cannot be seen as brighter, with the dollar remaining high for the foreseeable future, increasing transport costs due to the price of oil, and ongoing cost increases in labour with the tight economy. One should bear in mind that the distortion caused by the dairy returns hides the poor state of other players in the overall farming industry. It should also be borne in mind that the returns to dairy farmers probably only compensate for a run of relatively poor returns. Unfortunately, the distortion will also be felt in the price of land, labour and stock, which, when things slide back to "normal" will leave the agricultural sector with major problems.

Human resources

- Organisational consulting and Career Transition Services. Organisational Consulting is strong, but Career Transition has really slowed - employees market and low unemployment are impacting heavily.
- Recruitment continues to be very strong and at the management level we operate the shortage of quality candidates is a reflection of resource scarcity throughout the economy.

Information Technology/Telecommunications

- IT: generally good, clients vetting proposals closely but mostly distracted by other issues such as FX and economy in lead-up to election.
- ICT - Website Development (one person business): Business has been slowly building over the last 6 months. Outlook is good as expanding customer base grows word-of mouth referrals.
- IT Sector: Business is very strong, plenty of orders and work - outlook more of the same
- IT Sector: Software development booming as this sector continues to drive growth globally. Shortage of staff continues but this cannot be solved by monetary policy. Economy finely balanced but see technology sector expanding even as underlying economy slows.
- IT - above average working opportunities at this time.

Infrastructure

- Property valuation and consultancy working in the infrastructural area - excellent past year more of the same next year

Insurance

- In the insurance industry, premium will be going up inevitably over the next 12 months.
- Insurance The lower AUD/NZD exchange rate is having a positive effect on premium turnover. Conversely claims are costing more.

Land Development

- Land Development, Tauranga. Heaps of activity since Labour Weekend and the arrival of the sunshine.
- Property Development - challenging

Landscaping

- Landscaping - busy time of year for us but a bit quieter than other years, the residential market is slowing down gradually

Legal

- Legal-Good
- Legal profession. Inclined to think that it will improve. Feels better with some sun out the window for a change! Interest rates seem to have peaked and may trend downward slightly from early to mid 2008. Many picking a National win so a perception of a more business friendly environment over the next few years giving some planning confidence now.
- Law: property bumping along with a good flow of work - all other work normal. No-one with mortgage problems - one trading down.
- Legal - 3rd record year in a row. Expect next year to be similar.
- We operate a provincial legal practise with a main office and a satellite in a smaller town within the region. We are largest firm within the region .Transaction work within the housing market is very slow and has been for some time. Housing is generally selling below CV. There is a surfeit of sections available within the region (approximately 3 to 4 years supply). A number of clients have overcommitted themselves within the residential market or purchased with undue optimism. As a result some of these people are selling at below cost (in some cases up to 25%). We expect the current trend to continue in the short term. Commercial work is slow. Farming related work is increasing with properties changing hands now rather than at the end of the season. Forestry is slow. Local government work is steady (although pure resource management work is down.) Employment law is steady as is family.

Local Government

- Local Government (Lower South Island) Things look grim. It is possible to write a very long comment about why the sector is finding it very difficult to respond to the demands being placed on it however one factor dominates above all others. This is the ability to attract and retain staff. Put simply although in many places there are plans and intentions to build more roads, improve water and sewer services, process consents in timeframes, there are simply not enough staff to do this. Because of the generally lower than market pay rates, the level of public scrutiny (and abuse at times) and the workload it is just not seen as an attractive place to work. So do not expect response time to improve any time soon whether it is to a consent or supplying services to a subdivision.

Manufacturing

- Electronics manufacturer. Very busy at present but next few months quieter than normal Xmas rush. Increasing costs are reducing margins but only way to compete with cheap Chinese manufactured products. On the upside NZ & Australian business is increasing due to better quality and delivery from NZ manufacturers.
- Export manufacturing. We cannot move production offshore quick enough. Still growing the business but at a cost to the NZ economy. If we stay we die.
- Engineering Exporter in Christchurch. USD and high metal pricing are causing concerns. Becoming very difficult to pass on cost increases.
- Plastic Manufacturing. Domestic sales flat tending down, Export sales firm and growing.
- Furniture Manufacturing Margins very tight with some unbelievable competition in terms of quotes. Overheads/labour/compliancy costs a real problem in the industry.
- While overseas indicators look promising there are a number of local issues that may limit the flow down to NZers in the street and sheep and beef farmers in particular - We manufacture equipment for this sector
- Textile Manufacturing - tough competition from low wage cost countries

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Marine

- Recreational marine - busy but margins well squeezed. Lots of smaller boats being built here but most big one are imports now. Hard to say if the next 12 months will be good or not, no one seems to want to make a guess.

Marketing

- Publishing -- gloomy outlook across the board as advertisers slash budgets and switch available funds to retail and point of sale marketing initiatives.
- Advertising Agency-Media/PR - business looks steady however new business acquisition will drive growth for the Agency. Demand for mainstream media, TV, Radio and Print/Press is strong as anticipated in Q4 and Xmas. There is some softness in fringe media although late sales are still the best of a bad bunch. Q1 08 is open for booking Television although still too early to get a fix on demand. Q1 is traditionally low demand with low rates.

Miscellaneous

- Clothing Importers- Buyers are placing orders later but wanting shorter turnaround times for the orders. High Kiwi dollar is good for us importers. Though is hard to buy ahead when dollar is still volatile.
- Fairly buoyant, businesses seem optimistic. (radio)
- Horse Racing - more money being poured into stakes. This money is either coming directly through NZTR or through Racing Clubs which are forced into paying higher stakes by NZTR (at the expense of infrastructure development). Many positive initiatives at the moment. Lack of jockey talent a concern (full cream milk has a lot to answer for!).
- Continued demand in corporate training suggest business is thriving...
- We operate a boarding kennels near Wellington. Demand relies on people travelling away. We planned to almost double our capacity this year (significant capital expenditure for us, say \$110K to \$130K). We deferred it because for fear that increasing interest rates would dampen people's travel plans and therefore our demand. The key is off-peak demand. We can be confident of filling at peaks, but we look for reasonable occupancy off-peak). We saw a drop-off in demand (a little lower than same time last year) early in the 3rd school term, but since then things have been better than same time last year. We have been able to increase prices apparently without any significant adverse reaction (two customers known to have balked at the new price). Customers seem to have confidence in future plans despite concerns over interest rates. Though we are near Wellington, only a few most of our customers are public servants.

Property Management

- Independent Property management Nelson. Good strong demand for all classes of properties has been building up all winter and into spring. Advertised vacancies half what they are normally. Good applicants prepared to pay a premium for good nice rentals which is driving rents up. Landlords are able to avoid choosing tenants with poor credit histories because of a good choice of applicants.

Public relations

- Public Relations, Wellington - same story; fewer public sector companies in Wellington, higher labour & office accommodation costs, no sign of lower compliancy costs or regulatory burden all make it less enjoyable and profitable to conduct business in the Capital

Real Estate – Non-residential

- Commercial Property (Retail), still strong with lack of quality stock

Real Estate – Residential

- Auckland Residential Valuations are very slow at present.
- Residential property investor i.e. not a trader/developer. House values are not rising anymore and I am seeing more and more houses sitting for sale for longer. Rents are rising steadily. For investors wanting steady tenancies and rising yield things are looking very good.
- Property Valuation & Consultancy strong signs of easing the depth of which will depend critically on economic performance and economic indicators e.g. interest rates, employment, tax cuts, etc all or some of which may shake market confidence
- We are in Real Estate, we operate in Whakatane, Ohope Beach & Districts. While last month was slow in terms of property sales this months sales are very healthy. There is enquiry for all types of property however

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property investors are still showing extra caution. Good quality investments are drawing keen interest, especially investments to which value can be added. Ocean/Beach front property is also regaining popularity sales are being made in the \$1m range ahead of the usual summer rush. Our property management department is short of properties to rent as there is strong demand from quality Tenants. Properties sold to investors are quickly tenanted at the moment.

- Residential real estate sales South Auckland. Listings still hard to find. Buyer enquiry down. Sales volume down around 25%.
- Residential rentals: With immigration (external and internal) into Auckland still strong, house price and interest rates high, strong employment, a decrease in building activity, rentals are likely to rise. I will be timing an increase to take effect late January (a price rise in Nov/Dec can result in vacancies over Xmas/New Year). I am also building out of Auckland where I have some land for alternative purposes banked. I can build and gain positive cash flow since the land component does not need to be covered.
- Residential valuation - noticing more requests for mortgagee valuations. Other demand is still good.
- Slowing - Property
- Property Development. Sales prospects are very poor with little or no interest being shown in sections. Add to that the almost impossibility of securing funding now that the finance companies are gone and the world for development looks extremely bleak at present.
- Valuation - Bay of Plenty. Quieter on the residential front but commercial still ticking over. More of a buyers market now.
- Not very healthy, Property Valuation
- Very very quiet in the real estate market.
- Residential Property Investment - Auckland Tenants seem happy to stay put and sign up fixed term leases. Also happy to accept incremental rent increases. Higher interest rates are hurting each time a fixed term mortgage expires. Most vendors still demanding top dollar for investment properties offering yields of around 6% at best (in reasonable areas). Not sure who is buying these? Certainly not no-money-down investors. Expect the squeeze to go on highly geared investors as interest rates stay a current levels and some reasonable deals for those who have been patient for the past few years.
- Worse! -residential Auckland R/E Volume of sales lowest for 7 years. Median price holding up, but is masking downward pressure (volume fall-off at the lower end of the market at a greater rate than at the top end is evident and that keeps the median at an artificially high level). Speculative residential developers are finding it nearly impossible to source funding because Finance Companies just don't have any to lend. Noticeable drop in open home attendances.
- Wanaka Real Estate. we have a shortage of listings, we have had a very strong October with prices moving up, which is against the national trend
- Real Estate Residential. Auckland Eastern Suburbs. After a shocking September, October was very busy with increased listing activity and very good sales volumes. Prices would appear to have stabilised. There are still many vendors with totally unrealistic expectations, however motivated vendors with a genuine reason for selling, are meeting the market. Buyers generally remain very discerning and are looking for value. We expect the current level of activity to remain through to the end of the month and then the normal Christmas slow down will kick in, but we expect activity to revive again in February at current levels.
- Real Estate Christchurch, things are definitely picking up after a couple of pretty flat months Vendors need to be well priced to the market but the stock is flowing onto the market .Surprised by the number of sellers asking about auction as a marketing initiative .
- Real estate sales are on the slide with a lot of investors and mum and dads alike now feeling huge pressure from their home loans and are selling for less than they purchased for 12 - 18 months ago. Real Estate
- Residential landlord, Wellington. Things looking better with rents improving recently. Have some big maintenance work due, but looking on the positive side, that's more work for the local trades...
- Real Estate - Palmerston North - we have not seen so many listings for a long time. Buyers still there, even some investment properties sold this week, student market. Buyers taking their time though, no urgency.
- Real Estate Services. - Shakedown in the Market. Its not about discounting commissions. It is all going to be all around the consumer choosing which level of service they are prepared to pay for and balance of costs including commissions with the level of service Watch for the evolving of new Real Estate business models that will stun those operations currently passing high fixed costs and overheads onto the client for seemingly little result
- Residential Real Estate Auckland Central/Bays - Sales numbers running at about 65% level of this time last year with slight increase in volume over last 3 weeks. Plenty of choice for buyers with well priced homes selling quickly, others languishing. I predict future statistics will show prices pretty stable for at least 6 months

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- then either the bulls or bears will take hold for a while. Price falls will only occur if current 'average' demand drops.

- Real estate Coromandel Peninsula - things have been very quiet here, with very little buyer enquiry which is surprising for this time of year. Many buyers out there are holding off on commitment, with uncertainty in the market at the moment. Price adjustments (downwards!) have been seen from motivated vendors.
- Real Estate - Tauranga. Hundreds of homes for sale and nobody interested in them! Has been one of the worst Octobers for the real estate market in this area in living memory. The Mount to Papamoa area has ground to a halt. Many open homes getting nobody through despite owners slashing prices in desperation. This slump is sure to see the closure of some local real estate offices and many salespeople have already left the industry!
- Residential real estate Pakuranga/Howick - more listings starting to trickle in, listing stock quite good but still short in cheaper ranges; prices appear to be holding or perhaps dropping very very slightly (1%?); sales actually quite steady although volumes are noticeably down on last year; good tidy properties well priced are still selling quite quickly but generally time on the market is getting longer.
- Real estate - the sales are now coming in steadily
- Number of sales have slowed but price are still good - real estate

Research

- Strong NZ\$ impacting on commercial opportunities overseas in Research & Technology sector

Retail

- Retail: Sales remain similar to this time last year but there is no real growth except flat panel TV is certainly gaining ground. This probably reflects a move by consumers to adopt new technology.
- As an importer in the Sporting Goods industry the high dollar is helpful but we are seeing a drop in local market demand due mainly to pressure on discretionary spend.
- We are a supplier to furniture stores throughout NZ and are finding the market surprisingly strong and confident of meeting our targets.
- Fuel retail/convenience Higher fuel prices causing reduction in discretionary spend
- Grocery Division Selling to Main-Stream Grocery Branded Products: Stable as always. Homewares Division, Specialising in good quality kitchenware products: Seems to be very positive and we do not understand any negative business talk.
- Retail. Takeaway foods and wet fish quota cuts will force prices up. mortgage and fuel prices are having an influence on customers spending

Signage

- Signage Industry - we are very busy, short deadlines from clients, hard to get skilled staff. Future looks good, plenty through to Christmas.
- Signage - with many inputs from petrochemical based products price increases are inevitable which will make it harder to maintain profitability in a very competitive market. Cash flow has slowed noticeably, a sure sign of stress in customers. I detect huge personnel stress in customers under pressure of work with mistakes in artwork and text a daily occurrence and when added to increasingly tight deadlines is a sign that this will lead to unanticipated results which are unlikely to be beneficial.

Tourism

- Tourism - Hotels - A noticeable drop in the first three weeks of October most probably from outbound travel related to the Rugby World cup has been the only apparent negative on what looks like being a strong summer season for tourism. November is busy with international visitor bookings and a high forward booking line up of cruise ship arrivals will reach the highest they have ever been into NZ. Room rates should strengthen and develop through to late March 2008 and then forward conference and incentive bookings from April - September are already very strong. In every respect we have focussed on world benchmark quality in product and service and it is definitely paying dividends.

Transport and Storage

- Cold storage industry for which Fonterra is a major player. With the Dairy industry in a high demand phase, prices up and stocks down, our stocks from that industry are much lower than in previous years and we expect turnover and profitability to suffer

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- Transport - costs continue to spiral - we are anticipating high wage growth demands at next year's Collective negotiations that we simply cannot afford to meet. Margins are constantly being squeezed - and of course the Government continues to be the source of most of our capacity, taxation and administrative headaches!
- Road Transport. October has seen a increase in freight volumes and demand for services has strengthened. Margins will have been eroded by diesel cost increases and the lag that exists in being able to apply the cost increases into rates.
- Storage: Full, lot of enquiries Furniture Removals: reflects the housing market

Vehicles

- New Motor Vehicles - very competitive, profits under pressure.

The BNZ Confidence Survey is run (usually) on the first Thursday of each month. In the Weekly Overview email sent to the 12,000 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 on their own industry if they wish. Results are collated each Tuesday and released that night in this publication to media and WO readers.

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