



# Wage concerns intensifying

## Westpac McDermott Miller Employment Confidence Index, September 2018

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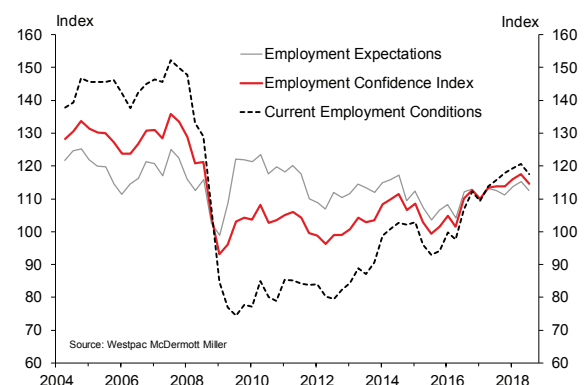


- Overall confidence in the labour market eased slightly in September, but it remains fairly buoyant compared to other measures of confidence.
- However, what really stands out are workers growing concerns about their incomes. The number of workers reporting a pay increase has fallen to a three year low. Workers have also become very pessimistic about their chances of a pay increase over the coming year.
- Workers still remain confident about their chances of finding work.
- Employment confidence has firmed in Otago and the central North Island, but has fallen sharply in the upper North Island, especially in the Waikato.

### Employment Confidence Indices

	Sep-18	Jun-18	Change
Employment Confidence Index	114.5	117.4	-2.9
Present Conditions Index	117.6	120.7	-3.2
Employment Expectations Index	112.5	115.3	-2.7
Current job opportunities	12.4	15.1	-2.7
Expected job opportunities	-0.2	-1.3	1.1
Past earnings growth	22.8	26.4	-3.6
Expected earnings growth	27.5	32.9	-5.4
Own job security	10.3	14.2	-3.9

### Employment confidence index



The Westpac-McDermott Miller Employment Confidence Index fell modestly in the September quarter, dropping 2.9 points to a level of 114.5. That's a smaller decline than we saw in other confidence surveys, and still leaves overall confidence in the New Zealand labour market at above average levels.

However, employment sentiment can be divided into two parts: households' views on job openings and their views on their earnings outlook. And the firmness in overall confidence is masking some important details in this split.

In terms of job openings, households remain fairly upbeat on their employment prospects. And while there is a little more nervousness about job security, this hasn't changed materially over the past four years. This likely reflects that, despite the falls in business confidence surveys, economic conditions to date have actually remained fairly resilient. Notably, GDP growth was strong in the June quarter, and the unemployment rate has trended down in recent years.

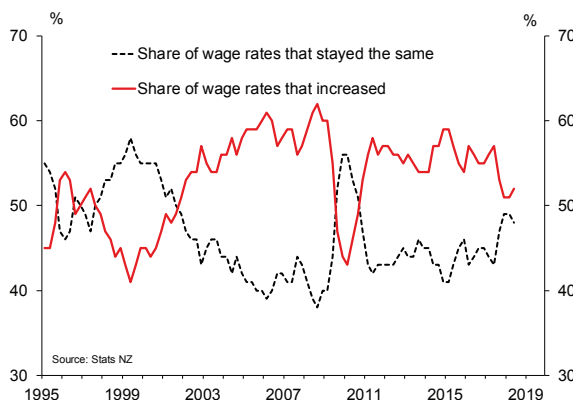
But it's a very different story when it comes to views around earnings, with workers very downbeat. The number of households reporting an increase in earnings over the past year has fallen sharply in recent months and is now at a three year low (the notable exception to this pattern are those workers earning less than \$30,000 per annum, many of whom may have benefited from the recent increase in the minimum wage).

Looking ahead, households have become even more very pessimistic about their chances of a pay increase. In fact, the number of households that expect their earnings will increase over the coming year is languishing at the sort of lows we saw during the financial crisis. This pessimism about the earnings outlook is widespread, and is particularly acute in Northland, Auckland and the Waikato. It's also evident across all income groups. These ongoing doubts about wage growth come despite a number of high profile collective wage negotiations in recent months and the Government's well publicised focus on improving working conditions.

### Earnings in paid work this time next year and annual wage inflation



### Distribution of wage changes



It's not hard to see why households are concerned about wage growth. Except for recent changes associated with the minimum wage and the health workers settlement, wage growth has remained stubbornly low for around a decade now. In addition, the number of workers who are actually receiving a pay increase has fallen over the past

year back to lows that we haven't seen since 2010. And on top of those developments we've seen petrol and consumer prices more generally trending higher over the past year, which is eroding the purchasing power of many households.

## Regional breakdown

The September quarter saw labour market confidence improving in six regions and falling in five.

### Employment confidence indices by region

Region	Sep-18	Jun-18	Change
Northland	110.0	119.4	-9.4
Auckland	113.0	122.0	-8.9
Waikato	97.2	117.9	-20.7
Bay of Plenty	119.2	115.6	3.5
Gisborne/Hawkes Bay	120.7	114.0	6.7
Taranaki/Manawatu-Whanganui	111.9	107.4	4.5
Wellington	119.0	116.8	2.2
Nelson/Marlborough/Westland	115.7	117.9	-2.2
Canterbury	112.1	115.6	-3.5
Otago	122.7	110.4	12.3
Southland	120.7	118.4	2.3

Labour market confidence is particularly strong in the **Otago, Gisborne/Hawke's Bay, and Bay of Plenty** regions. Economic conditions in these regions have been boosted by improved returns for horticulture exports and solid growth in house prices. Otago is also continuing to see the benefits of strong growth in international tourism.

**Waikato** is the most pessimistic region in the country with regards to the labour market outlook. The spread of the Mycoplasma bovis cattle disease to this key dairy producing region has hit farmers hard and will have flow on impacts for the agri-processing sector. The region's housing market and construction sector have also slowed.

Labour market confidence has slipped to slightly below average levels in **Auckland**. This is mainly due to concerns around earnings growth and job opportunities over the coming year. This comes at the same time as the region's housing market is cooling and as fuel prices push higher.

Employment confidence in **Canterbury** fell in September, leaving it at below average levels. GDP growth in the region has cooled since the peak of the rebuild. And while unemployment remains low, it has been creeping higher. Workers are particularly nervous about their job security as the drivers of growth in the region continue to rotate away from construction, and towards sectors like manufacturing and services.

Employment confidence is also at firm levels in **Wellington**. This is likely to be related to expectations that increases in Government spending will support public sector employment.

**Southlanders** continue to highlight solid levels of jobs availability. The region is expected to continue to benefit from growth in meat and dairy exports, while elevated

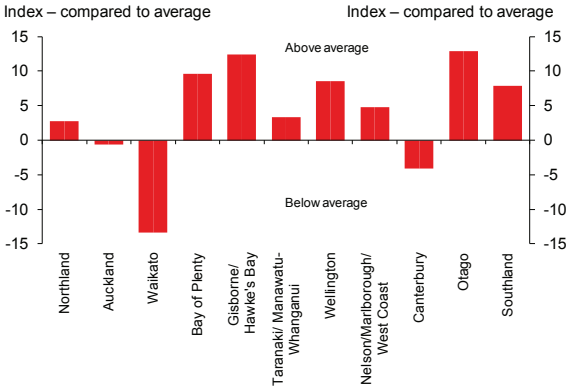
construction activity should ensure that the region is better able to meet an expected increase in tourists to the area.

Despite easing a little this quarter, labour market confidence in the **Nelson/Marlborough/West Coast** region remains at firm levels, supported by positive conditions for horticulture, viticulture and forestry.

Confidence has also picked up in the **Taranaki/Manawatu-Whanganui** region, with workers highlighting that jobs remain plentiful.

Labour market confidence in **Northland** has fallen as concerns about future earnings and job security have increased. But at least for now, positive conditions in sectors like agricultural and forestry are continuing to support job openings.

**Employment confidence by region  
(deviation from average)**



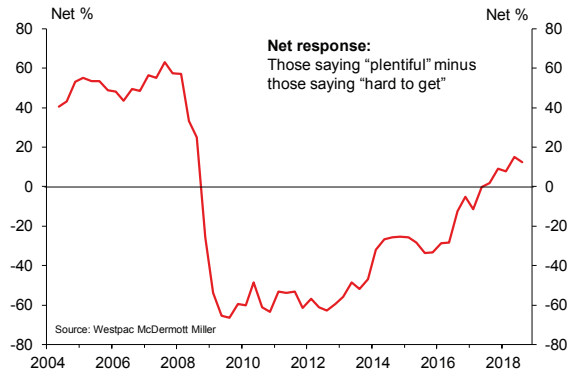
Source: Westpac McDermott Miller

**Survey description**

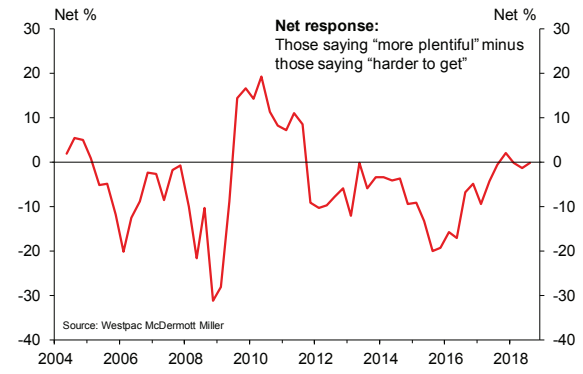
The Westpac McDermott Miller Employment Confidence Index summarises responses to five questions: households' perceptions of current and future job opportunities in New Zealand, their own actual and expected earnings, and expected changes in their own job security. The questions about current job opportunities and earnings are summarised in the Current Employment Conditions Index, while the questions about the year ahead are summarised in the Employment Expectations Index. The survey took place over the period 1 - 10 September 2018. The sample size was 1556.

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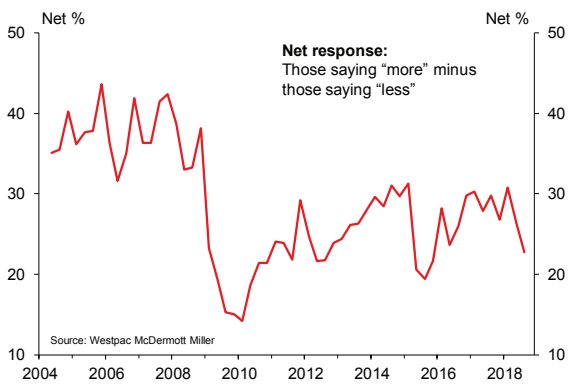
### Do you think jobs are plentiful or hard to get in NZ?



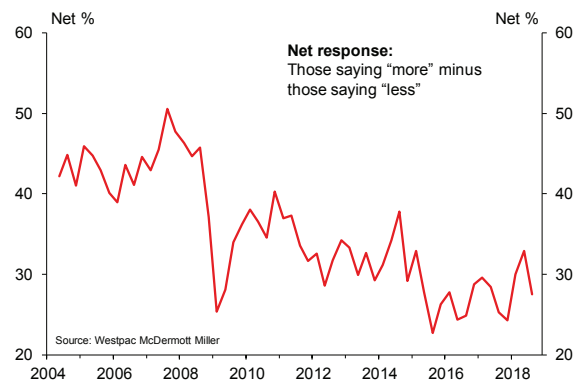
### Job opportunities in NZ in a year's time



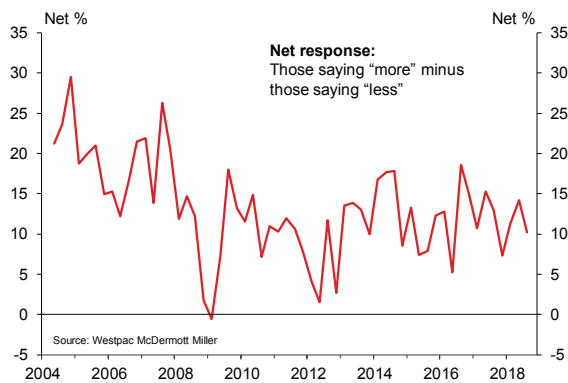
### Earnings in paid work compared to last year



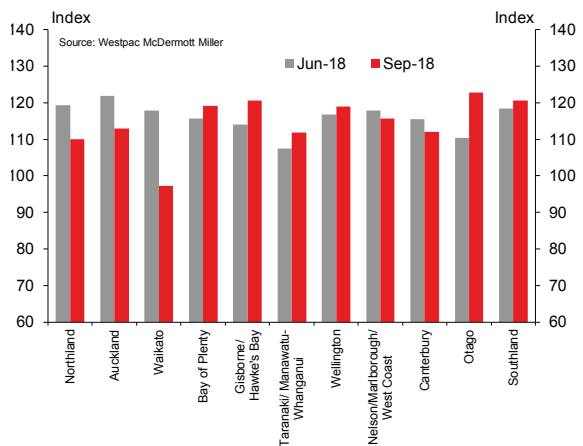
### Earnings in paid work this time next year



### Personal job security over the coming year



### Employment confidence by region



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