



Wage worries

Westpac McDermott Miller Employment Confidence Index, March 2019

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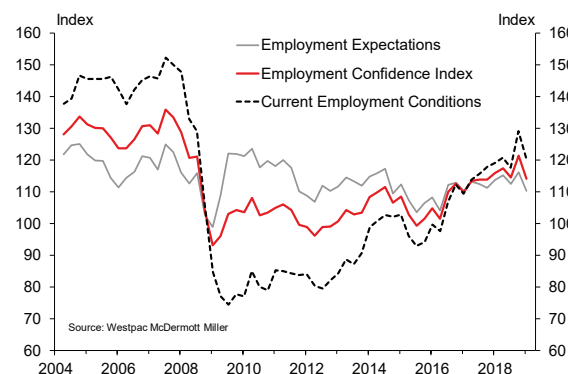


- Confidence in the labour market fell in March, reversing the strong rise seen in December.
- Perceptions about job opportunities were down slightly, though this was in proportion to the recent swings in the unemployment rate.
- Workers’ views on past and future earnings growth were particularly downbeat. That stands in contrast with employers’ concerns about rising costs and the difficulty of finding workers.
- Given the tight labour market, we expect some pickup in wage growth over the next couple of years. But today’s survey raises questions about the extent of that pickup.

Employment Confidence Indices

	Mar-19	Dec-18	Change
Employment Confidence Index	114.2	121.3	-7.1
Present Conditions Index	120.1	129.1	-9.0
Employment Expectations Index	110.3	116.1	-5.8
Current job opportunities	23.5	28.1	-4.6
Expected job opportunities	-1.8	1.2	-3.0
Past earnings growth	16.6	30.2	-13.6
Expected earnings growth	19.3	25.6	-6.3
Own job security	13.3	21.7	-8.4

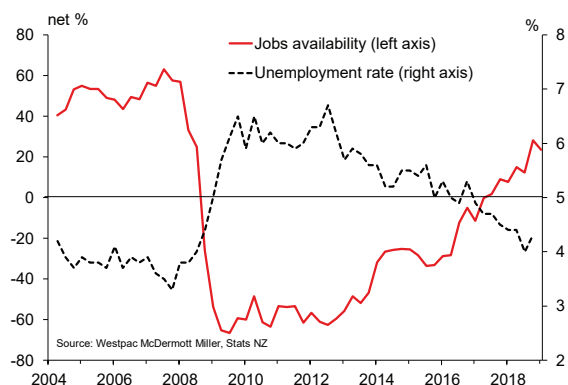
Employment confidence index



The Westpac McDermott Miller Employment Confidence Index fell by 7.1 points to 114.2 in the March 2019 quarter. As we saw with our consumer and regional surveys, employment confidence gave back all of the gains that it made in December, and it now sits close to its long-term average.

Households’ perceptions of current and future job opportunities dipped lower in March. This wasn’t entirely surprising – perceptions of job availability tend to take their lead from the actual unemployment rate, which recorded an unusually sharp fall to 3.9% in the September quarter before rebounding to 4.3% in the December quarter. Looking past the recent volatility, the survey still indicates that jobs are more plentiful now than at any time since the onset of the Global Financial Crisis in 2008.

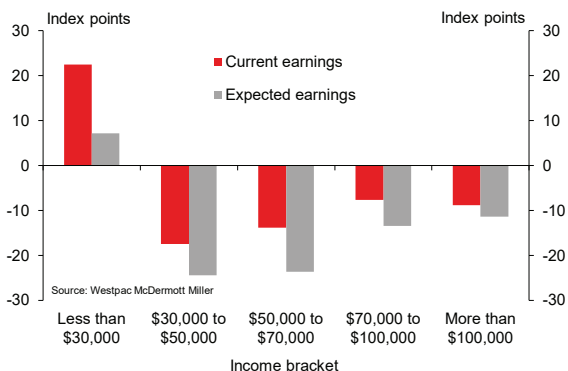
Jobs availability and the unemployment rate



The more surprising aspect of the survey was in the measures of earnings growth. The balance of workers reporting a pay increase in the last year fell from 30.2 to 16.6, an unusually large one-quarter drop. What's more, workers' expectations of pay increases in the next year continued their downward trend, falling to their lowest level in the 15-year history of this survey.

Looking more closely at perceptions of wage growth, workers in the lowest income bracket are relatively upbeat – this group is most likely benefiting from policy measures such as minimum wage hikes. In contrast, confidence about earnings is below average for all other workers, and especially those in the lower-to-middle income brackets.

Workers' views on earnings, compared to average



There are two starkly different narratives emerging about wage growth. Businesses say they're finding it increasingly difficult to find workers, and are concerned about escalating costs as pay rates are bid up. In contrast, workers are becoming less confident that those pay increases will be forthcoming.

Which of these narratives prevails will be a key issue for the economy over 2019. The evidence to date shows that there has been a modest pickup in wage growth over the last year, which is in keeping with the apparent tightness of the labour market. But we (and the Reserve Bank) are looking for a more substantial lift in wage growth over the next couple of years, without which inflation might fall short of the 2% target.

Employment confidence indices by region

Region	Mar-19	Dec-18	Change
Northland	108.4	112.8	-4.4
Auckland	113.2	125.6	-12.4
Waikato	103.3	122.0	-18.7
Bay of Plenty	125.6	113.7	11.9
Gisborne/Hawke's Bay	121.4	125.8	-4.4
Taranaki/Manawatu-Whanganui	108.1	114.8	-6.7
Wellington	119.2	119.3	-0.1
Nelson/Marlborough/West Coast	113.3	119.0	-5.7
Canterbury	111.9	119.0	-7.1
Otago	121.0	120.4	0.6
Southland	115.4	124.7	-9.3

Employment confidence was down in most regions, though there were a few notable differences. Confidence rose sharply across the board in the Bay of Plenty, cementing its place as the most upbeat region. The Gisborne/Hawke's Bay regions dropped a little, but remained high relative to the rest of the country, and well above their long-run average.

Confidence in Wellington was steady, perhaps reflecting a view that the city will be the biggest beneficiary of an expected ramp-up in government hiring. Otago saw a drop in job opportunities, but a strong lift in confidence about earnings.

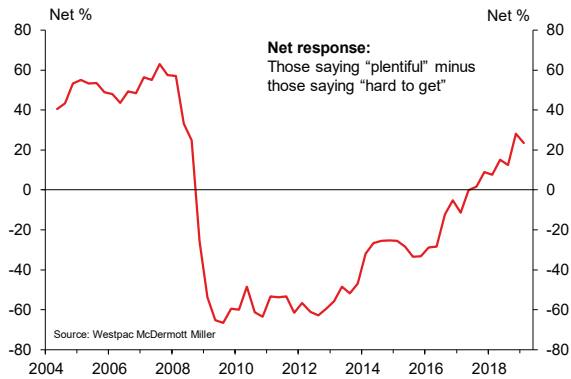
The biggest declines were in Waikato and Auckland. Responses from the Waikato have been quite volatile recently, so we're taking the latest result with some caution. The Auckland result is in keeping with a wider range of indicators which suggest that, outside of population growth, Auckland has been one of the economic laggards in recent times. This softness has extended into the labour market, with job advertisements rising more slowly in Auckland than in other parts of the country (with the exception of Canterbury, where job ads are falling).

Confidence was lower across all age groups, but there was a particularly sharp fall among younger workers on most measures. The exception to this was future earnings growth, where the fall was dominated by older workers.

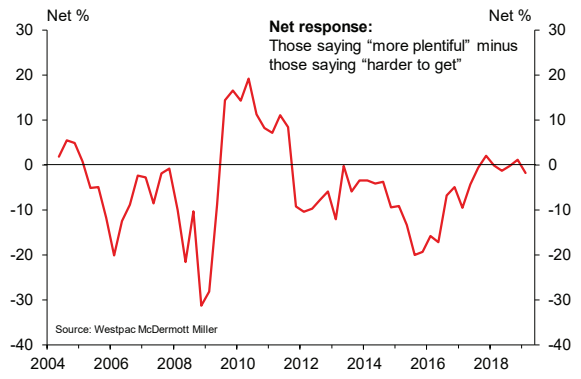
Survey description

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 March 2019. The sample size was 1556.

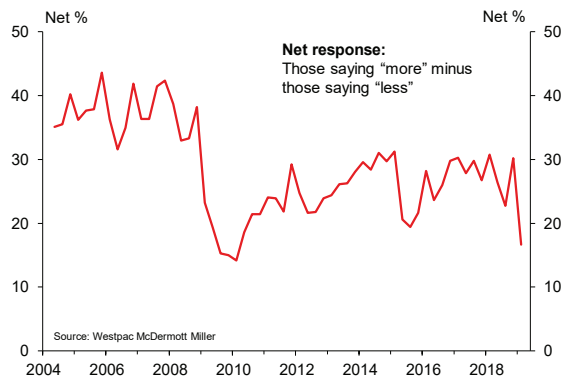
Do you think jobs are plentiful or hard to get in NZ?



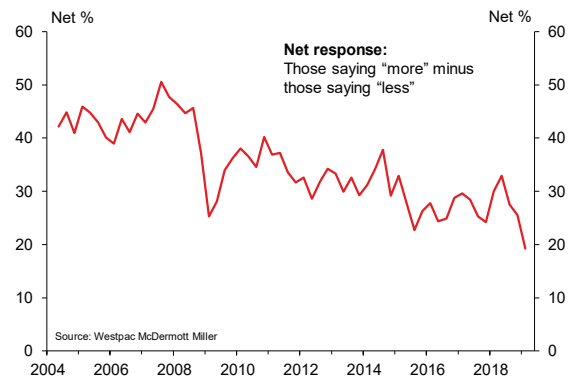
Job opportunities in NZ in a year's time



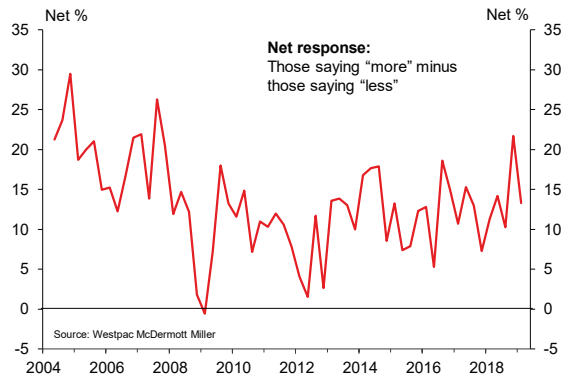
Earnings in paid work compared to last year



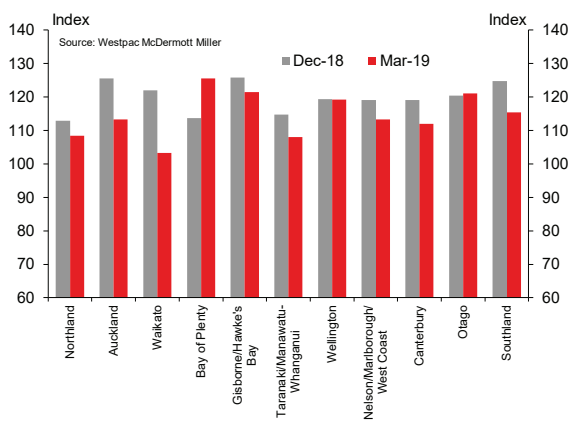
Earnings in paid work this time next year



Personal job security over the coming year



Employment confidence by region



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