

Jobless recovery?

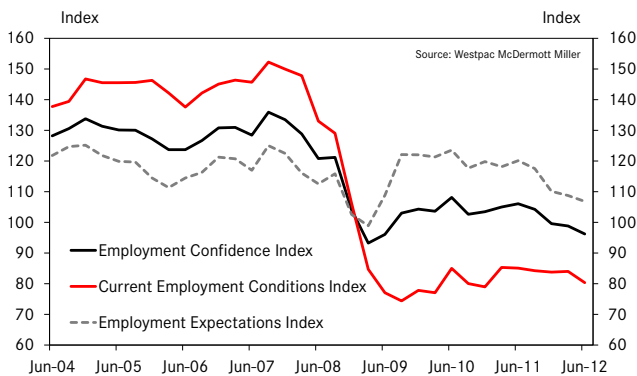
2012Q2 Westpac McDermott Miller Employment Confidence Index: 96.2

- Employment confidence has fallen for the fourth quarter in a row.
- Households remain very downbeat about the New Zealand labour market, and are becoming gloomier about their own job prospects.
- The overall message is that economic growth isn't yet translating into stronger jobs or wage growth.

Employment Confidence Indices

	Mar-12	Jun-12	Change
Employment Confidence Index	98.9	96.2	-2.6
Current Employment Conditions Index	84.0	80.3	-3.7
Employment Expectations Index	108.8	106.8	-1.9

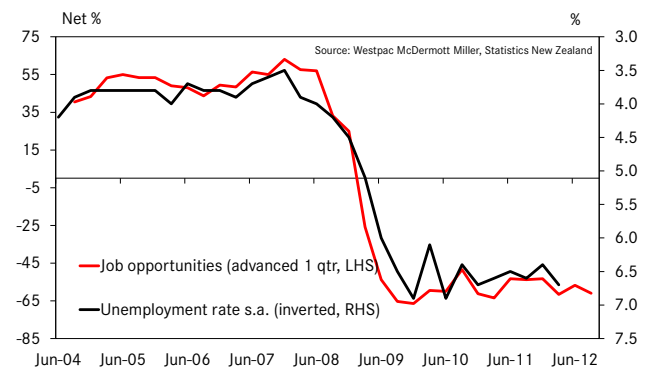
Figure 1: Employment Confidence Index



The Westpac McDermott Miller Employment Confidence Index has slipped further into pessimism, falling 2.6 points to 96.2, down from 98.9 three months ago. This is the fourth consecutive fall in the index, taking it back to levels last seen at the trough of the recession in mid-2009. As we detail below, households have been gloomy about employment conditions in the wider economy for years. Over the past year their expectations for their own job security and earnings prospects have eroded as well.

The latest survey comes after a disappointingly high March quarter unemployment outturn, and will to some extent reflect that piece of bad news. However, households' perceptions of the labour market have been a fairly good predictor of actual unemployment trends to date, and we'd suggest that today's survey offers additional evidence that the labour market remains in a fairly soggy state (figure 2).

Figure 2: Reported job opportunity and unemployment



This comes amid signs that the New Zealand economy is expanding. The March quarter GDP figures were surprisingly strong; the housing market continues to recover; households are spending; and construction work is underway in Christchurch and elsewhere. But on today's evidence it's too soon to expect this growth to feed through to an improving labour market, or big increases in wage growth. We were particularly struck by how weak employment confidence was in the Canterbury region, in view of rising demand for reconstruction-related jobs in the region, and the fact that Canterbury households have themselves been expressing rising optimism for the local economy. The implication is that labour shortages in Canterbury remain confined to a relatively small number of specialist jobs, with few spillovers to the rest of the economy so far. Meanwhile, people are becoming increasingly worried about the global economy, with employment confidence deteriorating notably in some more export-oriented regions. And public sector cutbacks are taking their toll on job security as well, most obviously in the Wellington region.

Survey details

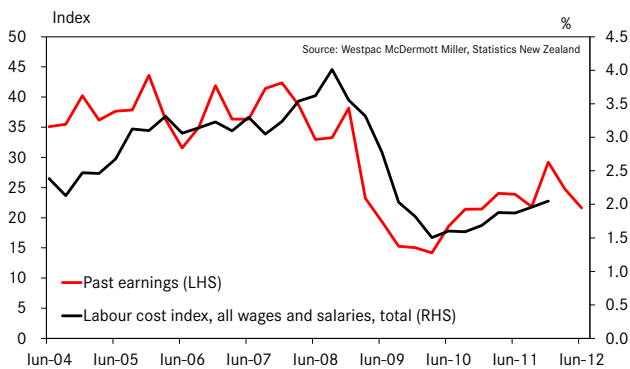
The Employment Confidence Index summarizes responses to five questions, two of them about the present, as summarized in the Current Employment Conditions Index (current job opportunities and current earnings), and three about the year ahead, as summarized in the Employment Expectations Index (expected job opportunities and earnings, as well as expected job security). The questions about current and future job opportunities are questions about the New Zealand job market as a whole; the other questions are about households' own employment situation.

Further details about the individual questions are in the charts on the last page. The survey took place over the period 1-10 June, with a sample size of 1570.

Almost all the components of the survey were lower than three months ago, with only expected job opportunities remaining broadly unchanged.

- After improving in the previous survey, households' assessment of current job opportunities has fallen back to where it was in December, with a net 61% of households saying that jobs are hard to get. Overall, this part of the survey has stayed pretty consistently bleak ever since 2009. A net 10% of households expect jobs to become even scarcer over the year ahead, roughly the same as three months ago.
- Until recently households had been relatively more optimistic about their own job security and earnings, but this optimism has steadily eroded over the past year. On job security, optimists now barely outnumber pessimists (a net 2% expected job security to improve over the coming year, down from 4% three months ago, and more than 10% a year ago). And the balance of households expecting to see a wage increase over the year ahead dropped from 33% in the previous survey to 29% - the lowest since mid-2009.
- After trending up for most of 2010 and 2011, the balance of households saying they received a wage increase over the past year has also turned south, falling for a second time in a row (to a net 22%, roughly the same as in late 2010 - see figure 3).

Figure 3: Reported past earnings and wage inflation



Demographic and regional breakdown

Employment confidence fell for both males and females and for most age and income groups, with only the middle-aged and those with middle incomes seeing an improvement (and even in those groups employment confidence is lower than in the second half of last year). However, confidence remains relatively high for the young and those with higher incomes, and higher for males than for females (this gender gap opened up since the recession, with females more downbeat about job opportunities and their own job security).

The survey's regional breakdown offered some surprises, notably in regard to Canterbury. Employment confidence in the region has come off sharply in the past six months, and is now only a little above the national average. Fewer households are

reporting or expecting wage increases compared to six months ago, and perceived job security in Canterbury is the lowest since late 2008. This is hard to square with rising job vacancies in the region, outside wage increases in the Christchurch construction sector, and Canterbury households' own reported economic optimism (according to the latest Westpac McDermott Miller Regional Economic Confidence Survey). It may be that some reconstruction-related work is being done outside the region (anecdotally this has been happening in Nelson/Marlborough/West Coast, where employment confidence showed a marked improvement). There may also be pockets of wage pressure that the survey isn't picking up (it only counts the number of people reporting wage movements, not the size of those movements). But the point remains that at this stage many Cantabrians don't yet see the Christchurch rebuild improving their personal employment prospects.

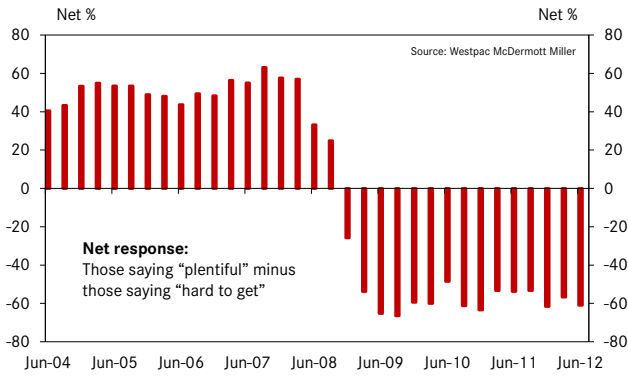
Elsewhere, employment confidence fell sharply in the Waikato, Taranaki/Manawatu-Wanganui, and Otago, all heavily export-dependent regions, and remains low in Wellington, with the region now the most pessimistic of all for job security over the coming year. In Auckland and Southland (where economic confidence has fallen sharply recently) the effect on households' employment confidence has been relatively muted so far, with both regions still at or near the top end of the rankings.

Employment Confidence by region

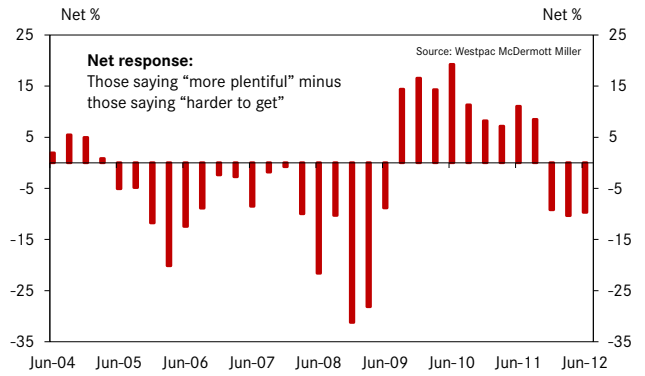
Region	Jun-11	Mar-12	Jun-12
Northland	95.2	93.8	91.0
Auckland	109.5	100.8	100.8
Waikato	106.1	97.8	86.3
Bay of Plenty	97.6	92.7	93.7
Gisborne/Hawke's Bay	100.0	95.2	98.2
Taranaki/Manawatu-Wanganui	98.9	100.0	92.3
Wellington	103.5	92.8	93.1
Nelson/Marlborough/West Coast	101.1	97.5	100.8
Canterbury	117.1	105.2	97.6
Otago	97.3	99.9	95.3
Southland	113.1	97.1	99.2

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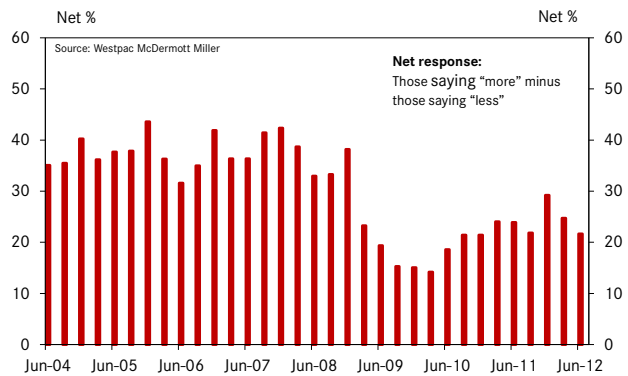
Do you think jobs are plentiful or hard to get?



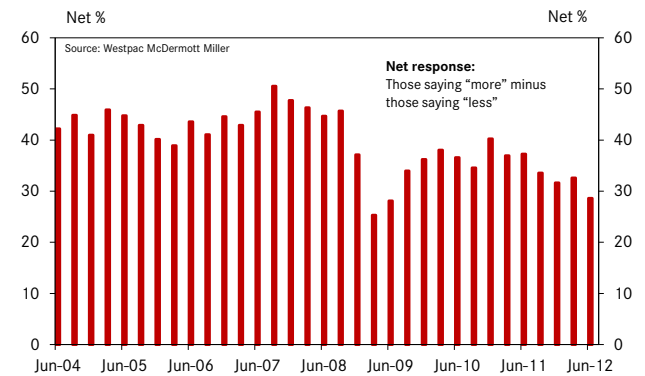
Job opportunities in NZ in a year's time compared to now



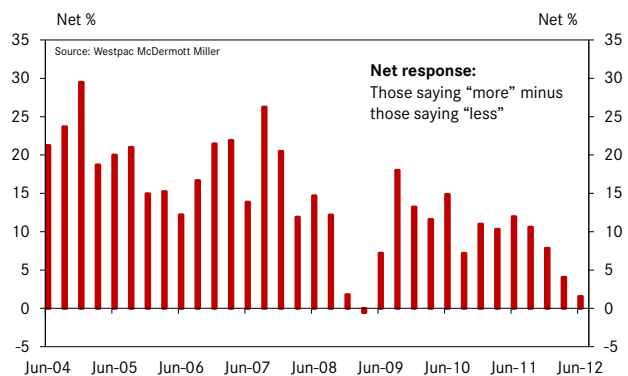
Earnings in paid work now compared to this time last year



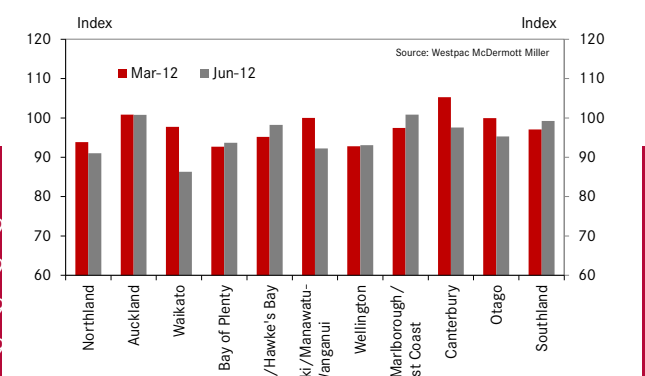
Expected earnings in paid work this time next year



Personal job security over the coming year



Employment confidence by region



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