

# Things are gonna get better

## Westpac McDermott Miller

### Employment Confidence Index, March 2015

- New Zealanders have become more confident about the outlook for the labour market, consistent with continuing strength in GDP growth.
- Despite softness in consumer price inflation, expectations for earnings growth have remained resilient. This will allay some of the RBNZ's concerns about a downshift in wage and pricing setting behaviour.

New Zealanders have become more upbeat about the state of the labour market, with the Westpac McDermott Miller Employment Confidence Index rising to 108.5 in the March quarter (up from 106.5 in the December quarter). However, this follows a sharp decline in confidence late last year, and still leaves confidence lower than it was in mid-2014.

Last year, employment confidence appeared to have been weighed down by concerns about the impact of drought and lingering softness in global demand. But while these factors are resulting in headwinds for the economy, their impact doesn't appear to have been as severe as initially feared. In fact, much of this quarter's pick-up in employment confidence actually occurred in rural areas.

We're not surprised to see employment confidence picking up in early-2015. Indeed, conditions in the domestic economy are looking very positive. Growth in the year to December was the fastest we've seen in seven years, and over this period employment was up a strong 3.5%. Indications for domestic demand going forward are also very favourable, with strong growth in the population, low interest rates, and favourable indications for construction activity.

Combined, the above developments have prompted an increase in workers' perceived job security, which rose by 5 percentage points in the March quarter.

There was also a pick-up in the survey's measures of earnings conditions. The net percentage of people reporting that their earnings have increased over the past year rose from 30% to 31% in March, adding to the positive indications for domestic demand. In addition, there was a pick-up in the proportion of households who expect their earnings to increase over the coming year (up to 33% in March from 29% in December).

Earnings expectations still aren't at high levels, but their resilience has caught our eye. And we expect that this will also be of particular interest to the RBNZ. This is because over the coming year consumer price inflation will fall to its lowest

**Employment confidence index**



	Dec-14	Mar-15	Change
<b>Employment Confidence Index</b>	<b>106.5</b>	<b>108.5</b>	<b>2.0</b>
<b>Present Conditions Index</b>	<b>102.2</b>	<b>102.9</b>	<b>0.7</b>
<b>Employment Expectations Index</b>	<b>109.4</b>	<b>112.3</b>	<b>2.9</b>
Current job opportunities	-25.3	-25.5	-0.2
Expected job opportunities	-9.4	-9.1	0.3
Past earnings growth	29.7	31.3	1.5
Expected earnings growth	29.2	32.9	3.7
Own job security	8.5	13.3	4.7

levels in well over a decade. In large part, this is a result of last year's sharp drop in oil prices, which will have a dramatic, albeit temporary impact on inflation. The Reserve Bank has expressed concern that this temporary drop in consumer price inflation could contribute to long-lasting softness in wage and price setting decisions. If it did, this would reinforce the weakness in inflation, making it harder for the RBNZ to ensure inflation remains consistent with their target in the future. Consequently, the resilience in earning expectations is likely to be welcome sign, making the RBNZ more comfortable with keeping the OCR on hold.

Compared to last quarter, workers' perceptions of the relative ease of currently finding a job, and their expectations for job opportunities over the coming year, are largely unchanged. However, we wouldn't be surprised to see these measures pushing higher over the coming year as the economy continues to grow at a robust pace.

## Regional breakdown

Employment confidence rose in eight out of eleven regions, and is at similar levels in both rural and metropolitan areas. However, there are two regions that are noticeably more confident than others. The first is Canterbury, where increases in reconstruction work, as well as a more general strengthening in economic activity, is supporting continued strength in the labour market.

The other is Southland. Employment confidence here fell sharply in late 2014, possibly in response to concerns about conditions in the dairy industry. However, workers in Southland have now become noticeably more upbeat about the outlook for employment and earnings over the coming year.

The regions with the lowest confidence were Northland and Gisborne/Hawke's Bay. Unemployment in both of these regions remains elevated, and workers have noted concerns about both the availability of jobs and earnings growth.

## 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 1-11 March, with a sample size of 1561.

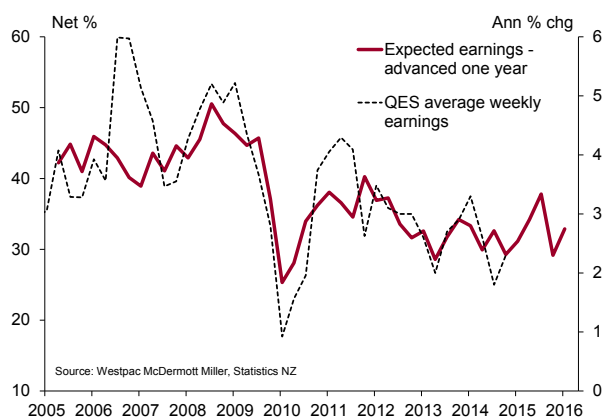
### Satish Ranchhod

Senior Economist

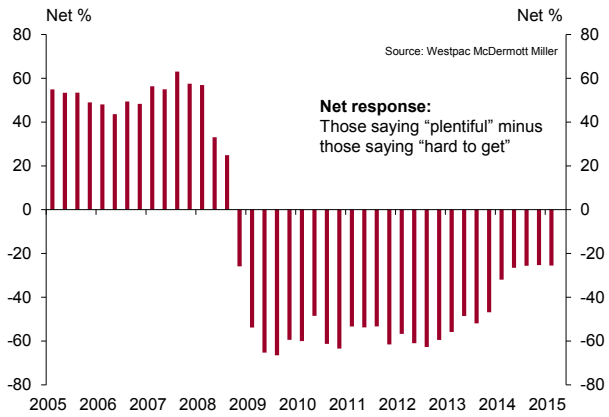
## Employment Confidence by region

Region	Dec-14	Mar-15	Change
Northland	100.6	100.3	-0.3
Auckland	109.1	110.9	1.8
Waikato	101.8	107.2	5.5
Bay of Plenty	106.7	106.1	-0.6
Gisborne/Hawkes Bay	97.9	101.6	3.7
Taranaki/Manawatu	99.6	104.3	4.7
Wellington	109.6	105.4	-4.3
Nelson/Marlborough/Westland	103.5	104.8	1.4
Canterbury	114.4	116.7	2.3
Otago	98.9	103.3	4.4
Southland	100.7	115.8	15.2

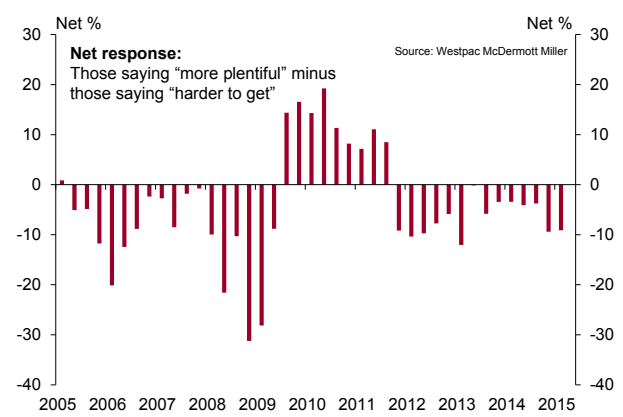
## Reported earnings and wage inflation



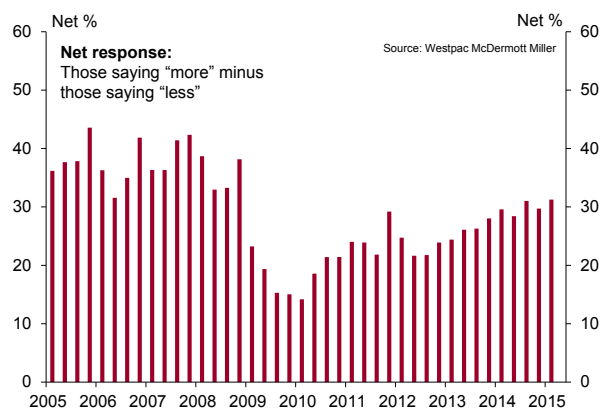
### Do you think jobs are plentiful or hard to get in NZ?



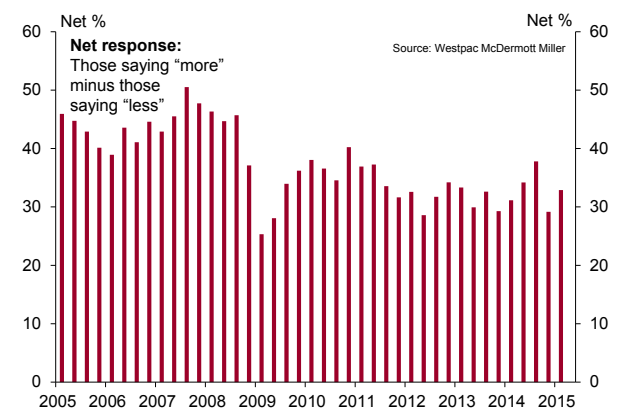
### Job opportunities in NZ in a year's time



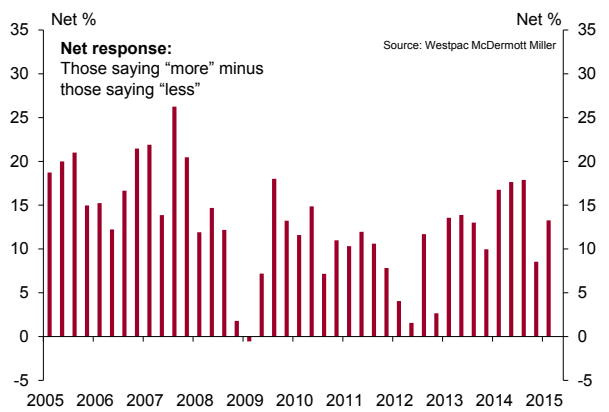
### Earnings in paid work compared to last year



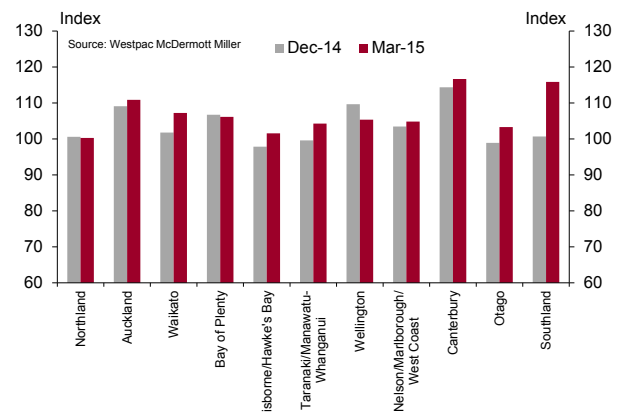
### Earnings in paid work this time next year



### Personal job security over the coming year



### Employment confidence by region



## Westpac economics team contact details

**Dominick Stephens**, Chief Economist  
+64 9 336 5671

**Michael Gordon**, Senior Economist  
+64 9 336 5670

**Felix Delbrück**, Senior Economist  
+64 9 336 5668

**Satish Ranchhod**, Senior Economist  
+64 9 336 5669

Any questions email:  
economics@westpac.co.nz

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