

Workers concerned about earnings

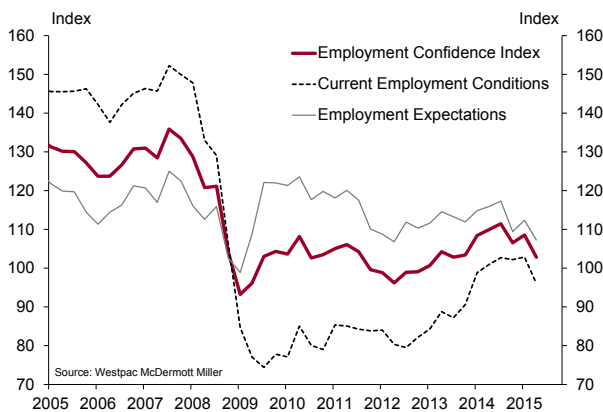
Westpac McDermott Miller Employment Confidence Index, June 2015

- New Zealanders have become less confident about the health of the labour market.
- The number of workers who reported a pay increase over the past year has fallen sharply. In addition, most workers expect that wage growth will remain weak over the coming year.
- Workers are also increasingly nervous about their employment prospects.

New Zealanders have become increasingly concerned about the state of the labour market, with the Westpac McDermott Miller Employment Confidence Index falling to 102.8 in the June quarter. That's down from a level of 108.5 in March, and the lowest level in two years.

The main concern that's weighing on workers' confidence levels is weakness in earnings growth. Among respondents to the Employment Confidence Survey, the proportion of workers who received a pay increase over the past year has fallen to its lowest level since 2010. And even for those workers who have received wage increases, they've been pretty modest. According to the Labour Cost Index, wage rates only rose by 1.7% in the year to March, which isn't much above the lows reached during the global financial crisis.

Employment confidence index



| | Mar-15 | Jun-15 | Change |
|--------------------------------------|--------------|--------------|-------------|
| Employment Confidence Index | 108.5 | 102.8 | -5.7 |
| Present Conditions Index | 102.9 | 96.1 | -6.8 |
| Employment Expectations Index | 112.3 | 107.3 | -5.0 |
| Current job opportunities | -25.5 | -28.5 | -2.9 |
| Expected job opportunities | -9.1 | -13.3 | -4.2 |
| Past earnings growth | 31.3 | 20.6 | -10.7 |
| Expected earnings growth | 32.9 | 27.8 | -5.1 |
| Own job security | 13.3 | 7.4 | -5.9 |

Reported earnings and wage inflation



In part, the softness in wage inflation reflects that unemployment has picked up in recent quarters, which will have made it harder for workers to negotiate pay increases.

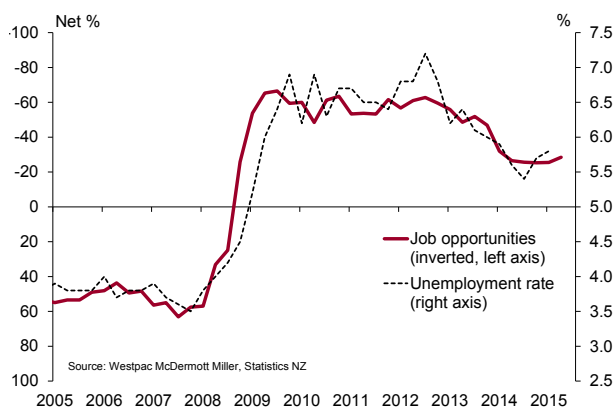
In addition, we've also had very low consumer price inflation over the past year. This has meant that cost of living adjustments to wages have been limited. However, it's also meant that households' purchasing power has actually risen strongly over the past year.

Looking forward, workers aren't expecting things to get much better anytime soon. The proportion of respondents expecting wage increases over the coming year is at its lowest level since 2009. This is of particular concern as we've seen petrol prices pushing higher recently, which is eroding households' purchasing power. On top of this, the fall in the New Zealand dollar will push up the prices for a range of imported goods over the coming months.

In addition to concerns around earnings growth, workers have become more nervous about their employment prospects. Perceived job security has fallen from already below average levels. Workers have also reported heightened concerns about the current availability of jobs, as well as the likelihood of finding a job over the coming year. These survey measures have tended to have a close relationship with the unemployment rate, and suggest that we're unlikely to see a significant improvement in unemployment in the near term.

This softening in employment confidence comes on the back of signs that the domestic economy has lost some steam. GDP growth in the first quarter of the year was a paltry 0.2%, business confidence and retail card spending have moderated, and the outlook for dairy export earnings is subdued.

Reported job opportunities and unemployment



Regional breakdown

Employment confidence fell in nearly all regions. The only exception was the Bay of Plenty where confidence was largely unchanged at slightly below-average levels. The Bay of Plenty is currently in recovery after the devastation wrought from Psa and is bucking national trends in a number of ways, with strengthening retail spending, construction and house sales.

Confidence fell most sharply in rural regions, including Canterbury, the Waikato, Northland and Southland. This likely reflects the deterioration in the outlook for dairy export earnings in recent months. In the case of Canterbury, signs that rebuild activity is approaching its peak may also be playing a role.

There was also a sharp decline in labour market confidence in Wellington, with workers noting particular concern around earnings growth. This may reflect the very low level of wage growth in the public sector. According to the Labour Cost Index, wage rates in the public sector rose by only 1.2% in the year to March - roughly half the average seen over the past decade.

Labour market confidence is strongest in Auckland, where population growth and strength in the housing market continue to boost economic activity. But even here confidence was down a little in June. And as with other regions, it's earnings growth that has been weighing on workers' minds.

Employment confidence by region

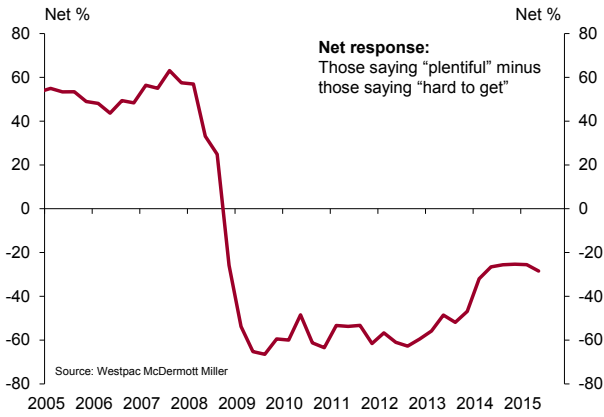
| Region | Mar-15 | Jun-15 | Change |
|-----------------------------|--------|--------|--------|
| Northland | 100.3 | 90.2 | -10.1 |
| Auckland | 110.9 | 107.8 | -3.1 |
| Waikato | 107.2 | 96.9 | -10.4 |
| Bay of Plenty | 106.1 | 106.3 | 0.1 |
| Gisborne/Hawkes Bay | 101.6 | 101.3 | -0.3 |
| Taranaki/Manawatu/Whanganui | 104.3 | 99.7 | -4.6 |
| Wellington | 105.4 | 96.5 | -8.9 |
| Nelson/Marlborough/Westland | 104.8 | 99.4 | -5.4 |
| Canterbury | 116.7 | 106.3 | -10.4 |
| Otago | 103.3 | 98.4 | -4.9 |
| Southland | 115.8 | 106.2 | -9.7 |

Survey description

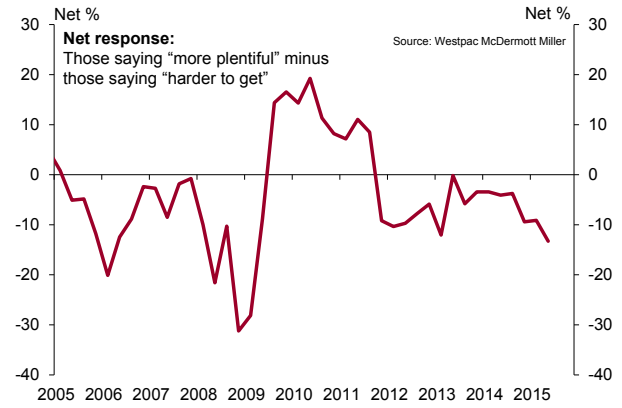
The Westpac McDermott Miller Employment Confidence Index summarises responses to five questions: households' perceptions of current and future job opportunities in New Zealand, their own actual and expected earnings, and expected changes in their own job security. The questions about current job opportunities 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 2 - 13 June. The sample size was 1581.

Satish Ranchhod
Senior Economist

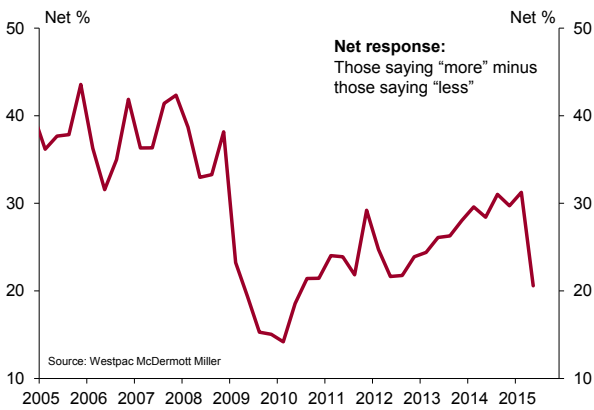
Do you think jobs are plentiful or hard to get in NZ?



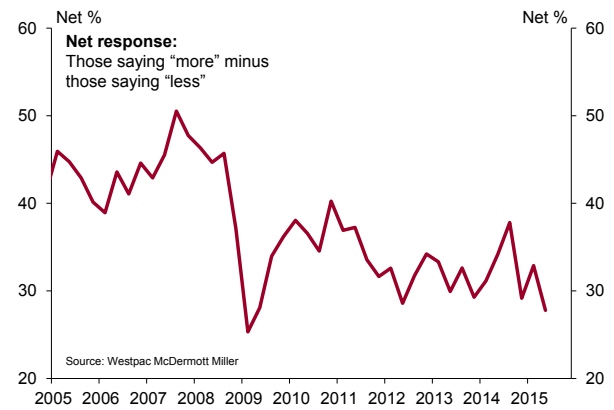
Job opportunities in NZ in a year's time



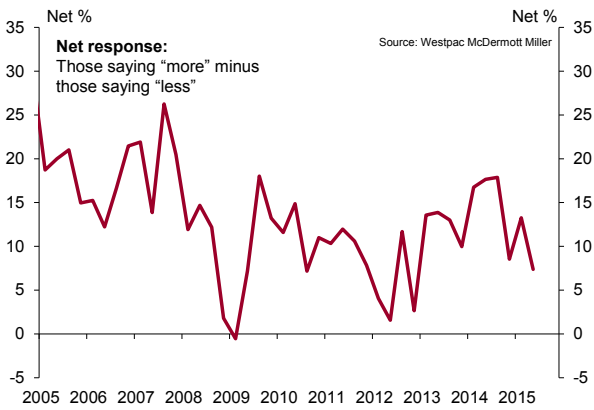
Earnings in paid work compared to last year



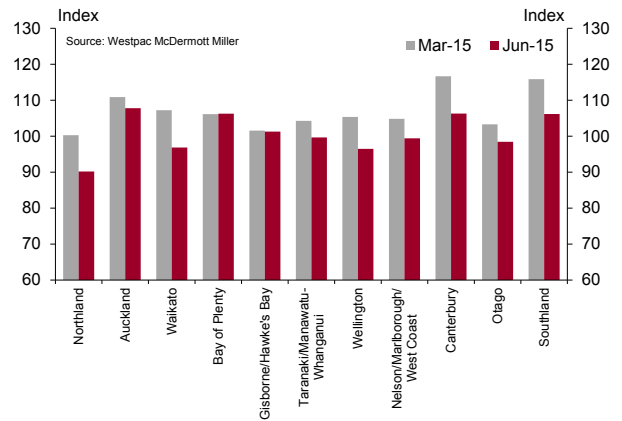
Earnings in paid work this time next year



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

Disclaimer

Things you should know: Each time someone visits our site, data is captured so that we can accurately evaluate the quality of our content and make improvements for you. We may at times use technology to capture data about you to help us to better understand you and your needs, including potentially for the purposes of assessing your individual reading habits and interests to allow us to provide suggestions regarding other reading material which may be suitable for you.

If you are located in Australia, this material and access to this website is provided to you solely for your own use and in your own capacity as a wholesale client of Westpac Institutional Bank being a division of Westpac Banking Corporation ABN 33 007 457 141 AFSL 233714 ('Westpac'). If you are located outside of Australia, this material and access to this website is provided to you as outlined below.

This material and this website contain general commentary only and does not constitute investment advice. Certain types of transactions, including those involving futures, options and high yield securities give rise to substantial risk and are not suitable for all investors. We recommend that you seek your own independent legal or financial advice before proceeding with any investment decision. This information has been prepared without taking account of your objectives, financial situation or needs. This material and this website may contain material provided by third parties. While such material is published with the necessary permission none of Westpac or its related entities accepts any responsibility for the accuracy or completeness of any such material. Although we have made every effort to ensure the information is free from error, none of Westpac or its related entities warrants the accuracy, adequacy or completeness of the information, or otherwise endorses it in any way. Except where contrary to law, Westpac and its related entities intend by this notice to exclude liability for the information. The information is subject to change without notice and none of Westpac or its related entities is under any obligation to update the information or correct any inaccuracy which may become apparent at a later date. The information contained in this material and this website does not constitute an offer, a solicitation of an offer, or an inducement to subscribe for, purchase or sell any financial instrument or to enter a legally binding contract. Past performance is not a reliable indicator of future performance. The forecasts given in this material and this website are predictive in character. Whilst every effort has been taken to ensure that the assumptions on which the forecasts are based are reasonable, the forecasts may be affected by incorrect assumptions or by known or unknown risks and uncertainties. The ultimate outcomes may differ substantially from these forecasts.

Transactions involving carbon give rise to substantial risk (including regulatory risk) and are not suitable for all investors. We recommend that you seek your own independent legal or financial advice before proceeding with any investment decision. This information has been prepared without taking account of your objectives, financial situation or needs. Statements setting out a concise description of the characteristics of carbon units, Australian carbon credit units and eligible international emissions units (respectively) are available at www.cleanenergyregulator.gov.au as mentioned in section 202 of the Clean Energy Act 2011, section 162 of the Carbon Credits (Carbon Farming Initiative) Act 2011 and section 61 of the Australian National Registry of Emissions Units Act 2011. You should consider each such statement in deciding whether to acquire, or to continue to hold, any carbon unit, Australian carbon credit unit or eligible international emissions unit.

Additional information if you are located outside of Australia

New Zealand: The current disclosure statement for the New Zealand division of Westpac Banking Corporation ABN 33 007 457 141 or Westpac New Zealand Limited can be obtained at the internet address www.westpac.co.nz. Westpac Institutional Bank products and services are provided by either Westpac Banking Corporation ABN 33 007 457 141 incorporated in Australia (New Zealand division) or Westpac New Zealand Limited. For further information please refer to the Product Disclosure Statement (available from your Relationship Manager) for any product for which a Product Disclosure Statement is required, or applicable customer agreement. Download the Westpac NZ QFE Group Financial Advisers Act 2008 Disclosure Statement at www.westpac.co.nz.

China, Hong Kong, Singapore and India: Westpac Singapore Branch holds a wholesale banking licence and is subject to supervision by the Monetary Authority of Singapore. Westpac Hong Kong Branch holds a banking license and is subject to supervision by the Hong Kong Monetary Authority. Westpac Hong Kong branch also holds a license issued by the Hong Kong Securities and Futures Commission (SFC) for Type 1 and Type 4 regulated activity.

Disclaimer continued overleaf.

Disclaimer continued

Westpac Shanghai and Beijing Branches hold banking licenses and are subject to supervision by the China Banking Regulatory Commission (CBRC). Westpac Mumbai Branch holds a banking license from Reserve Bank of India (RBI) and subject to regulation and supervision by the RBI.

U.K.: Westpac Banking Corporation is registered in England as a branch (branch number BR000106), and is authorised and regulated by the Australian Prudential Regulatory Authority in Australia. WBC is authorised in the United Kingdom by the Prudential Regulation Authority. WBC is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority in the United Kingdom. Details about the extent of our regulation by the Prudential Regulation Authority are available from us on request. Westpac Europe Limited is a company registered in England (number 05660023) and is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. This material and this website and any information contained therein is directed at a) persons who have professional experience in matters relating to investments falling within Article 19(1) of the Financial Services Act 2000 (Financial Promotion) Order 2005 or (b) high net worth entities, and other persons to whom it may otherwise be lawfully communicated, falling within Article 49(1) of the Order (all such persons together being referred to as “relevant persons”). The investments to which this material and this website relates are only available to and any invitation, offer or agreement to subscribe, purchase or otherwise acquire such investments will be engaged in only with, relevant persons. Any person who is not a relevant person should not act or rely upon this material and this website or any of its contents. In the same way, the information contained in this material and this website is intended for “eligible counterparties” and “professional clients” as defined by the rules of the Financial Services Authority and is not intended for “retail clients”. With this in mind, Westpac expressly prohibits you from passing on the information in this material and this website to any third party. In particular this material and this website, website content and, in each case, any copies thereof may not be taken, transmitted or distributed, directly or indirectly into any restricted jurisdiction.

U.S.: Westpac operates in the United States of America as a federally licensed branch, regulated by the Office of the Comptroller of the Currency. Westpac is also registered with the US Commodity Futures Trading Commission (“CFTC”) as a Swap Dealer, but is neither registered as, or affiliated with, a Futures Commission Merchant registered with the US CFTC. Westpac Capital Markets, LLC (“WCM”), a wholly-owned subsidiary of Westpac, is a broker-dealer registered under the U.S. Securities Exchange Act of 1934 (‘the Exchange Act’) and member of the Financial Industry Regulatory Authority (‘FINRA’). This communication is provided for distribution to U.S. institutional investors in reliance on the exemption from registration provided by Rule 15a-6 under the Exchange Act and is not subject to all of the independence and disclosure standards applicable to debt research reports prepared for retail investors in the United States. WCM is the U.S. distributor of this communication and accepts responsibility for the contents of this communication. If you would like to speak to someone regarding any security mentioned herein, please contact WCM on +1 212 389 1269. All disclaimers set out with respect to Westpac apply equally to WCM.

Investing in any non-U.S. securities or related financial instruments mentioned in this communication may present certain risks. The securities of non-U.S. issuers may not be registered with, or be subject to the regulations of, the SEC in the United States. Information on such non-U.S. securities or related financial instruments may be limited. Non-U.S. companies may not be subject to audit and reporting standards and regulatory requirements comparable to those in effect in the United States. The value of any investment or income from any securities or related derivative instruments denominated in a currency other than U.S. dollars is subject to exchange rate fluctuations that may have a positive or adverse effect on the value of or income from such securities or related derivative instruments.

The author of this communication is employed by Westpac and is not registered or qualified as a research analyst, representative, or associated person under the rules of FINRA, any other U.S. self-regulatory organisation, or the laws, rules or regulations of any State. Unless otherwise specifically stated, the views expressed herein are solely those of the author and may differ from the information, views or analysis expressed by Westpac and/or its affiliates.

For the purposes of Regulation AC only: Each analyst whose name appears in this report certifies that (1) the views expressed in this report accurately reflect the personal views of the analyst about any and all of the subject companies and their securities and (2) no part of the compensation of the analyst was, is, or will be, directly or indirectly related to the specific views or recommendations in this report.