

A spring in their step

Westpac McDermott Miller Employment Confidence Index, September 2016

- Employment confidence showed a marked improvement in September, as workers became more upbeat about both current and future employment prospects.
- The lift was broad based, with employment confidence increasing across almost all regions. The only exception was the Bay of Plenty where employment confidence was broadly flat.
- Improving confidence is consistent with other indicators of labour market activity. It suggests the solid momentum in employment growth over the first half of the year is likely to have been maintained into the second half of 2016.
- Yet despite the big lift in confidence, the soft spot in the labour market is still wages. Workers remain particularly circumspect about the prospect of higher wages over the year ahead.

	Jun-16	Sep-16	Change
Employment Confidence Index	101.5	110.1	8.5
Present Conditions Index	97.6	106.8	9.2
Employment Expectations Index	104.2	112.2	8.1
Current job opportunities	-28.4	-12.4	16.0
Expected job opportunities	-17.1	-6.8	10.4
Past earnings growth	23.6	26.0	2.4
Expected earnings growth	24.4	24.9	0.5
Own job security	5.3	18.6	13.3

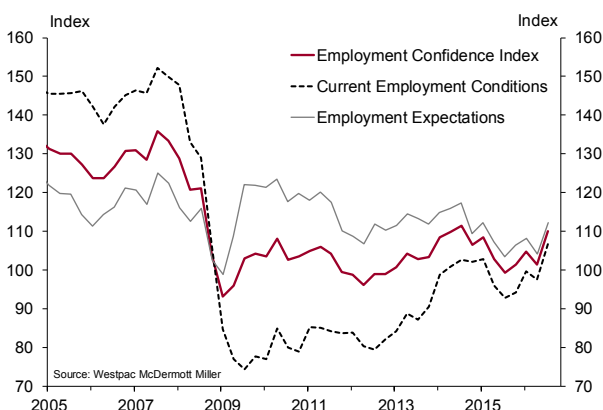
Workers perceptions of labour market opportunities have adopted a decidedly brighter hue in the latest Westpac McDermott Miller Employment Confidence survey. Employment confidence rose an impressive 8.5 points this quarter, to return to its highest level since September 2014.

But equally as notable as the solid lift in the headline Employment Confidence measure was the broad-based nature of the improvement. Those surveyed have become more confident about both current employment conditions and their future prospects. And the improvement is not just confined to one particular age group, region, or income category. Almost without exception, workers are noticeably more upbeat about labour market conditions than they were 3 months ago.

Today's outturn is consistent with other indicators of labour market activity which have pointed to improving employment prospects. Advertised vacancies are up, and firms are reporting increased difficulty in finding both skilled and unskilled labour. Employment growth surged in the June quarter (albeit with growth flattered by the change in survey which led to more people reporting themselves as self-employed) and the unemployment rate has fallen to 5.1%.

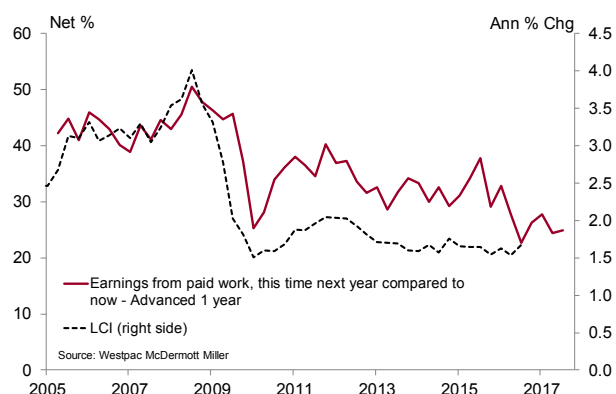
But for all the signs of improvement in the labour market, if there was one soft spot in today's result, it was expectations for earnings growth for the year ahead. This index did tick higher, indicating workers are more optimistic that their earnings will improve over the next 12 months than they were back in June. However, the improvement wasn't nearly as

Employment confidence index



strong as the other components of employment confidence. What's more, despite the small improvement, earnings expectations over the next twelve months continue to linger well below average levels and are only a touch above the all-time low reached late last year. Workers were also pretty circumspect when comparing their current earnings now with those of 12 months ago.

Earnings growth over the last year



The reported lack of pressure on wages is due to a combination of factors. Firstly, inflation remains very low at just 0.4%, and has hovered below 1% since December 2014. In addition, there has been very strong net migration driven population growth, and a big lift in participation in labour force which rose to a record high of 69.7% in the June quarter (though we would acknowledge survey changes have boosted the reported participation rate). Combined, this has kept a lid on wage inflation which continues to track well below 2%. And today's survey suggests workers see this trend continuing for some time yet.

This will continue to provide a headache for the RBNZ as it looks to generate more inflation pressure in the economy. However, with signs that net migration may be nearing a cyclical peak, inflation projected to pick up next year, and the labour market continuing to tighten, it seems it will only be a matter of time before workers become more optimistic about their future earnings prospects.

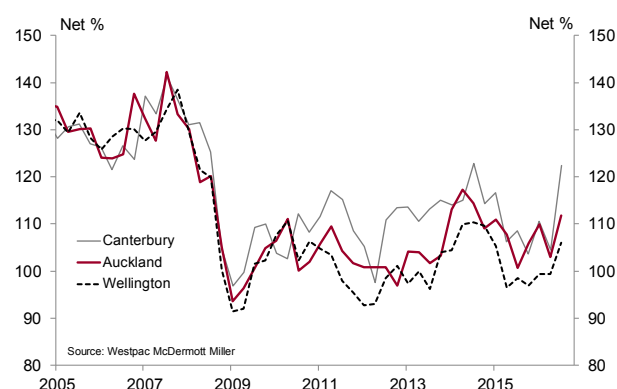
Regional Trends

Employment confidence rose across almost all regions in September. The only exception was the Bay of Plenty. There, employment confidence was broadly unchanged from last quarter, although the expectations component of the series was somewhat softer. On the face of it, this seems a little at odds with the improving outlook for the dairy sector, strong performance of the kiwifruit industry and buoyant construction sector in the region.

Somewhat surprisingly, the biggest leap in employment confidence this quarter occurred in Canterbury, as confidence in the region shot to the highest level in the country at 122.4.

In Canterbury, workers were considerably more upbeat about current employment conditions. The sharp improvement this quarter was particularly unexpected given our understanding of how the rebuild is progressing. The level of rebuild activity in the region appears to have plateaued and with it, we would have thought, job prospects. However, respondents this quarter took a different view, with their take on job prospects in a year's time now back to the levels that prevailed shortly after the 2011 Canterbury quake. The jump this quarter more than reversed the gradual decline in employment confidence we've seen in the region over the last year or so. It will be interesting to see if this optimistic tone remains in place over the remainder of the year.

Employment confidence by region



There was a healthy lift in employment confidence in Auckland as well this quarter, with the region now the second most optimistic on employment conditions in the country. An improvement in both the current conditions and expectations indices drove the increase. The region with the lowest employment confidence this quarter was Gisborne/Hawke's Bay (97.3 compared to a national average of 110.1). Although employment confidence in the region improved in September, after plunging in June, workers are amongst the least likely in the country to view jobs as plentiful, consistent with an unemployment rate that tends to linger above the national average.

Region	Jun-16	Sep-16	Change
Northland	96.1	108.3	12.2
Auckland	103.0	111.8	8.8
Waikato	103.9	108.1	4.2
Bay of Plenty	104.2	103.4	-0.9
Gisborne/Hawkes Bay	92.5	97.3	4.8
Taranaki/Manawatu-Whanganui	96.9	99.9	3.0
Wellington	99.4	106.0	6.6
Nelson/Marlborough/Westland	96.7	109.1	12.3
Canterbury	104.6	122.4	17.8
Otago	96.7	105.6	9.0
Southland	94.3	108.0	13.7

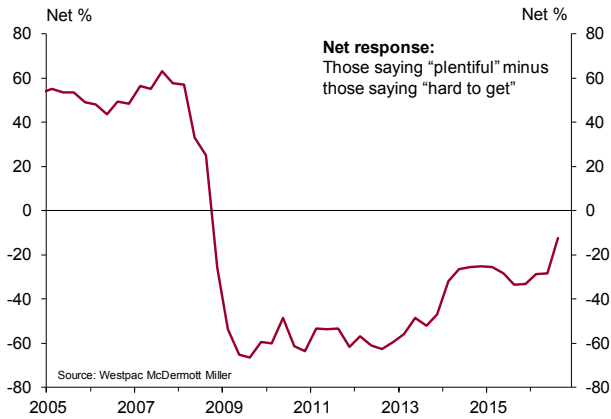
Survey Description

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 1-11 September 2016. The sample size was 1559.

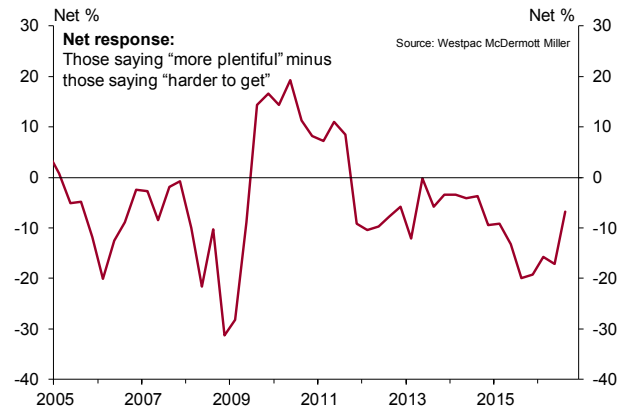
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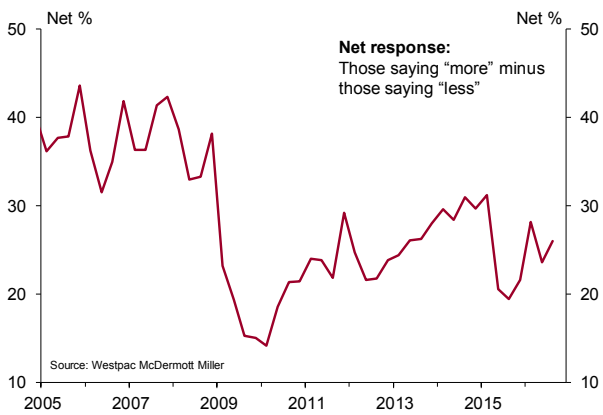
Do you think jobs are plentiful or hard to get in NZ?



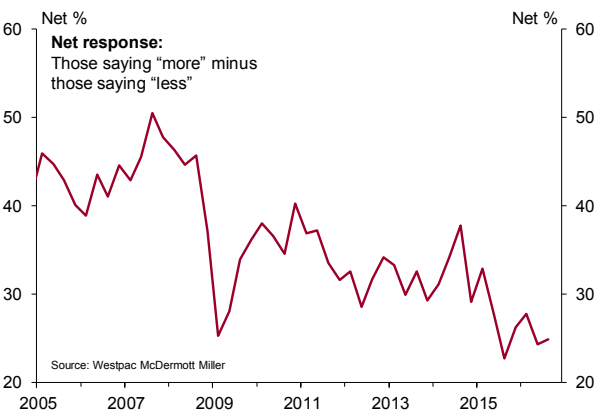
Job opportunities in NZ in a year's time



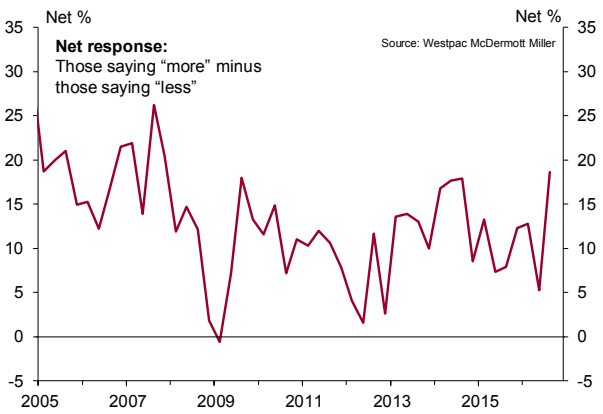
Earnings in paid work compared to last year



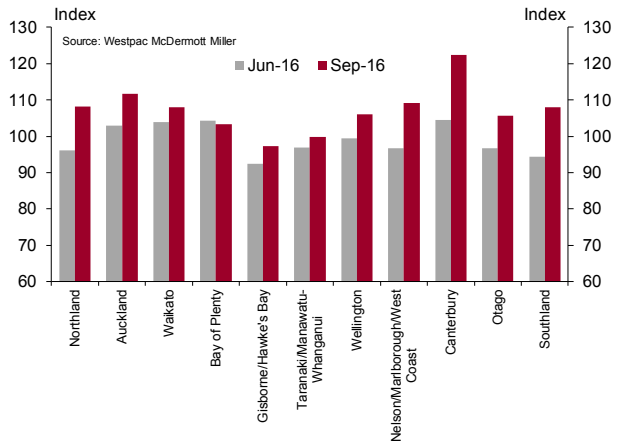
Earnings in paid work this time next year



Personal job security over the coming year



Employment confidence by region



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