

# Break in the clouds

## Westpac McDermott Miller Employment Confidence Index, December 2015

- The slide in the Employment Confidence Index was arrested in the December quarter as New Zealanders became a little less concerned about conditions in the labour market.
- However, overall employment confidence remains subdued and is well down from the levels we saw back in 2014.
- Future earnings growth remains a particular area of concern for workers.

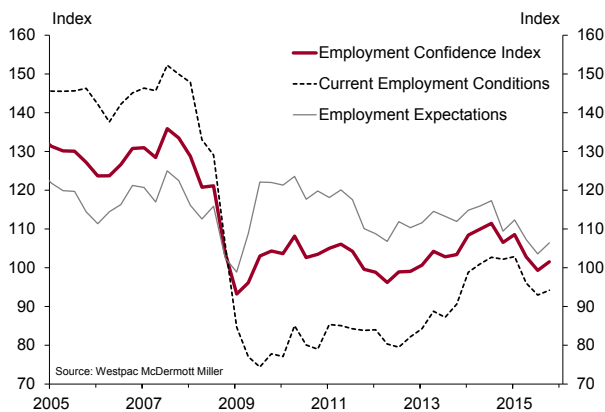
After falling for much of 2015, the Westpac McDermott Miller Employment Confidence Index bounced 2.2 points in the December quarter to 101.5. New Zealanders have become more upbeat about employment conditions, particularly their own job security and earnings growth prospects. However, we'd warn against getting too carried away by the positive outturn. While there has been a broad-based improvement in confidence this quarter, the overall level of confidence remains well down from those we saw in 2014, indicating that workers have not entirely stopped fretting about employment conditions.

The move lower in employment confidence over 2015 has coincided with a drift higher in the unemployment rate. The unemployment rate reached 6% in the September quarter. We're expecting this trend to continue over the year ahead, with the unemployment rate eventually expected to peak around 6.5%. However, while our outlook for the broader economy still supports this view, the lift in employment confidence this quarter will cause us to give some thought to the speed with which this may occur.

The biggest driver of the lift in employment confidence was an improvement in the Employment Expectations Index. Workers became noticeably more upbeat about both the potential for future earnings growth and their own job security. However, this bounce in expected earnings comes after the series hit rock bottom last quarter – the number of people expecting to earn more this time next year is still at its second lowest level since the survey began in 2004.

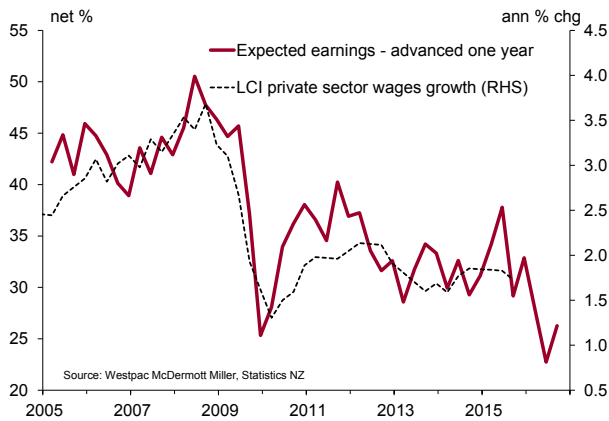
It's not hard to see why so few workers are expecting a fatter pay packet over the next year. Unemployment rose steadily over the course of 2015, and at the same time inflation remained below 1%. Add the two together and the chips looked to be stacked firmly in favour of employers at the negotiating table. What's more, if you add our view that economic growth is set to slow noticeably this year to the mix, it's not difficult to understand why workers remain relatively cautious.

**Employment confidence index**



|                                      | Sep-15       | Dec-15       | Change     |
|--------------------------------------|--------------|--------------|------------|
| <b>Employment Confidence Index</b>   | <b>99.3</b>  | <b>101.5</b> | <b>2.2</b> |
| <b>Present Conditions Index</b>      | <b>92.9</b>  | <b>94.2</b>  | <b>1.3</b> |
| <b>Employment Expectations Index</b> | <b>103.6</b> | <b>106.4</b> | <b>2.9</b> |
| Current job opportunities            | -33.5        | -33.3        | 0.3        |
| Expected job opportunities           | -19.9        | -19.3        | 0.7        |
| Past earnings growth                 | 19.4         | 21.7         | 2.2        |
| Expected earnings growth             | 22.7         | 26.3         | 3.5        |
| Own job security                     | 7.9          | 12.3         | 4.4        |

## Reported earnings and wage inflation



There was a smaller improvement in the Present Conditions Index. This was mostly driven by a pickup in people's assessment of their earnings over the last year. While earnings growth has been undeniably soft, it perhaps hasn't been quite as bad as people had feared.

Yet while the overall level of confidence might not be anything startling, a notable feature of this quarter's outturn was the broad-based nature of the gains. No matter which way you slice and dice the data, be it by age, income, gender or region, it's rare (though certainly not impossible) to find a group that is significantly less upbeat about on Employment Confidence Index than they were three months ago.

## Regional breakdown

Employment confidence improved in most regions in December, with the notable exceptions of Canterbury, Wellington and the Waikato. The biggest lifts in employment confidence came in Otago, Northland and Gisborne/Hawke's Bay. This is interesting given the unemployment rate in the latter two regions are usually amongst the highest in the country.

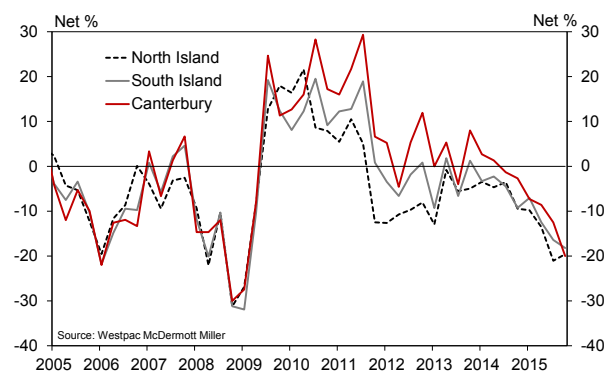
In Canterbury, workers reported an improvement in current conditions, but a marked deterioration in their employment expectations. Since September 2010, with the odd exception, workers in Canterbury have usually been the most confident in New Zealand about labour market prospects (often by a significant margin). But over the past year employment confidence in Canterbury has been steadily sliding, consistent with our view that reconstruction work has peaked. While construction activity is still strong for now, workers realise that jobs may not be quite as plentiful in the future as they are now.

Waikato now has the lowest level of employment confidence in the country. This may reflect the sagging fortunes of the region's dairy sector and fears that employment prospects could be dented by a double whammy of a low payout and an El Niño event this summer.

## Employment confidence by region

| Region                      | Sep-15 | Dec-15 | Change |
|-----------------------------|--------|--------|--------|
| Northland                   | 91.6   | 98.6   | 7.1    |
| Auckland                    | 100.7  | 105.9  | 5.2    |
| Waikato                     | 96.0   | 93.7   | -2.3   |
| Bay of Plenty               | 96.6   | 96.6   | 0.0    |
| Gisborne/Hawkes Bay         | 91.9   | 97.9   | 6.0    |
| Taranaki/Manawatu/Whanganui | 95.9   | 101.8  | 5.9    |
| Wellington                  | 98.6   | 97.0   | -1.6   |
| Nelson/Marlborough/Westland | 100.3  | 101.5  | 1.2    |
| Canterbury                  | 108.5  | 103.7  | -4.8   |
| Otago                       | 95.3   | 103.4  | 8.1    |
| Southland                   | 96.6   | 101.4  | 4.8    |

## Expected job opportunities – Canterbury and the rest



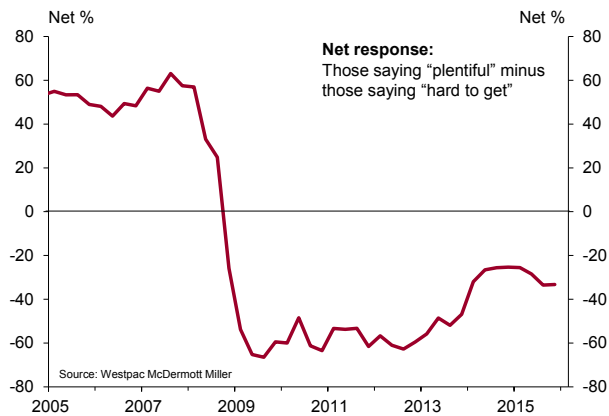
Auckland recorded the highest level of employment confidence. Respondents in this region were particularly upbeat about their own job security. That's consistent with our own Westpac McDermott Miller regional confidence survey released last week which confirmed that Aucklanders continue to have a positive view of economic activity in their own region.

## Survey description

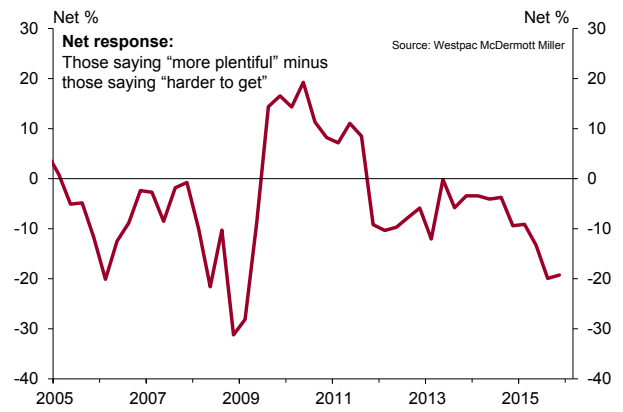
The Westpac McDermott Miller Employment Confidence Index summarises responses to five questions: households' perceptions of current and future job opportunities in New Zealand, their own actual and expected earnings, and expected changes in their own job security. The questions about current job opportunities 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 December. The sample size was 1565.

**Anne Boniface**  
Senior Economist

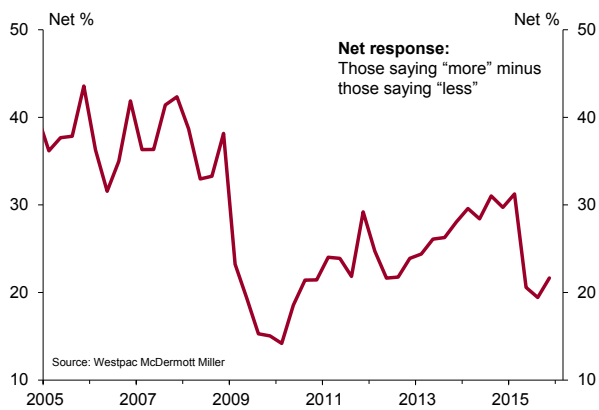
### Do you think jobs are plentiful or hard to get in NZ?



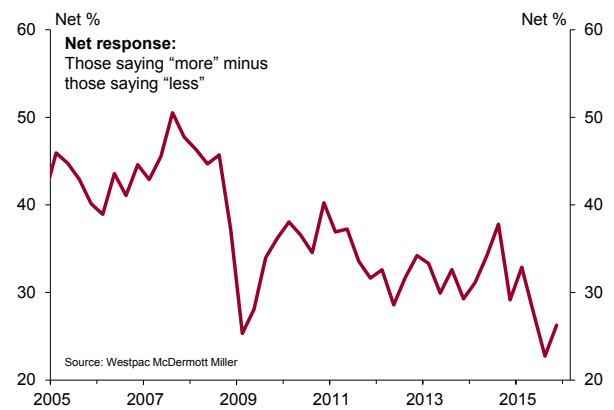
### Job opportunities in NZ in a year's time



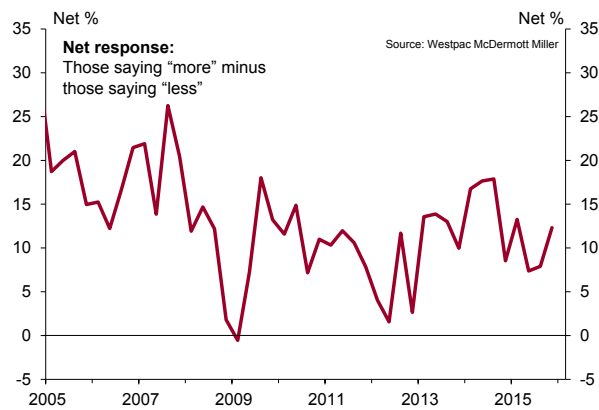
### Earnings in paid work compared to last year



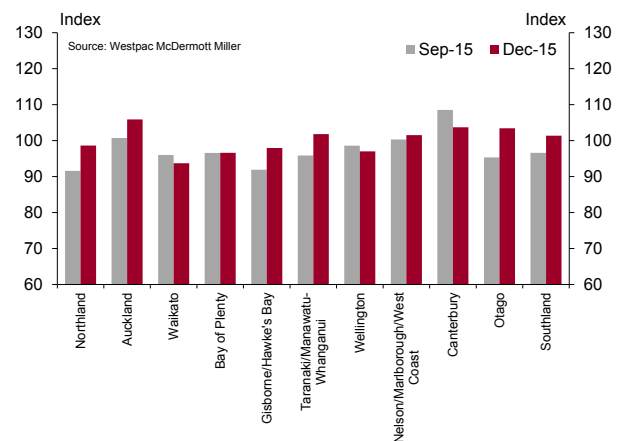
### Earnings in paid work this time next year



### 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

**Satish Ranchhod**, Senior Economist  
+64 9 336 5668

**Anne Boniface**, Senior Economist  
+64 9 336 5669

**David Norman**, Industry Economist  
+64 9 336 5656

Any questions email:  
economics@westpac.co.nz

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