

Employment confidence takes another hit

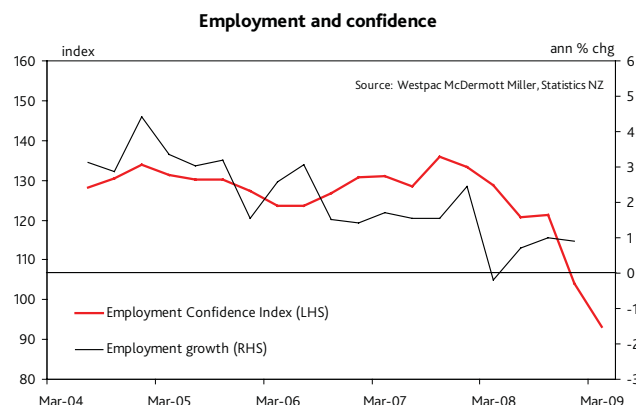
2009Q1 Westpac McDermott Miller Employment Confidence Index: 93.2

- **Employment confidence took another hammering in Q1, as concerns around current employment conditions reached fever pitch, and expectations of future conditions worsened.**
- **Jobs are now perceived as extremely hard to get, opportunities are seen to be few, and perceptions around current and expected earnings are well down. As a result, job security has fallen further.**
- **We expect the labour market to be a key source of weakness for the NZ economy over the next couple of years. Employees are clearly of the same view, the upshot being continued weak consumer spending through the remainder of this year.**

The Westpac McDermott Miller employment confidence index has again hit a new low, this time below the 100 level. The Index fell from 104.0 in the December 2008 quarter to 93.2 in the March 2009 quarter. An index above 100 indicates there are more optimists than pessimists, while a number below 100 indicates that pessimists outnumber optimists. The survey was conducted between 1-15 March.

After holding firm through most of 2008, employees are now admitting defeat. A record net 54% of respondents say jobs are hard to get – that compares to a net 26% in December and is a massive shift in sentiment from a year ago when a net 57% said jobs were plentiful. That supports our view that job growth has slowed through the first quarter of the year, and suggests that the 0.9% rise in employment growth recorded in the official statistics for the December 2008 quarter will be more than unwound in Q1. Westpac’s current forecast is for a 1.5% q/q decline.

Employees don’t expect the job situation to improve much over the coming year. A net 28% of respondents still think that jobs will be hard to find in a year’s time, although this is a slight improvement from the December quarter when it was a net 31%.



Employment Confidence Indices

	Mar-09	Dec-08	change
Employment Confidence Index	93.2	104.0	-10.8
Present Conditions Index	84.7	106.2	-21.5
Employment Expectations Index	98.9	102.6	-3.7

Against this backdrop, job security has fallen even further, which is telling for consumer spending going forward. The less secure people are in their jobs, the more conservative their spending decisions are likely to be.

Exacerbating that conservatism will be perceptions around current and future earnings. Both have suffered big falls this quarter after holding up well in December. Employees are telling us that earnings growth has already slowed (a net 23.2% say they are earning more now compared to a year ago compared with a net 38% in December) and will continue to slow over the coming year (a net 25% expect to be earning more in years time, down from a net 37% in December). That is consistent with our view that wage inflation will turn down in earnest during 2009. LCI wage inflation is forecast to fall to 2.9% over 2009, from the current 3.3%. Falls in the more cyclical unadjusted-LCI and QES measures could be more dramatic. These wage measures could fall to 1.5% from their current above-5% rates of annual increase.

For further information, questions or comments contact Brendan O’Donovan, telephone (04) 470 8250, email bodonovan@westpac.co.nz

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Regional and demographic breakdown

The decline in confidence was widespread this quarter, with all regions, sexes, age groups and socio-economic groups recording large falls. By region, the biggest declines were in Southland and the Bay of Plenty. Confidence is the lowest in the Bay of Plenty where the Index is 81.1 (down from 97.2 in the December quarter). Confidence is the highest in Canterbury (the Index measuring 96.9), followed closely by Nelson/Marlborough/West Coast, and the Waikato.

In terms of demographic grouping, confidence declined the most in the 18-29 age group, although the Index remains in slightly optimistic territory at 102.4 (the only group where the index is above 100). Employment confidence is the lowest amongst the 50+ age group. Female employees are more optimistic than male employees, albeit by a very small margin.

Employment Confidence Data

Region	Index		
	Mar-08	Dec-08	Mar-09
Northland	120.8	100.2	87.6
Auckland	130.2	105.0	93.6
Waikato	132.9	101.5	96.1
Bay of Plenty	124.7	97.2	81.1
Gisborne/Hawkes Bay	122.5	108.3	94.7
Taranaki/Manawatu	126.7	107.4	93.4
Wellington	129.4	100.2	91.5
Nelson/Marlborough/Westland	129.0	103.6	96.4
Canterbury	131.0	105.2	96.9
Otago	126.2	106.9	95.6
Southland	127.7	110.4	90.9

Implications

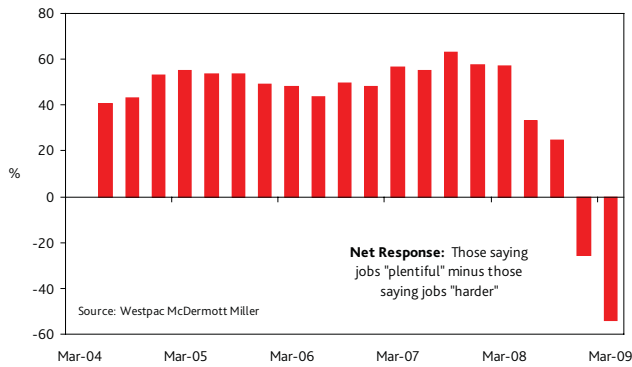
These data serve as a further warning that consumer spending will be flat for sometime. In that respect, there is little 'new' news in this survey for the RBNZ – their March *Monetary Policy Statement* forecast very weak consumer spending through 2009. Nevertheless, the RBNZ is unlikely to be happy about the de-facto tightening in monetary conditions in recent weeks. We continue to expect that the RBNZ will have to cut the Official Cash Rate (OCR) below the 2.5% floor implied by their March forecasts. We also remain of the view that the OCR will be kept low for considerably longer than the market is currently pricing in.

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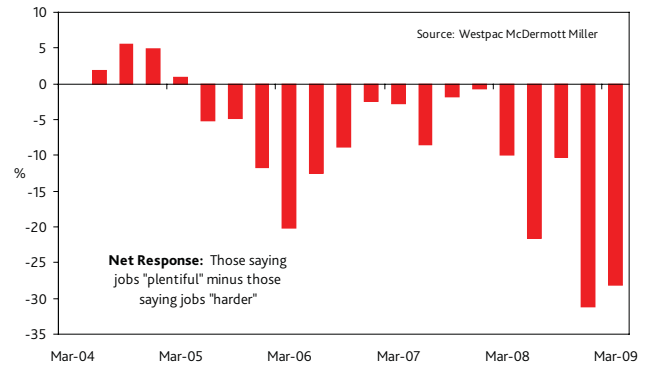
Donna Purdue, Senior Economist, Ph: (64-4) 381 1407

Q2 ECI will be released on Wednesday 1 July 2009

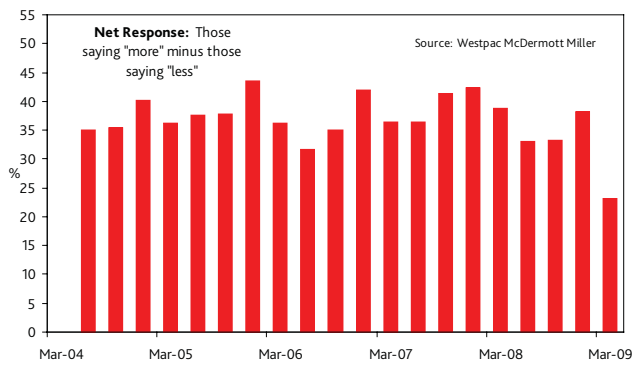
Do you think jobs are plentiful or hard to get?



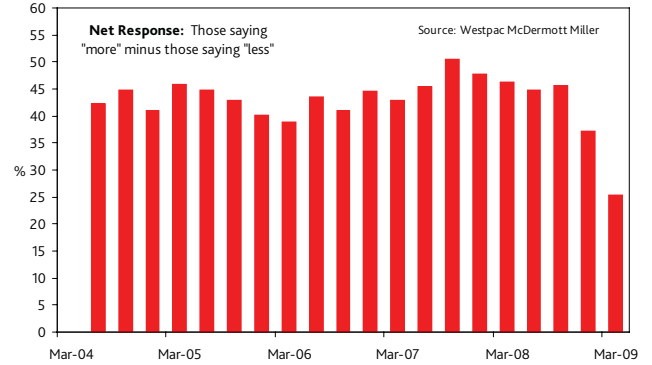
Job opportunities in NZ in a years time compared to now



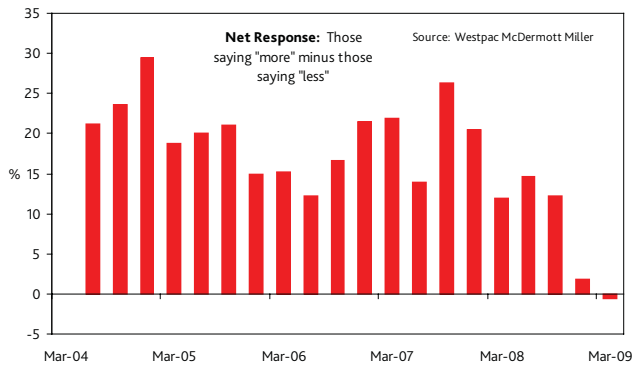
Earnings in paid work now compared to this time last year



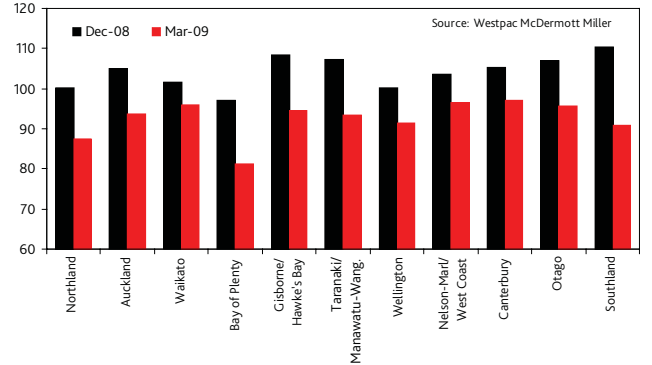
Expected earnings in paid work this time next year



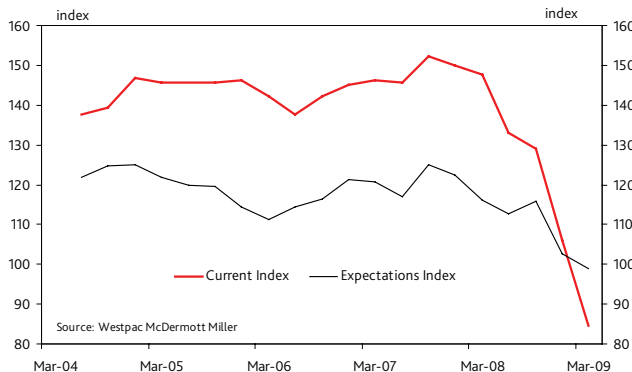
Personal job security over the coming year



Regional Confidence



Employment confidence



Employment Confidence Data

Quarter	Index
Dec-06	130.8
Mar-07	131.0
Jun-07	128.4
Sep-07	135.9
Dec-07	133.5
Mar-08	128.8
Jun-08	120.8
Sep-08	121.2
Dec-08	104.0
Mar-09	93.2