

## NZ employment confidence: Job lot points to jobless

2008Q2 Westpac McDermott Miller Employment Confidence Index: 120.8

- **Employment confidence has fallen to a four year low, although it remains in optimistic territory.**
- **Most survey respondents expect the current economic weakness to be reflected in lower employment growth rather than lower earnings – perceptions around current and future job opportunities plummeted this quarter.**
- **The survey results are consistent with Westpac's outlook for the labour market over the coming year. That is, falling employment, rising unemployment, but continued robust wage growth.**

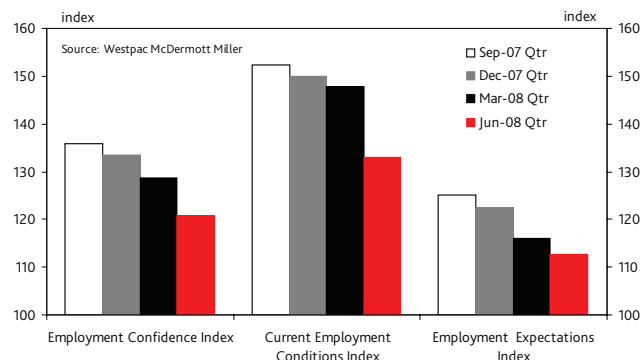
The Westpac McDermott Miller employment confidence index fell 8 points to 120.8 in the June 2008 quarter, the biggest quarterly decline since the survey began in June 2004. Nevertheless, at current levels, employment confidence remains firmly in optimistic territory. An index above 100 indicates there are more optimists than pessimists, while a number below 100 indicates that pessimists outnumber optimists.

The tight labour market has been one of the key pillars of the New Zealand economy in recent years, providing critical support to the consumer as interest rates have risen, the housing market has toppled over, and the cost of living has ballooned. However, today's survey results suggest that even the labour market has become vulnerable to the economic downturn. Although, at this stage, most respondents believe the current weakness will be largely reflected in reduced job opportunities, rather than lower earnings.

### Key influences

The shocking employment outturn in the first quarter of this year (29,000 jobs were lost according to Statistics New Zealand), high profile job losses announced through April and May, and continued pessimism amongst the business community, are just a few of the factors that are likely to have weighed on employment confidence this quarter. Indeed, it comes as no surprise that the decline in overall confidence was driven by a big fall in respondents' perceptions around job opportunities – both now and in the future.

NZ Employment Confidence Indices



In the here and now, a net 33% of respondents still believe that jobs are easy to come by. But that is well down from the net 57% saying jobs were easy to come by in the March quarter, and the lowest response to this question since the survey began. Furthermore, respondents expect the employment situation to be worse next year. In June, a net 22% of respondents said jobs will be harder to find in a year's time, compared to just 10% in March.

The good news is, despite this sombre employment outlook, perceived job security improved a little over the quarter, from a net 12% in March to a net 15% in June. Moreover, on the whole, respondents remain reasonably upbeat about their earnings. While the number of workers saying they were earning more than a year ago slipped from a net 39% in March, to a net 33% in June, when combined with the number saying they expected to be earning the same, there was little change between the two quarters. 84% of all respondents said they either earned more than or the same as a year ago in June, compared to 85% in March. Meanwhile, expectations about future earnings are only down a touch – a net 45% of respondents think earnings will be higher in a year's time, compared with 46% last quarter.

### Regional breakdown

All regions reported a decline in confidence this quarter, with the exception of Canterbury and Southland where the indexes were largely unchanged. The biggest declines were in the Waikato

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

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and Nelson/Marlborough/West Coast. The fall in the Waikato more than reverses the increase seen last quarter, and has seen the region knocked from the top spot in the optimism stakes to now rank seventh out of the 11 regions. Nelson/Marlborough/West Coast employees are likely to have been rattled by the recent layoffs announced by Sealords, with impressive declines across all the component questions except job security.

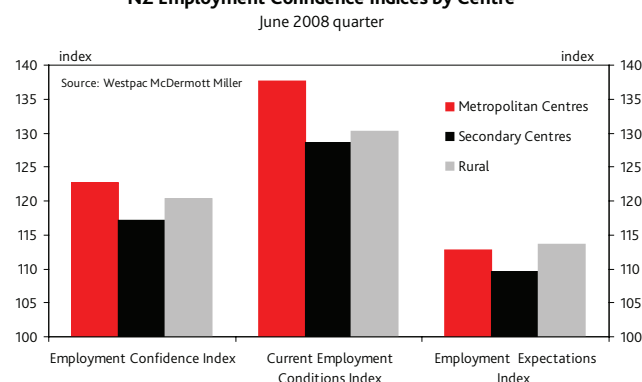
Canterbury and Southland are the stand out regions, with confidence possibly being buoyed by the high dairy payout and the continuation of strong activity associated with dairy conversions and other dairy related developments.

In terms of demographic grouping, confidence fell across all age groups, both sexes and all income groups. Recent trends continue, with male employees more optimistic than female employees (although now only by a smidgen), the 18-29 age group the most optimistic of the three age groups covered in the survey, and lower-paid employees being the least optimistic.

#### Employment Confidence Data

Region	Index		
	Jun-07	Mar-08	Jun-08
Northland	122.6	120.8	112.7
Auckland	127.6	130.2	118.9
Waikato	131.2	132.9	118.4
Bay of Plenty	129.0	124.7	121.2
Gisborne – Hawkes Bay	126.9	122.5	112.0
Taranaki – Manawatu	122.6	126.7	120.9
Wellington	129.5	129.4	121.5
Nelson Marlborough – Westland	129.1	129.0	114.5
Canterbury	133.4	131.0	131.5
Otago	126.1	126.2	121.8
Southland	130.5	127.7	127.8

#### NZ Employment Confidence Indices by Centre



#### Implications

The fall in employment confidence provides further evidence that the enduring tightness in the labour market is finally beginning to ease. Moreover, the detail of the survey reinforces our view that it will largely be employment growth that responds to the economic weakness over the coming year, while wage growth will remain robust.

In their June MPS, the RBNZ forecast wage growth to slow from 2009 on the assumption that the reduced demand for labour would moderate wage demands. However, it remains to be seen how much wage growth will slow in a period of substantial cost-push inflation. Certainly, the results of today's survey show few signs that earnings expectations are being pared back, despite a clear recognition that the demand for labour will moderate. If this situation persists, then the RBNZ may be faced with a bigger inflation problem than they currently anticipate.

**Brendan O'Donovan**, Chief Economist, Ph: (64-4) 470 8250

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

**Q3 ECI will be released on Wednesday 1 October 2008**

#### Employment Confidence Index Data

	Jun-07 Qtr	Sep-07 Qtr	Dec-07 Qtr	Mar-08 Qtr	Jun-08 Qtr	Shift
Do you think jobs are plentiful or hard to get?	55.0	63.1	57.6	56.9	33.1	-23.8
Job opportunities in NZ in a years time compared to now	-8.5	-1.8	-0.8	-10.0	-21.6	-11.6
Earnings in paid work now compared to this time LAST year	36.3	41.4	42.4	38.7	33.0	-5.7
Expected earnings in paid work this time NEXT year	45.5	50.5	47.7	46.3	44.7	-1.7
Personal job security over the coming year	13.9	26.3	20.5	11.9	14.7	2.8
<b>Current Employment Conditions Index (based on Q1 &amp; 3)</b>	<b>145.7</b>	<b>152.3</b>	<b>150.0</b>	<b>147.8</b>	<b>133.0</b>	<b>-14.8</b>
<b>Employment Expectations Index (based on Q2, 4,5)</b>	<b>117.0</b>	<b>125.0</b>	<b>122.5</b>	<b>116.1</b>	<b>112.6</b>	<b>-3.5</b>
<b>Employment Confidence Index (based on all questions)</b>	<b>128.4</b>	<b>135.9</b>	<b>133.5</b>	<b>128.8</b>	<b>120.8</b>	<b>-8.0</b>