

Employment confidence improves

Q1 Westpac McDermott Miller Employment Confidence Index: 105.0

- The Employment Confidence Index improved in the March 2011 quarter, rising 1.5 points to 105.
- The improvement was driven by a less downbeat assessment of current earnings and job opportunities. Expectations for the year ahead dipped, but there was no sharp ‘earthquake effect’ such as we saw in last week’s Consumer Confidence Index.
- The survey is consistent with the turn for the better that we saw in other economic data in Q1 and points to a modest improvement in labour market conditions later this year.

The Westpac McDermott Miller Employment Confidence Index improved for a second quarter running in the March 2011 quarter, rising from 103.5 in December 2010 to 105. However, employment confidence remains lower than in June last year, and well below its pre-recession (September 2008) level of 121.2.

As with last week’s Consumer Confidence Index, an index above 100 indicates that optimists outnumber pessimists, although the index will not necessarily be 100 on average. The survey was conducted between 1-13 March, in the weeks following the 22 February Christchurch earthquake. Out of consideration for Christchurch residents, Christchurch was not included in the March 2011 survey; instead, additional respondents from the rest of Canterbury were interviewed.

Employees’ assessment of current employment conditions (job opportunities and earnings relative to a year ago) had deteriorated in the second half of 2010, consistent with the soft patch which the economy had entered mid-year. This quarter’s survey shows that deterioration largely unwinding. This is encouraging and consistent with other evidence that the economy was regaining some momentum at the start of 2011.

Indeed, this quarter’s improvement in the Employment Confidence Index was entirely due to respondents becoming less downbeat about the present. Their future outlook (of job opportunities, earnings, and personal job security), which had lifted in December, edged back. However, the declines were



Employment Confidence Indices

	Dec-10	Mar-11	change
Employment Confidence Index	103.5	105.0	+1.5
Present Conditions Index	79.0	85.3	+6.3
Employment Expectations Index	119.8	118.1	-1.7

small compared to the slump in respondents’ economic outlook seen in last week’s Consumer Confidence Survey: there was no obvious ‘earthquake effect’. At 118.1, the Employment Expectations Index remains close to its 2004-2007 average of 120. One possible explanation is that the ‘bad economic times’ that respondents expect over the coming year capture the impact of the earthquake on a broader range of factors than economic activity and employment – house prices, the government budget, insurance costs. Another possibility is that respondents are more likely to extrapolate from their personal situation when thinking about the labour market – in the Consumer Confidence survey, respondents’ assessment of their own circumstances was a lot less pessimistic than their expectations for the economy as a whole.

Stepping back, respondents’ perceptions of labour market conditions have improved little since the end of the recession. Their relative optimism about the future appears not to have been vindicated to date.

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Regional and demographic breakdown

Six of the 11 regions reported a rise in confidence. The Waikato and Canterbury regions remain the most optimistic in the country, followed by the metropolitan areas of Auckland and Wellington. Northland and the Bay of Plenty remain the most pessimistic – and have seen confidence continue to slide.

Employment confidence in Canterbury has strengthened since June, and Canterbury now leads the table pretty much across the board, both in terms of current conditions and expectations. As with the Consumer Confidence survey, the latest Canterbury figures need to be interpreted with extra caution given the absence of Christchurch residents from the sample. (This could go both ways: it removes those directly affected by the earthquake, but it also gives greater weight to rural and small town residents, whose labour market perceptions have tended to be relatively less upbeat.) With that very hefty caveat, one possible reason for the strength in the Canterbury numbers is an expectation that earthquake reconstruction will boost labour demand in the region.

Regional Confidence Data

Region	Mar-10	Dec-10	Mar-11
Northland	93.7	91.8	90.8
Auckland	106.4	102.0	105.9
Waikato	99.0	111.8	107.1
Bay of Plenty	109.6	102.3	100.3
Gisborne/Hawkes Bay	98.5	94.4	103.3
Taranaki/Manawatu	95.0	100.4	103.8
Wellington	107.7	106.3	104.8
Nelson/Marlborough/Westland	101.0	98.3	102.1
Canterbury	103.8	108.3	111.6
Otago	107.8	106.6	101.6
Southland	102.5	102.4	103.4

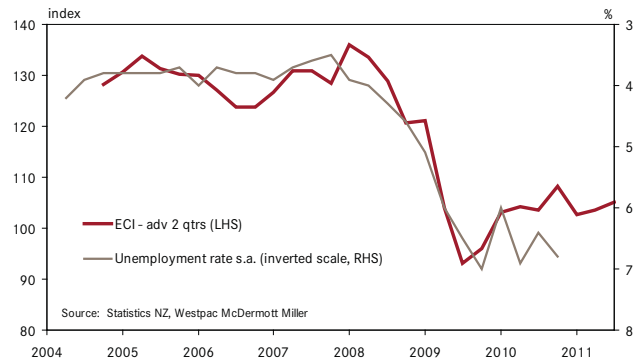
Both male and female employment confidence improved in the latest survey. Not surprisingly given the preponderance of males in volatile industries such as construction and manufacturing, the deterioration in confidence in September, and subsequent recovery, has been concentrated in male respondents. By age, the 18-29 age group remain more upbeat on the employment situation and outlook than older cohorts, despite the young having seen the sharpest rises in unemployment following the recession.

Implications

The Employment Confidence Index has only been conducted since 2004 and is not widely followed by the market. Nevertheless, as shown in the chart below, the survey captured the increase in unemployment during the 2008-2009 recession, the sharp fall in unemployment in early 2010, and the loss of momentum in the labour market in the second half of 2010. Looking through volatility, the survey points to modest improvement in labour market conditions later this year.

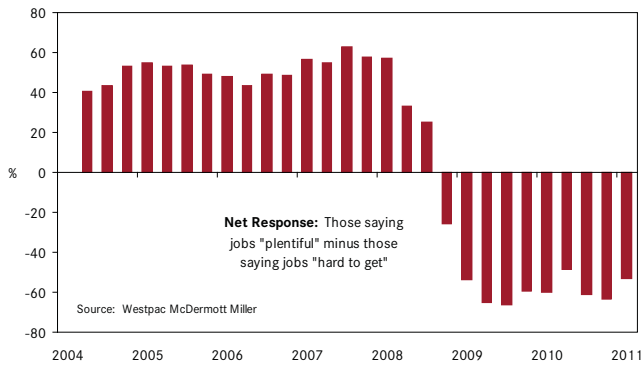
This survey result does not negate last week’s sharp drop in consumer confidence, but it does highlight that respondents see the February earthquake as a significant risk to the broader economic outlook, rather than their personal financial conditions. Time will tell how the deterioration in economic confidence affects spending over the quarters ahead.

Employment Confidence Index vs unemployment rate

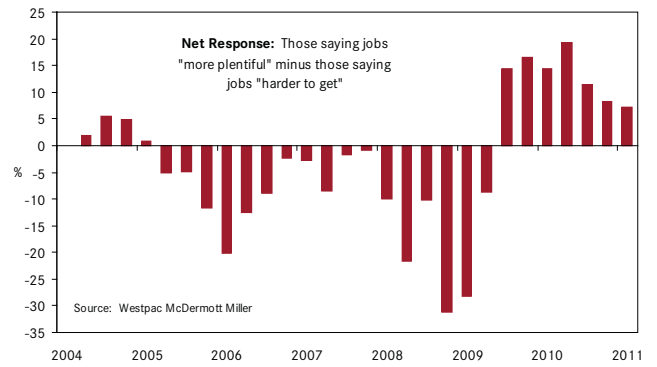


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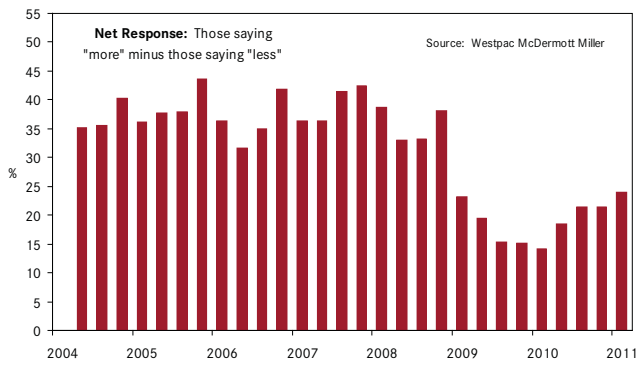
Do you think jobs are plentiful or hard to get?



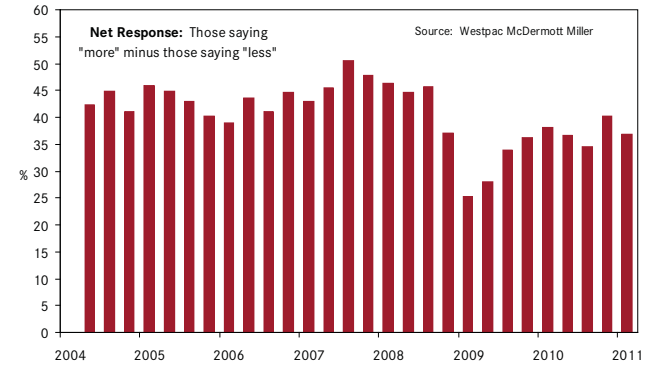
Job opportunities in NZ in a years time compared to now



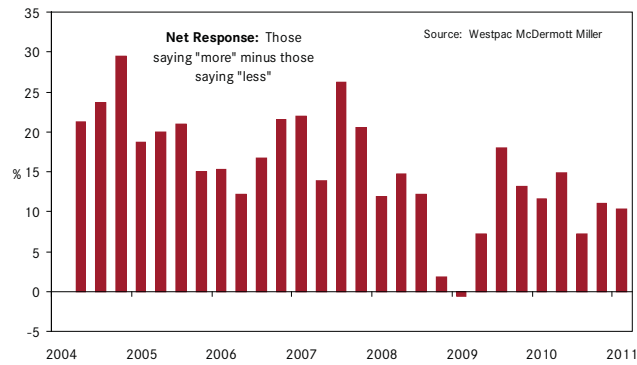
Earnings in paid work now compared to this time last year



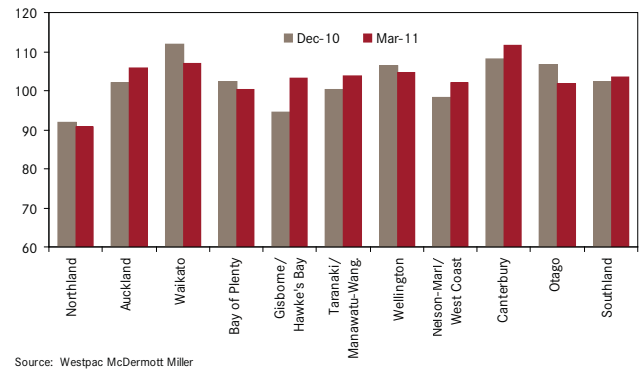
Expected earnings in paid work this time next year



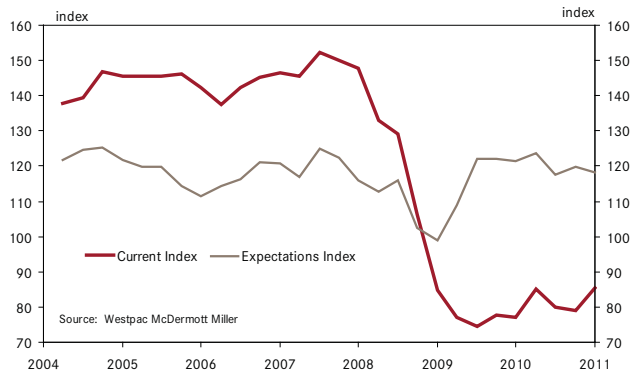
Personal job security over the coming year



Regional Confidence



Employment confidence



Employment Confidence Data

Quarter	Index
Mar-09	93.2
Jun-09	96.1
Sep-09	103.0
Dec-09	104.3
Mar-10	103.6
Jun-10	108.2
Sep-10	102.6
Dec-10	103.5
Mar-11	105.0