

# Employees focus on recovery

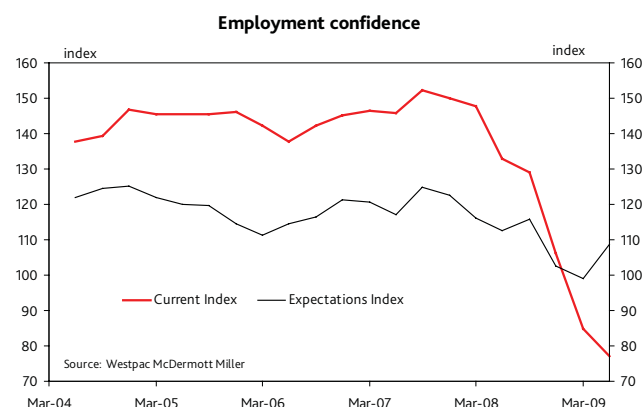
2009Q2 Westpac McDermott Miller Employment Confidence Index: 96.1

- **Employment confidence lifts off the record low reached in March, but remains in pessimistic territory.**
- **The current employment situation is still seen as extremely ugly – jobs are perceived to be even harder to get and earnings lower. However, employees can see the light at the end of the tunnel – expectations of the coming year are more upbeat than they were three months ago.**
- **Improved employment confidence may translate into consumers adopting a less cautious stance in coming months.**

After taking a pounding in the past six months, the Westpac McDermott Miller employment confidence index found some support in the June 2009 quarter. The Index rose from 93.2 in the March quarter to 96.1 in June. Even so, at this level the pessimists continue to outnumber the optimists. 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 2-16 June.

As we have seen in recent consumer confidence surveys, the support to confidence came in the form of hope for a better outlook, rather than an improvement in the current situation. In fact, the contrast between how employees are feeling about the current employment situation and the future employment situation has never been so stark (see Figure 1).

In the here and now, employees are still extremely pessimistic about the labour market, with the Current Conditions Index falling from 84.7 in March to 77.0 in June (by far the weakest reading on this Index on record). The decline was led by a sharp increase in the number of respondents saying jobs are hard to get (at a net 65% in June, from a net 54% in March). But fewer respondents also said they are earning more now than a year ago (at a net 19%, down from a net 23% in March). That view is broadly consistent with our thinking on the current state of the labour market. We expect employment to have contracted



## Employment Confidence Indices

	Jun-09	Mar-09	change
Employment Confidence Index	96.1	93.2	2.9
Present Conditions Index	77.0	84.7	-7.7
Employment Expectations Index	108.8	98.9	9.9

sharply in the June 2009 quarter (around 1% or 21,000 jobs lost), pushing the unemployment rate to 5.8%, from 5.0% in March.

That's the bad news. The good news is that employees are looking to a rosier future. The Employment Expectations Index leapt into optimistic territory this quarter, with the Index rising almost 10 points to 108.8. This is the highest reading on the Expectations Index since September 2008. A considerable improvement in expectations of job availability in 12 months time drove the increase, with only a net 9% of respondents expecting jobs to be hard to get, compared with a net 28% in March and a net 31% in December. Employees were also a little more upbeat about their pay outlook – a net 28% of respondents expect to be earning more next year, up from a net 25% in March. Job security has also improved, albeit still at very low levels. A net 7% of respondents said that they expected to be more secure in their job over the coming year, up from the record low in March when a net 1% expected to be less secure.

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### Regional and demographic breakdown

The lift in confidence was reasonably widespread this quarter, with 8 of the 11 regions covered by the survey reporting an increase. The biggest increase was in the Bay of Plenty, where the Index lifted 16 points to 97.1, fully reversing last quarter's decline. However, confidence is the highest in the Canterbury region where the Index is at 99.8 (up from 96.9 in the March quarter). Employment confidence is the lowest in the Wellington region (the Index measuring 92.1), and possibly reflects the current reprioritisation of Government spending away from back office functions (Wellington centric) and toward front office (provincial focus).

In terms of demographic grouping, confidence increased the most in the 18-29 age group, with the headline Index remaining in optimistic territory at 105.6 (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. Interestingly, looking at the breakdown by income group, the lift in confidence this quarter was driven solely by those in the upper-income brackets.

#### Employment Confidence Data

Region	Index		
	Jun-08	Mar-09	Jun-09
Northland	112.7	87.6	95.8
Auckland	118.9	93.6	96.4
Waikato	118.4	96.1	94.7
Bay of Plenty	121.2	81.1	97.1
Gisborne/Hawkes Bay	112.0	94.7	93.3
Taranaki/Manawatu	120.9	93.4	95.7
Wellington	121.5	91.5	92.1
Nelson/Marlborough/Westland	114.5	96.4	98.6
Canterbury	131.5	96.9	99.8
Otago	121.8	95.6	95.3
Southland	127.8	90.9	99.2

### Implications

From an employment perspective, these results support our view of very weak jobs and wage growth in the June 2009 quarter. We expect employment to have contracted by close to 1% in the quarter, while annual private sector wage growth (LCI measure) is forecast to slow from 3.1% to 2.8%. The RBNZ is forecasting similar outturns, so on that basis these data are unlikely to come as a surprise.

However, what may come as a surprise is the extent to which sentiment has turned regarding employment conditions in 12 months time. The RBNZ is forecasting extremely weak consumer spending over the next two years on the assumption that rising unemployment, slower wage growth and high debt levels will keep consumers cautious. Today's survey results imply that consumers may not be as cautious as the RBNZ

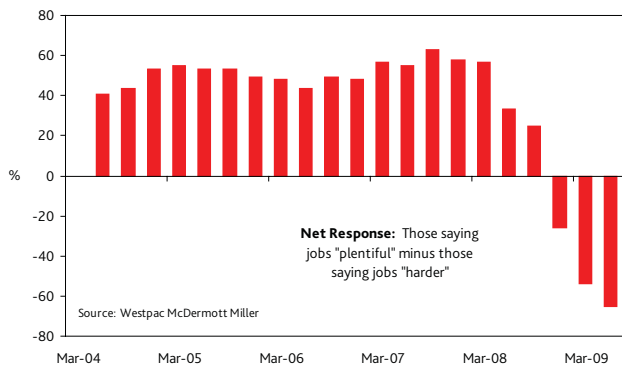
thinks. Indeed, recent data outturns provide support to that view with electronic card transactions showing stronger-than-expected growth in April and May, and household borrowing for May showing the strongest increase since August last year.

A turnaround in net migration, improvements in confidence, and the healing in credit markets will probably see the RBNZ remove their easing bias in the near future. However, the cash rate is likely to be on hold till late 2010 / early 2011. Inflation is, for now, yesterday's story. A good deal of spare capacity has built up in the NZ economy after the prolonged recession. Our Employee Confidence survey shows that this continues to be the case for the labour market. The RBNZ therefore still has plenty of time on its side.

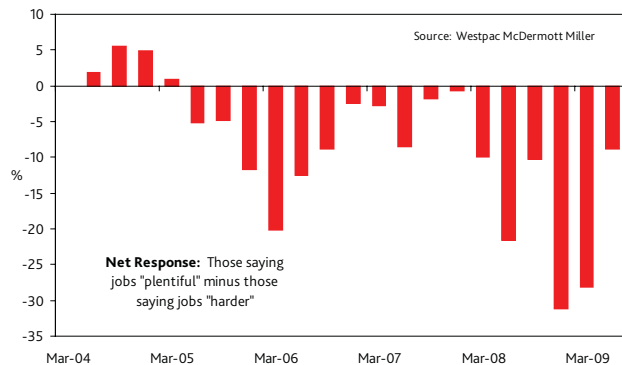
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**Q3 ECI will be released on Wednesday 6 October 2009**

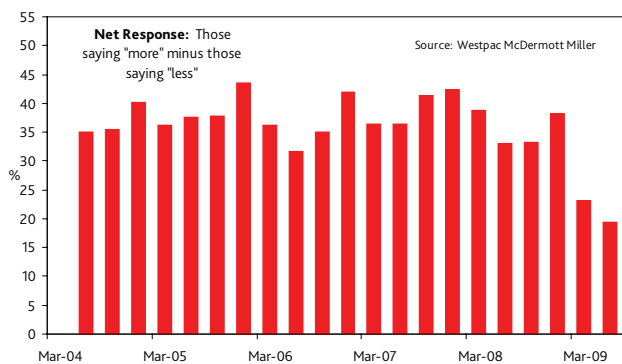
Do you think jobs are plentiful or hard to get?



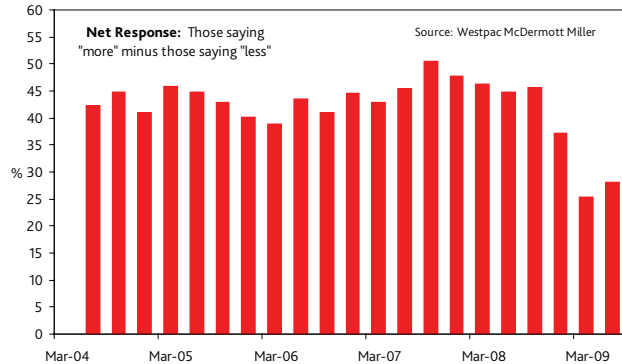
Job opportunities in NZ in a years time compared to now



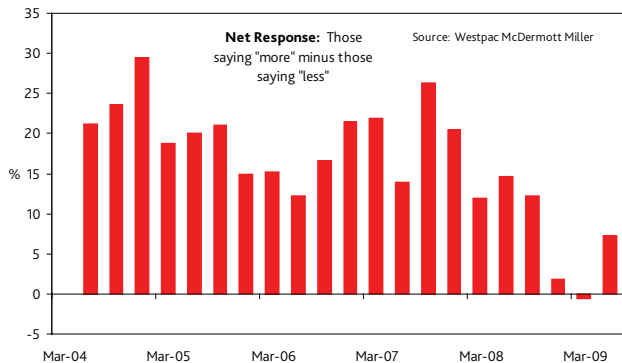
Earnings in paid work now compared to this time last year



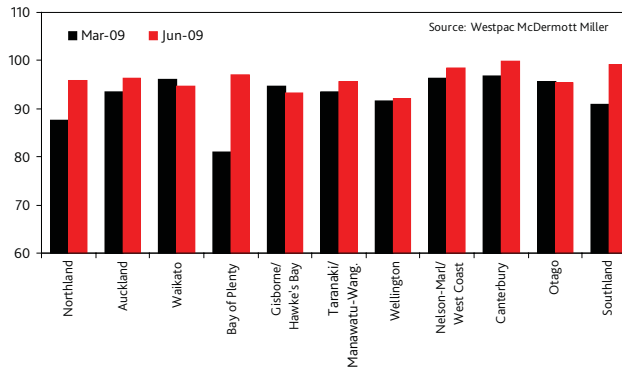
Expected earnings in paid work this time next year



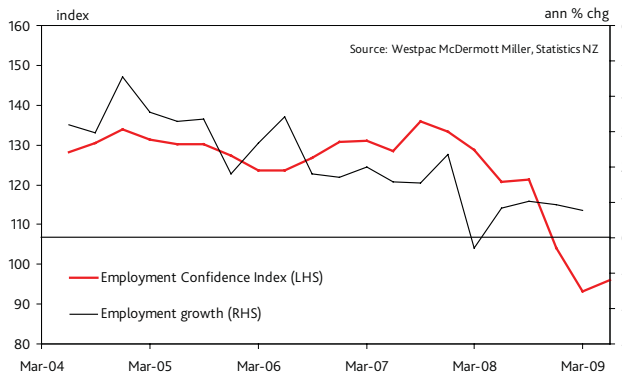
Personal job security over the coming year



Regional Confidence



Employment and confidence



Employment Confidence Data

Quarter	Index
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
Jun-09	96.1