

# Employee confidence moderates

2010Q3 Westpac McDermott Miller Employment Confidence Index: 102.6

- **Employment confidence fell in the September 2010 quarter as employees downgraded their assessment of both current and future employment conditions.**
- **Confidence is now back at levels seen a year ago.**
- **The biggest downward revision was to current job opportunities, although job security and future job opportunities also took sizeable knocks.**
- **At current levels, confidence remains consistent with continued recovery in the labour market, albeit more gradual than thought three months ago.**

The Westpac McDermott Miller Employment Confidence Index fell in the September 2010 quarter, from 108.2 in the June 2010 quarter, to 102.6 currently. 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 1-12 September.

Just as with consumer confidence, the negative tone of domestic and international data has taken its toll on employees in the last few months. Indeed, after showing signs of resilience in the June 2010 quarter, employees appear to have lost some faith in the economic recovery. On balance, employees have become more despondent about their current employment conditions but more importantly, they have reassessed their optimism around future conditions.

In terms of their current employment conditions, a net 61.3% now believe jobs are hard to get. That is up from a net 45.8% in June and is the most pessimistic reading since December 2009 when a net 59.4% of respondents felt jobs were hard to get. The growth in pessimism is not surprising given the unexpectedly sharp rise in the unemployment rate from 6.0% in March to 6.8% in June. However, it is a little more difficult to reconcile the deterioration with business surveys showing that firms are finding it harder to obtain skilled and unskilled labour. There was some better news on the earnings front, with more respondents this quarter saying their earnings are up compared to a year ago (from a net 18.6% in June to a net 21.4%). However, that wasn't enough to offset the deterioration in perceived job opportunities, resulting in a fall in the Current Conditions Index from 85.0 in the June quarter



## Employment Confidence Indices

	Sep-10	Jun-10	change
Employment Confidence Index	102.6	108.2	-5.6
Present Conditions Index	80.1	85.0	-4.9
Employment Expectations Index	117.7	123.6	-5.9

to 80.1 in the September quarter. While that is better than the average reading over the past year, clearly current labour market conditions remain tough.

In terms of the coming year, conditions are still expected to improve. However, employees are now far less emphatic about the improvement than they were three months ago. A net 11.3% of respondents said they expect job opportunities to be plentiful this time next year, down from 19.3% in the March quarter. Moreover, perceived job security has tumbled, from a net 14.9% to a net 7.2% currently. Even earnings expectations eased back from a net 36.6% of respondents saying they expect to be earning more in a year's time, to a net 34.6%. Thus, overall, the Employment Expectations Index fell from 123.6 in June to 117.7 in September – the lowest since June 2009.

## Regional and demographic breakdown

The fall in confidence was fairly broad based this quarter with nine of the 11 regions recording a decline. Three regions, namely Northland, Gisborne/Hawkes Bay, and Nelson/Marlborough, now have an Index below 100, meaning that in these areas the pessimists outweigh the optimists.

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The biggest decline in confidence was amongst employees in the Nelson/Marlborough region. The Index fell from 105.6 to 92.0, the lowest reading for the region since the survey began in 2004, and making this region the most pessimistic in the country. The level of despondency is likely to be linked to the difficulties currently being faced by the wine industry. Large falls in confidence were also recorded in Auckland (down 10.9 points to 100.1), Taranaki/Manawatu (down 9.5 points to 104.5) and Wellington (down 8.5 points to 102.3), the latter at least partly attributable to the consolidation that is occurring in the Government sector.

There were two exceptions to the fall in confidence by region – Canterbury and Southland. Indeed, confidence in the Canterbury region was up almost 10 points in the quarter from 102.7 to 112.2. The biggest influence came from a perceived improvement in current employment conditions, presumably in response to the rebuild that will be required in the region following the devastating 7.1 magnitude earthquake on September 4. Those job opportunities are expected to persist over the coming year, with the expectations index also climbing through the quarter.

In terms of gender, the increase in confidence during the quarter can be entirely put down to a collapse in optimism amongst males. The Employment Confidence Index for males fell from 112.8 to 101.4. Meanwhile, the female confidence index lifted from 102.4 to 103.3. By age group, the drop in confidence was across the board, although the biggest hit was in the 18-29 group.

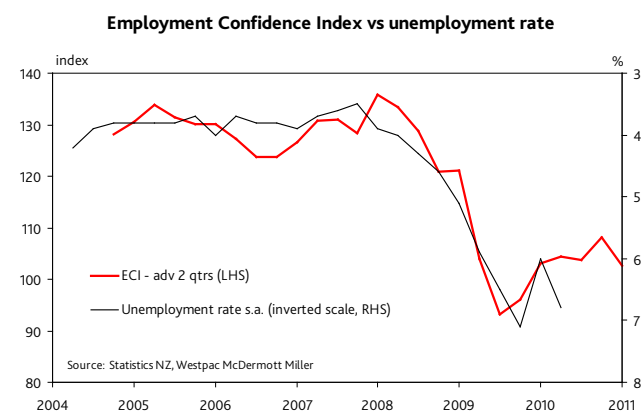
#### Employment Confidence Data

Region	Sep-09	Jun-10	Sep-10
Northland	98.4	101.8	99.9
Auckland	104.9	111.1	100.1
Waikato	100.2	107.2	100.7
Bay of Plenty	109.3	110.4	105.7
Gisborne/Hawkes Bay	98.5	101.9	98.8
Taranaki/Manawatu	100.8	114.0	104.5
Wellington	102.3	110.7	102.3
Nelson/Marlborough/Westland	103.8	105.6	92.0
Canterbury	110.0	102.7	112.2
Otago	104.9	101.3	100.7
Southland	110.9	107.2	111.9

#### Implications

The Employment Confidence Index is not widely followed by the market given the relatively short time series available. As such, we do not expect today's results will be market moving. Even so, the survey data provide important insights into labour market conditions.

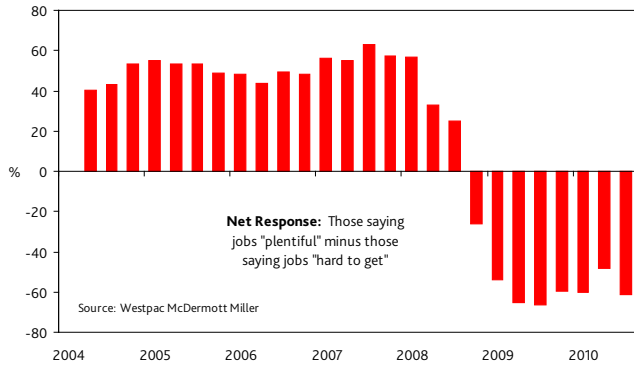
The chart below plots the headline confidence Index against the seasonally adjusted unemployment rate (inverted). As the chart shows, the Index signalled both the upturn in the unemployment rate through 2008-09 and the steep decline experienced in the March 2010 quarter. Looking through the recent volatility in the unemployment rate, at current levels the Employment Confidence Index is indicative of a continued decline in the unemployment rate over coming quarters, albeit at a more gradual pace than implied three months ago.



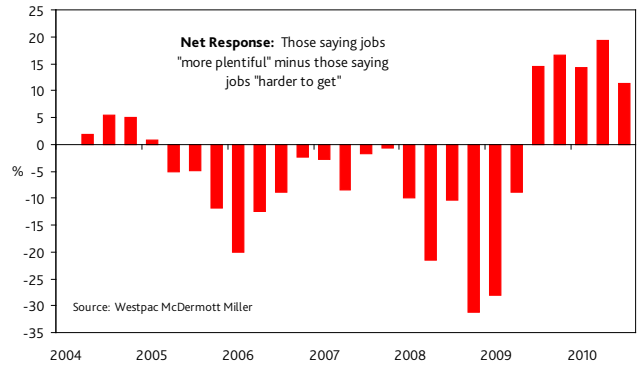
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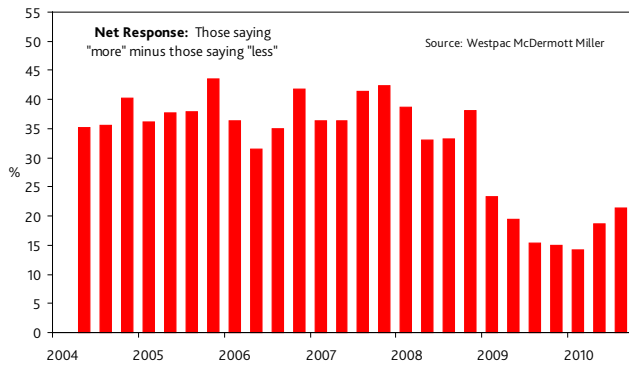
Do you think jobs are plentiful or hard to get?



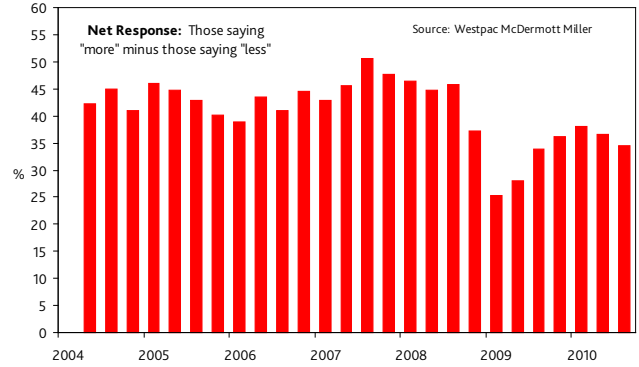
Job opportunities in NZ in a years time compared to now



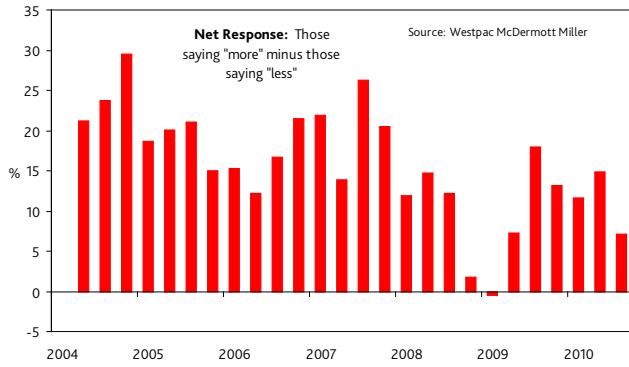
Earnings in paid work now compared to this time last year



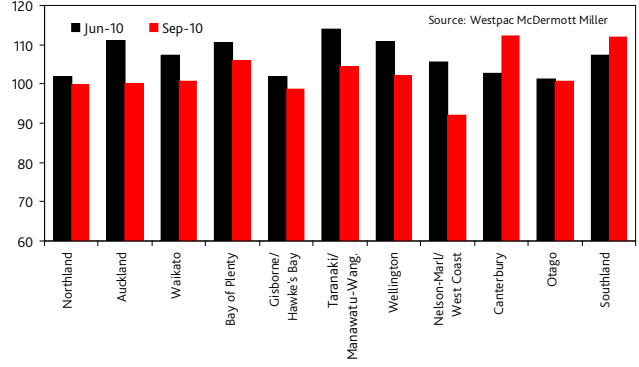
Expected earnings in paid work this time next year



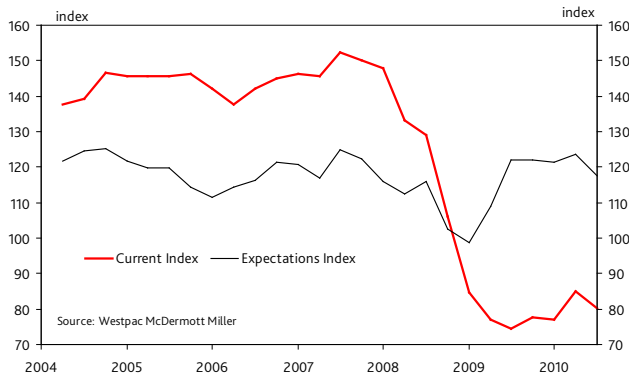
Personal job security over the coming year



Regional Confidence



Employment confidence



Employment Confidence Data

Quarter	Index
Jun-08	120.8
Sep-08	121.2
Dec-08	104.0
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