

# Clouds of gloom

## 2011Q4 Westpac McDermott Miller Employment Confidence Index: 99.6

- Employment confidence has fallen to its lowest level since mid-2009.
- Households no longer expect any near-term improvement in the labour market.
- The drop reflects a broader fall in households' economic confidence, which could yet translate into softer spending early this year.

### Employment Confidence Indices

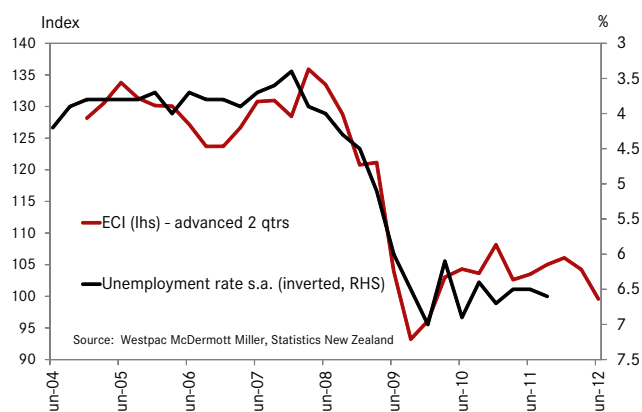
	Sep-11	Dec-11	Change
Employment Confidence Index	104.2	99.6	-4.6
Current Employment Conditions Index	84.3	83.8	-0.5
Employment Expectations Index	117.6	110.1	-7.5

The Westpac McDermott Miller Employment Confidence index fell 4.6 points in the December quarter, from 104.2 to 99.6. This is the lowest level of the index since June 2009, when it stood at 96.1.

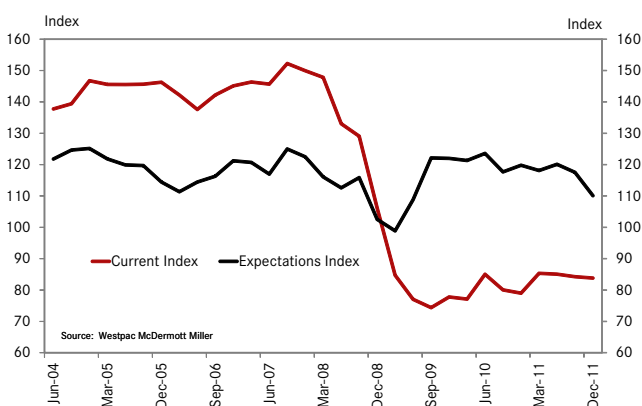
Given the storm clouds hanging over the global economy, and the plunge seen in the Westpac McDermott Miller Consumer Confidence Index, this latest fall in employment confidence comes as no surprise. As we detail below, both indices dropped for much the same reason: a sharp deterioration in households' broader economic sentiment. Taken together they signal the risk of a retrenchment in consumer spending early this year. Our previous forecast had been for zero consumption growth in the March quarter, as households take a breather after the Rugby World Cup. With economic confidence this soft, spending could actually fall.

Employment confidence suggests that households now see the labour market remaining soft for a while yet (see the chart below). Indeed, the Current Employment Conditions Index (which summarises households' perceptions of current labour market conditions) hasn't improved since March 2011, consistent with the unemployment rate staying around current levels into early 2012. That's more pessimistic than both our and the RBNZ's forecasts, which are for unemployment to drift down gradually as reconstruction-led activity ramps up. The NZIER's Quarterly Survey of Business Opinion, which asks businesses about their hiring decisions and ease of finding staff, will provide an

Employment Confidence Index vs Unemployment Rate



Employment Confidence



additional steer on the current state of the labour market in mid-January.

There was a surprising jump in the balance of households reporting an increase in their earnings. At this stage that shouldn't alarm the RBNZ too much. The level of this component of the index remains well below pre-recession levels, suggesting still limited wage pressure. Furthermore, the bulk of other evidence (such as falls in firms' pricing intentions, and lower food and fuel prices) points to near-term inflation pressures having eased in recent months. This gives the RBNZ room to sit tight as the global situation continues to unfold.

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## Survey Details

The Employment Confidence Index summarises responses to five questions, two of them on current and expected job availability nationwide, and the other three on respondents' personal employment situation (their current and expected future earnings, and their expected job security). The first two questions are asked of all surveyed respondents (around 1500), the last three of those with jobs (around 1000). The backward-looking questions (current job availability, current earnings) are summarized in the Current Employment Conditions Index, the expectational questions (expected job availability, earnings, and personal job security) are summarized in the Employment Expectations Index. An index number over 100 indicates that there are more optimists than pessimists. The index's margin of error is 2.5%. The survey took place over the period 1-11 December.

The fall in employment confidence was almost entirely due to a 7.5 point decline in the Expected Conditions Index – current conditions were roughly unchanged. Digging into the components reveals that households are primarily becoming more concerned about employment conditions in the broader economy, rather than their own employment situation. The biggest falls were in perceived current and future job availability nationwide. On balance 9% of respondents now think that national job prospects will get worse over the coming year, a sharp turnaround from their previous cautious optimism. And respondents' perception of the existing job situation, already bleak, deteriorated further. A net 62% now think that jobs are currently hard to get nationwide – up from 53% three months ago, and roughly the same as in late 2010, when the economy last entered a soft patch.

Responses to the other three questions – about personal job security and earnings – held up better. Within the Current Employment Conditions Index, increased gloom about job availability nationwide was offset by an improvement in reported earnings. The balance reporting an increase in earnings over the past year rose from 21% to 29% – albeit still well below pre-recession levels, when it averaged close to 40. And while expectations for personal job security and future earnings dipped slightly, on both counts households remain optimistic on balance (a net 32% expect earnings to increase, and a net 8% expect job security to improve).

That said, a sense of greater vulnerability is emerging among lower and middle income households. A net 15% of lower-income respondents now think their jobs will be less secure in a year's time (up from 3% in September, and even worse than in the recession), and only a net 9% expect to earn more (down from 31% back in September). Among middle-income New Zealanders expectations for their job security and earnings are also down appreciably. Middle-income New Zealanders are particularly pessimistic about the broader economy. On balance a massive 71% in that group now think jobs are hard to get nationwide, and a net 15% think that things will get even worse.

The regional breakdown shows that employment confidence is now below 100 (i.e. in pessimistic territory) in all regions except Auckland, Canterbury and Southland. Auckland saw both current and expected conditions dip, but less so than in many other parts of the country. While respondents in Canterbury are now much less confident about current and future jobs availability nationwide, expectations for their own job security have held up better, and their earnings expectations have improved (a net 38% expect their earnings to increase, up from 33% in September). And Southland, where current conditions improved further, and expectations were more resilient than anywhere else, remains a remarkable beacon of optimism.

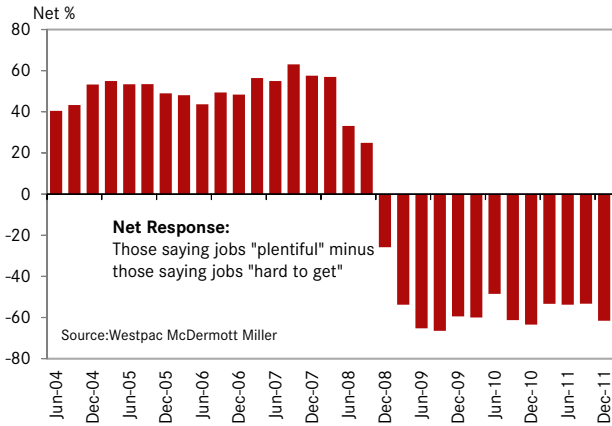
### Employment Confidence by region

Region	Dec-10	Sep-11	Dec-11
Northland	91.8	97.1	94.0
Auckland	102.0	104.3	101.7
Waikato	111.8	102.8	96.9
Bay of Plenty	102.3	99.8	94.1
Gisborne/Hawkes Bay	94.4	104.3	98.7
Taranaki/Manawatu	100.4	105.3	91.4
Wellington	106.3	97.9	95.5
Nelson/Marlborough/Westland	98.3	106.1	98.3
Canterbury	108.3	115.2	108.6
Otago	106.6	96.7	96.8
Southland	102.4	109.1	111.7

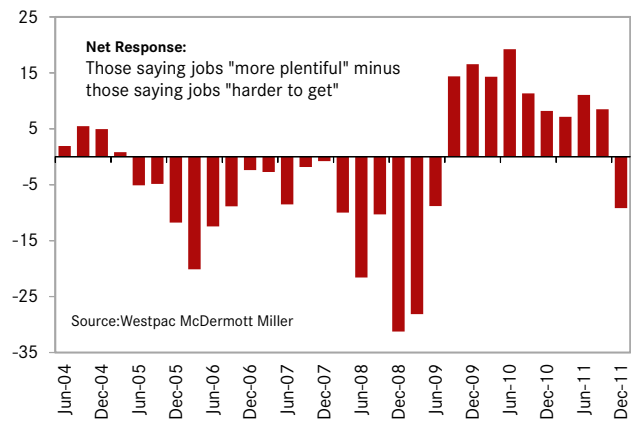
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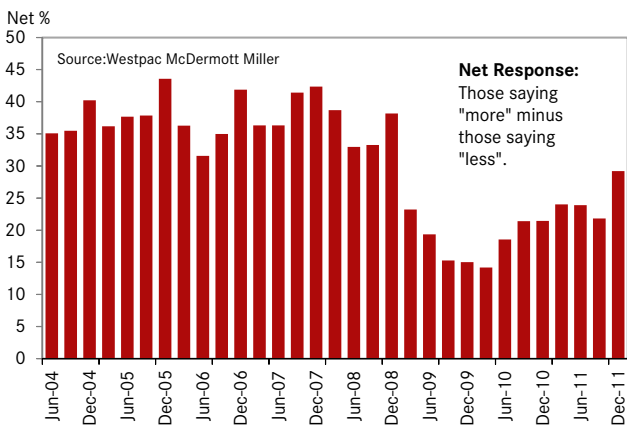
**Do you think jobs are plentiful or hard to get?**



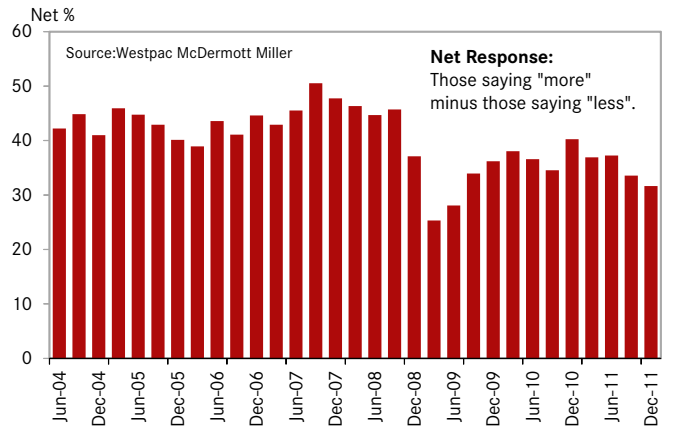
**Job opportunities in NZ in a year's time compared to now**



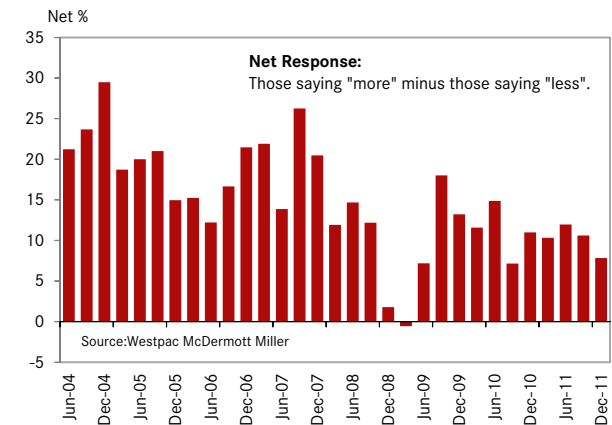
**Earnings in paid work now compared to this time last year**



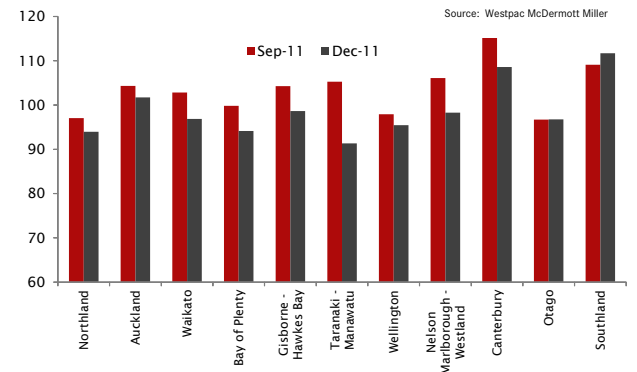
**Expected earnings in paid work this time next year**



**Personal job security over the coming year**



**Regional confidence**



**Employment Confidence Data**

Quarter	Index
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
Jun-11	106.1
Sep-11	104.2
Dec-11	99.6