

# Employment confidence edges higher

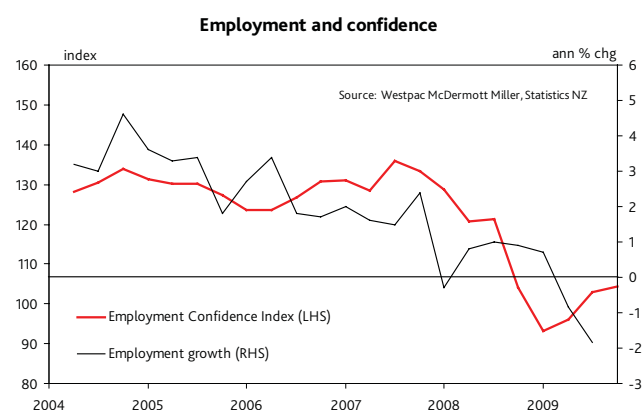
2009Q4 Westpac McDermott Miller Employment Confidence Index: 104.3

- **Employment confidence rose modestly in 2009Q4, but remains at a relatively low level.**
- **Current employment conditions have improved for the first time in two years. Future employment conditions were largely unchanged.**
- **The survey depicts a labour market that has reached the trough and is beginning to claw its way back. We expect the unemployment rate to peak at 6.7% in early 2010 before inching lower over the remainder of the year.**

According to the Westpac McDermott Miller Employment Confidence Survey, employees were feeling a little happier about employment conditions as 2009 came to a close. The Employment Confidence Index lifted 1.3 points to 104.3 in the December 2009 quarter. That brings confidence back to a level last seen a year ago, but still well below the survey average (since 2004) of 122. 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 1-14 December.

What we find most encouraging about these survey results is that confidence has been driven higher by improved perceptions of current employment conditions, rather than just expectations of what is to come. In particular, fewer respondents believed jobs were hard to get (at a net 59.5% in December, from a net 66.5% in September), while a net 15% of respondents still said they were earning more than a year ago (broadly unchanged from September). As a result, the Current Conditions Index lifted from a record low of 74.4 in the September 2009 quarter to 77.8 in the December quarter – the first increase since September 2007. On its own, that suggests that the worst of the job layoffs are likely behind us. Still, the overall message is clearly that labour market conditions remain tough – just not as tough as they were back in September.

In contrast to current conditions, employees remain overwhelmingly optimistic about the future. The Employment Expectations Index was broadly unchanged at 122 through the quarter, close to the record high of 125.1 reached in December 2004. A net 16.6% of respondents said they expect



## Employment Confidence Indices

	Dec-09	Sep-09	change
Employment Confidence Index	104.3	103.0	1.3
Present Conditions Index	77.8	74.4	3.4
Employment Expectations Index	122.0	122.1	-0.1

job opportunities to be plentiful this time next year, up from 14.4% in the September quarter and the strongest response to this question in the survey's history. Meanwhile, a net 36.2% said they expect to be earning more, up from a net 34% in September.

Perceived job security fell during the quarter, from a net 18% in September to a net 13.2% currently. Lower job security may partly explain why consumer spending has been relatively slow to respond to improving consumer confidence and general economic conditions.

## Regional and demographic breakdown

Seven of the 11 regions recorded increases in employment confidence this quarter, the biggest gains being amongst employees in the Bay of Plenty and Auckland. Bay of Plenty employees are now far less pessimistic about the current employment situation, and have become even more optimistic about the future. Meanwhile, Auckland employees still rate current conditions amongst the toughest across the country, but when it comes to the outlook they are the most optimistic group of employees.

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

For all clients: Westpac Institutional Bank is a division of Westpac Banking Corporation ABN 33 007 457 141, incorporated in Australia ("Westpac"). The information contained in this report: does not constitute an offer, or a solicitation of an offer, to subscribe for or purchase any securities or other financial instrument; does not constitute an offer, inducement or solicitation to enter a legally binding contract; and is not to be construed as an indication or prediction of future results. The information is general and preliminary information only and while Westpac has made every effort to ensure that information is free from error, Westpac does not warrant the accuracy, adequacy or completeness of the Information. The Information may contain material provided directly by third parties and while such material is published with necessary permission, Westpac accepts no responsibility for the accuracy or completeness of any such material. In preparing the Information, Westpac has not taken into consideration the financial situation, investment objectives or particular needs of any particular investor and recommends that investors seek independent advice before acting on the Information. Certain types of transactions, including those involving futures, options and high yield securities give rise to substantial risk and are not suitable for all investors. Except where contrary to law, Westpac intends by this notice to exclude liability for the information. The information is subject to change without notice. Westpac expressly prohibits you from passing on this document to any third party. Westpac Banking Corporation is regulated for the conduct of investment business in the United Kingdom by the Financial Services Authority. © 2010

For Australian clients: WARNING – This document is provided to you solely for your own use and in your capacity as a wholesale client of Westpac.

Northland employees are still the least confident of all the regions, followed closely by Gisborne-Hawkes Bay. Disproportionately high unemployment rates in these regions (at 9.3% and 10% respectively) are likely to explain why.

In terms of demographics, confidence was up amongst male employees, but declined amongst females. By age group, the biggest gains this quarter were amongst 30-49 year olds, although confidence is still the highest in the 18-29 age group. Confidence declined amongst employees in the 50+ age group. Finally, in terms of income group, confidence increased the most amongst lower income employees, but overall they remain less confident than those on middle or upper incomes.

#### Employment Confidence Data

Region	Index		
	Dec-08	Sep-09	Dec-09
Northland	98.8	95.1	98.4
Auckland	102.3	100.6	104.9
Waikato	96.0	104.3	100.2
Bay of Plenty	105.7	101.1	109.3
Gisborne/Hawkes Bay	104.5	101.2	98.5
Taranaki/Manawatu	102.0	103.1	100.8
Wellington	103.2	101.6	102.3
Nelson/Marlborough/Westland	105.6	108.9	103.8
Canterbury	95.7	109.2	110.0
Otago	104.2	104.1	104.9
Southland	102.6	109.6	110.9

#### Implications

Although the headline confidence index is little changed relative to the September quarter, the details of the survey provide some valuable insights into labour market conditions. In particular, it is noteworthy that the Current Conditions Index registered its first increase in two years. That is consistent with other labour market indicators suggesting that the low-point of the labour market cycle has been reached. Indeed, we expect that the sharp increases in unemployment over the last year are now behind us. Even so, employment growth is unlikely to keep pace with population growth in the near term meaning that the unemployment rate will likely continue to rise until mid-2010. We expect a peak of 6.7% in March 2010, from 6.5% currently.

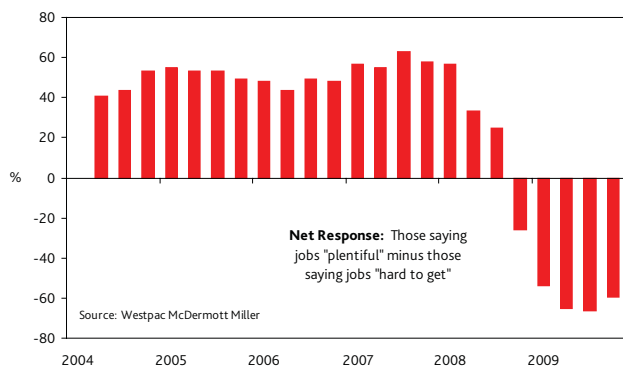
The picture on the earnings front is one of continued subdued wage growth, but with upward pressure likely to begin building again through 2010 as employment conditions improve. That is consistent with the RBNZ, and our, forecasts which see annual wage inflation troughing in March 2010, and steadily picking up from then on. As such, these survey results have no material implications for monetary policy. We continue to expect the first hike in the OCR to be in March 2010.

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

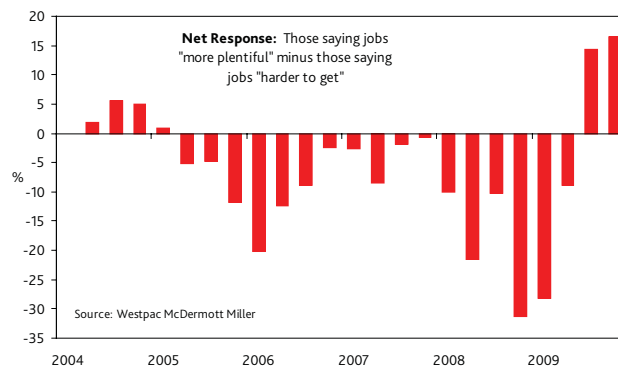
**Donna Purdue**, Senior Economist, Ph: (64-4) 381 1407

**Q1 ECI will be released on Wednesday 7 April 2010**

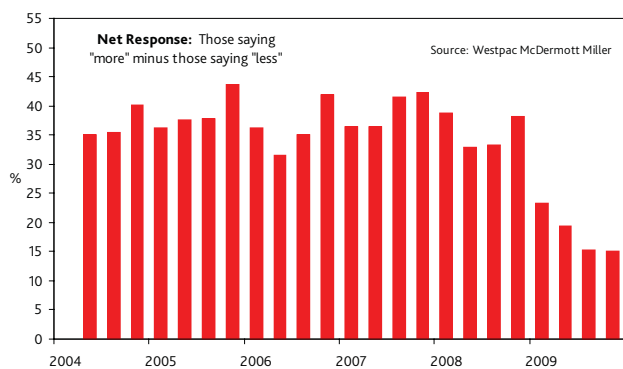
Do you think jobs are plentiful or hard to get?



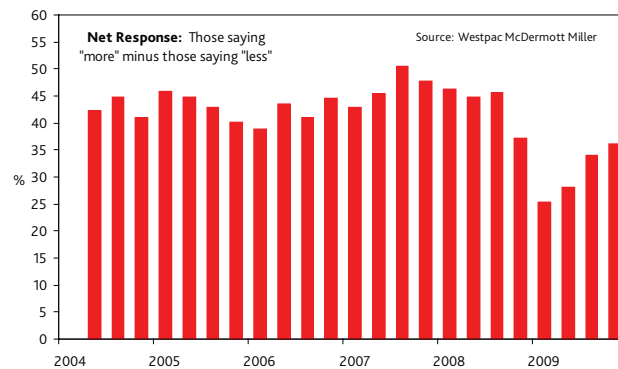
Job opportunities in NZ in a years time compared to now



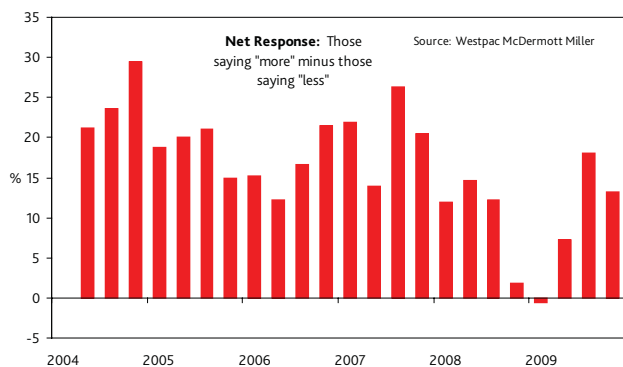
Earnings in paid work now compared to this time last year



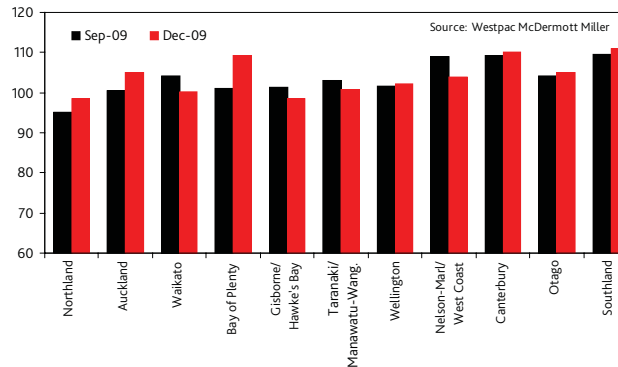
Expected earnings in paid work this time next year



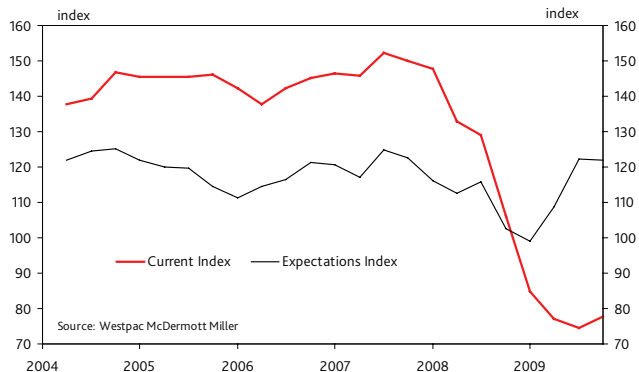
Personal job security over the coming year



Regional Confidence



Employment confidence



Employment Confidence Data

Quarter	Index
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
Sep-09	103.0
Dec-09	104.3