

Employment confidence edges higher

2010Q4 Westpac McDermott Miller Employment Confidence Index: 103.5

- **Employment confidence lifted slightly in the December 2010 quarter, rising 0.9 points to 103.5.**
- **Hopes of better conditions in 2011, specifically higher earnings and improved job security, drove the increase this quarter. However, gains in these areas were partially offset by an even more downbeat assessment of current employment conditions.**
- **The overall level of the Index is consistent with an ongoing, albeit gradual, recovery in the labour market.**

The Westpac McDermott Miller Employment Confidence Index edged higher in the December 2010 quarter, from 102.6 in the September 2010 quarter to 103.5 currently. However, confidence is slightly lower than the same time a year ago when the Index was at 104.3. 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.

The lift in confidence this quarter is encouraging given that a strengthening labour market is a key part of our economic growth story through 2011. However, the devil is always in the detail and in that respect there are some worrying developments this quarter.

Since March 2009, employees' downbeat assessment of current employment conditions has weighed heavily on the overall level of employment confidence. This quarter's survey results show that situation has not changed. In fact, employees assess the current labour market as in worse shape than three months ago and only a little better than 12 months ago (the Current Employment Conditions Index is at 79.0, down from 80.1 in September, and up from 77.8 a year ago).

The major issue for employees in the here and now is job availability. In the December 2010 quarter, a net 63.4% of respondents said jobs are hard to get, up from a net 61.3% in September and close to the record high reached in September last year when a net 66.5% of respondents felt jobs were hard to get. There was better news on the earnings front, with a net 21.4% of respondents saying they were earning more than a year ago. That was unchanged from the September quarter, but



Employment Confidence Indices

	Sep-10	Dec-10	change
Employment Confidence Index	102.6	103.5	0.9
Present Conditions Index	80.1	79.0	-1.1
Employment Expectations Index	117.7	119.8	2.1

remains well above year ago levels (when only a net 15% said they were earning more).

The very negative sentiment toward the current job situation is difficult to reconcile with labour market developments over the past year. These show unequivocally that the labour market has improved, with the number of employed growing by 1.8% (with full-time employment up 2.1%), the trend rate of unemployment falling, underemployment (those in work but seeking more) dropping by 10%, and total actual hours worked per week rising 3%. Still, the indications are that the jobs market remains tough, and possibly even tougher than we thought. That suggests some downside risk to our employment growth forecasts through the latter stages of 2010.

On a more positive note, employees' optimism about the future has been maintained, and has even improved through the quarter, with the Employment Expectations Index rising from 117.8 to 119.8. The biggest influence was an increase in earnings expectations, with a net 40.3% of respondents saying they expect to be earning more in a year's time, up from a net 34.6% in September, and a net 36.2% a year ago. Higher earnings

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expectations are consistent with our view that wage pressure will build through 2011 as the economic recovery strengthens.

Perceived job security has also improved, rising from a net 7.2% in September to a net 11% currently, but at this level remains below that of 12 months ago (13.2%). Of some concern, fewer employees expect better job opportunities over the coming year. Only a net 8.2% of respondents said they expect job opportunities to be plentiful this time next year, down from 11.3% in the September quarter. However, this is still well above the survey average of a net 3.4% of respondents expecting jobs will be hard to find.

Regional and demographic breakdown

Only five of the 11 regions reported a rise in confidence this quarter. The biggest increase was amongst employees in the Waikato region. The Index increased from 100.7 to 111.8, the highest reading for the region since September 2008, and making this region the most optimistic in the country. Increases in confidence were also recorded in Otago (up 5.9 points to 106.6) and Wellington (up 4 points to 106.3) and Nelson/Marlborough/West Coast (up 6.2 points to 98.3) although the Index for the latter remains in pessimistic territory.

Of the six regions reporting a decline, the biggest fall was in the Southland region (down 9.5 points to 102.4), followed closely by Northland (down 8.2 points to 91.8). Northland employees are now the most pessimistic in the country.

Confidence in the Canterbury region unwound some of the gains seen in the September quarter (some of which we put down to a response bias in the immediate aftermath of the Christchurch earthquake). However, at current levels (108.3) employees in the region remain the second most confident in the country, which likely reflects some expectation of employment opportunities due to rebuilding in the region.

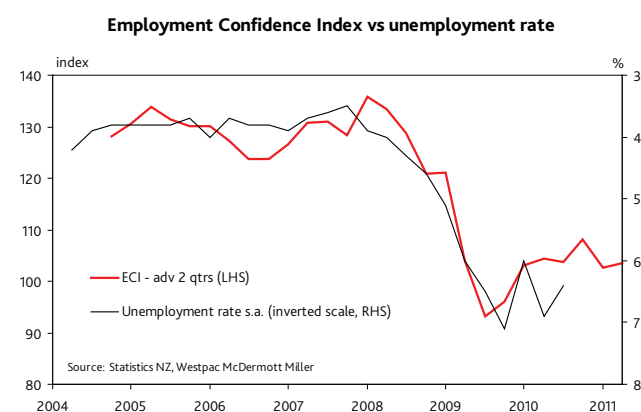
In terms of gender, the increase in confidence during the quarter can be entirely put down to a lift in optimism amongst males. The Employment Confidence Index for males rose from 101.4 to 105.6. Meanwhile, the female confidence index fell from 103.3 to 99.9. By age group, the biggest improvement was in the 18-29 age group, although the 50+ group also reported a small improvement.

Region	Dec-09	Sep-10	Dec-10
Northland	98.4	99.9	91.8
Auckland	104.9	100.1	102.0
Waikato	100.2	100.7	111.8
Bay of Plenty	109.3	105.7	102.3
Gisborne/Hawkes Bay	98.5	98.8	94.4
Taranaki/Manawatu	100.8	104.5	100.4
Wellington	102.3	102.3	106.3
Nelson/Marlborough/Westland	103.8	92.0	98.3
Canterbury	110.0	112.2	108.3
Otago	104.9	100.7	106.6
Southland	110.9	111.9	102.4

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.

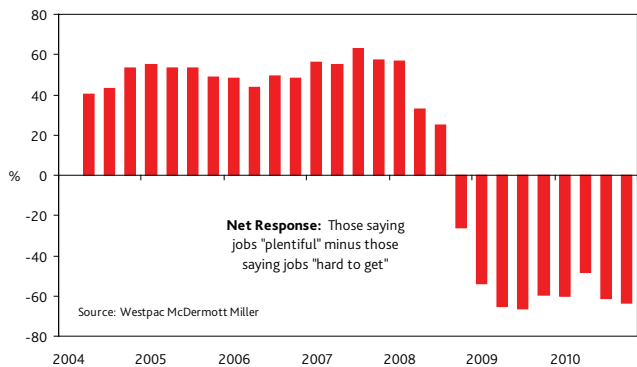
The chart below plots the headline confidence Index against the seasonally adjusted unemployment rate (inverted). As the chart shows, the Index signalled both the upturn in the unemployment rate through 2008-09 and the steep decline experienced in the March 2010 quarter. Looking through the recent volatility 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 fairly gradual pace.



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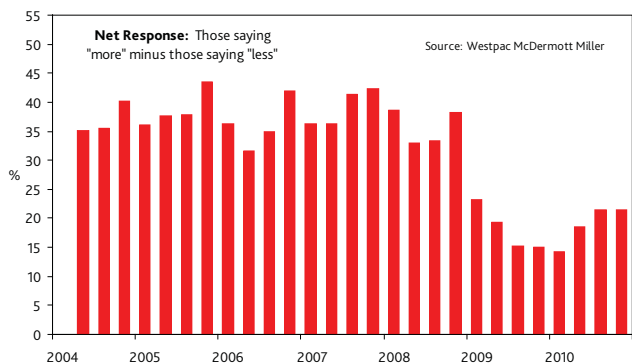
Do you think jobs are plentiful or hard to get?



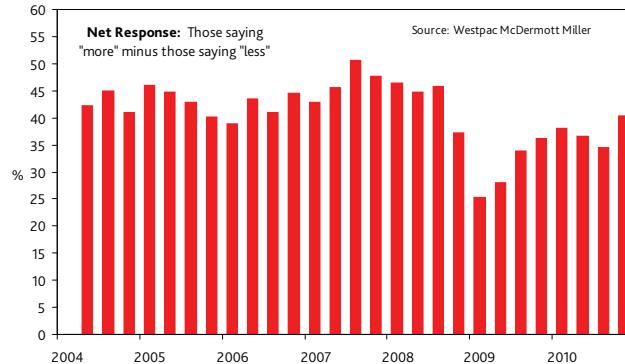
Job opportunities in NZ in a years time compared to now



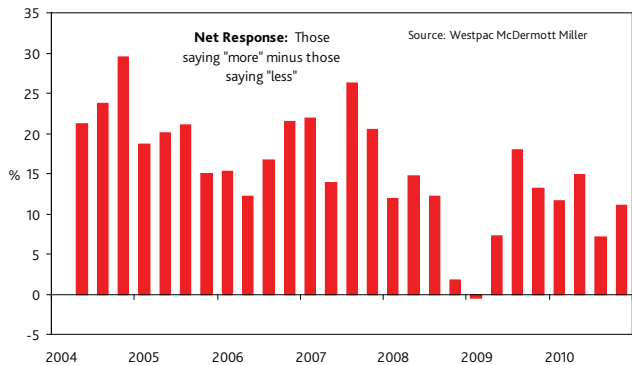
Earnings in paid work now compared to this time last year



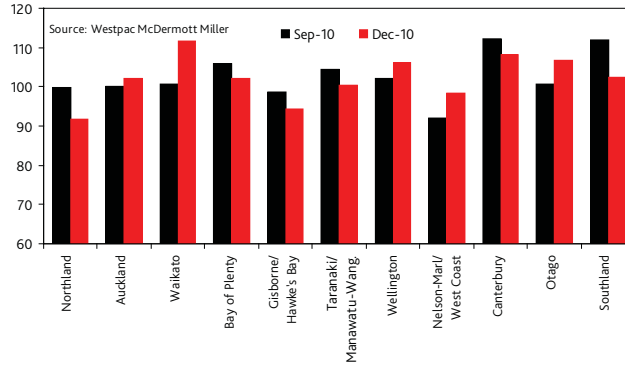
Expected earnings in paid work this time next year



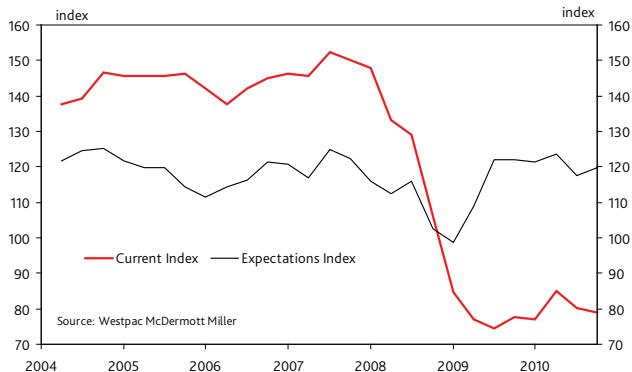
Personal job security over the coming year



Regional Confidence



Employment confidence



Employment Confidence Data

Quarter	Index
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
Dec-10	103.5