

Continuing caution: Employment Confidence Falls

2011Q3 Westpac McDermott Miller Employment Confidence Index: 104.2

- **Employment confidence fell in the September quarter, as households become less optimistic about the year ahead.**
- **Nevertheless employment confidence continues to suggest a further gradual fall in unemployment.**
- **Overall today's survey and Monday's Consumer Confidence survey point to a cautiously optimistic consumer.**

Employment Confidence Indices

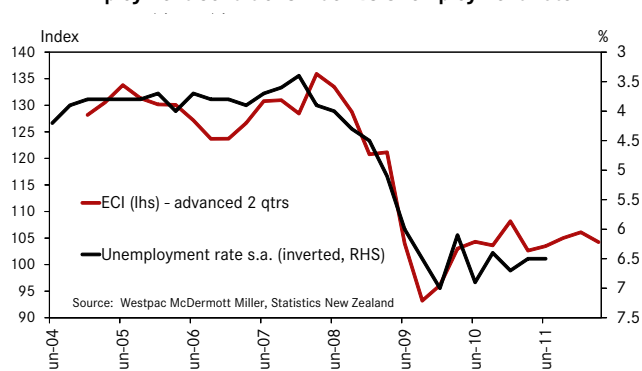
	Jun-11	Sep-11	Change
Employment Confidence Index	106.1	104.2	-1.8
Present Conditions Index	85.1	84.3	-0.8
Employment Expectations Index	120.1	117.6	-2.5

The Westpac McDermott Miller Employment Confidence survey showed households' confidence in their employment conditions falling back in September, from 106.1 in June to 104.2. That still leaves the index at a higher level than it was for most of 2010 – though below its mid-2010 high, when the index was at 108.2.

Today's decline in employment confidence is somewhat at odds with Monday's Consumer Confidence survey, which showed overall consumer confidence remaining stable, and a continued improvement in households' expectations for both the economy and their own financial situation over the year ahead. That said, it wasn't a big move, and employment confidence continues to suggest a gradual decrease in unemployment from where it is today. Overall, both surveys are pointing to a bruised, but cautiously optimistic consumer.

As we explain below, the survey suggests that expected labour market pressures from the Christchurch rebuild are, to date, largely confined to the Canterbury region. A similar message emerged from the June quarter wage data, which showed much stronger construction sector wage increases in Canterbury than elsewhere. In view of other signs of worrying inflation pressures at a very early stage of reconstruction – from rocketing construction costs to high and rising inflation expectations – that will be of some comfort to the RBNZ.

Employment Conditions Index vs Unemployment Rate



Survey details

The Employment Confidence Index summarises five questions, two of them on present conditions (overall current jobs availability, wage growth over the past year) and three on expected future conditions (jobs availability, personal job security and wages over the coming year). An index number over 100 indicates overall optimists outnumbering overall pessimists. The index's margin of error is 2.5%. The survey took place over the period 1-12 September.

The decline in the Index was mainly due to households becoming less optimistic about expected employment conditions, though households' perceptions of present conditions also edged down. Compared to June, households are less optimistic on all of the Index's forward-looking components: on balance, fewer people think job opportunities will improve in a year's time, fewer think their own job security will improve, and fewer think that their wages will increase over the next year.

Aside from quarter to quarter wobbles, we have been seeing a slow grind upward in households' present employment conditions since late 2009. By contrast, expected conditions bounced back in late 2009 as the recession ended but have gradually eased back since then. Perhaps households have gradually woken up to the fact that the current downturn has

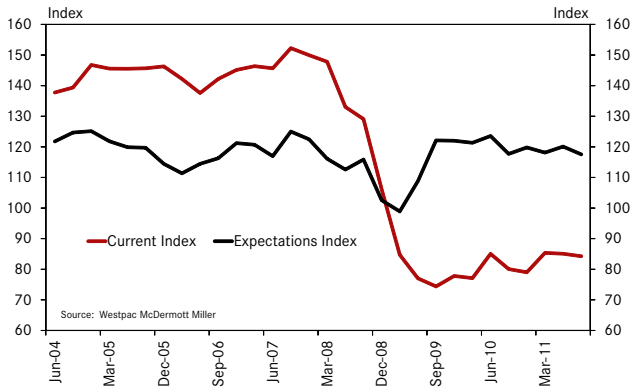
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been more protracted than the late 1990s recession. Certainly, while households remain optimistic for the future, the degree of that optimism is now more in tune with businesses' expressed hiring intentions than it has been in the past.

jobs growth. Compared to June, respondents may be becoming more aware that the gains will go to some types of jobs more than others. Back in June, a net 50% of Canterbury respondents expected their pay to increase over the next year; this time that's back down to 33%, even as Cantabrians' expectations for overall job opportunities continue to improve.

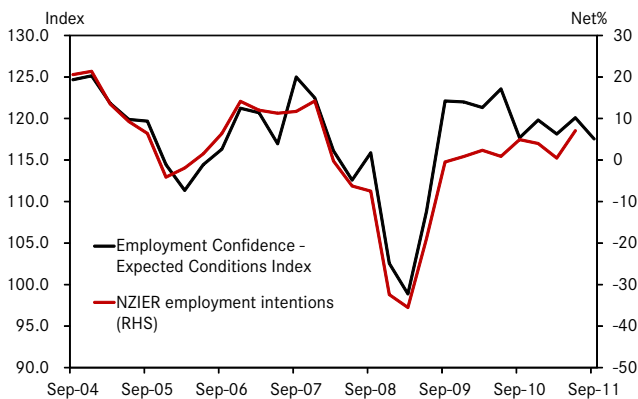
Employment Confidence



Elsewhere, employment confidence continues to be above the national average in key dairy exporting regions (Taranaki and Southland – dairy heartland Waikato is a notable, and surprising exception), and also lifted strongly in the northern South Island. In other rural parts of the country such as Northland, Bay of Plenty and Gisborne, employment confidence rose but generally remains below average. Employment confidence fell in Auckland – hitherto a standout positive area – and also in Wellington. Employment confidence in Otago remains soft.

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Expected employment conditions and business hiring intentions



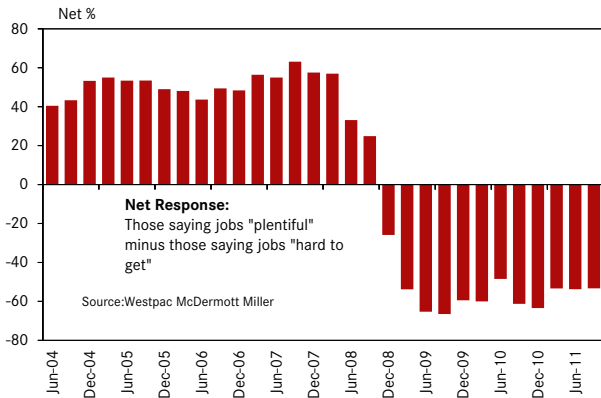
Regional breakdown

Employment Confidence by region

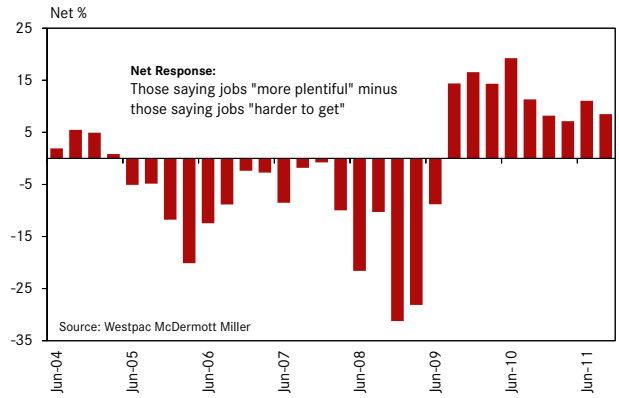
Region	Sep-10	Jun-11	Sep-11
Northland	99.9	95.2	97.1
Auckland	100.1	109.5	104.3
Waikato	100.7	106.1	102.8
Bay of Plenty	105.7	97.6	99.8
Gisborne/Hawkes Bay	98.8	100.0	104.3
Taranaki/Manawatu	104.5	98.9	105.3
Wellington	102.3	103.5	97.9
Nelson/Marlborough/Westland	92.0	101.1	106.1
Canterbury	112.2	117.1	115.2
Otago	100.7	97.3	96.7
Southland	111.9	113.1	109.1

The survey's regional breakdown shows that perceived employment conditions continue to vary widely across the country. Canterbury employment confidence shot up in the June survey, and while confidence edged down in the latest survey, Cantabrians remain the most upbeat in the country: there is a clear, localized, expectation of reconstruction-related

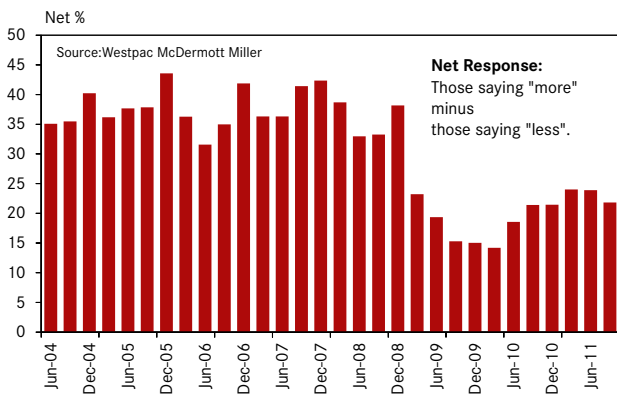
Do you think jobs are plentiful or hard to get?



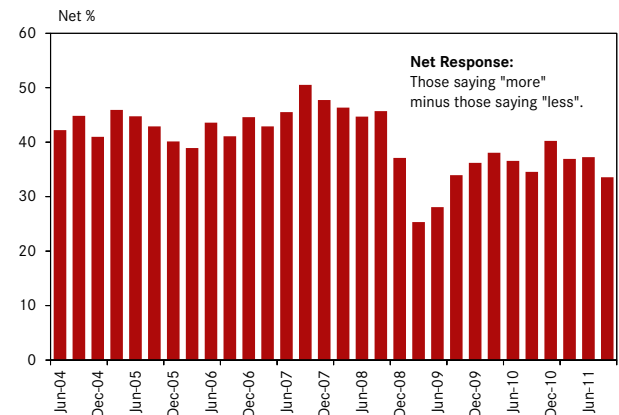
Job opportunities in NZ in a year's time compared to now



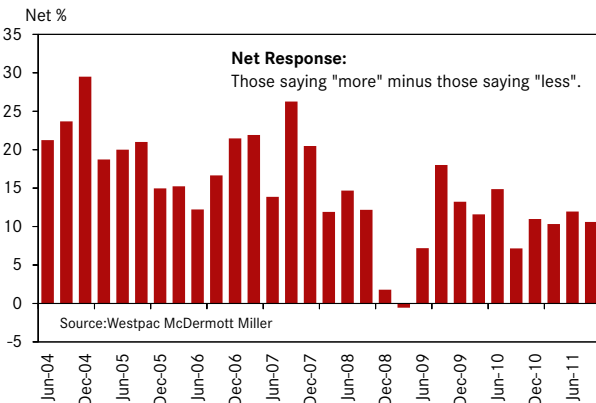
Earnings in paid work now compared to this time last year



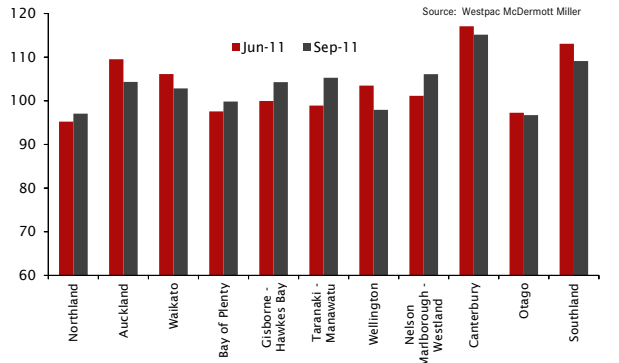
Expected earnings in paid work this time next year



Personal job security over the coming year



Regional confidence



Employment Confidence Data

Quarter	Index
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
Mar-11	105.0
Jun-11	106.1
Sep-11	104.2