

# Wait and see

## Westpac McDermott Miller Employment Confidence Index, December quarter 2014

- New Zealanders became more pessimistic about the state of the labour market in December.
- Falls in confidence were widespread and mostly reflected concerns about the outlook for jobs growth, rather than current conditions.
- Reduced confidence about the health of the labour market likely reflects negative economic news at the end of 2014. With a positive outlook for domestic demand in 2015, we still expect to see the labour market improve over the coming year.

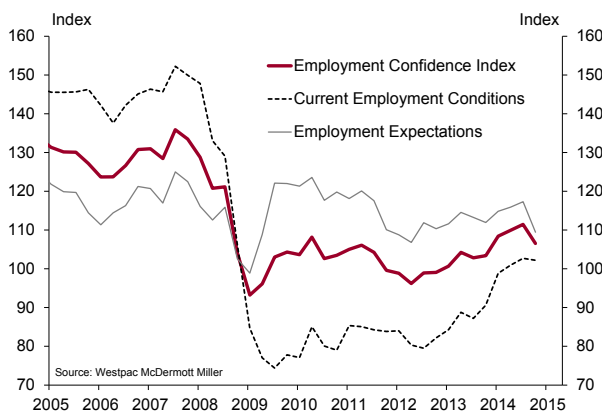
New Zealanders became more pessimistic about the state of the labour market in late 2014, with the Westpac McDermott Miller Employment Confidence Index falling from 111.5 to 106.5 in December. This reflects increased pessimism about the availability of jobs, as well as reduced expectations for wage growth.

Looking at the news flow over the past few months, it's not hard to see why people could have become more nervous about the outlook. Late 2014 saw further declines in some commodity prices and a downwards revision to Fonterra's payout forecast. This will be a significant drag on spending in rural communities over the coming year, and current dry conditions in much of the country are not helping matters. Consequently, it was unsurprising to see sharp declines in employment confidence in dairying regions, especially Southland.

But increased pessimism about the labour market outlook wasn't confined to rural regions. Employment confidence has dropped off in nearly all parts of the economy, and across different age and income groups. It may be that concerns about the impact of lower commodity prices are flowing through to other regions. In addition, there was also heightened concern about economic conditions offshore in late 2014, particularly in parts of Europe. Households may have worried about what this could mean for conditions in New Zealand.

But while it's true that the external environment has turned frostier over recent months, we still see strong reason to expect that the New Zealand economy will continue growing a solid pace over the coming year. This is because growth in New Zealand is increasingly being underpinned by domestic demand. In part this is due to continuing reconstruction spending in Canterbury. But construction demand is increasing more generally, with strong increases in residential construction expected in Auckland, as well as increases in non-residential construction nationwide. We're also seeing positive signs in terms of household spending, as lower petrol prices are putting more money back into consumers' pockets. On top of this, we saw businesses' investment and hiring intentions remaining at solid levels at the end of 2014. In light of these favourable conditions, it wouldn't be surprising to see sentiment around the labour market picking up again over 2015.

**Employment confidence index**



	Sep-14	Dec-14	Change
<b>Employment Confidence Index</b>	<b>111.5</b>	<b>106.5</b>	<b>-4.9</b>
<b>Present Conditions Index</b>	<b>102.7</b>	<b>102.2</b>	<b>-0.5</b>
<b>Employment Expectations Index</b>	<b>117.3</b>	<b>109.4</b>	<b>-7.9</b>
Current job opportunities	-25.6	-25.3	0.3
Expected job opportunities	-3.7	-9.4	-5.7
Past earnings growth	31.0	29.7	-1.3
Expected earnings growth	37.8	29.2	-8.6
Own job security	17.9	8.5	-9.3

## Survey detail

- The net percentage of people saying that jobs are currently easy rather than hard to get continued to improve in December, albeit modestly (up to 0.3 ppts to -26.3%). This series corresponds closely with unemployment, and the latest reading is consistent with the drop off in unemployment seen in recent quarters being sustained.
- However, New Zealanders have become less confident about the outlook for labour market. Perceived job security fell from 17.9% to 8.5% in December. Similarly, perceptions of job opportunities over the coming year fell from -3.7% to -9.4%.
- The net percentage of people reporting that their earnings have increased over the past year eased back from 31 to 30% in the December quarter. Wage increases have been modest in recent years, with low inflation resulting in only limited cost of living adjustment to wages.
- Looking to the year ahead, expectations for earnings growth have pulled back sharply, with the numbers expecting an increase in earnings over the coming year falling from 38% down to 29%. In part, this may reflect the current very soft inflation outlook. However, it's also likely that workers' concerns about the strength of the labour market are weighing on their expectations for wage growth.

Looking at the regions, employment confidence remains strongest in Canterbury, although even here confidence is down. The relatively more upbeat outlook for Canterbury's labour market reflects that continuing reconstruction work is helping to support ongoing growth in employment and earnings.

Wellington and Auckland are the next most optimistic. Both of these regions are less exposed to the recent declines in commodity prices, and expectations related to earnings and job security have been resilient.

The regions with the lowest confidence were Gisborne/Hawke's Bay and Otago, with many workers in these regions noting concerns about the availability of job opportunities. There was also a significant drop in expectations for earnings and job opportunities in Southland.

The only region where employment confidence did not fall in the December quarter was the Nelson/Marlborough/West Coast region, where unemployment fell to a four year low in late 2014.

## Survey description

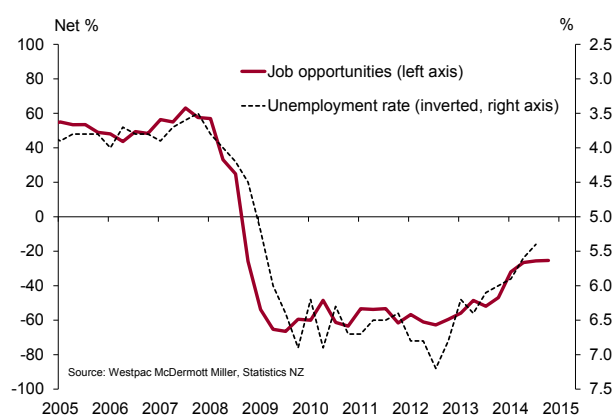
The Westpac McDermott Miller Employment Confidence Index summarises responses to five questions: households' perceptions of current and future job opportunities in New Zealand, their own actual and expected earnings, and expected changes in their own job security. The questions about current job opportunities and earnings are summarised in the Current Employment Conditions Index, while the questions about the year ahead are summarised in the Employment Expectations Index. The survey took place over the period 1-11 December, with a sample size of 1,557.

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Senior Economist

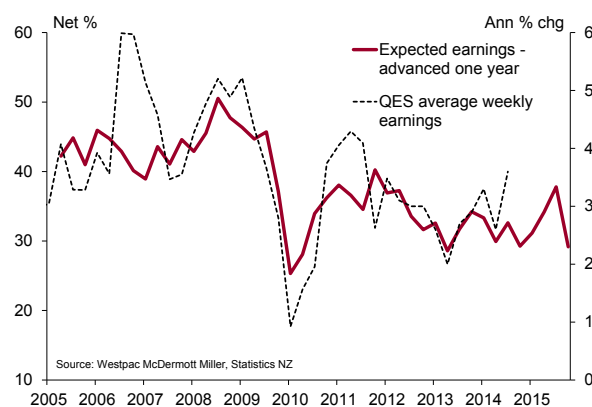
## Employment Confidence by region

Region	Sep-14	Dec-14	Change
Northland	102.7	100.6	-2.1
Auckland	114.4	109.1	-5.3
Waikato	105.7	101.8	-3.9
Bay of Plenty	113.3	106.7	-6.5
Gisborne/Hawkes Bay	104.7	97.9	-6.9
Taranaki/Manawatu	104.4	99.6	-4.8
Wellington	110.3	109.6	-0.7
Nelson/Marlborough/Westland	101.9	103.5	1.5
Canterbury	122.8	114.4	-8.5
Otago	103.3	98.9	-4.4
Southland	115.5	100.7	-14.8

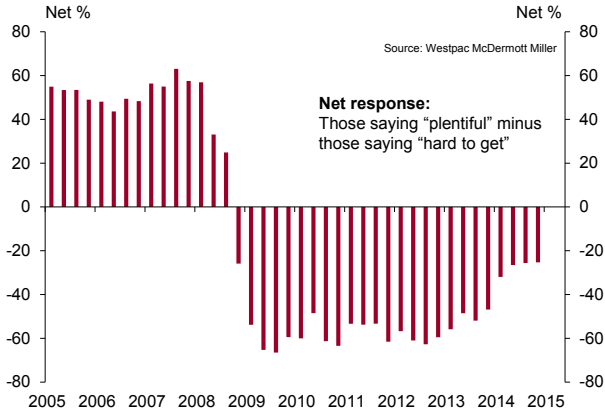
## Reported job opportunities and unemployment



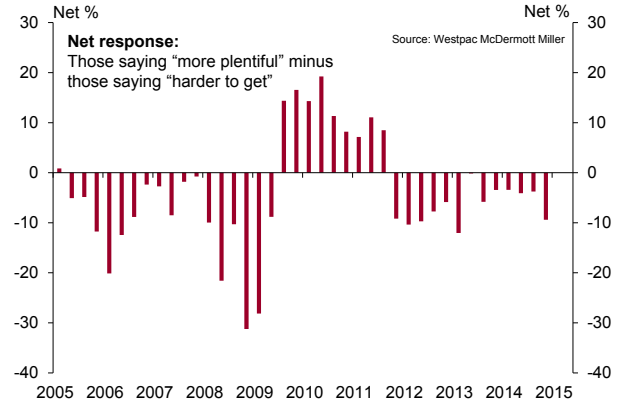
## Reported earnings and wage inflation



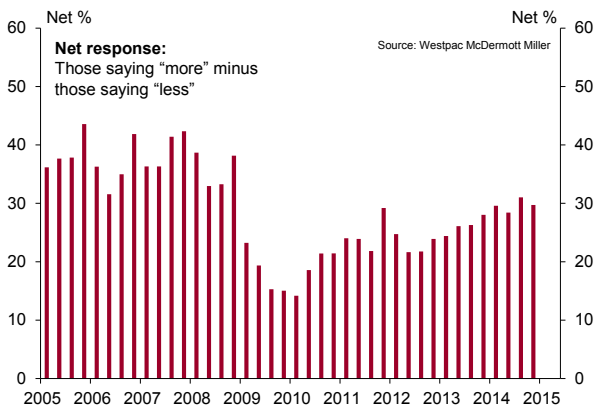
### Do you think jobs are plentiful or hard to get in NZ?



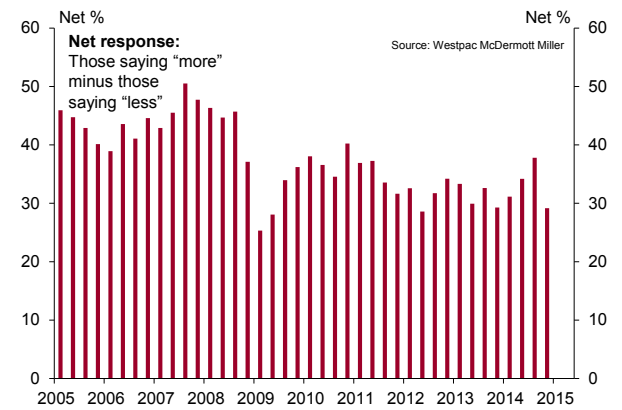
### Job opportunities in NZ in a year's time



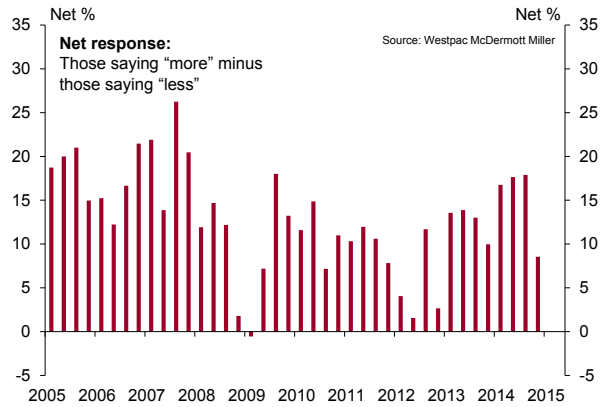
### Earnings in paid work compared to last year



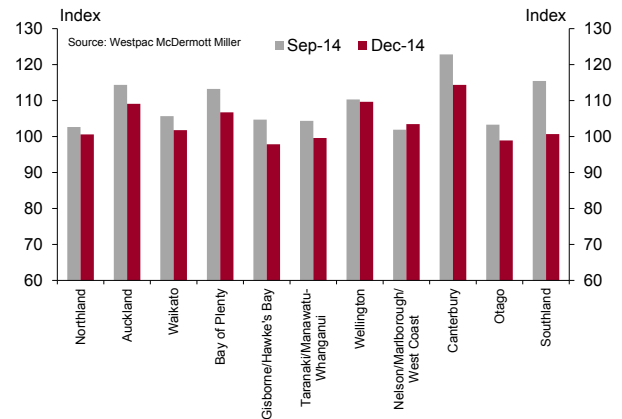
### Earnings in paid work this time next year



### Personal job security over the coming year



### Employment confidence by region



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