

Down, but not out

Westpac McDermott Miller Employment Confidence Index, March 2017

31 March 2017

- New Zealander workers have become a bit less optimistic about the state of the labour market, with increased concern about job security and opportunities.
- However, this recent easing in confidence follows a solid lift in the back half of 2016, and leaves employment confidence at levels that are still well up on what we were seeing this time last year.
- Despite the increased concern around job opportunities, expectations for earnings growth remain resilient.

After ending 2016 in fine form, New Zealand households appear to have started 2017 with a little bit of a hangover. That's been reflected in our suite of confidence indicators that look at conditions in the New Zealand economy, all of which edged back in the early part of this year. Most recently, the Westpac McDermott Miller Employment Confidence Index fell to a level of 109.9 in March (down from 112.7 in December).

Underlying March's softening in employment confidence was increased concern about the strength of labour demand. Workers have reported that they are feeling a bit less confident about their job security. They're also less optimistic about prospects of finding a new job than they were at the end of 2016. This increased nervousness was particularly pronounced among those earning less than \$30,000 per annum.

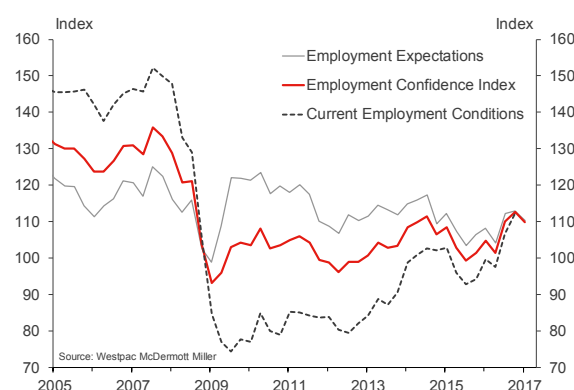
Employment Confidence Indices

	Mar-17	Dec-16	Change
Employment Confidence Index	109.9	112.7	-2.8
Present Conditions Index	109.4	112.3	-2.9
Employment Expectations Index	110.3	112.9	-2.7
Current job opportunities	-11.5	-5.1	-6.4
Expected job opportunities	-9.5	-4.9	-4.6
Past earnings growth	30.3	29.8	0.5
Expected earnings growth	29.6	28.8	0.8
Own job security	10.7	14.9	-4.2

March's fall in labour market confidence may reflect some anxiety about the upcoming election. It might also reflect concerns about the potential fallout from political developments offshore, which have continued to hit the headlines in recent weeks.

But before we get too pessimistic about the state of the labour market, we should put March's result in context. Although workers may be feeling a little less upbeat than they were, this recent decline comes on the back of some solid gains in the back half of 2016. And even after March's fall, confidence in the labour market is still well up on the lows it reached this time last year. Overall, things are looking consistent with an economy that is still in good shape, and which is expected to continue growing at a firm pace over the coming year.

Employment confidence index



Regional breakdown

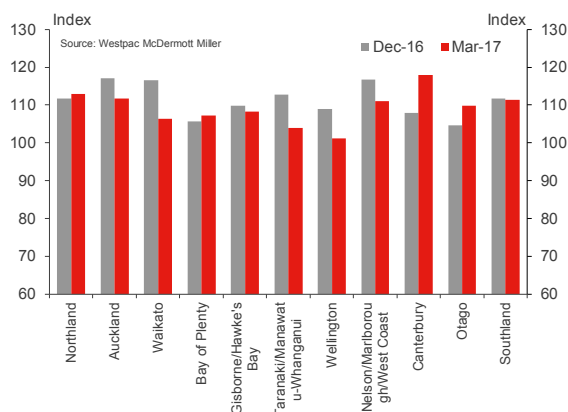
March saw confidence slipping back in most regions, though this just pared the gains seen in late 2016. There were larger declines in areas like the Waikato (where concerns about job openings have increased), and in Taranaki/Manawatu-Whanganui, where job security has declined.

Canterbury bucked the nationwide trend, with workers there reporting a sizeable lift in confidence. Canterbury's economy is continuing its transition through the rebuild process. Although growth has slowed, activity in the region remains at an elevated level. Recent months have seen the number of commercial buildings completed rise, and increasing numbers of businesses returning to the central city. On top of this, the drivers of activity are gradually shifting away from construction and towards areas like tourism and services. This has given the region a sense of vibrancy, with workers reporting improved job prospects and earnings.

Consumer confidence: regional breakdown

Region	Mar-17	Dec-16	Change
Northland	112.9	111.8	1.1
Auckland	111.7	117.1	-5.5
Waikato	106.3	116.5	-10.2
Bay of Plenty	107.2	105.7	1.5
Gisborne/Hawkes Bay	108.2	109.9	-1.7
Taranaki/Manawatu-Whanganui	104.0	112.8	-8.7
Wellington	101.2	108.9	-7.7
Nelson/Marlborough/Westland	111.1	116.7	-5.6
Canterbury	118.0	107.9	10.1
Otago	109.8	104.6	5.2
Southland	111.3	111.7	-0.4

Employment confidence by region



Earnings outlook improving

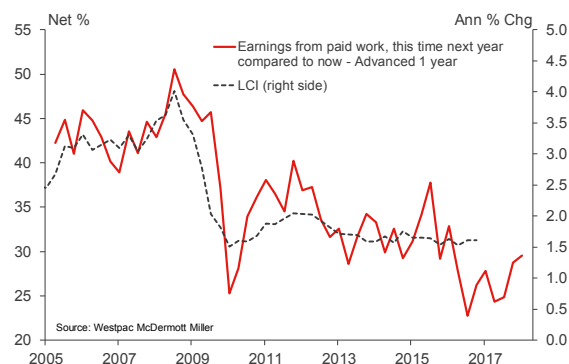
While workers are feeling a bit more anxious about job opportunities, things are looking better on the wages front. The number of workers reporting that their earnings increased over the past year nudged up in March, and is now at its highest level in two years. On top of this, the number of workers who expect their earnings to increase over the coming year has continued to grind higher.

With the economy entering its seventh year of continued economic growth and employment levels rising, it's not surprising that more and more workers are starting to see their earnings lift. Nevertheless, wage inflation remains at subdued levels.

One of the key reasons for low wage inflation in recent years was the very low level of consumer price inflation. This meant that cost of living adjustments to wage levels have also been low. But when adjusted for purchasing power, earnings growth has actually pretty healthy.

However, consumer price inflation has now lifted, and we expect to see it ticking along at rates of around 1.6% to 2% over 2017 and 2018 (up from rates of below 1% for most of the past two years). If this isn't matched by an increase in wage growth, many households may find their purchasing power being eroded.

Earnings growth over the year ahead & wage inflation

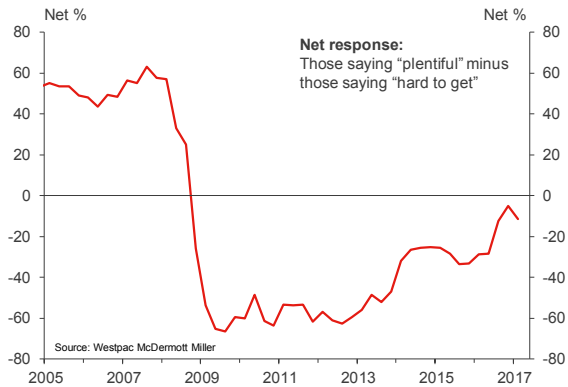


Survey Description

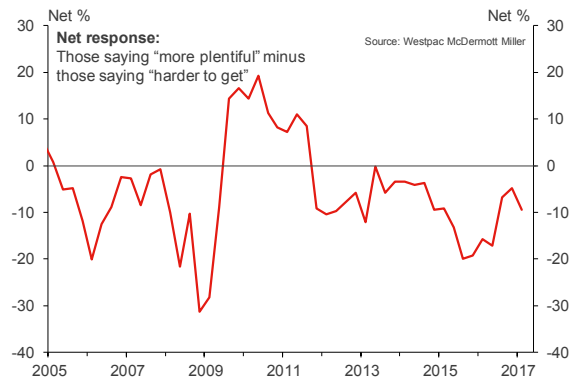
The Westpac McDermott Miller Employment Confidence Index summarises responses to five questions: households' perceptions of current and future job opportunities in New Zealand, their own actual and expected earnings, and expected changes in their own job security. The questions about current job opportunities 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 March 2017. The sample size was 1555.

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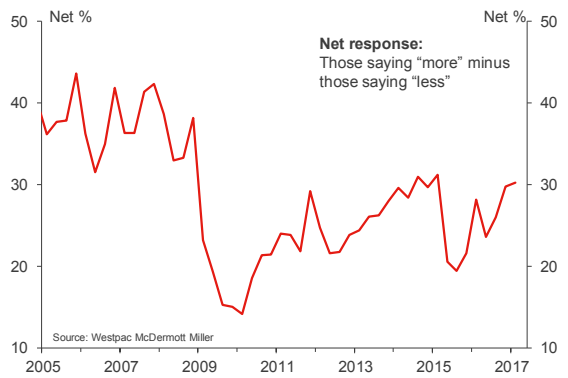
Do you think jobs are plentiful or hard to get in NZ?



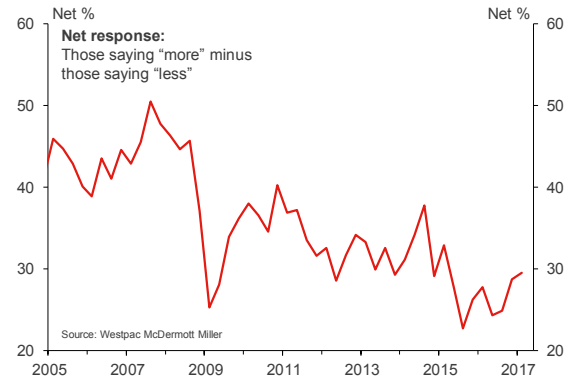
Job opportunities in NZ in a year's time



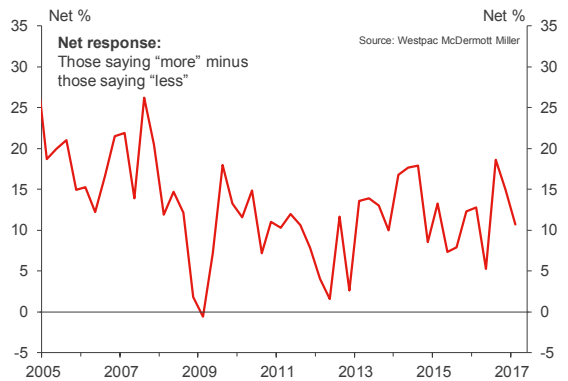
Earnings in paid work compared to last year



Earnings in paid work this time next year



Personal job security over the coming year



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