

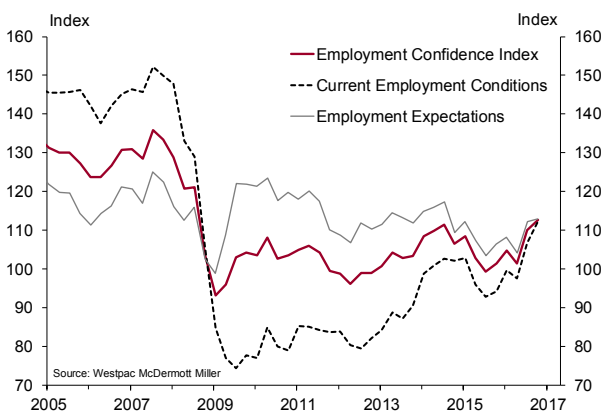
# Labour market confidence at an eight-year high

## Westpac McDermott Miller Employment Confidence Index, December 2016

- New Zealanders have become increasingly optimistic about the state of the labour market. This has been underpinned by increases in the number of job openings as economic activity has strengthened.
- Increases in employment confidence have been broad based, with large gains in the regions. The only area where there has been a noticeable decline in employment confidence is Canterbury.
- Despite the improved confidence around job availability, workers remain doubtful that earnings growth will pick up over the coming year.

	Sep-16	Dec-16	Change
<b>Employment Confidence Index</b>	<b>110.1</b>	<b>112.7</b>	<b>2.6</b>
<b>Present Conditions Index</b>	<b>106.8</b>	<b>112.3</b>	<b>5.5</b>
<b>Employment Expectations Index</b>	<b>112.2</b>	<b>112.9</b>	<b>0.7</b>
Current job opportunities	-12.4	-5.1	7.3
Expected job opportunities	-6.8	-4.9	1.9
Past earnings growth	26.0	29.8	3.8
Expected earnings growth	24.9	28.8	3.9
Own job security	18.6	14.9	-3.7

**Employment confidence index**



New Zealanders have become increasingly optimistic about the state of the labour market, with the Westpac McDermott Miller Employment Confidence Index rising to 112.7 in December. That comes on the back of a solid increase last quarter, and takes employment confidence to its highest level in eight years.

This continued increase in employment confidence comes against a backdrop of strong economic activity in New Zealand. The economy grew by a healthy 3% in the year to September, and this resulted in the unemployment rate falling to 4.9% - the lowest it's been since 2009. Importantly, GDP and employment growth are both likely to remain firm for some time yet.

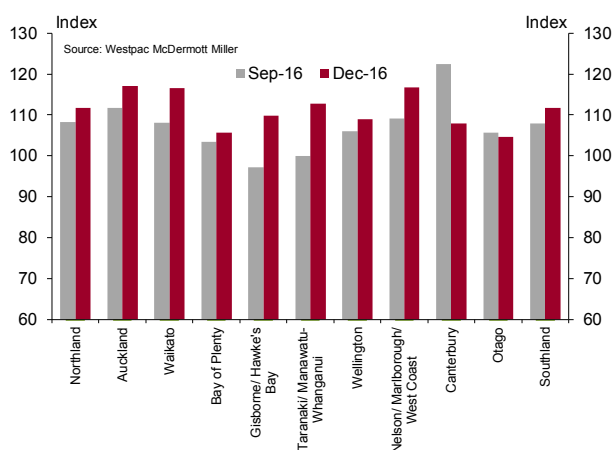
Against this backdrop it's not surprising that workers are feeling more upbeat. Over the past few months, workers have reported a sizable lift in the likelihood of finding a job. They also think that the jobs market will continue to improve over the coming year. And while workers did report a slight drop in job security in December, that followed a sharp increase in September and still leaves job security at firm levels.

## Confidence up in nearly all regions

Employment confidence has risen in nearly all regions, with the largest gains occurring outside of the main centres.

Confidence in many regional centres has received a powerful boost from the strong lift in global dairy prices through the second half of 2016. The resulting increase in earnings forecasts will have been a welcome relief for many farmers after some lean years, and signals a much improved outlook for economic and labour market conditions in many rural areas.

### Employment confidence by region



Looking at the major centres, employment confidence has continued to improve in Auckland and Wellington. In both regions this reflected the increased availability of jobs (especially in the Capital) and expectations that employment prospects would continue to improve over the coming year.

The only region to record a material decline in employment confidence in December was Canterbury. After a large increase last quarter, employment confidence in Canterbury has fallen back to low levels, with workers highlighting increased concerns about the availability of jobs and their earnings prospects.

Canterbury's economy, including its labour market, is in a period of transition. Over the past few years, reconstruction activity following the devastating earthquakes in 2010 and 2011 boosted economic growth and labour demand, with many sectors outside of construction benefitting from the increases in economic activity. However, planned reconstruction spending is now well advanced and has begun to gradually wind down. That doesn't mean construction activity is going to suddenly stop, but we won't see things running as hot as they did in recent years. And given the large boost the rebuild provided to the labour market in recent years, it's not surprising to see employment confidence softening.

But before getting too pessimistic, it's important to remember as the rebuild gradually winds down, other parts of Canterbury's economy have been firming. For instance, international tourism continues to grow, and the manufacturing sector is benefitting from the nationwide lift in construction activity. This reorientation of economic activity will support overall employment levels in the region. However, we're likely to see movement between sectors and changes in the skills mix the region requires. Consistent with this, many workers are highlighting increased concern about job security over the coming year.

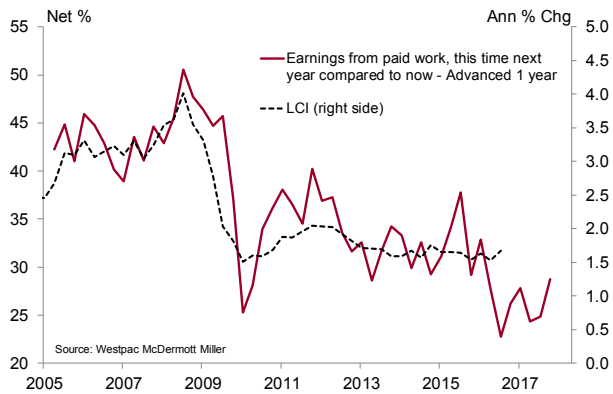
Region	Sep-16	Dec-16	Change
Northland	108.3	111.8	3.5
Auckland	111.8	117.1	5.4
Waikato	108.1	116.5	8.5
Bay of Plenty	103.4	105.7	2.3
Gisborne/Hawkes Bay	97.3	109.9	12.6
Taranaki/Manawatu-Whanganui	99.9	112.8	12.8
Wellington	106.0	108.9	2.9
Nelson/Marlborough/Westland	109.1	116.7	7.6
Canterbury	122.4	107.9	-14.5
Otago	105.6	104.6	-1.0
Southland	108.0	111.7	3.8

## Earnings rising, but questions about whether this will continue

As the economy has strengthened, we've seen a growing number of workers reporting that their earnings have risen. In some cases, that's because base wage rates have increased (though overall wage inflation in the economy remains low). In other cases, earnings have risen because workers have been promoted or shifted into higher paid roles.

But a key question is whether earnings will continue climbing over the coming year. Although there was a modest tick-up in expectations in December, the number of workers who expect their earnings to increase over the coming year has languished at low levels for some time. That's particularly surprising given the strengthening in the economy and improved confidence around labour market conditions more generally over the coming year. In recent years, while wage growth has been limited, consumer price inflation has been even weaker. That's meant that consumers' purchasing power has actually been rising at a solid pace. However, consumer price inflation is set to rise from its recent lows over the coming year. And if this isn't matched by a lift in wage growth, this will crimp the spending power of many households.

## Earnings growth over the year ahead & wage inflation



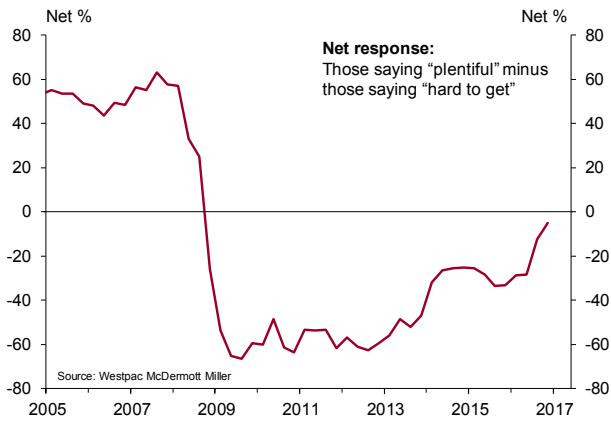
## Survey Description

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 1-10 December 2016. The sample size was 1554.

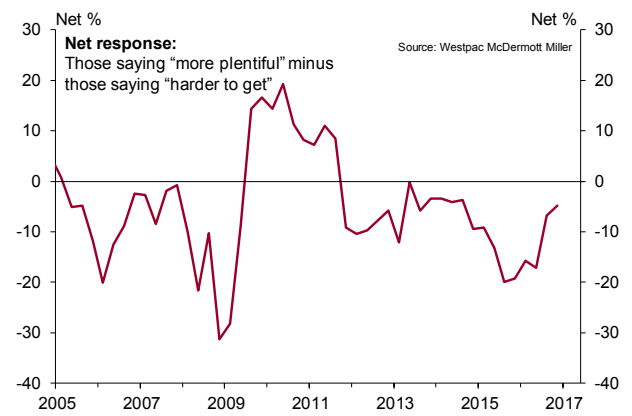
### Satish Ranchhod

Senior Economist

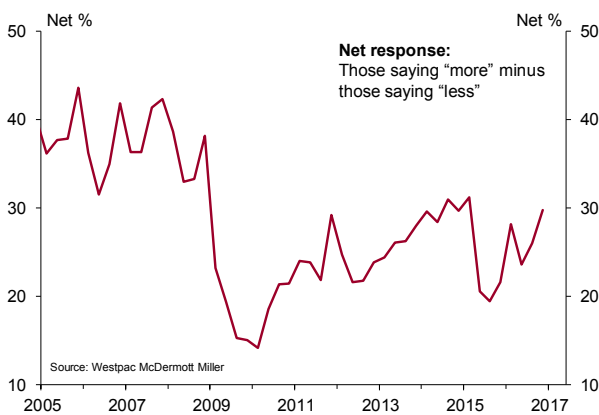
### Do you think jobs are plentiful or hard to get in NZ?



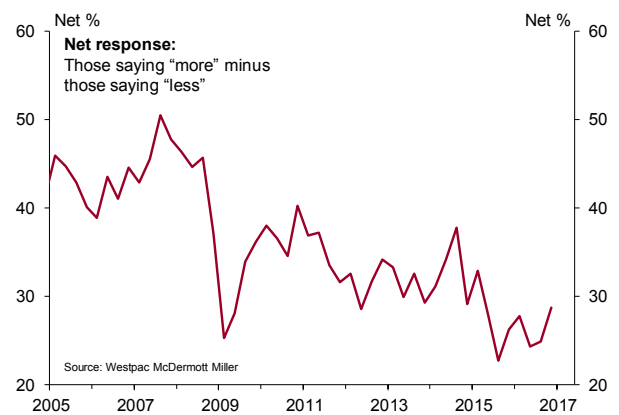
### Job opportunities in NZ in a year's time



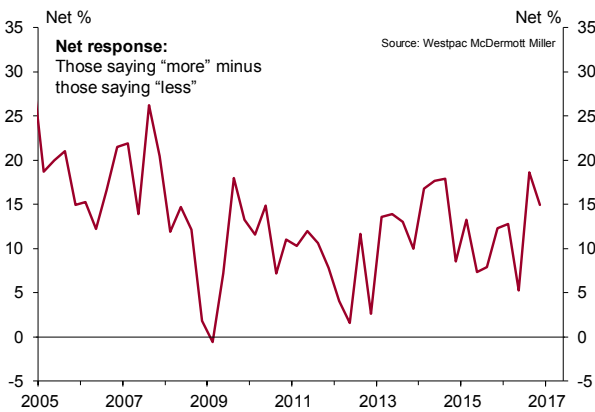
### Earnings in paid work compared to last year



### Earnings in paid work this time next year



### Personal job security over the coming year



# Contact the Westpac economics team

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**Michael Gordon**, Acting Chief Economist +64 9 336 5670

**Satish Ranchhod**, Senior Economist +64 9 336 5668

**Sarah Drought**, Economist +64 9 336 5696

**Any questions email:** [economics@westpac.co.nz](mailto:economics@westpac.co.nz)

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