

# Westpac McDermott Miller Employment Confidence.

25 September 2020



## Employment Confidence Index steady at 87.4 points in September.

- The Employment Confidence Index was little changed in September, following a sharp drop in June.
- Perceived job opportunities remain low and earnings growth has stalled.
- Additional questions on people's employment situation suggest a substantial rise in joblessness since June, as the wage subsidy has rolled off.
- The results support our view that the unemployment rate will rise in the coming quarters.

**Michael Gordon**, Senior Economist

+64 9 336 5670

### Employment confidence indices

	Sep-20	Jun-20	Change
Employment Confidence Index	87.4	87.3	0.1
Present Conditions Index	75.5	74.3	1.2
Employment Expectations Index	95.4	96.0	-0.6
Current job opportunities	-50.1	-52.6	2.5
Expected job opportunities	-21.2	-16.8	-4.4
Past earnings growth	1.1	1.2	-0.1
Expected earnings growth	16.8	19.5	-2.7
Own job security	-9.4	-14.8	5.4

The latest Westpac McDermott Miller survey shows that New Zealanders remain worried about the state of the labour market, with jobs hard to come by and earnings growth still weak. For this quarter's survey we included some additional questions about how people's employment situation has changed in the last three months, broadly coinciding with the expiry of the Government's wage subsidy scheme. The results suggest a substantial rise in job losses over that time.

### Employment Confidence Index steady.

The Westpac McDermott Miller Employment Confidence Index was little changed at 87.4 in September, following a sharp drop in June. The survey was held in early September, when the country was at Covid-19 Alert Level 2 (with additional restrictions in Auckland). That's not too different from conditions during the last survey in early June, with the country moving down from Level 2 to Level 1 near the end of the survey period.

Households' perceptions of current job opportunities ticked up slightly compared to June, but they remain very low. We've seen a similar trend in job advertisements, which have rebounded substantially since the first Covid lockdown



but remain well down on last year. Perceptions about job opportunities a year from now were also softer in September, though they haven't changed much since the start of the pandemic.

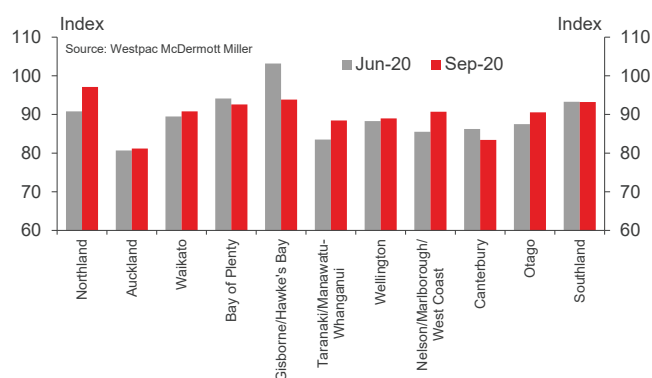
The sharp fall in job opportunities since March would usually portend a higher unemployment rate. That hasn't happened so far – in fact the official unemployment rate actually fell slightly to 4.0% in the June quarter, as many people were not considered to be actively seeking work during the lockdown. (Further analysis by Stats NZ suggested a 'true' unemployment rate of around 4.5%.) But unemployment is widely expected to rise over the next few quarters, if not to the alarming levels that were predicted at the start of the lockdown.

Earnings growth over the last year was close to flat on balance. Many employers reduced salaries and work hours in response to the Covid lockdown, but it's not clear to what extent this persisted as the restrictions were lifted. Expectations of future earnings growth have fallen further since June.

Perceived job security was less negative compared to June. There may be an element of survivor bias here, as this question is only asked of those who are currently in paid work – those who have kept their jobs in the last three months may be feeling less vulnerable now than they did before.

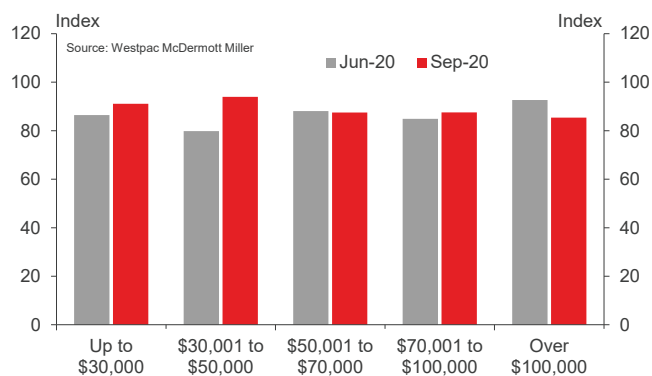
The regional split in the current Covid-19 restrictions hasn't had a noticeable impact on employment confidence. Auckland, while still the most pessimistic region, was up slightly compared to June. Northland is now the least downbeat region, and curiously confidence is higher now than it was in March. That may speak to how depressed conditions were in the region previously, with the forestry sector taking a significant knock both last year and in early 2020.

### Employment confidence by region



Confidence improved among those on lower incomes, but fell further for those in the highest income bracket. For those on low incomes the main factor was a rebound in perceived job security, while those on high incomes saw a sharp drop in job opportunities and expected earnings growth.

### Employment confidence by income bracket



### More people out of work in September.

In this quarter's survey we took a closer look at how people's employment situation has evolved since the first lockdown. We asked people if they were employed (whether on normal or reduced hours), looking for work, or out of the labour force, and how that had changed in the last three months.

We have to point out that these categories, while similar to those used in the Household Labour Force Survey, are not completely aligned. Most importantly, we haven't specified whether people are actively seeking work, as per the official definition of unemployment. Consequently, our results are not directly comparable to the HLFs – they will produce a higher unemployment rate (and higher labour force participation) than the official figures. However, since we have matched responses, we can look at how they've changed over time.

We found that the proportion of respondents who were out of work and looking for a job rose by 2.6 percentage points between June and September. That is a sizeable and statistically significant increase – admittedly much larger than suggested by other measures, such as the Jobseeker Support benefit numbers. Nevertheless, the direction of change is clear.

### Employment status, % of responses

	Current	3mths ago	Change
Employed, working usual hours	48.2	50.6	-2.4
Employed, but on reduced hours	13.3	13.8	-0.5
Not employed, looking for a job	10.9	8.2	2.6
Not employed, not looking for a job	26.2	25.6	0.6
Unknown	1.5	1.7	-0.2

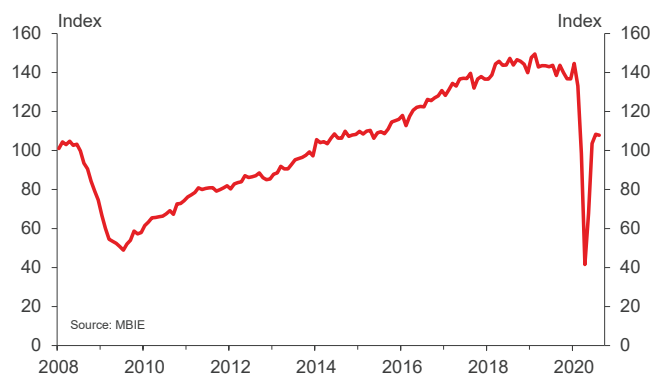
Crucially, this covers a period in which the wage subsidy scheme has largely elapsed. Three months ago more than 1.6 million jobs were being supported by the subsidy; by early September that was down to around 150,000. The wage subsidy certainly did what was intended at the time: minimising forced layoffs or business closures during the Covid lockdown. But in many cases it will have only delayed the hard decisions, particularly in those sectors that have been affected by the international border closures.

Another notable finding was that a significant share of workers – more than 1 in 5 – were still on reduced hours even as late as September. While some workers have returned to working their normal hours, a similar number have had their hours reduced since June. It's not clear whether this reflects the Level 2 restrictions that were in place in both early September and early June, or if it will prove to be a more lasting consequence of the Covid recession.

The biggest shift over the last three months was in people moving from employment to unemployment, with a relatively small proportion dropping out of the labour force altogether. Workers who were on reduced hours in June were twice as likely to have lost their jobs since then.

There was also a relatively low number of people moving out of unemployment, compared to what we normally see in the HLFs. Bear in mind that the unemployment rate reflects the balance of labour market flows – not just the number of job losses, but also the rate at which people are hired. The latter is a key reason why unemployment often remains high long after a recession has ended. We'll be closely watching trends in job advertisements to gauge the pace of the labour market recovery.

### Online job advertisements



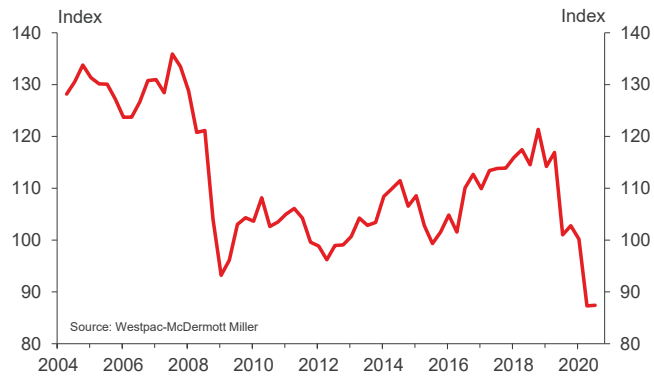
Changes in the labour market over the last three months have fallen distinctly unevenly. Auckland saw only a small rise in the number of people out of work, while Wellington and especially Christchurch saw substantial increases. Women were hit much harder than men, with both a greater rise in unemployment and a net reduction in hours. Those on low incomes saw the biggest rise in unemployment, while those in the highest income bracket saw little change.

We're currently forecasting the unemployment rate to rise to 6.5% in the September quarter. However, there's a wide margin of uncertainty around that number, and the results of this survey don't make it much easier to pin down. The Covid restrictions that were re-introduced in August mean that the September quarter results will also be affected to some degree by the same issue as in June – that is, actively looking for work isn't feasible during a lockdown. We also note that the HLFs represents an average over the quarter, whereas our survey is a point-to-point estimate. If conditions have deteriorated over the course of the quarter, an average will tend to understate this.

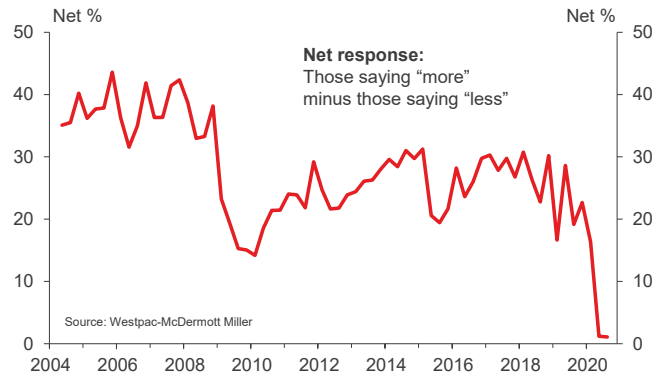
### Survey detail.

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 September 2020. The sample size was 1,559.

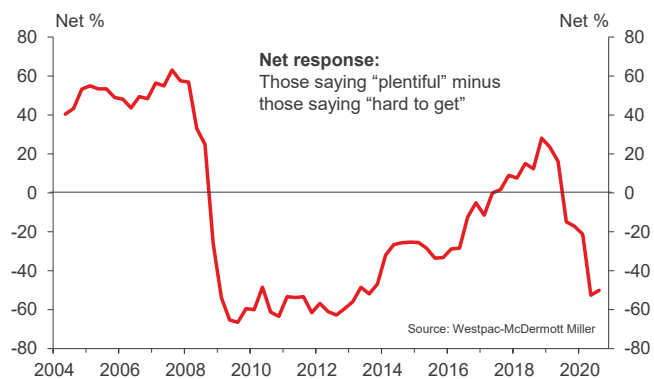
### Employment Confidence Index



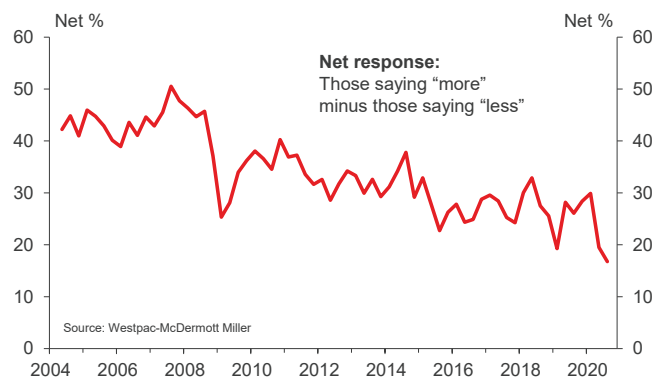
### Earnings in paid work compared to last year



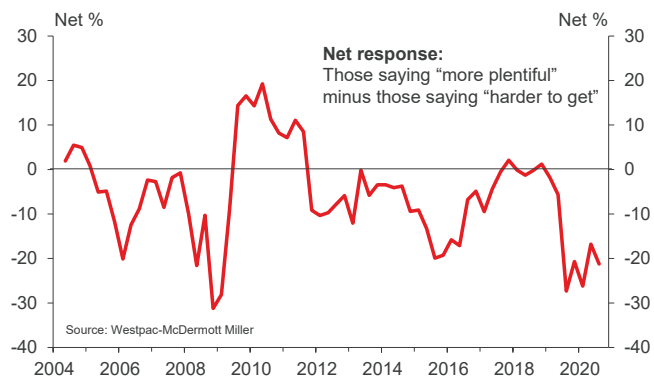
### Do you think jobs are plentiful or hard to get in NZ?



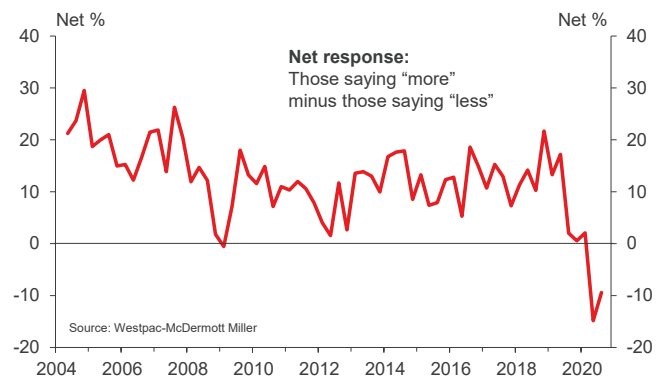
### Earnings in paid work this time next year



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



### Personal job security over the coming year



# Contact the Westpac economics team.

**Dominick Stephens, Chief Economist**

+64 9 336 5671

**Michael Gordon, Senior Economist**

+64 9 336 5670

**Satish Ranchhod, Senior Economist**

+64 9 336 5668

**Nathan Penny, Senior Agri Economist**

+64 9 348 9114

**Paul Clark, Industry Economist**

+64 9 336 5656

**Any questions email:**

economics@westpac.co.nz

Past performance is not a reliable indicator of future performance. The forecasts given in this document are predictive in character. Whilst every effort has been taken to ensure that the assumptions on which the forecasts are based are reasonable, the forecasts may be affected by incorrect assumptions or by known or unknown risks and uncertainties. The ultimate outcomes may differ substantially from these forecasts.

## Disclaimer.

### Things you should know

Westpac Institutional Bank is a division of Westpac Banking Corporation ABN 33 007 457 141 ("Westpac").

### Disclaimer

This material contains general commentary, and market colour. The material does not constitute investment advice. Certain types of transactions, including those involving futures, options and high yield securities give rise to substantial risk and are not suitable for all investors. We recommend that you seek your own independent legal or financial advice before proceeding with any investment decision. This information has been prepared without taking account of your objectives, financial situation or needs. This material may contain material provided by third parties. While such material is published with the necessary permission none of Westpac or its related entities accepts any responsibility for the accuracy or completeness of any such material. Although we have made every effort to ensure the information is free from error, none of Westpac or its related entities warrants the accuracy, adequacy or completeness of the information, or otherwise endorses it in any way. Except where contrary to law, Westpac and its related entities intend by this notice to exclude liability for the information. The information is subject to change without notice and none of Westpac or its related entities is under any obligation to update the information or correct any inaccuracy which may become apparent at a later date. The information contained in this material does not constitute an offer, a solicitation of an offer, or an inducement to subscribe for, purchase or sell any financial instrument or to enter a legally binding contract. Past performance is not a reliable indicator of future performance. Whilst every effort has been taken to ensure that the assumptions on which the forecasts are based are reasonable, the forecasts may be affected by incorrect assumptions or by known or unknown risks and uncertainties. The ultimate outcomes may differ substantially from these forecasts.

### Country disclosures

**Australia:** Westpac holds an Australian Financial Services Licence (No. 233714). This material is provided to you solely for your own use and in your capacity as a wholesale client of Westpac.

**New Zealand:** In New Zealand, Westpac Institutional Bank refers to the brand under which products and services are provided by either Westpac or Westpac New Zealand Limited ("WNZL"). Any product or service made available by WNZL does not represent an offer from Westpac or any of its subsidiaries (other than WNZL). Neither Westpac nor its other subsidiaries guarantee or otherwise support the performance of WNZL in respect of any such product. The current disclosure statements for the New Zealand branch of Westpac and WNZL can be obtained at the internet address [www.westpac.co.nz](http://www.westpac.co.nz). For further information please refer to the Product Disclosure Statement (available from your Relationship Manager) for any product for which a Product Disclosure Statement is required, or applicable customer agreement. Download the Westpac NZ QF Group Financial Advisers Act 2008 Disclosure Statement at [www.westpac.co.nz](http://www.westpac.co.nz).

**China, Hong Kong, Singapore and India:** This material has been prepared and issued for distribution in Singapore to institutional investors, accredited investors and expert investors (as defined in the applicable Singapore laws and regulations) only. Recipients in Singapore of this material should contact Westpac Singapore Branch in respect of any matters arising from, or in connection with, this material. Westpac Singapore Branch holds a wholesale banking licence and is subject to supervision by the Monetary Authority of Singapore. Westpac Hong Kong Branch holds a banking licence and is subject to supervision by the Hong Kong Monetary Authority. Westpac Hong Kong branch also holds a license issued by the Hong Kong Securities and Futures Commission (SFC) for Type 1 and Type 4 regulated activities. This material is intended only to "professional investors" as defined in the Securities and Futures Ordinance and any rules made under that Ordinance. Westpac Shanghai and Beijing Branches hold banking licenses and are subject to supervision by the China Banking and Insurance Regulatory Commission (CBIRC). Westpac Mumbai Branch holds a banking license from Reserve Bank of India (RBI) and subject to regulation and supervision by the RBI.

**UK:** The contents of this communication, which have been prepared by and are the sole responsibility of Westpac Banking Corporation London and Westpac Europe Limited. Westpac (a) has its principal place of business in the United Kingdom at Camomile Court, 23 Camomile Street, London EC3A 7LL, and is registered at Cardiff in the UK (as Branch No. BR00106), and (b) authorised and regulated by the Australian Prudential Regulation Authority in Australia. Westpac is authorised in the United Kingdom by the Prudential Regulation Authority. Westpac is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. Details about the extent of our regulation by the Prudential Regulation Authority are available from us on request. Westpac Europe Limited is a company registered in England (number 05660023) and is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority.

This communication is being made only to and is directed at (a) persons who have professional experience in matters relating to investments who fall within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "Order") or (b) high net worth entities, and other persons to whom it may otherwise lawfully be communicated, falling within Article 49(2)(a) to (d) of the Order (all such persons together being referred to as "relevant persons"). Any person who is not a relevant person should not act or rely on this communication or any of its contents. The investments to which this communication relates are only available to and any invitation, offer or agreement to subscribe, purchase or otherwise acquire such investments will be engaged in only with, relevant persons. Any person who is not a relevant person should not act or rely upon this communication or any of its contents. In the same way, the information contained in this communication is intended for "eligible counterparties" and "professional clients" as defined by the rules of the Financial Conduct Authority and is not intended for "retail clients". With this in mind, Westpac expressly prohibits you from passing on the information in this communication to any third party. In particular this communication and, in each case, any copies thereof may not be taken, transmitted or distributed,

directly or indirectly into any restricted jurisdiction. This communication is made in compliance with the Market Abuse Regulation (Regulation(EU) 596/2014).

### Investment Recommendations Disclosure

The material may contain investment recommendations, including information recommending an investment strategy. Reasonable steps have been taken to ensure that the material is presented in a clear, accurate and objective manner. Investment Recommendations for Financial Instruments covered by MAR are made in compliance with Article 20 MAR. Westpac does not apply MAR Investment Recommendation requirements to Spot Foreign Exchange which is out of scope for MAR.

Unless otherwise indicated, there are no planned updates to this Investment Recommendation at the time of publication. Westpac has no obligation to update, modify or amend this Investment Recommendation or to notify the recipients of this Investment Recommendation should any information, including opinion, forecast or estimate set out in this Investment Recommendation change or subsequently become inaccurate.

Westpac will from time to time dispose of and acquire financial instruments of companies covered in this Investment Recommendation as principal and act as a market maker or liquidity provider in such financial instruments.

Westpac does not have any proprietary positions in equity shares of issuers that are the subject of an investment recommendation.

Westpac may have provided investment banking services to the issuer in the course of the past 12 months.

Westpac does not permit any issuer to see or comment on any investment recommendation prior to its completion and distribution.

Individuals who produce investment recommendations are not permitted to undertake any transactions in any financial instruments or derivatives in relation to the issuers covered by the investment recommendations they produce.

Westpac has implemented policies and procedures, which are designed to ensure conflicts of interests are managed consistently and appropriately, and to treat clients fairly.

The following arrangements have been adopted for the avoidance and prevention of conflicts of interests associated with the provision of investment recommendations.

- (i) Chinese Wall/Cell arrangements;
- (ii) physical separation of various Business/Support Units;
- (iii) and well defined wall/cell crossing procedures;
- (iv) a "need to know" policy;
- (v) documented and well defined procedures for dealing with conflicts of interest;
- (vi) steps by Compliance to ensure that the Chinese Wall/Cell arrangements remain effective and that such arrangements are adequately monitored.

**U.S.:** Westpac operates in the United States of America as a federally licensed branch, regulated by the Office of the Comptroller of the Currency. Westpac is also registered with the US Commodity Futures Trading Commission ("CFTC") as a Swap Dealer, but is neither registered as, or affiliated with, a Futures Commission Merchant registered with the US CFTC. Westpac Capital Markets, LLC ("WCM"), a wholly-owned subsidiary of Westpac, is a broker-dealer registered under the U.S. Securities Exchange Act of 1934 ("the Exchange Act") and member of the Financial Industry Regulatory Authority ("FINRA"). This communication is provided for distribution to U.S. institutional investors in reliance on the exemption from registration provided by Rule 15a-6 under the Exchange Act and is not subject to all of the independence and disclosure standards applicable to debt research reports prepared for retail investors in the United States. WCM is the U.S. distributor of this communication and accepts responsibility for the contents of this communication. All disclaimers set out with respect to Westpac apply equally to WCM. If you would like to speak to someone regarding any security mentioned herein, please contact WCM on +1 212 389 1269. All disclaimers set out with respect to Westpac apply equally to WCM.

Investing in any non-U.S. securities or related financial instruments mentioned in this communication may present certain risks. The securities of non-U.S. issuers may not be registered with, or be subject to the regulations of, the SEC in the United States. Information on such non-U.S. securities or related financial instruments may be limited. Non-U.S. companies may not be subject to audit and reporting standards and regulatory requirements comparable to those in effect in the United States. The value of any investment or income from any securities or related derivative instruments denominated in a currency other than U.S. dollars is subject to exchange rate fluctuations that may have a positive or adverse effect on the value of or income from such securities or related derivative instruments.

The author of this communication is employed by Westpac and is not registered or qualified as a research analyst, representative, or associated person under the rules of FINRA, any other U.S. self-regulatory organisation, or the laws, rules or regulations of any State. Unless otherwise specifically stated, the views expressed herein are solely those of the author and may differ from the information, views or analysis expressed by Westpac and/or its affiliates.