

Measured progress

2013Q4 Westpac McDermott Miller Employment Confidence Index: 103.4

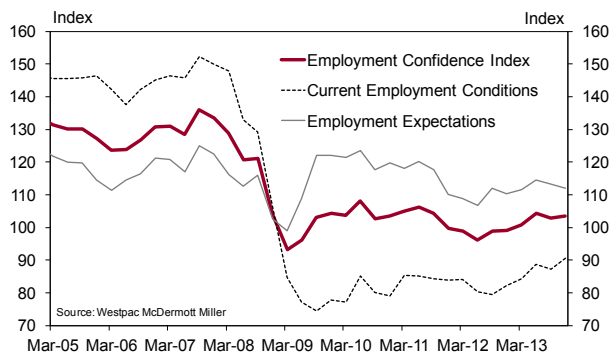
- New Zealanders' employment confidence rose slightly in December, continuing its gradual post-recession upturn.
- Perceived opportunities for jobseekers are improving, though they remain very soft compared to the pre-recession trend.
- Expectations of earnings growth have continued to decline, which may reflect low inflation outturns.
- The lift in employment confidence was concentrated in the main centres, with Canterbury remaining the standout region as the post-quake rebuild progresses.

The Westpac McDermott Miller Employment Confidence Index rose slightly in the December 2013 quarter, to a mildly optimistic 103.4. This is the second-highest reading of the last two years, though it remains at very subdued levels compared to the pre-recession trend. The relatively low level of the index fits with the observation that while the New Zealand economy was gathering a substantial head of steam over 2013 it had yet to reach its full capacity.

Some of the ongoing caution around labour market conditions can be traced to those already in work. Recent earnings growth has been subdued, and expectations for future earnings growth have actually been trending lower in recent years. Low inflation tends to be followed by low wage growth; while inflation is now starting to track higher, the fact that it fell to a 14-year low during 2013 is still likely to have reflected on recent pay negotiations, and could continue to do so into the near future.

Fortunately, there are signs that conditions are gradually improving for jobseekers. The rise in perceived job opportunities in the latest Employment Confidence Index is consistent with a swathe of other indicators: business surveys show that firms' employment intentions are at their highest in years, online job advertisements are up 15% on a year earlier, and the number of people receiving the Jobseeker Support benefit has fallen 5% in the last year. Together, these indicators give us more confidence that the unemployment rate will finally break below its post-recession range of 6-7% over the coming year.

Employment confidence index



	Sep-13	Dec-13	Change
Employment Confidence Index	102.8	103.4	0.6
Present Conditions Index	87.2	90.6	3.4
Employment Expectations Index	113.3	111.9	-1.3
Current job opportunities	-51.9	-46.9	5.0
Expected job opportunities	-5.8	-3.4	2.4
Past earnings growth	26.3	28.0	1.8
Expected earnings growth	32.6	29.3	-3.3
Own job security	13.0	10.0	-3.0

Survey details

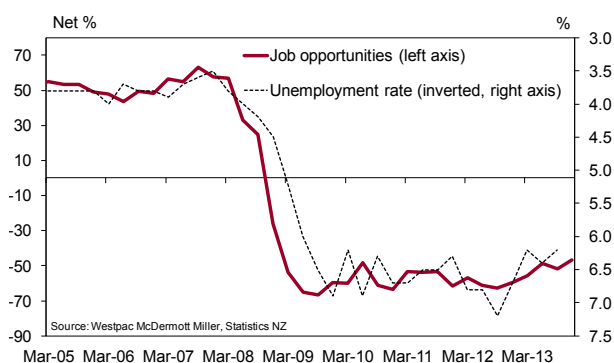
The Westpac McDermott Miller Employment Confidence Index summarises responses to five questions: households' perceptions of current and future job opportunities in New Zealand, their own actual and expected earnings, and expected changes in their own job security. The questions about current job opportunities and earnings are summarised in the Current Employment Conditions Index, while the questions about the year ahead are summarised in the Employment Expectations Index.

Further details about the individual questions are in the charts on the last page. The survey took place over the period 1-10 December, with a sample size of 1,569.

The assessment of current conditions improved for the fourth time in five quarters, to be at its highest since December 2008 – though it remains well below the levels seen prior to the recession. The improvement in current conditions was partly offset by a softening in expectations for the coming year, in particular around earnings and job security.

- The net percentage of people saying that jobs are easy rather than hard to get rose by five points to -4.7%. This was the least negative reading since December 2008. This measure has been a useful leading indicator of the unemployment rate, and supports our view that the unemployment rate should nudge a bit lower in the December quarter, from its previous outturn of 6.2%.
- Expectations of job opportunities over the coming year rose slightly to -3%, which is the average level over the ten-year history of this survey.
- The net percentage reporting higher earnings rose for the sixth quarter in a row, and was the second-highest since 2008. While this measure captures the prevalence of pay increases, the official Labour Cost Index suggests that the average size of those increases has actually been declining over the last year.
- The net percentage expecting earnings to increase over the next year fell to 29%, the lowest since June 2012.
- Expected job security eased slightly in the December quarter, though it remains higher than at the same time a year ago.

Reported job opportunities and unemployment



Employment Confidence by Region

Region	Sep-13	Dec-13	Change
Northland	104.2	99.0	-5.2
Auckland	101.8	103.3	1.6
Waikato	107.4	96.3	-11.1
Bay of Plenty	100.3	110.8	10.5
Gisborne/Hawkes Bay	99.1	94.5	-4.6
Taranaki/Manawatu	97.1	99.8	2.7
Wellington	96.3	104.0	7.7
Nelson/Marlborough/Westland	107.0	103.3	-3.7
Canterbury	113.1	115.0	1.9
Otago	99.0	96.2	-2.8
Southland	105.6	96.1	-9.6

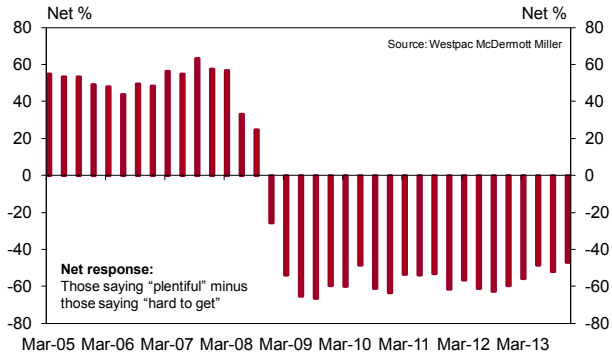
The overall lift in employment confidence was not widespread geographically, with gains in the three main centres but declines in most rural regions. That's more or less consistent with the recent trends in the Household Labour Force Survey, where unemployment rates in the three main cities were consistently falling over 2013 (even in Wellington), whereas unemployment in some rural regions has remained stubbornly high or even risen further.

Canterbury remains the most confident region (and the only one where the assessment of current conditions was net positive), an ongoing product of the post-earthquake rebuild. More surprisingly, the next most upbeat regions were the Bay of Plenty and Wellington, the latter bouncing back from being the most pessimistic region in September. In the case of the former, signs that the kiwifruit industry is finding ways to combat the PSA vine disease could be a factor; at the least it might explain why all of the improvement was in expectations rather than current conditions.

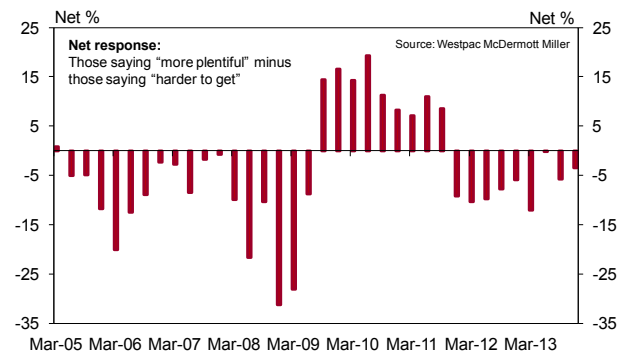
Other details showed that the rise in confidence was concentrated in the middle-income groups (\$30-70k per year), while it softened for those on both low and high incomes. Similarly, confidence rose the most for those aged 30-50, while it fell across the board for the under-30s.

Michael Gordon
Senior Economist

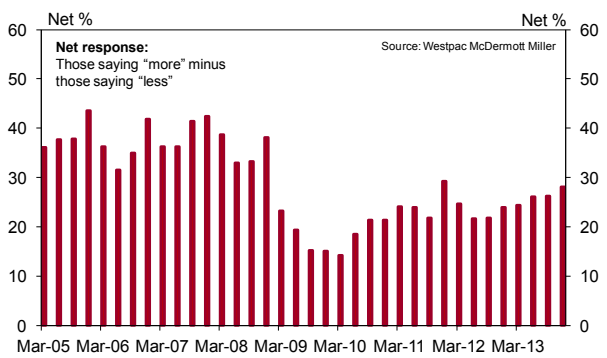
Do you think jobs are plentiful or hard to get in NZ?



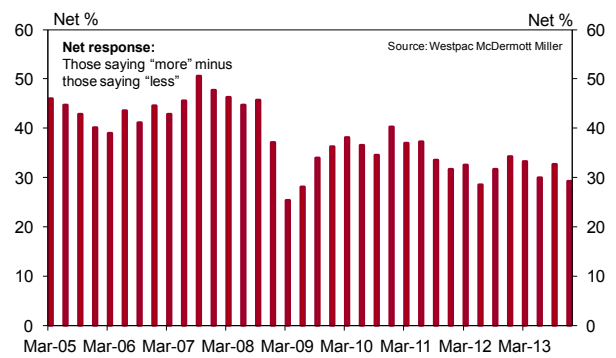
Job opportunities in NZ in a year's time



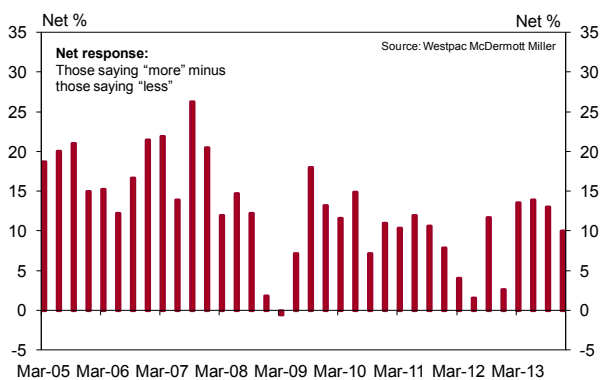
Earnings in paid work compared to last year



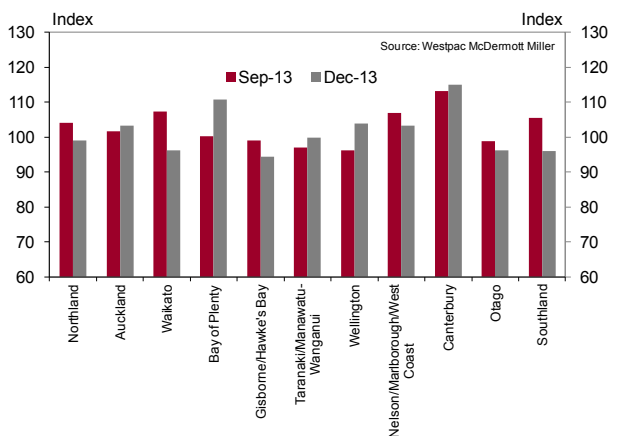
Earnings in paid work this time next year



Personal job security over the coming year



Employment confidence by region



Westpac economics team contact details

Dominick Stephens, Chief Economist
+64 9 336 5671

Michael Gordon, Senior Economist
+64 9 336 5670

Felix Delbrück, Senior Economist
+64 9 336 5668

Anne Boniface, Senior Economist
+64 9 336 5669

Any questions email:
economics@westpac.co.nz

For email address changes contact:
WNZResearch@westpac.co.nz

Disclaimer

Things you should know: Each time someone visits our site, data is captured so that we can accurately evaluate the quality of our content and make improvements for you. We may at times use technology to capture data about you to help us to better understand you and your needs, including potentially for the purposes of assessing your individual reading habits and interests to allow us to provide suggestions regarding other reading material which may be suitable for you.

If you are located in Australia, this material and access to this website is provided to you solely for your own use and in your own capacity as a wholesale client of Westpac Institutional Bank being a division of Westpac Banking Corporation ABN 33 007 457 141 AFSL 233714 ('Westpac'). If you are located outside of Australia, this material and access to this website is provided to you as outlined below.

This material and this website contain general commentary only and 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 and this website 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 and this website 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. The forecasts given in this material and this website 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.

Transactions involving carbon give rise to substantial risk (including regulatory 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. Statements setting out a concise description of the characteristics of carbon units, Australian carbon credit units and eligible international emissions units (respectively) are available at www.cleanenergyregulator.gov.au as mentioned in section 202 of the Clean Energy Act 2011, section 162 of the Carbon Credits (Carbon Farming Initiative) Act 2011 and section 61 of the Australian National Registry of Emissions Units Act 2011. You should consider each such statement in deciding whether to acquire, or to continue to hold, any carbon unit, Australian carbon credit unit or eligible international emissions unit.

Additional information if you are located outside of Australia

New Zealand: The current disclosure statement for the New Zealand division of Westpac Banking Corporation ABN 33 007 457 141 or Westpac New Zealand Limited can be obtained at the internet address www.westpac.co.nz. Westpac Institutional Bank products and services are provided by either Westpac Banking Corporation ABN 33 007 457 141 incorporated in Australia (New Zealand division) or Westpac New Zealand Limited. 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 QFE Group Financial Advisers Act 2008 Disclosure Statement at www.westpac.co.nz.

China, Hong Kong, Singapore and India: 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 license 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 activity.

Disclaimer continued overleaf.

Disclaimer continued

Westpac Shanghai and Beijing Branches hold banking licenses and are subject to supervision by the China Banking Regulatory Commission (CBRC). Westpac Mumbai Branch holds a banking license from Reserve Bank of India (RBI) and subject to regulation and supervision by the RBI.

U.K.: Westpac Banking Corporation is registered in England as a branch (branch number BR000106), and is authorised and regulated by the Australian Prudential Regulatory Authority in Australia. WBC is authorised in the United Kingdom by the Prudential Regulation Authority. WBC is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority in the United Kingdom. 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 material and this website and any information contained therein is directed at a) persons who have professional experience in matters relating to investments falling within Article 19(1) of the Financial Services Act 2000 (Financial Promotion) Order 2005 or (b) high net worth entities, and other persons to whom it may otherwise be lawfully communicated, falling within Article 49(1) of the Order (all such persons together being referred to as “relevant persons”). The investments to which this material and this website 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 material and this website or any of its contents. In the same way, the information contained in this material and this website is intended for “eligible counterparties” and “professional clients” as defined by the rules of the Financial Services Authority and is not intended for “retail clients”. With this in mind, Westpac expressly prohibits you from passing on the information in this material and this website to any third party. In particular this material and this website, website content and, in each case, any copies thereof may not be taken, transmitted or distributed, directly or indirectly into any restricted jurisdiction.

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. 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.

For the purposes of Regulation AC only: Each analyst whose name appears in this report certifies that (1) the views expressed in this report accurately reflect the personal views of the analyst about any and all of the subject companies and their securities and (2) no part of the compensation of the analyst was, is, or will be, directly or indirectly related to the specific views or recommendations in this report.