

WESTPAC MCDERMOTT MILLER EMPLOYMENT CONFIDENCE

20 January 2022



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Employment confidence rose 1.2pts in December.

- The Employment Confidence Index rose 1.2 points to 106.9 in December, taking it further above pre-pandemic levels.
- Perceptions about job opportunities rose further, as employers continue to grapple with labour shortages.
- But despite the tight jobs market, current and expected earnings growth remained subdued.

Employment confidence indices

	Dec-21	Sep-21	Change
Employment Confidence Index	106.9	105.7	1.2
Present Conditions Index	109.1	106.8	2.3
Employment Expectations Index	105.5	105.0	0.5
Current job opportunities	9.7	1.3	8.4
Expected job opportunities	-5.6	-6.4	0.8
Past earnings growth	8.5	12.3	-3.8
Expected earnings growth	18.7	21.8	-3.1
Own job security	3.4	-0.4	3.8

The Westpac McDermott Miller Employment Confidence Index made further modest gains in December, rising by 1.2 points to 106.9. As we've seen in previous surveys, most of the improvement has been in households' perceptions about the number of jobs available. But the measures of earnings growth have remained relatively subdued.

The labour market is set to be one of the most fascinating economic stories of 2022. By last September the unemployment rate had fallen to a record-equalling low of 3.4%, and it's expected to go even lower this year. And the NZIER's business opinion survey earlier this week found that, for the first time since the early 1970s, labour shortages are seen as the single biggest constraint on businesses' growth.

In a drum-tight jobs market like this, we'd expect upward pressure on pay rates to follow. And while there's certainly some anecdotal evidence of this, the broader data shows that wage growth has been quite contained, at least up to now.

The Employment Confidence Index suggests that this situation hadn't changed at the end of last year. The biggest improvement in the survey was in perceptions about current job opportunities, with a small lift in expectations for the year ahead as well. We've also seen that borne out in job vacancies data – remarkably, even with Covid restrictions in place over recent months, the number of job advertisements has stayed well above pre-pandemic levels.

In contrast, the survey responses on both past and expected earnings growth have remained historically low, and actually fell in the December quarter (though this was within the range of normal quarterly moves). Job security improved

slightly in December, but also remained within the range of recent quarters.

So what's going on – why don't workers feel that they have the power to secure pay increases in this environment? One possibility is that Covid may have affected workers' bargaining power. Tax data shows that the rate of job switching has slowed since Covid restrictions were reintroduced in August. For many people, changing jobs is their best avenue for getting a pay rise, so it may be that Covid restrictions have hampered people's job search efforts, or have reminded them of the value of job security in an uncertain environment.

Or perhaps households are viewing this matter in 'real' terms. Consumer price inflation has picked up sharply in the last year, and even those who have managed to secure a bigger pay rise in recent times may feel like they're just running to stand still.

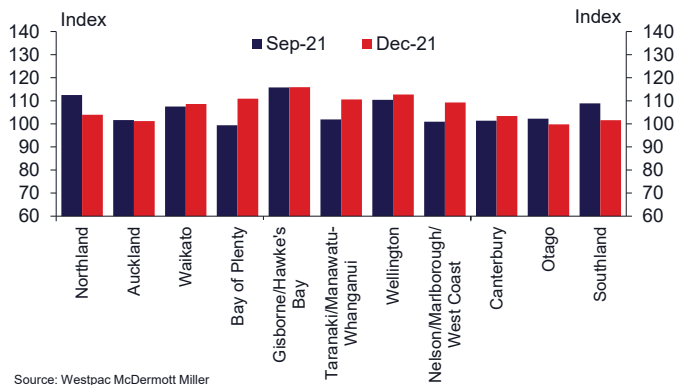
Finally, it might prove to be just a matter of timing – wage growth tends to be the laggard in any economic cycle. Upcoming data releases may prove to be more enlightening, but there is a limit to how long 'wait and see' can be an acceptable answer.

The overall improvement in employment confidence was patchy across groups. By region, the biggest gains in December were in the Bay of Plenty, Taranaki and the top of the South Island, all of which were among the least confident in September. These regions bucked the national trend with a pickup in earnings growth.

The biggest declines were in Northland and Southland, which both saw a drop in earnings growth and perceived job security. Note that this survey pre-dated the announcement that Northland would remain at the red 'traffic light' setting due to its lower vaccination rate, while the rest of the country was at orange.

Confidence was up across the board for those in the lower income brackets, but down for those on higher incomes. In a similar vein, confidence was up or steady for younger respondents, but down for those over 50.

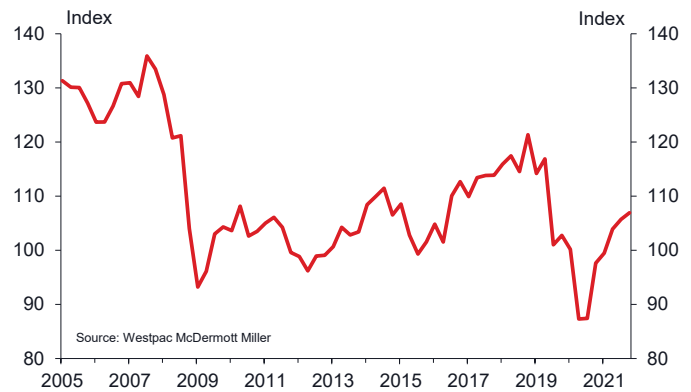
Employment confidence by region



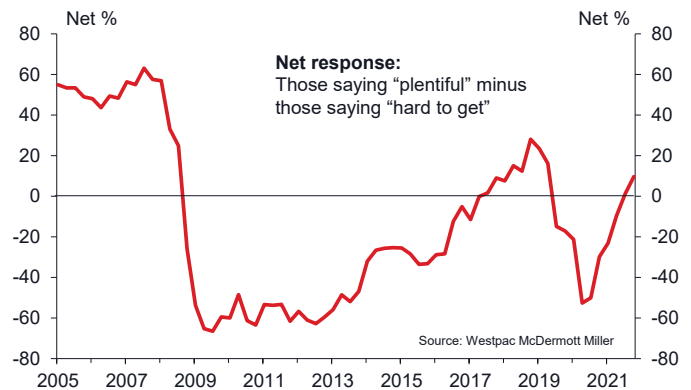
Survey details.

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. The survey took place over the period 1-12 December 2021. The sample size was 1,558.

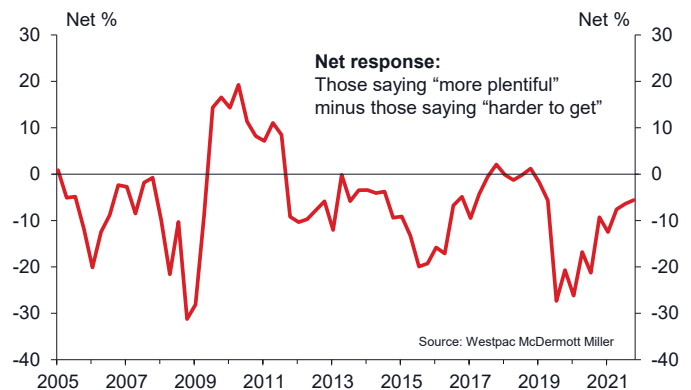
Employment Confidence Index



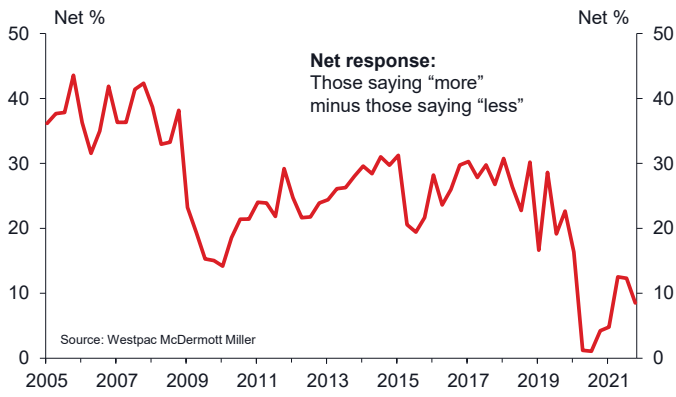
Do you think jobs are plentiful or hard to get in NZ?



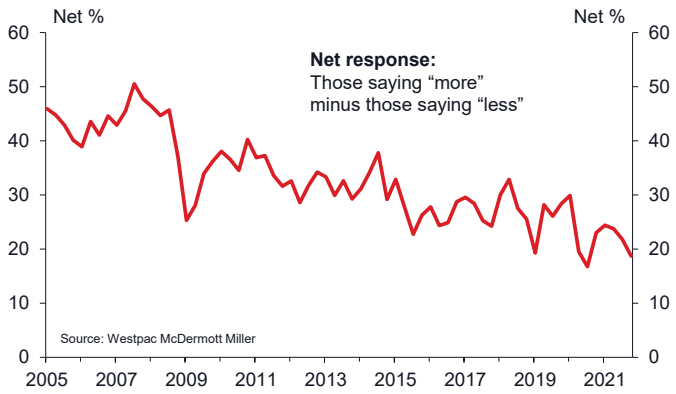
Job opportunities in NZ in a year's time



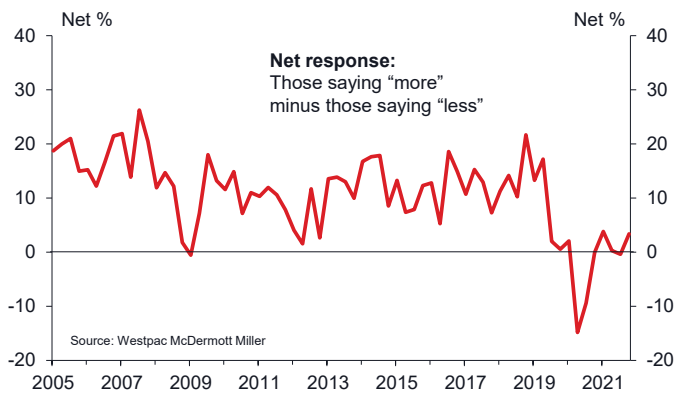
Earnings in paid work compared to last year



Earnings in paid work this time next year



Personal job security over the coming year



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