

Employees gaining confidence

2010Q2 Westpac McDermott Miller Employment Confidence Index: 108.2

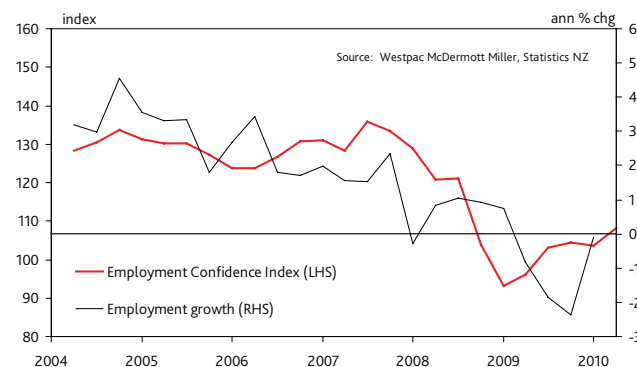
- **Employment confidence rose in the June 2010 quarter, reaching its highest level in nearly two years.**
- **Employees are becoming less downbeat about their current employment situation, while their optimism around future conditions continues to rise.**
- **At current levels, employment confidence is consistent with a stable to falling unemployment rate over the next couple of quarters.**

After a small set back in the March 2010 quarter, employment confidence resumed its recent upward trend in the June quarter, with the Westpac McDermott Miller Employment Confidence Index increasing 4.5 points to 108.2. This is the highest level of confidence since the September 2008 quarter, when the Index was at 121.2. An index above 100 indicates there are more optimists than pessimists, while a number below 100 indicates that pessimists outnumber optimists. The survey was conducted between 1-13 June.

The 2008/09 recession hit the New Zealand labour market hard, as reflected in plummeting employment confidence in the past couple of years. After reaching a series high of 135.9 in the September 2007 quarter, confidence had been on a sharp downward trend. A low point was reached in March 2009, when the Index was at 93.2. Over the past year, employment confidence has been clawing its way back, driven largely by expectations of better times ahead. In contrast, employees' evaluation of current employment conditions has made for particularly sombre reading consistent with the sharp rise we have seen in unemployment.

However, the June 2010 quarter has seen a notable improvement in perceptions of current employment conditions. In particular, fewer respondents (a net 48.5%) now believe jobs are hard to get. That compares with a net 60% in March, and a net 65.3% in June last year. The stunning improvement in employment growth in the first quarter of this year and the resulting sharp decline in unemployment is likely to have had a positive bearing on responses to this question. After all, a 25,000 decline in unemployment (seasonally-adjusted) in one quarter is unlikely to go unnoticed in a small economy like NZ. However, there was also some better news on the earnings front, with more

Employment and confidence



Employment Confidence Indices

	Jun-10	Mar-10	change
Employment Confidence Index	108.2	103.6	4.6
Present Conditions Index	85.0	77.1	7.9
Employment Expectations Index	123.6	121.3	2.3

respondents saying their earnings are up compared to a year ago (at a net 18.6%, up from a net 14.2%).

As a result, the Current Conditions Index rose to 85.2 in the June 2010 quarter, up from 77.1 in the March quarter. That is the steepest quarterly increase in the Index since the survey began in 2004. So while on net employees are still pessimistic about the current employment situation, they are far less pessimistic than they were last quarter and indeed at any time in the past year.

Meanwhile, optimism toward the future is becoming even more entrenched. A net 19.3% of respondents said they expect job opportunities to be plentiful this time next year, up from 14.3% in the March quarter, and a record high for the survey. Perceived job security over the coming year also lifted during the quarter, from a net 11.6% in March to a net 14.9% currently. Providing some offset was a small decline in earnings expectations. A net 36.6% of respondents said they expect to be earning more in a year's time, compared with a net 38.1% in the March quarter. Nevertheless, the Employment Expectations Index lifted further to 123.6 this quarter, from 121.3 in March and remains just below the record high of 125.1 reached in December 2004.

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While the gap between current and future conditions remains large, developments this quarter show that it is finally beginning to narrow. That is consistent with our view that the labour market is continuing to strengthen, and will provide a key support to economic growth in the coming year.

Regional and demographic breakdown

The lift in confidence was fairly broad based this quarter with nine of the 11 regions recording an increase. Indeed, in all regions the Index is now above the critical 100 level, with the number of optimists outweighing the number of pessimists.

Employment Confidence Data

Region	Jun-09	Mar-10	Jun-10
Northland	95.8	93.7	101.8
Auckland	96.4	106.4	111.1
Waikato	94.7	99.0	107.2
Bay of Plenty	97.1	109.6	110.4
Gisborne/Hawkes Bay	93.3	98.5	101.9
Taranaki/Manawatu	95.7	95.0	114.0
Wellington	92.1	107.7	110.7
Nelson/Marlborough/Westland	98.6	101.0	105.6
Canterbury	99.8	103.8	102.7
Otago	95.3	107.8	101.3
Southland	99.2	102.5	107.2

The biggest lift in confidence was amongst employees in the Taranaki/Manawatu/Wanganui region. The Index lifted from 95.0 to 114.0, which was more than twice the increase in any other region. Consumer confidence was similarly buoyant for this region. We put their optimism down to the current strength in agriculture (particularly dairy) and mining, both of which are prominent and growing industries for this area.

In contrast, employees in the Otago region are the least optimistic in the country, their Index dropping by 6.5 points this quarter to 101.3. The Canterbury region was the only other region where confidence fell, the Index dropping from 103.8 in the March quarter to 102.7 in June.

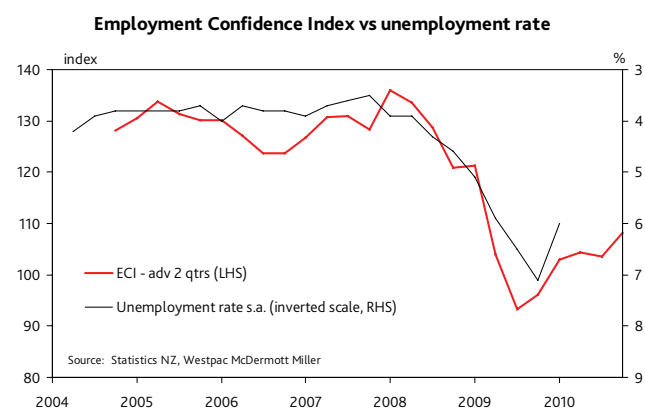
In terms of gender, the increase in confidence during the second quarter can almost entirely be put down to rising optimism amongst males. The Employment Confidence Index for males rose from 104.1 to 112.8. Meanwhile, the female confidence index was unchanged at 102.0. By age group, the increase in confidence was across the board, although those in the 18-29 group remain the most optimistic by a reasonable margin.

The trends in confidence by region and gender are consistent with the developments we are seeing in the economy more generally. Economic activity is in the process of rebalancing toward the goods producing sectors (agriculture, fishing, forestry and mining) and construction, both male-dominated industries. Meanwhile, the service sectors (the realm of female employment) are stagnating as consumer spending and the public sector undergo a period of consolidation.

Implications

The Employment Confidence Index is not widely followed by the market given the relatively short time series available. As such, we do not expect today's results will be market moving. Even so, the survey data provide important insights into labour market conditions. And, importantly, the headline confidence Index is showing promising signs of becoming a reasonable indicator of the unemployment rate.

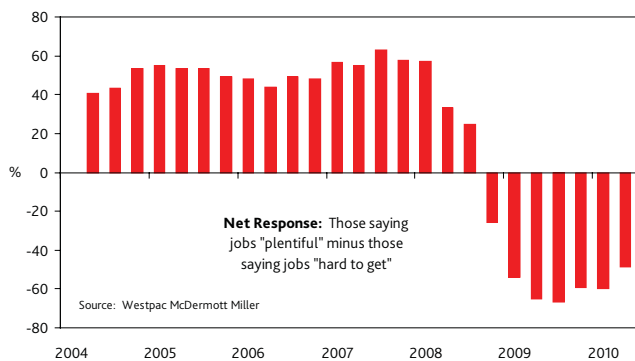
The figure below charts the headline confidence Index against the unemployment rate (inverted). As the chart shows, the Index signalled both the upturn in the unemployment rate through 2008-09 and the steep decline experienced in the March 2010 quarter. At current levels, the Index is consistent with the RBNZ and Westpac's view of a stable to falling unemployment rate over the next couple of quarters.



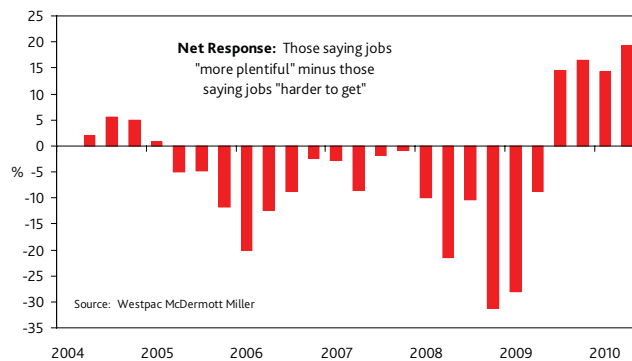
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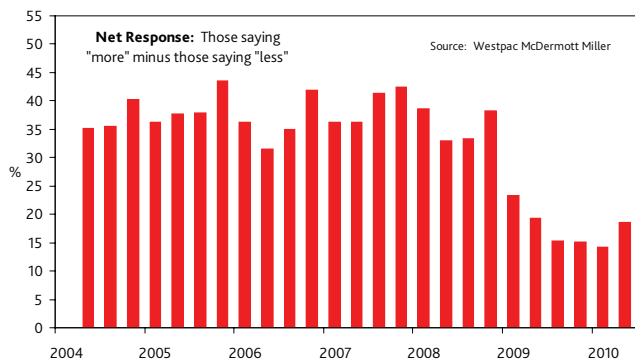
Do you think jobs are plentiful or hard to get?



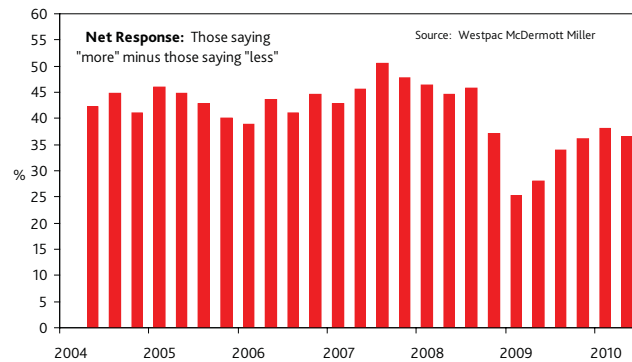
Job opportunities in NZ in a years time compared to now



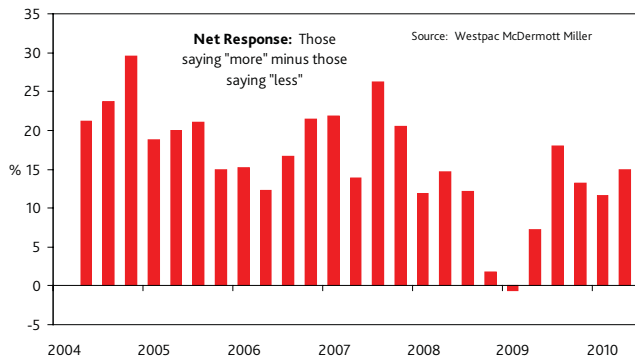
Earnings in paid work now compared to this time last year



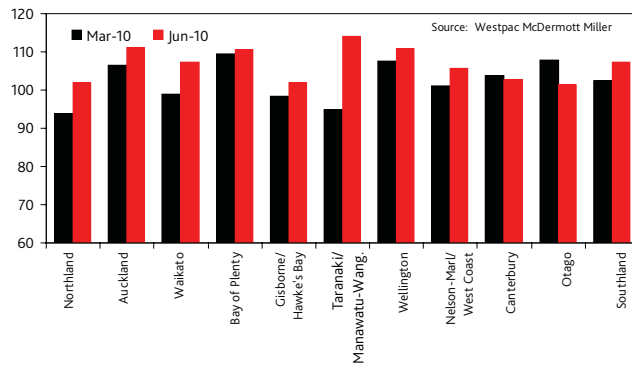
Expected earnings in paid work this time next year



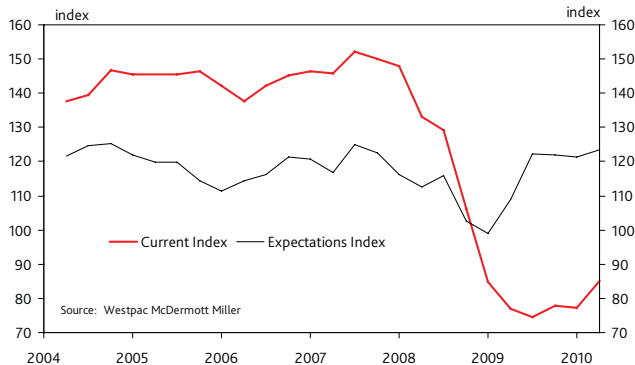
Personal job security over the coming year



Regional Confidence



Employment confidence



Employment Confidence Data

Quarter	Index
Mar-08	128.8
Jun-08	120.8
Sep-08	121.2
Dec-08	104.0
Mar-09	93.2
Jun-09	96.1
Sep-09	103.0
Dec-09	104.3
Mar-10	103.6
Jun-10	108.2