

NZ employment confidence: under siege

2008Q4 Westpac McDermott Miller Employment Confidence Index: 104.0

- **Employment confidence plunges to lowest level since survey began in 2004.**
- **Perceptions around employment conditions have collapsed and job security has fallen to a new low. Views around earnings are more mixed: current earnings are up, but expectations of future earnings are down.**
- **The labour market is the key to the outlook for the NZ economy over the coming year. These survey results suggest hard times are ahead.**

The Westpac McDermott Miller employment confidence index collapsed in the final quarter of 2008, falling 17.2 points to a new survey low of 104.0. 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 1-14 December.

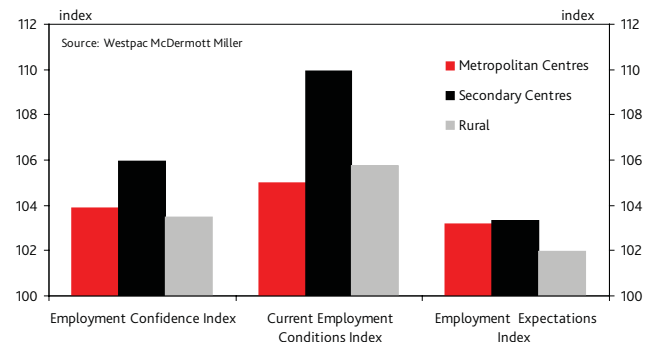
Employees have finally succumbed to the negativity that has pervaded the New Zealand economy over the past year. Sure, at current levels the number of optimists still outweighs the number of pessimists, but only by a whisker. Moreover, in the four and a half year history of the survey, the index has averaged a solid 128.2, and has never been lower than 120.8 (June 2008 quarter).

Admittedly, the news over the past few months has been particularly damning for the labour market, with redundancy announcements becoming almost commonplace in local newspapers, along with news stories of small to medium sized firms that are reviewing their staffing levels. We have little doubt that these stories will have weighed heavily on respondents' minds this quarter. Even so, today's survey results represent a major shift in employees' views of the labour market. In fact, relative to the September quarter, most respondents now believe jobs are hard to come by, and that jobs will be even scarcer next year. Fewer respondents also think that their jobs are secure, and fewer expect their earnings will increase over the coming year.

NZ Employment Confidence Indices



NZ Employment Confidence Indices by Centre
December 2008 quarter



Employees concerns around the labour market are justified. The economy has been in recession for the best part of a year, and now firms are facing the prospect of a deep global recession in 2009. As such, even if firms managed to hoard labour through most of 2008, they will likely be rethinking that strategy as we head into 2009. Indeed, recent business surveys show that profit expectations, employment, and investment intentions are all at record lows. It seems that in all corners, lower interest rates (and the prospect of more to come), lower fuel prices, and lower tax rates have done little to ease fears about the deteriorating outlook for growth here and elsewhere. That does not augur well for economic activity as we head into 2009.

For further information, questions or comments contact Brendan O'Donovan, telephone (04) 470 8250, email bodonovan@westpac.co.nz

For all clients: Westpac Institutional Bank is a division of Westpac Banking Corporation ABN 33 007 457 141, incorporated in Australia ("Westpac"). The information contained in this report: does not constitute an offer, or a solicitation of an offer, to subscribe for or purchase any securities or other financial instrument; does not constitute an offer, inducement or solicitation to enter a legally binding contract; and is not to be construed as an indication or prediction of future results. The information is general and preliminary information only and while Westpac has made every effort to ensure that information is free from error, Westpac does not warrant the accuracy, adequacy or completeness of the Information. The Information may contain material provided directly by third parties and while such material is published with necessary permission, Westpac accepts no responsibility for the accuracy or completeness of any such material. In preparing the Information, Westpac has not taken into consideration the financial situation, investment objectives or particular needs of any particular investor and recommends that investors seek independent advice before acting on the Information. 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. Except where contrary to law, Westpac intends by this notice to exclude liability for the information. The information is subject to change without notice. Westpac expressly prohibits you from passing on this document to any third party. Westpac Banking Corporation is regulated for the conduct of investment business in the United Kingdom by the Financial Services Authority. © 2001
For Australian clients: WARNING - This document is provided to you solely for your own use and in your capacity as a wholesale client of Westpac.

Key influences

The most striking development this quarter has been the complete reversal of views around current employment conditions: a net 25.9% of respondents now believe that jobs are hard to come by, compared with a net 24.9% saying jobs were plentiful in the September quarter, and a net 57% saying they were plentiful at the same time last year. From the employee perspective, the job market has clearly toughened up in recent months. And the situation isn't expected to improve much over the coming year. A net 31.2% of respondents said that jobs will be harder to find in a year's time, compared with a net 10.3% in September.

Given this backdrop, job security has tumbled, falling from a net 12.2% in September to a net 1.8% in December. That is by far the lowest level of job security since the survey began 4½ years ago.

If there is one bright spot in the survey, it is that current earnings remain strong. A net 37.2% of respondents say they are earning more now compared to a year ago – up from a net 33.3% in September. However, the prospect of tougher times ahead has hit expectations about future earnings, with a net 37.1% of respondents saying they think their earnings will be higher in a year's time, compared with 45.7% last quarter.

Regional and demographic breakdown

The decline in confidence was widespread this quarter, with all regions, both sexes, all age groups and all socio-economic groups recording large falls. By region, the biggest declines were in Nelson/Marlborough/Westland, the Bay of Plenty, Southland and Canterbury. Confidence is the lowest in the Bay of Plenty where the index is 97.2 – this is the first time the index for any region has fallen below the critical 100 level.

In terms of demographic grouping, confidence declined the most in the 50+ age group, the index dropping to 94.3. Female employees are now more optimistic than male employees, albeit by a very small margin.

Employment Confidence Data

Region	Index		
	Dec-07	Sep-08	Dec-08
Northland	130.8	117.8	100.2
Auckland	133.3	120.2	105.0
Waikato	127.2	118.4	101.5
Bay of Plenty	133.7	120.8	97.2
Gisborne/Hawkes Bay	126.4	122.9	108.3
Taranaki/Manawatu	130.1	119.1	107.4
Wellington	138.5	119.9	100.2
Nelson/Marlborough/Westland	137.9	127.4	103.6
Canterbury	136.2	125.3	105.2
Otago	136.9	121.3	106.9
Southland	135.1	131.5	110.4

Implications

To date, New Zealand workers have been insulated from the worst of the economic recession – pent up demand for labour has meant that the downturn in the labour market has been relatively mild while earnings growth has remained solid. However, these survey results are a portent of what is to come. In fact, this quarter's dramatic reversal in views of the current job market speaks volumes. It suggests that the pent-up demand for workers has now been satisfied, and that redundant workers will find it increasingly difficult to obtain work. As such, we forecast unemployment to continue rising through 2009, peaking at close to 6%, with layoffs to be heavily concentrated in the retail, construction, and finance sectors.

In terms of earnings, the survey results remain consistent with our view that wage growth will remain firm in the near term, but will moderate as the employment downturn lingers on. Workers have so far been successful in their bid to win compensation for the spiralling cost of living with inflation now retreating and unemployment rising, we expect wage growth to slow from mid 2009.

Brendan O'Donovan, Chief Economist, Ph: (64-4) 470 8250
Donna Purdue, Senior Economist, Ph: (64-4) 381 1407

Q1 ECI will be released on Wednesday 1 April 2009

Employment Confidence Index Data

	Dec-07 Qtr	Mar-08 Qtr	Jun-08 Qtr	Sep-08 Qtr	Dec-08 Qtr	Shift
Do you think jobs are plentiful or hard to get?	57.6	56.9	33.1	24.9	-25.8	-50.7
Job opportunities in NZ in a years time compared to now	-0.8	-10.0	-21.6	-10.3	-31.2	-20.9
Earnings in paid work now compared to this time LAST year	42.4	38.7	33.0	33.3	38.2	4.9
Expected earnings in paid work this time NEXT year	47.7	46.3	44.7	45.7	37.1	-8.6
Personal job security over the coming year	20.5	11.9	14.7	12.2	1.8	-10.4
Current Employment Conditions Index (based on Q1 & 3)	150.0	147.8	133.0	129.1	106.2	-22.9
Employment Expectations Index (based on Q2, 4, 5)	122.5	116.1	112.6	115.9	102.6	-13.3
Employment Confidence Index (based on all questions)	133.5	128.8	120.8	121.2	104.0	-17.2