



ECONOMIC BULLETIN

Westpac McDermott Miller Employment Confidence, December quarter 2023.



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Job prospects dimming

- Employment confidence rose by 1.4 points to 99.7 in the December quarter, but remained well down from its recent highs.
- The rise was mainly due to a lift in reported earnings growth over the last year, albeit from a previously very low level.
- Perceptions about the availability of jobs continued to weaken, suggesting a further rise in the unemployment rate in the near term.

Employment confidence indices

	Dec-23	Sep-23	Change
Employment Confidence Index	99.7	98.3	1.4
Current Employment Conditions Index	103.9	100.0	3.9
Employment Expectations Index	96.9	97.1	-0.2
Current job opportunities	-8.6	-4.7	-3.9
Expected job opportunities	-24.3	-24.4	0.1
Past earnings growth	16.4	4.7	11.7
Expected earnings growth	20.6	17.0	3.6
Own job security	-5.7	-1.3	-4.4

Employment Confidence Index



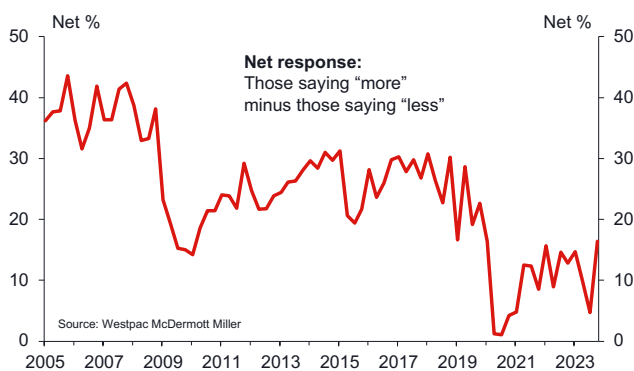
The signs of cheer that were emerging among New Zealand households at the end of 2023 didn't extend to their views on the labour market. The Westpac McDermott Miller Employment Confidence Index rose by just 1.4 points to 99.7 in the December quarter, leaving it well down on the highs seen in 2021 and 2022. A reading level below 100 indicates that more New Zealanders are pessimistic about the state of the labour market than are optimistic.

The details of the survey were mixed. Perceptions about current opportunities and job security were weaker again in the December quarter, while there was a pick-up in

both reported earnings growth and expectations for the year ahead.

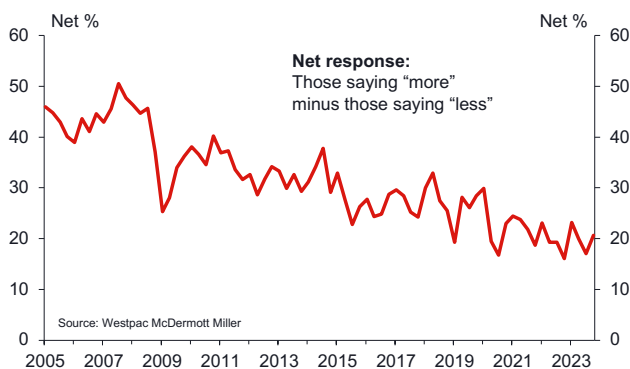
The main factor behind the overall rise in the index was a solid lift in households' reported earnings growth over the last year. However, that follows some surprisingly weak readings in the previous two quarters. Reported earnings growth remains well below its pre-Covid trend, despite the official data pointing to some quite strong growth in household earnings in the last couple of years. Our best explanation remains that people are viewing their situation in inflation-adjusted terms – high inflation has meant that even those who have received larger pay rises in recent years still feel that they're struggling to get ahead.

Earnings in paid work compared to last year



That tension has eased in recent quarters as inflation has come off its highs. But with the jobs market also softening, people probably rightly perceive that the window of opportunity for a catch-up in pay rates won't be open for long. Expectations for earnings growth in the year ahead picked up to a little in the December quarter, but remained low compared to history.

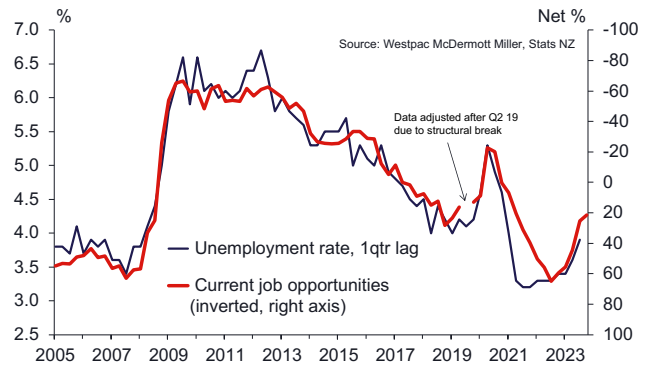
Earnings in paid work this time next year



Finding and holding a job remains the biggest concern for New Zealanders in the survey. Perceptions of current job opportunities fell by 3.9 points to a net -8.6. This measure is particularly important, as it has traditionally given a good steer on the direction of the unemployment rate. In turn, unemployment is the single best real-time gauge of how hot the economy is running.

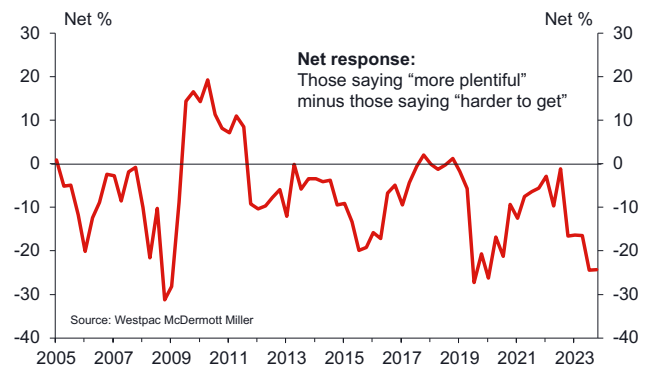
It's clear that the labour market has been cooling as the Reserve Bank's interest rate hikes have had their intended effect. The unemployment rate has so far risen from a record low of 3.2% to reach 3.9% by September last year. The employment confidence survey suggests that we could see it tick above 4% for the December quarter; we'll be fining up our forecast for that next week.

Current job opportunities vs unemployment rate



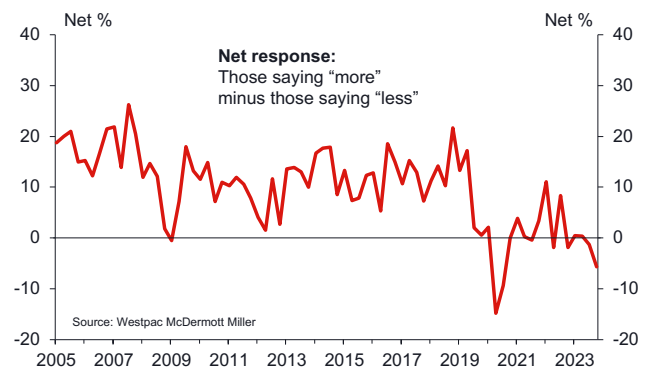
Households are also bracing for more weakness to come. Expectations of job opportunities a year from now were effectively unchanged for the quarter, but they remained deeply negative – at levels more consistent with recession.

Job opportunities in NZ in a year's time



People's sense of job security has also weakened, reaching its lowest level since the economy emerged from the Covid lockdown in 2020.

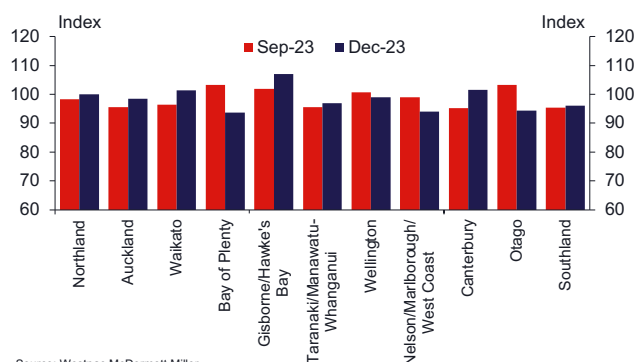
Personal job security over the coming year



The survey responses were broadly similar across age groups and income levels. Young workers were substantially less confident about earnings growth, although this seems to be a reversal of the previous survey result.

Employment confidence rose in seven regions and fell in four. Gisborne/Hawke’s Bay was the most upbeat part of the country, and was one of the few regions where job opportunities were seen to have improved since last quarter (the other one being Auckland). Otago and the Bay of Plenty saw the biggest declines for the quarter. Job opportunities and security fell by more than average in the Wellington region, perhaps reflecting some caution about the change of government.

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 2023. The sample size was 1,550.

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