



# NZ labour market chartpack

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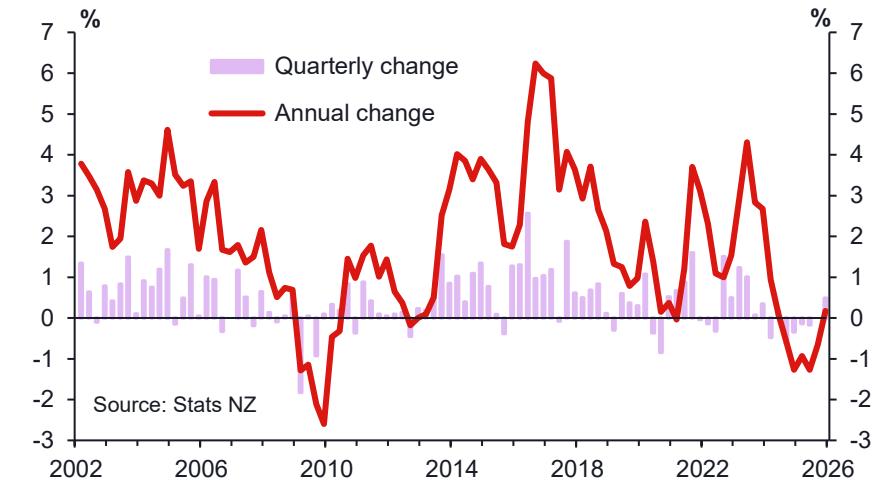
# KEY POINTS – DECEMBER QUARTER 2025

- The Q4 surveys showed that the labour market remains soft, but with some early signs of improvement as the economy starts to regain momentum.
- The number of people employed rose by 0.5% for the quarter, more than the 0.3% increase that we were expecting. However, an even larger rise in labour force participation meant that the unemployment rate ticked up from 5.3% to 5.4%, its highest in over ten years.
- So how can both employment and unemployment be higher than expected? This isn't abnormal, and most likely reflects sampling error in the Household Labour Force Survey. In these cases we generally recommend focusing on the unemployment rate, which was a little higher than our 5.3% forecast but not meaningfully different.
- There was a further lift in average hours per worker, a positive indicator for December quarter GDP. In the early stages of an economic recovery, it's not surprising to see businesses trying to get more out of their existing workers, before resorting to more hiring.
- Annual wage inflation has slowed to around 2%. Given the existing slack in the labour market, wage increases are largely limited to cost-of-living adjustments.
- This was the last major data release ahead of the RBNZ's next policy review on 18 February. We think the results will have been largely in line with the RBNZ's expectations, with nothing that would hurry them into reversing last year's OCR cuts. Still-muted wage pressures mean that there is time to assess the strength and durability of the recovery before raising rates. We remain comfortable with our forecast of a December 2026 OCR hike.

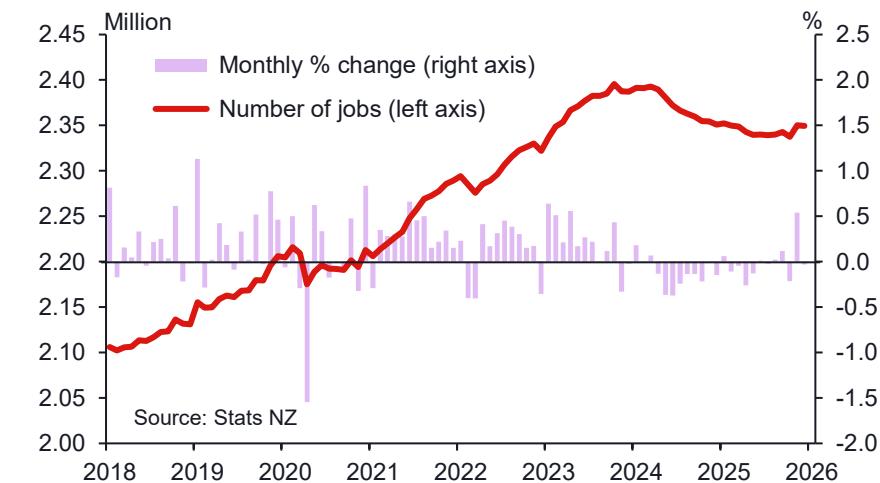
# EMPLOYMENT

- The number of people employed rose by 0.5% in the December quarter, according to the Household Labour Force Survey (HLFS). Employment is up 0.2% compared to a year ago.
- The HLFS result was stronger than the 0.3% rise in filled jobs from the Monthly Employment Indicator (MEI), a comprehensive measure based on income tax data. There are some differences in coverage – for instance the HLFS also includes the self-employed, which saw a larger increase for the quarter compared to the paid employees that are captured by the MEI.
- However, it's more likely that this difference reflects sampling error in the HLFS, which recorded a strong lift in both employment and participation rates. We typically recommend focusing on the unemployment rate, where any such measurement errors will largely cancel each other out.

HLFS number of people employed



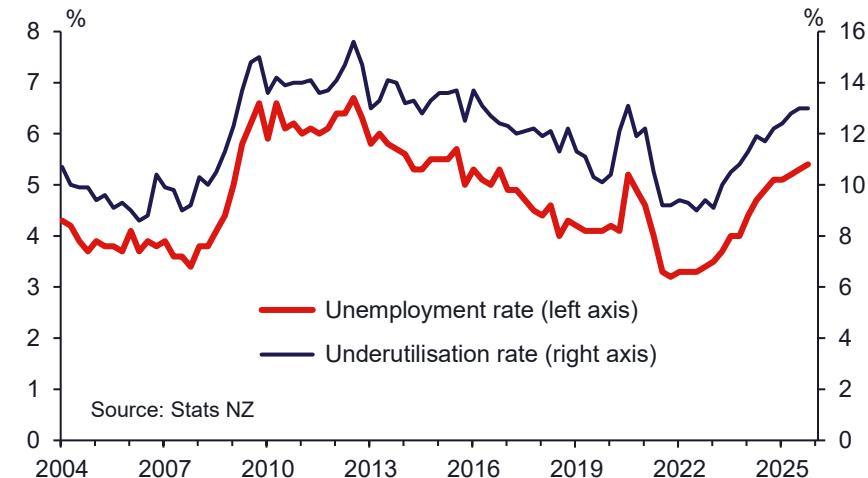
Monthly Employment Indicator filled jobs



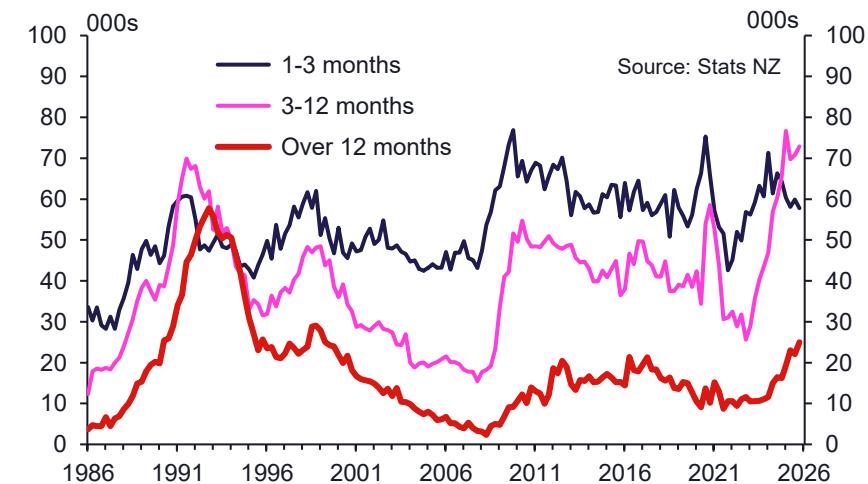
# UNEMPLOYMENT

- The unemployment rate rose from 5.3% to 5.4% in the December quarter. This is the highest rate since September 2015.
- The broader underutilisation measure (which includes discouraged jobseekers and part-time workers wanting more hours) was unchanged at 13.0%.
- The 0.5% rise in employment outstripped the 0.3% rise in the working-age population. However, the HLFS also recorded a large number of people moving from 'out of the labour force' to 'unemployed', with the net effect being a rise in the unemployment rate.
- The rise in unemployment over the last couple of years has not been characterised by a sharp rise in layoffs, but a marked rise in medium-term and even longer-term unemployment. Businesses have tried to hold on to workers to the extent that they can, but the slow pace of hiring means that if you're out of work, it's harder to get back in again.

Unemployment and underutilisation rates



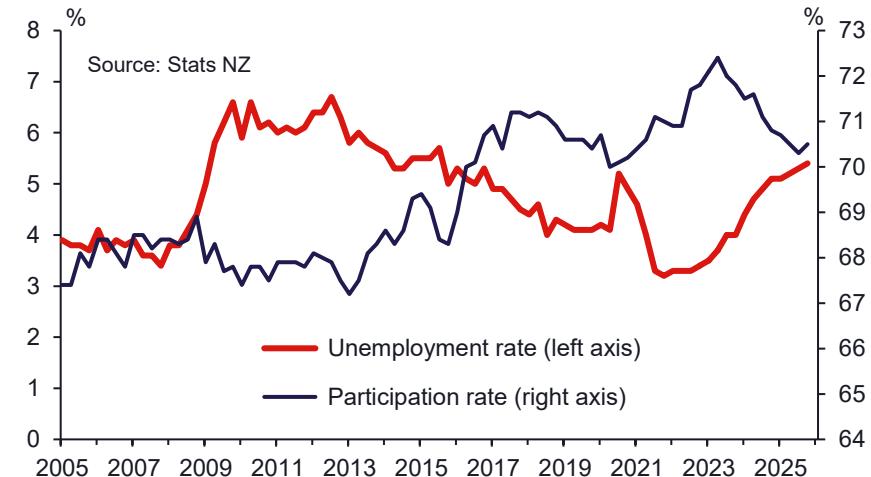
Unemployment by duration



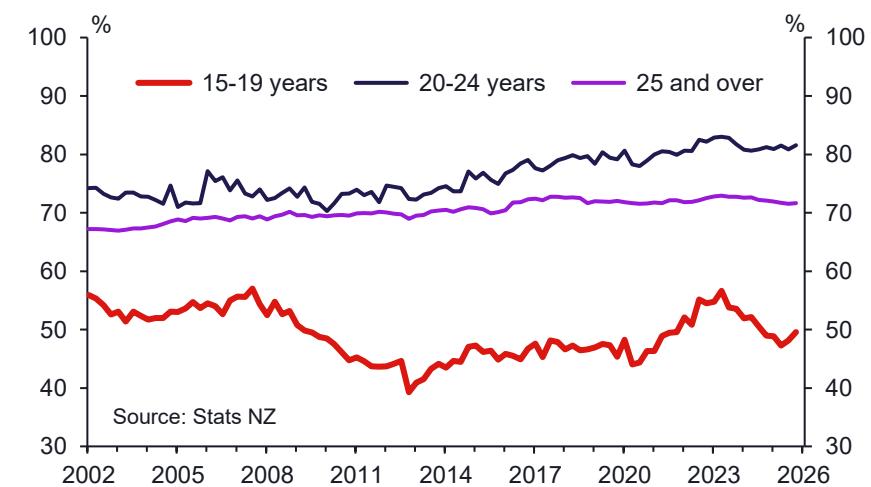
# LABOUR FORCE PARTICIPATION

- The participation rate rose from 70.3% to 70.5% in the December quarter, against our forecast of a flat result. As noted earlier though, we suspect there is a degree of sampling error here.
- Notwithstanding our questions around the latest reading, it does look like the cyclical downturn in the participation rate over the last couple of years has now run its course.
- Much of that was driven by a sharp rise in the hiring of teenagers during the post-Covid boom, followed by an equally large fall as interest rates rose and the economy cooled. Youth participation has now returned to around pre-Covid levels.
- Over the longer term, labour force participation faces a tug of war between an aging workforce (more than a fifth of the working-age population is now over 65) and an increasing tendency for people to continue working for longer.

Unemployment and participation rates



Participation by age group



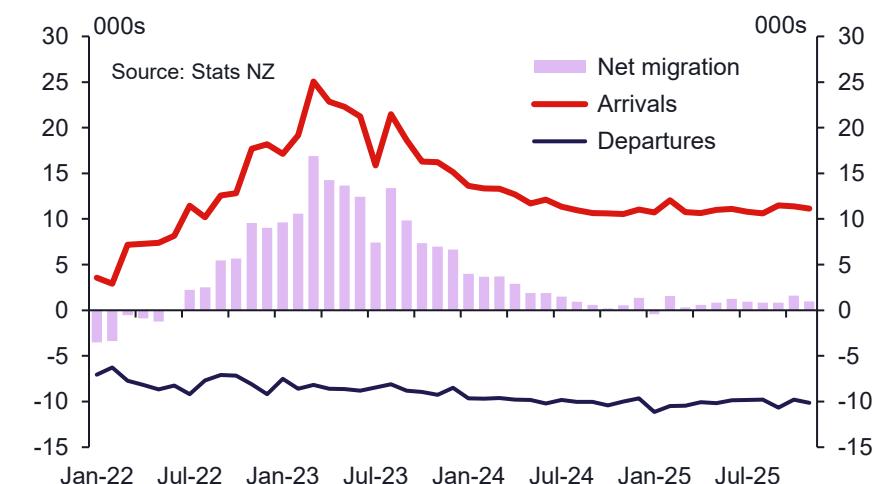
# POPULATION AND MIGRATION

- The working-age population grew by 0.9% over 2025, compared to a peak of 3.3% growth over 2023. Jobs growth is still lagging behind population growth on an annual basis.
- The pool of potential workers is generally becoming older, with the Baby Boomers increasingly reaching pension age and beyond, and with migrant arrivals tending to be an older cohort than we saw pre-Covid – more in their 30's-40's than their 20's.
- Net migration has slowed significantly over the last year or so, though the balance remains slightly positive. Outflows of New Zealanders remain high, partly reflecting stronger job prospects in Australia. Inflows of foreign workers have slowed substantially from the surge seen in 2022-23 after the border was reopened, but they are still running above pre-Covid levels.

Employment and working-age population



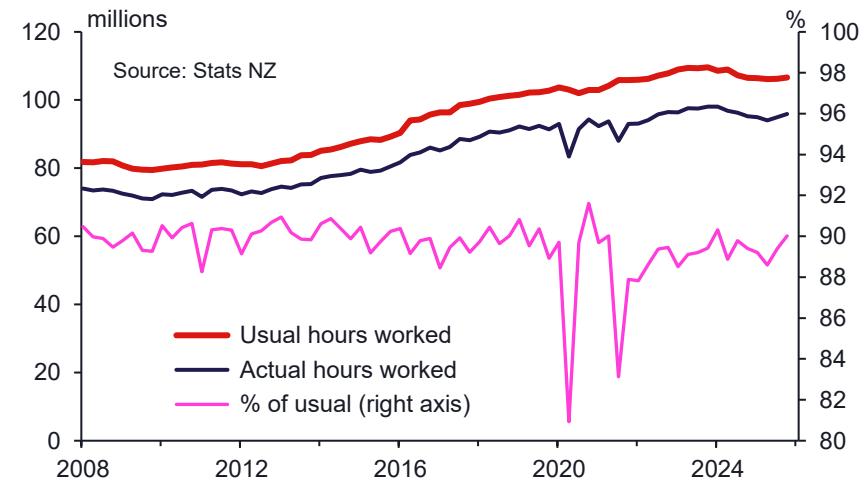
Monthly migration flows



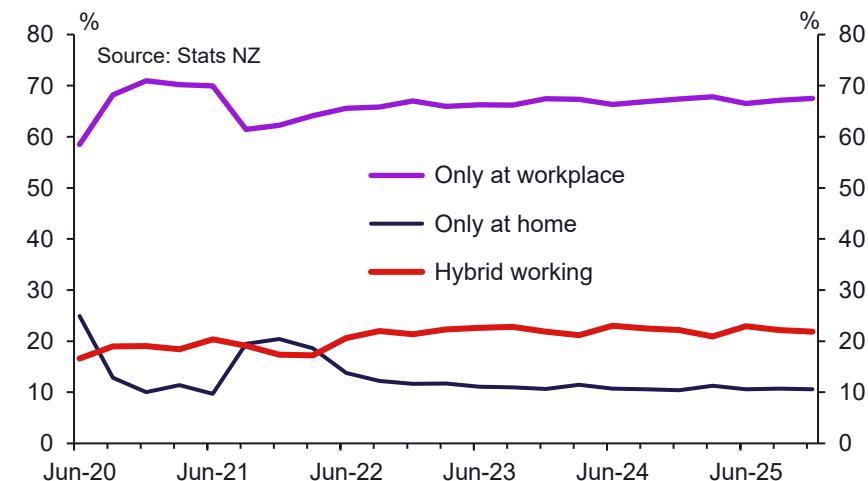
# WORK CONDITIONS

- The HLFS recorded a 1% increase in the number of hours worked in the December quarter, another strong result on top of the 1.1% rise in the previous quarter.
- Respondents' usual hours rose by a more modest 0.3%. The implication is that more workers are returning to something closer to their normal hours as the economy picks up again. This is a typical response in the early stages of an upturn – employers may look to get more out of their existing workers before hiring new ones.
- Trends in hybrid working have been largely unchanged since 2022 when Covid restrictions were lifted. Around two-thirds of employees work solely outside the home, with around 22% having some form of hybrid working arrangement.
- Around 20% of employees work part-time – a share that has increased slightly in the last couple of years, but has been trending down over the longer term. Around 7% of employees work multiple jobs, a share that has been steady over time. More commonly this is self-employment ('side hustles') rather than paid work.

Usual vs actual hours worked



Share of employment by work location



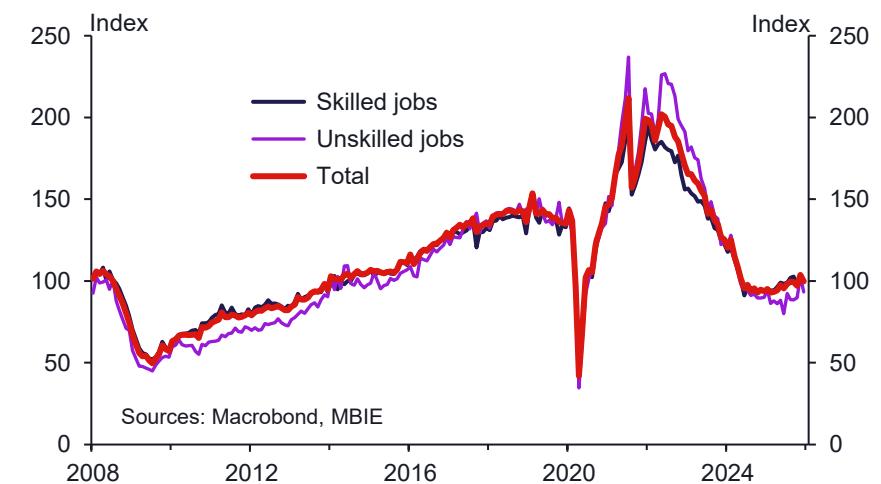
# HIRING

- Business confidence surveys have shown a strong lift in hiring intentions for the months ahead, in keeping with the overall improved mood in recent months.
- We're starting to see this come through in job advertisements, which were up 10% in December 2025 compared to a year earlier. That said, the level is still well below what we'd associate with a 'strong' labour market, where advertisements will reflect a high degree of churn as well as new job creation.
- Ads for skilled roles have seen more of an upturn than for unskilled roles so far. In part this will reflect sectoral trends, with sectors such as construction and manufacturing still soft, while government-connected sectors such as health and education are on the rise.

## Business employment intentions



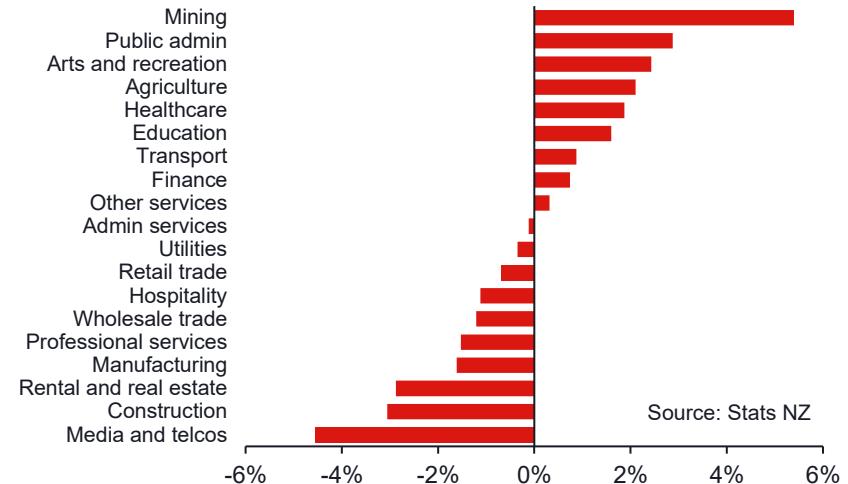
## Job advertisements



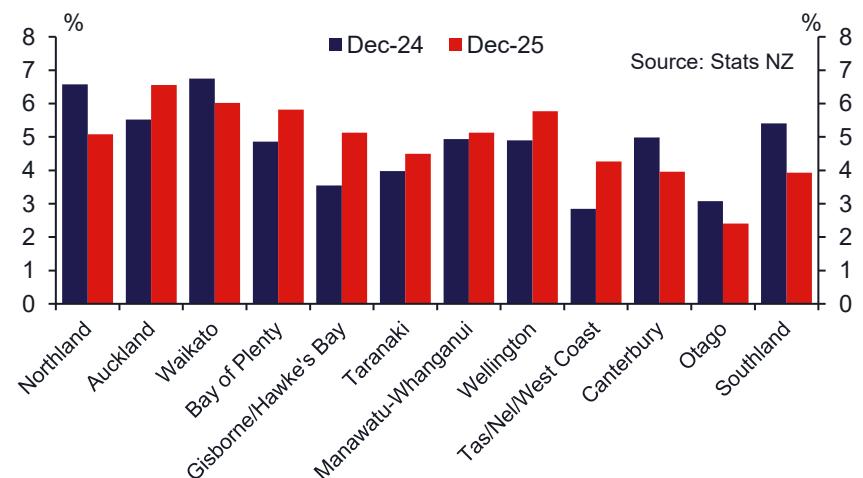
# SECTORAL AND REGIONAL TRENDS

- Jobs growth has been strongest in government-connected sectors such as healthcare and education, as well as in local and central government administration. Mining has seen the fastest rate of growth, though this sector is small and not very labour-intensive.
- We've seen ongoing declines in construction employment since late 2023 – a highly cyclical industry that is sensitive to interest rates. There has also been a marked fall in professional, scientific and technical services, after a strong run-up during the post-Covid boom.
- Employment trends have generally been more positive in the South Island than the North, which likely reflects the greater influence of the agricultural sector – while not a large employer in itself, farmers have benefited from high export prices and their spending has flowed into other sectors.
- Notably, the rate of unemployment has actually fallen across much of the South Island over the last year, compared to the rise in the North Island (and hence in the national average).

Filled jobs by sector, annual change



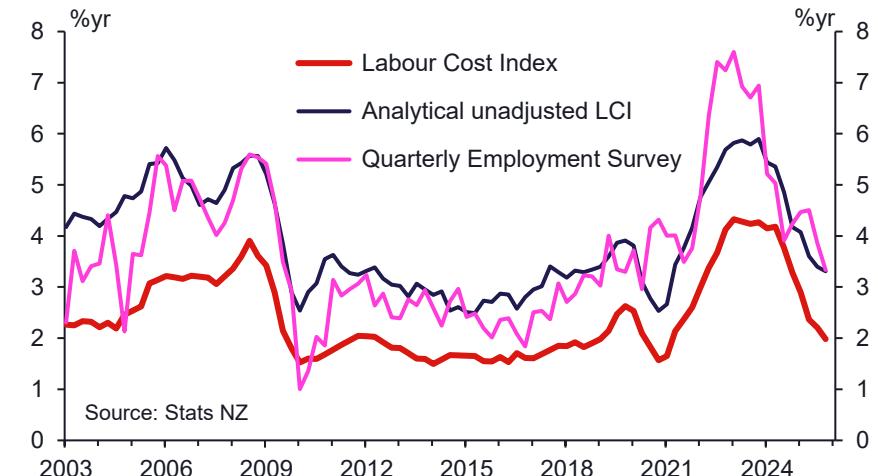
Regional unemployment rates



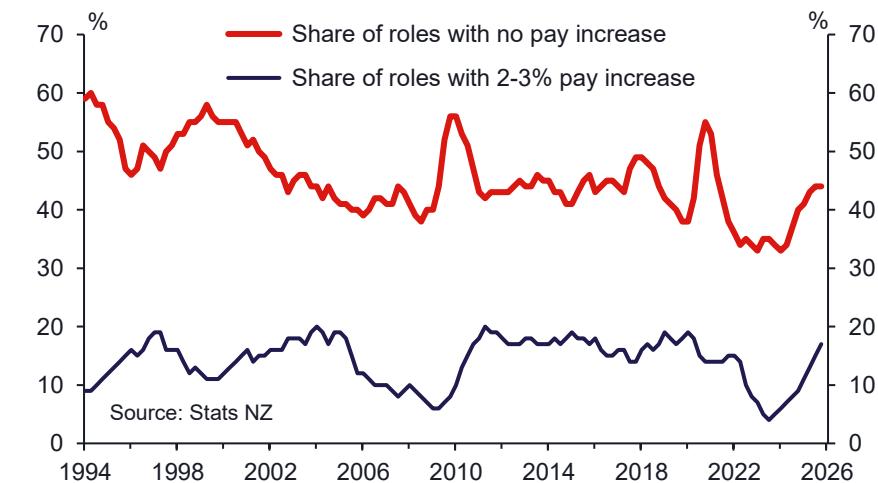
# WAGES

- The Labour Cost Index (LCI) rose by 0.4% in the December quarter. Annual growth slowed to 2.0%, the lowest since March 2021.
- The distribution of pay rates has returned to pre-Covid trends. Only 44% of roles saw a pay rise over the last year; of those that did see an increase, the average size is converging on the 2-3% range, compared to the larger increases that were more common in previous years.
- The LCI is not a measure of what workers are actually receiving – it reflects the cost to businesses for a given unit of labour – and hence shouldn't be compared to the inflation rate. A more suitable measure is the unadjusted analytical LCI, which includes pay rises that are related to productivity gains. This measure slowed from 3.4% to 3.3% on an annual basis, also the lowest since March 2021.
- Another measure, the QES average hourly earnings, slowed from 3.9% to 3.3% in the year to December, after having picked up earlier in 2025. This measure is not adjusted for the composition of jobs and is more volatile than the LCI.

Measures of wage growth



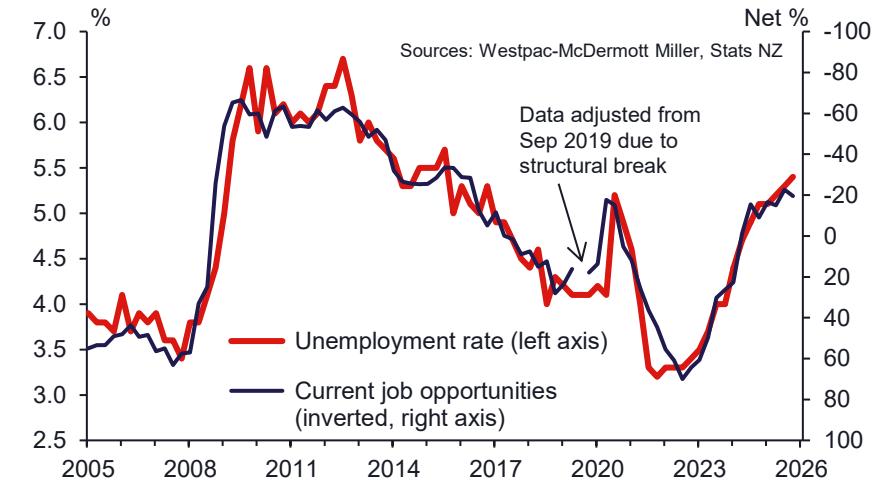
Distribution of labour costs



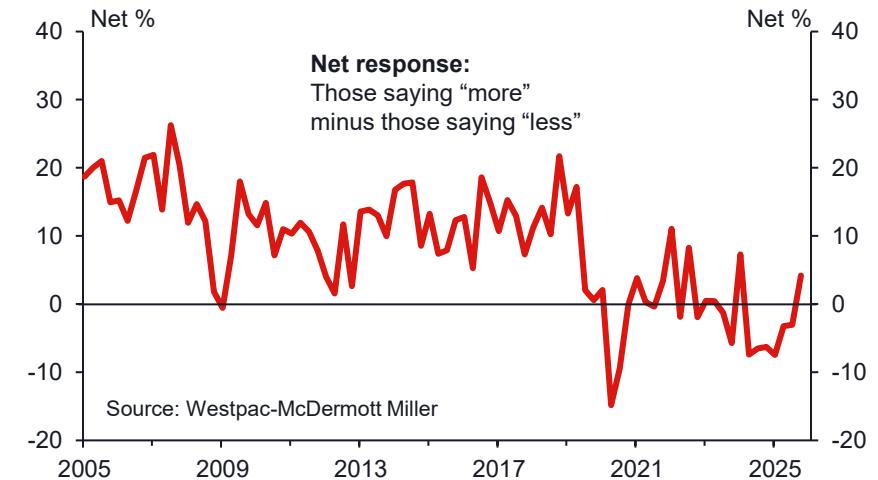
# EMPLOYMENT CONFIDENCE

- The Westpac-McDermott Miller employment confidence survey for the December quarter showed a modest improvement in households' perceptions about the jobs market. The Employment Confidence Index rose by 3.9 points to 93.8, the highest reading since early 2024. However it remains close to the lows seen after the first Covid lockdown in 2020.
- Perceptions about current job opportunities improved slightly in December. There was a stronger lift in expectations about job opportunities in the year ahead.
- Workers' perceptions of their own job security turned net positive for the first time since March 2024. The lift was strongest among young people and those on low incomes, who are often employed in highly cyclical sectors such as retail and hospitality.
- Conditions were seen as mixed across the country. Confidence fell in Wellington, leaving it at the bottom of the rankings. The South Island was generally more upbeat, reflecting lower levels of unemployment and strong agricultural export earnings.

Employment confidence and unemployment



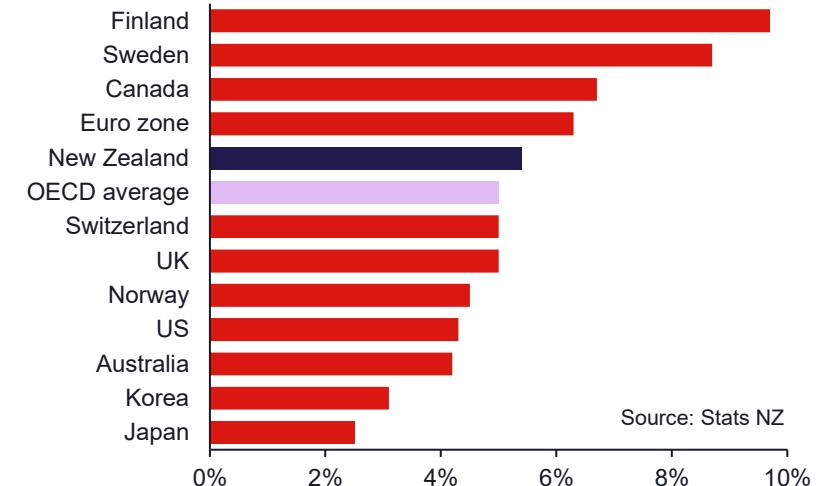
Perceived job security over the coming year



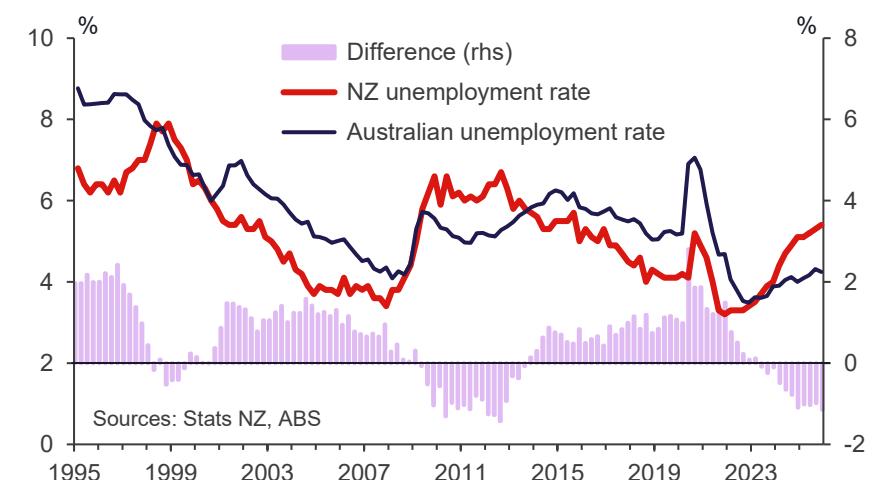
# INTERNATIONAL COMPARISONS

- New Zealand's unemployment rate is the 18<sup>th</sup> lowest in the OECD (out of 38 countries). This ranking has remained unchanged over the last year.
- Notably, New Zealand's unemployment rate has risen substantially above Australia's, whereas historically it has been lower on average. This shift in relative job opportunities has been a key attractor for New Zealanders over the last couple of years – as it was in the early 2010s when the Australian economy was benefiting from a boom in mining construction.
- New Zealand has the 6<sup>th</sup> highest employment rate in the OECD (up from 8<sup>th</sup> last quarter). We tend to have high rates of labour force participation for 15-64 year olds, and especially high participation for the over-65s, as the lack of means testing for NZ Superannuation means there is no disincentive to keep working beyond pension age.

Selected unemployment rates



NZ vs Australian labour markets



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