



ECONOMIC BULLETIN

Preview of Q4 labour market surveys:
4 February, 10:45am.



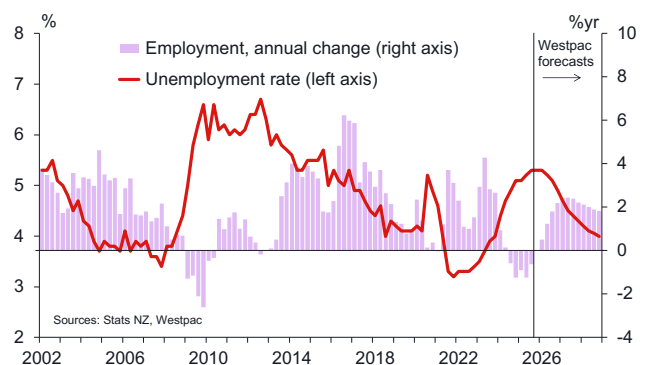
28 Jan 2026 | Michael Gordon, Senior Economist | +64 9 336 5670 | +64 21 749 506 | michael.gordon@westpac.co.nz

Jobs market stabilising

- We expect the unemployment rate to remain at 5.3% for the December quarter.
- Higher-frequency indicators have pointed to a modest lift in jobs in recent months, enough to match the growth in the working-age population.
- We think the unemployment rate has reached its peak for the cycle. The improvement may be gradual at first though, as employers look to make more use of their existing staff.
- Given the existing slack in the labour market, wage growth is likely to have remained subdued.
- Our forecasts are in line with what the Reserve Bank expected in its November *Monetary Policy Statement*.

	Q3 actual	Q4 forecast	
	Quarter	Westpac	RBNZ
Household Labour Force Survey			
Unemployment rate	5.3	5.3	5.3
Employment growth	0.0	0.3	0.2
Participation rate	70.3	70.3	70.3
Labour Cost Index			
All sectors, ordinary time	0.6	0.5	-
Private sector, ordinary time	0.4	0.5	0.5

Employment growth and unemployment rate



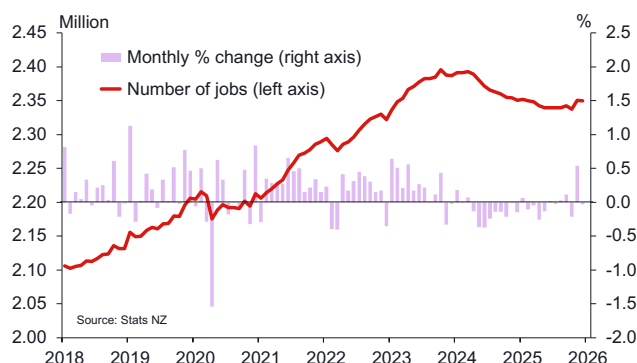
As we reached the end of 2025, there was growing evidence that the New Zealand economy was moving into recovery mode. And while the labour market is typically one of the more lagging elements of the cycle, there were signs of stabilisation in this area too. We expect the December quarter labour market surveys (to be released next Wednesday) to show that the unemployment rate has reached his peak, with jobs growing just fast enough to meet population growth. Given the existing slack in the labour market, though, it's likely that wage growth remained subdued.

Our forecasts are broadly in line with what the Reserve Bank assumed in its November Monetary Policy Statement, and market forecasts are likely to be in the same ballpark. Given the unusual volatility of the GDP figures in recent times, we suspect the RBNZ will be looking more to the labour market data to gauge the degree of spare capacity in the economy. While next week's results are unlikely to drive the OCR decision itself at the February *MPS* – an on-hold decision looks very likely – they will have a bearing on what the RBNZ is prepared to signal in terms of the timing and extent of future rate hikes.

Details.

We expect a 0.3% rise in employment over the December quarter. This is broadly in line with the pickup we've seen in the Monthly Employment Indicator (MEI), albeit with some choppiness from month to month. While there are some conceptual differences between the MEI and the quarterly household survey (HLFS), any differences between the two are most likely to reflect sampling error in the HLFS, versus the comprehensive record of income tax data that the MEI is drawn from.

Monthly Employment Indicator filled jobs

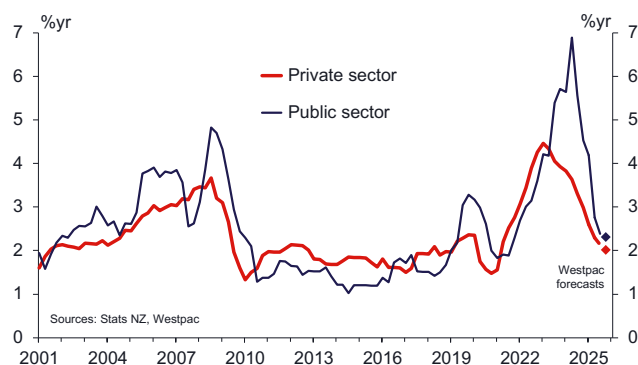


A 0.3% rise in employment would broadly match the rise in the working-age population over the quarter. In that case, the rate of participation will be the deciding factor – we've assumed a steady rate of 70.3%, which in turn would leave the unemployment rate unchanged at 5.3%.

We think the unemployment rate is at its peak for this cycle, if not very close to it. As lower interest rates help to drive a pickup in activity over 2026, we expect unemployment to come down as well, albeit not that quickly at first. The September quarter saw a strong lift in hours per worker, and indeed that's where we'd expect to see the initial response to an economic upturn – employers have scope to get more out of their existing workers, before resorting to new hiring. We're forecasting the unemployment rate to be only slightly below 5% by the end of this year.

While cost-of-living pressures have reared up again as a concern for households in the last year, the existing degree of slack in the labour market means that there has been little room to negotiate larger pay increases. Recent business surveys have suggested that workers are getting a little harder to find again, particularly for more skilled roles, but there's been no indication of firms bidding up to attract or retain workers. We expect a 0.5% rise in the Labour Cost Index (LCI) for the December quarter, leaving annual growth at around 2%. There are no special factors that affect December quarters, and collective pay agreements are no longer boosting wage growth in the public sector.

Wage growth forecasts



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