



ECONOMIC BULLETIN

Preview of Q3 labour market surveys:
4 November, 10:45am.



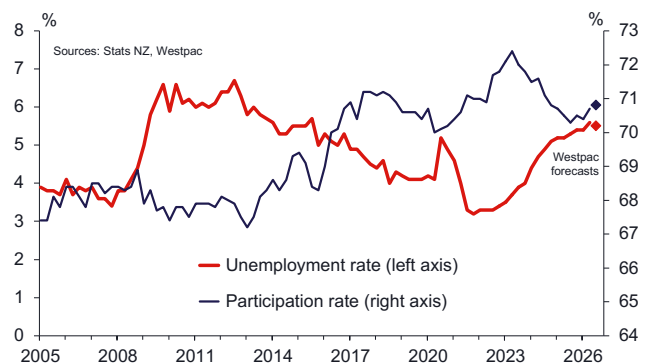
28 Oct 2026 | **Michael Gordon**, Senior Economist | +64 9 336 5670 | michael.gordon@westpac.co.nz

Turning point?

- We expect the unemployment rate to edge down to 5.5% for the September quarter.
- Job numbers have been gaining momentum in recent months, and now look to be enough to outstrip population growth. However, the participation rate will be the deciding factor.
- Despite cost-of-living pressures on workers, the existing slack in the labour market is likely to keep wage growth subdued.
- Our forecasts are a little more positive than what the RBNZ assumed in their September policy statement. Assuming they deliver on an OCR hike this afternoon, the labour market surveys could have an important bearing on whether they follow up with another hike in December.

	Q2 actual	Q3 forecast	
	Quarter	Westpac	RBNZ
Household Labour Force Survey			
Unemployment rate	5.6	5.5	5.5
Employment growth	0.5	0.5	0.3
Participation rate	70.7	70.8	70.6
Labour Cost Index			
All sectors, ordinary time	0.6	0.5	-
Private sector, ordinary time	0.7	0.5	0.4

Unemployment and participation rates



The New Zealand economy has returned to growth over the last year, despite a number of headwinds. That's been accompanied by some modest growth in jobs, though to date it hasn't been enough to prevent a further rise in the unemployment rate. However, we think that next Wednesday's labour market reports could show the jobs market reaching a turning point.

We expect the unemployment rate to ease from 5.6% to 5.5% in the September quarter, which would mark the first fall in almost five years. That's not a firmly held view, given the usual margin of uncertainty around this

measure. But we're now seeing consistent evidence that jobs growth is outstripping the modest pace of population growth. We also note that the previous result was 5.56% in unrounded terms, so it wouldn't take much to tip the rounded rate down to 5.5% this time.

On the whole, our forecasts are a little stronger than what the RBNZ assumed in its September *Monetary Policy Statement*. While our unemployment rate forecast is identical, we're more positive on both employment and labour force participation. Meanwhile, our pick of a 0.5% rise in the Labour Cost Index is slightly ahead of the RBNZ's estimate of 0.4%.

Assuming that the RBNZ delivers the OCR hike that we expect this afternoon, we think they will be noncommittal about the chances of another hike at the 9 December *Monetary Policy Statement*. In that respect, the labour market surveys could be important in setting market expectations for the December review, as there aren't that many major data releases between now and then.

Forecast details.

We expect the Household Labour Force Survey (HLFS) to show a 0.5% rise in employment for the September quarter. That's broadly in line with the Monthly Employment Indicator (MEI), with the September release this morning showing a third straight month of growth in filled jobs. We note that employment growth in the HLFS has actually outstripped the MEI for the last nine quarters, but it's not clear why this has been the case and we're wary of extrapolating it too far into the next quarter.

Quarterly employment change



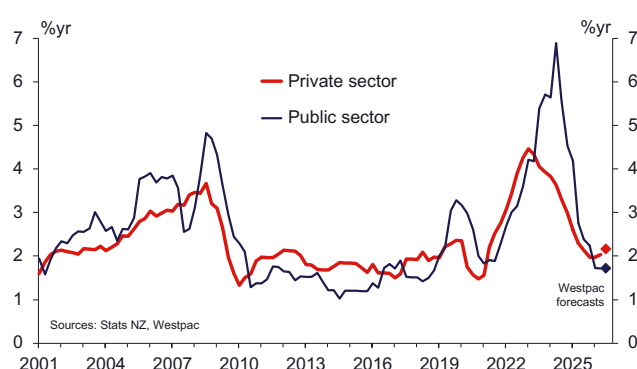
Employment growth of around 0.5% would be more than enough to absorb the modest 0.3% rise in the working-age population, and on its own would suggest a fall in the unemployment rate. But it also comes down to the rate of labour force participation, which we don't really have much guidance on. The participation rate has been choppy over recent quarters, and in the June quarter we saw an unusually large 0.3pt rise to 70.7%; we're assuming some payback this time with a more modest 0.1pt rise to 70.8%.

We'll also be keeping an eye on the broader indicators of slack in the labour market, although we don't formally use these in our forecasts. The June quarter saw a sharp rise in the underutilisation rate from 12.9% to 13.8%. However, we think there's some residual seasonality in this series, relating to one component in particular: people who are available for work but not actively looking. In that case, we could see a substantial pullback in the underutilisation measure this time.

Previously we've characterised the labour market as a "low-fire, low-hire" environment, with much of the rise in unemployment reflecting the difficulty of breaking into the workforce, rather than job losses. There are some signs of a thaw emerging, with job vacancies picking up from their lows over the last year and business surveys pointing to a lift in hiring intentions. But we still expect that it will be a long road to recovery – our current forecasts see the unemployment rate at 5% by the end of next year.

While cost-of-living pressures are again rearing their head as a major concern for workers, the existing degree of slack in the labour market will continue to make it difficult for them to push for bigger pay increases. We expect a 0.5% rise in the Labour Cost Index (LCI) for the September quarter, which would nudge the annual growth rate up slightly to 2.1%. That said, we don't have a lot to go on for this forecast. The MEI includes a measure of median weekly earnings, which has shown no sign of acceleration so far – but this is only a very loose indicator of wage pressures, as it will also reflect any changes in the composition of jobs and pay rates.

Labour Cost Index



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