ECONOMIC BULLETIN

Preview of Q1 labour market surveys: 6 May, 10:45am.

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

Steady for now

- **We expect the unemployment rate to hold steady at 5.4% for the March quarter.**
- **Higher-frequency indicators have pointed to a modest lift in jobs in recent months, though not outpacing the growth in the working-age population.**
- **While we expect to see a small downward correction in the HLFS employment measure, this doesn't alter the general picture.**
- **Wage growth is likely to have remained subdued, given the existing slack in the labour market.**
- **Our forecasts are a little softer than what the RBNZ expected in its February statement. However, the fast-moving developments in the Middle East mean that the RBNZ's forward view on the labour market will likely have shifted since then.**

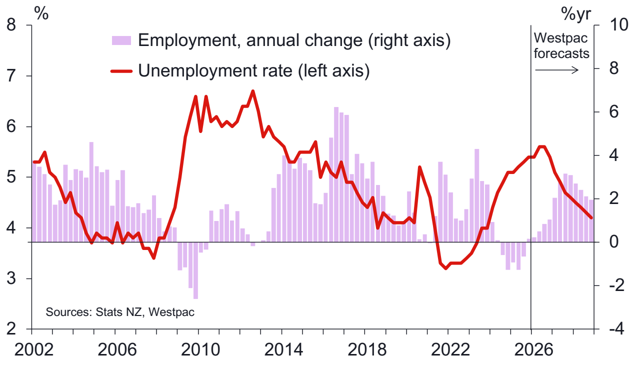
	Q4 actual	Q1 forecast	
	Quarter	Westpac	RBNZ
Household Labour Force Survey			
Unemployment rate	5.4	5.4	5.3
Employment growth	0.5	-0.1	0.4
Participation rate	70.5	70.3	70.5
Labour Cost Index			
All sectors, ordinary time	0.4	0.5	-
Private sector, ordinary time	0.5	0.4	0.4

We expect next Wednesday's labour market surveys to show a steadying in the jobs market over the March quarter. There's a growing range of evidence that the economy was starting to find its footing again in the early part of this year, at least up until the Iran conflict. But with the labour market tending to lag the broader economic cycle, we should expect jobs growth and wage demands to remain muted at this stage.

We're forecasting the unemployment rate to hold steady at 5.4% for the March quarter. We do expect a small drop in employment and participation this time, reversing a surprising jump in the previous quarter, but we're less wedded to that part of the forecast; the unemployment rate is the key variable to watch. We expect wage growth to continue running at about 2% annualised, reflecting the degree of slack in the jobs market and the moderation in inflation in recent years.

Our picks are a little softer than the Reserve Bank's February *Monetary Policy Statement* forecasts, which assumed faster jobs growth and a decline in the unemployment rate by this point. At the margin, a result in line with our forecasts would strengthen the case for caution before lifting the OCR. But the bigger issue for the RBNZ will be what has happened since the *MPS*: the Middle East oil shock will hinder the economic recovery, potentially leading to delays in hiring, layoffs and business failures. We've moved away from our pre-conflict view that 5.4% would mark the peak in the unemployment rate for this cycle.

Employment growth and unemployment rate



Details.

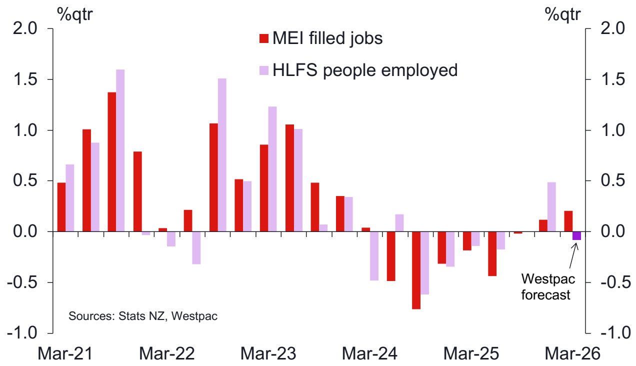
A range of indicators have pointed to the labour market stabilising in recent months:

- The Westpac-McDermott Miller Employment Confidence Index improved in the March quarter.
- Jobseeker benefit recipients were broadly stable in seasonally adjusted terms.
- Job advertisements have been ticking up and are around 10% higher than a year ago, although they remain well below their pre-Covid levels.

The best evidence comes from the Monthly Employment Indicator (MEI), which is drawn from income tax data and provides a comprehensive record of the number of jobs. There are some conceptual differences between the MEI and the quarterly HLFS, but in most cases any gap between the two is likely to reflect sampling error.

The MEI on its own suggests around a 0.2% rise in employment over the March quarter, which would be about in line with the growth in the working-age population. However, we're expecting to see a small dip in employment in the HLFS, accompanied by a drop in the participation rate. The reason is that the December quarter HLFS showed a surprisingly strong 0.5% rise in employment and a lift in participation, even as the unemployment rate also rose. Looking closer, most of the surprise was driven by a sharp rise in employment among the under-25s, which wasn't apparent in the MEI. We suspect that the HLFS captured an unusually large number of students who were working during the summer holidays, which should then return to normal as the new academic year begins. We generally recommend focusing on the unemployment rate as the key metric from the HLFS, as it's less vulnerable to sampling errors.

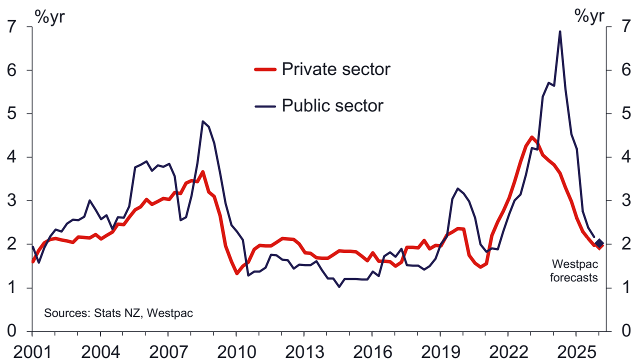
Quarterly employment change



While cost-of-living pressures are rearing up again as a concern for households, the existing degree of slack in the labour market means there's little room to negotiate larger pay increases. Business surveys have suggested that skilled workers are getting harder to find again, which may reflect the more subdued net migration trends in recent times. But unlike in the post-Covid boom, there's little evidence that employers have been willing to bid up to attract or retain workers.

We expect a 0.5% rise in the Labour Cost Index (LCI) for the March quarter, leaving annual growth at around 2%. Our forecast for private sector wage growth is slightly more subdued at 0.4%, in line with the RBNZ's forecast. The public sector tends to see larger pay increases in March quarters – we've pencilled in a 0.8% rise, though this would still see it slowing from 2.2% to 2.0% on an annual basis.

Labour Cost Index wage growth forecasts



The fast-moving developments in the Middle East mean that the labour market surveys will already be somewhat dated on their release. We'll be looking to higher-frequency data in the coming months, such as the MEI (and the weekly snapshots provided by Stats NZ) to gauge whether the conflict is affecting firms' hiring decisions. Unfortunately there's no equivalent high-frequency data on wages; while workers would no doubt like to see cost-of-living adjustments, it may be difficult to secure them in the current environment.

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