ECONOMIC BULLETIN

Preview of Q2 labour market surveys: 5 August, 10:45am.

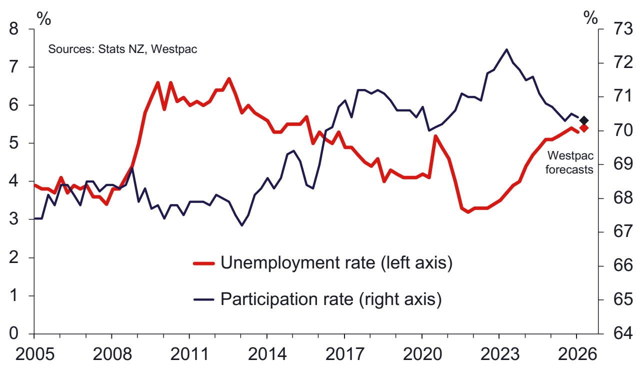
29 Jul 2026 | **Michael Gordon**, Senior Economist | +64 9 336 5670 | michael.gordon@westpac.co.nz

Job growth remains subdued.

- **We expect the unemployment rate to tick up to 5.4% for the June quarter.**
- **The jobs market has held its ground through the Middle East conflict, but it hasn't gathered the momentum that we would have otherwise hoped to see.**
- **With employment not keeping pace with population growth, we would expect to see a rise in the unemployment rate and/or a fall in labour force participation.**
- **Wage growth is likely to remain subdued, given the existing slack in the labour market.**
- **Our forecasts are in line with what the RBNZ expected in its May statement. The labour market tends to be a lagging indicator, and June quarter data is unlikely to shed light on the extent of second-round inflation pressures.**

	Q1 actual	Q2 forecast	
	Quarter	Westpac	RBNZ
Household Labour Force Survey			
Unemployment rate	5.3	5.4	5.4
Employment growth	0.1	0.1	0.1
Participation rate	70.4	70.3	70.3
Labour Cost Index			
All sectors, ordinary time	0.5	0.6	-
Private sector, ordinary time	0.4	0.6	0.6

Unemployment and participation rates



We expect next Wednesday's surveys to show a soft but steadying labour market over the June quarter. Employment has been gradually picking up again in recent months, but not quickly enough to keep up with population growth. That points to the likelihood of a further rise in the unemployment rate, although it's not obvious that it will extend beyond its recent peak of 5.4%. This comes after a slight fall to 5.3% in the March quarter, which was unexpected but not really reflective of the otherwise soft details in the survey.

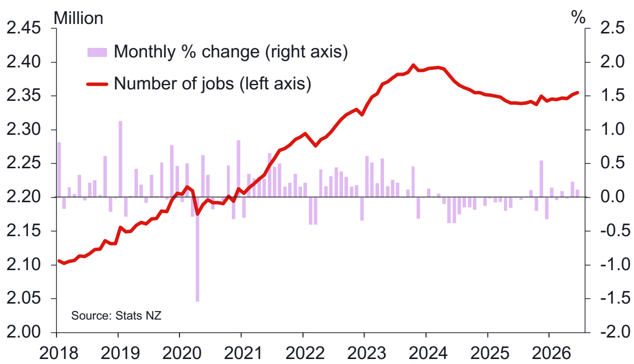
Our forecasts are in line with what the Reserve Bank expected in its May *Monetary Policy Statement* forecasts. While events in the Middle East have been moving quickly since then, it's unlikely that this would have changed the RBNZ's near-term assessment of the labour market – jobs tend to be a lagging indicator of the economic cycle. That's even more true of wage growth, which we think will continue to reflect the moderation in inflation pressures over 2024-25 rather than the recent uptick. Heading into the 2 September policy review, the question of how quickly OCR hikes will proceed from here is most likely to come down to the RBNZ's assessment of last week's inflation data, and their own inflation expectations surveys which will be released over August.

Forecast details.

We expect a 0.1% rise in employment over the June quarter, which is broadly in line with the rise in filled jobs in the Monthly Employment Indicator (MEI). Filled jobs began to gradually rise again from late 2025, and have held their ground through the uncertainty engendered by the Middle East conflict – but they haven't gained momentum in the way that they might otherwise have.

The MEI is drawn from income tax data and hence provides a fairly comprehensive record of the number of jobs. While there are some conceptual differences between this and the quarterly HLFS, any differences between the two will most likely reflect sampling error in the latter.

Monthly Employment Indicator filled jobs

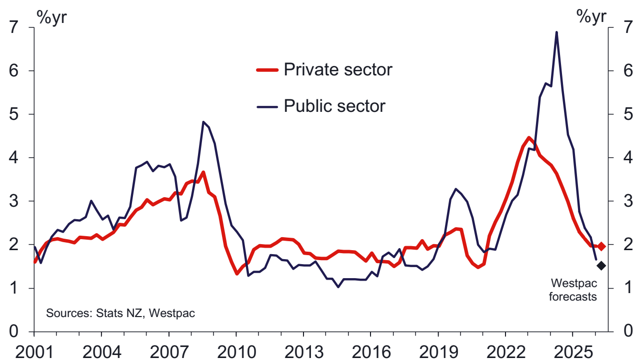


A 0.1% rise in employment wouldn't be enough to keep up with the growth in the working-age population (an already-reported 0.3% rise for the quarter). That means we'll likely see some combination of people either moving into unemployment, or dropping out of the active labour force. That said, we're talking about small increments – we expect a 0.1ppt rise in the unemployment rate to 5.4%, and a 0.1ppt fall in the participation rate to 70.3%.

The labour market can still be characterised as a "low-fire, low-hire" environment. Firms have looked to hold on to workers to the extent that they can, but that means they haven't returned to hiring mode even as conditions have started to improve. Job vacancies have picked up from their lows, but they remain well below pre-Covid levels. Meanwhile, those who are out of work have found it increasingly difficult to get back in, and long-term unemployment has been a much greater issue than we've seen in previous cycles.

While cost-of-living pressures have reared up again as a concern for households, the existing degree of slack in the labour market is a crucial difference between now and the surge in wage growth that we saw in the post-Covid years. We expect a 0.6% rise in the Labour Cost Index (LCI) for the June quarter, keeping annual growth just below 2%. Public sector pay increases are probably running behind the private sector now, with the impact of past collective agreements dropping out of the annual calculations.

Labour Cost Index wage growth forecasts



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