ECONOMIC BULLETIN

Preview of Q1 labour market statistics: 7 May, 10:45am.

30 Apr 2025 | **Michael Gordon**, Senior Economist | +64 9 336 5670 | +64 21 749 506 | michael.gordon@westpac.co.nz

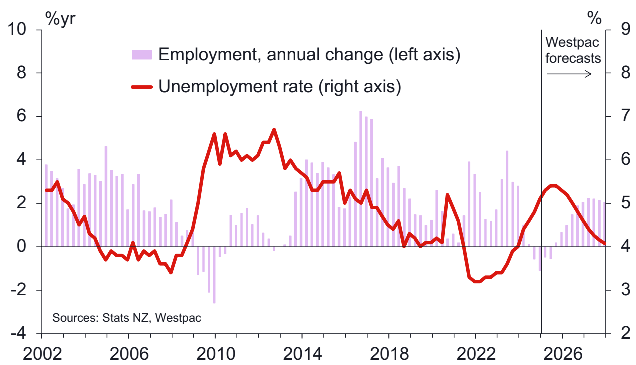
Not yet turning the corner

- **We expect a further rise in the unemployment rate from 5.1% to 5.3% in the March quarter.**
- **The number of jobs appears to have stabilised in recent months, though they're not growing fast enough to meet population growth.**
- **The ongoing slack in the labour market should continue to take the heat out of wage growth.**
- **Our forecasts are slightly weaker than what the Reserve Bank has assumed, but not by enough to be decisive for the next OCR decision.**

	Q4 actual	Q1 forecast	
	Quarter	Westpac	RBNZ
Household Labour Force Survey			
Unemployment rate	5.1	5.3	5.2
Employment growth	-0.1	0.1	0.0
Participation rate	71.0	71.0	70.9
Labour Cost Index			
All sectors, ordinary time	0.6	0.5	-
Private sector, ordinary time	0.6	0.4	0.6

While the New Zealand economy has started to regain some momentum since late last year, the labour market remains in a soft patch. The monthly jobs data has stabilised and even ticked up a little in recent months, but not by enough to match the growth in the population, which is likely to mean a further rise in the unemployment rate. At the same time, the ongoing degree of spare capacity in the labour market will continue to put downward pressure on wage growth.

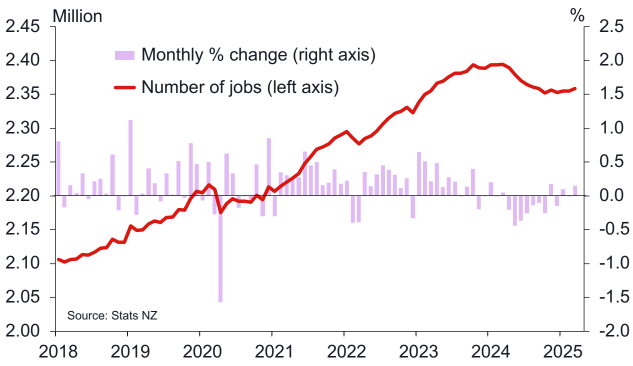
Employment growth and unemployment rate



For the March quarter labour market surveys, released next Wednesday, we expect to see the unemployment rate to rise from 5.1% to 5.3%. This would take it beyond its lockdown-era peak, and up to its highest level since 2016. We've come a long way from the post-Covid period of an overheated economy and severe labour shortages, when the unemployment rate reached a record low of 3.2%.

Our most reliable gauge of the jobs market is the Monthly Employment Indicator (MEI), which was 0.2% higher on average over the March quarter. While there are some conceptual differences between this measure and the Household Labour Force Survey (and the MEI tends to get revised down a bit from its initial release), the most likely reason for any divergence between the two is that the HLFS is subject to sampling error. In contrast, the MEI is taken from income tax data, which makes it a more or less complete record of paid employment.

Monthly Employment Indicator filled jobs

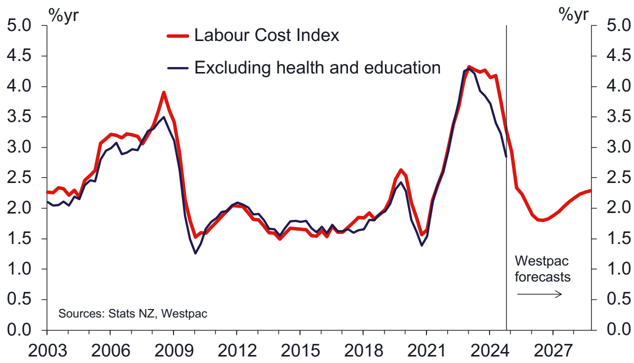


We've pencilled in a 0.1% rise in the HLFS measure of employment. Given a 0.3% rise in the working-age population over that time – and assuming a steady participation rate – that suggests that more people joined the ranks of the unemployed over the quarter.

There are signs that the economy was starting to stabilise at the end of last year, partly due to the effects of lower interest rates. However, it's been a gradual recovery so far (we think the 0.7% rise in December quarter overstates the case, due to statistical issues). And the low level of job advertisements shows that businesses are not back in expansion mode yet. We expect it will be later into the year before we see jobs growing fast enough to absorb the growth in the labour force, which means that the unemployment rate probably hasn't peaked just yet.

The ongoing slack in the labour market suggests that we should also see a further slowdown in wage growth. We expect a 0.4% rise in the Labour Cost Index for the private sector, with the public sector seeing a somewhat larger increase. There was a 3.9% pay rise for teachers that took effect in early December, the last stage of the collective pay agreements that were set by the previous government. This doesn't seem to have made the cut for the Q4 survey, so we expect it to show up in the Q1 figures instead.

Wage growth forecasts



On an annual basis, we expect the private sector LCI to slow to 2.5%, which would be the slowest rate of growth since 2021. Note that the LCI is not a measure of what workers get in hand and can't be directly compared with consumer price inflation.

Our forecasts of both unemployment and wages are softer than what the RBNZ assumed in its February *Monetary Policy Statement*. The RBNZ forecast only a slight rise in the unemployment rate to 5.2%, and that this would mark the peak for this cycle. We suspect the RBNZ is overestimating how quickly the labour market will respond to the broader upturn in the economy; typically it's one of the more lagging aspects of the cycle. That said, if next week's results are more in line with our forecasts, we don't think they would have a great deal of influence on the RBNZ's thinking. We expect another 25bp cut in the OCR at the 28 May policy review.

CONTACT

Westpac Economics Team | **westpac.co.nz/economics** | economics@westpac.co.nz

Kelly Eckhold, Chief Economist | +64 9 348 9382 | +64 21 786 758 | kelly.eckhold@westpac.co.nz

Satish Ranchhod, Senior Economist | +64 9 336 5668 | +64 21 710 852 | satish.ranchhod@westpac.co.nz

Darren Gibbs, Senior Economist | +64 9 367 3368 | +64 21 794 292 | darren.gibbs@westpac.co.nz

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

Paul Clark, Industry Economist | +64 9 336 5656 | +64 21 713 704 | paul.clark@westpac.co.nz

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