ECONOMIC BULLETIN

Preview of Q2 labour market surveys: 6 August, 10:45am.

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

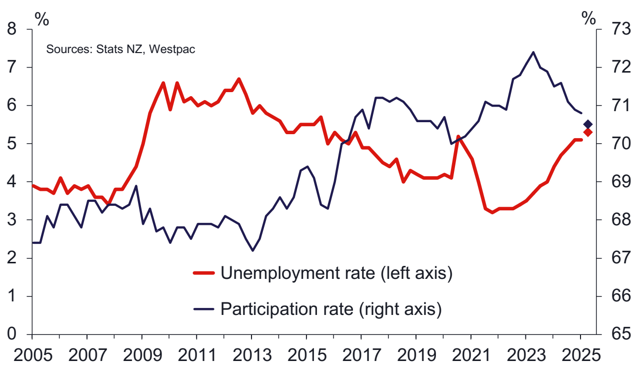
Labour market remains soggy

- **We expect the unemployment rate to rise from 5.1% to 5.3% for the June quarter.**
- **Monthly data has pointed to further job losses over the quarter, particularly among younger people.**
- **We expect that many of these people will have exited the workforce altogether, dampening the extent of the rise in the unemployment rate.**
- **Our forecasts are weaker than the Reserve Bank's last published forecasts in May, though more in line with the information it would have had at its July policy review.**

	Q1 actual	Q2 forecast	
	Quarter	Westpac	RBNZ
Household Labour Force Survey			
Unemployment rate	5.1	5.3	5.2
Employment growth	0.1	-0.3	0.2
Participation rate	70.8	70.5	70.8
Labour Cost Index			
All sectors, ordinary time	0.5	0.5	-
Private sector, ordinary time	0.4	0.5	0.6

While the New Zealand economy has regained some momentum since late last year, the labour market remains soft. The high-frequency jobs data has pointed to a further decline in recent months, and we expect this will be reflected in next Wednesday's labour market surveys for the June quarter. Falling labour force participation is expected to dampen the extent of the rise in the unemployment rate, but we still expect it to lift from 5.1% to 5.3%, while wage growth is likely to remain subdued.

Unemployment and participation rates



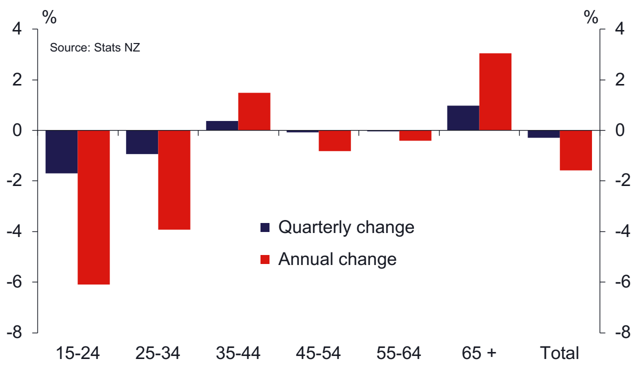
The labour market typically lags the broader economic cycle, so it's understandable we would still be seeing some softness in jobs at this stage. But it's possible that this lag will be more prolonged than usual. Our discussions with business customers suggest that many of them tried to hold on to their workers during the downturn, as they were wary of getting burned again by the severe labour shortages that developed during the post-Covid boom. As a result, they may still be finding themselves overstaffed for the current conditions, even as activity starts to pick up again.

We do expect that the jobs market will turn around in time – our current forecasts see the unemployment rate peaking in the June quarter, though the risks are towards it rising a bit further beyond that. Job advertisements will be the key indicator to watch here – we've seen hints of an uptick in recent months, but their continued low level suggests that businesses are not feeling the need to expand now.

In terms of the June quarter details, we expect a 0.3% fall in employment in the Household Labour Force Survey (HLFS). This is broadly in line with the Monthly Employment Indicator (MEI), a measure based on income tax data. There are some conceptual differences between the two measures, but generally any divergence between the two is mostly likely to be due to sampling error.

The MEI shows that the fall in jobs, both over the quarter and in the last couple of years, has been highly concentrated among young people. As before, this is an echo of the post-Covid boom, when severe worker shortages resulted in many young people being drawn away from education and into the workforce. As the economy cooled off, this group has found themselves out of work again or are struggling to get into work in the first place.

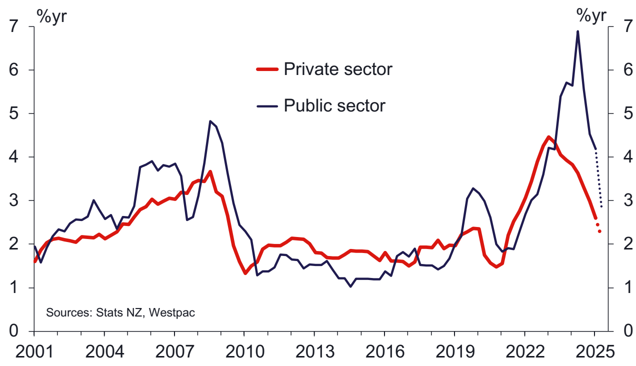
Filled jobs growth by age group



This provides an important clue as to how to read the labour market figures. Young people are more likely to exit the labour force altogether when times are tougher, in many cases choosing to stay in education for longer. This has dampened the extent of the rise in the unemployment rate, with a fall in the labour force participation rate absorbing some of the blow. Our forecasts assume a drop in the participation rate to a four-year low of 70.5%, compared to a peak of 72.4% during the post-Covid labour shortages.

With the increasing slack in the labour market, wage growth is now dropping back to levels that are consistent with low and stable inflation. We expect a 0.5% rise in the Labour Cost Index (LCI) for the June quarter, following a 0.4% rise in the March quarter. The LCI typically rises a bit more in June quarters as the annual increase in the minimum wage takes effect, although this year's 1.5% increase won't make much of a dent in the total.

Wage growth forecasts



On an annual basis, we expect a 2.3% rise in the LCI, down from 2.9% in the March quarter. Private sector wage growth is now running at a pace that is consistent with 2% overall inflation, and with the large multi-year pay agreements in the public sector now complete, the pace of wage growth should continue to fall back in line with the private sector trend.

Our forecasts are softer than what the RBNZ assumed in its May *Monetary Policy Statement*, which included a modest lift in jobs and a smaller rise in the unemployment rate to 5.2%. That said, the higher-frequency jobs data will have alerted the Committee to this softness by the time of its July OCR review. As such, an outturn in line with our forecasts is unlikely to make the difference to the RBNZ's deliberations in its 20 August statement.

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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