

March 2025 Quarter Labour Market Preview

29 April 2025

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March 2025 Quarter

	Exp	RBNZ	Prev
Labour Market			
Unemployment rate (% sa)	5.3%	5.2%	5.1%
Participation rate (% sa)	71.0%	70.9%	71.0%
Employment q/q (sa)	0.1%	0.0%	-0.1%
Employment y/y	-0.5%	-0.6%	-1.1%
Wages – LCI			
Private sector wages (all salary and wage rates) q/q	0.5%	0.6%	0.6%
Private sector wages (all salary and wage rates) y/y	2.7%	2.8%	3.0%
Wages – QES			
Private sector hourly earnings (ordinary time) q/q	0.6%	N/A	1.3%
Private sector hourly earnings (ordinary time) y/y	4.3%	4.6%	4.0%

Still loosening

Summary

- We've pencilled in a 0.2%pt increase in the unemployment rate to 5.3% in Q1 (out 7 May at 10:45am), a touch above the RBNZ's February MPS forecast and unchanged from our previous forecast.
- Other than Budget 2025 (22 May), this is the last major piece of domestic data ahead of the RBNZ's May Monetary Policy Statement. However, it's fair to say that changes to the RBNZ's economic forecasts are likely to end up more meaningful for the monetary policy outlook than starting point news.

The view

New Zealand's fragile economic recovery is underway (even if we think [it'll take a touch of monetary stimulus to keep it on track](#)), but given the typical lags, the recovery will likely take a few quarters to be reflected in the unemployment rate. We expect the unemployment rate to rise from 5.1% in Q4 to 5.3% in Q1, as growth in the labour force (labour supply) outpaces labour demand (employment).

We've pencilled in a modest 0.1% q/q rise in employment. After two consecutive quarters of contraction, that would signify that labour demand is rounding the corner. That said, the volatile global economic backdrop could cause employment growth to waver a little in the near term as some firms become a little more hesitant to take the plunge in an uncertain environment.

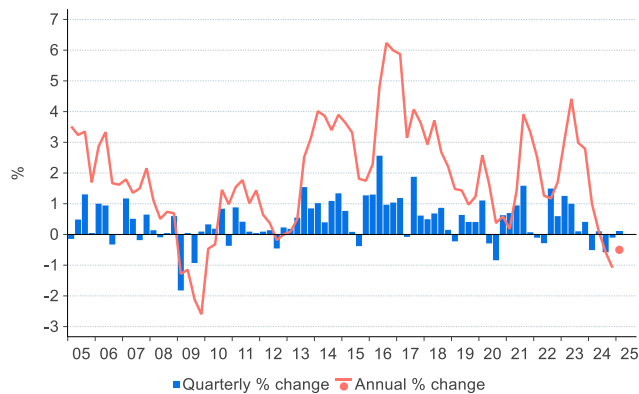
The participation rate is always difficult to forecast, particularly when the labour market is close to a turning point. On the one hand, loose labour market conditions are likely to continue to drive some discouraged worker effects across households. But on the other hand, the rapid drop in interest rates over the past few months could bolster expectations that job opportunities are about to become a little more abundant, meaning it's time to dust off the CV. Weighing it up, we're pencilling in no change in the participation rate at 71.0%.

Wage growth is expected to be a bit of a mixed bag. Annual growth in the private sector Labour Cost Index (including overtime) is expected to slow from 3.0% to 2.7%. Conversely, growth in private sector average hourly earnings (ordinary time) is expected to lift 0.3% pts to 4.3%, but that's largely owing to past quarterly volatility rather than an underlying trend (this is the relatively volatile measure of wages). Looking through the noise, wage growth is expected to continue to ease – consistent with loose labour market conditions and the RBNZ's objective of bringing down domestic inflation pressures.

Monetary policy implications

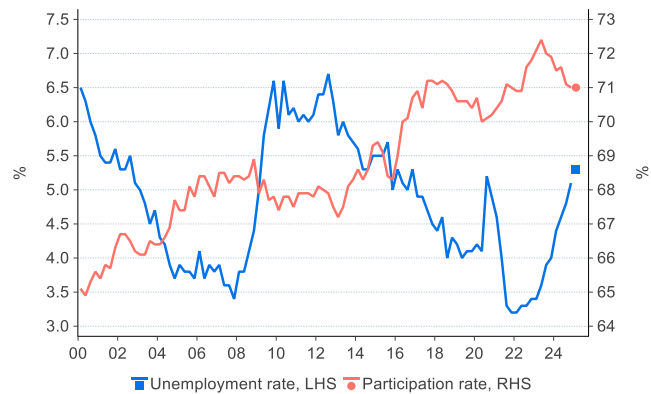
Other than Budget 2025 (out 22 May), the Q1 labour market release is the last major piece of domestic data ahead of the 28 May Monetary Policy Statement. However, given how much turbulent water has flowed under the global economic bridge since Q1 came to an end, it's fair to say that the signal on the labour market's trajectory could end up playing second fiddle to changes in the RBNZ's outlook if they choose to centralise some of the possible impacts of the global trade and confidence shock coming from US tariff policy. That's not to say the starting point won't matter. Rather, we'd just highlight that a positive surprise on the day (eg a tighter labour market than expected) may be more than offset by a more pessimistic growth outlook, while a negative surprise could instil a greater sense of urgency to lean against US-induced economic headwinds.

Figure 1. HLFS employment growth



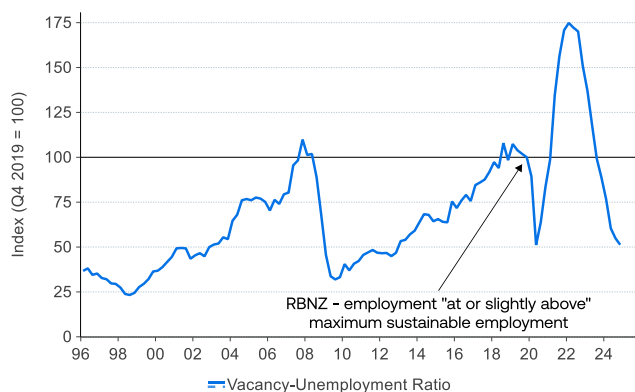
Source: Stats NZ, Macrobond, ANZ Research

Figure 2. Unemployment and participation rate



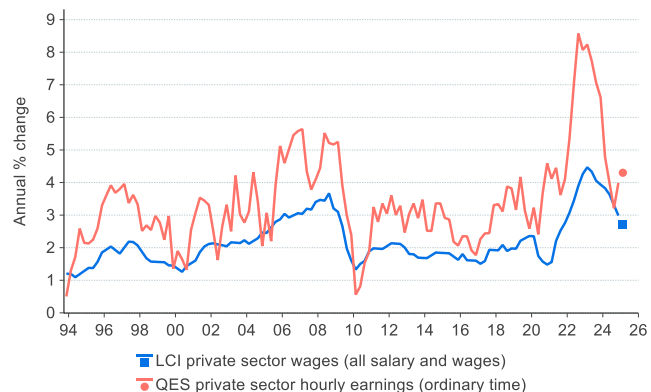
Source: Stats NZ, Macrobond, ANZ Research

Figure 3. Vacancy-Unemployment ratio



Source: Stats NZ, MBIE, Macrobond, ANZ Research

Figure 4. Wage growth



Source: Stats NZ, Macrobond, ANZ Research

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Last updated: 19 November 2024

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