

June 2025 Quarter Labour Market Preview

29 July 2025

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June 2025 Quarter

	Exp	RBNZ	Prev
Labour Market			
Unemployment rate (% sa)	5.3%	5.2%	5.1%
Participation rate (% sa)	70.7%	70.8%	70.8%
Employment q/q (sa)	-0.1%	0.2%	0.1%
Employment y/y	-0.9%	-0.6%	-0.7%
Wages – LCI			
Private sector wages (all salary and wage rates) q/q	0.6%	0.6%	0.4%
Private sector wages (all salary and wage rates) y/y	2.3%	2.3%	2.6%
Wages – QES			
Private sector hourly earnings (ordinary time) q/q	0.6%	N/A	0.2%
Private sector hourly earnings (ordinary time) y/y	3.3%	3.8%	3.8%

Employment on ice

Summary

- We have pencilled in a 0.2%pt increase in the unemployment rate to 5.3% in Q2 (out 6 August at 10:45am). This is slightly higher than the RBNZ's May MPS forecast and our previous forecast of 5.2%.
- Taking signal from the monthly filled jobs data, we have downgraded our Q2 HLFS employment forecast from +0.1% q/q to -0.1% q/q.
- We think risks are skewed towards the Q2 labour market data having a slightly weaker vibe than our forecast.
- Overall, these data will provide further confirmation that labour market conditions are set to remain disinflationary for a while yet.

The view

We expect the unemployment rate to rise from 5.1% in Q1 to 5.3% in Q2, as very modest growth in the labour force (labour supply) meets a small contraction in employment (labour demand).

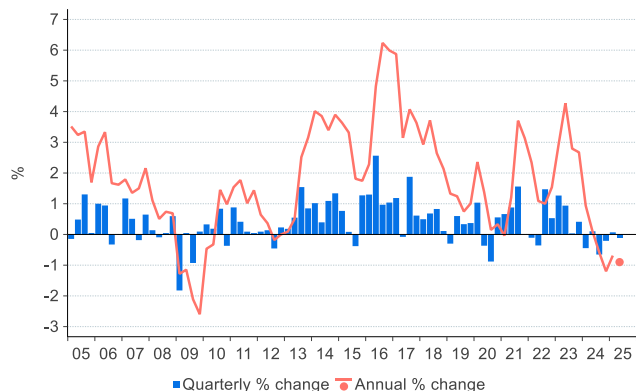
Following the recent string of weak monthly filled jobs data, we've downgraded our employment growth forecast from +0.1% q/q to -0.1% q/q, suggesting the tentative recovery in labour demand seen last quarter has lost momentum. Indeed, there's been some anecdote in recent months that firms holding on to labour are not experiencing the pickup in demand they expected. A degree of "labour hoarding" appears to have suppressed unemployment in recent quarters, and if a recovery in economic momentum doesn't do the heavy lifting when it comes to "right-sizing" firms' labour input, a further reduction in headcount may be needed. With the high-frequency data currently pointing to a generalised loss in economic momentum, risks around employment growth over the next few quarters are skewed to the downside.

Generally, the participation rate tends to move with employment as marginal workers decide whether or not to look for work based on their perceptions of labour demand. Accordingly, we've pencilled in a 0.1%pt fall to 70.7%.

Reflecting the widening wedge between labour demand and supply, we expect annual wage growth to continue slowing. Wage inflation as measured by the private sector Labour Cost Index (including overtime) is expected to slow from 2.6% to 2.3%, and growth in private sector average hourly earnings (ordinary time) is expected to slow from 3.8% to 3.3%. At these levels, wage inflation can be considered broadly consistent with CPI inflation around target (figure 4, over page), but given we're a decent clip from the labour market entering inflationary territory (we estimate NAIRU to be around 4.3%) it's fair to say that disinflation pressures stemming from the labour market are set to continue for a while yet. The RBNZ is balancing this disinflationary force against an outlook for persistently elevated administrative price inflation (such as large council rate increases), but we think the cyclical side of the economy (e.g. the loose labour market) will eventually dominate the overall inflation impulse, necessitating a little more monetary easing.

It's also worth noting Stats NZ have [recently rebased the HFLS population estimates](#). Updates were broadly neutral for the unemployment rate and have not had a significant impact on our expectation for Q2.

Figure 1. HLFS employment growth



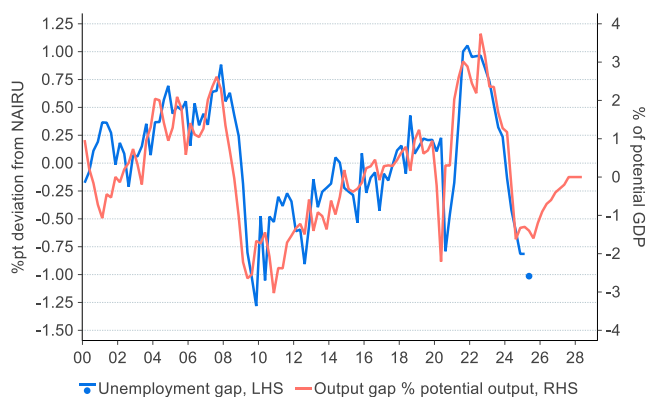
Source: Stats NZ, Macrobond, ANZ Research

Figure 2. Unemployment and participation rate



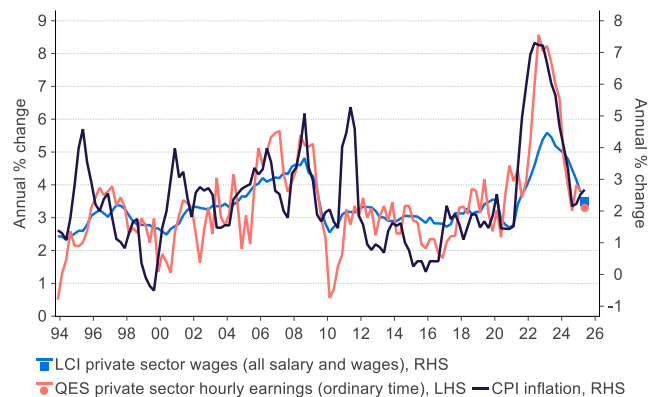
Source: Stats NZ, Macrobond, ANZ Research

Figure 3. Unemployment gap vs RBNZ output gap



Source: Stats NZ, NZIER, BusinessNZ, Macrobond, ANZ Research

Figure 4. Wage growth



Source: Stats NZ, Macrobond, ANZ Research

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