ANZ Research

September 2025 Quarter Labour Market Preview

30 October 2025

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September 2025 Quarter

	Exp	RBNZ	Prev
Labour Market			
Unemployment rate (%, sa)	5.3%	5.3%	5.2%
Participation rate (%, sa)	70.5%	70.4%	70.5%
Employment q/q (sa)	0.2%	0.0%	-0.1%
Employment y/y	-0.1%	-0.3%	-0.9%
Wages – LCI			
Private sector wages (all salary and wage rates) q/q	0.5%	0.4%	0.6%
Private sector wages (all salary and wage rates) y/y	2.2%	2.1%	2.3%
Wages – QES			
Private sector hourly earnings (ordinary time) q/q	1.1%	N/A	1.9%
Private sector hourly earnings (ordinary time) y/y	4.5%	4.3%	4.6%

Spare capacity persists

Summary

- We expect a 0.1%pt increase in the unemployment rate to 5.3% in Q3 (out 5 November at 10:45am). This is unchanged from our previous forecast and is in line with the RBNZ's August MPS forecast.
- Monthly filled jobs data over Q3 have landed in the ballpark of our HLFS employment forecast of +0.2% q/q, but some business survey data suggest downside risk.
- Overall, the Q3 data are expected to show the economy is operating with considerable spare capacity, meaning the RBNZ is unlikely to see any risk of wage-price spiral dynamics reemerging anytime soon.

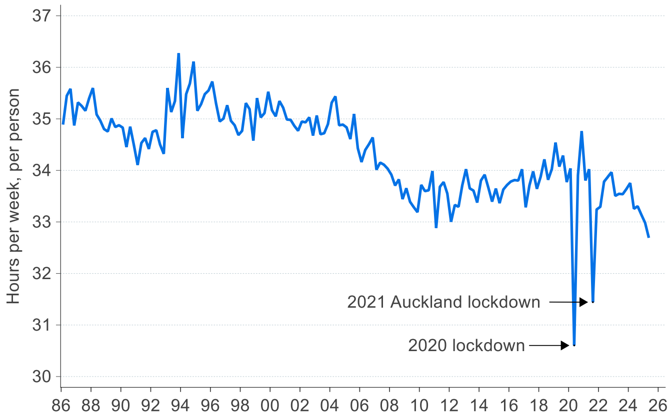
The view

We expect the unemployment rate lifted from 5.2% in Q2 to 5.3% in Q3, as modest growth in the labour force (labour supply) slightly outpaced growth in employment (labour demand). We've pencilled in a 0.2% q/q rise in employment, alongside a stable participation rate and modest growth in the working-age population.

While the data flow over the quarter hasn't shifted our Q3 forecast, we'd characterise the risks as tilted towards slightly softer employment growth. That's based on relatively subdued business survey indicators – namely the PMI, PSI and the NZIER's QSBO, although the ANZBO has painted a relatively firmer picture. However, if employment growth disappoints, we wouldn't be surprised to see labour supply (i.e. participation) also come in weaker, potentially containing the impact on the unemployment rate.

Hours paid and hours worked have contracted more sharply than employment in recent quarters, suggesting firms are holding onto staff despite subdued demand for goods and services. As [we noted a few months ago](#), if the economic recovery is delayed for too long, firms may lack the balance sheet capacity to continue hoarding labour in anticipation of it. That means the unemployment rate could rise more than we or the RBNZ are forecasting. The RBNZ has mitigated this risk with its dovish pivot in August and outsized OCR cut in October, but long and variable lags mean we're not out of the woods yet.

Figure 1. Hours per person per week

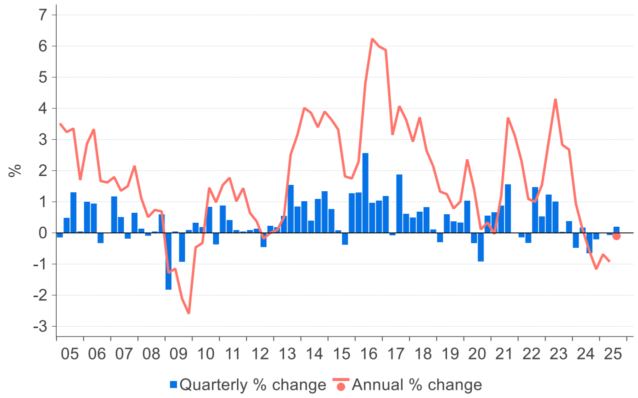


Source: Stats NZ, Macrobond, ANZ Research

Given the negotiating power is currently concentrated on the employer side of the table, we expect annual wage growth to slow. Wage inflation as measured by the private sector Labour Cost Index (including overtime) is expected to slow from 2.3% to 2.2%, and growth in private sector average hourly earnings (ordinary time) is expected to slow from 4.6% to 4.3%. The latter measure tends to be a lot more volatile, and following the surprisingly strong read in Q2 it wouldn't be a shock to see this measure surprise to the downside in Q3.

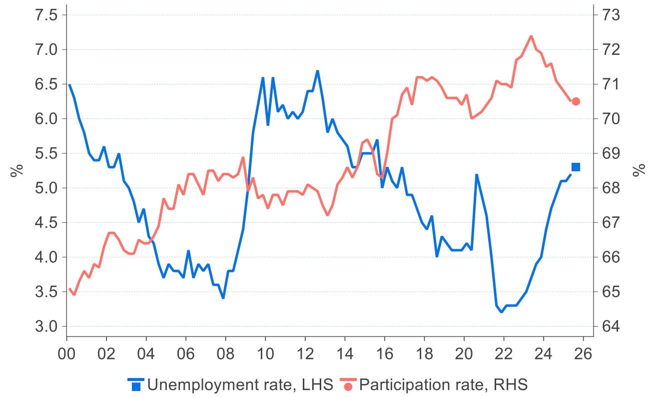
All up, the Q3 labour market data are expected to show the economy is operating with a considerable degree of spare capacity – consistent with the RBNZ's August estimate of a negative output gap that will see an ongoing decline in non-tradable inflation.

Figure 2. HLFS employment growth



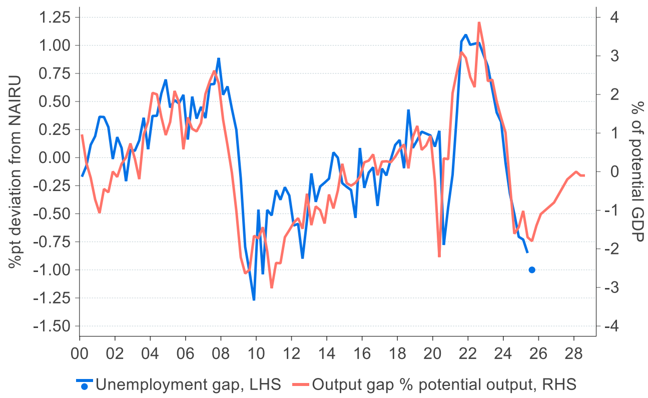
Source: Stats NZ, Macrobond, ANZ Research

Figure 3. Unemployment and participation rate



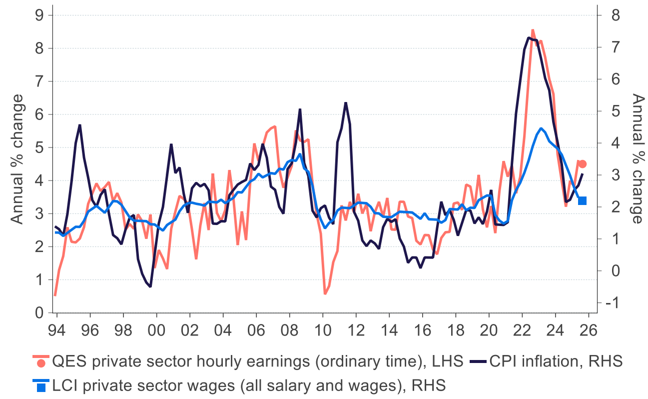
Source: Stats NZ, Macrobond, ANZ Research

Figure 4. Unemployment gap vs RBNZ output gap



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

Figure 5. Wage growth



Source: Stats NZ, Macrobond, ANZ Research

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Last updated: 18 June 2025

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