

# Labour Market Statistics – Q1 2025

7 May 2025

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## Contact

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## Data summary – Q1 2025

		Latest	RBNZ
<b>Labour market</b>			
HLFS unemployment rate (sa)		5.1%	5.2%
HLFS participation rate (sa)		70.8%	70.9%
HLFS employment (sa)	q/q	0.1%	0.0%
HLFS employment	y/y	-0.7%	-0.6%
<b>Wages – LCI</b>			
Private sector wages (all salary and wage rates)	q/q	0.4%	0.6%
Private sector wages (all salary and wage rates)	y/y	2.6%	2.8%
<b>Wages – QES</b>			
Private sector hourly earnings (ordinary time)	q/q	0.2%	N/A
Private sector hourly earnings (ordinary time)	y/y	3.8%	4.6%

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## When labour supply meets demand

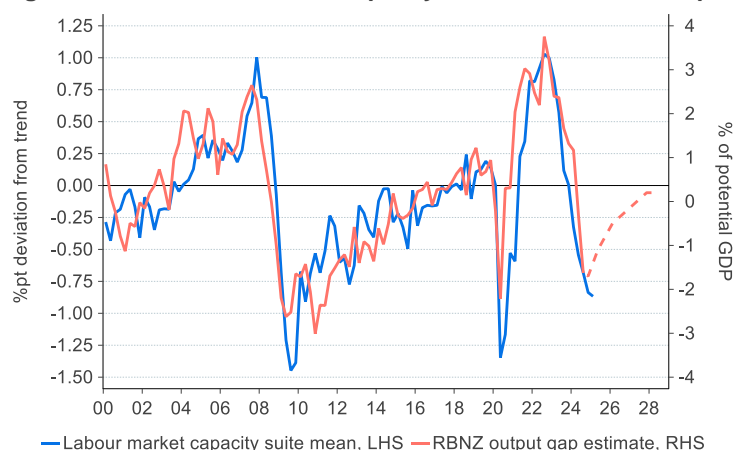
### Summary

- The unemployment rate was unchanged at 5.1% in Q1, as growth in labour supply was broadly matched by labour demand. The outcome was lower than our and the RBNZ's expectation of 5.3% and 5.2% respectively, but the underlying details were weak (and disinflationary).
- Employment lifted 0.1% q/q, as we expected, but that was offset by weaker growth in the working-age population than expected and a small fall in the participation rate (suggesting discouraged worker effects remain prevalent due to the weak economic backdrop).
- Private sector wage growth was softer than we or the RBNZ were expecting, suggesting labour costs are not a threat to domestic CPI inflation pressures. However, public sector wage growth accelerated to 6.6% y/y, very much out of whack with the private sector and well ahead of inflation.
- Despite the lower-than-expected unemployment rate, the broad suite of data released today suggest the labour market is operating with a considerable degree of excess capacity.
- Given the lack of meaningful new news for the RBNZ, changes to the May MPS forecasts (in particular, to what extent they build in a bigger hit to investment from global uncertainty) are likely to matter more for their assessment of appropriate monetary conditions than Q1 starting point surprises.

### Overview and monetary policy implications

The Q1 labour market data were mixed vs our forecast, but a little closer to the RBNZ's expectation. The unemployment rate was stable at 5.1%, while the broader suite of data continues to suggest there's plenty of excess capacity in the labour market (and the economy more broadly) – a signal that domestic CPI inflation pressures will continue to wane for a while yet. Indeed, our labour market capacity suite has evolved broadly in line with the RBNZ's output gap in Q1 (figure 1).

Figure 1. ANZ Labour Market Capacity Indicator vs RBNZ output gap



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

Looking forward, the recent global trade and confidence shock brought about by US tariff policy could incite a little hesitancy among some New Zealand firms looking to hire and invest. And depending on how much of that gets “centralised” into the RBNZ’s May MPS forecast, this could easily eclipse the small starting point surprises we’ve seen in the Q1 GDP, CPI and labour market data. We remain comfortable with our expectation that the RBNZ will ultimately cut the OCR to 2.5%, and we wouldn’t rule out a 50bp cut at some point along the way should things deteriorate (but certainly not in reaction to today’s data).

### The details

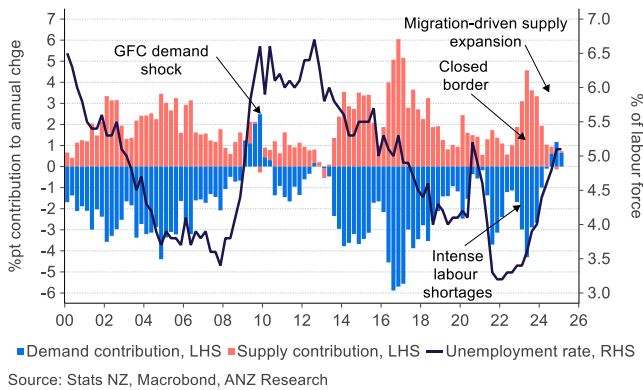
- The unemployment rate was stable at 5.1% (sa), as a 0.1% rise in employment was offset by growth in the labour force (as the participation rate fell 0.1%pts to 70.8 but the working age population rose 0.2% q/q).
- QES filled jobs came in weaker than HLFS employment in the quarter, down 0.4% q/q (sa).
- Providing a broader read on untapped capacity in the labour market, the underutilisation rate rose 0.2%pts to 12.3%. This measure includes those working part time but wanting more hours (underemployed), available potential jobseekers (want work, but aren’t actively looking – a.k.a. ‘discouraged workers’), and unavailable jobseekers (can’t start work now, but will be able to within a month). The rise in the underutilisation rate was driven largely by available potential jobseekers, suggesting strong discouraged worker effects remain in play. Meanwhile, the underemployment rate fell 0.4%pts to 4.4%. Overall, these data are consistent with the signal from the unemployment rate that spare capacity in the labour market continues to emerge.
- Turning to wages:
  - The private sector labour cost index (including overtime, and adjusted for productivity) rose 0.4% q/q, with annual growth slowing 0.4% pts to 2.6% y/y (weaker than our and the RBNZ’s forecasts of 2.7% and 2.8% respectively).
  - The unadjusted private sector labour cost index, which accounts for changes in workforce composition, eased 0.2%pts to 3.7% y/y. Meanwhile, the overall proportion of workers (all sectors) receiving wage increases in the past year fell 1%pts to 59%. The proportion of wage increases that were in excess of 5% eased 4%pts to 17%, well down from the peak of 40% seen in mid-2023.
  - Private sector average hourly earnings (ordinary time) rose 0.2% q/q, weaker than our expectation of 0.6% q/q. That saw the annual rate slow 0.2%pts to 3.8%, well below our and the RBNZ’s forecasts of 4.3% and 4.6% y/y respectively.
  - Public sector average hourly earnings (ordinary time) rose a whopping 2.0% q/q, taking annual growth from 4.5% to 6.6%. Public sector wage growth is well in excess of that in the private sector and CPI inflation. Past public sector pay agreements (which spanned multiple years) mean public sector wage growth is poised to outpace that of the private sector for a while yet.

Lastly, paid hours fell 0.1% q/q (-2.0% y/y) and hours worked fell 0.3% q/q (down 2.9% y/y), suggesting firms are clinging on to workers in the face of weak demand (i.e. during an economic downturn, businesses tend to reduce hours worked before resorting to layoffs). A glass-half-full interpretation is that firms are anticipating better times ahead and therefore don’t want to let good staff go.

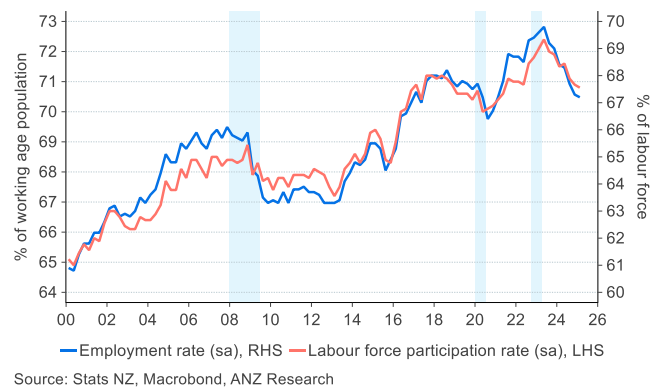
All in all, the Q1 labour market data were pretty mixed, but the underlying details were soft. They were certainly soft enough for the RBNZ to continue to conclude that underlying domestic CPI inflation pressures are trending lower and that further cuts in the OCR are appropriate.

## The labour market in charts

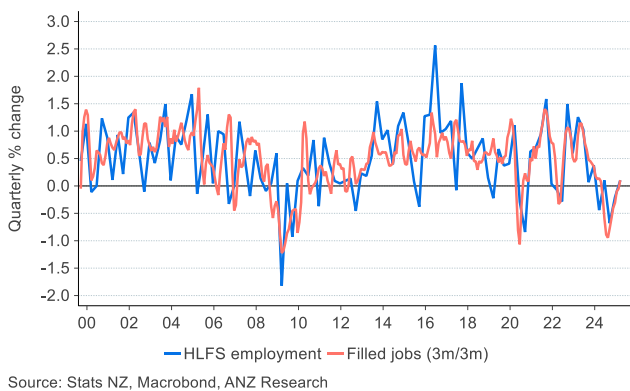
### Unemployment rate stable as supply met demand



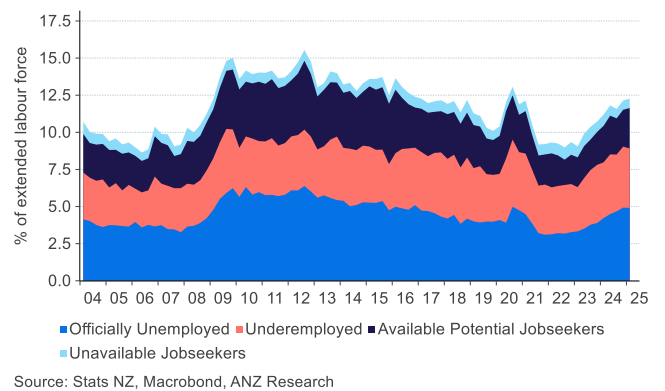
### Supply has responded to weak demand



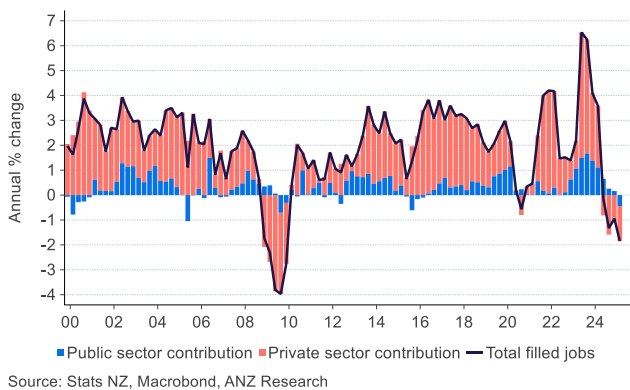
### HLFS employment lifted, consistent with the signal from the monthly employment indicator



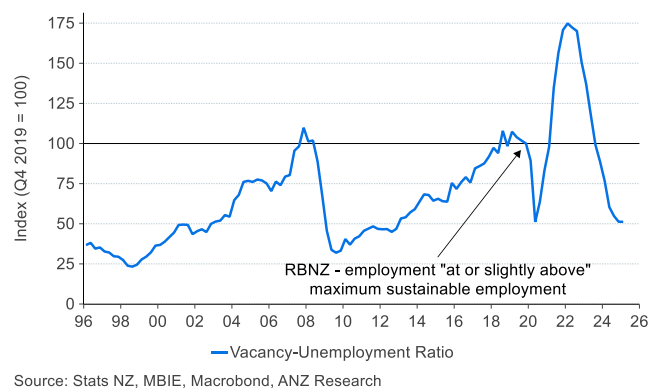
### The components of the underutilisation rate shows there's plenty of untapped labour resource



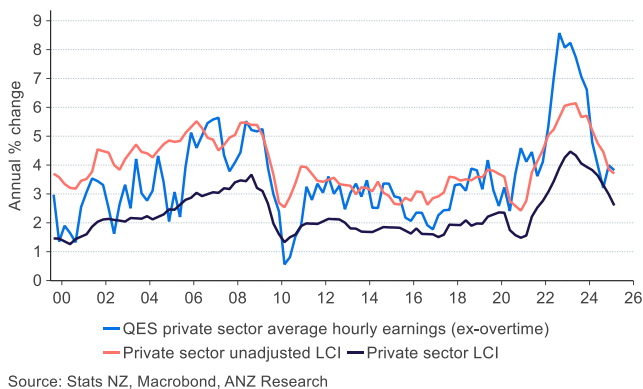
### QES public sector employment growth dipped negative



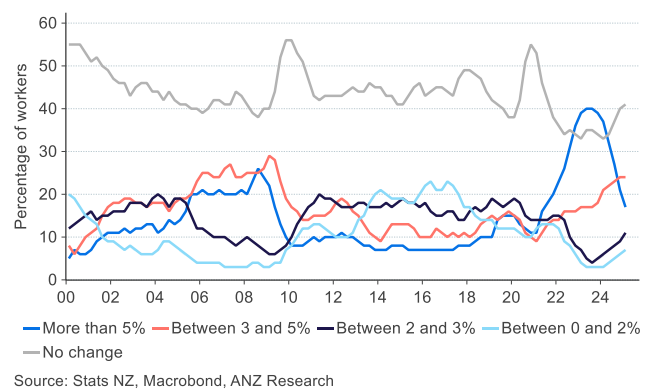
### The vacancy-unemployment ratio was stable at a deflationary level



### Private sector wage growth generally eased



### The share of workers receiving large pay rises fell further



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Last updated: 19 November 2024

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