

December 2025 Quarter Labour Market Preview

29 January 2026

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December 2025 Quarter

	Exp	RBNZ	Prev
Labour Market			
Unemployment rate (% , sa)	5.3%	5.3%	5.3%
Participation rate (% , sa)	70.3%	70.3%	70.3%
Employment q/q (sa)	0.3%	0.2%	0.0%
Employment y/y	0.0%	-0.1%	-0.6%
Wages – LCI			
Private sector wages (all salary and wage rates) q/q	0.4%	0.5%	0.4%
Private sector wages (all salary and wage rates) y/y	1.9%	2.0%	2.1%
Wages – QES			
Private sector hourly earnings (ordinary time) q/q	0.4%	N/A	0.7%
Private sector hourly earnings (ordinary time) y/y	3.2%	3.4%	4.1%

Close to rounding the corner

Summary

- We expect the unemployment rate to hold steady at 5.3% in Q4 (due 4 February at 10:45am). This is marginally higher than our previous forecast of 5.2%, reflecting slightly stronger growth in the working-age population, but is in line with RBNZ's November MPS forecast.
- We expect the detail to be a little stronger than the RBNZ's forecast, with employment growth of +0.3% q/q slightly above the RBNZ's pick (+0.2%). Monthly filled jobs data over Q4 have landed in the ballpark of our HLFS employment forecast, but business survey data suggests upside risk.
- We have pencilled in a stable participation rate at 70.3% but given the recent improvement in economic activity we wouldn't be surprised if this were to increase slightly. A higher unemployment rate than our forecast owing to higher participation wouldn't necessarily indicate the labour market is on the wrong trajectory. While it would point to a more disinflationary labour market than the RBNZ anticipates, it would also add to the evidence that conditions are rounding a corner, with labour supply responding to improving job prospects.
- Overall, the Q4 data are expected to show the economy is still operating with considerable spare capacity, meaning the RBNZ is unlikely to see any risk of wage-price spiral dynamics re-emerging any time soon.

The view

We've pencilled in a stable unemployment rate at 5.3% in Q4, as modest growth in employment is offset by growth in the labour force. We've pencilled in a 0.3% q/q rise in employment, alongside a stable participation rate and a small rise in the working-age population.

The participation rate has fallen for five consecutive quarters and, as at Q3 2025, was down more than 2ppts from its Q2 2023 cycle peak of 72.4%. However, with the economy clearly in recovery mode over the second half of 2025, we think this volatile component of the labour market statistics is due to stabilise. An unemployment rate that is higher than expected, if it is due to stronger-than-expected participation, would not necessarily indicate that the labour market is off track. Labour supply (for example, participation and migration) tends to move alongside labour demand, and typical labour-market volatility means these adjustments cannot always be expected to occur in perfect synchrony.

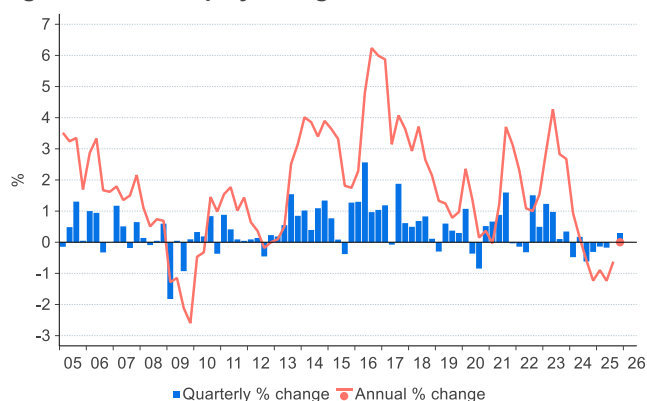
In an early sign that the labour market is close to rounding a corner, both hours paid and hours worked lifted in Q3. While these data can be volatile from quarter to quarter, the low base and the signal in the high-frequency indicators for Q4 suggest we will see another rise, adding further evidence that although the headline unemployment rate has held up, labour market conditions are gradually improving.

However, with negotiating power still largely concentrated on the employer side of the table, annual wage growth is expected to slow. Wage inflation as measured by the private sector Labour Cost Index (including overtime) is expected to slow 0.3ppts to 1.9%, while the relatively volatile private sector average hourly earnings (ordinary time) is expected to slow 0.9ppts to 3.2%.

Overall, the Q4 labour market data are expected to show that the economy is still operating with a considerable degree of spare capacity, indicating little risk of wage growth becoming a renewed source of CPI inflation pressure any time soon. However, despite the unemployment rate holding up in Q4, the details should signal that labour market conditions are gradually improving, with positive employment growth, a stabilisation in the participation rate, and a continued recovery in hours worked.

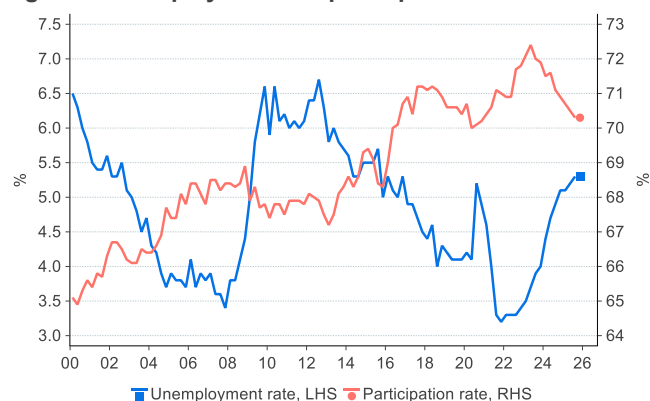
Looking forward, typical lags between economic activity and the unemployment rate suggest the unemployment rate should gradually decline over 2026.

Figure 1. HLFS employment growth



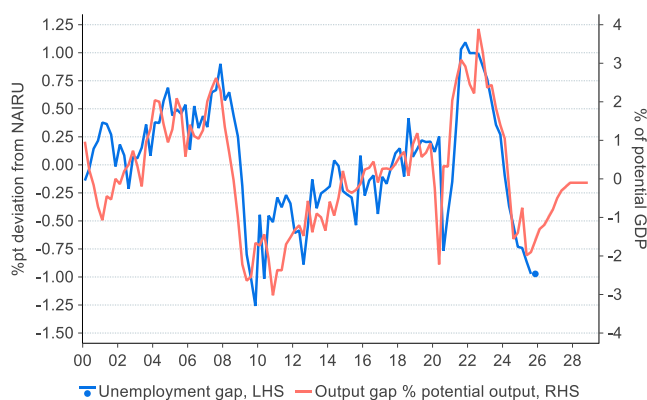
Source: Stats NZ, Macrobond, ANZ Research

Figure 2. Unemployment and participation rate



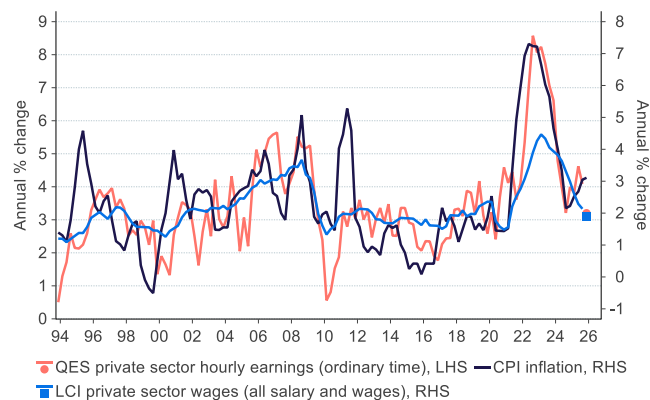
Source: Stats NZ, Macrobond, ANZ Research

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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