

Our Take

Kiwibank economics.

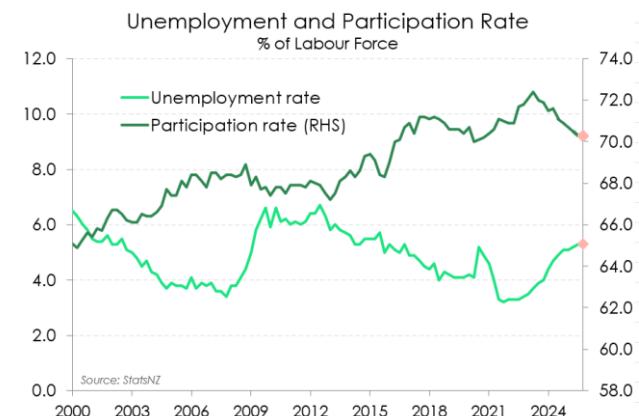
Demand for workers is improving, but we have a long way to go

- With the Kiwi economy turning, the labour market is finding its feet and stabilising. Conditions remain soft, but the period of deterioration looks to be behind us. We expect the Kiwi unemployment rate held steady at 5.3% to close out 2025.
- There are growing signs that appetite for labour is improving. That's good news. But for now those gains are only enough to absorb the growth in labour supply. And with sizeable spare capacity, we expect wage growth to remain subdued at 2.1%.
- While markets are increasingly pricing in the risk of rate hikes this year, we remain unconvinced. We need to see the labour market really turn, not just stabilise, to have confidence in the recovery and in order to see spare capacity get soaked up. We don't think we'll see that until the tail end of this year, maybe even early next year. And as such, we remain of the view that rate hikes remain a story for 2027.

Domestic data as of late has reflected an economy that is well and truly in recovery. Business sentiment has improved, and activity indicators are up. So, naturally with the release of Kiwi jobs data just around the corner, the question is, are we set for some more good news?

In a broad sense, we think we are. We expect next week's labour market statistics from StatsNZ to reflect a jobs market that is stabilising. And that's a welcome change from the softening we saw through much of the past year. Recent indicators suggest an improvement in labour demand and employment growth. The worst should be behind us. That said, labour market conditions are set to remain soft with a meaningful unwind in spare capacity still a while away yet. Because while our economic recovery may indeed be underway, the labour market tends to be the last indicator to turn.

Still, the December quarter should show the market levelling out. Glimpses of a stabilisation were already seen in the last jobs report for the September quarter. Total hours worked lifted for the first time in nearly two years. Meanwhile employment growth, flat over the quarter, had broken a year-long streak of quarterly declines. Since then, monthly filled jobs data has continued to suggest an improvement in the appetite for labour. Despite some volatility, filled job's trended higher over the December quarter, up 0.2%. Such



a lift however keeps total filled jobs around 1.8% below their early 2024 peak levels. 2026 should see further improvements. But it will still be more of a slow burn in job growth given the lagging nature of the labour market reflecting economic conditions from 9-12 months ago. Which no one needs reminding but wasn't a great time.

There is a conceptual difference between Stats NZ's filled jobs data and the Household Labour Force Survey (released on Wednesday). The former is drawn from tax data, and the latter is subject to sampling errors. Despite this, the monthly data does a good job in providing a steer on employment. Accordingly, we've pencilled in a 0.3% lift in employment growth over the quarter. Such a result would see employment down flat on the year.



The recovery in labour demand is now likely just enough to keep pace with growing labour supply. We've pencilled in a 0.3% lift in the working age population over the December quarter. Which when put together, should see



the unemployment rate hold steady at its 9-year high of 5.3%.

As always, movements in the unemployment rate on the day will be heavily dependent on changes to labour force participation. Much like the rest of the labour market though, we expect the participation rate to have also found some ground, likely holding steady at 70.3%. This of course follows the participation rate's steady decline over the last couple of years from an all-time high of 72.4% in June 2023. At the time, a surge in migration supplied much needed work-ready migrants, and a cost-of-living crisis pulled many off the sidelines. Though since then, the weight of two years of recession and waning labour demand, has seen participation ease as discouraged workers have headed to the exits. We however suspect that the discouraged-worker effect has largely run its course. The improvement in the economy and labour market conditions (albeit gradual) should likely help limit further exits and stabilise participation in the near term. Though it's not our base case, a higher participation next Wednesday could be on the cards. And under that scenario we could instead see the unemployment rate nudge higher.

In any case, considerable slack in the labour market remains. And even with improvements in labour demand, such slack is set to keep wage growth subdued. We expect to see a 0.5% quarterly rise in wages, keeping the annual rate steady at 2.1%.

Our forecasts for next week are broadly in line with the RBNZ's. Stronger readings across activity indicators, alongside last week's hotter-than-expected inflation print, has however seen markets and commentators alike turn their attention to the possibility of rate hikes this year. While we do expect next week's labour-market release to show some improvement relative to recent outcomes, the economy still carries a meaningful degree of spare capacity. Spare capacity which will take time to be fully

absorbed. We need to see the labour market really turn, not just stabilise, to have confidence in the recovery. We don't think we'll see that until the tail end of this year, maybe even early next year. And as such, we remain of the view that rate hikes remain a story for 2027.