

Research Economy Watch

5 November 2025

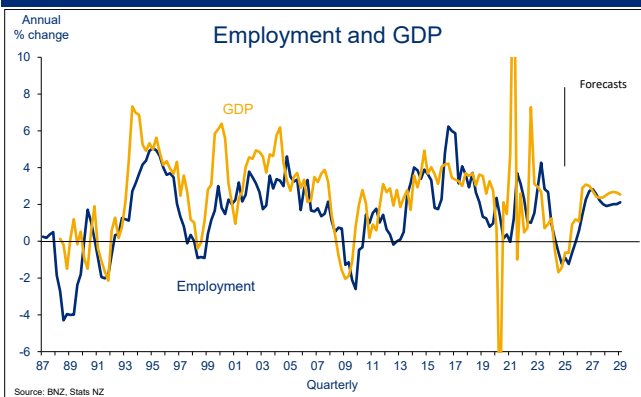
Another turning point?

- Labour market deterioration subsides
- But there's an awful long way to go
- Unemployment rate to stay above 5.0% for a while yet
- Wage growth continues to fall
- Much to ponder for the RBNZ

Today's labour market data broadly confirmed our view of the world. Namely, that the deterioration in the labour market is reaching its end but that it will be quite some time before any sort of buoyancy returns.

The problem for those looking for work is that the labour market lags the real economy. Only now is the economy starting to show the first signs of life. But it will be a while before employers are confident enough to take on more staff especially, when in many cases, the staff that are already employed are underutilised.

Labour a laggard

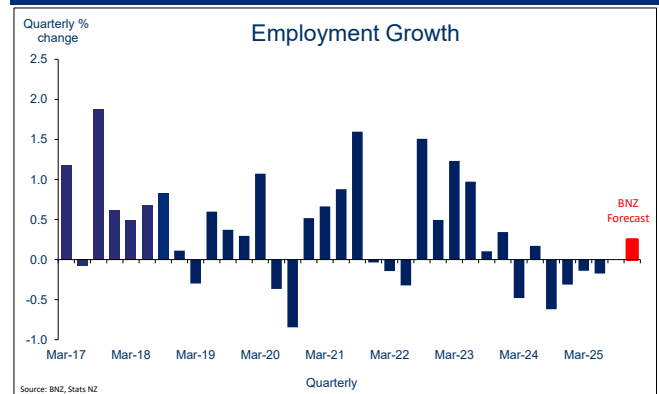


But at least it is starting to look like net job loss is a thing of the past. Sure, there was no employment growth in the September quarter but zero followed four quarters of negatives. Rising job ads, and expectations that GDP growth is now resuming, suggest that next quarter's change should be the most positive since December 2023.

Providing further supportive evidence for this conclusion is the fact that hours worked actually rose 0.9% in the quarter – the first quarterly increase in seven. This, incidentally, is also supportive of our view that Q3 GDP bounced.

There may also be some solace in the fact that seasonally adjusted full time work rose in the quarter for the first time since Q4, 2023.

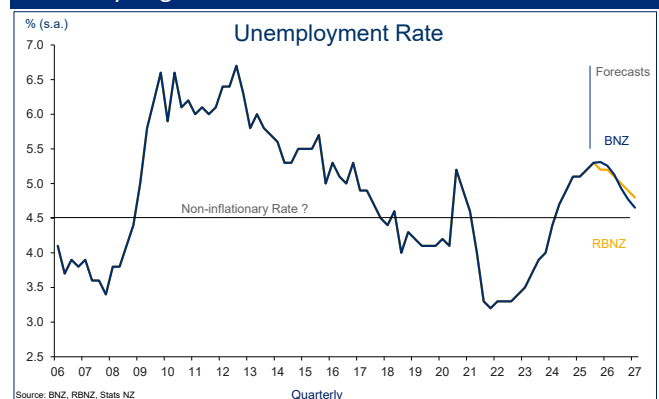
On the way up?



An improvement it may be but it wasn't enough to prevent the unemployment rate rising a notch higher to 5.3%. You have to go all the way back to September 2015 to find a higher reading. Moreover, the unemployment rate would have been a couple of points higher had it not been for the drop in the participation rate from 70.5 to 70.3. This steady decline may well be representative of folk simply giving up looking for employment given the weak state of the labour market.

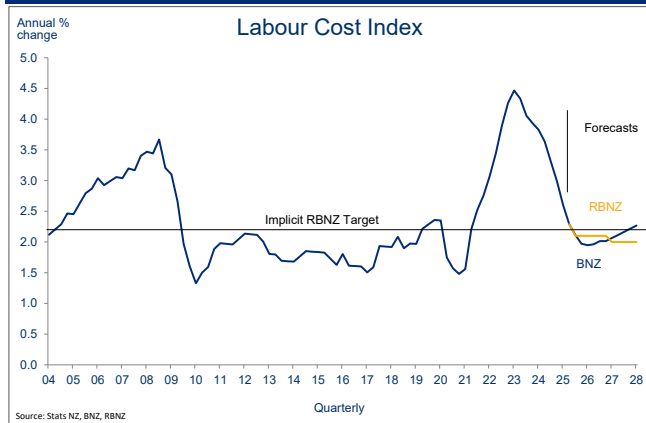
The good news is that we think the unemployment rate has peaked. The bad news is that it will still take some time before there is a meaningful reduction. We continue to believe it will stay above 5.0% until the second half of 2026.

Some way to go



With there being an excess supply of labour, wage growth continues to wane. The labour cost index for private sector employees rose just 0.4% in the quarter to be up just 2.1% for the year. This is a level that is entirely consistent with the Reserve Bank meeting its inflation objectives with particular downward pressure on non-tradeables inflation.

Under control



Generally, the RBNZ would not have been surprised by the labour market readings. The quarter's employment, unemployment and the LCI all printed bang on RBNZ expectations. But the drop in the participation rate alongside ongoing weakness in net migration inflows means potential output may be weaker than the Bank has expected. This means inflation might reappear at lower

levels of economic expansion than would otherwise have been the case. This could become particularly pertinent if there is, as we fear, a mismatch in the skill base needed to support any recovery with the skill base of those currently unemployed. This may be particularly revealing in the infrastructure space.

Also note that revisions to previous quarters mean annual employment growth of -0.6% is weaker than the RBNZ's -0.3% August MPS forecast. So, while the quarterly numbers were on expectation, the general tenor of the employment data provide the Bank with a weaker starting point to contemplate.

For now, though, there is little in today's data to significantly change our, or we suspect, the Reserve Bank's point of view. Importantly, though, on balance, we remain concerned that we may be overestimating the likely pace of the economic expansion while underestimating the potential inflationary implications of any such recovery. The RBNZ will have these things to mull over too but we doubt its musings will detract it from lowering the OCR a further 25 basis points at its November meeting.

After that, multiple options are live. The festive season will soon be upon us. Watching household spending patterns and the hiring behaviour of typically seasonal retail and hospitality businesses will be key to understanding the economy's progression and the New Year reaction function of the central bank.

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