5 February 2025

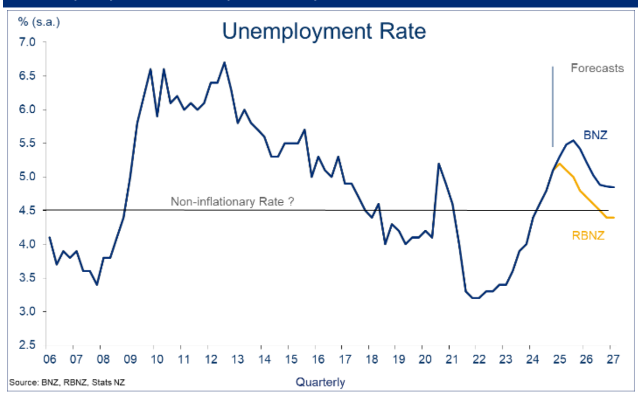
Unemployment continues its climb

- **Unemployment rate jumps through 5.0%**
- **Further increases to 5.5% expected**
- **An eventual surprise for the RBNZ**
- **Youth a major casualty**
- **Wage growth moderating slowly**

New Zealand's labour market continues to deteriorate. As anticipated by most, the unemployment rate rose to 5.1% in the December quarter from 4.8% a quarter earlier. This is now the highest unemployment reading since December 2016, if you exclude the COVID blip.

Importantly, we see further deterioration ahead. While today's reading was bang on RBNZ expectations, we still believe the unemployment rate will head higher than the 5.2% peak the bank forecasts for the current (March 2025) quarter. This is a key factor in our view that the cash rate ultimately falls to a low of no higher than 3.0%.

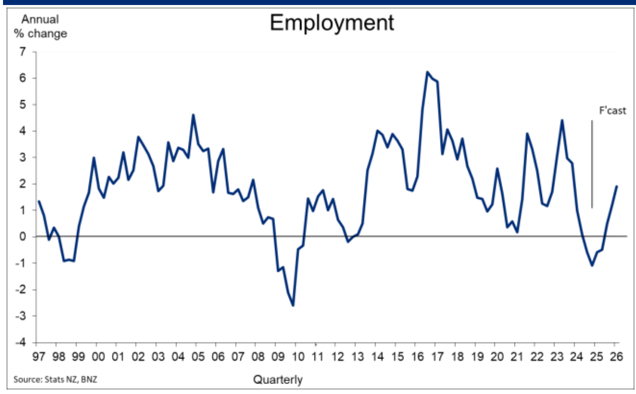
Unemployment not peaked yet



Employment has declined in each of the last two quarters and is now 1.1% below year earlier levels. Note that the 0.1% quarterly decline was a tad "better" than anticipated but revisions to the previous quarter meant the 32,000 annual drop in employment was higher than anticipated. This is the largest annual percentage fall in employment since the GFC. Hours worked also fell 2.5% annually adding further evidence of the significant extent of the weakening labour market.

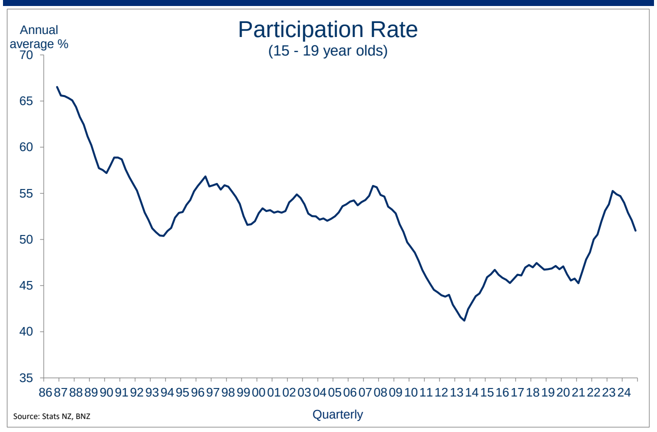
We see little sign employment will pick up anytime soon so, even with a further drop in the participation rate, we believe the unemployment rate will first climb to 5.3% in the March quarter 2025 and then further to 5.5% in June.

Employment in retreat



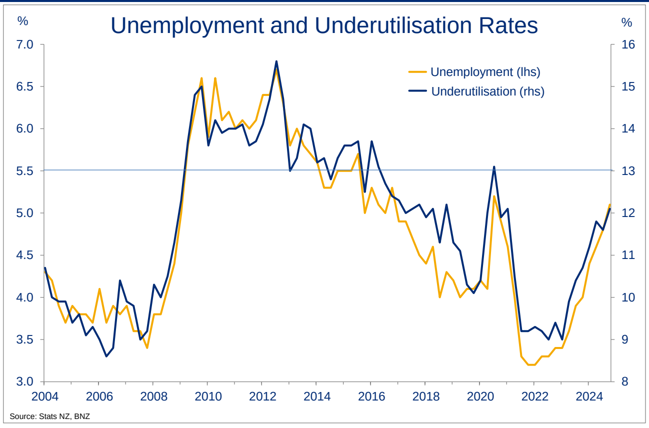
The unemployment rate would be even higher if it wasn't for the fact that youth participation is dropping rapidly. Youth are often the "marginal" employees so when economies soften the youth unemployment rate tends to rise faster than that for other age groups. It is no different this time around. The redeeming feature is that many youth do at least have the option of return to school or higher education to enhance their future employability. The drop in participation for this age group suggests many may be doing this.

Youth participation softens



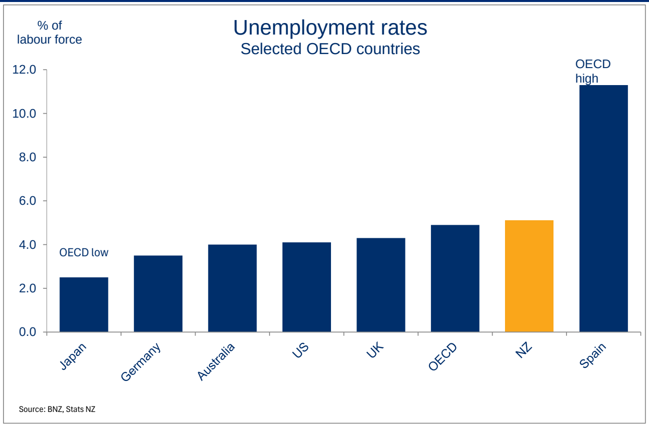
The other indication that the labour market is softening was the rise in the underutilisation rate from 11.6% to 12.1%. However, while this looks particularly worrisome, we are quick to point out that the increase is entirely what you would have expected given the move in the unemployment rate. Indeed, if our unemployment rate forecast proves accurate then the underutilisation rate would be expected to peak at around 13.0%.

Underutilisation rate rising sharply



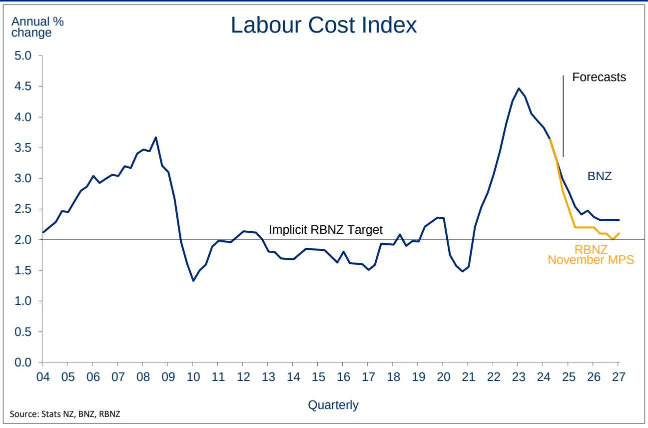
As a point of comparison, it is interesting to see that New Zealand's unemployment rate has now lifted above the OECD average and we now lie at number 18 of 38 in the ranking.

Above the OECD average



If there was one aspect of today's data that the RBNZ might be a tad nervous about it was that the Private Sector Labour Cost Index reported annual inflation of 3.0% compared with a RBNZ pick of 2.8%. The pace of increase is at least still trending lower but continuation towards 2.0% will be considered imperative by the Bank.

Wage growth wilting



For the record, while the private sector wage index rose 3.0%, local government wages, by this measure, were up 3.7% and central government 4.6%.

As an aside, today's data provide further evidence that you need to be very careful with basing decisions around short term movements in productivity. The combination of an upward revision to GDP and downward revision to employment means that productivity suddenly looks much better than previously thought, albeit still awful.

There was nothing in the labour market report to change our view on the way ahead for the Reserve Bank though the couple of point sell off at the short end of the rates' curve did suggest that investors were positioned for a soft outcome. We're still looking for a 50 point cut at the February MPS with moderation in rate reductions thereafter.

stephen_toplis@bnz.co.nz

Contact Details

BNZ Research

Stephen Toplis
Head of Research

Doug Steel
Senior Economist

Matt Brunt
Economist

Jason Wong
Senior Markets Strategist

Stuart Ritson
Senior Interest Rate Strategist

Mike Jones
BNZ Chief Economist

Main Offices

Wellington
Level 2, BNZ Place
1 Whitmore St
Private Bag 39806
Wellington Mail Centre
Lower Hutt 5045
New Zealand
Toll Free: 0800 283 269

Auckland
80 Queen Street
Private Bag 92208
Auckland 1142
New Zealand
Toll Free: 0800 283 269

Christchurch
111 Cashel Street
Christchurch 8011
New Zealand
Toll Free: 0800 854 854