

Input to your Strategy for Adapting to Challenges

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A positive employment outlook

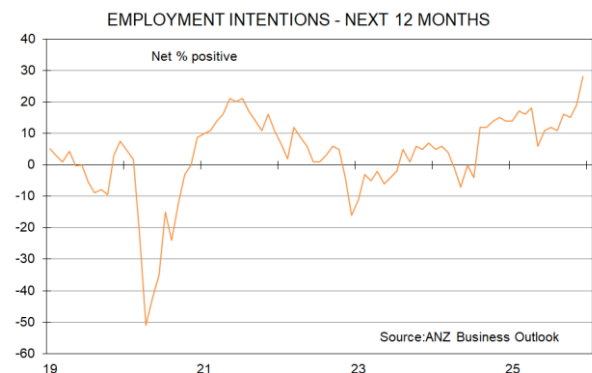
Data released Friday night in the United States show that job numbers there grew by only 50,000 in the month of December. Average monthly gains through 2025 were just under 50,000 compared with over 160,000 during 2024. Is this weakness in jobs growth something which might happen here and impede the recovery in consumer spending in New Zealand through this year?

To gain insight into that one first of all gives some thought to the likely overall rate of growth in the economy and then dives into indicators which specifically give insight into jobs growth.


For the economy overall the common expectation is for growth of maybe 2.5% - 3% which naturally suggests jobs growth potentially reaching 1.5% - 2.0%. Since 1992 while NZ GDP growth has averaged 2.8% a year jobs growth has averaged 2%.

Regarding indicators, we can best start with employment intentions from the ANZ Business Outlook survey. The December survey undertaken early that month showed a net 28% of businesses planning to hire more people over the coming 12 months. This is up from the low last

year of 6% in May when things were very depressed here. The three decade average is 7% so at 28% the latest number suggests increasingly healthy conditions for job seekers this year. This will tend to boost wage demands then inflation along with consumer spending and the fortunes of retailers.




My own business survey with MintHC showed at the end of last year that an increasing net proportion of businesses are already finding it difficult to get the staff they want. That is interesting considering the unemployment rate is at a cyclical high of 5.3%.




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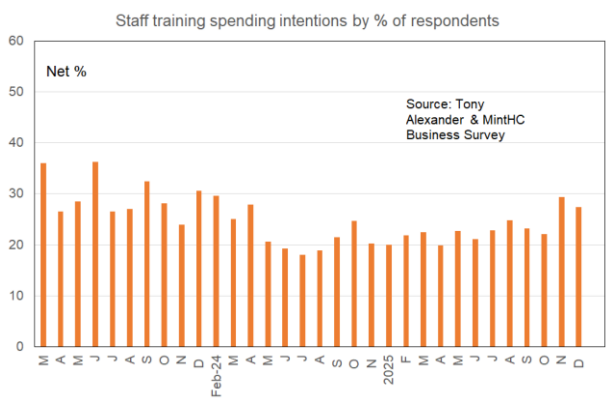
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This is good news for businesses involved in staff training, as seen by this next indicator rising firmly over the last two months of 2025.

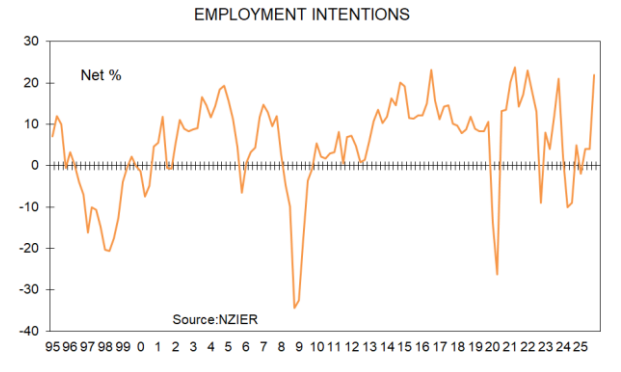


This Tuesday NZIER released their December Quarterly Survey of Business Opinion (QSBO) which has been running since the 1960s. It gives some of the best indicators of pressure on capacity availability in New Zealand and is often focussed on to get a feel for inflationary pressures.

With regard to the labour market the latest survey results show that a net 22% of businesses outside the rural sector (which they do not cover) plan hiring more people over the coming three months.

This is up from just 4% in the previous quarter and the strongest result since March 2022.

The following graph starts in 1995 and shows that this measure can be volatile. But the biggest changes have traditionally been downward when confidence plummets – such as during the GFC and pandemic. The sharp rise of 18% without a very recent prior collapse is substantial and bespeaks of a swift shift in business mindsets towards backing the economic recovery.



The QSBO also showed a healthy rise in investment intentions for buildings and plant & machinery. That will be good for productivity growth.

There are other measures available, but the range discussed here tells us firmly that the jobs market is going to be a lot healthier for employees this year. That means it is legitimate to have a view that household spending will rise on the usual goods and services along with housing.

The issue for businesses will be when labour availability strongly falls away as I suspect will be the case late this year.

If I were a borrower, what would I do?

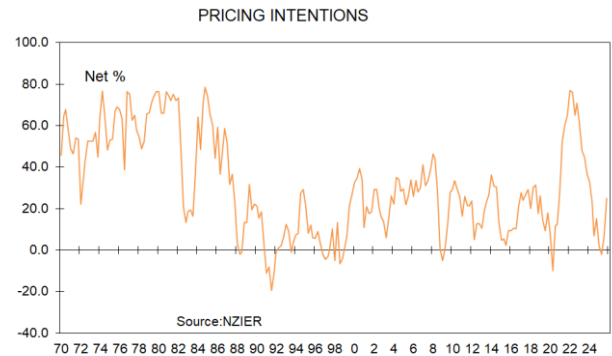
The NZIER QSBO discussed above includes some measures which will allow us to see at reasonable speed how quickly the economic upturn is using up spare resources and increasing inflationary pressures. The latest report shows tightening up of availability is occurring but that these are early days yet.

The capacity utilisation rate for instance has risen from 89.1% to 89.8% (not really a percentage but easiest to think about that way). This is well enough below the ten year average of 92.4% not to be a cause for any concern and the quarterly rise is not unusual in magnitude.

Looking specifically at the labour market we have the tightening noted above with a net 2% of businesses saying skilled labour is hard to find from 10% saying it was easy in the September quarter. The ten year average is a net 35% finding skilled staff hard to find so no wage worries seem justified as yet.

Of greater need for scrutiny however is the relatively high net 37% of businesses who said their costs went up in the December quarter. This is not that far below the average of 43%. The net proportion saying they plan raising their selling

prices in the next three months has however jumped to 25% from 7% where 31% is the average. This is where my main concern lies.



Businesses have suffered compressed margins in recent times because of sharp cost rises. My worry is that as customer flows improve many will move to raise selling prices as quickly as possible in order to try and rebuild margins. This is what I will continue paying strong attention to as we move through 2026 because it will give good insight into how quickly wholesale interest rates rise this cycle.

If I were borrowing at the moment, I'd probably fix three years. Fixing five is no longer possible at the good rate of 4.99% and at about 5.30% the leap from fixing one year near 4.5% is too large to seriously consider for all but the highly risk averse.

Wholesale interest rates haven't moved much this week.

To see the interest rates currently charged by major lenders go to www.mortgages.co.nz

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