BRIEFING

Summarising the labour market implications of recent fuel price rises

Date:	14 May 2026	**Priority:**	Low
Security classification:	In Confidence	**Tracking number:**	REQ-0032683

Action sought		
	Action sought	**Deadline**
Hon Louise Upston **Minister for Social Development and Employment**	**Note** the labour implications of the current fuel price shock **Agree** to forward this paper on to the Labour Market Ministers Group for their information	

Contact for telephone discussion (if required)			
Name	**Position**	**Telephone**	**1st contact**
Simon Mandal-Johnson	Policy Director, Employment, Skills and Immigration Policy	Privacy of natural persons	✓
Katie Trail	Senior Policy Advisor		

The following departments/agencies have been consulted
Ministry of Education, Tertiary Education Commission, Ministry for Primary Industries, and the Treasury

Minister's office to complete:

- ☐ Approved
- ☐ Declined
- ☐ Noted
- ☐ Needs change
- ☐ Seen
- ☐ Overtaken by Events
- ☐ See Minister's Notes
- ☐ Withdrawn

Comments

MINISTRY OF BUSINESS, INNOVATION & EMPLOYMENT
HĪKINA WHAKATUTUKI

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Date:	14 May 2026	**Priority:**	Low
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Purpose

To provide an update on the all-of-government work to understand the potential labour market implications of the recent fuel price rises.

Recommended action

The Ministry of Business, Innovation and Employment recommends that you:

a **Note** the labour implications of the current fuel price shock.

Noted

b **Agree** to forward this paper on to the Labour Market Ministers Group for their information.

Agree / Disagree

Privacy of natural persons

Simon Mandal-Johnson
Policy Director

Employment, Skills and Immigration Policy, MBIE

14 / 05 / 2026

Hon Louise Upston
Minister of Social Development and Employment

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Summary of our work on understanding the potential labour market implications of recent fuel price rises

1. We are monitoring changes in the New Zealand labour market in response to recent fuel price rises, particularly in the light of International Monetary Fund (IMF) evidence that fuel price rises tend to have long-term economic impacts that peak two years from the initial price rises and can endure for several years after this peak.[1] While the IMF work reflects oil price rises across many countries and under different macroeconomic management, it provides useful context in preparing for risks raised by a labour market shock.

2. To date there is little sign of overall labour market deterioration in response to recent fuel price rises. This is not surprising as households are likely to respond to the increased fuel costs in different ways – some reducing employment where the cost of getting to work is too high, and others seeking more hours of work to supplement household budgets. Households are spending a bigger proportion of their budgets on transport costs, which is reflected in the increased consumer spending on fuel by $81 million (71.3 percent) in March 2026 compared with February 2026 [REQ-0030416 refers].

3. The Treasury has modelled a range of scenarios illustrating the possible macroeconomic impacts associated with oil price forecasts and their likelihood of eventuating. Their central scenario, which is linked to global oil futures price, suggests that labour market impacts may be only transitory i.e., a temporary and short-term impact. However, these scenarios are highly uncertain, with other scenarios developed by the Treasury indicating different possible directions i.e., a non-transitory impact. Given the uncertain nature of these scenarios, and the existing weakness in the labour market, we consider it prudent to prepare for the potential of longer-term impacts on the labour market.

Fuel shocks can generate fast impacts and leave lasting ‘scarring’ effects on labour markets in the long-term

4. Risks to the labour market are likely to increase the longer global fuel prices continue to be disrupted. We would expect to see increased prices – both directly through the cost of fuel, and through the fuel-dependent economy – leading to inflationary pressure, reduced economic activity, and risks to employment and labour market participation. Higher interest rates and fluctuating exchange rates may make businesses more cautious about investing and hiring. Businesses may reduce hiring, cut back hours, or delay replacing workers, leading to softer demand for labour. Over time, weaker domestic activity associated with higher energy costs and softer demand could make it harder for job seekers to find employment, discouraging people from joining or remaining in the labour force.

5. We are concerned about firm resiliency given the current phase of the economic business cycle and the recent context of a long period of high interest, unemployment and inflation rates. SMEs' business deposits have significantly declined since 2022, suggesting many firms are operating with limited financial buffers. This is reflected in business outcomes, with company liquidations reaching a 15-year high in 2025 (2,867 liquidations) and insolvency activity remaining elevated into early 2026. Together, these indicators suggest many SMEs in particular will be sensitive to further fuel-driven cost pressures.

6. Risks in labour supply appear to coalesce around low-income essential workers, who typically have the highest travel costs as a percentage of their total household costs and fewer options for changing behaviours (e.g., shifting to work from home). There are also risks for groups who already experience labour market disadvantage including women, young people, disabled people, migrants, care workers, those in fuel-intensive sectors, and those in

[1] https://www.imf.org/-/media/files/publications/wp/2025/english/wpiea2025145.pdf

rural communities who travel longer distances to get to work. The latest labour market statistics suggest a more fragile labour market going into the fuel shock, particularly for young people aged 15-24 years, which may compound the impacts. IMF evidence suggests that some people may face permanent income effects due to wage scarring.

7. There is also a specific risk in certain industries where employment agreements specify mileage reimbursement rates – typically lower than the amount set by Inland Revenue – that may not fully cover travel costs. From a preliminary analysis, this risk seems to be concentrated in parts of the education and health sectors. The most acute needs are already being addressed, for example the targeted support for small, rural and isolated schools.

8. The Ministry for Primary Industries (MPI) notes there may also be implications for the global migrant workforce that supports the primary sector, including rural contractors and working holiday makers. Increases in the cost of overseas travel could act as a constraint on the availability of this workforce, particularly during peak seasonal periods when demand is highest. Reduced inflows or shorter stays could place additional pressure on labour supply in some regions, with potential flow-on effects for business operations and productivity.

9. At the same time, there may be opportunities for displaced New Zealand workers to enter the primary sector and help fill emerging gaps in the workforce. These dynamics will be important to monitor alongside broader labour market and cost pressures, particularly in sectors and locations that rely heavily on seasonal or internationally mobile workers.

10. MPI has also noted potential risks for the primary sector. Employers are already facing pressure from rising input costs, including diesel, fertiliser, and plastics, contributing to broader cost pressures on businesses [redacted] Free and frank opinions Officials are continuing to monitor these trends closely. If these pressures persist over the longer term, they may have implications for employment, particularly in rural communities with a high reliance on primary sector activity.

We will continue to monitor the impacts of fuel prices on the labour market and consider what additional interventions might be required

11. Officials are actively working to understand whether the existing toolkit of labour market interventions will likely be sufficient to address the labour market impacts of higher fuel prices at phase one of the fuel supply disruption response.

12. The case for labour market intervention grows as the duration and/or severity of the fuel supply disruption increases. Depending on the duration and severity of the fuel shock, there is a range of possible labour market interventions that might be considered, including income support and active labour market policies, should the disruption be prolonged.

13. We will continue monitoring changes in the labour market and working across government to form advice on whether future interventions might be necessary and under what conditions, as well as what shape they could take and the potential trade-offs and mitigations.

The tertiary education system currently has limited capacity to absorb higher demand

14. While we expect the welfare system to see the first impacts of any changes in the labour market, in the longer-term we may see stronger demand for tertiary education than forecast from the labour market impacts of the fuel price rises.

15. Over time we have seen that downturns in the labour market and higher rates of unemployment generally lead to increased enrolment in provider-based tertiary education and a decrease in work-based training. However, drawing on insights from MPI, a different set of drivers may shape vocational education and training (VET) demand in some regional

and rural areas with a strong reliance on primary sector activity, such as Tairāwhiti–Gisborne and Northland. These regions are characterised by higher levels of deprivation, a high dependence on primary sector employment due to limited alternative job opportunities, and additional cost pressures related to distance from production to export ports. In these regions, we expect that there may be stronger incentives for learners to engage in work-based learning linked to immediate, locally available employment, which would require employers to invest in training.

16. Whether an increase in demand will happen due to a fuel shock will depend on a number of factors, including:

    a. whether people perceive the effects to be short term or long term (as studying for a new tertiary qualification will take them 1-3 years);

    b. the scope firms have to assist their employees in training to travel to work in the interim; and

    c. whether there are temporary income supports available for people.

17. The tertiary education system's capacity to respond to an increase in enrolments may be limited for certain types of provision and/or in particular regions. This is particularly the case for the workplace-based learning parts of the VET system, which are in a transitional phase until the end of 2027.

18. If demand exceeds the amount of funding allocated by the Tertiary Education Commission (TEC) – the overall settings fund 99 percent of forecast demand – it will be difficult for the TEC to quickly shift funding to where any additional demand is. Providers might enrol learners despite not having funding certainty, but regional polytechnics may not have as much margin to absorb costs as some other provider types. It would also create extra pressure on the Student Loans and Allowances scheme.

19. If there is greater than forecast demand for tertiary education, the Government can decide whether to fund this increased demand. Where learners can access study, the tertiary education system will be able to expand to meet demand should funding be available for it.

Next steps

20. We will continue monitoring the impacts of fuel prices on the labour market over the coming months and report back periodically. Confidential advice to Government [redacted]

21. We recommend forwarding this report to your colleagues in the Labour Market Ministers Group for their information and discussion at their next meeting.