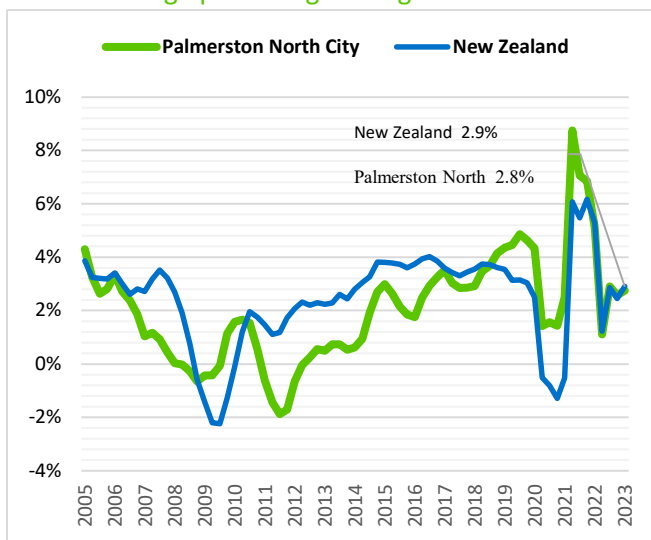


The Palmerston North economy continued to perform well in the year to March 2023. While there are clear signs that some parts of the economy are under pressure, the city economy is proving resilient as economic activity and employment continues to perform above expectation.

GDP growth in Palmerston North for the year ended March 2023 remained close to national growth, rising 2.8 percent compared with 2.9 percent nationally.

This follows a period of high growth for the city and the expectation that GDP growth would fall well below national growth from the latter part of 2022, as the national economy recovered from the greater impacts of COVID-19 restrictions in 2021.

Palmerston North Gross domestic product growth Annual average percentage change



Source: Infometrics QEM, March 2023

Strong public sector investment and employment alongside robust private sector activity has supported economic activity in the city with GDP growing by 20.5 percent over the five-years to March 2023, compared with 14.4 percent nationally.

The New Zealand economy overall, has proven resilient. Earlier forecasts of recession have been abandoned as net international migration and labour market resilience exceed expectation and inflation expectations ease.

Interest rates have stabilised. The RBNZ surprised markets by limiting the rise in the Official Cash Rate to the signalled 25 basis points at their last meeting in May, citing slowing domestic demand and easing supply chain and inflationary pressures.

The Treasury echoed this sentiment in the May Economic and Fiscal Update with the unemployment

rate now forecast to peak lower than previously anticipated and annual inflation to fall back within range by late 2024.

The latest economic data reflects the resilience of the city economy overall, but challenges remain.

Economic performance has exceeded the expectations of our leading economic agencies, however, conditions remain volatile and the impact of economic conditions, uneven. Businesses and households vulnerable to higher costs and interest rate increases are doing it tough and signs are emerging that hardship is spreading to higher income households. There is reason for optimism relative to earlier predictions, but challenges remain in 2023.

This report employs March quarter data and, where available, more recent monthly data, to provide an up-to-date understanding of the factors that are impacting on economic activity and wellbeing in the city.

Economic highlights:

- Palmerston North GDP hit \$6.34b in the year to March 2023.
- City residents in employment increased by 1.1 percent in the March quarter 2023 compared with the March quarter 2022. Earnings from salaries and wages increased by 8.5 percent over the same period.
- Tight labour market conditions continue with the unemployment rate in the city, equal to the national unemployment rate of 3.4 percent.
- Earnings growth and a rebound in tourism activity is supporting business activity in the city. However, spending on high value and discretionary items is falling as rising costs weigh on real incomes.
- Construction sector activity is ticking up, as planned investment flows through to building consent values in the city.
- Housing market indicators continue to suggest that house prices are nearing the bottom of the cycle.
- Impacts on economic wellbeing are mixed:
 - Household living costs continue to rise with hardship spreading to higher income families;
 - Rental price growth continues but at a slower rate, while rental stocks increase in the city;
 - Public housing register numbers continue their downward annual trend; and,
 - Jobseeker benefits have fallen below pre-pandemic numbers in the city for the first time, bucking the national trend

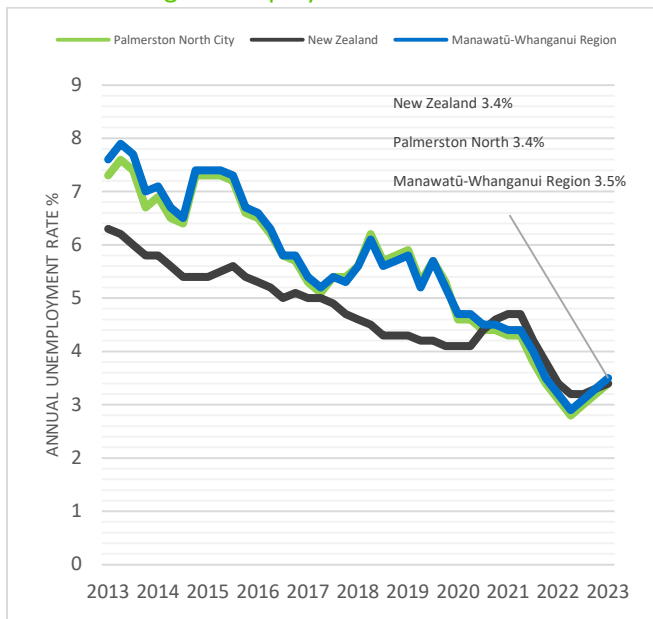
Strong growth in earnings continues in the city over the year to March 2023, with earnings up 8.5 percent compared with the March quarter 2022. National earnings increased 8.7 percent over the same period.

Annual earnings from salaries and wages in the city increased to a total of \$2.32b, substantially outweighing the increase in employed residents up 1.1 percent over the same period.

There was a total of 47,027 filled jobs located in the city in March 2023 and 35,161 city residents in employment¹.

Tight labour market conditions continue, with the unemployment rate for the city equal to the low national unemployment rate of 3.4 percent. Greater than anticipated net international migration is expected to ease labour market pressures over 2023.

Palmerston North and New Zealand
Annual average unemployment rate



Source: Infometrics, QEM, March 2023

High employment and earnings growth have supported retail spending in the city.

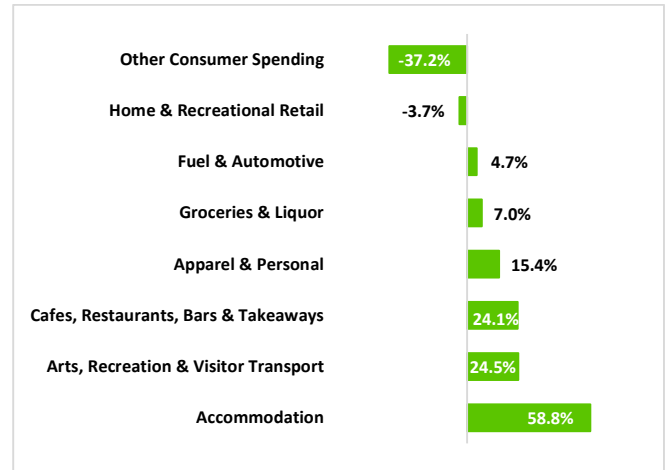
Retail spending increased by 7.6 percent over the year to April 2023. This is above the annual inflation rate of 6.7 percent indicating real growth in spending over the year. Spending growth continues to be driven by tourism related expenditure alongside core spending on groceries, personal items, and fuel and automotive.

Retail data for the April 2023 quarter, reflects the pullback in spending on discretionary goods more

¹ Figures do not include jobs and earnings from self-employed.

recently as the high cost of living impacts on more New Zealand families. As below, other consumer spending², fell 37.2 percent with home and recreational spending down 3.7 percent in the April quarter 2023

Palmerston North retail spending
April quarter 2023 vs April quarter 2022

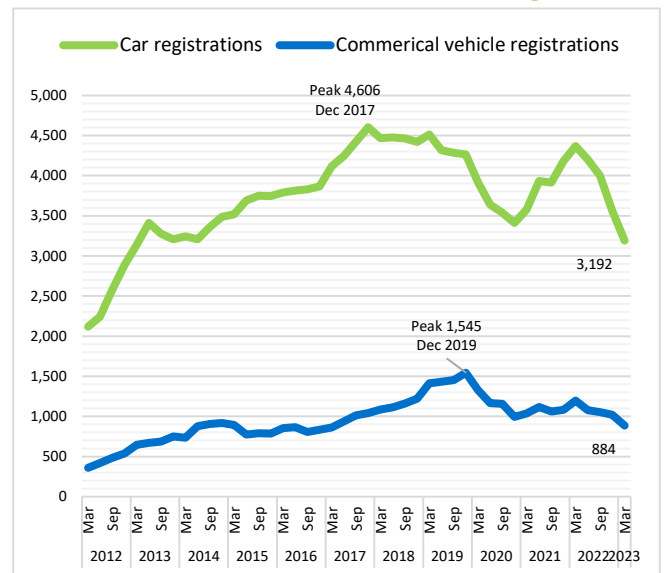


Marketview, April 2023

The pullback in discretionary spending on big ticket items continues to be reflected in falling volumes of new cars and commercial vehicle registrations.

New car registrations in the city fell 27.0 percent over the year to March 2023 while new commercial vehicle registrations fell by 26.1 percent over the same period.

Palmerston North
Annual new car and commercial vehicle registrations



Source: Infometrics, QEM, March

This trend is observed across the Manawatū-Whanganui region with registrations of new cars and commercial vehicle falling by 25.5 percent and 30.3

² Other consumer spending includes cars and motorcycles.

percent respectively over the March 2023 year. Nationally, car registrations fell by 16.2 percent over the year while new commercial vehicle registrations fell 31.6 percent over the same period.

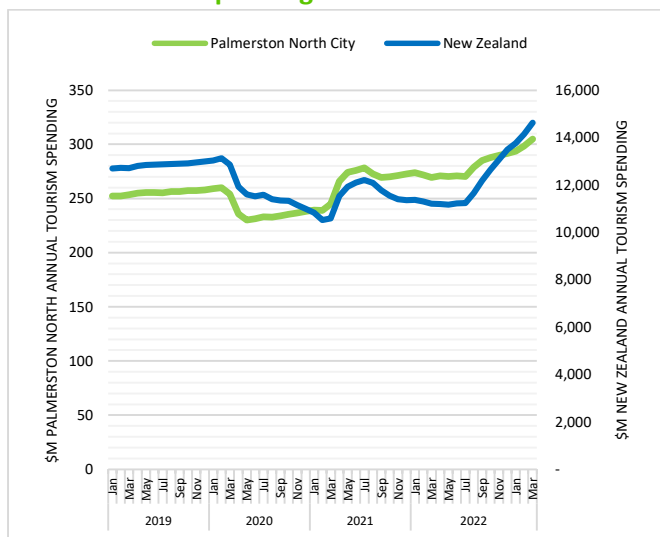
Recovery in tourism related spending in the city is boosting spending to local businesses.

Tourism spending rebounded to \$304.9m in the city over the year to March 2023, up 13.1 percent compared with the year ended March 2022. Domestic spending increased 8.0 percent while international spending increased 135.9 percent over the year.

Due to the strong domestic tourism base in the city, spending held up relatively well from 2020-2022. National tourism spending is now rebounding strongly in response to the abandonment of border restrictions, and the removal of restrictions on events and activities.

Palmerston North and New Zealand

Annual tourism spending



Guest nights in the city increased by 34.1 percent in the March year 2023. Unsurprisingly, national guest nights increased by a substantial 52.0 percent over the year, while the Manawatū-Whanganui region posted a 34.6 percent increase.

Building consent activity picks up in 2023

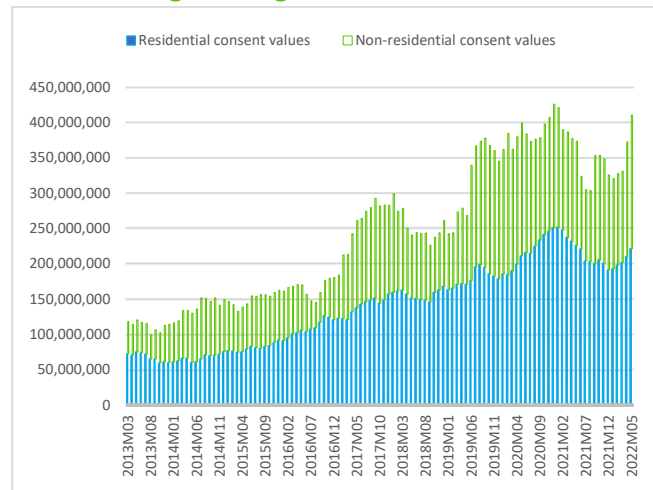
The value of building consents lifted to \$410.4m over the year to April 2023. This is an increase of 10.0 percent compared with the year ended April 2022.

Residential consent values hit \$221m falling by 2.0 percent from a very strong April 2022 year, while non-residential consent values increased by 28.2 percent to \$189.4m. The increase in consent values was driven by central government investment in health facilities at Te Whatu Ora Te Pae Hauora o Ruahine o Taranaki MidCentral.

Building consent values peaked at \$426m over the year to November 2021. Residential consents were valued at \$251m while \$175m in non-residential consents were issued over the year.

Palmerston North construction investment

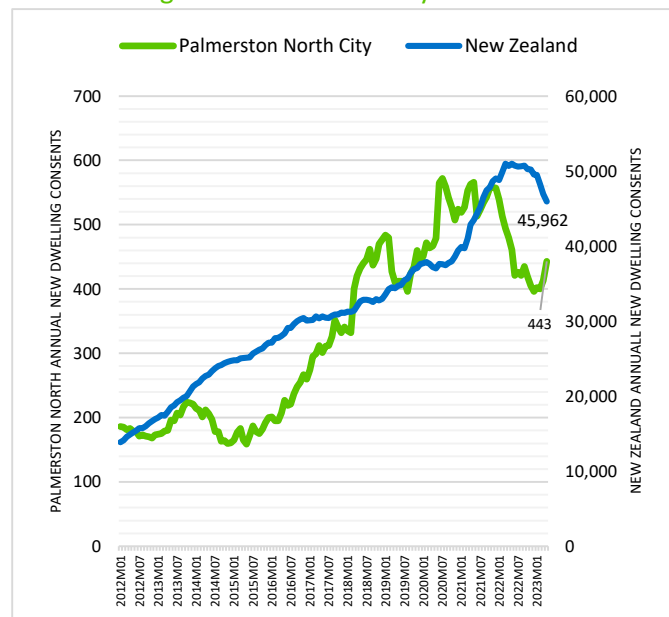
Annual rolling building consent values



Over the year to April 2023, 443 new dwelling consents were issued in Palmerston North city.

Palmerston North and New Zealand

New dwelling consents to February 2023



Source: Statistics NZ, April 2023

New dwelling consents in the city are rebounding from weaker volumes in the latter half of 2022.

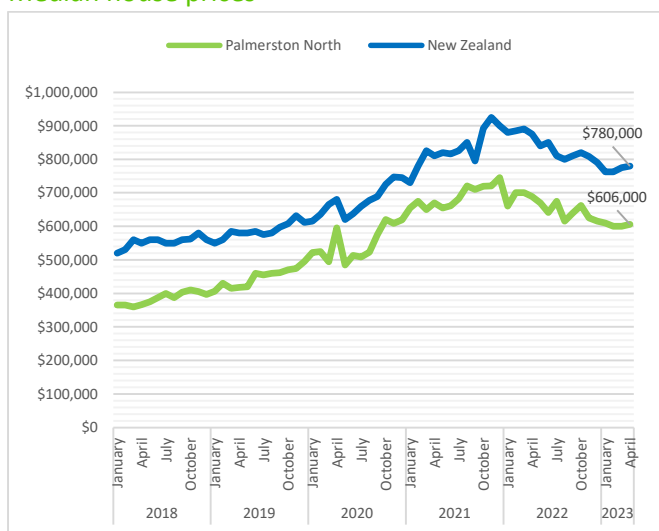
Dwelling consents peaked early in Palmerston North, with a record 572 consents for new homes issued over the year to July 2020. This compares with a later peak of 51,015 new dwelling consents issued across the country over the year to May 2022. New dwelling consents are now falling sharply across the country as higher mortgage interest costs and tight financial conditions impact on residential investment.

The housing market continues to show signs of stabilisation.

The housing market was the first casualty of higher borrowing costs and tighter financial market settings. In 2023, there are signs of stabilisation as house prices in the first four months of 2023 have remained relatively stable in the city. House prices both nationally and in the city remain well above pre-pandemic prices. Economic conditions remain challenging, however, and downside risk to house prices remain.

Palmerston North and New Zealand

Median house prices



Source: REINZ, April 2023

The following table shows the change in average and median house prices from pre-pandemic prices (as at February 2020) and over the year to April 2023 for Palmerston North city and New Zealand as a whole.

Palmerston North and New Zealand

Pre-pandemic and annual house price change

Area	Average house price	Median house price
New Zealand	\$928,656	\$780,000
	+28.5% from pre-pandemic price	+22.8% from pre-pandemic price
	-10.3% year on year	-10.9% year on year
Palmerston North	\$637,370	\$606,000
	+27.3% from pre-pandemic price	+15.4% from pre-pandemic price
	-13.5% year on year	-12.0% year on year

Source/s: Corelogic, REINZ, April 2023

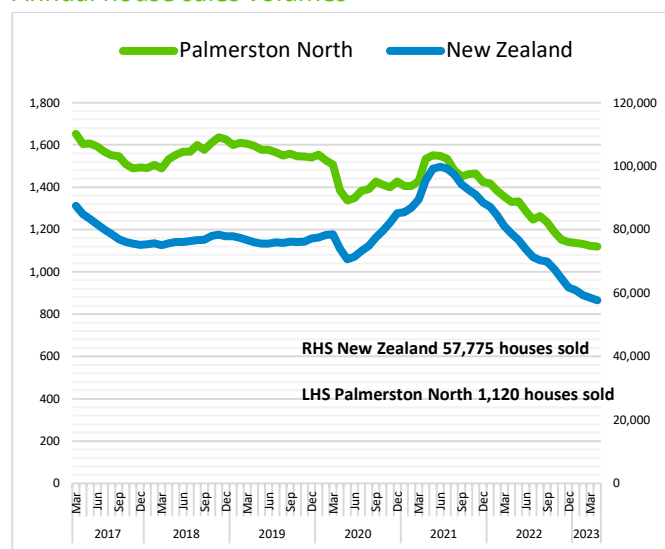
House sales in the city remain suppressed compared with the previous year, however the fall in sales volumes is substantially weaker than the decline in national sales volumes.

House sales fell 15.8 percent in Palmerston North over the year to April 2023 compared with 26.6 percent nationally.

The average number of days to sell in the region declined from 59 days in February 2023, to 43 days in April 2023. This compares with 47 days nationally.

Palmerston North and New Zealand

Annual house sales volumes



Source: REINZ, February 2023

Economic wellbeing

The continuation of high labour demand, and earnings growth is supporting many families to cover the rising costs of goods and services.

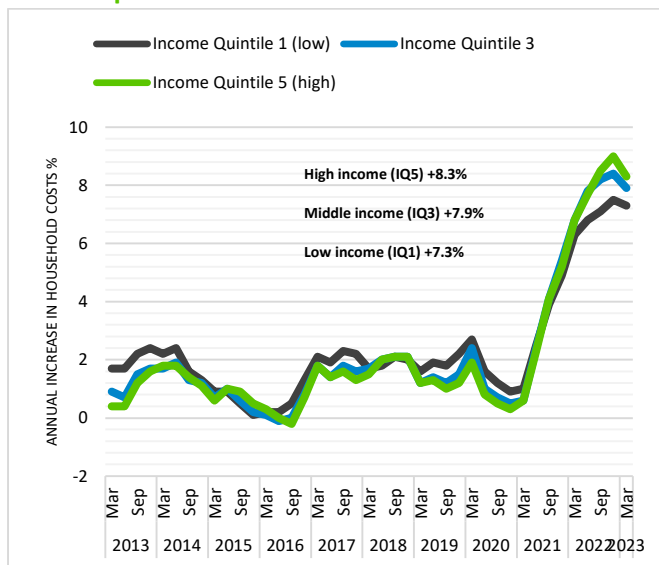
There are those in our community however, who do not benefit from rising incomes or who have been particularly affected by rising interest rates.

Average household living costs were up 7.7 percent in the March quarter 2023 compared with the March quarter 2022. Food prices increased by 12.1 percent over the same period, with fruit and vegetable prices up 22.2 percent over the year.

Living cost pressures were higher for middle to higher income households due to the impact of interest rates on weekly costs. Some families have the capacity to absorb these extra costs, however anecdotal evidence suggests growing demand for support from middle to higher income families.

National household living cost index

Income quintile



The rental market

The average weekly rent in Palmerston North was \$453 per week, up 7.1 percent over the year to March 2023. This compares with an average weekly rent of \$525 nationally, up 5.0 percent from the previous year.

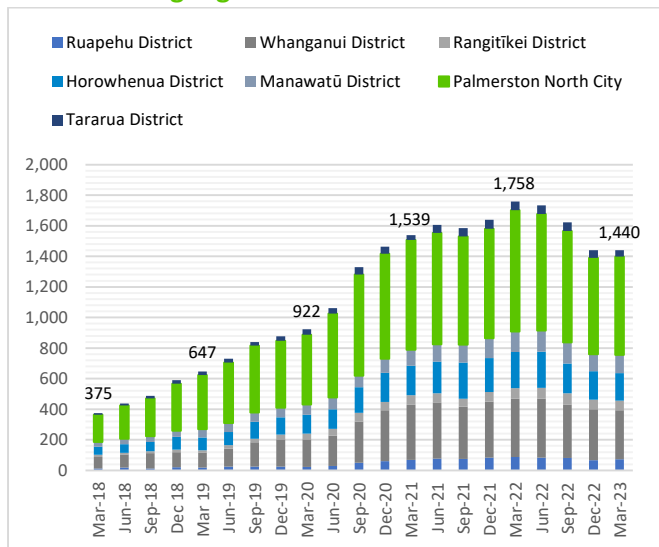
The supply of rental properties is increasing nationally with an additional 16,527 properties added to the formal rental market over the year to March 2023. This upward trend was observed in Palmerston North with 276 rental properties added to the formal rental market. A total of 7,839 properties were rented in the city as at March 2023.

Public housing

The number of households on the register for public housing in Palmerston North fell by 18.9 percent over the year to March 2023, with 642 families remaining on the register.

Manawatū-Whanganui region

Public housing register



Jobseekers

The number of jobseekers in the city fell below pre-pandemic numbers in the March quarter, with 2,736 recipients compared with 2,742 in March 2020. This is a 0.2 percent fall on pre-pandemic benefits and is in contrast with the 11.0 percent increase in jobseekers nationally over the same period.

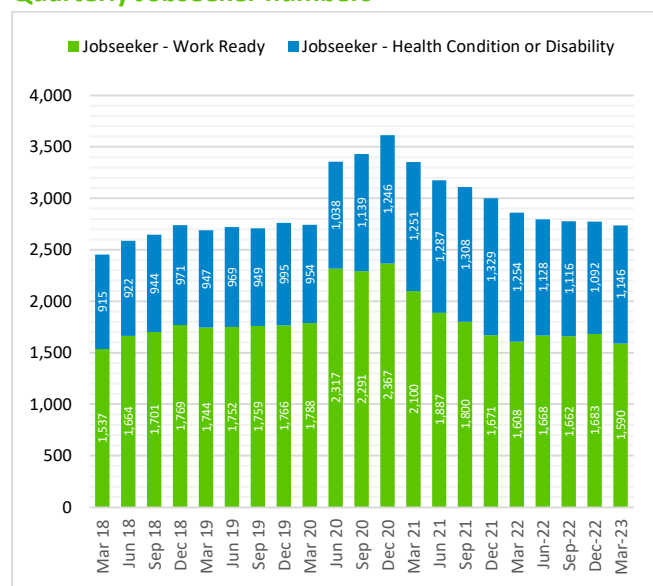
Over the year, jobseekers in the city fell by 4.3 percent compared with a 5.1 percent fall nationally.

Jobseeker characteristics have changed since 2020, with workready jobseekers making up a lower proportion of total jobseekers than prior to the pandemic (58.1 percent in 2023 versus 65.2 percent in 2020). This is consistent with the continuation of strong demand for workers across the regional economy as workready jobseekers exit for job opportunities.

Jobseeker numbers decreased across all age groups in the city, with the number of jobseekers on the benefit for more than a year falling by 6.7 percent.

Palmerston North

Quarterly Jobseeker numbers



Source: MSD, March 2023

Nationally, the number of jobseekers has increased by 16,753 since March 2020, to a total of 168,498. The number of workready jobseekers grew by 9.1 percent over the period, while jobseekers with health conditions and disabilities were up 13.8 percent.

In the city, the number of workready jobseekers have fallen 11.1 percent since March 2020, while jobseekers affected by health conditions and disabilities increased by 20.1 percent.

Palmerston North: Economic snapshot - March 2023 quarter

(also available through [City Dashboards](#))

Level	Period	Palmerston North	New Zealand
Annual inflation rate	As at Mar 2023	6.7%	6.7%
Unemployment rate*	Average of 4 recent quarters	3.4%	3.4%
Indicator	Period	Palmerston North Annual average % change	New Zealand Annual average % change
Gross domestic product (provisional)*	YE Mar 2023	+2.7%	+2.9%
Consumer spending (Electronic Card Retail Spending)	YE Mar 2023	+7.8%	+11.6%
Employment (Place of residence)	YE Mar 2023	+0.9%	+2.2%
Health enrolments	YE Mar 2023	-0.1%	+0.6%
Residential consents (number)	YE Mar 2023	-16.4%	-7.9%
Non-residential consents (value)	YE Mar 2023	+11.3%	+11.1%
Commercial vehicle registrations	YE Mar 2023	-26.1%	-31.6%
Jobseeker support recipient	Mar 2023 quarter	-4.3% compared to Mar 2022 quarter	-5.1% compared to Mar 2022 quarter
Tourism electronic card transactions - domestic**	YE Mar 2023	+8.0%	+10.2%
Tourism electronic card transactions -international**	YE Mar 2023	+135.9%	+315.5%
Housing Indicator	Period	Palmerston North	New Zealand
Average house value***	Mar 2023	-12.4% compared to Mar 2022	-10.5% compared to Mar 2022
Average weekly rent** (based on rental bond data)	Mar 2023 quarter	+8.6% compared to Mar 2022 quarter	+3.4% compared to Mar 2022 quarter
Home ownership affordability* (ratio of average house value to estimated annual average household income)	Mar 2023 quarter	5.6	7.4
Rental affordability* (% of average annualised rent to estimated annual average household income)	Mar 2023 quarter	20.8%	21.8%

Sources: Stats New Zealand, *Infometrics, **MBIE, ***Corelogic

Note: YE = Year ending