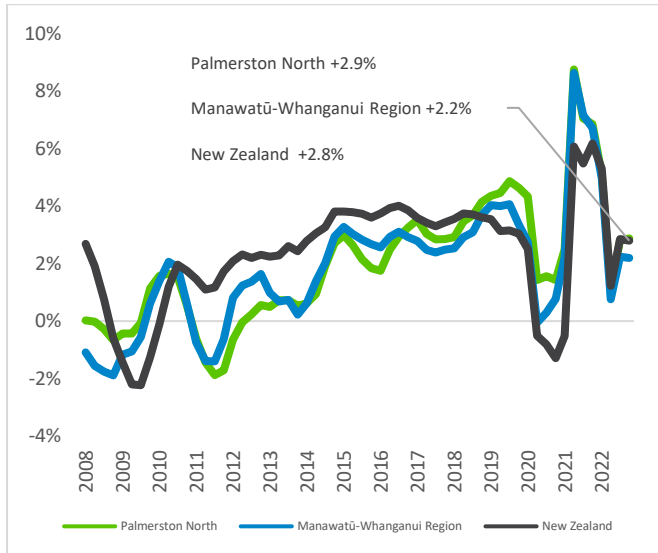


The Palmerston North economy continued to perform above expectation in 2022, however, there are clear signs of slowing across the city and domestic economy.

GDP growth in Palmerston North for the year ended December 2022 exceeded national growth, rising 2.9 percent compared with 2.8 percent nationally.

Gross domestic product growth

Annual average percentage change



Source: Infometrics QEM, December 2022

Growth in the city has been driven by high employment and earnings growth, development from record construction consents in 2020 and 2021, substantial public sector employment and investment, and the recovery of events and tourism activity in the city.

High employment and rising incomes have helped to sustain day-to-day household spending in the city despite persistent inflationary pressures.

Signs of a slowing economy are evident however, with national GDP falling -0.6 percent in the December quarter 2022. This result is worse than the expected fall of -0.2 percent and signals weaker economic conditions than previously thought.

Economic data for the city also indicates weakening activity with building consents and household and business spending on discretionary items pulling back in 2022. Falling house values are also weighing on spending, as household wealth falls and people feel less confident to spend on discretionary items.

Departing from the norm, a slowing economy is what we need to pull back inflationary pressures and limit the height of interest rate rises and higher for longer borrowing costs. There will be challenges for businesses and households however, as higher costs impact on affordability and profitability.

The domestic economy will continue to slow throughout 2023. However, substantial public employment and investment, and the high value professional and services sector in the city, will continue to support jobs and incomes relative to economies with greater dependence on private sector employment and discretionary spending.

The structure of the economy has supported economic activity in the city with GDP growing by 21.5 percent over the five-years to December 2022, compared with 17.8 percent nationally.

This report employs December quarter data and, where available, more recent monthly data, to provide an up-to-date understanding of the factors that are driving economic activity in the city as well as areas where we are seeing a pull-back in activity. The impact of current economic conditions on wellbeing is included in the final section of this report, alongside a snapshot of December quarter 2022 economic data.

Economic highlights:

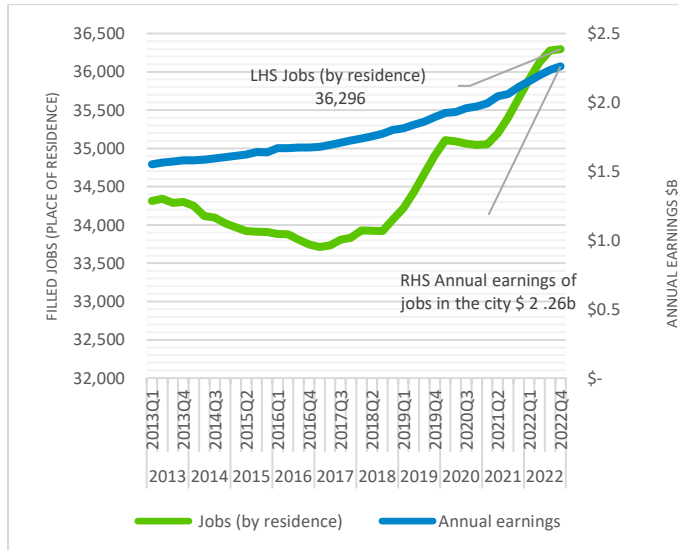
- Palmerston North GDP hit \$6.34b over the year to December 2022.
- Jobs in the city increased by 2.1 percent over the year to December with earnings up 7.1 percent over the same timeframe.
- Elevated demand for labour in Palmerston North is reflected in the low unemployment rate of 3.2 percent and falling jobseeker benefit numbers.
- High employment and earnings growth are continuing to support core spending, however, spending on high value and discretionary items is falling as rising costs weigh on disposable incomes.
- Record construction investment from 2020/2021 is continuing to flow through to construction activity in the city, but consent numbers and values have fallen substantially from the peak.
- Housing market indicators continue to show weak demand and falling house prices.
- Impacts on economic wellbeing are mixed:
 - Per capita GDP has increased, taking some pressure off rising costs, but not all households benefit from earnings growth.
 - Rental price growth continues but at a slower rate, while rental stocks in the city increase.
 - Public housing register numbers are falling.
 - Challenges continue for organisations and businesses as they navigate prolonged inflationary pressures, higher borrowing costs and ongoing labour challenges.

High employment and earnings growth continue to fuel the city economy.

The city generated 758 additional jobs to reach a total of 47,005 filled jobs in December 2022. Total earnings from jobs in the city increased by 7.1 percent over the December 2022 year, to reach a total of \$2.26b.

Palmerston North residents in jobs

Total earnings of jobs located in the city

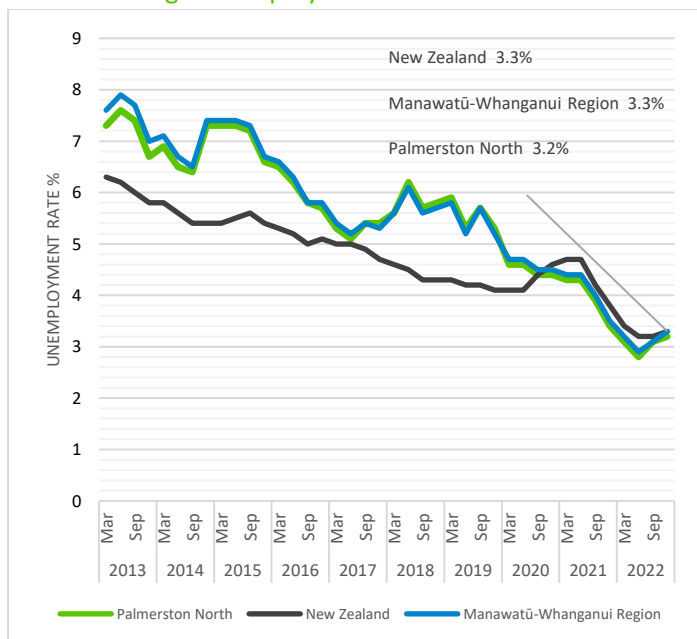


Source/s: Infometrics, Statistics NZ, December quarter 2022

Tight labour market conditions are also reflected in unemployment figures, with the unemployment rate for the city below both the regional and national unemployment rate.

Unemployment

Annual average unemployment rate



Source: Infometrics, QEM, December 2022

Wider competition for workers remains high with filled jobs increasing by 2.1 percent in the Manawatū-Whanganui Region, and 2.5 percent nationally.

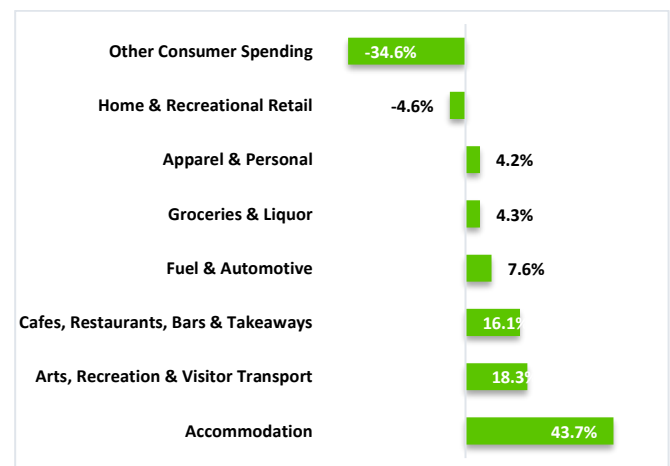
High levels of employment and earnings growth are supporting core household spending in the city, despite falling disposable incomes.

Per capita disposable incomes across the country fell 2.0 percent in the December quarter compared with the September quarter 2022.

Statistics New Zealand, GDP December 2022 quarter

Retail spending increased by 7.0 percent over the year to February 2023. This is slightly behind annual inflation of 7.2 percent but does indicate that consumers are continuing to spend on core goods and services amid sharply rising costs.

Retail data for the February 2023 quarter shows where spending has fallen relative to the previous February quarter, with discretionary spending taking the hit¹.



Marketview, February 2023

As we see above, recovery in tourism related spending in the city is helping to boost spending to our businesses.

Tourism spending totalled \$273.6m in the city over the year to January 2023.

Latest data indicates tourism spending in the city increased 7.7 percent over the year to January 2023, compared with the previous year. Domestic tourism was up 4.1 percent off a relatively strong 2021, while international tourism spending increased 96.2 percent.

High levels of investment have also been driving economic activity, with development from record consents issued in 2021 continuing to flow through to economic activity in the city.

¹ Other consumer spending includes cars and motorcycles.

Palmerston North Quarterly Economic Update – March 2023

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.

Signs of a slowing economy

While economic activity remains solid in parts of the economy, there are clear signs that the economy is slowing in-line with Reserve Bank intentions.

The Reserve Bank is forecasting the New Zealand economy will enter recession in the December quarter 2023, with the latest GDP figures implying the economy may enter recession earlier than forecast.

House prices, building consents and spending on big ticket household and business items, have all taken a hit in the city.

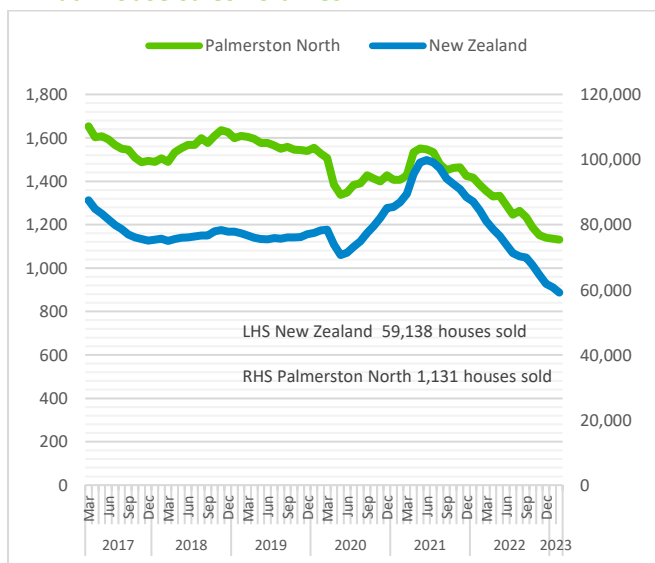
The housing market is the canary in the coalmine

Softening house prices, driven by falling demand from rising mortgage interest rates and challenges securing finance, served as the first indication of softening economic conditions.

- House sales fell 18.2 percent in Palmerston North over the year to February 2023 compared with 29.9 percent nationally.
- The average number of days to sell lifted to 59 days in the Manawatū-Whanganui Region compared to 60 days nationally.

Palmerston North and New Zealand

Annual house sales volumes



Source: REINZ, February 2023

House prices have softened substantially since the peak, however, there are signs that prices are

approaching the bottom of the market. Economic conditions remain challenging, however, and downside risk remains.

The following table shows the change in average and median house prices from the market peak and over the year to February 2023 for Palmerston North city and New Zealand as a whole.

Annual and peak house price change – Feb 2023

Area	Average house price	Median house price
New Zealand	\$944,077	\$762,500
	-9.5% from market peak	-21.3% from market peak
	-8.9% year on year	-13.8% year on year
Palmerston North	\$653,384	\$600,000
	-13.4% from market peak	-24.3% from market peak
	-13.2% year on year	-14.3% year on year

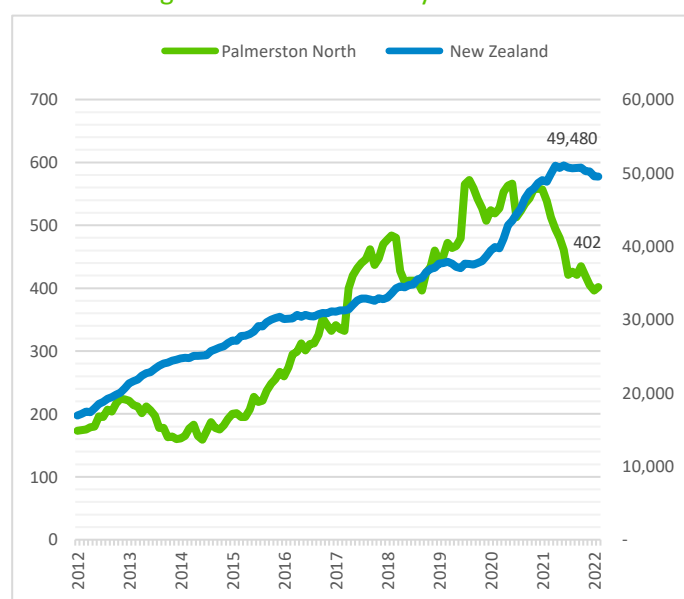
Source/s: Corelogic, REINZ, February 2023

The current economic conditions have affected residential investment as high construction costs, mortgage interest rates, and constraints on access to funding serve as a disincentive.

Over the year to January 2023, 402 new dwelling consents were issued in Palmerston North city.

Palmerston North and New Zealand

New dwelling consents to February 2023



Source: Statistics NZ, February 2023

New dwelling consents peaked early in the city with 572 dwellings consented over the year to July 2020 and annual consents remaining above 500 until the year ended March 2022. National dwelling consents have been falling since the peak over the year to May 2022.

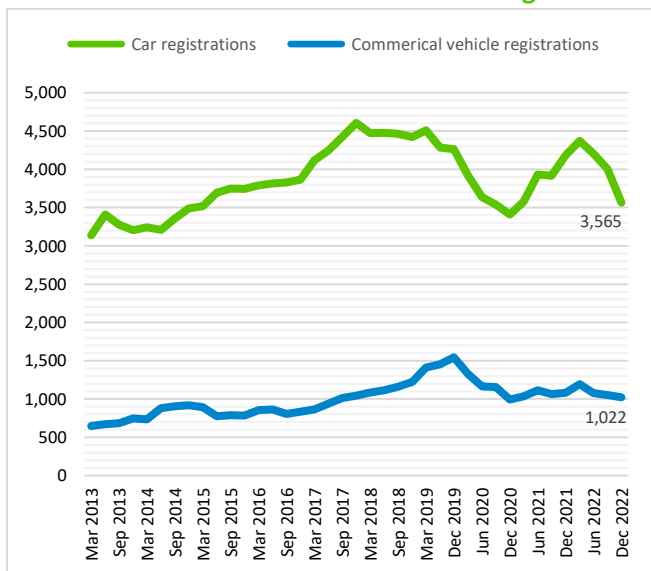
Consent values fell 15.9 percent in the city over the year to January 2023.

A total of \$327.7m in consents were issued over the year to January 2023. The value of residential consents fell 20.0 percent to \$197.9m while non-residential consents were down 8.8 percent. This compares with a 7.0 percent increase in consent values nationally.

Falling car and commercial vehicle registrations also reflect weaker discretionary spending across the economy.

Palmerston North

Annual new car and commercial vehicle registrations



Source: Infometrics, QEM, December 2022

New car registrations in the city fell by 14.7 percent over the year to December 2022 compared with a 16.8 percent decline across the Manawatū-Whanganui Region and a 2.2 percent fall nationally.

Impacts on commercial vehicle registrations were less pronounced in Palmerston North with new registrations down 5.5 percent, versus an 8.6 percent fall in the Manawatū-Whanganui Region and a 6.2 percent fall nationally.

Economic wellbeing of households

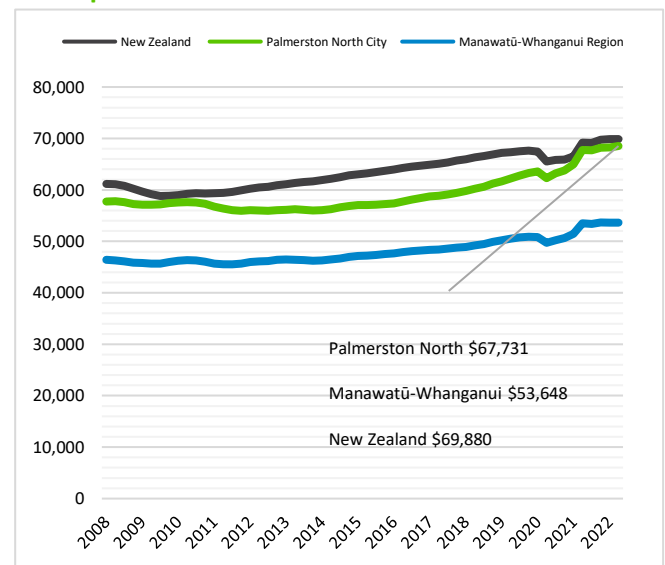
Current economic conditions are impacting on economic wellbeing, with rising costs placing pressure on stretched household budgets and driving down disposable incomes. On the other side of the equation, high demand for labour, and earnings growth are

increasing per capita GDP, and relieving some of the pressure of rising costs for some households.

City GDP per capita nears national GDP per capita.

There will be some in our community however, who do not benefit from rising incomes and therefore are more vulnerable to rising costs. While recent government announcements on additional financial support will lift the economic wellbeing of our more vulnerable households, there will continue to be pain from high living costs and the economic slowdown.

Palmerston North, MW Region and New Zealand Per capita GDP



Source/s: Infometrics QEM, Statistics NZ, 2022

Household living costs increased 8.2 percent in the December quarter 2022 compared with the December quarter 2021.

Costs for highest expenditure households rose 9.4 percent compared with a 7.1 percent increase for lowest expenditure households.

Rental costs in the city continue to rise but at a slower rate. Supply of rental properties in Palmerston North increased by 150 over the January 2023 year, to a total of 7,647 properties.

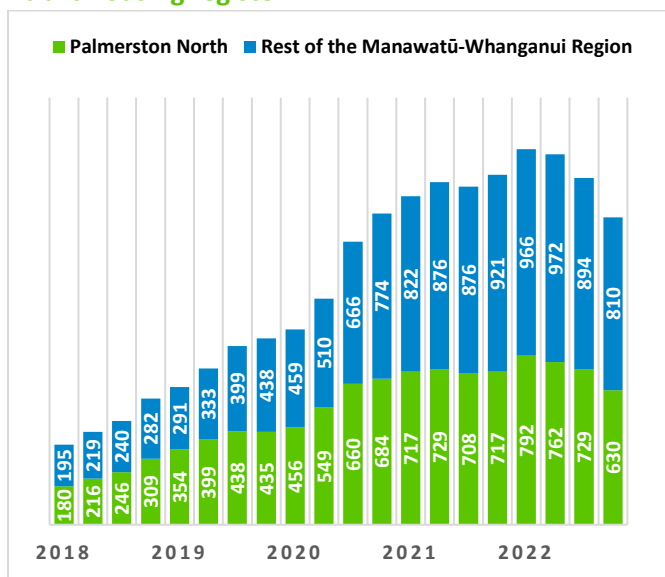
Weekly rental costs increased 6.8 percent to \$444 per week in Palmerston North over the year to January 2023. Lower quartile rents were up 3.7 percent to \$363 per week while upper quartile rents rose 8.5 percent per week to \$571.

Rental costs in Palmerston North remain relatively affordable when compared with the national average. Weekly rents average \$522 across New Zealand with a lower quartile average rent of \$428 per week and an upper quartile average rent of \$660 per week.

Public housing demand in the city falls but need remains high.

The number of households on the register for public housing in Palmerston North fell by 12.1 percent over 2022, with 630 families remaining on the register. This is a wider trend, with numbers across the Manawatū-Whanganui region and New Zealand falling by 12.1 percent and 9.4 percent respectively.

Palmerston North and Manawatū-Whanganui region Public housing register



Source: MSD, December 2022

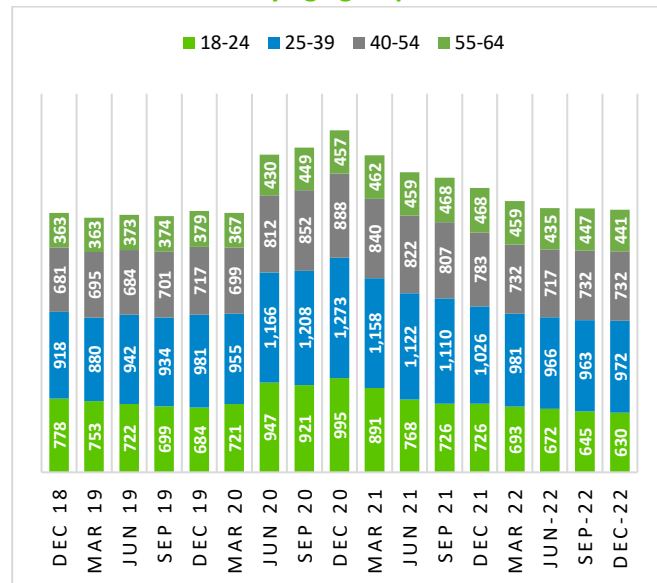
Employment opportunities have reduced the number of people receiving Jobseeker benefits in the city, but numbers remain above pre-pandemic levels.

The number of people receiving jobseeker benefits in the city fell by 222, down 7.4 percent over the year to December 2022. Jobseekers fell across all age groups, with 18-24 year olds down 96, 25-39 year olds falling by 54, jobseekers aged 40-54 years down 51, and those aged 55-64 years falling by 27.



Palmerston North

Job seeker benefits by age group



Source: MSD, December 2022

Pressure on organisations and business

Challenges continue for organisations and businesses as they navigate prolonged inflationary pressures, higher borrowing costs and ongoing labour challenges. In February 2022, the Reserve Bank of New Zealand (RBNZ) forecast that annual inflation would fall back from a peak of 6.6 percent in March 2022 to 2.6 percent by June 2023, with a peak Official Cash Rate (OCR)² of 3.3 percent. Annual inflation data for December confirmed inflation at a near record high of 7.2 percent - well above expectation.

The strength of the New Zealand economy has proven hard to tame, as record employment and earnings growth defied the Reserve Banks attempts to rein in spending and drive down inflation over 2022.

The pace and height of interest rate increases required to bring inflation under control has exceeded expectations, with annual inflation now expected to reach 7.3 percent in June 2023 alongside a peak OCR of 5.5 percent in December this year.

The combined pressure of persistent cost increases, high borrowing costs and ongoing challenges in finding and affording workers, is creating significant challenges for organisations and businesses across the country.

The impacts of these challenges on economic activity and wellbeing in Palmerston North will be watched closely and reported on within the quarterly economic reporting series.

² The official cash rate (OCR) is the interest rate at which banks can borrow, short-term from the Reserve Bank. The

OCR influences short term interest rates for households and business lending.

Palmerston North: Economic snapshot - December 2022 quarter

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

Level	Period	Palmerston North	New Zealand
Annual inflation rate	As at Dec 2022	7.2%	7.2%
Unemployment rate*	Average of 4 recent quarters	3.2%	3.3%
Indicator	Period	Palmerston North Annual average % change	New Zealand Annual average % change
Gross domestic product (provisional)*	YE Dec 2022	+2.9%	+2.8%
Consumer spending (Electronic Card Retail Spending)	YE Dec 2022	+7.1%	+10.3%
Employment (Place of residence)	YE Dec 2022	+1.8%	+2.5%
Health enrolments	YE Dec 2022	-0.3%	+0.4%
Residential consents (number)	YE Dec 2022	-28.9%	+1.1%
Non-residential consents (value)	YE Dec 2022	-24.3%	+13.1%
Commercial vehicle registrations	YE Dec 2022	-5.5%	-6.2%
Jobseeker support recipient	Dec 2022 quarter	-7.4% compared to Dec 2021 quarter	-9.5% compared to Dec 2021 quarter
Tourism electronic card transactions - domestic**	YE Dec 2022	+4.3%	+8.4%
Tourism electronic card transactions -international**	YE Dec 2022	+76.3%	+167.6%
Housing Indicator	Period	Palmerston North	New Zealand
Average house value***	Dec 2022	-12.1% compared to Dec 2021	-5.0% compared to Dec 2021
Average weekly rent** (based on rental bond data)	Dec 2022 quarter	+3.0% compared to Dec 2021 quarter	+3.0% compared to Dec 2021 quarter
Home ownership affordability* (ratio of average house value to estimated annual average household income)	Dec 2022 quarter	5.9	7.8
Rental affordability* (% of average annualised rent to estimated annual average household income)	Dec 2022 quarter	20.2%	22.0%

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

Note: YE = Year ending