

MANAWATŪ QUARTERLY ECONOMIC SNAPSHOT

POUTŪ-TE-RANGI //
MARCH QUARTER 2023

YOUR ECONOMIC SNAPSHOT
FOR THE MARCH 2023
QUARTER AND YEAR TO DATE

CEDA
CENTRAL ECONOMIC
DEVELOPMENT AGENCY

MANAWATU
DISTRICT COUNCIL

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PALMERSTON
NORTH
CITY

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WELCOME TO THE MANAWATŪ QUARTERLY ECONOMIC SNAPSHOT // MARCH 2023 QUARTER

“As we’d prepared for, March GDP figures have confirmed New Zealand is in a technical recession. As ASB Chief Economist, Nick Tuffley notes, ‘this is a recession by the slimmest of margins, using the definition of two quarters of consecutive contraction in GDP. In total GDP shrank by 0.8 percentage points over 2022 Q4 (-0.7%) and 2023 Q1 (-0.1%).’”

- Jerry Shearman, CEDA’s Chief Executive

THE MANAWATŪ ECONOMY CONTINUES TO BE INCREDIBLY RESILIENT, WITH INCREASED TOURISM SPENDING BOOSTING THE LOCAL ECONOMY AS NEW ZEALAND ENTERS A TECHNICAL RECESSION BY THE ‘SLIMMEST OF MARGINS’.

The unique mix of industries in Manawātū has driven a GDP growth of 2.6% over the year to March 2023, with the regional economy* holding its own as New Zealand enters a recession following two quarters of negative growth. In context, over the last five years, Manawātū regional GDP has seen a 19.9% increase compared to the national increase of 14.4%.

Jobs, earnings growth, tourism spending and net international migration have remained strong, and there are promising signs of increased enrollments in the tertiary education sector, with final figures to be released later this year. Labour market conditions in the region remain tight with 863 additional jobs created over the year to March, and an unemployment rate of 3.2% versus a national rate of 3.4%.

While consumer spending is up year-on-year, particularly in tourism-related sectors, the cost-of-living continues to be a hot topic. Stats NZ announced that food prices increased by 12.5% over the year to April 2023. This was the highest annual increase in food prices since September 1987, which included the introduction of GST in 1986. Annual figures for May 2023 indicate a slight easing of food price inflation, with the rise in the cost of food over the year falling slightly to 12.1%.

According to an IPSOS Global Advisor Survey released in March, one in four Kiwis are finding it difficult to manage financially - up from one in five in 2022. Just under half of the respondents continue to believe that their disposable income will fall over the next year, while one in four believe that their standard of living will also fall over the next year.

CEDA’s Chief Executive, Jerry Shearman, notes that there have been a number of elements that have contributed to a cautious start to the year; including weather events, and inflationary measures by the Reserve Bank of New Zealand (RBNZ).

Alongside slowing economic activity, there are finally signs of a sharp pullback in inflationary pressures. The RBNZ surprised markets by limiting the rise in the Official Cash Rate (OCR) to the signalled 25 basis points at their last meeting in May, citing slowing domestic demand and easing supply chain and inflationary pressures. The good news is that inflation is now expected to fall back into range by late 2024.

The RBNZ will be heartened by signs that their efforts to drive down inflation are finally working. This will contain further interest rate increases, and ease pressure on the housing market and consumer and business sentiment. That said, in the meantime the impact of higher interest rates will flow through to more households in 2023, putting pressure on already strained household budgets. The expectation for the upcoming quarter and beyond is unfortunately more of the same, with the domestic economy softening.”

*Manawātū regional economy covers Palmerston North City and Manawātū District

GROSS DOMESTIC PRODUCT (GDP)

Palmerston North City Council (PNCC) City Economist, Stacey Bell says the region's unique mix of industries will continue to support economic activity as household spending and residential investment slows further in 2023.



“Substantial public sector employment will support household incomes and help to sustain core spending throughout the regional economy, as it continues to face challenges in 2023. High levels of investment are also helping to sustain activity as signalled investment flows through to construction activity in the region. The resurgence in tourism is also boosting consumer spending both across the country and regionally, supporting businesses through this period of weaker demand from New Zealand households.”



CONSUMER SPENDING



IN THE LATEST QUARTERLY RETAIL REPORT FOR MARCH 2023, ELECTRONIC CARD SPENDING IN MANAWATŪ WAS UP 6.4% COMPARED WITH THE PREVIOUS MARCH QUARTER. THIS IS HIGHER THAN THE NEW ZEALAND AVERAGE GROWTH OF 5.1% OVER THE SAME PERIOD.

Electronic card consumer spending in Manawatū

increased by

6.4%

*As measured by Marketview over the YTD /March 2023, and compared to the same quarter in 2022. (source: Regional Retail Report)



10.3%

INCREASE // REST OF NEW ZEALAND



Consumer spending trends indicate that core spending is holding up, despite a fall in high value and discretionary spending as businesses and households refrain from unnecessary spending. Over the same period, tourism-related expenditure has increased strongly, indicating the impact of both the resurgence of international tourism and a boost in domestic visitors compared to the March 2022 quarter.

For the quarter ending March 2023, total electronic card spending in the region was \$424 million, a 6.4% increase from the March 2022 quarter. The breakdown is as follows:

- >> Palmerston North city: \$355 million (6.9% increase)
- >> Manawatū district: \$69 million (4.4% increase)

Jerry Shearman, CEDA Chief Executive, says our region has been performing well in terms of consumer spend over the last quarter.

“The drive in spend is due to a range of factors including welcoming back major event CD Field Days, which has contributed to the strong spend in retail, accommodation, and hospitality.

Major events like these - paired with our strong retail presence - play a huge role when it comes to visitation and spending in our wonderful region.”



QUARTERLY RETAIL REPORT FOR MARCH 2023

INDUSTRY RECKONS // PETER ANDREWS, DIRECTOR, PETER ANDREW FURNISHERS, FEILDING

“When international travel was off the cards [due to border restrictions], we saw an increase in spending due to customers spending money that they would have previously used to travel on updating their homes. This year, we’ve overcome many of the challenges COVID created with stock supply, but we are seeing a more cautious approach to spending from customers as they use their discretionary income to travel overseas again, or are impacted by the rising cost of living. We do feel lucky, compared to some of our counterparts around the country, as we have such a strong farming community, and large diverse employers in Manawatū, which helps to insulate our customers against economic changes.”



Employment for residents living in Manawatū

UP 1.5%

for the year to December 2022, compared to a year earlier



Growth was lower than New Zealand's

^ 2.2%

An average of

57,616

people living in Manawatū were employed

in the year to March 2023



EMPLOYMENT

OUR LABOUR MARKET IS STILL TIGHT, WITH AN UNEMPLOYMENT RATE OF 3.2% VS THE NATIONAL RATE OF 3.4%.

OVER THE YEAR TO MARCH 2023, 863 ADDITIONAL JOBS HAVE BEEN CREATED IN MANAWATŪ.

Stacey Bell, City Economist at Palmerston North City Council says that this is a trend most regions across New Zealand are facing.

“Alongside very low unemployment, strong jobs growth continues to reflect the very tight labour market conditions in our region. We are starting to see signs of easing demand as vacant roles are filled and

fewer jobs are advertised in the March 2023 quarter. However, unemployment levels are forecast to rise in 2023 as challenging economic conditions and net international migration ease labour market conditions. We will be watching this space.

The number of Jobseeker support recipients in the region has fallen below pre-pandemic numbers for the first time since March 2020, down 0.4%. This compares with an 11% growth in Jobseeker support recipients nationally.

The annual average unemployment rate in Manawatū was 3.2% in the year to March 2023, up from 2.9% in the previous 12 months, but still lower than the national average of 3.4%. This slight increase in the unemployment rate nationally suggests the labour market has started to ease, however the unemployment rate still lingers around record lows indicating the labour market remains very tight, and earnings growth is elevated.”

INDUSTRY RECKONS // ROBYN YOUNG, DIRECTOR, ROBYN YOUNG HR

“We are seeing clients being understandably cautious due to the unpredictable economic environment and holding off on recruitment when they can. While this means there is less active recruitment happening, when they are going out to recruit there is good talent available.

What we are seeing and hearing from owners and managers across a mix of sectors throughout the Manawatū region is a cautious optimism and tightening of expenditure, versus any large-scale redundancies.”



TOURISM

INCREASED ACTIVITY AND SPEND IN TOURISM-RELATED SECTORS IS PROVIDING A MUCH NEEDED BOOST AFTER THE CHALLENGES OF THE LAST FEW YEARS.

With a 13.9% increase in tourism spending in Manawatū in the year to March 2023, total tourism expenditure was approximately \$346 million during the year, up from \$303 million a year ago. This is an 8.8% increase in spending from domestic visitors, and a 142.2% increase in international spending - reflecting the increase in international tourists since the borders opened. While major events are boosting the regional economy, labour attraction and retention is still a key challenge facing the industry.

Total tourism expenditure

in Manawatū increased by

13.9%

in the year to March 2023, compared to a year earlier



This compares with an increase of

30.5%

in New Zealand

Total tourism expenditure

was approximately

\$346 M

in Manawatū during the year to March 2023



which was up from

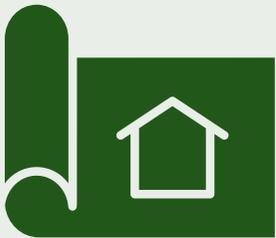
303 M

a year ago



CONSENTS

HIGHER BUILDING COSTS AND INCREASING INTEREST RATES CONTINUE TO IMPACT THE CONSTRUCTION OF RESIDENTIAL AND NON-RESIDENTIAL BUILDINGS.



RESIDENTIAL //

Demand for new homes remains lower than it has been over the last three years, as higher interest rates and high inflation constrain household budgets.

Developers' risk appetite has been impacted by falling house prices and higher costs, reducing potential profits.

A total of 169 new dwelling consents were issued in the Manawatū region in the March 2023 quarter, compared with 130 in the same quarter last year.

On an annual basis the number of consents in Manawatū decreased by 8.1% compared with the same 12-month period a year before. This compares with a decrease of 7.9% in New Zealand over the same period.

NON-RESIDENTIAL //

The value of consents in Manawatū decreased by 4.4% over the year to March 2023, compared to a year earlier. This fall is coming off the record highs of 2021 where upgrades to Ohakea Air Force base added over \$75 million to non-residential consent values in the region.

Following a much weaker 2022, construction investment in the region is showing signs of life as signalled investment flows through to consent values. Combined residential and non-residential consent values reached \$610 million over the year to April, up from \$598 million the previous year. Non-residential construction activity has been particularly strong with values up \$12.8 million over the year.

Building consent activity continues to remain well above the five-year annual average value of \$471 million.



INDUSTRY RECKONS // CRAIG SETON, MORTGAGE ADVISOR AND DIRECTOR, YOU M

“It’s clear to see that the housing market doesn’t have the same heat that it did post-COVID, and people who don’t need to sell [to move or to buy elsewhere] seem to be holding off on listing properties. Rental investors are still around, but compared to the initial post-COVID time when almost one in two of our customers were looking to borrow for rental properties, it’s now closer to one in ten.

We still have a few borrowers who are yet to move to the higher interest rates, but the sentiment from most borrowers is that they have been expecting rates to increase, they are prepared for it, and they are taking a wait and see approach to buying and selling houses and investment properties.”

HOUSING

THE HOUSING MARKET IS SHOWING SIGNS OF STABILISATION AS VALUES AND SALES BEGIN TO PLATEAU.



HOUSE VALUES //

This quarter has shown signs of stabilisation in the regional housing market. House values are down 12.1% in the region compared to the same period last year, slightly less than the previous quarter (-12.6% compared to the same quarter in 2022) reflecting a plateau in the housing market. This decline is greater than for New Zealand as a whole, where house values fell 11.4% over the same period.

The average current house value was \$628,541 in Manawatū in March 2023, compared with the national average of \$928,656.

HOUSE SALES //

House sales in Manawatū decreased by 15.2% in the year to March 2023, compared to a year earlier. This is less marked than the national decrease of 27.6% in New Zealand. The housing market has been the first casualty of higher borrowing costs and tighter financial market settings over the past 12 months.

According to Gareth Kiernan from Infometrics, while the impacts of higher interest rates on mortgages are beginning to hit home owners, it appears that sellers still retain some control. Sellers are choosing not to accept the lower prices and retaining their ownership, suggesting that they are coping with any financial implications caused by these higher interest rates.



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