

MANAWATŪ QUARTERLY ECONOMIC SNAPSHOT

HAKIHEA //
DECEMBER QUARTER 2023

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

CEDA
CENTRAL ECONOMIC
DEVELOPMENT AGENCY

MANAWATŪ
DISTRICT COUNCIL

PALMY
PALMERSTON
NORTH
CITY

30 **TOYOTA**
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System of Active Stability



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REPORT

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



IT'S ALL ABOUT THE WIDER ECONOMIC CONDITIONS - THIS IS A NATIONAL AND INTERNATIONAL STORY.

There's no doubt times are tough for our businesses as consumers reign in their spending. This is a trend that we're seeing across the country as economic activity continues to cool due to a large-scale slowdown in demand for goods and services across the country.

High living costs mean falling disposable incomes overall, reducing discretionary spending. This reinforces the importance of supporting local where possible, whether that be for services, goods, or general retail spending - our business community needs your support.

While the pain is being felt across a number of indicators, the longer-term outlook remains positive and there are still many positive trends coming through in the data.

Our economic diversity as a region continues to hold us steady. Non-residential construction investment continues, with the value of consents rising 14.1% in the region over the year compared with an increase of just 3.0% nationally. This continued investment signals confidence in the future of the regional economy, alongside the region's significant investment pipeline.

Manawatū continues to be a more affordable place to live compared to other regions in the country with home ownership more attainable and rental pricing remaining more affordable.

AT A GLANCE //

- >> Global economies are showing signs of recovery
- >> Farm input prices are stabilising
- >> February month export values improved
- >> Beef prices are up
- >> Fonterra dividends increased with a stable outlook for farmgate milk prices for the coming season
- >> NZD is weaker off strong US data supporting the incomes of our exporters
- >> Forecasted weak dairy production from the northern hemisphere is expected to support prices for New Zealand produce.

GROSS DOMESTIC PRODUCT (GDP)

THE DECEMBER FIGURES SHOW THE REGIONAL ECONOMY IS FEELING THE EFFECTS OF WIDER ECONOMIC PRESSURES WITH ANNUAL GDP DECLINING 0.3% COMPARED TO A SLIGHT GROWTH NATIONALLY AT 0.7%

The annual inflation rate fell to 4.7% over the year to December 2023, followed by a further fall to 4.0% over the year to March 2024. Inflation is moving in the right direction, but domestic inflation is higher than the Reserve Bank would like. Interest rates are widely expected to fall toward the end of 2024 or early 2025, with stubborn domestic inflation delaying hopes of earlier easing by the Reserve Bank of New Zealand (RBNZ).

Although regional GDP shows a small decline in the previous quarter, we have seen strong five-year growth across the region. Palmerston North City Council Economist "Stacey Andrews" credits the structure of our regional economy for this resilience.

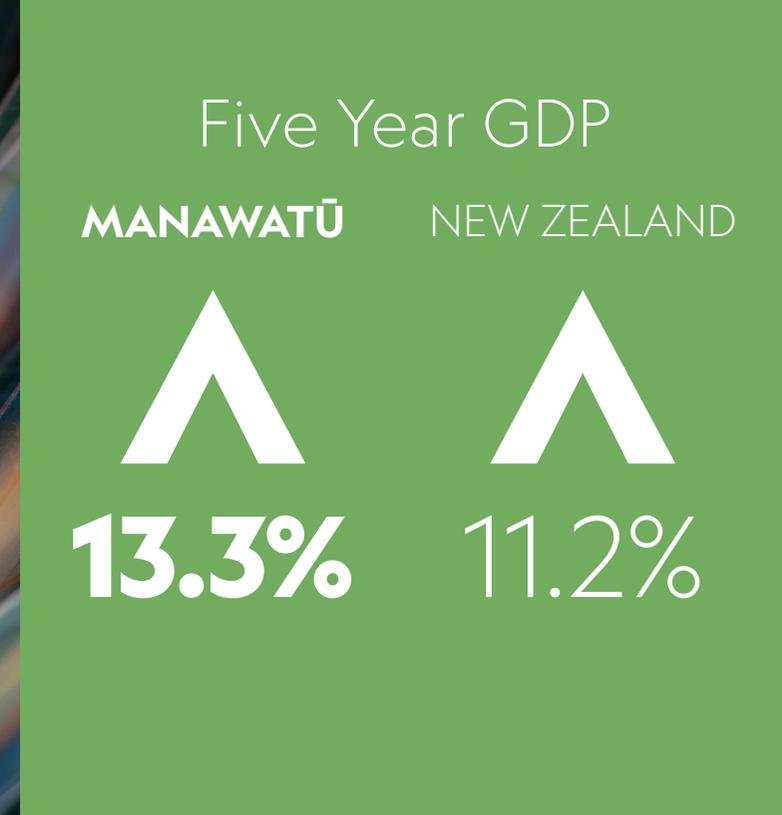
"The diversity of our economic structure has supported the GDP performance of the region over the past several years. The regional economy is strengthened by our broad range of sectors with the defence and health sectors making up a significant part of our large public sector."



We also have a greater proportion of big businesses here in the region that are less exposed to economic cycles."

Central Economic Development Agency CEO "Jerry Shearman" notes that our growing logistics and distribution sector also plays a critical role in providing stability to our local economy. The region is a major player in the movement of goods across New Zealand, and the latest data reinforces our role as the third node of distribution and logistics in Aotearoa's transport network.

"The Distribution and Logistics sector added \$826.4m to the regional economy in the March 2023 year and employed over 6,600 people, accounting for 9.4% of total employment at the time. It is a growing sector, and one that we need to future proof - both as a region, and as a New Zealand inc. solution - to ensure the ongoing



goods movement across the country especially after the impacts of the pandemic and extreme weather events.

The region is also now being referred to in key government strategies that relate to roading, and the role the region will play in the future of the freight and supply chain landscape for New Zealand."

INFLATION IS MOVING IN THE RIGHT DIRECTION:

Inflation is moving in the right direction, but stubborn pockets of domestic inflation continue. In particular, home ownership costs alongside increasing rental prices are expected to continue through 2024, however inflationary pressures are expected to continue to ease across the remainder of the domestic economy.

CONSUMER PRICE INDEX (CPI)

CONSUMER PRICE INDEX (CPI) DOES NOT INCLUDE INTEREST COSTS, BUT IT DOES INCLUDE THE COSTS OF BUILDING AND RENTAL PRICES WHILE THE HOUSEHOLD LIVING-COST PRICE INDEX (HLPI) INCLUDES THE IMPACT OF INTEREST RATES.

Producer Price Index (PPI) price pressure is substantially higher but beginning to ease now. The Household Living-Cost Price Index (HLPI) has gone up 6.2% for year ending March 2024, compared to 7.7% increase for year ending March 2023.

The difference between the calculation of the CPI and HLPI is the inclusion of interest payments in the HLPI whereas the CPI only takes into account the cost of constructing a new home as well as rental price increases.

In March 2024, it is estimated that average households faced a 28% increase in interest costs.

Inflation did come in slightly above RBNZ expectations, but this is not expected to fundamentally change the path of the RBNZ. This is the result of sticky non-tradeable (domestically generated) inflation such as home ownership, rates, insurance costs as well as tradeable concerns - oil prices, shipping costs. There is volatility in international markets due to geopolitical conditions.

HOUSEHOLD LIVING-COST PRICE INDEX



UP 6.2%

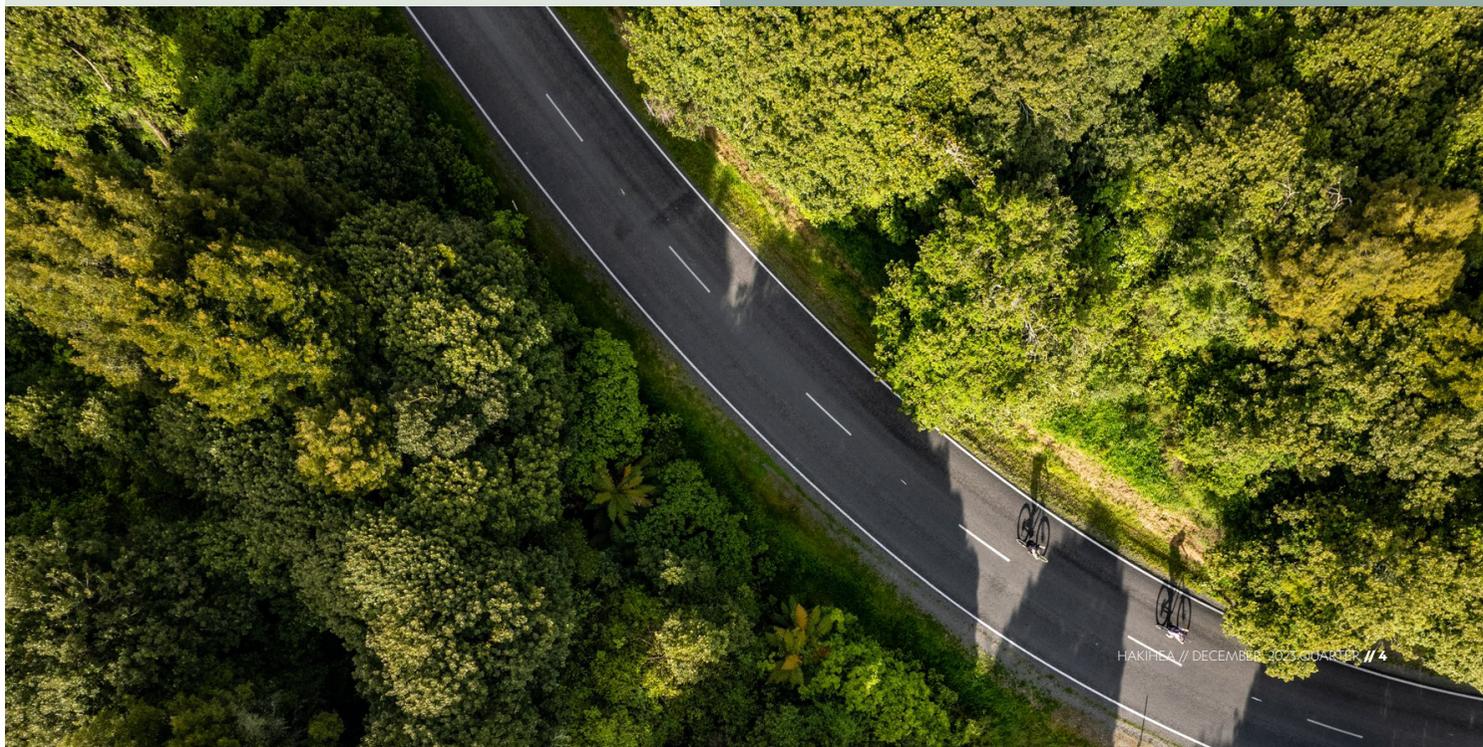
In the year to March 2024

CONSUMER PRICE INDEX



UP 4%

Over the year to March 2024



CONSUMER SPENDING



IN THE LATEST QUARTERLY RETAIL REPORT FOR MARCH 2024 ELECTRONIC CARD SPENDING IN MANAWATŪ WAS UP 1.1% COMPARED WITH THE MARCH 2023 QUARTER. THIS IS LOWER THAN THE NEW ZEALAND NATIONAL GROWTH RATE OF 3.8% OVER THE SAME PERIOD.

High living costs and falling disposable incomes has driven a downturn in discretionary spending of households. This is most evident in Home and Recreational Retail Spending, which has reduced by 7.2% for the year ending February 2024 and Other Consumer Spending which has reduced by 4.7% in the same period.

Palmerston North City Council Economist "Stacey Andrews" believes this has slowed in line with national trends due to increased rates and higher cost of living, with annual growth falling below rates of household inflation.

YoY Electronic card consumer spending in Manawātū
INCREASED BY

1.7%

IN THE YEAR TO MARCH 2024



2.8%

INCREASE // NEW ZEALAND

"Annual inflation reduced to 4.0% over the year to March 2024, higher than the growth in consumer spending over the same period. This indicates a reduction in spend in real terms, with price increases exceeding the growth in spending across the economy. This contraction in spending across the economy is exactly what was intended by the RBNZ to drive down inflationary pressures across the economy taking us closer to a reduction in interest rates. Ultimately, lower interest rates will reduce household costs, stimulating demand for goods and services across the economy and setting the New Zealand economy on the road to recovery"

Electronic card consumer spending in Manawātū
INCREASED BY

1.1%

IN THE MARCH 2024 QUARTER COMPARED WITH THE MARCH 2023 QUARTER



FOR MORE CONSUMER INSIGHTS
SEE THE QUARTERLY RETAIL REPORT FOR DECEMBER 2023

Employment for residents living in Manawatū

WAS

UP 1.9%

IN THE YEAR TO DECEMBER 2023 COMPARED WITH THE PREVIOUS YEAR



GROWTH WAS LOWER THAN NEW ZEALAND'S

3.1%

Unemployment for residents in Manawatū sat at

at

4.1%

COMPARED TO THE NATIONAL RATE OF 3.7%

(Average of four recent quarters)

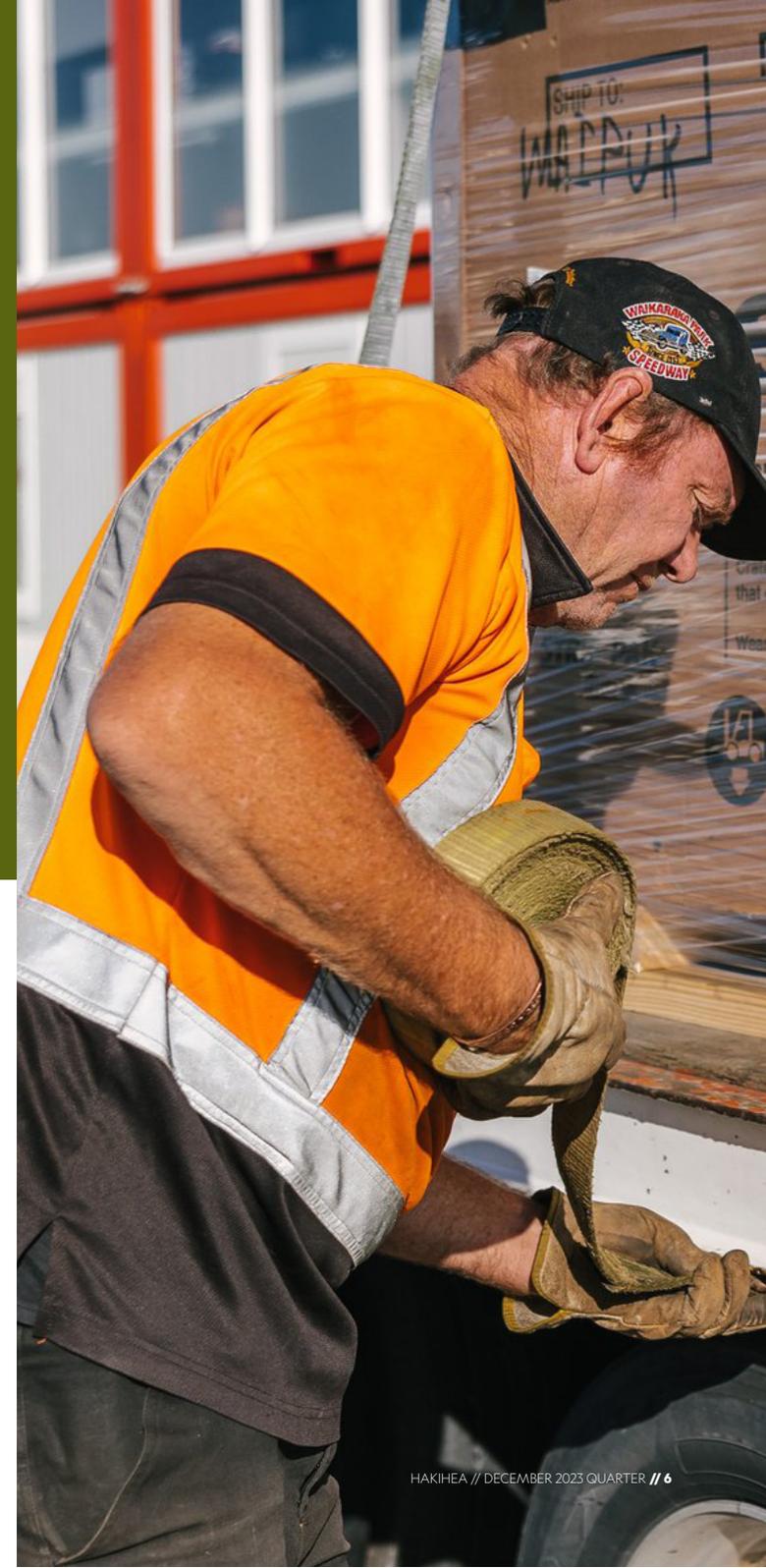


EMPLOYMENT

SIMILARLY TO THE RESILIENCE WE SEE IN THE REGION WITH GDP, THE DIVERSITY OF OUR REGIONAL ECONOMIC STRUCTURE SUPPORTS OUR LEVELS OF EMPLOYMENT. EMPLOYMENT WAS 58,462, UP BY 1,084 IN THE REGION FROM A YEAR AGO, FOR THE YEAR ENDING DECEMBER 2023.

Palmerston North City Council Economist "Stacey Andrews" commented that the diversity of sectors we have in the region, including the large public sector, means a greater proportion of our workforce is at lower risk. In saying this, we are not immune to job losses from the restructure of the public sector.

"23.1% of national employment is in the government, health and education sector, compared to 33.2% regionally. While we are still exposed to potential job losses from the central government restructuring, we have a greater proportion of our public sector employed in defence, education and health. These sectors are less vulnerable to the public sector cuts of the coalition government."



An increase in unemployment is expected throughout 2024 and into 2025 as businesses respond to weak demand across the economy. However, insights from local businesses suggests many employers are doing all they can to hold onto their staff. Using this time to invest in the skills and productivity of their workforce and reducing other expenditures to manage through the slowdown. Retaining staff and sound management increases the resilience of our regional economy, with businesses able to kick back in gear sooner, as conditions improve.

Another key sector to note is our Logistics and Distribution sector which added \$826.4m to the regional economy in March 2023 and employed over 6,600 people (9.4% of total employment at the time).

INDUSTRY RECKONS // RAY ROBERTS // PTS GROUP CEO

“We sit at around 300 employees give or take, and we’ve been experiencing these headwinds as a result of the reduction in discretionary spending for a while now, it’s not new to us. The biggest impact this has for our staff is that their earnings have taken a hit. Many base their earnings on having 60-65 hours work a week but we have only been able to guarantee 40 hours, which is hard. We haven’t replaced drivers who have left, and we have reduced accordingly so we can still survive, but we’re confident the market will come back, so we’ll still need skilled people operating trucks going forward. Our challenge is in finding staff. We have an ageing workforce and I fear in a generation or two’s time we won’t have the people that have an interest in driving, so the challenge for us is ensuring we’ve got a talent pipeline coming through...we really need to keep attracting people to our industry.”

Employment was
58,462

For the year ending December 2023

UP BY 1,084 FROM A YEAR AGO



Electronic Card Visitor Spending

Increased by

1.5%
IN MANAWATŪ



In the year to March 2024
COMPARED TO
6.8% for the wider Manawatū-Whanganui
region.

Guest nights in Manawatū

Increased by

6.25%
IN MANAWATŪ



In the year ending December 2023

Total guest nights nationally

was up

26.6%



In the year ending December 2023



TOURISM

REGIONAL TOURISM CONTINUES TO STRENGTHEN, SUPPORTING THE LOCAL TOURISM SECTOR AND WIDER REGIONAL ECONOMY, WITH A TOTAL OF 514,400 GUESTS STAYING IN ACCOMMODATION IN THE REGION TO THE YEAR ENDING DECEMBER 2023, WHICH IS A 6.25% INCREASE ON THE SAME PERIOD IN 2022.

NB: The tourism expenditure series, Monthly Regional Tourism Estimates (MRTes), has been paused by MBIE (having only recently having resumed). The estimated tourism spending data for the year to December 2023 has been modelled on published MRTes up to October 2023, and published guest nights up to December 2023.

Total tourism spending in Manawatū increased by 4.3% in the year to December 2023, compared to a year earlier. This compared with an increase of 9.2% in New Zealand.

Total tourism expenditure was approximately \$564 million in Manawatū during the year to December 2023, which was up from \$541 million a year ago.

The top five domestic visitor markets attributing to this spend are:

- >> Manawatū-Whanganui
- >> Wellington region
- >> Waikato
- >> Auckland
- >> Hawke's Bay

The top three international visitor markets attributing to this spend are:

- >> Australia
- >> United Kingdom
- >> USA

While tourism spending has overtaken pre-pandemic levels, nationally there is a cooling of visitor arrivals particularly from Australia and China. While Manawatū is predominantly bolstered by the domestic tourism market, we could expect to see a pullback in domestic tourism spending, reflecting some households tightening their belts, and others considering overseas holiday options.

CONSTRUCTION

THERE WERE 648 CONSENTS FOR NEW DWELLINGS ISSUED IN THE REGION OVER THE YEAR TO FEBRUARY 2024. THIS IS DOWN FROM A RECORD 817 NEW DWELLING CONSENTS ISSUED OVER THE 2021 YEAR. WHILE WELL OFF THE RECORD, THE NUMBER OF CONSENTS FOR NEW DWELLINGS REMAINS RELATIVELY STRONG, WITH THE DECREASE WELL BELOW THE NATIONAL DECLINE.

Despite the decline in volume, the value of new and altered residential consents increased in the region by 1.0% to \$547.3m

There was a total of \$213.2m in non-residential consents issued in the region over the year to February 2024. The value of non-residential construction in the region is coming off record values in 2021 and 2022. The \$8b pipeline of infrastructure investment planned and underway in the region is expected to continue to support construction activity across the region until 2035.

Palmerston North City Council Economist "Stacey Andrews" explains that this regional story is reflective of what we are seeing across the country.

"Throughout New Zealand the story is the same with commercial and industrial investment holding up. Locally we are seeing elevated investment in both private and public investment at Ohakea, and in the health care sector including \$15.1m of private investment in the Manawatū district in 2023. We expect this to continue with \$4.5m in commercial and industrial development planned for Manawatū in 2024 and around \$328.4m in industrial and commercial consents issued in the city since 2023, including new storage buildings and office block and AgResearch extensions."

MANAWATŪ QUARTERLY ECONOMIC SNAPSHOT

New residential dwelling consent numbers increased by

3.7%

IN MANAWATŪ IN THE YEAR TO FEBRUARY 2024



COMPARED WITH 24.8% DECREASE IN NEW ZEALAND IN THE YEAR TO FEBRUARY 2024

Non-residential dwelling consent numbers increased by

14.1%

IN MANAWATŪ IN THE YEAR TO FEBRUARY 2024



COMPARED WITH A 3.0% INCREASE NATIONALLY IN THE SAME PERIOD

INDUSTRY RECKONS // HAMISH O'BRIEN // GENERAL MANAGER COLSPEC CONSTRUCTION

" We've definitely seen a slowdown in the last six months with the reduction in spending, but I welcome that in a sense that we've been running so fast for so long that a reprieve is good. The boom in work available in the previous few years saw many companies fall into the trap of this false market, which even at the time felt unsustainable. When people talk about sustainability they often think about 'clean and green', but sustainable means ensuring your business is still here tomorrow and the next day. On that basis, we've been very purposeful in remaining the same size for the past 10 years, rather than gear up.

It's been tough in the sense that interest rates change part way through projects, further than banks predicted where it's been the toughest. The main driver I see though is people struggle to make decisions in an uncertain market, they wait because they think rates might go down. Now we all have a bit of certainty, people can make decisions; if they can make it work with today's interest rates, things are only going to improve.

Although the next year is going to be tough with consent numbers falling back to 2018 levels, we need to remember that those levels weren't bad. Just because we're not all as busy as we once were, it's not a bad thing. It's time now to look internally and work out how to be more efficient with less."

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HOUSING - REAL ESTATE

REGIONAL HOUSE SALES FELL WHILE NATIONAL HOUSE SALES REMAINED THE SAME AS THE PREVIOUS YEAR FOR THE YEAR ENDING DECEMBER 2023.

These statistics indicate the housing market has found its floor with signs of increasing positivity as house prices remain more affordable, and interest rate expectations stabilise.

Although not reaching heights of previous years, the region has seen an increase in volume sales and a reduction in days to sell, which has fallen to 41 days on the market for Manawatū-Whanganui. The average days to sell fell to just 29 in Palmerston North city in March. The Real Estate institute of New Zealand's recent comments on current house sale statistics across the country are that "a surge in new listings has helped to boost turnover in the housing market but it is putting downward pressure on prices."

The region has experienced modest increases in median house prices but are weak in comparison to volume increase. Palmerston North city has had an annual increase of 2.5% until March 2024, while the Manawatū district has seen an annual increase of 3.6% until March 2024.

Lending to First Home Buyers has seen a significant increase with 22.6% of buyers falling into this category for February 2024 compared to 16.8% the previous year. First home grants also increased by 156.7% in the region in the year to September 2023, however this is coming off a very weak 2022 base when First Home Grants fell substantially. First Home Grants were issued for 267 properties over the year relative to an 8-year average of 377. Home grants for just 44 properties were issued over the March 2022 year.

House sales in the region were down by



-1.8%

IN THE YEAR TO DECEMBER 2023 COMPARED TO THE SAME PERIOD IN 2022

Nationally house sales had no change in the year to December 2023 compared to the same period in 2022

INDUSTRY RECKONS // SHELLY GRIEVE // OWNER BAYLEYS MANAWATŪ, RANGITĪKEI AND HOROWHENUA

We've seen a 25% increase of stock in the market, so you could say we are sliding into a buyers' market. Having said that, the best time to sell is also the best time to buy as most of our active purchasers on the market are movers rather than investors so the sellers are also going to be a buyer.

We never got the flush of spring properties you would traditionally see on the market, largely due to people waiting for the election to play out. As we see growing certainty around the Government, spending increases. And with the anticipated regulation changes from the

\$644,228

>> Average house prices in Palmerston North in December 2023, down 2.3% from the previous year.

\$609,228

>> Average house price in the Manawatū district in December 2023, down 3.6% from the previous year.

5.2

RATIO OF AVERAGE HOUSE PRICE TO AVERAGE ANNUAL HOUSEHOLD INCOME IN MANAWATŪ IS 5.2 FOR THE DECEMBER 2023 QUARTER

7.0

RATIO OF AVERAGE HOUSE PRICE TO AVERAGE ANNUAL HOUSEHOLD INCOME IN NEW ZEALAND IS 7.0 FOR THE DECEMBER 2023 QUARTER

As we see growing certainty around the Government, spending increases. And with the anticipated regulation changes from the government set to take effect in July, we are not surprised to see the increase in first home buyers entering the market and would expect to see savvy buyers try to get in before July to avoid competition with investors.

The challenge for vendors at the moment is remaining realistic about their price expectations. We aren't going to be seeing 2021 prices but the days to sell are reducing and we expect to see interest rates reduce overtime too. It's about playing in the market you have."

HOUSING - RENTALS

HOME OWNERSHIP AND RENTAL PRICING REMAINS MORE AFFORDABLE IN OUR REGION IN COMPARISON TO OTHER REGIONS IN THE COUNTRY

Annual average weekly rent has risen strongly, up 4.8% in the city and 9.3% in the district over the year to February 2024. Rental price increase is a national phenomenon with annual average weekly rents rising 6.7% across the country over the same period.

Nationally
annual rent averaged

21.5%

of household income for the
December 2023 quarter.

Manawatū's
annual rent averaged

19.9%

of household income for the
December 2023 quarter.



National annual weekly
rent



6.7% UP
nationally

Annual average weekly
rent

PALMERSTON
NORTH



4.8% UP

MANAWATŪ
DISTRICT



9.3% UP



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