

Our Economic Overview

Our local economy has proven resilient throughout the disruption created by COVID-19 and restrictions on economic activity. While economic growth has exceeded all expectations compared to the rest of New Zealand, the population growth needed to drive future economic activity has weakened. We anticipate that the population will grow in response to strong labour demand over the next decade due to the \$8 billion of investment planned for the city and wider region out to 2035. This labour demand will be supported by net international migration rebounding to pre-pandemic levels.

High investment into the region has offset the population impacts of border closures

While population growth has been suppressed due to border closures in place in response to COVID-19, high demand for labour in Palmerston North is expected to drive population growth to 2035, as unprecedented investment flows into the city and wider region.

Population growth has been less robust due to the impact of border closures from 2020-22. While Palmerston North was less exposed to the impacts on international tourism, the city's international education, health and professional services sectors suffered from the inability to attract foreign nationals. The flow of new residents was also impacted as border closures prevented the resettlement of refugees into the city.

The city has had stronger economic growth than the national average

Palmerston North has experienced a period of strong economic growth over the five years to December 2022, with Gross Domestic Product increasing by 21.5%, compared with 17.8% nationally. Strong public sector activity, elevated construction investment and substantial growth in high-value services have driven economic activity over the period.

The city has had high wage and employment growth

High inflation, tight labour market conditions and strong wage growth have been prominent features of the New Zealand economy since late 2020. Labour market conditions in the city mirror this trend, with the number of jobs in Palmerston North up by 1,071 over the year to December 2022. This is a 2.3% increase compared with the previous year. Earnings increased by 5.5% over the same period, with provisional data for the March quarter of 2023 indicating a strengthening of annual earnings growth of 8.5% over the year. High employment and earnings growth have supported the core spending of households in this time of rapidly rising costs.

Unemployment levels remain the same as national levels

Unemployment figures and jobseeker benefit trends for the city reflect the tight labour market conditions. The unemployment rate for Palmerston North has remained equal to or below the national unemployment rate since the September quarter of 2020. Jobseeker benefit numbers in Palmerston North are bucking the national trend, falling below pre-pandemic numbers in March 2023, compared with an 11% increase in job seekers nationally. The unemployment rate for the city in December 2022 was 3.2% compared with 3.3% nationally.

Household spending is on par with the rest of the country

Growth in retail spending in the city kept pace with inflation over the year to December 2022, with spending increasing by 7.3% compared to an annual inflation rate of 7.2%. While spending on essential household items has increased, discretionary spending on big-ticket and discretionary items such as cars and motorbikes and home and recreation have pulled back sharply as rising costs and increasing mortgage interest rates flow through to household disposable incomes.

City tourism is growing

A rebound in tourism activity is supporting economic activity in the city, with spending up 7% over the year to December 2022. This compares with an 18.9% increase nationally. Greater percentage growth at the national level is expected as areas with greater dependence on international tourism rebound from border closures in 2021. The latest data indicates continued strengthening of tourism activity in the city, with spending up 13.1% in Palmerston North over the year to March 2023.

Palmerston North has had strong GDP growth post-pandemic

The annual Gross Domestic Product¹ (GDP) of Palmerston North (Infometrics provisional estimate) for December 2022 was \$6,321. This represents an increase of 2.6%, exceeding national growth of 2.4% over the same year. Figure 1 illustrates economic growth in Palmerston North compared with national economic growth² to December 2022.

¹ Gross Domestic Product (GDP) is an estimate of the final value of goods and services produced in an area. To avoid double counting, GDP excludes the value of intermediate goods used within the production process and is indexed for inflation to reflect the real value of economic activity.

² Infometrics estimate for New Zealand GDP

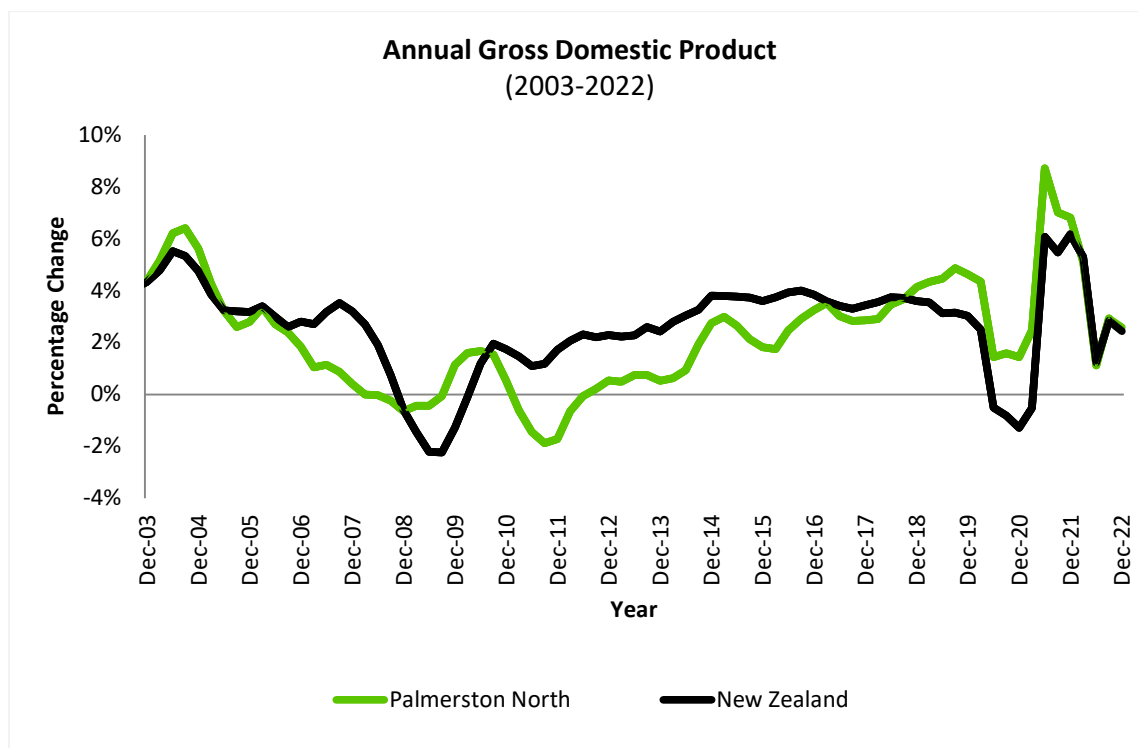


Figure 1 Annual GDP of Palmerston North and New Zealand ³

The Palmerston North economy has benefited from the mix of public and private sector activity over the COVID-19 period. This mix of industries has buffered the city from the impacts observed in areas of the country with greater exposure to border closures and lockdown restrictions. The structure of the economy has supported economic activity in the city, with Gross Domestic Product growing by 21.5% over the five years to December 2022, compared with 17.8% nationally.

Our economic sectors

The local economy is dominated by service sector activity, which contributed 59.4% of Gross Domestic Product in 2022. This is followed by a large and diverse government, education and health sector at 32.5%. The manufacturing sector and primary production sector contributed 5.9% and 2.2%, respectively. Figure 2 below shows this economic structure, and Figure 3 shows the proportion of GDP growth by sector.

³ Source: Infometrics, QEM March 2022

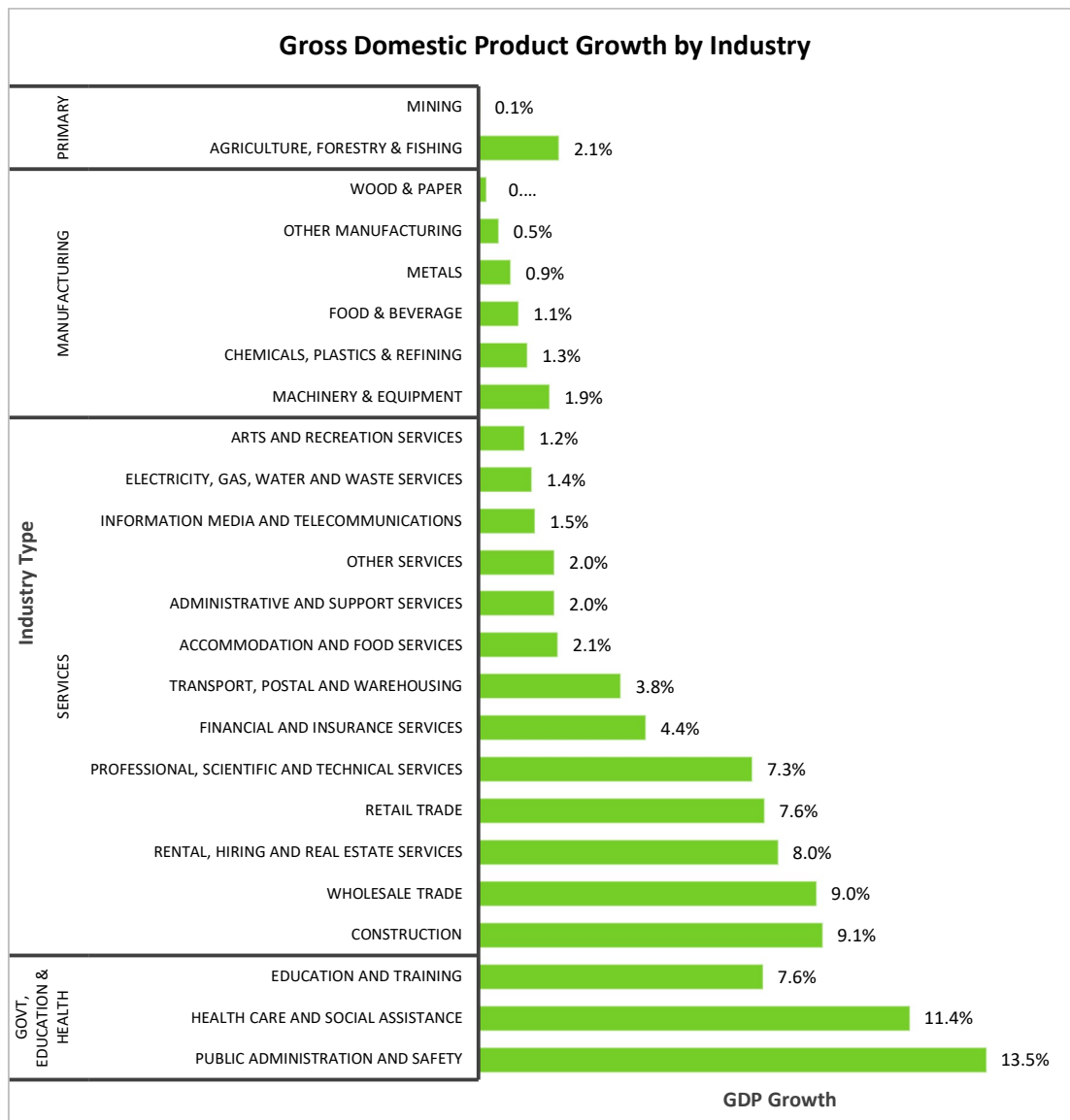


Figure 2 Economic structure by GDP (year ended March 2022)

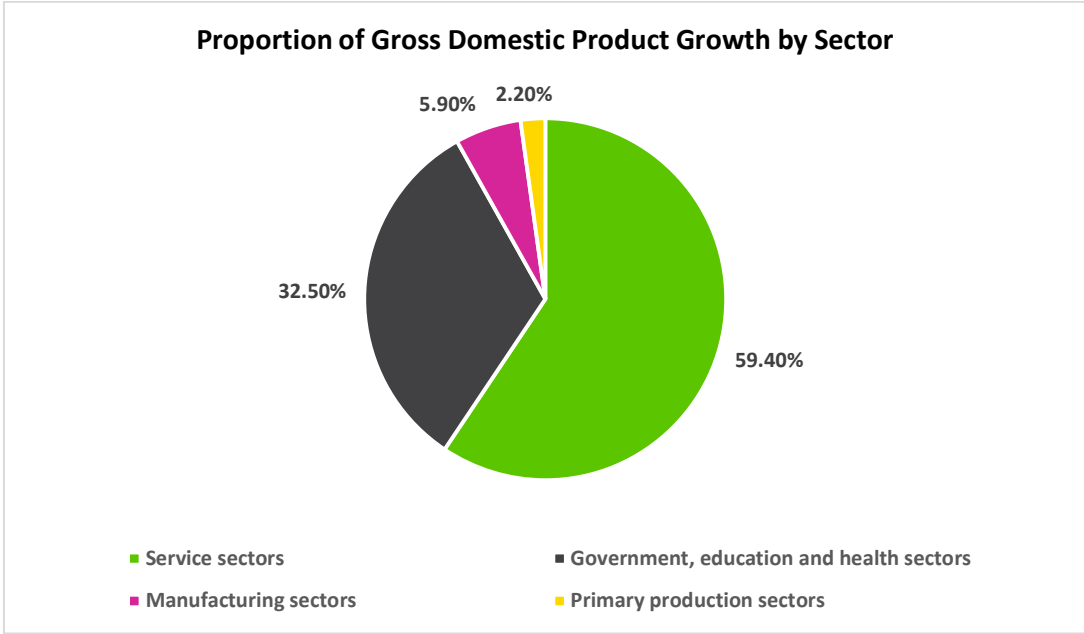


Figure 3 Proportion of GDP by sector (year ended March 2022)

Professional services and construction sectors have contributed the most to growth

The Palmerston North economy grew by \$300.2 million (5.1%) over the year to March 2022. Some of our largest sectors saw a dip in economic activity due to factors outside of the city’s control. Public administration and safety sector Gross Domestic Product contracted by \$7 million, driven by a fall in central government administration activity and a reduction in employment in the defence force. GDP in education and training fell by \$4 million due to reduced international student enrolments. Figure 4 below provides the breakdown by sector of the change in annual GDP for the period ending March 2022.

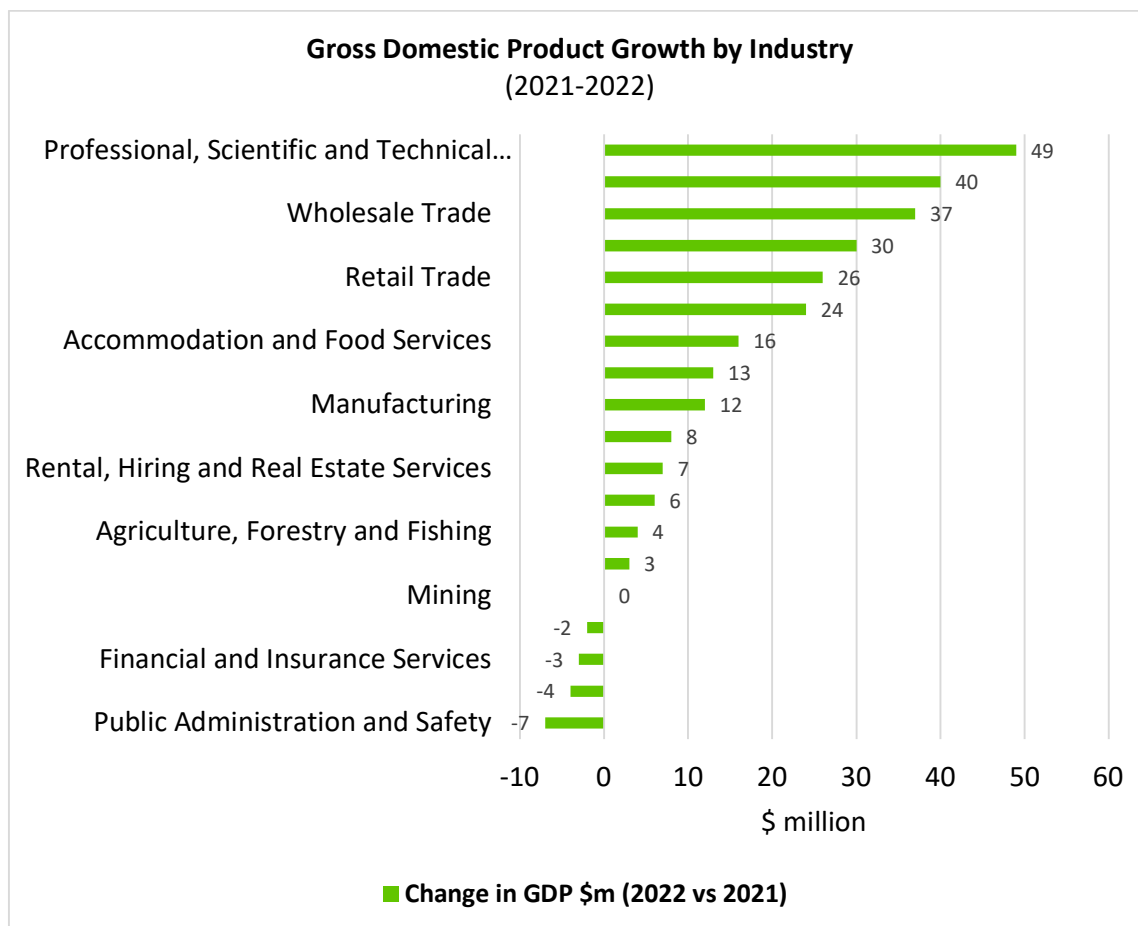


Figure 4 Growth in Gross Domestic Product for Industry 2021 to 2022

Table 1 below provides details of the top five growth sectors in the city in 2022.

Table 1 Top-five growth industries by GDP

	Industry	One-year growth	10-year growth	20-year growth
1	Professional, scientific & technical services	+\$49.3m +14.9%	+\$102m +36.8%	+\$133m +54.0%
	Professional, scientific & technical services contributed \$379.4m to the Palmerston North economy in the March year 2022. Scientific research services were the highest growth subsector, up by \$14.3m (+17.0%) annually and \$23.5m (+31.4%) over the 20 years to 2022.			
2	Construction	+\$40.0m +9.2%	+\$170.7m +55.8%	+\$253.8m +113.8%
	The construction sector contributed \$263.3m to the local economy in March 2022. The construction services subsector (which includes construction trades) was the highest-growing subsector, expanding by \$27.9m (+14.7%) over the year			
3	Wholesale trade	+\$37.5m +8.7%	+\$131.4m +39.0%	+\$213.4m +83.7%
	Wholesale trade generated \$468.4m in GDP for the city in 2022. The grocery, car, electronic and electrical goods, hardware goods, and professional and scientific goods wholesaling were the largest growth subsectors, contributing \$23.1m (61.6%) of GDP growth over the year.			

4	Health care and social assistance	+\$29.8m +5.3%	+\$169.5m +39.6%	+\$293.6m +96.7%
	Health care and social assistance contributed \$597.2m to GDP in the March year 2022. Hospitals were the highest growth subsector, expanding by \$14.2m (+8.7%). It contributed \$177.1m to GDP.			
5	Retail trade	+26.1m +7.1%	+115.1m +40.9%	+\$194.6m +96.5%
	Retail trade contributed \$396.2m to the city's GDP over the March year. Supermarkets and grocery stores are the largest subsectors, adding \$83.5m to the city's GDP. They were the second largest growth sector in 2022, expanding by \$3.6m (+4.5%). The hardware and building supply retail sector posted the highest growth, up by \$5.2m (+14.6%).			

As for the Palmerston North Labour Market, employment in the city and nationally continues to sit near record highs

The total employee count in Palmerston North in March 2022 was 56,955, an increase of 3.7% compared to pre-pandemic March 2020. This compares to a national increase of 3% over the same period. Over the year to March 2022, the number of jobs nationally grew at a very strong 3.3% due to the recovery of areas of New Zealand hit harder by the impacts of COVID-19. Over the same period, the number of employees in Palmerston North increased by 1,215 (+2.2%). Employment levels, both nationally and in Palmerston North, continue to sit near record highs.

The employment structure across the city is largely consistent with the GDP structure. The proportion of employment by sector area is as follows:

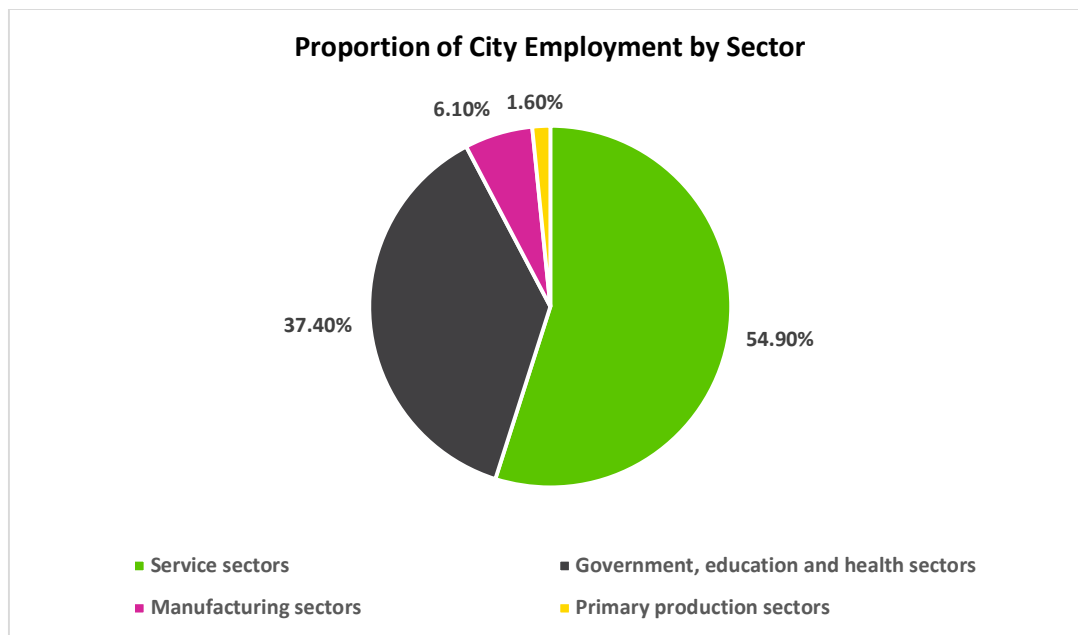


Figure 5 Proportion of city employment by sector by 2022

Figure 6 illustrates the structure of the Palmerston North economy by employment over the year to March 2022.

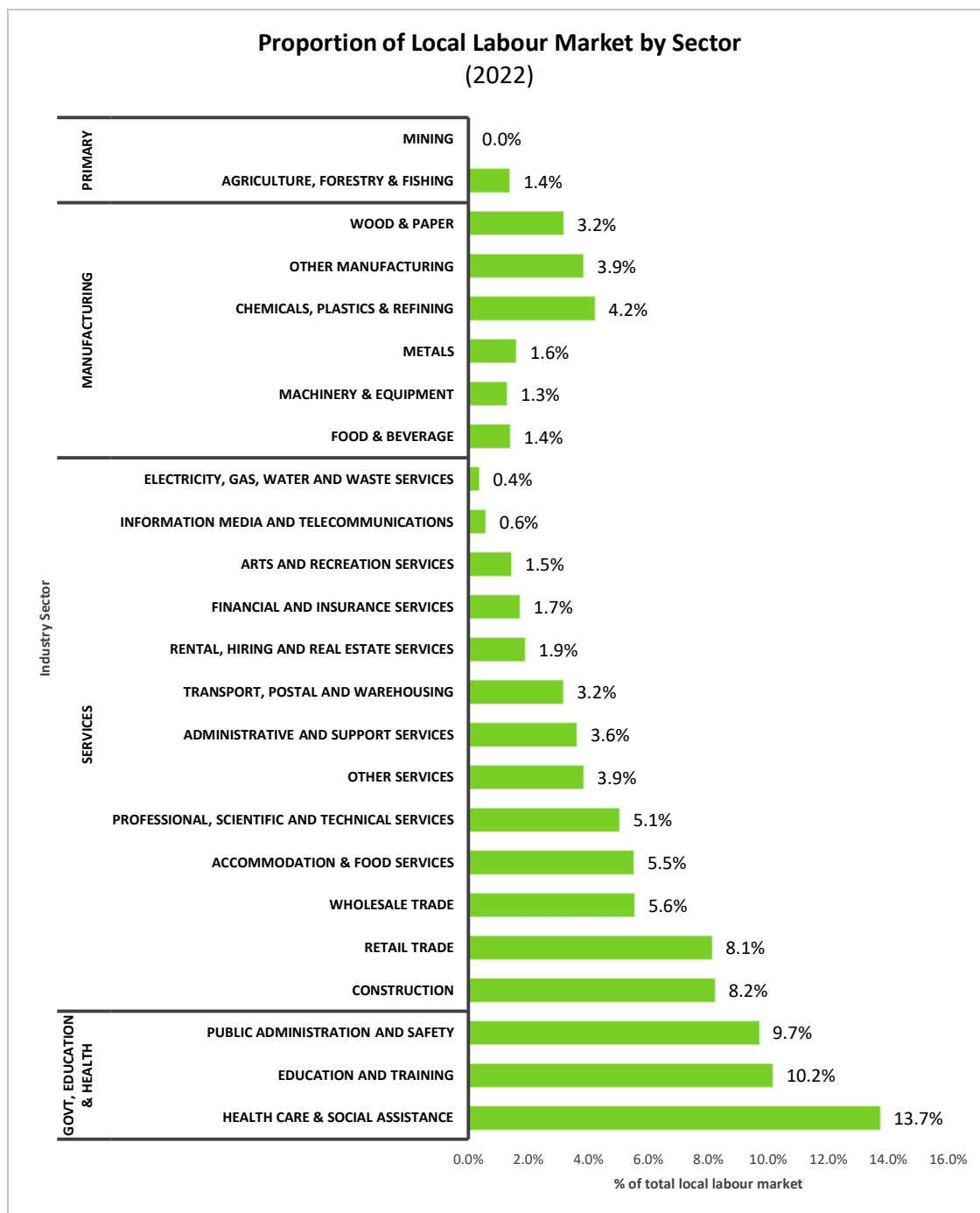


Figure 6 Palmerston North employment structure by sector (year ended March 2022)

Employment trends

The construction sector recorded the largest increase in jobs between 2021 and 2022 at 7.5% growth, followed by the electricity, gas, water and waste services sector (6.5%) and the accommodation and food services (6.0%). The construction sector recorded the largest increase in jobs between 2020 and 2022 at 15.6% growth, followed by the financial and insurance services sector (11.4%) and the accommodation and food services (11.1%). Job growth by sector between 2000 and 2022 is detailed in Table 2 below.

The biggest contributor to job growth between 2000 and 2022 was the healthcare and social assistance sector, with an additional 3,849 jobs between 2000 and 2022. The second largest growth came from the public administration and safety sector as the result of the expansion of the Linton Army Base.

Table 2 Change in employee counts: Palmerston North statistical areas (2000-2022)

Industry Sector ⁴	Palmerston North			New Zealand		
	Employee count	2000-2022 change		Employee count	2000-2022 change	
	2022	Number	%	2022	Number	%
Accommodation and Food Services	3,509	1,049	43%	169,340	67,102	66%
Administrative and Support Services	2,307	469	26%	130,578	49,345	61%
Agriculture, Forestry and Fishing	887	-674	-43%	146,644	2,308	2%
Arts and Recreation Services	923	149	19%	48,742	20,765	74%
Construction	5,225	2,620	101%	279,966	161,201	136%
Education and Training	6,444	710	12%	204,398	70,150	52%
Electricity, Gas, Water and Waste Services	246	-15	-6%	19,926	10,445	110%
Financial and Insurance Services	1,104	261	31%	72,235	27,184	60%
Health Care and Social Assistance	8,716	3,849	79%	278,766	127,714	85%
Information Media and Telecommunications	380	-336	-47%	41,673	783	2%
Manufacturing	3,457	-566	-14%	246,367	5,610	2%
Mining	19	10	111%	5,942	2,550	75%
Other Services	2,448	759	45%	107,041	41,018	62%
Professional, Scientific and Technical Services	3,206	604	23%	262,459	130,432	99%
Public Administration and Safety	6,159	2,876	88%	145,096	74,478	105%
Rental, Hiring and Real Estate Services	1,213	264	28%	63,764	16,893	36%
Retail Trade	5,164	730	16%	239,299	60,357	34%
Transport, Postal and Warehousing	2,022	719	55%	104,272	22,904	28%
Wholesale Trade	3,526	1,195	51%	126,793	26,163	26%
Total	56,955	14,673	35%	2,693,30	917,40	52%

The Palmerston North Central statistical area is the largest area for employment, with 16,400 (30% of the city) employees counted in February 2022. Palmerston North Central was also the largest contributor to employment growth between 2000 and 2022, with an additional 4,400 employees, an increase of 36%. The strongest increase was in the Palmerston North Airport area unit, where the number of employees increased from 160 in the year 2000 to 2,150 in 2022. This includes the high-growth industrial zone to the northeast of the city - the North East Industrial Zone.

Unemployment

Elevated demand for labour in Palmerston North is reflected in increasing job numbers, rising incomes, and falling Jobseeker benefit numbers.

⁴ Consistent with the Australian and New Zealand Standard Industrial Classification 2006 [Industrial Classification \(ANZSIC06\) - Dataset - data.govt.nz - discover and use data](https://data.govt.nz/discover-and-use-data)

Tight labour market conditions are also reflected in unemployment figures, with the unemployment rate for the city in December 2022 below the regional and national unemployment rate at 3.2%. The unemployment trends ⁵are shown in Figure 7 below.

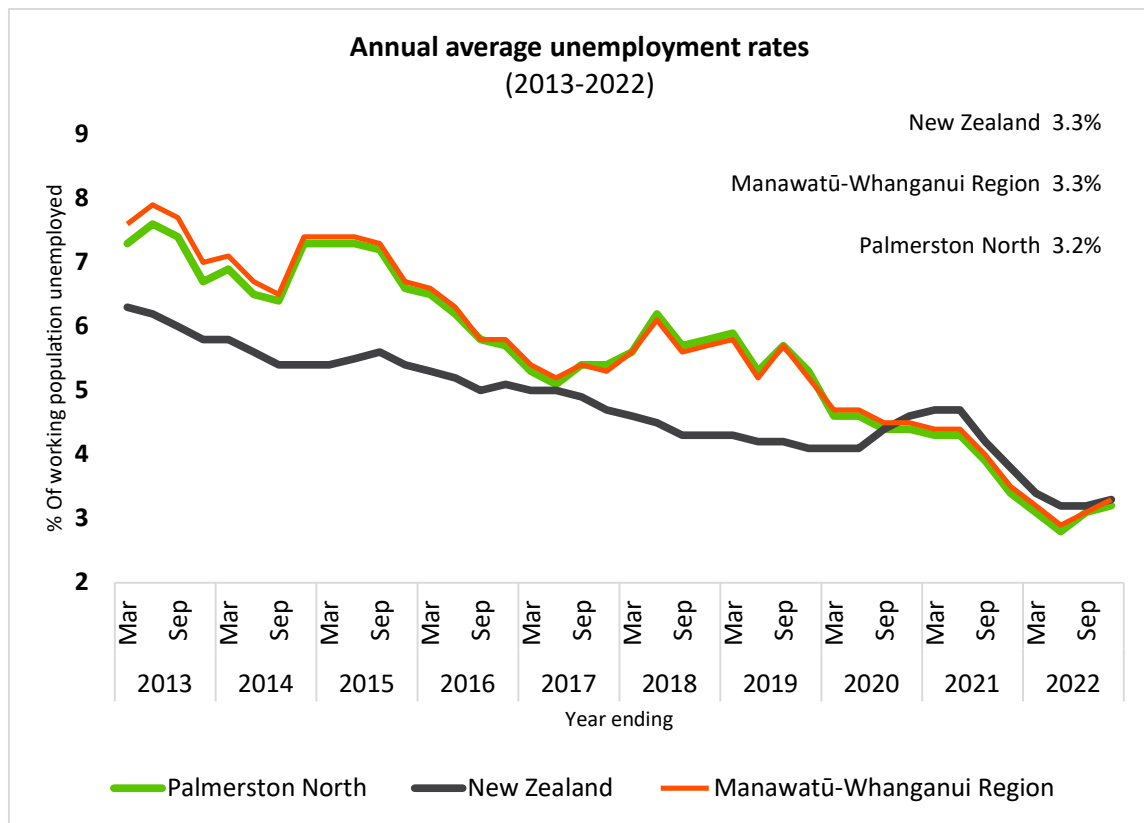


Figure 7 Annual average unemployment rate

Annual earnings

Strong labour force conditions in the city are reflected in earnings growth. Total annual earnings (salaries, wages and self-employment) in Palmerston North for the year ending March 2021 increased by 7.5% to reach a total of \$3,508 billion, higher than the 5.3% national increase.

Electronic card retail spending

The annual total electronic card retail spending in Palmerston North was \$1,451m for the period ending December 2022. This is an increase of 7.3% compared to 10.8% growth across the country. The growth rate for the period ending April 2023 increased slightly to 7.6% in Palmerston North, compared to 12% nationally.

Since the pandemic, Palmerston North’s annual growth rate has been higher than the national average until October 2022 as parts of the country have been catching up from higher pandemic restrictions (including Upper Northland, Auckland, Raglan, Te Kauwhata, Huntly, Ngāruawāhia, Hamilton City and surrounding areas) while other parts of New Zealand were in

⁵ Source: Infometrics, QEM, December 2022

Alert Level 2. Figure 8 below shows the annual change in electronic card spending (December 2017 – April 2023) in Palmerston North and New Zealand.

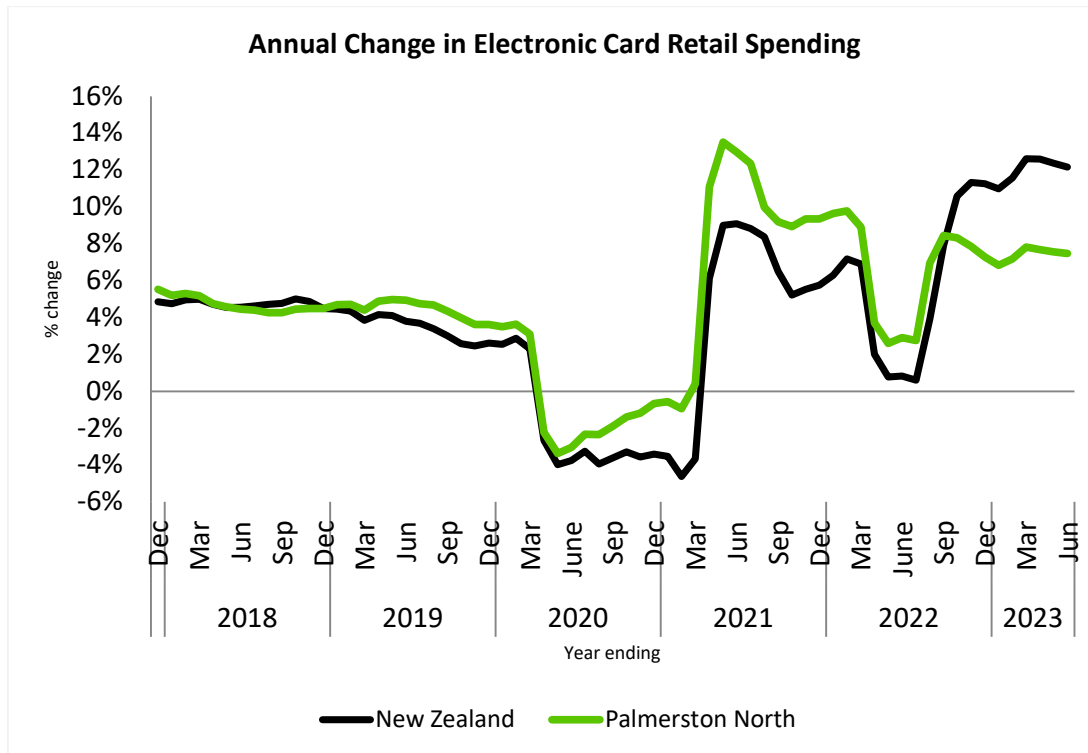


Figure 8 Annual change in electronic card retail spending

Electronic card spending by retail precincts over time (shown in Figure 9 below) shows that spending generally continued to grow after the recovery from the dips during the pandemic period. Our retail precincts are:

- Inner Central Business District (CBD)
- Outer CBD
- Terrace End
- The rest of Palmerston North

The “local” Terrace End precinct appears to be least affected by the pandemic.

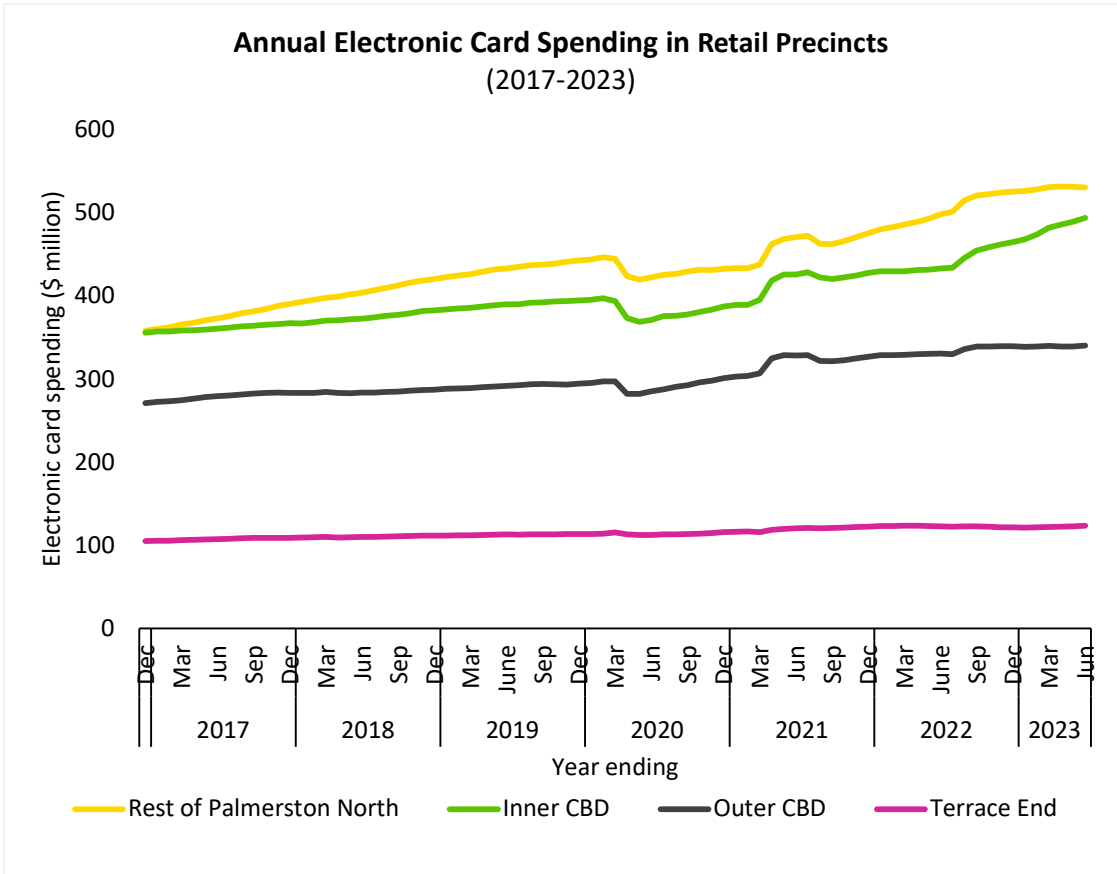


Figure 9 Retail precincts' annual electronic card spending (2017 - 2022)

The loyalty rate (percentage of spending by residents at local retailers) for Palmerston North remained high at 81.2% in the year ending December 2022.

For Palmerston North, visitor spending was \$511 million for the year ending December 2022, accounting for 35.2% of total electronic card retail spending, compared to 34.5% the year before.

Groceries and liquor accounted for 33% of total electronic card spending in the year to December 2022. During this period, the highest growth sector was "Arts, recreation & visitor transport" at 27.8%. Figure 10 below shows the growth rate of spending categories:

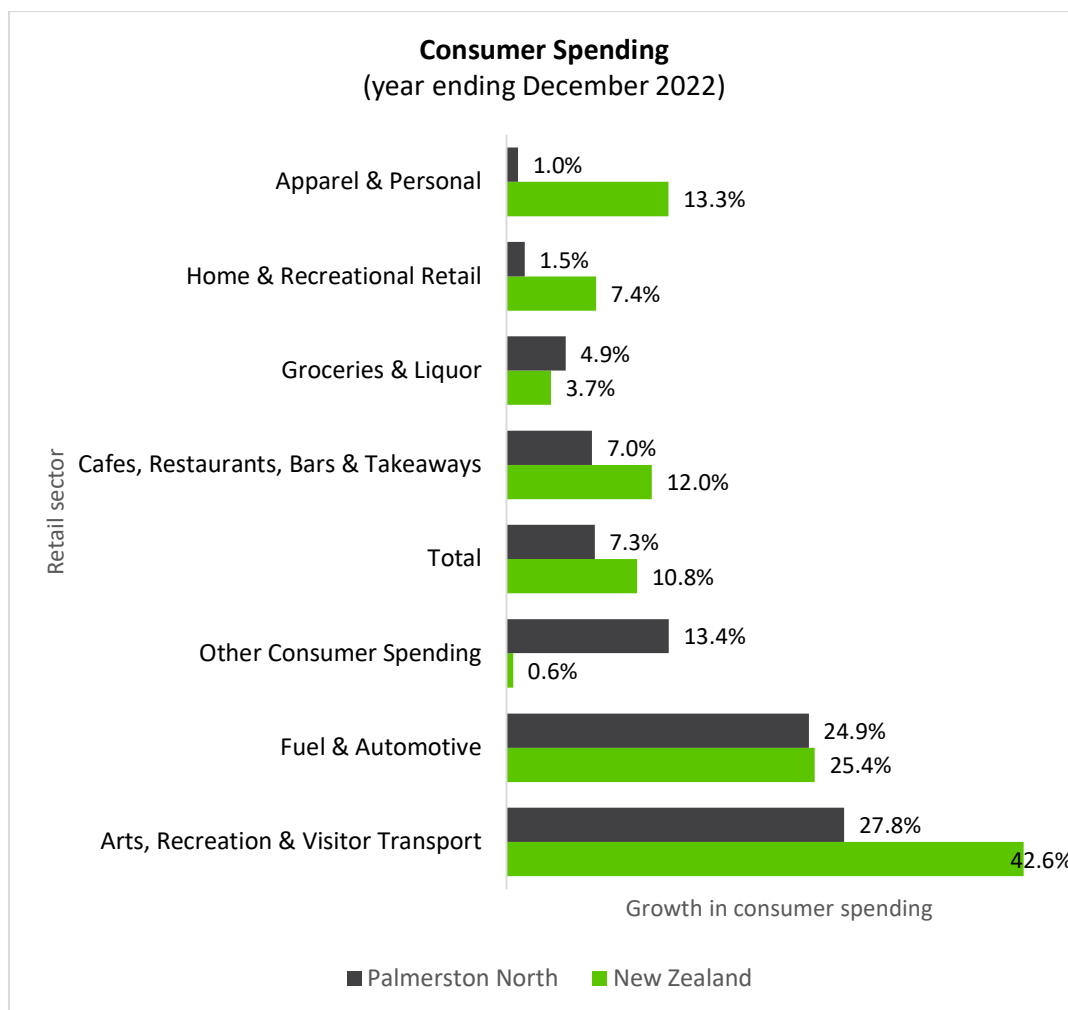


Figure 10 Change in Palmerston North electronic card retail spending by sector

Tourism Electronic Card Spending

Tourism electronic card transactions from visitors were recorded as \$291.7 million for the year ending December 2022. This consisted of spending of \$273 million from domestic visitors (4.2% increase compared to 8.4% nationally) and \$18 million from international visitors (75.6% increase compared to 167.3% nationally).

Palmerston North was ranked 12th out of 67 local authorities for domestic visitor spending and was ranked 20th out of 67 for international visitor spending for the year ending December 2022. Table 3 below shows these rankings.

Table 3 Ranking of domestic and international tourism spending by territorial authority (year ending December 2022)

Rank	Territorial Authority	Domestic (\$ mil)	Rank	Territorial Authority	International (\$ mil)
1	Auckland	2,346	1	Auckland	663
2	Christchurch City	773	2	Queenstown-Lakes District	330
3	Queenstown-Lakes District	712	3	Christchurch City	163
4	Western Bay of Plenty District	586	4	Western Bay of Plenty District	117
5	Tauranga City	503	5	Rotorua District	56

Rank	Territorial Authority	Domestic (\$ mil)
6	Dunedin City	376
7	Hamilton City	371
8	Taupo District	367
9	Rotorua District	303
10	Whangarei District	297
11	Thames-Coromandel District	286
12	Palmerston North City	273
13	New Plymouth District	204
14	Napier City	195
15	Far North District	185
16	Marlborough District	178
17	Timaru District	172
18	Hastings District	164
19	Waipa District	151
20	Tasman District	133
21	Invercargill City	126
22	Nelson City	125
23	Central Otago District	123
24	Lower Hutt City	116
25	Waitaki District	104
26	Ashburton District	103
27	Wellington City	102
28	Kapiti Coast District	102
29	Whanganui District	100
30	Masterton District	92
31	Hauraki District	90
32	Hurunui District	85
33	Gore District	84
34	Matamata-Piako District	84
35	Waikato District	81
36	Kaipara District	80
37	Horowhenua District	80
38	Ruapehu District	79
39	Gisborne District	77
40	Mackenzie District	71
41	South Waikato District	68
42	Selwyn District	68
43	Southland District	64
44	South Wairarapa District	55
45	Westland District	54
46	Grey District	52
47	Kaikoura District	50
48	Whakatane District	48

Rank	Territorial Authority	International (\$ mil)
6	Tauranga City	49
7	Hamilton City	42
8	Dunedin City	41
9	Taupo District	35
10	Far North District	31
11	Napier City	25
12	Marlborough District	23
13	Nelson City	22
14	Mackenzie District	21
15	New Plymouth District	21
16	Whangarei District	21
17	Whakatane District	21
18	Southland District	20
19	Tasman District	19
20	Palmerston North City	18
21	Lower Hutt City	18
22	Thames-Coromandel District	18
23	Hastings District	16
24	Invercargill City	12
25	Ruapehu District	11
26	Waipa District	10
27	Kaikoura District	9
28	Gisborne District	9
29	Porirua City	9
30	Central Otago District	9
31	Kapiti Coast District	9
32	Timaru District	9
33	Ashburton District	9
34	Wellington City	8
35	Selwyn District	7
36	Hurunui District	7
37	Whanganui District	7
38	Matamata-Piako District	7
39	Waitaki District	7
40	Waikato District	7
41	Waimakariri District	7
42	Grey District	5
43	Masterton District	5
44	South Wairarapa District	4
45	Upper Hutt City	4
46	Westland District	4
47	Buller District	4
48	Horowhenua District	4

Rank	Territorial Authority	Domestic (\$ mil)	Rank	Territorial Authority	International (\$ mil)
49	Rangitikei District	47	49	Kaipara District	4
50	Porirua City	46	50	Waitomo District	3
51	Buller District	44	51	South Waikato District	3
52	Clutha District	42	52	Hauraki District	3
53	Taranua District	41	53	South Taranaki District	2
54	Waimakariri District	41	54	Kawerau District	2
55	South Taranaki District	41	55	Clutha District	2
56	Manawatu District	37	56	Manawatu District	2
57	Waitomo District	35	57	Gore District	2
58	Kawerau District	30	58	Rangitikei District	2
59	Upper Hutt City	26	59	Otorohanga District	2
60	Opotiki District	24	60	Taranua District	1
61	Central Hawke's Bay District	22	61	Opotiki District	1
62	Otorohanga District	17	62	Central Hawke's Bay District	1
63	Wairoa District	15	63	Stratford District	1
64	Stratford District	15	64	Wairoa District	1
65	Carterton District	11	65	Carterton District	1
66	Waimate District	10	66	Waimate District	0
67	Chatham Islands	4	67	Chatham Islands	0

Major development and construction projects announced for Palmerston North and the Manawatū region amount to close to \$8 billion of construction activity over the period to 2035. Some projects under development do not have final values. The construction investment estimates are included in Table 4 below. The values of the projects below are deemed conservative, as in many cases, project costs have not been updated to reflect the increase in labour and material costs in the construction sector since 2020.

The total proposed capital expenditure by Palmerston North City Council over the 2021-2031 period is \$1.3 billion. Manawatū District's proposed capital budget is \$308 million.

Table 4 Table Manawatū Region: Major construction projects (2020-2035) as of June 2023

Major construction projects	Value (\$ million)	Timing
Te Ahu A Turanga (Manawatū Gorge Replacement Road)	650	Started Jan 2020
Linton and Ohakea Regeneration Plan 2019	660	2019-2035
Mercury Energy - Turitea Windfarm	450	2019-2022 Commissioned 2023
Massey University's capital plan	230	2020-2030
Powerco growth and security projects	245	2017-2024

Te Whatu Ora MidCentral surgical and mental health	57	2022-2023
Te Whatu Ora MidCentral Acute Services block	370	timing uncertain
Private hospital, Milson Line	700	2023-2027
Palmerston North Airport Terminal Building	30	
Manukura School	38	Building consent issued October 2022
Palmerston North Integrated Transport Investment	335 - 370	Timing uncertain
KiwiRail Regional Freight Hub	1,016	Subject to consent
Palmerston North City Council capital investment	1,350	2021-2031
Manawatū District capital investment	308	2021-2031
Waka Kotahi Otaki to North of Levin	1,500	2024-2029
Massey Solar Farm	10	2023-2024
Summerset Retirement Village - Whakarongo	Value not confirmed	Timing not confirmed
Te Rere Hau Windfarm replacement	Value not confirmed	Timing not confirmed
Kāinga Ora – Homes and Communities 250-300 unit development	Value not confirmed	Timing not confirmed
Former Post Office Hotel	Value not confirmed	Timing not confirmed
Total Value	\$7,949 - \$7,984 million	

In summary

The structure of the Palmerston North economy and elevated public and private investment have supported economic activity and stimulated investment in new dwellings and non-residential construction in the city since 2015.

The population of the city grew strongly between 2015 and 2020 as businesses and organisations sought labour and opportunities for business growth. While strong economic activity continued, population growth stalled between 2020 and 2022 as border closures and economic restrictions impacted the flow of labour into the city. It halted the migration of international students and refugees to Palmerston North.

Strong public and private construction investment continued into 2021 as house prices peaked at record levels and low-interest rates increased demand for new dwellings. Supply shortages in the construction sector alongside elevated demand combined to drive up the cost of

construction in 2021. As mortgage costs increased and inflation reduced the disposable incomes of businesses and households, house prices began to fall in early 2022, limiting the return to residential investment and reducing the demand for new dwellings. Non-residential construction in the city also weakened over this period. However, elevated public investment alongside the pipeline of work generated has helped to sustain demand in the construction sector.

Overall, the Palmerston North economy continued to perform well into 2022 and 2023 amidst rising costs for households and businesses. Job growth helped to sustain spending across the economy, and the resilience of households was supported by rising incomes and increased employment opportunities, alongside investment flowing through to economic activity.

The Palmerston North economy will continue to be supported by the city's large public sector, as well as a substantial professional services sector that supports the city's strengths in healthcare, education, research and government services. As a central location in the lower North Island, Palmerston North is also a centre for distribution. This industry is growing rapidly, with substantial investment as well as improved roading networks between Palmerston North and Wellington and Hawke's Bay, setting the scene for further growth in the sector to 2054.

Population growth in the city is expected to be supported by continued demand for labour as well as rising migration from other parts of New Zealand, as remote working enables people to seek higher living standards in the regions. An increase in net international migration is also anticipated as the number of overseas workers in the country increases back toward pre-COVID and long-term average levels.

The growth outlook for Palmerston North remains positive due to the expectation that private investment will increase due to easing inflation and lower interest rates in 2024 and that large-scale investment planned for the region will positively influence labour demand and earnings in the city to 2054. These factors are expected to support new housing and business development in Palmerston North over the short, medium and long term.