

Introduction

The performance of the District economy over 2019 was strong and the long term outlook for the District and wider Manawātū-Whanganui Region remains positive. The combined effects of the global spread of COVID-19 and drought conditions however, pose a short-term risk to the domestic and local economy over 2020.

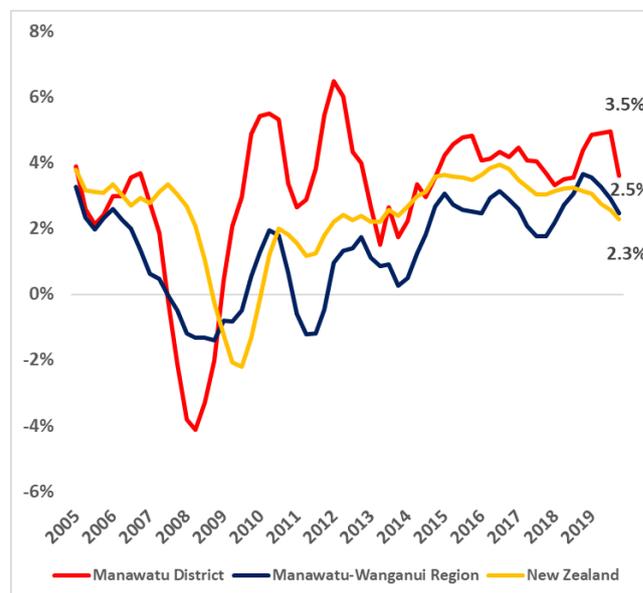
COVID-19 will impact in particular on regional economies with greater dependency on tourism, tertiary education, export trade and imports of inputs to production. While tourism and international education are not key industries for the local economy, the Manawātū District is a strong producer of agri-food products and manufactures therefore we can expect economic activity to be negatively impacted by the global impacts of COVID-19.

Exacerbating the impacts of COVID-19, global economic confidence has been further eroded by weak United States manufacturing data, falling global manufacturing orders, the sharp contraction of Chinese manufacturing and services activity and stock market and commodity price volatility. Recent interest rate cuts by global Central Banks helped to temporarily restore confidence however the continuing spread of the virus and the oil supply shock since, has generated further stock market volatility and sent bond yields south. The expected cut by the RBNZ on March 25 will provide some relief to New Zealand businesses and consumers, but a more targeted response is required to maintain capacity in the domestic economy and support household incomes and economic activity in 2020.

On the upside, China is returning to work and with that, we expect supply chains and demand for New Zealand products to recover. The exact nature of effects on demand for New Zealand exports from COVID-19 will be discussed in more detail in the final section of this report.

This is a fast moving situation with conditions changing daily. Global and domestic factors that impact on the local economy will continue to be monitored and reported on throughout the quarterly economic reporting series. Any factors that present an immediate concern for the local community will be communicated to elected members as they arise.

Gross domestic product growth Annual average percentage change



Infometrics estimates that GDP for the Manawātū District grew by 3.5%¹ to \$1.04b to the YE December 2019. This is an estimated increase of \$36m when compared with the YE December 2018. Economic growth for the District continues to exceed growth rates for the Manawātū-Whanganui Region and across New Zealand at 2.5% and 2.3% respectively.

Highlights

- District unemployment remains well beneath national unemployment at 3.3%. This compares with 4.1% for New Zealand and 5.2% for the Manawātū-Whanganui region.
- Average house prices increased to \$442,466 to the year ended December 2019. This is an annual increase of 19.6%.
- There were 191 new dwellings consented to the year ended September 2019. This significantly exceeds the historical annual average of 134 dwellings per year but has declined from the highs of the previous year, where 205 new dwellings were consented.
- Retail spending in the District increased by 4.1% to the year ended December. Tourism spending increased by 9.4% over the same period.

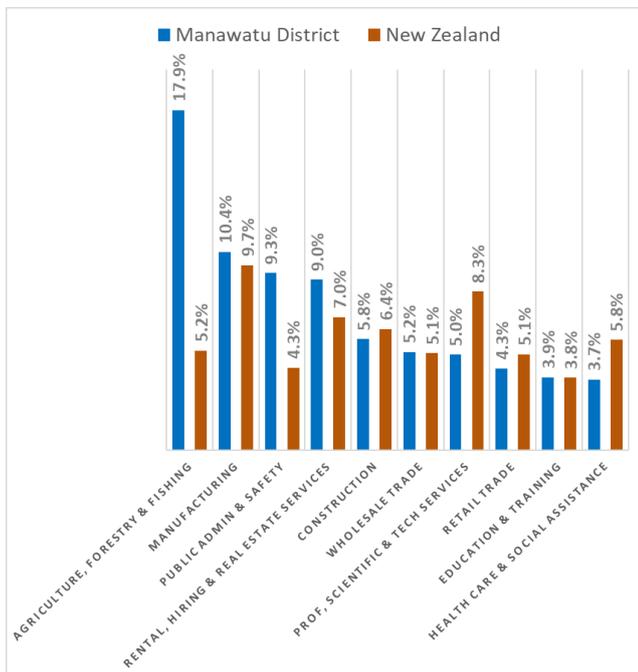
¹ Infometrics Real GDP estimates are based on 2010 \$.

Lowlights

- There was \$14.39m worth of commercial consents approved in the District to the year ended December 2019. While this declined from the \$16.28m totals from the previous year, we anticipate a significant boost to construction levels through 2020 to 2023 as the planned upgrades to Ohakea Air Force Base gain momentum.
- The number of new commercial vehicle registrations and new car registrations declined by 11.5% and 3.4 % respectively over the year to December 2019. This decline is anticipated due to particularly strong levels of investment in commercial and private vehicles over the past two years.
- Jobseeker beneficiaries increased by 104 (16.4%) to a total of 739 over the year to December 2019. While concerning, this is consistent with the national trend where jobseekers increased by 10% over the same period. This trend will be discussed in more detail within the labour force section of this report.

Industry Structure

Sectoral contribution to GDP – Manawatū District vs NZ

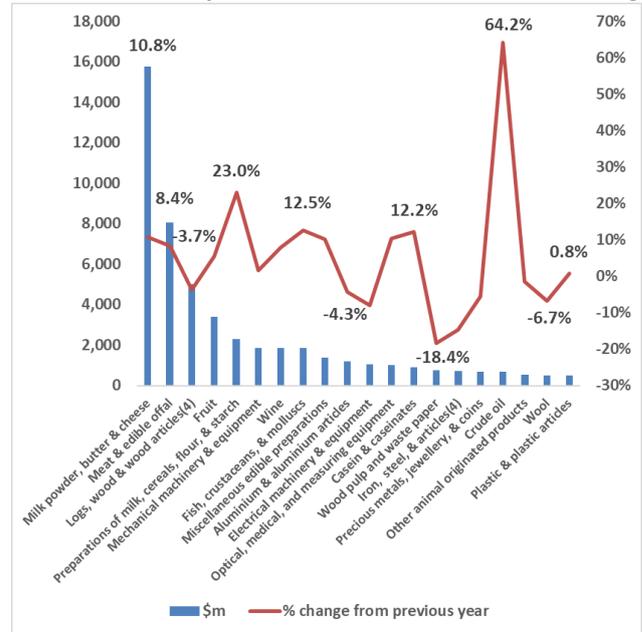


The structure of the Manawatū District economy differs considerably from the NZ economy. Agriculture, forestry and fishing contributes 17.9% of total GDP to the District economy versus 5.2% to total NZ GDP. The contribution of the Public Administration and Safety sector is also significantly higher in the District than to the national economy. In contrast, the contribution of the Professional,

scientific and technical services sector at the national level exceeds the contribution at the local level. Understanding industry structure by place is important to identifying opportunities for economic development, and events that may impact on local economic wellbeing.

Trade Conditions

Merchandise exports to December remained strong.

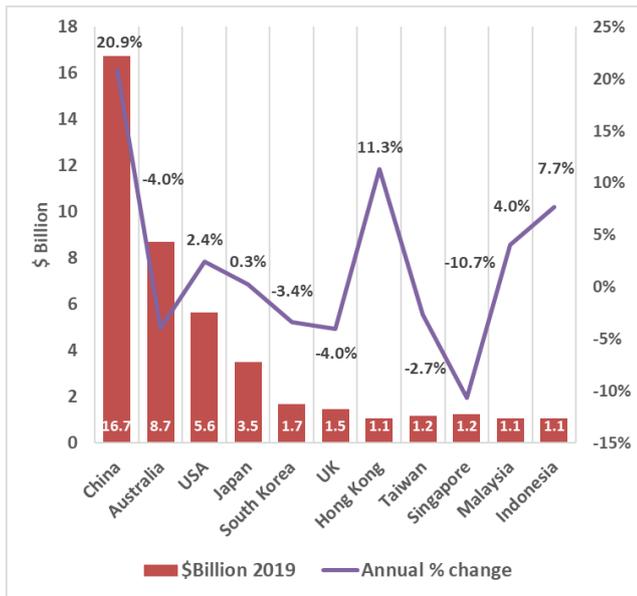


Merchandise export values increased by 4.7% over the year to December 2019. The value of Dairy exports increased by 10.8% to a total of \$15.8b over the year. In total, dairy exports made up 26.3% of the total value of merchandise exports over the year. Solid demand for New Zealand meat products also saw the value of meat exports grow by a healthy 8.4%. In contrast, the value of logs, wood and wood articles exports declined by 3.7 per cent with a further 18.4% decline in the value of Wood, pulp and waste paper exports. Data to the year ended December does not include any effects on trade volumes from the Coronavirus (COVID-19) outbreak.

Export trade

The value of exports to China posted strong growth relative to other export markets. The value of exports to China increased by 20.9% to the year ended December 2019. The export of goods to Chinese consumers makes up 27.9% of total merchandise export values. In contrast, the value of exports to Australia declined by 4.0% over the year, falling by \$360m to a total of \$8.7b. Changes in market export values will provide a clearer picture in the months to come, of the impacts of COVID-19.

New Zealand Export Markets YE December 2019



Dairy exports remain robust but are not immune to the current supply chain challenges. Commodity price data for February indicates relatively stable Dairy prices, however this data is yet to reflect the recent falls in Global Dairy Trade prices which have fallen 9% since early February. Dairy prices however remain relatively stable compared with meat and fibre and forestry prices.

Commodity price and trade data for February shows early signs of the impact of COVID-19¹.

The Meat and Fibre index posted falls of 4.6% in February 2020. StatsNZ data indicates exports of meat to China fell by 50% over the four weeks to February 23 compared with the previous year. This is discussed further in the final section of this report. Statistics NZ reports that higher value cuts are maintaining value but the value of lower quality cuts are falling sharply.

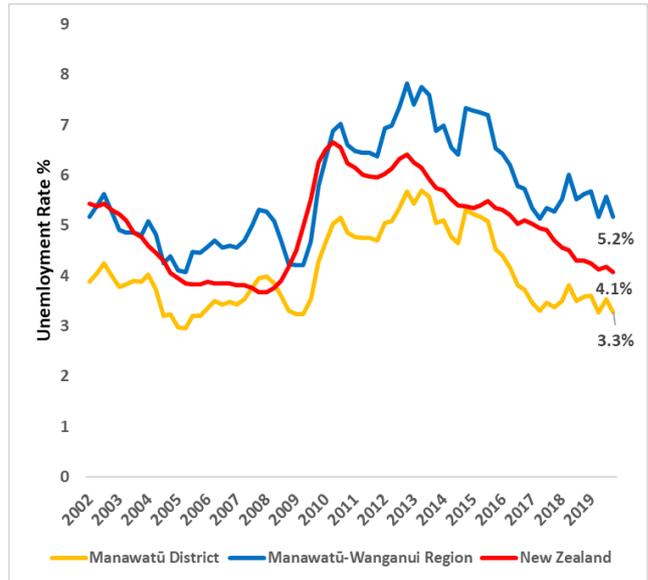
Forestry prices are now at their lowest level in three years. The Forestry index fell 5.2% in February. China is New Zealand's largest market for log exports. Prior to the COVID-19 outbreak, demand from China had dropped sharply and the outbreak of the virus in China have increased the challenges for NZ forestry exporters.

The impacts of COVID-19 will affect the performance of the global, national and local economy over 2020. The latest information on the impacts of COVID-19 on the domestic

economy will be explored in more detail in the final section of this report.

The Labour Market

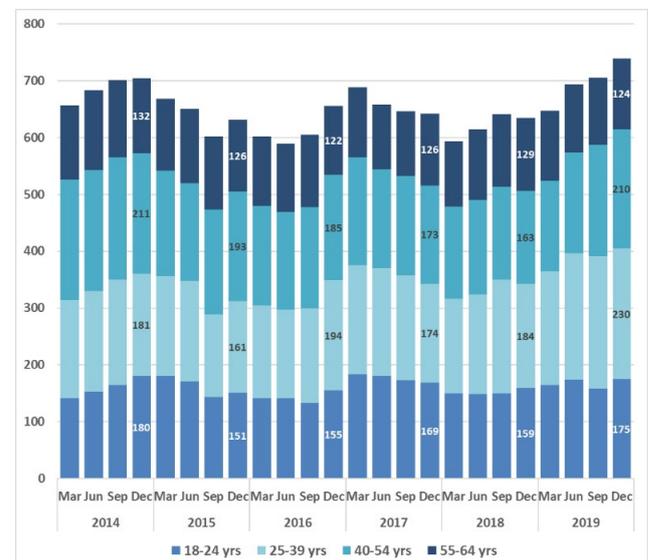
Average annual unemployment rate



The average annual unemployment rate for the district to December remains beneath the regional and national unemployment rate at 3.3%. This compares with an annual average unemployment rate of 5.2% for the Manawatū-Wanganui Region and a national unemployment rate of 4.1%. This is reported alongside an increase in jobseekers in the district and strong growth in jobs. These results suggest the need for detailed labour market analysis to understand the gap between the demand for, and supply of skills in the District, and the design of programmes to match skills demand with skills supply.

Jobseeker benefits

Quarterly jobseeker benefits



To December 2019, the number of jobseeker beneficiaries increased by 104 to a total of 739. This is an increase of 16.4% from the previous year. The number of beneficiaries increased across the majority of age groups with the exception of those aged 55-64 years. The number of youth receiving the jobseeker benefits increased by 16 to a total of 175, while jobseeker beneficiaries aged between 25 to 39 years and 40 to 54 years increased by 46 and 47 respectively. The current upsurge in jobseeker beneficiaries is consistent with the national trend where jobseeker beneficiaries have increased by 10.0% over the year. The current trend is concerning however and will be monitored closely over 2020.

Labour Market Self-Sufficiency in the Manawātū District has increased from 55.9% in 2013 to 71.7% in 2018

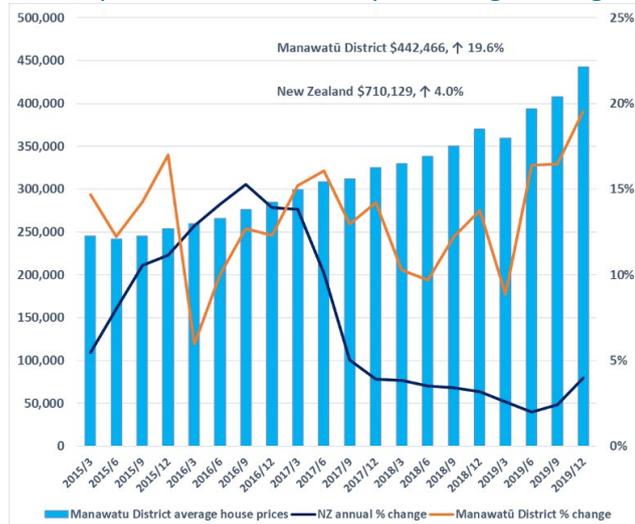
This is positive as it indicates that the Manawātū District labour market is providing for a greater proportion of our workforce.

Specifically, place of work data from the 2018 Census found that there are 13,818 people who live in the district and work around the Manawātū-Whanganui Region. 9,906 of these workers both live and work in the Manawātū District.

The Property Market

House Price Growth

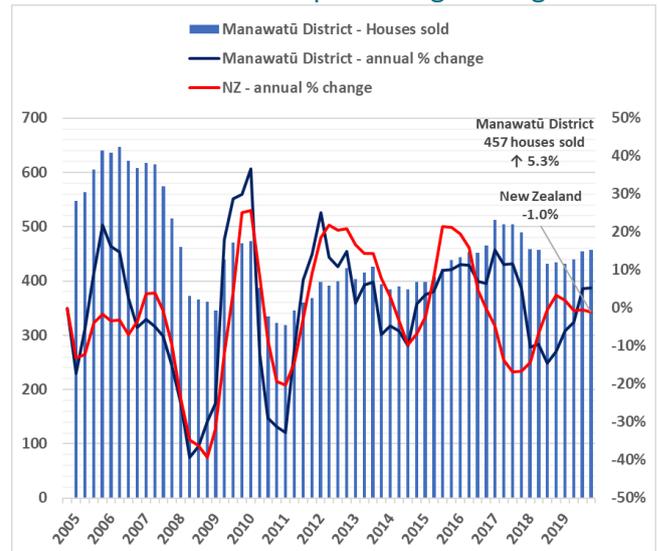
House prices versus annual percentage change



Strong growth in property values continue. Average house prices for the District increased by 19.6% to reach \$442,466 to the YE December 2019. Across the region, house price growth has been exceptionally strong with house prices increasing by between 13.7% in Palmerston North and 24.4% in Rangitikei District. In contrast, New Zealand house prices increased by 4.0% over the same period. The continuation of house price growth across the region reflects the strong regional economy to the year ended December 2019.

House Sales

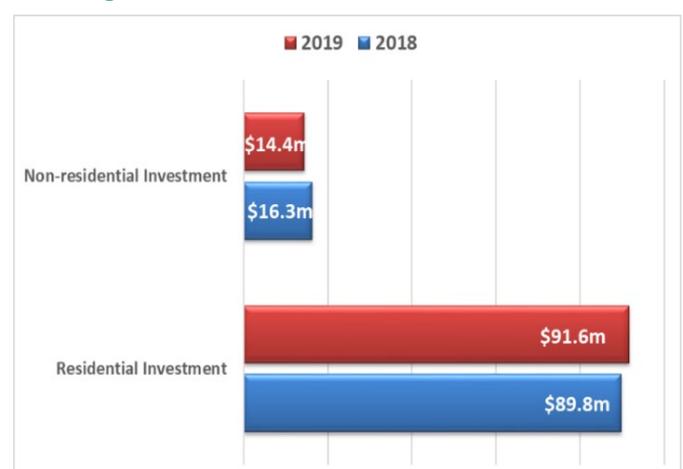
Annual number versus percentage change



House sales for the year ended December 2019 increase by 5.3% versus the previous year. There were 457 houses sold in the district to the year ended December 2019. The increase in local sales compares well the national trend where house sales have fallen by 1.0% over the year. The District was the only Territorial Authority in the region that posted an increase in house sales over the period. Specifically, regional house sales fell by 6.3% over the year to December versus the previous year.

Construction Investment

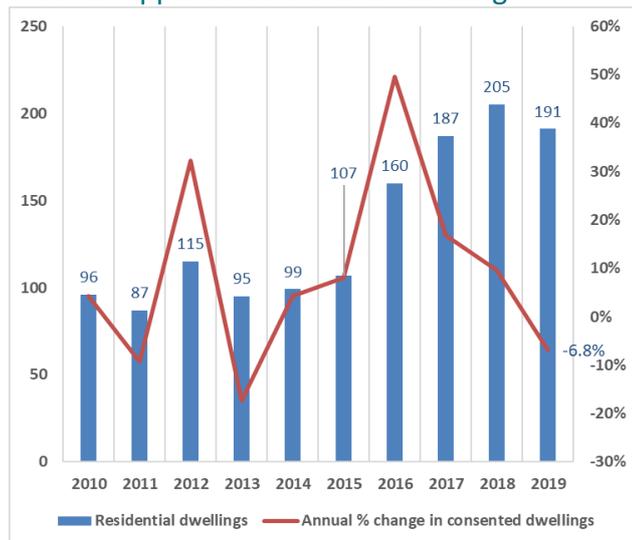
Building Consent Values \$



The value of construction investment remained relatively stable with \$106.7m of construction consents approved in 2018 and \$106.03m of consents approved in 2019. The breakdown between residential versus non-residential consents did change slightly. The lower value of non-residential consents in 2019 reflects a temporary lull in consents approved for Ohakea. Specifically, there were \$6.67m worth of consents approved for Ohakea in 2018 versus \$3.12m in 2019..

New Dwelling Consents

Consent applications for new dwellings



There were 191 consents for new dwellings approved to the year ended December 2019². This has declined from the highs of 2018 but remains strong when compared with previous years. Maintaining high levels of investment in new homes is important as the indicators suggest housing constraints in the District.

Project values of new dwellings

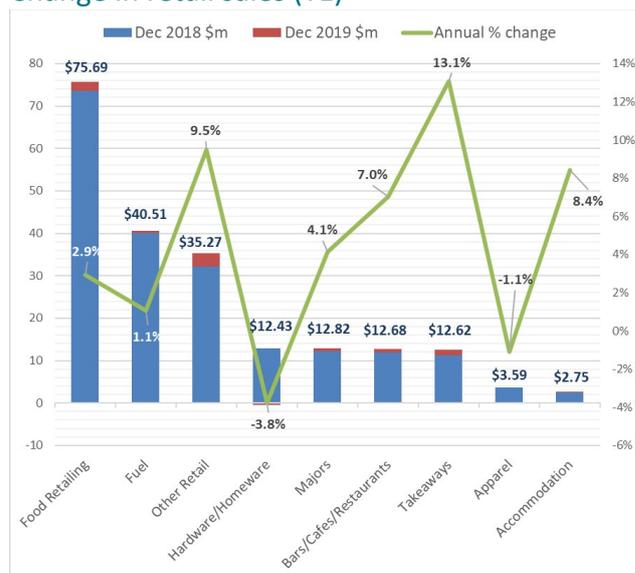


The project value of homes consented over the year to December 2019 ranged from \$12,000 for the relocation of a new yard-built home to \$2.5m for the construction of a large family home. Of the 191 new dwellings consented, the project value of 50 new homes was below \$320,000. A further 50 homes ranged from \$320,001 to \$400,000 while there were a further 50 homes consented between the values of \$400,001 and \$554,000. In the upper values, the project value of 41 additional homes were valued between \$554,001 and \$2.5m. While the full value of new yard built homes is not reflected in the project value, they do tend to cater for affordable housing needs. Monitoring the range of construction values in the District provides a proxy for delivery of housing across market demand.

Retail Trade

Total growth in retail spending exceeds national growth. Marketview reports an increase in retail spending in the District of 4.1% to the YE December 2019. In dollar terms, this is an increase of \$8.14m to a total of \$208.4m. Spending strengthened across the majority of storetypes with the exception of Hardware/Homeware and Apparel. Again, spending on Takeaways posted the largest increase, rising by 13.1% compared with the previous year. Other retail, Accommodation and Bars, Cafes and Restaurants also posted strong growth in 2019. Overall, growth in retail spending in the District exceeded National and Regional growth at 3.9% and 2.3% respectively.

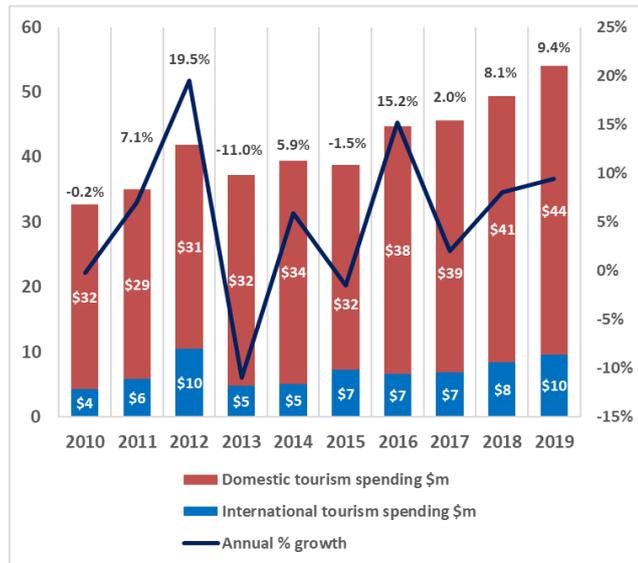
Change in retail sales (YE)



² The number of new dwellings include new relocated dwellings to the District.

Tourism

Change in tourism spending



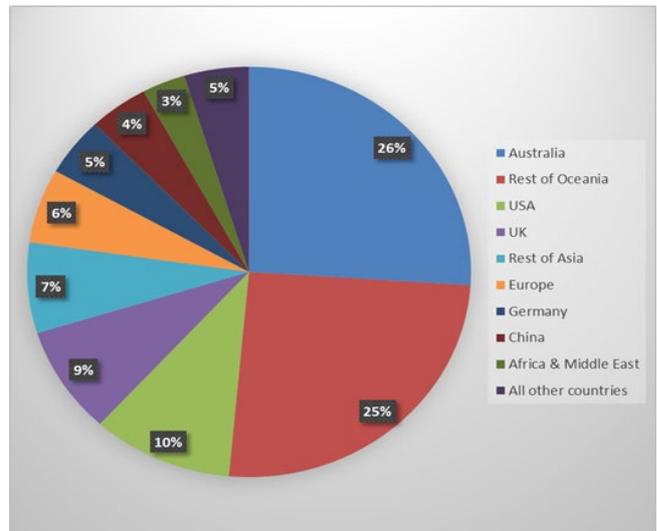
Tourism spending continues to strengthen. Tourism spending in the District increased by 9.4% to \$54m to the YE December 2019. This compares with 2.0% growth in tourism spending in Palmerston North and 3.5% percent growth nationally. Breaking this down, spending by international tourists increased by 14.1% to \$9.6m to the YE December 2019, while spending by domestic tourists increased by 8.5% to \$44.4m in 2019.

Tourism market structure

International tourists contributed 17.8% of total tourism spending to the District in 2019. Australia is by far our largest market contributing 26% of total international spend. Visitors from the Rest of Oceania also contribute strongly to international spending, adding \$2.45m to the total. Interestingly, the contribution from visitors from the USA has increased by 50% to \$990,000 in 2019 versus 2018. Chinese tourism is a small part of our International tourism market, making up just 4.2% of total international tourism expenditure in the District

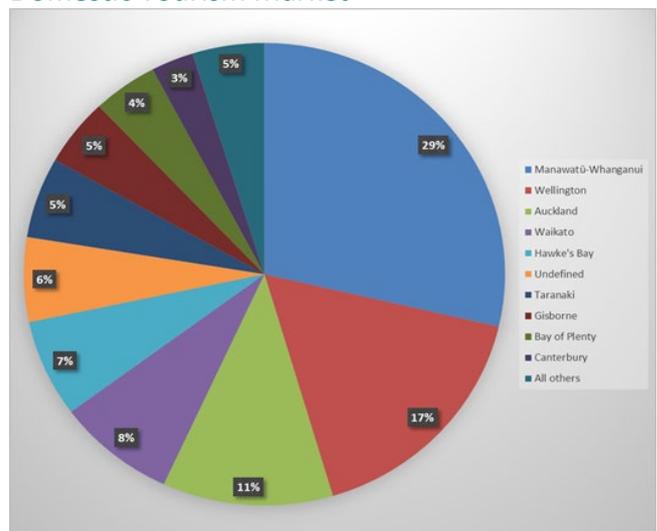


International Tourism Market



Domestic Tourists contributed 82.2% of total tourism spending in the District in 2019. Our own region is by far our largest market contributing 29% of total domestic spending. This is a total of \$12.7m over the year. Tourists from Wellington also spend up contributing a further \$7.4m to the District in 2019 followed by visitors from Auckland who spent a further \$5.1m. Research recently undertaken by Palmerston North City Council highlights the value of sports events to the local economy and the multiplier benefits of holding these second tier events in the region. With travel restrictions affecting the flow of international tourists into New Zealand, we may well see domestic tourism spending expand, making up for some of the shortfall from the contraction of visitors from overseas.

Domestic Tourism Market



Things to watch

The global impacts of COVID-19 – What we know?

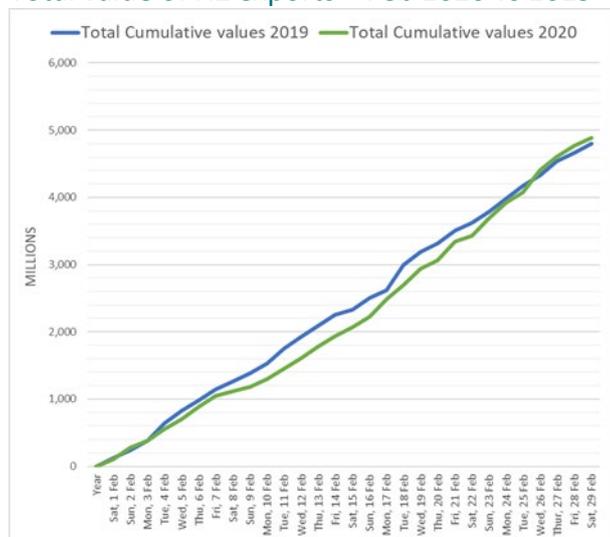
At the time of writing (11 March), there are 118,252 confirmed cases of COVID-19 across 115 countries. 80,757 of these cases are within Mainland China with 10,149 cases now confirmed in Italy. As from 10 March, Italy has been in total lockdown in an attempt to control the spread of the virus. The latest nations to report strong increases in confirmed cases are Spain, France, Germany and the USA. New cases are plummeting in China and falling in South Korea. This is a good sign as efforts to manage the outbreak show signs of being effective.

New Zealand has 5 confirmed cases, all of which are recovering well. Testing for the virus has been expanded to cover people who have been in casual contact with confirmed cases in addition to those with recent travel history to affected regions. The impacts of COVID-19 on New Zealand at the current time are predominantly economic and social.

The outbreak of COVID-19 and the resulting global economic conditions pose a risk to the NZ economy over 2020, but the news is not all bad.

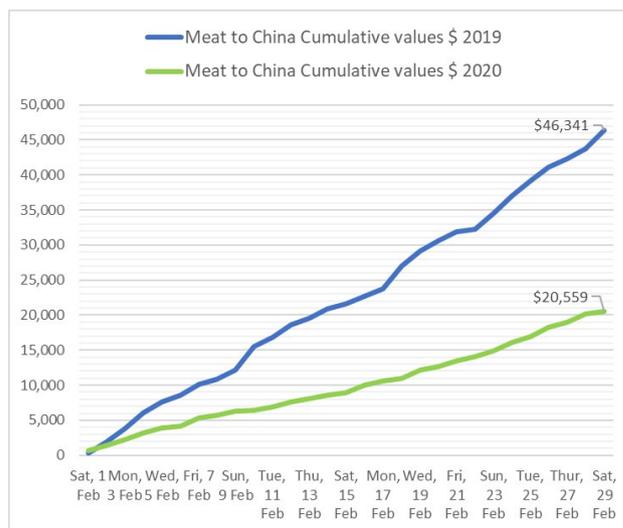
Experimental export data from Statistics New Zealand for February illustrates the likely magnitude of the outbreak of Coronavirus on export values³. Impacts differ by place and sector. The following graph compares the total value of export trade in February 2020 vs February 2019.

Total value of NZ exports – Feb 2020 vs 2019



³ The experimental series provides an indication of impacts but are not official statistics. The results should be reviewed once official statistics are released.

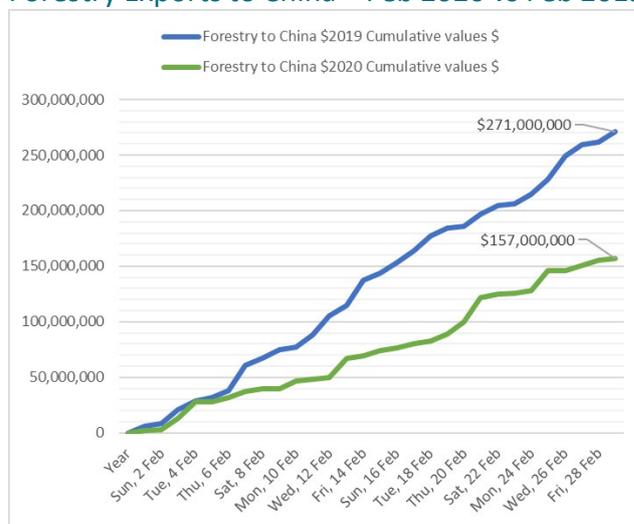
Meat Exports to China – Feb 2020 vs Feb 2019



The value of meat exports to China in February 2020 more than halved compared with February 2019.

The District is a strong producer of meat products for export. While the export values are concerning, they are not unexpected as the implementation of widespread measures to control the spread of the virus sent much of the population in mainland China into isolation. Anecdotal evidence from the farming community confirms they are receiving regular communications from their meat processing providers and that prices have remained above average to date. In terms of China, Bloomberg estimates that in the last week of February, Chinese production recovered to between 60% to 70% of full capacity. As China gets back to work and normal levels of consumption resume, we can expect export levels to recover and commodity prices for meat to rise.

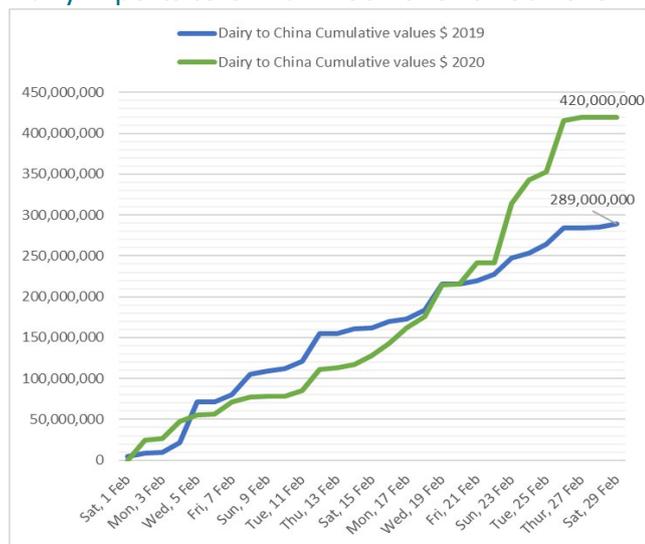
Forestry Exports to China – Feb 2020 vs Feb 2019



Forestry exports take a further hit from the outbreak of COVID-19. As discussed earlier in this report, forestry exports to China have suffered over the last six months of 2019, therefore the change in values for February 2020 compared with February 2019 cannot be fully attributed to COVID-19. A further fall in log exports to China however has deepened the impacts on the New Zealand economy, and on support sectors such as road transportation. Forestry is not a significant contributor to the District economy however impacts on the industry will affect the wider regional and New Zealand economy.

As highlighted by the OECD however, the global spread of COVID-19 increases the risk to the global economy. The global spread of COVID-19 raises the risk of further supply and demand side shocks over 2020 as levels of production and demand across the globe fall as a result of shutdowns and falling incomes. A further concern from the global spread is the potential impacts on financial institutions and how this may affect credit flows. This will need to be managed carefully by global Central Banks.

Dairy Exports to China – Feb 2020 vs Feb 2019



The value of Dairy exports to China have held-up well. The value of dairy exports in February 2020 have exceeded values in February 2019. While again, we cannot know what the value of dairy exports would have been in the absence of the outbreak, the fact that export values in February 2020 are strong relative to February 2019 is encouraging. Specific to the Manawatū District, to the year ended March 2019 Dairy Cattle farming was our third largest sub-industry, contributing \$89.8m (7.4%) to the local economy. Anecdotal evidence from local farmers confirms they are receiving support from Rural Family Support Services and Fonterra, and early indications are that the Fonterra dairy payout will remain stable over 2020.

Minimising the economic impacts

Unavoidably, the global spread of COVID-19 and associated events will impact on the New Zealand economy but there are structural factors that remain supportive of the domestic economy and measures that can be taken to mitigate the impacts of COVID-19 on New Zealand businesses and households.

The ongoing recovery of China from COVID-19 will help to restore demand for New Zealand exports and support New Zealand incomes. If sufficient Central Government resources are committed, actions to support businesses affected by COVID-19 and maintain household incomes will help to maintain capacity in the New Zealand economy and support levels of consumption, increasing economic activity and protecting jobs in the domestic economy. In addition, financial institutions and taxation policy will need to be responsive to hardship both of individuals and businesses, enabling flexibility and dispensing with penalties to support those struggling due to the impacts of COVID-19. Alongside the above, monetary policy will need to be responsive to any downturn in consumption to maintain disposable incomes and support jobs in the economy.

The exact impact of the global outbreak of COVID-19 on the New Zealand economy is yet to be known. As the situation evolves, impacts on the Manawatū District and regional economy will be monitored and reported to elected members and the community to support local decision making.

What we can expect?

The above data suggests that the impacts of the Chinese slowdown on the New Zealand economy specifically will be short-lived, as long as Chinese production recovers in the first half of 2020 and household incomes quickly recover to previous levels.