

Regional divide

Building Work Put in Place: September 2017 quarter

5 December 2017

- Construction activity picked up in September, rising by 2.7%. This was mainly related to a lift in residential building.
- There are stark regional differences in construction activity. Building levels in Auckland have picked up. But at the same time, construction in Canterbury is continuing to gradually wind down.
- There is a large pipeline of planned construction work. However, the combination of stretched capacity, rising costs and tighter credit conditions means that building activity is likely to increase at a gradual pace over the coming year.

Construction activity picked up in the September quarter, rising by 2.7% (only slightly ahead of our forecast for a 2% rise). This follows softness earlier in the year, and leaves the level of construction activity up only 0.7% on this time last year.

We are seeing stark regional differences in construction. Building activity in Canterbury is continuing its gradual post-quake wind-down. At the same time, activity is firming in other regions, including Auckland.

While we expect continued increases over the coming year, there are questions about just how fast building levels will rise.

Residential work up, led by Auckland

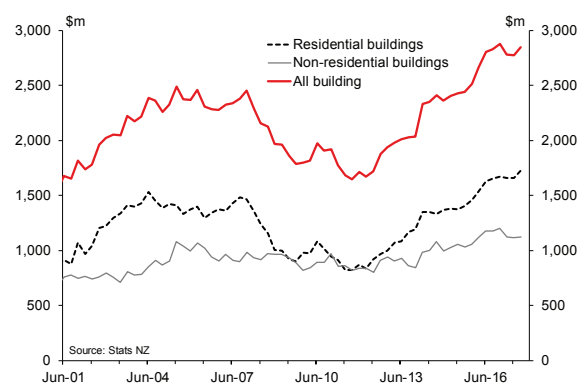
Residential construction rose by a solid 4.1% in September. This is the first material increase in residential construction we've seen in more than a year.

Behind September's increase in residential building was a strong 7% increase in spending in Auckland (though some of this will be related to cost increases). Building levels in Auckland have been struggling to break higher over the past year. However, we have seen some positive signs recently. Most notably, residential consent levels have firmed over the past few months. We'll be watching closely to see if these trends are sustained as we go into 2018. While there is a large pipeline of planned work in Auckland, a range of constraints means that building levels are expected to rise only gradually.

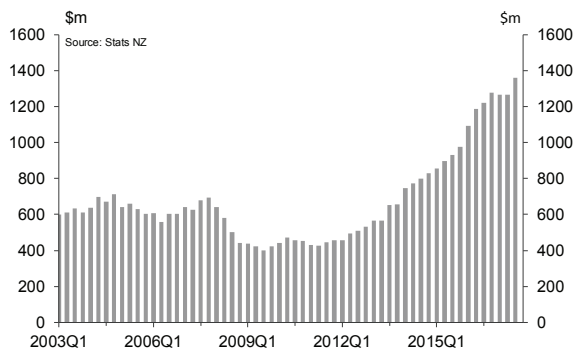
Looking elsewhere, residential construction in Canterbury has been easing back. However, the post-rebuild wind-down in home building has been gradual. And with consent levels holding up in recent months, it looks like building levels will remain at historically firm levels for some time yet.

Outside of Auckland and Canterbury, spending on residential construction has continued to increase, and was up close to 5% over the quarter.

Building work put in place, quarterly volumes (seasonally adjusted)



Auckland residential construction spending (quarterly)



Non-residential work up, but the wind-down in Canterbury is masking broader strength

Non-residential construction eked out a modest 0.6% rise in September. This follows weakness earlier in the year and still leaves the level of non-residential construction down 4% over the past year.

Much of the recent weakness in non-residential construction is related to reconstruction work in Canterbury. A large amount of work is still occurring in the region, but spending is winding down.

This softness in Canterbury is masking firmer activity in other parts of the country. In particular, the level of activity in Auckland has risen strongly over the past year.

Outlook

There is a large pipeline of building work planned over the coming years. Much of this is centred on Auckland, where an extended period of strong home building is required to address the existing shortfall of housing and keep up with continued strong population growth. There is also growing demand for houses in other regions, such as Wellington. On top of this, there is a significant amount of non-residential work planned nationwide, including a substantial amount of infrastructure spending.

But while there is a large amount of work planned, a range of factors have been providing a brake on building activity. These include rising building costs, stretched capacity in the building sector, and tighter bank lending standards for property developers. Putting all this together, we expect that building activity will increase only at a gradual pace over the coming years.

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