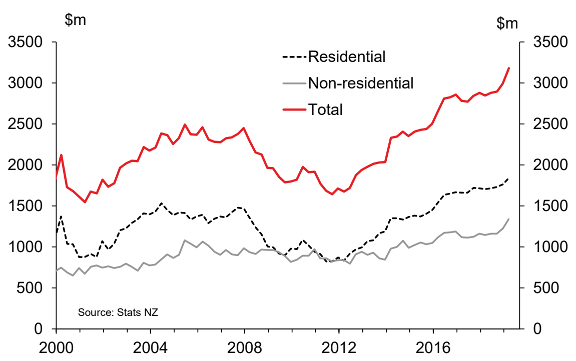
A strong start to the year for the construction sector

Building Work Put in Place: March 2019

7 June 2019

- Total construction activity was much stronger than expected in the March quarter, rising by 6.2%. That comes atop of earlier strength, and leaves building levels up 5% over the past year.
- Gains in building activity have been widespread across the country, with particular strength in Auckland. Both residential and non-residential activity have been trending higher.
- With a large pipeline of planned work, the level of construction activity is likely to remain elevated through 2019 and into 2020. However, with building levels now commensurate with population growth and migration easing back, a peak in the construction cycle is approaching. We expect this to occur in 2020.
- Today's result was much stronger than expected and indicates upside risk to our forecast for March quarter GDP growth.

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



Broad based strength

Construction activity has continued to power higher, with total building activity rising by 6.2% over the March quarter. That increase comes on top of earlier strength, and leaves building levels up 5.2% over the past 12-months.

March's increase was underpinned by a 9% rise in non-residential building, including work on social and cultural buildings, offices, and universities. There was also a solid 4.3% increase in residential construction activity.

Gains in construction have been widespread. There's been particular strength in Auckland, where the value of building work completed is up nearly 20% over the past year. Residential construction in the region continues to charge higher, rising by 15% in the year to March. We expect this strength to be sustained through mid-2019, with solid consent issuance in recent months. Non-residential construction in the region is also booming, with particular strength in the commercial space.

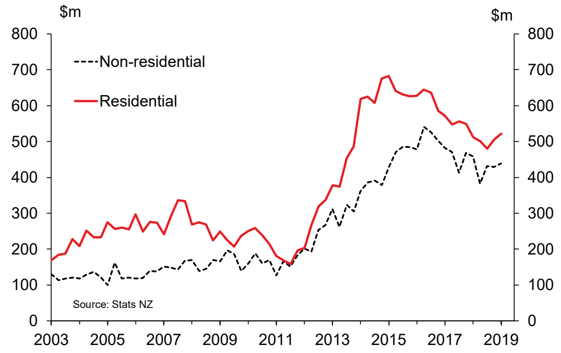
But strength in construction isn't just an Auckland story. In fact, in the North Island outside of Auckland and Wellington building levels are up 11% over the past year. And in the South Island (outside of Canterbury) construction has risen 5% over the past year from what was already an elevated level.

Growth in building activity – 12 months to March 2019

The only region where we are not seeing building levels trending higher is Canterbury. That's only to be expected with the peak in post-earthquake reconstruction having past several years back.

However, while building levels in Canterbury are well down from where they were at the peak of the rebuild, they have held up very well in recent months. We're also seeing relatively firm levels of consent issuance which bodes well for the remainder of 2019.

Canterbury building activity (quarterly)



Implications

March's 6.2% increase in construction activity was much stronger than the 0.7% increase we had expected and the average analyst forecast for a 1.1% rise. This signals upside risk to our forecast for GDP growth of 0.5% in Q1. We'll be reviewing that forecast over the next few days as the March quarter activity indicators are released.

Construction activity can be lumpy on a quarter-to-quarter basis, especially in the case of large non-residential projects. So it wouldn't be surprising to see more moderate growth in this category next quarter.

Looking at the longer-term outlook, construction activity is set to remain strong over 2019, supported by strength in residential, commercial and infrastructure work. Much of this strength will be centred on Auckland.

However, it looks like the peak in the nationwide construction cycle is approaching. We expect this to occur in 2020. In part, that's due to the continuing wind-down of post-quake rebuild work. In many other parts of the country, we still expect strong levels of construction activity, but beyond 2020 we don't expect to see the sort of large increases we saw in previous years (and in some regions there could be modest declines). That's because after strong increases in recent years, homebuilding activity is now more commensurate with population growth. In addition, while population growth is currently elevated, migration is past its peak and we expect it will continue to gradually ease back.

Satish Ranchhod
Senior Economist

Contact the Westpac economics team

Dominick Stephens, Chief Economist +64 9 336 5671

Michael Gordon, Senior Economist +64 9 336 5670

Satish Ranchhod, Senior Economist +64 9 336 5668

Anne Boniface, Senior Economist +64 9 336 5669

Paul Clark, Industry Economist +64 9 336 5656

Any questions email: economics@westpac.co.nz

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