

# Pop goes the weasel

## Q1 real building work surges 5.8%

- **Building work put in place rose a stunning 5.8% by volume in the March quarter, as the Canterbury rebuild picks up a head of steam.**
- **This result left our 1% pick in the dust.**
- **Activity in the rest of the country “ain’t too shabby” either.**
- **As a result, we see substantial upside risk to our 0.8% GDP pick for growth in the March quarter.**

Nationwide building activity popped higher in the March 2013 quarter. Post-earthquake reconstruction in the Canterbury region is gathering a head of steam, while elsewhere activity, particularly in Auckland, is ticking along at a very respectable rate.

These figures back our long-held view that construction activity would boom – due to both the Canterbury quake rebuild and a legacy of under-building in some regions. This quarter the quake rebuild was so large it dominated the data. As such, it would be easy to overlook strength elsewhere that would normally generate good discussion.

We’ve also long highlighted that construction booms are usually accompanied by construction cost inflation, which tends to filter out into generalised inflation over the course of several years. We await more data on this front, but we don’t think the result will be any different this time.

### Details

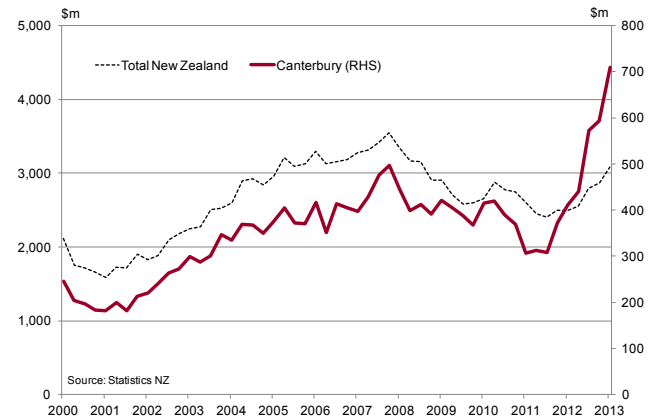
Real building work put in place rose 5.8% in the March quarter, following on from a 13% increase over 2012. This left our pick of a modest 1% increase in the dust.

The detail was in line with expectations in terms of direction, if not magnitude. We had pencilled in a 5% increase in residential building work, versus the 12% outturn. Non-residential building fell -0.8%, close to our forecast of a 3% fall after 15% growth across the preceding six months.

Canterbury was the standout. In value terms, both residential and non-residential activity posted gains over 20% in the quarter. Canterbury non-residential activity even exceeded activity in the rest of country combined.

In any other quarter we would be waxing lyrical about solid gains across the rest of the country. As it stands, residential activity posted a 11.4% gain in the rest of the country in value terms.

Value of building work s.a.



### Implications

The Canterbury rebuild is rapidly gathering steam. The reality of the rebuild is proving even stronger than the bullish expectations we laid out more than a year ago. The next stage we will look out for is signs of capacity constraints emerging. The final stage will be inflation pressure.

That said, we have highlighted in the past that the coming boom in building activity would not be solely a post-quake reconstruction story. Quake-strengthening work will be a factor in other regions too, and housing construction will need to lift in some areas, particularly Auckland, to absorb population growth.

The building survey provides substantial upside risk to our forecast of 0.8% growth in March quarter GDP, and as such leans in the direction of higher interest rates. That said, there was no market reaction following the release.

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