

Post-quake rebuild surges ahead

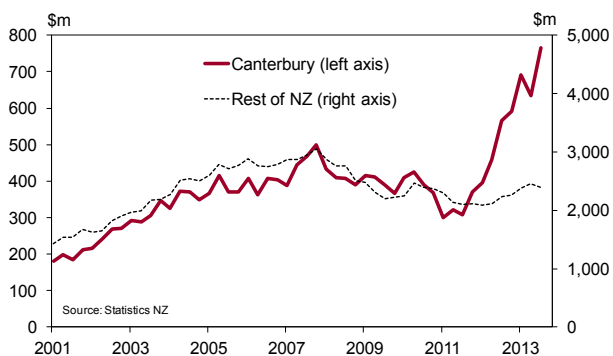
Q3 real building work rose 1.4%

- Building work put in place rose 1.4% in the September quarter, with a strong jump in homebuilding but a drop in non-residential construction.
- Building activity in the Canterbury region set another record high as the post-quake rebuild continued to ramp up.
- While the increase in building work was less than we expected, we continue to expect a strong Q3 GDP report later this month.

The volume of building work put in place rose 1.4% in the September quarter, with housing construction racing ahead but non-residential building work surprisingly weak. While growth in the construction sector was solid on its own terms, it was less than the 6% rise that we expected. This removes the upside risk that we saw lurking around our already-strong forecast of 1.4% growth in September quarter GDP.

Setting aside the headline figures, the details of the survey are consistent with the themes that we have been highlighting for some time. Post-quake rebuilding in Canterbury is surging ahead, and homebuilding is also picking up in Auckland, the only other major region where a shortage of housing is apparent. At a nationwide level, the construction industry is not yet running at capacity, but we expect more pressure on resources and prices as the Christchurch rebuild approaches full speed over the next couple of years.

Value of building work put in place (s.a.)



Details

Total building work rose 1.4% in the September quarter, following a 0.6% decline in the June quarter. Residential building work rose by 8.1% to its highest level in five years, broadly in line with our expectations. In contrast, non-residential activity fell by 6.4%, against our forecast of a 2.5% increase.

The regional breakdown shows that Canterbury had a stormer in the September quarter, following a small but unexpected pullback in the June quarter. Both residential (up 19.7%) and non-residential work (up 22.5%) were easily at their highest levels on record.

There are two health warnings that go with these figures. The first is that the regional breakdown is only available by value; we know that construction costs have risen far more in Canterbury than in the rest of the country, so the post-quake lift in the volume of work will have been less than these figures suggest (though it's probably still safe to say that it has reached record highs).

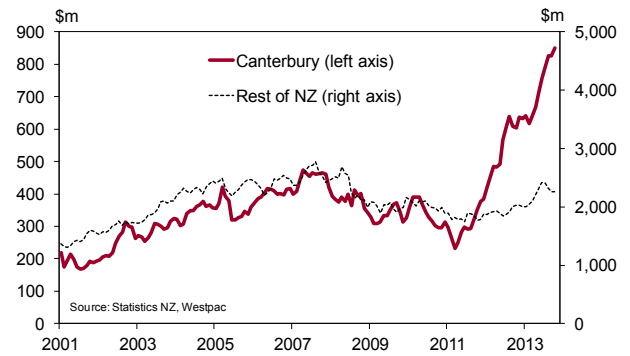
The second is that this survey only covers building work that requires a consent; much of the quake-related work to date has been on repairs, which wouldn't require a new consent (unless the homeowner was using the opportunity to make alterations). The next GDP release on 19 December will incorporate industry data that includes the amount of repair work; Statistics NZ has signalled that this will lift the nationwide level of construction activity over the last couple of years by around 12%.

Outside of Canterbury, there was a strong lift in residential construction in Auckland (up nearly 20%), but modest declines in the rest of the country. Homebuilding in Auckland is gradually responding to higher prices and the legacy of under-building in previous years – although the latest building consent figures have flattened out somewhat, indicating that progress continues to be stop-start.

Non-residential building work fell sharply outside of Canterbury – down 15% by value to its lowest level since 2004. That is substantially weaker than implied by the modest uptrend in building consents; the lag from consent to construction can be long and variable, so we expect there will be a catch-up phase at some point.

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Value of building consents (s.a. 3mth sum)



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