

# Build me up

## March quarter real building work put in place

- Construction activity rose 1.0% in the March quarter, following a 0.3% rise in the December quarter. This was above our expectation for a 0.5% increase.
- Underpinning March's increase in total construction activity was a 2.6% increase in residential building. This offset a 1.2% pullback in non-residential construction.
- Over the coming year we see the risk that growth in the building sector eases off. Nevertheless, we expect the level of building activity will remain elevated over 2015/2016.

Adjusting for price changes, the level of building activity rose by 1% in the March quarter. While this was a relatively modest increase, it follows a strong pick-up in building activity over the past year. Looking at the past 12 months as a whole, the level of building activity was up a whopping 13.8%.

Increases in construction activity have been a key driver of GDP growth in recent years. Over the coming year, however, there is a risk that growth in the sector levels off. Our talks with those in the industry have highlighted that capacity constraints are emerging, and recent business surveys have pointed to difficulties finding labour. But even if growth in the sector does slow, we still expect the level of construction activity will remain elevated for some time, reflecting the strong pipeline of residential and non-residential work that currently exists.

Over the coming year, we expect that the nature of building work will change. In recent years, much of the strength in building activity has related to residential reconstruction in Canterbury. The residential rebuild is now well advanced, and residential consent issuance in Canterbury has started to tail off. At the same time non-residential construction in Canterbury has been increasing, and demand conditions in Auckland have remained firm.

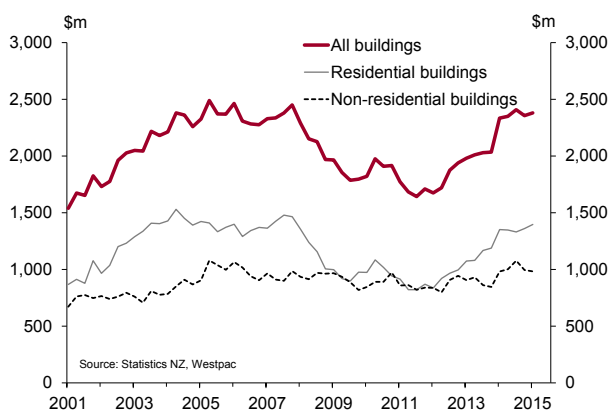
### Residential building

Underpinning March's increase in total construction activity was a 2.6% increase in residential building. This saw residential building rising to its highest level since 2007.

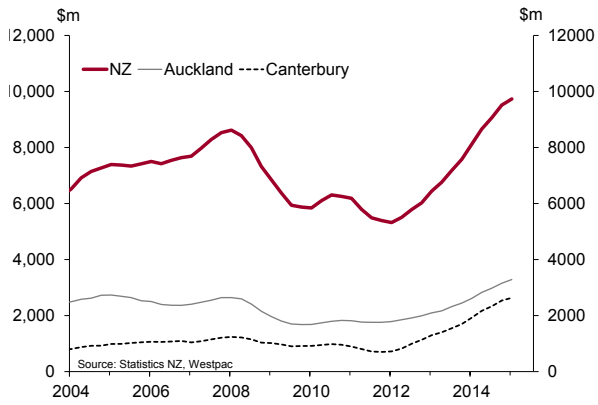
Increases in residential building have continued to be driven by residential reconstruction in Canterbury. In addition, the March quarter also saw a strong increase in residential building in other parts of the South Island, as well as increasing activity in Auckland.

We expect that residential building levels will remain strong for some time, with demand conditions in Auckland a key support for activity. Demand in Auckland continues to be boosted by strong population growth. In addition, efforts to reduce red tape are starting to bear fruit, with recent increases in medium- to high-density building consent issuance.

Real building work put in place



### Real residential building work put in place (annual total)



### Non-residential building

Non-residential construction fell by 1.2% over the March quarter, following a 7.6% fall in the previous quarter. However, it's important to put this in context. Non-residential building volumes have picked up strongly in recent years, and despite recent falls, the level of building activity remains elevated.

Looking forward, non-residential investment spending is expected to remain elevated for some time. There is a strong pipeline of work including commercial projects in both Canterbury and Auckland, as well as infrastructure spending nationwide.

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