

Hammer and tongs: construction activity surges

June 2016 quarter building work put in place

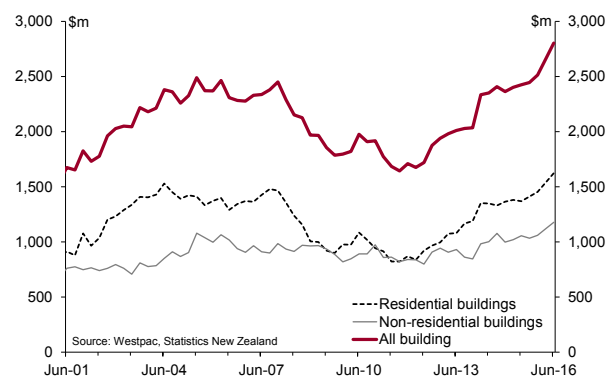
- Total building work put in place rose very strongly again in June, up 5.5% on March in volume terms.
- This stellar result followed a revised growth rate of 5.7% in the March quarter, and 2.8% in December 2015.
- The country has now recorded six consecutive quarters of growth in building work put in place, despite the lumpiness of some commercial projects and large-scale residential projects that can affect quarterly data.
- Residential building consent growth has continued to slow in Auckland over the last several months. With more certainty over the Unitary Plan, we may see a pick-up in consents over the next several months, but it will take longer before that feeds through to building work.
- As a result, we do expect building activity growth to slow despite stronger activity across the country.
- Still, building work put in place is expected to continue growing year-on-year until mid-2018.

The big picture

After the March quarter's remarkable growth of 5.7% in the volume of building work put in place, we were expecting a more modest growth rate in June. But that was not the case. Building work put in place rose another astonishing 5.5% in the June quarter.

It is hard to overstate the scale of the last two quarters' increases. Total growth in building work volumes has reached 8% in year-on-year terms. Building work put in place for the quarter was 14% higher in seasonally adjusted terms than the December 2007 peak before the GFC hit. Since the trough in September 2011, quarterly building work put in place is up 71%.

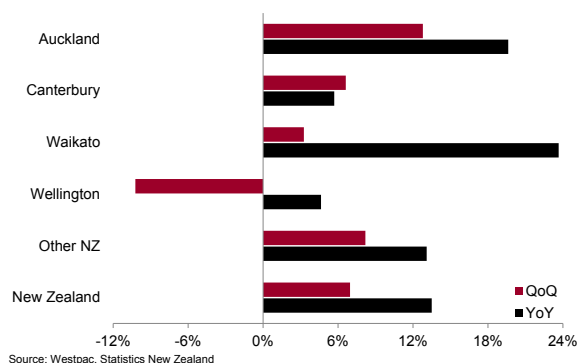
Building work put in place, quarterly volumes



Between 2001 and 2007, residential building work tended to contribute far more to total work than non-residential building. The GFC sent the residential building sector into a nose-dive which took years to recover from. But despite a strong uptick in non-residential building work as well, the gap between the two components of total building work has once again widened as residential consents move closer to 30,000 a year for the first time in more than 11 years.

The story at the sub-national level is of increasingly broad-based growth in building activity. Wellington is the only region to see a decline in building activity quarter-on-quarter as a surge in non-residential activity falls away. Residential building activity in Wellington has remained stable.

Growth in building work put in place, value terms



But everywhere else, the story is one of growth. Auckland has seen a rise of 20% in building work put in place in value terms over the year, including a 13% quarter-on-quarter change, suggesting growth has accelerated.

In the Waikato, the year-on-year figure is even more impressive at 24%, and 3.3% in the quarter. Canterbury, despite a slowing residential component of the rebuild, saw growth of 6.6% in the quarter, while the rest of New Zealand, most notably Tauranga and Queenstown, surged 5.6% in the quarter. As a result, values across the country surged 8.2% in the quarter and 13% year-on-year.

Auckland's flatter residential activity

Auckland may not be as big a contributor to building work put in place over the next several months as residential consents have flattened there.

In our bulletin on the March building work results, we commented on the flattening in Auckland's consent numbers. Our reasoning was that many potential projects would be waiting for the finalised Unitary Plan before proceeding.

We suspect that investors who had speculatively bought a quarter-acre section with an old bungalow on it in Auckland's southern central suburbs, where a lot of intensification was proposed, were holding off until the Plan was finalised. That would allow them to put four townhouses on the section rather than two stand-alone dwellings, increasing their returns.

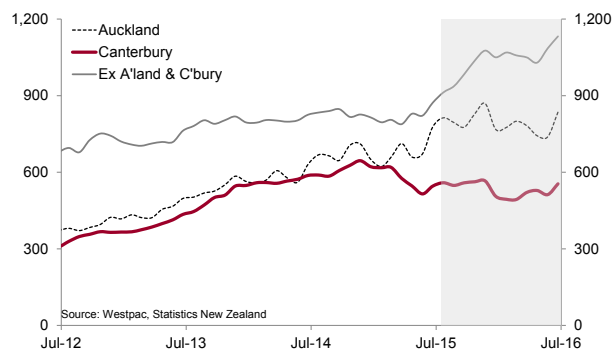
The Unitary Plan has now all but been signed off by Auckland Council, subject to a final notification and limited submissions period. We would hope to see a burst in consenting activity over the next few months. But of course it takes months from the time land is formally rezoned, to resource and building consents being approved, and then for actual building work to commence.

Meanwhile, residential activity in Canterbury remains surprisingly strong, which suggests that the business-as-usual

component of residential activity may be higher than at first anticipated, meaning in the short-term at least, there may be less of a drag on residential building activity in the region.

And elsewhere in New Zealand, building consent activity has stepped up another gear. After relatively stable consent activity through early 2016, activity has taken another step up.

Six-month trend in monthly residential consents

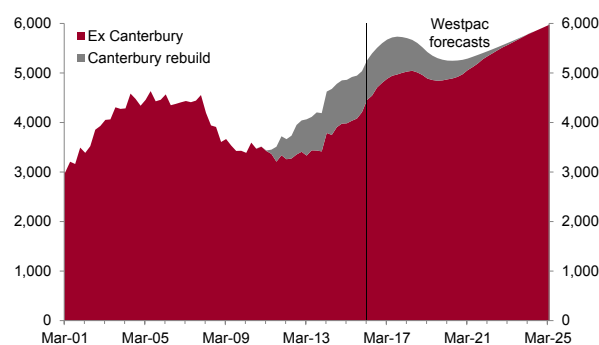


This means over the next three to six months we can expect to see more residential building activity flowing through from other parts of the country. Notable examples include Tauranga, Hamilton and Queenstown. Although at a lower scale, regions like the Hawke's Bay are also beginning to crank up.

What this means for GDP growth

Today's data was even stronger than expected, and therefore supports our view that June quarter GDP growth is likely to be another strong reading, in the region of 0.9% for the quarter. If anything, this result suggests some upside potential for our current forecasts, which we will be reviewing over the next week as other data is released.

Residential and non-residential gross fixed capital formation, \$m



We expect growth in building work put in place to continue for several more quarters before the wider slow-down in Canterbury rebuild work and net immigration lead to a dip in overall activity from the end of 2017.

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