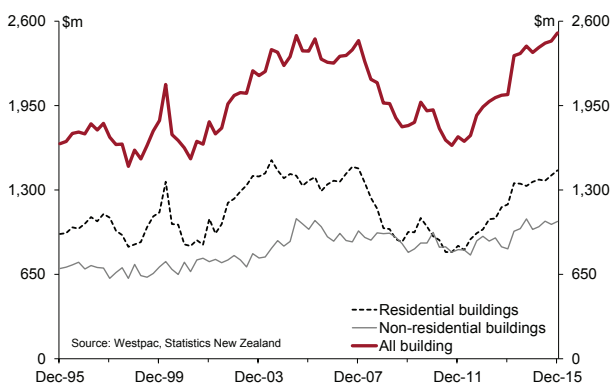


Building activity surges, with more to come

December quarter 2015 building work put in place

- Total building work put in place rose 2.5% in the December quarter, far stronger than last quarter's 0.5%, and taking building work put in place to the highest levels ever recorded on a quarterly basis.
- Building consent growth points to continued strong growth in building work for the next year or more.
- Capacity constraints may be leading to some delays in the delivery of construction. This means the traditional relationship between consents and delivery of building work is being stretched.
- Residential and non-residential construction are expected to be major drivers of overall economic growth over the next couple of years.

Value of building work put in place, quarterly volumes



The big picture

Total building work put in place grew by 2.5% in the December 2015 quarter, much stronger than the 0.5% growth seen in the September quarter. The December result compares to a market forecast of 2%.

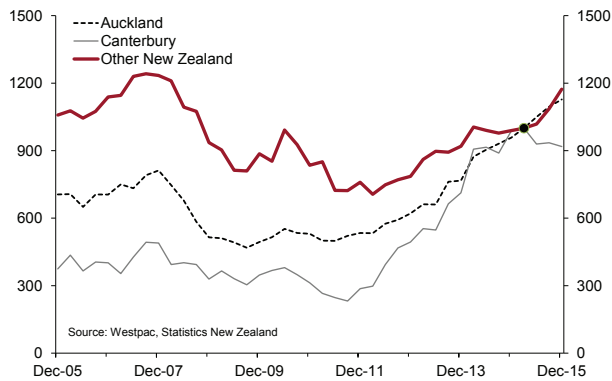
The growth in December was led by strong activity in the residential building sector (up 2.8% in seasonally-adjusted volume terms). Activity growth in Auckland more than offset a weakening residential building market in Canterbury. Auckland's quarterly building work put in place was nearly 14% higher than in December 2014 quarter in value terms.

But it wasn't just about residential building work, or about Auckland. Non-residential activity grew almost as fast, up 2.3% in the quarter as some of the surge in projects consented mid-year began to be built. And the Waikato had another strong quarter after incredible growth of 10.6% in residential work the September quarter in value terms.

We continue to see signs that the residential rebuild in Canterbury is winding down. Building work put in place declined by 0.5% in seasonally adjusted values in December after weak growth in the two previous quarters. The chart below shows the growth in activity in Auckland, Canterbury and the rest of New Zealand in seasonally-adjusted value terms, indexed to the peak in Canterbury residential building work put in place (March 2015).

Although Auckland is the region that gets much of the attention given its current construction boom, demand in places like the Waikato and Queenstown-Lakes District is also growing at a solid clip.

Residential building work put in place indexed to March 2015 quarter



When will my house be finished?

It appears that consented building activity is now taking longer to deliver, meaning a delay between strong consent activity and when that building is counted as being in place.

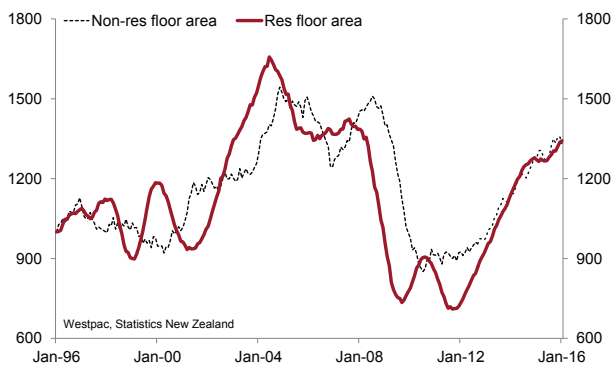
We expect the gap between consent and delivery may continue to widen due to capacity constraints especially in Auckland, where building work is already ramping up, but where annual residential consents were up more than 20% in 2015.

This indicates that the traditional close relationship between consents and work put in place will be skewed as the construction industry strains to build what has been consented.

Warning: Construction work ahead

Today's strong building work put in place result is not expected to be the peak. Building consents have been growing strongly in volume terms (measured by floor area) over the last four years in the case of residential consents, and two years in the case of non-residential building.

Annual consented building activity indexed to January 1996



Despite the residential component of the Canterbury rebuild easing back over the next year, we expect consent volumes in the upper North Island to continue to grow over the next couple of years. With the strongest population growth since the 1970s adding to an already-huge shortfall of 26,000 dwellings in Auckland, we expect consent growth in our largest city to continue trending strongly upward.

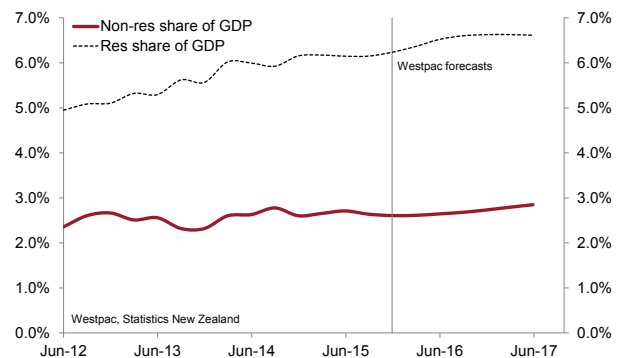
And the growth is not limited to the City of Sails. The Bay of Plenty and the Waikato have also seen consents climb and this will translate into more building work being put in place over the months to come.

Even if the building consents tap were to turn off today, which we don't anticipate, the current backlog of consented work that has not yet been built suggests that we would expect to see strong results in building work put in place continue over the next several quarters.

What this means for GDP growth

The expected increase in building work to be put in place will have an ongoing upward impact on GDP growth. As we explained in our February 2016 *Quarterly Economic Overview*,¹ construction work is tipped to be one of the pillars of economic growth over the next couple of years, despite activity slowing in Canterbury.

Gross fixed capital formation as a share of GDP



Residential gross fixed capital formation is surging in importance within the wider GDP picture from under 5% of quarterly GDP in mid-2012 to over 6% today. We expect this role for residential construction to top out at a little under 7%.

Non-residential gross fixed capital formation is expected to grow a little more moderately, but is still expected to reach almost 3% of GDP in the next couple of years.

David Norman
Industry Economist

¹ http://www.westpac.co.nz/assets/Business/Economic-Updates/2016/Bulletins-2016/Westpac-QEO-February-2016_EMAIL.pdf

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