

Surprising slip in building activity in the March quarter

Q1 Building Work Put in Place falls 0.4%

- Today's Building Activity Survey showed building activity contracted slightly in the March quarter.
- However the pace of growth in Canterbury continues to outperform the remainder of the country.
- While the softness in building activity outside Canterbury Q1 is surprising, a turnaround in construction remains a pivotal component of our forecasts of NZ economic activity over the next few years. Today's data doesn't change this view.

Nationwide building activity slipped in the first quarter of this year, falling 0.4%. This was a weaker outturn than we had anticipated. The weakness was led by the residential sector, where building activity unexpectedly contracted 2.4%. In contrast, non-residential building activity recorded a second consecutive quarterly increase rising 1.7%.

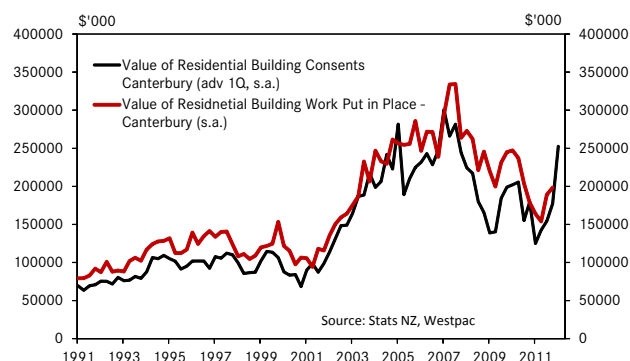
Today's data is important, not only for giving us a steer on nationwide construction activity, but also for providing us with a regional breakdown of that activity (although Stats cautions that the data is not designed to be used that way, it's the best we can get!). This detail is particularly important at the current juncture given that we expect the forthcoming boom in construction activity will be concentrated in Auckland and Canterbury.

Today's data showed the Canterbury recovery continues to plough ahead. Building activity in the region was up 9% following a 23% increase in the December quarter and was led by a pickup in non-residential building activity (to date, the bulk of the \$371.2m in building consents issued in Canterbury which have been explicitly identified as quake related have been for commercial building).

Importantly, today's survey, by design, won't cover non-consented building work (the starting point for the survey is a sample of consents valued at over \$5000 with respondents then quizzed on the value of work they have completed over the past 3 months). This is particularly relevant in Canterbury where we think a big chunk of the residential repair work currently being undertaken won't have been consented. For example, Fletchers EQR (in charge of managing EQC residential repairs of between \$10,000 and \$100,000) paid over \$120m to contractors in the first three months of the year - a significant sum compared to \$180m of consented residential building activity recorded in the Building Activity Survey over this period. However in theory,

this non-consented activity should be included in the broader measure of construction sector which is measured in GDP data.

Building work put in place



Nonetheless on balance, further growth in building activity in Canterbury in the March quarter was more than offset by declining construction activity elsewhere in New Zealand.

Despite today's data printing below expectations, we remain confident that construction activity will continue to improve from its current low levels over the next few years, driven by building activity in Auckland and Canterbury regions. More timely indicators of building activity such as consent issuance, (though choppy from month to month) have broadly continued to trend higher. In addition, a wide range of both qualitative and quantitative indicators point to the rebuild gathering pace in Canterbury.

Implications

Today's data provides some downside risk to our Q1 GDP estimate of 0.4% growth, and on its own is a negative for the RBNZ. However, we continue to expect growing momentum in construction sector activity to be a key pillar underpinning stronger economic activity over the next few years. Eventually this activity will soak up capacity in the construction sector, add to inflation pressure and force the RBNZ's hand. We continue to expect the first rate hike in March next year.

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