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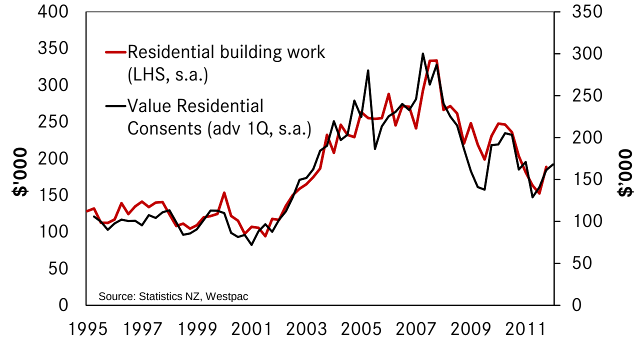
Westpac Institutional Bank

Canterbury leads pick-up in building activity

Q4 Building Work Put in Place Up 2.9%

- **Today's Building Work Put in Place Survey showed that the Canterbury rebuild and repair program was gathering momentum in the December quarter of 2011, as we foreshadowed late last year.**
- **A construction turnaround is central to our forecast of stronger GDP in 2012. Today's data was important evidence leaning in that direction.**
- **We believe the post-earthquake repair and rebuild will stretch New Zealand's economic capacity, requiring an extended period of OCR hikes starting in December this year.**



The 2.9% increase in the volumes of building activity in the December quarter was in line with expectations. The increase was concentrated in the residential sector (+4.4%) although non-residential building also rose (+1.4%). But perhaps most notable in the release was a 24% increase in the value of building activity in Canterbury. This confirms other evidence we have cited showing that far from being stalled, the Canterbury rebuild and repair program has been gathering momentum for some time.

Today's read on building activity is based on a survey of consented activity (Statisticians basically take a sample of consents valued over $5000 and ask builders the value of activity they have completed on the project over the quarter). In recent months residential building consent issuance in Canterbury has picked up noticeably (with Auckland the other standout region) and this increase was reflected in today's data. The value of building work in the region jumped almost 24% in the December quarter (based on our own seasonal adjustment). Stats NZ stated that there was evidence that the lag between consent and construction was shorter than usual in Canterbury.

However, almost equally important as what is covered in today's data release, is what is not covered. That is non-building and un-consented activity. On the latter, in normal times this is not such a problem – un-consented repair work probably constitutes a fairly small proportion of total building activity, has a limited pull on resources and, to be frank is not really of that much interest to anyone. But right now that's obviously not the case. The Canterbury earthquakes mean there is an enormous amount of repair work being done which is not consented. And the pace of this activity is gearing up. Fletcher EQR has completed almost 10,000 repairs and has inducted 11,500 contractors and trades people and EQC has paid out $2.5bn for land and building claims.

We also suspect that non-building construction activity (e.g. repairs to roads and infrastructure, and demolition) and is ramping up in Canterbury. This was not covered in today's survey, but should feature in the GDP release later this month.

Outside Canterbury there were more modest gains in building activity and we expect this trend to continue this year.

Implications

Today's increase in building activity is a positive sign for the sector and is in line with our own expectations of post-quake related activity in Canterbury. However there still clearly a very long way to go. Nationwide building activity remains over 30% below 2007 levels. And the weakness is most pronounced in the residential sector which is over 40% below 2007 levels.

We expect activity to continue to gather momentum in the coming months. Eventually, this activity will soak up spare capacity in the construction sector, add to inflation pressure and be a key factor in an extended cycle of OCR hikes that we expect will begin in December this year.

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