

Construction constriction

Q2 real building work fell 0.4%

- **Building work put in place fell 0.4% in the June quarter, losing some of the strong upward momentum that had been developing over the previous year.**
- **A slowdown in the Canterbury region was the main surprise; the value of building work rose strongly for the rest of the country.**
- **While the volume of work completed during the quarter was a disappointment, this doesn't detract from the point that there is a significant amount of work left in the pipeline.**

The volume of building work put in place fell 0.4% in the June quarter, falling short of our forecast for a 3% increase. This doesn't detract from our view that construction has entered a major growth phase – the level of activity over the year to June was up more than 15% on the previous year. Rather, the surprise stems from the fact that the growth in building consents in recent months had suggested a further acceleration in activity. So while these figures present some downside risk for June quarter GDP, we suspect that the building figures will be playing catch-up over the second half of this year.

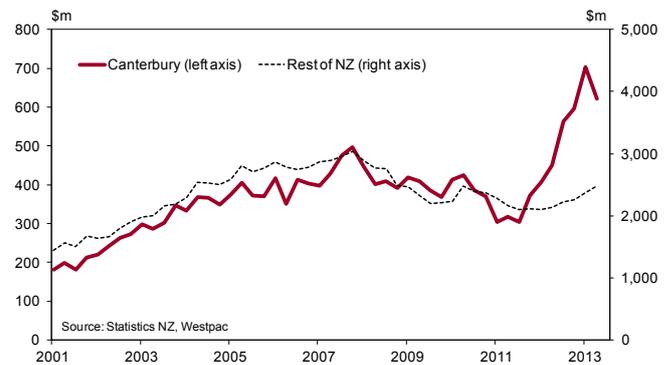
The 0.4% fall in real building activity in the June quarter followed a much sharper than expected 5.4% rise in the March quarter. Residential building work fell by 1.8%, compared to our expectation of a 4% increase. This was partly offset by a 1.4% increase in non-residential work, which was closer to the mark of our 2% growth forecast.

The region breakdown (which is only available by value) shows that Canterbury was the main source of the downward surprise. The value of building work in the region fell by almost 12%, unwinding much of the stunning 18% rise in the March quarter. We were surprised by this because building consents have been storming higher in recent months, as the post-earthquake rebuild starts to move into full swing. Outside of Canterbury, the value of building work was up by 5%, a similar pace to the March quarter.

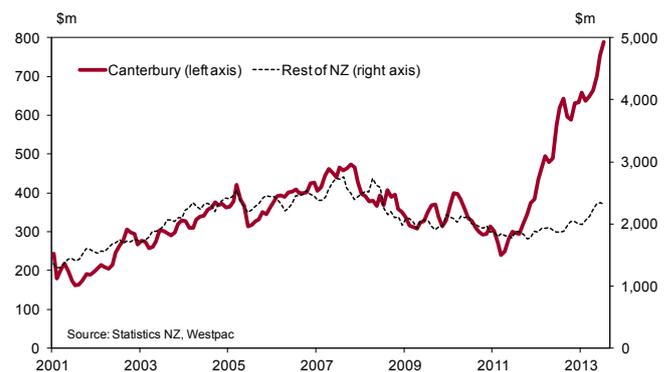
Implications

The immediate implication of today's figures is that they present a downside risk to our forecast of 0.4% growth in June quarter GDP. The soft GDP figure largely reflects the peak impact of the drought, which we estimate will knock about 0.5 percentage points off the quarterly growth rate. Moreover, any downward revision to our Q2 estimate will probably be added back into our growth forecasts for the second half of the year, given the sizeable pipeline of building work already consented.

Value of building work put in place (s.a.)



Value of building consents (s.a. 3mth sum)



Our view remains that construction activity as a share of GDP is likely to head back towards its mid-2000s peak in coming years – reflecting not just the Canterbury rebuild, but also quake-strengthening work and a general legacy of under-building in other parts of the country since the recession.

We've also long been highlighting that construction booms are usually accompanied by extended periods of domestically-generated inflation. The evidence on this has been middling to date, although the June quarter CPI provided some cause for alarm: prices of newly-built homes in Canterbury have been rising at double-digit annual rates lately, and some of that price pressure now appears to be spilling over to other regions. The next phase to watch is for housing-related price pressures to filter out into more generalised inflation.

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