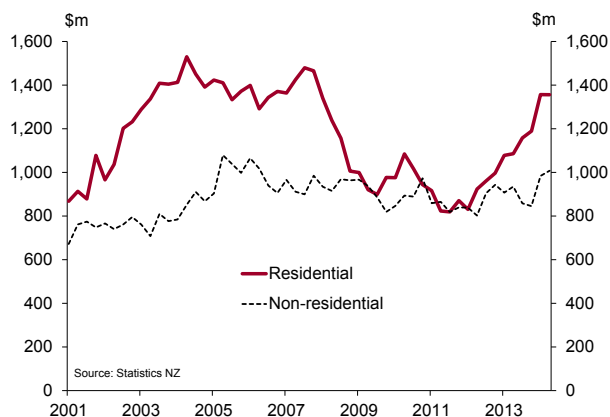


# Building up, not out

## Q2 real building work rose 1%

- Building work put in place rose 1% in the June quarter, following a 15% increase in the March quarter.
- Residential building work was unchanged, while non-residential work rose 2.5%.
- The Canterbury rebuild remains the biggest driver of growth.
- The outturn was close to expectations and leaves our GDP forecast unchanged.

Real building work put in place



The 1% increase in building activity in the June quarter was unremarkable in its own right, but it sheds some valuable light on the record-breaking 15% rise in the March quarter (revised down from 16%). Given that surveyed building work had been close to flat over 2013, despite a steep rise in building consents over that time, a catch-up period was inevitable at some point. But the scale of the one-quarter increase meant that sampling error couldn't be ruled out as well. With that in mind, we had forecast a 2% increase, but with a wide confidence band.

Consequently, today's release has removed a major uncertainty around our June quarter GDP forecast, which remains at +0.7%. That said, we note that while construction has been a significant driver of growth over the last few years as a whole, its correlation with GDP growth on a quarter-to-quarter basis has been nil. So the comedown in construction sector growth from 15% to 1% is by no means a reflection of how far the wider economy has slowed in recent months.

Residential building work was unchanged in the June quarter, following a 14.1% rise in March. Our consents-based indicator had suggested around 4% growth, which supports the idea that there was a degree of overshoot in the March quarter building data. Non-residential building work rose by 2.5%, on top of a 16.3% increase in the previous quarter.

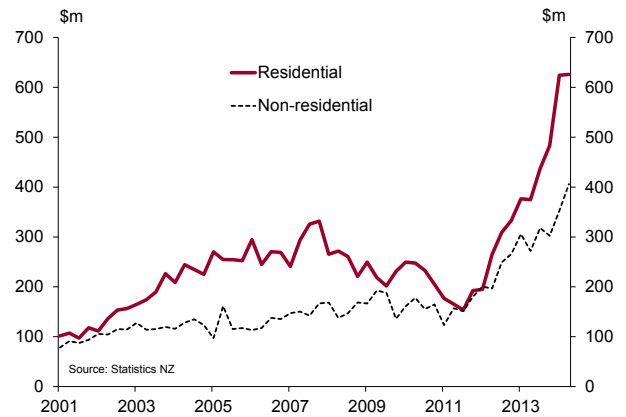
While the growth in the March quarter had been spread across most regions, the June quarter was more a story of the main centres. Unsurprisingly, Canterbury was again the main centre of growth, with a 5.6% rise in the value of building work (note that the regional figures are not available in inflation-adjusted terms). This was entirely due to a 15% increase in non-residential work, to be up 50% on a year ago – a strong indication that the post-earthquake rebuild is moving into a new phase. Residential building work was close to flat, although the lack of growth in one quarter is not too concerning given that the level of activity is still well beyond anything in the region's history.

There was also a modest rise in the value of building work in Auckland, up 2.5% in seasonally adjusted terms, and an 11% lift in non-residential work in Wellington – an indicator of quake strengthening work perhaps. Activity was down slightly in the rest of the country, though not enough to reverse the March quarter gains.

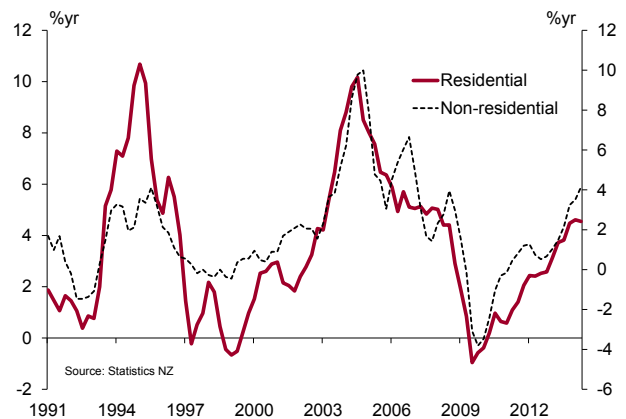
Note that today's building work survey only captures consented building activity. Once we account for the substantial amount of repair work in Canterbury that doesn't require a consent, the nationwide level of building activity is well above the highs reached during the construction boom last decade. And with the Christchurch rebuild continuing to grow in both scale and complexity, the building industry's capacity will remain stretched and construction costs are likely to escalate further in coming years.

**Michael Gordon**  
Senior Economist

**Value of building work in Canterbury**



**Construction cost inflation**



## Westpac economics team contact details

**Dominick Stephens**, Chief Economist  
+64 9 336 5671

**Michael Gordon**, Senior Economist  
+64 9 336 5670

**Felix Delbrück**, Senior Economist  
+64 9 336 5668

**Anne Boniface**, Senior Economist  
+64 9 336 5669

Any questions email:  
economics@westpac.co.nz

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