

Ready steady build

September quarter real building work up 1.5%

- Building work put in place rose 1.5% in the September quarter, following a 0.5% increase in the June quarter.
- Residential building work fell slightly, while non-residential work rose 4.4%.
- Building work slowed in the Canterbury region, but the scale of the work remaining on the post-quake rebuild suggests that this dip will be short-lived.

Building work in inflation-adjusted terms rose 1.5% in the September quarter, following a 0.5% rise in the June quarter. The relatively subdued growth over the last two quarters by no means implies a weakening in the trend, in our view. Rather, following a record 14.7% jump in the March quarter, the level of building activity has effectively continued to run at its highest levels since 2007.

Residential building work was down 0.7% for the quarter. There was a clear slowdown in residential building consents ahead of the September election, and this may have also flowed through to construction activity a bit more than we expected. But the subsequent rebound in consents in October suggests that growth in building work should soon resume as well.

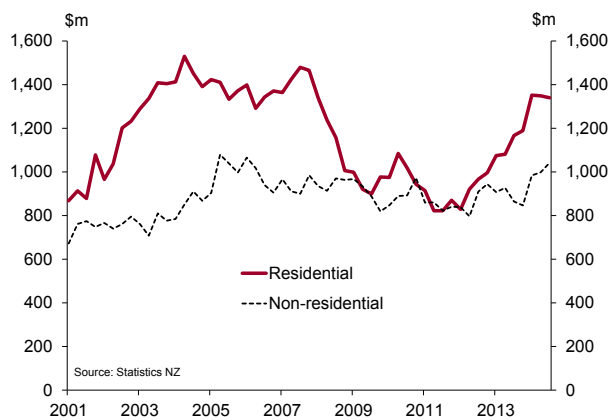
In contrast, non-residential building work rose further, up 4.4% for the quarter and 20% on a year ago. Non-residential construction tends to go through long and lagged cycles – the last downturn ran broadly from 2009 to 2012, not starting until after the recession had officially ended. The subsequent upswing of the cycle has taken some time to arrive, but now looks to be firmly under way. Discussions with customers suggest that Auckland is seen as the next big growth area for commercial building, with vacancy rates well down on where they were a few years ago.

The regional breakdown (not available in inflation-adjusted terms) showed that Canterbury was a relative laggard in the September quarter, with building work down 4.6% compared to a 3.7% rise in the rest of the country. However, the level of activity remains very high – more than double pre-quake levels – and given the amount of rebuild work still to come, it’s difficult to regard this as anything more than a matter of timing.

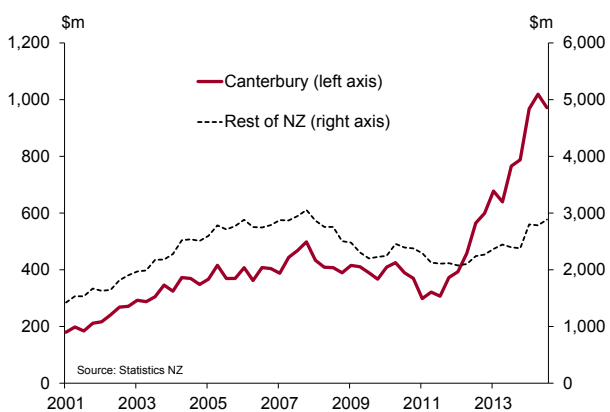
The 1.5% rise in total building work was below our estimate of a 3% increase. However, the shortfall is not large enough to affect our forecast of 0.8% growth in September quarter GDP. While construction has accounted for a sizeable share of GDP growth over the last few years as a whole, the correlation from quarter to quarter has been surprisingly weak.

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Real building work put in place



Regional building work, by value



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