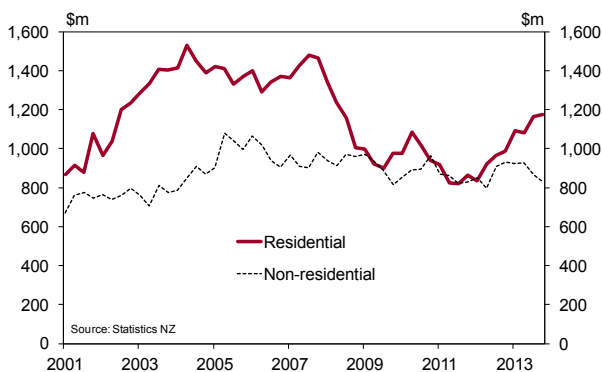


Down tools

Q4 real building work fell 1%

- Building work put in place fell in the December 2013 quarter, with a modest lift in homebuilding but a further drop in non-residential construction.
- Housing construction continues to power ahead in Canterbury as the post-quake rebuild progresses. Non-residential work appears to have levelled out, though we think this will be temporary.
- Homebuilding is also picking up in the under-supplied Auckland region, but construction trends remain subdued elsewhere.
- We have revised down our estimate of December quarter GDP growth from 1.1% to 0.9%.

Real building work put in place



The volume of building work put in place unexpectedly fell in the December quarter, with a smaller than expected lift in housing construction failing to offset the expected drop in non-residential work. Setting aside the disappointment in the headline figures, the details of the survey are consistent with the themes that we have been highlighting recently. Post-quake rebuilding in Canterbury is surging ahead, and construction is also picking up in Auckland in response to a shortfall of housing and rising prices. Elsewhere, with no indication of an under-supply of housing, the trend remains subdued.

As a result of today's construction figures, along with some mild softness in other recent indicators such as the retail trade survey, we are revising down our estimate of December quarter GDP growth from 1.1% to 0.9%. There are a few more sectoral indicators to come over the next week before we finalise our forecast, with the most significant being the manufacturing survey next Monday. But it's difficult to see these making up for the shortfall in the building work figures.

However, to the extent that the softness in today's release is likely to be a matter of timing, we continue to expect the construction industry to make a substantial contribution to GDP growth over 2014. And as the Christchurch rebuild stretches the industry's resources, rising construction costs will increasingly become a nationwide feature.

Details

Total building work fell 1.0% in the December 2013 quarter, compared to our forecast of a 2% increase. The surprise was largely in residential building work – up a respectable 1.1%, but well short of the 7% increase that we had expected based on the sharp upturn in building consents over the last year.

Indeed, as the chart on the following page shows, the trend in building work over the last couple of years has now fallen quite some way behind what building consents would imply. (Bear in mind that the actual value of building work will tend to outstrip the estimated value recorded in building consents when construction costs are accelerating, as they are now.)

We suspect that building activity will catch up over time, supporting our view that residential construction will make a substantial contribution to GDP growth over 2014.

Non-residential building work was broadly in line with our expectations, down 3.9% for the quarter and 10.6% on the same time a year ago. While non-residential building consents have picked up over the last year, the lag from consent to construction tends to be much longer and more variable than for housing.

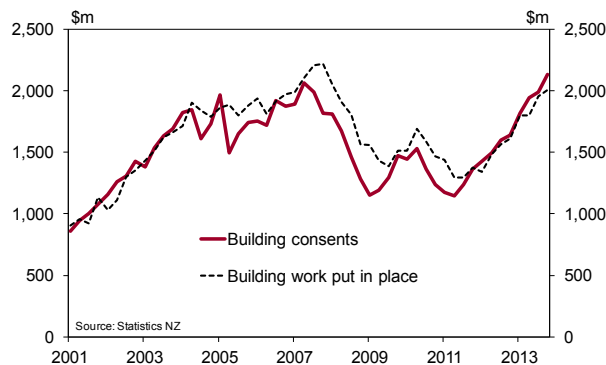
The regional breakdown suggests that Canterbury was a modest outperformer, with a 0.7% rise in the region compared to a 0.5% drop in the rest of the country (note that this breakdown is only available by value, and rising construction costs in Canterbury could well account for the difference). Residential building work in the region rose by 6% for the quarter, and was 45% higher than a year ago. In contrast, non-residential work fell by 6.6%, though this followed a 20% jump in the previous quarter. There was a strong burst of growth in non-residential building in the less quake-affected areas of Christchurch in 2012, but the level of activity seems to have plateaued over 2013. Now that demolition in the Christchurch CBD is more or less complete and the first new projects are beginning, we think that construction is set to take another leg higher.

Building activity in the rest of the country was decidedly mixed. Residential building work rose modestly in most regions aside from the Waikato/Bay of Plenty, but Auckland is the only region that has shown a sustained lift over the last year. We've recently shown that the current level of building activity is still insufficient to meet population growth in Auckland, but is about right for most other regions. Accordingly, house prices have been rising faster in Auckland, and builders are now responding to this market signal.

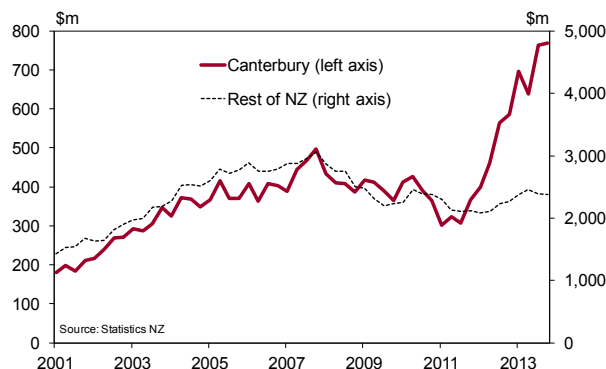
Note that the building activity survey is drawn from a sample of building consents; much of the quake-related work to date has been on repairs that don't require a new consent. Recent revisions to GDP included an estimate of non-consented work, which lifted the level of residential construction over the last couple of years by 12%. The implication is that the construction industry is running closer to full capacity than today's figures suggest. And while capacity constraints are clearly greatest in the Canterbury region, recent inflation figures suggest that upward pressures on construction costs are starting to emerge across the rest of the country.

Michael Gordon
Senior Economist

Value of residential building activity



Value of building work put in place



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