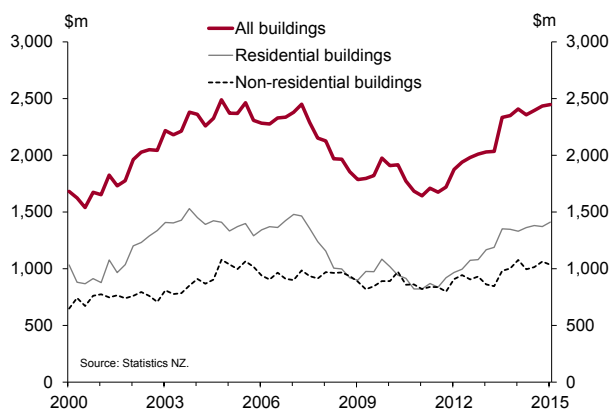


Building activity continues to rise

September quarter 2015 building work put in place

- Total building work put in place rose 0.5% in the September quarter, continuing the strong run that has seen activity reach the highest levels in years.
- September's increase in building activity was underpinned by a 2.9% increase in residential construction. This offset a 2.6% decline in non-residential construction.
- Nevertheless, the story is still one of growth, and remains remarkably consistent: Canterbury residential activity is slowing, Auckland residential is growing strongly, and the overall trend in non-residential activity is up.

Real building work put in place



Total building work put in place rose 0.5% in the September quarter in seasonally-adjusted terms, continuing the recent strong run that has seen activity reach its highest level in a number of years.

The composition of the gains in the latest quarter included a 2.9% rise in residential activity, and a 2.6% fall in non-residential activity. Looking over the last several quarters, it is clear that much of the growth since 2012 has been driven by increased residential activity. First, the Canterbury rebuild drove residential activity up and now, even as that work slows, residential building activity is cranking up in Auckland.

Despite the slump in non-residential construction volumes recorded in the September quarter, the trend there is also clearly up if we look back over the last two years. Non-residential projects tend to be larger than residential projects, and can be lumpy. One quarter may see the start of a large number of projects, or one massive project, while the next quarter may see much less activity in a small economy like New Zealand's. Housing (apartment blocks aside) tend to be smaller, discreet projects with shorter build times, meaning less volatility from quarter to quarter.

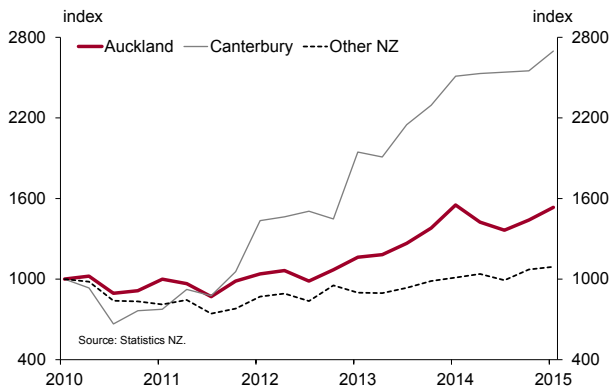
So although the September result was weaker than the market forecast of a 1.8% increase, and lower even than our forecast of 1.5% growth, the story remains remarkably consistent: construction activity remains solid overall. Canterbury residential activity is slowing, Auckland residential is growing strongly, and the overall trend in non-residential activity is up.

Canterbury, Auckland, and little else

Residential activity rebounded after a quiet quarter in June. As expected, much of the growth was driven by continued rises in Auckland residential activity, offset by flat activity in Canterbury as the residential component of the rebuild slows. Auckland residential values grew 4.5% quarter-on-quarter, while Canterbury grew just 0.5%.

On the non-residential side, activity was lower after a strong 5.2% rise last quarter. Canterbury's non-residential activity this month was broadly flat, down 0.5% in value terms after a 12.5% rise last quarter. Auckland was also up by 3.1% in value terms. This implies that activity throughout the rest of New Zealand was particularly subdued.

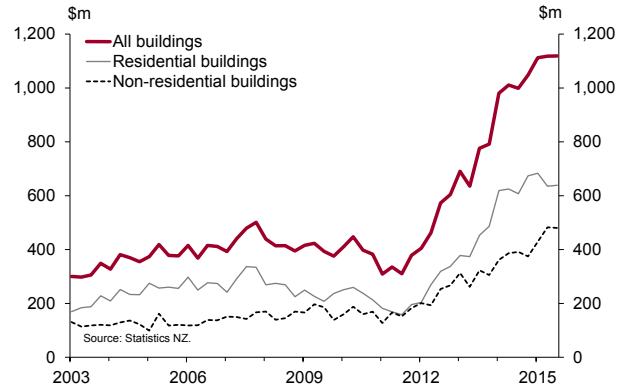
Building work growth (values)



Looking over the last several years, although there has been some growth in value terms outside of Auckland and Canterbury, this has been negligible compared to activity in those two centres. The value of construction work in Auckland is up nearly 60% compared to the September 2010 quarter. In Canterbury, the figure is 170%.

Anecdotal evidence suggests that some growth in residential activity is now spreading to Hamilton and Tauranga. But elsewhere, demand is relatively weak. Demand from the agriculture sector for instance, where uncertainty over dairy auction prices and the impact of El Niño is rearing its head, is likely to lead to less farm building construction.

Building work in Canterbury (nominal, seasonally adjusted)



Looking at the Canterbury rebuild in greater detail, the message that began to come through in data six months ago is now being confirmed. The residential component of the rebuild is in decline, even as commercial rebuild activity grows. The value of residential work put in place in Canterbury, while still elevated, is down 6.6% since the peak of March 2015, and is largely unchanged from the June quarter. Meanwhile, the increase in non-residential activity in Canterbury continues largely unchecked. Year-on-year, values of non-residential construction activity in Canterbury are up 22%.

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