

# Not just Auckland & Canterbury

## Building Work Put in Place: December 2017 quarter

7 March 2018

- Construction activity picked up in the December quarter, rising by 1.4%. That comes on top of a solid increase in the previous quarter. However, with softness earlier in 2017 (especially in terms of non-residential construction), building levels are only up 0.6% over the past year.
- December's increase was mainly related to a lift in non-residential building. Residential construction eased back a little through the quarter, though it remains at an elevated level.
- We are continuing to see stark regional differences in construction activity. While activity in Canterbury is easing back, it is rising in other regions including Auckland.
- With a large pipeline of planned work, the level of construction activity is likely to be elevated for some time. However, headwinds in the construction sector mean that future increases in building activity are likely to be more gradual than we have seen in recent years.

Construction activity rose 1.4% in the December quarter – close to our own and market forecasts. The rise was underpinned by an increase in non-residential work, while residential construction eased back after last quarter's strong gain.

The December quarter's solid increase comes on top of a strong gain in the September quarter. However, with softness earlier in 2017 (especially in terms of non-residential construction), building levels are only up 0.6% over the past year.

Smoothing through the quarter-to-quarter volatility, we're left with a solid picture of construction activity in New Zealand. Both residential and non-residential activity levels have risen strongly over the past few years, and gains have been widespread. While the sector is encountering some growing pains, we expect the level of construction to remain elevated for some time.

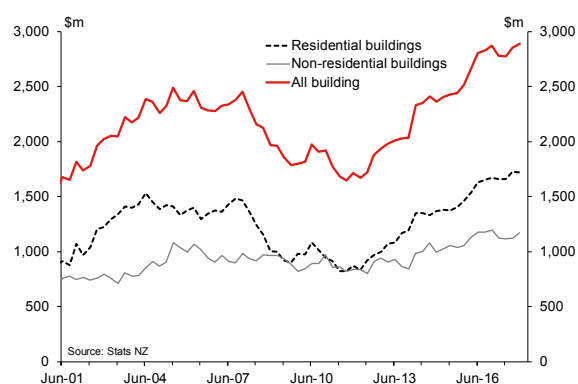
### Canterbury and the rest

While nationwide construction activity has been trending higher for several years now, under the surface there are some starkly different regional trends.

Much of the strength in construction in recent years has related to post-earthquake reconstruction in Canterbury. Seven years on from the devastating February 2011 quake, there is still a large amount of work to do. Nevertheless, planned reconstruction activity is well advanced and has been easing back for some time. Quarterly construction spending levels are now around 8% lower than they were at the peak of the rebuild. And with consent issuance continuing to ease off, we expect to see a further softening in construction in Canterbury over the next few years.

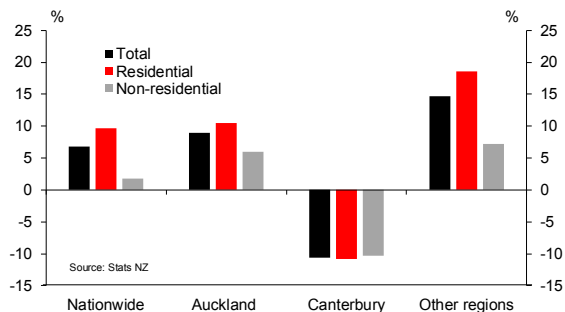
Adding to our expectations for a period of softer building activity in Canterbury over the next few years are the changing economics of home building in the region. In the early stages of the rebuild, costs rose rapidly as building activity increased. However, this was in line with the increases in house prices and rents that occurred at the

Building work put in place, quarterly volumes (seasonally adjusted)



same time. But as the housing stock has been replenished, house prices have levelled off, and rents have fallen. In contrast, construction costs have continued to rise, albeit at a more moderate pace than in recent years.

### Growth in construction spending – 2016 to 2017 (nominal)



Outside of Canterbury, things look very different, with building activity climbing strongly over the past year. Much of this has been centred on Auckland, where strong population growth has resulted in a growing shortage of housing. Despite hitting an air pocket earlier in 2017, residential building in Auckland has risen strongly in recent years. And with firmness in consent issuance, we expect the level of construction in the region will remain elevated for some time.

But Auckland isn't the only region where construction has been rising. In fact, construction spending in regions outside of Auckland and Canterbury rose by 15% over calendar 2017. Even allowing for the rise in building costs, that's a solid increase. Behind this has been a strong lift in home building, as well as increases in non-residential construction.

Going forward, increases in consent issuance point to continued strength in home building in many regions.

### Outlook

Construction spending activity is set to remain strong over the next few years, with large amounts of work planned across the country. Much of this will be centred on Auckland, where an extended period of strong home building is required to address the existing shortfall of housing and keep up with continued strong population growth. There is also growing demand for houses in other regions, such as Wellington. On top of this, there is a significant amount of non-residential work planned nationwide, including a substantial amount of infrastructure spending.

However, while there is a large amount of work planned, a range of factors are providing a brake on how quickly building levels can ramp up. These include rising building costs, stretched capacity in the building sector, and tighter bank lending standards for property developers.

Putting all this together, we expect that building activity will increase only at a gradual pace over the next few years. That means that housing shortfalls in areas like Auckland are likely to persist for some time. These constraints also mean the impact of the Government's KiwiBuild program on the overall level of building will be limited in the short run.

Media contact:

**Satish Ranchhod**, Senior Economist

Phone: +64 9 336 5668

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# Contact the Westpac economics team

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

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

**Satish Ranchhod**, Senior Economist +64 9 336 5668

**Shyamal Maharaj**, Economist +64 9 336 5669

**Paul Clark**, Industry Economist +64 9 336 5656

**Any questions email:** [economics@westpac.co.nz](mailto:economics@westpac.co.nz)

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