Infometrics
Economics put simply

# construction update

BCITO buildingpeople

October 2018

## The national economy

|  | *Latest* | *Dec 2018* | *Dec 2019* |
|---|---|---|---|
| **Gross domestic product**(1) | 2.7% | 2.8% | 2.6% |
| **Residential consents**(1) | 6.6% | 5.0% | -12.0% |
| **Non-residential consents**(1) | 5.4% | 7.9% | 12.8% |
| **House prices**(2) | 4.0% | 2.5% | -0.6% |
| **Unemployment rate**(3) | 4.5% | 4.5% | 4.4% |
| **Net migration**(4) | 63,288 | 58,380 | 43,198 |

*(1) Year-end % change (2) Three-month annual % change*
*(3) Quarterly level, seasonally adjusted (4) Annual total*
*Data source: Statistics NZ, Infometrics forecasts*

Although GDP growth in the June quarter exceeded expectations, there is an increasing range of risks that could lead to slower growth during 2019 and 2020. Business profitability is under pressure from rising costs, and the declines in employment and investment intentions indicate that firms are hesitant to push ahead with major decisions. Consumer confidence is also being undermined by the stagnating housing market and record-high petrol prices. The latter factor will put a hole in household wallets and limit their discretionary spending. Internationally, the trade tensions between the US and China continue to intensify, while falling dairy prices are disappointing news for farmers, who would have been hoping for a higher milk pay-out.

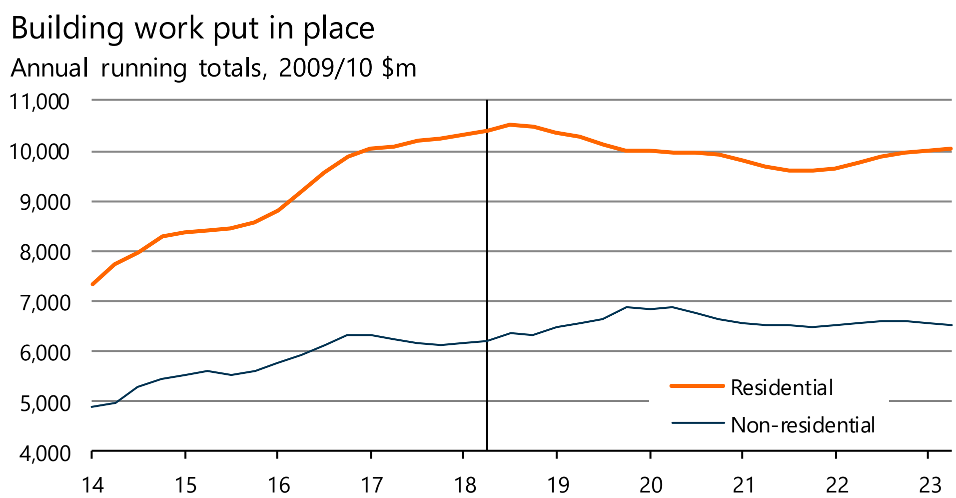
## The construction industry

Residential consent numbers in July and August were down 1.7% from a year ago and there are signs that they have peaked. Consent numbers outside Auckland and Canterbury were lower than in 2017 for both months – the first consecutive monthly declines since 2012. In contrast, consents in Auckland were up 30% from a year earlier, but this growth is being outweighed by the declines elsewhere.

Although residential work put in place is close to peaking, there will be a continued divergence between activity in Auckland and the rest of the country during 2019. Consent numbers in Auckland are forecast to peak at over 14,600pa next year, up from 12,959 currently. Auckland's undersupply of housing will ensure that residential construction activity in the region remains strong throughout the next five years, even as activity softens elsewhere.

Growth in non-residential consents has also weakened. It appears that the difficult business conditions and capacity pressures in Auckland are starting to undermine the willingness of developers to push ahead with projects. Although there is a considerable pipeline of non-residential work waiting to be done, the lags between consent and completion have been extending. We anticipate an 8.5% lift in non-residential work put in place during 2019 as this activity is completed.

Total construction work (excluding infrastructure) is forecast to peak next year about 1.6% above current levels. However, we see limited scope for declines in subsequent years, meaning that construction activity should remain relatively strong. Our forecast low point for work put in place in 2021 is only 3.2% below current levels.



# Special topic: Understanding trends in concrete production

Ready-mix concrete production in the year to June was up 55% from its 2011 low point following the Global Financial Crisis. There is a strong relationship between construction activity and concrete usage, so this sustained growth in ready-mix concrete (RMC) production is hardly surprising.

Statistics NZ publishes RMC production data for 11 broad regions across New Zealand. Infometrics has combined these figures with data on building consents and work put in place to model RMC usage by city and district council across the country, as well as by ward within Auckland.

One of the most surprising aspects of the numbers is that Auckland's share of RMC production has shrunk since 2011, despite the region's building boom. That is not to say that RMC usage in Auckland has not grown – it just hasn't increased quite as fast as the nationwide average. Substantial increases in Albany and Franklin have been largely offset by a lack of growth in the likes of Manukau and Manurewa-Papakura.

Around the rest of the country, the strongest performers have included Tauranga, Queenstown-Lakes, Christchurch, and Selwyn. Contributing factors to the growth in RMC usage in these areas include strong population and business growth and substantial investment in infrastructure. At the other end of the spectrum, Dunedin and New Plymouth have recorded minimal growth in RMC production, reflecting economic conditions that have been difficult at times, a lack of business investment, and slower population growth than in some other parts of the country.

Looking out over the next five years, our graph below compares the projected regional shares of RMC usage in June 2023 with the corresponding shares for the June 2018 year. Despite the ongoing need for substantial new residential construction in Auckland, we expect the region's share of RMC production to pull back from 2020 onwards as non-residential construction eases. Outside Auckland's CBD, RMC usage in Rodney and Albany also looks to be unsustainably high, even with residential building remaining elevated throughout the forecast period.

Canterbury is likely to see its share of nationwide RMC usage shrink over the next five years as quake repair and rebuilding work winds down, which will particularly affect Christchurch and Selwyn during 2020. Otago's share of activity will also gradually decline as the current building boom in Queenstown tapers off.

Healthy export incomes and the government's stimulus via the Provincial Growth Fund are likely to sustain demand for RMC in provincial areas. Furthermore, the government's change in emphasis around roading, away from large State Highway projects towards a greater focus on maintenance and improvements to local roads, should also lead to a greater share of RMC usage in the provinces.

Areas that we would expect to see a significant increase in the share of RMC usage within the next five years include Northland, Rotorua, and Southland. Northland is facing substantial infrastructure investment and has attracted a sizable share of Provincial Growth Funding that has been allocated so far. The government's focus on forestry has positive implications for activity in and around Rotorua, while strong export prices should have positive flow-on effects for the Southland economy and construction in the region.

Our forecasts also show that continued population and industry growth in the "Golden Triangle" area will be reflected in RMC production in Hamilton and Tauranga. Over the longer-term, an increasing proportion of New Zealand's population and economic activity will be located in this area of the upper North Island. High business costs and living costs in Auckland, combined with good infrastructure connections, will encourage more firms to site themselves in Waikato and Bay of Plenty and underpin further growth in these regions' share of RMC usage.