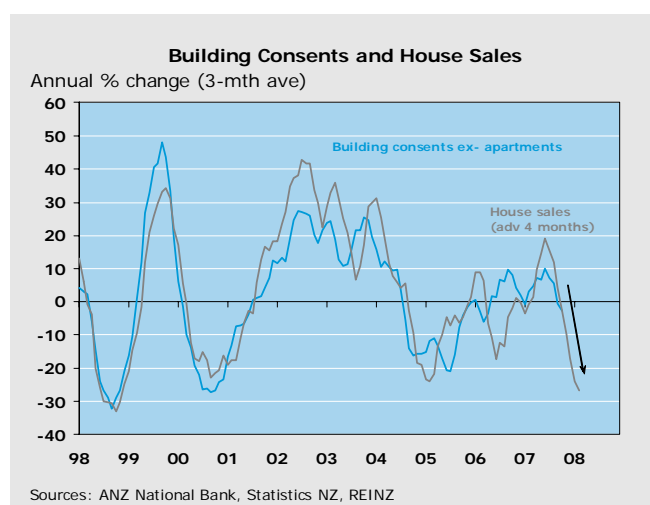


BUILDING CONSENTS ISSUED – OCTOBER 2007

Key points

- Residential dwelling consent issuance continued to ease in October.
- But non-residential consent issuance rebounded following softness in September.
- Trend growth measures show that issuance (for all buildings) has eased considerably over the past six months – a dynamic we expect to continue over coming months.
- Construction price growth looks to be slowing and will be welcomed by the Reserve Bank.
- Collectively, today's building consent figures point to a very slow-burn type of moderation which looks consistent with a soft landing for the economy.

	Residential Building Consents (m/m%)		Ex-apartment Consents (m/m%)		Value of non-residential Consents (m/m%)
	s.a.	Trend	s.a.	Trend	Trend
Jan-07	4.3	-1.1	-3.8	-0.1	0.0
Feb-07	6.8	1.6	6.4	0.7	0.6
Mar-07	-1.0	3.5	-2.8	1.2	0.9
Apr-07	0.8	3.8	2.4	1.3	1.4
May-07	5.2	2.2	2.5	0.8	1.1
Jun-07	12.6	-0.1	-0.3	0.0	0.9
Jul-07	-16.0	-1.8	-2.1	-0.6	0.7
Aug-07	4.8	-2.9	0.7	-1.0	0.5
Sep-07	-10.2	-3.4	-3.6	-1.1	0.2
Oct-07	-4.8	-3.6	-1.7	-1.2	0.0

Assessment

Residential dwelling consent issuance continued to ease in October. Following a 10.2 percent fall in September, seasonally adjusted dwelling consents issued fell a further 4.8 percent in October. Excluding apartments, the fall was more modest at 1.7 percent. Total residential dwelling consents issued is now down 16.1 percent on a year ago. Non-residential building consents reversed the softness recorded last month and rebounded to \$381 million in October, after recording \$298 million in September. This is up 15.5 percent on the previous year. Although trend measures provided by Statistics NZ are exposed to end-point bias and can subsequently experience large revisions, they show that trend growth in residential dwelling consents has eased considerably over the past six months, falling 3.6 percent in October. Trend growth in non-residential consent issuance has also slowed since the start of the year and is currently flat.

Construction price growth looks to be easing. In pleasing news for the Reserve Bank, annual construction price growth – which we proxy by the value of dwelling consents per square metre – continues to ease, currently sitting at 4.8 percent on a three month average basis relative to the previous year. This is down from close to 11 percent at the start of the year. The housing market, and particularly construction costs, has been a significant source of inflation pressure over the past few years. The easing in the value of consents per square metre points to a potential moderation in construction cost inflation, which could take some pressure off non-tradable inflation.

Further moderation is expected. The historical relationship between house sales and building consents has been strong. As a result, we expect further moderation in residential dwelling consent issuance over coming months given the current weakness in house sales. Support is still likely to be provided from the non-residential sector with a number of projects still in the pipeline. However, this will be a key area to watch for any signs of reduced mezzanine-related lending hampering activity. **Collectively, today's building consent figures point to a very slow-burn type of moderation – a dynamic that still looks consistent with a soft landing for the economy.** Any softness in the housing market needs to be balanced against still strong support coming from solid household income growth, high commodity prices and pending tax cuts.

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