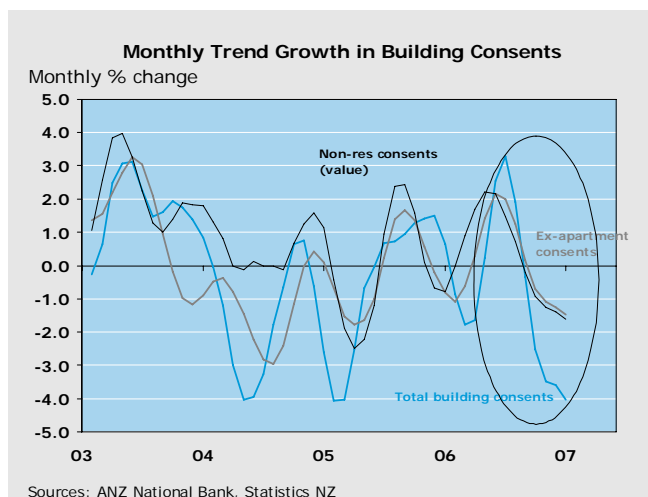


BUILDING CONSENTS ISSUED – JANUARY 2007

Key points

- The number of residential consents rebounded in January due to an increase in apartment issuance. However, the trend measure continues to decline – and at an accelerating rate.
- The Reserve Bank will welcome the continued trend decline in today's consents numbers, particularly as it suggests an easing in construction activity in the middle of this year.
- However, it will not have any influence for their MPS decision next week.
- Recent global developments, however, may have a larger impact and we will be closely monitoring events.

	Building Consents (m/m%)		Ex-apartment Consents (m/m%)		Value of non-residential Consents (m/m%)
	s.a.	Trend	s.a.	Trend	Trend
Jun-06	-8.5	2.5	-7.8	2.1	1.6
Jul-06	11.9	3.3	11.0	2.0	1.5
Aug-06	3.1	1.9	2.1	1.2	0.7
Sep-06	4.3	-0.3	0.6	0.2	0.1
Oct-06	-5.8	-2.5	-1.2	-0.7	-0.5
Nov-06	-11.6	-3.5	-5.0	-1.1	-0.4
Dec-06	-4.9	-3.6	2.5	-1.2	-0.9
Jan 07	3.9	-4.0	-4.5	-1.5	-2.3



Assessment and implications

The number of residential building consents rebounded in January due to an increase in the number of apartment issuance, which tends to be volatile. Residential building consents rose by 3.9 percent in January after three consecutive monthly falls, but if apartment consents were excluded, consents fell 4.5 percent. Total building consents of 2,001 (seasonally adjusted) for January is down from the 2,170 monthly average over 2005 and 2006. Similarly, the ex-apartment consents of 1,836 in January is down from the 1,880 average over last year.

The monthly trend for all consent measures continues to fall, and at an increasing rate. The residential consents trend has now fallen for five consecutive months, and the trend for the value of non-residential consents has fallen for four consecutive months. The Reserve Bank will welcome this trend decline, as it suggests that construction activity will ease over the middle of this year. Given that the construction industry is operating at close to full capacity, an easing in activity will help alleviate capacity pressures in this sector. However, construction costs as proxied by the value of consents per squared metre, is up 0.6 percent in January over December (based on a 3-month moving average), but is up 10.8 percent from a year ago. This suggests that construction costs will remain high and elevated in the near term.

Today's building consents release will not have an influence on the Reserve Bank's OCR decision next week. The continued trend decline in consent issuances, especially for residential building, will be welcomed by the Reserve Bank. However, activity in the housing market shows no signs of the moderation that the Reserve Bank wants to see. In the absence of further fallout from the volatility in global financial and equity markets overnight, which was triggered by a 9 percent fall in the Chinese equity market, we expect the Reserve Bank to hike interest rates next week. But we will be monitoring global developments very closely.

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