

### Building Consents Issued: December 2007

#### Key points

- > Residential dwelling consent issuance was soft in December and consistent with weak house sales.
- > The amount of floor area space approved for dwelling construction continues to decline and suggests residential investment growth will turn negative over the early part of this year.
- > Non-residential consent issuance continues to hold up at elevated levels.

#### Assessment

**Residential dwelling consent issuance was soft in December.** The total number of residential dwelling consents issued fell 5.2 percent in December, following a flat result in November. On an ex-apartment basis, consent issuance was much weaker, falling 11.3 percent and easily reversing the 1.2 percent increase recorded in November. On a trend basis, both total and ex-apartment consents have posted six consecutive monthly falls.

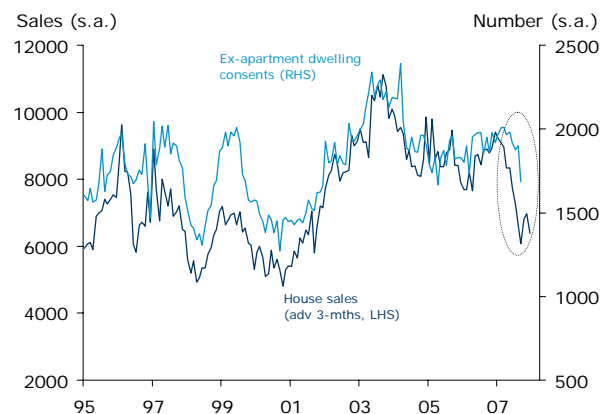
**Consent issuance is now more consistent with weak house sales over 2007.** Although trending lower, ex-apartment consent issuance had previously held up well given the weakness shown in house sales over 2007. There is a strong lagged historical relationship between housing market activity and consent issuance, and we are now starting to see this come through in the consent numbers. We anticipate further weakness in residential consents issuance over the coming months.

**Residential investment looks set to drag on growth over H1 2008.** The amount of floor area space approved for dwelling construction continues to trend lower, falling 6 percent on a three month average basis in December (the fourth consecutive monthly fall). Given the typical 3 to 6 month lag from when consents are issued to when construction activity actually begins, we expect residential investment growth to begin to turn negative and act as a drag on GDP growth over the first part of this year.

**Non-residential consent issuance remains elevated.** The value of non-residential consent issuance was \$331 million in December. On a trend basis, the value of non-residential consent issuance picked up to 0.3 percent in December, although it has effectively been flat since August last year. Nevertheless, the level of non-residential consent issuance remains elevated. This suggests non-residential construction may provide some offset to weak residential construction activity over the early part of this year although allowing for higher construction costs, suggests underlying non-residential work may not be quite as strong.

	Residential Building Consents (m/m%)		Ex-apartment Consents (m/m%)		Value of non-residential Consents (m/m%)
	s.a.	Trend	s.a.	Trend	Trend
Apr-07	0.3	3.5	2.4	1.1	1.3
May-07	4.9	2.2	2.3	0.7	1.2
Jun-07	12.2	0.3	0.0	0.2	0.8
Jul-07	-15.6	-1.8	-2.2	-0.4	0.7
Aug-07	4.9	-3.4	0.9	-1.2	0.1
Sep-07	-9.8	-4.3	-3.3	-1.8	-0.2
Oct-07	-4.7	-4.4	-2.0	-2.1	-0.5
Nov-07	0.0	-4.0	1.2	-2.2	0.0
<b>Dec-07</b>	<b>-5.2</b>	<b>-3.7</b>	<b>-11.3</b>	<b>-2.1</b>	<b>0.3</b>

House sales vs dwelling consents



Sources: ANZ National, Statistics NZ

#### Implications

**The residential sector is softening, and this represents welcome news to the RBNZ.** The RBNZ will be looking for reduced construction activity over 2008 to eventually translate into reduced CPI construction prices. We do note some encouraging trends developing, with annual growth in the value of dwelling consent issuance per square metre (a proxy for construction prices), at 5 percent on a three month average basis compared to over 10 percent over the early part of 2007. However, given the widespread nature of inflationary pressure, weakness in the residential sector needs to broaden in to other pockets of the economy.

**Disclaimer**

This document has been prepared by ANZ National Bank Limited (the "Bank"), is provided for informational purposes only and does not constitute an offer to sell or solicitation to buy any security or other financial instrument. No part of this document can be reproduced, altered, transmitted to, copied to or distributed to any other person without the prior express permission of the Bank.

This document is a necessarily brief and general summary of the subjects covered and does not constitute advice. You should obtain professional advice before acting on the basis of any opinions or information contained in it. The information contained in this document is given in good faith, has been derived from sources perceived by it to be reliable and accurate and the Bank shall not be obliged to update any such information after the date of this document. Neither the Bank nor any other person involved in the preparation of this document accepts any liability for any opinions or information (including the accuracy or completeness thereof) contained in it, or for any consequences flowing from its use.

ANZ, Level 7, 1 Victoria Street, Wellington 6011, New Zealand Phone 64-4-802 2000 Fax 64-4-496 8639  
<http://www.anz.com/nz> e-mail [ecnmcs@anz.com](mailto:ecnmcs@anz.com)