

## Building Work Put in Place: March quarter 2008

### Key points

- > **Total construction activity contracted over the March quarter.**
- > **An early Easter would have exaggerated the decline, but building consents data point to further declines in residential construction activity ahead.**
- > **Construction set to shave 0.2 percentage points off March quarter GDP, and is consistent with our estimate that overall GDP contracted by 0.3 percent.**

### Assessment

**Total real construction activity contracted 6.3 percent in the March quarter.** Both residential and non-residential construction activity contracted over the quarter, falling 6.6 percent and 5.9 percent respectively. However, the latter only partially unwound the 11.6 percent surge recorded in the December quarter. Building consent numbers have been trending lower over the past few months, and it was only a matter of time before this was reflected in the actual construction activity data. In this regard, the fall in real total building activity was no surprise. The early Easter this year potentially exaggerated the weakness, but as has been the case with other data of late, Statistics NZ was unable to quantify the impact.

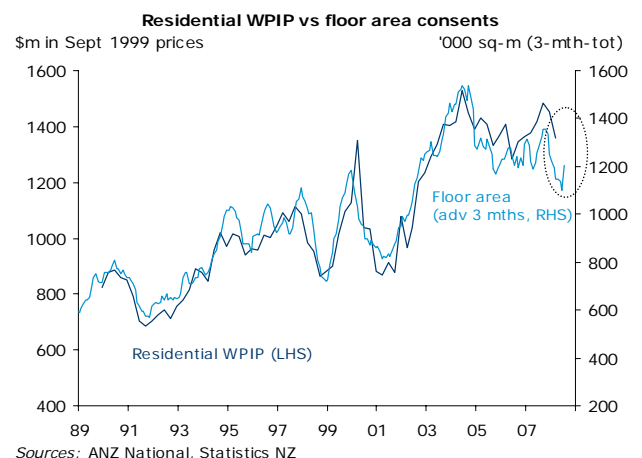
#### Further residential construction weakness ahead.

Barring the surprising surge in residential building consent issuance in April (which we do not expect to be sustained), consent issuance is pointing to further falls in residential construction over the remainder of this year. Based on the floor area of consents issued, residential construction activity could potentially fall another 10-15 percent over the coming quarters. Consent issuance for non-residential projects remain high, and points to still elevated activity in the next two quarters (assuming all those projects granted consents actually get off the ground). However, with falling investment intentions, as well as increased difficulty in getting financing, we suspect that non-residential construction will struggle to make the gains it has done over the past few years.

**Today's data is another piece of the GDP puzzle suggesting economic growth contracted in the March quarter.** In terms of the impact on GDP, today's data confirms that construction activity will subtract from growth. From a production point of view, we estimate that construction GDP will shave 0.2 percentage points off March quarter growth. From an expenditure view, residential investment looks set to decline around 6 percent, shaving 0.3 percentage points off expenditure GDP. Non-residential investment will also subtract from expenditure GDP growth. Overall, today's data is consistent with our estimate that March quarter GDP contracted by 0.3 percent. We expect residential construction activity to

continue subtracting from GDP growth for the rest of this year, and while non-residential activity will remain high, it will not be adding much to growth.

	Real Residential Buildings		Real Non-residential Buildings		Real All Buildings	
	QoQ	Trend	QoQ	Trend	QoQ	Trend
Sep-05	-5.1	-2.9	-2.9	1.2	-4.1	-1.3
Dec-05	2.5	0.7	-3.2	-1.5	0.0	0.2
Mar-06	3.1	-0.5	6.5	1.5	4.5	0.6
Jun-06	-8.8	-2.4	-5.9	-3.1	-7.5	-3.1
Sep-06	4.7	0.5	-7.0	-7.3	-0.5	-3.2
Dec-06	1.4	2.4	-2.4	-0.7	-0.2	1.4
Mar-07	1.0	1.2	6.2	1.1	3.1	1.1
Jun-07	3.0	3.4	-7.3	-3.3	-1.3	0.7
Sep-07	4.5	3.2	-0.6	0.7	2.5	2.2
Dec-07	-2.0	-2.1	11.6	4.4	3.1	0.4
<b>Mar-08</b>	<b>-6.6</b>	<b>-5.0</b>	<b>-5.9</b>	<b>1.1</b>	<b>-6.3</b>	<b>-2.6</b>



### Implications

**There are limited monetary policy implications from today's data.** We suspect today's figures would have been broadly in-line with the RBNZ's expectations. The RBNZ are also expecting GDP growth to contract by 0.3 percent in the March quarter and there is nothing in the data to dispute that, at this stage. Like us, the RBNZ are also forecasting a relatively large cycle in residential investment, with growth of -17 percent on an annual average basis by the start of next year. A turn in the housing market is now broadening and will act as a significant drag on economic prospects.

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