# Economic Review

## New Zealand

14 January 2008

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# Building Consents Issued: November 2007

## Key points

- > **Residential dwelling consent issuance was flat in November. Ex-apartment consents reversed the previous month's decline, but the trend remains down.**
- > **Non-residential consents issuance remains elevated, suggesting a still healthy pipeline of activity over the first half of this year.**
- > **Limited implications for the RBNZ. Consents data confirms that residential construction activity will act as a drag on growth in the early part of 2008, partly offset by still solid non-residential activity.**

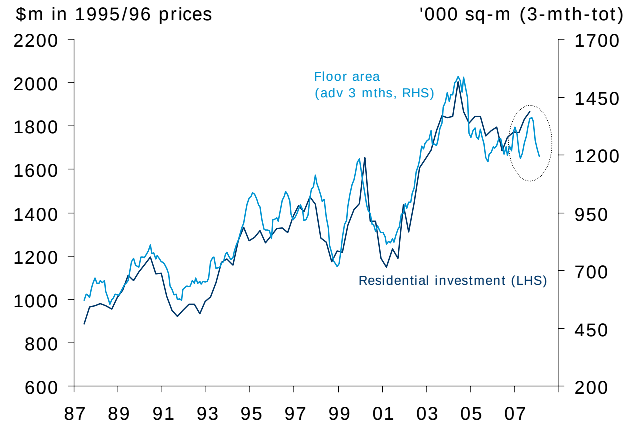
## Assessment

| | Residential Building Consents (m/m%) | | Ex-apartment Consents (m/m%) | | Value of non-residential Consents (m/m%) |
|---|---|---|---|---|---|
| | s.a. | Trend | s.a. | Trend | Trend |
| Feb-07 | 6.7 | 1.5 | 6.3 | 0.6 | 0.5 |
| Mar-07 | -1.2 | 3.4 | -2.9 | 1.2 | 0.9 |
| Apr-07 | 0.7 | 3.8 | 2.4 | 1.2 | 1.4 |
| May-07 | 5.2 | 2.4 | 2.5 | 0.8 | 1.3 |
| Jun-07 | 12.7 | 0.1 | -0.1 | 0.0 | 1.0 |
| Jul-07 | -15.9 | -1.9 | -2.2 | -0.6 | 1.0 |
| Aug-07 | 4.8 | -3.3 | 0.8 | -0.9 | 0.7 |
| Sep-07 | -10.1 | -4.0 | -3.4 | -1.1 | 0.4 |
| Oct-07 | -4.6 | -4.0 | -1.6 | -1.0 | 0.3 |
| **Nov-07** | **-0.1** | **-4.0** | **1.8** | **-0.9** | **1.5** |

**Residential dwelling consent issuance continues to ease,** though the decline in November was not as large as in the previous two months. Following a 4.6 percent seasonally adjusted fall in October, dwelling consents issuance was essentially flat in November. On an ex-apartments basis however, consents rebounded 1.8 percent following a 1.6 percent fall in the previous month. However, on a trend basis, ex-apartment consents continues to decline, and has now posted five consecutive monthly falls.

**Residential investment activity expected to be a drag on growth over the first half of 2008.** There tends to be a lag of between 3 to 6 months between when consents are issued to when actual construction activity takes place. Based on the decline in the amount of floor area space approved for dwelling construction over the past few months, we expect residential investment growth to turn negative into the early part of this year, and act as a drag on GDP over the first half of 2008. With further falls in building consent issuance expected in the coming months given falling house sales and easing net migration flows, the contraction in residential investment could well extend for most of this year and into the early part of 2009. This will be a welcome development for the RBNZ, as it seeks a slowdown in domestic demand in order to contain inflation pressure. The RBNZ may also take some comfort from a moderation in the annual construction cost growth (which we proxy by the value of dwelling consent issuance per square metre), which eased to 3.6 percent on a three month average basis compared to over 10 percent over the early part of 2007.

**Residential investment vs floor area consents**




*Sources:* ANZ National, Statistics NZ

**Countering the weakness in residential consents, commercial consent issuance remains strong.** The largest increase in value was for two North Island hospitals, reinforcing the role that fiscal spending will play in supporting growth. With non-residential consents still at elevated levels, this suggests a healthy pipeline of activity over the first part of this year, partly offsetting the slowdown in the residential construction space.

## Implications

**There are limited implications for the RBNZ from today's release.** The RBNZ will be looking for further falls in consent issuance over the coming months, and hoping that the easing in the value of consent issuance per square metre translates through into the CPI construction cost data. Tomorrow's QSBO and Thursday's CPI print are the key data releases heading into next week's OCR *Review*.

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