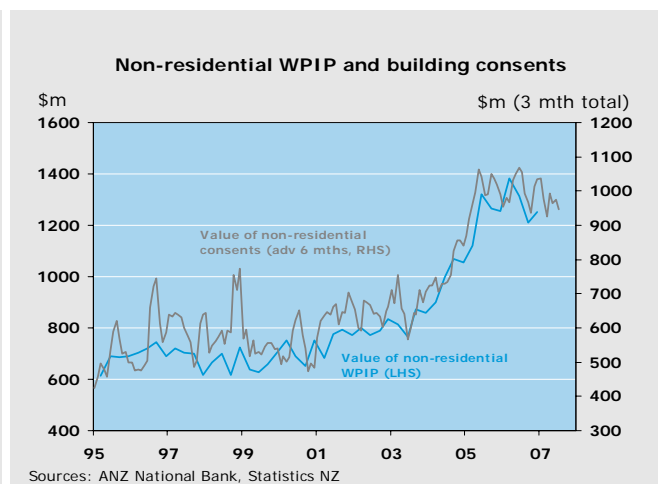
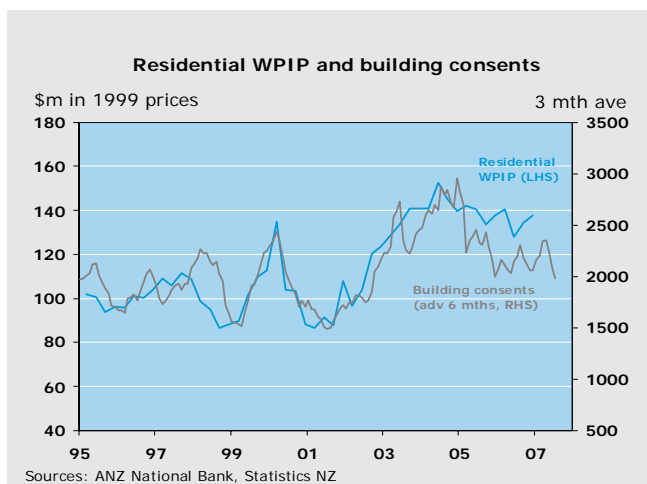


BUILDING WORK PUT IN PLACE – DECEMBER QUARTER 2006

Key points

- Construction activity rebounded in the December quarter, after two consecutive quarterly falls.
- Today's release leaves us comfortable with our 1.0 percent estimate for Q4 GDP growth, similar to the Reserve Bank's March MPS forecast.
- There is little in the way of monetary policy implications from today's release. Reads on Q1 activity will be the Reserve Bank's central focus to gauge the extent that the pick-up in activity is sustained.

Deflated values at September 1999 quarter prices	Levels (s.a.)	Quarterly % change	Annual % change
All Buildings	\$2,314m	2.2%	-3.0%
Residential Buildings	\$1,376m	2.3%	-0.1%
Non-residential Buildings	\$938m	2.2%	-7.0%



Assessment and implications

- **Construction activity rebounded in the December quarter**, with real total building work put in place rising by 2.2 percent, residential building work rising by 2.3 percent and non-residential building work up 2.2 percent. This increase in total construction activity comes after two consecutive quarterly falls and has seen the quarterly trend grow by 1.0 percent after falling in both the June and September quarters. Although the quarterly trend in residential construction activity accelerated in the December quarter, the non-residential construction trend has eased for the past three quarters after recording considerable growth since 2003.
- **Today's release confirms that the economy grew strongly in Q4.** Falling petrol prices lifting consumption, solid stock rebuilding and today's release showing strong construction activity suggest that GDP growth in Q4 will rebound strongly. Although the external sector is likely to make a large negative contribution to growth, we expect Q4 GDP (due 30 March) to record growth of 1.0 percent after 0.3 percent growth in Q3. This is similar to the Reserve Bank's March *Monetary Policy Statement* forecast.
- **Recent building consents data suggests construction activity has past it peak.** The monthly building consents trend has fallen in the past four months. Given the lags involved in the consent and building process, this suggests that the level of construction activity, although remaining at an elevated level, should ease over the first half of 2007.
- **There is little in the way of monetary policy implications from today's release.** The Reserve Bank will be more interested in indicators of Q1 activity to determine whether the strength from Q4 is being sustained. In this regard, January retail sales and the February REINZ housing report due next week will be important.

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Australia and New Zealand Banking Group Limited is represented in:

AUSTRALIA by:

Australia and New Zealand Banking Group Limited ABN 11005 357 522
10th Floor 100 Queen Street, Melbourne 3000, Australia
Telephone +61 3 9273 6224 Fax +61 3 9273 5711

UNITED KINGDOM by:

Australia and New Zealand Banking Group Limited
ABN 11 005 357 522
Minerva House, PO Box 7, Montague Close, London, SE1
9DH, United Kingdom
Telephone +44 20 7378 2121 Fax +44 20 7378 2378

UNITED STATES OF AMERICA by:

ANZ Securities, Inc. (Member of NASD and SIPC)
6th Floor 1177 Avenue of the Americas
New York, NY 10036, United States of America
Tel: +1 212 801 9160 Fax: +1 212 801 9163

NEW ZEALAND by:

ANZ National Bank Limited
Level 7, 1 Victoria Street, Wellington, New Zealand
Telephone +64 4 802 2000

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