



Department of
Building and Housing
Te Tari Kaupapa Whare

Building and Housing Trends: April to June 2009



Sector overview: April – June 2009

The economy

While the general economy continues to contract, both within New Zealand and globally, there is increasing optimism among forecasters that New Zealand is approaching a recovery. Forecasts from the Reserve Bank, Treasury and other agencies have been revised up since the last quarter, with some commentators suggesting New Zealand's economy has started to recover or will start recovering in the next few months.

There continues to be a mixed story in the building and construction sector. There are some encouraging signs of recovery: house prices were flat in the year to July 2009, the number of house sales has increased and houses are selling more quickly. Net annual immigration figures also remain strong, at almost 15,000 in the July 2009 year which will increase demand for housing.

However, the immediate outlook remains challenging: the future state of the housing market continues to depend on consumer confidence and access to credit.

Sector activity

Since the March 2009 quarter, sector activity has been low but is expected to pick up slightly, largely as a result of an end to the decline in residential building activity in recent months. Although the number of new dwelling consents was low, its trend has been rising since January 2009 after a series of falls that began in July 2007. The value of residential building consents was \$5.033 billion in the year ended July 2009 and 29.5 percent lower than a year ago.

The value of non-residential building consents was \$4.705 billion in the year ended July 2009, a 6.6 percent increase compared to the July 2008 year. However, once the large projects (worth more than \$25 million) are excluded then there has been a year-on-year reduction in each month since January 2009. Large project consents account for \$820 million in the July 2009 year, up from \$290 million in the July 2008 year. The total floor area of non-residential building works consented has also fallen by 18.8 percent in the year ended July 2009. Infometrics expect a decline in non-residential building activity by the end of the year due to a decline in investment.

The observation that more people were employed in the sector but employed for fewer hours in total was made previously for the March quarter. This continued in the June 2009 quarter. The number of people employed in the construction sector was 0.9 percent more in the June 2009 quarter compared with the same time in 2008, while the number of hours worked fell by 8.5 percent over the same period. The number of 'building trade' and 'building and related' workers leaving New Zealand peaked in the year to January 2009 and has since declined in annual numbers.

Capital, production and labour costs continue to rise slowly, and industry leaders think this will continue. Residential building costs rose by 0.8 percent in the year to June 2009 compared with 4.4 percent in the year to June 2008; non-residential building costs declined slightly by 0.1 percent compared with a 2.8 percent increase in the previous year. This slight fall in non-residential building costs was driven by lower labour rates and contractors' margins.

Government housing assistance

Government housing assistance rose in June 2009 with nearly 48,000 more people receiving an accommodation supplement and 666 more households receiving an income-related rent than in June 2008. There was an increase in Housing New Zealand Corporation high priority waiting lists (Priority 'A' and 'B'), with 4,200 applicants in June 2009; 5.4 percent more than in June 2008. Average waiting times increased for both priority 'A' applicants (up from 24 days in June 2008 to 32 days in June 2009), and priority 'B' (from 73 days in June 2008 to 82 days in June 2009).

The economy

Economy continues to slow, recovery forecast to begin next year

- New Zealand experienced a fifth consecutive quarter of contraction in economic activity when GDP fell by 1.0 percent in the March 2009 quarter¹.
- Construction industry activity (value added) fell by 8.9 percent in real terms in the year to the March 2009 quarter², compared with a 4.4 percent increase in the year to the March 2008 quarter.
- Real investment decreased by 8.6 percent in the year to March 2009, a better result than the 9.2 percent decrease the Reserve bank forecast in the June 2009 Monetary Policy Statement.
- The Reserve Bank also revised its future investment forecasts up slightly. In the September 2009 Monetary Policy Statement, they predicted that in the year to March 2010, real investment will fall by 10.0 percent, compared to 10.6 percent in the June 2009 Monetary Policy Statement. In the September 2009 Monetary Policy Statement, they also predicted that in the year to March 2010 real residential investment would fall by 14.3 percent, real business investment by 12.2 percent, and real government sector investment will increase by 16.0 percent.
- Forecasts are for the economy to contract in the March 2010 year, but for growth to be positive in subsequent years.
- There was net inward migration of 14,488 people in the year to July 2009, well above the 10,000 on which housing demand forecasts were based.

More people employed in construction but for fewer hours than for the same quarter of 2008

- The Household Labour Force Survey estimates that 182,800 people were employed in the construction industry in the June 2009 quarter. This is 0.9 percent higher than the June 2008 quarter.
- The Quarterly Employment Survey showed that the number of paid hours in the construction industry fell 8.5 percent to 3.9 million hours for the June 2009 quarter compared with the same quarter in 2008.
- The prospects for future employment in the sector will depend on whether construction activity continues to pick up. This in turn depends on the availability of credit to construction firms, which may in turn depend on ability to win contracts or subcontracts for larger projects and on the ability of land developers to obtain credit.

Rent and house price inflation continues to fall

- Inflation in the housing sector has dropped to 2.8 percent in the year to June 2009 quarter, lower than the 5.0 percent in the year to June 2008 quarter.
- Inflation for home ownership (measured by the new housing component of the Consumers Price Index) was 1.3 percent in the year to June 2009 quarter, falling from 5.2 percent in the year to June 2008 quarter.
- Actual rents increased by 1.7 percent in the year to June 2009 quarter, compared with 3.1 percent in the year to June 2008 quarter.

¹ June 2009 quarter GDP is expected to be published by Statistics New Zealand on 23 September 2009.

² The 'year to the [month] quarter' indicates year-on-year quarterly data is being reported. 'Year to [month]' is used when reporting annual data.

The building sector

Value of all building work put in place fell, led by residential building work; and trend continues down

- The unadjusted value of all 'building work put-in-place' in the June 2009 year was \$11.867 billion, down 13.4 percent from the previous year, of which 54.5 percent was residential building.
- Falling price-adjusted trend values for all 'building work put-in-place' have continued during the quarter to June 2009, with a decrease of 13.1 percent from the June 2008 quarter.

Residential building activity low but consent levels showed increase

- The unadjusted value of all residential building work put in place in the June 2009 quarter shows a drop of 24.8 percent from the same quarter in 2008.
- The latest July 2009 statistics for the number of new dwelling consents were still low at 1,214 compared to historical levels, but show an increasing trend since February 2009. The number of consents for new dwelling units (including apartments) authorised in the quarter to June 2009 was 38.1 percent lower than in the same quarter in 2008.
- The value of residential building consents issued was \$5.033 billion for the year ended July 2009, 29.5 percent lower than a year ago. The trend has flattened in recent months after a series of falls.

Value of non-residential building work fell in the June 2009 quarter in line with the downward trend for the number of non-residential consents and less impact from large project spending

- For the year ended June 2009, the value of non-residential building work put in place was \$5.314 billion and 4.9 percent higher than the previous year.
- The unadjusted value of non-residential building consents issued increased by 6.6 percent in the year to July 2009 to \$4.705 billion. The largest increases were in 'hostels and boarding houses' and 'social, cultural and religious buildings'. The largest falls were in 'storage buildings' and 'hotels and other short term accommodation'.
- Although, the values for non-residential building consents for the year ended July 2009 was 6.6 percent higher than a year ago, since June 2009 the monthly values have recorded a decline compared to the same time last year. Note that the trend values for non-residential building consents was removed from the July 2009 statistics in the meantime as Statistics New Zealand is reviewing its current practice of generating this trend series.

Capital, production and labour costs continue to rise

- The Capital Goods Price Index, in the year to June 2009 quarter, measured price increases of 0.8 percent for residential building, 5.8 percent for other construction, but a fall of 0.1 percent for non-residential building. This compares with an overall CGPI rise of 4.1 percent.
- The Producers Price Index for construction industry inputs for the year to the June 2009 quarter increased 3.6 percent, compared with a fall of 1.2 percent for all industries.
- Labour costs (as measured by the Labour Cost Index) increased in the year to June 2009 by 2.3 percent for building trade workers, and 3.1 percent for the construction industry generally; compared with the increase of 2.8 percent for all industries and occupations combined.

The housing sector

House prices have been flat for two months nationally, but Auckland is showing signs of growth

- The housing market is showing steady prices, but higher sales volumes and turnover in houses sold.
- REINZ report the median sale price for the whole of New Zealand was unchanged at \$340,000 in July 2009 compared to July 2008. This followed a similar 0.0 percent change in the year to June, a 2.2 percent drop in the year to May and 1.4 percent drop in the year to April 2009.
- The median sale price for Auckland grew by 4.5 percent in the year to July 2009; the highest annual growth in the region since December 2007.

Volume of house sales up compared with same time last year, and houses are taking less time to sell

- REINZ report that there were 6,014 house sales during the month of July 2009. This is an increase of 34.0 percent on July 2008, and lends credence to the idea of a levelling of house prices.
- The upward trend in sales volume has now been continuing for 5 months.
- The median number of days taken to sell a property in July 2009 was 37 days, much shorter than the 58 days it took in July 2008. The days to sell figures compared with the same month in the previous year have been decreasing since April 2009.

Government housing assistance rose, numbers of applicants for government housing grew, and the time to house people on the lists increased for the year

- Government assists low-income families into affordable housing mainly through the Accommodation Supplement (AS) and Income-Related Rents (IRR). At the end of June 2009, there were 293,388 AS recipients and 60,739 IRR tenants; compared with the figures for June 2008 of 245,510 and 60,073 respectively.
- Total government housing assistance in the June 2009 quarter was \$392 million, 13.8 percent more than the \$344 million provided in the June 2008 quarter. This is the largest annual increase since September 2005.
- The number of people on the Housing New Zealand Corporation Priority A (“severe and persistent housing needs that must be addressed immediately”) and B (“significant and persisting housing need”) waiting lists for housing increased by 5.4 percent between June 2008 and June 2009. Of these, the A waiting list increased by 1.2 percent between March and June 2009, and by 5.2 percent since June 2008. The B list decreased by 2.3 percent between March and June 2009, but increased by 5.4 percent compared with June 2008.
- The data shows a slow increasing demand for Housing New Zealand Corporation properties year-on-year, slightly beyond what can be met in the short term. The average waiting time³ for people on the A priority waiting list reduced by 15.8 percent from 38 days to 32 days between March and June 2009; although this was an increase of 33.3 percent compared with June 2008. At the same time, the waiting time for B priority applicants decreased by 5.7 percent, from 87 days in March to 82 days in June 2009, a 12.3 percent increase since June 2008.

³ NB: The waiting time figures have been updated due to improvements in reporting and information systems at Housing New Zealand Corporation and are not compatible with those given in previous reports.

- Tenancy bond data shows average weekly rents for new private rental tenancies are flattening off. Private rents did not change in the year to July 2009. In July 2009, the average weekly rent was \$228 for one-bedroom flats (including apartments), \$291 for two-bedroom flats, \$267 for two-bedroom houses, \$322 for three-bedroom houses and \$414 for four-bedroom houses.