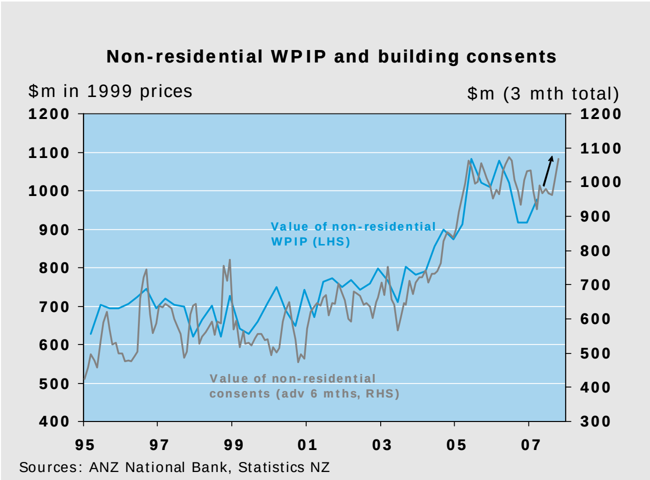
BUILDING WORK PUT IN PLACE – MARCH QUARTER 2007

Key points

- **Total real building work put in place rose by 2.5 percent in the March quarter. A fall in real residential construction activity was more than offset by a strong increase in non-residential.**
- **Based on recent consents data, residential construction activity will remain subdued over the next 6-12 months – but at a high level, which implies continued pressure on resources.**
- **There is still a strong pipeline of non-residential construction to come.**
- **We remain comfortable with our Q1 GDP growth estimate of 1 percent with upside risks. This is higher than the Reserve Bank's June *MPS* forecast of 0.8 percent, which will see the bias for interest rates remaining up.**

	Real Residential Buildings		Real Non-residential Buildings		Real All Buildings	
	QoQ	YoY	QoQ	YoY	QoQ	YoY
Dec 04	-4.0	-1.3	-2.8	11.0	-2.5	3.1
Mar 05	1.7	0.2	4.6	15.8	3.1	5.7
Jun 05	-1.0	-8.0	18.5	26.9	4.8	4.4
Sep 05	-4.8	-7.9	-5.8	14.1	-4.4	0.7
Dec 05	2.8	-2.1	-1.1	14.4	1.8	4.3
Mar 06	1.6	-0.9	6.9	18.1	4.1	6.5
Jun 06	-8.3	-8.6	-5.2	-5.4	-8.8	-7.2
Sep 06	5.3	0.4	-10.2	-9.7	-0.4	-4.0
Dec 06	1.8	-0.1	0.0	-9.7	1.7	-4.1
Mar 07	**-0.9**	**-2.0**	**6.6**	**-9.0**	**2.5**	**-5.0**



Assessment and implications

- **Residential construction activity fell in the March quarter, while non-residential construction activity rose strongly.** Real residential building work put in place fell 0.9 percent in the March quarter. However, this was more than offset by a 6.6 percent increase in non-residential building work, which saw total real building work put in place increase by 2.5 percent in the quarter. In trend terms, residential building work was flat in the March quarter, while non-residential building work was up 4.3 percent, reversing the previous three consecutive quarterly declines.

- **Based on recent consents data, growth in residential construction activity will remain subdued, while activity in the non-residential construction sector will remain strong over the next 6-12 months.** Monthly building consent data, particularly for residential investment, has softened recently. Given the lags involved in the consent and building process, this suggests that the level of residential construction activity, although remaining at an elevated level, should ease over 2007. However, non-residential construction activity will more than take up the slack, with a strong pipeline of work still to come.

- **Today's data reinforces our view that Q1 GDP will print stronger than the Reserve Bank's June *MPS* forecast.** We remain comfortable with our forecast of 1 percent GDP growth, with upside risks particularly if the manufacturing survey data due out next week prints strongly. Although an historical read, a stronger Q1 GDP outturn than the 0.8 percent expected by the Reserve Bank will leave the bias for interest rate firmly up.

- **However, the Reserve Bank's focus will remain on indicators of Q2 activity.** The Reserve Bank needs a sustained period of slower growth in domestic activity to alleviate inflation pressures. Although, there are some early signs that activity is softening, it is far too early to be confident that this will be sustained. The central focus for the Reserve Bank will be on indicators of Q2 activity, and in particular whether there is any evidence that the recent tightening in financial conditions is slowing domestic demand. In this regard, housing market, retail sales and Q2 CPI data are shaping up as very important reads.

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