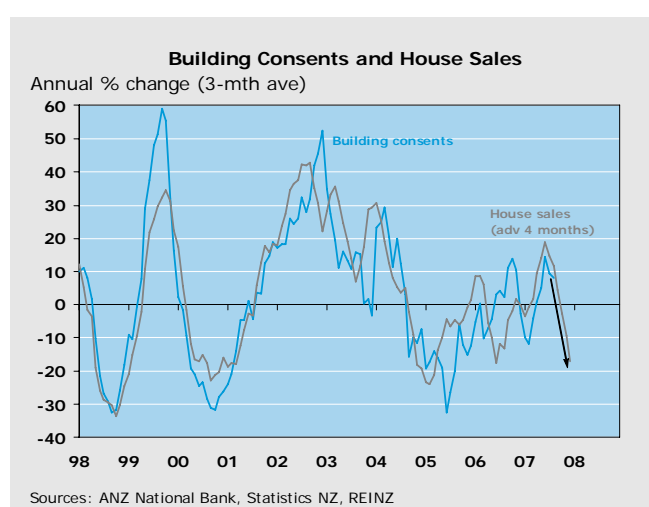


BUILDING CONSENTS ISSUED – AUGUST 2007

Key points

- Dwelling consents posted a rebound following the sharp fall in July, led by increased apartment consents.
- Non-residential consent issuance remains strong with the trend growth rate picking up.
- We continue to expect consent issuance to trend lower for the remainder of this year.
- The value of dwelling consents per square metre (a rough proxy for construction costs) remained stable over the past three months.

	Residential Building Consents (m/m%)		Ex-apartment Consents (m/m%)		Value of non-residential Consents (m/m%)
	s.a.	Trend	s.a.	Trend	Trend
Nov-06	-10.9	-3.0	-4.8	-1.0	-0.9
Dec-06	-4.3	-2.8	2.9	-0.8	-0.7
Jan-07	5.0	-1.0	-3.9	-0.2	0.0
Feb-07	6.5	1.6	6.3	0.6	0.7
Mar-07	-1.5	3.3	-2.9	1.1	1.1
Apr-07	1.2	3.4	2.4	1.2	1.8
May-07	4.7	2.4	2.5	0.9	1.7
Jun-07	13.7	1.5	0.2	0.6	1.9
Jul-07	-15.5	0.9	-1.5	0.5	1.1
Aug-07	5.8	0.3	0.7	0.1	2.0

Assessment

Residential building consents issuance has been particularly volatile over the past few months, influenced by fee increases for consents application by some local authorities on 1 July 2007. This resulted in a surge in consents in June (up 13.7 percent), followed by a sharp fall in July (down 15.5 percent). The 5.8 percent increase in dwelling consents in August (up 1.1 percent compared to a year ago) was stronger than we had expected, though we note that most of the rise had been for apartments. On an ex-apartment basis, the increase in consents has been more modest (up 0.7 percent for the month and 1.9 percent compared to a year ago). Over the past six months, the number of ex-apartment consents has been relatively flat – a better reflection of underlying residential construction activity.

Volatility aside, we continue to look for an easing in dwelling consent issuance, leading to a decline in residential construction activity by late this year or early next year. While activity is expected to be strong in the dairy-aligned regions, it will not be sufficient to offset the impact of easing net migration and the slowdown in the housing market. There tends to be a lag of around 4-6 months from housing activity to consents data. With house sales already well down in recent months, this should start to translate through to consent issuance over coming months.

On the non-residential side, the value of consents issuance remains strong with a pick-up in the monthly trend growth rate. A total of \$398 million worth of non-residential consents were issued in August, an increase of 8.5 percent compared to a year ago. This points to a strong pipeline of non-residential construction activity heading into early next year.

There are limited implications for the Reserve Bank from today's consents data. We note that the value of dwelling consents per square metre (a rough proxy for construction costs) remained stable over the past three months. While a step in the right direction, the test is whether this translates through into a softening in housing related inflation. Until then, expect the Reserve Bank to remain on alert.

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