

## The national economy

The New Zealand economy has performed increasingly strongly throughout the middle part of this year. Growth in household spending hit a four-year high of 4.0%pa in June and business confidence has lifted to its highest level since 2014. The NZIER's latest Quarterly Survey of Business Opinion showed that capacity pressures in the labour market are becoming increasingly problematic, with a growing proportion of firms reporting the supply of labour is now the biggest factor limiting expansion. In key areas of the economy, such as tourism and construction, it appears likely that growth will be constrained over the next 12-24 months as firms struggle to cope with surging demand.

	Latest	Dec 2016	Dec 2017
Gross domestic product <sup>(1)</sup>	2.8%	3.3%	2.7%
Residential consents <sup>(1)</sup>	14.3%	13.3%	5.9%
Non-residential consents <sup>(1)</sup>	11.4%	7.4%	-2.0%
House prices <sup>(2)</sup>	14.3%	5.7%	4.8%
Unemployment rate <sup>(3)</sup>	5.1%	5.1%	5.1%
Net migration <sup>(4)</sup>	69,119	68,249	64,137

(1) Year-end % change (2) Annual % change  
 (3) Quarterly level, seasonally adjusted (4) Annual total  
 Data source: Statistics NZ, Infometrics forecasts

## The construction sector

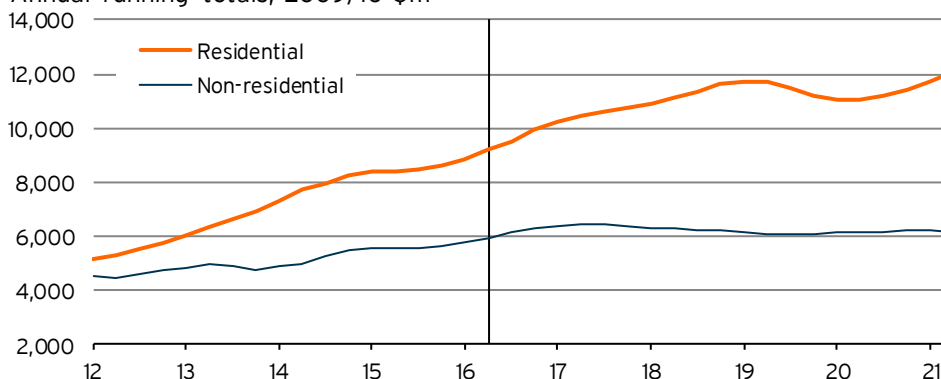
Growth in residential consent numbers has been up and down over the last few months, although the consent total in the three months to August was still up 17% from a year earlier. Growth in consents in Auckland over the same period was 16%, and has languished below the nationwide average since April this year.

Whereas the patchy growth in residential consents has been a little disappointing, non-residential consents have been stronger than expected. The annual value of non-residential consents in Auckland has increased by 44% over the last year. Alongside substantial increases in Wellington (up 38%) and Otago (up 53%), this rapid growth has more than made up for a 13% drop in the value of non-residential building consents in Canterbury since August last year.

Both subsectors of construction are expected to continue growing throughout the next 12 months. Although growth in residential work put in place will outpace growth in non-residential work, Infometrics has revised up its forecasts for the latter on the back of the continued strength in consents. In contrast, repeated **feedback from people involved in the construction industry** about labour constraints, particularly in Auckland, has resulted in Infometrics' outlook for growth in residential activity to be pared back.

Nationwide residential consent numbers are forecast to climb from 29,627pa currently to 35,500pa by the end of 2018. Nevertheless, the undersupply of housing in Auckland, combined with persistently strong net migration, is set to keep the annual consent total above 32,000 for at least the next five years. This continuation of activity at a high level should boost the willingness of firms to expand their business and invest in additional labour and capital resources.

**Building work put in place**  
 Annual running totals, 2009/10 \$m

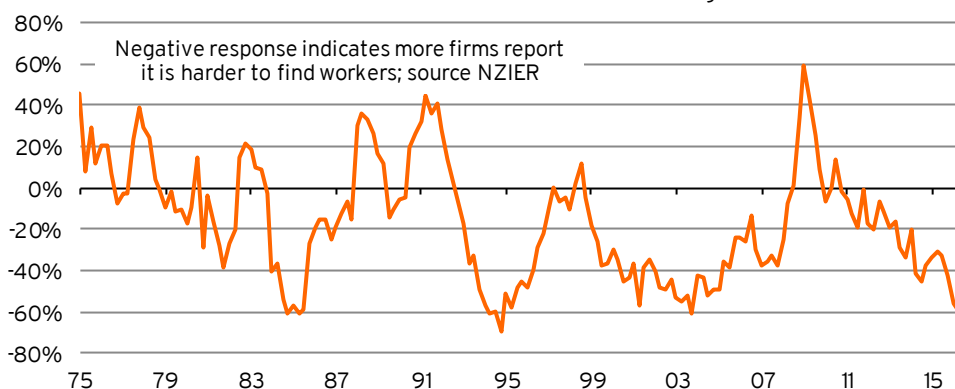


## Special topic: Capacity to meet demand, especially in Auckland

The NZIER's latest Quarterly Survey of Business Opinion showed a net 43% of firms reporting that skilled workers are now more difficult to find than three months ago, with a net 15% of businesses responding the same way with regards to unskilled workers. For building firms, the responses indicate that labour market pressures are even more acute, with net responses of 59% and 28% for skilled and unskilled workers respectively. Our first graph shows that there have been only three times in the last 40 years when the construction industry has experienced labour to be as difficult to find as it is now: in 1984/85, 1994, and 2002-2005.

### Building firms struggling to find workers

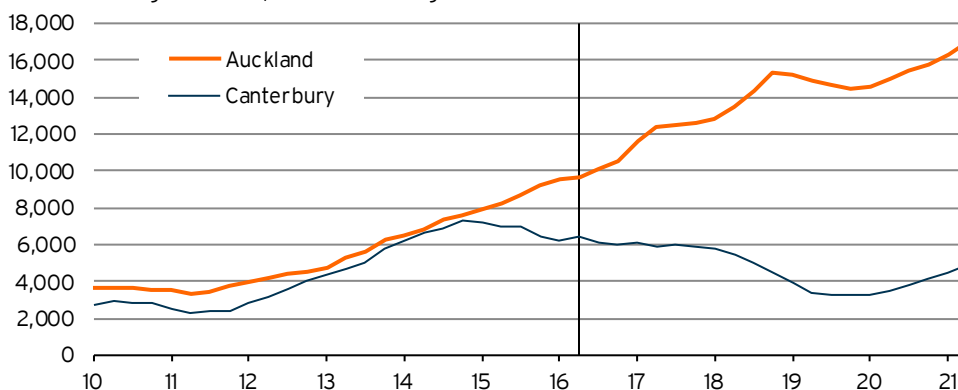
Are skilled workers easier or harder to find than three months ago?



Our second graph puts the demand pressures on the residential building sector in Auckland into sharp focus. Much was made of the required rebuilding work in Canterbury following the 2011 earthquake and, in terms of non-residential reconstruction, the task was (and continues to be) massive. But residential rebuilding activity in Canterbury pales in comparison beside the amount of work necessary to meet demand in Auckland.

### Building in Auckland leaves Canterbury languishing

New dwelling consents, annual running totals



Even then, our graph is not a fair reflection of demand pressures in Auckland. Infometrics estimates an undersupply of housing in Auckland of about 32,000 dwellings, an undersupply that has been mounting since 2007 and has become increasingly critical over the last 2-3 years. With Auckland's population having grown by around 50,000 people over the last year, about 16,000 more dwellings were needed just to house those people, but the number of consents in the region for the year to August was only 9,851. So there remain major impediments to construction activity in Auckland satisfying current demand, let alone attacking the significant undersupply of housing in the region.

The factors behind Auckland's shortfall in residential building are many and complex. The causes include:

- the availability of land, which could be limited by land banking or resource management issues

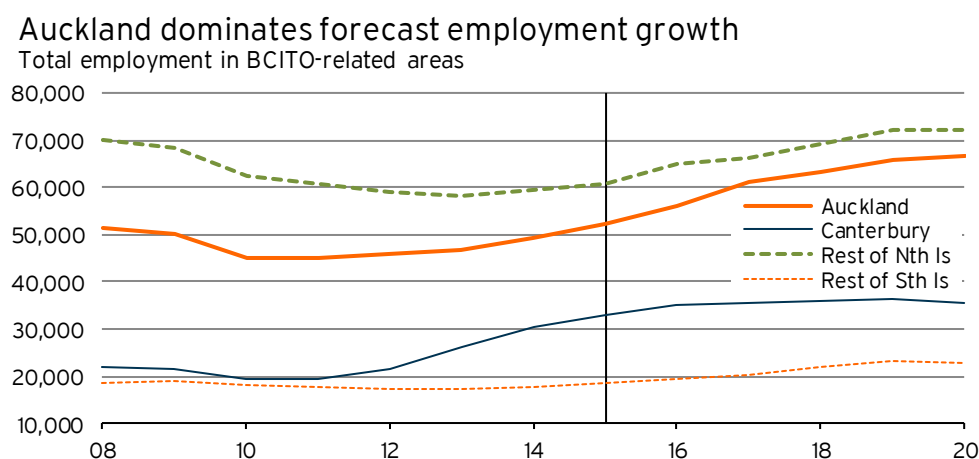
- regulatory restrictions constraining the supply of new housing and/or pushing up development costs
- a shortage of labour or other resources required for construction.

Residential consent numbers in Auckland have almost trebled since mid-2011, and given this growth over the last five years, it would be surprising if the capacity-related issues implied in the final point were not starting to show through.

### Confidence for a training and recruitment response

Our final graph shows Infometrics' forecasts out to 2020 for employment in trades covered by BCITO. The following are key points from the forecasts.

- Nationwide BCITO-related employment is forecast to grow by 21,200 people between 2016 and 2020. Taking into account workers retiring or leaving the industry as well implies 52,200 job openings over the next four years.
- Employment in Auckland is predicted to increase by 10,350 people over the four years to 2020. This growth is a continuation of the trend over the last five years, which has seen BCITO-related employment in Auckland increase by an estimated 11,000 people since 2011.
- BCITO-related employment in Canterbury has expanded by an estimated 16,000 people since 2011, but will not grow any further over the next four years.
- Demand for workers in other parts of the North Island is also accelerating, with employment predicted to increase by 7,200 people between now and 2020. A substantial pick-up in residential building activity in the "halo" regions surrounding Auckland is an important contributor to this growth.



Infometrics sees two important differences between the construction boom in Canterbury over the last five years and the current acceleration of activity in Auckland. Firstly, although the volume of work that was required to be done in Canterbury after the earthquakes was reasonably well-known, the exact timing of the pick-up was uncertain. To meet expected future demand, firms had to invest in more staff not knowing when the ground would settle down, insurance issues would be dealt with, and the revenue would start flowing in. In contrast, activity in Auckland has already lifted substantially and will continue to do so throughout the next few years.

Secondly, whereas rebuilding work in Canterbury was very much seen as a prolonged but temporary lift in activity, it is less clear how temporary Auckland's lift in residential building will be. Even with a forecast of 58,200 new dwellings in Auckland over the next four years, the region will still have an undersupply of more than 30,000 dwellings at the end of 2020, implying that the build rate will remain elevated well into the next decade. It's that sort of sustained lift in activity that should enable businesses to commit to expansion plans right through the supply chain - from machinery for manufacturing materials and componentry through to workers putting the final coat of paint on the building.

As was the case with Canterbury, trying to meet construction demand in Auckland will involve a combination of attracting staff from other parts of the country, tapping into workers from overseas, and training new staff to enter the industry. Commitment to expanding the construction industry's capacity shapes as one of the most critical factors in resolving the housing affordability crisis that is currently afflicting Auckland.