

News release

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For further information:

Adeline Wong
BIS Shrapnel
Tel: +61 2 9959-5924
A/h: +61 421-277-627
Email: awong@bis.com.au

Roxanne Hughes
Watterson Marketing Communications
Tel: +61 2 9929-7533
A/h: +61 419-623-519
Email: roxanne.hughes@watterson.com.au

Poor economic conditions aggravating the building downturn in New Zealand

The dramatic turn in global economic conditions has severely dented business and consumer confidence in New Zealand and has caused dwelling building activity to plunge to record lows, according to leading industry analyst and economic forecaster, BIS Shrapnel. The current building downturn in New Zealand, particularly in residential building, is being agitated by the domestic recession and deepening global downturn.

BIS Shrapnel's *Building and Construction in New Zealand 2008/09 to 2014* report forecasts building activity to remain weak in 2009 due to a setback in investment which has adversely affected the real side of the economy. Building activity will be constrained by delays in, or cancellation of, business investment and expansion plans. The housing market will also remain subdued due primarily to job insecurity, rising unemployment and tighter bank lending policies.

Report author and BIS Shrapnel senior project manager, Adeline Wong, expects the building sector in New Zealand, including both residential and non-residential activity, to contract by almost 20 per cent in the current financial year to March 2009.

"The sharp downturn is largely attributed to a record low number of dwelling approvals, which are expected to contract by over 30 per cent to just above 17,000 units for 2008/09," says Wong.

"We expect weak dwelling approvals to persist for the whole of 2009, before a modest rebound in the March quarter of 2010," continues Wong. "Thereafter, a combination of strengthening economic growth, low interest rates, improving home affordability, pent-up housing demand, higher net overseas migration levels and an expanding housing stock deficiency, will drive a strong rebound in dwelling consents in 2010/11 and 2011/12, before stabilising over the following two years to 2013/14."

BIS Shrapnel believes the Auckland region will suffer a substantial housing stock deficiency over the next five years as a result of under building.

Dwelling approvals for the Auckland region peaked in 2003 at 12,500 units, and have been falling ever since, with record lows of below 4,000 units expected to be reached in 2008/09. Auckland has the lowest home affordability due to high median house prices, so significant pent-up demand for houses is also expected to have built up in the region over the past few years.

"The dwelling sector will be instrumental in driving the next building sector upturn expected from 2010/11," says Wong. "The reliance on the dwelling sector is because of weak non-residential building activity due to a drop-off in social and cultural building activity, and subdued activity in retail, office, storage and factory building.

"The drop-off in these sectors is due to falling demand and lack of project finance, which combined, will cause projects to be delayed, deferred or shelved."

However, BIS Shrapnel can see an upshot in all the doom and gloom.

“The silver lining is that, in the short term, the commercial sector will hold up for at least another year, as commercial projects that are more advanced in their construction stages will be completed,” says Wong.

Wong says the civil engineering sector will also provide a buffer to the construction sector.

Increased spending on infrastructure of NZ\$5.8 billion over the next five years will see the civil engineering sector expand by over 10 per cent per annum over the next two years to 2010/11.

“This extra spending will enable the completion of projects under construction and also fast track new projects,” says Wong. “The civil engineering sector will also be underpinned by the energy sector and projects such as Meridian’s billion dollar development of five wind farms and Contact Energy’s Waitahora wind farm.”

BIS Shrapnel's managing director, Robert Mellor, will give a detailed presentation of the company's forecasts for New Zealand building and construction activity at the sixth annual Building and Construction Forecasting Workshop at the Stamford Plaza in Auckland on February 24. For more information about the workshop please visit:

http://www.bis.com.au/conferences/new_zealand_workshop.html

About BIS Shrapnel

BIS Shrapnel is Australia's leading provider of industry research, analysis and forecasting services. BIS Shrapnel helps clients better understand the markets in which they operate, through reliable and detailed market data, analysis of developments and drivers and thoroughly researched forecasts.

BIS Shrapnel compiles accurate, clearly explained and detailed information on industry sectors, markets and industries in which their clients operate. BIS Shrapnel provides market size and segmentation data, market shares, consumer attitudes and supplier reputation information, and regularly conducts both business-to-business and consumer research.

Over the company’s 44-year history, BIS Shrapnel has built up a strong level of expertise and unique methodologies for forecasting.

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