

Q3 2019: New Zealand Construction and Infrastructure Survey

Public sector supports growth in overall construction market activity

- Infrastructure and public works drive increase in headline construction workloads
- Gap between conditions in the North and South Islands widens
- Acute skills, labour shortages persist; tight margins constraining market activity

Participants in the RICS Construction and Infrastructure Survey in New Zealand indicate that overall market conditions remained relatively buoyant in the third quarter of 2019. The level of total workloads was said to have increased over the past three months, albeit at a slightly slower pace than was reported in Q2 (in net balance terms). However, as is evident in the Current Workloads Chart, much of the increase in activity was a result of increased public outlays while activity on private construction projects cooled from Q2.

Activity slows in the South

The stark difference in conditions between the North and South Islands continues to skew the headline results to some degree. Apart from a slowdown in the growth of construction on private residential projects, contributors from the North Island of New Zealand reported continued growth in both private and public projects. The situation was markedly different than on the Southern Island, where the slowdown in construction following the Earthquake rebuild in Christchurch appears to have turned into a contraction.

Lack of skills, people

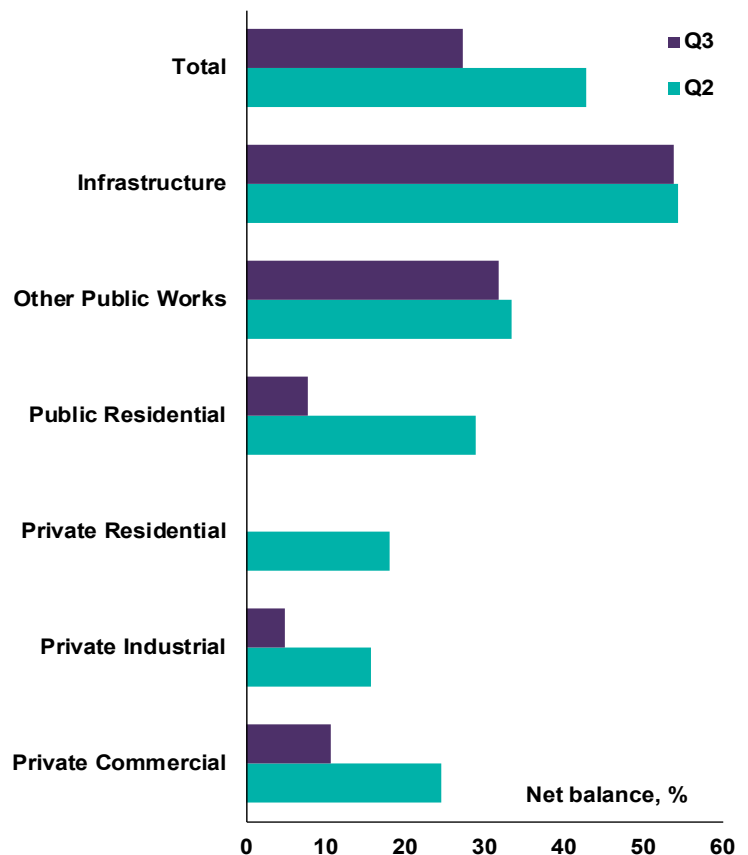
As in previous quarters, respondents highlighted an acute shortage of skills in the market. Unsurprisingly given the relative underlying market conditions, this was noted more on the North Island than the South Island. Participants noted a shortage of quantity surveyors, project managers and skilled tradesmen while North Island respondents also highlighted a more general shortage of labour.

Tight financing remains a drag

Several survey respondents commented that various

financial constraints were also a drag on the market. Tight margins were cited as a catalyst for a rise in construction company defaults. Meanwhile, some contributors also noted that tight local government budgets have slowed the launch of public projects.

Current Workloads



Comments from Survey Participants in New Zealand



"Lack of good project controls, skilled people, scheduling and cost management."

- North Island



"Construction boom but delayed projects due to complexity, hard to start new projects, costs up."

- North Island



"Low margins and greater insolvencies. Non risk balanced contracts imposing pressure on contractors."

- North Island



"Staff expectations of personal development and promotion are exceeding their experience and skill level."

- North Island



"There are inconsistencies in the interpretation of the building code by statutory authorities."

- North Island



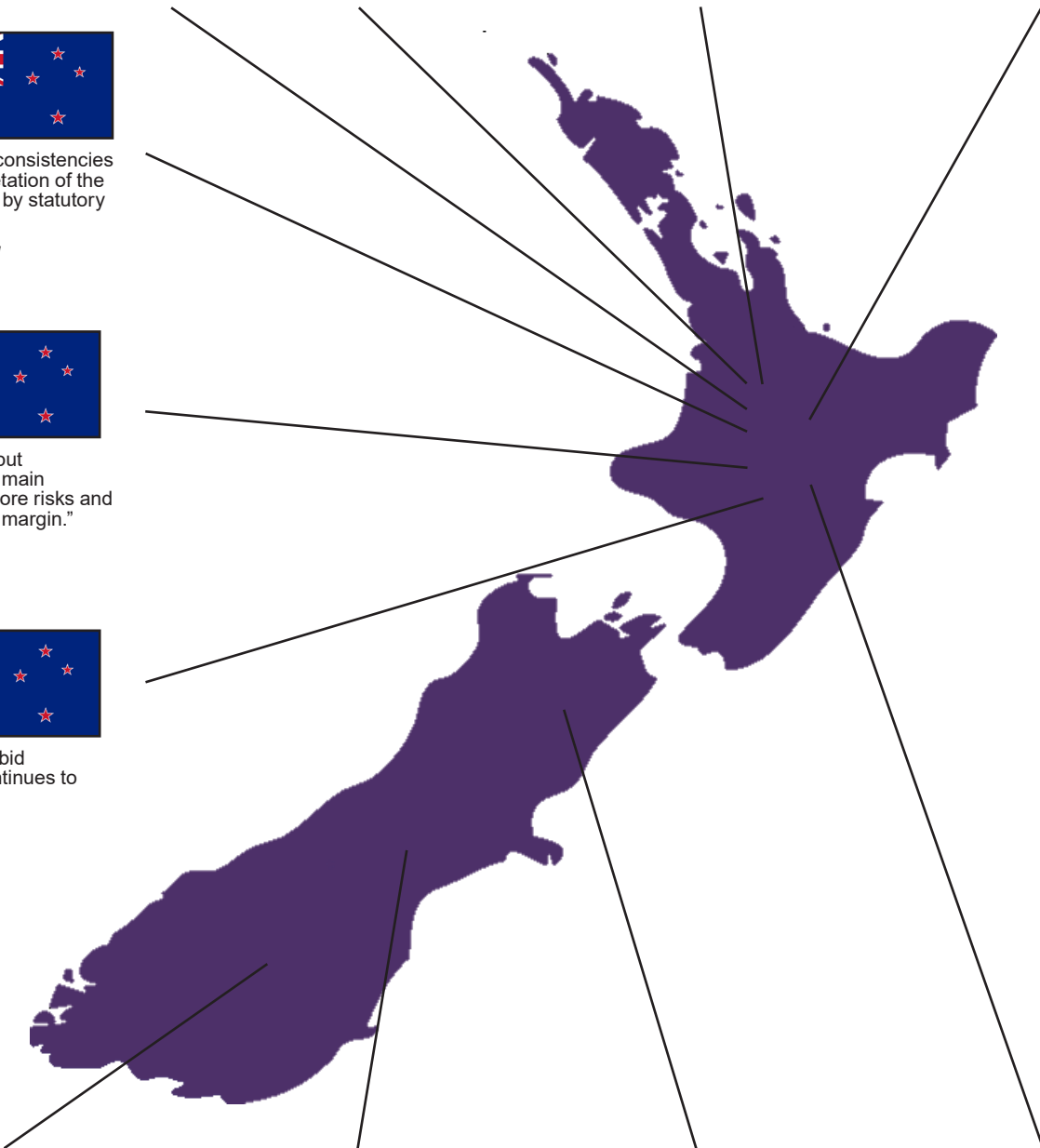
"Busy market, but competitive for main builders with more risks and the same (low) margin."

- North Island



"The quality of bid documents continues to decline."

- North Island



"In New Zealand provincial cities finding skilled resource for construction projects is challenging."

- South Island



"Governments and local bodies are facing funding constraints."

- South Island



"Poor governance from the public sector."

- South Island



"Actual inflation costs seem lower than the industry suggests. Labour has increased, materials so so."

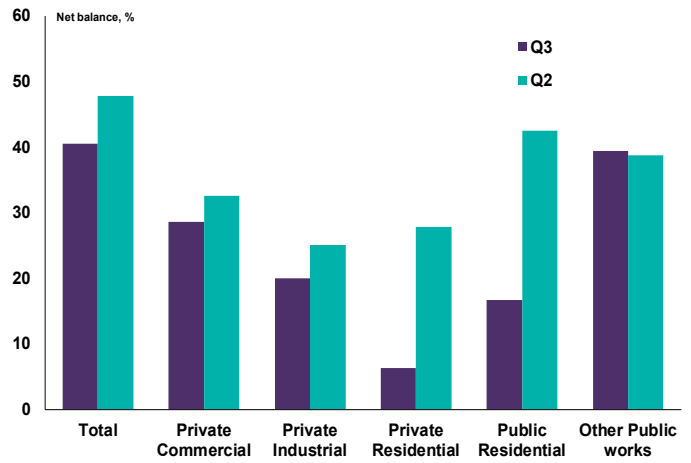
- North Island

Regional Charts - North Island

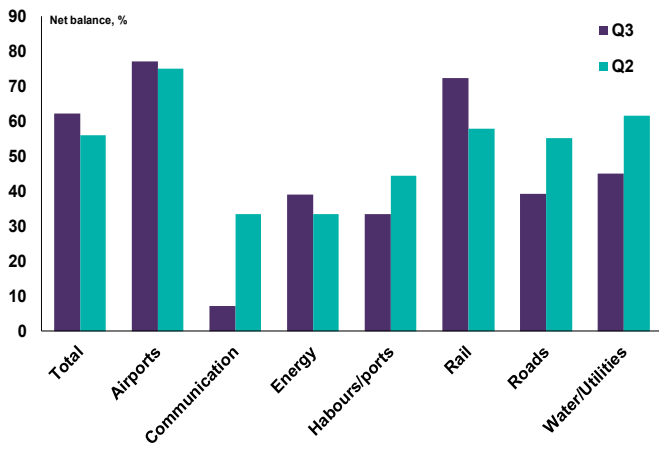
Contributors on the North Island continue to report a robust increase in aggregate workloads (in net balance terms) in the third quarter. However, there was a slight moderation in the growth in activity across the board, which was more acute for residential construction projects. Meanwhile, work on infrastructure projects was said to have picked up slightly from Q2, driven primarily by increased activity on rail and airports.

The pipeline of new work and new business enquiries remained strong, although the cost of materials for construction and headcounts rose considerably in net balance terms. Pressure on margins, however, appeared to ease during Q3, in line with respondents expectations that margins are poised to expand (along with aggregate workloads) over the next twelve months.

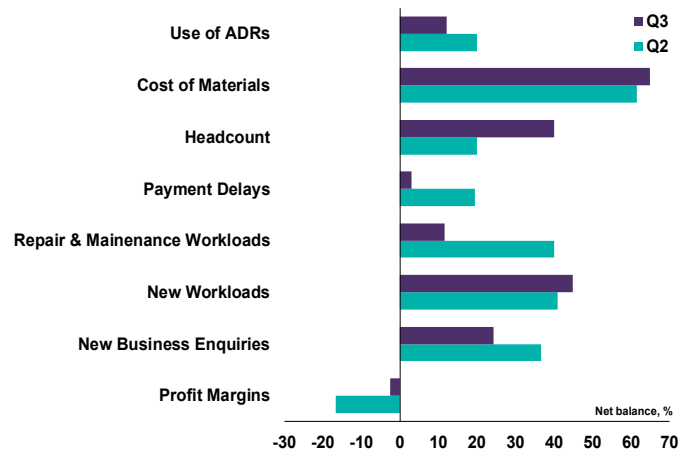
Workloads



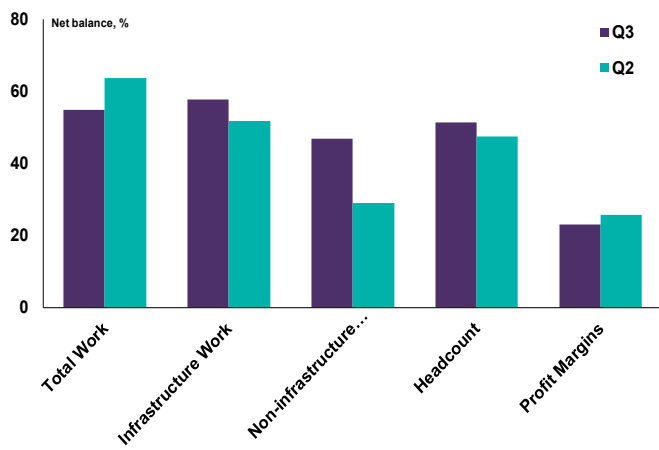
Infrastructure Workloads



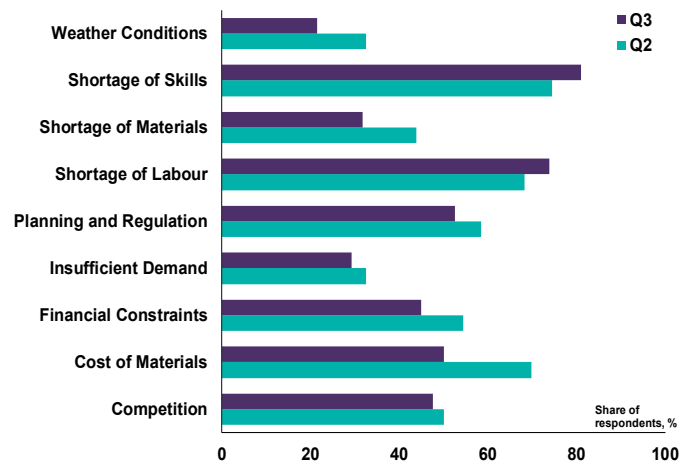
Current Conditions



12-month Expectations



Factors Holding Back Activity



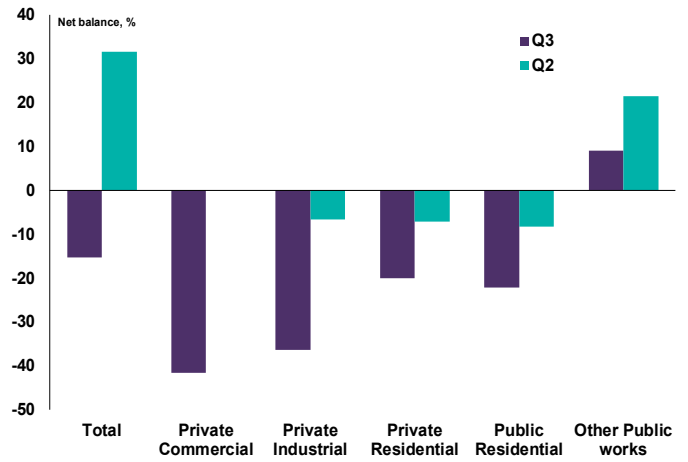
Regional Charts - South Island

The infrastructure-driven increase in overall workloads that respondents on the South Island noted in Q2 appears to have slowed in Q3. Although work on infrastructure projects was said to have increased in Q3, in net balance terms it did so at a softer pace than in Q2 and could not offset declining workloads on commercial, industrial and residential projects.

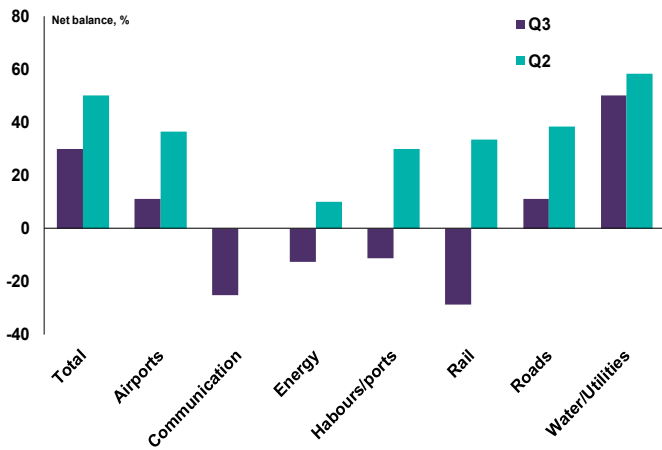
Against this backdrop, new workloads and enquiries were little changed during the third quarter, while payment delays and the cost of material saw moderate increases. Profit margins deteriorated, and are expected to continue to do so throughout the next year.

Although total workloads are expected to increase over the next twelve months, the pace of growth is expected to be substantially slower than what is anticipated by North Island contributors.

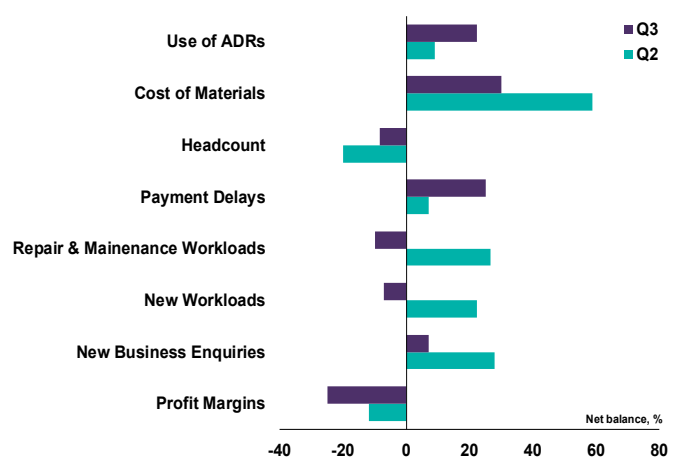
Workloads



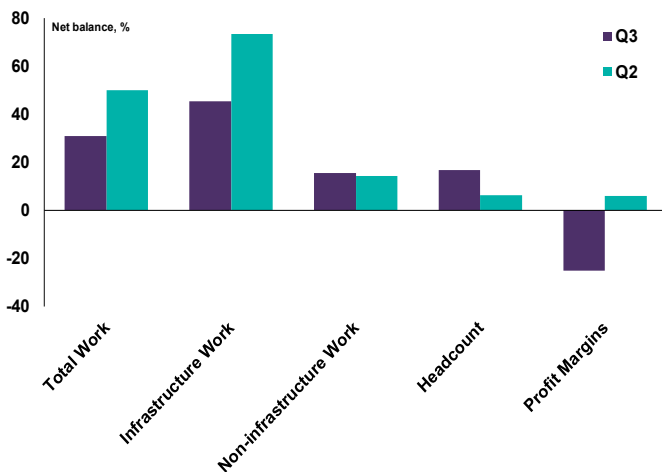
Infrastructure Workloads



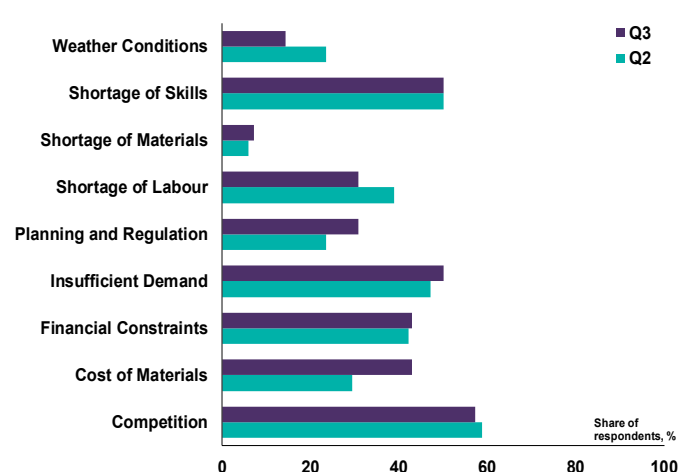
Current Conditions



12-month Expectations



Factors Holding Back Activity



RICS Consensus Tender Prices & Construction Costs [Next 12 months]

	Tender Prices	Tender Prices	Construction Costs	Construction Costs	Construction Costs
	Building	Civil Engineering	Commercial	Residential	Total
Asia Pacific	+2.3%	+2.6%	+3.0%	+2.4%	+3.0%
Australasia	+3.3%	+4.0%	+3.5%	+2.8%	+3.7%
Australia	+3.0%	+3.9%	+3.1%	+2.5%	+3.4%
New Zealand	+3.7%	+4.0%	+3.9%	+3.4%	+4.0%
East Asia	+0.4%	+0.4%	+1.5%	+1.0%	+1.1%
China	+2.4%	+3.0%	+3.5%	+2.1%	+2.6%
Hong Kong	-0.8%	-1.0%	+0.4%	+0.2%	+0.3%
South Asia	+5.1%	+5.1%	+5.8%	+4.8%	+6.2%
India	+3.9%	+4.0%	+4.9%	+3.8%	+5.4%
Sri Lanka	+6.9%	+6.6%	+7.1%	+6.4%	+7.5%
Southeast Asia	+1.2%	+2.2%	+2.0%	+1.6%	+2.1%
Malaysia	+0.9%	+1.5%	+1.8%	+1.4%	+2.1%
Singapore	+0.2%	+2.4%	+1.1%	+0.1%	+0.7%

RICS Consensus Labour & Material Costs [Next 12 months]

	Labour Costs	Labour Costs	Material Costs	Material Costs	Material Costs	Material Costs	Material Costs	Material Costs
	Skilled	Unskilled	Bricks	Concrete	Copper	Glass	Steel	Total
Asia Pacific	+3.7%	+2.2%	+2.4%	+3.0%	+3.3%	+2.8%	+3.1%	+3.2%
Australasia	+3.8%	+2.5%	+2.4%	+3.1%	+3.9%	+3.0%	+3.6%	+3.3%
Australia	+3.4%	+2.3%	+1.9%	+3.0%	+4.0%	+2.5%	+3.2%	+2.9%
New Zealand	+4.3%	+2.9%	+3.1%	+3.4%	+3.8%	+3.7%	+4.3%	+4.0%
East Asia	+2.7%	+0.7%	+1.5%	+1.8%	+2.0%	+1.5%	+1.8%	+2.0%
China	+5.0%	+1.9%	+2.2%	+2.8%	+2.7%	+1.5%	+2.3%	+3.3%
Hong Kong	+1.4%	+0.1%	+1.1%	+1.4%	+1.6%	+1.4%	+1.5%	+1.4%
South Asia	+5.7%	+4.2%	+4.1%	+5.0%	+5.2%	+4.8%	+4.8%	+5.5%
India	+4.8%	+3.6%	+3.6%	+4.5%	+4.7%	+4.4%	+4.3%	+4.7%
Sri Lanka	+7.1%	+5.5%	+4.5%	+5.8%	+6.0%	+5.8%	+5.6%	+6.9%
Southeast Asia	+3.1%	+2.0%	+2.0%	+2.7%	+3.1%	+2.7%	+2.6%	+2.7%
Malaysia	+2.6%	+1.9%	+2.1%	+2.5%	+3.3%	+2.7%	+2.6%	+2.8%
Singapore	+2.9%	+1.1%	+1.9%	+2.9%	+2.4%	+2.1%	+1.8%	+2.0%

Information

Construction and Infrastructure Survey

RICS' Asia-Pacific and Middle East Construction and Infrastructure Survey is a quarterly guide to the trends in the construction and infrastructure markets. The report is available from the RICS website www.rics.org/economics along with other surveys covering the housing market, residential lettings, commercial property, construction activity and the rural land market.

Methodology

Survey questionnaires were sent out on 9 September 2019 with responses received until 13 October 2019. Respondents were asked to compare conditions over the latest three months with the previous three months as well as their views as to the outlook. A total of 1010 company responses were received globally. Responses in New Zealand were collected in conjunction with the Property Council of New Zealand.

Net balance = Proportion of respondents reporting a rise in a variable (e.g. occupier demand) minus those reporting a fall (if 30% reported a rise and 5% reported a fall, the net balance will be 25%). Net balance data can range from -100 to +100.

A positive net balance reading indicates an overall increase while a negative reading indicates an overall decline.

Contact details

This publication has been produced by RICS. For all economic enquiries, including participation in the monitor please contact: economics@rics.org

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