



Q3 2018: New Zealand Construction and Infrastructure Survey

Respondents highlight margin pressure amidst robust demand

- Demand for projects reported to have increased across all segments of the market, however rising costs are seen as putting some pressure on margins
- Shortages of skills and labour highlighted as two major constraints on activity; lack of quantity surveyors and skilled tradesmen seen in the market

Respondents to the 2018 New Zealand Construction and Infrastructure survey reported higher demand across the market in Q3 (Chart 1). This was led by public residential workloads, while workloads for infrastructure and private commercial projects also expanded at a robust pace (in net balance terms). The increase in demand was slightly skewed more towards new projects rather than the repair and maintenance of existing projects.

Despite this increase in demand, contributors reported a moderate compression in profit margins (Chart 2). This compression was mostly felt in Canterbury, as respondents in Auckland reported little change in margins during the third quarter.

This phenomenon may be partially explained by higher costs, which, in net balance terms, are expected to grow at a faster pace than workloads over the next year, as shown in Chart 4. Thus despite fairly bullish outlook for workloads, profit margins are expected to change little in the next twelve months.

A shortage of skilled workers may be a contributing factor to eroding margins, as 84% of respondents identified this as a factor holding back activity (Chart 3). Chart 5 shows that more than 50% of

respondents identified a shortage of quantity surveyors and commercial managers (60%), carpenters and joiners (56%), and plumbers (53%). Project managers, and other skilled trades are also seen as being scarce.

A majority of respondents also identified a number of other factors, such as a shortage of labour (78%), financial constraints (71%), planning and regulation (65%), cost of materials (65%), and competition (58%) as being a drag on activity.

Meanwhile, Chart 6 indicates that the majority of respondents see little change in credit conditions over the next three and twelve months. Though over both periods, expectations are slightly skewed towards a deterioration more so than an improvement.

Respondents reported an increase in workloads for all infrastructure segments. Airports, roads, rail and water and utilities projects saw the quickest growth during Q3 in net balance terms (Chart 7). As shown in Chart 8, workloads on harbours and ports are expected to see the quickest increase over the next year, though 30% of contributors expect water and utilities workloads to see the strongest growth over the next twelve months.

Chart 1: Workloads

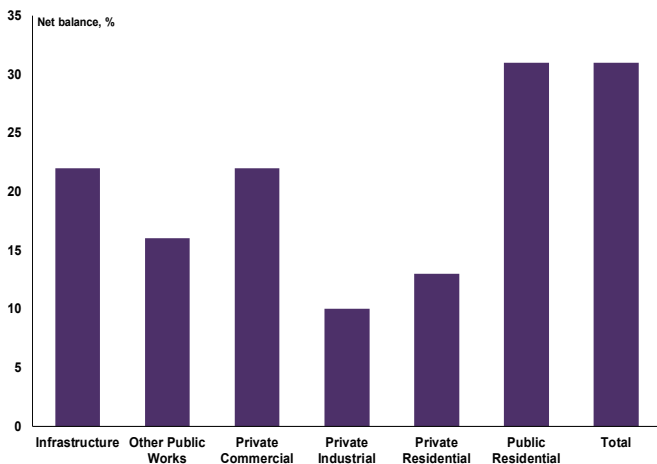
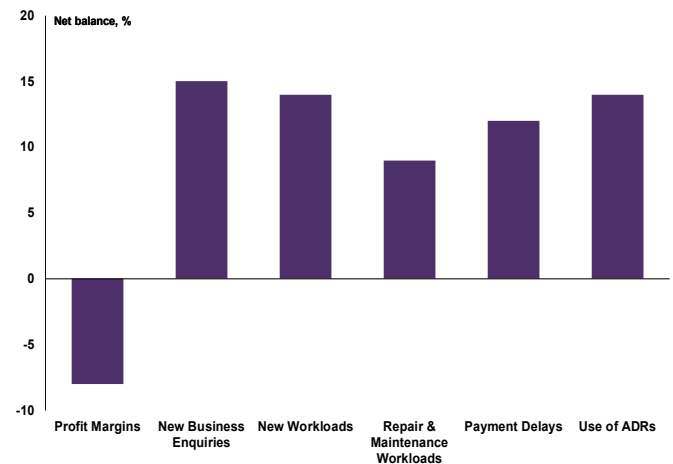


Chart 2: Enquiries & Workloads



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Chart 3: Factors Holding Back Activity

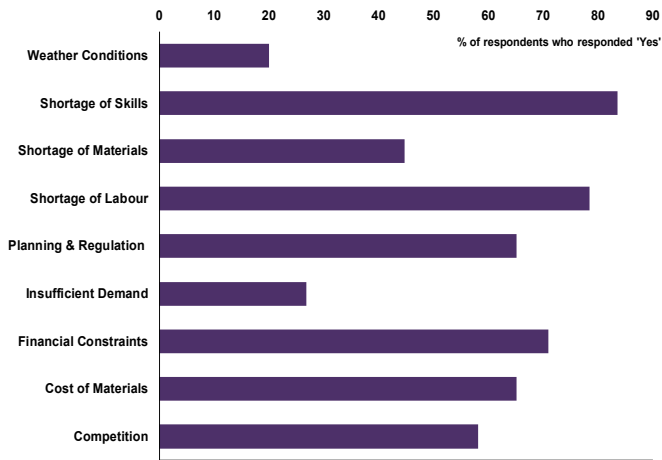


Chart 4: 12-month Expectations

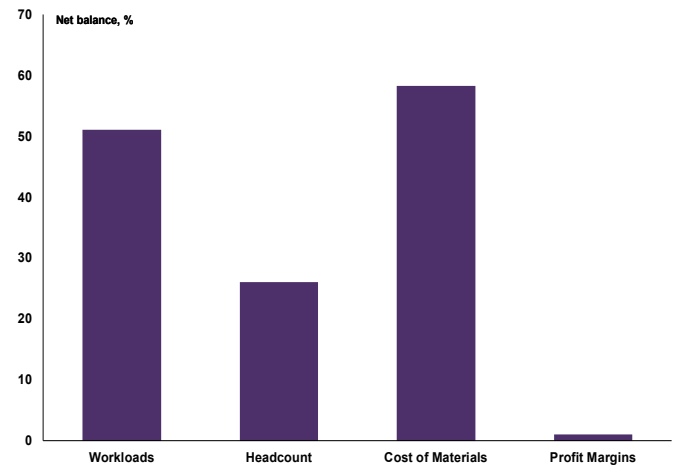


Chart 5: Skills Shortages



Chart 6: Expectations for Credit Conditions

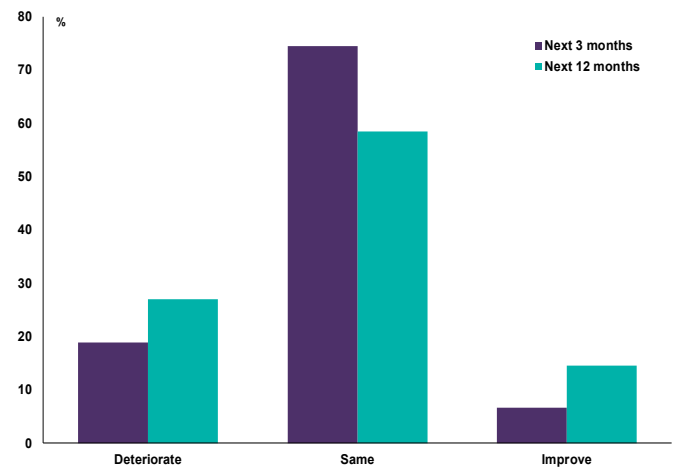


Chart 7: Infrastructure Workloads

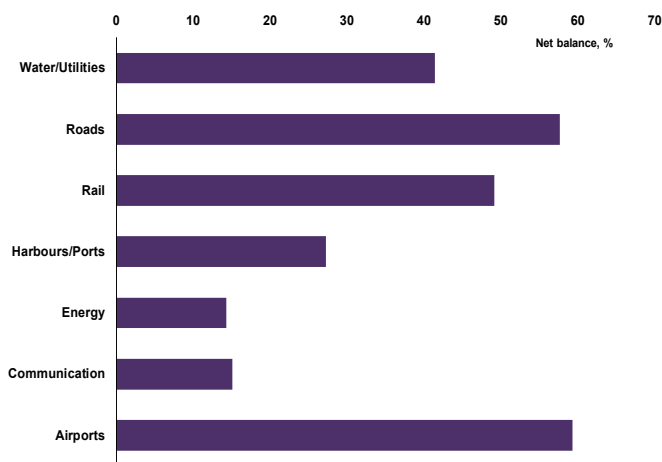
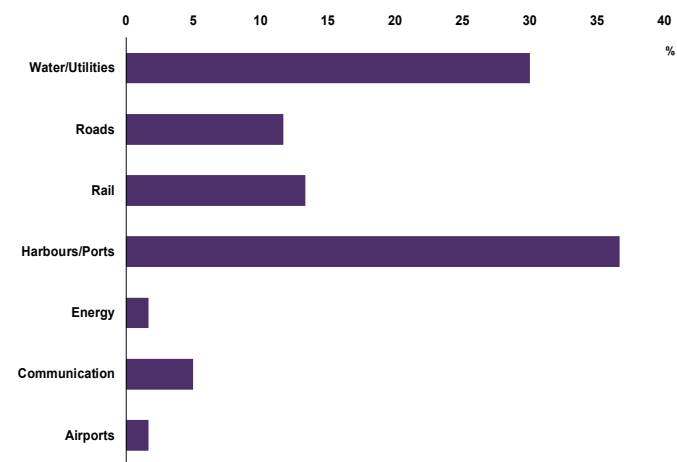


Chart 8: Infrastructure Expectations



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 24 September 2018 with responses received until 21 October 2018. 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 984 company responses were received. Responses for New Zealand were collated in conjunction with Property Council 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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