15th ASIACONSTRUCT CONFERENCE 2009, MALAYSIA

COUNTRY REPORT: NEW ZEALAND

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1. Executive summary

New Zealand has a small market-based economy which is heavily dependent on international trade, mainly with Australia, the European Union, the United States, China and Japan. It has a significant tourism sector and a highly competitive primary sector. It has a large domestically oriented services sector and a small manufacturing sector. New Zealand is generally regarded as being lightly regulated with efficient government services. It has consistently ranked in the top 1 or 2 easiest countries in which to do business according to the World Bank.

Between 1999 and 2008, New Zealand enjoyed its longest period of sustained growth in three decades. However, the economy was in recession from the start of 2008 to June 2009. The current outlook is for a slow recovery.

The construction sector is a significant part of the economy accounting for around 5% of GDP and around 8% (180,600 in March 2009) of all people employed. The sector has just come off the largest boom in recent history, with annual volumes of building work peaking at $19 billion in 2008. The sector has been one of the hardest hit in the current recession. The number of paid hours in the construction industry fell 10.8% in the year to March 2009.

The outlook for the construction sector is highly uncertain although there are early indications of a pick-up in residential activity. House prices appear to have ceased falling and the number of house sales is increasing. Net inward immigration remains positive but has so far had a muted impact on the residential market due to an increase in occupancy rates rather than housing demand. Non-residential construction activity remains relatively strong buoyed by a strong pipeline of work-in-progress, and buoyant infrastructure spending. The government’s stimulus package, in response to the global financial crisis, included an accelerated package of ‘ready to roll’ infrastructure projects at an estimated cost of almost $500 million.

2. Macro economic review and outlook

Over the last quarter of a century, the New Zealand economy has changed from being one of the most regulated in the OECD to one of the least regulated. It has also substantially diversified. The economy comprises a strong tourism sector, a relatively large and highly competitive primary sector, a large domestically oriented-services sector and a relatively small manufacturing sector. It is heavily dependent on international trade, mainly with Australia, the European Union, the United States, China and Japan. New Zealand is generally regarded as being lightly regulated with efficient government services. The country has consistently ranked in the top 1 or 2 easiest places in which to do business according to the World Bank.

After weathering the twin "shocks" of the Asian economic downturn and consecutive summer droughts in 1997-98 and 1998-99, the New Zealand economy experienced almost a decade of continuous growth from 1999 to 2008. The years 2001 and 2002 saw good agricultural seasons, relatively high world prices for New Zealand's export commodities, a low exchange rate and a robust labour market. These factors boosted annual average GDP growth from 1.9% in June 2001 to 5.2% in December 2002.

Over the period 2002 to 2004, annual average growth in GDP was higher than the historical trend – in the range of 3.4% to 5.2%. This period of strong growth came about despite the economy experiencing several temporary negative events such as travel disruptions and uncertainty due to the conflict in Iraq. The construction sector was a major contributor to growth in output over this period in part due to a housing boom and growth in non-residential construction activity.

More recently, growth eased as a result of high oil prices, interest-rate increases and slowing permanent and long-term immigration. Output in the economy was flat in the second half of 2005 but growth recovered slightly during 2006 helped by a rebound in domestic demand and dairy exports. The resurgence in growth driven by domestic demand and high terms of trade continued throughout 2007 despite the significant tightening of monetary policy during this period. The economy contracted over the first three quarters of 2008 as high food and fuel prices, along with high interest rates, led to a sharp fall in domestic demand.

The economy experienced a recession between march 2008 and June 2009 and growth is expected to remain weak in the short term as households go through a period of debt consolidation. The exchange rate remains at historically high levels and is working against an export-led recovery.

Reflecting the strong economic performance, inflation increased from 1.8% pa in September 2007 to 5.1% pa in September 2008, well outside the Reserve Bank's inflation target band of between 1% and 3%. The main drivers for this were higher petrol and food prices. Annual inflation has since fallen back to 1.9% in the June 2009 quarter, driven by falls in the price of fuel and other imports and a general easing in pricing pressures in the economy due to weaker domestic and external demand, partly as a result of the global financial crisis. Further falls are expected over the remainder of 2009 and into next year. Monetary policy is significantly relaxed at present.

Table 1: Main Economic Indicators

Year	2004	2005	2006	2007	2008	2009
GDP and Components						
GDP at real price $m (base: 1995/96)	$122,034	$126,733	$130,468	$134,286	$137,242	$135,054
GDP at current market price $m	$139,938	$149,946	$157,355	$166,108	$178,098	$179,912
Real GDP growth (%pa)	3.96%	3.85%	2.95%	2.93%	2.20%	-1.59%
Nominal GDP growth (%pa)	6.82%	7.15%	4.94%	5.56%	7.22%	1.02%
GDP growth for agriculture sector (%pa)	13.29%	-3.30%	6.47%	0.31%	-1.94%	1.69%
GDP growth for fishing, forestry and mining sector (%pa)	8.99%	-3.79%	5.03%	0.89%	-1.29%	0.17%
GDP growth for construction sector (%pa)	10.33%	6.72%	4.39%	-1.82%	4.42%	-8.92%
GDP growth for manufacturing sector (%pa)	3.56%	3.06%	-1.46%	-1.97%	1.03%	-5.35%
GDP growth for finance, insurance and business services (%pa)	3.21%	3.75%	5.39%	3.94%	3.87%	2.06%
Demographic Indicator						
Population (000)	4,078.70	4,126.60	4,176.10	4,222.70	4,263.60	4,305.70
Population growth rate (%pa)	1.63%	1.17%	1.20%	1.12%	0.97%	0.99%
Labour force (000)	2,066.20	2,125.30	2,182.80	2,230.10	2,255.50	2,295.50
Labour force growth rate (%pa)	2.28%	2.86%	2.71%	2.17%	1.14%	1.77%
Unemployment rate (%pa)	4.60%	3.90%	3.90%	3.80%	3.70%	4.50%
Financial Indicator						
Inflation rate (base: June 1999 quarter) (%pa)	1.64%	2.69%	3.36%	2.54%	3.37%	2.97%
Inter bank interest rate (%pa)	5.25%	6.67%	7.25%	7.59%	8.1%	3.08%
Short term loan interest rate (90 day) (%pa)	5.54%	6.99%	7.49%	7.88%	8.91%	3.24%
Long term loan interest rate (10yr) (%pa)	5.74%	6.16%	5.72%	5.87%	6.36%	4.77%
Exchange rate NZ/USD	$0.66	$0.73	$0.64	$0.70	$0.80	$0.53

On the fiscal front, there has been a dramatic improvement in government finances since the late 1980s, with debt falling. The government moved into a net financial asset position for the first time in 2006. This was made possible by a combination of asset sales, in the 1990s, followed by a period of strong fiscal surpluses and the build up of the New Zealand Superannuation Fund. However, the current recession – exacerbated by the international financial crisis – has led to a dramatic turnaround in the fiscal outlook. The government now expects to run deficits until at least 2014 and gross (net) debt is expected to climb from 18% (6%) of GDP in 2007/08 to 43% (36%) by 2016/17.

The current global financial crisis represents a difficult environment for small open economies. New Zealand has high levels of private sector debt and needs to shift the composition of its growth away from domestic demand towards exports in order to unwind imbalances partly reflected in a large current account deficit. The economic performance of New Zealand's trading partners will play a crucial role in the performance of the New Zealand economy over the coming years.

3. Trading country

As a small open economy, external trade is of fundamental importance to New Zealand. Primary sector based exports and commodities remain important sources of the country's export receipts, while exports of services and manufactured products also provide a significant contribution. This, together with a reliance on imports of raw materials and capital equipment for industry, makes New Zealand strongly trade-oriented.

Over the last 5 years export growth has outstripped import growth with exports growing on average by 8.8% and imports by 8.3%. Between 2008 and 2009 exports grew by almost 14% and imports by almost 13%.

3.1. Annual import and export

3.1.1. Value of imports and exports (March 2009)[1]

	Value (NZ$)	% of GDP
Imports	$45,177,309,961	25%
Exports	$43,352,879,271	24%

3.1.2. Top 5 major trading countries of import and export in value (2008)

	Imports			Exports		
	Country	Value	% of Total Imports	Country	Value	% of Total Exports
1	Australia	$8,298,681,809	21%	Australia	$9,179,863,650	24%
2	China	$6,059,722,347	15%	United States of America	$4,196,256,922	11%
3	United States of America	$4,335,553,586	11%	Japan	$3,597,311,384	9%
4	Japan	$3,695,098,825	9%	China	$2,516,154,892	7%
5	Singapore	$2,142,843,518	5%	United Kingdom	$1,630,252,539	4%

[1] Import and export figures are for merchandise trade. Import figures are Value for Duty (VFD) and export figures are Free on Board (FOB)

3.1.3. Top 5 import and export products by value (June 2009)

	Imports			Exports		
	Product	Value (NZ$)	% of Total Imports	Product	Value (NZ$)	% of Total Exports
1	General Machinery and Equipment	$5,919,196,522	15%	Dairy Products - Processed	$8,853,532,281	23%
2	Transport Equipment and Parts	$5,658,353,019	14%	Meat and Offal, Fresh, Chilled, Frozen, Dried or Otherwise Simply Preserved	$5,525,667,725	14%
3	Office, Telecommunications and Audio-visual Equipment and Parts	$4,231,568,512	11%	Preparations of Food, Beverages and Tobacco nec	$2,956,712,504	8%
4	Crude Petroleum	$3,816,490,794	10%	General Machinery and Equipment	$2,450,632,943	6%
5	Refined Petroleum Products	$3,184,676,433	8%	Crude Petroleum	$1,963,599,980	5%

4. Overview of construction industry

4.1. Value of contract/expenditure

The construction sector is large comprising 53,594 firms, providing employment for 180,600 people and accounting for around 5% of Gross Domestic Product.

The sector has just come off the largest boom in recent history. The annual volume of building work reached 28 year highs in 2003/04 and then grew by a further 14% to peak in 2006. Building activity remained high in 2007 and 2008, making it the longest as well as the strongest period of growth in the industry's recent history.

Table 2: Break down of construction contract/expenditure

	2004	**2005**	**2006**	**2007**	**2008**	**2009**
Value by building type (Annual - March)						
Residential $,000	$6,522,374	$7,396,339	$7,500,805	$7,689,881	$8,620,735	$6,845,930
Non-residential $,000	$3,379,614	$4,227,459	$5,205,765	$5,042,367	$5,024,492	$5,287,067
Other construction $,000	$3,238,446	$3,697,273	$4,231,729	$5,035,816	$5,511,665	$6,096,408
Value by institutional sector (Annual - March)						
Households $,000	$3,989,760	$4,410,666	$4,607,645	$4,933,629	$5,455,366	$4,688,381
Private enterprises[2] $,000	$4,978,833	$6,186,209	$6,471,629	$6,498,416	$6,994,544	$6,234,277
Government $,000	$933,302	$1,026,907	$1,607,924	$1,297,679	$1,191,035	$1,210,303

[2] Enterprises include government enterprises and non-profit organisations

4.2. Construction companies

The sector is diverse, spanning residential building, non-residential building, civil engineering and construction trade services (e.g. the trades, designers, landscapers). Figure 4.2.1 illustrates this diversity in the form of the distribution of firms and employees by sub-industry.

4.2.1. Number of firms by industry sub-sector[3]

Sub-Sector	Firms	Employees
Residential Building Construction	17344	19980
Non-Residential Building Construction	1555	11000
Heavy and Civil Engineering Construction	1466	29600
Land Development and Site Preparation Services	3999	9050
Building Structure Services	3629	7980
Building Installation Services	10245	28160
Building Completion Services	11266	15120
Other Construction Services	4090	11060

The industry is highly fragmented, comprising mainly very small firms (including a large number of self-employed contractors) as shown in table 4.2.2 below.

4.2.2. Number of firms by employment size

Employee count size group	0	1–5	6–9	10–19	20–49	50–99	100+	Total
Number of firms	33,518	15,274	2,292	1,579	715	138	78	53,594

4.3. Employees and construction labour

In March 2009, the construction industry employed approximately 180,600 people. Overall, the construction industry provides around 8% of all jobs in New Zealand. These figures predominantly relate to on-site employment. Construction services provided off-site, for example building design, are classified elsewhere. Nor do these figures include the numbers of people employed in the building regulatory process such as building inspectors. For these reasons, these figures understate the true size of the construction workforce.

About 20 occupations make up the two thirds of the construction industry workforce. The remaining third of the workforce is drawn from a large number of other occupations.

[3] Statistics New Zealand: Business Demography (February 2008)

4.3.1. Number of construction worker by job type

Occupation	Total Employed	% of Employment
Builder including Contractor	21,054	14%
Carpenter and/or Joiner	10,791	7%
Electrician	8,442	6%
Painter, Decorator and/or Paperhanger	6,954	5%
General Labourer	6,858	5%
Plumber	5,118	4%
General Manger	4,731	3%
General Clerk	4,272	3%
Plasterer	3,954	3%
Builder's Labourer	3,705	3%
Heavy Truck or Tanker Driver	3,102	2%
Bricklayer and/or Blocklayer	3,081	2%
Roofer	2,289	2%
Administration Manager	2,115	1%
Concrete Worker	2,061	1%
Office Manager	2,004	1%
Construction Manager	1,902	1%
Excavating Machine Operator	1,881	1%
Landscape Gardener	1,761	1%
Carpet and Other Floor Covering Layer	1,650	1%
Total	97,725	67%

Source: Department of Labour[4]

Between 2007 and 2008 the number of employees in non-residential building construction grew twice as fast as the number of employees in residential building construction (16% and 8% respectively).

4.4. Productivity

Research commissioned by the Department of Building and Housing paints a disappointing picture of sector productivity since the late 1980s[5]. The overall conclusion is that productivity appears low, relative to the construction sectors in other countries and that productivity growth has been poor.

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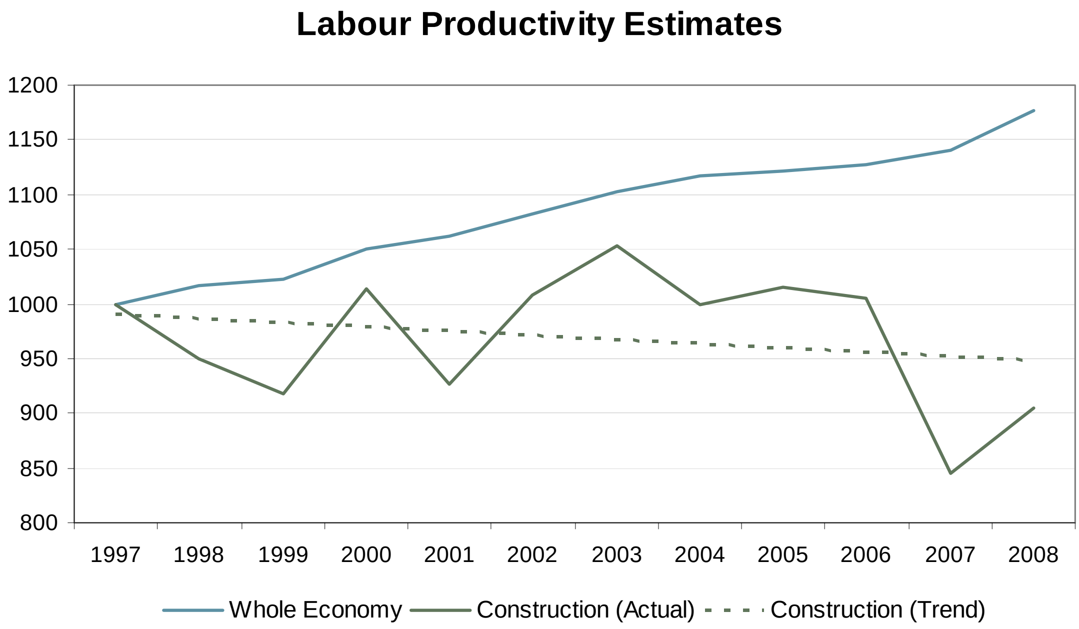
[4] These figures are drawn from different data sources and don't tie back to aggregate employment figures for the industry

[5] Nick Davis (2007), Construction Sector Productivity Scoping Report, MartinJenkins, Wellington

Figure 4.4.1 below shows labour productivity for the construction sector compared to that for the aggregate economy for the period up to 2008. Its shows that while labour productivity has steadily increased for the economy has a whole, it has trended downwards in the construction sector.

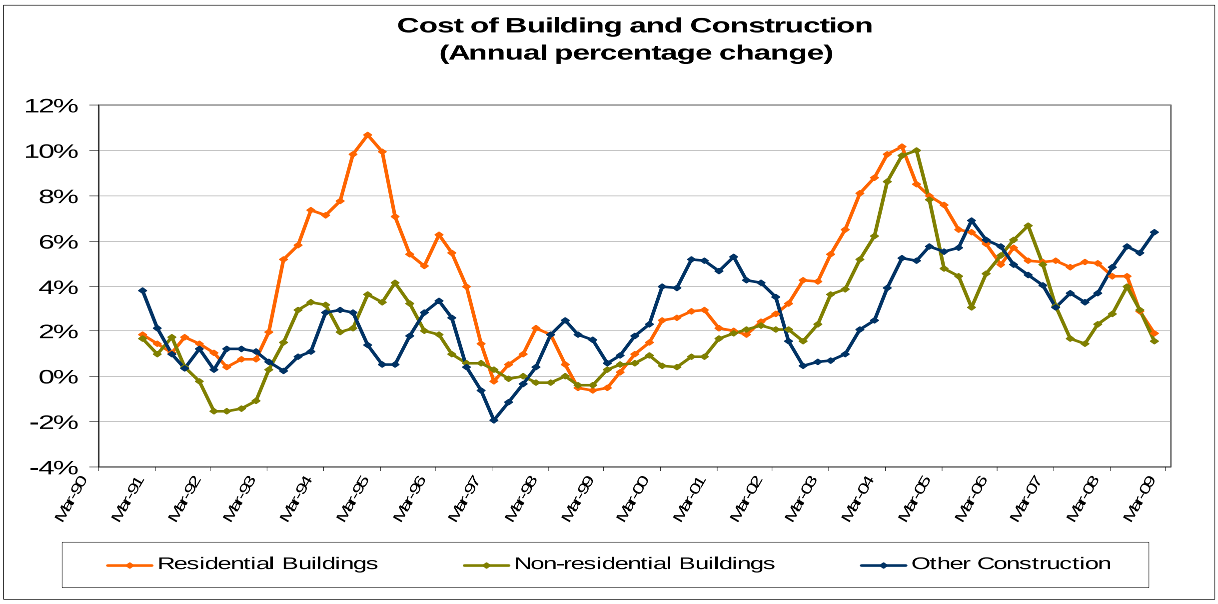
4.4.1. Labour Productivity in the Aggregate Economy and the Construction sector compared (1997-2008)



4.5. Construction cost

The rate of growth in the price of capital goods in the residential building category exceeded 10% pa twice in the last 15 years, and also exceeded 10% pa in the non-residential building category in 2004/05. The rate of price increases in these building categories has since slowed, but has remained relatively strong in the 'other construction' area. In the year to March 2009, the capital goods price increase was 1.9 % for residential building, 1.5 % for non-residential building, and 6.4 % for other construction (Figure 4.5.1). The overall increase for all construction categories was 4.9 % per annum.

4.5.1. Cost of building and construction



Source: Statistics New Zealand

In terms of labour costs, construction salaries and wage rates have increased 3.5 % in the year to March 2009, and 3.4 % for building trade workers. This does not reflect movements in incomes however, as hours worked are down significantly.

The average median income for workers in construction occupations is $37,500 compared with $39,206 for all occupations, primarily reflecting the large number of labourers who typically earn low incomes. Within construction occupations there is a wide distribution of incomes. Construction and engineering managers are the highest earners with median incomes almost double the national average. Architects, engineers, quantity surveyors, draughters and engineering technicians are also paid well above average. Labourers, on the other hand, typically earn 66% of the national median income.

4.5.2. Median Income by Occupational Group, 2006

Occupational Group	Median Income	% of All Occ Median
Construction & Engineering Managers	$73,307	187%
Architects, Engineers and Related Professionals	$57,773	147%
Quantity Surveyors, Draughters and Engineering Technicians	$47,748	122%
Fitter and Turners	$44,800	114%
Electricians	$42,900	109%
Electrical Fitter	$41,400	106%
Earthmoving and Other Materials-Handling Equipment Operators	$39,913	102%
Building Frame and Related Trades Workers	$36,764	94%
Joiner's benchhands	$36,700	94%

Occupational Group	Median Income	% of All Occ Median
Building and Related Workers	$35,718	91%
Concrete workers	$35,000	89%
Building Finishers and Related Trades Workers	$33,830	86%
Cabinetmakers	$32,700	83%
Labourers	$25,986	66%

Source: Statistics New Zealand and Department of Labour

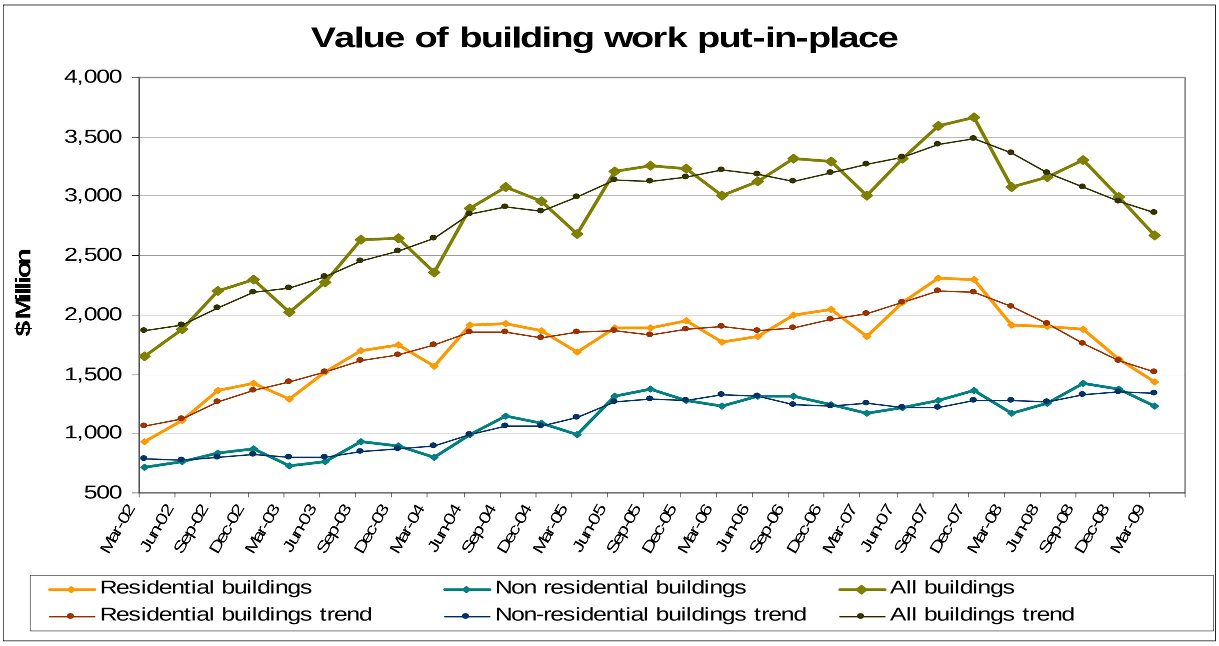
4.6. Import and export of construction work

Data is not available on the value or volume of imports and exports of construction contracts.[6] However, since most construction work is undertaken by domestically located firms, the degree of foreign ownership of the sector is an alternative measure of the extent of foreign involvement in the New Zealand construction sector. Foreign ownership is less common in the industry compared with the economy at large. Less than 0.3% of enterprises have more than 1% foreign ownership. In terms of employment, 11% of total construction employees are employed in enterprises that are majority foreign owned, compared with 17% for all industries. A number of large New Zealand construction firms, for example Fletcher Building, Fulton Hogan and Hawkins Construction, also have a significant international presence, particularly in Australia and the South Pacific, as well as in Asia, North and South America, Europe and the Middle East.

5. Construction Outlook 2009/2010

Sector activity has been declining since early 2008 but the rate of contraction is slowing. The value and volume of all building work fell during the March 2009 quarter (with a decrease in consent values of 16 % over the previous year). Residential building continued to fall in volume and value, and while the (unadjusted) value of non-residential building work was still high in the March quarter, the trend for that is also now declining. Building consents are also trending down despite recent increases in monthly consents. This reduced level of building work will create future price pressure, with an expectation of inadequate supply to meet emerging housing needs over the next few years.

[6] New Zealand only regularly produces merchandise international trade and only occasionally and partially measures the value of international trade in services.

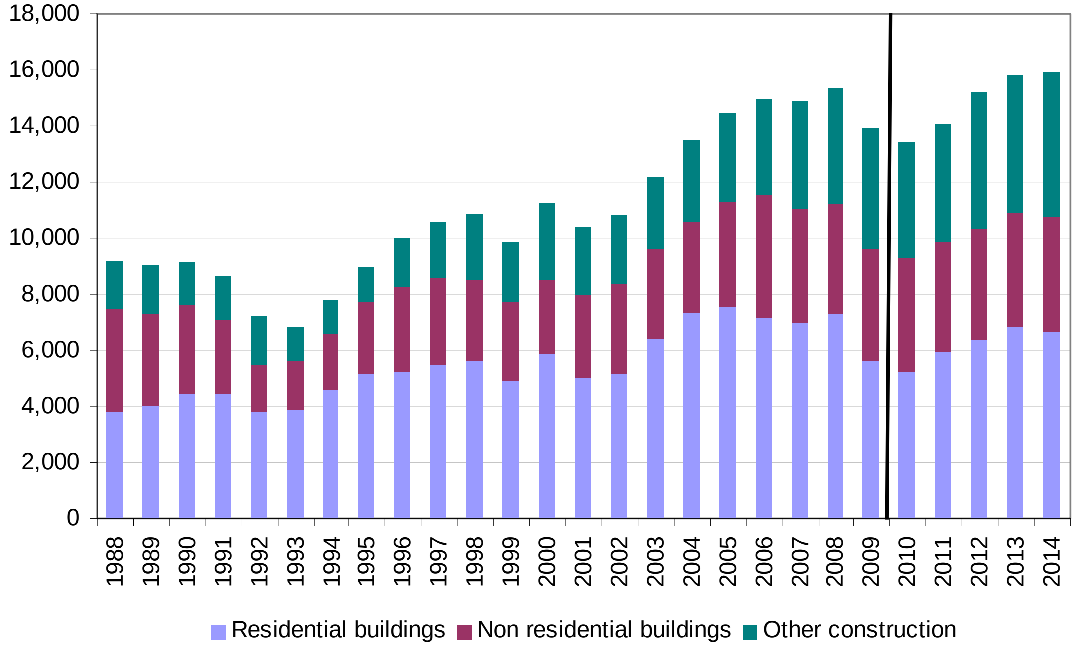


Although the March 2009 quarter showed more people employed in the sector, they are employed for fewer hours in total: the number of paid hours worked in the sector is down by over 9 % compared with same time in 2008, and, with less building work, this is likely to drop further. If, as is forecast, these falls continue beyond the near term, there is a risk that the sector will lack the necessary capacity and skill to respond to the upturn in the market when it occurs.

Part of the government's response to mitigating the effects of the recession and the global financial crisis is an accelerated package of infrastructure projects spanning the housing, transport, education and energy sectors at an estimated cost of almost $500 million, of which around $100 million worth of projects will start in the current financial year.

The most recent forecasts for the volume of building activity, prepared by Infometrics Ltd, are shown below.

Forecast of total value of building activity, 1995/96 $m (GFCF basis)



Source: Infometrics July 2009Building Forecasts

The willingness of banks to lend will be a key determinant in any recovery for residential building activity. A pick-up in house sales and more stable property prices are expected to drive some recovery in consent numbers heading into 2010. A current lift in net migration will not provide the immediate boost to demand for housing due to increasing occupancy rates per dwelling rather than demand for housing. But even taking a conservative view on household formation rates, the supply of new homes coming onto the market is likely to be below underlying demand until 2012/13.

Non-residential building consents have remained strong over the last few months. Although the underlying trend in private sector building work is weak, reasonable levels of public sector activity have been supplemented by a run of large private sector consents (over $25m). These large projects are likely to have been well advanced and with funding secured before the credit crisis turned ugly, and will keep the level of completed non-residential construction strong over the next 9-12 months. The softening property and weak investment environment will then result in a mild decline in non-residential construction over 2010/11. Infrastructure spending remains buoyant, although the risk remains of a drop-off in activity over the next year from its very high levels. Both non-residential and infrastructure activity will grow from 2011/12 to the end of the forecast period.