

Q2 2019: New Zealand Construction and Infrastructure Survey

Bottlenecks persist despite reports of robust activity

- Overall activity increased, but North-South gap remains
- Infrastructure and public residential two key pillars of construction workloads
- Skills shortages creating bottlenecks, while demand is stressing firms' capacity

Data from the New Zealand Construction and Infrastructure Survey reported a generally upbeat picture of construction market activity during Q2 of 2019. Chart 1 shows that at a national level, workloads increased across all sectors, albeit at varying degrees. The increase in infrastructure workloads, as well as public works and public residential projects, were particularly robust. This has come amid the government's infrastructure programme as well as Kiwibuild, which aims to help alleviate the undersupply of housing in New Zealand.

Diversity of geography

Upon closer inspection, Chart 1 highlights a clear discrepancy in activity between the North and South Islands. Respondents on the South Island reported little change in private sector workloads, and less of an increase (in net balance terms) in public works than did their counterparts on the North Island.

This comes in part as the majority of reconstruction activity following the 2011 earthquake in Christchurch is reported to have been completed. As a result of migration, the North Island also suffers from a greater housing shortage than the South Island, and as a result has likely received a greater share of Kiwibuild projects, whereas infrastructure work appears to be more evenly spread between the North and South Islands.

Infrastructure seen driving workloads

As shown by Chart 2, infrastructure is expected to continue to drive workloads for the next 12 months, though on the North Island infrastructure and non-infrastructure workloads are more evenly balanced than on the South. The chart also indicates that mid-

Chart 1: Current Workloads

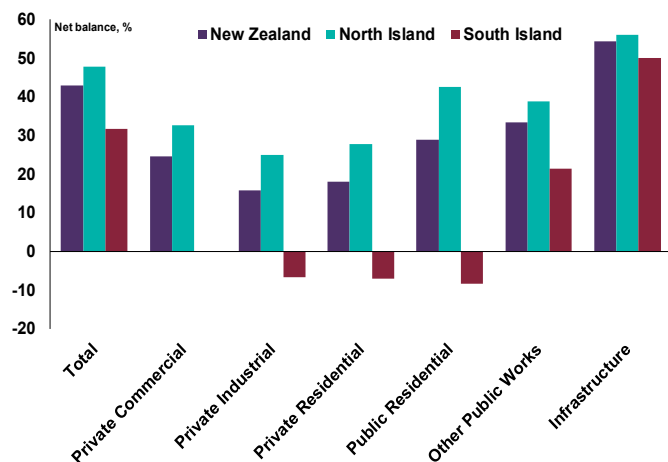
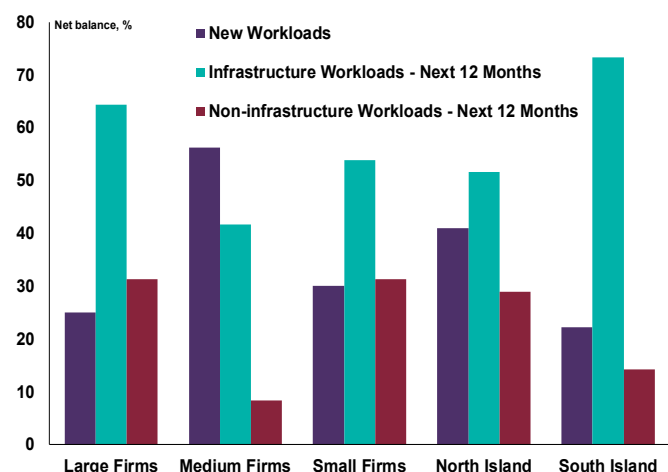


Chart 2: New and Expected Workloads



Large firms = greater than 250 employees, Medium firms = 50 to 249 employees, Small firms = 10 to 49 employees, Micro firms = less than 10 employees

size firms saw the greatest increase in new workloads during the second quarter, but large and small firms are expected to see a greater increase in activity over the next twelve months.

Bottlenecks increasing

Survey participants highlighted several factors suppressing activity, such as competition, financial constraints, planning and regulation and the cost of materials (Chart 3). Interestingly, Chart 5 indicates that apart from mid-sized firms, the expected increase in the cost of materials over the next twelve months is consistent across firm size and geography (whether they are on the North or South Island). This seems to imply that the constraint of material costs are equally affecting all firms, and may be related to New Zealand's location on the map.

Chart 3 also shows that a lack of skills, and to a lesser degree labour, were cited by the largest share

of respondents as a drag on activity. Chart 5 shows that cost pressures from skilled labour are expected to put more pressure on small, medium and North Island firms than are increases in material prices over the next twelve months. Chart 4 outlines several professions that are in demand; it appears that large and medium sized firms, as well as those on the North Island are having more difficulty sourcing labour than those on the South Island and small firms.

However, Chart 6 indicates that large firms have more bargaining power amongst skilled professions when negotiating wage increases, as the increase in skilled labour costs are less than what medium and small firms are expected to experience. At small firms in particular the cost of skilled labour is expected to rise almost twice as quickly as the cost of unskilled labour. Cost pressures are also greater on the North Island than the South Island, likely a result of the increased construction activity.

Chart 3: Factors Holding Back Activity

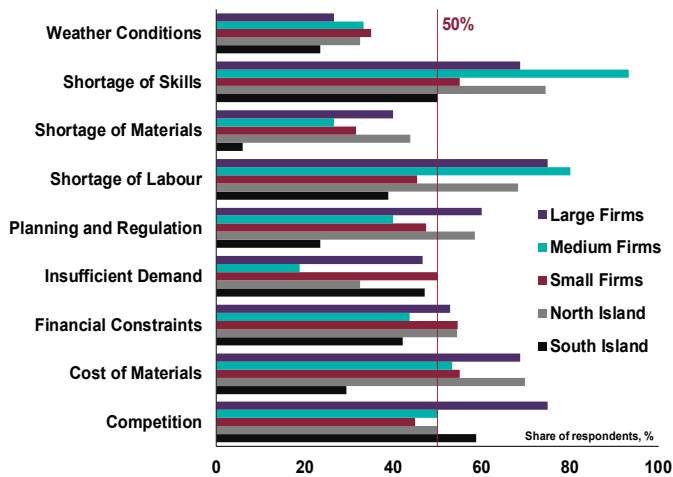


Chart 4: Skills Shortages

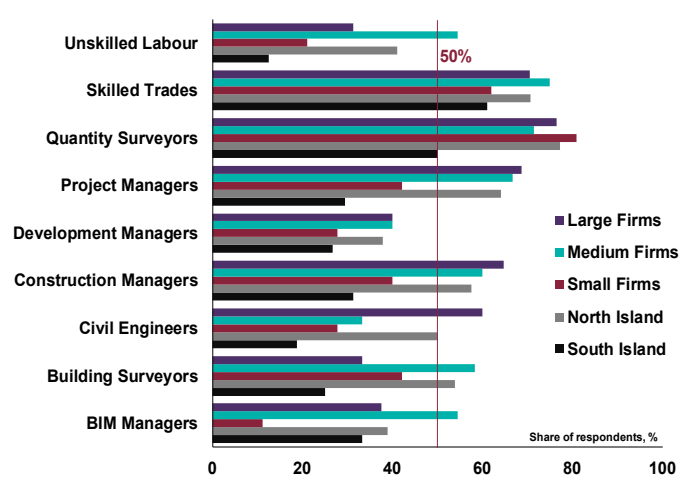


Chart 5: 12-month Expectations

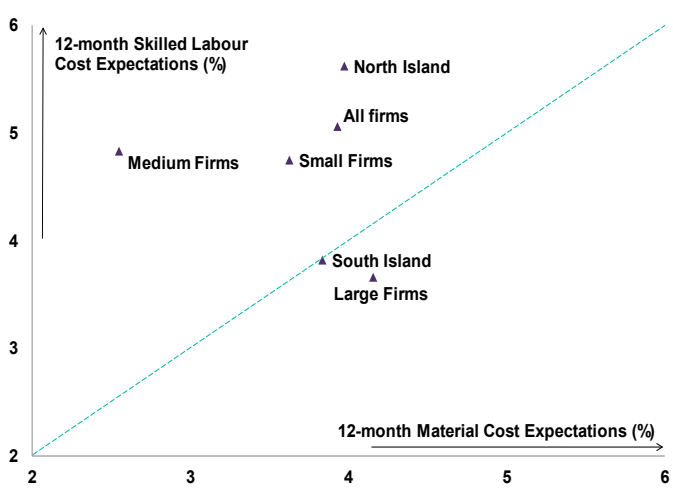


Chart 6: 12-month Expectations - Labour



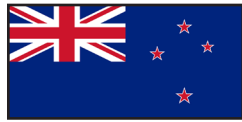
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Comments from Survey Participants in New Zealand



"Rising residential buildings costs and flat property sales prices making development hard."

- North Island



"Net immigrants down, both commercial and residential market will plateau for a couple years."

- North Island



"There is an incredible backlog of work and not a lot of skilled resources to deliver it."

- North Island



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

- North Island



"Council is the main factor for increased delays and extra cost as it takes a long time to approve consents."

- North Island



"A few key main contractors at Auckland have gone into liquidation in the past 2 years."

- North Island



"Pressure to increase public sector housing construction plus significant commercial offices and infrastructure."

- North Island



"Earthquake flagship projects soon to be concluded; Christchurch sports stadiums remaining."

- South Island



"Christchurch earthquake re-build is coming to an end. Main contractors struggling and liquidating."

- South Island



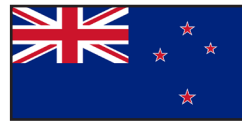
"Lack of main contractors with sufficient balance sheet depth to undertake major projects."

- North Island



"Skills shortage for quantity surveyors across commercial and infrastructure sectors."

- North Island



"Government spending on infrastructure and state housing will impact demands, capacity and costs."

- North Island

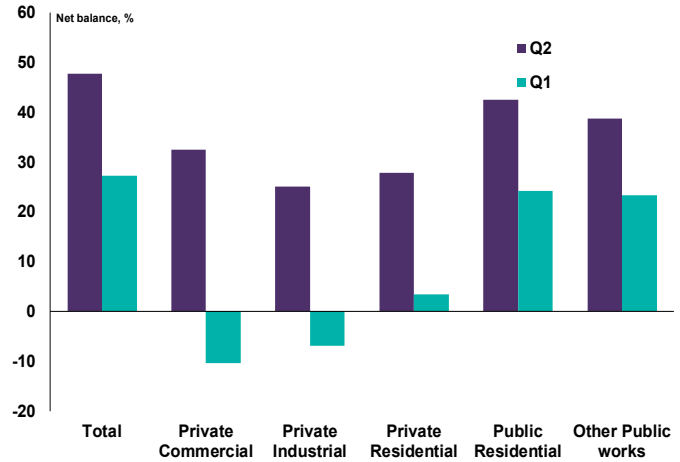
Regional Charts - North Island

Respondents on the North Island reported a broad-based pickup in construction market activity during the second quarter. New workloads and new business enquiries increased at a faster pace than in Q1, as did repair and maintenance workloads (in net balance terms).

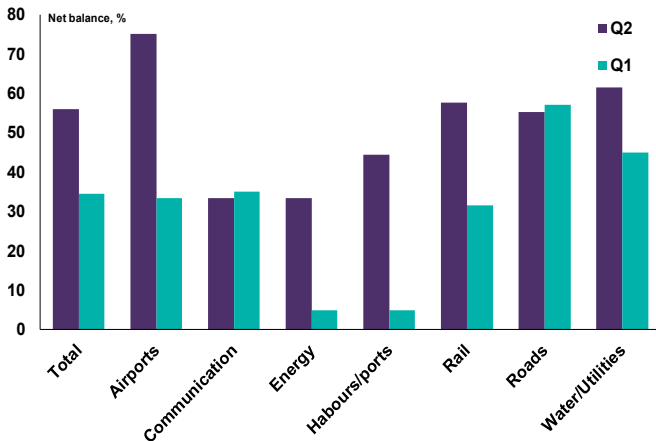
The increase in activity was seen across all asset classes in private, public and infrastructure markets. However, contributors did note a fairly sharp increase in the cost of materials in net balance terms, as well as an increase in payment delays, which appear to have weighed on margins.

Despite a lack of skills, labour and the cost of materials being cited as headwinds, the outlook for the next twelve months is relatively positive. Workloads, headcounts and margins are all expected to expand.

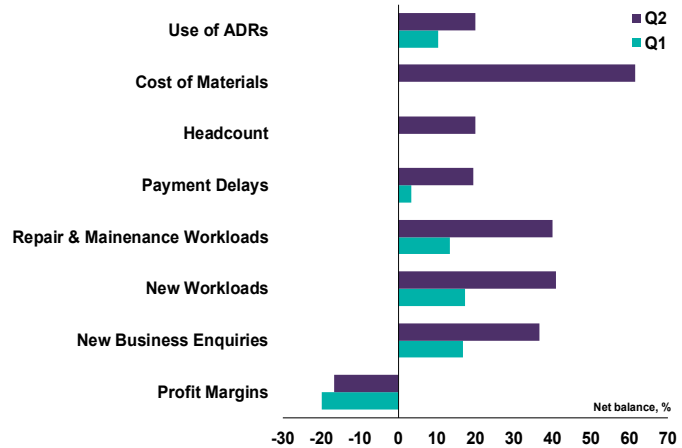
Workloads



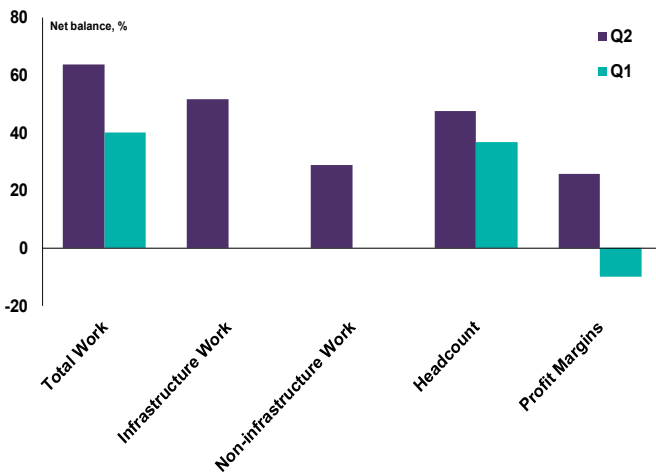
Infrastructure Workloads



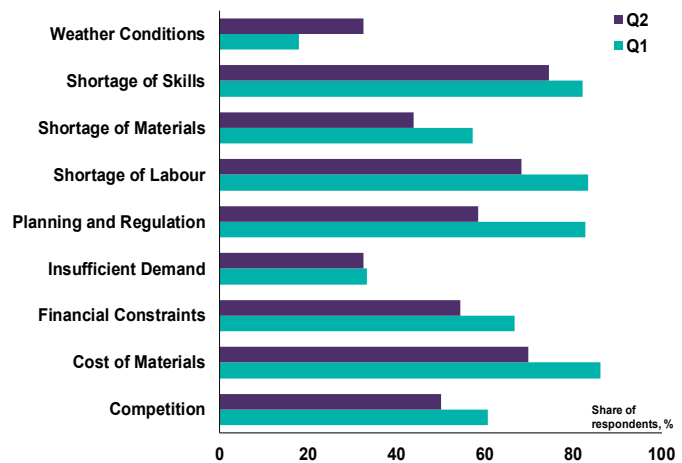
Current Conditions



12-month Expectations



Factors Holding Back Activity



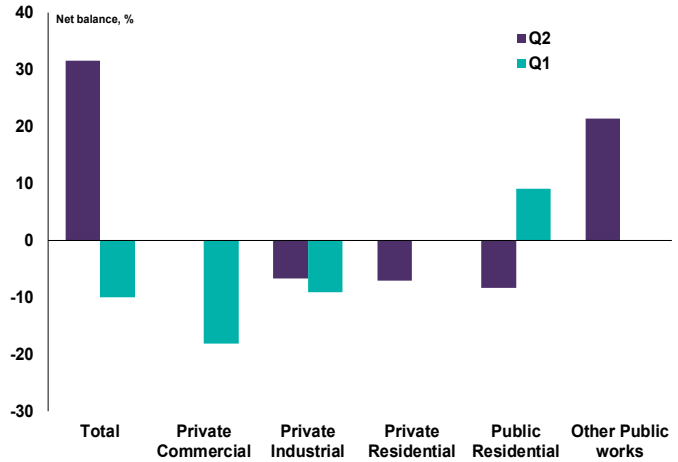
Regional Charts - South Island

Market conditions appeared to be fairly subdued on the South Island during Q2, although there did appear to be signs of an improvement from Q1. After reporting a modest decline in workloads during Q1, respondents noted an increase in Q2.

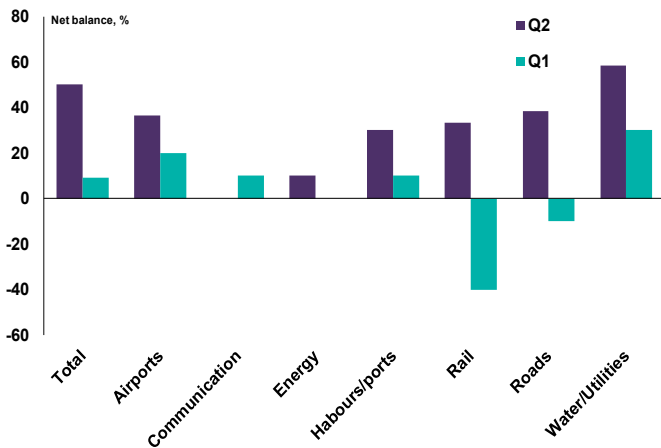
This appeared to be driven primarily by infrastructure and other public works, however, as private workloads were not seen to have changed significantly. It also appears that this is expected to persist over the next year, with infrastructure activity driving the expected increase in total workloads over the next twelve months.

Another bright spot was a more robust near-term pipeline of activity. Both new business enquiries and new workloads were said to have increased in Q2, and payment delays were little changed.

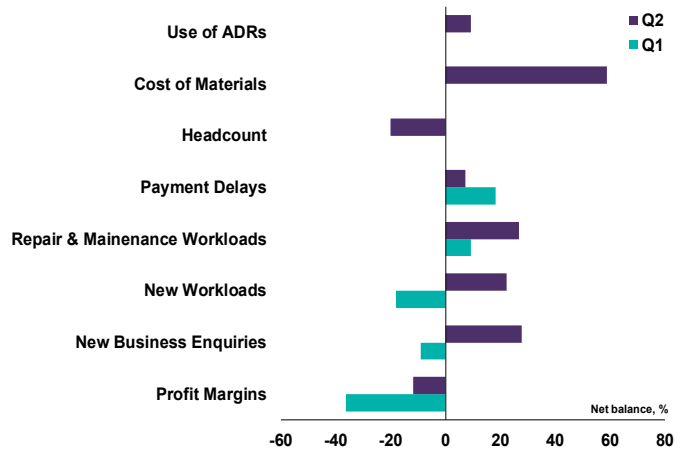
Workloads



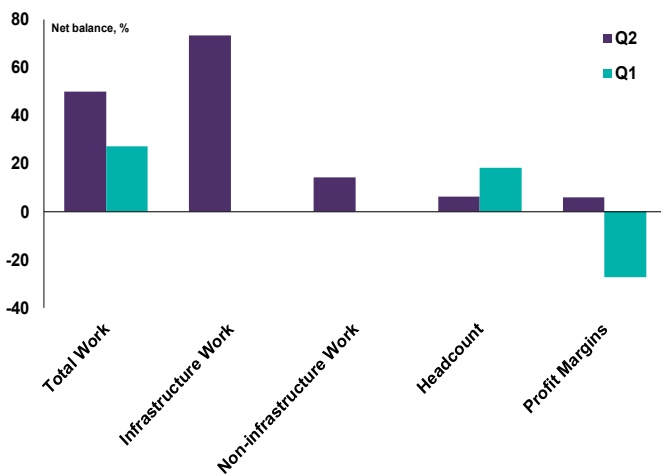
Infrastructure Workloads



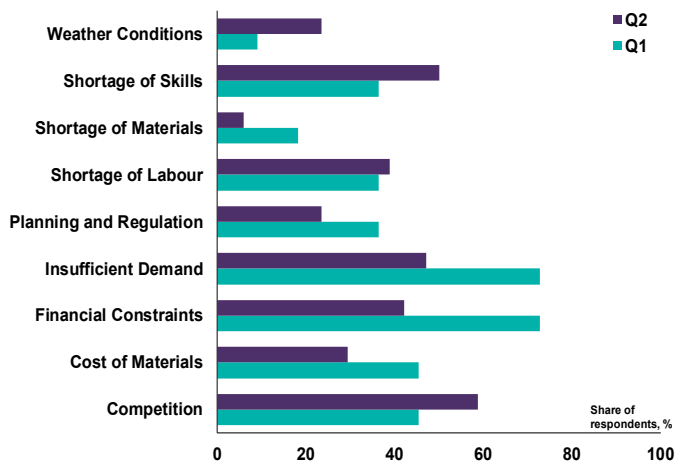
Current Conditions



12-month Expectations



Factors Holding Back Activity



RICS Consensus Expectations

Tender Prices & Construction Costs (Next 12 months)

	Tender Prices	Tender Prices	Construction Costs	Construction Costs	Construction Costs
	Building	Civil Engineering	Commercial	Residential	Total
Australia	+3.1%	+4.2%	+3.4%	+1.9%	+3.2%
New South Wales	+2.8%	+4.0%	+3.0%	+1.2%	+2.8%
Queensland	+2.6%	+3.6%	+3.1%	+1.3%	+3.2%
South Australia*	+5.7%	+5.0%	+4.7%	+4.9%	+5.0%
Victoria	+3.7%	+4.8%	+4.3%	+3.5%	+4.5%
Western Australia	+3.7%	+4.6%	+3.9%	+2.3%	+3.2%
Brunei*	-0.6%	0.0%	-1.2%	-1.6%	-1.0%
China	+4.1%	+4.0%	+4.7%	+3.3%	+4.3%
Beijing	+3.4%	+3.3%	+4.3%	+2.2%	+3.6%
Guangdong	+3.5%	+3.8%	+3.7%	+3.0%	+4.0%
Shanghai	+4.6%	+4.3%	+5.0%	+3.8%	+4.7%
Sichuan*	+6.1%	+4.3%	+7.5%	+5.6%	+6.1%
Tianjin*	+4.5%	+3.9%	+4.5%	+2.5%	+3.9%
Hong Kong	+3.0%	+2.3%	+3.7%	+3.6%	+3.7%
India	+5.8%	+5.8%	+5.9%	+5.4%	+5.4%
Andhra Pradesh*	+9.4%	+9.4%	+8.4%	+7.1%	+7.1%
Delhi NCR	+5.1%	+4.6%	+3.5%	+2.8%	+3.1%
Gujarat*	+7.9%	+6.2%	+7.5%	+4.5%	+5.5%
Haryana	+3.7%	+4.4%	+3.9%	+4.1%	+3.2%
Karnataka	+6.2%	+5.7%	+6.6%	+5.5%	+5.3%
Kerala*	+6.2%	+5.8%	+6.7%	+5.6%	+5.3%
Mahashitra	+5.2%	+5.7%	+5.1%	+5.1%	+5.4%
Tamil Nadu	+8.1%	+7.1%	+7.3%	+6.8%	+7.2%
Telangana	+6.6%	+6.9%	+7.4%	+6.5%	+7.4%
West Bengal*	+6.6%	+5.6%	+7.1%	+7.0%	+7.5%
Indonesia*	+5.5%	+6.8%	+4.6%	+4.2%	+4.6%
Japan	+2.0%	+3.9%	+3.8%	+3.0%	+3.4%
Kanto	+2.1%	+3.9%	+3.4%	+2.9%	+3.4%
Macau	+0.9%	+0.4%	+2.9%	+1.5%	+1.9%
Malaysia	+2.6%	+2.9%	+2.8%	+2.2%	+3.1%
Johor*	+3.6%	+5.6%	+4.6%	+3.6%	+3.4%
Penang	+1.8%	+2.5%	+2.9%	+2.9%	+2.6%
Sarawak	+3.3%	+6.0%	+3.3%	+2.4%	+4.7%
Selangor/KL/PJ	+2.8%	+2.8%	+3.0%	+2.4%	+3.4%
New Zealand	+3.5%	+4.0%	+4.4%	+3.8%	+4.5%
North Island	+4.3%	+4.8%	+5.1%	+4.7%	+5.0%
South Island	+1.5%	+2.3%	+2.8%	+2.0%	+3.3%
Singapore	+0.9%	+1.3%	+2.6%	+2.5%	+2.9%
South Korea	+2.2%	+1.0%	+0.9%	+1.9%	+1.8%
Sri Lanka	+5.4%	+5.3%	+6.0%	+5.9%	+5.9%
Western Province	+5.5%	+5.3%	+6.1%	+5.7%	+5.9%
Thailand	+4.0%	+2.8%	+3.5%	+3.2%	+4.4%

*These estimates are drawn from small sample sizes (n<10)

RICS Consensus Expectations 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
Australia	+3.5%	+2.5%	+3.5%	+2.5%	+2.9%	+3.8%	+3.9%	+3.4%
New South Wales	+3.7%	+2.2%	+3.7%	+2.2%	+2.6%	+3.6%	+3.6%	+2.5%
Queensland	+2.9%	+2.4%	+2.9%	+2.4%	+2.7%	+3.9%	+4.8%	+4.4%
South Australia*	+4.9%	+1.3%	+4.9%	+1.3%	+4.9%	+2.5%	+4.5%	+3.5%
Victoria	+3.3%	+2.9%	+3.3%	+2.9%	+2.8%	+4.8%	+3.3%	+3.5%
Western Australia	+3.7%	+3.2%	+3.7%	+3.2%	+3.4%	+3.6%	+4.3%	+4.2%
Brunei*	+1.0%	0.0%	+1.0%	0.0%	+1.8%	+1.8%	+1.8%	+1.8%
China	+5.9%	+3.7%	+5.9%	+3.7%	+3.5%	+4.5%	+4.1%	+3.1%
Beijing	+7.2%	+5.3%	+7.2%	+5.3%	+3.0%	+3.6%	+3.3%	+1.7%
Guangdong	+5.4%	+1.4%	+5.4%	+1.4%	+3.3%	+5.5%	+3.8%	+3.2%
Shanghai	+5.6%	+3.8%	+5.6%	+3.8%	+3.9%	+5.0%	+4.3%	+3.5%
Sichuan*	+7.5%	+2.0%	+7.5%	+2.0%	+5.6%	+5.7%	+5.2%	+4.5%
Tianjin*	+4.5%	+0.7%	+4.5%	+0.7%	+0.9%	+1.8%	+2.6%	+1.8%
Hong Kong	+3.8%	+2.7%	+3.8%	+2.7%	+2.6%	+2.9%	+2.9%	+2.9%
India	+6.6%	+5.6%	+6.6%	+5.6%	+4.6%	+5.2%	+4.6%	+4.5%
Andhra Pradesh*	+7.6%	+6.3%	+7.6%	+6.3%	+7.2%	+7.1%	+7.6%	+4.4%
Delhi NCR	+5.6%	+4.2%	+5.6%	+4.2%	+3.8%	+4.1%	+3.0%	+3.4%
Gujarat*	+5.5%	+6.9%	+5.5%	+6.9%	+6.4%	+6.4%	+4.4%	+5.6%
Haryana	+6.9%	+5.8%	+6.9%	+5.8%	+3.3%	+3.5%	+3.1%	+3.4%
Karnataka	+8.2%	+7.2%	+8.2%	+7.2%	+4.4%	+5.0%	+5.8%	+4.4%
Kerala*	+8.2%	+7.2%	+8.2%	+7.2%	+4.3%	+5.0%	+5.7%	+4.3%
Mahashitra	+6.1%	+4.7%	+6.1%	+4.7%	+3.7%	+4.7%	+4.2%	+4.4%
Tamil Nadu	+7.6%	+7.4%	+7.6%	+7.4%	+7.5%	+7.8%	+7.1%	+8.4%
Telangana	+5.9%	+5.5%	+5.9%	+5.5%	+5.1%	+5.4%	+5.3%	+4.5%
West Bengal*	+6.5%	+5.4%	+6.5%	+5.4%	+5.8%	+6.5%	+5.0%	+4.3%
Indonesia*	+6.0%	+3.9%	+6.0%	+3.9%	+1.9%	+3.3%	+2.9%	+3.2%
Japan	+2.9%	+1.7%	+2.9%	+1.7%	+2.4%	+3.4%	+3.4%	+2.9%
Kanto	+2.4%	+1.4%	+2.4%	+1.4%	+2.3%	+2.8%	+2.8%	+2.8%
Macau	+4.4%	+2.5%	+4.4%	+2.5%	+1.5%	+2.9%	+4.1%	+2.4%
Malaysia	+3.6%	+2.3%	+3.6%	+2.3%	+2.3%	+3.5%	+2.9%	+2.7%
Johor*	+3.2%	+0.7%	+3.2%	+0.7%	+4.3%	+4.3%	+3.9%	+2.4%
Penang	+3.9%	+3.2%	+3.9%	+3.2%	+2.1%	+3.3%	+3.7%	+3.3%
Sarawak	+4.7%	+3.9%	+4.7%	+3.9%	+3.8%	+5.9%	+4.2%	+3.4%
Selangor/KL/PJ	+3.5%	+2.5%	+3.5%	+2.5%	+2.5%	+3.8%	+3.1%	+3.0%
New Zealand	+5.1%	+3.3%	+5.1%	+3.3%	+2.5%	+3.7%	+3.8%	+3.9%
North Island	+5.6%	+3.6%	+5.6%	+3.6%	+2.8%	+4.0%	+3.6%	+4.0%
South Island	+3.8%	+2.6%	+3.8%	+2.6%	+1.9%	+3.1%	+4.1%	+3.8%
Singapore	+3.5%	+2.8%	+3.5%	+2.8%	+1.9%	+3.2%	+2.8%	+2.4%
South Korea	+3.5%	+2.5%	+3.5%	+2.5%	+2.0%	+2.7%	+2.7%	+1.9%
Sri Lanka	+5.6%	+4.8%	+5.6%	+4.8%	+3.8%	+4.6%	+5.7%	+4.7%
Western Province	+5.8%	+4.9%	+5.8%	+4.9%	+3.6%	+4.2%	+5.5%	+4.7%
Thailand	+4.8%	+3.9%	+4.8%	+3.2%	+1.8%	+2.6%	+2.4%	+1.7%

*These estimates are drawn from small sample sizes (n<10)

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 10 June 2019 with responses received until 7 July 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 1312 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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