

Biggest surge in building costs since 2005

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The cost of new home builds has soared in the past 12 months at the fastest pace since 2005.

The December consumer price index shows the cost of new house builds rose 6.5 per cent in 2016 as the overall inflation rate for the year rose 1.3 per cent.

The Statistics New Zealand CPI figures do not include the cost of land and also excludes sales of existing residential housing.

"The last time new housing build costs were increasing this rapidly was in the middle of the last housing boom in September 2005," said KiwiBank chief economist Zoe Wallis.

The rising costs are likely to be even higher in Auckland where new dwelling consents topped more than 10,000 in the year to November.

Estimates by council officials suggest that figure needs to hit 13,000 per year just to keep up with Auckland's rate of population increase.

On that basis it appears construction costs will continue to outpace other sectors for some time yet.

ASB economist Nick Tuffley noted that he had expected the quarterly rise in construction costs, at 1.4 per cent, to be even higher given the scale of the boom underway.

Registered Master Builders Association of New Zealand chief executive David Kelly said he was not surprised by the data which reflected a combination of labour shortages - both skilled and unskilled - as well as increased demand for building products.

Delays in availability of products such as concrete and aluminium frames could add significant cost to projects.

"Time costs money," Kelly said.

While there were some builders making more money, they were coming off pretty tight margins.

Experienced builders knew to look at their margins in boom times. If they didn't they could find themselves in financial trouble if they faced delays on projects and weren't able to pass costs on to customers.

Kelly said he was optimistic the rising costs would not be a major headwind to the scale-up of building in Auckland.

What was important was avoiding the boom and bust cycles that had exacerbated the supply shortage in the first place.

Meanwhile, Westpac chief economist Michael Gordon pointed out that building price pressure had actually eased in Christchurch.

This highlighted "that the greatest demands on the building industry have clearly shifted north", he wrote.

The price of rentals for housing, real estate services, local authority rates and property maintenance costs also all rose faster than inflation in the rest of the economy.

The housing costs category of the index was up 3.3 per cent for the full year.

But rental price rises, at 2 per cent for the year, were the lowest for three years. This was partly due to an easing of demand pressure in Christchurch although the rate of increase also declined in Auckland.

"The CPI measure of rents remains at odds with the anecdotes of severe housing shortages," Gordon wrote.

Economists have focused on the quarterly rise of overall inflation, at 0.4 per cent, taking annual inflation back to 1.3 per cent and back into the Reserve Bank's mandated target range for the first time in two years.

This is expected to ease pressure on the bank to cut rates further. Although the rate remains historically low and is unlikely to prompt rate hikes in the near future.

Inflation slumped dramatically when oil prices collapsed in 2014. But that effect has now worked its way through the data and some increases in oil and other commodities have seen inflation creeping up.

The CPI Index is a measure of core inflation. While it offers a broad indication of the real cost of living, by Statistics NZ's own admission it doesn't really reflect the inflation experiences of individual New Zealanders.

Statistics NZ also produces household living-costs price indexes (HLPs) which estimate real inflation for 13 different demographic groups.

- NZ Herald