

NEW ZEALAND ConstructionNews

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Important policy moves pending

By Iain MacIntyre

Announcements on “short-term projects around physical stimulus” were expected to be delivered by Prime Minister, John Key as this issue of *Construction News* went to press.

Prior to the General Election, Mr Key is understood to have pledged \$8.6 billion towards a combination of new infrastructure projects over the next six years, an ultra-fast broadband network, and school building programme. It was expected that \$800 million would be spent in the first year.

Given the numerous negative economic indicators currently being reported, announcements on the Government’s initial infrastructure projects, and the next steps to managing its overall infrastructure programme, will undoubtedly be devoured by the construction industry.

According to the Bank of New Zealand and Business New Zealand Performance of Manufacturing Index (PMI), December’s PMI of 42.5 was the second-lowest recorded month since the survey began in 2002 (readings below 50 indicate contraction).

Although a recovery from the record-low of 35.4 in November, this was nonetheless the lowest December recorded (the previous worst being December 2005). The final year’s result also illustrated that nine of the 12 months in 2008 were in contraction for manufacturing, with eight consecutive values below 50.

Of the 2285 employers surveyed over 19 core industries for the January-June 2009



Wellington’s inner city bypass, an example of the infrastructure projects from which New Zealand benefits

Hudson Report, only 7.9 per cent indicated an intention to increase permanent staff levels during the half-year. This was the lowest level of sentiment recorded since the survey began in 1999 and represented a drop of 18.9 percentage points (PP) on that recorded in the previous six months.

“The slowing in employment expectations has been felt across the industries surveyed nationally,” states the report.

“Employer sentiment in the construction/property/engineering industry declined 10.9PP to six per cent, Government employment expectations fell 20.2PP to 14.8 per cent while financial services/insurance sentiment fell 22.3PP to 2.6

per cent.

“The manufacturing industry experienced a drop in optimism of 24.5PP, with a net 15.5 per cent of employers reporting an intention to increase permanent staff levels over the coming six months.”

Commenting specifically on the construction/property/engineering industry, the report says this sector continues to fall due to weak residential construction and a steep decline in commercial building.

“Employment growth in the industry is now reliant on Government investment in public infrastructure. However, this is in turn constrained by the continued shortage of experienced civil engineers.”

The report notes the manufacturing industry is “well and truly in recession” in line with the steep decline in manufacturing activity globally.

“Manufacturing activity sank to a new low in October in its sixth consecutive month of contraction, with the manufacturing employment index contracting for the fourth consecutive month.”

Despite the decline in national sentiment across all industry sectors, the *Hudson Report* did find the “vast majority of employers” were either increasing or holding their permanent staff levels steady.

“A substantial 59.2 per cent of employers intend to hold their current staff levels

steady, 24.3 per cent intend to increase their permanent staff levels and 16.5 per cent intend a decrease.”

While predicting the local impact of the current global recession will “pale in comparison” to that experienced between 1987 and 1992, BNZ chief economist, Tony Alexander nonetheless says no one “can be complacent”.

“It is likely the unemployment rate is going to rise above six per cent from the low of 3.4 per cent seen earlier this year,” he recently told the *Business Day* publication.

“Many businesses that have not already moved to get their cash flows under control may need to heavily rationalise or close down,

especially perhaps some in the tourism sector.

“Residential construction will weaken away and non-residential construction will also decline but perhaps by less than for house building.

“But the lower the Kiwi dollar goes, and we do expect it to resume its downward movement eventually, the stronger is likely to be the inevitable export-led upturn over 2010 and 2011.

“The challenge for New Zealand businesses then is to make it through to that two-year period. Work hard at it.”

Construction News intends to provide a feature article on the new Government’s infrastructure development plans in our next issue.



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