August 2018

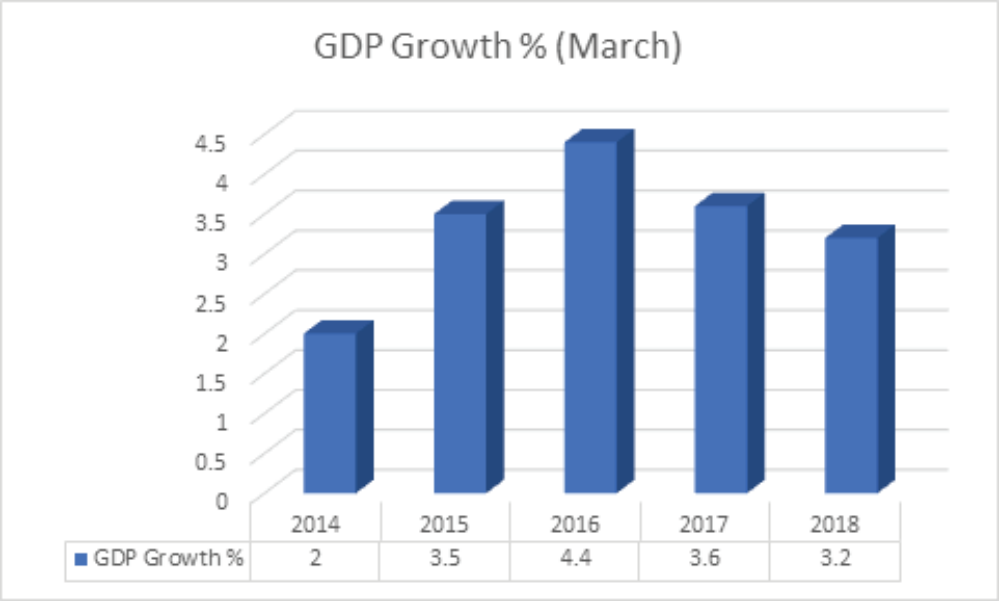
Success Letter

FE Investments
We Back Success

Continuing with our Success Letter articles, this issue looks at the importance of residential construction as a component of New Zealand economy.

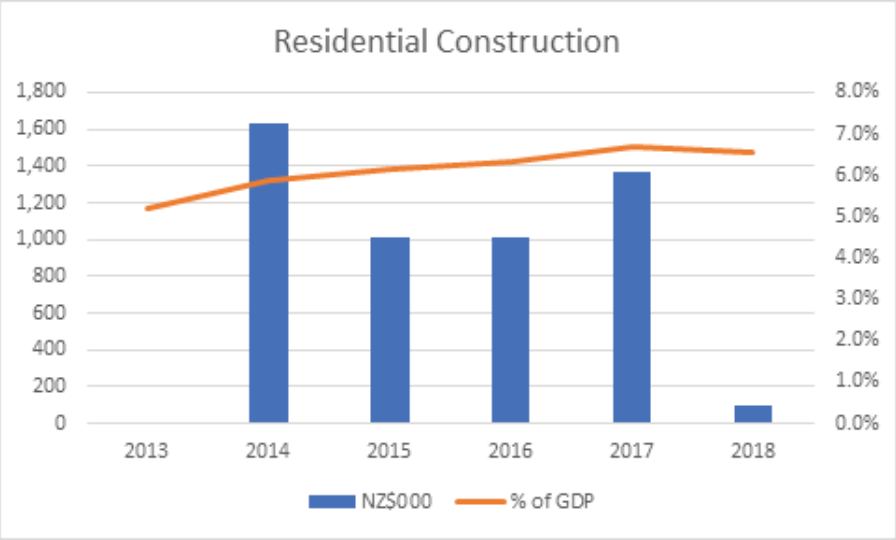
Residential Construction and GDP Growth

Residential construction has been a key driver for economic growth in New Zealand but we will see the Government playing an important role in the New Zealand economy in the foreseeable future.



Source: Statistics New Zealand

The chart shows that GDP grew 2% in 2014 and peaked at 4.4% in 2016 before declining to 3.2% in the 12 months to March 2018.



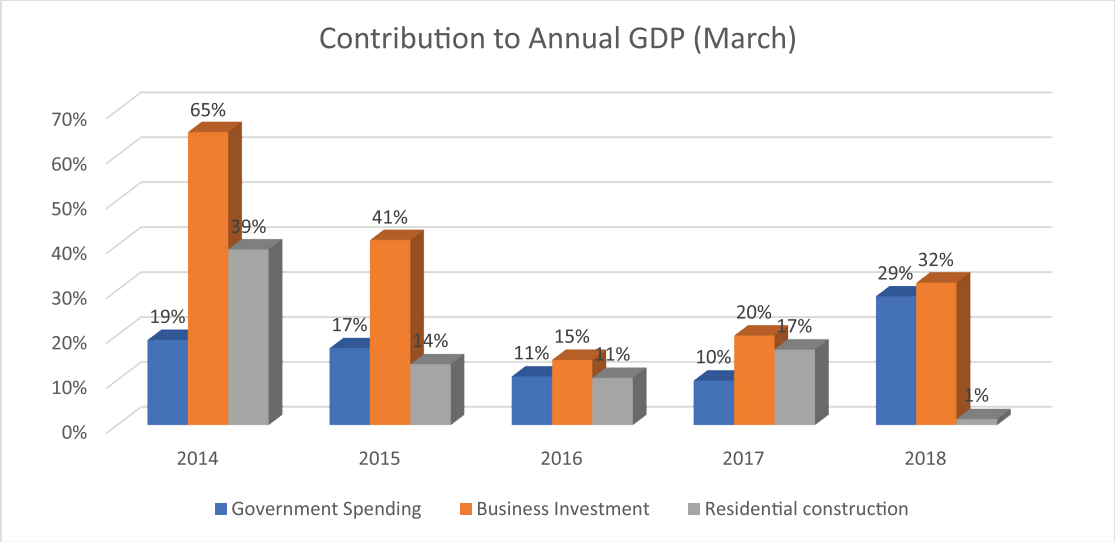
Source: Statistics New Zealand

There were $1.63 billion of residential construction works in 2014. Residential construction remained at the $1 billion mark for the next few years before declining sharply in the March 2018 year. (See chart above)

Bank lending restrictions to the housing sector and tight credit conditions for property development projects are major reasons for the residential construction slow-down.

New Zealand GDP for the year to March 2018 would have slumped had it not for government spending and business capital expenditure. For example, Government spending was $790 million in 2014 whereas for the March 2018 year, it ballooned to $2.13 billion. Put in another way, Government spending accounted for 19% of GDP growth in 2014 and in the 12 months to March 2018, its share was 29% of GDP (for every dollar of annual GDP growth, Government spending accounted for nearly 30 cents in the year to March 2018).

Given the uncertainty with global economic conditions, we are not confident if business investments will maintain it's momentum in the next few years.



Source: Statistics New Zealand

In our view, residential construction has reached its long-term average of contribution to annual GDP (residential construction normally makes up 6% of GDP). New Zealand GDP will have to rely heavily on Government spending to grow strongly in the next few years.

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