

Building Sector

Ready-Mix Concrete — Record Setting

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4Q20 ready-mix concrete (RMC) production confirmed NZ construction activity is going from strength to strength with volumes +5%qoq/+8%yoy in the December quarter. The second-half of 2020 was the strongest on record. Total production in 2020 was down -5% vs. 2019, largely due to soft volumes throughout lockdowns and weaker volumes in Canterbury as rebuild work comes to a conclusion. We expect production will remain near record levels in the first half of 2021 given historically high residential consent volumes and improving industry confidence. With strong momentum in the construction sector, we see upside risk to earnings forecasts in both Fletcher Building (FBU) and Steel & Tube's (STU) upcoming results.

Record setting quarter and half

Volumes, which can be volatile from quarter-to-quarter, were up +5% qoq/+8% yoy after a very strong 3Q. Notably, production in the December quarter and December half-year were the highest on record. While some of this will be catch-up work from lockdown delays in the June quarter, we expect this is set to continue given improving construction confidence, a significant increase in construction employment, and anecdotes of a great earthworks season thus far. Production was particularly strong in Regional North Island, up +22%, and Auckland up +9%.

Strong end to the year suggests upside risk to forecasts

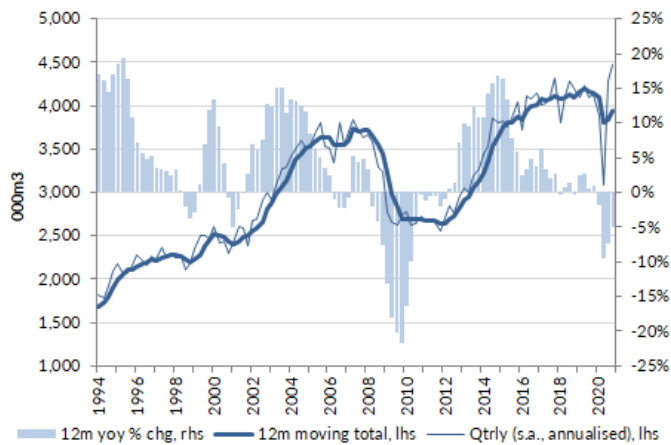
RMC production is the first NZ construction indicator for 4Q CY20 and a significant exposure for FBU. 3Q RMC volumes proved to be a solid guide to FBU's NZ revenue (ex. construction and residential development) and as such this strong end to the year aligns with our view that there is upside risk to consensus and our own forecasts. FBU will provide its 1H21 result on 17 February and STU also reports on 26 February. We expect NZ residential activity to remain robust, underpinned by low interest rates and tight supply, but partially offsetting this is the non-residential pipeline which has thinned and may weigh on activity over the year.

Figure 1. NZ ready-mix concrete production

000m ³	4Q20	yoy % chg	12m total	yoy % chg
Auckland	414	8.5%	1,412	-9.1%
Waikato-Bay of Plenty	192	5.9%	716	-4.0%
Wellington	61	3.2%	223	-1.2%
Regional North Island	184	22.0%	616	6.1%
Canterbury	158	3.4%	533	-10.2%
Regional South Island	119	2.1%	433	-2.3%
Total	1,129	8.3%	3,933	-5.0%

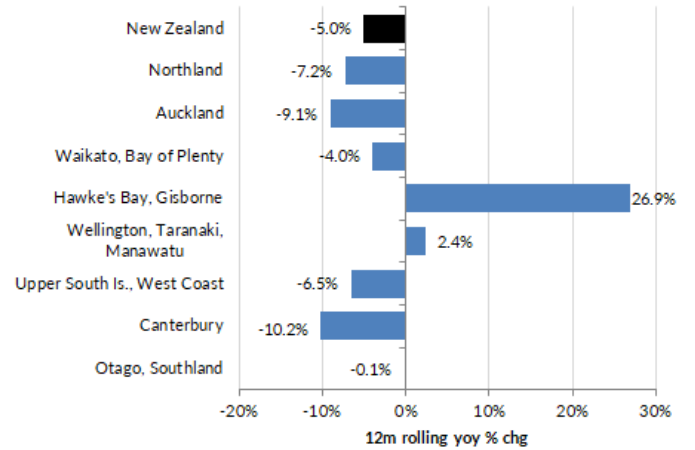
Source: Forsyth Barr analysis, Stats NZ

Figure 2. NZ ready-mix concrete production



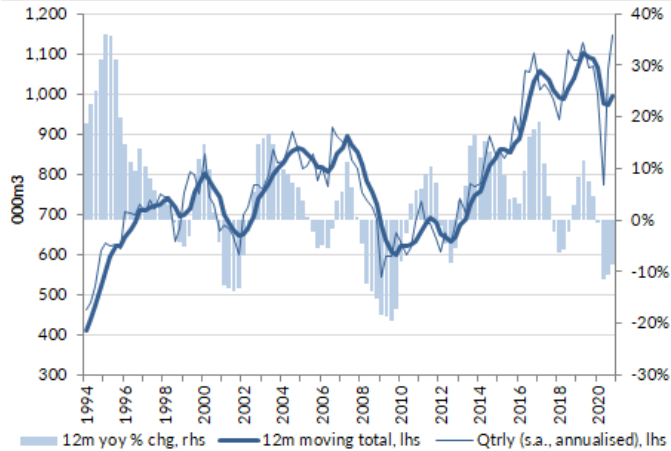
Source: Forsyth Barr analysis, Stats NZ

Figure 3. Ready-mix concrete production (12m rolling yoy % chg)



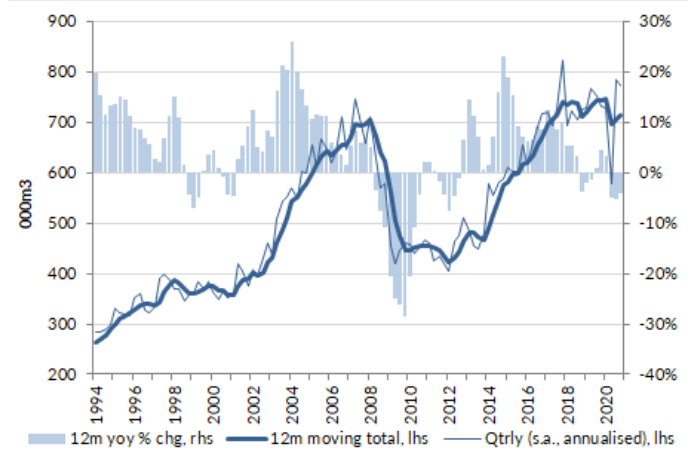
Source: Forsyth Barr analysis, Stats NZ

Figure 4. Auckland ready-mix concrete production



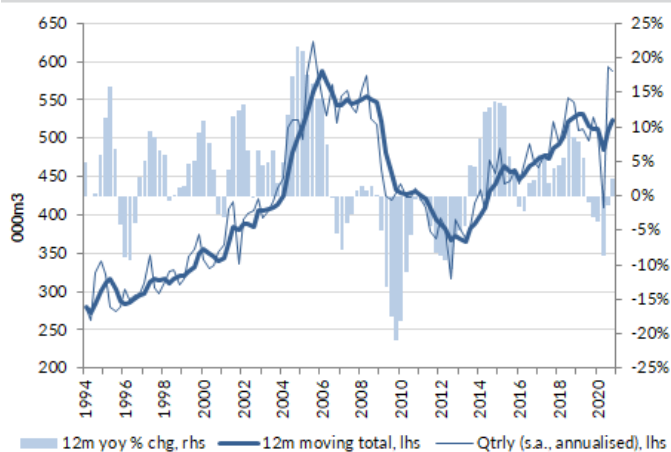
Source: Forsyth Barr analysis, Stats NZ

Figure 5. Waikato-Bay of Plenty ready-mix concrete production



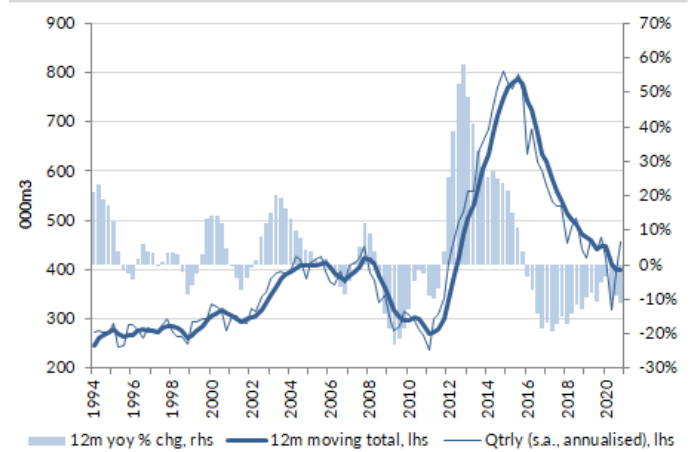
Source: Forsyth Barr analysis, Stats NZ

Figure 6. Lower North Island ready-mix concrete production



Source: Forsyth Barr analysis, Stats NZ

Figure 7. Christchurch ready-mix concrete production



Source: Forsyth Barr analysis, Stats NZ

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