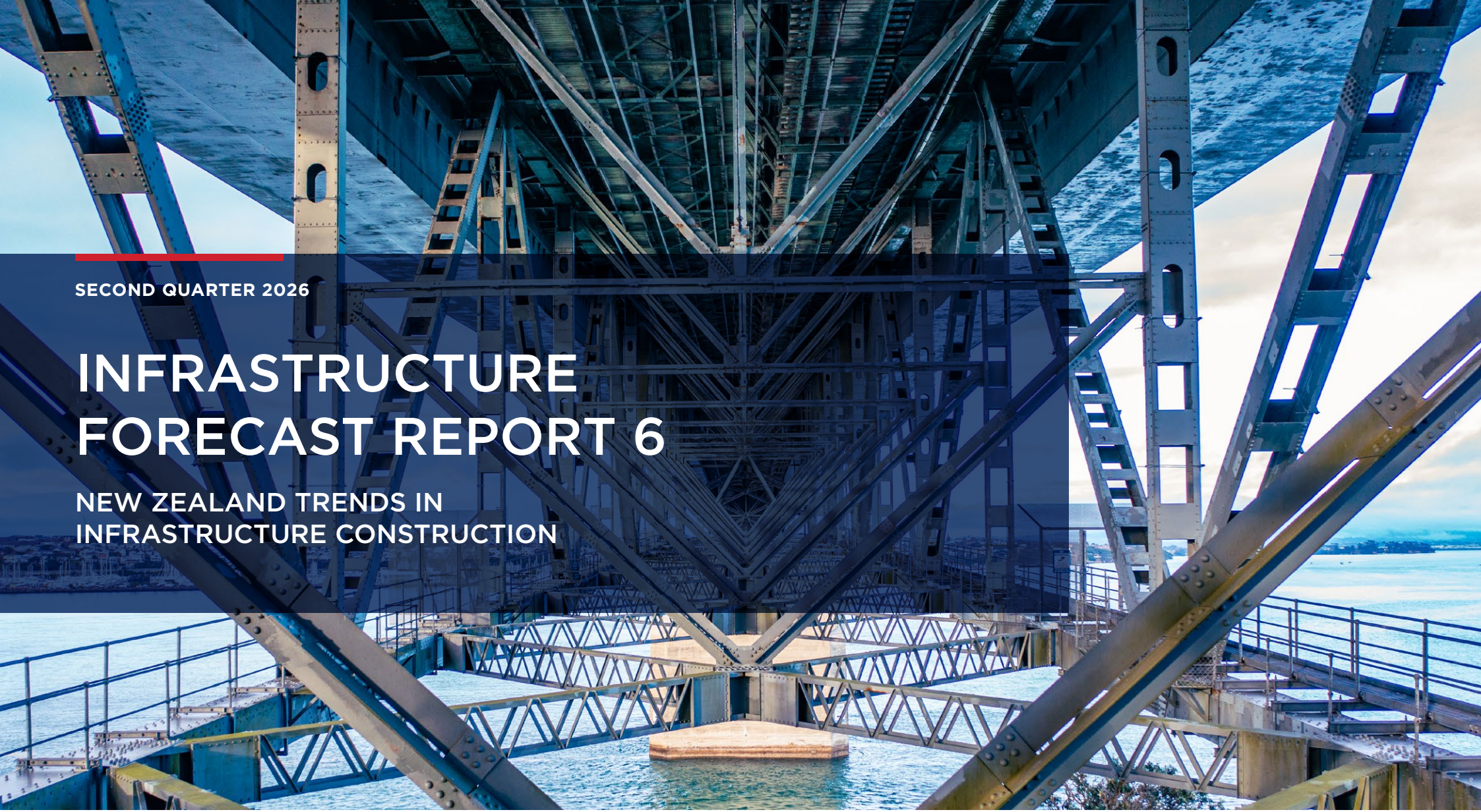

SECOND QUARTER 2026

INFRASTRUCTURE FORECAST REPORT 6

NEW ZEALAND TRENDS IN INFRASTRUCTURE CONSTRUCTION

May 2026

RLB Rider Levett Bucknall

ABOUT RLB

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We believe in delivering with excellence, fostering collaboration, and always striving to make a positive difference. This is how we build trust, deliver quality, and continue to set the standard in our industry.

AUTHORSHIP

Prepared by the New Zealand Institute of Economic Research exclusively for Rider Levett Bucknall.

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KEY POINTS

Infrastructure construction continued to lift, bucking the trend of decline in other areas of construction. Although there remains spare capacity in the construction sector, the recent surge in fuel prices is driving up construction cost inflation. How persistent high construction cost inflation will be largely depends on how long the conflict between US-Israel and Iran drags on for. Our forecast assumes the fuel shock starts to unwind by the end of this year, but the market question is how ongoing fuel, funding and delivery risks flow through to tender pricing.

STRONG CIVIL CONSTRUCTION COST INFLATION EVEN PRIOR TO THE FUEL CRISIS

Civil construction cost inflation has been stronger than other areas of construction cost inflation. In particular, annual growth in civil construction cost picked up to 3.1 percent for the year to March 2026. This is well above annual residential construction cost inflation of 1.4 percent and annual non-residential construction cost inflation of 1.6 percent over this period. Given the US-Israel air and missile attacks on Iran which sparked the fuel crisis occurred at the end of February, we expect a further strong increase in civil construction cost inflation in the remainder of 2026, before easing in line with the expected easing in fuel prices.

BUILDING SECTOR FIRMS FEELING DOWNBEAT ON SOFT DEMAND AND RISING COSTS

NZIER's *Quarterly Survey of Business Opinion* indicates the construction sector is feeling downbeat about the general economic outlook. This reflects the perfect storm facing the construction sector, with demand remaining weak but costs rising on the back of the recent surge in fuel prices, testing margins, procurement settings and risk allocation.

THE OUTLOOK IN KEY INFRASTRUCTURE PROJECTS REMAINS POSITIVE

Nonetheless, the outlook for infrastructure construction demand remains positive. This is in contrast to continued weakness in private sector construction demand. For the market, the issue is less whether the work exists and more whether funding, affordability and capacity align. The Pipeline snapshot by the New Zealand Infrastructure Commission Te Waihanga shows infrastructure projects valued at $274 billion for March 2026. Of these, $190 billion have committed funding or a confirmed funding source. We continue to forecast lower interest rates will support growth in construction over the coming years, particularly in the public sector.

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1. INTRODUCTION

Welcome to the March 2026 quarter edition of the Rider Levett Bucknall *New Zealand trends in infrastructure construction*, where we discuss the key developments in infrastructure construction. We also discuss what these recent developments indicate for the construction outlook ahead, including our forecasts for infrastructure construction cost inflation.

We assess the outlook for infrastructure construction costs based on key drivers on both the demand and supply sides. On the demand side, this includes infrastructure investment and the macroeconomic environment, which in turn influence broader construction activity. On the supply side, the availability of labour and building materials is the key influence for the construction sector.

The release of gross domestic product (GDP) data for December 2025 showed an increase of 0.2 percent in economic activity for the quarter. The increase followed a (downwardly revised) 0.9 percent increase in the previous quarter, which meant a 0.2 percent increase in annual GDP for the year ending December 2025. The increase in activity in the December quarter was broad-based across the sectors, especially in rental, hiring and real estate services, financial and insurance services and retail trade and accommodation.

2. RECENT ECONOMIC DEVELOPMENTS AND TRENDS

This result, along with other activity indicators, had suggested a fragile recovery had been taking shape towards the end of last year. Although the RBNZ had been cutting the OCR since August 2024, the effects of lower interest rates had been slow to flow through the broader New Zealand economy. The lift in spending and confidence in late 2025 suggested lower interest rates were finally gaining traction in supporting a recovery in demand.

However, the fuel crisis sparked by the US-Israel air and missile strikes on Iran at the end of February has driven a sharp drop in confidence. The attacks led to restrictions on ships through the Strait of Hormuz and a subsequent surge in fuel prices. Recent activity indicators also suggest the surge in fuel prices as the fuel crisis escalated over March and April has squeezed out discretionary spending.

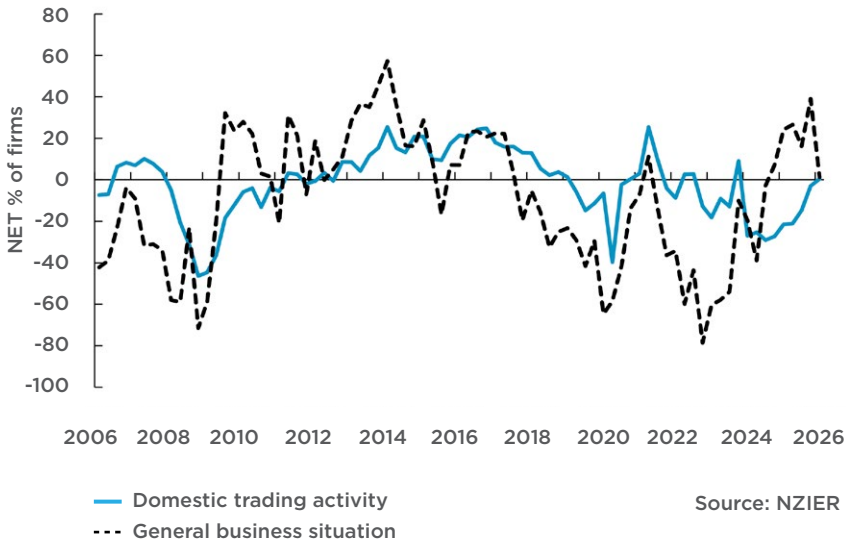
The March NZIER Quarterly Survey of Business Opinion (QSBO) provided an early read of the impacts of the US-Israel war with Iran. The business survey, which was conducted over the period 6 March to 10 April, showed an easing in both business confidence and firms' own domestic trading activity. Only a net 1 percent of firms expect an improvement in the general economic outlook in the March quarter on a seasonally adjusted basis, well below the net 39 percent of firms feeling positive in the previous quarter. This is the weakest result since September 2024 on a seasonally adjusted basis.

A breakdown of responses throughout the survey period showed that business confidence deteriorated as the weeks progressed, with a net 57 percent of firms feeling pessimistic about the general economic outlook amongst firms which had responded to the survey in late March. There was a deterioration across most measures through the weeks of the survey period, including firms' own domestic trading activity, hiring and investment. This trend suggests that upcoming confidence and activity indicators will show a further worsening.

The building sector has been particularly pessimistic, reflecting the impacts of its exposure to high transport costs and continued soft demand. A net 28 percent of building sector firms expect a deterioration in general economic conditions over the coming months, a sharp turnaround from the net 54 percent of building sector firms feeling optimistic in the previous quarter.

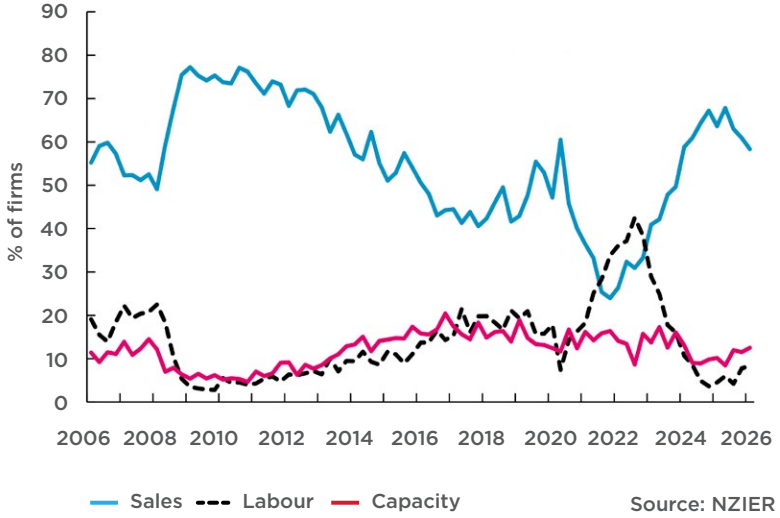
Despite a surge in costs reported by the building sector, weak demand has limited the ability for firms to pass this onto customers by raising prices. A net 73 percent of building sector firms reported higher costs in the March quarter, but a quarter of building sector firms cut prices. This has driven a further deterioration in profitability in the sector, with a net 68 percent of building sector firms reporting weaker profitability in the March quarter. These trends highlight the clear headwinds facing the building sector.

FIGURE 1 Signs that a fragile recovery had been taking shape



Source: NZIER

FIGURE 2 Weak demand remains the primary constraint for firms



Source: NZIER

Despite the easing in hiring amongst firms, there are signs of pockets of shortages in parts of the labour market. Firms reported finding it more difficult to hire skilled workers, in contrast to the ease with which firms are reporting finding unskilled workers.

Although the primary constraint for businesses is still the lack of sales, the proportion of firms reporting this as the primary constraint has eased slightly from a net 61 percent to a net 58 percent. Against this backdrop, there was a slight lift in the other factors (i.e. materials, finances, labour, capital) reported by firms as their primary constraint. 8 percent of firms reported finding labour was the primary constraint on their business.

Overall, these results suggest weak demand is still a key concern for firms, at a time when costs are rising.

The latest Stats NZ labour market data showed a slight dip in the New Zealand unemployment rate to 5.3 percent in the March quarter. This decline in the unemployment rate was against the backdrop of a slight increase in employment and the number of hours worked, and a dip in the participation rate. Employment increased across a broad range of industries, with arts, recreation and other services, transport, postal and warehousing, and financial and insurance services the three largest contributors to the increase in employment in the March quarter.

Overall, these results suggest that the New Zealand labour market was still in a state of stabilisation in the early days of the fuel crisis sparked by the US-Israel war with Iran.

However, the escalation in conflict between the US/Israel and Iran since then has led to increased caution amongst firms when it comes to hiring. This caution will likely weigh on the recovery in the labour market. We forecast the unemployment rate to track around current levels for the remainder of 2026, as slack remains in the New Zealand labour market.

Firms are also feeling more cautious when it comes to investment plans. A net 12 percent of firms plan to reduce their investment in buildings, while a net 9 percent of firms plan to cut back on investment in plant and machinery over the coming year. These developments are in contrast to the previous quarter, when a net 11 percent of firms had planned to increase their investment in buildings and a net 7 percent of firms had planned to increase their investment in plant and machinery in the coming year. It appears the recent escalation in geopolitical conflict has derailed the recovery in business investment. Firms' caution when it comes to investing in buildings is likely to be contributing to the headwinds facing the building sector.

2.1 INTEREST AND EXCHANGE RATES

The RBNZ kept the Official Cash Rate (OCR) on hold at 2.25 percent at the May Monetary Policy Statement (MPS). While the move was largely expected by markets, the split vote at the meeting, with half of the Monetary Policy Committee voting to increase the OCR by 25 basis points, was interpreted as hawkish. In line with the RBNZ's view that inflation pressures have increased as the result of the recent surge in fuel prices, the OCR projection was lifted to suggest an earlier start to the tightening cycle. The RBNZ also revised up its terminal OCR to just over 3.25 percent. We continue to forecast the Reserve Bank to commence its tightening cycle by increasing the OCR in its July meeting.

There remains a large degree of uncertainty over what the net impact of the fuel crisis on medium-term inflation will be. While higher fuel prices have boosted headline CPI inflation, it has also squeezed out discretionary spending and hence dampened demand. Weaker demand has the potential to reduce inflation pressures over the longer term. For the RBNZ in balancing these factors, its primary focus is to minimise the risk of high inflation becoming entrenched should there be changes to price and wage-setting behaviour.

Recent cost and pricing indicators, such as from the latest NZIER QSBO, suggest that soft demand is limiting the extent to which firms can pass on higher costs by raising prices. The RBNZ in its May MPS also highlighted the contribution of spare capacity in limiting the risk of second and third round impacts from the recent surge in fuel prices. Nonetheless, the RBNZ considers the net impact of the fuel crisis will be inflationary, which drives the upward revision to their interest rate projection for the coming years.

The slightly more hawkish tone of the May MPS drove a small appreciation in the New Zealand dollar following the release. Interest rates also lifted slightly, reflecting the earlier start to the tightening cycle in the RBNZ's updated projection.

Across the Tasman, the Reserve Bank of Australia (RBA) increased its policy rate to 4.35 percent in its May meeting, its third rate hike in 2026. Inflation remains high in Australia, with its annual inflation rate of 4.6 percent well above the RBA's 2 to 3 percent inflation target band. However, the lift in the Australian unemployment rate to 4.5 percent in April, the highest in seasonally adjusted terms since November 2021, has reinforced market expectations that the RBA will pause in its tightening cycle, with some forecasting no further rate hikes in this cycle.

Over in the US, the Federal Open Market Committee (FOMC) kept its policy rate on hold at a range of 3.5 percent to 3.75 percent in its April meeting, with four members dissenting from the decision – the most dissenting votes since 1992. There was a wide range of views amongst the FOMC, ranging from one member voting for a rate cut, to three members opposing the retention of the easing bias which suggested further rate cuts in the policy statement accompanying the rate announcement.

Higher fuel prices have also pushed up inflation in the US, with the Federal Reserve's preferred measure of annual inflation rising to 3.8 percent in April. The rise in inflation in the wake of the escalating fuel crisis has reduced market expectations that the Federal Reserve will cut its Fed funds rate, with focus shifting to whether the central bank may raise interest rates in its September or October meeting this year.

2.2 BUILDING INVESTMENT

The December 2025 GDP data showed a 0.8 percent increase in Other construction over the quarter. Following on from the (upwardly revised) 4 percent increase in the previous quarter, the result brought Other construction to being 4.8 percent higher than the year-ago level.

Other construction broadly encompasses construction associated with civil engineering, including major earth-moving, demolition, site clearance, and structures like bridges, pylons, and assets for oil and gas, but excludes building excavations and routine road resealing.[1] The lumpy nature of infrastructure projects means there can often be large changes in Other construction from one quarter to the next. We expect further growth in Other construction over the coming years despite the slowing in population growth and caution about investment in new construction projects more broadly. We forecast maintenance and investment in new infrastructure to underpin growth in Other construction.

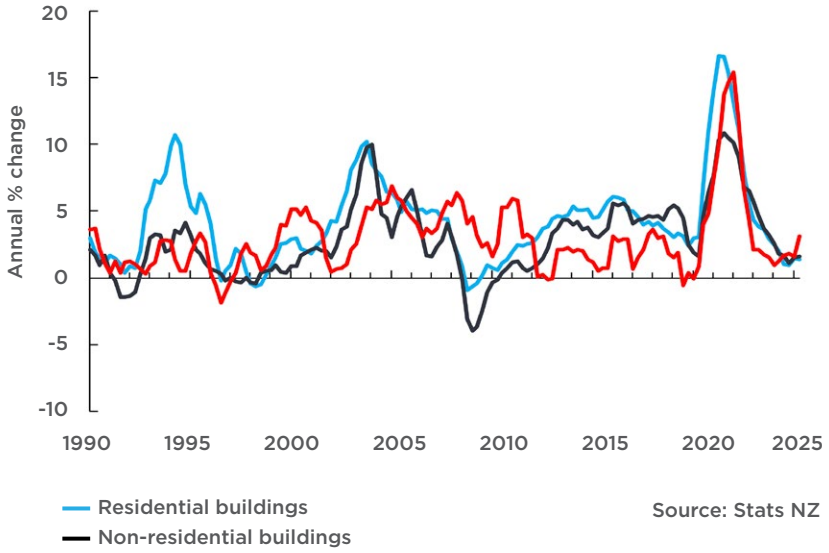
The relative strength of infrastructure construction is reflected in the Capital Goods Price Index (CGPI). Soft private sector demand is weighing on residential and non-residential construction cost inflation, with annual growth in each of these sectors stable at 1.4 percent and 1.6 percent respectively for the year to March 2026. These historically low rates of construction cost inflation reflect continued slack in the broader construction sector in the first quarter of 2026.

However, civil construction cost inflation has been much stronger, with the 1.9 percent increase over the quarter bringing annual growth to 3.1 percent for the year to March 2026. The relatively higher civil construction cost inflation reflects the resilience in infrastructure construction demand, in contrast to the caution towards investment in the private sector.

The lift in civil construction cost inflation is in line with the elevated level of headline CPI inflation. Annual CPI remained steady at 3.1 percent for the year to March 2026, above the RBNZ's 1 to 3 percent inflation target band. Higher fuel prices were the largest contributor to the rise in CPI in the March quarter, while solid increases in electricity prices, local authority rates, and meat prices were the key contributors to annual inflation.

As these March quarter inflation results capture only the early part of the fuel crisis, we forecast robust growth in construction costs in the June quarter.

FIGURE 3 Civil construction cost inflation stronger than other areas of construction cost inflation



Source: Stats NZ

The construction sector is particularly exposed to transport costs and supply chain disruptions, and we expect these factors will be the key drivers of high construction cost inflation in the near term.

Despite the easing in the unemployment rate to 5.3 percent in the March quarter, there remains slack in the New Zealand labour market.

The latest NZIER QSBO shows a net 30 percent of building sector firms reporting increased difficulty in finding skilled workers, but a net 12 percent of firms in the sector report finding it easier to find unskilled workers in the March quarter. These developments suggest building sector firms have found it even harder to fill specialised construction roles despite construction demand remaining soft.

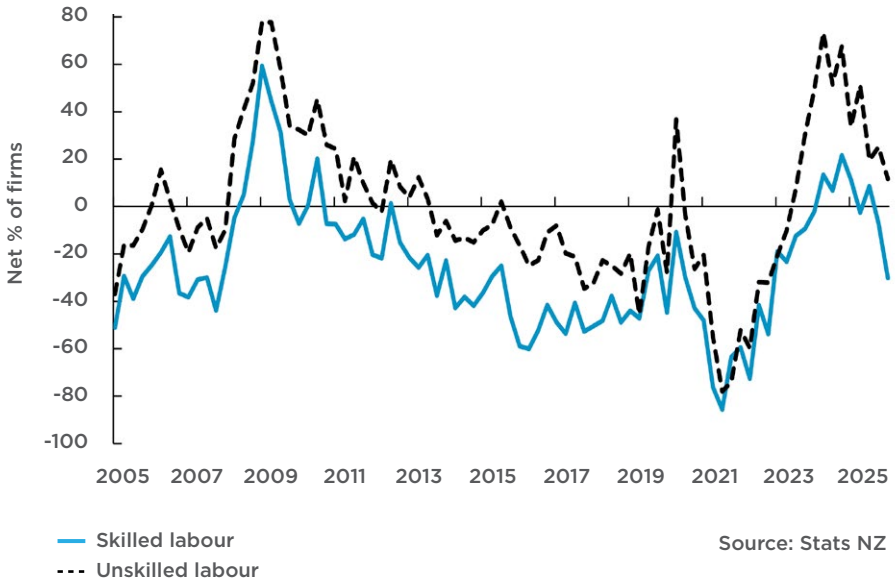
1 https://www.stats.govt.nz/assets/Uploads/Retirement-of-archive-website-project-files/Methods/Annual-national-accounts-sources-and-methods/Annual-national-accounts-sources-and-methods.pdf

The RBNZ kept the OCR on hold at 2.25 percent in its May *Monetary Policy Statement*, and again brought forward its projection of when it expected to lift the OCR. We forecast for the RBNZ to increase the OCR by 25 basis points in its July meeting, given the central bank's primary focus on reining in potential second and third round impacts of the recent surge in fuel prices. There is a high degree of uncertainty over the net impact of the fuel crisis on medium-term inflation, and in turn the terminal OCR. We have pencilled in a terminal OCR of 3 percent, but this is largely dependent on what upcoming data shows regarding inflation and growth effects for the coming years.

Global oil prices surge as escalating geopolitical conflict drives oil supply concerns

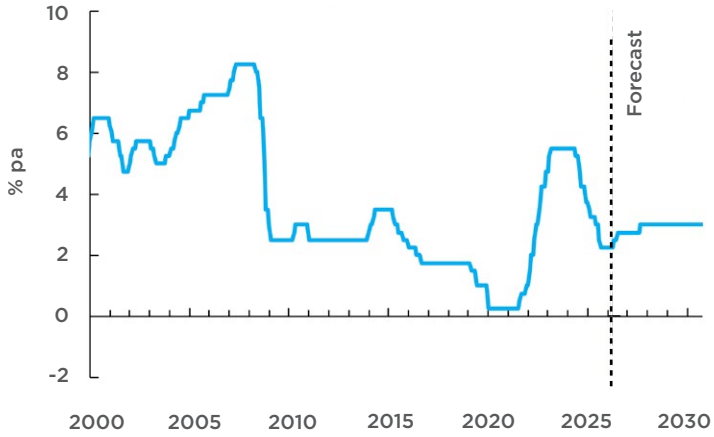
Crude oil is vital in infrastructure construction as it is refined into various products used in civil construction, such as paving roads and highways. Additionally, diesel fuel, derived from crude oil, powers construction machinery and transportation vehicles, facilitating the building of infrastructure projects. Moreover, crude oil-based products, such as plastics and synthetic materials, are used in numerous construction components, making crude oil prices a significant factor in infrastructure construction costs.

FIGURE 4 Skills shortages emerging in the construction sector



Source: Stats NZ

FIGURE 5 We forecast the RBNZ to increase the OCR in July and September



Source: RBNZ, NZIER forecast

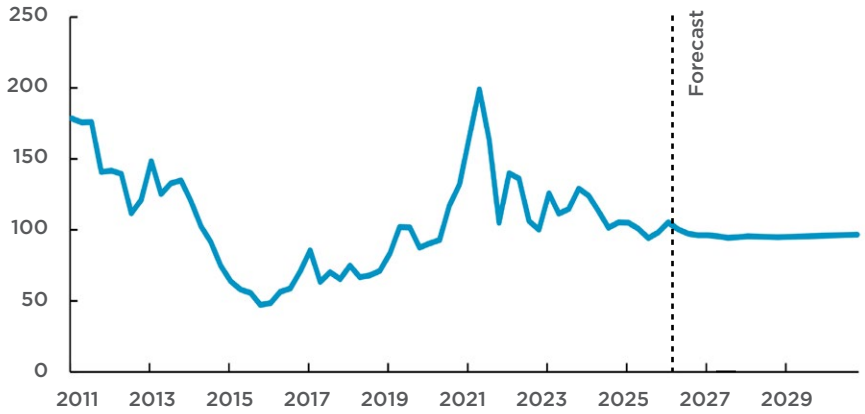
FIGURE 6 Forecast for recent surge in crude oil prices to be short-lived

Crude Oil, Brent, U.S. Dollars per Barrel

Source: Federal Reserve Bank of St Louis (FRED), Consensus Economics forecast

FIGURE 7 The cost of iron ore is forecast to ease

Global price of Iron Ore, U.S. Dollars per Metric Ton



Source: Federal Reserve Bank of St Louis (FRED), Consensus Economics forecast

Crude oil prices have surged in the wake of the US-Israel air and missile attacks on Iran at the end of February, as the subsequent restrictions on the Strait of Hormuz drove a surge in crude oil prices given concerns about oil supply globally.

Consensus Economics forecasts show expectations are for crude oil prices to ease over the coming year (see Figure 6). This suggests current oil supply disruptions are expected to be short-lived, and longer-term forecasts for crude oil prices are lower than they were prior to this fuel crisis.

This reduction in longer-term forecasts of crude oil prices likely reflects expectations the current geopolitical conflict will have negative impacts on the global growth outlook and in turn demand for oil.

Continued expectations of global iron ore prices easing over the coming year

Iron ore is a critical component in the production of steel, which is essential for infrastructure construction, including buildings, bridges, railways, and roads. The global price of iron ore is an important economic indicator, reflecting the demand for construction and manufacturing industries.

The global price of iron ore has picked up since mid-2025, and Consensus forecasts remain for a slight decline in prices over the coming year (see Figure 7). A weaker global growth outlook remains a downside risk to the forecast.

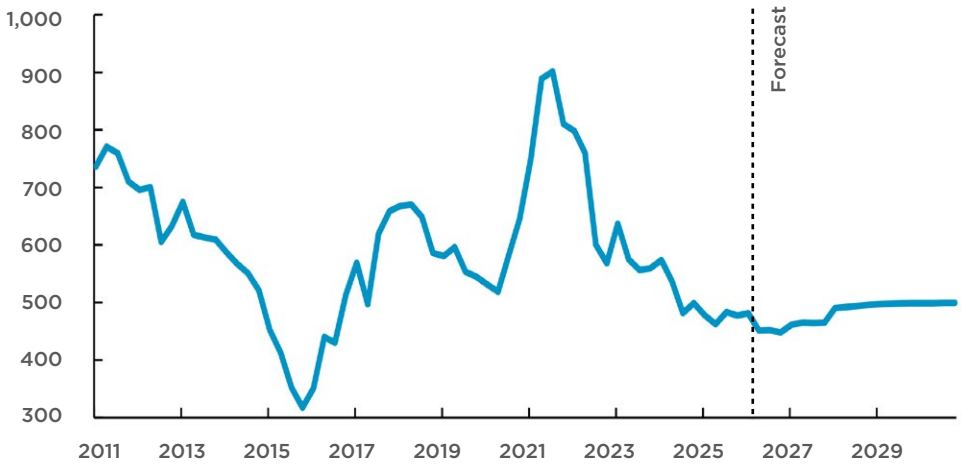
Global steel prices expected to be weak in the near term

Global steel prices have been volatile, as overcapacity in Chinese production put downward pressure on prices. Protectionism in the US and Europe, along with constrained supply, have supported prices in the protected regions.

Consensus forecasts are for lower prices in the near term before a recovery from 2027. A weaker growth outlook as a result of the recent surge in crude oil prices is likely to be weighing on near-term steel prices.

FIGURE 8 The cost of steel is forecast to recover over the longer term

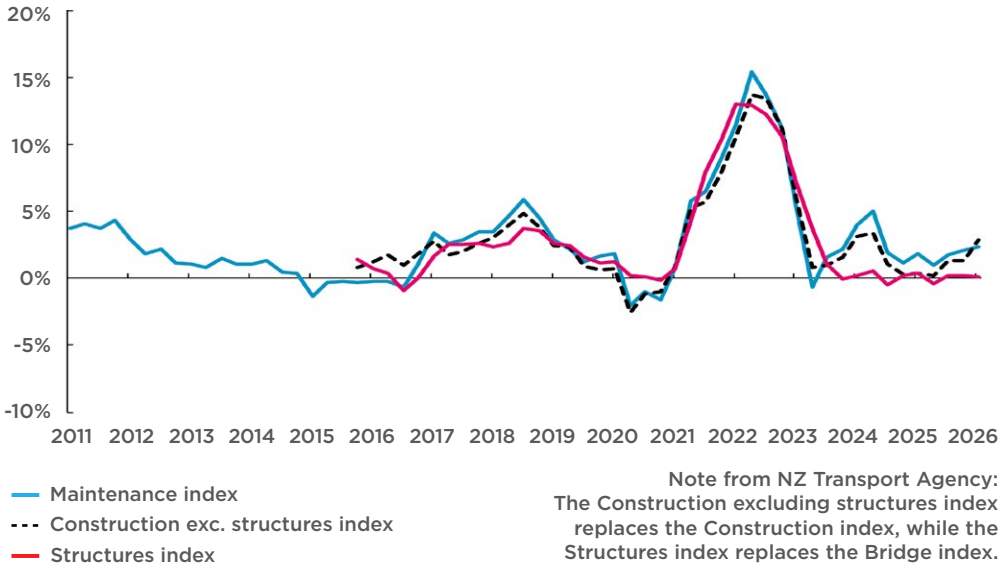
Steel (HRC) China, US Dollars per Metric Ton



Source: China Iron and Steel Association, Consensus Economics forecast

FIGURE 9 NZ Transport Agency cost indexes show a lift in most infrastructure construction costs

Annual percentage change



Note from NZ Transport Agency:
The Construction excluding structures index replaces the Construction index, while the Structures index replaces the Bridge index.

Source: NZ Transport Agency

Transport infrastructure inflation picks up further

The NZ Transport Agency Construction Index focuses on costs specific to transport infrastructure maintenance, construction, and structures (formerly known as bridges). In contrast, the Stats NZ Capital Goods Price Index – Civil Construction measures broader price changes in civil construction, covering a much wider range of infrastructure projects. The NZTA Transport Agency Construction Index is specific to NZTA projects, while the latter encompasses a wider scope of civil construction work.

There was a further lift across most of the NZ Transport Agency cost indexes in the March 2026 quarter, with the annual growth in costs ranging from 0.1 percent to 2.8 percent for the year to March (see Figure 9). The result is consistent with robust growth in annual CGPI Civil construction cost inflation, as the surge in crude oil prices drives construction costs higher, and the solid pipeline of infrastructure work reduces spare capacity in the sector.

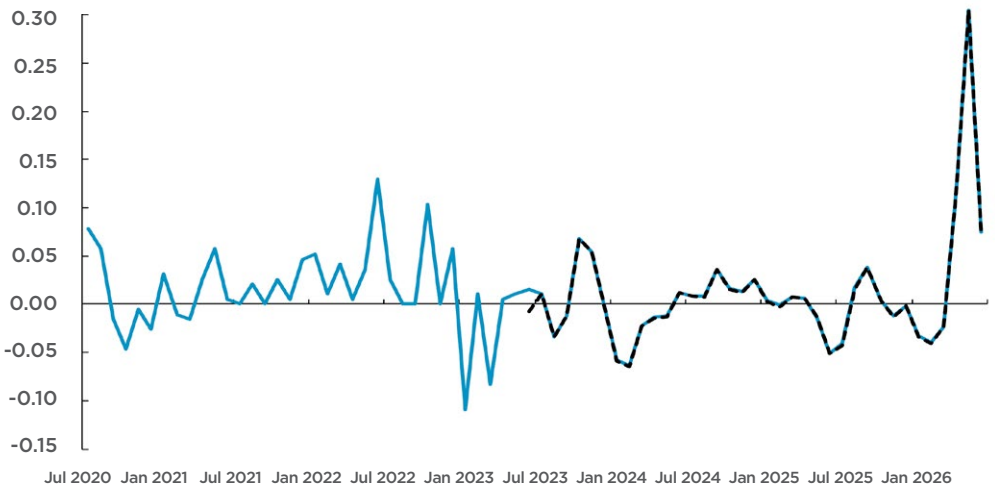
However, the price of some infrastructure construction components has been volatile, highlighting the uncertain outlook for infrastructure construction cost inflation. For example, the most recent decline in bitumen prices partly retraces the surge in the previous month (see Figure 10). The fluctuation in bitumen prices can significantly impact construction costs, particularly in roading projects where bitumen is a key component.

Construction sector feeling downbeat as demand remains soft

The QSBO measure of activity in architects' own offices shows continued weakness in the pipeline of construction across the housing, commercial and Government sectors. Even the emerging recovery in the longer-term pipeline looks to have stalled in the March quarter, with architects now also expecting weakness in the pipeline beyond the coming year based on work in their own office.

FIGURE 10 Volatility in the bitumen price adjustment series

Monthly change in series value ($ per litre)

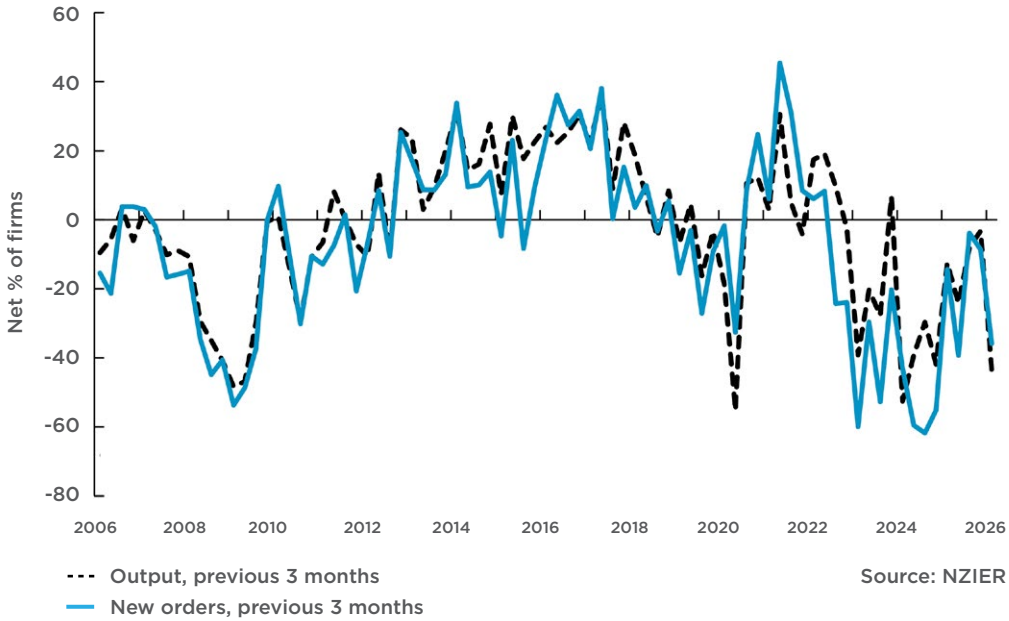


Note from NZ Transport Agency: EXISTING contracts series to be used where the tender close date is before 1 September 2023 – NEW contracts series where the tender close date is on or after 1 September 2023.

Source: NZIER

FIGURE 11 Continued weakness in construction demand

Net percent of firms



Source: NZIER

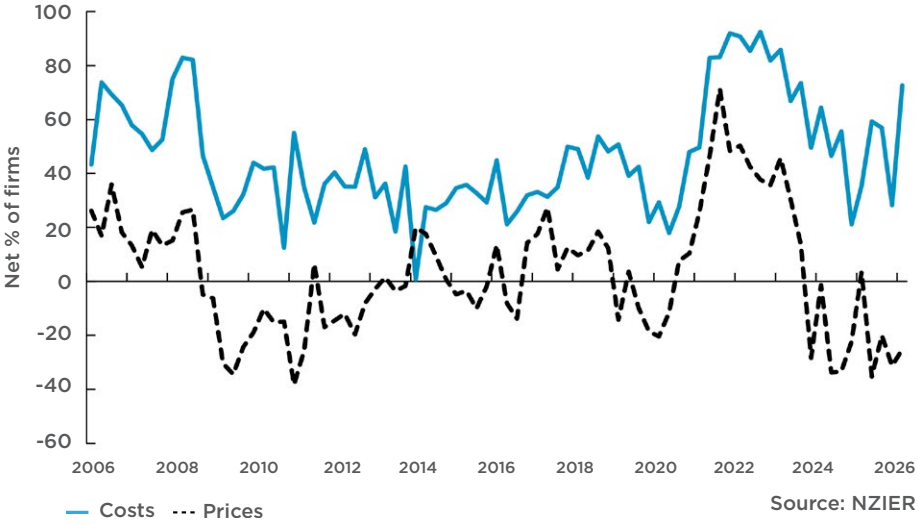
Building sector firms are becoming more downbeat as they grapple with rising costs and continued weak construction demand. A net 28 percent of building sector firms expect a deterioration in the general economic outlook in the March quarter, in contrast to the net 54 percent that had been feeling positive in the previous quarter. Building sector firms continue to report a decline in output and new orders, but there is some optimism about a recovery in demand in the next quarter.

The recent surge in fuel prices has contributed to the intensification of cost pressures in the building sector.

The nature of construction activity means that the sector is particularly exposed to transport costs and disruptions in the global supply chain. A net 73 percent of building sector firms reported facing higher costs in the March quarter. However, weak construction demand is reducing the pricing power in the sector, with a quarter of building sector firms cutting prices in March. The inability of firms to pass on higher costs to customers is driving a further deterioration in profitability in the construction sector. A net 68 percent of building sector firms reported weaker profitability in the March quarter, which highlights the challenging conditions facing the construction sector.

FIGURE 12 Pricing environment remains weak despite intensifying cost pressures

Net percent of firms



Source: NZIER

3. INFRASTRUCTURE CONSTRUCTION DEMAND

The *Pipeline snapshot* produced by Te Waihanga, the New Zealand Infrastructure Commission, shows that infrastructure projects totalled $274 billion in value for the March 2026 quarter[2]. The value of initiatives with full funding increased by $5.5 billion relative to the previous quarter to $91 billion. This is across 5,114 initiatives, which represents 41 percent of the Pipeline (by number of initiatives).

Of all the infrastructure projects in the Pipeline, approximately $163.6 billion is under planning, $2.9 billion is entering procurement, $12.5 billion is in procurement, and $91.1 billion is either entering or under construction.

Compared to the previous quarter, there was an increase across all these project lifecycle stages.

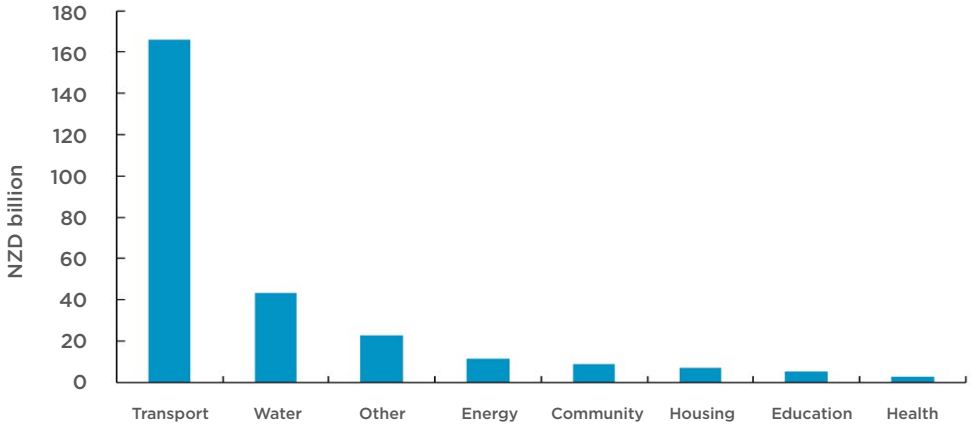
The *Pipeline snapshot* shows that transport and water infrastructure continue to be the key drivers of infrastructure investment, with transport projects totalling $166 billion. Meanwhile, the value of water infrastructure planned for the coming years totalled $43.5 billion (see Figure 13).

For 2025, spending on transport infrastructure accounted for 50 percent of total projected spend at $10.3 billion, while water infrastructure accounted for 19 percent of total projected spend for the year at $3.9 billion.

Meanwhile, the Australia New Zealand Infrastructure Pipeline[4] produced by Infrastructure Partnerships Australia shows that there are currently 30 projects in the infrastructure pipeline in New Zealand, dominated by twelve projects in transport (including eleven in roading). This reinforces the importance of transport-led demand in the New Zealand infrastructure market.

FIGURE 13 Transport infrastructure remains the dominant sector in the infrastructure pipeline[3]

$ billion



Source: Te Waihanga, the New Zealand Infrastructure Commission

The Office of the Auditor-General released its draft annual 2026/27 plan[5], which highlights infrastructure as a high-risk area when it comes to public sector performance, reflecting the complex and fragmented nature across the infrastructure owners and funders, and interdependencies across the infrastructure sectors. The report highlights risks to New Zealand infrastructure stemming from pipeline stability, cost escalation, consenting process and delivery capability. The Auditor-General draws on findings from the Infrastructure Commission's National Infrastructure Plan of major deficits in hospital, water and energy infrastructure, and the need to improve prioritisation, procurement, and whole-of-life asset management.

The Office of the Auditor-General proposes two potential topics to assess for the year: 1) How well the National Infrastructure Plan is being implemented, in considering whether the Government's response is set up for success and whether public organisations' investment plans align with the Plan's guidance; 2) Where the value for money risks are in nationally significant infrastructure projects and programmes. The report also highlights challenges for local government where councils face rising costs, ageing infrastructure backlogs, climate resilience pressures, water reform, debt constraints, and questions about financial sustainability.

2 https://media.umbraco.io/te-waihanga-30-year-strategy/z0jjc3mr/tw-pipeline-snapshot-may2026-25th-may.pdf
3 "Other" includes sectors such as Communications and Waste.
4 Infrastructure pipeline by location - Infrastructure Pipeline
5 https://ao.parliament.nz/2026/annual-plan/docs/draft-annual-plan-2026-27.pdf
6 https://tewaihanga.govt.nz/national-infrastructure-plan

4. METHODOLOGY

Rider Levett Bucknall commissioned NZIER to develop a framework for forecasting a measure that tracks changes in infrastructure construction costs. While there is published information on construction costs related to infrastructure construction from a variety of sources, including the NZ Transport Agency, what has been lacking is forecasts of infrastructure construction cost inflation.

Part of this reflects the large-scale and specific nature of infrastructure projects, which makes it difficult to determine an index that is more broadly representative of cost changes in infrastructure construction. Another reason is the lack of forecasts of the inputs that go into composite indices compiled to capture past movements in various types of infrastructure construction costs.

We have developed a forecast for a representative index of infrastructure construction costs based on 1) the inputs we found to have a significant influence on infrastructure construction costs and 2) the availability of forecasts of these inputs themselves.

4.1.1 CAPITAL GOODS PRICE INDEX – CIVIL CONSTRUCTION

While recognising that infrastructure can span many different types of construction, we consider the Capital Goods Price Index – Civil construction sub-index (CGPI-Civil) the most appropriate measure to represent changes in infrastructure construction costs in New Zealand.

Stats NZ defines the CGPI as a measure which shows *"changes in prices of new physical assets. For the construction industry, these physical assets include residential and non-residential buildings, and infrastructure-related construction such as roads and pipelines. It excludes the cost of ongoing maintenance and services."*

The CGPI-Civil sub-index covers Transport ways, *Systems for water and sewerage, Energy generation, transmission, and distribution works, Construction of telecommunications infrastructure, Other civil construction.*

4.1.2 FORECASTING METHODOLOGY

Based on our testing of empirical relationships in the data, we determined the inputs that influence infrastructure construction costs. We require these inputs to have forecasts themselves so we can use them to form a forecast for CGPI-Civil. Based on these criteria, we developed a forecast model based on the trend and cyclical movements in the following variables. We also note the source of the historical data and forecasts next to each series: Federal Reserve Economic Data (FRED), Reserve Bank of New Zealand (RBNZ), Statistics New Zealand (Stats NZ), NZIER Quarterly Predictions (QP), and Consensus Economics.

- New Zealand Labour Cost Index (Stats NZ; NZIER QP)
- New Zealand population (Stats NZ; NZIER QP)
- Commodity prices (FRED; Consensus Economics)
- NZD/USD (RBNZ; NZIER QP)
- New Zealand output gap (NZIER QP)
- New Zealand construction output gap (NZIER QP).

Our forecast model for civil construction costs reflects the influence of labour market conditions, demographics, commodity prices, the New Zealand dollar and the extent to which both construction and broader economic activity are tracking relative to capacity in the New Zealand economy.

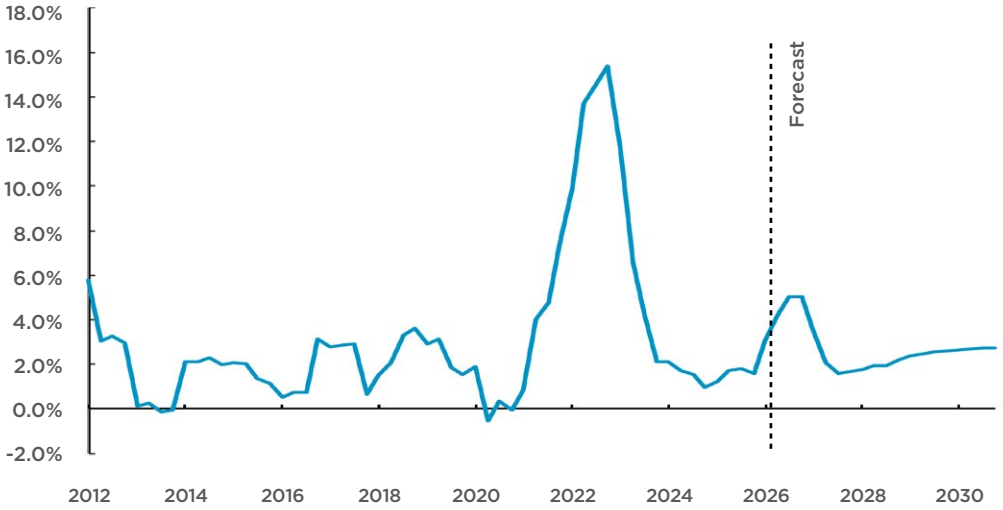
For example, acute labour shortages during the building boom had driven strong wage growth, which in turn puts strong upward pressure on construction costs in the construction sector.

More details on our forecasting model based on these inputs can be found in Appendix A.

5. CONSTRUCTION COSTS

FIGURE 14 Civil construction cost inflation

CGPI-Civil construction index, annual percent change



Source: Stats NZ, NZIER forecasts

The Capital Goods Price Index – Civil construction sub-index (CGPI-Civil) (the Index) is an official measure of cost movements in the sector. The Index excludes GST, and we use the Index as an indicator of cost escalation.

The Index is a national average across all typologies. We, therefore, advise caution when applying the increase in the CGPI-Civil as an indicator of cost escalation for specific projects.

The 1.9 percent increase in civil construction costs in the March 2026 quarter resulted in annual civil construction cost inflation rising to 3.1 percent from the same quarter last year. The elevated level of civil construction cost inflation reflects the resilience in the pipeline of infrastructure construction work, in contrast to other types of construction.

We expect the recent surge in fuel prices to drive up construction cost inflation over the coming year, given the sector's exposure to transport costs. Consensus forecasts are for the increase in crude oil prices to be short-lived, with prices forecast to ease from mid-2026. Our CGPI-Civil Index forecasting model captures forecasts for various key inputs including crude oil, which drives our forecasts for civil construction cost inflation to ease later in 2026.

We forecast that annual civil construction cost inflation will peak at 5 percent towards the end of this year. Beyond that, we expect it to ease to around 1.6 percent in late 2027 before recovering to around 2.7 percent over the longer term.

TABLE 1 CGPI-CIVIL CONSTRUCTION COST INDEX

Year	Quarter	Index	Quarterly % change	Annual % change
2019	Mar	818	-0.2%	2.9%
	Jun	829	1.2%	3.1%
	Sep	830	0.2%	1.8%
	Dec	833	0.4%	1.6%
2020	Mar	834	0.1%	1.9%
	Jun	824	-1.2%	-0.5%
	Sep	833	1.1%	0.4%
	Dec	833	-0.1%	-0.1%
2021	Mar	841	1.0%	0.8%
	Jun	857	1.9%	4.0%
	Sep	873	1.8%	4.8%
	Dec	894	2.5%	7.4%
2022	Mar	925	3.4%	10.0%
	Jun	975	5.4%	13.7%
	Sep	1000	2.6%	14.6%
	Dec	1032	3.2%	15.4%
2023	Mar	1033	0.1%	11.7%
	Jun	1039	0.6%	6.6%
	Sep	1043	0.4%	4.3%
	Dec	1054	1.1%	2.1%
2024	Mar	1055	0.1%	2.1%
	Jun	1057	0.2%	1.7%
	Sep	1059	0.2%	1.5%
	Dec	1064	0.5%	0.9%
2025	Mar	1068	0.4%	1.2%
	Jun	1075	0.7%	1.7%
	Sep	1078	0.3%	1.8%
	Dec	1081	0.3%	1.8%
2026	Mar	1101	1.9%	3.1%
	Jun	1121	1.8%	4.3%
	Sep	1132	1.0%	5.0%
	Dec	1136	0.3%	5.1%
2027	Mar	1140	0.4%	3.5%
	Jun	1144	0.4%	2.1%
	Sep	1151	0.6%	1.6%
	Dec	1155	0.4%	1.7%
2028	Mar	1160	0.4%	1.8%
	Jun	1166	0.5%	1.9%
	Sep	1173	0.6%	2.0%
	Dec	1180	0.6%	2.2%
2029	Mar	1187	0.6%	2.4%
	Jun	1195	0.7%	2.5%
	Sep	1203	0.7%	2.6%
	Dec	1211	0.7%	2.6%
2030	Mar	1219	0.7%	2.7%
	Jun	1227	0.7%	2.7%
	Sep	1236	0.7%	2.7%
	Dec	1244	0.7%	2.7%

Forecast

Note: The current and forecast CGPI-Civil is a national average, which does not differentiate between regions or sectors. We therefore advise caution in applying the CGPI-Civil as a measure of cost fluctuation for specific projects.

Source: Stats NZ, NZIER forecasts

APPENDIX A FORECAST METHODOLOGY

A.1 FORECAST INPUTS

Our forecast model makes use of four inputs from NZIER's regular forecasts and forecast models:

- forecasts of the all-sectors, all salary and wage rates LCI, described below
- forecasts of GDP:
  - » short-term forecasts based on sector – and expenditure-specific cycles in economic activity
  - » long-term forecasts based on labour force growth and trend historical multifactor productivity growth
- long-term trends in industry-specific GDP forecasts based on a descriptive (Vector Auto-Regression) model of trend shares of GDP by industry
- exchange rate: NZD/USD.

In addition, the forecasting method for the CGPI-Civil also makes use of:

- historical oil prices and metals prices
- average consensus forecasts for commodity prices.

The mid-point of consensus forecasts is used to forecast prices because these reflect a variety of different perspectives and forecast methods and consequently embody more information and better-formed expectations than the forecasts of a single forecaster.

LCI All industries

The LCI All Industries forecast is used as input for our CGPI-Civil forecast, which is determined jointly with other key measures of macroeconomic activity. The forecasts are produced through an iterative process that considers both demand and supply aspects of the macroeconomy, institutional settings and economic shocks to global demand or local supply, such as droughts.

The forecast can be accurately described as having both a long-term trend component and a cyclical component. The trend component is forecast using the relationship between CPI inflation and overall wage inflation.

Cycles around the trend reflect fluctuations in the output gap (actual growth in output in the economy relative to growth in productive capacity). These fluctuations affect labour costs by affecting wage demands and the proportion of wage costs from overtime rates.

Forecast cycles also incorporate the delayed effects of rising labour demand on unemployment and employment, as well as subsequent wage inflation. Growth in the LCI lags rising labour demand by 18 to 24 months.

A.2 FORECASTING MODEL

The CGPI-Civil series is forecasted using an econometric model with two parts:

- A model of the long-term trend in the Civil Engineering Index as a function of all-sectors, all salary and wage rates LCI, population growth, oil price, and commodity prices
- A model of short-run and cyclical movements in the Civil Engineering Index as a function of changes in GDP, construction output gap and autoregressive terms.

Output gaps for GDP, construction and all other sectors forecast here are constructed from a (Hodrick-Prescott) filtered trend of industry activity around which cycles can be measured. These cycles dissipate over time, leaving our forecasts to be based on long-term trends.

Contact

RLB NEW ZEALAND

Auckland
+64 9 309 1074

Christchurch
+64 3 354 6873

Dunedin
+64 3 409 0325

Hamilton
+64 7 839 1306

Palmerston North
+64 6 357 0326

Queenstown
+64 3 409 0325

Tauranga
+64 7 579 5873

Wellington
+64 4 384 9198

Ed Cook, Director
+64 9309 1074
ed.cook@nz.rlb.com

RLB Rider Levett Bucknall