Hon Poto Williams

MP for Christchurch East

Minister for Building and Construction
Minister of Police

Associate Minister for Children
Associate Minister of Housing (Public Housing)

29 JUL 2021

Matthew Hooton
fyi-request-15642-9f0d4d78@requests.fyi.org.nz

Tēnā koe Matthew

Thank you for your email of 2 June 2021 to the Hon Dr Megan Woods, requesting the following information under the Official Information Act 1982 (the Act):

> *all advice you, or your officials, have received since 29 March 2021 on possible and/or actual shortages of materials required for building houses in New Zealand.*
>
> *Such materials include but are not limited to timber, concrete, cement, plaster, and home appliances.*
>
> *By advice, I mean formal written advice based on data collection and analysis. But I also include more informal advice, including verbal advice, and that based on anecdote.*

As your request aligns more closely with my responsibilities as the Minister for Building and Construction, your request was transferred to me on 3 June 2021. The timeframe for responding to your request was extended to 16 July 2021.

Please find attached a copy of the documentation within scope. Please note that some information within the documentation has been withheld under the following sections of the Act:

- s9(2)(a), to *protect the privacy of natural persons.*
- s9(2)(b)(ii), to *protect information where the making available of the information would be likely unreasonably to prejudice the commercial position of the person who supplied or who is the subject of the information.*
- s9(2)(f)(iv), to *maintain the constitutional conventions for the time being which protect the confidentiality of advice tendered by Ministers of the Crown and officials.*

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- s9(2)(g)(i), to *maintain the effective conduct of public affairs through the free and frank expression of opinions by or between or to Ministers of the Crown or members of an organisation or officers and employees of any public service agency or organisation in the course of their duty.*

Name of Document	Information withheld under
Structural timber supply in New Zealand	s 9(2)(a), 9(2)(b)(ii), 9(2)(f)(iv), 9(2)(g)(i)
Sector Trends Monthly Media and Information Overview April 2021	-
Sector Trends Monthly Media and Information Overview May 2021	-
Sector Trends Quarterly Snapshot April 2021	s 9(2)(f)(iv)

I do not consider that the withholding of this information is outweighed by public interest considerations in making the information available.

You have the right under section 28(3) of the Act to request a review by the Ombudsman of my response to your request. The relevant details can be found at: https://www.ombudsman.parliament.nz/.

Nāku noa, nā

Hon Poto Williams
Minister for Building and Construction

BUILDING PERFORMANCE

Construction Sector Trends Monthly Media and Information Overview: May 2021

Supply chain concerns, labour shortages and strong building activity are increasing construction costs

Data releases show that the construction sector had the largest growth in filled jobs

The high level of building activity continues, with multi-unit homes driving the rise

General Summary

- Both environmental and economic issues trended across construction-related media items this month.
- Supply chain coverage continued to be prominent through May 2021, along with related issues around labour shortages, strong building activity and rising construction costs.
- Construction costs were also a focal point for research releases, with CoreLogic noting residential cost rises for both the first quarter of 2021, and on a year-to-year basis.
- Data releases showed a level of bounce-back for the construction sector workforce, a continuing high-level of building activity, and an ongoing, upward trend in multi-unit homes (including townhouses, flats and units).

Research Releases

- BRANZ published three research reports in May 2021, with each focusing on climates and temperatures of buildings. The first report looked at thermal bridging issues with exterior walls, while the second looked at the characteristics of exposed and sheltered areas of residential buildings. The third report investigated indoor climates, and their relationship with the health and wellbeing of children. This study found that indoor temperature was associated with children's physical and mental well-being.
- CoreLogic's Cordell Housing Index Price (CHIP) Q1 2021 reported further rises in residential construction costs during the first quarter of 2021 and for the full year to March, increasing 1.3 per cent for the quarter, with an annual rise of 3.3 per cent.

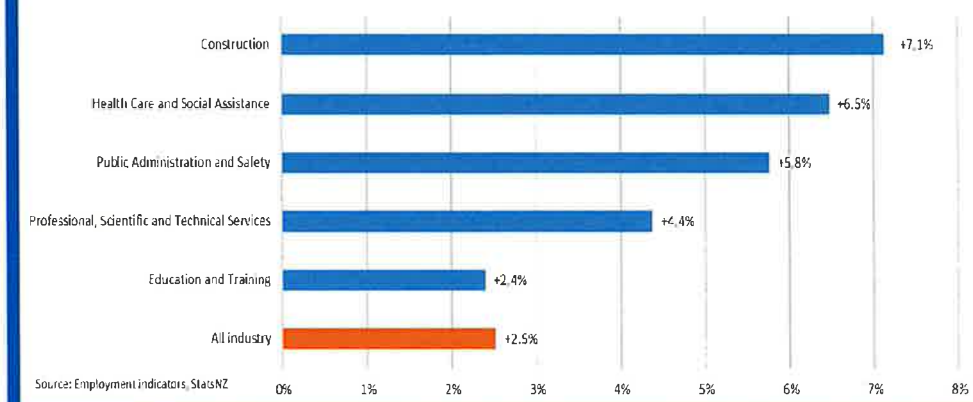
Data Releases

- Stats NZ reported that there were approximately 2,236,000 jobs across all New Zealand industries in April 2021. This was an increase of over 2.5 percent (over 54,000 jobs) from April last year, when job numbers fell to 2,181,000 across the COVID-19 Alert Level 4 lockdown period.
- The data showed that **the construction workforce is maintaining a strong resilience to the economic impacts of COVID-19.** The construction sector had the largest growth in filled jobs, when compared with other industries, for the year to April 2021. **The sector grew by 7.1 per cent (12,568 jobs) during this time.** Other sectors also maintaining strong rises in their workforce numbers included: health care and social assistance (up 6.5 per cent; 15,474 jobs); public administration and safety (up 5.8 percent; 8,058 jobs); and professional, scientific, and technical services (up 4.4 percent; 7,370 jobs).
- Building activity continues to operate at elevated levels. Monthly consenting figures for March 2021 were at record levels, with the same upward trend continuing for the April 2021 consenting figures. The monthly number of new homes consented in April 2021 was 3,994, **up nearly 84 percent from April 2020**. This increasing number of new homes consented in recent years has mostly been due to the **rising number of townhouses, flats, and units**, which increased nearly 45 per cent compared to the same period in 2020.

Media

- There were over **900** building and construction-related media articles generated in May, a sizable increase from the over **730** articles produced throughout April 2021. Trending media content included key themes of: **"green building"; the Budget 2021** announcement and implications for housing; continuing coverage of **supply chain concerns and labour shortages** (both of which were linked to **rising construction costs**); and the **civil case against James Hardie** and the company's 'Harditex' product.
- The New Zealand Herald ran a series of special feature articles in May, dedicated to various stories and perspectives around "green building". A key point highlighted in one article (which was also a prevailing theme across the remaining feature articles), was the need to rethink the way that we typically design, build and use homes and workplaces, for a positive impact on our climate and natural environment. Along with the environmental benefits of green building, some articles also highlighted the economic benefits, such as increasing economic growth and job creation.
- Media reaction to the announcement of Budget 2021, with respect to the building and construction components in the Budget, focused on the $380 million which would be invested into housing for Maori, including papakāinga housing and repairs to existing housing. Outside of this, coverage and commentary alluded to the policy changes announced before the Budget, which focused on the Government's effort to relieve pressure on New Zealand's housing market.
- Coverage of CoreLogics' finding that construction costs had risen 3.3 per cent over the past year honed in on the potential drivers for the rise. In a Radio New Zealand article, CoreLogic's Chief Property Economist, Kelvin Davidson, was quoted as saying that a perfect storm had come together to drive costs higher. These included: unprecedented demand, labour shortages and supply chain issues.
- Throughout the month, the civil case against James Hardies continued, where the accountability for the alleged failures of the Harditex cladding product was debated. While the prosecution focused on the alleged failures of the company, the defence maintained that issues with poor workmanship on NZ houses was to blame.

Top five industries with the largest increases in the number of filled jobs (April 2020-April 2021)



Source: Employment indicators, StatsNZ

BUILDING PERFORMANCE

Construction Sector Trends Monthly Media and Information Overview: April 2021

Supply chain issues and rising construction costs were trending themes in the past month

Leaky apartments and the quality of building stock were highlighted in the media

The gap in building demand and supply and housing affordability continued to be strong themes

General Summary

- Media articles focused on supply chain concerns continued to trend through April 2021. Sub-themes within this content included rising freight costs, concerns around the availability of timber products, proposed tariffs on exported timber products, and the trickle-down effect of increasing overall construction costs.
- Supply-chain issues were likewise highlighted in research and data releases, and were linked to rising construction costs, shortage of skilled labour, and higher costs of labour.
- A new report from Stats NZ and the Ministry for the Environment (MfE), delved into land usage within New Zealand, and reported that urban areas had expanded significantly from the late 1990s.
- There were fewer construction-related research and statistics released in April compared to previous months in 2021.

Research Releases

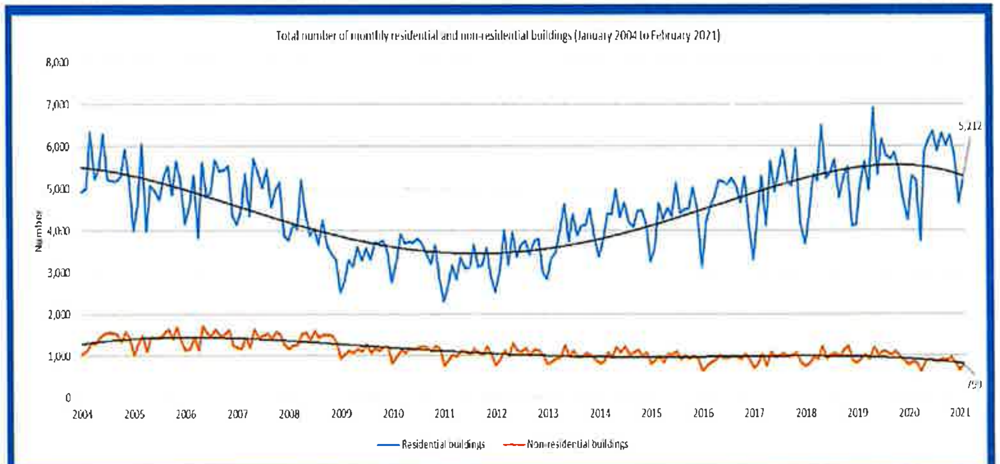
- NZIER's Quarterly Survey of Business Opinion (QSBO) identified a modest improvement in overall business confidence in the March Quarter of 2021. However, the building sector was viewed as being more pessimistic, with the survey claiming supply chain disruptions, along with a shortage of skilled labour, affecting current levels of building activity. However, the QSBO also recognised that there was a solid pipeline of construction going forward.
- Westpac Bank's housing and economic forecast update published in early April, delved into the Government's housing policy announcement from March, and it's potential effect on the housing market. In terms of future residential building, the update concluded that high levels of home building were still expected over the coming years, particularly with a large number of projects already in the pipeline.

Data Releases

- Stats NZ and the Ministry for the Environment (MfE) produced the report, Our land 2021, presenting data on New Zealand's land cover and associated land-use and changes. A key figure from the report was that New Zealand's total urban area expanded by 14.6 per cent (30, 264 hectares) between 1996 and 2018, with 87 per cent of the population living in towns and cities. Additionally, highly productive land became more fragmented between 2002 and 2019, especially through residential development of land sized 2–8 hectares (where lifestyle blocks were about 5 hectares on average).
- Stats NZ also highlighted that the cost of building a new house rose 1.2 per cent in the March 2021 quarter. The "reported shortages of many building products such as timber and house fittings and furnishings, as well as higher labour costs" were attributed to the rise in construction costs.

Media

- There were over 730 building and construction-related media articles generated in April, a slight decrease from the over 760 articles produced throughout March 2021.
- Trending media content included key themes of: escalating **supply chain concerns**; **rising construction costs** (also in relation to supply chain issues); **leaky apartments** and the **quality of the building stock**; and the **gap between housing supply and demand**, and the **effect on overall housing affordability**.
- Both domestic and international supply chain issues were a focus across broadcast, press and internet mediums. Recurring points of discussion were on rising costs of freight, stockpiling of timber products, and the trickle-down impact of supply chain issues on construction costs. TVNZ reported that the shortage could lead to another leaky homes crisis, with claims that shortages of building materials could lead to inadequate substitutions being used. The Building Industry Federation's Julian Leys confirmed that some businesses in the sector were stockpiling supplies, including timber, and that increasing tariffs may have a dampening effect on some woods going overseas. Mike Craig, Chair of Certified Builders Association provided similar comments in a Radio New Zealand Interview, stating that a viable option to positively impact timber supplies was for Government to introduce tariffs on logs sent to be processed overseas.
- A Prime TV documentary garnered strong media interest, as it revisited the leaky home issue with respect to multi-unit buildings. "A Living Hell: Apartment Disasters" outlined multiple issues with some of New Zealand's apartment buildings. For example, a building that was leaking would not just have water-tightness issues, it was also unlikely to be fire compliant, and was likely to have structural issues. Those behind the documentary called for MBIE to work together with BRANZ, NZ Standards, housing and construction groups, and real estate professionals to address these issues.
- The gap between strong demand for housing and the available supply continued to trend across media outlets in April. Stuff.co.nz reported the Ministry of Housing and Urban Development advising the Housing Minister that increasing the overall supply of new build housing in the right places will have the greatest impact on affordability.



MINISTRY OF BUSINESS, INNOVATION & EMPLOYMENT
HĪKINA WHAKATUTUKI

5/4/21

BRIEFING

Structural timber supply in New Zealand

Date:	1 April 2021	**Priority:**	Urgent
Security classification:	In Confidence	**Tracking number:**	2021-3078

Action sought		
	Action sought	**Deadline**
Hon Poto Williams **Minister for Building and Construction**	**Note** background information, potential impacts on the construction sector, and next steps.	7 April 2021

Contact for telephone discussion (if required)				
Name	**Position**	**Telephone**		**1st contact**
Dave Robson	Manager, Building Performance & Engineering	s 9(2)(a)		✓
Katie Symons	Principal Advisor Engineering, Building Performance & Engineering	s 9(2)(a)		

The following departments/agencies have been consulted
Te Uru Rakau – Forestry New Zealand, Ministry for Primary Industries

Minister's office to complete:

- ☐ Approved
- ☒ Noted
- ☐ Seen
- ☐ See Minister's Notes
- ☐ Declined
- ☐ Needs change
- ☐ Overtaken by Events
- ☐ Withdrawn

Comments

MINISTRY OF BUSINESS, INNOVATION & EMPLOYMENT
HĪKINA WHAKATUTUKI

BRIEFING

Structural timber supply in New Zealand

Date:	1 April 2021	**Priority:**	Medium
Security classification:	In Confidence	**Tracking number:**	2021-3078

Purpose

To provide information and context in light of the recent announcement by Carter Holt Harvey regarding structural timber supply, and to outline how the Construction Sector Accord can be used to further understand and address the broader structural timber supply issue.

Recommendations

The Ministry of Business, Innovation and Employment recommends that you:

a **Note** that this briefing contains background information on the current state of the demand for and supply of structural timber in New Zealand.

Noted

b **Note** the potential impact of the recent announcement by a key supplier to halt supplies of structural timber to some retailers on the building and construction sector.

Noted

c **Note** that the Construction Sector Accord has been set up to take a partnership approach to understanding sector challenges such as supply issues, and will be working with industry to assess the extent of the issue and potential options to support a more resilient supply chain.

Noted

Dave Robson
Manager, Building Performance & Engineering
Building System Performance, MBIE
01 / 04 / 2021

Hon Poto Williams
Minister for Building and Construction
5 / 4 / 21

Background

Carter Holt Harvey announcement highlights structural timber supply issue

1. Structural timber used in the construction industry is made from milled timber produced in sawmills that has been subsequently graded according to its strength, to meet the performance requirements specified in the New Zealand Building Code.

2. The most common use of structural timber is solid timber products, such as framing members, rafters and floor joists, sold by retail merchants to builders and DIY customers. Structural timber can also be used to make engineered timber products such as laminated veneer lumber (LVL), timber I-Joists, and cross laminated timber panels (CLT).

3. Despite increasing processing capacity in recent years, Carter Holt Harvey (CHH), the largest supplier of structural timber in New Zealand (approximately 50% of the market) has recently announced that they will be prioritising their supply of solid timber products to Carters and Placemakers stores and halting supply to other major retailers.

4. The announcement impacts approximately ten Mitre 10 stores and ten ITM stores currently relying on CHH and relates to a range of solid timber products.

Factors affecting demand and supply of structural timber

5. Building activity picked up rapidly after the national lockdown in 2020, supported by the Government's COVID-19 Response and Recovery Fund stimulus spending. Domestic demand for construction materials is experiencing a boom. New building consents are at a 46-year high, with 38,000 new houses consented in the year ending October 2020.

6. Furthermore, increased spending on home renovations, extensions, and additions over the last year have added to already high demand for building products as New Zealanders redirect their spending towards home improvements in place of restricted overseas travel.

7. CHH and other timber suppliers have increased processing capacity in recent years and have plans to continue to do so. s 9(2)(b)(ii) [redacted]

8. While demand for all timber building materials is up, structural timber has experienced particularly strong growth due to:

   a) an increase in the construction of multi-storied houses; and

   b) an increase in house renovations, extensions, and additions such as decking and pergolas.

9. The New Zealand supply is still affected by the closure of domestic timber processing plants under the five-week national lockdown in March-April 2020, which resulted in 8 weeks of lost production because of the time required to shut down and reopen processing plants either side.

10. Additionally, s 9(2)(b)(ii) [redacted]

11. Ongoing global supply chain disruptions caused by COVID-19 continue to impact domestic production. The increased cost of shipping and delays to shipping continue to impact production. For example, some chemicals required for the treatment of structural timber products for outdoor use are currently being held up by supply chain disruptions.

12. While the domestic wood processors have increased production, their ability to do so is limited by the capacity of mills to cut and chemically treat timber.

13. CHH and other timber product manufacturers have indicated that their increased capacity has been supported by domestic forest owners and they have not experienced any issues with log supply. The grade of logs used to produce structural timber for domestic use differs from the industrial log grades that dominate our export mix, so there appears to be no domestic supply link to strong export log prices.

14. Structural timber is just one of a range of construction materials currently in short supply, due to supply chain issues. These include nails, toilets, and tapware.

15. MBIE understands there are minimal imports of structural timber into New Zealand, and in any case, the New Zealand situation reflects overseas, particularly US trends. Globally timber prices have reached record highs in all major markets in March 2021. This is driven by a surge in house construction and renovation activity, which is particularly strong in the US. The Forest Economic Advisors' (FEA) expect demand to continue to outstrip supply for the foreseeable future.

Potential Impacts

Impacts on the cost of construction

16. Domestic timber prices are expected to continue to rise in the near term in response to the supply constraint, exacerbating issues such as labour shortages and increased cost of freight. s 9(2)(g)(i) [redacted] This effect may take some time to work its way through the supply chain to the customer, as building retailers operate on 90-day supply contracts and will have existing stockpiles of timber.

17. The current supply constraint is expected to ease in the coming months as timber stockpiles increase over the winter period, so there will be a market for more domestic processing capacity to meet future needs if demand remains strong or rises.

Impacts on the construction sector

18. Other structural timber products such as LVL (laminated veneer lumber) and I-Joists are likely to fill some of the supply gap. These products have superior structural performance than solid structural timber but come at a higher cost and are not appropriate for outdoor use. LVL costs about 30% more than solid structural timber. Producers of these products indicate that they are already experiencing significant growth in demand.

19. Additional wood processing capacity will also be coming online in the coming months. This includes the opening of a new cross laminated timber (CLT) manufacturing plant in Rotorua, which is expected to have processing capacity from May this year. Use of these engineered structural timber products should free up supply of solid structural timber products. Increased demand for these engineered timber products may also encourage further capital investment in these areas, increasing supply to the sector in general.

20. However if demand for building materials continues to grow, constraints on the ability of domestic wood processors to increase production may act as a handbrake on New Zealand's housing driven recovery from COVID-19.

21. If the merchants impacted by the CCH decision are required to ration supply in the short to medium term, they are likely to focus supply on priority customers or raise prices. There are concerns that small builders are likely to be most affected.

Next steps

The Construction Sector Accord

22. The Construction Sector Accord can provide an objective voice to work with industry to understand and assess this issue.

23. The industry and government partnership pledged through the Construction Sector Accord takes an NZ Inc. perspective to understanding and assessing the issues that have significant sector-wide impact.

24. Industry feedback from the Accord Forum and leadership groups has raised several examples of supply chain challenges across the sector from price inflation and pressure points across a range of products leading to stockpiling behaviours and delay in work. Causes of these issues relate to increasing cost of freight through to restricted processing capacity due to COVID19.

25. Whist CHH is not a signatory to the Construction Sector Accord, industry leadership on the Accord expressed a shared surprise to their recent announcements and note that the supply challenges from timber and other materials are having a flow on effect on price inflation across residential, vertical and civil construction.

26. As the Minister for Building and Construction, you have directed the Accord to work with industry partners to advise government on supply chain issues relating to construction in NZ and this includes looking into the recent example of structural timber supply. This advice would also outline whether there is a supply chain issue as well as what the industry would like to see as options to address them.

27. Accord leaders have reached out to CHH for a discussion on the specific matter relating to timber supply and their processing capacity to supply the domestic market. The Accord Transformation Unit will update you in April on this work with industry.

28. As co-leads to the Construction Sector Accord, you and Minister Megan Woods are both joining the Accord Steering Group meeting on 8 April from 3 to 4pm. This would be a good opportunity for you to reinforce the importance of this work and the role of the Accord as the trusted advisor on issues such as this to Accord Ministers and government.

The Forestry and Wood Processing sector Industry Transformation Plan

29. MBIE is aware that Te Uru Rakau – Forestry NZ is working with the timber sector on an Industry Transformation Plan (ITP) for Forestry and Wood Processing. s 9(2)(f)(iv) [redacted] The ITP is on track to be completed in late 2021 with public consultation planned for September-October.

Other Matters

30. The Commerce Commission has indicated it will look into CHH's decision to stop supplying timber to some major retailers. It is concerned over its choice to only supply its largest customers such as its own subsidiary, Carters trade stores.