THIRD QUARTER 2026

INFRASTRUCTURE FORECAST REPORT 7

NEW ZEALAND TRENDS IN INFRASTRUCTURE CONSTRUCTION

August 2026

RLB Rider Levett Bucknall

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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 remains relatively resilient despite weakness in broader construction demand. The surge in fuel prices earlier this year drove a sharp increase in infrastructure construction costs in the June quarter, while other construction costs rose more modestly.

Global oil prices have eased in recent months following the partial reopening of the Strait of Hormuz, and New Zealand fuel prices declined through May and June. However, there will be a lag before the effects of the fuel price surge flow through supply chains and contract prices. This supports our expectations that annual growth in infrastructure construction costs will remain elevated for the rest of 2026, even as the direct pressure from fuel prices begins to subside.

ACCELERATION IN CIVIL CONSTRUCTION COST INFLATION

Civil construction cost inflation continued to outpace that in other areas of construction. The Stats NZ Capital Goods Price Index (CGPI) shows that civil construction costs increased by 2.7 percent in the June quarter, bringing annual growth to 5.2 percent. This was well above the annual growth in residential construction costs of 2.8 percent and non-residential construction costs of 2.2 percent.

We forecast annual civil construction cost inflation to lift further to 6 percent in the December quarter, before easing next year as the effects of the fuel price shock unwind.

BUILDING SECTOR FIRMS REPORT DIFFICULTY IN PASSING ON HIGHER COSTS

NZIER's *Quarterly Survey of Business Opinion* indicates that the construction sector remains downbeat amid a continued decline in new orders and output in the June quarter. Weak demand was putting downward pressure on prices in the sector despite a net 85 percent of building sector firms reporting higher costs in the June quarter.

INFRASTRUCTURE INVESTMENT MORE RESILIENT

Nonetheless, the outlook for infrastructure construction remains more positive than that for general building activity. The Government indicated its support for infrastructure spending, with Budget 2026 including around $7 billion in additional capital investment across transport, health, education, housing and other infrastructure. The Government has also broadly endorsed the recommendations of the National Infrastructure Plan, reinforcing its focus on improving infrastructure planning, funding, procurement and delivery.

Transport remains an important part of the infrastructure investment plan. The New Zealand Transport Agency (NZTA) published its Major Transport Projects Pipeline (MTPP),[1] setting out the sequencing of Roads of National Significance and major public transport projects. These developments should see a large part of the infrastructure pipeline translate into more visible construction activity.

1 https://www.nzta.govt.nz/projects-and-consultations/major-projects/major-transport-projects-pipeline

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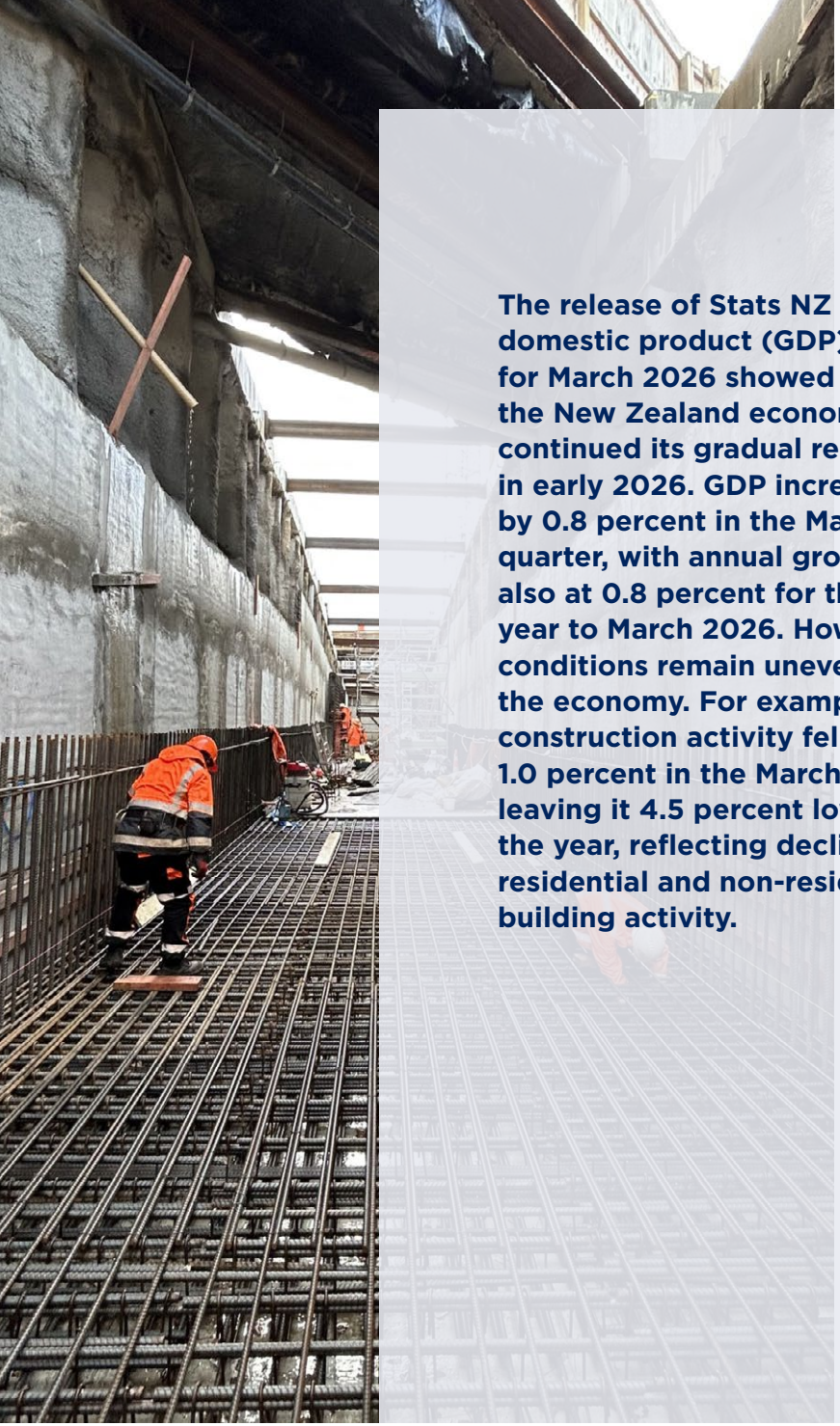
1. INTRODUCTION

Welcome to the June 2026 quarter edition of the Rider Levett Bucknall *New Zealand trends in infrastructure construction*, where we discuss 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 by examining 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 on the construction sector.



The release of Stats NZ gross domestic product (GDP) data for March 2026 showed that the New Zealand economy continued its gradual recovery in early 2026. GDP increased by 0.8 percent in the March quarter, with annual growth also at 0.8 percent for the year to March 2026. However, conditions remain uneven across the economy. For example, construction activity fell 1.0 percent in the March quarter, leaving it 4.5 percent lower over the year, reflecting declines in residential and non-residential building activity.

2. RECENT ECONOMIC DEVELOPMENTS AND TRENDS

The fuel crisis sparked by the US-Israel-Iran conflict at the end of February interrupted the recovery. Restrictions on shipping through the Strait of Hormuz drove a sharp rise in international oil and petrochemical prices. Petrol and diesel prices rose sharply in New Zealand in March and April, squeezing household purchasing power and increasing transport and operating costs for businesses. Construction was particularly exposed, given its reliance on diesel-powered machinery and freight.

The June NZIER *Quarterly Survey of Business Opinion* (QSBO) showed an improvement in business confidence as the most acute phase of the fuel crisis began to ease. A net 12 percent of firms expected an improvement in the general economic outlook in the June quarter on a seasonally adjusted basis, up from a net 1 percent in the March quarter. However, firms' own domestic trading activity remained broadly flat, with only a net 1 percent reporting increased activity in the June quarter. This divergence suggests that the recent easing in fuel prices has largely affected sentiment rather than actual demand.

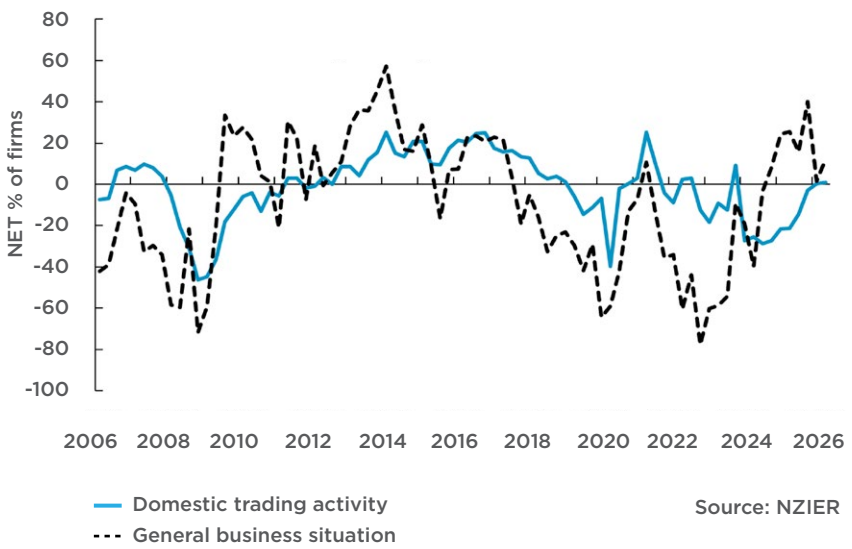
The improvement in confidence coincided with a period when global oil prices began to retreat following progress towards restoring shipping through the Strait of Hormuz. Petrol and diesel prices also fell in New Zealand over May and June.

However, more recent geopolitical developments remain uncertain, and energy markets remain volatile. As a result, businesses are likely to remain cautious even as the immediate squeeze from fuel prices eases.

The building sector remained among the most downbeat sectors surveyed in the NZIER QSBO. A net 6 percent of building sector firms expected general economic conditions to deteriorate over the coming months. Although this was less pessimistic than in the March quarter, subdued construction demand continued to weigh on sentiment. Building sector firms reported further declines in output and new orders, reflecting weakness across residential and non-residential construction activity.

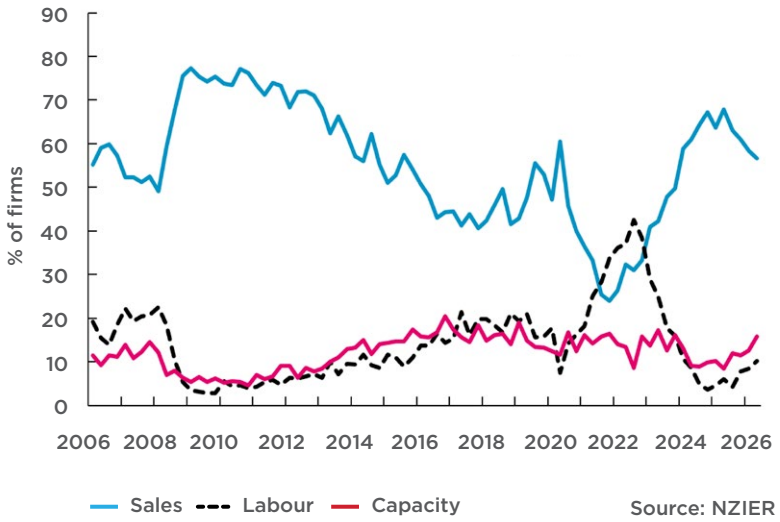
Despite weak demand, cost pressures intensified considerably over the June quarter. More than half of firms across the economy reported higher costs, with cost pressures particularly intense for the building sector. However, weak construction demand put downward pressure on prices in the sector, further eroding profitability. These developments highlight the challenging combination facing building sector firms: sharply higher input costs but limited ability to recover those increases by raising prices.

FIGURE 1 Business confidence recovers as concerns over the fuel crisis ease



Source: NZIER

FIGURE 2 Weak demand remains the primary constraint on firms, albeit easing



Source: NZIER

Labour market conditions also remain soft. The unemployment rate rose to 5.6 percent in the June quarter, up from 5.4 percent in March. The lift in the unemployment rate reflects continued spare capacity in the New Zealand labour market. This should limit broad-based wage pressure, although shortages of specialised construction skills can still arise as infrastructure projects ramp up. This is particularly likely in areas requiring civil engineering and specialist trades, which are less transferable from the residential construction sector.

Weak demand remains the dominant constraint on businesses, though this is easing as a key concern. Nonetheless, the continued prevalence of firms reporting a lack of sales as their main constraint indicates that capacity pressures remain low compared with those experienced during the construction boom. At the same time, increased infrastructure activity and the prospect of a larger forward programme mean that labour, plant and other capacity constraints could become more important in parts of the civil construction market, even while spare capacity remains elsewhere.

More broadly, slack in the New Zealand labour market and weak construction demand mean that the current rise in construction cost inflation is quite different from the escalation seen during the 2021–2022 construction boom. At that time, capacity constraints pushed up prices in the construction sector. For now, the strongest inflation pressures are coming from prices for imported and energy-related inputs rather than from widespread shortages of labour and construction capacity.

The uncertainty caused by the fuel shock has also contributed to caution amongst firms when it comes to hiring. A net 10 percent of firms reduced staff numbers in the June quarter, and a net 1 percent expected to reduce staff in the following quarter. We expect the labour market to remain relatively soft in the near term, although the recovery in economic activity should gradually stabilise employment as the effects of the fuel shock dissipate.

Firms also remain cautious about investment. A net 3 percent of firms planned to reduce investment in buildings, plant and machinery over the coming year. This marks some improvement on the March quarter but indicates that businesses remain reluctant to commit to substantial new investment while demand is subdued and geopolitical uncertainty remains elevated. Continued caution towards investment in buildings is likely to remain a headwind for private sector construction demand.

2.1 INTEREST AND EXCHANGE RATES

The RBNZ increased the Official Cash Rate (OCR) by 25 basis points to 2.50 percent at its July *Monetary Policy Review*. The OCR increase marked the start of the tightening cycle following the substantial easing of monetary policy since August 2024. The RBNZ considered that reducing the degree of monetary stimulus was appropriate given that headline inflation remained above target and economic activity was expected to recover as the effects of the fuel shock faded. We continue to expect further monetary policy tightening over the coming year, although the timing and scale will depend heavily on incoming inflation and activity data.

There remains considerable uncertainty about the net impact of the fuel crisis on medium-term inflation. Higher fuel prices have directly boosted headline inflation and increased costs for businesses, but they have also eroded household purchasing power and weakened demand. The subsequent decline in oil prices has reduced the scale of the immediate inflation shock, although there remains a risk that firms seek to pass earlier cost increases through to prices or rebuild margins as demand recovers. The RBNZ has highlighted its concern that higher fuel prices will lead to changes in price and wage-setting behaviour, with the risk that high inflation becomes entrenched in the New Zealand economy.

Recent cost and pricing indicators reinforce this tension. The June NZIER QSBO showed a marked increase in firms' costs and a rise in the proportion of firms increasing selling prices across the economy. However, building sector firms continued to cut prices despite higher costs, owing to weak construction demand. The RBNZ expects spare capacity to limit second-round inflation effects, but has emphasised uncertainty about changes in price-setting behaviour as the recovery progresses.

The New Zealand dollar has appreciated from its June lows as concerns about global fuel supply and prices eased. Risk appetite has recovered, lifting the NZD. This has eased some upward pressure on the price of imported goods, including building materials.

Across the Tasman, the Reserve Bank of Australia (RBA) left its cash rate unchanged at 4.35 percent in August after raising rates by a cumulative 75 basis points earlier in 2026. Australian inflation remains above the RBA's 2 to 3 percent target band, although the labour market and parts of the domestic economy have begun to soften as higher interest rates take effect. The RBA continues to signal that further tightening remains possible if inflation does not return to within its target band.

In the United States, the Federal Open Market Committee (FOMC) left the federal funds target range unchanged at 3.5 to 3.75 percent at its July meeting. Three members voted for a 25-basis-point increase, reflecting growing concern among some policymakers that rising energy and other prices could lead to more persistent inflation. Economic activity has remained relatively resilient despite heightened uncertainty linked to the US-Israel-Iran war.

US inflation remains above the Federal Reserve's 2 percent target, with supply shocks and higher energy costs adding to price pressures in 2026. The international monetary policy outlook has consequently shifted from expectations of widespread easing towards a greater likelihood that policy rates will remain higher as central banks assess the persistence of energy-related inflation.

2.2 BUILDING INVESTMENT

The March 2026 GDP data showed continued weakness across the construction sector, with construction activity down 1.0 percent over the quarter and 4.5 percent over the year. Within that, residential construction fell 3.1 percent while non-residential construction fell 3.4 percent over the quarter. This weakness contrasts with the 4.8 percent increase in other construction in the March quarter, as the large infrastructure pipeline continued to support activity.

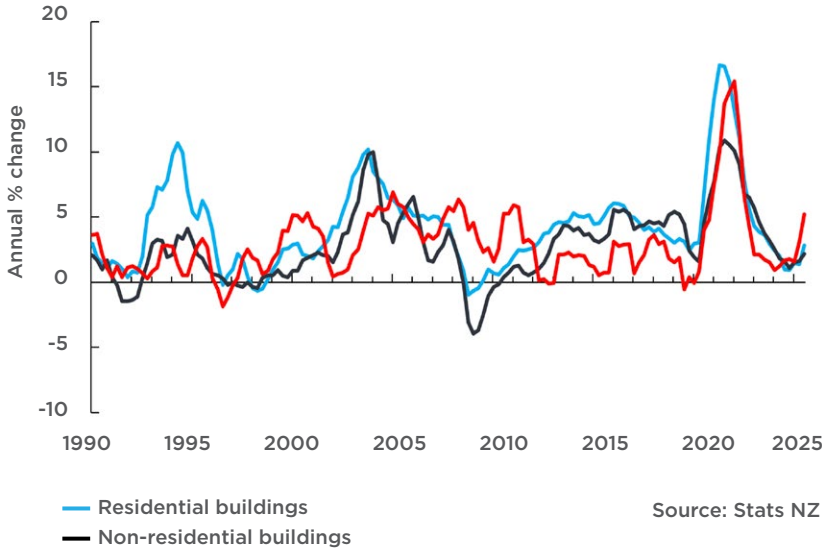
Other construction broadly encompasses construction associated with civil engineering, including major earth-moving, demolition, site clearance, and structures such as bridges, pylons, and assets for oil and gas, but excludes building excavations and routine road resealing.[2] Infrastructure construction is inherently lumpy, with the start and completion of large projects often driving sizeable changes in activity from one quarter to the next. We continue to expect maintenance and investment in new infrastructure to underpin growth in civil construction over the coming years, despite slower population growth and continued caution about investment in new private sector construction.

Government spending commitments outlined in the Budget 2026, together with the greater number of funded projects entering procurement, reinforce this relative resilience.

The divergence between civil construction and other parts of the construction market is increasingly evident in the June quarter Capital Goods Price Index. Weak residential and commercial construction demand continued to leave spare capacity across the wider building sector. By contrast, civil construction costs rose markedly in the June quarter, reflecting strong infrastructure demand and the exposure of civil projects to fuel, transport and heavy machinery costs.

Civil construction costs increased by 2.7 percent in the June quarter, taking annual growth to 5.2 percent. This marks an acceleration from annual growth of 3.1 percent in March. The increase reflects both the resilience of infrastructure demand and the lingering impact of the earlier surge in fuel and freight costs, which had a particularly strong effect on road construction, earthworks and other transport-intensive civil activity.

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



Source: Stats NZ

The acceleration in construction costs occurred alongside a rise in headline consumer inflation. Annual CPI inflation rose from 3.1 percent in March to 4.1 percent in June, with higher petrol and diesel prices the key drivers of the 1.5 percent quarterly CPI increase. The cost of constructing new housing also increased by 1.6 percent over the quarter, reflecting higher materials, fuel and labour costs. These results demonstrate how broadly the fuel shock has flowed through the construction supply chain.

Despite the unemployment rate rising to 5.6 percent in the June quarter, labour market indicators point to pockets of labour shortages. The latest QSBO indicates that building sector demand remains weak, which should generally improve labour availability and restrain wage growth. However, specialised civil construction workers, engineers, and selected trades may remain difficult to recruit, particularly as several large infrastructure projects progress towards construction.

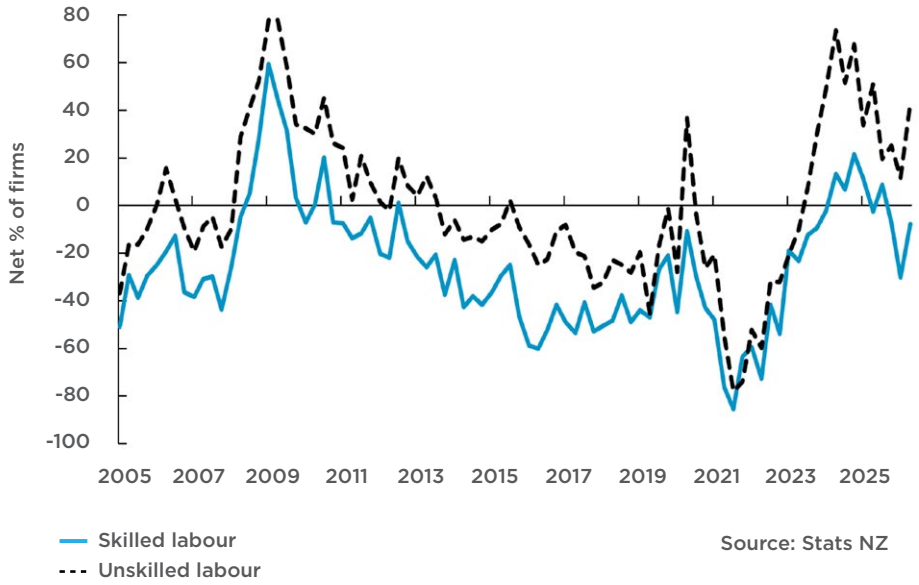
2 https://www.stats.govt.nz/assets/Uploads/Retirement-of-archive-website-project-files/Methods/Annual-national-accounts-sources-and-methods/Annual-national-accounts-sources-and-methods.pdf

The RBNZ increased the OCR to 2.50 percent in July and signalled that further reductions in monetary stimulus are likely as the economic recovery resumes. We continue to expect interest rates to rise gradually from currently low levels. The pace of tightening will depend on how much recent cost increases flow into wider price and wage-setting behaviour, and on how quickly spare capacity in the New Zealand economy is absorbed as demand recovers.

Global oil prices remain the key near-term uncertainty affecting construction costs

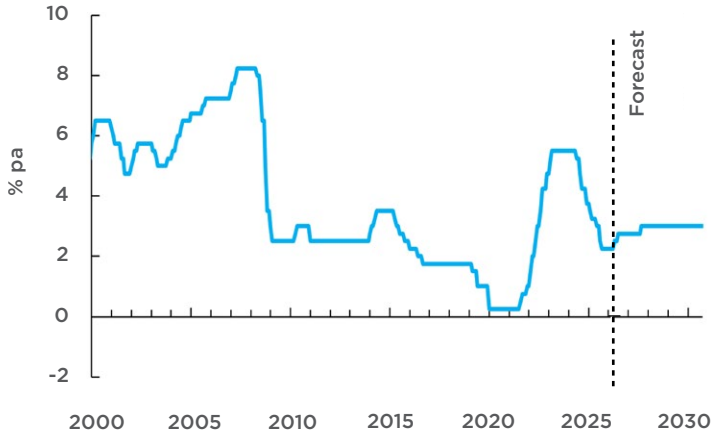
Crude oil is a critical input for infrastructure construction because it is refined into diesel and bitumen, which affect freight and transport costs across the supply chain. Diesel powers heavy construction equipment and transport vehicles, while petroleum-based products are used in many construction materials. The unusually high exposure of civil construction to these inputs explains why the fuel shock had a greater effect on civil construction costs than on other areas of construction.

FIGURE 4 Skills shortages emerging in the construction sector



Source: Stats NZ

FIGURE 5 We forecast further OCR increases over the coming year



Source: RBNZ, NZIER forecast

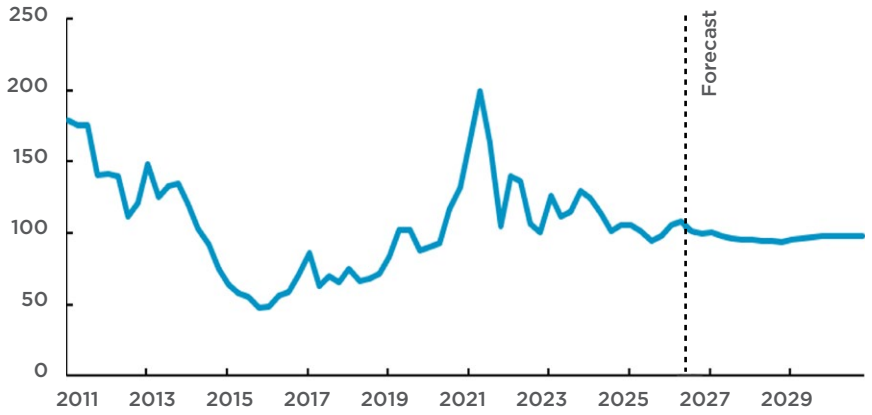
FIGURE 6 Crude oil prices are forecast to ease from their 2026 peak

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 slightly

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 rose sharply after restrictions on shipping through the Strait of Hormuz earlier this year. The partial reopening of the Strait then led to a marked decline in global oil and other petrochemical prices. New Zealand petrol and diesel prices also fell in May and June, although they remained considerably higher than a year earlier.

The updated Consensus Economics forecasts continue to show crude oil prices will ease from their 2026 peak over the coming year. This supports the view that the most acute phase of the fuel-driven construction cost shock will be temporary.

Nonetheless, geopolitical risks remain elevated, and renewed disruption to global oil supply represents the largest near-term upside risk to the construction cost outlook.

Global iron ore prices expected to ease over the coming year

Iron ore is a critical input for steel production and therefore important for infrastructure projects including bridges, railways, buildings and other structures. Global iron ore prices are heavily influenced by construction and industrial demand in China, so developments in the Chinese economy remain important for New Zealand's imported construction costs.

The updated Consensus forecasts continue to point to a modest easing of iron ore prices over the coming year. Weakness in China's property sector and relatively subdued global construction demand should contain pressure on bulk commodity prices. This provides some offset to the upward pressure on New Zealand construction costs from fuel, freight and domestic infrastructure activity.

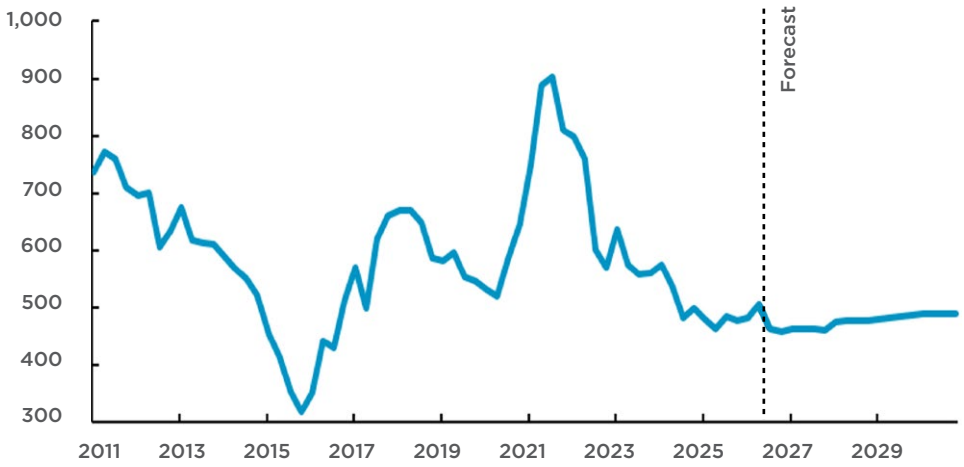
Global steel prices expected to remain subdued in the near term

Global steel prices remain volatile, with overcapacity in Chinese production continuing to weigh on prices in Asian markets.

At the same time, protectionism in the United States and Europe has increased regional divergence in steel prices. The updated Consensus forecasts suggest that Chinese HRC steel prices will remain relatively low in the near term before recovering gradually further ahead. For New Zealand infrastructure projects, subdued international steel prices provide some offset to higher transport and energy-related costs, although exchange-rate movements and project-specific requirements will influence the extent of pass-through.

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

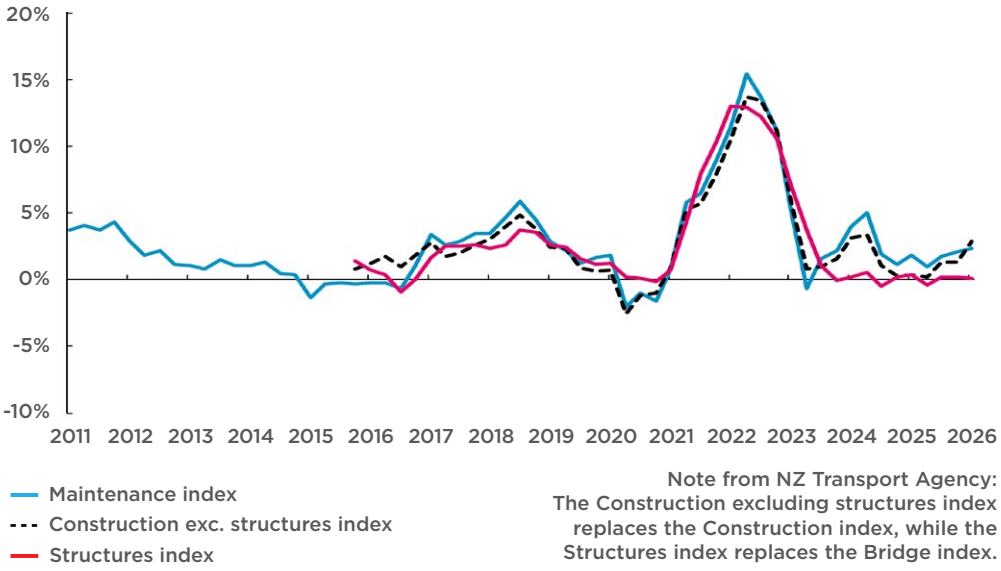
Steel (HRC) China, U.S. Dollars per Metric Ton



Source: China Iron and Steel Association, Consensus Economics forecast

FIGURE 9 NZ Transport Agency cost indexes show a rise 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 across civil construction, covering a much wider range of infrastructure projects. The NZTA Construction Index is specific to NZTA projects, whereas the latter encompasses a wider scope of civil construction work.

The March quarter NZ Transport Agency cost indexes showed a further lift, 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 pushes construction costs higher and the solid pipeline of infrastructure work reduces spare capacity in the sector.

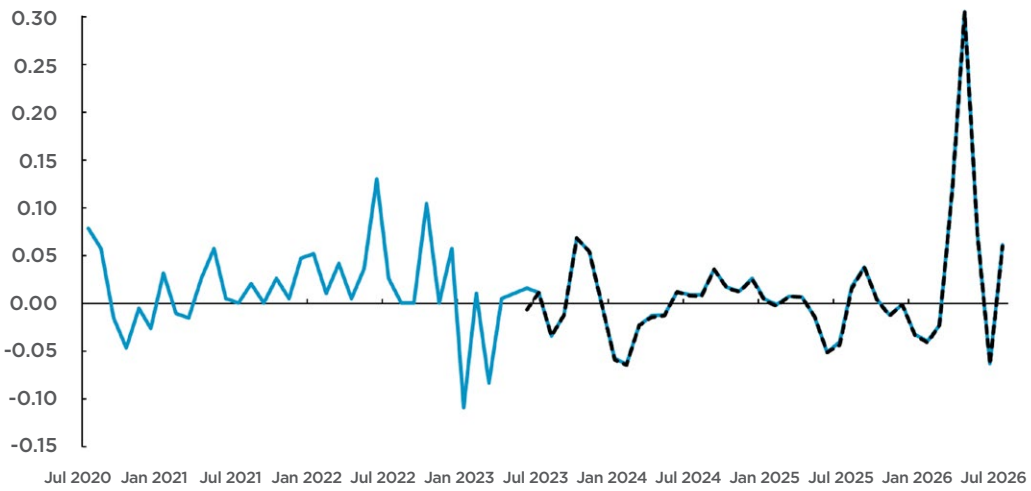
The price of individual infrastructure inputs remains volatile, highlighting the uncertainty about the near-term outlook. The bitumen price adjustment series shows particularly large movements in 2026 as the global oil shock flowed through to bitumen costs and then began to unwind as global oil prices eased. This volatility matters most for road construction and maintenance, where bitumen is a significant input and contract adjustment mechanisms can cause commodity price changes to flow through with varying lags.

Construction sector remains downbeat amid continued soft demand

The QSBO measure of activity in architects' own offices continues to point to weakness in the construction pipeline across housing, commercial and Government work. Architects' expectations for construction activity over the coming 12 months fell across all three categories in the June quarter. Over the following 12 to 24 months, architects expect some recovery in commercial work, but the pipeline for housing and Government construction remains weak.

FIGURE 10 Volatility in the bitumen price adjustment series

Monthly change in series value ($ per litre)

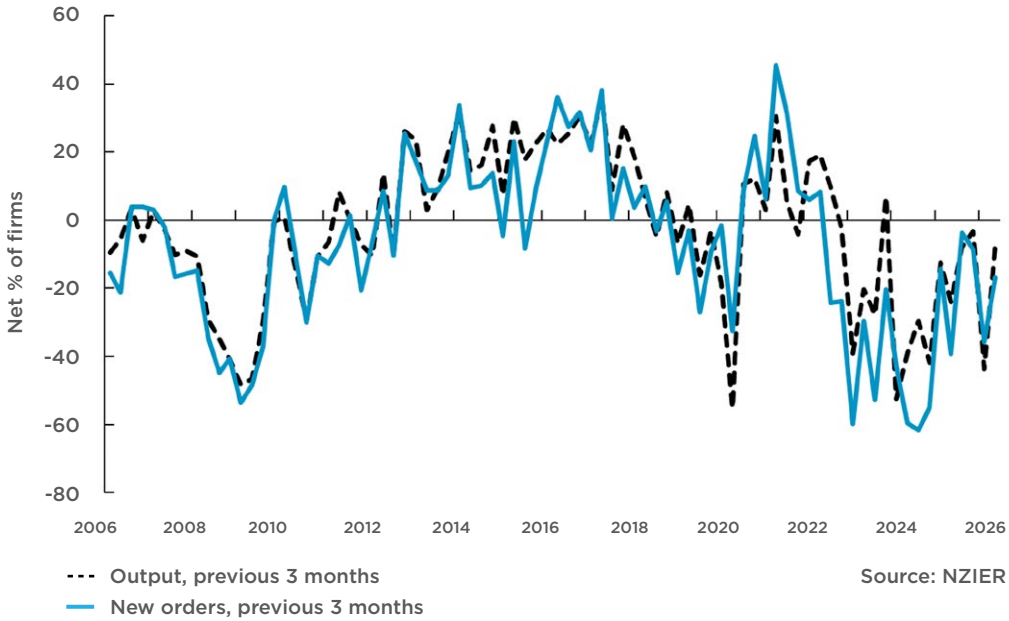


Note from NZ Transport Agency: EXISTING contracts series to be used where the tender close date is before 1 September 2023 – NEW contracts series where the tender close date is on or after 1 September 2023.

Source: NZIER

FIGURE 11 Continued weakness in construction demand

Net percent of firms



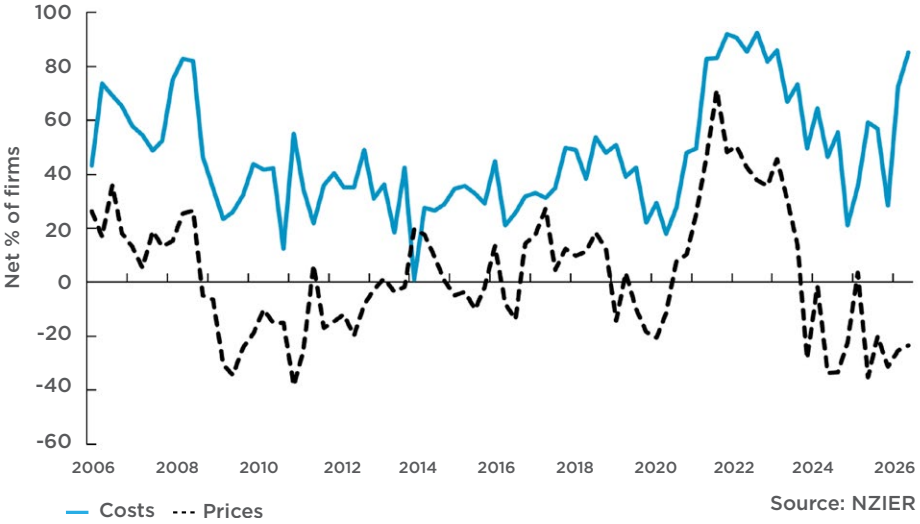
Source: NZIER

Building sector firms remain cautious about the outlook, despite improved confidence across the wider economy. Firms in the building sector reported further declines in output and new orders in the June quarter. This weakness is consistent with the decline in actual building activity, although the rise in new dwelling consents suggests that residential construction may begin to recover. There were 40,581 new dwellings consented in the year to June 2026, 19 percent more than in the previous year.

The fuel price shock has intensified cost pressures on building sector firms. However, weak construction demand continues to erode their pricing power, with firms cutting prices in the June quarter despite higher costs. This is driving a continued squeeze on profitability. The combination of rising input costs and falling selling prices means that increases in construction input costs are not necessarily translating into construction tender price escalation where market conditions are competitive.

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 the total value of infrastructure initiatives rose by $15.6 billion from March to around $290 billion in June. Fully funded initiatives increased by $4.5 billion to $95.8 billion, while the combined value of initiatives with committed funding or a confirmed funding source rose by $3.1 billion to $192.8 billion. These developments indicate continued progress in converting the very large prospective infrastructure programme into more certain investment.

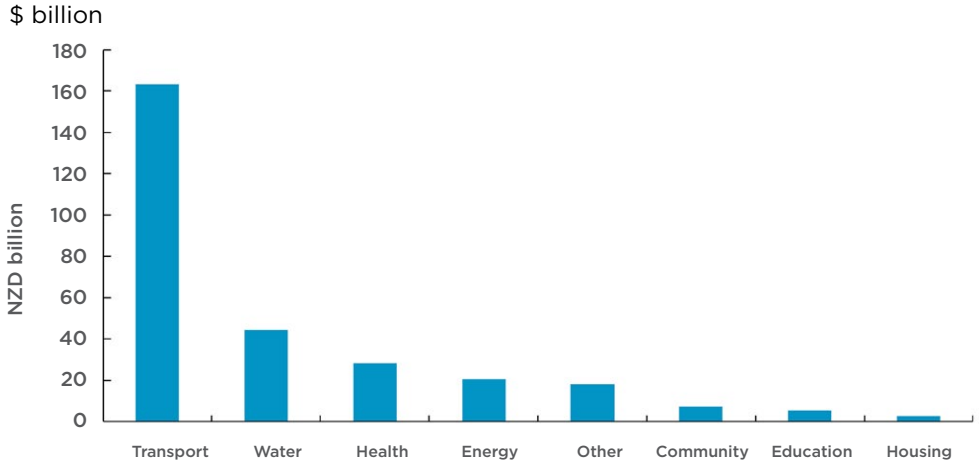
The value of projects already under construction remained around $71.2 billion in June, reflecting a mix of projects reaching completion and new projects entering construction. Meanwhile, 519 initiatives with combined expected costs of $12.7 billion were progressing through procurement. This is an important forward indicator of work with the potential to enter the construction market over the coming year.

The continued increase in fully funded and committed projects is particularly important for the construction sector. The rise in projects reaching full funding, procurement and construction provides stronger evidence that infrastructure activity will support demand in the coming years.

When it comes to projected spend for the coming years, transport and water remain the dominant areas of infrastructure investment. The Infrastructure Commission estimates that transport infrastructure will account for around $9.6 billion, or 46 percent, of total projected infrastructure spending in the next 12 months, while water is expected to account for around $4.7 billion, or 22 percent, over this period. The importance of transport-led demand to the civil construction market is reflected in the fact that projected spending on transport infrastructure is estimated to remain above $5 billion annually through to 2033.

Budget 2026 shows the contribution of Government spending to this investment outlook, with around $7 billion of new capital investment planned across hospitals, schools, roads, rail, defence, social housing and local infrastructure. Transport commitments include funding for the Cambridge to Piarere Expressway and further investment in the rail network, while significant health and education projects will add to the public sector construction programme. This spending will provide an important offset to continued weakness in private construction demand.

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



Source: Te Waihanga, the New Zealand Infrastructure Commission

NZTA's release of its Major Transport Projects Pipeline (MTPP)[4] provides greater visibility into the sequencing of the Roads of National Significance (RoNS) and major public transport projects. Ōtaki to north of Levin, the Hawke's Bay Expressway, Takitimu North Link Stage 1, and SH29 Tauriko West – Ōmanawa Bridge are already under construction. The first stage of the Northland Expressway is in the final stages of procurement, and procurement for Cambridge to Piarere is underway. NZTA expects six RoNS to be under construction by early 2027.

Greater visibility of project timing is important for the construction sector to better plan for resourcing for labour, equipment and capability. The Government and NZTA have acknowledged the need to sequence projects according to available funding and industry capacity. A smoother and more predictable programme should reduce the risk of abrupt swings between spare capacity and shortages.

The Government's response to the National Infrastructure Plan also represents an important development for the longer-term infrastructure outlook. The Government supported 13 of the Plan's 16 recommendations in full and the remaining three in principle. The recommendations include longer-term investment planning, more predictable Government funding signals, stronger asset management and project assurance, improved Pipeline information, and coordinated workforce development. If implemented effectively, these reforms should improve confidence in the forward programme and reduce some of the funding, procurement and delivery uncertainty that has historically contributed to volatility in infrastructure construction activity.

3 "Other" includes sectors such as Communications and Waste.
4 https://www.nzta.govt.nz/projects-and-consultations/major-projects/major-transport-projects-pipeline

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; telecommunications infrastructure; and 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. Forecasts must also be available for these inputs so that we can use them to produce a forecast for the 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 drove strong wage growth, which in turn put 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

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 using the increase in the CGPI-Civil as an indicator of cost escalation for specific projects.

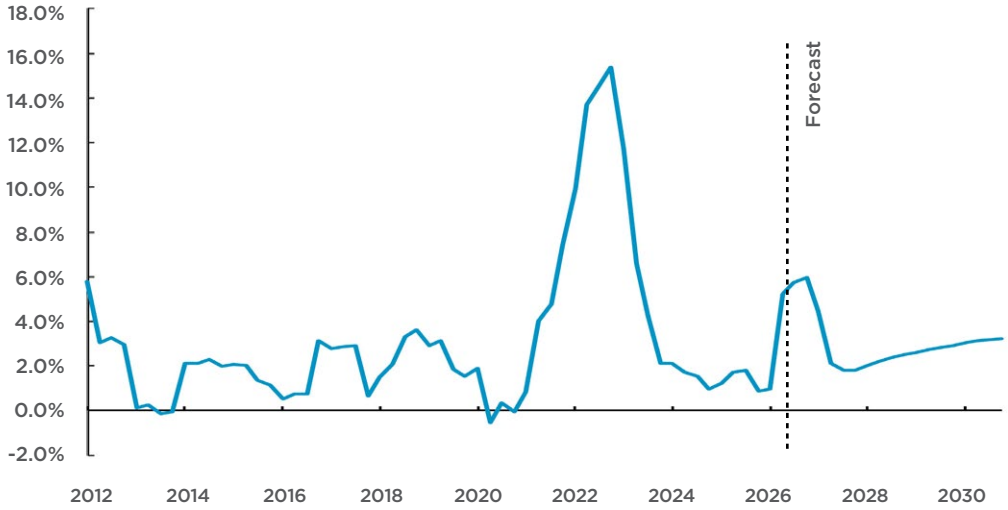
The 2.7 percent increase in civil construction costs in the June 2026 quarter pushed annual civil construction cost inflation to 5.2 percent, up from 3.1 percent in March.

This was a substantially stronger quarterly increase than in recent years and highlights the impact of the fuel price shock on civil construction. The result also reinforces the divergence between infrastructure construction and the weakness in the broader construction market.

The surge in fuel prices was a key driver of the acceleration in civil construction costs because civil construction is particularly exposed to diesel, freight, bitumen and heavy machinery costs. Other inflation data also show the effect of the fuel price shock on firms, with producer input prices rising sharply in the June quarter, particularly in the transport industries.

FIGURE 14 Civil construction cost inflation

CGPI-Civil construction index, annual percent change



Source: Stats NZ, NZIER forecasts

However, global oil and petrochemical prices have since fallen from their earlier peaks, suggesting that the direct fuel-related pressure on construction costs should ease over the coming quarters.

Our updated forecasts show annual civil construction cost inflation rising further to around 5.8 percent in the September quarter and 6.0 percent in the December quarter. We then expect inflation to ease through 2027 as the temporary fuel price shock unwinds. We forecast annual inflation to bottom out at around 1.8 percent in the second half of 2027. This reflects our expectation that easing fuel-related pressures will be partly offset by underlying increases in labour and other construction costs, as well as the relative resilience of infrastructure construction demand.

Beyond 2027, we expect civil construction cost inflation to gradually strengthen as infrastructure activity increases and spare capacity in the construction sector is progressively absorbed. The growing volume of funded infrastructure work should provide an important source of demand, while projects moving through procurement and into construction will increasingly compete for specialist labour, plant and other civil construction resources. At the same time, a recovery in residential and non-residential construction would reduce the extent to which capacity currently available elsewhere in the construction sector can be drawn into infrastructure construction.

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	1131	2.7%	5.2%
	Sep	1140	0.8%	5.8%
	Dec	1146	0.5%	6.0%
2027	Mar	1150	0.4%	4.5%
	Jun	1155	0.4%	2.1%
	Sep	1161	0.5%	1.8%
	Dec	1167	0.5%	1.8%
2028	Mar	1174	0.6%	2.0%
	Jun	1181	0.6%	2.2%
	Sep	1188	0.6%	2.4%
	Dec	1196	0.6%	2.5%
2029	Mar	1204	0.7%	2.6%
	Jun	1213	0.7%	2.7%
	Sep	1222	0.8%	2.8%
	Dec	1231	0.8%	2.9%
2030	Mar	1241	0.8%	3.0%
	Jun	1251	0.8%	3.1%
	Sep	1261	0.8%	3.2%
	Dec	1271	0.8%	3.2%

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 autoregression) 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 they 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 forecast using an econometric model with two parts:

- A model of the long-term trend in the CGPI-Civil 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 CGPI-Civil 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.

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