2014 CONSTRUCTION FORECAST

GOING THE DISTANCE

2014 FORECAST

BY JIM BARNES

While the rest of Canadian industry treads warily in the face of a troubled global economy, the construction sector is still packing a punch.

Some researchers predict that new construction investment in Canada will exceed $300 billion next year, up from this year's net of around $284 billion. "These are all high-water marks," says Michael Atkinson, president of the Canadian Construction Association based in Ottawa, adding that the value of construction in Canada has more than doubled over the past decade.

Here is a summary of how it all breaks down.

DESPITE ECONOMIC BUMPS IN THE ROAD AND REGIONAL DISPARITIES, CANADIAN CONSTRUCTION REMAINS FEISTY

SECTORS STRONG

Infrastructure: As a result of stimulus spending and long project life cycles, infrastructure has been the mainstay of Canadian construction.

The emphasis is now shifting from institutional work towards transit, pipelines and power generation, according to *Construction Looking Forward*, published by the Construction Sector Council (CSC) in February. The list of industrial projects, including mining and oil and gas, keeps on growing.

Work on oil sands and supporting infrastructure should hold steady, says CSC. “A further round of oil sands expansion is expected to start in 2016 and, by 2021, carry labour requirements about 20 per cent higher.”

The only non-residential market to lag consistently is roads, highways and bridges, following government stimulus packages in 2009 and 2010. But the demand remains.

“A report shows that more than 55 per cent of the municipal roads in this country need to be redone,” says Claude Dauphin, president of the Federation of Canadian Municipalities and mayor of the Borough of Lachine, Que.

Residential: The homebuilding market, too, should stay on the rails despite an extended run. In October, Canada Mortgage and Housing Corp.’s fourth-quarter *2013 Housing Market Outlook, Canada Edition 1* predicted that next year’s total housing construction market would be stable due to strong fundamentals including employment growth and migration.

“In the new-home market, builders are nevertheless expected to limit the number of housing starts while inventories of unabsorbed units, completed and under construction, are drawn down,” notes Mathieu Laberge, deputy chief economist for CMHC in Ottawa.

There are well-known caveats. In October, a spokesperson for the Bank of Canada noted: “The elevated level of household debt and stretched valuations in some segments of the housing market remain an important downside risk to the Canadian economy.”

“I think that residential is the single biggest concern for 2014,” says Brad Nelson, president and chief operating officer, Canadian Buildings & International Initiatives, PCL family of companies, Mississauga Ont. “It has been very busy, especially in condos. It is bound to level off to something a little more reasonable.”

Non-residential: Growth in non-residential construction will moderate, according to CSC. “Slower growth is projected for the 2013–2021 scenario period and growth is spread out over a high plateau of gradual employment gains. Growth accumulates to 44,000 new jobs across the nine-year scenario from 2013 to 2021.”

> ***“Quebec is flat, New Brunswick is down a bit, and other parts of the country are up.”***

It is a regional narrative, emphasizes Atkinson. “Quebec is flat, New Brunswick is down a bit, and other parts of the country are up.”

Industrial construction is picking up as the manufacturing economy improves. “A lot of the industrial side seems really to be going strong,” says Nelson. “With the commercial and civil infrastructure side, we’re seeing the same thing, pretty well across Canada… We went through a lot of years where all the big developers did little or no renovations or expansion to existing [commercial] facilities.”

Institutional building is active as well, again depending on the region. “Partnerships BC is very active right now, with a lot of hospital work out for tender,” says Nelson.

“We’re doing a lot of schools, and before that we did a lot of colleges and universities,” says Clive Thurston, president, Ontario General Contractors Association, Mississauga, Ont. “The infrastructure Ontario projects are still coming on line, but you’re only talking about big companies.” →

FACT!
“More than **55%** of municipal roads in this country need to be redone.”

A NATION OF REGIONS

Ontario: "The smaller and mid-sized firms are hurting badly," says Thurston, who is "definitely" predicting a decline in business for next year. "We're doing what we can to help our members prepare for leaner times to come over the next year or two. It could get even leaner in 2015. Until the private sector starts to get more involved and spend some money, all we have right now is public work."

Large firms note the change, too. "The pipeline at Ontario infrastructure has slowed down a bit, but it's still pretty extensive in transportation," says Nelson. "We are not seeing the billion-dollar or $500-million hospitals, but there are projects in the $200-$300 million range coming out in the next couple of years. Between Ottawa and Toronto, it's pretty busy."

"A likely moderation in homebuilding activity and a continuation of efforts by the provincial government to address its rising debt burden are two influences that are likely to keep Ontario's economic growth in the moderate camp. Real GDP growth is expected to clock in at 1.5 per cent in 2013," noted a provincial economic forecast published by TD Economics in October.

One bright spot is Building Together, Ontario's long-term infrastructure legislation. "We have been working with them on a long-term basis to recognize that infrastructure spending is an investment, not a cost," says Thurston.

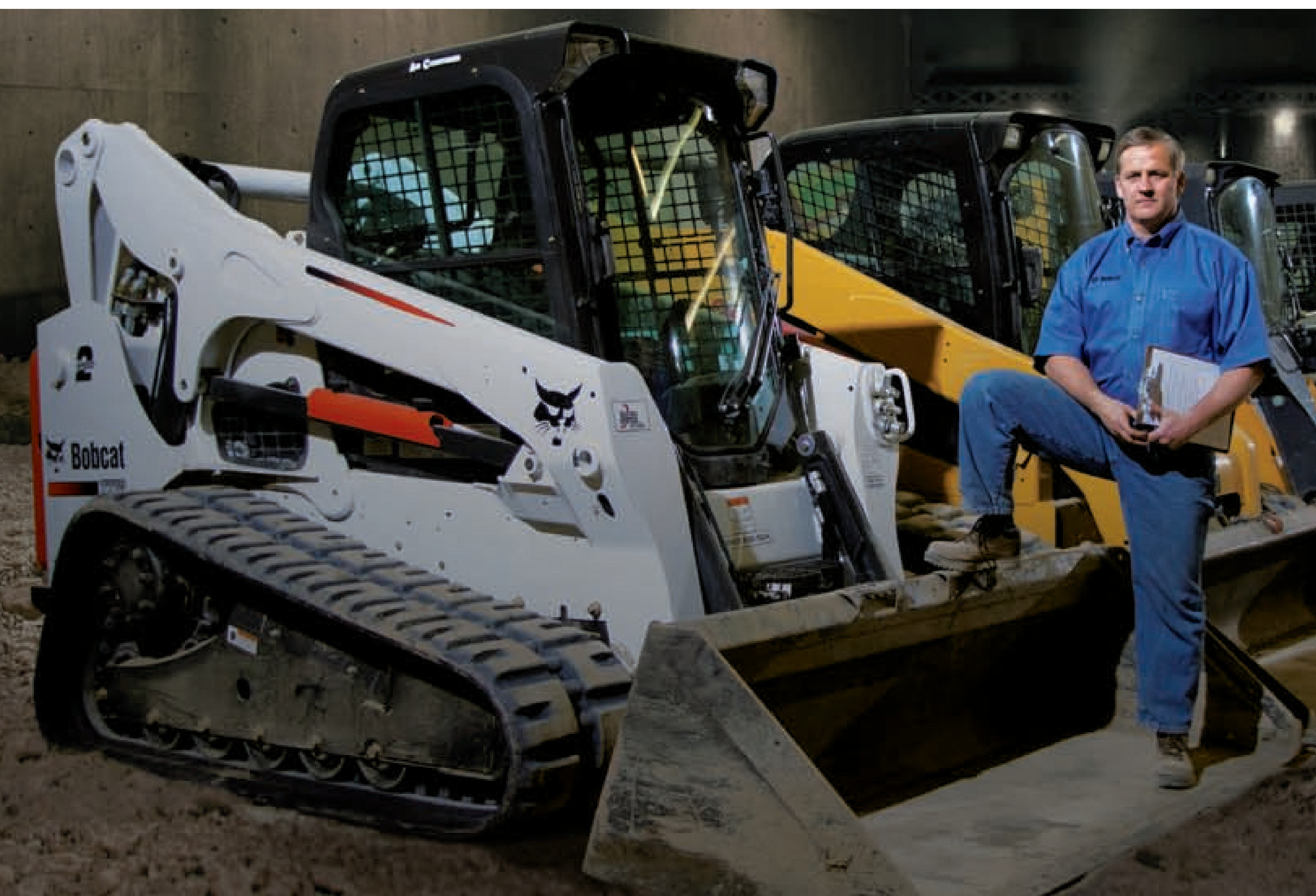
The "10-year plan setting out the government's priorities allows contractors to effectively plan their capital investments in plant, equipment and materials," notes Rob Bradford, executive director, Ontario Road Builders' Association, Mississauga, Ont.

"[Ontario] will continue to make significant investments in infrastructure of more than $35 billion over the next three years, including about $13.5 billion in 2013-14, according to *Building Modern Infrastructure*, published by the Ontario Ministry of Finance in November.

Nelson says generally the Atlantic provinces are steady and kind of flat right now. "We're projecting that into the next year," he adds.

Prince Edward Island: Growth should be "steady but moderate," says TD Economics. The growth of around 1.5 per cent a year over the past few years should continue.

The Atlantic Provinces Economic Council's 2013 Major Projects Inventory (APEC), released in June, identified 44 projects in P.E.I.



totalling $1.9 billion, an eight per cent increase over last year.

New Brunswick: According to APEC, while current-year spending is down, New Brunswick has 75 projects worth a total of $18.9 billion this year, a six per cent increase.

"Capital spending will be supported in 2014 with the $579-million Sisson Brook Tungsten-Molybdenum project," says TD Economics. The report also notes the TransCanada Energy East Pipeline project, potential projects tied to natural gas/shale gas exploration, and work at the Canaport LNG receiving terminal.

Nova Scotia: "Special projects like the shipbuilding project will accelerate growth in Nova Scotia," notes Atkinson. "There will be a lot of spin-off work." APEC identifies 156 projects worth $40 billion, a 23 per cent increase over last year.

Newfoundland and Labrador: "[It] just keeps on growing—especially with the offshore activity and hydro development. The labour supply there is already a problem," says Atkinson.

Some 113 projects totalling $54 billion—a 12 per cent increase over last year's numbers—are listed by APEC, attributing much of the increase to changes in the estimated value of key energy and mining projects.

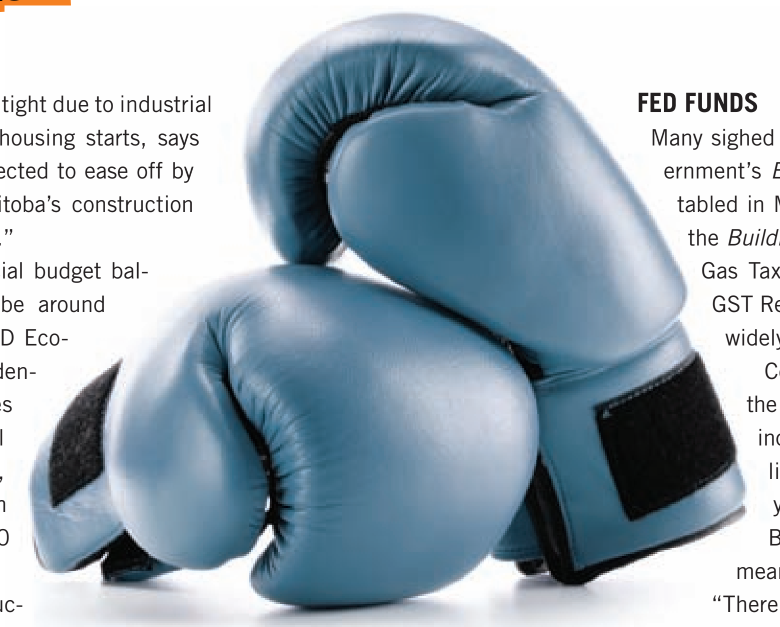
"We forecast economic growth to come in at a much more modest 0.5 per cent in 2014," says TD Economics. "Further out, the development of the Hebron offshore site will support stronger production beyond 2017."

Quebec: The Quebec economy remains flat but improvements to the manufacturing economy—especially in aerospace—should help. In an effort to jump-start economic growth, Quebec recently announced plans for a $2-billion economic initiative to spur job creation. Schools, northern infrastructure and residential energy efficiency are all on the list. Quebec could be reaching the end of a cycle.

"Large mining and related projects have begun, while current and proposed utility projects are scheduled to wind down between 2013 and 2015," notes CSC. Many projects involving electrical generation and transmission will reach completion by 2014.

An overbuilt condominium market stands to weigh against housing activity in major markets in Quebec, noted the TD Economics report.

Manitoba: Economic growth should be about two per cent over the next few years, says TD Economics. Utilities and hydroelectric development spur much of the optimism. →



Labour markets are currently tight due to industrial and commercial building and housing starts, says CSC. "These pressures are expected to ease off by 2014 and 2015, leaving Manitoba's construction workforce at a record high level."

Saskatchewan: With its provincial budget balanced, economic growth will be around three per cent in 2014, says TD Economics. Activity in is non-residential construction and resources have driven growth in residential and commercial development, says CSC. In 2015, construction employment will be more than 60 per cent above historical levels.

Alberta: Overall oil-sands production will increase by as much as 100 per cent from 2013 to 2021, with attendant spin-off construction work, says CSC.

However, declining housing activity and the winding down of some big infrastructure projects will create a pause in employment growth from 2014 to 2016, says CSC. The momentum will return in 2016 as the next round of oil sands expansion commences.

"The government has continued to invest heavily in capital projects," says Gene Syvenky, CEO Alberta Roadbuilders & Heavy Construction Association, Edmonton. "Over the next three or four years, the completion of the ring road and the investment in highway 63 means we will have pretty significant numbers every year."

British Columbia: "[B.C.] stands out among all the provinces for strong employment growth through the recession and across the scenario period, with employment up by 16 per cent from 2009 to 2021," according to CSC.

Non-residential work is increasingly concentrated in utility and mining projects in the North. Residential activity should continue to grow from 2013 to 2017.

Strong economic growth of more than two per cent should return to the province in 2014, according to TD Economics.

A VERY GOOD YEAR

"2014 seems like a very good year," says Nelson. "It is not just the government spending money, but now we have the private sector kicking in. It's a pretty steady pipeline."

There is downside to being too busy, he adds. "As the markets grow, some of the subtrades become more and more taxed on managing their business. Where they used to do $75 million worth of work a year, now they are doing $150 million or more. That can be a big challenge for a smaller operator," says Nelson.

FED FUNDS

Many sighed in relief at the Federal government's *Economic Action Plan 2013*, tabled in March. Renewed support for the *Building Canada Plan*, an indexed Gas Tax Fund and the incremental GST Rebate for Municipalities were widely applauded.

Considerable detail about the plan is available online. It includes more than $53 billion in investments over 10 years, starting in 2014–15. But what does this big spend mean to construction in 2014?

"There shouldn't be any kind of crimp in the hose, as far as the Building Canada Plan goes," says Atkinson. About $6 billion from the last Building Canada Plan remains unallocated. "We're still trying to get some detail on how that $6 billion of unspent, yet committed, funding from the current plan breaks out on a regional basis."

> ***"There shouldn't be any kind of crimp in the hose, as far as the Building Canada Plan goes"***

Last time around, the problem with the program was excessively rigid deadlines, says Thurston.

"We got caught in terms of the construction season," says Dauphin. For the current funding, "It's an emergency, and our members are worried… We are working hard and pushing to make sure that some projects are started for the next construction season."

How much impact will the plan ultimately have on 2014? "The amount of dollars that will finally trickle down from the *Building Canada Fund* is insignificant," says Syvenky. "The provinces are probably asking the same questions: how soon is that money going to hit them?" That could be holding back the design and development of infrastructure."

"2014 won't be much affected by the federal budget. The major programs were already in place... We'll see it in 2015 or 2016," says Nelson. "We're still pretty bullish for 2014, even without it." ☐

Jim Barnes is a contributing editor to On-Site.