CONSTRUCTION FORECAST 2016

THE ROAD AHEAD

BY JIM BARNES

Forecasting the construction business for the year to come is always a challenge, with imponderables such as geopolitical instability, economic turbulence, commodity price fluctuations and other "black swans." This year is even tougher, tossing a brand new federal government into the mix.

Let's start with the great big problem, the decline in the price of oil.

"Capital spending in the oil and gas sector is expected to drop by some 40 per cent in 2015, dealing a major blow to the non-residential and engineering construction sector – as well as support activities for mining, oil and gas – in the oil patch." That ominous quote comes from *Provincial Economic Forecast*, published by TD Economics in October. A modest recovery in crude prices is expected for next year, but nothing that would lead to a "V-shaped" rebound in growth, researchers say.

Not only did a lot of construction related to the oil patch go off the rails, but provincial economies lost access to those royalties to finance other construction projects. That was followed by growing unemployment and weaker consumer confidence in the affected areas.

Low oil prices are not entirely bad for the industry. The weak looney that resulted benefits exporters, especially in manufacturing. The U.S. economy is quite robust and Canada's manufacturers are starting to get back on track as contributors to employment and the GDP. If the trend continues, industrial construction will benefit.

Costs are another possible benefit. There is downward pressure on fuel and material prices. "Of course, the decline in price does not translate directly to savings at the fuel pump or in your next batch of asphalt," points out Andy Manahan, executive director, Residential & Civil Construction Alliance of Ontario. However, he notes, "The inflation rate for construction will probably be within the usual inflation rate, but that's hard to predict."

THE NEW GUYS

Anecdotally, the construction industry seems to be feeling a lot of optimism about the new federal government. The Liberal Party campaigned with a very aggressive commitment to infrastructure, including a willingness to run deficits for a few years to grease the wheels.

In a nutshell, they committed to doubling the current federal infrastructure investment to $10 billion per year for each of the next two fiscal years and increasing the base infrastructure spend each year for the next decade. That translates to an increase of $9.5-billion annually, bringing the federal infrastructure investment from about $65 billion to nearly $125 billion. They also said a Canada Infrastructure Bank would be established to help finance infrastructure.

It was a popular stance. Infrastructure

Ontario Finance Minister Charles Sousa confers with Perrin Beatty, president and CEO of the Canadian Chamber of Commerce and Quebec Minister of Finance Carlos Leitao on future demand for infrastructure at the CCPPP National Conference.

is widely accepted as an investment that offers considerable payback (see *Infrastructure Provides Massive ROI*, page 14) and surveys revealed wide public support for the notion of infrastructure spending as a way to kick-start the economy.

Political awareness of the value of infrastructure investment beyond political paybacks or job creation seems to have sunk in. "An infrastructure deficit can decimate a nation's economy just as much as a fiscal deficit can," notes Atkinson.

The Liberals also championed pushing the decision-making process down to the municipalities, promising to streamline the application process. In keeping with that commitment was the decision to drop mandatory P3 screening from projects valued at $100 million or more – an onerous and time-consuming procedure when a P3 did not appear to be an appropriate delivery mechanism and was unlikely to be used.

"The program has to be flexible," said Atkinson. "The priorities at the municipal level are most important. They are the custodians of this infrastructure, they are the ones that have to set the priorities – the priorities can't be set in Ottawa."

If there is a fly in the ointment, it is the declaration by Finance Minister Philip Morneau that his government inherited a $3 billion deficit, not a $2 billion surplus, from its predecessors. "The simple truth is that the economy hasn't performed as well as last projected in the last budget," he said, predicting 1.5 per cent growth instead of the two per cent cited by the Conservatives. That puts pressure on Liberal deficit projections.

Even so, that is not an unreasonably large deficit and Atkinson cautions not to make too much of it. "The international community doesn't look at whether a particular government is headed for a deficit or surplus one year or not. What they look at is the GDP," he notes. "Is the economy growing?" You can manage your debt, but if the economy is not growing, you have not achieved anything."

"There were a lot of good things learned from the previous (Building Canada) program – to have a one-page application so that you could actually get projects into the ground relatively quickly," says Atkinson. "The Liberal government decided, quite prudently I think, to use the same infrastructure as the building Canada Plan – to use the same elements for the same kinds of infrastructure."

EXPORT POTENTIAL

Another developing trend is export. Many large Canadian construction firms already export services and expertise, in many cases to the U.S. Other markets are beckoning.

The Liberal government is reviewing the recently signed Trans Pacific Partnership (TPP), a trade agreement reducing or eliminating trade barriers among several Pacific Rim countries including Canada and the U.S. Construction procurement may well be on the table.

Export was a theme at the recent National Conference of the Canadian Council for Public-Private Partnerships (CCPPP) in Toronto. Besides a keynote by international trade lawyer Gary Horlick on the TPP, Edmundo Gamas, executive director of the Mexican Institute of Infrastructure Development addressed the gathering and a session was held on business in Southeast Asia as well as on the next generation of P3s in the USA.

The room was full of invetment specialists looking for places to invest their assets and senior politicians eager to get more infrastructure into the ground. Issues such as transparency, risk and data analysis were front-and-centre. One session on project size was particularly illuminating. As the process is better understood, smaller P3 deals may become feasible… on the $50 million scale, as well as the $100 million.

SECTOR ACTIVITY

Residential construction may soon be due for a breather, according to Canada Mortgage and Housing Corp.'s fourth quarter *2015 Housing Market Outlook, Canada Edition* (published at the end of October). It calls for housing markets to moderate in 2016 and 2017.

"In 2015, increased housing market activity in provinces like Ontario and British Columbia – provinces that have benefitted from declining energy prices, a lower Canadian dollar and continued low mortgage rates – offset slowdowns in oil-producing provinces like Alberta," said Bob Dugan, CMHC Chief Economist. "We expect, however, that this counterbalancing effect will decrease over time. As such, housing starts and MLS sales are projected to moderate in 2016 and 2017."

CMHC expects 2015 housing starts to range between 162,000 and 212,000 units, with a point forecast of 186,900 units. For 2016, housing starts are forecast to range from 153,000 units to 203,000 units, with a point forecast of 178,150 units. In 2017, starts are anticipated to range between 149,000 and 199,000 units, with a point forecast of 173,650 units.

Non-residential and engineering construction are centrepieces in provincial budgets across the country. The August issue of On-Site listed a number of billion-dollar projects that are in the works across the country *(Billion Dollar Babies)*. "Pretty much all the provinces have significant, ten-year plans for infrastructure investment," says Atkinson.


OFTEN TESTED. NEVER BESTED.
Built to stand up to everything the job delivers and do it every day. That's the beginning of what it takes to be a Western Star® Incredible durability, comfort and style, all crafted with an attention to detail that makes each one an excellent value for years to come. And there's only one way to experience it – behind the wheel. It's time to GET YOUR TOUGH BACK.
Find a dealer at westernstar.com.
DETROIT
DAIMLER | Western Star - A Daimler Group Brand
WESTERN STAR
WS/MC-A-536 Specifications are subject to change without notice. Western Star Truck Sales, Inc. is registered to ISO 9001:2008 and ISO 14001:2004.
Copyright © 2015 Daimler Trucks North America LLC. All rights reserved. Western Star Truck Sales, Inc. is a subsidiary of Daimler Trucks North America LLC, a Daimler company.

RECRUITING CHALLENGES

Once again, one of the great challenges faced by the industry next year will be a familiar one… finding staff.

From 2011 to 2014, national growth was 62,400 jobs, while gains across the 10-year scenario period, 2015-2024, will be just 81,000 jobs, as noted in BuildForce Canada's *Construction and Maintenance Looking Forward*, published in March 2015. However, demand created by expansion pales in comparison to the demand generated by upcoming retirements, the document says. As many of a quarter of a million replacement hires could be necessary by 2019.

"Meeting these demands from unemployment, moving the workforce across markets and provinces, and attracting Canada's youth into construction will not be enough. An additional 100,000 new workers from outside construction – and likely outside of Canada – will be needed," according to BuildForce.

"The availability of experienced, skilled workers and construction management personnel and trades is going to be a challenge," says Atkinson. "I'm not talking about new entries… I'm talking about people with 10 or 15 years of experience."

Many in the industry are optimistic about next year… but they are not letting that tamper with their sense of realism. "So far, so good," says Manahan. "Everyone is saying the right things about spending money on infrastructure. We just hope it's the right infrastructure – the stuff that's going to give you the best return on investment."

When all is said and done, 2016 does seem to present opportunity to the agile contractor. "We haven't done any surveying, so anything I say will be anecdotal. But generally, I'll say we err on the side of optimism that it's going to be a decent year," says Manahan.

"Overall, I think the prognosis for Canada, especially infrastructure sector, is still buoyant. Modest growth is expected," notes Atkinson.

Jim Barnes is On-Site's contributing editor. Send comments to editor@on-sitemag.com.

IN THE PROVINCES

British Columbia, Ontario and Manitoba will lead the nation in growth, as they are well-positioned to capitalize on rising export demand, notes TD Economics.

BRITISH COLUMBIA: Real GDP growth is estimated at 2.5 per cent in 2015 – more than double the national rate. Over the 2016-17 period, it should be just above two per cent annually. BC's manufacturing sector had a nominal sales gain of close to five per cent through the first half of the year, according to TD Economics.

ALBERTA: Real GDP contracted 1.4 per cent in 2015, according to researchers. Growth over the 2016-17 period is set at around 1.4 per cent per year. Output in the construction sector is projected to contract by more than 20 per cent this year, largely reflecting a 25 per cent drop in non-residential and engineering construction. Housing starts are also forecast to decline by some 10 per cent this year. Construction activity is expected to decline over the 2016-17 period.

SASKATCHEWAN: Low oil prices are expected to lead to a 0.8 per cent contraction in real GDP this year. "Engineering construction is assumed to decline in 2015, in line with lower rigging activity," TD Economics researchers said. Capital spending is anticipated to move lower next year before stabilizing in 2017.

MANITOBA: Solid gains in the manufacturing, construction and agricultural sectors should deliver real GDP growth of more than two per cent this year and over the 2016-17 period, according to TD Economics.

ONTARIO: Manufacturers are benefiting from low exchange rates and GDP will rise by two per cent as exports rise. A 2.4 per cent increase in real GDP is predicted for 2016, with growth projected at two per cent in 2017. Nominal GDP growth in Ontario is expected to average 4.2 per cent over the 2016-17 period, according to TD Economics.

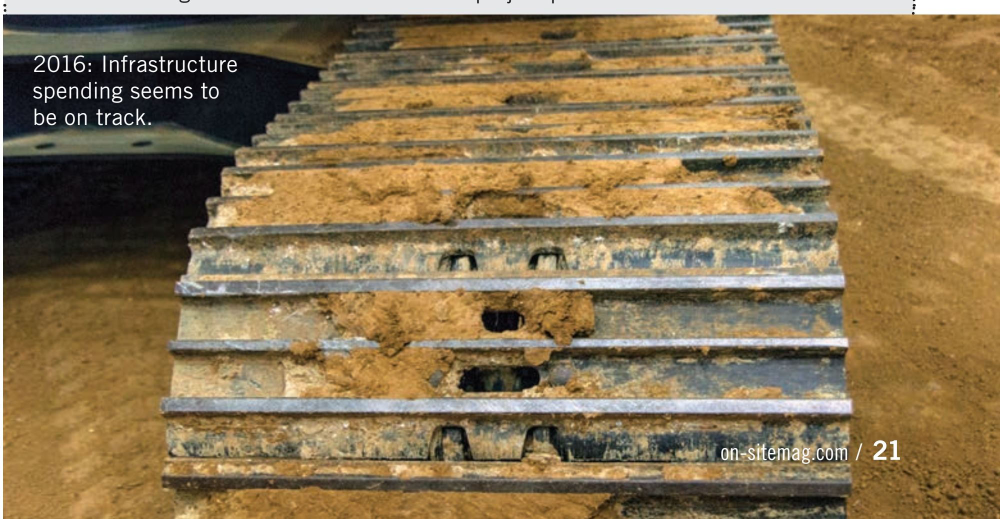
The province has announced an aggressive, 10-year infrastructure investment program totalling more than $130 billion.

QUEBEC: Real GDP is expected to increase by 1.3 per cent (year over year). "A pull-back in activity in the province's construction sector has weighed on economic activity so far this year," noted researchers. TD Economics calls for new residential construction to move lower over the 2015-16 period before rising in 2017.

The Quebec Infrastructure Plan has allocated investment of $88.4 billion over the coming decade.

ATLANTIC CANADA: The dramatic drop in commodity prices that began last summer is continuing to impact development activity in Atlantic Canada, especially in Newfoundland and Labrador, noted the Atlantic Provinces Economic Council's *Major Projects Inventory,* published in May. Research shows spending on major projects in 2015 is expected to total $13.3 billion in Atlantic Canada, down five per cent from last year.

"Spending for this year is up slightly in the three Maritime Provinces and down nine per cent in Newfoundland and Labrador," said Patrick Brannon, APEC's Director of Major Projects. "In Newfoundland and Labrador, weaker oil and iron ore prices are impacting the pace of development and activity on the Hebron oil project peaked in 2014."



2016: Infrastructure spending seems to be on track.