

Canadian Construction Industry Forecast: 2006-2010
December 2005
(Note: All figures have been prepared by Informetrica Ltd.)

The exceptional, rapid growth of the construction industry of 2000-2004 has moderated in 2005. A small reduction in housing starts in 2005 has slowed growth of residential construction from its annual pace of 9 per cent in the previous five years, with this partially offset by recovering construction of non-residential buildings, and continued strength in engineering construction. The Gross Domestic Product (GDP) – which represents the added value of all production delivered by the construction industry – after adjusting for price changes, grew by 2.9 per cent in 2005. In 2006, growth is expected to slow to 1.2 per cent, with this followed by 0.9 per cent in the following year. The moderate pace continues to the end of the decade with annual advances of 1.6 per cent in each of 2008-2010. (see Table 1)

Real Gross Output, which denotes the value of all of construction put in place, or GDP plus the cost of material and service inputs required to deliver a project, should grow by similar amounts – 4.8 per cent in 2005, close to one per cent in 2006 and 2007, and about 1.5 per cent in the last three years of the decade. In 2005, Gross Output in nominal dollars (a measure of the industry’s market in today’s dollars) should be about \$160 billion. For forecast Gross Output levels, see Appendix 1.

TABLE 1- CHANGE IN GDP, CANADIAN CONSTRUCTION INDUSTRY
(CONSTANT DOLLARS); 2005-2010

	2005	2006	2007	2008	2009	2010
CONSTRUCTION- OVERALL	2.9%	1.2%	0.9%	1.6%	1.6%	1.6%
CONSTRUCTION -RESIDENTIAL	1.1%	-2.8%	-2.8%	0.3%	1.2%	1.0%
CONSTRUCTION -OVERALL NON-RESIDENTIAL	3.9%	3.3%	2.7%	2.2%	1.9%	1.9%
REPAIR CONSTRUCTION	1.2%	2.1%	2.1%	2.2%	2.1%	2.3%

Notable in the view for non-residential construction is a small growth of non-residential building in 2005, and this is expected to strengthen over 2006-2010. This follows a prolonged period of reduced building after the high levels at the end of the 1980s. The projection indicates that real activity will be restored to the late-1980s standard by about 2007. Monthly data suggest that almost all components of engineering construction have strengthened notably in 2005, and further strong growth is expected carrying over into at least 2007. World oil prices should fall back in the next two years, but only by about 10 per cent, so that the revenue picture underpinning strength in oil and gas construction should remain strong.

Construction of electric power and transmission systems, which has grown to high levels in the last five years, is expected to also increase strongly to the end of the decade. High world energy prices have been driven by strong global growth, which has also raised basic metals and other commodities prices from early in 2003. This is reflected in strong growth in other engineering construction, where development of the mining industry is a key factor behind construction activity. Data on exploration activity in 2004 and 2005 has been robust providing further support to the expected strength in such activity. Construction of transportation infrastructure increased by one-third in the years after 2000. From this high level of activity, expect further strong increases through 2006 with some later-in-the-decade fall back. A policy focus on transportation “gateways” could alter this prospect, but is not included in the outlook pending further development of

government planning. Finally, a recovery in communications engineering is noted in the short term, but this only partially recovers the downscaling of this activity in the early years of the decade.

TABLE 2- CHANGE IN GDP, NON-RESIDENTIAL CONSTRUCTION SUB-SECTORS
(CONSTANT DOLLARS); 2005-2010

	2005	2006	2007	2008	2009	2010
Non-residential Building	0.4%	1.1%	1.7%	2.6%	2.8%	3.0%
Transportation Engineering	12.9%	6.1%	2.6%	-3.4%	-4.4%	-3.0%
Oil and Gas Engineering	5.9%	4.6%	4.6%	3.1%	2.4%	1.6%
Electric Power Engineering	6.3%	6.7%	4.9%	3.8%	2.4%	1.3%
Communications Engineering	4.2%	4.6%	0.6%	1.5%	2.9%	4.9%
Other Engineering	10.8%	4.9%	2.1%	2.6%	2.0%	1.8%

EMPLOYMENT

Construction has been the leading sector in the economy for generating jobs since 1999. This has carried forward into 2005, when average employment for the year will be a little more than one million (1.037 million in October 2005). With a shift in the contribution to sector growth from residential to other, more capital-intensive forms of construction, we anticipate that sector employment growth that has averaged close-to 5 per cent in the first half of the decade will slow to a little less than one per cent annually. With the workforce largely males, and ranging in age from 15-54, the anticipated growth, although moderate compared to recent years, would be more rapid than growth of the male labour force of this age group (less than 0.5 per cent annually).

TABLE 3- CANADIAN CONSTRUCTION EMPLOYMENT
VALUES (in thousands) AND PERCENTAGE CHANGE 2005-2010

	2005	2006	2007	2008	2009	2010
Average Annual Employment	1004.3	1012.4	1019.9	1026.8	1035.7	1044.0
Percentage Change	5.4%	0.8%	0.7%	0.7%	0.9%	0.8%

In 1998, construction accounted for 5.2 per cent of total employment. With steady rapid growth since, by 2005 the share has risen to 6.2 per cent. Put another way, one in 16 jobs in Canada is in the construction industry. We expect this share to be maintained through the second half of the decade.

PROVINCIAL COMPARISONS

In 2000-2004, construction GDP grew in all provinces, except for New Brunswick and Saskatchewan, where the size of the industry contracted. As a general characterization, growth in Central Canada (reflecting strong growth of the residential sector), Alberta, B.C. and the Territories led the way. As is detailed in Table 4, preliminary data suggests wide variations from province-to-province in construction growth for 2005. For the outlook, with development of resource sector assets, we are expecting growth in western Canada will be strongest, although non-residential building construction supports fairly steady growth in Central Canada. Relatively slow growth in household numbers accounts for anticipated downturns or slow growth in the Maritimes.

TABLE 4- PROVINCIAL FORECASTS; CHANGE IN GDP, TOTAL CONSTRUCTION
(CONSTANT DOLLARS) - 2005-2010

	2005	2006	2007	2008	2009	2010
Newfoundland	4.8%	2.2%	1.0%	1.0%	0.8%	0.5%
Prince Edward Island	5.8%	-8.0%	-1.5%	1.2%	1.5%	1.7%
Nova Scotia	-4.6%	-5.3%	-2.4%	-0.7%	-0.2%	0.0%
New Brunswick	-1.8%	-8.5%	-1.6%	1.6%	1.6%	1.7%
Quebec	0.8%	9.7%	1.9%	2.6%	1.8%	1.5%
Ontario	4.8%	-2.3%	0.2%	1.2%	1.7%	2.0%
Manitoba	-5.4%	16.3%	5.9%	4.4%	3.1%	2.5%
Saskatchewan	10.6%	0.8%	-0.1%	0.7%	1.0%	1.1%
Alberta	-3.8%	-3.1%	1.1%	1.6%	1.7%	1.6%
British Columbia	13.9%	6.9%	0.9%	1.2%	1.7%	1.5%
Territories	7.0%	-12.5%	2.5%	1.8%	1.5%	1.4%

The projection reported here is subject to considerable uncertainty about whether major capital projects are begun. An allowance has been included for the development of transportation infrastructure leading up to the Olympics in B.C., but in the west and Territories, we have made no allowance for any of the several contending pipeline and gas development projects in the Arctic.

Wide variations from one province to the next in growth of construction employment are a characteristic of year-to-year changes; these continued in 2005. But a key message to note from Table 5 is that most current and likely construction jobs will be concentrated in four provinces – Ontario, Quebec, B.C., and Alberta. Combined, these provinces account for 89 per cent of all construction jobs. No significant changes to this are foreseen in the second half of the decade.

TABLE 5- PROVINCIAL FORECASTS; CONSTRUCTION EMPLOYMENT
(IN THOUSANDS) 2005-2010

	2005	2006	2007	2008	2009	2010
Newfoundland	12.7	12.9	13.0	13.0	13.0	12.9
Prince Edward Island	4.5	4.1	4.0	4.0	4.1	4.1
Nova Scotia	25.7	24.2	23.5	23.2	23.0	22.8
New Brunswick	19.0	17.2	16.9	17.1	17.2	17.4
Quebec	171.6	186.9	190.3	193.5	195.4	196.6
Ontario	396.3	384.2	384.5	385.7	389.0	393.2
Manitoba	26.6	30.7	32.4	33.6	34.3	34.9
Saskatchewan	26.9	26.9	26.9	26.8	26.9	27.0
Alberta	154.5	148.5	150.1	151.1	152.4	153.6
British Columbia	166.7	176.9	178.2	178.9	180.5	181.6

APPENDIX 1

GROSS DOMESTIC PRODUCT (IN MILLIONS OF CURRENT DOLLARS) 2005-2010

	2005	2006	2007	2008	2009	2010
Overall Construction	66,677	69,076	70,910	72,864	74,957	77,202
Residential Construction	25,244	25,643	25,679	26,236	27,044	27,922
Non-residential Construction	41,433	43,433	45,231	46,628	47,913	49,280

GROSS OUTPUT (IN MILLIONS OF CURRENT DOLLARS) 2005-2010

	2005	2006	2007	2008	2009	2010
Overall Construction	159,530	164,209	167,572	171,779	176,261	180,808
Residential Construction	61,402	60,887	60,080	60,918	62,356	63,790
Non-residential Construction	98,128	103,322	107,492	110,861	113,905	117,018