



**SASKATCHEWAN
CONSTRUCTION
ASSOCIATION**

Economic Outlook Non-Residential Construction Industry

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**Saskatchewan Construction
Association**

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Outline

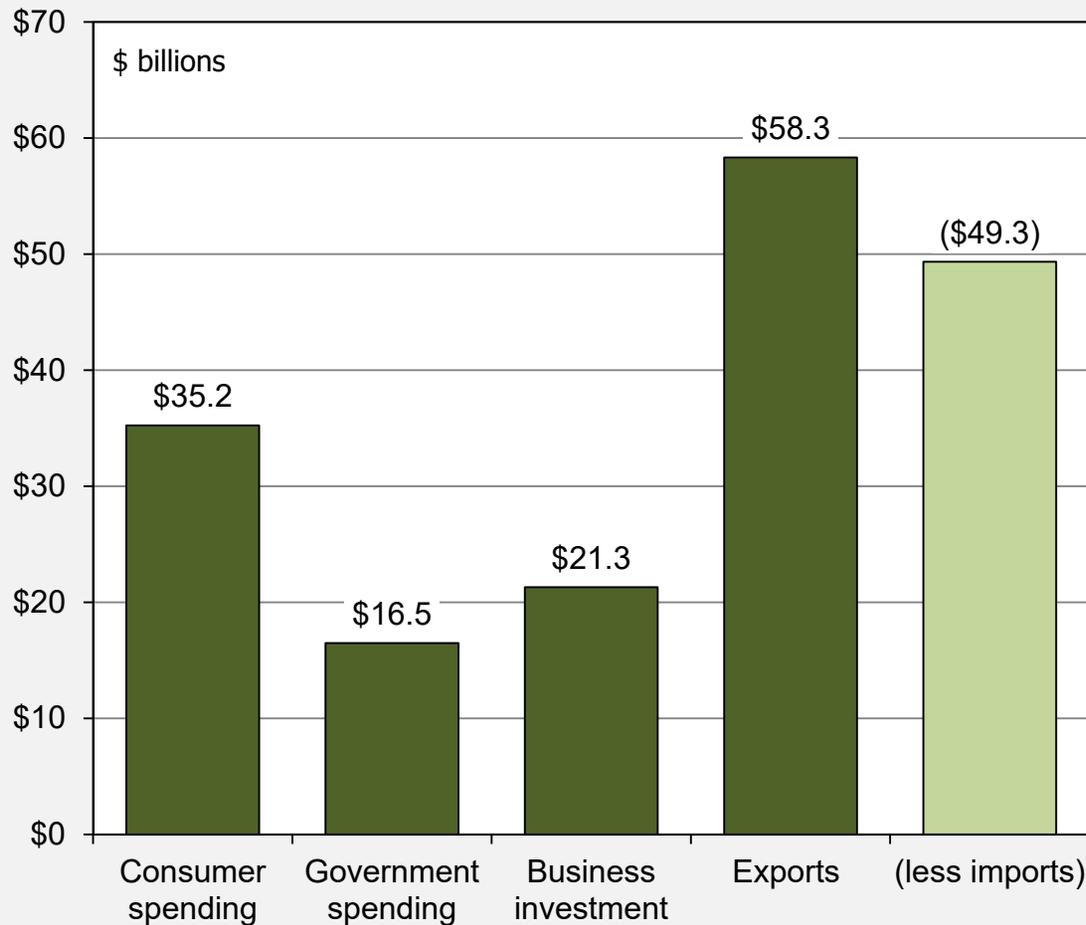
- **Economic Outlook for Saskatchewan**
- **Leading Indicators for Construction Industry Activity**
 - **Building Permits**
 - **Capital Investment**
- **Labour Market Trends**
 - **Employment**
 - **Wage Rates**
- **Investment Drivers**

Unless otherwise indicated, the statistics in this material are derived from Statistics Canada data or other reliable sources. Some figures will be revised in future releases. Estimates and forecasts are the responsibility of Sask Trends Monitor.

Saskatchewan Economic Outlook

The Economic Drivers

The Four Economic Players
(contribution to GDP of \$82.8 billion in 2014, Saskatchewan)



- One way to look at the provincial economy is through the lens of the four main economic drivers or players in the economy.
- These four drivers are:
 - consumers;
 - governments;
 - businesses; and
 - out-of-province buyers of our goods and services.

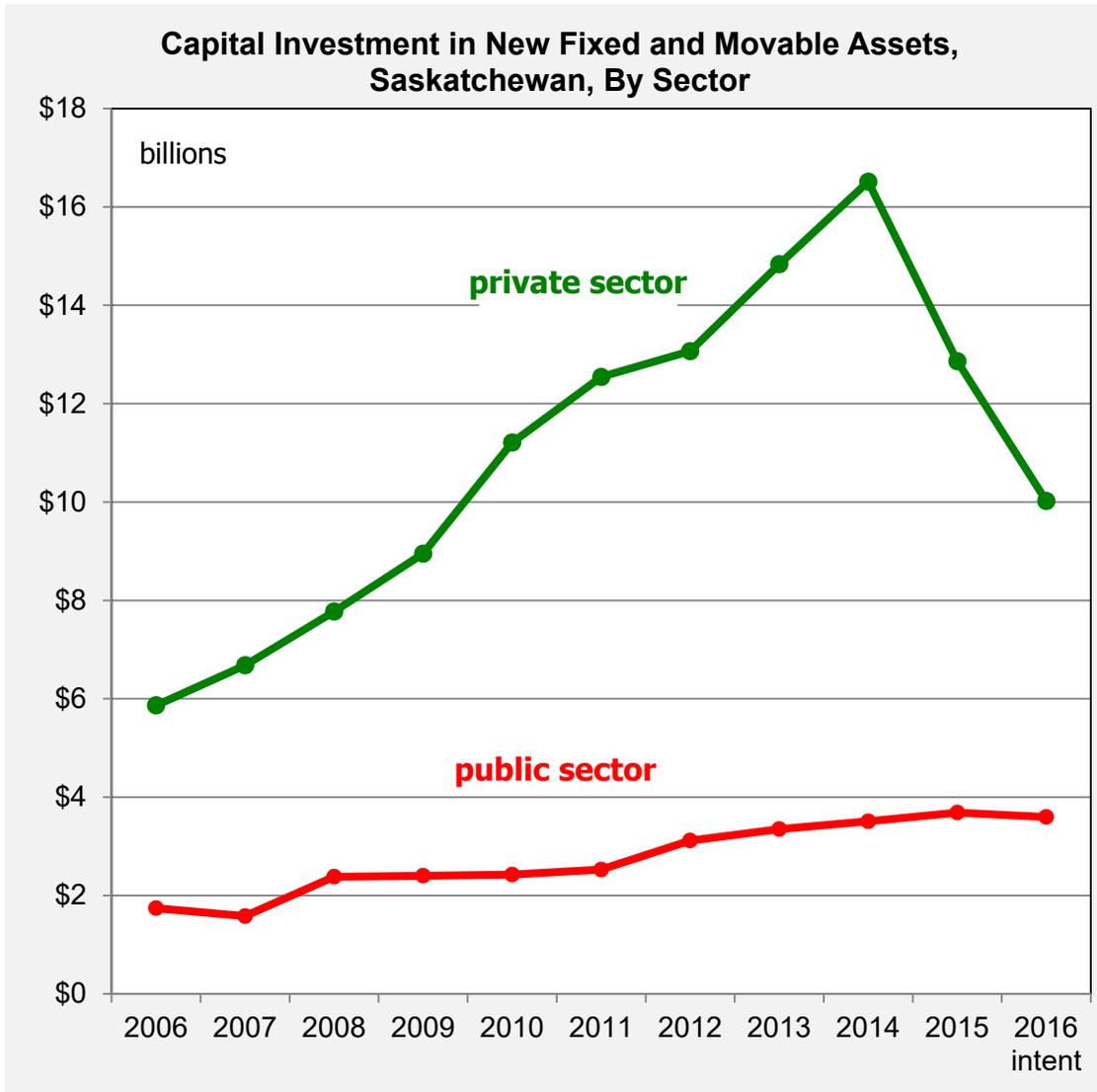
The activities of these players interact in complex ways.
- The economy does well when any three of the players are active. During the recent economic boom all four contributed.

Consumer Spending



- Retail sales are the best statistical indicator for consumer spending.
- Consumer confidence has clearly been weakened by the announcement of layoffs and other bad economic news.
- Sales dropped in 2015 and will struggle to reach the last year's levels in 2016.
- In particular, spending on "big ticket" items such as houses and vehicles are down. This is usually a sign of poor consumer confidence.

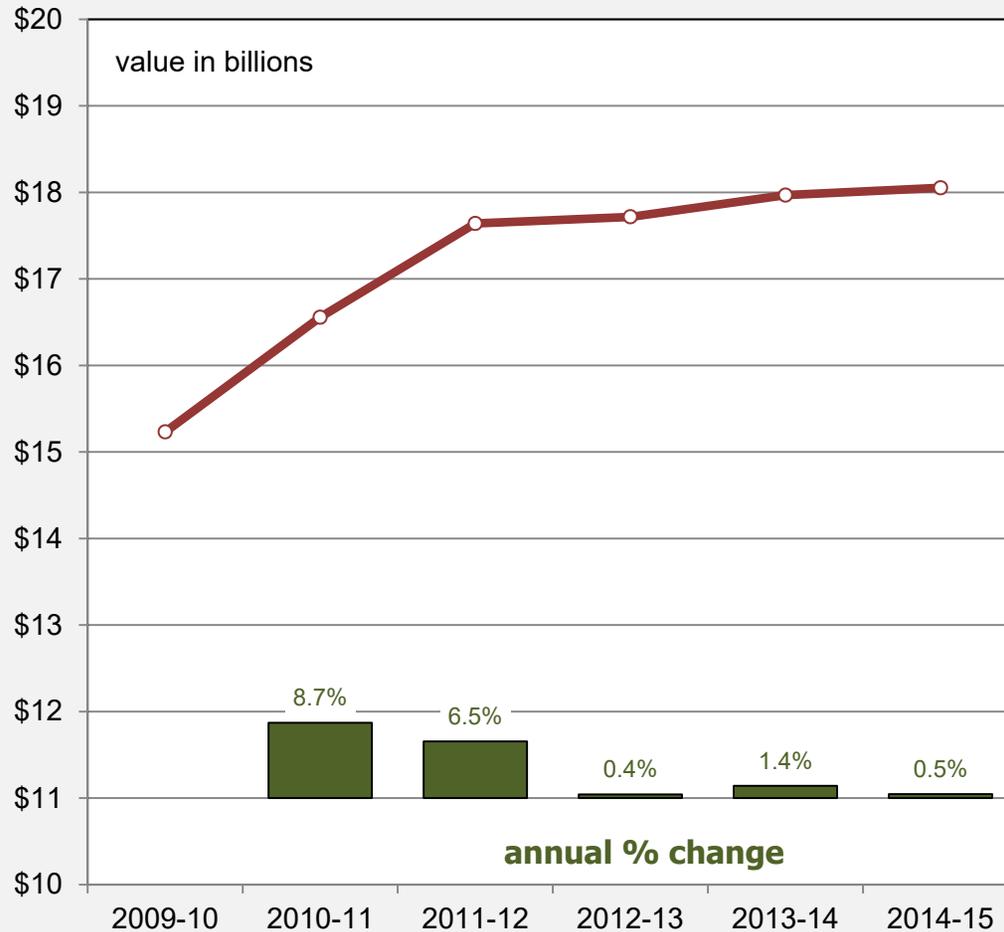
Business Investment



- This figure looks at new investment activity by businesses, governments, and consumers.
- Capital investment by the private sector grew exponentially from 2006 to 2014, increasing at an average rate of 14% per year.
- Investment activity fell sharply in 2015 and will do so again in 2016.
- Public sector investment is high and relatively unaffected by the downturn.
- The vast majority of this investment is in the resource sector, that is, mining and oil/gas.

Public Sector Spending

Consolidated Provincial and Local Government Spending
(including school boards and health authorities)



- Public sector spending is broadly defined to include health care, education, the provincial and municipal governments.
- Consolidated provincial and local government spending has been near \$18 billion for the past four years.

International Trade



- Generally speaking, Saskatchewan runs a trade surplus with other countries and a trade deficit with other provinces.
- Net international trade (excluding services) doubled from 2009 to 2014 before falling back in 2015. Much of the decline is price-related.
- With a lower value of the C\$ and a relatively strong US economy, exports should be increasing.
- In spite of the 75¢ dollar, the outlook for exports in 2016 is negative, mainly because of lower commodity prices.

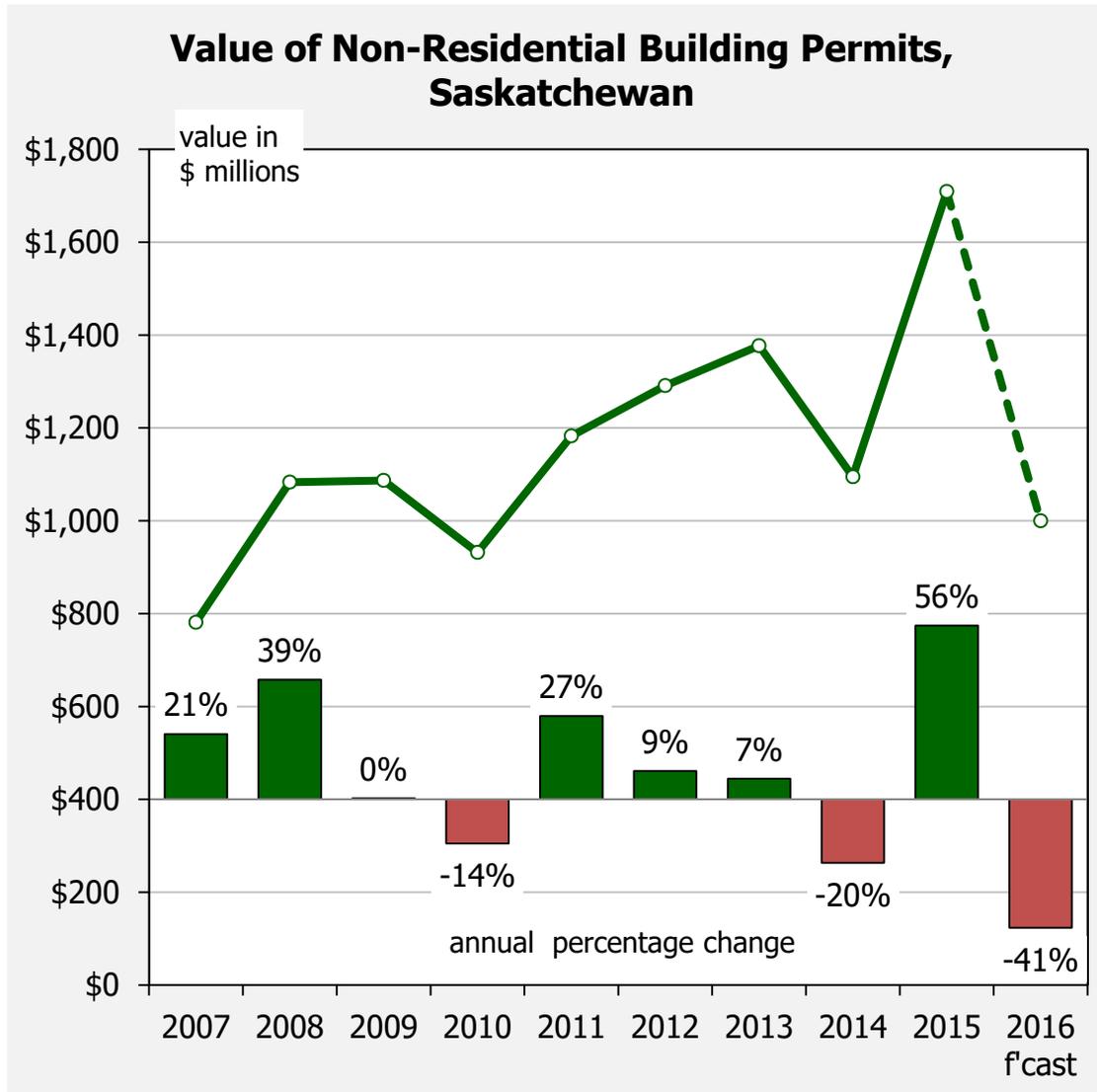
Summary

- **All four players driving the Saskatchewan economy were growing from 2010 to 2014. The result was an economic boom.**
- **A slowdown in three of the four drivers – all except public sector spending – led to a recession in 2015.**
- **There is no sign of a turnaround in any of those three in 2016.**
- **The outlook for 2017 is a modest recovery. Investors and consumers should be getting used to lower commodity prices. A good crop this year would be a big help.**

Value of Building Permits

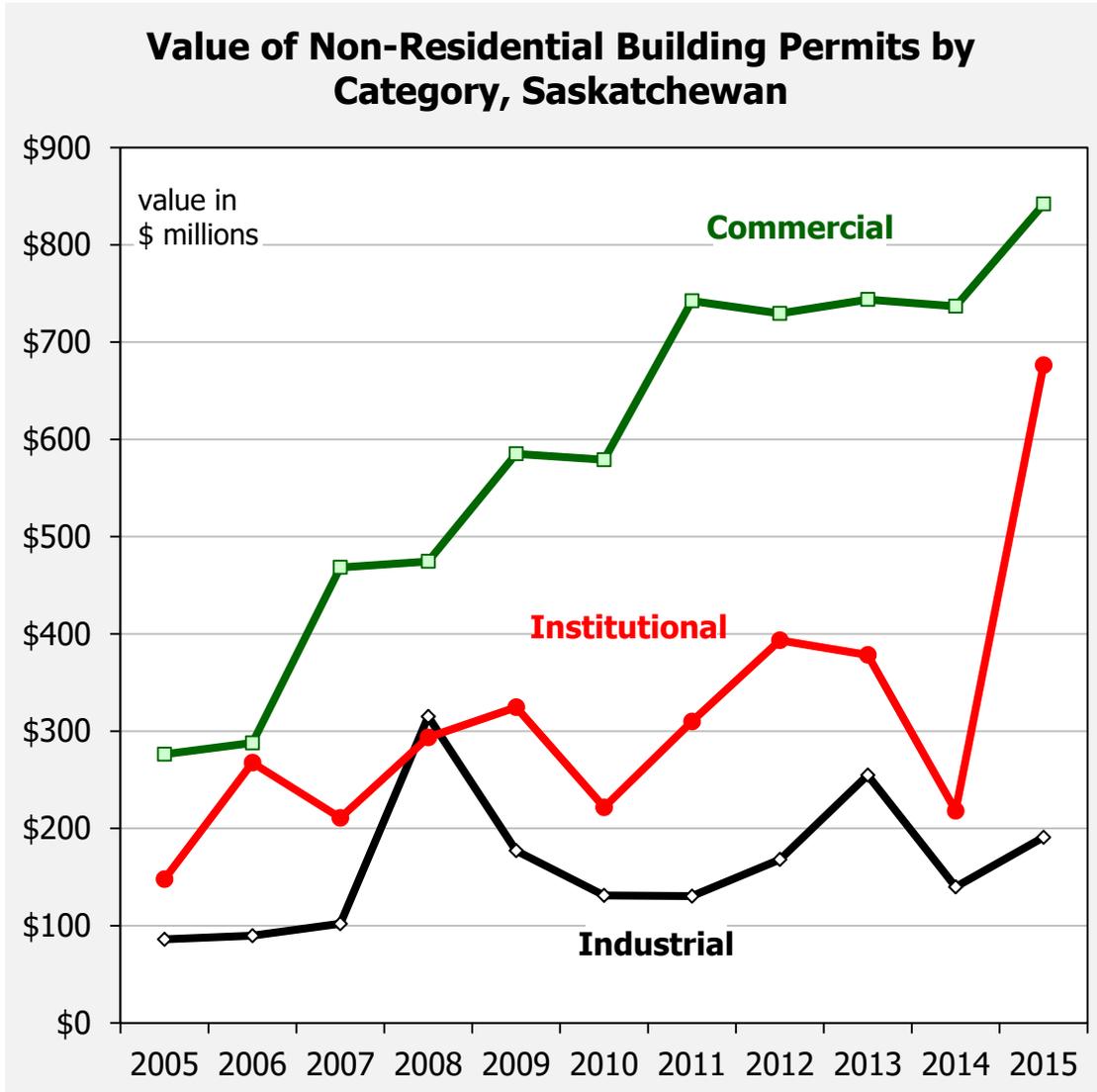
- **The value of building permits issued is the best indicator of activity in the non-residential building construction sector.**
- **Note that changes in the value of permits reflect both changes in activity and changes in price.**
- **Building permits are leading indicators in the sense that they predict activity in the next six to twelve months.**

Value of Non-Residential Building Permits, Saskatchewan



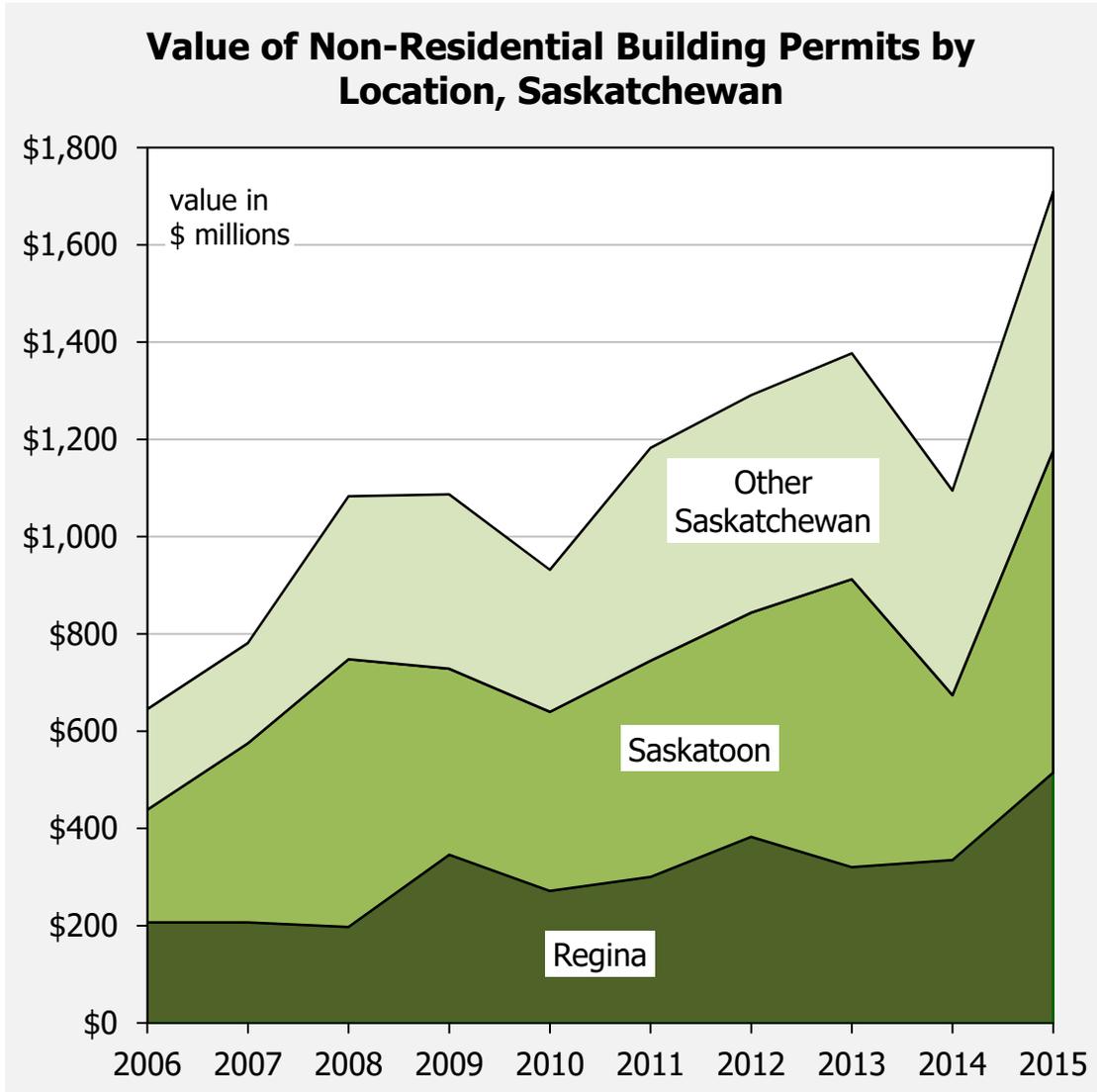
- This is probably the best statistical measure of the health of the non-residential construction sector.
- From 2007 to 2015, the value of permits grew by an average of 10% per year in spite of declines in 2010 and 2014.
- The sharp increase in 2015 means that many firms are busy in 2016 with projects started in 2015.
- In the first quarter of 2016, permits are down 51% from the first quarter of 2015. This looks worse than it is in practise. Permits this year will still be near the average for the past ten years.

Non-Residential Construction Activity – Building Permits



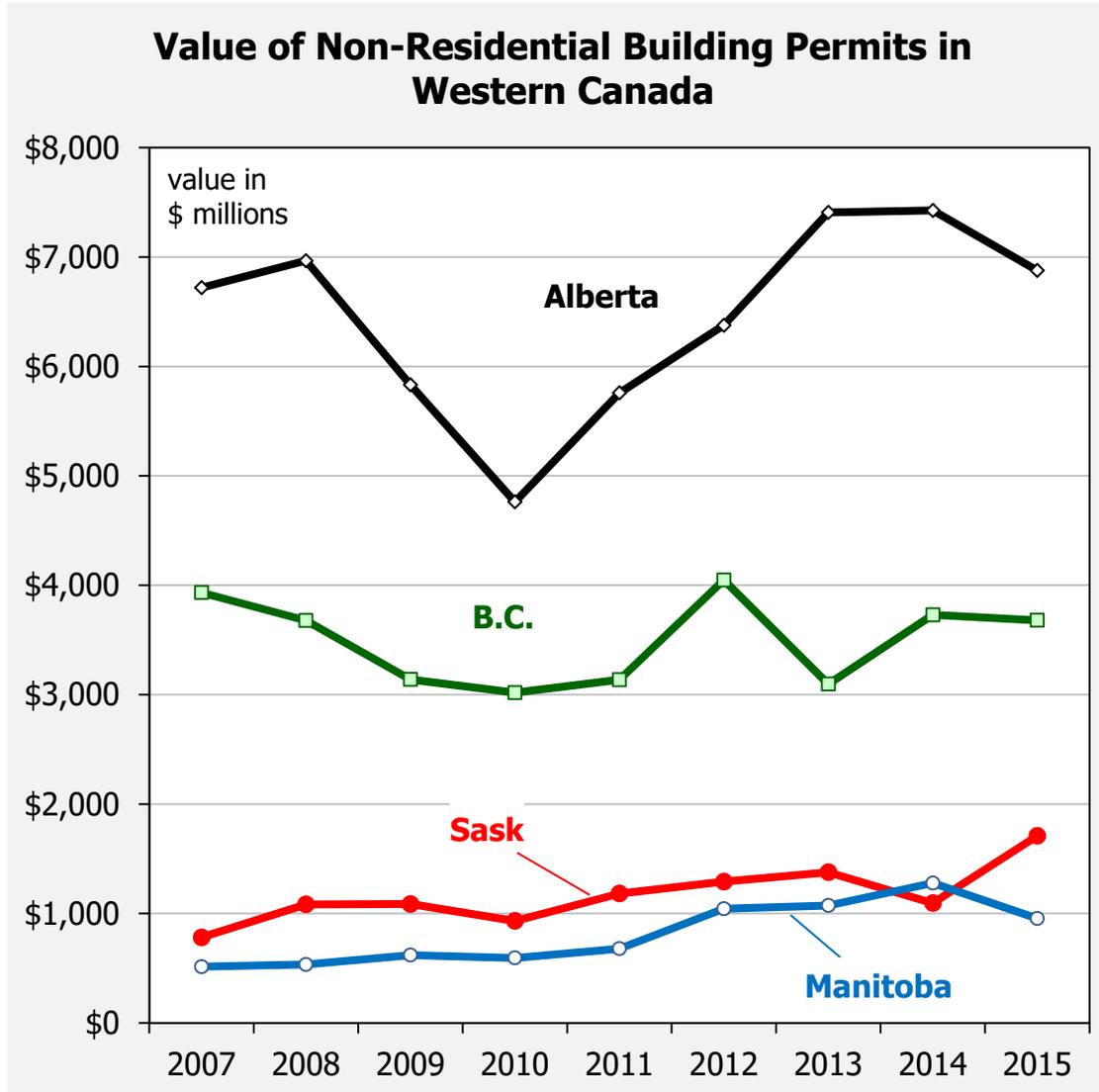
- In recent years, the commercial sector has been the main investor, accounting for 57% of permits over the past five years.
- Permits for the construction of institutional/government buildings has been the most volatile. Within the \$676 million in 2015 is:
 - \$425 for hospitals;
 - \$146 for schools; and
 - \$55 million for senior's complexes.
- In early 2016, permits are down in all three categories.

Building Permits by Location



- The increase in activity has been widely dispersed in the province.
- The 2014 decline was concentrated in Saskatoon.
- In early 2016, permits are down in all three geographic areas.

Interprovincial Comparison – Non-Residential Permits

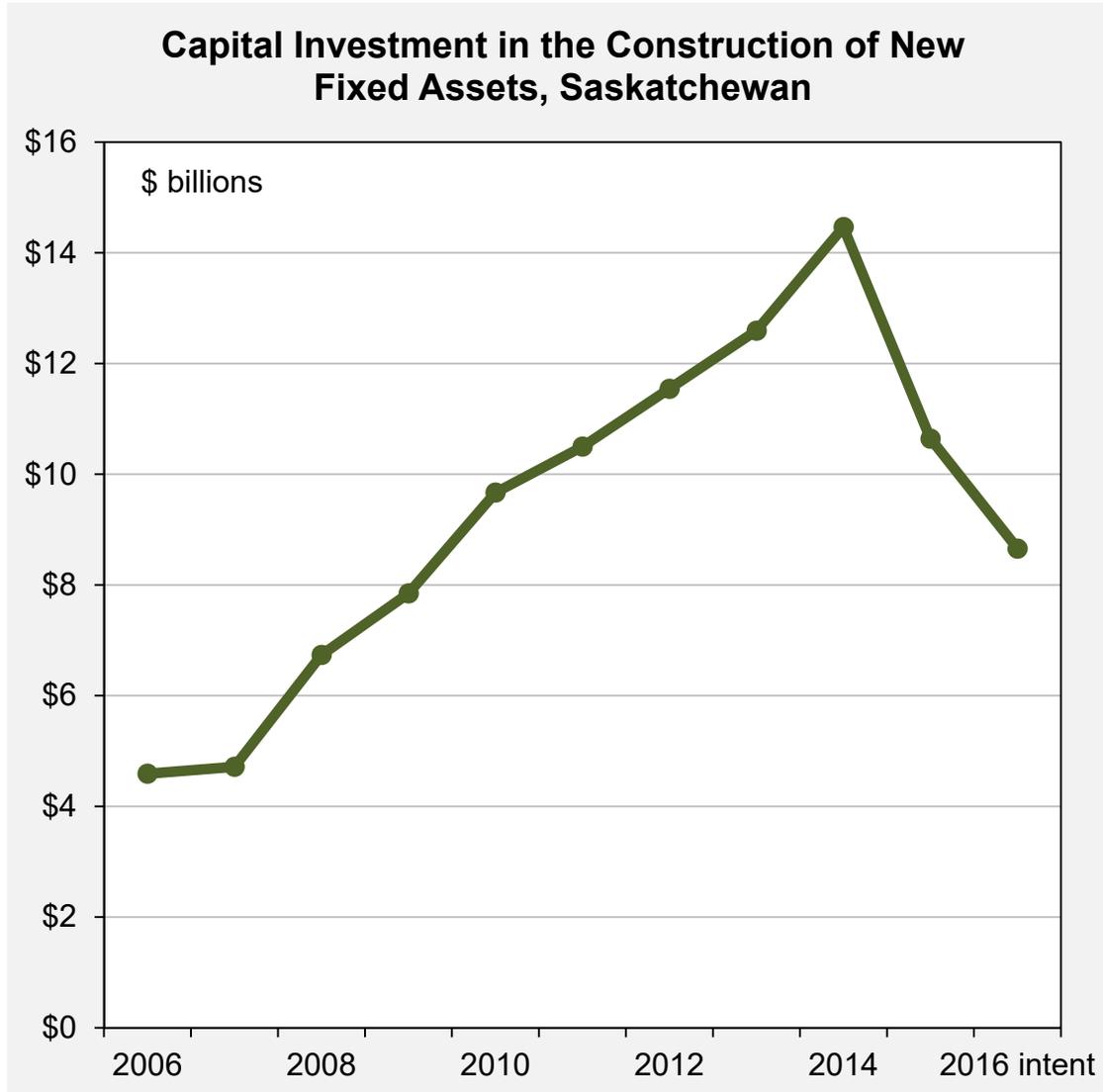


- The 2014 decline in Saskatchewan did not occur in the other western provinces.
- The Saskatchewan increase in 2015 was also unique with declines in the other western provinces.
- The figure also demonstrates how large the sector is in Alberta. The value of non-residential construction in Alberta is larger than the other three provinces combined.

Capital Investment

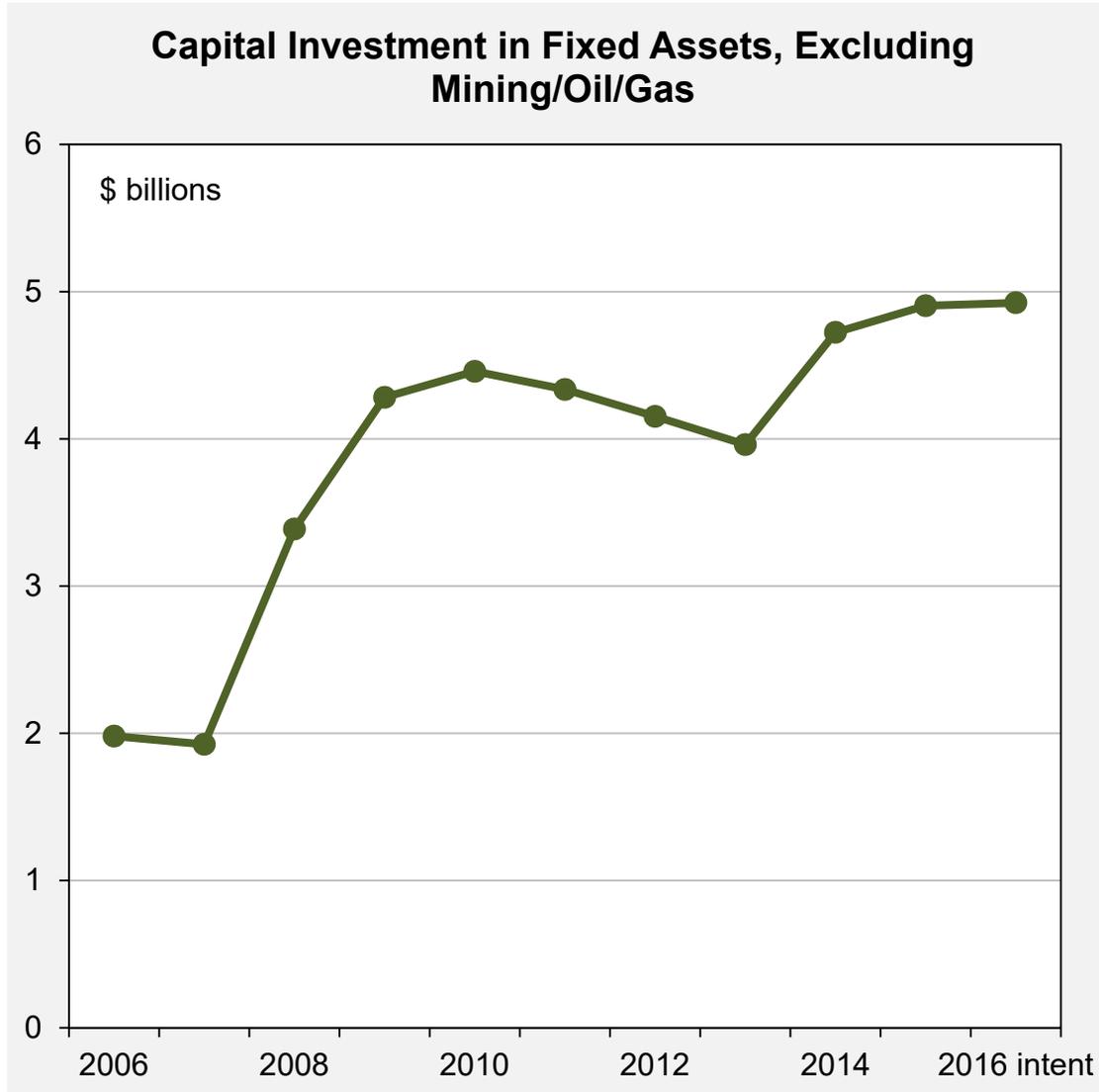
- **These figures are based on an annual survey of governments and businesses conducted by Statistics Canada.**
- **Investments include both fixed assets (buildings, pipelines, mines, roads, etc.) and movable assets (machinery, computers, etc.)**
- **The most recent survey covering estimates for 2015 and intentions for 2016.**
- **These are the best data to measure business confidence and are a leading indicator for construction one to two years ahead.**

Total Capital Investment in Fixed Assets, Saskatchewan



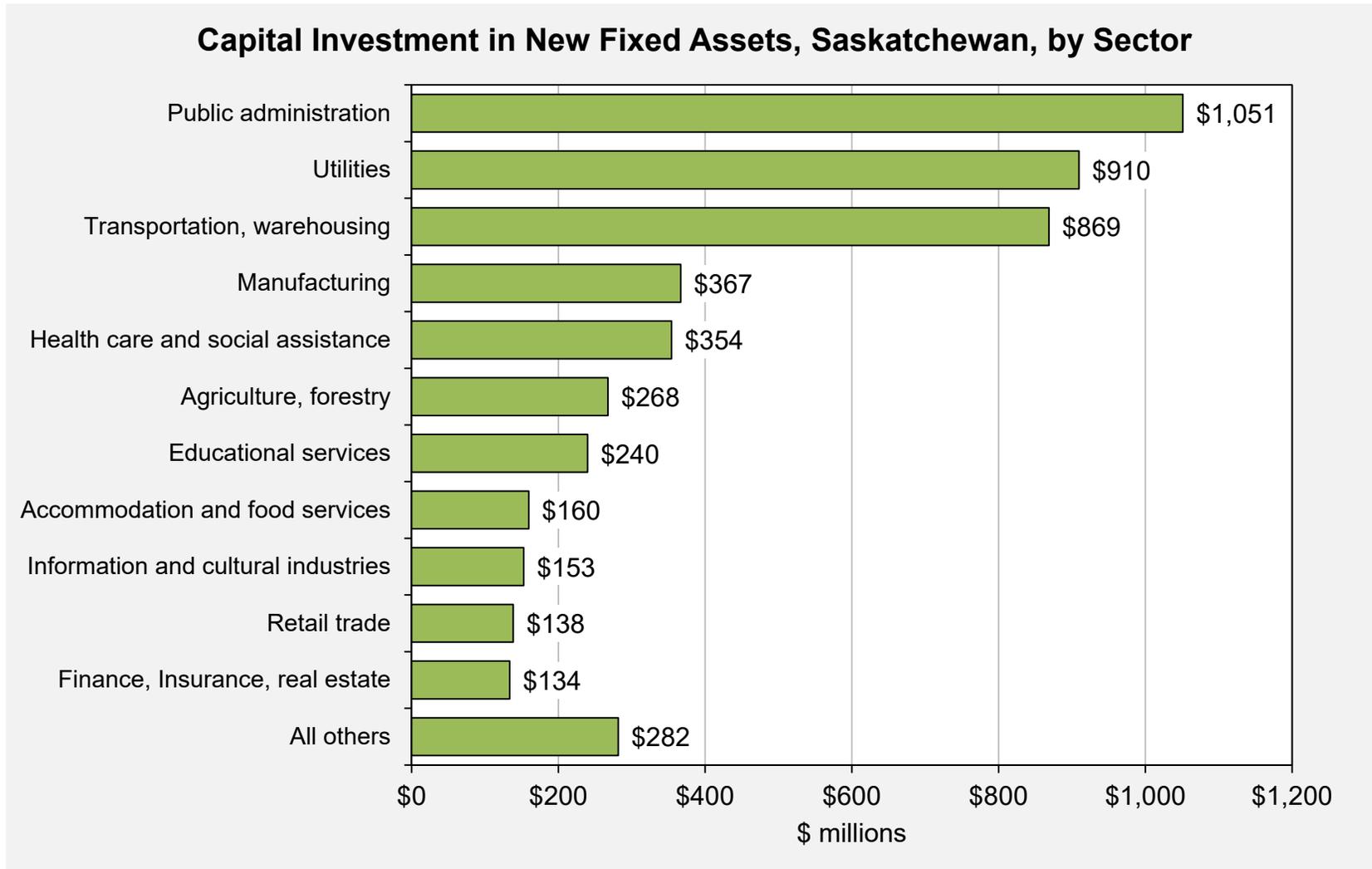
- The 2016 survey was conducted during a period when oil prices were still well below US\$40/barrel so the economic climate was pretty gloomy.
- Capital investment in the construction of new assets was projected to fall to \$8.7 billion. This is a 19% decline from 2015 and is 40% drop from the peak of \$14.5 billion in 2014.
- In fact, the picture for the construction industry is healthier than this would suggest.

Capital Investment Excluding Mining/Oil/Gas



- The resource sector accounts for more than 50% of capital investment.
- Excluding the resource sector shows that intended capital investment in 2016 is the same level (just under \$5 billion) as 2014 and 2015.
- A good deal of heavy construction is included in these figures (see graph on next page) but this is a clearer picture of the short-term outlook for non-residential construction.

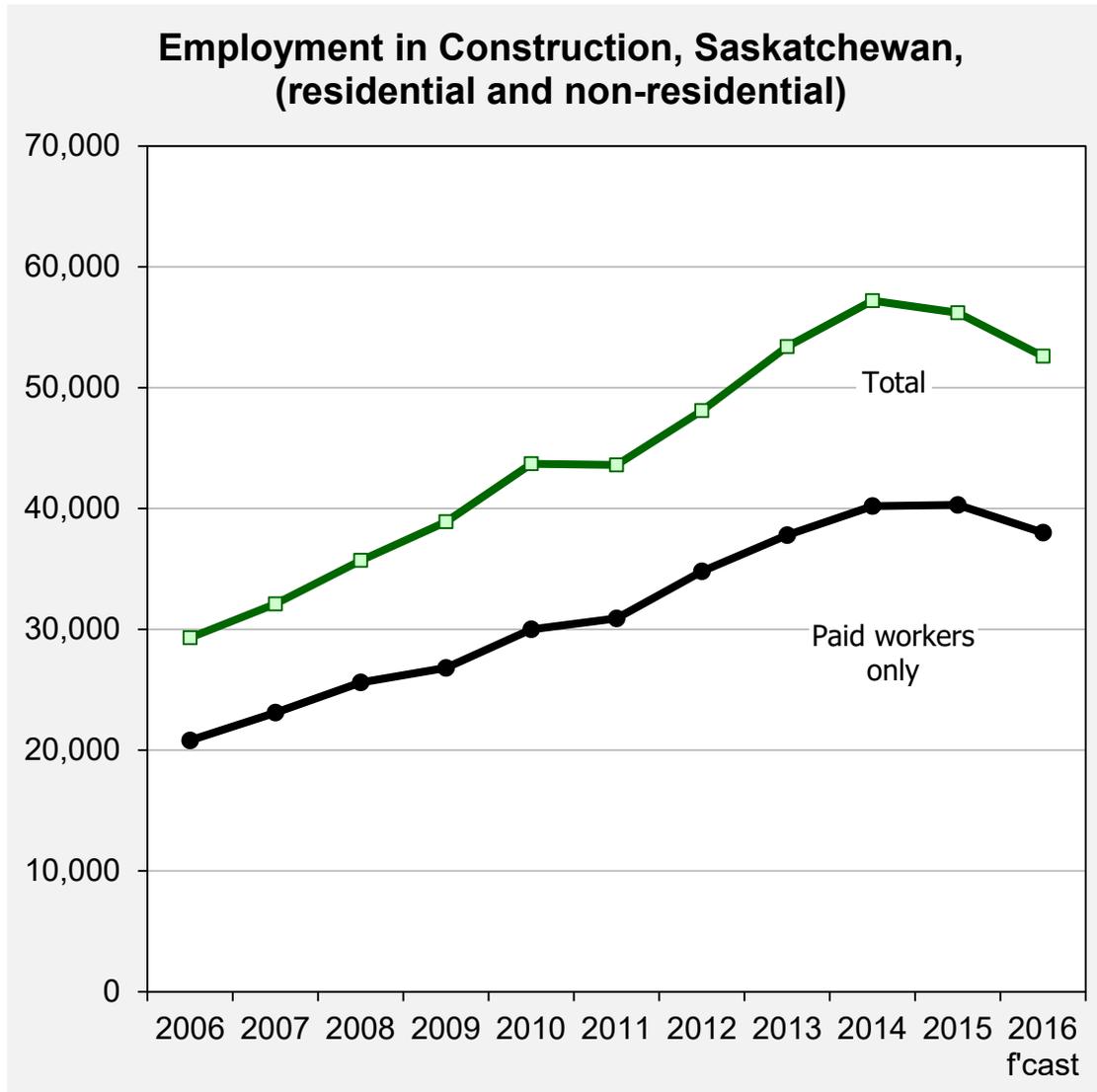
Capital Investment in New Fixed Assets by Sector, 2016 Intentions



Labour Force and Employment

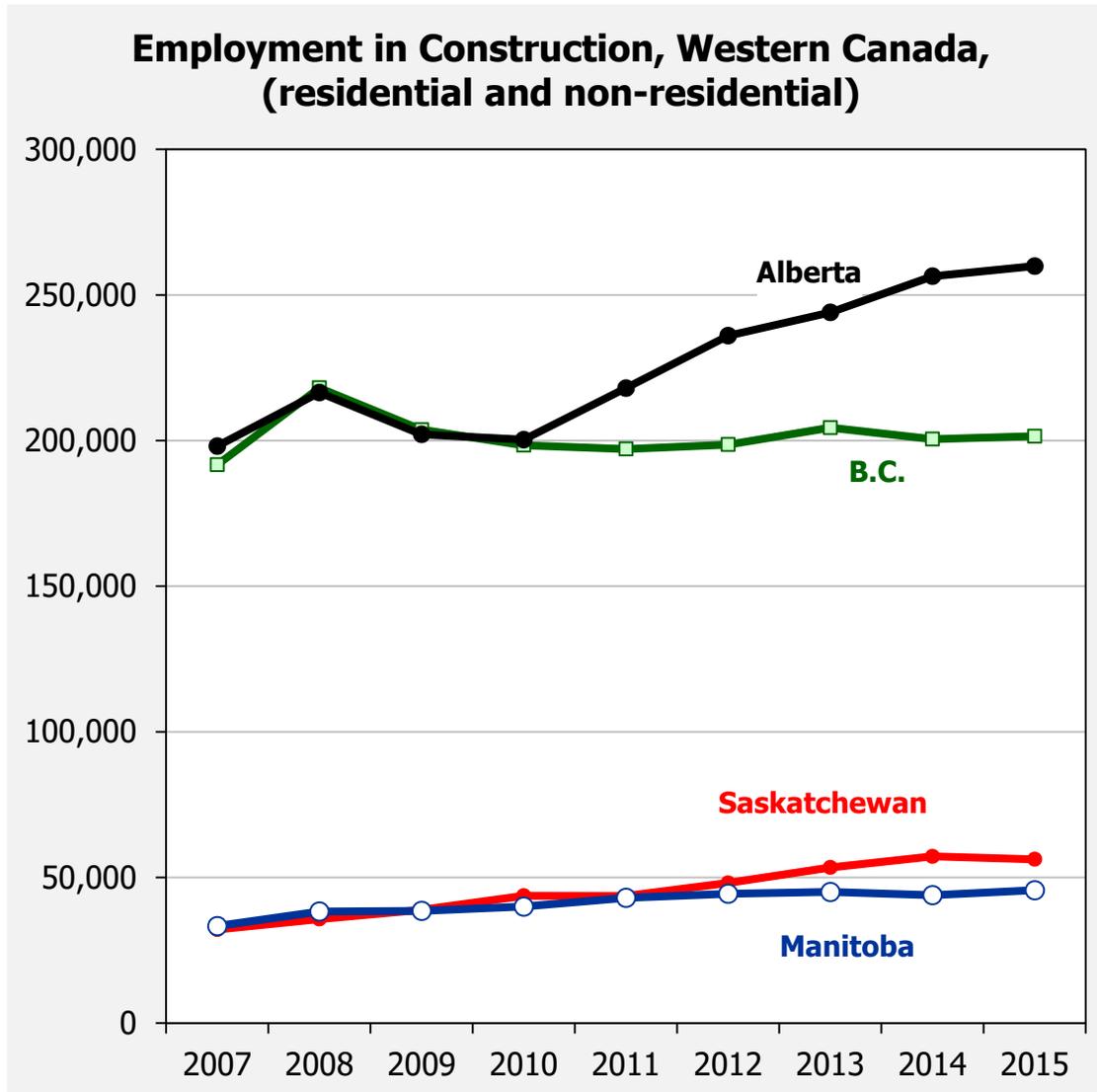
- The labour force figures do not distinguish between residential and non-residential construction so these figures include both. They also include the heavy and engineering construction group.
- The Statistics Canada survey which yields these figures measures the region or province where you live which may be different from where you work.
- For those with two or more jobs, we are measuring their main job, that is, the one where they work the most hours.
- These statistics apply to the construction industry rather than those working in the construction trades.
- The LFS is not conducted on Reserve so these figures don't include persons living on reserves.

Construction Industry Employment



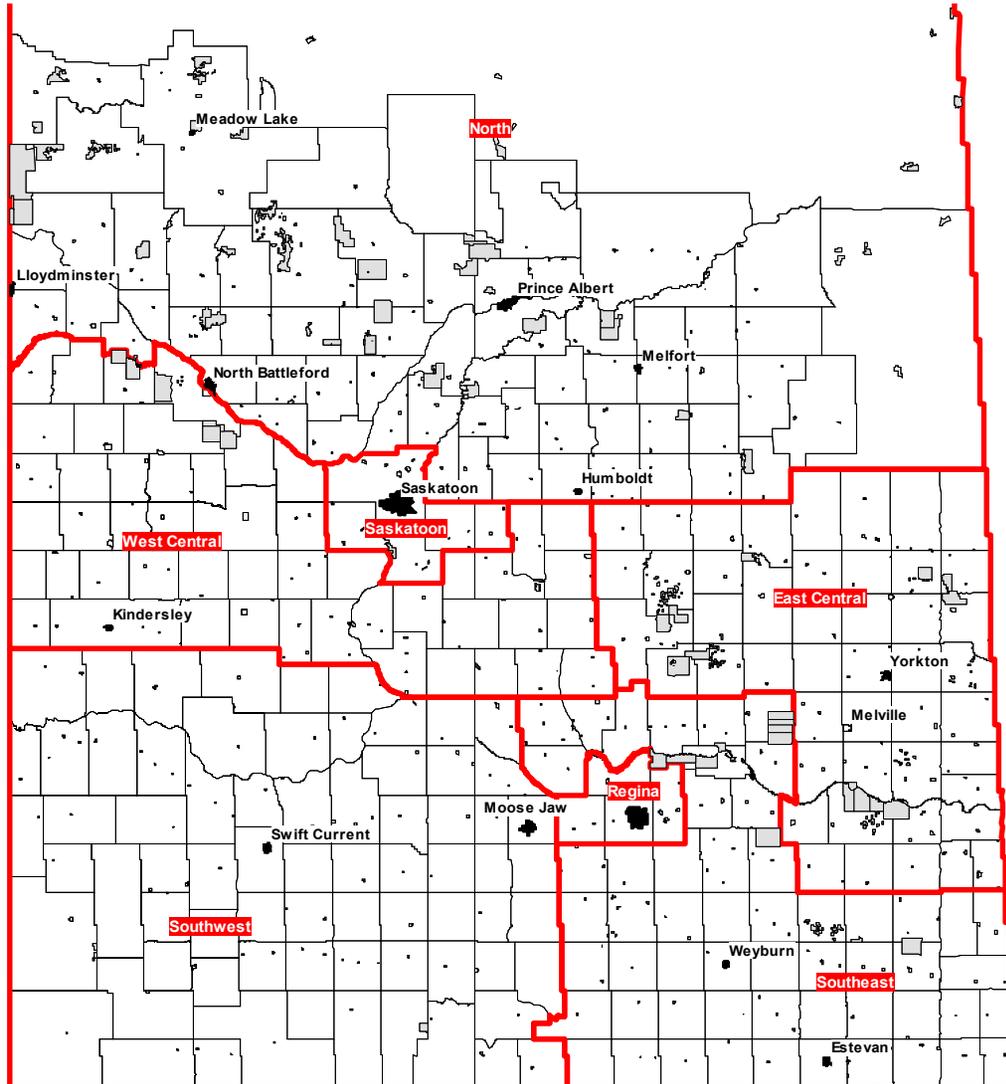
- In an average month in 2015, there were 56,200 individuals who reported that their main or only job was in the construction industry.
- This represents about 10% of employment in the province.
- Approximately 30% of those in the industry are self-employed.
- Employment dropped by approximately 1,000 in 2015 and will drop by a similar amount in 2016. Most of the decline will be in the residential side of the business.

Interprovincial Comparison of Employment



- Construction employment has also grown quickly among Alberta residents and there is no sign of a slowdown in 2015.
- The rebuilding of Fort McMurray will employ a lot of Alberta construction workers.

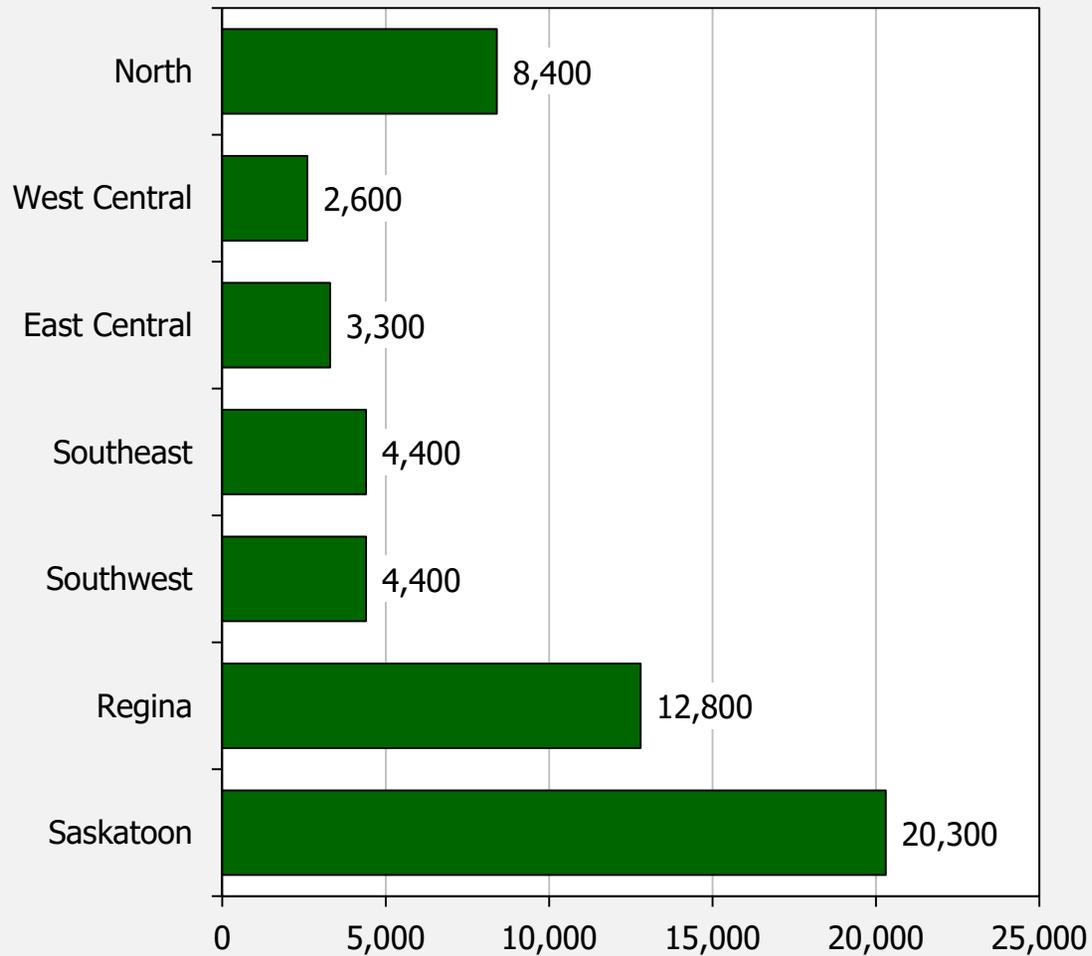
Regional Data



- Some employment data are available for seven separate regions within the province.
- The boundaries for these regions are shown on the left.

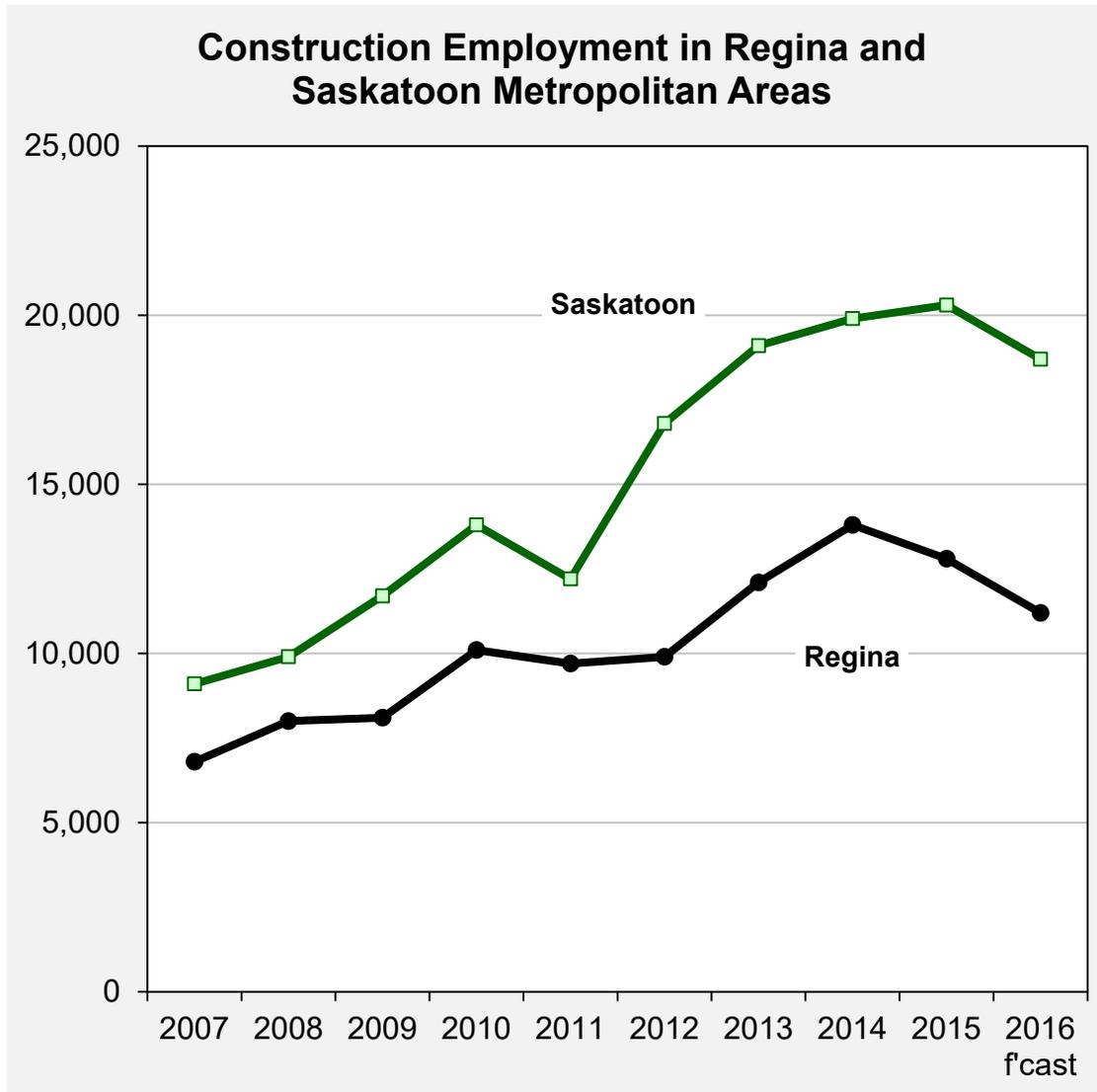
Construction Employment in 2015

**Construction Employment by Region
(residential and non-residential), 2015**



- The majority of those working in the construction industry live in the Saskatoon (36%) or Regina (23%) metropolitan areas.

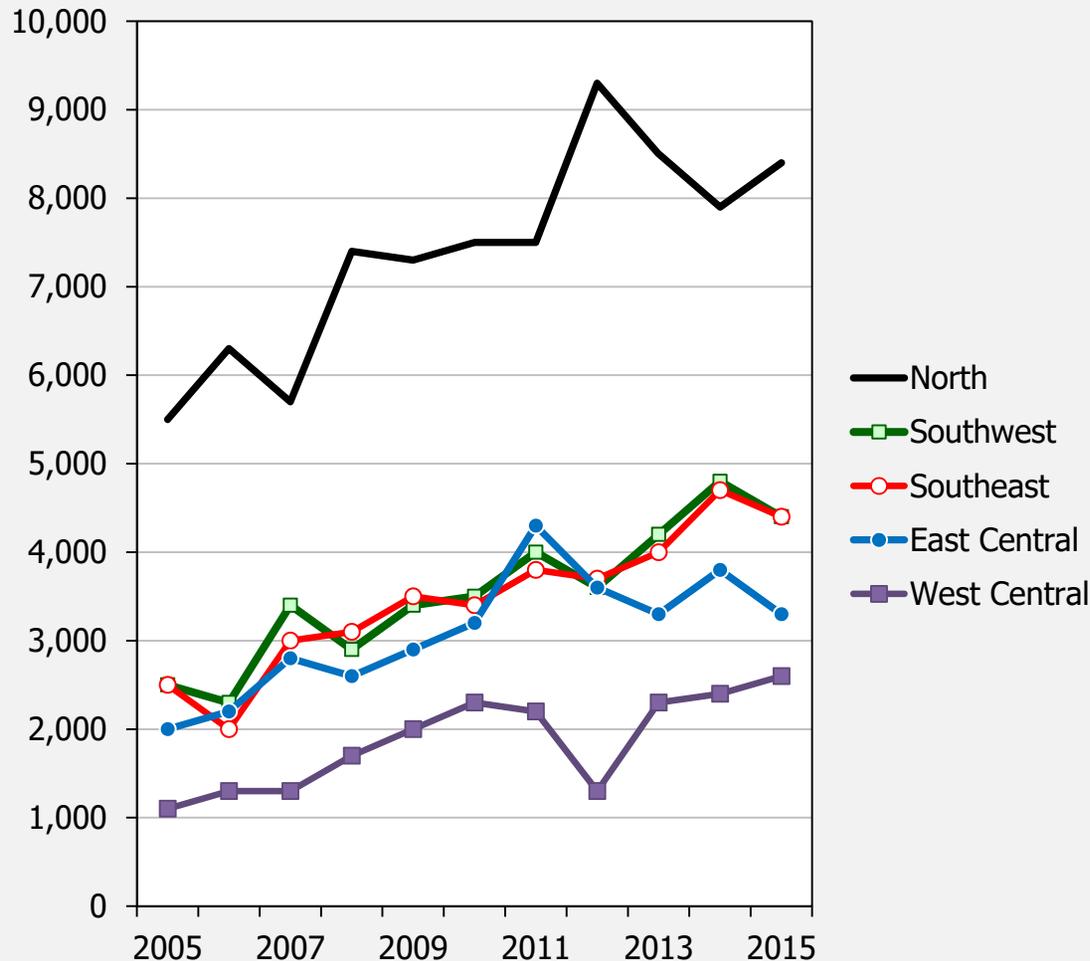
Construction Employment in Regina and Saskatoon



- In spite of a sharp decline the city experienced in 2011, employment has increased more rapidly in Saskatoon than in Regina.
- In 2015 and early 2016, employment is falling more quickly in Regina than in Saskatoon. This is in spite of the new stadium and work on the bypass.

Construction Employment Outside Regina/Saskatoon

Construction Employment Outside of the Regina and Saskatoon Metropolitan Areas



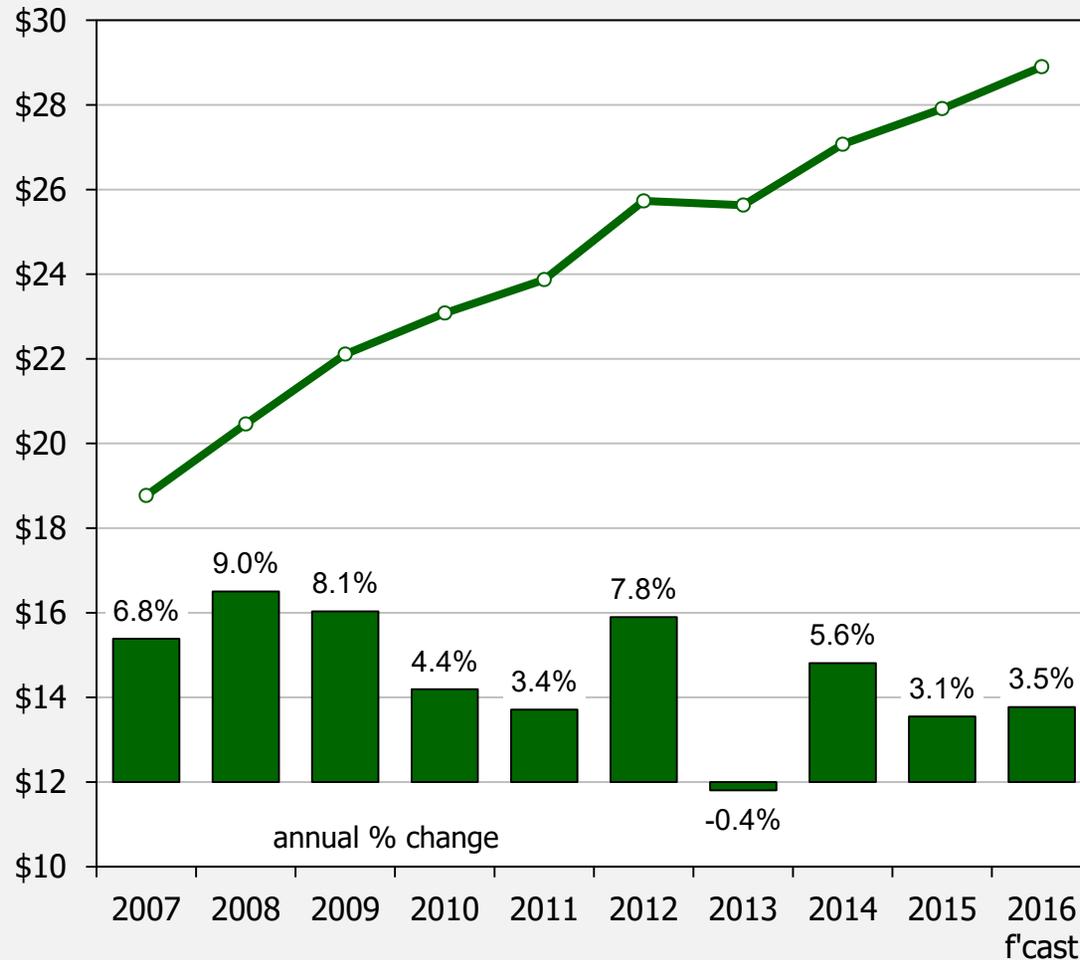
- Employment has grown in each of the five regions outside Regina/Saskatoon.
- The downturn in 2015 was evident in most parts of the province. From 2014 to 2015 employment declined in:
 - Regina;
 - the southeast;
 - the southwest; and
 - the west central area.
- Employment increased in:
 - Saskatoon;
 - the west central area; and
 - the north.

Wage Rates

- **Hourly wage rates are self-reported in the Labour Force Survey.**
- **These figures cover both the residential and non-residential sectors.**

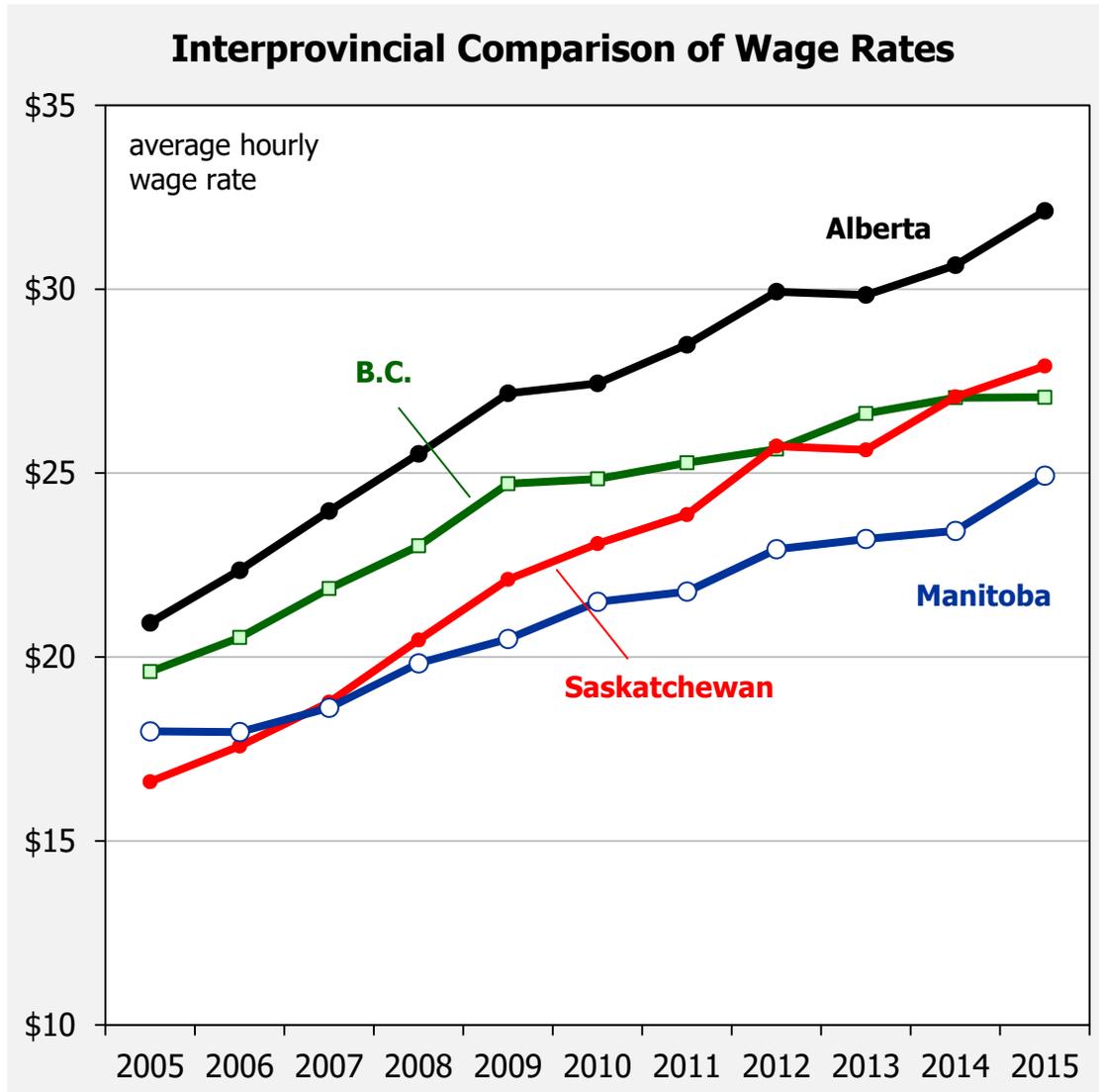
Average Hourly Wage Rates, Construction Industry

Average Hourly Wage Rates, Construction Industry, Saskatchewan



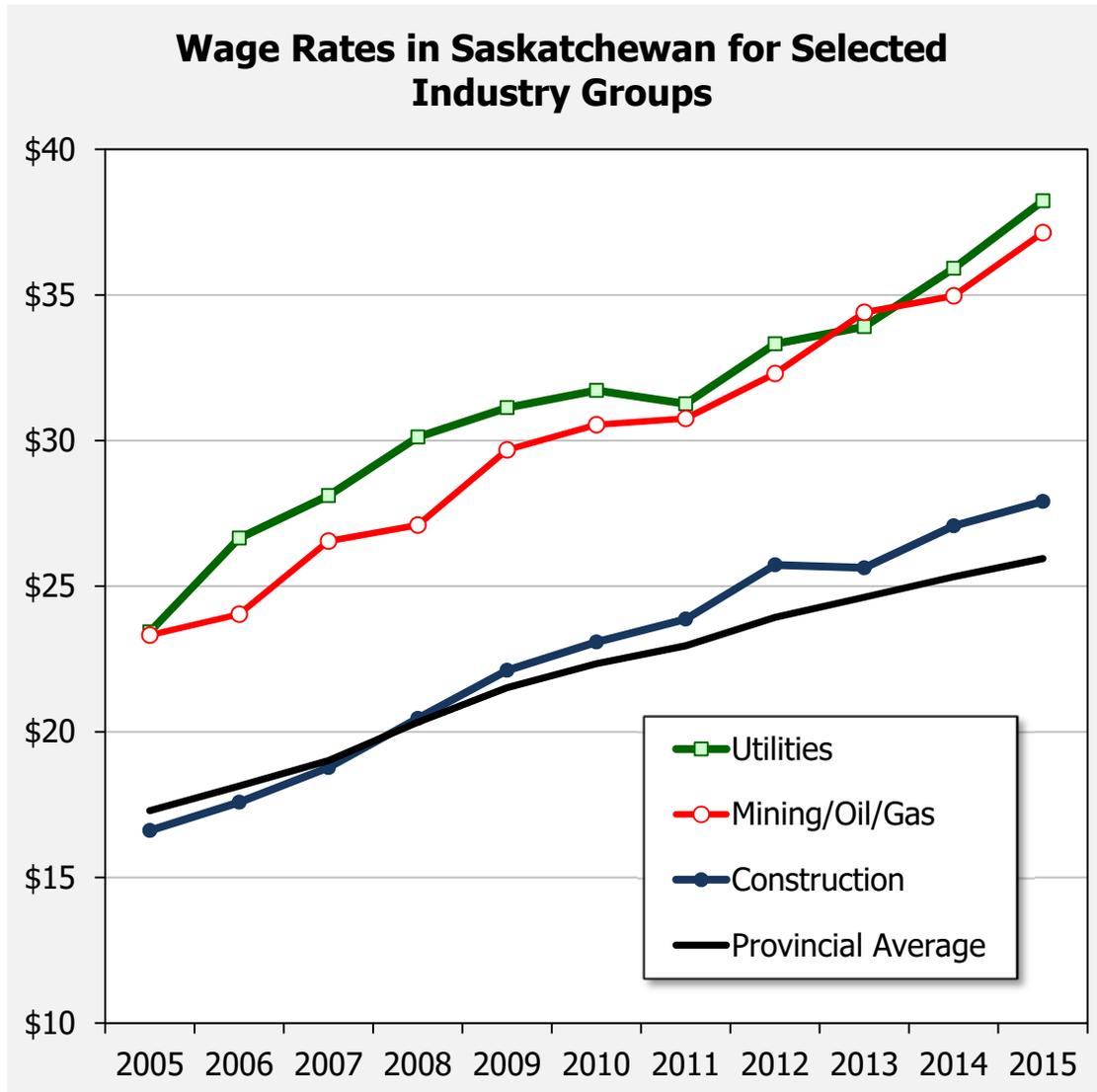
- Except for a small decline in 2013, wage rates have increased rapidly in the construction industry.
- In nominal terms, they have increased by an average of 5.1% per year from 2006 to 2016 to reach an estimated \$28.90 this year.
- Adjusted for inflation, the increase has averaged 3.0%/year.
- We were expecting wage rates to decline in 2016 but this is not the case so far.

Interprovincial Comparison of Wage Rates



- The figure shows that average construction wage rates in Saskatchewan have been growing more quickly than in the other western provinces.
- Construction wage rates in the province were the lowest in western Canada in the mid-2000s.
- Wages are now above those in B.C. and, in fact, the second highest in Canada.
- Wage rates in the province are now 87% of those in Alberta compared with 79% in the mid-2000s.

Comparison with Other Industry Groups



- Construction wage rates of \$27.91 in 2015 are now well above the provincial average of \$25.95.
- There is still a substantial (and widening) differential with rates in the mining and oil/gas sector and with the utilities (Sask Power and Sask Energy).

Summary

- **The construction industry was clearly one of the reasons for the strong economic growth in Saskatchewan. It is among the top industries in the province and has been increasing more quickly than most.**
- **In the non-residential sector, commercial construction has been the main driver.**
- **Employment has grown in all parts of the province but the bulk of the recent growth has occurred in Regina and Saskatoon.**
- **Construction wage rates have increased more quickly than inflation and are now above the provincial average. The gap between Saskatchewan and Alberta has narrowed somewhat.**

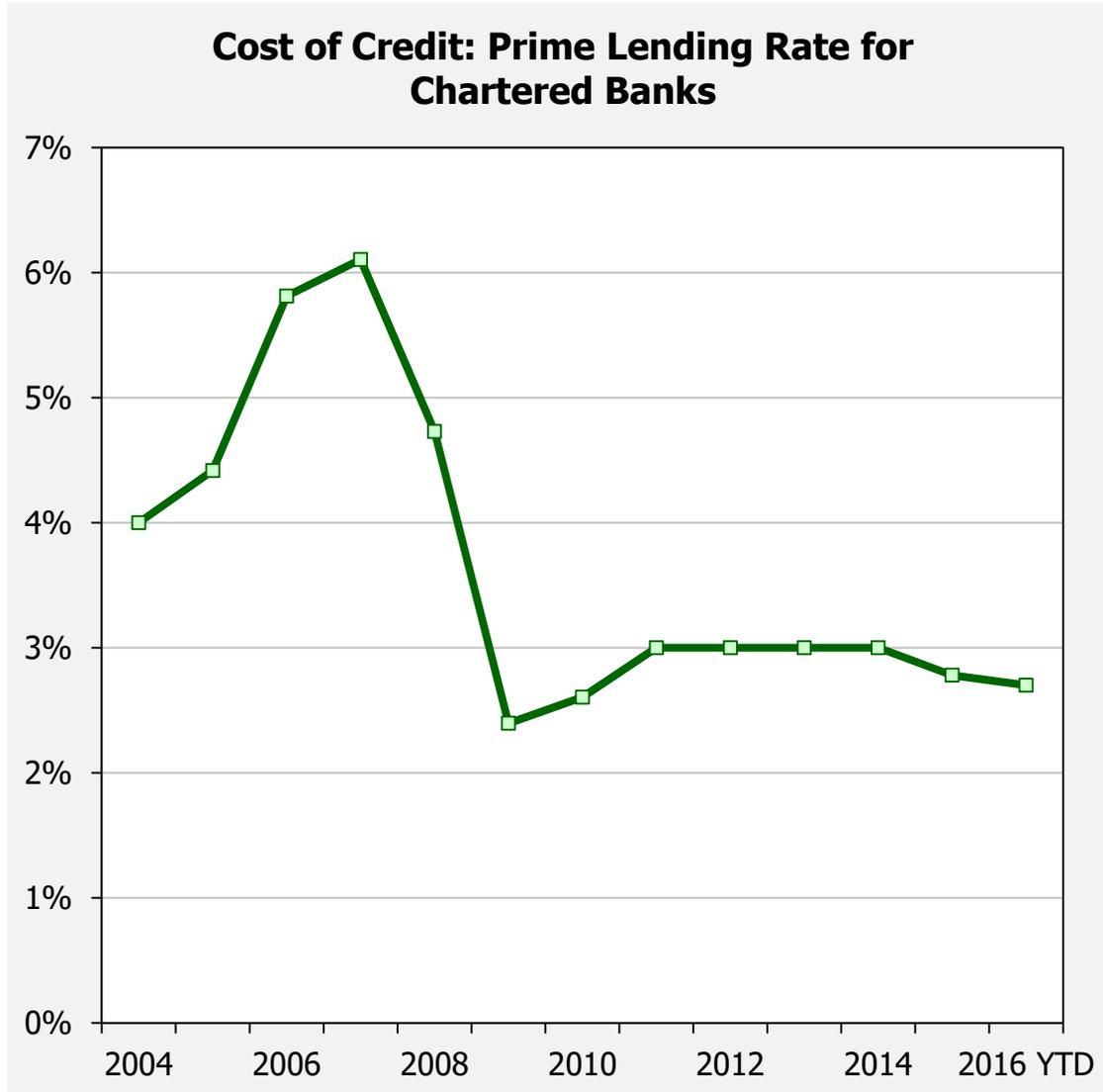
Capital Investment Drivers

- **Capital investors are the customers for the construction industry.**
- **Besides an investment opportunity, investors need political stability, good quality infrastructure, a skilled labour force, price stability, and a low cost of capital.**

Political Stability

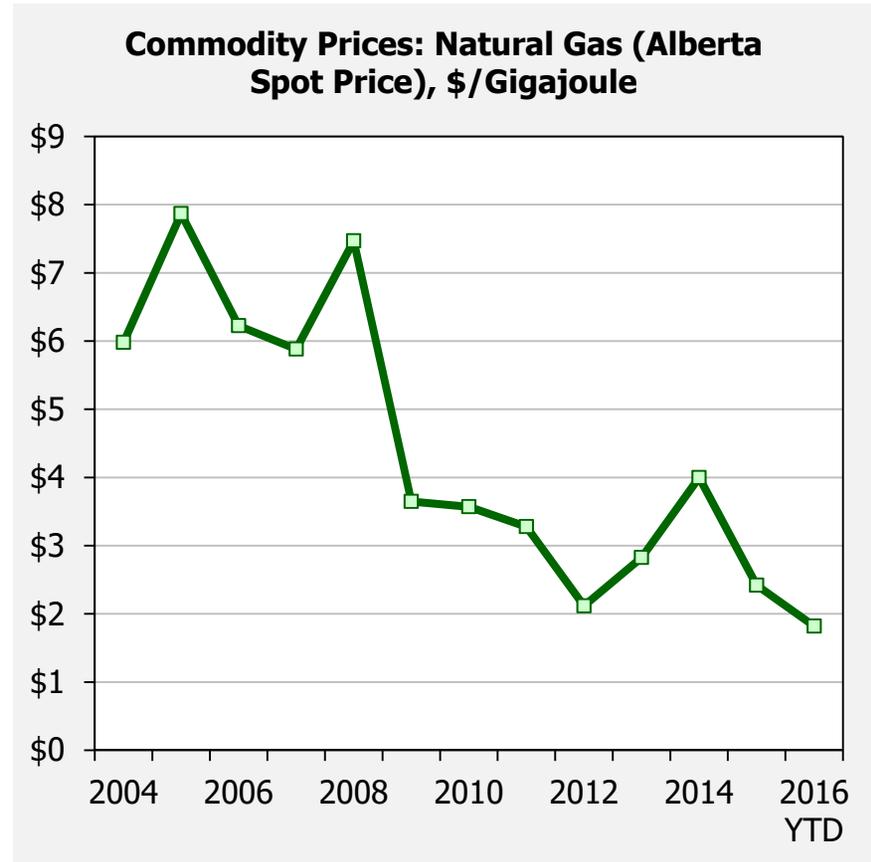
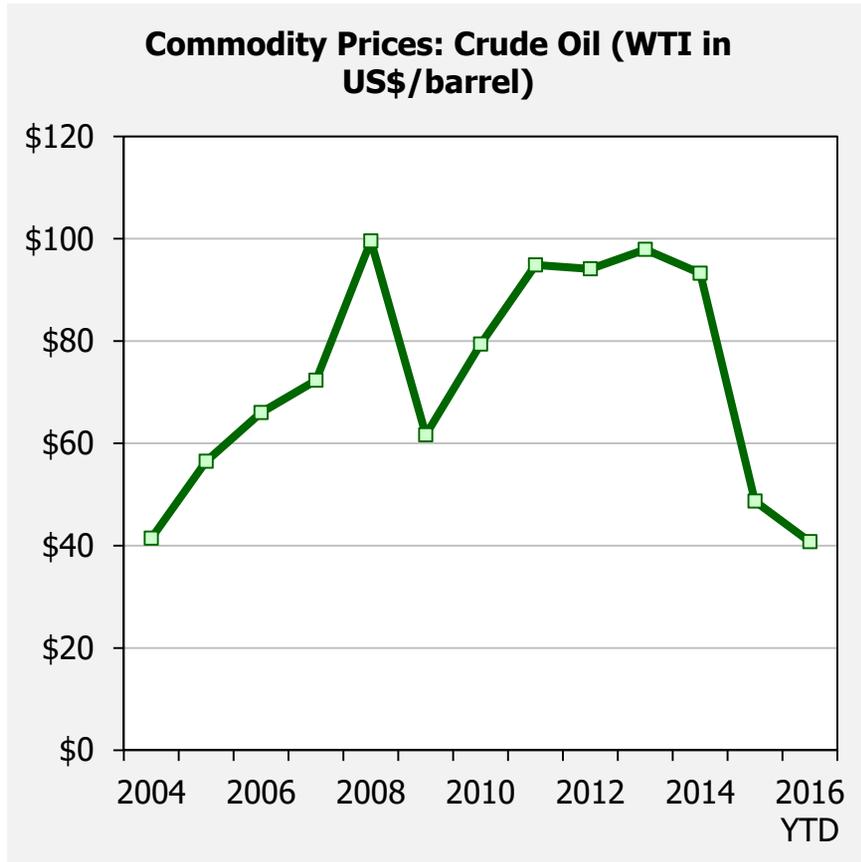
- **There seems to be more conflict and instability than usual in the world. The Middle East, Russia, and South China Sea are examples.**
- **In this geopolitical environment, Canada in general and Saskatchewan in particular offer a politically stable environment.**
- **In spite of the drop in commodity prices, a low level of provincial debt makes any dramatic changes in taxes or royalties unlikely.**

Cost of Capital – Prime Lending Rate



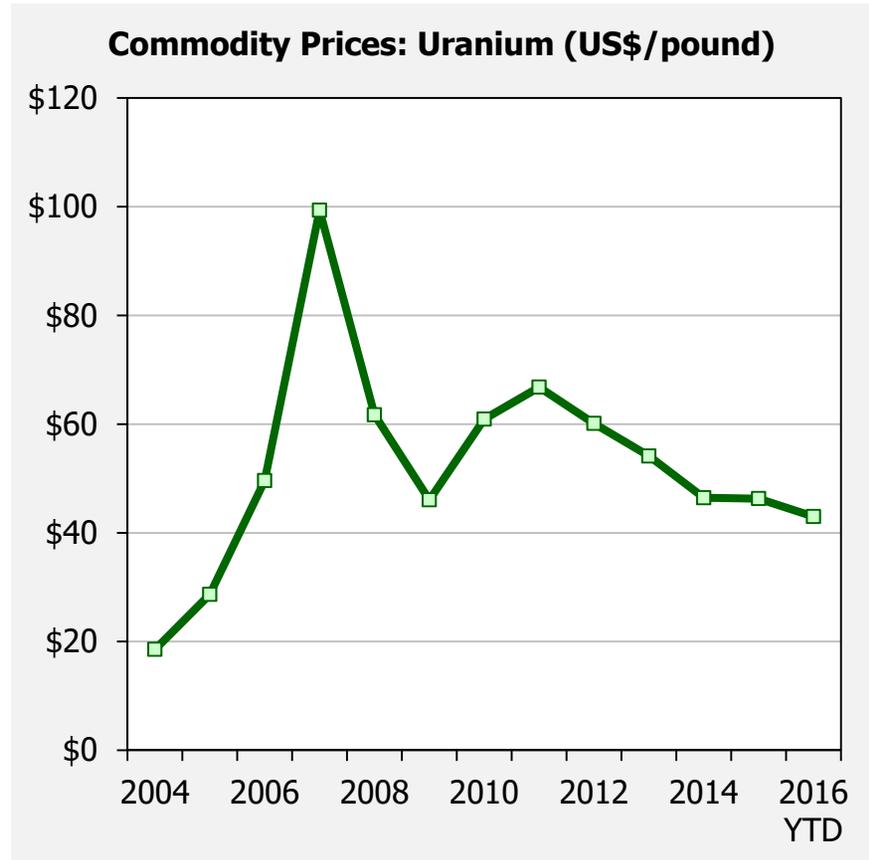
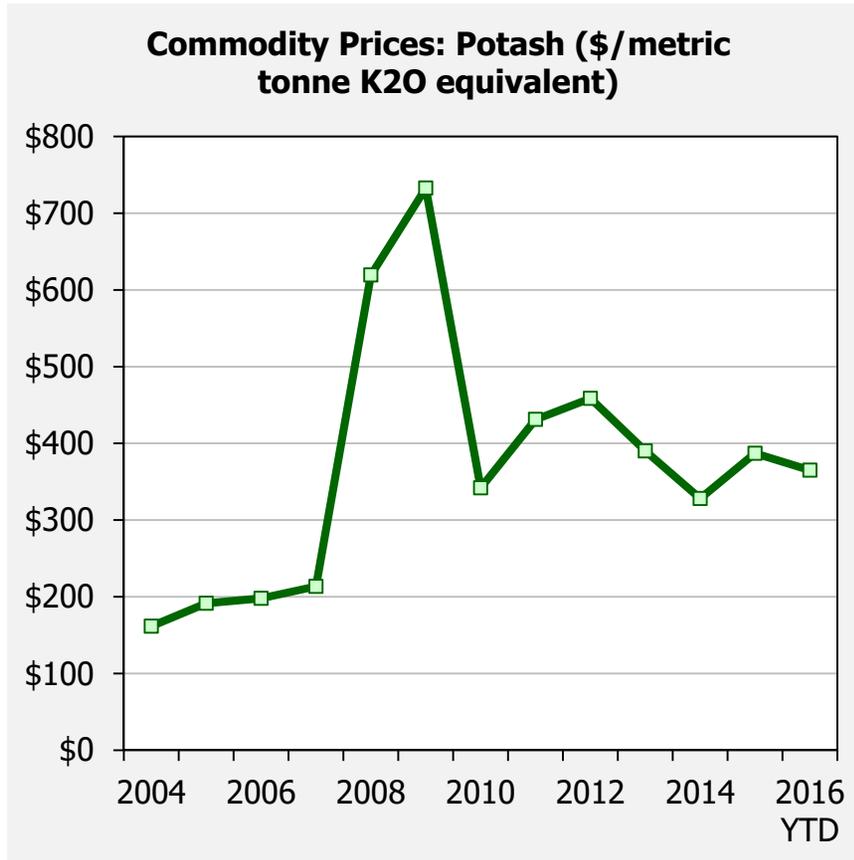
- All else being equal, the cost of capital is not an issue.
- Interest rates remain at historically low levels.

Commodity Prices – Crude Oil and Natural Gas



- In spite of the sharp drop late in late 2014, crude oil prices are still near the levels in the early 2000s.
- Natural gas prices, on the other hand, at historically low levels.

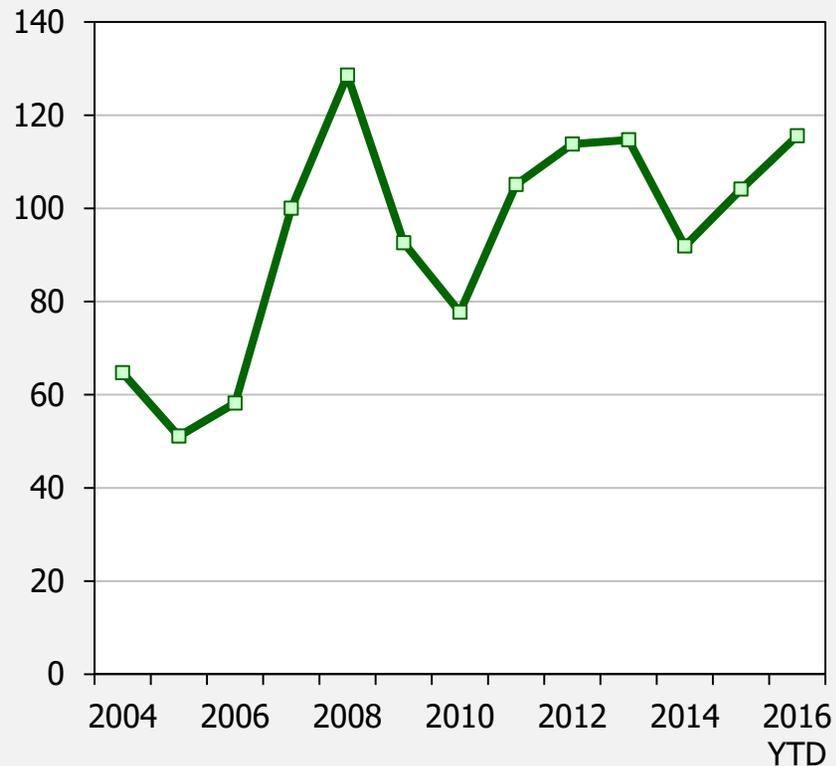
Commodity Prices – Potash and Uranium



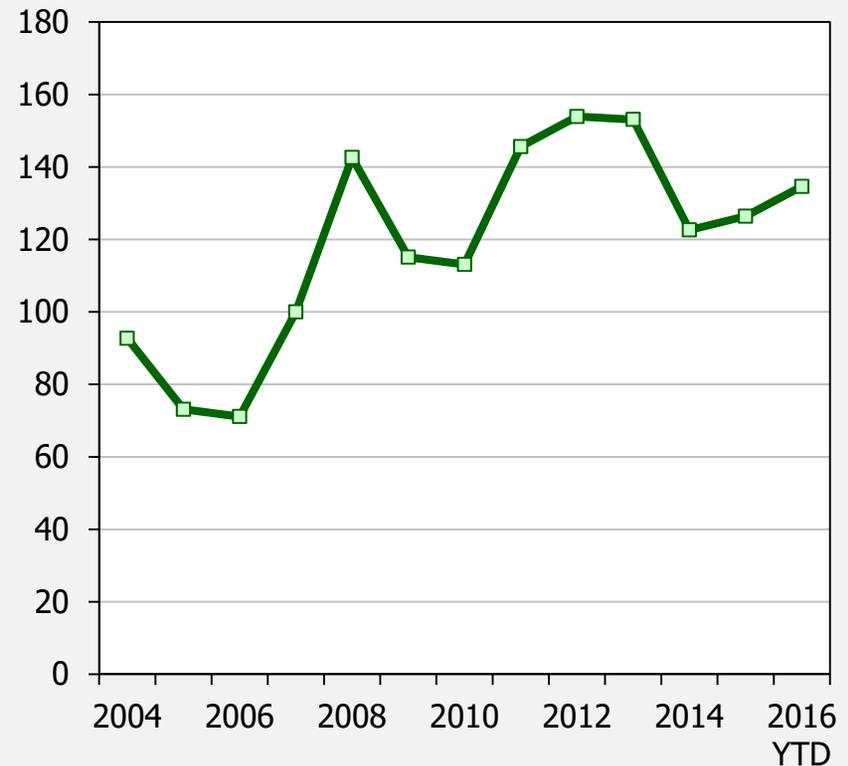
- After the spike in the late 2000s, the prices for potash and uranium have settled in at relatively high levels.

Commodity Prices – Grains and Oilseeds

Commodity Prices: Grains (2007 = 100)

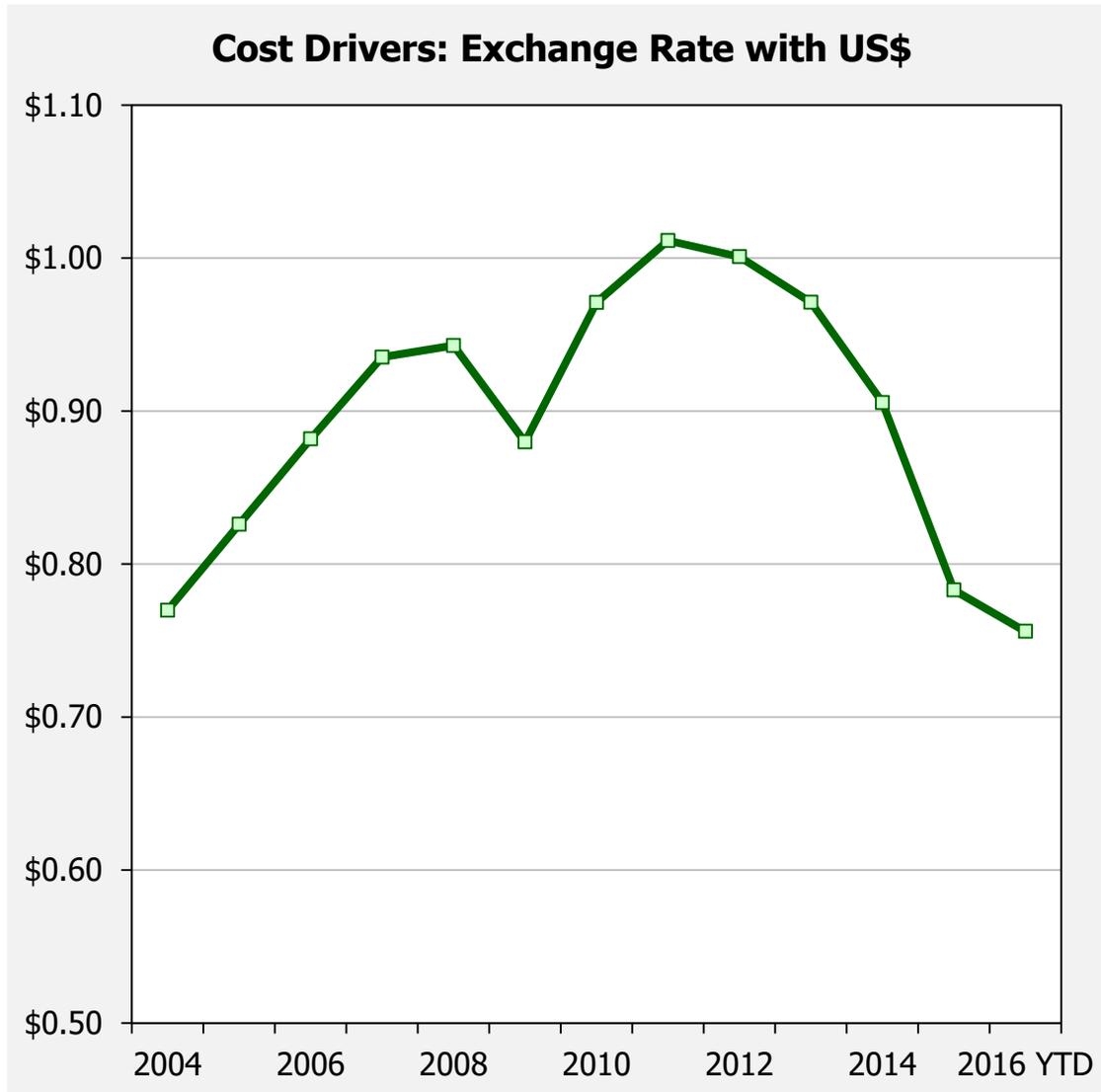


Commodity Prices: Oilseeds (2007 = 100)



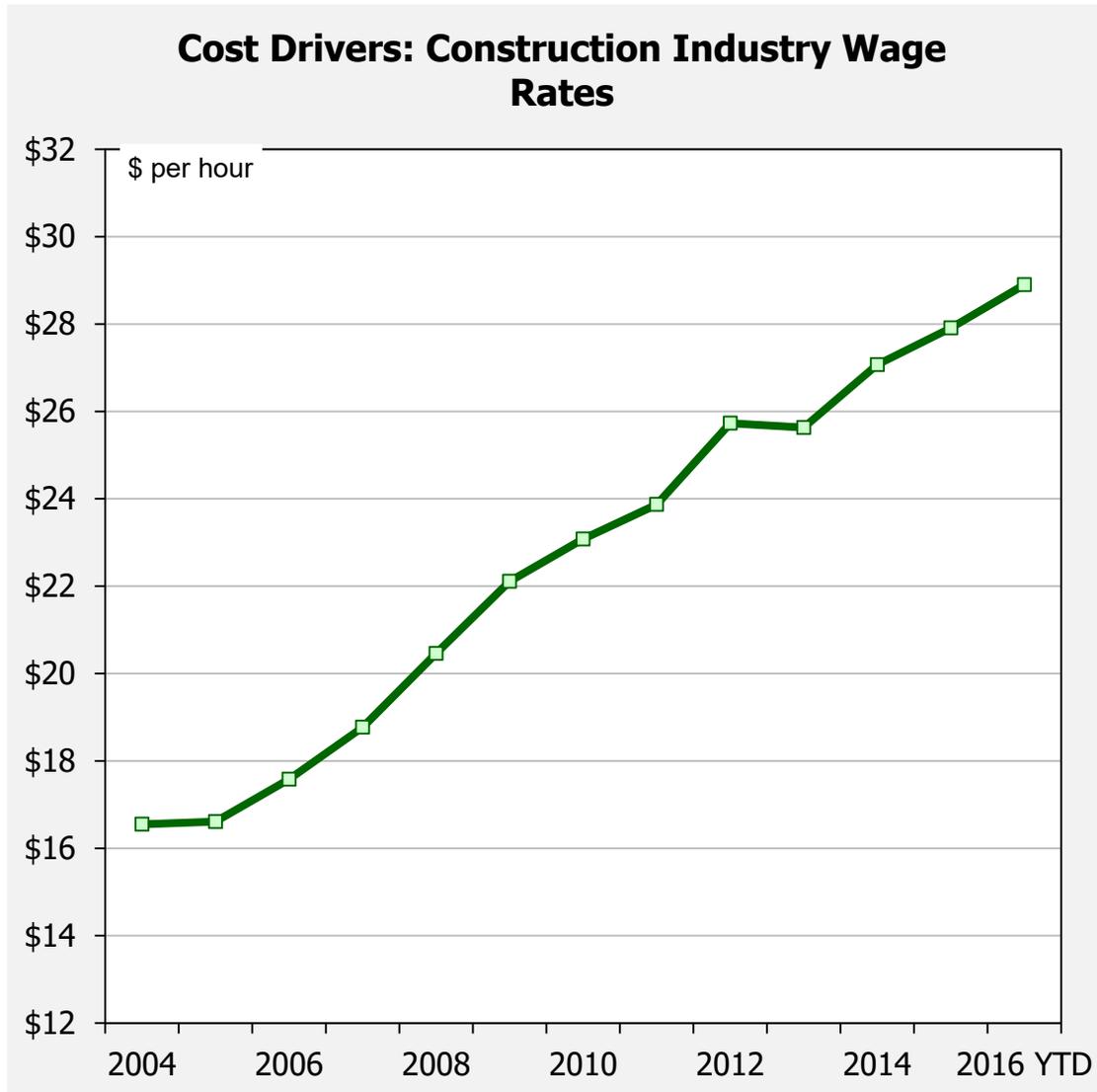
- Grain and oilseed prices are well above the levels they were in the mid 2000s.

Cost Drivers – Exchange Rate



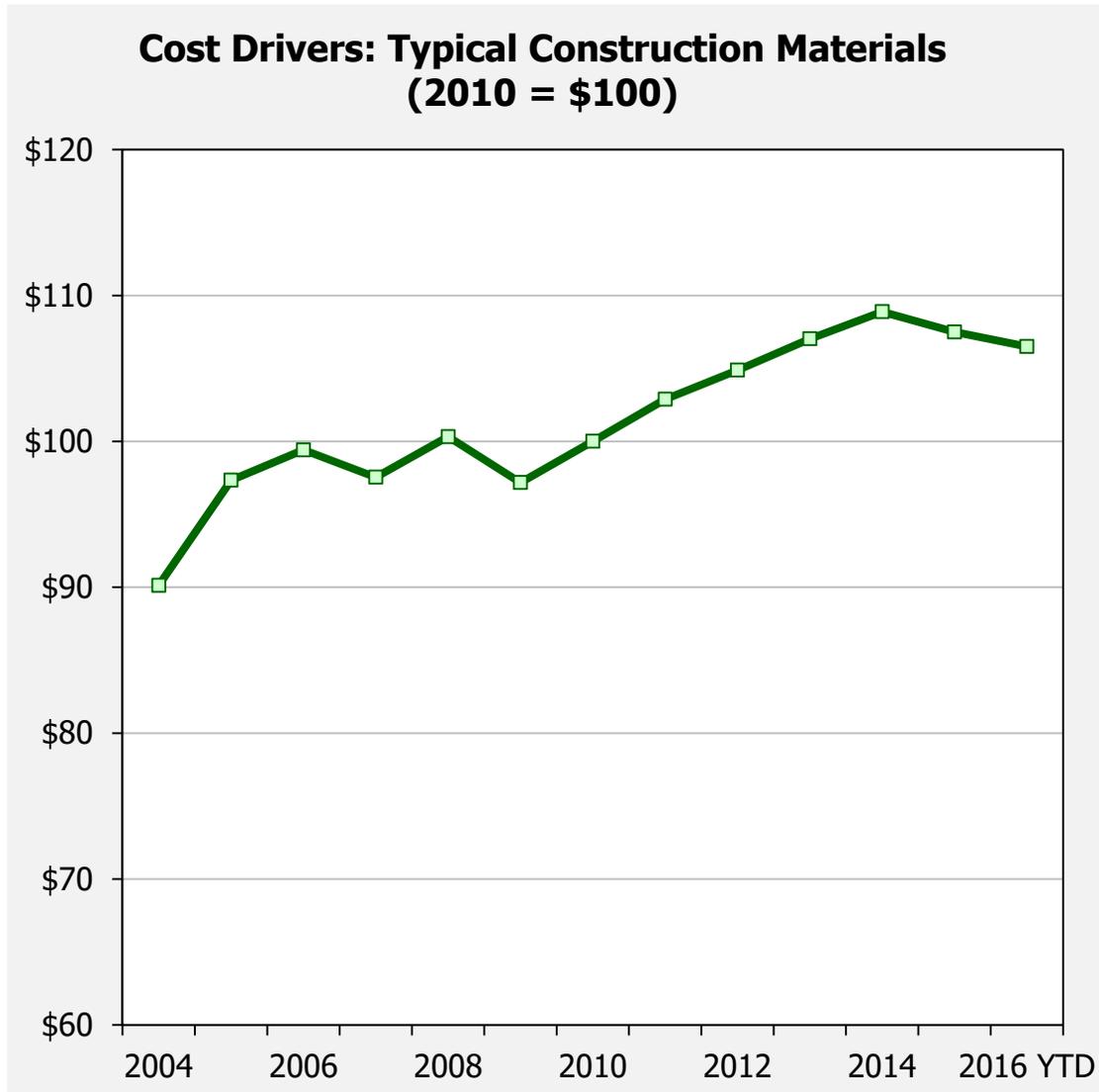
- Recent changes in the exchange rate increase the cost of material and equipment imported from the USA.
- On the other hand, exporters of raw materials and manufactured goods will benefit.

Cost Drivers – Labour Costs



- Wage rates in the industry are growing more quickly than the rate of inflation.
- For most projects, the cost of labour is growing more quickly than other costs.
- The slowdown in the residential sector and in the oil patch puts downward pressure on wage rates.

Cost Drivers – Construction Materials



- These figures average costs for a selection of more than forty different materials typically used in capital construction projects.
- They range from redi-mix concrete to asphalt and drywall and diesel fuel.
- Compared with \$100 in 2010, the typical basket of materials cost \$107 in early 2016. This compares with \$109 in 2014.

Summary

- **Saskatchewan offers a stable political environment.**
- **Commodity prices are down from their peak a few years ago but are still above the levels they were in the mid 2000s. Demand and prices are expected to increase in the long term as personal incomes in India and China continue to grow.**
- **The cost of capital is low.**
- **Material prices are growing more slowly than the rate of inflation but the cost of labour is growing more quickly.**
- **Public sector spending on infrastructure will be high in the short term.**