Selected Statistics about the Saskatchewan Construction Industry

Presented to the:

Saskatchewan Construction Association

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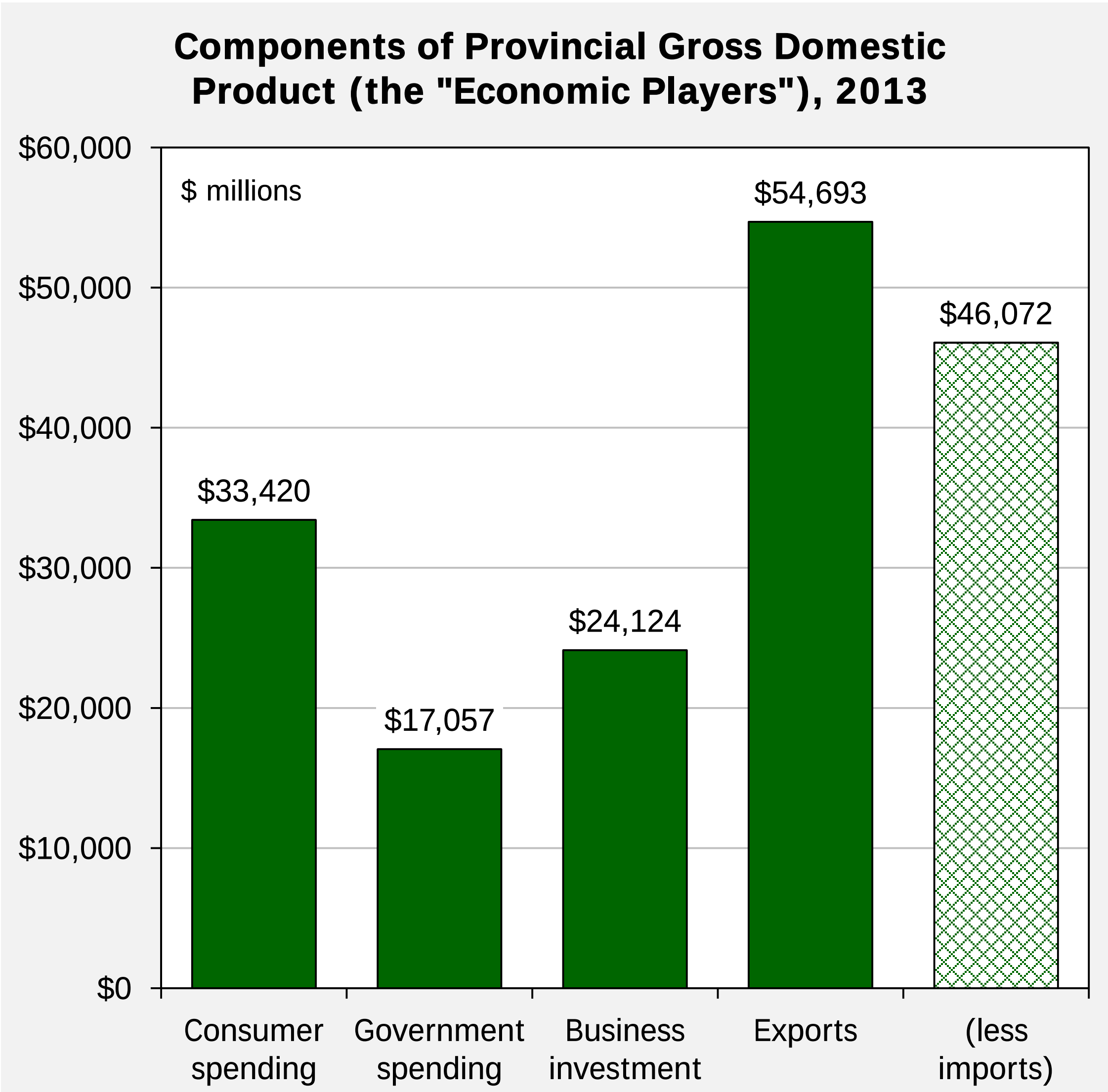
Outline

- Economic Overview for Saskatchewan
- Construction Industry Activity
- Employment Trends
- Characteristics of Employees and Positions
- 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 projections are the responsibility of Sask Trends Monitor.

Saskatchewan Economic Overview

The Economic Drivers



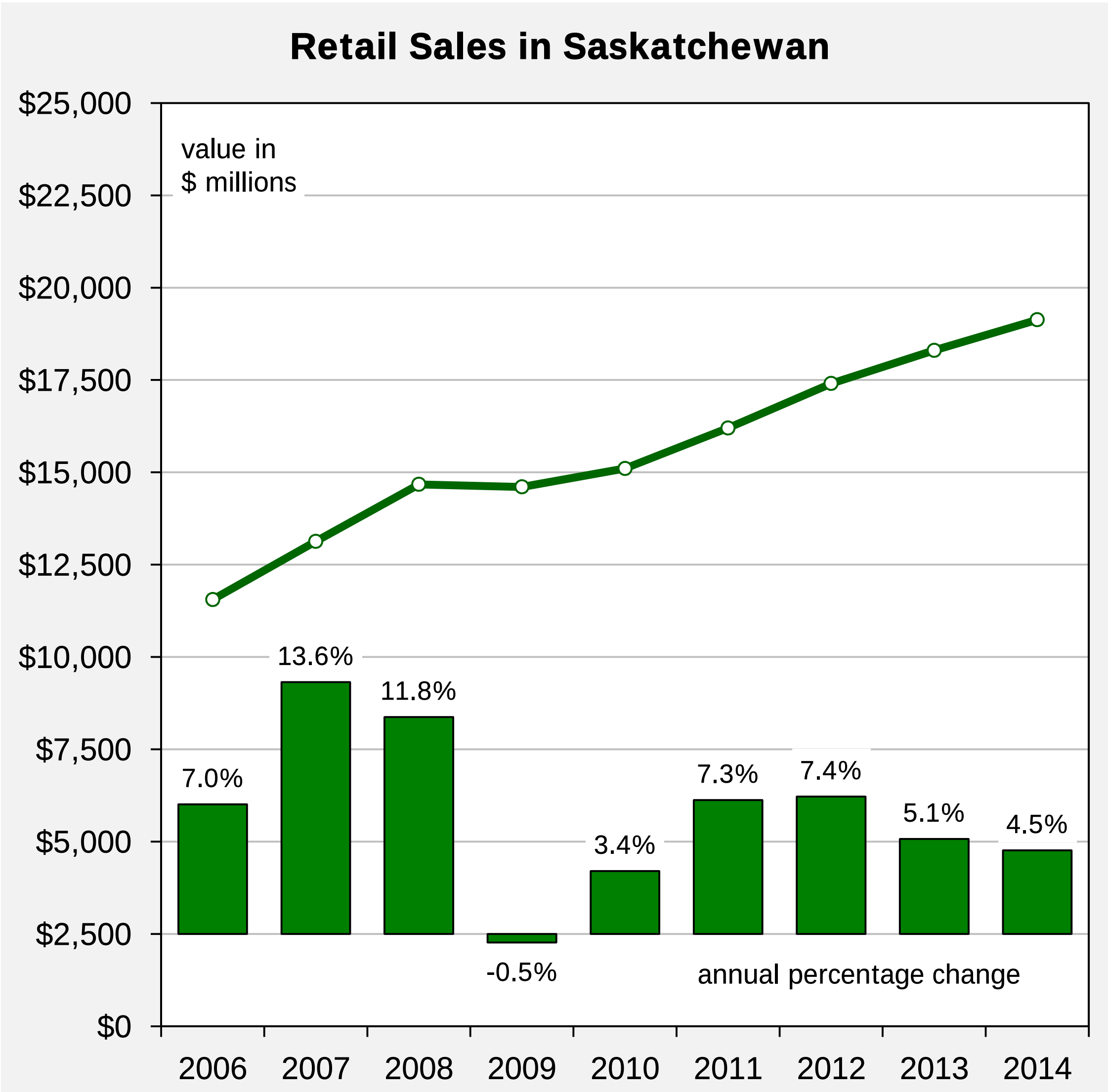
- **One way to look at the provincial economy is through the lens of the four main economic drivers or players in the economy.**

- **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.

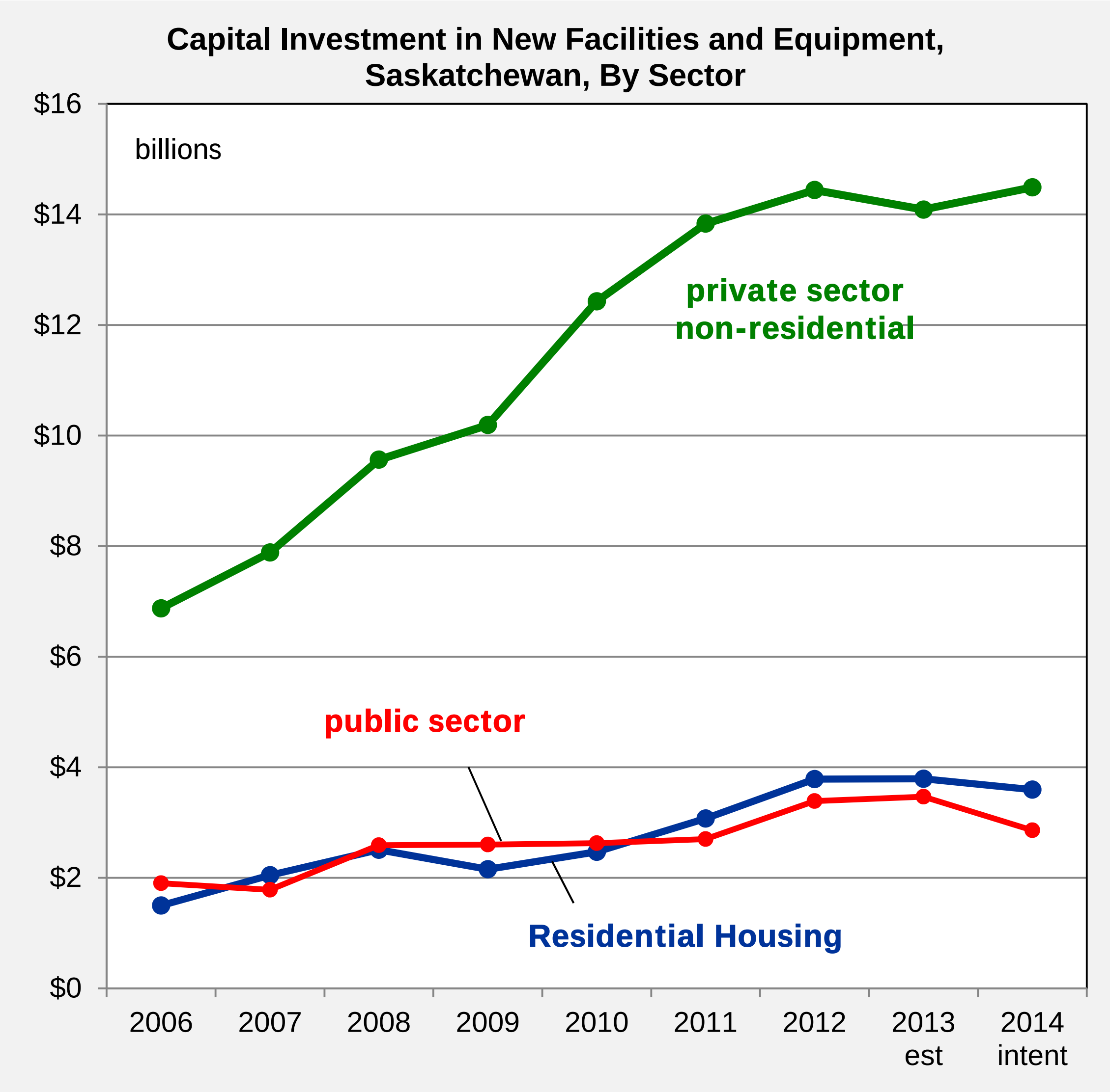
- **The economy does well when any three of the players are active. During economic booms all four contribute.**

Consumer Spending



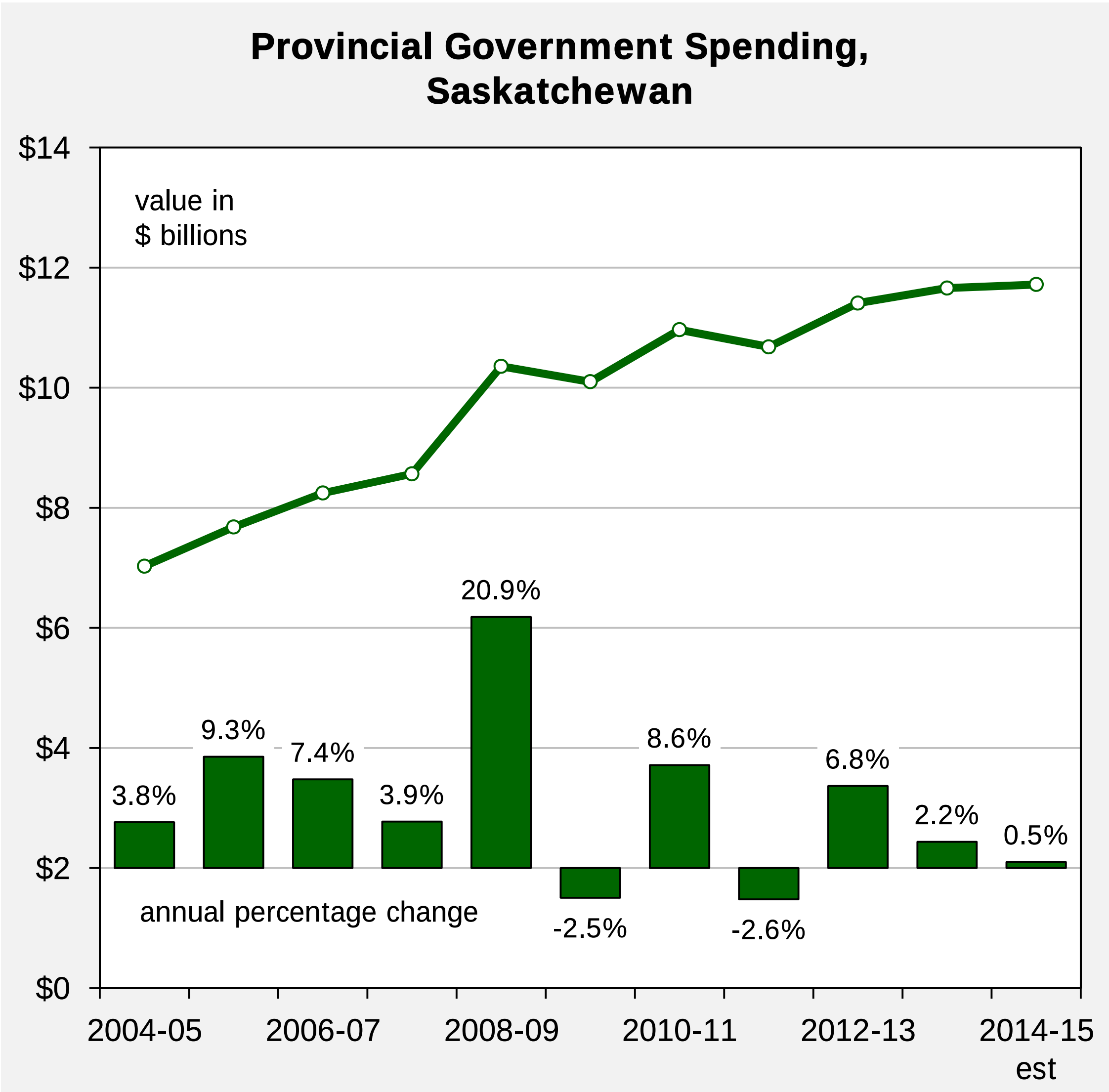
- Retail sales are the best statistical indicator for consumer spending.
- Retail sales have grown more quickly than inflation in the last five years. The purchase of new trucks and SUVs was one of the main reasons.
- Spending has also increased dramatically on housing, restaurant meals, and international travel.
- Retail sales have declined by 3% in the first quarter of 2015. A slower year is on the horizon.

Business Investment



- This figure looks at new investment activity by businesses, governments, and consumers.
- In the last four years, the private sector has invested $14 billion per year in the province, double the level in 2006.
- The vast majority of this investment is in the resource sector, that is, mining and oil/gas.
- The 67% growth in residential housing from 2009 to 2014 is another measure of consumer confidence.

Government Spending



- Government spending is a major driver for institutional construction.
- Of the three levels of government, the provincial government is the most important.
- The most recent budget anticipates continued growth in both capital and operating expenditures.

International Trade

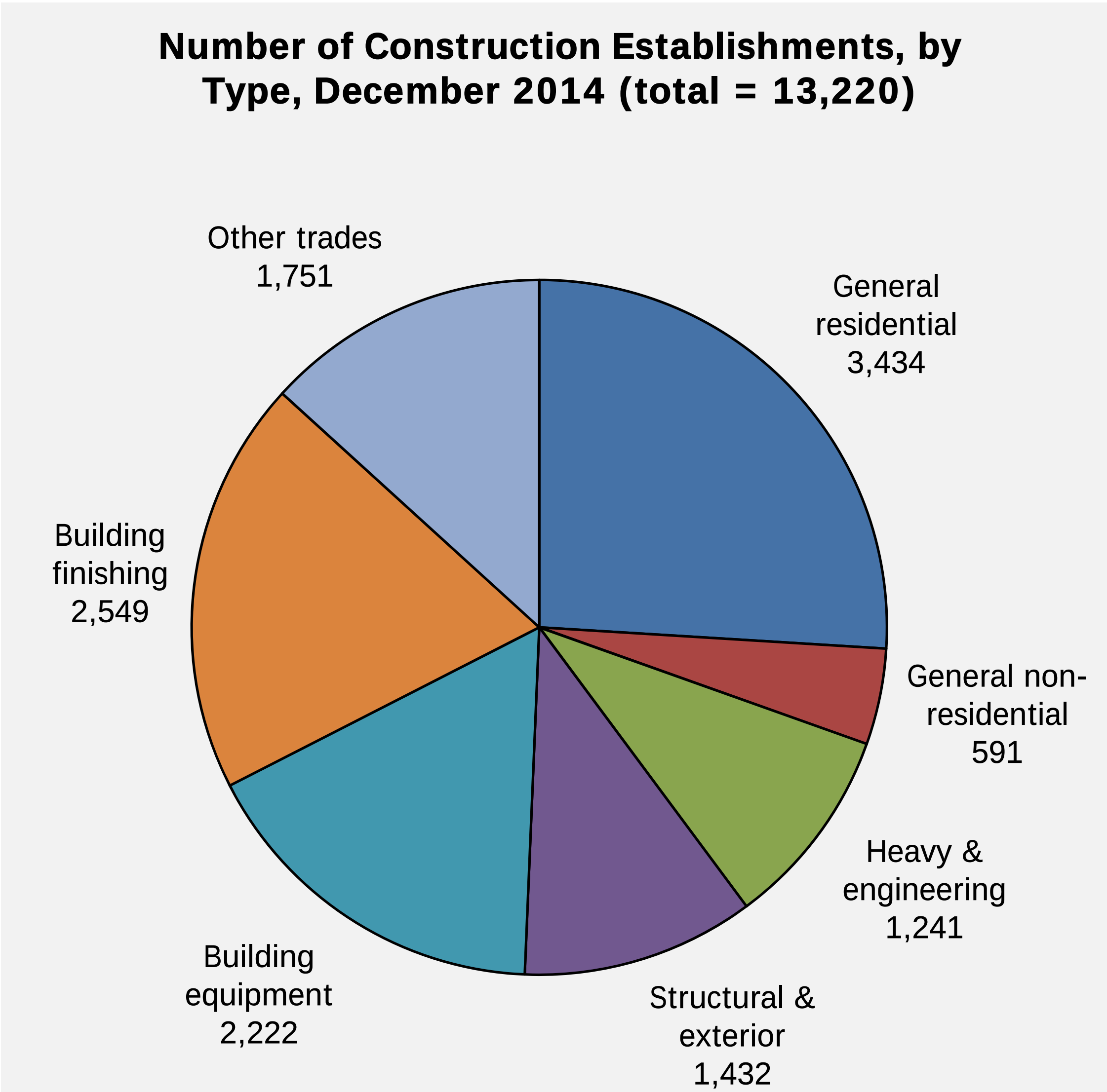
- **Generally speaking, Saskatchewan runs a trade <u>surplus</u> with other countries and a trade <u>deficit</u> with other provinces.**
- **Net international trade (excluding services) has doubled since 2009. This is in spite of the fact that the USA, our largest trading partner, has been in an economic slump.**
- **The outlook for international trade in 2015 is positive because of the recovery in the US economy and the lower value of the Canadian dollar.**

Summary

- The Saskatchewan economy has been “firing on all four cylinders” since 2010.
- A slowdown in business investment and consumer confidence may dampen activity in 2015.

The Saskatchewan Construction Industry

Number of “Establishments” in Construction

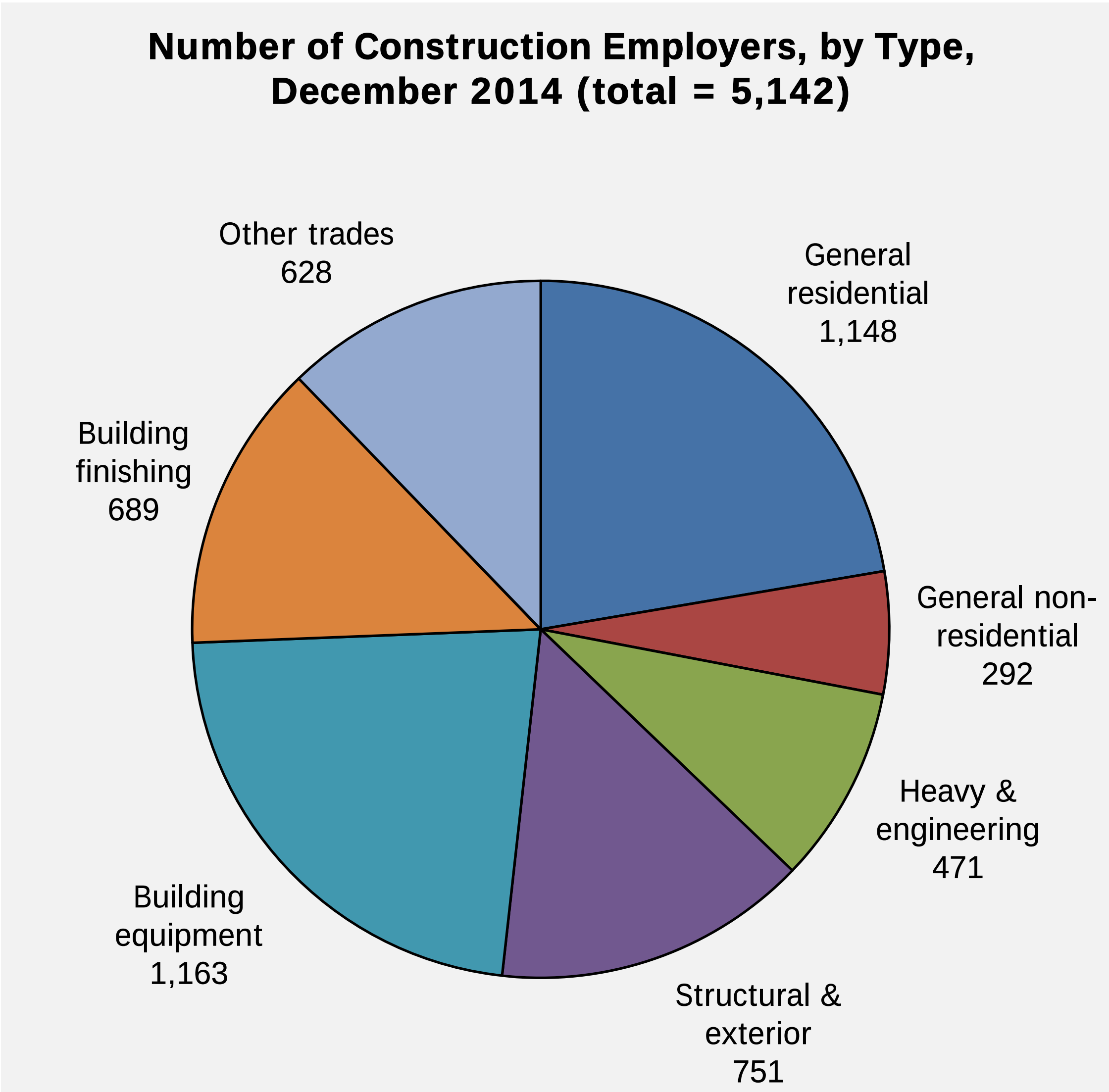


- **Using information from Revenue Canada, Statistics Canada estimates the number of construction establishments as 13,220 as of December 2014. Many of these will be one-person shops.**

- **This is slightly more than the 12,078 of firms registered with the Workers’ Compensation Board.**

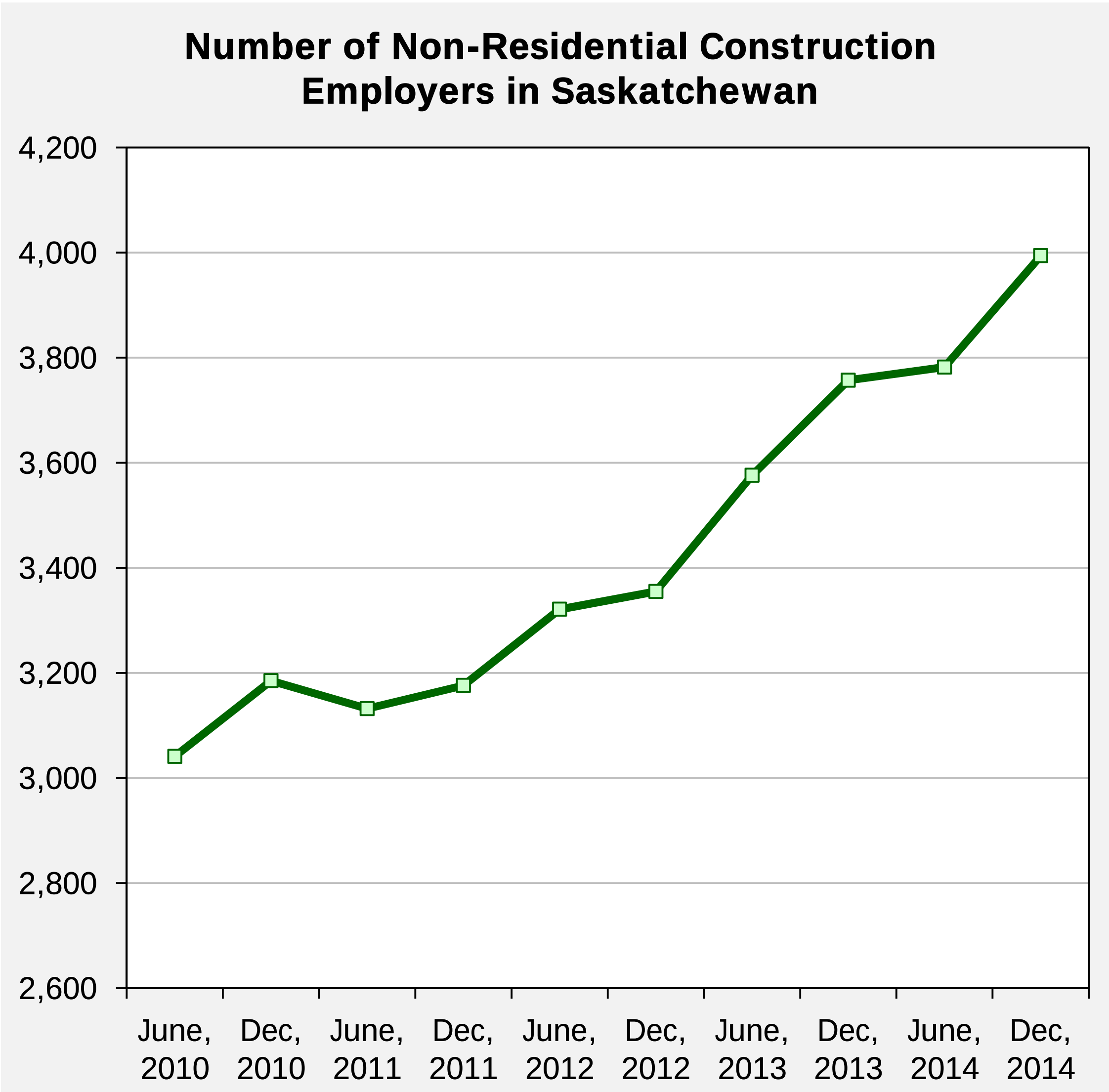
- **About one-half (6,539) are located in Regina or Saskatoon.**

Number of Employers in Construction



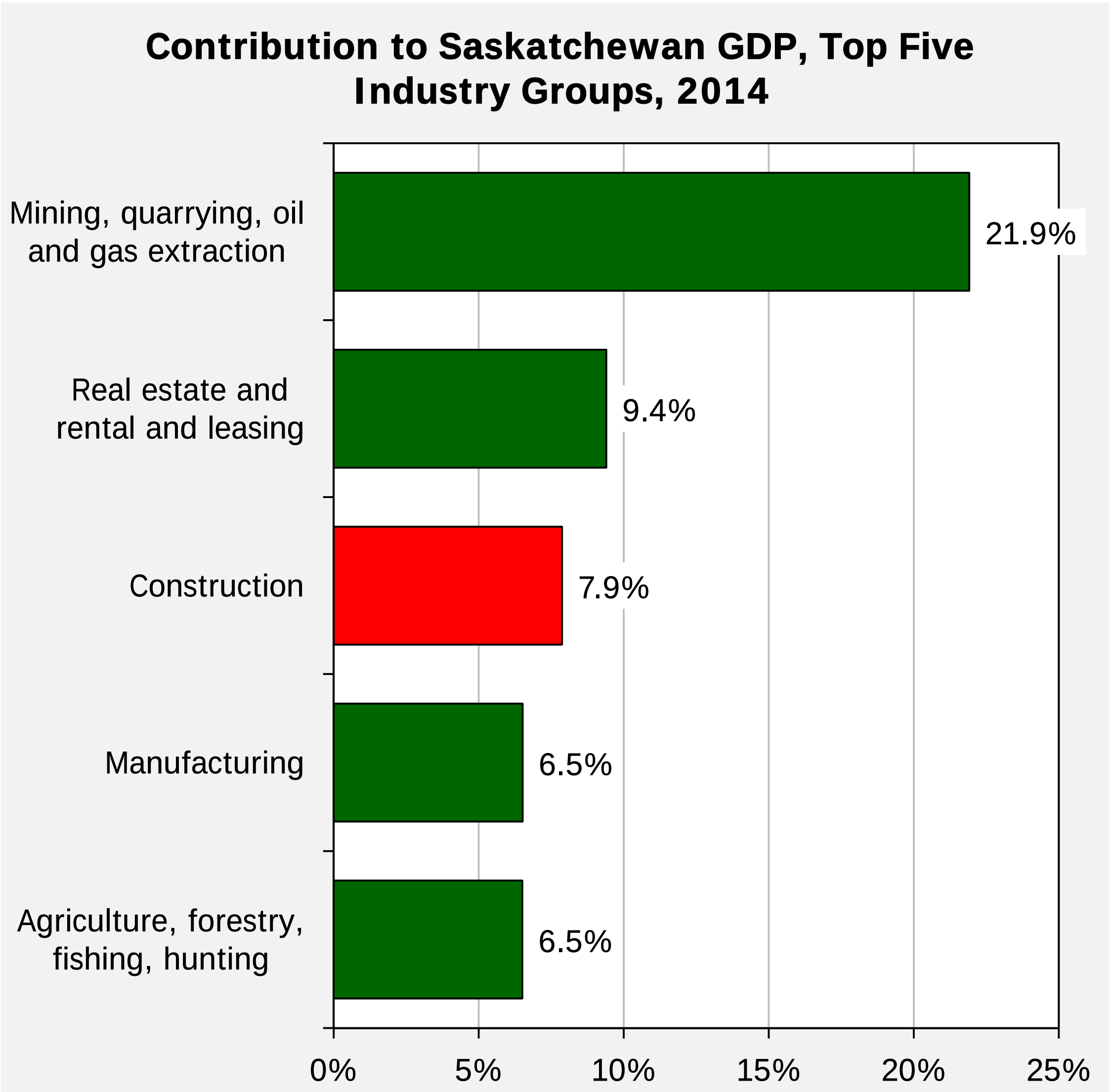
- **This restricts the numbers to the 5,142 establishments with at least one employee (according to Revenue Canada data).**
- **503 firms have 20 or more employees; 56 have more than 100.**
- **Among the employers in the residential and non-residential sectors, those involved in building equipment (e.g. heating, elevators) are the largest subgroup.**
- **Many of these firms will also work in both the residential sector and non-residential sectors.**

Number of Construction Employers



- **Excluding those who are general contractors in the residential sector, there were just under 4,000 employers in December 2014.**
- **The figure shows that the number has increased by 25% since 2010.**

Contribution to the Economy

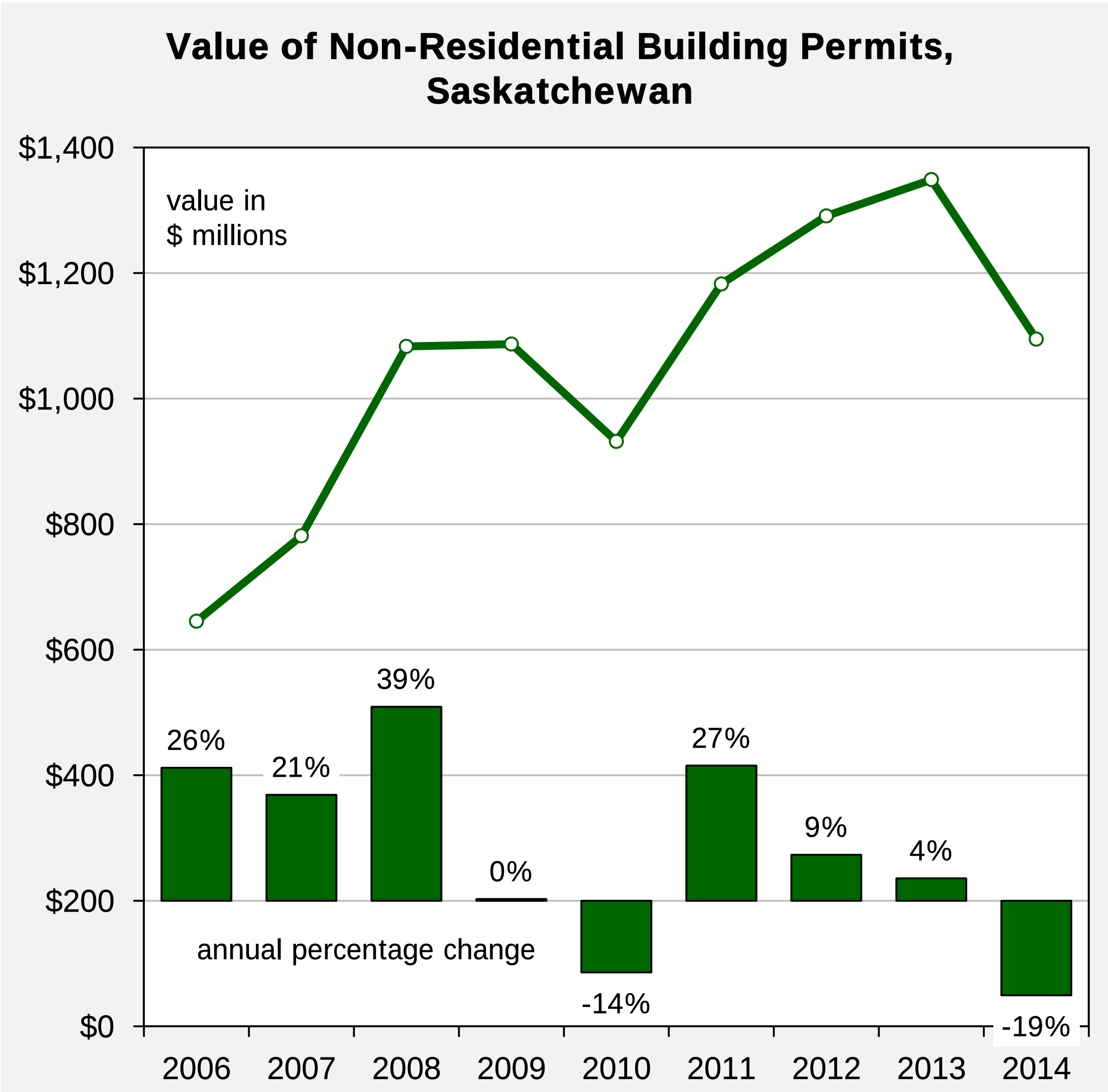


- **The construction industry (residential and non-residential) make a substantial contribution to the provincial economy.**
- **Estimates for 2014 show that, measured in constant $2007, construction accounts for 7.9% of the provincial GDP – the third largest industry group.**

Value of Building Permits

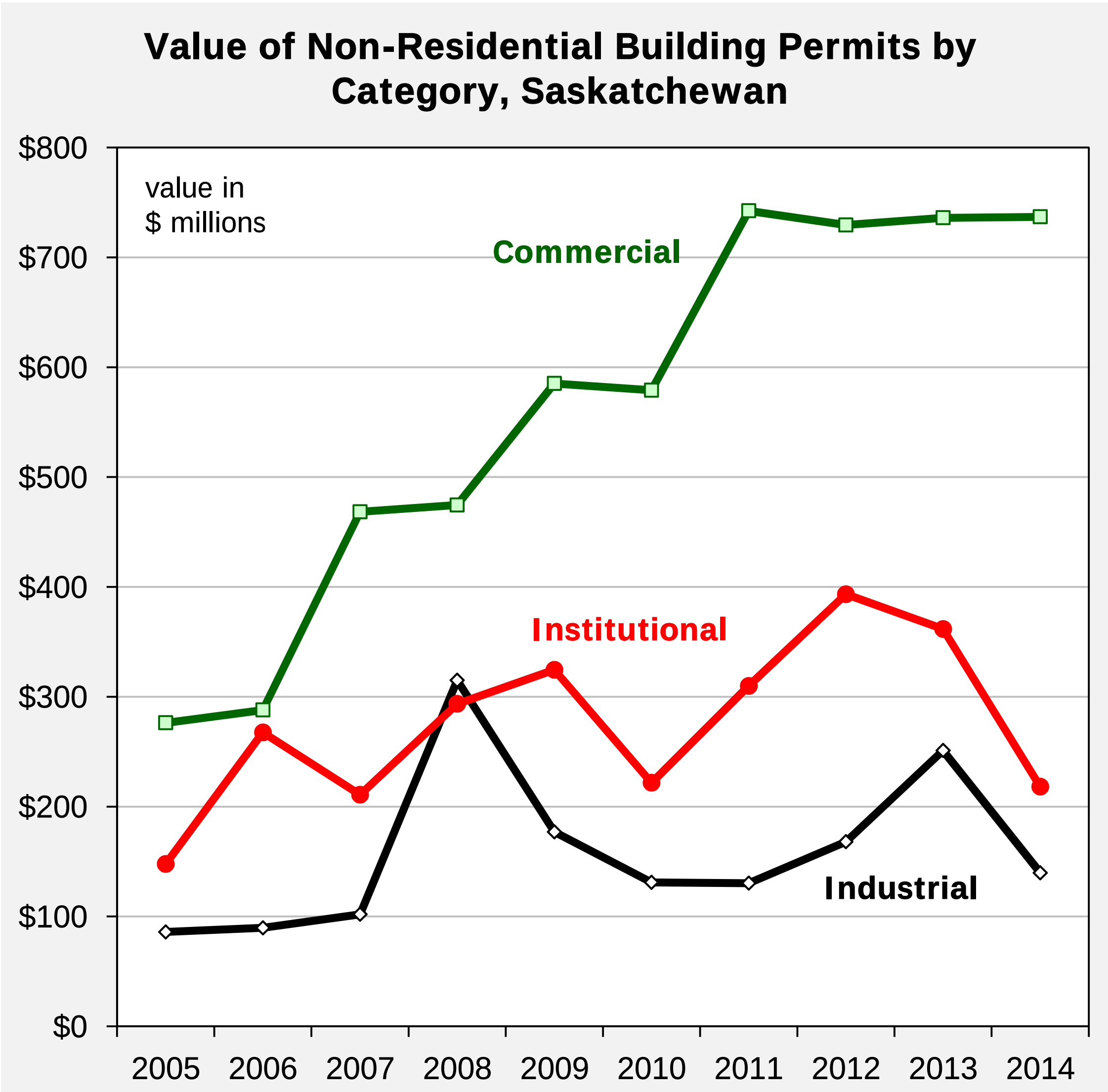
- The value of building permits issued is the best indicator of the value of activity in the non-residential sector.
- Note that changes in the value of permits reflect both changes in activity and changes in price.
- Building permits are leading indicators in the sense that they predict activity in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

Value of Non-Residential Building Permits, Saskatchewan



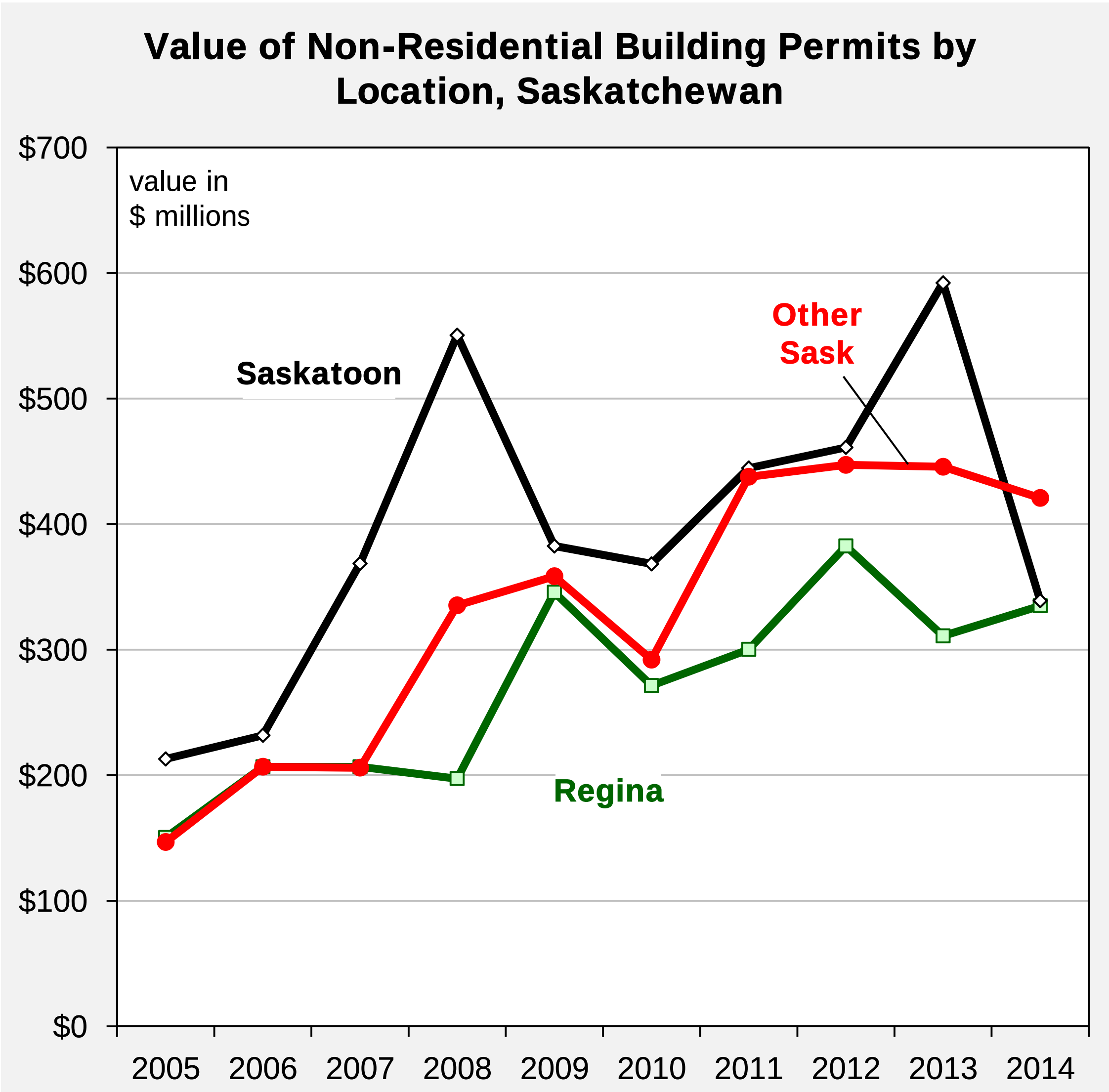
- The value of non-residential permits was increasing at double-digit rates in the mid-2000s until the worldwide credit crunch led to a slowdown in late 2009 and into 2010.
- Permits grew again in value from 2010 to 2013 before falling back in 2014.
- In the first quarter of 2015, permits have increased by 12%, recovering some of the ground lost in 2014.

Non-Residential Construction Activity – Building Permits



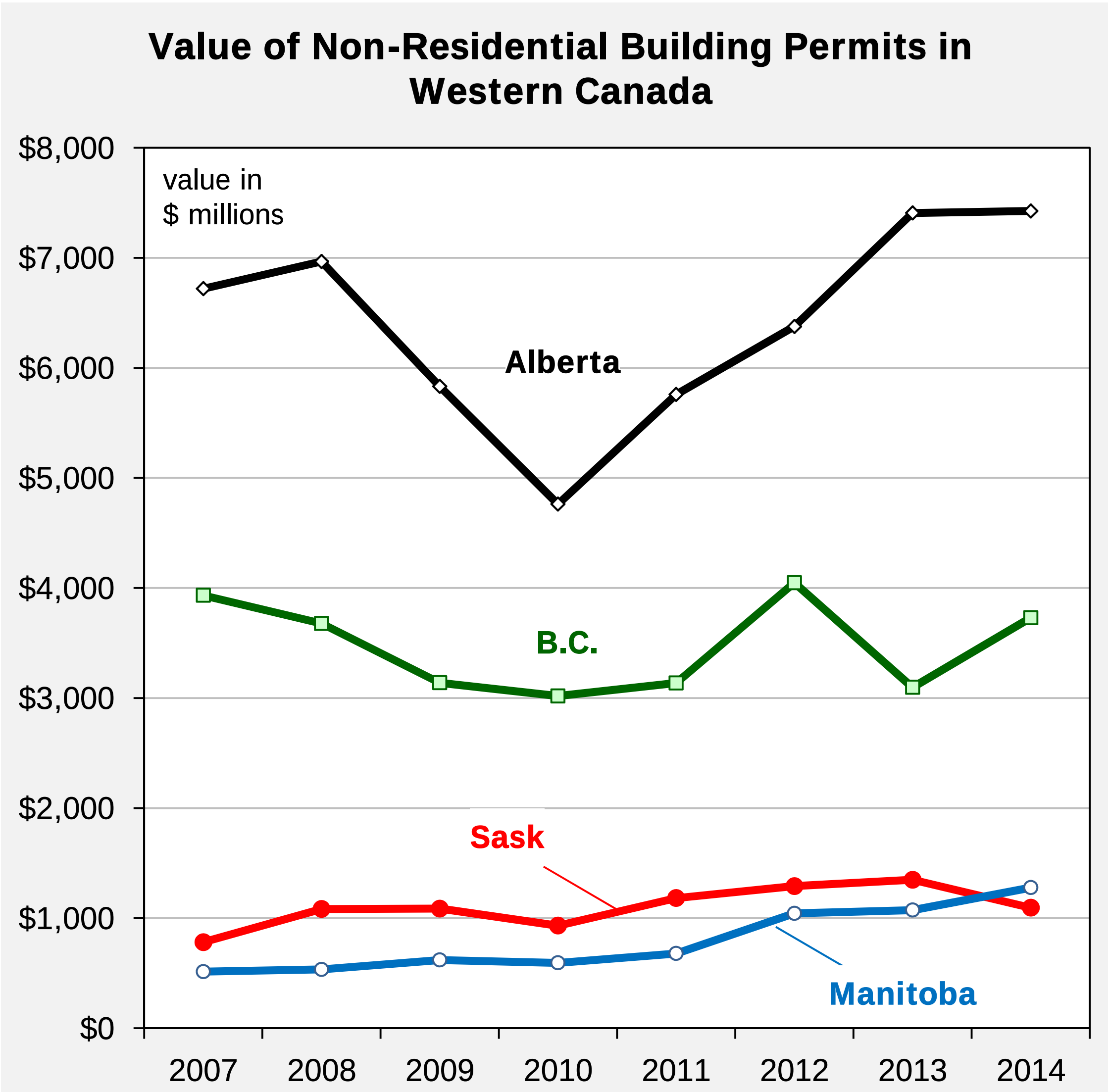
- **In terms of value, non-residential activity has been concentrated in the commercial sector which accounted for two-thirds of the 2014 permit values.**
- **The decline in 2014, on the other hand, was limited to the industrial and institutional sectors.**

Building Permits by Location



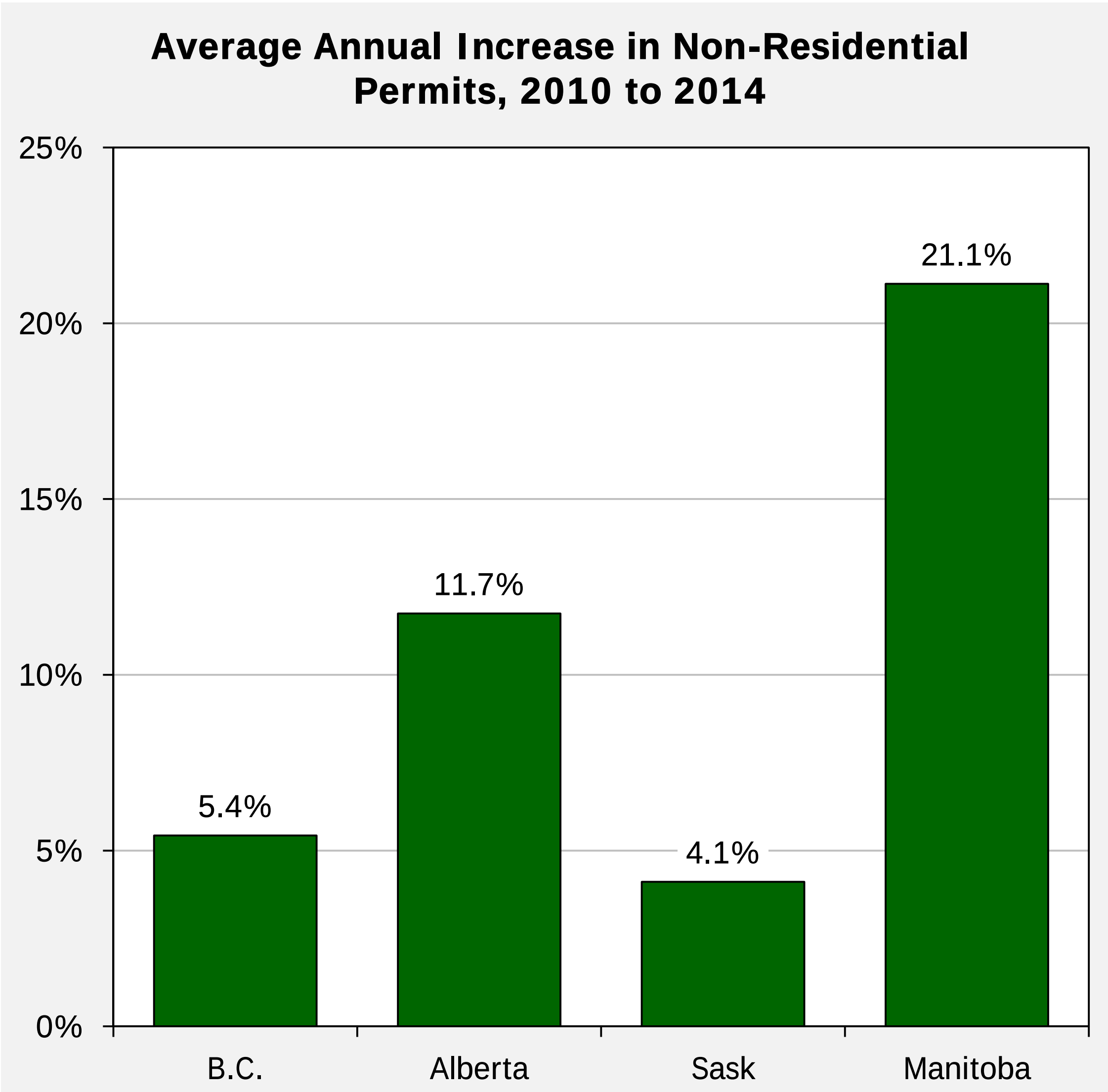
- **The increase in activity has been widely dispersed in the province.**
- **The 2014 decline was concentrated in Saskatoon.**

Interprovincial Comparison – Non-Residential Permits



- In spite of the recent strong growth in the province, non-residential activity in other western provinces has also been strong.
- Saskatchewan's share of the four western provinces is 8 %.

Interprovincial Comparison – Growth Rates



- **The value of permits has grown even more quickly in other western provinces than in Saskatchewan.**
- **The national average over this five-year period was 4.0%.**
- **In the first quarter of 2015, permits are down nationally and in B.C. and Alberta. They are up in Saskatchewan and Manitoba.**

Labour Force and Employment

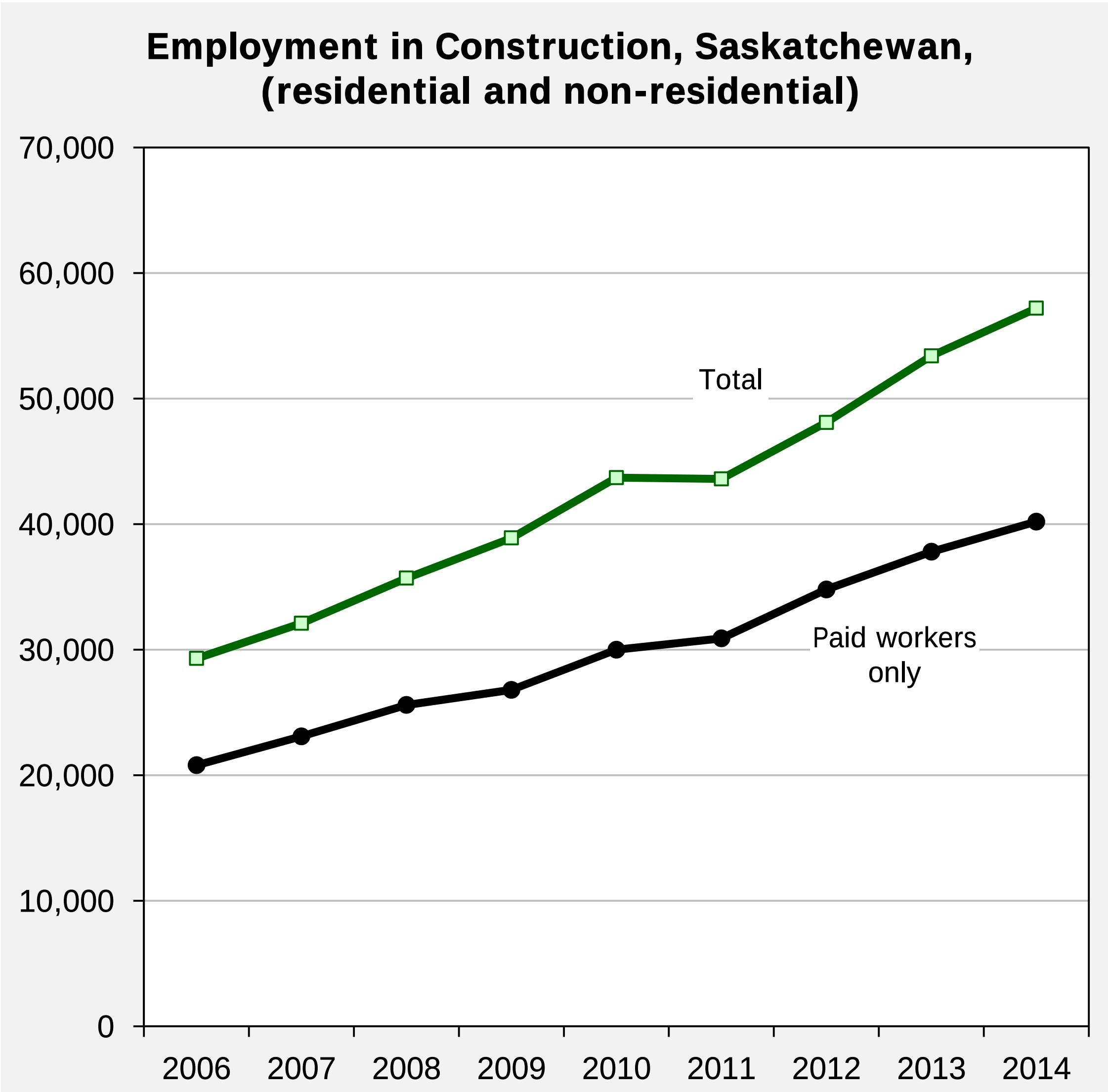
- The labour force figures cannot distinguish between residential and non-residential construction so these figures include both. They also include the heavy and engineering construction group.

- The Statistics Canada survey which yields these figures measures the region or province where you <u>live</u> which may be different from where you <u>work</u>.

- For those with two or more jobs, we are measuring their main job, that is, the one where they work the most hours.

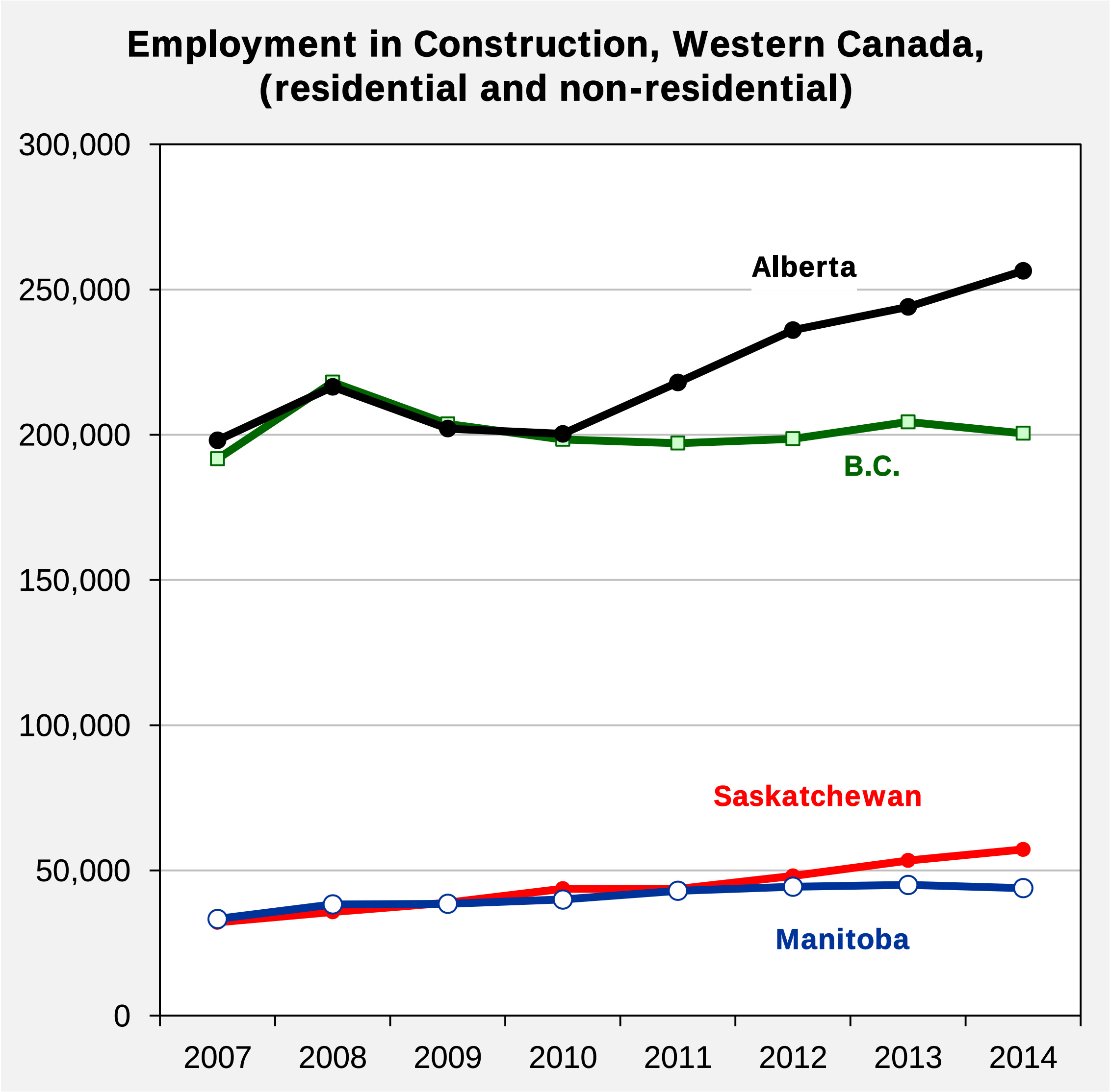
- These statistics apply to the construction <u>industry</u> rather than those working in the construction <u>trades</u>.

Construction Industry Employment



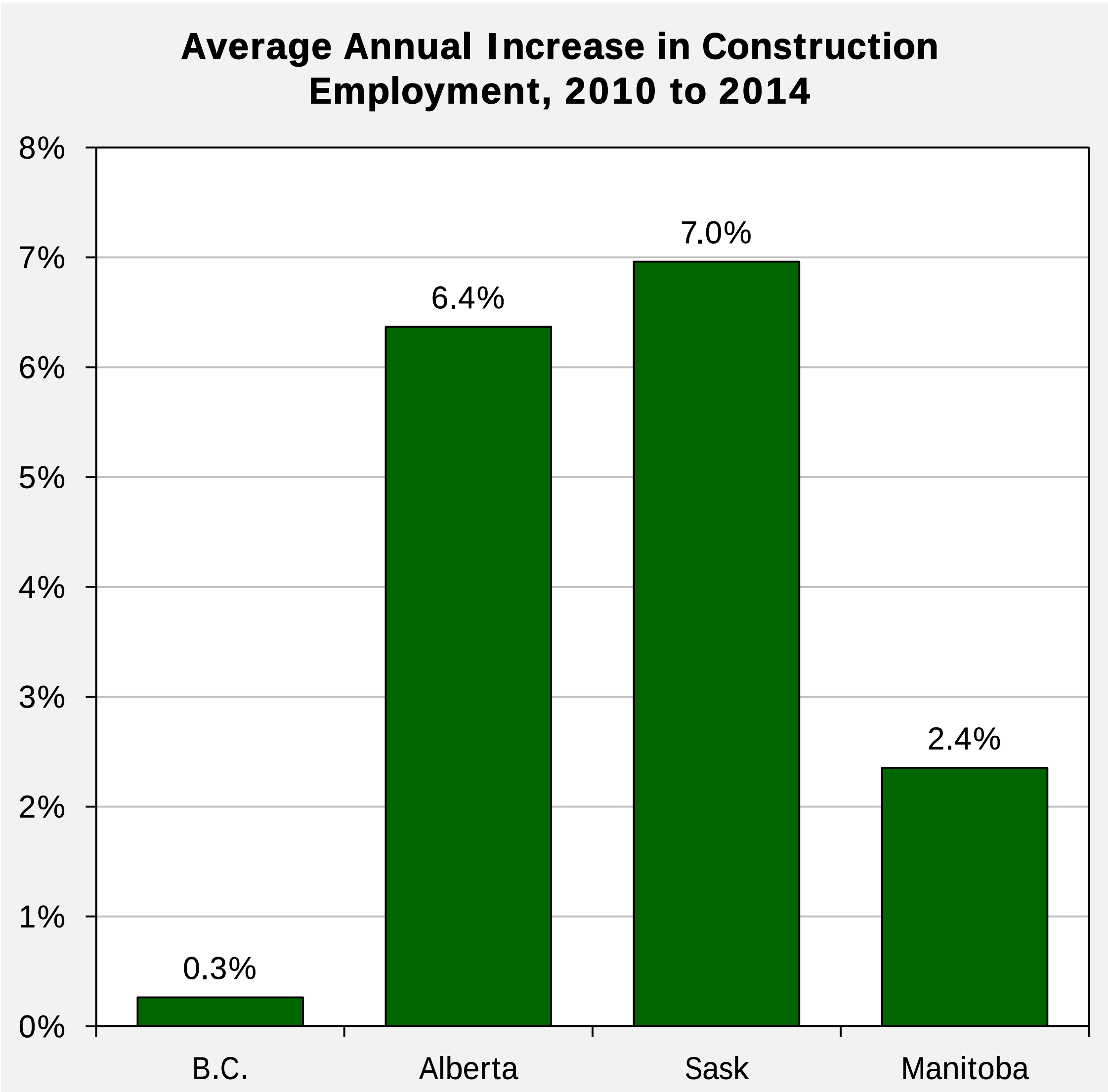
- In an average month in 2014, there were 57,200 individuals who reported that their main or only job was in the construction industry.
- This represents for 10% of employment in the province, up from 8% in 2010.
- Approximately 30% of those in the industry are self-employed.
- From 2010 to 2014, construction employment grew by an average of 7.0% per year.
- In the first few months of 2015, employment growth has slowed to an annual rate of 1.2%.

Interprovincial Comparison of Employment



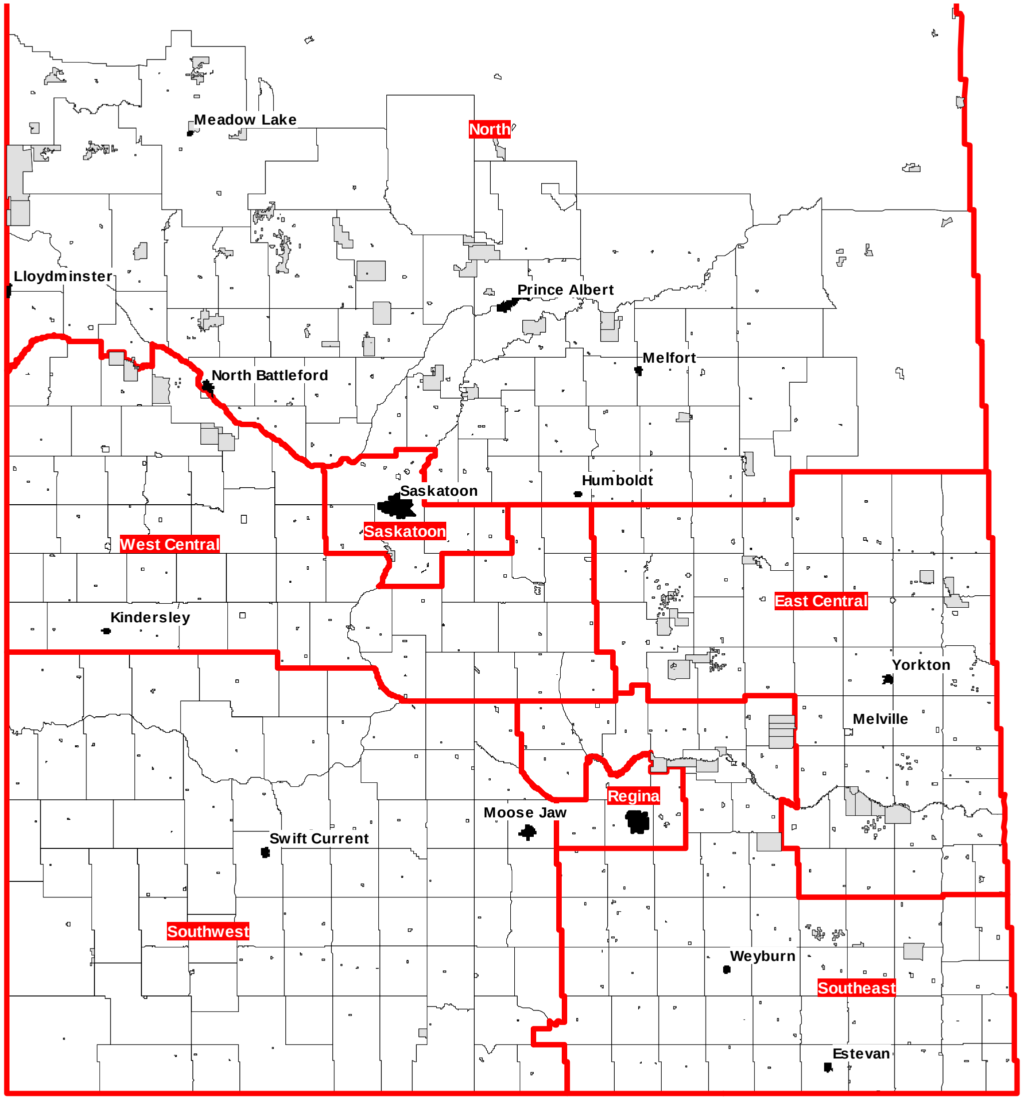
- **Construction employment has also grown quickly among Alberta residents.**
- **Employment in Saskatchewan represents 10% of the total – up from 8% five years ago.**

Interprovincial Comparison



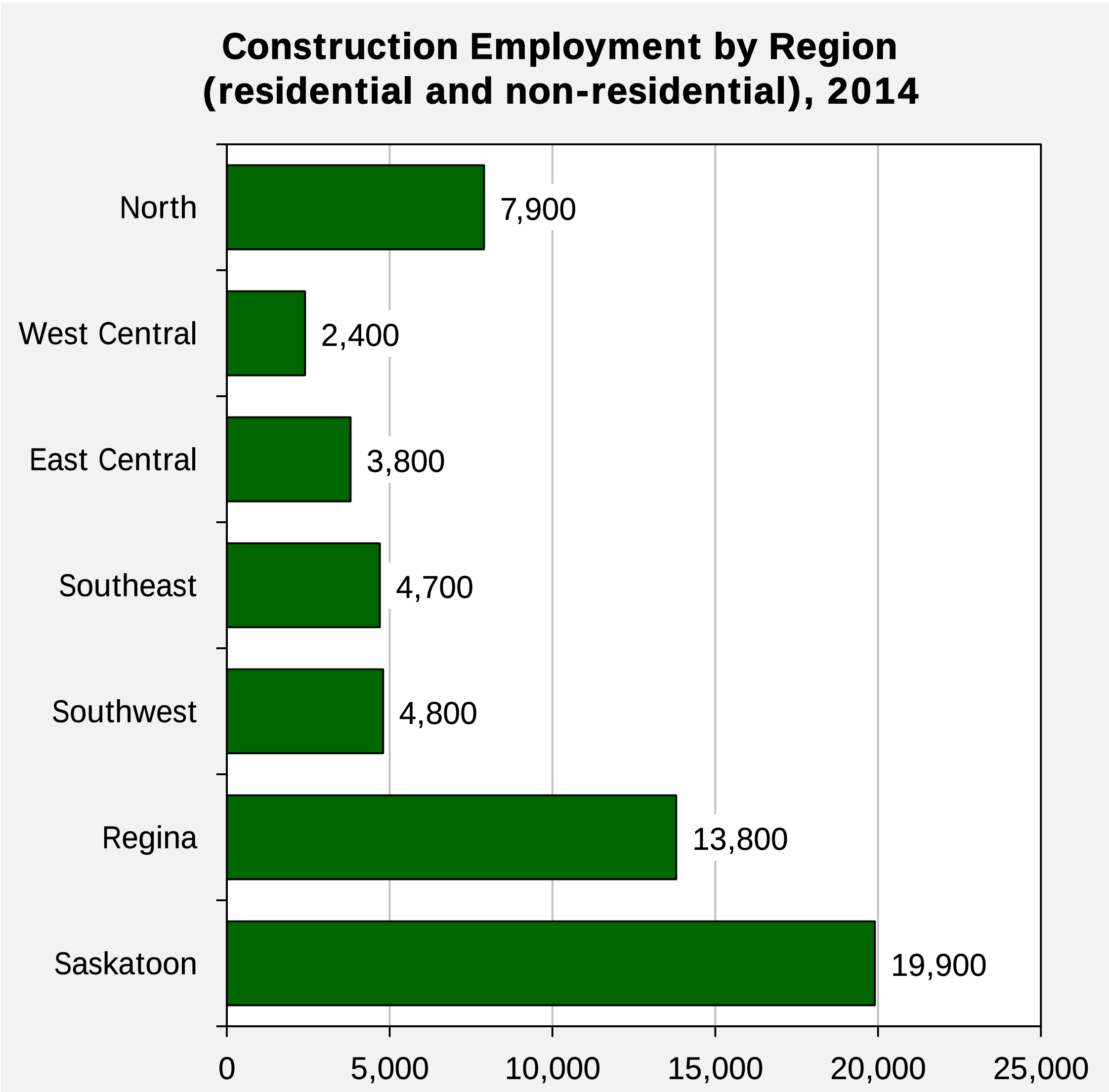
- In recent years, employment has grown more quickly in Alberta and Saskatchewan than in Manitoba or Alberta.
- The national average over this five-year period was 2.5%.

Regional Data



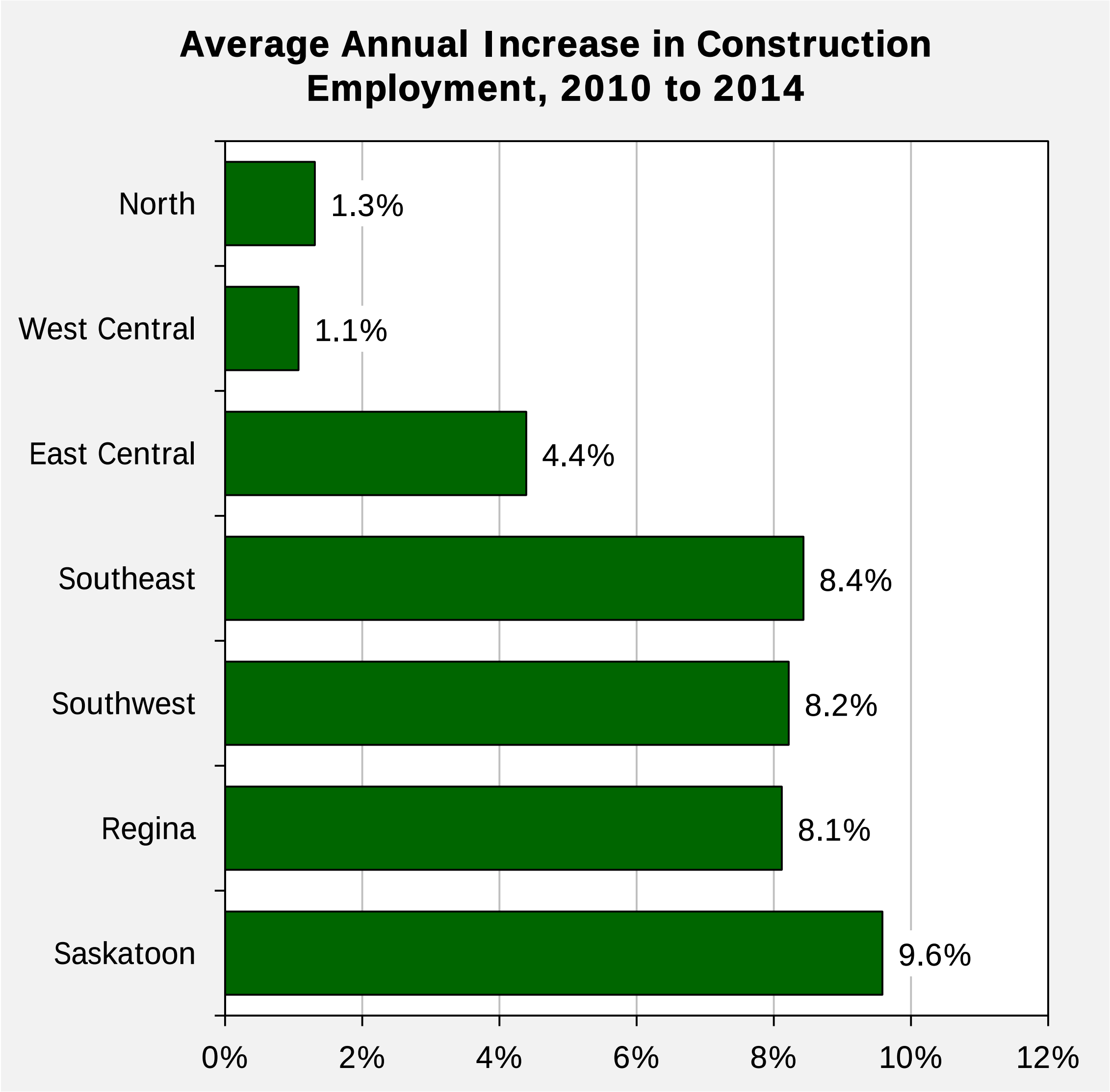
- Some employment data are available for seven separate regions within the province.
- The boundaries for these regions are shown on the left.

Construction Employment in 2014



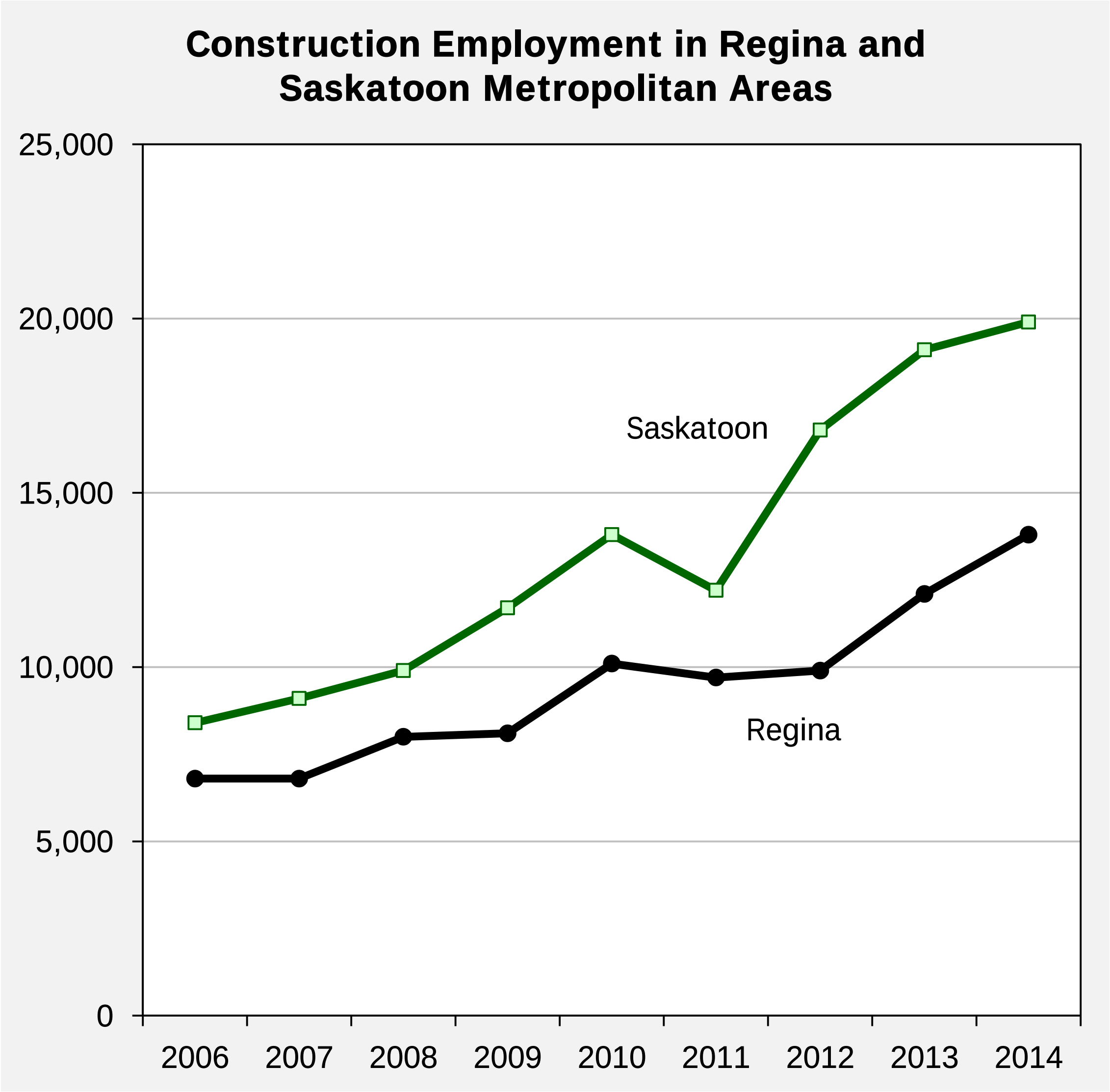
- **The majority of those working in the industry live in the Saskatoon (35%) or Regina (24%) metropolitan areas.**

Growth in Construction Employment, 2010 to 2014



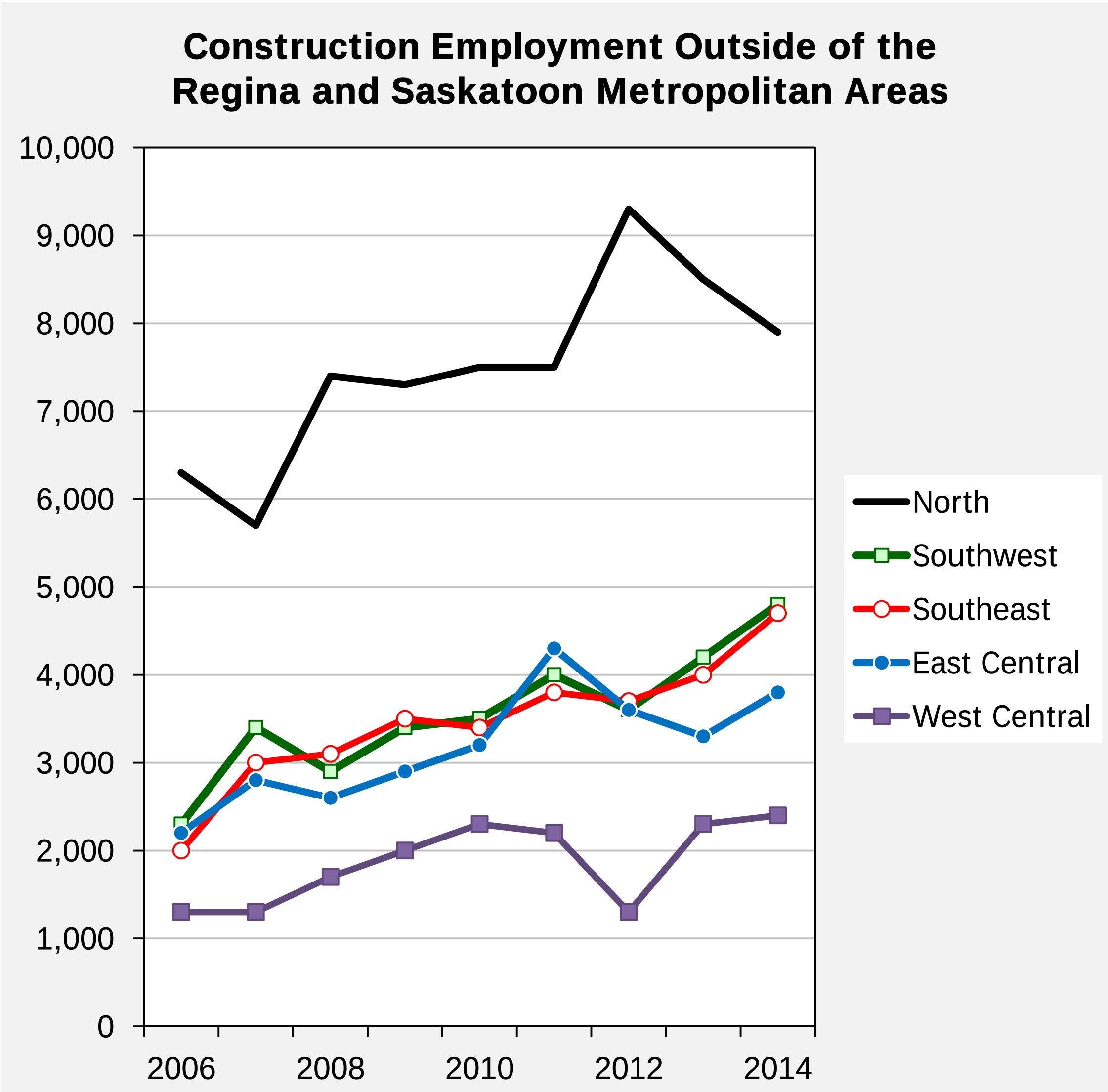
- **Employment has grown in each of the seven regions but growth has been slowest in the West Central (Rosetown / Kindersley) and Northern regions.**

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 early 2015, employment is increasing more quickly in Regina than in Saskatoon.**

Construction Employment Outside Regina and Saskatoon

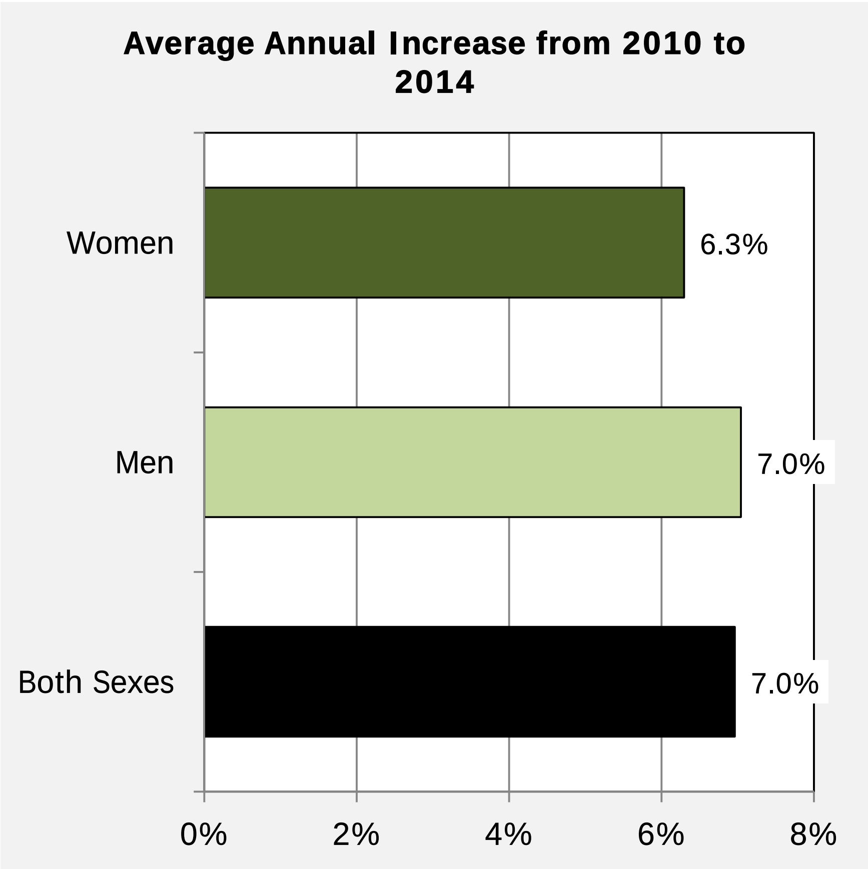


- **Outside the two major centres, employment is the highest in the large northern region. Employment among northerners dropped in 2013 and 2014.**
- **The lowest level of employment is in the West Central region.**
- **In the other three regions, employment has followed a similar trend, that is, generally upward in spite of periodic declines.**
- **In early 2015, employment is increasing in the East Central region and declining in the Southwest, West Central, and in the North.**

Characteristics of Construction Employees and Construction Jobs

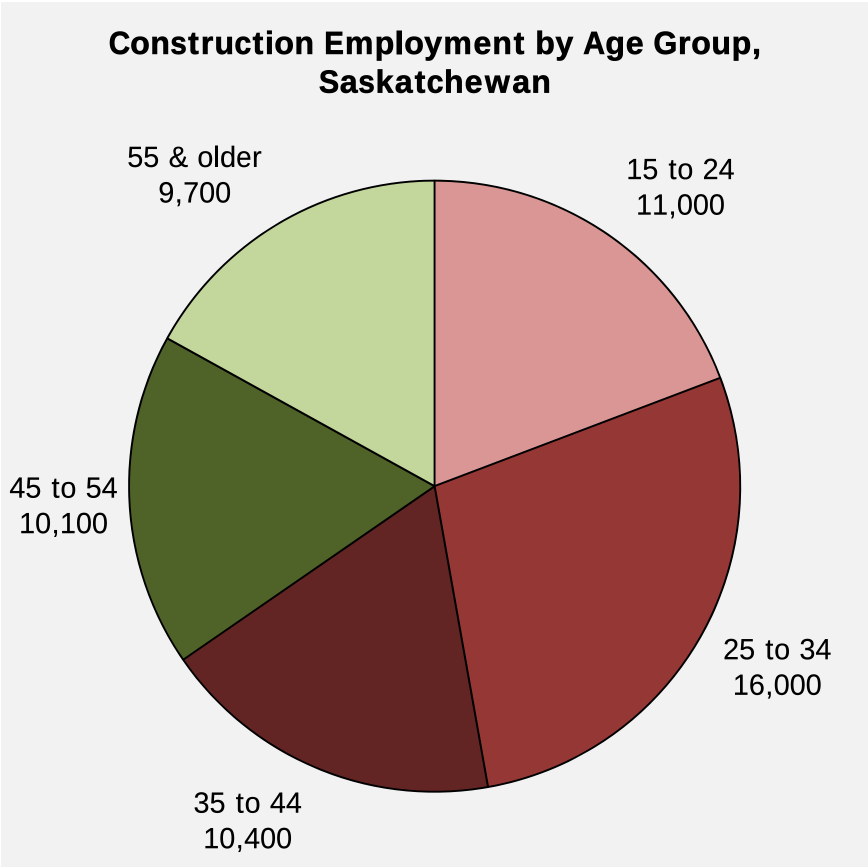
- These data describe some of the demographic characteristics of those with construction jobs and some of the characteristics of those jobs.
- These figures apply to the residential and non-residential construction industry and include both employees and the self-employed.

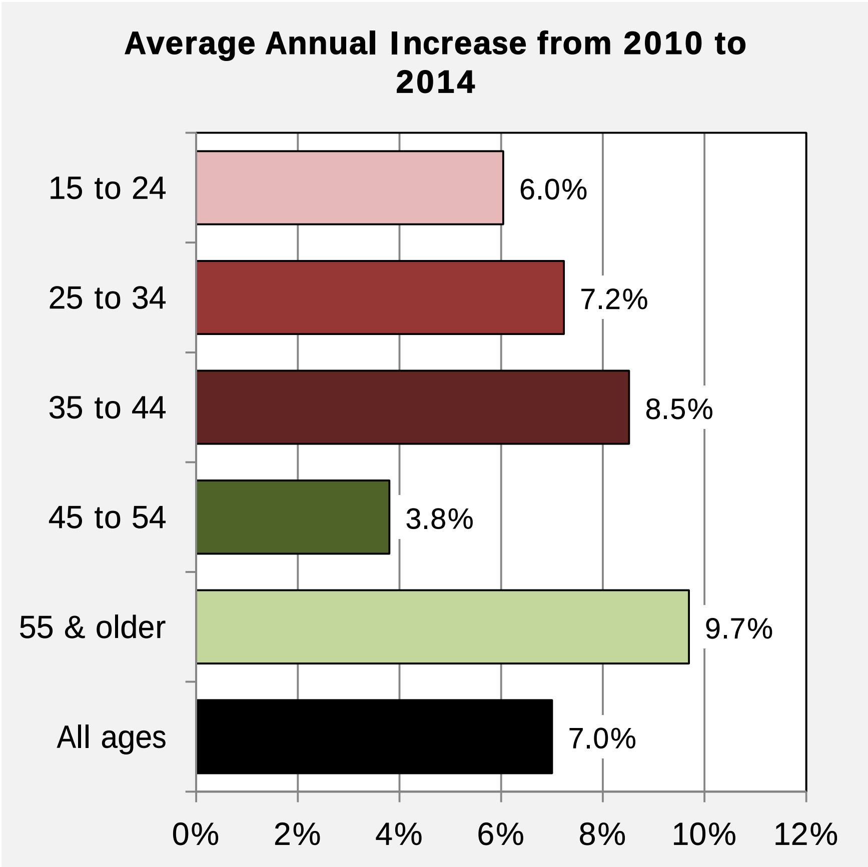
Employment by Sex



- **Men make up 90% of those employed in the construction industry, the highest among fifteen industry groups. From 2010 to 2014, the ratio between men and women was virtually unchanged.**

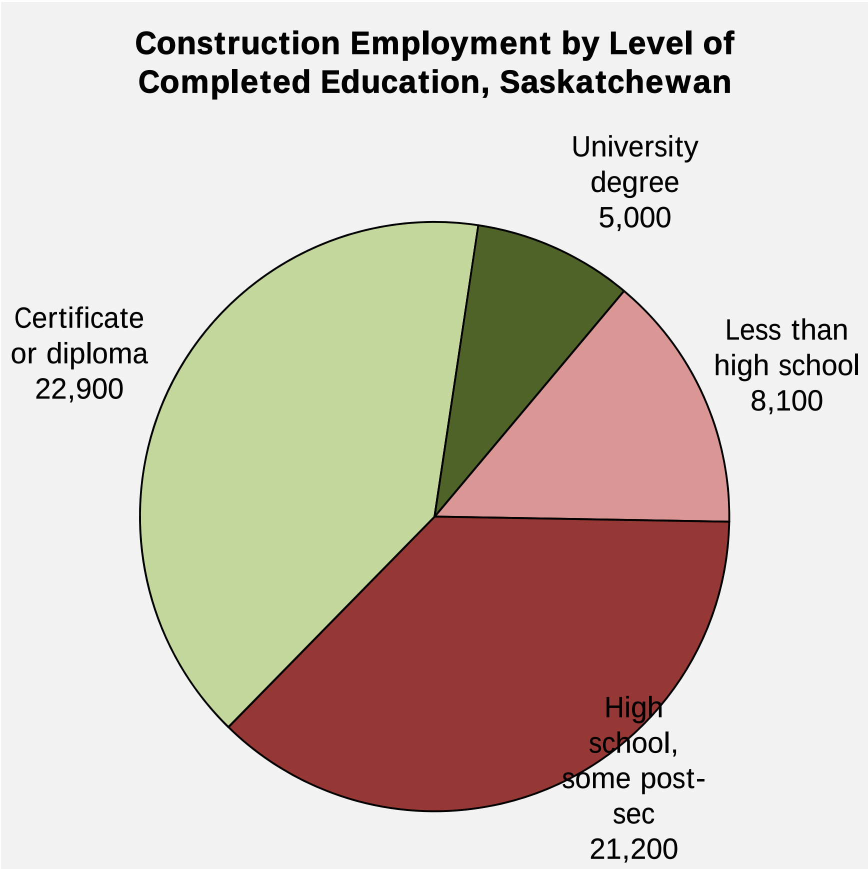
Employment by Age Group

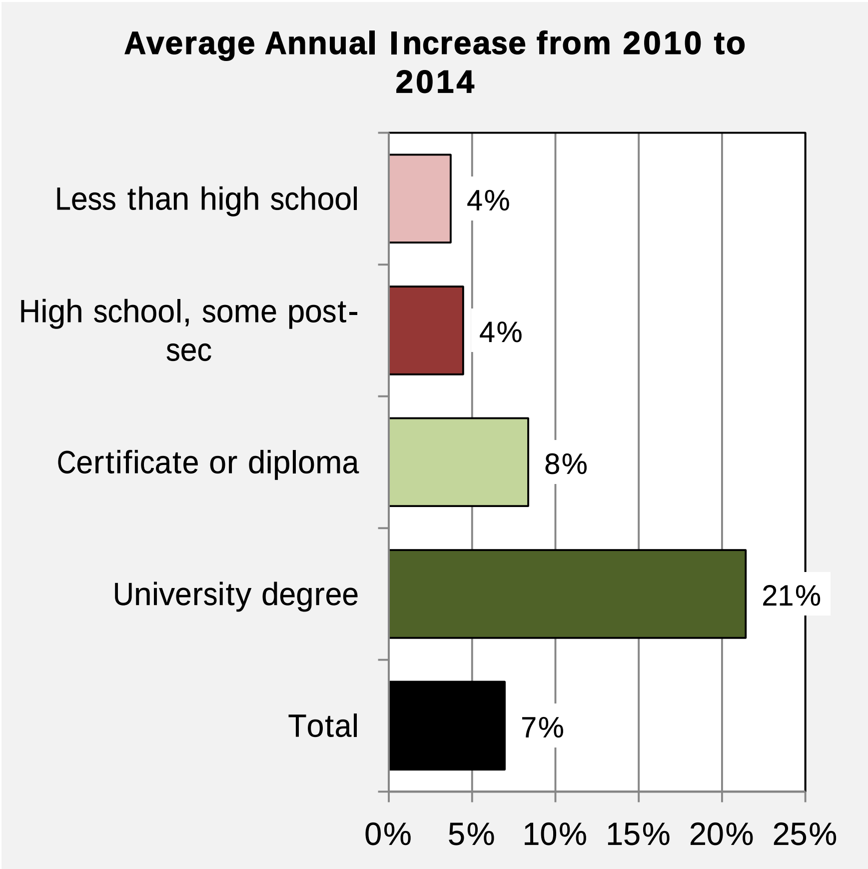




- **The age distribution of construction workers is relatively well balanced.**
- **From 2010 to 2014, the number of older workers (55 plus) was growing more quickly than the other age groups.**

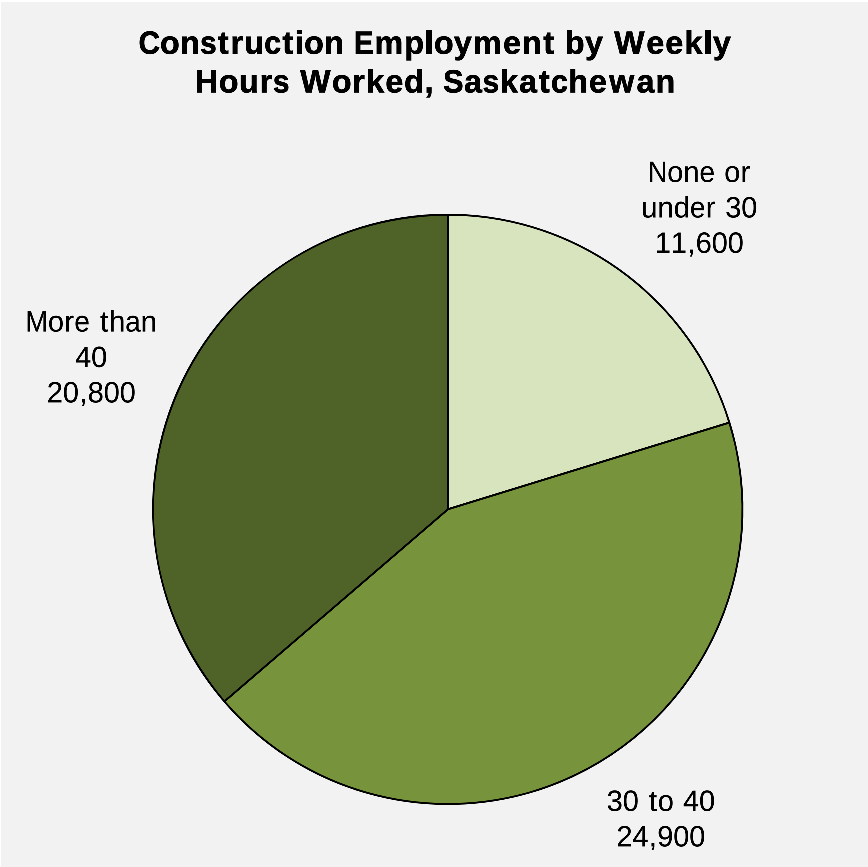
Employment by Level of Completed Education

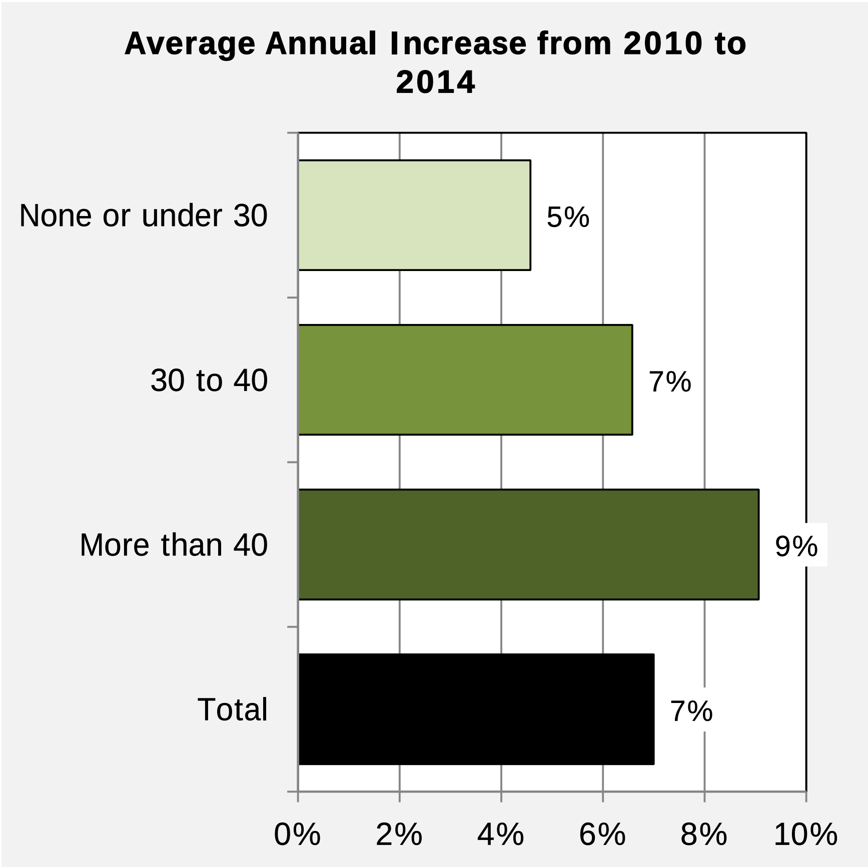




- **One half of those employed in the construction industry are post-secondary graduates. Employment is increasing more quickly among those with higher levels of education, particularly university degrees.**

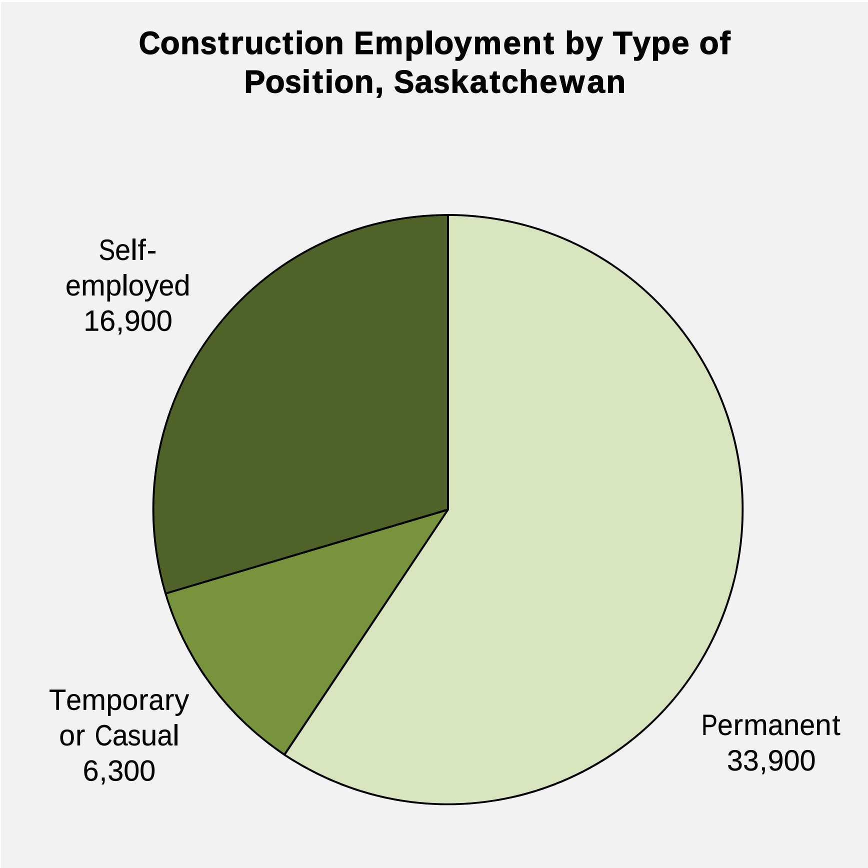
Employment by Weekly Hours Worked

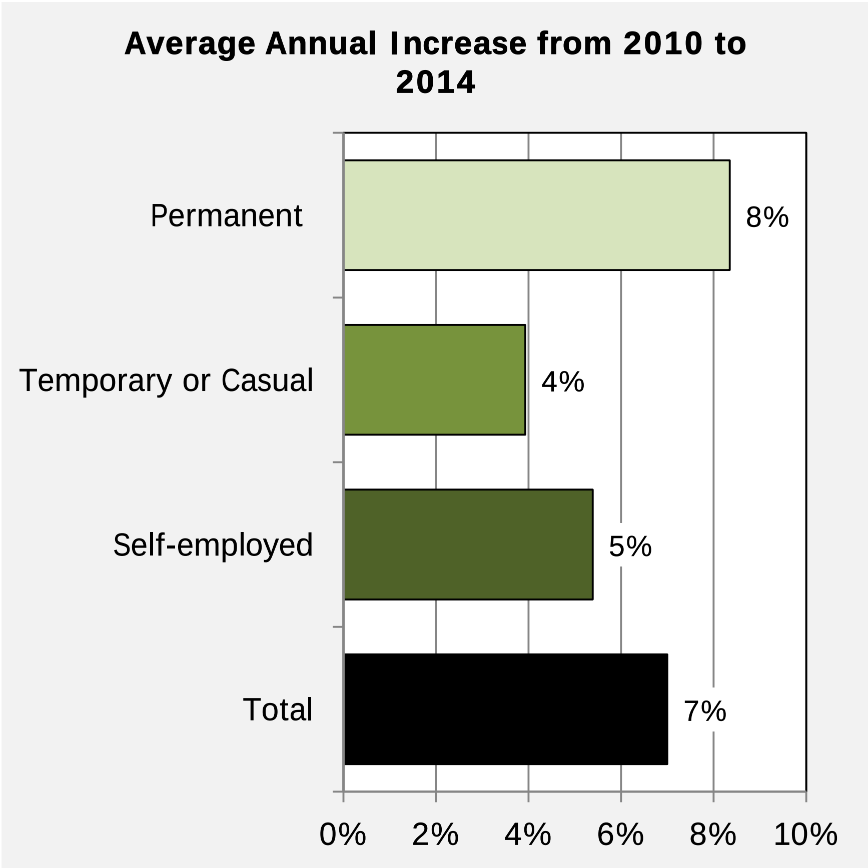




- **More than a third of those in the industry are working more than 40 hours/week. The proportion is increasing.**

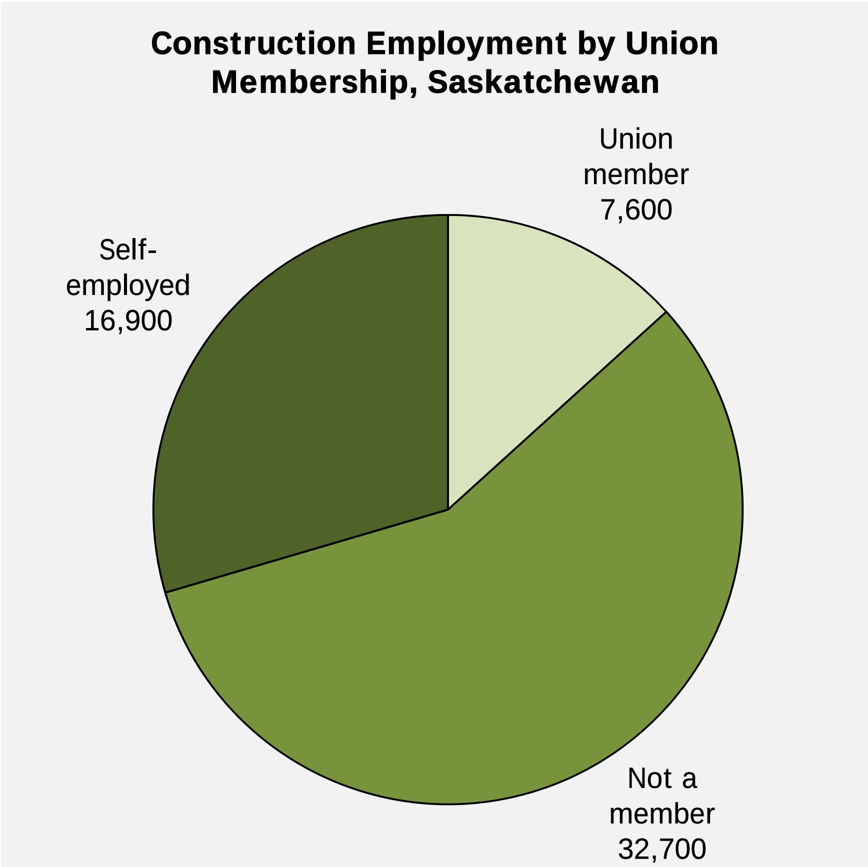
Employment by Job Type

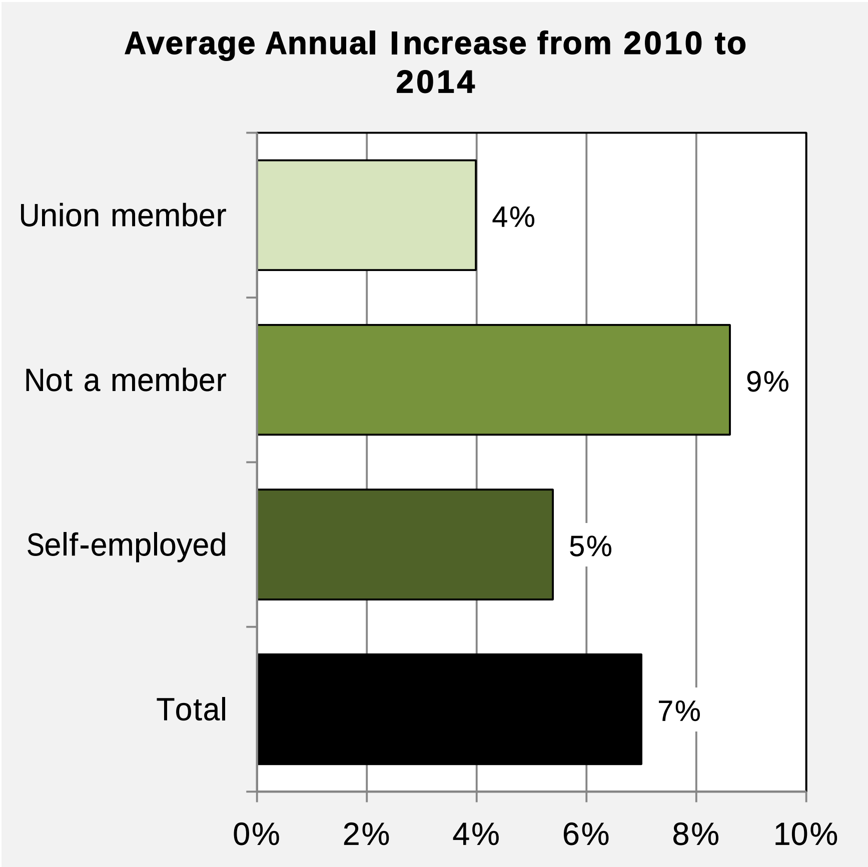




- **The majority of those working in the construction industry (59%) are in permanent positions. The proportion is increasing.**

Employment by Union Membership



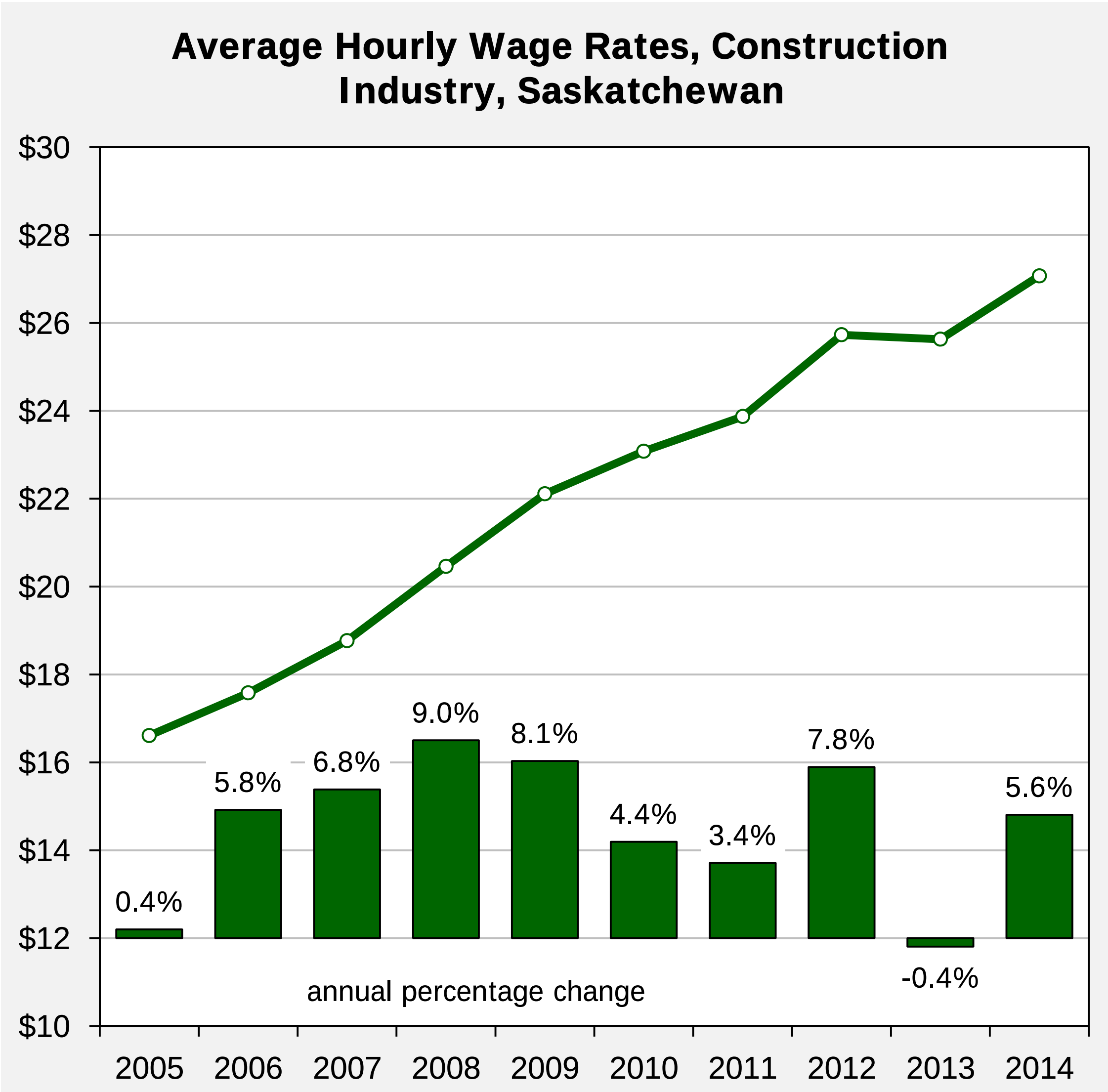


- **In 2014, 13% of those working in the industry were union members and the proportion is falling.**

Wage Rates

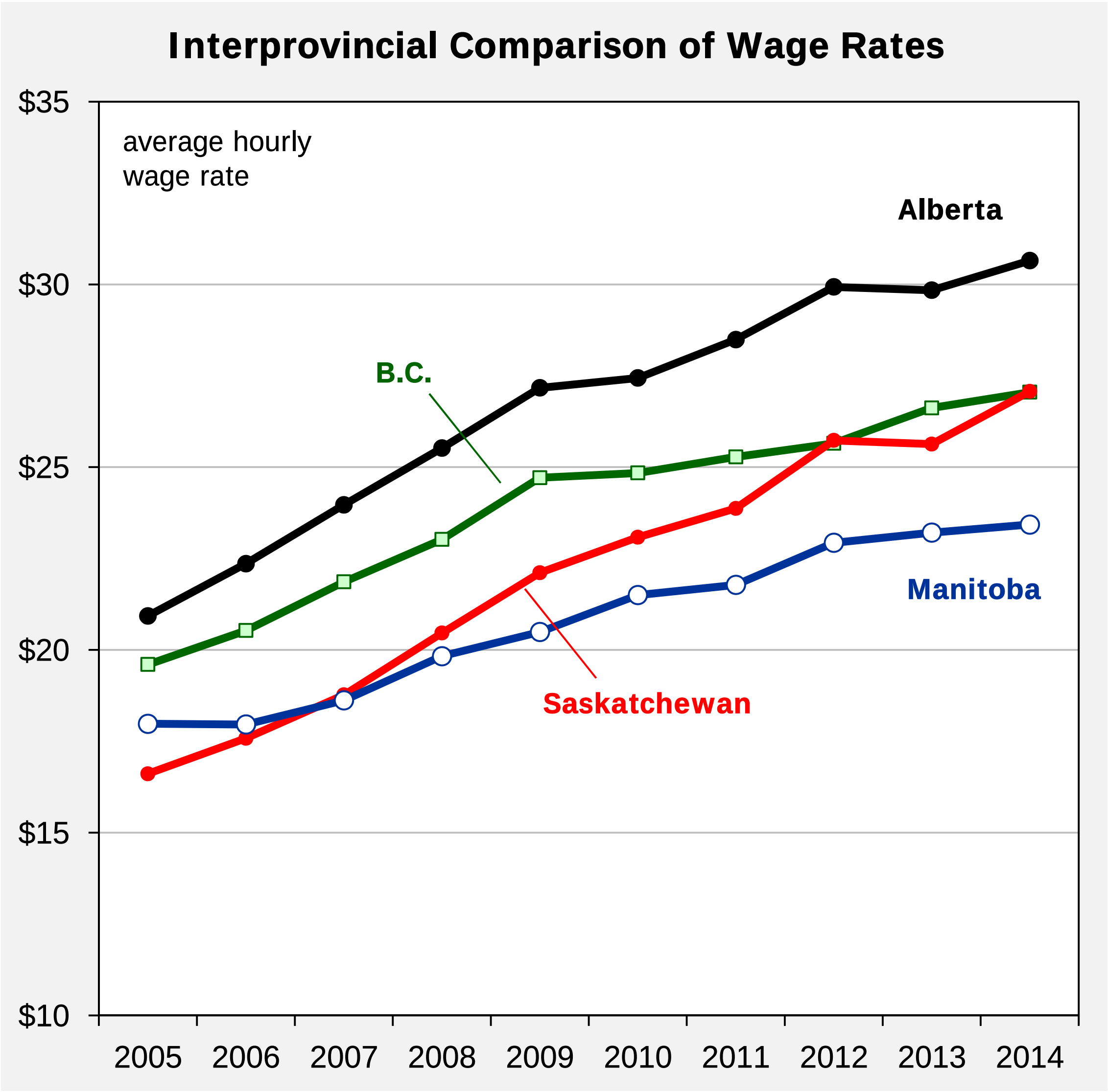
- Hourly wage rates are self-reported in the Labour Force Survey.
- These figures cover both the residential and non-residential sectors.

Average Hourly Wage Rates, Construction Industry



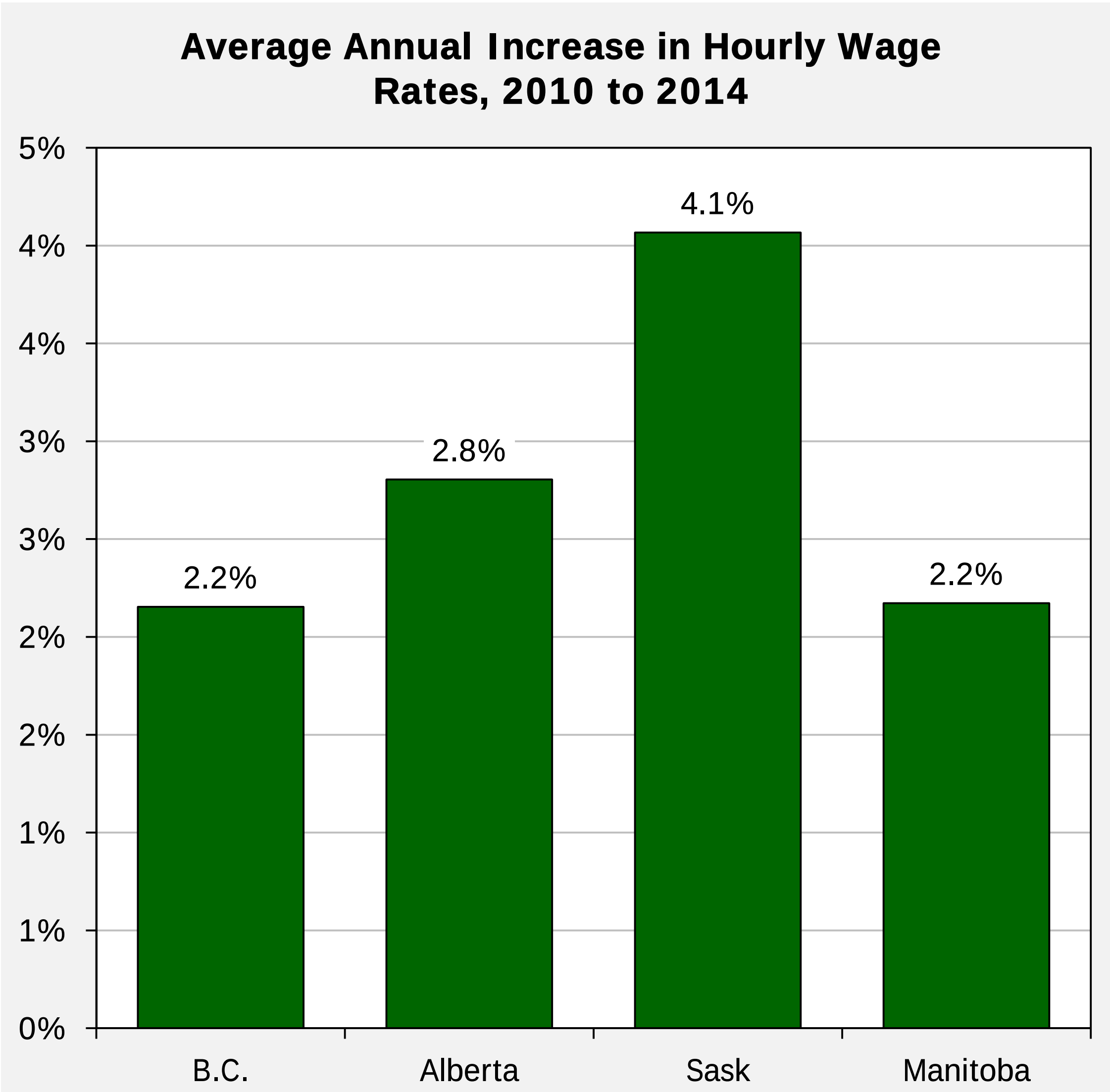
- **Except for a small decline in 2013, wage rates have increased rapidly in the construction industry.**
- **In nominal terms, they have increased by an average of 5.5% per year from 2006 to 2014 to reach $27.07 last year.**
- **Adjusted for inflation, the increase from 2010 to 2014 averaged 2.0%/year.**
- **Wage rates are up 4.1% in the first few months of 2015.**

Interprovincial Comparison of Wage Rates



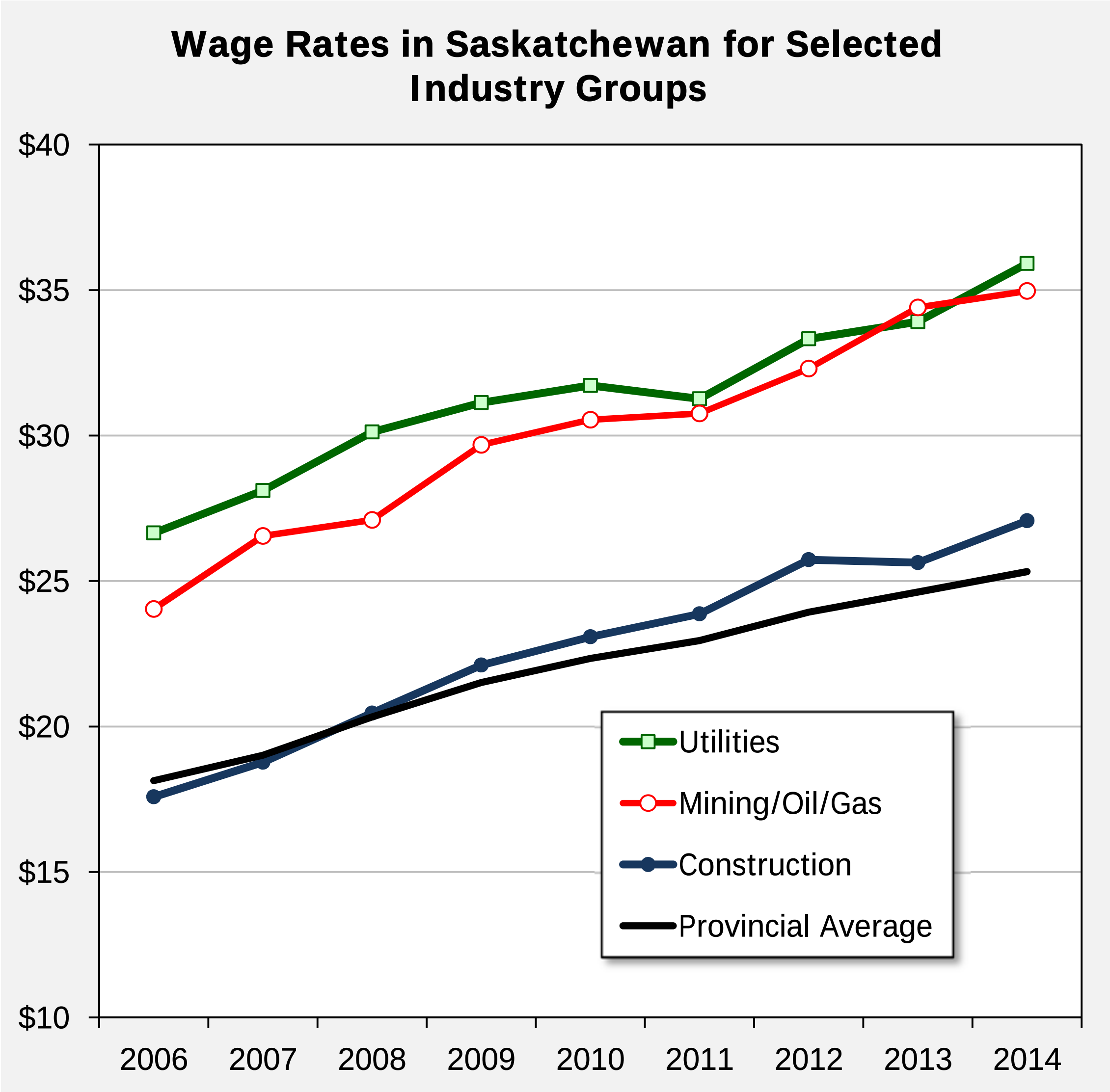
- **Construction wage rates in the province were the lowest in western Canada in the mid-2000s.**
- **Wages are now comparable with those in B.C. and above those in Manitoba.**
- **Wage rates in the province are now 88% of those in Alberta compared with 79% in the mid-2000s.**

Interprovincial Comparisons



- **The figure shows that average construction wage rates in Saskatchewan have been growing more quickly than in the other western provinces.**

Comparison with Other Industry Groups



- **Construction wage rates of $27.07 in 2014 are now above the provincial average of $25.32.**
- **There is still a substantial differential with rates in the mining and oil/gas sector and with the utilities (Sask Power and Sask Energy).**

Summary

- The construction industry is clearly one of the reasons for the strong economic growth in Saskatchewan. It is among the top industries in the province and is 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 growth has occurred in Regina and Saskatoon.
- In the last five years, construction workers are more likely to be post-secondary graduates, more likely to be working longer hours, and more likely to be in permanent positions.
- 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.

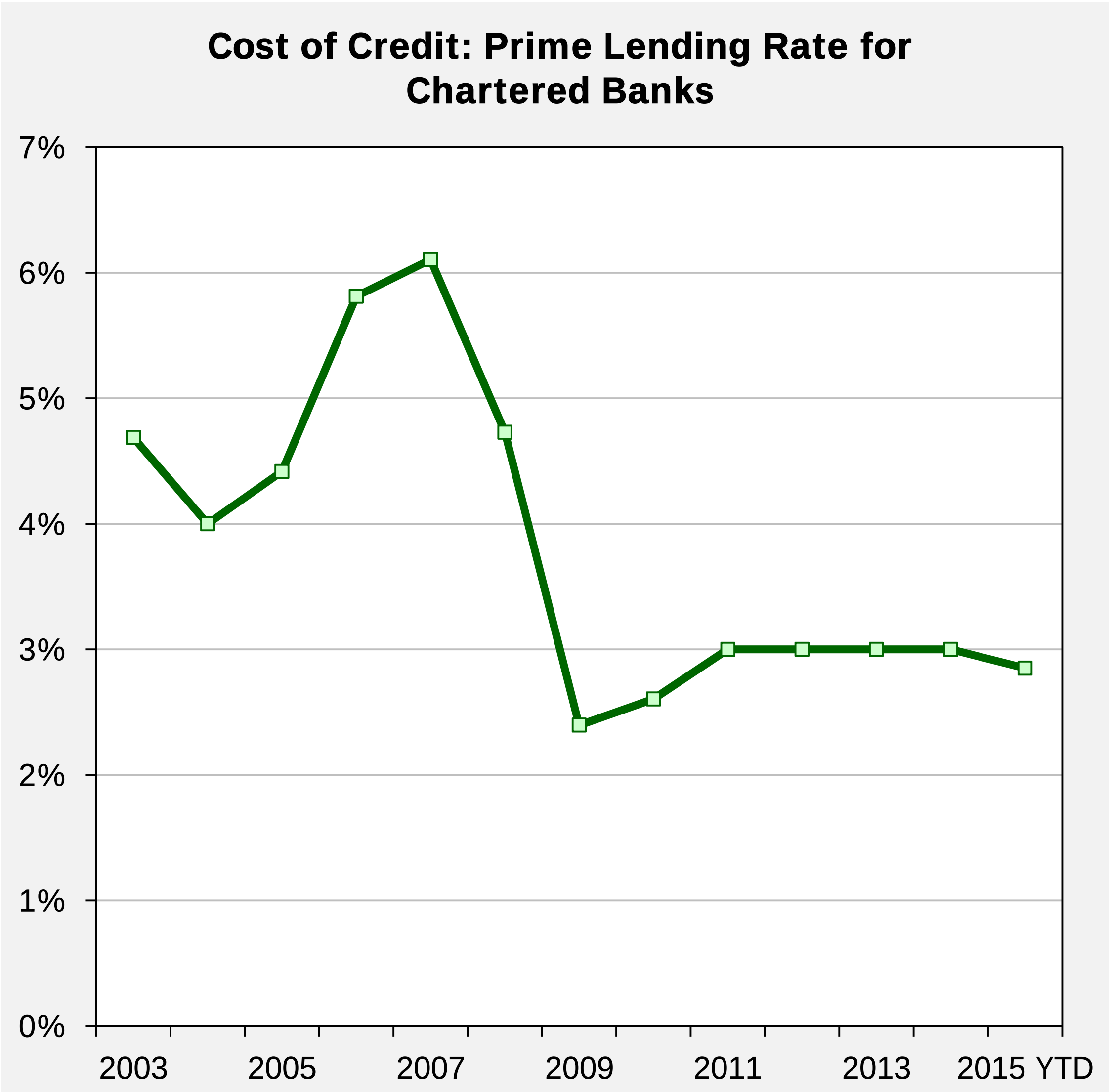
Capital Investment Drivers

- 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

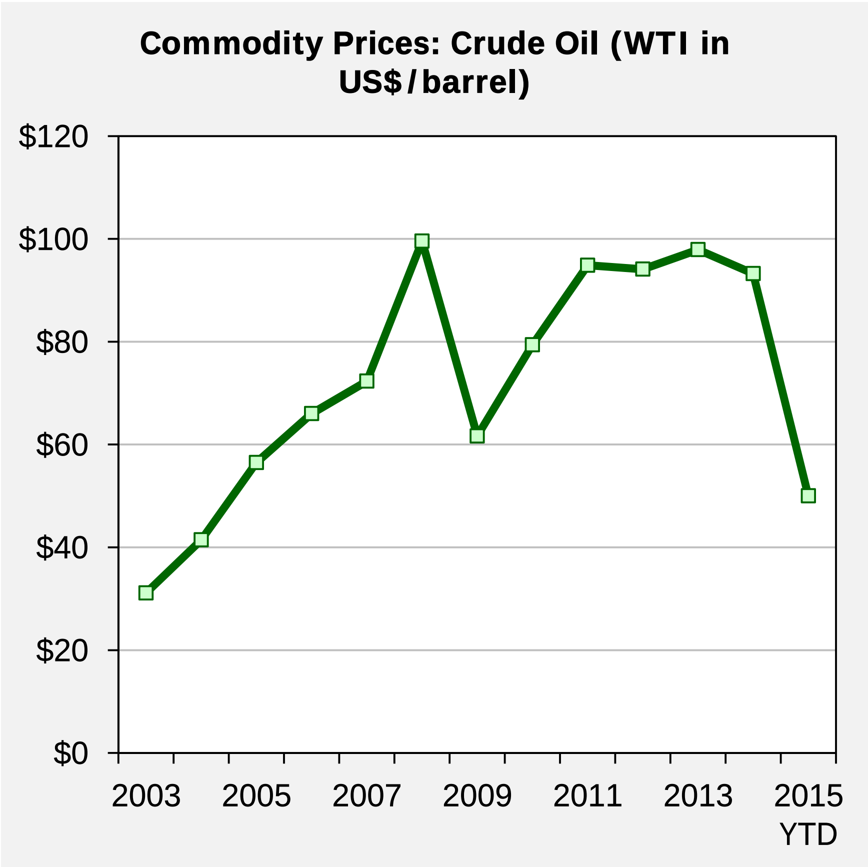
- There seems to be more conflict and instability than usual in the world. The Middle East, Greece, Russia, and South China Sea are examples.
- In this geopolitical environment, Canada in general and Saskatchewan in particular offer a politically stable environment.
- The Saskatchewan Party is virtually certain to win the next provincial election in Spring 2016.
- A low level of provincial debt makes any dramatic changes in taxes or royalties unlikely.

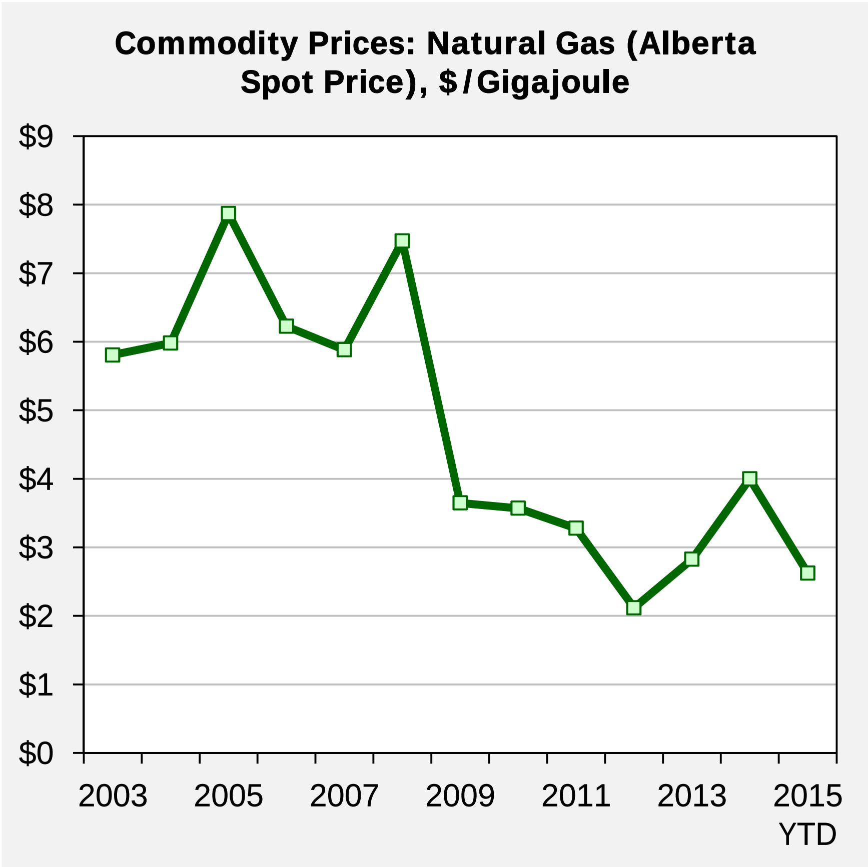
Cost of Capital – Prime Lending Rate



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

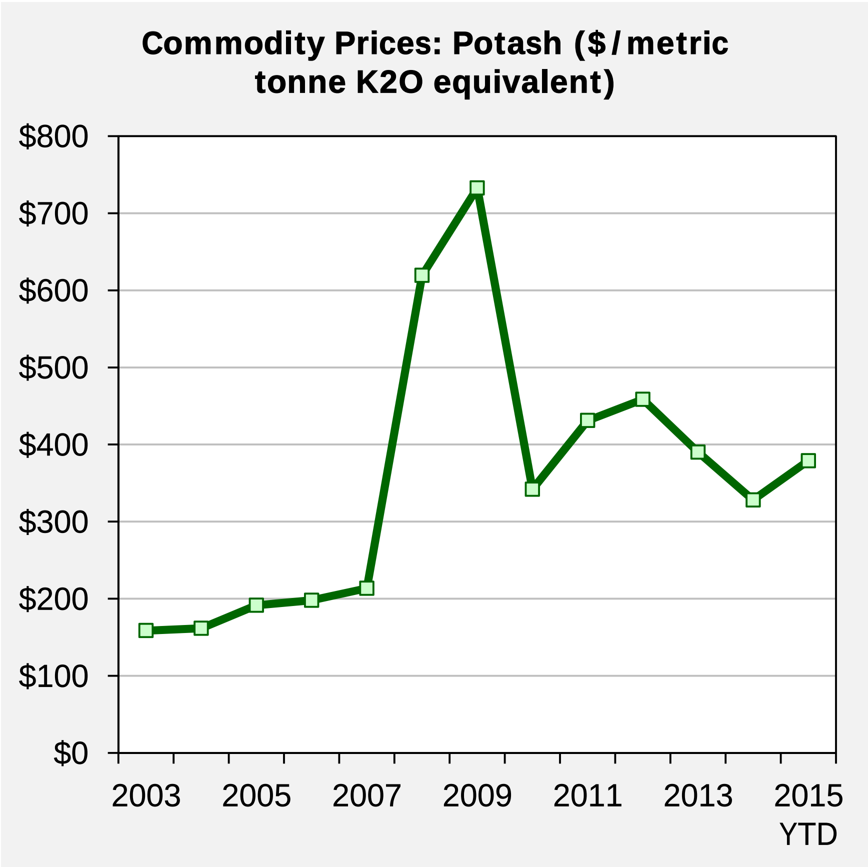
Commodity Prices – Crude Oil and Natural Gas

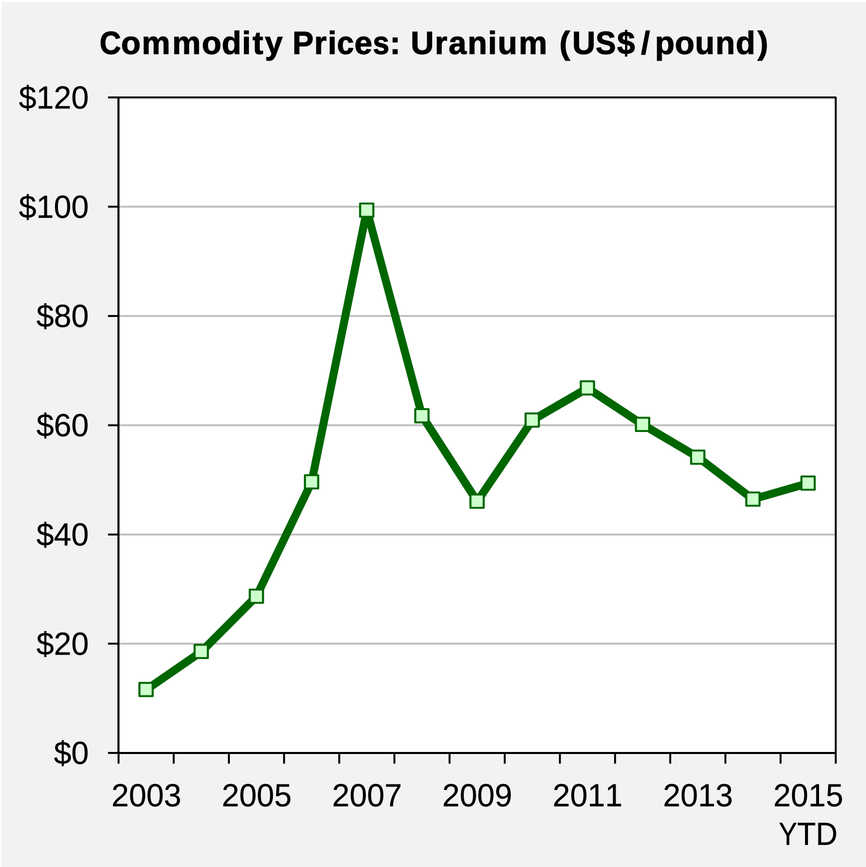




- **In spite of the sharp drop late in late 2014, crude oil prices are still higher than in the early 2000s.**
- **Natural gas prices, on the other hand, at historically low levels.**

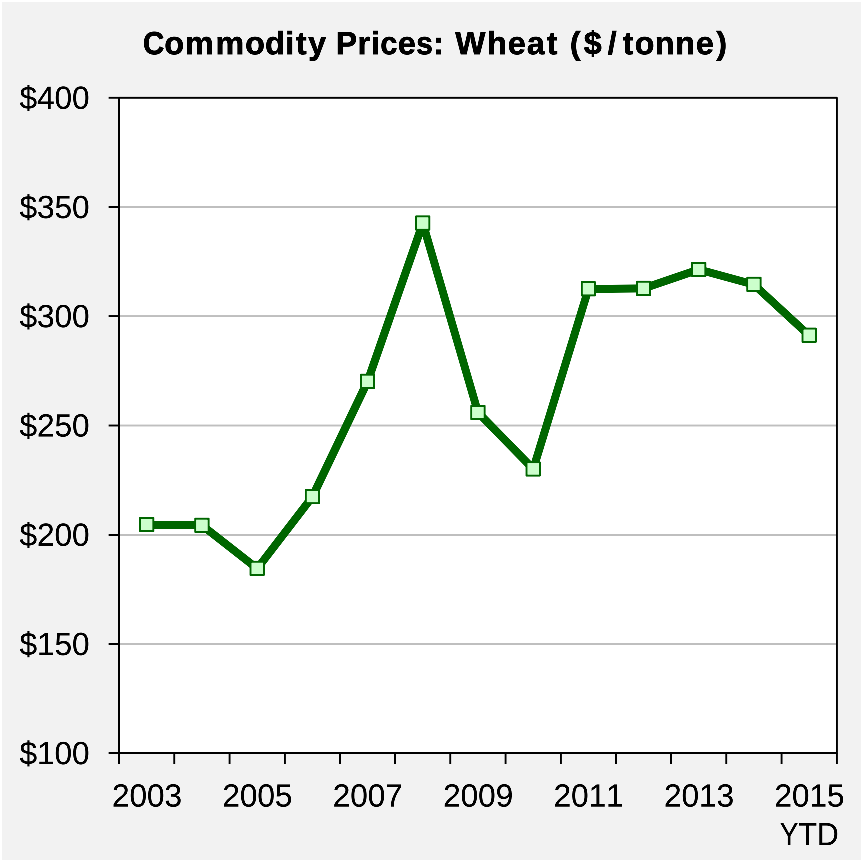
Commodity Prices – Potash and Uranium

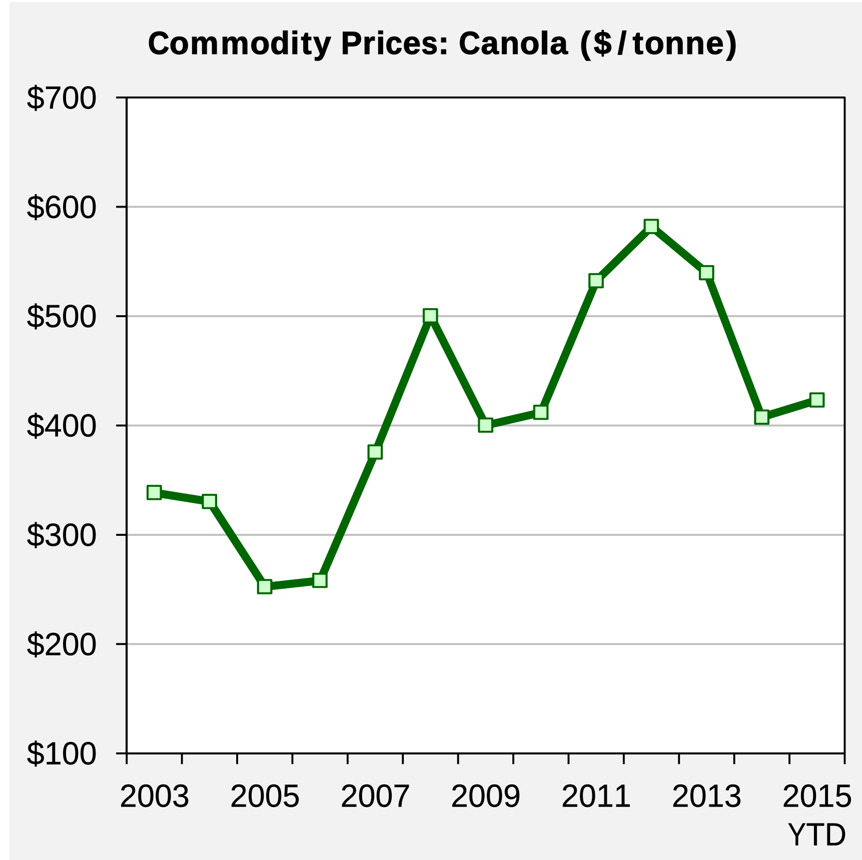




- **After the spike in the late 2000s, the prices for potash and uranium have settled in at relatively high levels.**

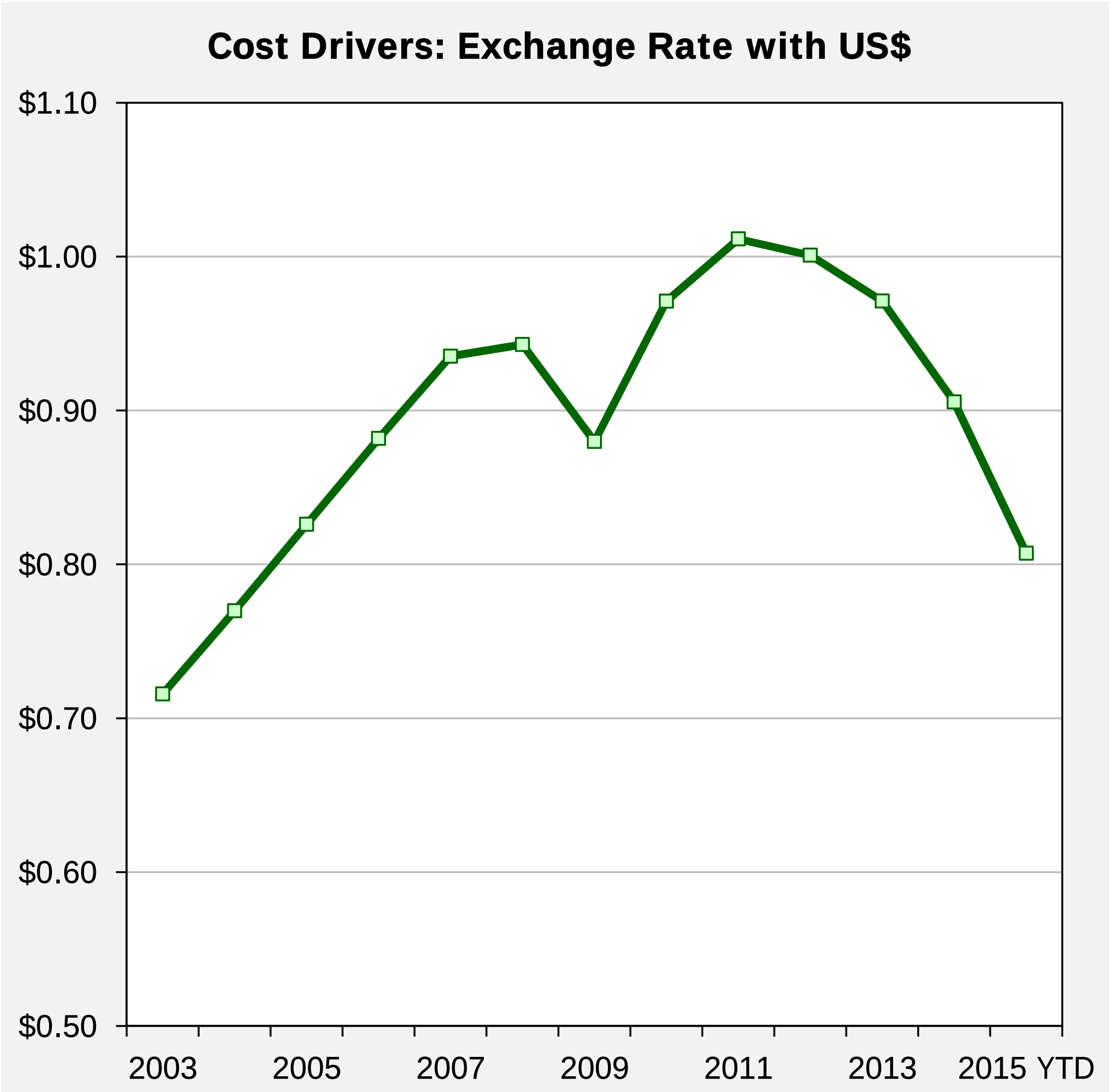
Commodity Prices – Grains and Oilseeds





- **Although down from the recent highs, grain and oilseed prices are still well above the levels they were in the mid 2000s.**

Cost Drivers – Exchange Rate



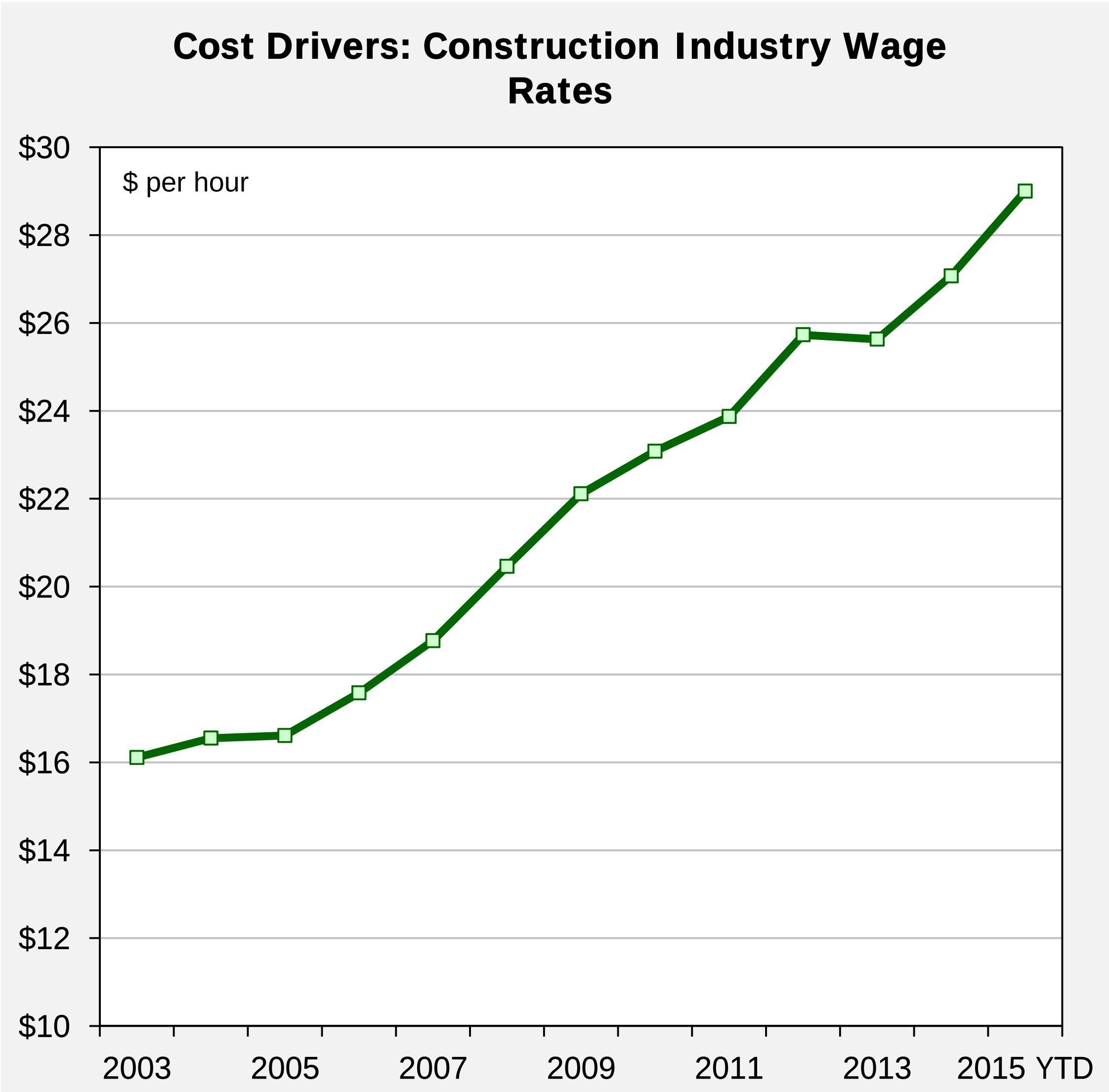
- **Recent changes in the exchange rate increase the cost of material and equipment imported from the USA.**
- **On the other hand, exporters of raw materials and manufactured goods will benefit.**

Infrastructure

- Both the federal and provincial governments are focussed on infrastructure spending.

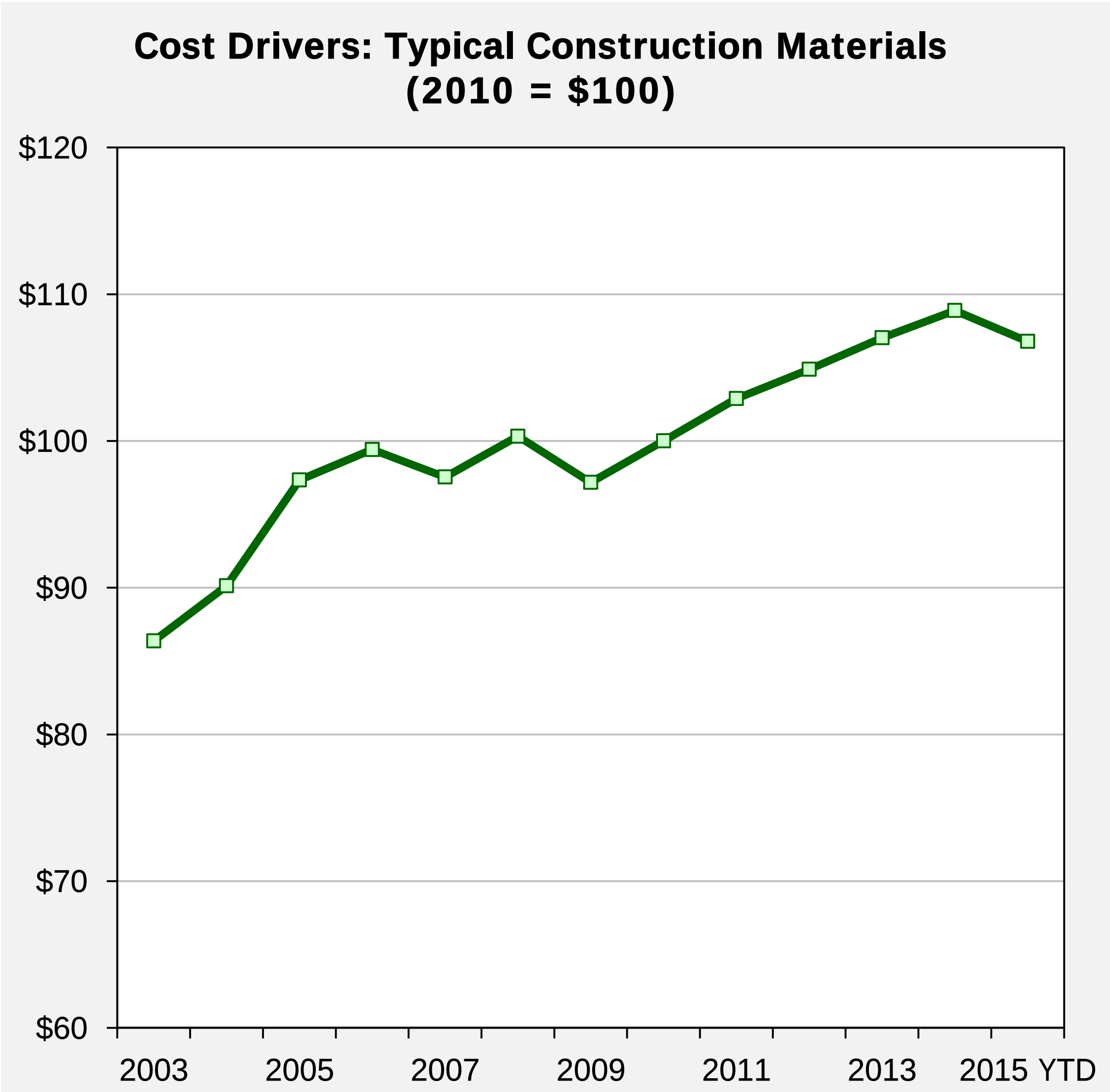
- Some examples from the most recent provincial budget include:
  - $581 million for transportation;
  - $75 million for municipal infrastructure;
  - $248 million for K-12 schools;
  - $47 million for advanced education and training; and
  - $256 million for health.

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 may put some 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 $109 in 2014.
- Prices are falling in early 2015.

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 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.