



**SASKATCHEWAN
CONSTRUCTION
ASSOCIATION**

Construction Economic Outlook

Presented to the:

Saskatchewan Construction Association

Annual Summer Meeting

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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.

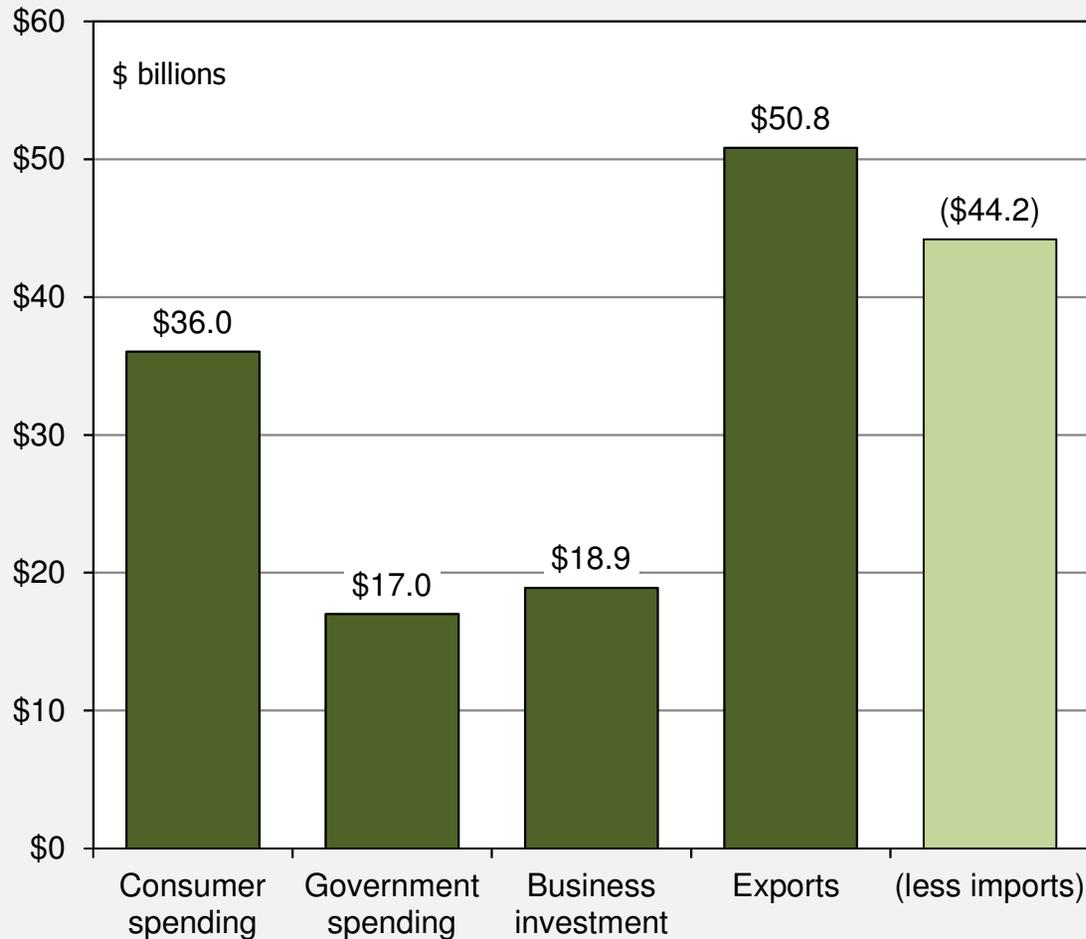
Key Messages

- **The downturn in non-residential construction came after years of growth; the industry is still larger than it was five years ago.**
- **Most indicators suggest that the bottom of slowdown was reached in late 2016 or early 2017.**
- **The provincial budget will have a dampening effect on the economy and the construction industry but the extent and duration isn't known yet.**
- **Construction costs are lower now than during the economic boom and projects can be completed sooner – it is a good time to invest.**

Saskatchewan Economic Outlook

The Economic Drivers

The Four Economic Drivers
(contribution to GDP of \$79.4 billion in 2015,
Saskatchewan)

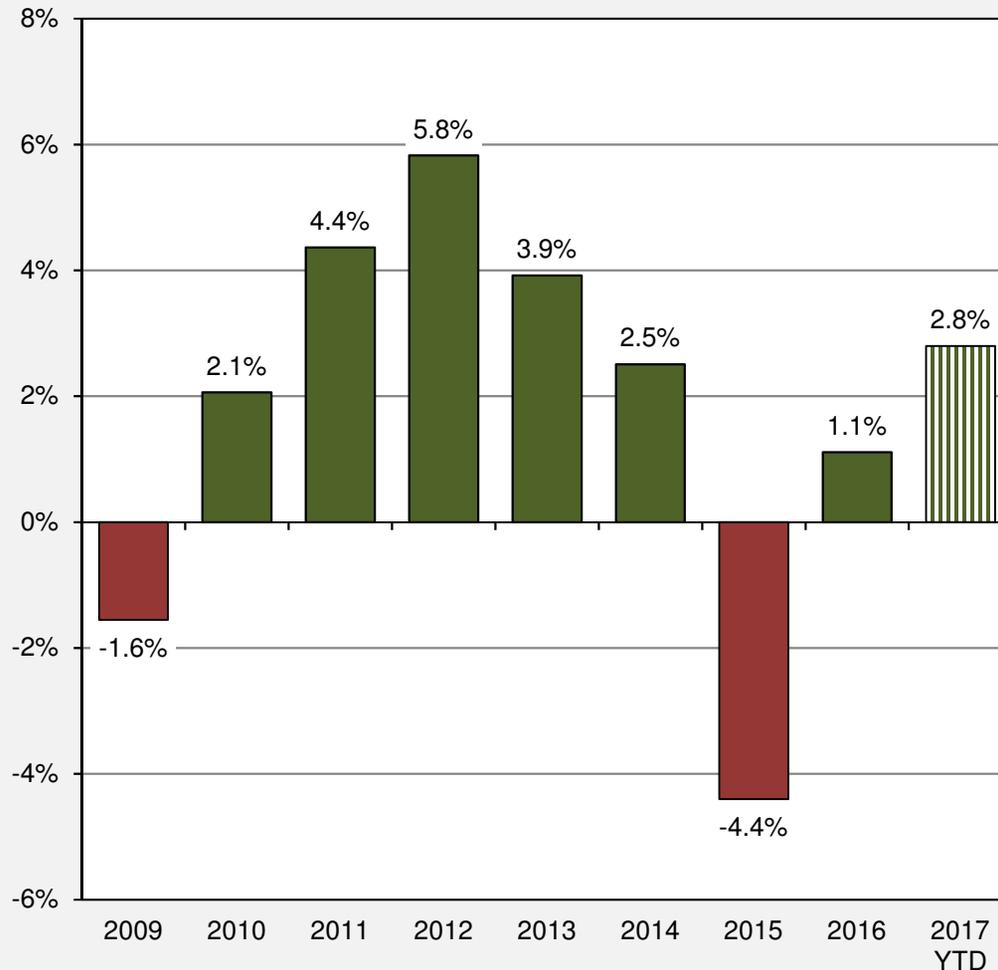


- One way to look at the provincial economy is through the lens of the four main economic drivers or players in the economy.
- These four drivers are:
 - consumers;
 - governments;
 - businesses; and
 - out-of-province buyers of our goods and services.

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

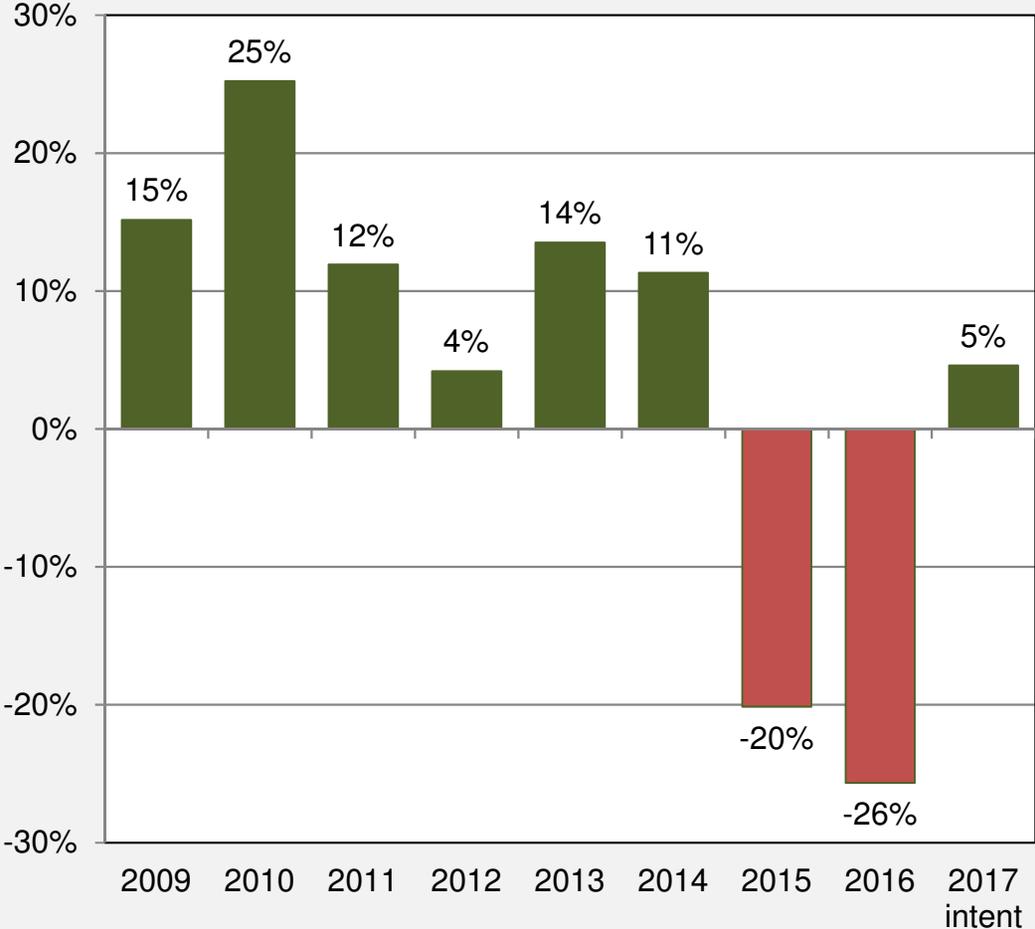
Annual Growth in Saskatchewan Retail Sales, Adjusted for Inflation



- Retail sales are the best overall indicator for consumer spending.
- Adjusted for inflation, sales dropped in 2015 but recovered in 2016 and are rebounding in early 2017.
- Consumer confidence has been weakened by the recent announcement of layoffs. The tax increases in the provincial budget will have a dampening effect on consumer spending.
- 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

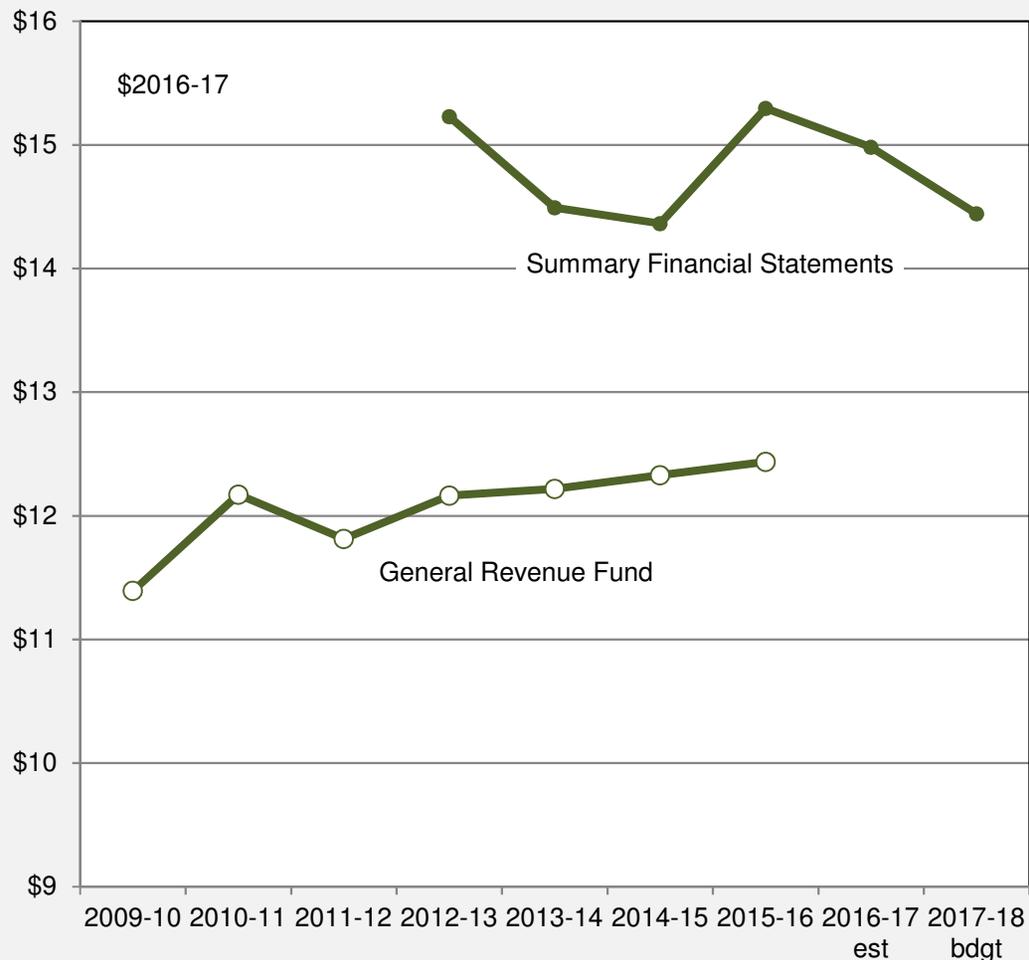
Annual Change in Private Sector Capital Investment in New Fixed and Movable Assets, Saskatchewan



- This figure looks at new investment activity by the private sector.
- The majority of this investment is in the resource sector, that is, mining and oil/gas.
- Capital investment by the private sector grew exponentially from 2006 to 2014, increasing at an average rate of 14% per year from \$5.9 billion to \$16.5 billion.
- Investment activity fell sharply in 2015 and again in 2016. Surveyed in late 2016, businesses and governments reported that they expected to increase investment in 2017.

Provincial Government Spending

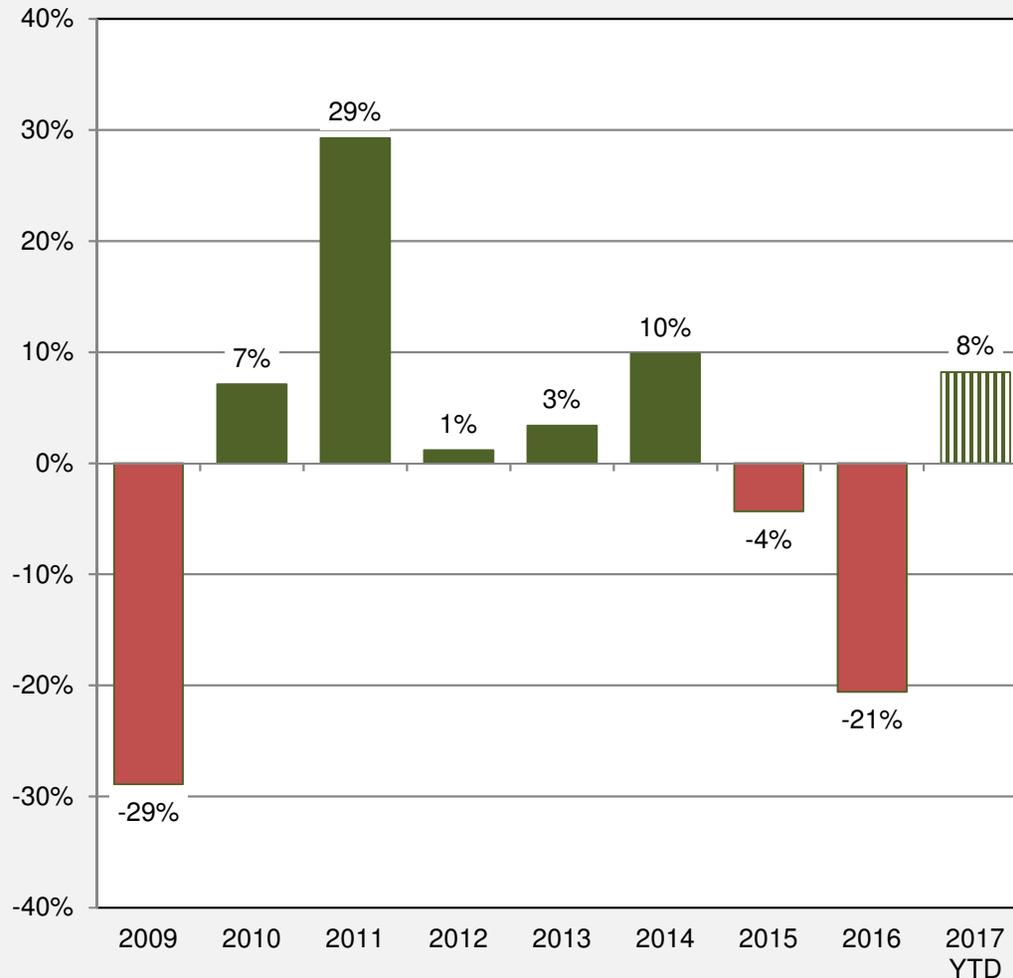
Provincial Government Spending, Budgetary Basis,
Adjusted for Inflation



- Tracking government spending is difficult because of the change in accounting methodology.
- The Summary Financial Statements include spending by the crowns and the health and education authorities.
- The General Revenue Fund accounting includes only government proper.
- Spending by the provincial government declined in 2016-17 and will do so in 2017-18 as the budget restraint takes effect.
- Spending by local governments will also decline because of cuts in transfers from the provincial government.

International Trade

Annual Change in Net (Exports less Imports) International Merchandise 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 and again in 2016. Much of the decline is the result of a drop in commodity prices – not lower volumes.
- The short-term outlook is hard to read. The USA accounts for 60% of our exports and no one can predict what the Trump administration will do.

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 recessions in 2015 and 2016.
- There are signs of a recovery in two of the drivers in early 2017 – business investment and consumer spending. The recovery in consumer spending is at risk because of the layoffs and tax increases in the provincial budget.
- The third driver – government spending – will slow in 2017.
- The outlook for the fourth driver – trade – is too hard to read now because of the uncertainty of how the Trump administration will behave.

Construction Industry Indicators

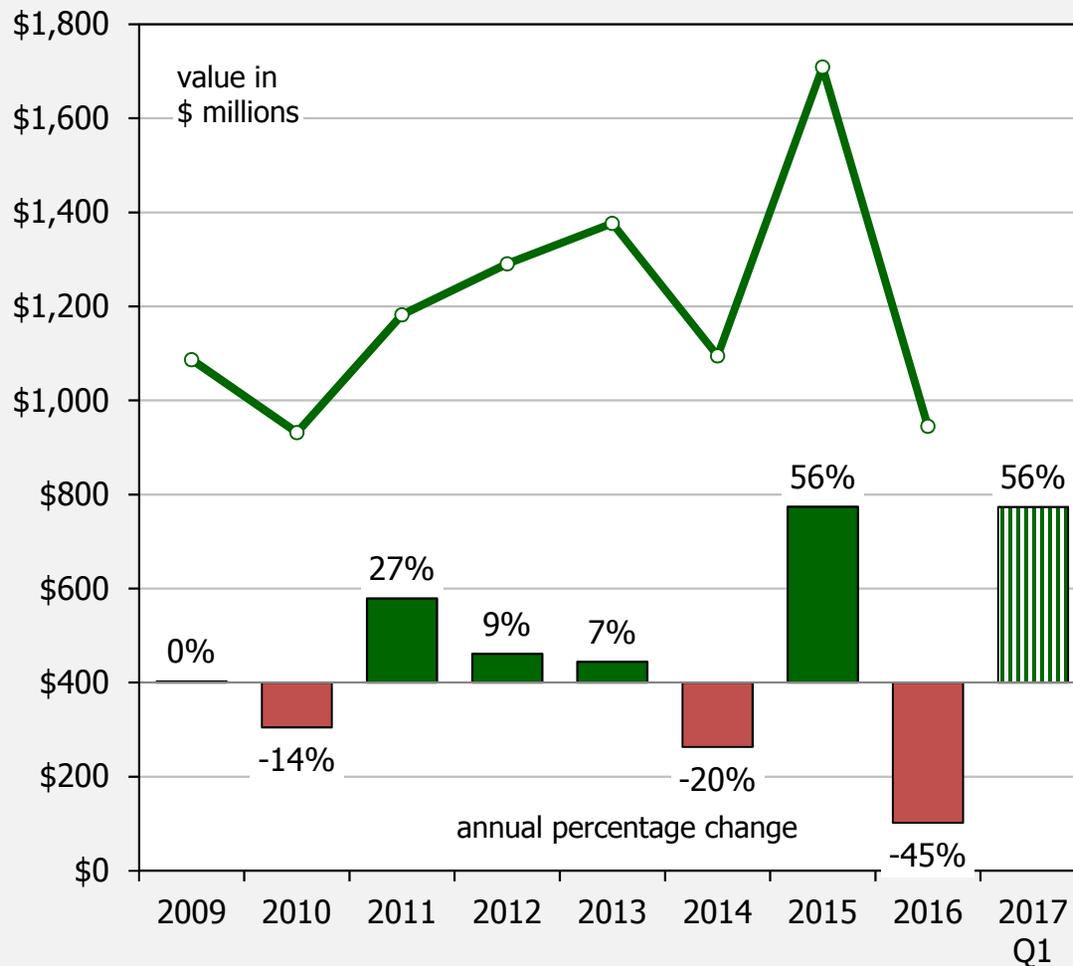


Value of Building Permits

- **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

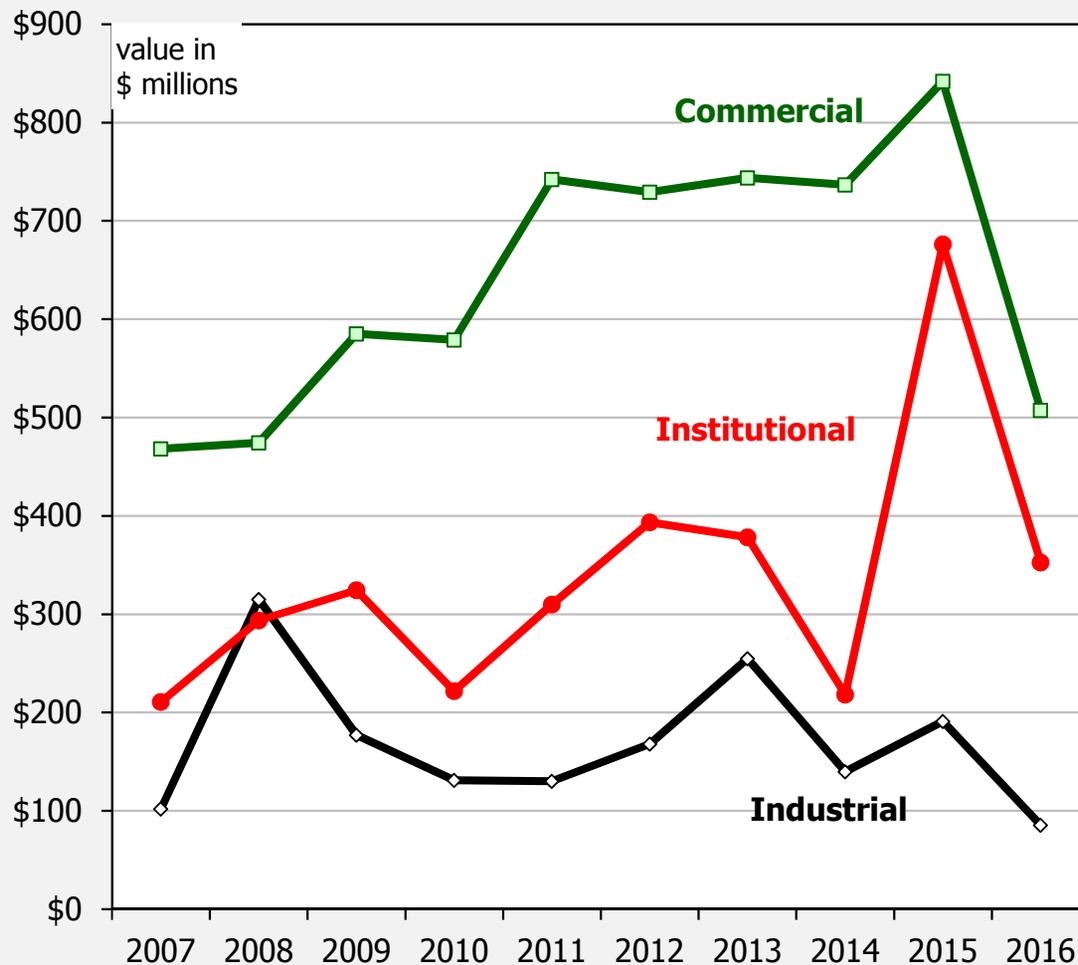
Value of Non-Residential Building Permits, Saskatchewan



- 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 56% increase in 2015 means that many firms were busy in 2016 with projects started in 2015.
- In the first quarter of 2017, permits are up 56% from the first quarter of 2016.

Non-Residential Construction Activity – Building Permits

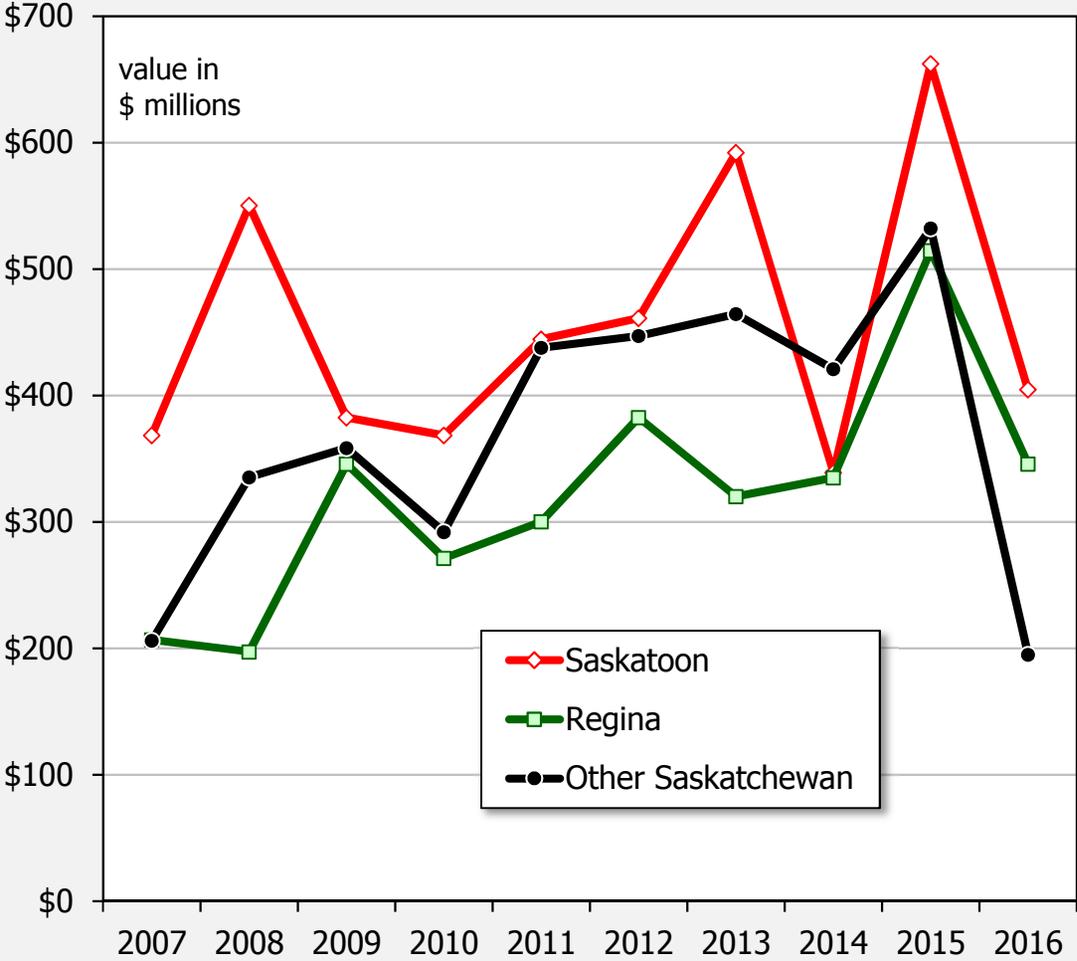
Value of Non-Residential Building Permits by Category, Saskatchewan



- Much of the growth during the boom was in the commercial sector. The spike in 2015 was, however, in the institutional category, namely schools and hospitals.
- The decline in 2016 was in all three categories.
- Permits in the first quarter of 2017 are:
 - up 49% in the commercial category;
 - down 23% in the institutional category; and
 - up 366% in the industrial category.

Building Permits by Location

Value of Non-Residential Building Permits by Location, Saskatchewan

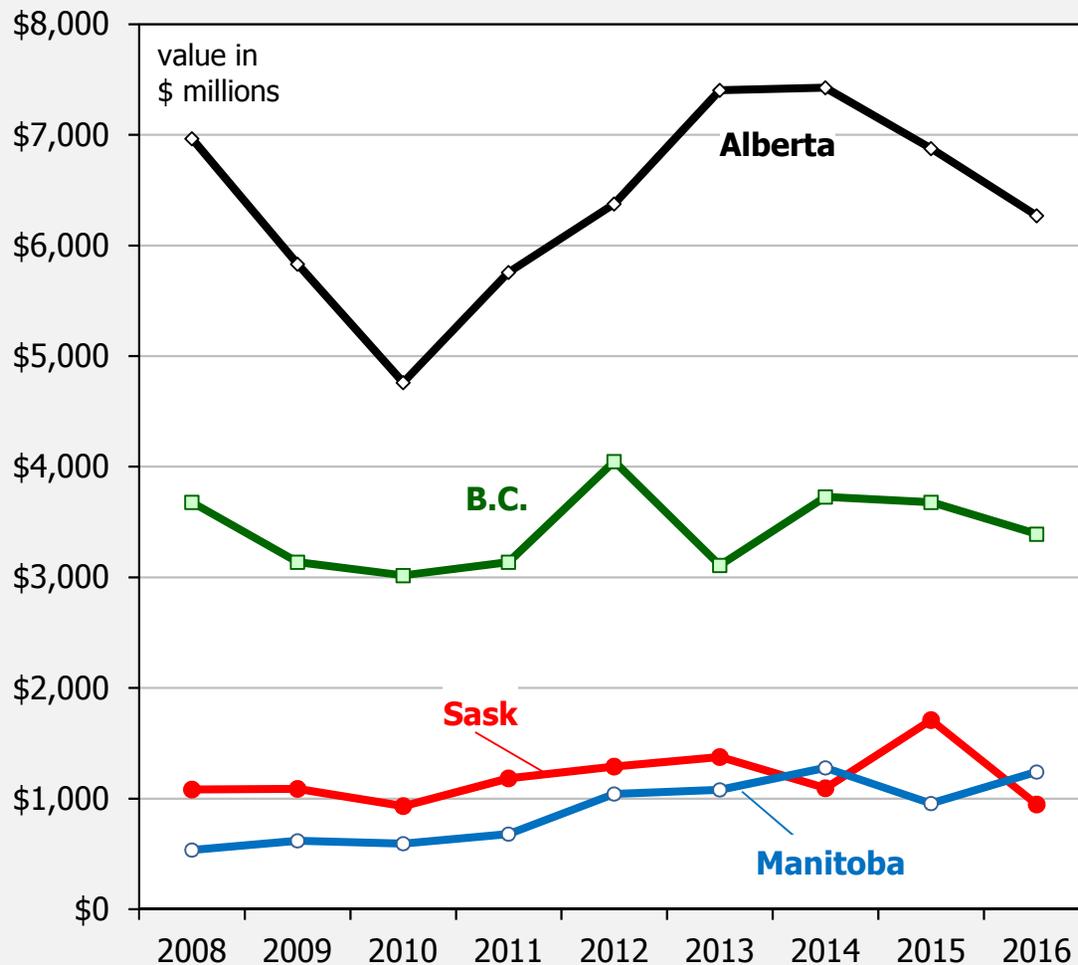


- The increase in construction activity during the period from 2007 to 2015 was widely dispersed in the province.
- The 2016 decline was also evident in all parts of the province but most pronounced outside Regina and Saskatoon.
- In the first quarter of 2017, non-residential permits are:
 - up 73% in Saskatoon;
 - down 18% in Regina; and
 - up 191% outside the two major centres.



Interprovincial Comparison – Non-Residential Permits

Value of Non-Residential Building Permits in Western Canada



- The figure demonstrates how large the sector is in Alberta. Activity in non-residential construction in Alberta is greater than in the other three provinces combined.
- The 2016 decline in Saskatchewan was also evident in Alberta.
- In the first quarter of 2017, the value of permits are down in the other provinces:
 - down 8% in Manitoba;
 - down 19% in Alberta;
 - down 11% in B.C. compared with;
 - an increase of 56% in Saskatchewan.

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 was done in late 2016 and provides estimates for 2016 and intentions for 2017.**
- **These are the best data to measure business confidence and are a leading indicator for construction one to two years in the future.**

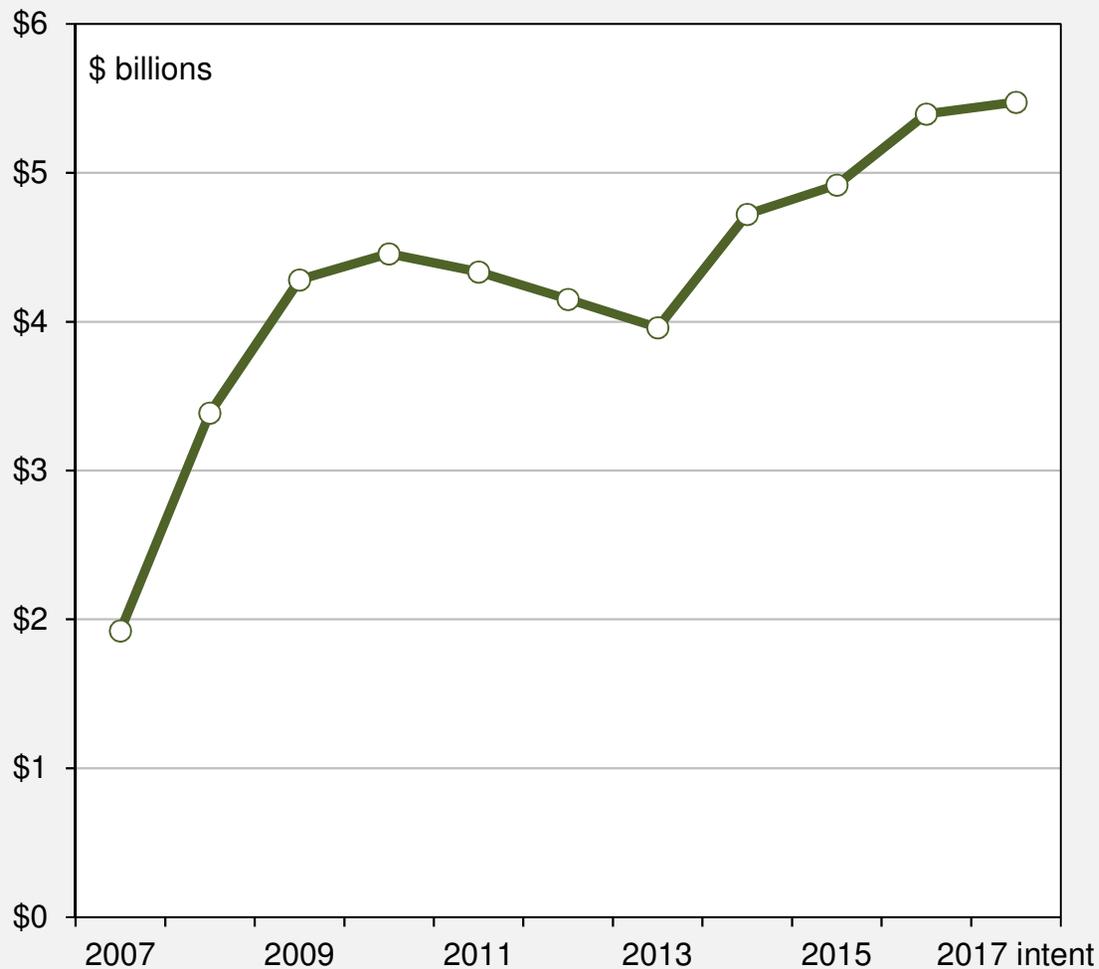
Total Capital Investment in Fixed Assets, Saskatchewan



- The most recent capital investment survey was conducted in late 2016 when oil prices had recovered from their low and were near US\$50/barrel. The economic climate had improved from earlier in the year.
- Capital investment in the construction of new assets was projected to increase to \$9.8 billion after falling sharply in 2015 and 2016.
- The picture for the construction industry is healthier than this would suggest because virtually all of the decline in 2015 and 2016 was in the oil/gas/mining sector.

Capital Investment Excluding Mining/Oil/Gas

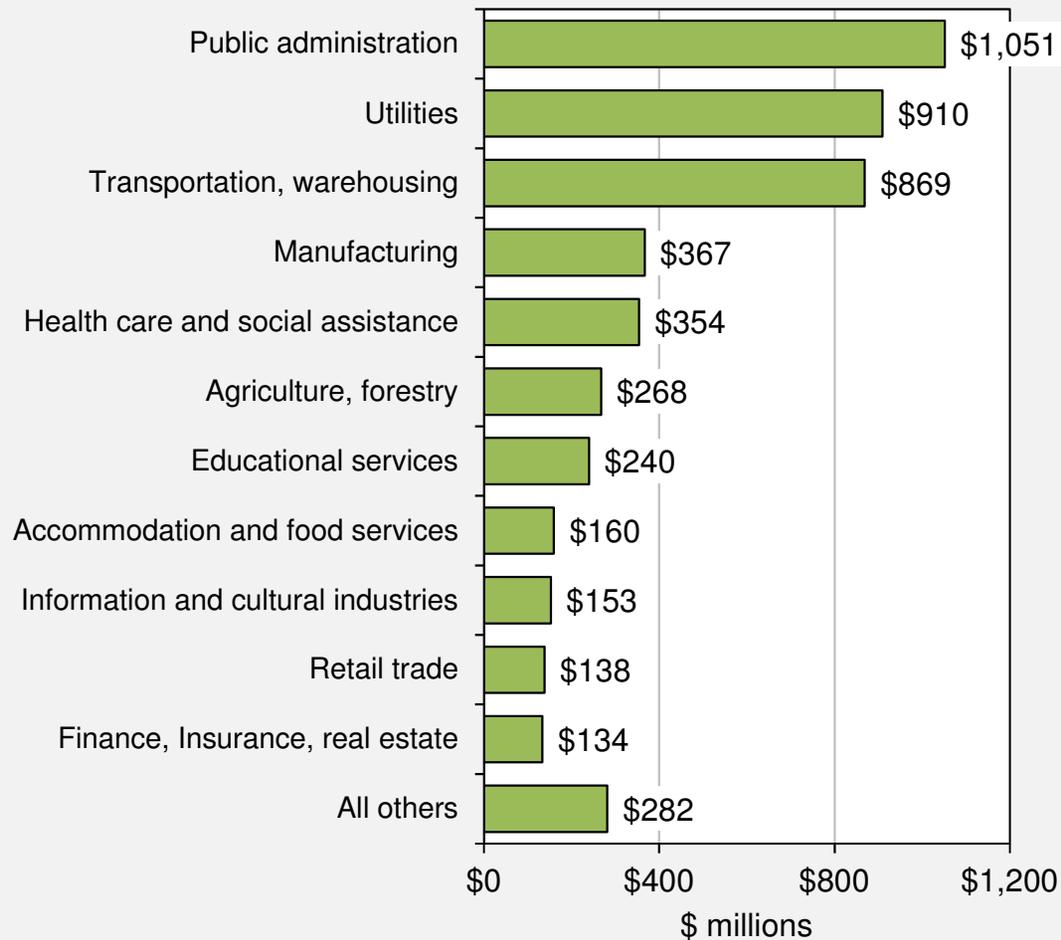
Capital Investment in Fixed Assets, Excluding Mining/Oil/Gas



- The resource sector accounts for more than 50% of capital investment.
- Excluding the resource sector shows that intended capital investment in 2017 is the same level (just under \$5.5 billion) as in 2016 and at an all-time high.
- A good deal of heavy construction is included in these figures (see graph on next page) but this is a clearer picture of the outlook for non-residential construction than the previous slide.

Capital Investment by Sector, 2017 Intentions

Capital Investment in New Fixed Assets, Saskatchewan, by Sector, 2017 Intentions



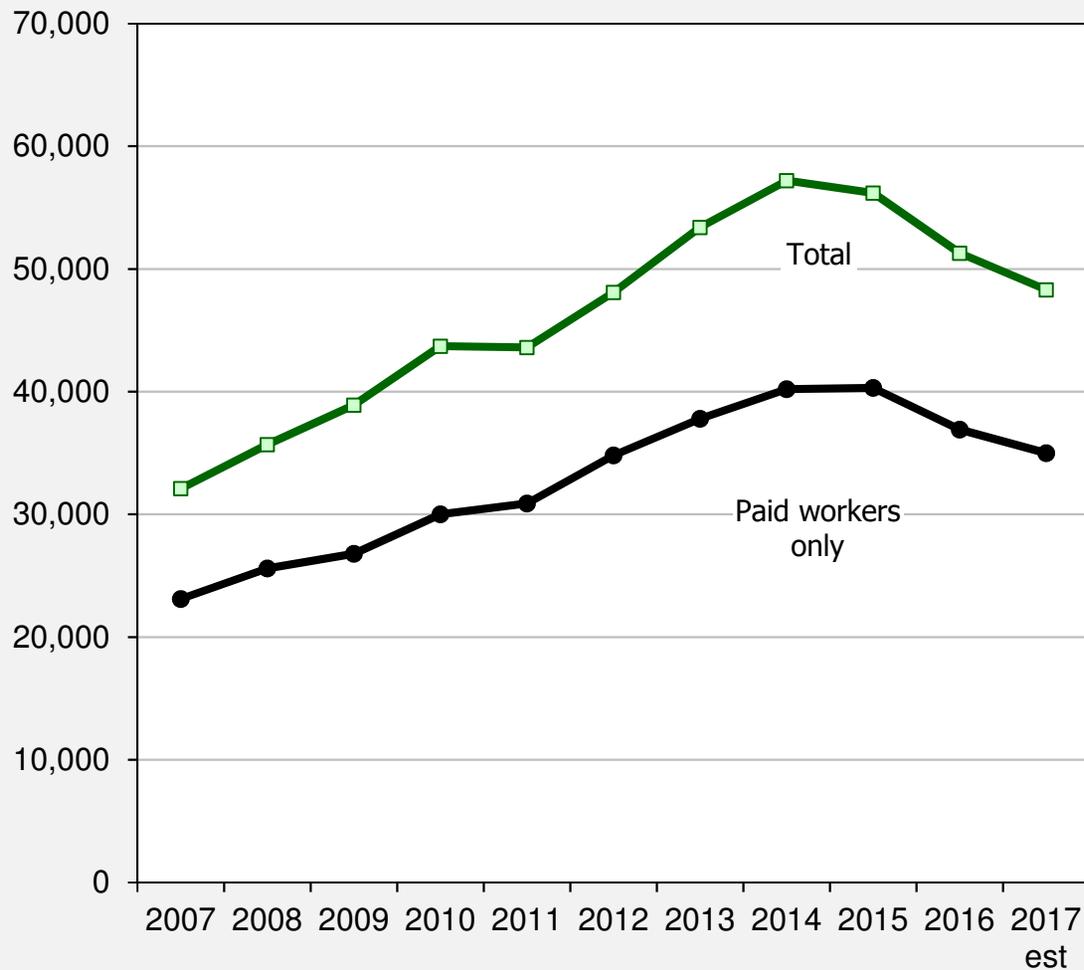
- Spending by public administration (aka governments) will be largely on roads and bridges but there will be some non-residential construction.
- Spending in the utilities sector will also be dominated by heavy construction.
- In other sectors, non-residential work will be a big part of the spending.

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 workers in the heavy and engineering construction sector.
- 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 including them only if their main job, that is, the one where they work the most hours, is in construction.
- 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

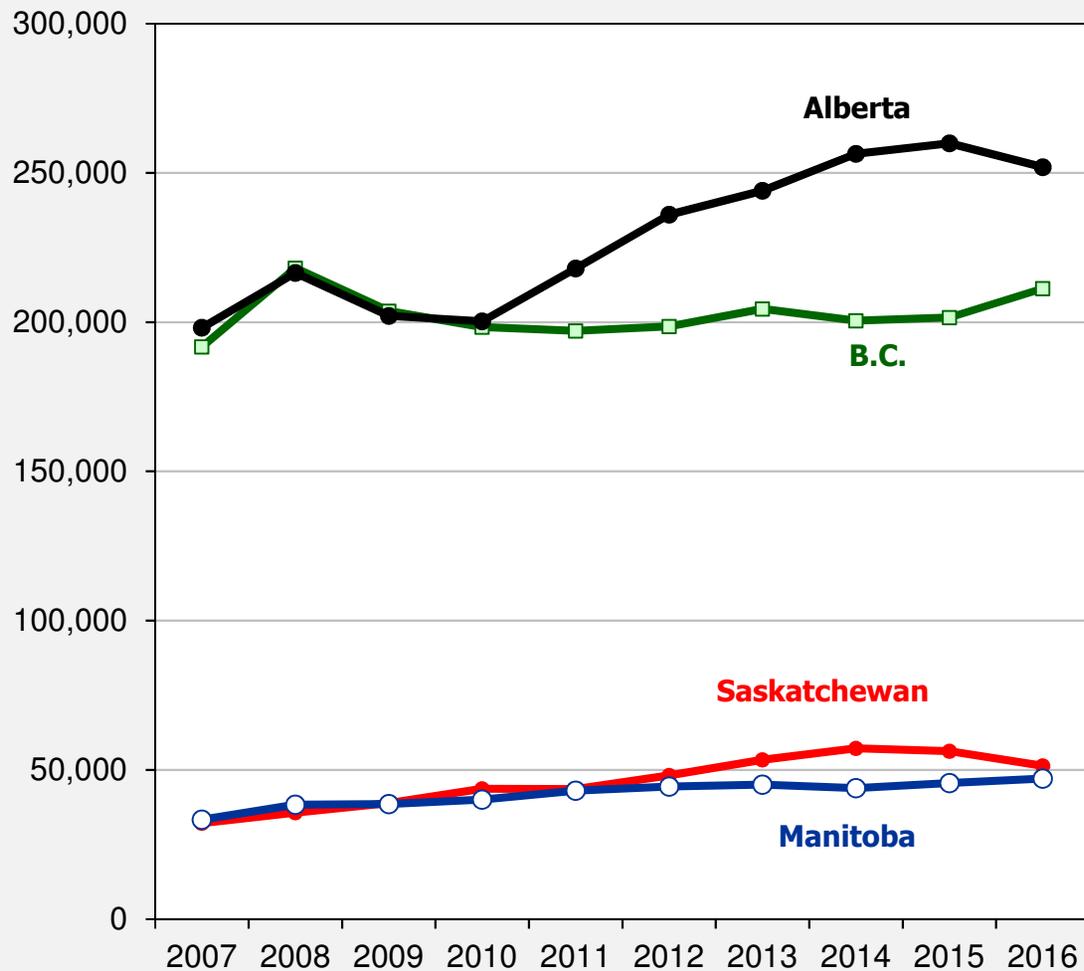
Employment in Construction, Saskatchewan,
(residential and non-residential)



- In an average month in 2016, there were 51,300 individuals who reported that their main or only job was in the construction industry.
- This represents about 9% of employment in the province.
- Approximately 30% of those in the industry are self-employed.
- Employment dropped by 1,000 in 2015 and a further 5,000 in 2016. If present trends continue, there will be a further 3,500 decline in 2017.

Interprovincial Comparison of Employment

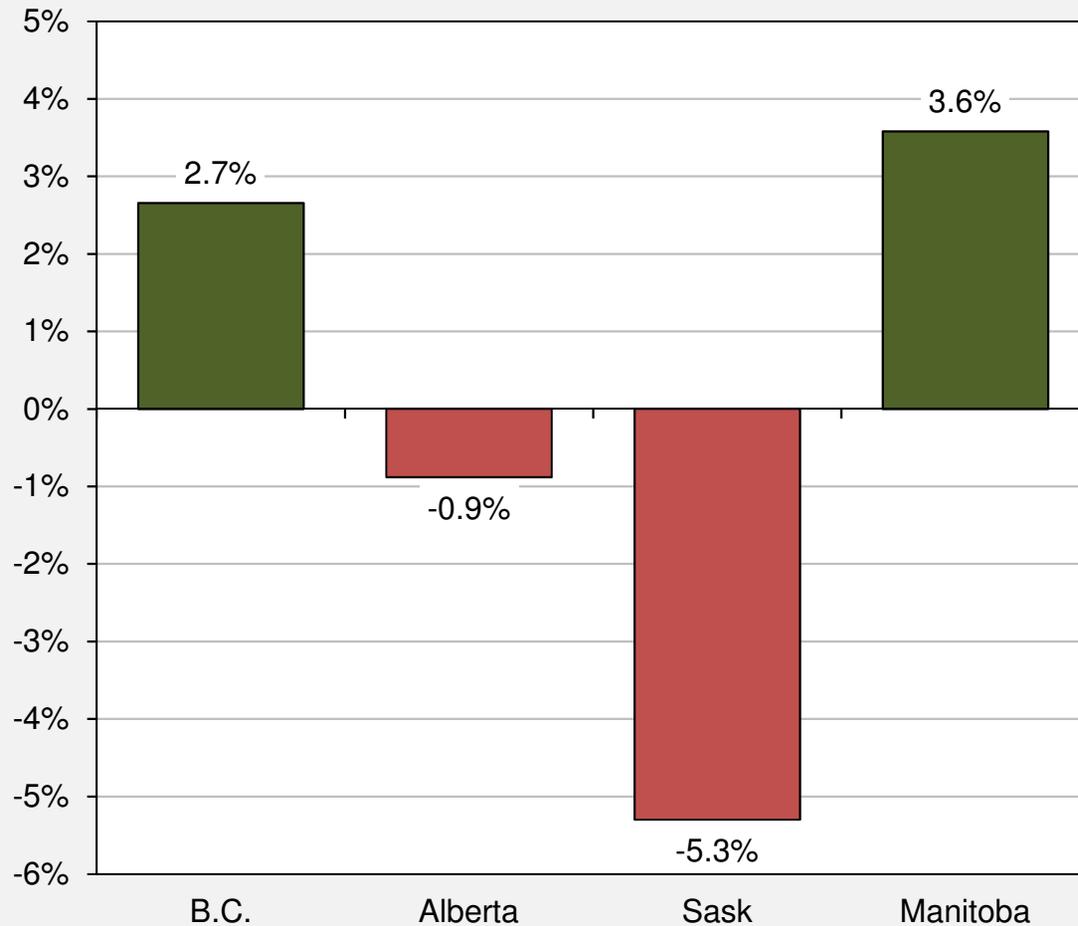
Employment in Construction, Western Canada,
(residential and non-residential)



- Construction employment has been growing more quickly in Alberta and the downturn was not as severe.
- The rebuilding of Fort McMurray will employ a lot of Alberta construction workers.

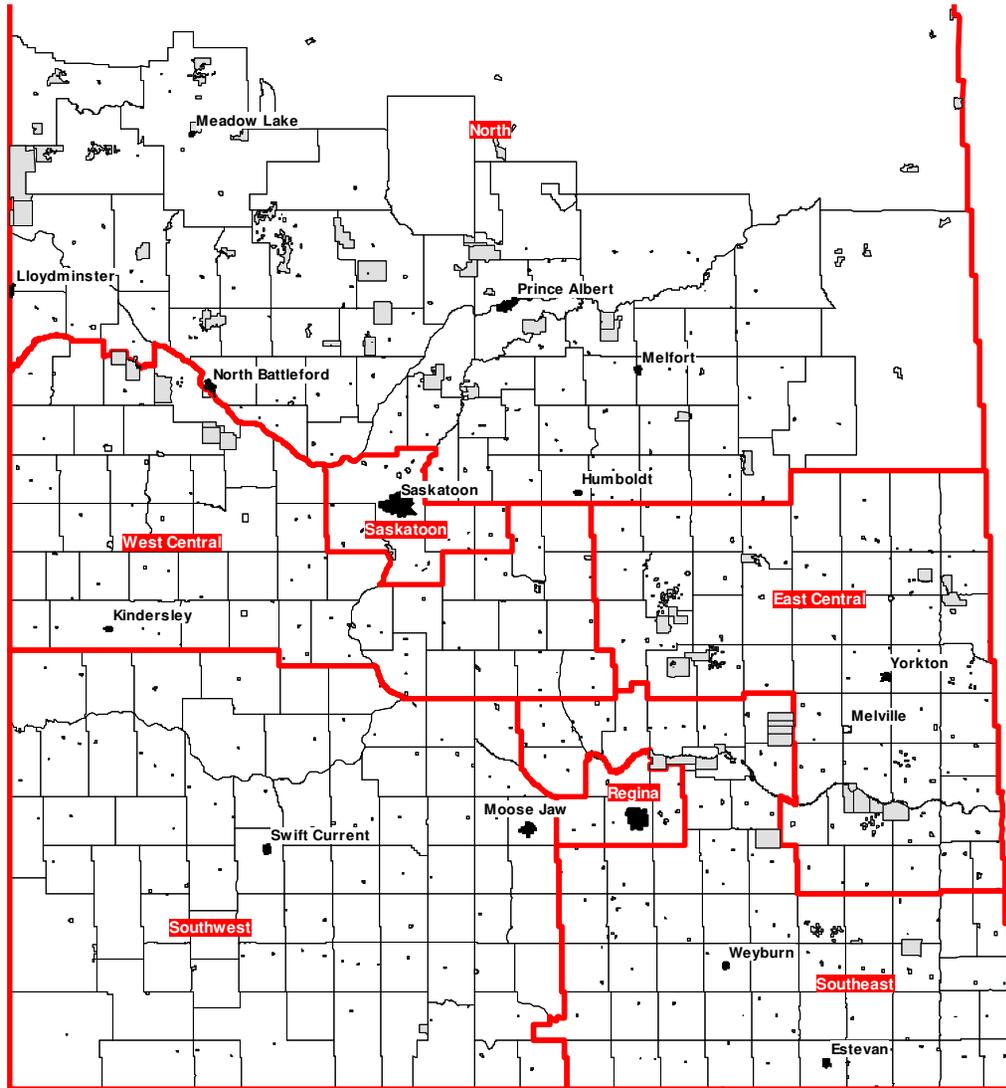
Interprovincial Comparison of Employment

Interprovincial Comparison of Changes in Construction Employment, Average Annual Increase from 2014 to 2016



- The slowdown from 2014 to 2016 was most pronounced in Saskatchewan.

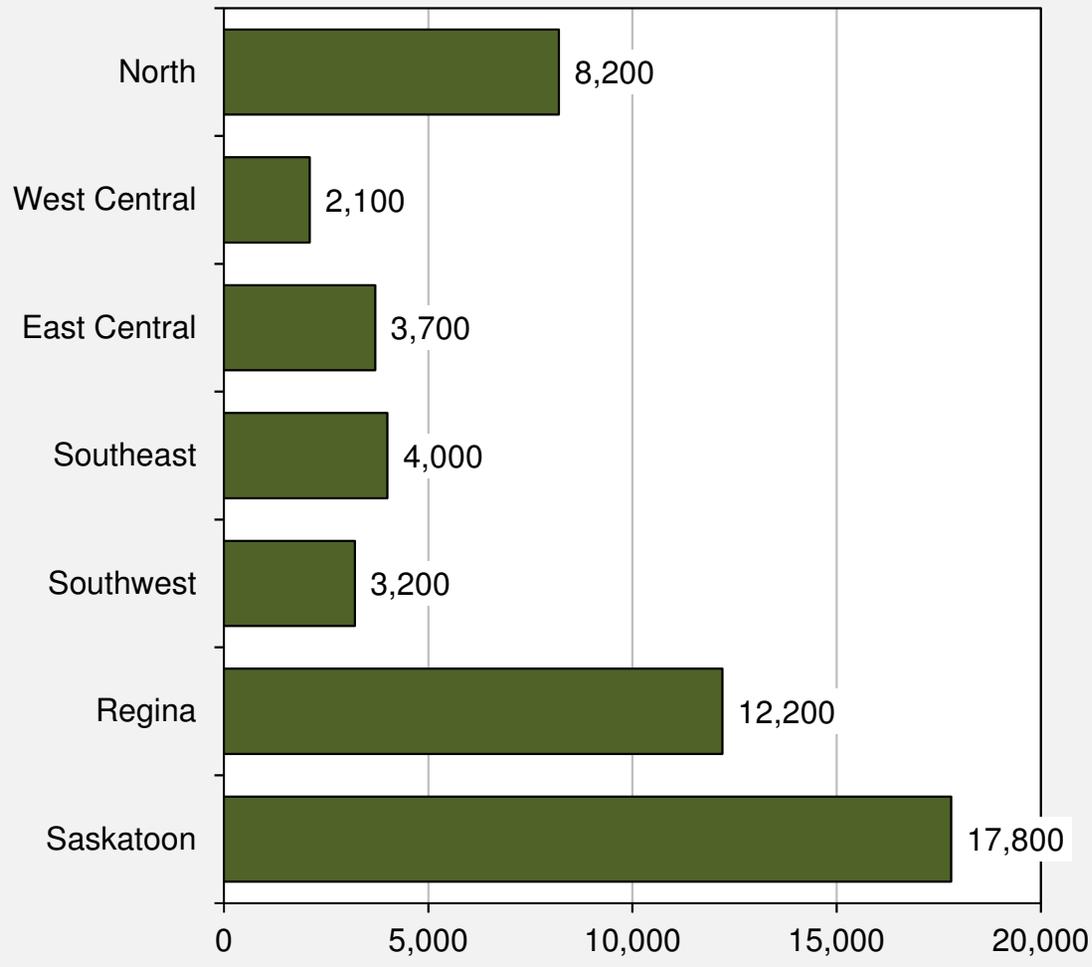
Regional Data



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

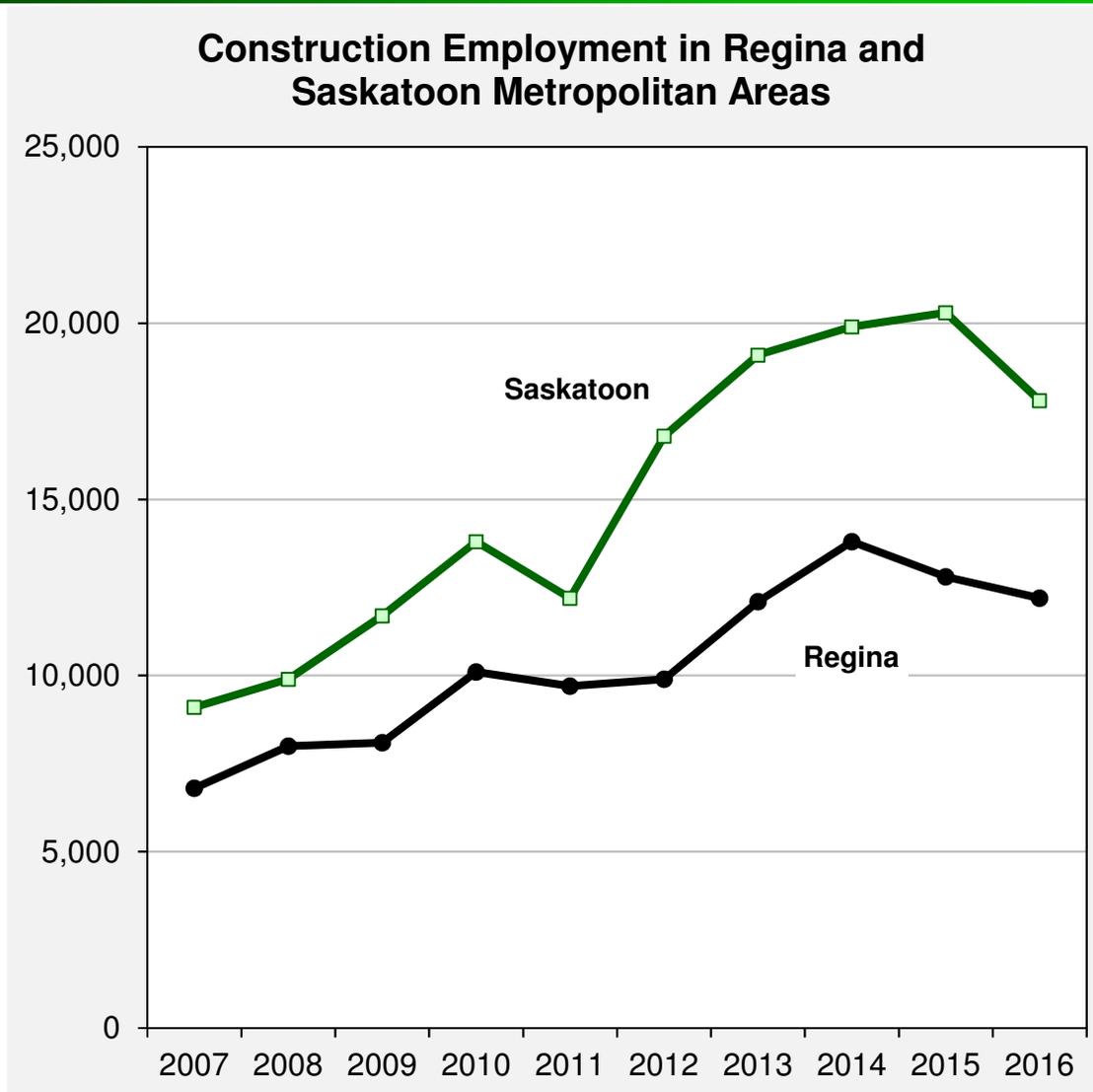
Construction Employment in 2016

Construction Employment by Region
(residential and non-residential), 2016



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

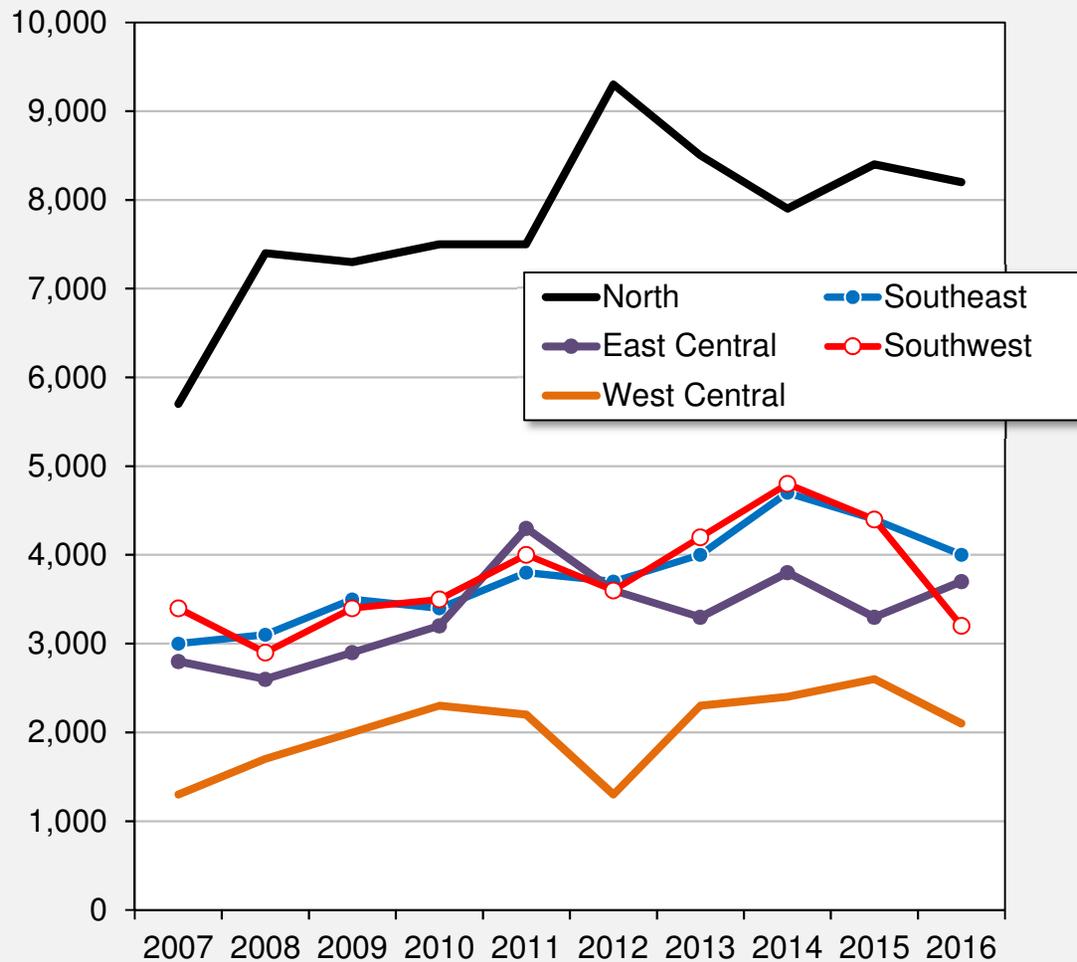
Construction Employment in Regina and Saskatoon



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

Construction Employment Outside Regina/Saskatoon

Construction Employment Outside of the Regina and Saskatoon Metropolitan Areas



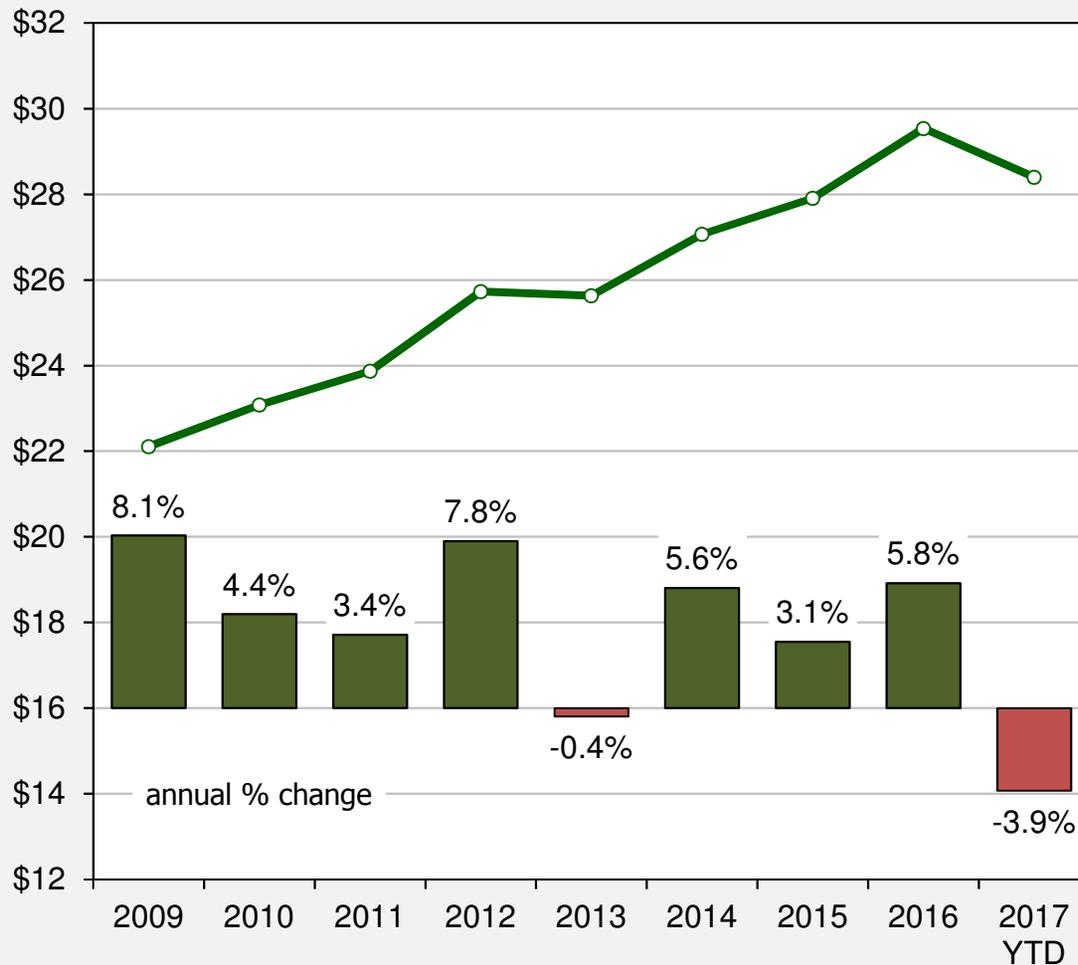
- Outside of Regina and Saskatoon, the downturn from 2014 to 2016 was most pronounced in the southwest and southeast part of the province.

Wage Rates

- **Hourly wage rates are self-reported in the Labour Force Survey and cover only paid workers, excluding owners and the self-employed.**
- **These figures cover both the residential and non-residential sectors.**

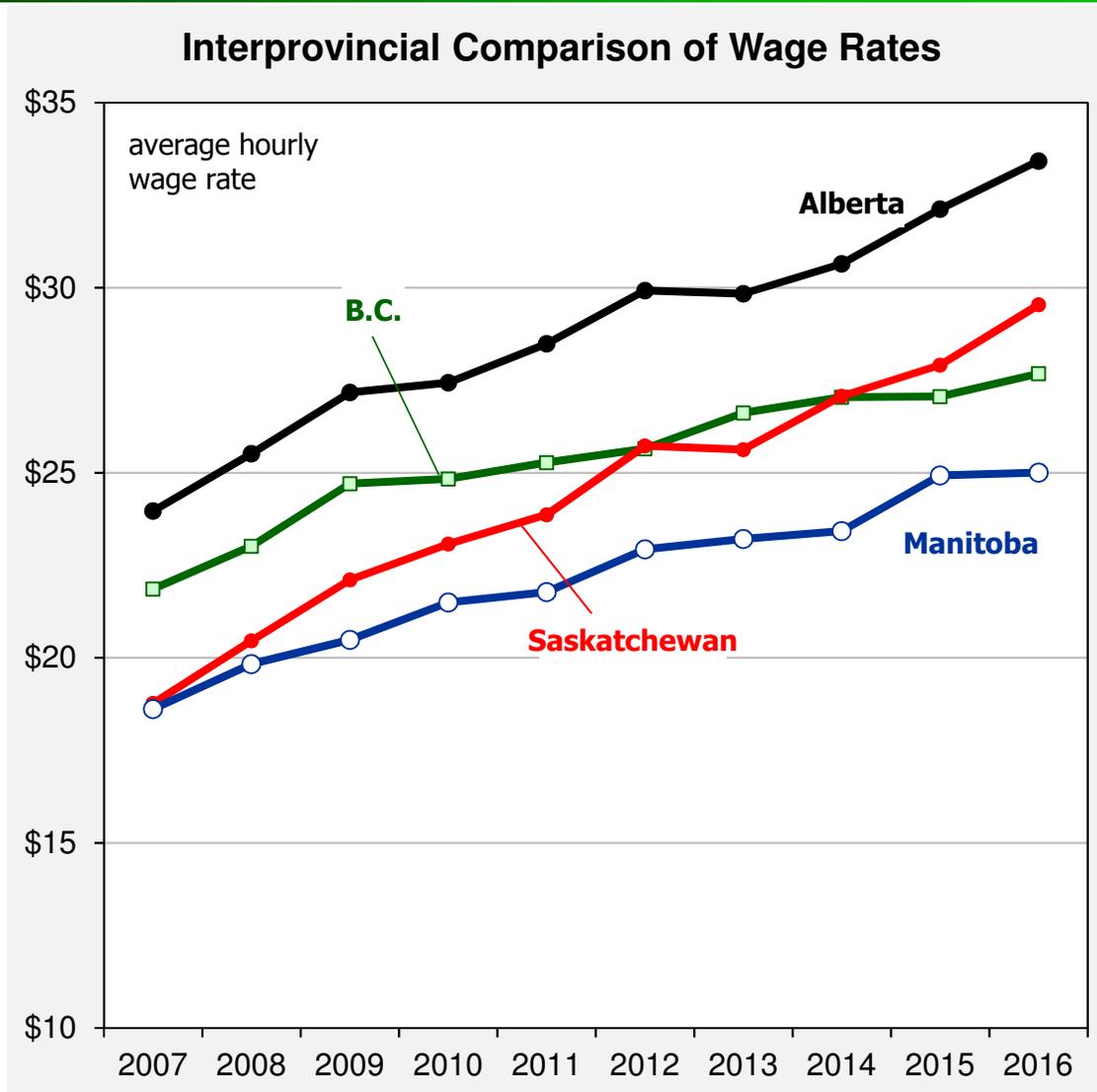
Average Hourly Wage Rates, Construction Industry

Average Hourly Wage Rates, Construction Industry, Saskatchewan



- Construction industry wage rates have increased rapidly in the past ten years.
- In nominal terms, they have grown by an average of 5.1% per year from 2006 to 2016 to peak at \$29.54.
- Adjusted for inflation, the increase has averaged 3.0% per year.
- Early indications suggest that wage rates will drop substantially in 2017.

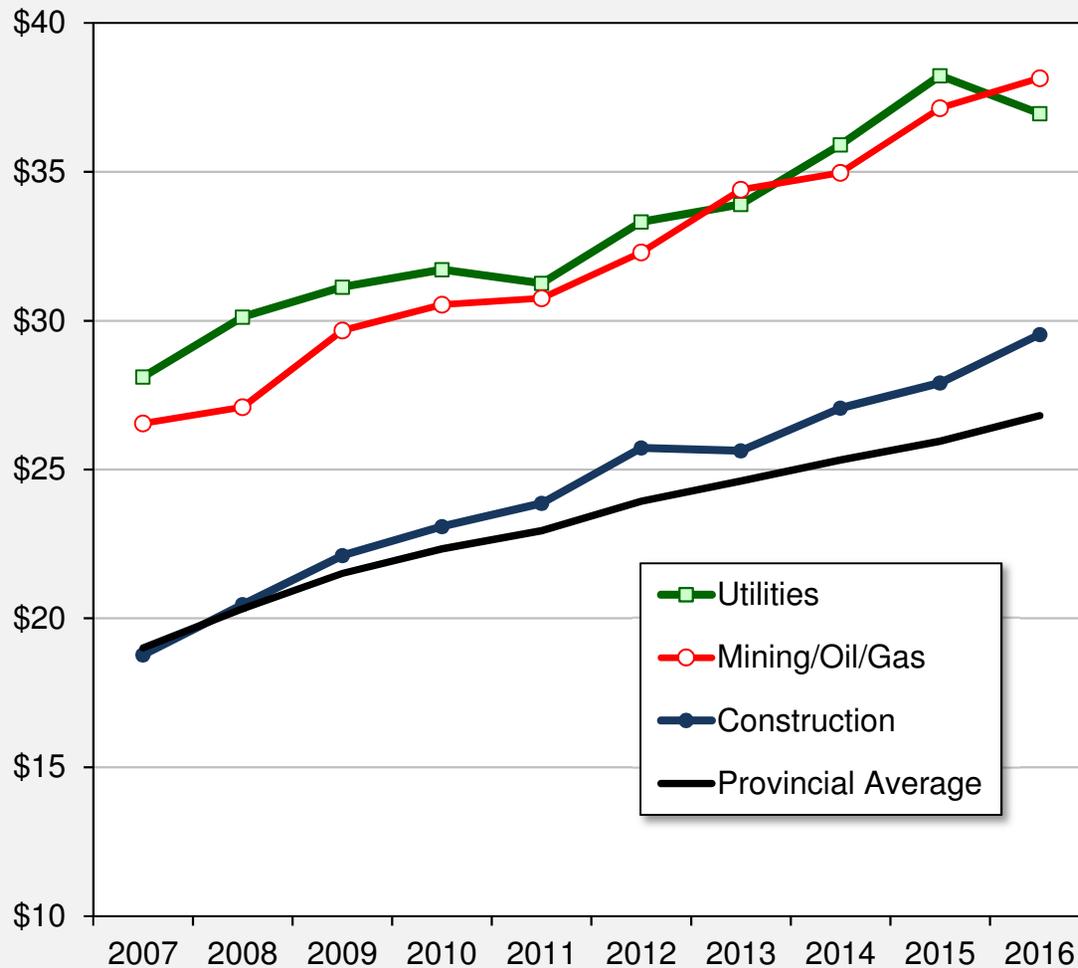
Interprovincial Comparison of Wage Rates



- 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 88% of those in Alberta compared with 79% in the mid-2000s.

Comparison with Other Industry Groups

Wage Rates in Saskatchewan for Selected Industry Groups



- Construction wage rates of \$29.54 in 2016 were well above the provincial average of \$26.81.
- There is still a substantial differential with rates in the mining and oil/gas sector and with the utilities (Sask Power and Sask Energy).
- The expected decline in 2017 will bring wage rates more in line with the provincial average.

Summary

- **The construction industry was clearly one of the reasons for the strong economic growth in Saskatchewan during the period from 2010 to 2015. It is among the top industries in the province and has been increasing more quickly than most.**
- **That changed in 2016 when activity and employment declined. There is some evidence of a recovery in early 2017. That recovery is at risk because of provincial government restraint.**
- **The bulk of the recent employment 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. A decline is expected in 2017.**

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, North Korea, Russia, and South China Sea are examples.**
- **The US government is in a period of uncertainty; the Trump administration is behaving erratically.**
- **In this geopolitical environment, Canada in general and Saskatchewan in particular offer a politically stable environment.**
- **A further increases in taxes is unlikely.**
- **The taxation of construction services will affect activity but the extent and duration of the damping effect is unknown.**

Cost of Capital – Prime Lending Rate

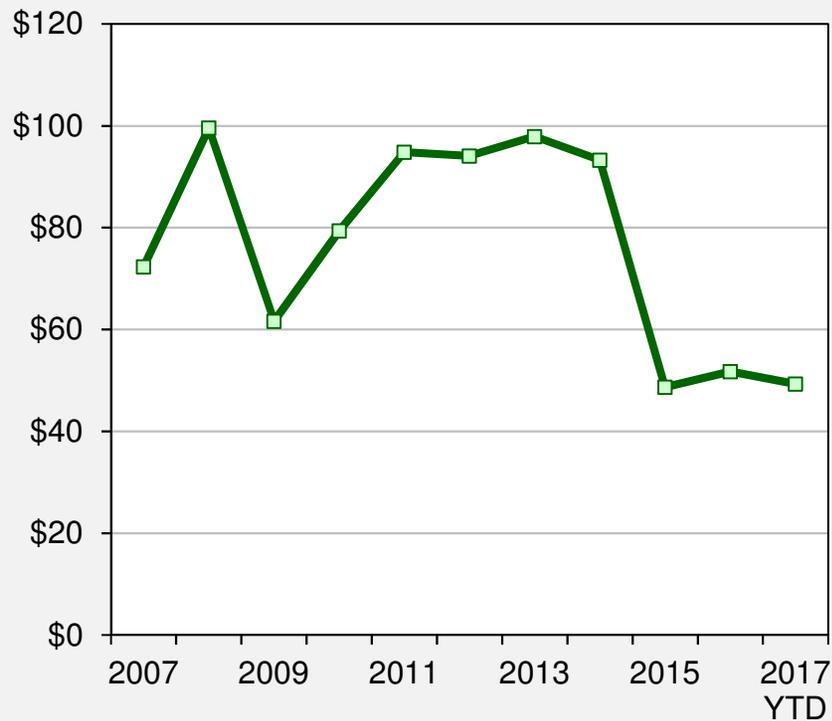
Cost of Credit: Prime Lending Rate for Chartered Banks



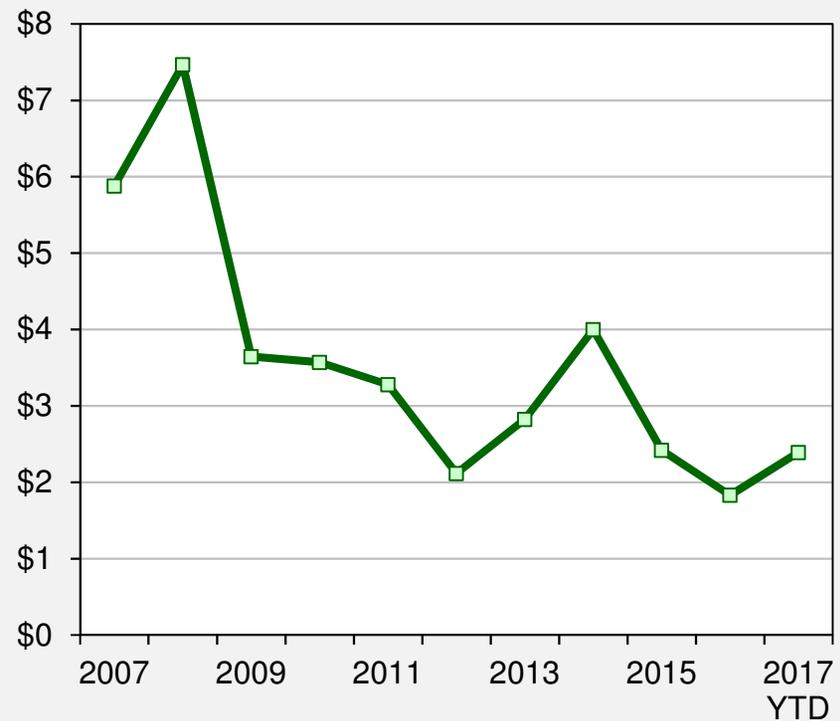
- All else being equal, the cost of capital is not an issue.
- Interest rates remain at historically low levels.

Commodity Prices – Crude Oil and Natural Gas

Commodity Prices: Crude Oil (WTI in US\$/barrel)



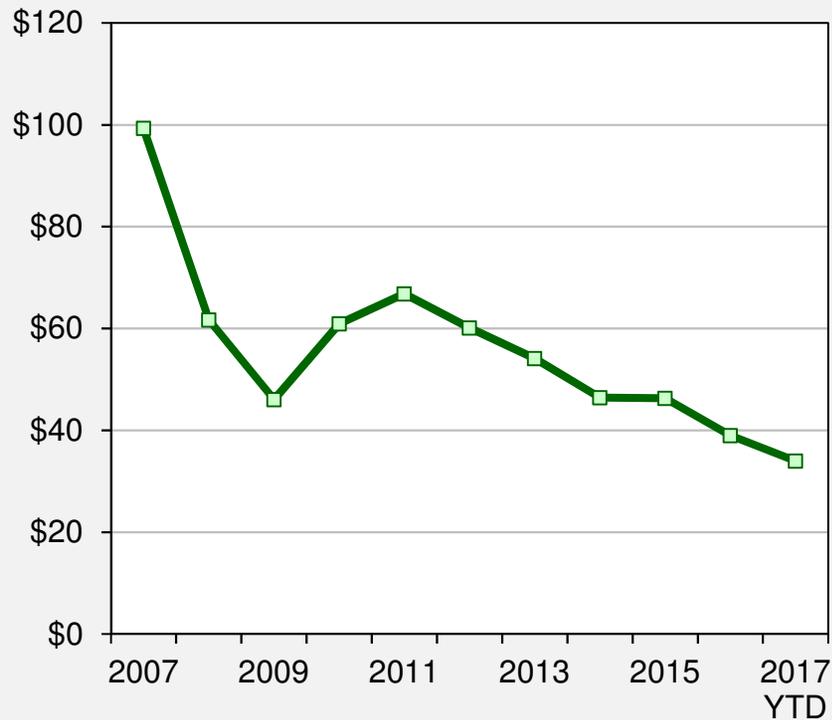
Commodity Prices: Natural Gas (Alberta Spot Price), \$/Gigajoule



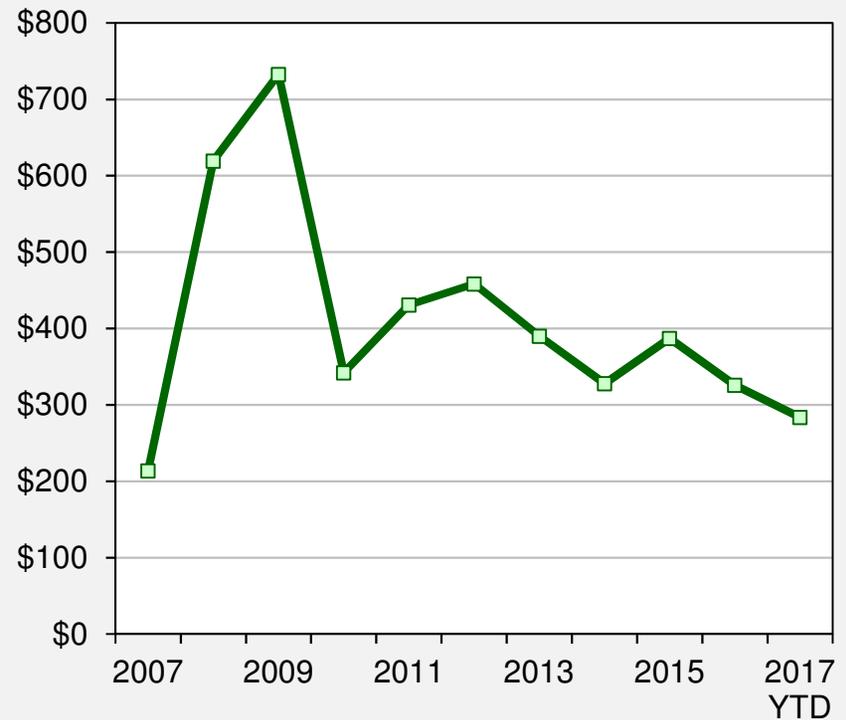
- **After a bit of recovery in early 2017, crude oil prices have fallen back again.**
- **Natural gas prices remain at historically low levels.**

Commodity Prices – Potash and Uranium

Commodity Prices: Uranium (US\$/pound)



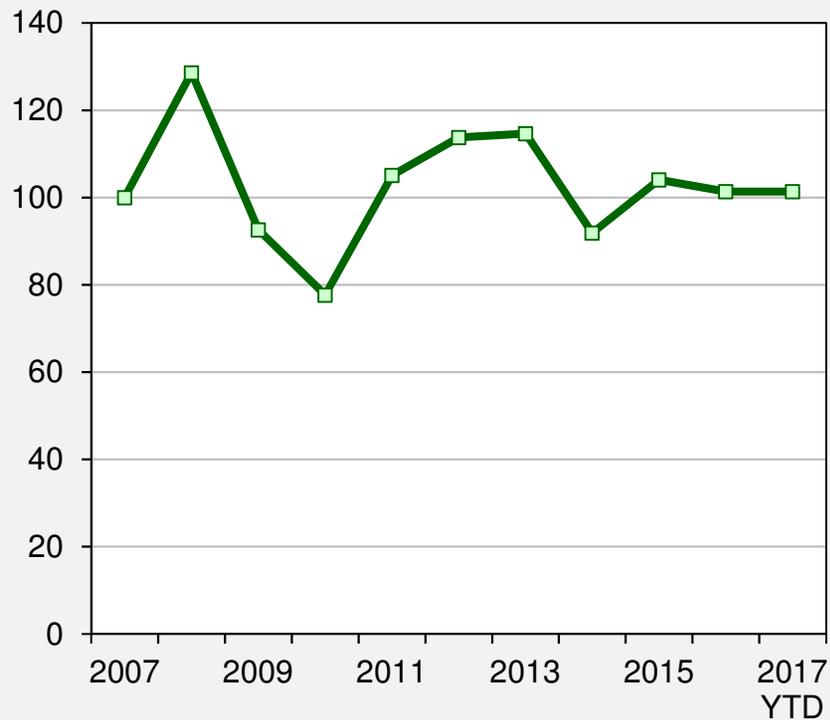
Commodity Prices: Potash (\$/metric tonne K₂O equivalent)



- After the spike in the late 2000s, the prices for potash and uranium have settled in at relatively low levels with a downward trend.

Commodity Prices – Grains and Oilseeds

Commodity Prices: Grains (2007 = 100)

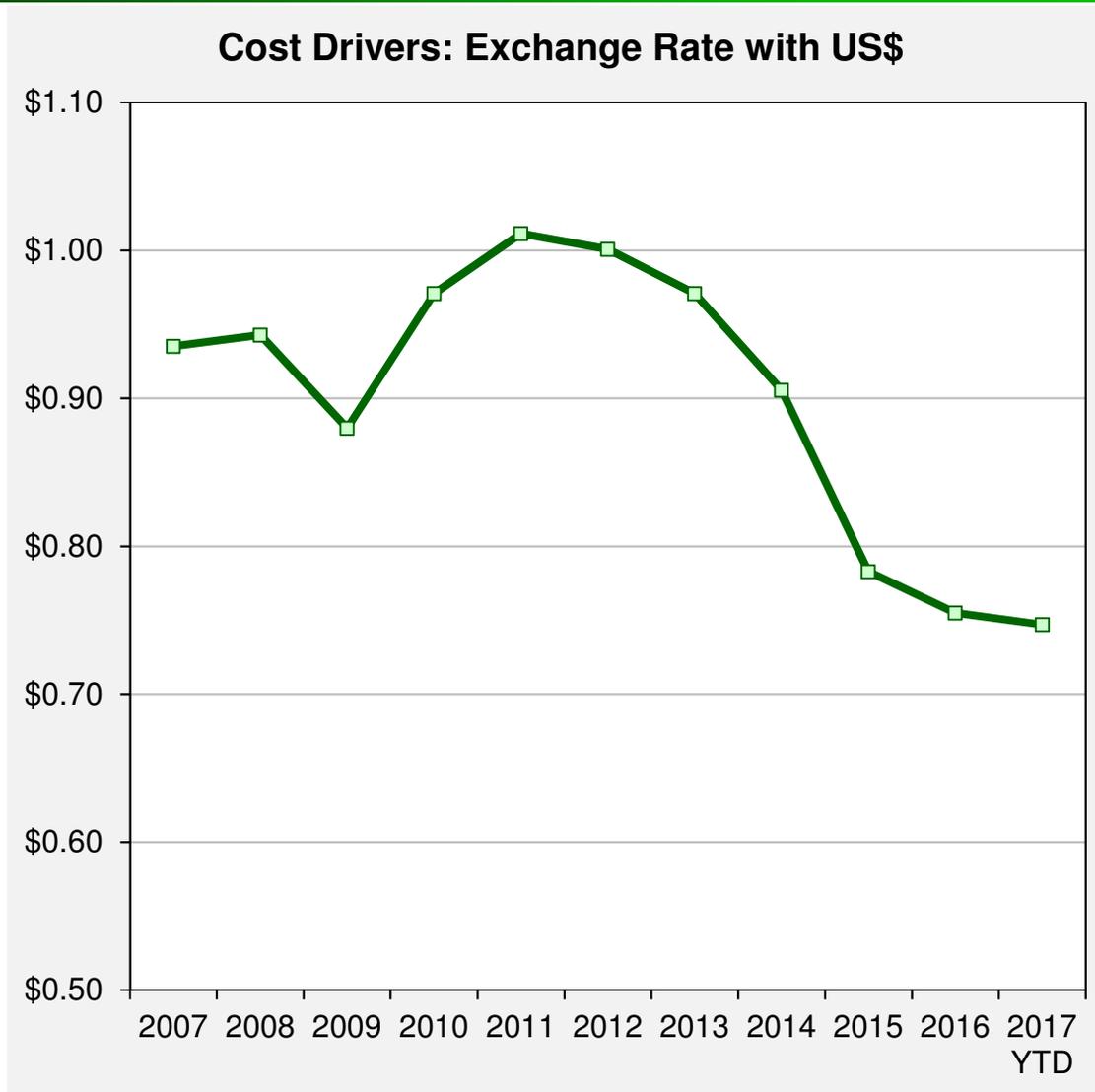


Commodity Prices: Oilseeds (2007 = 100)



- Grain and oilseed prices, on the other hand, have remained high.

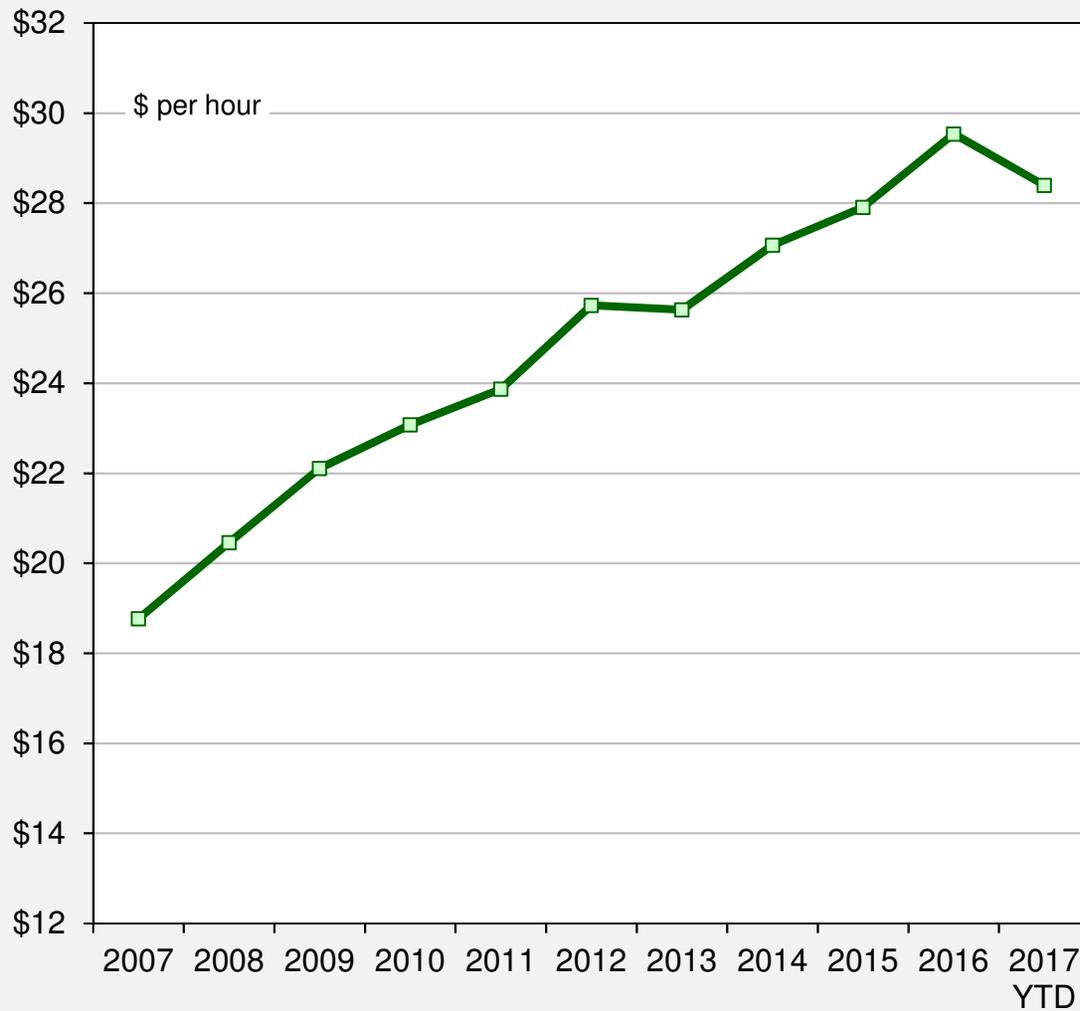
Cost Drivers – Exchange Rate



- 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 are benefiting.

Cost Drivers – Labour Costs

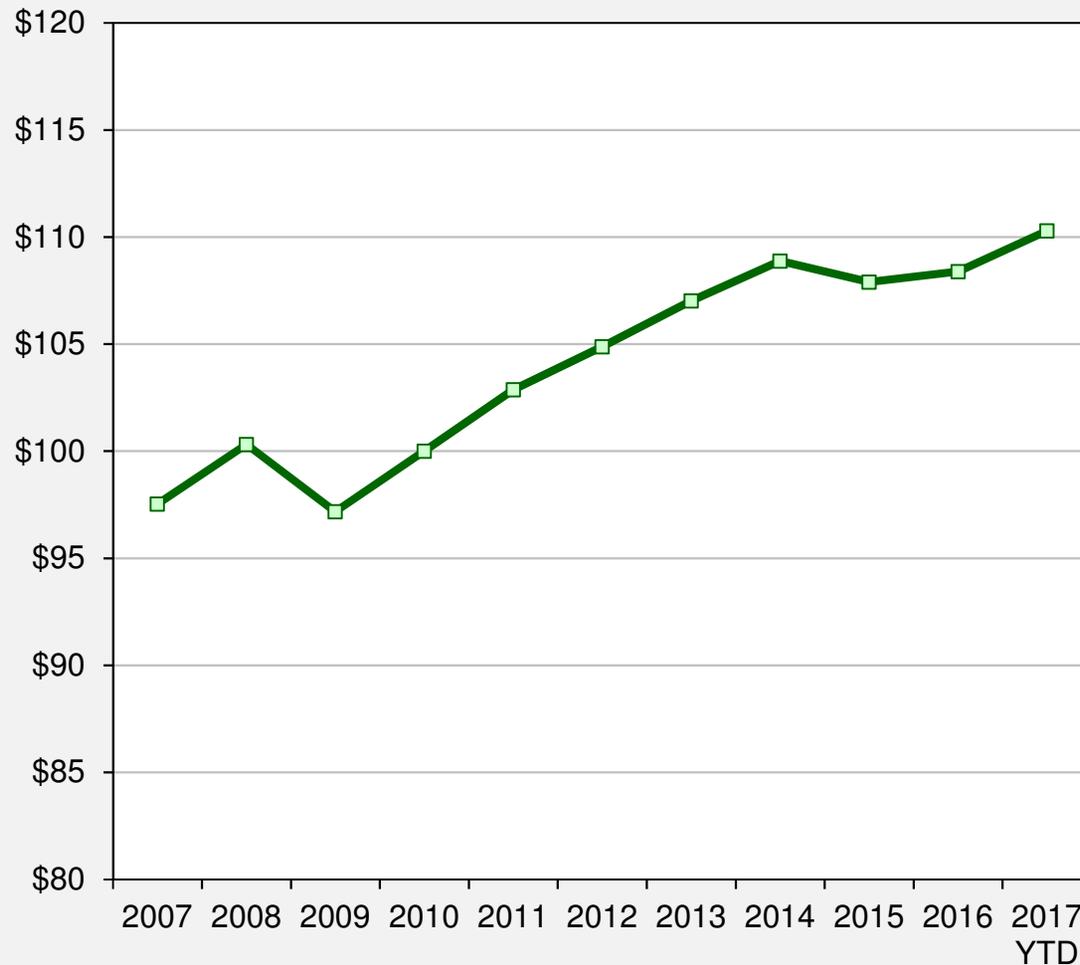
Cost Drivers: Construction Industry Wage Rates



- For most construction projects, the cost of labour has been growing more quickly than other costs.
- The weak labour market is putting downward pressure on wage rates in early 2017.

Cost Drivers – Construction Materials

**Cost Drivers: Typical Construction Materials
(2010 = \$100)**



- These figures average costs for a selection of more than forty different materials typically used in non-residential 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 \$110 in early 2017.
- When combined with the drop in labour costs, this provides an attractive investment climate.

Summary

- **Saskatchewan offers a stable political environment.**
- **Commodity prices are down from their peak a few years ago but most have stabilized. 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 and the cost of labour has started to fall.**