Ontario Construction Secretariat

EYE ON ICI NEWSLETTER

DECEMBER 2013

The 2013 OCS Annual General Meeting at the Queen's Landing Hotel, Niagara-on-the-Lake, Ontario

EVENT RECAP

Bringing Stakeholders Together: Recap of the 20th OCS Annual General Meeting

The Ontario Construction Secretariat (OCS) held its 20th Annual General Meeting (AGM) in September at the Queen's Landing Hotel in Niagara-on-the-Lake, Ontario. One of the mandates of the OCS is to promote regular conferences between unions and employers outside of collective bargaining, and the AGM plays a major role in achieving that goal. This was the 20th year the OCS AGM & Conference has provided the chance for our labour and management partners to come together to learn from distinguished speakers as well as hear about major projects being undertaken at the OCS and share in meaningful discussion to help enhance Ontario's unionized ICI construction industry.

Day one of the conference provided ample opportunities for dialogue between conference delegates in a relaxed atmosphere at the AGM reception. On day two, labour and management representatives were updated on key initiatives at the OCS.

The main presentation focused on a research project tackling safety in construction, which is of course a topic of primary importance to owners, contractors, labour, policy-makers and citizens alike. The purpose of the project is to examine safety outcomes in the construction industry.

Delegates were taken through preliminary findings from research conducted by the Institute for Work and Health (IWH) in collaboration with the OCS. The IWH is a world-class, independent, not-for-profit organization whose mission is to conduct and share research that protects and improves the health of working people and is valued by policy-makers, workers and workplaces, clinicians, and health & safety professionals.

Overall, delegates were happy with the progress that the OCS is making in examining challenging but important industry issues like apprenticeship and safety and found the AGM to be a valuable endeavor. Indeed, we circulated a feedback survey and 100% of respondents agreed that the conference was "worthwhile" with one calling it "another triumph" for the OCS and another noting that it provided "max value in min time".

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OCS
AGM 2013
ANNUAL GENERAL MEETING
SEPTEMBER 23-24, 2013
RECAP


OCS CEO Sean Strickland addresses delegates


Attendees taking tour of Stratus Winery

Ontario Construction Secretariat thanks
MR. DAVID BRISBIN
for 9 years as an OCS Board member


(L to R) OCS Chief Executive Officer Sean Strickland, David Brisbin (center), and OCS President Joe Keyes

The Ontario Construction Secretariat thank David Brisbin for his nine years of dedicated service on the board of directors of the organization. David's leadership and insight was instrumental in the OCS's growth and accomplishments. We at the OCS wish David the best of luck in all of his future endeavors.


Attendees enjoying themselves at the AGM reception


Delegates networking in a relaxed atmosphere


EBAs and OCS Board of Directors at the 2013 OCS Annual General Meeting in Niagara-on-the-Lake, Ontario

CONSTRUCTION TRENDS AND OPPORTUNITIES

The third quarter saw a continuation of the trend that has come to characterize Ontario's ICI market for the past year and a half. To be specific, industrial and commercial investment continued to trend higher while institutional investment remained in freefall.

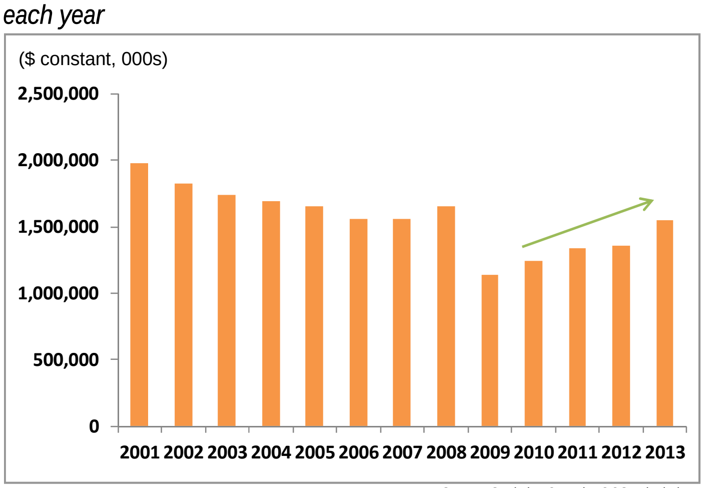
Through three quarters of 2013, constant dollar ICI investment totalled $12.5 billion, 2% lower than the same period last year as declining institutional investment more-than-offset increases in the industrial and commercial markets.

Industrial Market

Current Trends

Constant dollar industrial investment clocked in at $1.5 billion through September, up 14% versus the first nine months of 2012. It's possible (or even likely) that industrial investment will breach the $2 billion level this year for the first time since 2008. This has been achieved through a remarkable run of seven straight quarters of positive growth – a feat which has not been matched since at least 1997. Though it would be naive of us to declare that there is nothing but sunny skies ahead for the industrial market – especially given the long-term competitive challenges facing the auto sector – it is heartening to see the industrial market continue its recovery.

Figure 1: Industrial investment through the third quarter of each year



Source: Statistics Canada, OCS calculations

Regionally, strength in the industrial market has been relatively broad-based, with 9 out of 15 Census Metropolitan Areas (CMAs) registering growth through September. Hamilton has been the largest contributor to growth by far, benefitting from the Maple Leaf Foods Plant, followed by Toronto. Oshawa, Kingston, Brantford and Guelph have also been stand-out regions in terms of industrial investment growth.

Outlook

For as much strength as industrial investment has shown recently, industrial permit values – which are an indicator of future construction – are pointing to a flatter market in coming quarters. Industrial permit values dipped 6% through September. Construction intentions for mining and agricultural facilities and utilities (i.e. sewage treatment plants) and transportation (i.e. bus terminals) buildings were lower. On the plus side, permits for factories and plants were higher – at least in part due to improved manufacturing activity.

Commercial Market

Current Trends

It has been a record year for the commercial market, with constant dollar investment topping $7 billion through three quarters of 2013. Like in the industrial sector, commercial investment has been on quite a run, rattling off six straight quarters of growth, which is not a common occurrence to say the least. As has been the story recently, Toronto contributed the most to the gain, as the office market in the GTA is booming (but not overheating). Hamilton also made a significant contribution to the increase as the city has enjoyed a nice year from an investment perspective. Commercial investment in much-maligned Windsor jumped 103%. However, with a stubbornly high unemployment rate and a long-term downward trend in commercial investment, we question if that strength can be maintained going forward. Investment was also relatively perky in Ottawa, rising to its highest level since 2004.

On the flip side, declines were observed in Barrie, Brantford, Guelph, Kingston, Oshawa and Peterborough. For the first five areas, it's more a case of commercial investment unwinding from strength in prior years. In Peterborough, there has been a

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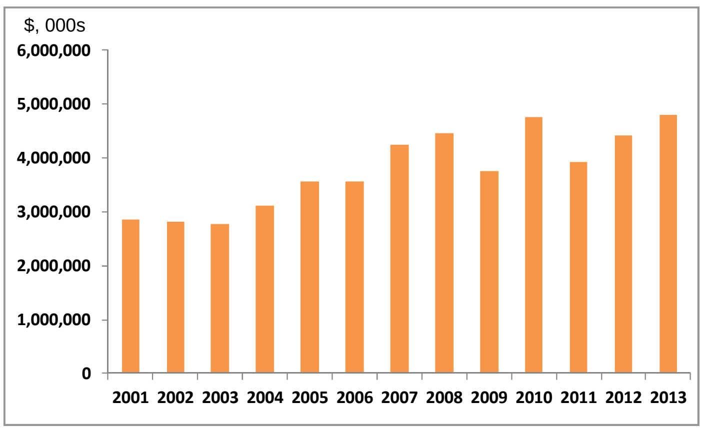
a longer-term downward trend in commercial investment. Perhaps unsurprisingly (given all the negative news about Blackberry) Kitchener-Waterloo-Cambridge has had another abysmal year, with investment dropping to its second lowest level in 15 years.

Outlook

The value of commercial building intentions increased over the first nine months of 2013 (relative to the same period in 2012). As such, they are suggesting that the solid level of investment will be maintained, if not exceeded, going forward. Permit values were higher across almost all major building types with the exception of retailers. Building intentions for office buildings and recreational centres made the largest contribution to growth.

Figure 2: Commercial permit values, Ontario, through the third quarter of each year



Source: Statistics Canada, OCS calculations

Institutional Market

Current Trends

Although institutional investment dropped for the eighth straight time in the third quarter (q/q), at least the decline was relatively minimal when compared with recent history. Of course, the level of institutional investment was still 16% lower than it's year-ago value and substantially lower through the first three quarters of the year (compared to the same period in 2012).

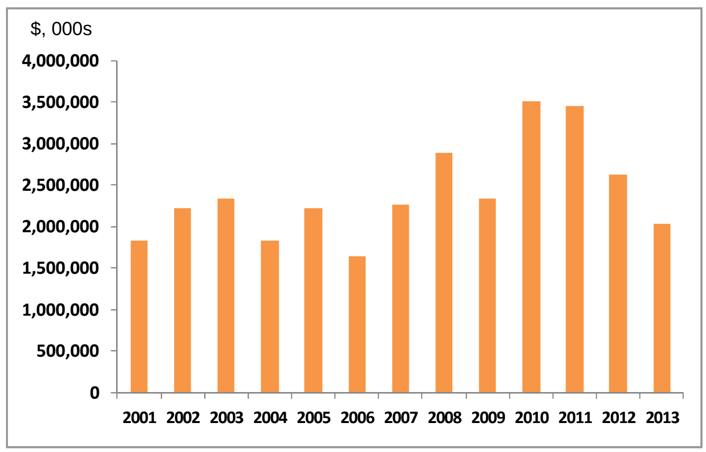
Constant dollar investment fell in eight of fifteen CMAs through September with Toronto contributing most to the decline, followed by London, Kitchener-Waterloo-Cambridge and St. Catharines-Niagara. Conversely, there was good growth in Peterborough, Ottawa and Oshawa.

Outlook

It was widely anticipated that when the stimulus programs ended at the end of 2011, institutional expenditures would decline. True to the script, investment has been dropping consistently for two years. The question now becomes, how long is this decline going to be in place? Unfortunately, building permit data is suggesting that this downward trend will continue, with perhaps another decline of around 5% in the cards for 2014.

Institutional permit values fell 26% through September, with the largest slide occurring in intentions for government buildings. However, declines were also observed for hospitals, churches and welfare homes (i.e. long-term care facilities). Conversely, permit values were higher for schools.

Figure 3: Institutional permit values, Ontario, through the third quarter of each year



Source: Statistics Canada, OCS calculations

Bottom Line

As has been the case for several quarters, little headway is being made in overall ICI investment growth, as increasing industrial and commercial investment is being undermined by sharply declining institutional investment. Building permits suggest that industrial investment could be flatter, commercial investment will at least hold at its very strong current level and that institutional investment will continue to drop into next year.

ONTARIO REGIONAL PERMITS UPDATE

NORTHERN ONTARIO

A mere $64 million worth of **industrial** permits were issued through September, lower than both the 3 and 5 year averages. Northwestern Ontario was the culprit behind the decline as the level of permits issued in the sub-region was the smallest since the recession. However, permitting in Northeastern Ontario increased through September for the third straight year – juiced by a major permit for the Sudbury Wastewater Treatment Plant.

There was significant growth in **commercial** building intentions in both Northeastern and Northwestern Ontario through September of this year (compared to Jan-Sept 2012). The value of permits issued was very high in Northeastern Ontario, lifted by permitting for new offices for the City of Sudbury.

Permit Values - July to September - 2013

Sector	Value (in 000s)	% Change
Industrial	$64,328	▼ -38.8%
Commercial	$219,016	▲ 59.4%
Institutional	$157,766	▼ -11.3%
Total ICI	$441,110	▲ 5.0%

Source: StatsCan

The value of **institutional** building permits dropped in the third quarter, pulling the Jan-Sept amount down significantly versus last year. The weakness was concentrated in Northeastern Ontario, where permit issuance was well below average. Conversely, issuance was relatively healthy in Northwestern Ontario over Jan-Sept, thanks to a permitting for a new long-term care facility in Thunder Bay in June.

EASTERN ONTARIO

Although **industrial** permit values were lower, they were still a very solid at $153 million, thanks to a strong third quarter. Issuance was lower in Ottawa through September of this year (compared to the same period in 2012). Meanwhile, the value of building intentions reached a record level in Kingston-Pembroke, boosted by new construction at the Point Pleasant Water Treatment Plant in Kingston.

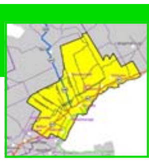
Through September, **commercial** building intentions inched higher (relative to Jan-Sept 2012) thanks to a strong third quarter. This marked the fifth straight yearly increase with the level of permits reaching a new record high. Ottawa was the major driver of the gain as its commercial market appears to be humming along quite nicely and will receive a further lift from projects like the huge Westboro Connection development.

Permit Values - July to September - 2013

Sector	Value (in 000s)	% Change
Industrial	$153,920	▼ -18.8%
Commercial	$732,143	▲ 2.7%
Institutional	$220,888	▼ -15.9%
Total ICI	$1,106,951	▼ -5.0%

Source: StatsCan

Institutional permit values declined through September, marking the 4th time in the past 5 years where there has been a drop. In Ottawa, the institutional market has been steadily unwinding since reaching a peak in 2006. Not to be outdone, Kingston-Pembroke has had its own downward trend in place since its institutional market peaked in 2008.



GTA ONTARIO

Through September **industrial** permit values clocked in at a fairly strong $697 million, above their 3 year average. As CBRE (a real estate development firm) notes, a proposal by Metrolinx to municipalities to increase development charges has the potential to shape the industrial market going forward. This policy could cause developers to rush to get ahead of its implementation, causing a near-term spike in industrial construction.

A strong third quarter helped send **commercial** permit values to a record $2.7 billion through September. As has been the story for some time, construction in GTA's commercial market is strong, as the downtown office market is in the midst of an office development cycle.

Permit Values - July to September - 2013

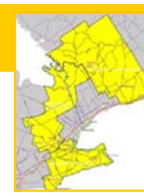
Sector	Value (in 000s)	% Change
Industrial	$696,546	▲ 24.0%
Commercial	$2,653,483	▲ 13.7%
Institutional	$967,095	▼ -32.7%
Total ICI	$4,317,124	▼ -0.3%

Source: StatsCan

Though Toronto's institutional market has been strong – constant dollar institutional investment was at its highest level ever in 2012 – all good things must come to an end. **Institutional** permit values dropped significantly last year and have continued that trend through September. This suggests that the institutional market will continue to moderate this year and perhaps in 2014 as well.

ONTARIO REGIONAL PERMITS UPDATE

CENTRAL ONTARIO



Permit Values - July to September - 2013		
Sector	Value (in 000s)	% Change
Industrial	$336,095	▼ -36.3%
Commercial	$889,746	▲ 12.0%
Institutional	$490,149	▲ 9.4%
Total ICI	$1,715,990	▼ -3.1%

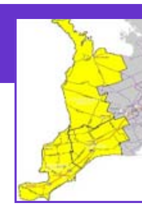
Source: StatsCan

Industrial building intentions were significantly lower through September (versus Jan-Sept 2012). Hamilton-Niagara drove the decline, as the Maple Leaf Foods processing plant project fell out of the permits data in 2013 after boosting it significantly in 2012. Permit issuance remained subdued Muskoka-Kawarthas. Building intentions were also weak in Kitchener-Waterloo-Barrie (KWB).

The Hamilton-Niagara region propelled **commercial** permits higher through September (compared to Jan-Sept 2012), thanks to permitting for a new office building as well as work at Ivor-Wynne Stadium. The value of permits was modest in KWB as commercial activity remains subdued despite projects like the Waterloo Corporate Campus. In Muskoka-Kawarthas, permit issuance was the lowest it's been since 2005.

The value of **institutional** permits increased through September, but was below the long-term average as the region continues to unwind from the huge stimulus-related gains in 2010-2011. Hamilton-Niagara drove the increase, thanks to upcoming work at McMaster University. Permit issuance inched higher in KWB and fell in Muskoka-Kawarthas.

SOUTHWESTERN ONTARIO



Permit Values - July to September - 2013		
Sector	Value (in 000s)	% Change
Industrial	$361,304	▲ 7.9%
Commercial	$310,882	▼ -28.7%
Institutional	$189,886	▼ -38.5%
Total ICI	$862,072	▼ -20.2%

Source: StatsCan

Industrial permit values increased through September (versus Jan-Sept 2012), the 5th straight such increase. The gain was driven primarily by London, where permits reached their highest nine-month total since 2007. CBRE (a commercial real estate firm) notes that there is over 300K sq-ft of industrial construction underway in London. Permits continue to grind higher in Windsor-Sarnia, and were at a lower, but still-strong value in Stratford-Bruce.

Commercial building permit values were at a very low level through September, weighed on by all three sub-regions. This suggests lower commercial construction going forward. The biggest decline was in Windsor-Sarnia, where permit values plummeted after a strong 2012. Permit values were modestly lower but decent in both London and Statford-Bruce.

Institutional permit values were lower over Jan-Sept (versus the same period in 2012), dampened by both Windsor-Sarnia and London. Permit values were extremely low in Windsor-Sarnia, despite upcoming new construction at the University of Windsor and major renovations to a high school in Sarnia. In London, building intentions were at their lowest level since 2006. Permits increased in Stratford-Bruce.

TOP CONSTRUCTION PROJECTS STARTED - JULY TO SEPTEMBER 2013

PROJECT	CITY	VALUE
Highway 11 Roadwork and Bridge Replacement	Thunder Bay District	$106M
Lansdowne Live, Retail and Services	Ottawa	$60M
Point Pleasant Water Treatment Plant	Kingston	$53M
Niagara Regional Police Services Headquarters	Niagara Falls	$50M
Kingston Gardiner Unity Road Solar Project	Kingston	$40M
Bloor Go Station Alterations	Toronto	$38M
Okikendawt Generating Station Hydro Project	Dokis	$20M
Seed Conditioning Plant Expansion	Chatham	$18M
Darlington Nuclear Station Unit #2 Outage	Tiverton	$16M
Automotive Stamping Manufacturing Plant Expansion	Simcoe	$15M

Source: Reed Construction Data, Industrial Info Resources

ECONOMIC UPDATE:
Muddling Along

In the second quarter of the year, Ontario's economy advanced at a brisk 2.4% (annualized) pace – the fastest such increase since 2011. The gain was bolstered by solid consumer spending and net exports. Although data for the third quarter is not readily at hand, solid Q3 U.S. GDP data suggests that July-Sept was relatively perky for the province as well.

However, even assuming a strong third quarter, Ontario's economy will be hard pressed to match last year's 1.5% gain and could register its slowest annual growth rate since the recession when the final numbers for 2013 trickle in. In fact, since the recession, Ontario's economy has been a laggard. Case in point, the province's real GDP was only about 9% higher than its recession bottom in the second quarter of 2013. This is slower growth than what the country as a whole has managed, which is unsurprising. What is surprising (perhaps downright shocking) is that even the much-maligned U.S. economy has managed to perform slightly better by this measure.

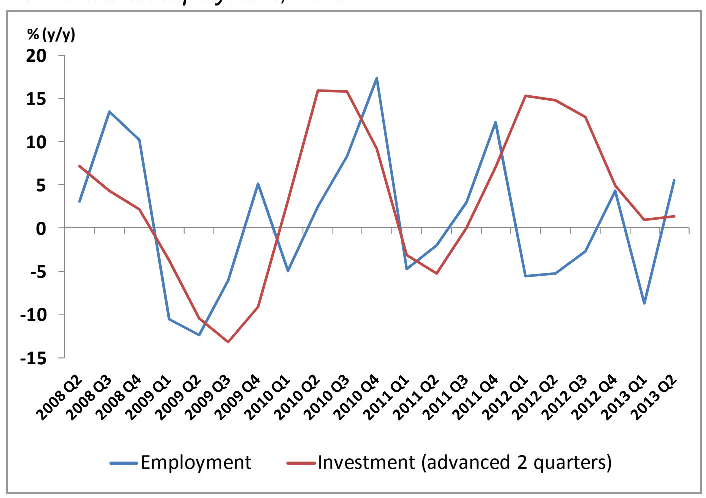
It's not all bad news however, as most forecasters are expecting 2014 to be a better year for Ontario. Even though forecasts aren't always right, there are compelling reasons to think that next year will indeed be improved. The most important is the anticipation that growth south of the border is going to pick up. While there is uncertainty around this prognostication too, October's U.S. jobs report helped strengthen optimistic expectations, as hiring jumped south of the border. What made this particular report so special is that it covered the U.S. federal government shutdown period. The data suggested that the labour market was able to shrug off the effects of the political bickering which was so elevated at the time. This result is heartening as there appears to be another U.S. government showdown set for early next year.

Ontario's Construction Industry

We saw from an earlier section of the newsletter that non-residential building construction was lower so far in 2013, thanks to a sharply declining institutional market. Expanding our scope a little, we see that the entire non-residential construction sector (i.e. ICI and engineering construction) has been slower this year. Data from the Ontario Ministry of Finance shows that investment in non-residential structures fell by an average of 1.6% through the first 2 quarters of 2013. Meanwhile, residential investment has only grown very modestly. Overall, it appears that construction has been stagnant.

What's curious is that despite weakness in investment, Ontario's construction labour market has been solid, with employment 23% higher than the beginning of the year as of October. Although there can be exceptions (like last year) employment generally tends to follow investment trends with a lag, so it will be interesting to see if the strength in employment holds up.

Figure 1: Non-residential and Residential Investment and Construction Employment, Ontario



Source: Statistics Canada, OCS calculations

Bottom Line

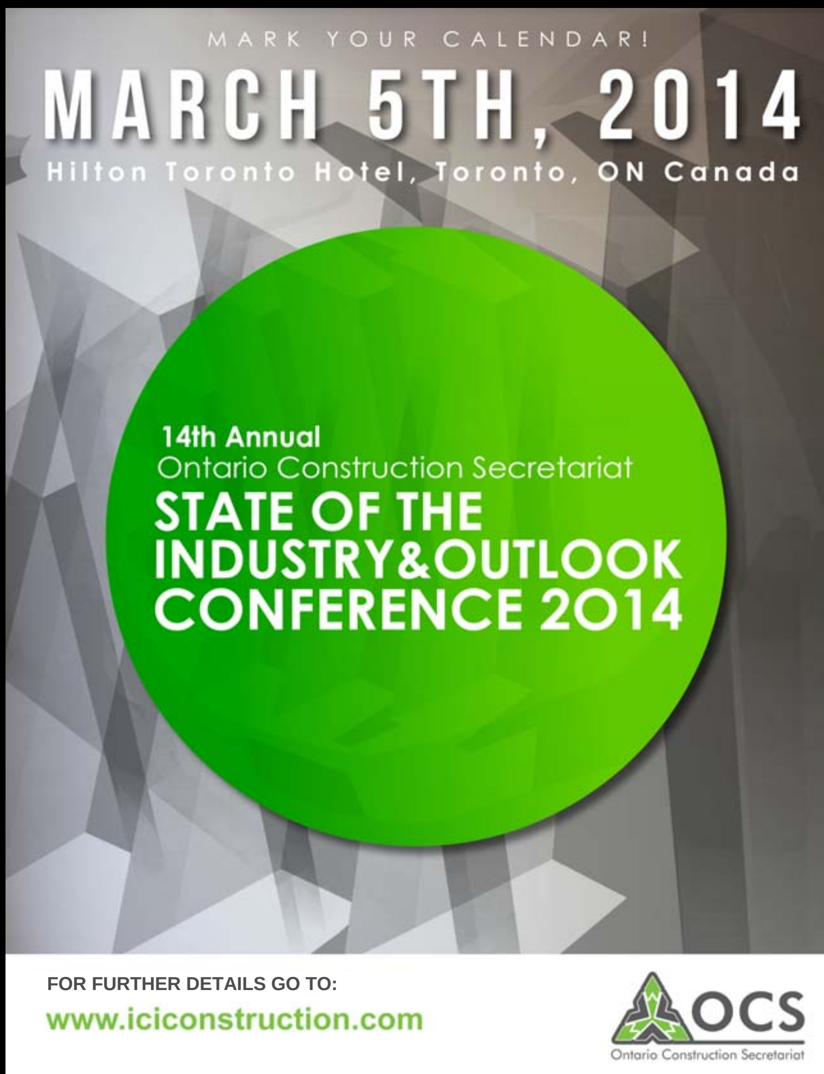
Despite picking up in the 2nd quarter of 2013, growth in Ontario's economy has generally been slow. Fortunately, prospects for 2014 look brighter given a better outlook for the U.S.

Investment trends have generally been weak in 2013 in all sectors of construction. Curiously, employment growth has been strong and the risk is that this mismatch corrects itself going forward.

UPCOMING EVENTS

FOR MORE INFORMATION AND OTHER UPCOMING CONFERENCES & INDUSTY EVENTS: **www.iciconstruction.com**

MARK THESE IMPORTANT DATES IN YOUR CALENDAR FOR 2014



FOR INFORMATION ON THIS EVENT OR OTHERS:
Email: info@iciconstruction.com
www.iciconstruction.com

2014 OCS EVENT CALENDAR

MAR 5 2014 STATE OF THE INDUSTRY & OUTLOOK CONFERENCE

COLLECTIVE BARGAINING WORKSHOP
Hilton Toronto Hotel
Toronto, Ontario

APR 8-10 FUTURE BUILDING 2014
Mainway Recreation Centre
Burlington, Ontario

FOR MORE INFO ON THESE EVENTS EMAIL US AT: INFO@ICICONSTRUCTION.COM

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