

EYE ON ICI NEWSLETTER



EVENT RECAP

2015 OCS Tripartite Conference - Westin Trillium House - Blue Mountain, Ontario

Exploring Topics in Labour Relations: The OCS' 6th Biennial Tripartite Conference

On September 23rd – 25th, the OCS hosted its 6th biennial Tripartite Conference at the Westin Trillium House in beautiful Blue Mountain. As the ICI sector heads into bargaining, the conference centred on labour relations and building and sustaining effective collaborative work relationships with all construction stakeholders.

About one-hundred participants from the owner, contractor, labour and government communities attended the event and were treated to a packed agenda full of value-added sessions. OCS was pleased to support De Novo through the generous donations of attendees.



Keynote Speaker Dan Shapiro - 2015 Tripartite Conference

On day 1, the mayor of Collingwood brought greetings to open the event. After which, participants had the opportunity to hear a captivating presentation by Daniel Shapiro – an expert on negotiations with extensive international experience including training Serbian members of parliament, Mideast negotiators and senior U.S. officials.

In his presentation Dr. Shapiro explained, using powerful real-life examples, that emotions play a key role in the

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negotiation process and detailed the five core concepts that generate emotions including:

Appreciation – ability to appreciate the other side's situation. This sets up for a win/win result in negotiations.

Autonomy – freedom to make decisions without imposition from others, both internal and / or external. It is cultivated through extensive consultation before decision-making.

Affiliation – the emotional connection between you and another.

Status – your standing in relation to others.

Role – the various roles we can choose to apply to negotiations. It may be appropriate to re-shape your role as well as the other party's role in order to foster the ability to jointly solve the shared problem.

In sum, he noted that it is valuable to use these 5 core concepts with purpose: 1) as a lens: to understand the other parties' emotions; and 2) as a lever: to stimulate helpful emotions in others and yourself.

After Dr. Shapiro's presentation, participants had a chance to share ideas through two distinct caucus sessions, one with owners and government representatives and the other with labour and management. Owners and the government focused on the benefits of tripartite collaboration and workforce sustainability and apprenticeship. The labour and management group focused on jurisdictional disputes and protocols for no strike / no lockout. Delegates at the conference supported continued OCS efforts in supporting EBA labour relations, continued tripartite collaboration and ongoing efforts to support apprenticeship.



OCS Director of Research Katherine Jacobs presents to conference attendees

Next on the docket were a series of presentations with Katherine Jacobs, OCS Director of Research, presenting an update on the ground-breaking OCS longitudinal apprenticeship study. Delegates were asked to encourage their apprentices to participate in the study. Attendees then heard from Vince Rodo – the TTC's Chief Financial and Administrative Officer – who shared the TTC's experiences in collaborating with the industry to improve its procurement processes.

To cap off day 1, the Hon. Reza Moridi - Ontario's Minister of Training, Colleges and Universities and Minister of Research and Innovation - addressed conference participants on building Ontario up through infrastructure investments and apprenticeship support.

On Day 2, the OCS unveiled the updated Collective Bargaining Toolkit and Collective Agreements Database. These tools are meant to assist the bargaining process. Delegates strongly supported the development of these tools.

The Boilermaker Total Health program, which helps



(L to R) Sean Strickland (OCS Chief Executive Officer), Keynote Speaker Dan Shapiro, and OCS Board Member Mike Yorke (of the Carpenters' District Council of Ontario)



Ontario Minister of Training, Colleges and Universities and Minister of Research and Innovation, the Honorable Reza Moridi

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participating members improve their health through both on the job and off the job strategies, was presented. Subsequently, The Work Ready Aboriginal People (WRAP) project and video was presented. This program provides Aboriginal youth with the opportunity to gain exposure to a number of trades and develop appropriate skills to start an apprenticeship.

Finally, OCS was pleased to have four major owners provide updates on their key project activity. Presentations included:

TransCanada's Energy East Pipeline – The project is expected to generate 14,000 jobs during the development and construction of the pipeline.

Union Gas – Over \$1 billion in projects planned between 2015-2017.

OPG's Darlington Nuclear Refurbishment – The project is on track to start in 2016.

Bruce Power's Nuclear Refurbishment – Plans for the refurbishment of six units were presented.

Overall, the conference contributed to fostering a culture of cooperation and collaboration amongst construction industry stakeholders.

OCS



Four major owners presented updates on their key project activity. Presentations were heard from TransCanada, Union Gas, Ontario Power Generation, and Bruce Power



(L to R) Sean Strickland - OCS Chief Executive Officer, Larry Brokenshire - Aecon Industrial, James St. John - Central Ontario Building Trades



Keynote Speaker Dan Shapiro's engaging presentation to attendees at the 2015 Tripartite Conference

All photography property of Ontario Construction Secretariat for the 2015 Tripartite Conference



NORTHERN ONTARIO

Through September, **industrial** permit issuance totalled a solid \$82 million, up from the same period in 2014. The gain was driven by Northeastern Ontario, which accounted for 92% of the value of permits issued. In the Northeast, major projects include the Vale AER plant and the New Post Creek dam.

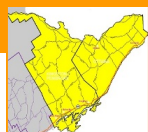
A modest \$125 million worth of **commercial** permits were issued through September – the lowest level since 2007. This portends subdued commercial construction spending going forward. Declines were registered in both Northeastern and Northwestern Ontario, despite a good level of commercial alteration work in Thunder Bay.

Early weakness led **institutional** permit issuance to its lowest level since 2005, through September. A significant gain in Northwestern Ontario – spurred by permitting for a large addition to St Joseph's Hospital in Thunder Bay – was offset by a drop in Northeastern Ontario, where permitting sunk to its smallest amount since 2001.

Permit Values - July to September - 2015

Sector	Value (in 000s)	% Change
Industrial	\$82,252	▲ 11.4%
Commercial	\$124,706	▼ -35.4%
Institutional	\$108,358	▼ -10.4%
Total ICI	\$315,316	▼ -18.7%

Source: StatsCan



EASTERN ONTARIO

Through September, a decent \$142 million worth of **industrial** permits were issued as a modest first quarter was countered by stronger permit issuance in the second and third quarters. Permits were higher in Ottawa though there was a strong gain in Kingston-Pembroke. Municipal data suggests that it was permitting for a litany of smaller projects which produced the relatively solid result, as opposed to any major projects.

Through September, **commercial** permit issuance was at its lowest such level since the recession, consistent with weakening labour markets - employment is down year-to-date in the region - which is likely linked to fiscal austerity.

Declining building intentions were observed in both Ottawa (in line with sky-high office vacancy rates) and Kingston-Pembroke.

Though down from a very elevated 2014 – which was given a huge lift by permitting for the Providence Care hospital – the amount of **institutional** permits issued was still healthy for the region. The level of issuance was strong in both Ottawa and Kingston-Pembroke. Building intentions were boosted by permitting for two new schools in Ottawa as well as an addition to a long-term care facility in Kingston.

Permit Values - July to September - 2015

Sector	Value (in 000s)	% Change
Industrial	\$142,355	▲ 57.5%
Commercial	\$592,642	▼ -15.2%
Institutional	\$298,614	▼ -43.6%
Total ICI	\$1,033,611	▼ -21.7%

Source: StatsCan



GTA ONTARIO

Industrial permit issuance reached its highest level since 2010 through September of this year. This is consistent with declining industrial availability rates, increased exports and and above-average manufacturing capacity utilization. Industry analysts observe that the GTA market is being powered by industrial warehouse construction in the west-end and it's notable that industrial investment was also up 25% year-to-date.

Commercial building intentions dipped slightly, through September, from their massive 2014 level but still remained very solid. This suggests that commercial investment will continue to be firm in coming quarters. Going forward, analysts note that as firms in the downtown core relocate into new office buildings currently under construction, older buildings will likely be upgraded in order to remain competitive, creating new construction demand.

Institutional permit issuance clocked in at its highest level since 2011 through September, thanks to permitting for medical buildings. The increase in institutional permit issuance forecasts higher investment going forward, thanks to projects like the Milton District Hospital.

Permit Values - July to September - 2015

Sector	Value (in 000s)	% Change
Industrial	\$808,282	▲ 54.6%
Commercial	\$3,029,105	▼ -3.6%
Institutional	\$1,437,178	▲ 49.3%
Total ICI	\$5,274,565	▲ 14.0%

Source: StatsCan

ONTARIO REGIONAL PERMITS UPDATE

CENTRAL ONTARIO



Permit Values - July to September - 2015

Sector	Value (in 000s)	% Change
Industrial	\$538,465	▲ 9.5%
Commercial	\$664,389	▼ -11.38%
Institutional	\$583,422	▼ -8.0%
Total ICI	\$1,786,276	▼ -4.7%

Source: StatsCan

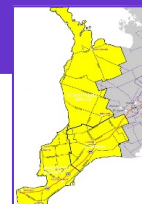
In the first nine months of the year, the value of **industrial** building permits increased to their highest level since at least 1998 (the first period of data), consistent with increased manufacturing sales and exports. This is encouraging as it strongly suggests that industrial investment will be higher over the coming quarters. The gain was driven by Kitchener-Waterloo-Barrie (KWB), though permitting was higher in Hamilton-Niagara as well.

Through September, **commercial** building intentions dropped to their lowest level since 2005. Permits were down in KWB – despite Waterloo Region serving as a very attractive location for technology companies – and Hamilton-

Niagara, as it continued to unwind from a Pan-Am related boost. Permits were lower in Muskoka-Kawarthas as well.

Three-quarters through the year, **institutional** building intentions were 8% lower than their year-ago level - coming in at a below-average \$583 million. An increase in Hamilton-Niagara was offset by drops in KWB and Muskoka-Kawarthas. Project data shows only one major institutional project (Groves Memorial Community Hospital) in the pipeline for the region.

SOUTHWESTERN ONTARIO



Permit Values - July to September - 2015

Sector	Value (in 000s)	% Change
Industrial	\$397,589	▲ 1.0%
Commercial	\$279,922	▼ -9.5%
Institutional	\$286,981	▲ 42.8%
Total ICI	\$964,492	▲ 6.7%

Source: StatsCan

From January-September, **industrial** permit issuance totalled a very robust \$398 million, the highest figure since 2007. Such is consistent with higher manufacturing sales and exports, and was driven by permitting in London and Windsor-Sarnia, though it fell in Stratford-Bruce.

Commercial permit issuance came in at a mere \$280 million through September, the weakest level since 2003. Declining building intentions in Windsor-Sarnia and Stratford-Bruce offset an increase in London. Windsor-Sarnia's commercial market has been in long-term decline, joined recently by

London, despite steady employment growth in the latter. Commercial permits have been upward trending in Stratford-Bruce over the long-term.

The value of **institutional** permits trended higher over Jan-Sept versus the same period a year ago, though it was below average. Windsor-Sarnia was the culprit behind the softness, as permit issuance was at a normal level in London and Stratford-Bruce. Looking ahead, work at the St. Thomas Elgin General Hospital is the main project on the books.

TOP CONSTRUCTION PROJECTS STARTED - JULY TO SEPTEMBER 2015

PROJECT	CITY	VALUE
CAMI Plant Expansion	Ingersoll	\$190M
East Rail Maintenance Facility	Whitby	\$150M
Fedex Distribution Centre	Vaughan	\$128M
Britannia Road Wastewater Pump Station	Milton	\$120M
Clarington Transformer Station	Clarington	\$120M
Government Conference Centre	Ottawa	\$91M
Hamilton Steel Works #2, #3 Coke Plant Reconstruction	Hamilton	\$87M
Long Term Waste Management Facility - Port Ganby	Clarington	\$86M
Industrial Building	Milton	\$82M
Gateway Meadowvale Office Building - Phase One	Mississauga	\$76M

Source: CMD Group, Industrial Info Resources

MANUFACTURING: THE SLOW GRIND HIGHER

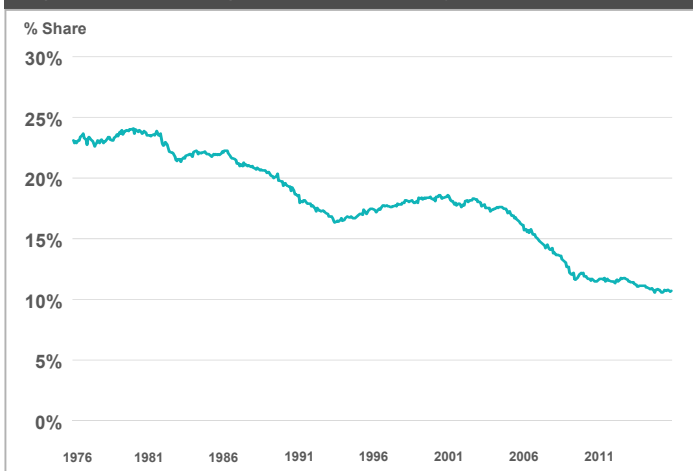


Despite a plethora of bumps and bruises, Ontario's manufacturing sector is still a major cog in the province's economy. Last year, the sector accounted for 12% of economic output - second only to the real estate, rental and leasing industry - and 10% of the jobs in the province. Furthermore, the sector is still an important source of construction opportunities - permitting for factories and plants has accounted for nearly 40% of industrial building intentions issued this year. As such, it remains important for construction stakeholders to monitor this sector. This article presents an historical perspective on Ontario's manufacturing industry, as well as an update of current trends.

Long-term Trends in Manufacturing

It's no secret that manufacturing output and employment has eroded over the long-term. For instance, industry-based GDP data shows that Ontario's economy has expanded by 50% since 1997, while the manufacturing sector has shown no growth over the same time frame. Labour market trends have been similarly bleak, as manufacturing's share in overall employment has fallen from 23% in 1976 to approximately half of that share in 2015 (see *Figure 1*). Notably, the long-term downward trend in employment was arrested from the mid-1990's to 2002, owing to a substantial drop in the value of the Canadian dollar, which helped drive a competitive advantage for firms in the province. The downward trend resumed as the Canadian dollar subsequently appreciated in lock-step with higher oil prices.

Figure 1: Manufacturing's Share of Total Employment - Ontario



Source: Statistics Canada, OCS Calculations

The long-term, structural decline in manufacturing owes to a shift towards more service-based output and employment in Ontario and advanced economies around the world more broadly, as well as the movement of lower value-added manufacturing processes to low-cost jurisdictions. In addition, technological change has made manufacturing less labour intensive, putting further downward pressure on employment.

“Since the 2009 recession, manufacturing sales have expanded 44%, representing a fairly solid increase ”

Current Trends in Manufacturing

In order to assess current trends, manufacturing sales are used, as they are a clear indicator of the sector's health and they provide a more timely measure of industry activity than GDP. Since the 2009 recession, manufacturing sales have expanded 44%, representing a fairly solid increase (in comparison, retail sales have grown by under 30% since the downturn ended) and have advanced at a decent 3.7% pace, on average, over the past 2 years. Through September of this year, sales have totalled \$24 billion, the highest such figure since 2007. Not coincidentally, exports are up 9.7% through September, supported by decent U.S. economic growth.

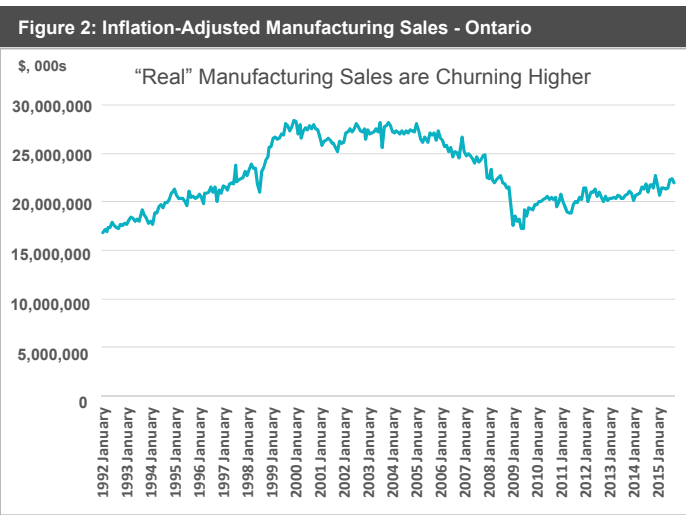
The automotive sector has by and large been responsible for the growth in manufacturing sales since the end of the recession as sales of manufactured “transportation equipment” (i.e. primarily motor vehicles and motor vehicles parts) have surged 113% higher since mid-2009. This is extremely important as sales in this sector account for 35% of overall revenue. The automotive industry has been very strong, with record consumer demand both north and south of the border, fuelled by low oil prices and interest rates, easier lending conditions, healthy labour markets, attractive incentives and the need to

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replace an aging vehicle stock. Manufacturers are responding to this increased demand by ramping up production, though they have bumped up against capacity constraints (over 90% capacity utilization in the sector – well above the long-term average), which has stimulated investment in the industry and could lead to further expenditures going forward, if capacity utilization remains elevated. Outside of the automotive sector, sales have also been boosted by manufactured primary metals and food. These trends are consistent with significantly higher exports in these industries, pointing to increased U.S. demand for these goods.

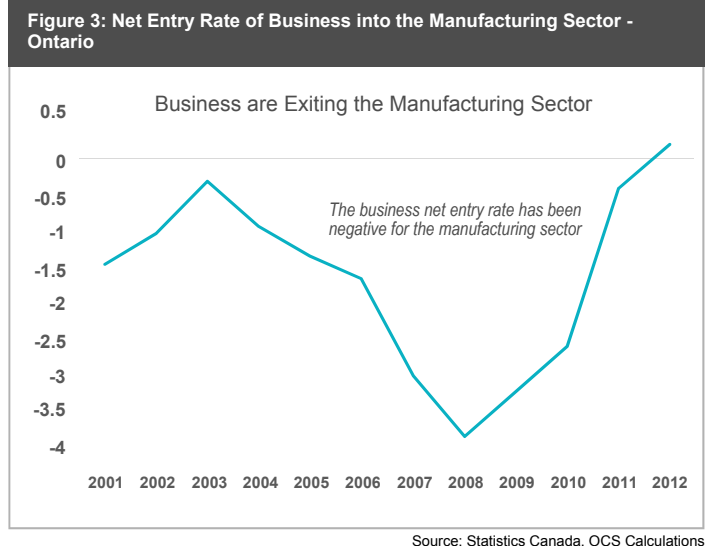
While the industry has been improving, there is a caveat. Manufacturing sales figures are not adjusted for, and are thus lifted by, inflation. To get a truer sense of the industry's performance, we have to account for inflation. When we do so, we see that sales are only 27% higher than their recession low and have yet to surpass their pre-recession levels. In this sense, it appears that sales are only slowly grinding higher (see Figure 2).



Despite a 20% depreciation in the value of the Canadian dollar since July 2014, the improvement in the manufacturing sector is lacking vigour. A few factors can help explain this discrepancy. Firstly, exchange rate depreciations manifest in the economy with a lag, meaning it may take more time for the full impact to be felt. Secondly, not all manufacturing sectors are exchange

“When we account for inflation we see that sales have yet to surpass their pre-recession levels”

rate sensitive, according to Bank of Canada analysis, so the depreciation wouldn't stimulate them. Thirdly, the prior run-up in the Canadian dollar to near parity levels has caused prior customers to leave the sector, looking for lower cost alternatives, and it would take time to win these firms back. Finally, manufacturing companies themselves have been leaving the industry, with this trend amplified during the Great Recession of 2008-2009, as Bank of Canada Governor Stephen Poloz has noted. Figure 3 shows the net entry rate for firms in the manufacturing sector (i.e. % of firms entering the sector - % of firms exiting the sector). As can be seen, the net entry rate has been negative over the long-term, and particularly so during the recession, though encouragingly it has trended higher more recently. Lost manufacturing firms represent diminished capacity in the sector.





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Manufacturing Going Forward

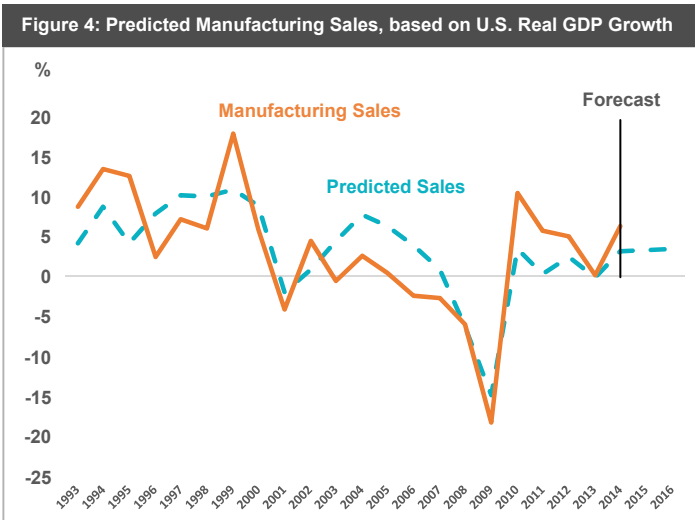
For next year, a reasonable estimate for manufacturing sales can be formulated, given expected U.S. economic growth. The anticipated growth in U.S. GDP next year would point to a trend-like increase in manufacturing sales of around 3%, meaning that the sector will continue its slow and steady improvement.

Over the longer-term, analysts note that against a backdrop of increasing specialization, Ontario companies will have to focus on using innovative technologies – like 3D printing and advanced robotics – and highly skilled workers to continue to produce high-valued added manufacturing products and will have to focus on improving market share in countries other than the United States.

Concluding Remarks

It's a well-worn story that the manufacturing industry has declined over the long-term – save for an exchange rate assisted period between the mid-90s and 2002. The Great Recession was particularly harsh on the sector and the recovery period has been perhaps a little slower than hoped, as reflected by the slow-upward grind in inflation-adjusted manufacturing sales. There are a variety of reasons for this moderate pace of expansion, with a main one being diminished capacity in the sector as firms have left the market, on balance.

Looking ahead, 2016 will likely be another year of moderate growth for manufacturing sales, though analysts note that over the long-term, innovative technologies, a highly-skilled workforce and increased access to markets other than the U.S. hold the key for stronger growth.



Rishi Sondhi | OCS

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MARCH 8, 2016

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16th Annual
Ontario Construction Secretariat
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2016 OCS EVENT CALENDAR

MARCH 8 STATE OF THE INDUSTRY
& OUTLOOK CONFERENCE
[Hilton Toronto Hotel](#)
Toronto, Ontario

APRIL 19-21 FUTURE BUILDING 2016
[Western Fair Ground - Agriplex](#)
London, Ontario
www.futurebuilding.ca

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