

Ontario Construction Secretariat

2013 SURVEY OF ONTARIO'S ICI CONSTRUCTION INDUSTRY

MARCH 2013



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ABOUT THE SURVEY

In November and December 2012, Ipsos-Reid conducted a survey of senior executives from Ontario's non-residential construction industry. A total of 550 telephone (CATI) interviews were conducted with general and trade contractors in Ontario. The margin of error for a sample of 550 interviews is 4.2%, nineteen times out of twenty. The margin of error for sub-sections (ie. region) of the sample is larger, depending on the sample size. The final data was weighted according to the number of trade contractor establishments working in the ICI sector per economic region within the province of Ontario according to the latest Statistics Canada data.

The survey was designed to capture contractors' views on the short-term outlook and highlight key factors influencing their views. Conducted annually, this survey produces a broad-based summary of business opinion regarding construction activity, investment and labour market conditions. This data is particularly valuable in identifying turning points in the business cycle.

About OCS

The Ontario Construction Secretariat (OCS) was established in 1993 under provincial legislation to represent the collective interests of the organized building trades unions and their signatory contractors in the Industrial, Commercial and Institutional (ICI) construction industry. The OCS works, with our labour-management-government partners, to enhance Ontario's unionized ICI construction industry by developing relationships, facilitating dialogue, providing value-added research, disseminating information and promoting the value of unionized ICI construction.

Visit www.iciconstruction.com

About Ipsos-Reid

Ipsos Reid is Canada's market intelligence leader and the country's foremost provider of public opinion research. With operations in eight cities, Ipsos Reid employs more than 500 research professionals and support staff in Canada. The company has the biggest network of telephone call centres in Canada, as well as the largest pre-recruited household and on-line panels. Ipsos Reid's Canadian marketing research, advertising, loyalty, media and public affairs practices are staffed with seasoned research consultants with extensive industry-specific backgrounds, offering the premier suite of research vehicles in Canada - including the Ipsos Trend Report Canada Online, the leading source of public opinion in the country.

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SURVEY HIGHLIGHTS

Contractors are confident about their business prospects for 2013, according to the *OCS Survey of Ontario's ICI Construction Industry*

The annual Ontario Construction Secretariat (OCS) survey of industrial, commercial and institutional (ICI) construction contractors across Ontario reveals that the business outlook for 2013 remains positive and is more bullish than 2012. The survey of 550 non-residential ICI contractors conducted by Ipsos-Reid shows that 37% of contractors expect to conduct more business in 2013, a larger percentage than last year's survey and much higher than the 13% who expect to conduct less business.

This dynamic is captured by the OCS Construction Barometer. Measured on a scale of 0 to 100, a reading above 50 on the Barometer indicates that contractors who expect to conduct more business this year outnumber those expecting to conduct less business. For 2013, the index registered a reading of 60 – firmly in positive territory and up 3 points from 2012.



Anticipation of new business opportunities and perceptions of access to credit play a key role in shaping business expectations. Of those contractors who expect to conduct more work in 2013, slightly more are expecting new business opportunities, compared to 2012. Contractors are also anticipating easier access to financing and credit this year.

For the first time in the history of the survey, unionized contractors are more optimistic about business prospects than their non-unionized counterparts, thanks to buoyant expectations for the commercial sector. Work forecasts are strongest for contractors in the GTA, consistent with their upbeat assessment of their economic situation. Meanwhile, the largest increase in the Construction Barometer occurred in Southwestern Ontario. On the opposite end of the spectrum, contractors were pessimistic, on net, in Eastern Ontario.

Increased optimism about 2013 has translated into positive hiring expectations as 38% of contractors expect to expand their workforces, compared to only 9% who plan on scaling them back. Meanwhile, a larger-than-average share of contractors expect to deal with cost inflation for a wide variety of inputs this year.

Labour markets are expected to tighten further in 2013. This perception continues to be most prevalent in Eastern and Northern Ontario. Conversely, contractors in the GTA and Central Ontario were the least likely to expect labour markets to tighten.

Despite 64% of contractors reporting experiencing a shortage in skilled workers, fewer firms are committed to increasing apprenticeship training. One-in-five respondents reported expecting to increase investment in apprenticeship this year, down slightly from 23% in 2011. Finally, the majority of contractors report being in good financial shape, though their balance sheets may not be in pristine condition as the percentage of firms claiming to be in a "very strong" financial position has trended downwards.



OCS CONSTRUCTION BAROMETER

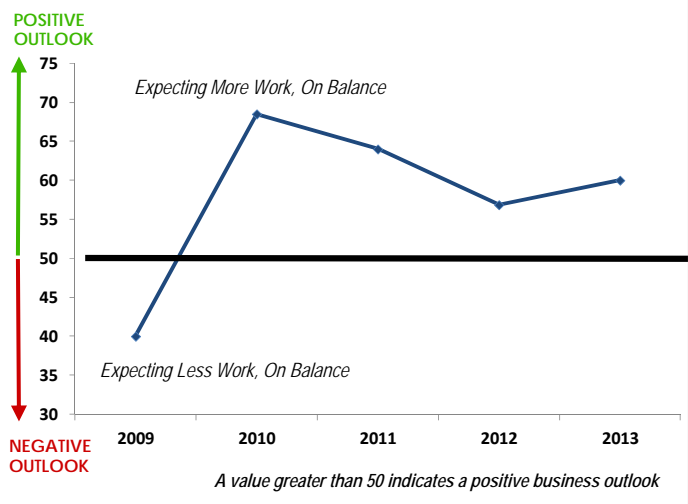
Increased Optimism for 2013

The OCS *Construction Barometer* reveals contractors' perceptions of business conditions for the next 12 months. Measured on a scale of 0 to 100, a reading above 50 indicates that the amount of contractors who expect to conduct more business is greater than those expecting to conduct less business. The wider the gap above the 50 breakeven level, the more heavily expectations are positively skewed.

The *2013 Construction Barometer* clocked in at 60, suggesting that contractors expect to conduct more work – on balance – this year. The value of the barometer ticked up 3 points from last year's survey, pointing to increased investment. In the short history of the Barometer, it has been able to correctly predict the direction of ICI investment 75% percent of the time.



OCS Construction Barometer



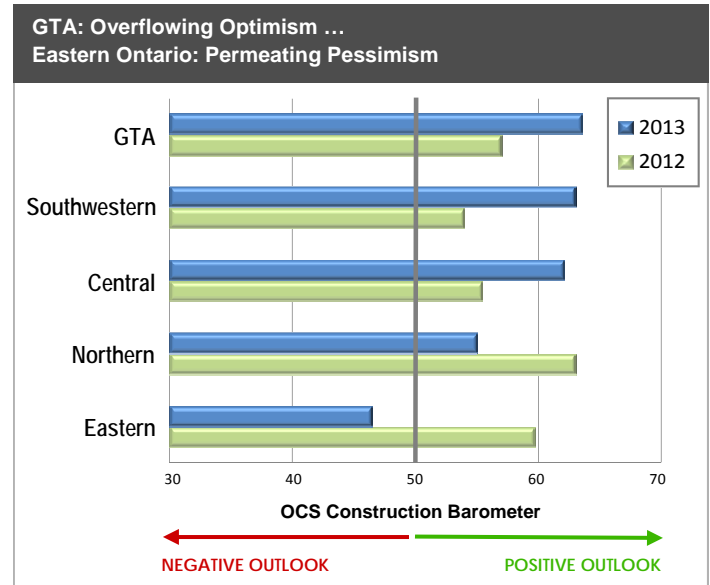
THE REGIONS

The GTA: Overflowing Optimism, Eastern Ontario: Permeating Pessimism

The value of the Construction Barometer is the highest in the GTA, indicating that contractors in the region are the most confident about work prospects. This is consistent with expectations for robust economic and population growth in the region. The biggest gain in the Barometer occurred in Southwestern Ontario, largely thanks to increased optimism in Windsor-Sarnia where work expectations perked up considerably in the commercial and industrial sectors. It's important to note that conditions have generally been the most depressed in Southwestern Ontario. As such, the increase in the barometer portends a better year for Southwestern Ontario, but not necessarily a very busy year.

The Barometer remained above 50 in Northern Ontario though its value dropped considerably from 2012 as contractors in Northeastern Ontario have significantly downgraded their outlook. The value of the Barometer was above the provincial average for Central Ontario, with contractors in Hamilton-Niagara, Kitchener-Waterloo-Barrie and Muskoka-Kawarths all exhibiting increased optimism.

The mood was relatively gloomy in Eastern Ontario, as the number of contractors expecting to conduct less work outnumbered those expecting to conduct more. Pessimism was concentrated the Ottawa-Carleton area and was partly due to concerns about government austerity, given declining optimism about the institutional sector within the sub-region. However, concern about the industrial sector was also a source of downgraded expectations in Eastern Ontario.



ICI SECTOR OUTLOOK

Expectations Positive for All ICI Sectors

Work expectations for the industrial sector swung back into positive territory in this year's survey after being negative, on net, in 2012. The largest uptick in industrial expectations occurred in Southwestern Ontario, where firms anticipate performing more maintenance and shutdown work at factories and plants. This is consistent with other sources which indicate that a significant increase in shutdown work is likely for Sarnia this year. There were also large increases in Central Ontario and Toronto, specifically for mining and agricultural buildings in the former and warehouses in the latter. In the North, expectations for the industrial sector remained positive

Contractors' Expectations for 2013 by Sector

Sector	Conduct More Work	Conduct Less Work	Net Difference	Trend in Net Difference
Commercial	43%	22%	+21	↑
Industrial	21%	16%	+5	↑
Institutional	20%	11%	+9	↑

and were relatively unchanged from last year's survey. Non-unionized contractors were more upbeat than their union counterparts regarding prospects for the industrial sector.

A full 43% of contractors expect to conduct more work in the commercial sector in 2013, up 11 percentage points from 2012. Contractors in the GTA and Southwestern Ontario were the most upbeat about the commercial sector. Within the GTA, optimism for office building construction was high – consistent with below-average office vacancy rates in the region. In Southwestern Ontario, confidence was boosted by prospects for new recreation facilities, possibly related to the new aquatic centre in Windsor. Confidence about commercial sector prospects was significantly downgraded in Northern Ontario.

Contractors were upbeat about the institutional sector. This is a surprising result given an environment of fiscal austerity and declining institutional building permit issuance. Optimism is concentrated in the education sector as well as retirement residences and social housing. Contractors in Central Ontario and the GTA are the most optimistic about the institutional sector while those in Southwestern Ontario are the least confident.

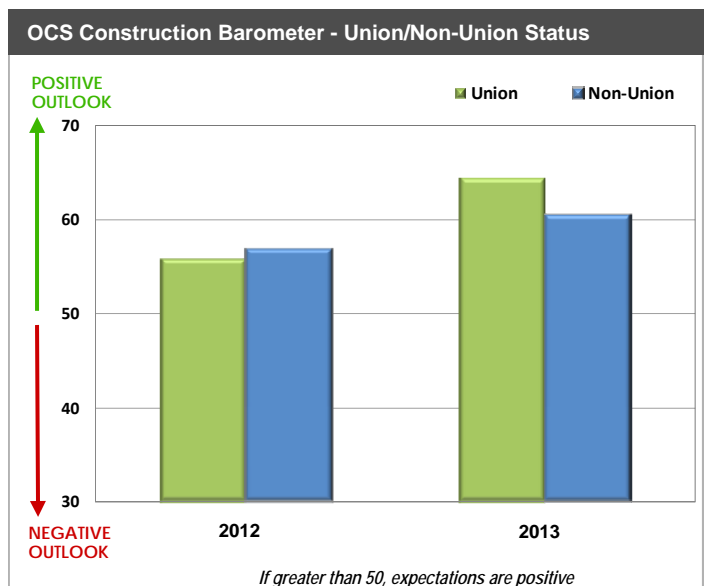


"A full 43% of contractors expect to conduct more work in the commercial sector in 2013, up 11 percentage points from 2012"

UNION STATUS

Unionized Contractors More Optimistic

The Construction Barometer was well above the historical average for unionized contractors - pointing to heightened expectations. Additionally, for the first time in the history of the survey, unionized companies were more optimistic than their non-union counterparts. Unionized firms were the most upbeat about the commercial sector - particularly for work related to office buildings. Traditionally, large office building construction has been a good source of work for unionized companies. Overall, work expectations were positive for both union and non-union firms.



TRENDS RELATED TO CONTRACTORS' EXPECTATIONS

There are a number of factors that contractors consider when forming their outlook. Key influences include their perceptions of new business opportunities, access to financing and credit and the availability of labour, among other variables.

NEW BUSINESS OPPORTUNITIES

TRACKING



Contractors' perceptions of the availability of new business opportunities are a major driver of their perception of a positive or negative outlook. Of those contractors expecting to conduct more business in 2013, 69% of them anticipated doing so because of more new business opportunities, up slightly from last year's survey. Firms in the GTA and Southwestern Ontario were most likely to report anticipating more new business opportunities, on net. Conversely, contractors in Eastern Ontario were the least likely to anticipate more new business opportunities, driving their modest business forecasts.

CARRY-OVER WORK

TRACKING



Carry-over work is an important component of a contractor's outlook. 14% of contractors polled cited the amount of carry-over work from 2012 as the main reason why they expect to conduct more business, modestly higher than last year's survey. Contractors were most likely to reference this reason in Northeastern Ontario and Ottawa. Unionized contractors were slightly more likely to cite carry-over work as the main reason why they expected to conduct more business in 2013.

ACCESS TO FINANCING/ CREDIT

TRACKING



On balance, contractors are expecting improved access to financing this year versus last. This is in-line with surveys released by the Bank of Canada and the Canadian Federation of Independent Business showing that lending conditions have continued to ease and that financing needs of businesses are mostly being met. Smaller contractors were more likely to report expecting better access to credit in 2013. This is a positive result as it implies lender confidence is increasing as smaller companies tend to be less stable than their larger counterparts.

AVAILABILITY OF LABOUR

TRACKING

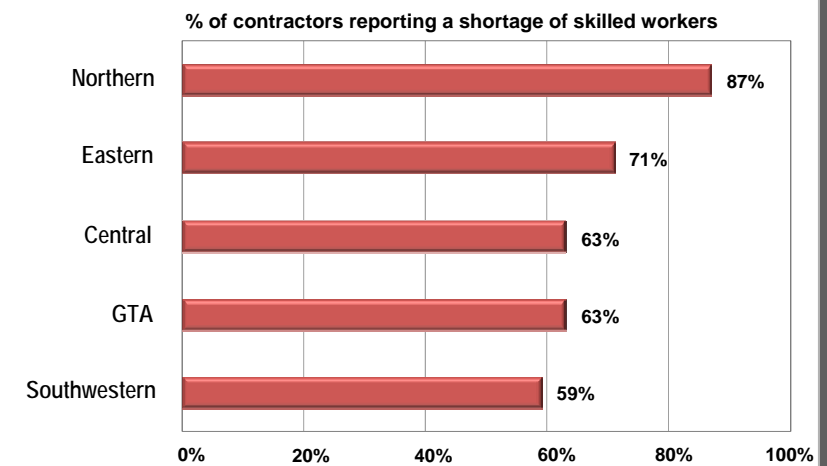


“Nearly two-thirds of contractors reported there being either a moderate or severe shortage of skilled tradespeople”

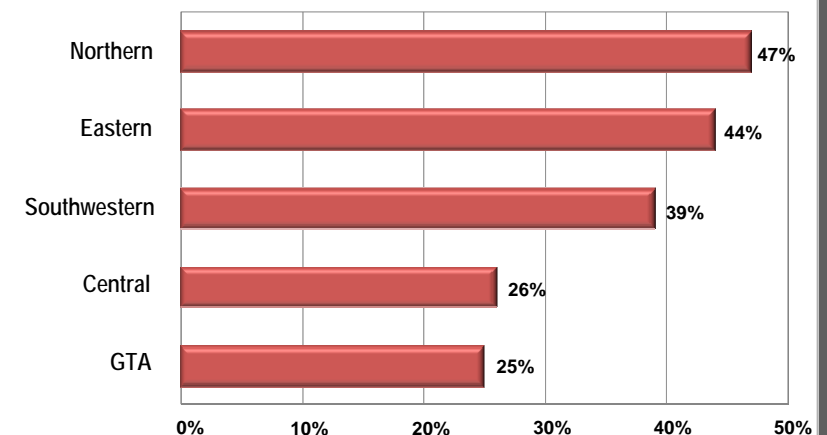
Contractors anticipate labour markets tightening even further in 2013 as 30% expect the availability of skilled tradespeople to decline versus only 16% who anticipate an increase. On a related note, nearly two-thirds of contractors reported there being either a moderate or severe shortage of skilled tradespeople.

Contractors in Northern and Eastern Ontario continue to be the most likely to anticipate a tighter labour market. Additionally, firms in these two regions were the most likely to report facing labour shortages. Companies in Southwestern Ontario were also relatively inclined to report expecting tighter labour markets, consistent with their improved outlooks. However, contractors in Southwestern Ontario were the least likely to report experiencing a shortage of workers, thanks to excess labour market slack generated by relatively weak economic conditions. Businesses in the GTA and Central Ontario were the least likely to expect labour markets to tighten.

Northern Ontario Contractors are the Most Likely to Report a Shortage of Skilled Workers



Percentage of Contractors Expecting a Decline in the Availability of Skilled Workers in 2013



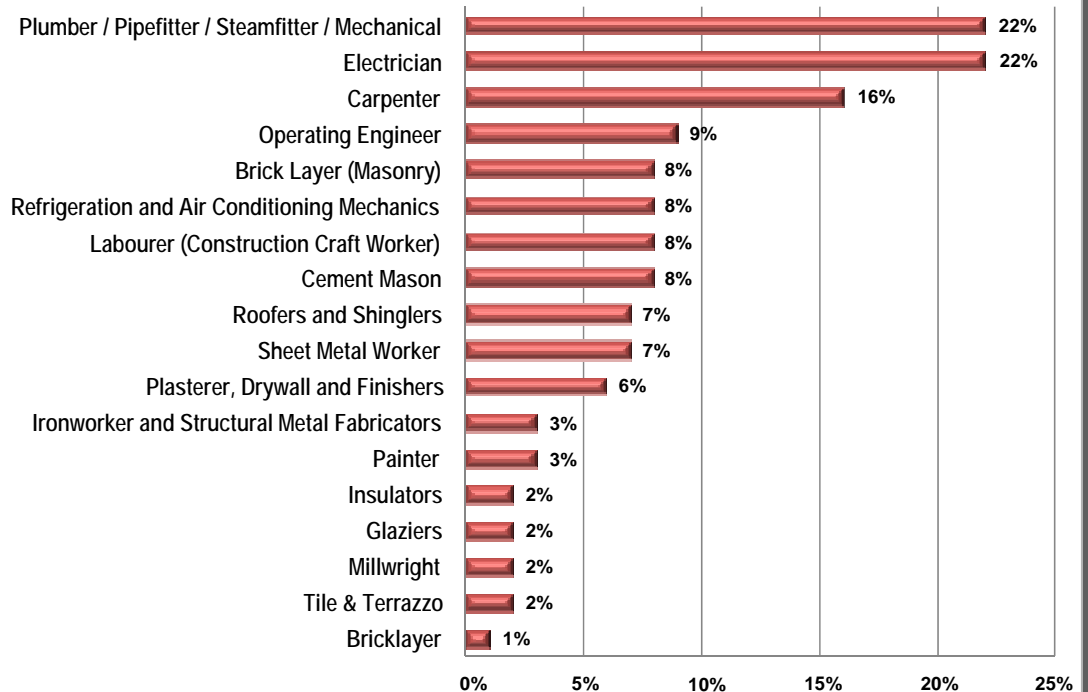
AVAILABILITY OF LABOUR

CONTINUED

Non-unionized contractors had a greater tendency to report labour shortages than their unionized contemporaries. However, unionized contractors were more likely to anticipate a net decline in the availability of skilled construction workers this year.

Plumbers / pipefitters, electricians and carpenters were the trades that contractors were the most likely to report being in short supply.

Percentage of Contractors Reporting the Following Trades as Being in a Shortage



CONTRACTOR CAPACITY

TRACKING



Three-quarters of contractors expect to operate at a high (75% and above) capacity this year, essentially unchanged from last year's survey. Contractors in Central Ontario were the most likely to anticipate operating at a high capacity this year. This is consistent with their above-average business expectations.

Although they have a more modest business forecast, contractors in Northern Ontario were the 2nd most likely to report expecting to operate at a high capacity. This highlights the challenges that contractors in Northern Ontario are facing in securing skilled tradespeople, which is straining their capacity.

Tellingly, contractors in Southwestern Ontario were least likely to report expecting to operate at a high capacity this year. This is despite the fact that they - almost more than any other region - expect to be busier this year than last. This suggests that contractors in Southwestern Ontario are still operating with a significant degree of slack, thanks to years of subdued construction activity.

ONTARIO'S ECONOMY TRACKING



"For the 3rd straight year, unionized contractors were more positive in their economic appraisal than their non-unionized counterparts"

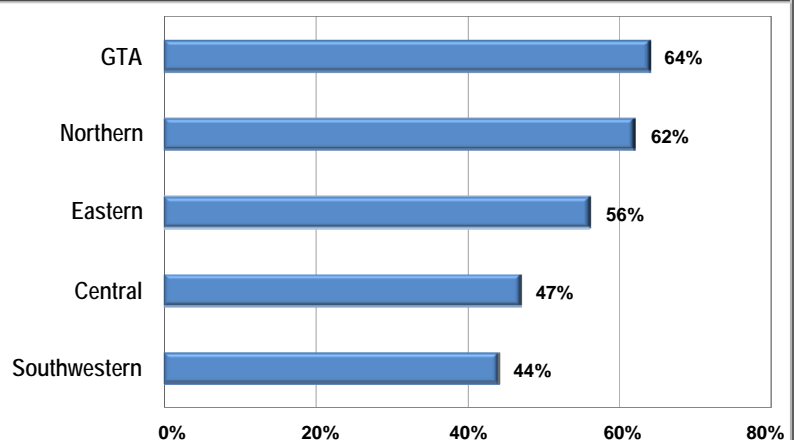
Contractors' impressions of the overall state of the economy remain positive and have not changed over the past couple of years. Meanwhile, 71% of contractors feel that the private sector is ready to lead growth in Ontario's economy, as the province has fully transitioned from recession to expansion.

Companies in the GTA and Northern Ontario were most likely to report the current economic situation as being "good". This view is consistent with robust employment growth in the former, and above-average economic growth in the latter. Despite their modest work expectations, the majority of contractors in Eastern Ontario still view the current economic situation as "good", driven largely by contractors in Kingston.

Conversely, contractors in Southwestern and Central Ontario were more likely to rate the current economic environment as "poor". Within Southwestern Ontario, firms in Windsor-Sarnia were the most pessimistic about economic conditions. In Central Ontario, companies in Kitchener-Waterloo-Barrie were the most downbeat about the economy, consistent with very modest employment growth in 2012.

For the 3rd straight year, unionized contractors were more positive in their economic appraisal than their non-unionized counterparts, with nearly 60% rating the current economic situation as being "good".

Percentage of Contractors Reporting the Economic Situation as "Good"



OTHER INFLUENCES

Contractors cited a number of other factors either positively or negatively influencing their business expectations. Primarily, contractors believed that increased retrofit and renovation opportunities as well as their good reputations would lead to increased business in 2013.

OTHER INDUSTRY TRENDS

EMPLOYMENT OUTLOOK

Contractors Expand Workforces in 2012, Have Positive Hiring Intentions for 2013

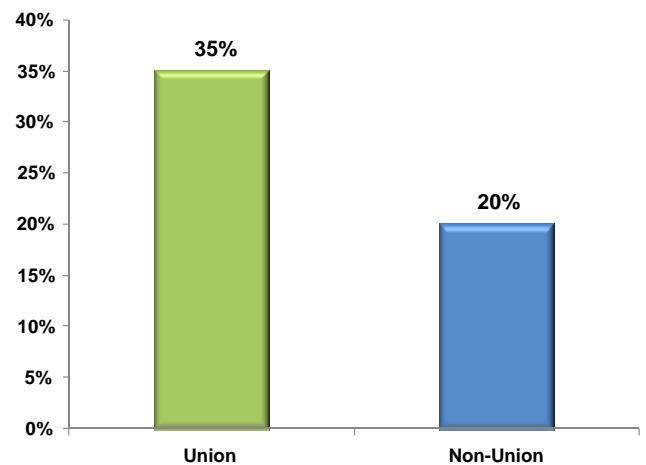
Unionized contractors provided a boost to Ontario's construction labour market in 2012 with 35% indicating that they had hired more workers compared to only 20% of non-unionized firms. Overall, 24% of contractors reported expanding their payrolls in 2012 versus 18% who cut their workforces.

Regionally, companies in Northern Ontario were the most likely to report increasing their workforces last year as a booming mining sector caused firms to take on more employees to handle increased business and avoid reaching capacity limits. Contractors in the GTA and Central Ontario also reported increasing their workforces, on balance. Conversely, contractors in Southwestern Ontario - specifically Windsor-Sarnia - were the least likely to report hiring more workers, in-line with continued weakness in their construction markets in 2012. Surprisingly, more contractors in Eastern Ontario reported decreasing their workforces in 2012, despite increasing investment.

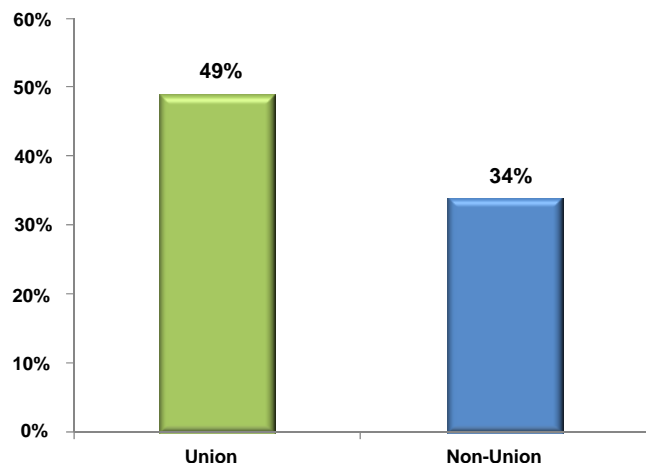
Looking ahead to 2013, labour markets will again be supported by unionized contractors as nearly 50% expect to increase the number of people they employ, versus 34% of non-unionized firms. This is consistent with their relatively bullish work forecasts. Overall, 38% of contractors expect to hire more workers, compared to only 9% who plan on scaling back.

On a regional basis, contractors in the GTA are the most likely to anticipate expanding their employee base, thanks to an optimistic business outlook. Contractors in Northern Ontario were also relatively likely to report expecting to increase their labour force. There is an obvious need for more skilled workers in Northern Ontario as firms in the region were the most likely to

Proportion of Firms Reporting an Increase, on Balance, in Employees Hired in 2012



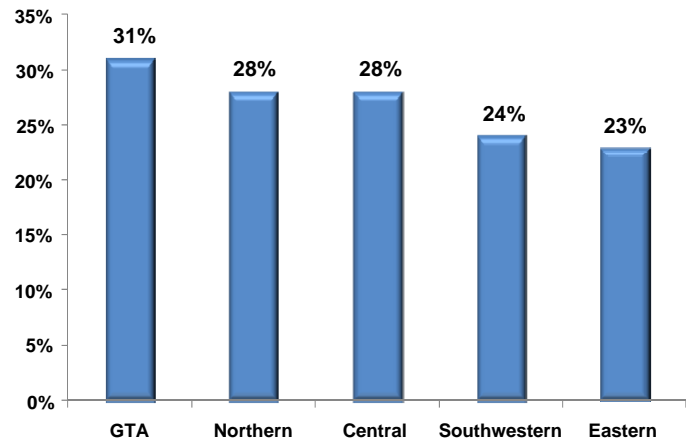
Percentage of Firms Who Expect to Increase Their Workforce in 2013



report experiencing labour shortages. Firms in Central Ontario were also relatively bullish on hiring prospects, on net.

On the opposite end of the spectrum, contractors in Eastern and Southwestern Ontario were the least likely, on balance, to anticipate growing their labour force this year. For the former, this expectation falls in line with their modest business outlook. For the latter, the implication is that the anticipated increase in business this year can be comfortably met by current capacity levels.

Percentage of Firms Who Expect to Increase Their Workforce in 2013



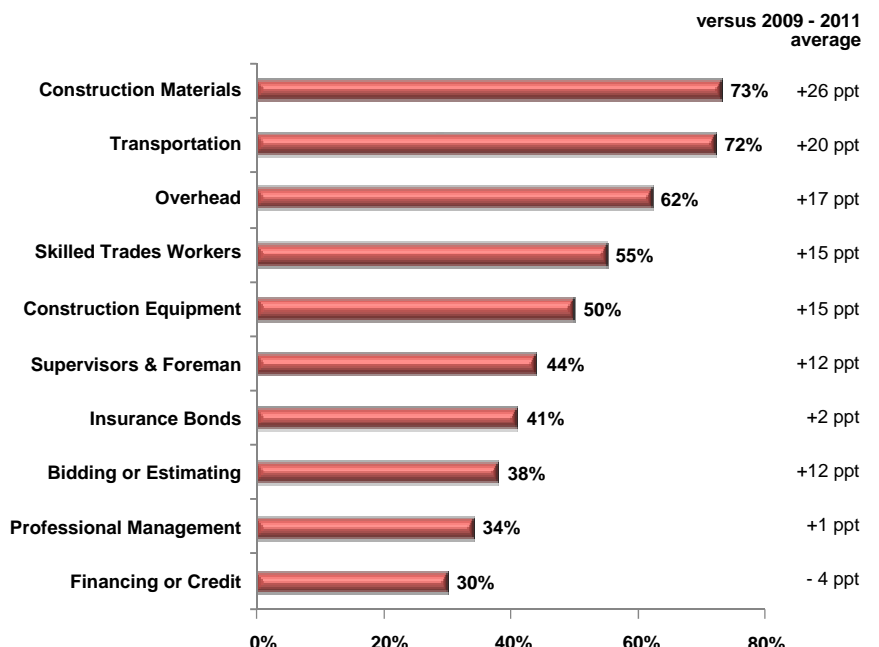
COST OUTLOOK

Lion's Share of Contractors Expect Cost Increases for 2013

More so than any other survey that we've conducted, contractors are anticipating having to deal with input cost inflation in 2013. As the chart to the right shows, a larger-than-average share of contractors expect cost increases in almost every input. For instance, nearly three-quarters of contractors figure that the cost of construction materials will increase, 26 percentage points higher than the survey average. Additionally, despite a softening trend in both retail gasoline and diesel fuel prices during the survey period, 72% of respondents expect higher transportation costs, well above the historical average.

The majority of contractors are expecting the cost of skilled trades workers to increase in 2013. 71% of unionized contractors anticipate having to pay a

Percentage of Contractors Expecting an Increase in the Following Costs



higher cost for skilled tradespeople, well above the historical average. Regionally, respondents in the GTA and Eastern Ontario were the most likely to report expecting to pay a higher cost for skilled workers.

The only cost that is projected to be lower-than-average this year is the cost of credit. This is logical as lending conditions have continued to ease and interest rates remain near historical lows.

"More so than any other survey that we've conducted, contractors are anticipating having to deal with input cost inflation"

APPRENTICESHIP

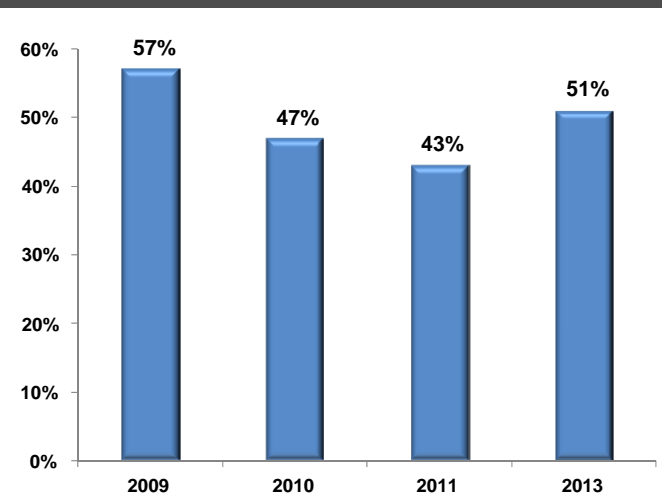
Unionized Contractors Continue to Support Apprenticeship

Slightly more than half of contractors reported employing an apprentice, halting the downward trend which had been in place since 2010. Unionized contractors were largely responsible for this, with 83% reporting having employed an apprentice, nearly twice the share of non-unionized firms. Additionally, unionized companies were more likely to have hired a greater number of apprentices than non-union companies.

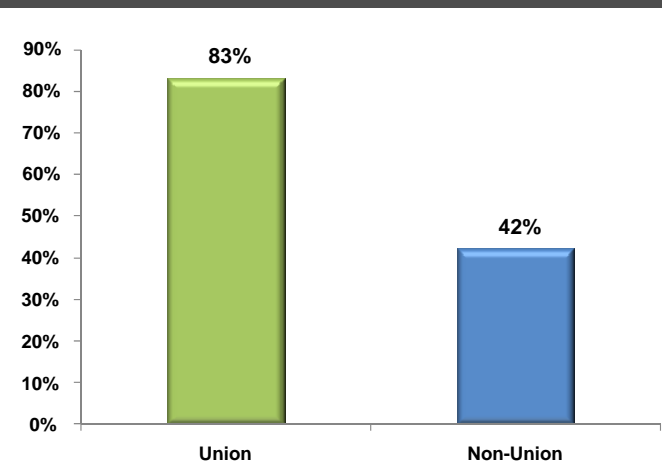
Companies in Eastern Ontario and the GTA were the most likely to report employing at least one apprentice. Meanwhile, a below-average share of contractors in Central, Southwestern and Northern Ontario reported employing apprentices.

Despite growing concerns about the availability of skilled labour, fewer firms are committed to increasing their investment in apprenticeship and employee training. One-in-five respondents reported that their investment in apprenticeship is increasing, down slightly from 23% in 2011. Meanwhile, nearly one-in-ten respondents indicated that their investment was declining, up from only 4% in 2011.

Percentage of Contractors Who Employ Apprentices
(Question not asked in 2012)

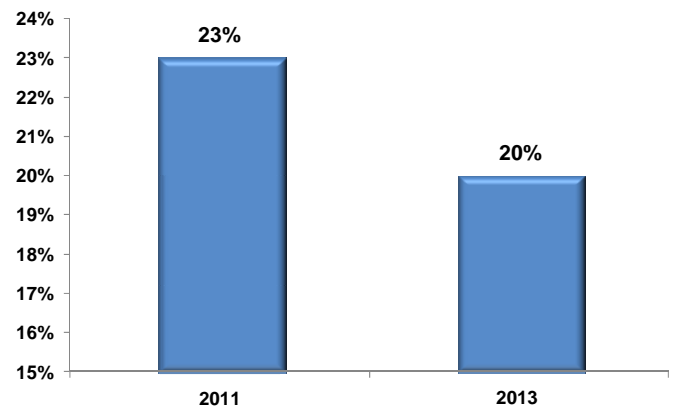


Percentage of Contractors Who Employ Apprentices



"Unionized contractors were nearly twice as likely to have employed an apprentice"

Percent of Contractors Expecting to Increase Investment in Apprenticeship Training (Question not asked in 2012)



FINANCIAL HEALTH

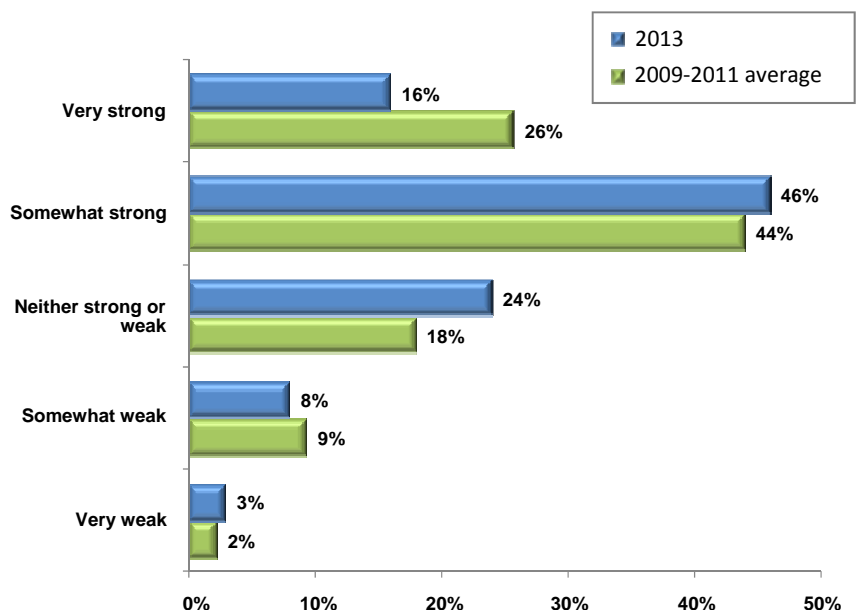
Contractors in Good Financial Shape

The majority of contractors appear to be in good shape financially as 62% of respondents characterized their financial health as either "strong" or "very strong". However, this figure has been steadily trending downwards from a peak of 74% in the 2009 survey. This seems counter-intuitive as Ontario's economy has been on the mend since the recession ended. However, this trend is perhaps reflective of an increased willingness of contractors to deploy more cash to increase business as opposed to hoarding it to maintain balance sheet strength in response to economic weakness.

Larger companies (20+ employees) are responsible for this downward trend, though these firms are much more likely than their smaller counterparts to be in "strong" financial health.

Survey Question:

How would you rate your firm's financial health?



67% of unionized firms reported being in either "strong" or "very strong" financial health, compared to 61% of non-unionized firms. This continues the trend which has been in place since the first survey.

"Unionized contractors gave a big lift to labour markets last year and nearly half of them expect to increase their workforces in 2013"

WRAP UP

The **OCS Construction Barometer** registered a reading of 60 for 2013, up three points from last year's survey. This indicates an increased level of optimism about business prospects for this year.

Contractors in the GTA are the most upbeat about work prospects. The biggest increase in confidence occurred in firms located in Southwestern Ontario, largely thanks to the Windsor-Sarnia area. Conversely, the outlook is gloomy in Eastern Ontario, thanks to pessimism about the industrial sector. For the first time in the history of the survey, unionized contractors are more optimistic than their non-union counterparts, thanks to buoyant expectations for the commercial sector.

In terms of factors driving the outlook, contractors are expecting slightly more new business opportunities this year versus last year's survey. Meanwhile, access to financing and credit is expected to increase. Finally, labour markets are projected to tighten this year, particularly in Northern Ontario.

Increased optimism about the work picture combined with capacity constraint issues have led contractors to anticipate expanding their payrolls this year. This is particularly true for firms in the GTA and Northern Ontario. Meanwhile, a large share of contractors expect to deal with increasing costs for construction materials, transportation, skilled workers and other inputs.

Despite growing concerns about the availability of skilled labour, fewer firms are committed to increasing their investment in apprenticeship training. Unionized contractors continue to be big supporters of apprenticeship with 83% of unionized firms reporting having employed 1 or more apprentices in the past year.



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