

Ontario Construction Secretariat

2014 SURVEY OF ONTARIO'S ICI CONSTRUCTION INDUSTRY

MARCH 2014



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ABOUT THE SURVEY

In November and December 2013, 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 across the province are very upbeat about prospects for 2014 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 2014 is very bullish. The survey of 550 non-residential ICI contractors conducted by Ipsos-Reid shows that nearly 40% of contractors surveyed anticipate conducting more business in 2014, dwarfing the mere 11% 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 2014, the index came in at an above-average 64, up 4 points from last year's survey.



Regionally, contractors are by far the most optimistic in the GTA thanks primarily to their bullish work forecasts for the commercial, industrial and engineering sectors. The mood shifted significantly in Eastern Ontario, where contractors turned from being pessimistic last year to optimistic, driven chiefly by upbeat expectations for the high-rise residential sector. The value of the Barometer dipped in Central and Southwestern Ontario, though remained at an above average level, indicating continued confidence about prospects for 2014. The Barometer inched upwards in Northern Ontario to an above-average level. Still, contractors in the North were the least optimistic when compared to other regions of the province.

Contractors expect to conduct more work, on balance, in each of the major construction sectors, led by the commercial, engineering and high-rise residential sectors. Firms were the least optimistic on prospects for the institutional sector, consistent with continued fiscal austerity.

33% of contractors expect to boost their staff, down 5 ppts from last year's survey. However, the proportion is still above-average when all past surveys are considered. Only 9% of contractors expect to scale-back their workforce.

Labour availability issues continue to challenge the industry as nearly 73% of contractors reported either an "extreme" or "somewhat" of a shortage of labour, up nearly 10 ppts from last year's survey. On a related note, 80% of contractors expect to operate at a "high" capacity this year, versus 75% in last year's survey. Along with operating at a "high" capacity, a large share of contractors expect to deal with increased input costs this year, including a much higher cost of labour. In response, the majority of firms anticipate passing their increased costs on, though some expect that their profit margins will shrink and a few may even resort to cutting staff.

Nearly 60% of contractors reported employing an apprentice, the 2nd straight yearly increase. Another positive aspect of the survey was that a slightly higher percentage of contractors reported increasing their investment in apprenticeship training than last year. This is crucial as when asked what the greatest challenge to increasing their business was going to be over medium term, the largest share of contractors reported labour shortages as the number one obstacle.





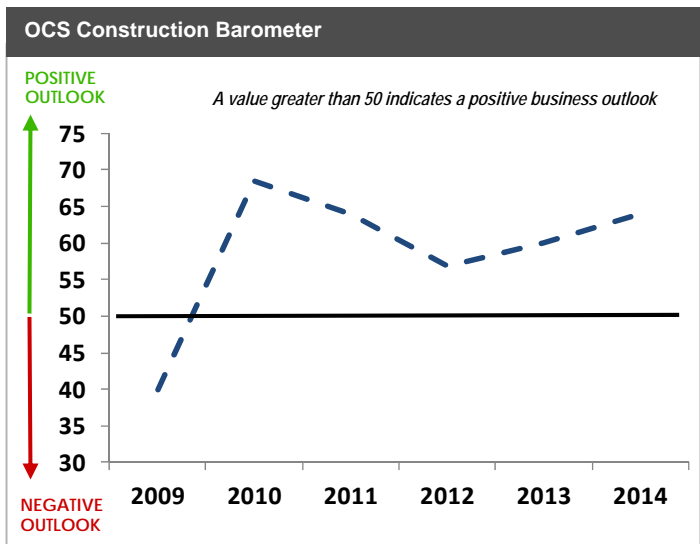
OCS CONSTRUCTION BAROMETER

Increased Optimism for 2014

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.

Contractors are very optimistic about business prospects for 2014, as indicated by the **2014 Construction Barometer**, which ticked up 4 points from last year's survey to an above-average 64. Reinforcing this point, nearly 40% of contractors surveyed expected to conduct more work this year, versus only 11% who expected to conduct less.

The last time expectations were this bullish was 2011. That year, the Barometer also came in at 64 and the non-residential building industry enjoyed a nice year as constant dollar ICI investment jumped 8%.



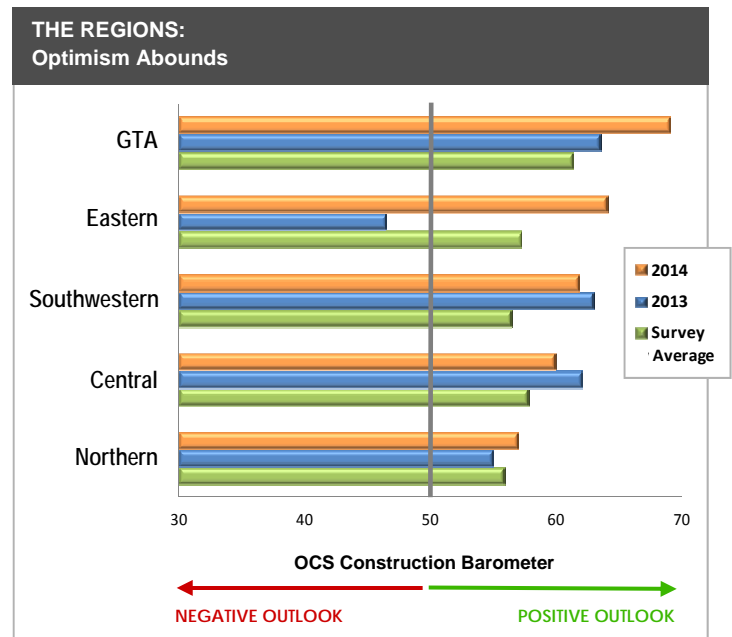
THE REGIONS

Optimism abounds, led by the GTA

Contractors were optimistic about work prospects in all 5 regions led by the GTA where the value of the Barometer rose 5 points to 69. Increased confidence was not only restricted to the GTA, as contractors in Eastern and Northern Ontario were also more optimistic than in last year's survey.

In the Eastern region, the Barometer jumped 18 points to 64, marking a nifty turnaround from last year, where expectations were negative, on net. Rebounding confidence in Ottawa drove the gain, though there was also a pickup in Kingston-Pembroke. For Northern Ontario, the Barometer inched up 2 points to 57 – slightly above its long-term average – thanks to firms in Northeastern Ontario. It should be noted that contractors in Northern Ontario, while more confident than last year, were the least optimistic about work prospects of the 5 major regions.

There was a slight dip in the Barometer values for both Central and Southwestern Ontario though the level of the measure remained at or above 60 in both regions, indicating a solid amount of enthusiasm for 2014. In Central Ontario, confidence was weighed on by the Kitchener-Waterloo-Barrie region, where the value of the Barometer dropped 7 points, consistent with weak ICI investment trends. Conversely, contractors were upbeat in Hamilton-Niagara and Muskoka-Kawartha. In Southwestern Ontario, confidence was lower in Windsor-Sarnia and Stratford-Bruce relative to last year's survey but was still above-average. Meanwhile, optimism was slightly higher in London.



SECTOR OUTLOOK

Contractors Optimistic About Commercial, Engineering and High-rise Residential Sectors

Work expectations were positive for all major sectors of construction and were especially upbeat for the commercial and engineering sectors. For the first time, contractors were surveyed about their expectations for high-rise residential construction and unsurprisingly they exhibited a relatively high degree of confidence about the sector.

Within the **commercial sector**, contractors in all 5 regions anticipated conducting more work, on balance, in 2014. Optimism was highest in the GTA as the downtown office market is booming and vacancy rates in the region remain below average. Interestingly, the GTA was the only region where optimism was above the provincial level, implying that confidence about the sector is first and foremost a GTA story. A similar proportion of contractors were bullish on the commercial sector in Central, Eastern and Southwestern Ontario. Within Central Ontario, optimism was driven by Hamilton-Niagara, as contractors expect another good year after a record 2013 for investment. Firms in Ottawa drove optimism in Eastern Ontario, as they are benefitting from the Landsdowne Live project. Contractors in London and Windsor-Sarnia were responsible for the positive work expectations in Southwestern Ontario.

Firms are also relatively upbeat on prospects for the **engineering sector**. This is despite government austerity, though you'll note that the 2013 Provincial Budget had plenty of funds earmarked for engineering expenditures. Contractors are the most upbeat in Northern (mining) and Southwestern Ontario (Rt. Hon. Herb Gray Parkway) as well as the GTA (Metrolinx). Conversely, contractors are pessimistic, on net in Central and Eastern Ontario, despite major Light Rail Transit projects taking place in both regions as these projects involve only a relatively few firms.

Within the **high-rise residential sector**, contractors in all regions but Southwestern Ontario anticipate doing more work, on balance, in 2014. Somewhat surprisingly, given all the talk of a red-hot condo market, the GTA was the 2nd least

optimistic about performing more work in the sector, possibly because activity has already been operating at a high level for some time. Contractors in Eastern and Central Ontario are the most upbeat on high-res building prospects. Housing markets in Eastern Ontario quietly enjoyed a nice year in 2013, bucking the province-wide downward trend. Contractors in the North were relatively upbeat on prospects as well.

Contractors expect more work to occur, on balance, in the **industrial sector** this year. This is perhaps unsurprising as U.S. economic growth is expected to pick up which should help manufacturing activity and, in turn, industrial investment. Although almost all regions have positive work expectations for the industrial sector, the two most bullish areas are the GTA and Eastern Ontario, with the latter driven by Ottawa. Expectations are modestly positive in Central Ontario, driven by Kitchener-Waterloo-Barrie and Muskoka-Kawartha. It's the same story in Southwestern Ontario, where work expectations are ever-so-slightly positive, lifted by much-maligned Windsor-Sarnia. Encouragingly, Chrysler may be planning a multi-billion dollar retooling at its Windsor plant. Contractors are pessimistic about the industrial sector in Northern Ontario, weighed on by both the Northwestern and Northeastern regions. Their gloomy outlook is possibly related to recent project deferments in the mining sector.

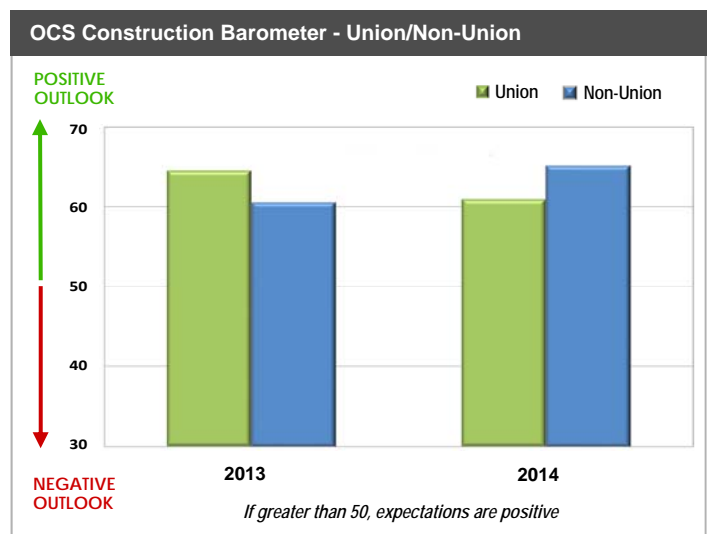
Net expectations were only very slightly positive for the **institutional sector** for this year as only 17% of contractors anticipate doing more work in the sector, versus 16% who expect to do less. All regions, with the exception of the GTA either anticipated doing less work, or had expectations which were only very slightly positive. This makes sense in an environment of fiscal austerity. The result for the GTA is interesting as it runs counter to building permit data, which is generally a very good indicator of upcoming construction, and has been weak. Expectations were the most bearish in Southwestern Ontario, particularly in London where major institutional owners are feeling the pinch of government deficit reduction.

| Contractors' Expectations for 2014 by Sector | | | | | |
|--|-------------------|-------------------|----------------|--------|-----------|
| Sector | Conduct More Work | Conduct Less Work | Net Difference | Leader | Laggard |
| Commercial | 25% | 9% | +16 | GTA | North |
| Engineering | 22% | 8% | +14 | GTA | East |
| Hi-rise residential | 32% | 18% | +14 | East | Southwest |
| Industrial | 23% | 14% | +9 | GTA | North |
| Institutional | 17% | 16% | +1 | GTA | Southwest |

UNION STATUS

Non-Unionized Firms More Optimistic

Though firmly in positive territory, the Construction Barometer was a little below average for unionized firms, meaning that they anticipate a softer-than-normal year in 2014. Expectations for work in the industrial and institutional sectors were the main culprits behind the relatively subdued outlook for unionized firms. On the plus side, unionized contractors expect to perform more work, on balance, in the commercial, engineering and high-rise residential sectors. Non-union firms exhibited a higher degree of confidence about work prospects both compared to last year and versus their unionized counterparts.



TRENDS RELATED TO CONTRACTORS' OUTLOOK

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



Anticipated new business opportunities are the strongest driver of contractors' outlooks. Of those firms who anticipate conducting more work, 71% indicated that it was due to new business opportunities, up roughly 14 pts from last year's survey. Contractors in the GTA were the most likely to report anticipating increased new business opportunities followed in order by Eastern, Central, Southwestern and Northern Ontario. When asked about which sectors they see the most opportunities over the longer-term, contractors provided a variety answers, though the most often cited were infrastructure, residential construction and the industrial and services sectors.

CARRY-OVER WORK

TRACKING



Though down from last year's survey, carry-over work continues to be an important source of revenue for contractors, as 14% of respondents who were expecting more work quoted it as being due to projects which have carried over. This reason was particularly prevalent in the GTA and Northern Ontario. Firms in Southwestern Ontario were the least likely to reference carry-over work as their prime source of revenue, possibly because 2013 was a bit of a down-year for investment, particularly for London.

ACCESS TO FINANCING/ CREDIT

TRACKING



On net, contractors are expecting easier access to credit this year, marking the fifth straight year of such expectations. As expected, larger firms (including unionized contractors) are more likely to have reported expecting credit conditions to ease. Easier access to credit is a positive driver of business expectations.

AVAILABILITY OF LABOUR

TRACKING



***“Labour shortages
continue to be the
number one
obstacle to growth”***

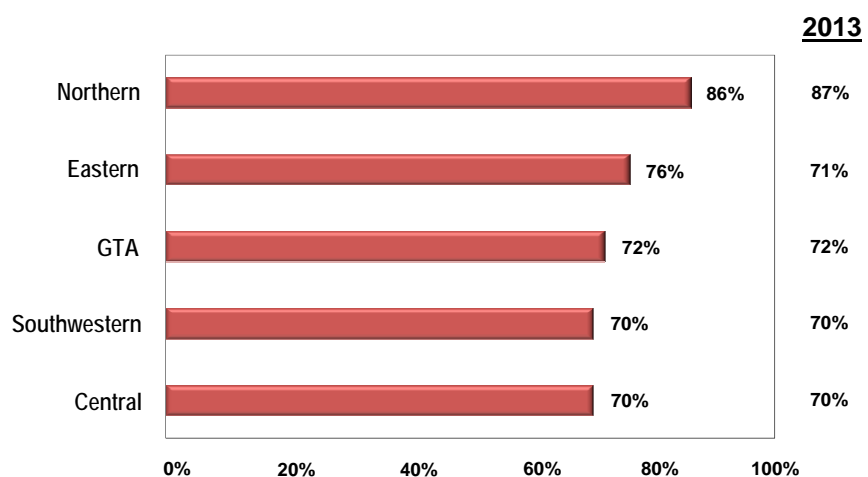
Labour availability issues continue to challenge the industry as nearly 73% of contractors reported either an “extreme” or “somewhat” of a shortage of labour, up nearly 10 ppts from last year’s survey. Firms in Northern and Eastern Ontario were the most likely to report a shortage. Labour supply pressures do not appear poised to ease in the North this year, despite a relatively modest work forecast, perhaps pointing to structural challenges.

Non-unionized contractors were more likely to report labour shortages than their unionized contemporaries, as unionized firms have access to a large and organized labour pool and have been actively training new workers through apprenticeship programs. However, even unionized firms are feeling the pressure as 64% indicated facing labour shortages, up slightly from last year.

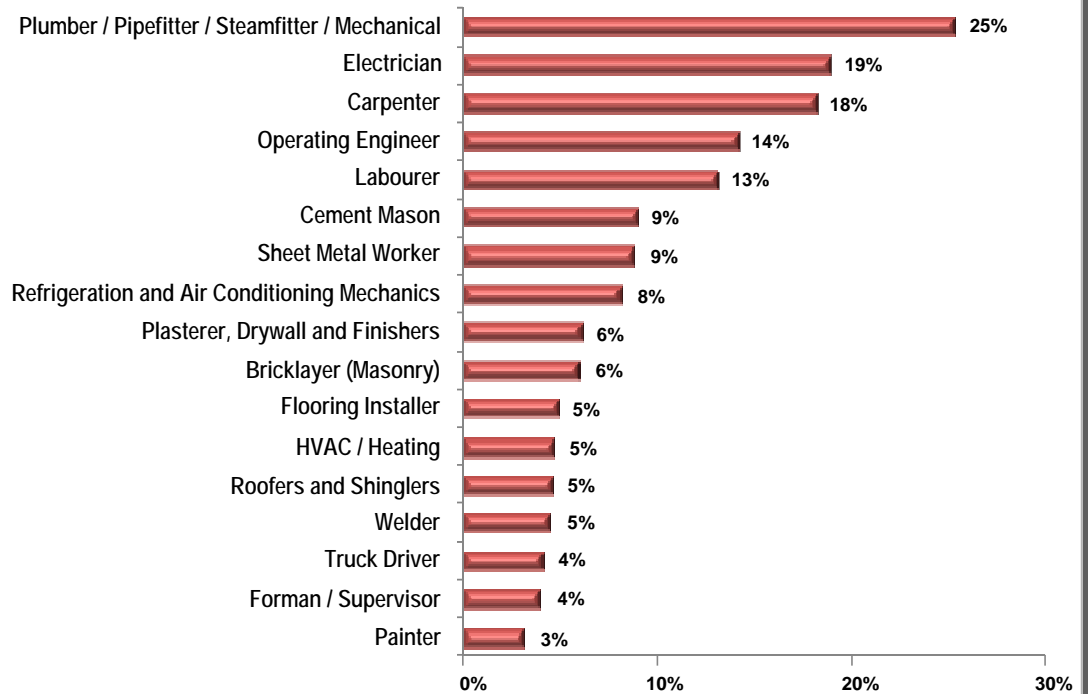
When asked what the greatest challenge to increasing their business was going to be over medium term, far-and-away the largest share of contractors reported labour shortages as the number one obstacle. This point underscores the need to continue to address what is currently viewed as the biggest hurdle to further prosperity.

Like in prior surveys, the trades that were most likely to be reported as being in short supply include plumbers/steamfitters, electricians and carpenters.

Percentage of Contractors Reporting a Shortage of Skilled Workers



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



CONTRACTOR CAPACITY

TRACKING



In line with their bullish work forecasts, 80% of contractors anticipate operating at a "high" (75% and above) capacity this year, up 5 pts from last year's survey. Firms in the GTA, Eastern and Central Ontario were the most likely to indicate expecting to operate at a "high" capacity. On the opposite end of the spectrum, contractors in Northern Ontario were the least likely to report expecting to strain their capacity levels this year, falling in line with their relatively bearish work forecasts.

Fortunes for contractors appear to be turning for the better in Southwestern Ontario with 77% of them expecting to be working at a "high" capacity, up 7 pts from last year. This implies that they have less slack to absorb increased demand. This, along with their fairly strong business outlook, suggests that the region continues to strengthen.

Like last year's survey, non-union contractors were the most likely to expect to operate at a "high" capacity.

ONTARIO'S ECONOMY TRACKING



“While upbeat about the current economic climate, on balance, contractors are even more optimistic about prospects for the balance of 2014”

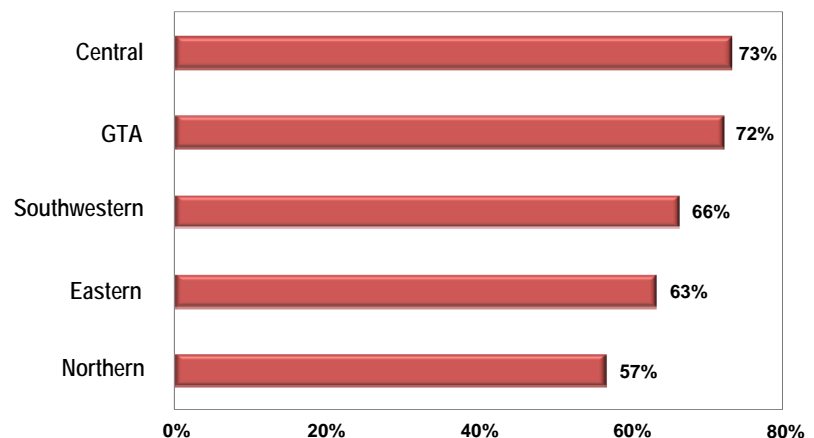
While upbeat about the current economic climate, on balance, contractors are even more optimistic about prospects for the balance of 2014. This falls in line with the most recent economic forecasts, calling for a pickup in Ontario's economic growth in 2014.

Unsurprisingly, given their work expectations, contractors in the GTA were relatively likely to be cheerful about economic prospects for the year. What is surprising is that contractors in Central Ontario were equally bullish on the economy as those firms in the GTA. Kitchener-Waterloo-Barrie is largely responsible for this optimism, despite on-going challenges at Research In Motion – a major company within the region.

A solid 66% of contractors surveyed in Southwestern Ontario characterized the economic outlook for 2014 as “good” or “very good”, providing yet another piece of evidence suggesting that the mood continues to improve in the region. Meanwhile, companies in Northern Ontario were the least likely to be bullish on the economic outlook, with just over 50% of contractors having a positive economic outlook for 2014.

In a shift from past surveys, not only were non-unionized contractors more likely to characterize the current economic situation as “somewhat” or “very” good, but their outlook for 2014 was also more upbeat than unionized firms.

**Economic Appraisal:
Percentage of Contractors Reporting Economic Outlook as Good**



OTHER INDUSTRY TRENDS

EMPLOYMENT OUTLOOK

Hiring Increased in 2013 While Intentions for 2014 Soften but Remain Above-average

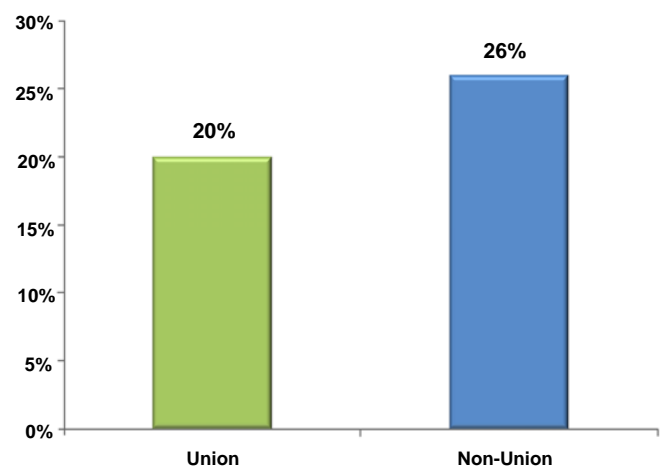
In keeping with past surveys, a larger percentage of unionized contractors reported increasing their workforces in 2013 versus their non-union counterparts. This reinforces that the unionized industry continues to play a lead role in supporting the province's construction labour market. Overall, 29% of contractors reported increasing their workforce, up from 24% last year.

Regionally, a large share of contractors in Central Ontario reported expanding their workforces in 2013, led by Hamilton-Niagara. Contractors in Eastern Ontario were amongst the most likely to report increasing their workforces in 2013 as the region enjoyed a solid year from an ICI investment perspective. A lower share of contractors in both Southwestern Ontario and, interestingly, the GTA reported increasing their workforces last year. Northern Ontario was the one area in which more contractors decreased their workforces than expanded them last year, thanks primarily to Northeastern Ontario.

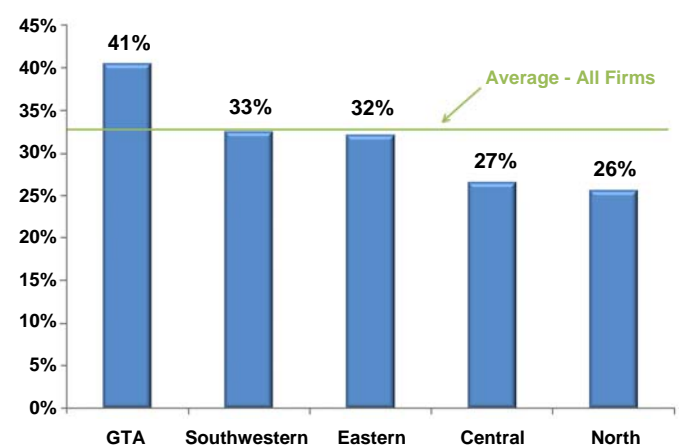
Looking ahead to 2014, 33% of contractors expect to boost hiring, which is a 5 ppt drop from last year. However, the proportion is still above-average when all past surveys are considered. Only 9% of contractors expect to scale-back their workforce. On balance, 26% of non-union contractors expect to increase employment in 2014, compared to 20% of unionized firms.

Regionally, the GTA is home to the largest proportion of contractors who anticipate adding to their labour pool this year – unsurprising given their very bullish outlook. One-third of contractors in Eastern and Southwestern Ontario reported expecting to hire more workers – also consistent with their optimistic work forecasts. Firms in Central and especially Northern Ontario were the least likely to anticipate having to hire more labour, mapping to their relatively modest outlooks (these two regions have the two lowest Barometer values).

Proportion of Firms Expecting to Hire More Employees in 2014, on net (i.e. % expecting more - % expecting less)



Percentage of Firms Expecting to Hire More Employees in 2014



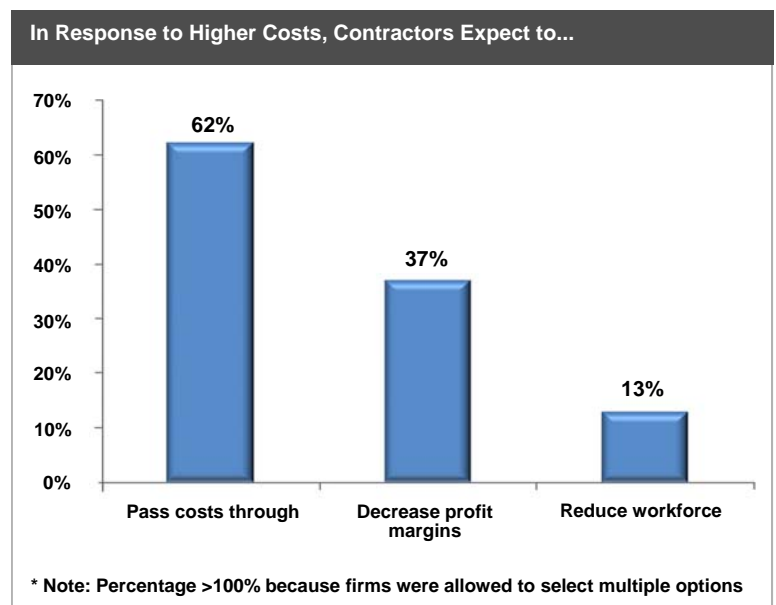
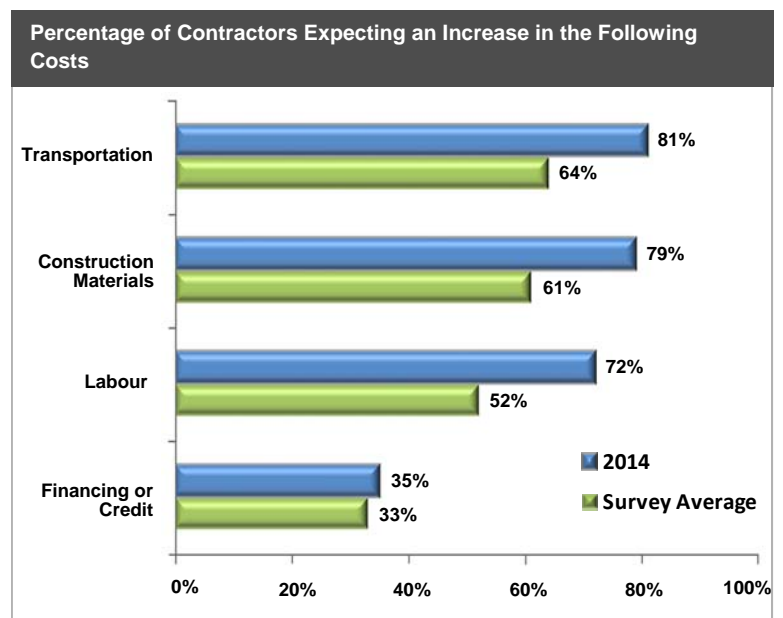
Northern Ontario is an interesting case, as the region is the least likely to report expecting to hire more workers this year, has the most bearish outlook of all the regions and has the lowest proportion of firms that expect to operate at a high capacity in 2014. However, nearly 90% of contractors report experiencing labour shortages. This underscores that the labour shortage problem facing the region is a structural issue and does not depend on how busy contractors expect to be in any given year.

COST OUTLOOK

Cost Concerns Intensify

Contractors are more concerned about costs than last year - particularly those related to transportation as over 80% anticipate them going higher in 2014. For reference, gas prices ended 2013 on an upward trend and though diesel fuel prices moderated, they remained at an elevated level to close the year. Strained labour availability has led over 70% of contractors to expect the cost of labour to increase this year, nearly 20 pts higher than last year's survey and well above the historical average. Regionally, contractors in Northern Ontario and the GTA were the most likely to report expecting to pay higher labour costs this year. Nearly 8 in 10 contractors expected the cost of construction materials to increase, a significant increase over last year's survey. Meanwhile, the share of contractors expecting an increase in financing or credit costs inched upwards, though remained broadly in line with past survey results.

Contractors anticipate responding to these increases in a variety of ways with 62% indicating that they expect to pass these costs on, particularly larger firms. Nearly 4-in-10 firms expect higher costs to eat into their profit margins, especially smaller firms, who may be less able to pass these costs on (and thus protect profit margins) in the face of competitive pressures. Meanwhile, a smaller but not insignificant share of contractors anticipate reducing their workforce as a result of cost increases, with smaller contractors again being the most likely to report responding in this manner. As one would expect, it seems as though higher costs will have more of a negative impact on smaller firms.



APPRENTICESHIP

Unionized Contractors Continue their Staunch Support of the Apprenticeship System

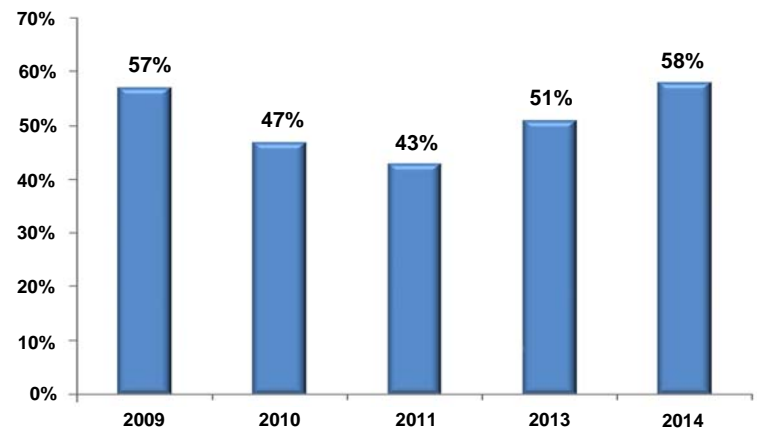
Nearly 60% of contractors reported employing an apprentice, the 2nd straight yearly increase. This is encouraging as it shows that contractors have the willingness to help train the next generation of tradespeople, which is absolutely crucial in an environment of increasing labour shortages. Unionized contractors are chiefly responsible for this trend as over 80% of them reported employing an apprentice, compared to 49% of non-union firms.

Regionally, contractors in Eastern and Northwestern Ontario were the most likely to report having employed an apprentice. Conversely, contractors in Central Ontario were the least likely to have employed an apprentice, though the share was still above 50%.

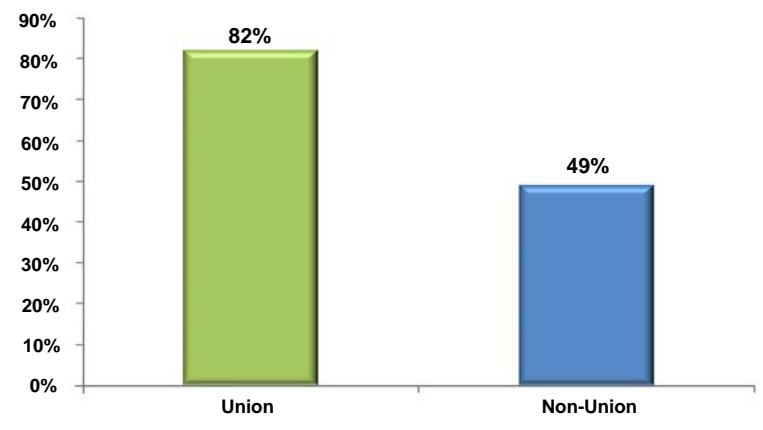
Another positive aspect of the survey was that a slightly higher percentage of contractors reported increasing their investment in apprenticeship training than last year. Both union and non-union firms contributed to the increase.

“Union contractors continue to employ the bulk of construction apprentices. 82% of union contractors report having one or more apprentices compared to 49% of non-union contractors”

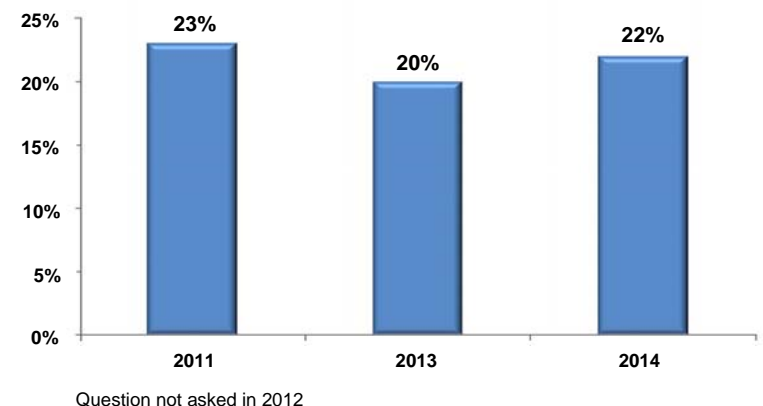
Percentage of Contractors Who Employ Apprentices



Percentage of Contractors Who Employ Apprentices



Percentage of Contractors Expecting to Increase Investment in Apprenticeship Training

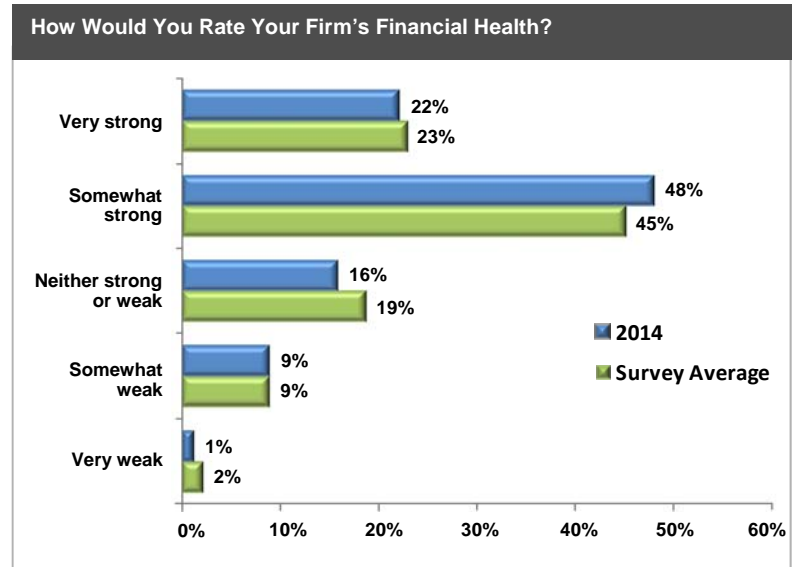


FINANCIAL HEALTH

Contractors Report Strong and Improved Financial Position

Contractors continue to have their financial house in order as 7 in 10 described their financial health as either “strong” or “very strong”, up 8 pts from last year’s survey. The increase arrests the downward trend in this measure in place since 2009. As to why the majority of contractors reported being in a healthy financial position, the most often cited reasons include: having a good cash flow, a growing business, little-to-no debt, business longevity and having healthy profit margins.

As in past surveys, large firms were the most likely to report being in a strong financial position. Smaller firms continue to struggle with less than half reporting a strong financial position.



Regionally, contractors in Eastern Ontario were the most likely to report having strong financial health. Meanwhile, a similar share of companies in the GTA, Central and Southwestern Ontario reported being in a strong financial position. Firms in Northern Ontario were the most likely to report weak financial health (14% of contractors in the region).

“Contractors continue to have their financial house in order”

WRAP UP

The **OCS Construction Barometer** reveals that contractors are very upbeat about prospects for 2014, with the index value coming in at an above-average 64, up 4 points from last year. A larger share of contractors anticipate more new business opportunities compared to last year's survey, driving the gain in confidence. Regionally, contractor confidence is the highest in the GTA, though contractors are also relatively bullish in Eastern Ontario, which is a big change from last year. On the other end of the spectrum, contractors in Northern Ontario have the least optimistic work forecasts for 2014. By sector, contractors are most optimistic, on balance, about the commercial, engineering and high-rise residential sectors.

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Labour availability continues to pose challenges to the industry as nearly 73% of contractors reported either an "extreme" or "somewhat" of a shortage of labour, up nearly 10 pts from last year's survey. Meanwhile, a greater share of contractors are expecting to operate at a higher capacity than last year and anticipate increased cost inflation. In response to cost inflation, the majority of firms plan to pass their increased costs on, though some forecast that their profit margins will take a hit and a few may even resort to cutting staff.

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