

# Canadian Construction Outlook, 2008 to 2010

While the outlook for Canadian non-residential construction is bright, residential construction is another weather story altogether. With Canadian housing starts approaching an all-time high, the outlook for the residential sector could be characterized as “cloudy with a chance of rain.”

Here’s a short summary of the national outlook for each category of construction. If you need more detailed information, look for the CanaData Annual Construction Forecast ordering instructions on page 16.

## Residential Construction

Although Canadian housing starts are close to an all-time high, it is doubtful that this level of activity can be sustained much longer, since some of the sector’s key indicators are not favourable. In particular, housing demand is down, along with affordability; fewer new energy projects have been announced in Alberta; and employment growth is restrained, due to tight labour markets.

## Commercial Construction

Currently, commercial construction is about as strong as it can get. For example, the prospects for new office construction are excellent, especially since downtown office vacancy rates now sit below 10% in every major city in Canada. The hotel construction category, too, is entering a growth phase, as domestic business travel and tourism flourish.

As for retail construction, while the federal government’s latest GST and personal income-tax cuts should help consumer spending, it remains to be seen whether

they can offset weaker employment growth and slower housing construction. Until then, only moderate growth is anticipated.

## Industrial Construction

Because industrial construction is based on resources, this sector should remain strong as long as world growth keeps chugging along. However, since industrial construction is also the result of investments made by domestic manufacturers, the Canadian dollar’s rise in value may jeopardize this category’s outlook. A weakening housing sector will also slow the construction plans of companies that sell into the residential building market, including building product manufacturers.

## Institutional Construction

Strong government finances and demographics will continue to play a big role in health care and educational building spending. With the leading edge of the baby-boomers now 60 years old, more hospital projects are inevitable. Meanwhile, their children are pushing demand for post-secondary facilities. Elementary school spending, however, will not grow significantly until the children who make up the current “mini” baby boom reach school age.

## Engineering Construction

While massive power projects are on the drawing

board in every region of the country, the Atlantic and Québec region’s liquefied natural gas (LNG) projects will add extra stimulus to construction activity in eastern Canada.

As for sewer and water-main construction activity levels, they will fall off as housing starts drop. Road and highway construction, however, should receive a boost from the provincial and federal governments’ full coffers. The attention given to high-profile bridge collapses should also bring more spending as governments focus on public safety.

*Excerpt from CanaData’s Annual Construction Forecast, 2008 to 2010 edition.*

## Canadian Economic Outlook Table – November 2007

|                                   | ACTUALS  |             | FORECASTS |      |      |
|-----------------------------------|--|-------------|-----------|------|------|
|                                   | 2006   | 2007 (est.) | 2008      | 2009 | 2010 |
|                                   | (year-over-previous-year percent change in annual average value)       |             |           |      |      |
| Real GDP:                         | 2.8  | 2.6         | 2.3       | 2.1  | 3.0  |
| Consumer Expenditures             | 4.2  | 3.9         | 3.0       | 2.5  | 3.2  |
| Exports (goods)                   | 1.0  | 1.9         | 2.0       | 2.0  | 3.5  |
| Imports (goods)                   | 5.2  | 3.1         | 4.8       | 2.5  | 3.0  |
| Consumer Price Index –            | (year-over-previous-year percent change in annual average index value) |             |           |      |      |
| All Items                         | 2.0  | 2.5         | 2.5       | 2.4  | 2.0  |
|                                   | (annual average percent level)   |             |           |      |      |
| Unemployment Rate                 | 6.3  | 6.0         | 6.2       | 6.5  | 6.4  |
| Employment Change                 | (based on annual average level)  |             |           |      |      |
| (000s of jobs – household survey) | 315  | 365         | 235       | 205  | 260  |
|                                   | (year-over-previous-year percent change in annual average value)       |             |           |      |      |
| Corporate Profits (pre-tax)       | 4.3  | 6.0         | 5.0       | 4.5  | 10.0 |
| Inventory-to-Shipments Ratio      | (annual average)   |             |           |      |      |
| Manufacturing                     | 1.29   | 1.30        | 1.40      | 1.35 | 1.30 |
|                                   | (thousands of units)   |             |           |      |      |
| Housing Starts                    | 227  | 220         | 200       | 200  | 215  |
|                                   | (annual average percent level)   |             |           |      |      |
| Bank of Canada                    | (annual average)   |             |           |      |      |
| Overnight Rate                    | 4.06   | 4.38        | 4.50      | 4.50 | 3.50 |
|                                   | (annual average)   |             |           |      |      |
| U.S. Cents to Buy \$1 Canadian    | 88.2   | 94.5        | 102.0     | 98.0 | 97.5 |

*Data sources: Statistics Canada, Canada Mortgage and Housing Corporation (CMHC), Bank of Canada, TD Economics and Scotiabank.  
Forecasts and table: Reed Construction Data – CanaData.*