

CONSTRUCTION MONITOR

The BC CONSTRUCTION MONITOR is an ICBA publication providing ahead-of-the-curve information and statistics on the BC construction industry and issues relevant to it.

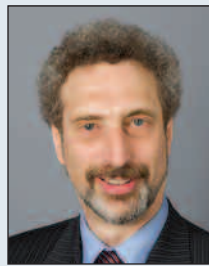
The Monitor draws on analyses and outlooks from various sources, and provides current and substantive insight. This quarterly publication is intended for industry executives, government decision makers, journalists and other opinion leaders.

We welcome your feedback and story suggestions at info@icba.ca.

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Now is the Time to Build



Philip Hochstein

The financial turmoil that's been brewing for some time has clearly spread beyond the realm of obscure investment products, and is taking its toll in the "real economy" of consumer spending and jobs.

Growth projections, in BC and around the world, are being widely and sometimes dramatically downgraded amid fears of a recession or worse. And as you would expect, this is beginning to put a discernable damper on construction-industry activity.

Of course, it's not surprising that the super-heated levels of construction we've seen in BC in recent years should cool off at some point.

The pace that contractors have been working at has strained capacities to their limits and was never expected to be indefinitely sustainable.

But that's no reason for complacency, or for accepting that a severe construction-sector downturn in this province is an inevitable consequence of current economic realities. In fact, in many important respects, there's no better time to build than now.

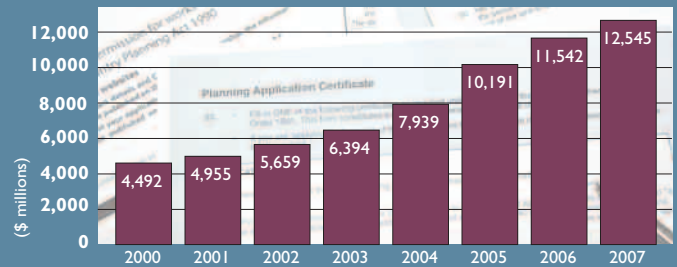
Whether the potential project is a kitchen upgrade or an office park, one of the biggest challenges in recent years has been simply finding available firms and contractors to take it on. A more moderate level of construction activity will therefore free capacity to deal with pent-up demand.

See **Time to Build** p. 2

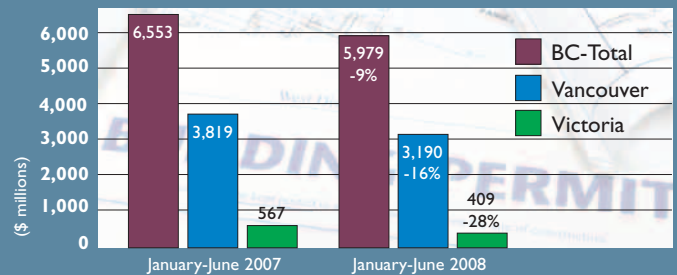
The Capacity is There

While construction activity levels remain high, we're seeing an easing off from the extreme pace of the past few years. In particular, more moderate residential building is likely to free capacity that can migrate to the ICI side of the industry. Building permits are a good forward-looking indicator of construction activity, and trends over the first half of this year point to a loosening of what has been very tightly stretched capacity, particularly in the province's two biggest centres.

BC BUILDING PERMITS: PREVIOUS ESCALATION



BC BUILDING PERMITS: RECENT MODERATION



Source: Statistics Canada

Time to Build

Continued from p. 1

And what's expected to be a significant decline in price escalation should draw many back into the market who balked at the double-digit annual cost-escalation rates that inevitably came to prevail over the last few years.

To a large extent these are self-corrections that will come into play of their own accord. But British Columbia will be well served by conscious efforts to further boost construction activity in the months ahead.

The health of the construction industry is a big contributor to the health of the provincial economy as a whole – to a much greater degree, I suspect, than most people realize. Construction accounts for a quarter of GDP and 40 per cent of jobs on the vital goods-producing side of our economy.

Comparing the most recently available monthly figures to those of one year prior we see that construction has remained by far the strongest new-jobs generator among goods-producing sectors in BC, and on a national basis it effectively accounted for nearly all net job growth over the first eight months of 2008.

So how then to sustain these economic benefits, particularly as manufacturing and other economic sectors in BC face what is likely to be unavoidable contraction? As the provincial government has recognized, public infrastructure investments will be key.

It made sound sense for the provincial government to commit to accelerated public infrastructure investment as part of its

recent economic plan. I have no doubt many meritorious projects will be found that will meet its criteria of short lead times, while supporting a lot of jobs and delivering additional long-term benefits.

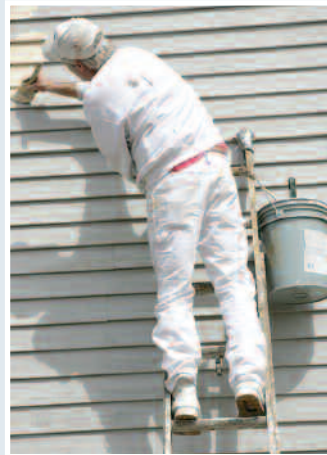
Notwithstanding previous commitments to projects such as Pacific Gateway transportation enhancements, there remains a significant and well-documented need for additional major investments in our aging public infrastructure – and the recent provincial commitment should go some way towards addressing this deficit.

We have under-invested for a long time, particularly in basic municipal infrastructure such as roads, bridges and water treatment. As a result, we aren't as well positioned as we should be to capture economic opportunities such as those associated with increased Asian trade, and our quality-of-life and safety are ultimately at risk.

Fortunately, prudent fiscal management in BC in recent years has placed us in an enviable position in terms of our provincial debt load, and created considerable scope for well-selected

infrastructure investments at this time.

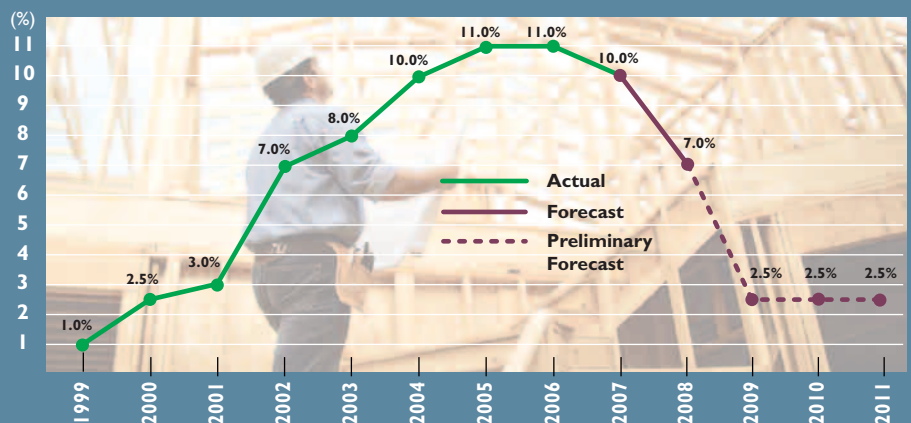
The capacity is becoming available, the cost and value-for-money outlook is improving, and the need for and payback on strategic infrastructure investments are clear. With the right response, we can maintain a considerable degree of momentum in BC construction activity – and the big economic benefits associated with it – notwithstanding the strong economic headwinds we're facing.



Cost Inflation is Moderating

Double-digit escalation in construction costs has been an unavoidable reality in recent years, despite low inflation generally. This was driven by simple supply-and-demand, and the imperative of achieving reasonable returns on investment within the sector after earlier dismal periods. The current outlook is for at least much more moderate increases going forward. A trend towards improved construction-sector productivity is among the contributors to cost moderation. That means it's a good time to move ahead for governments and others who may have deferred projects while costs were climbing fast.

LOWER MAINLAND CONSTRUCTION COST ESCALATION



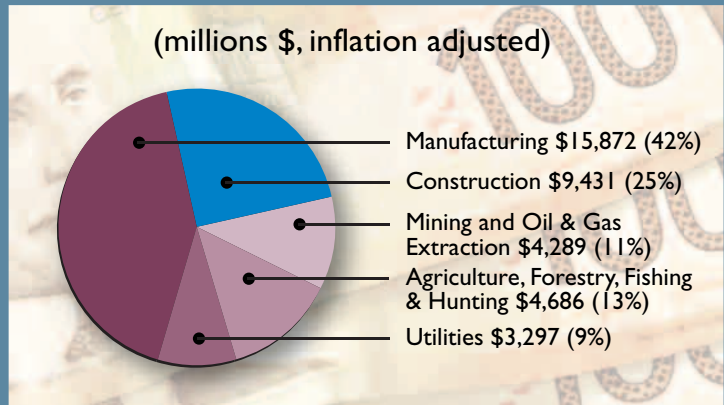
Forecast figures are based on data available as of October 2008. Given rapidly evolving economic conditions, forecasts for 2009 and beyond in particular are subject to revision and should be treated as approximations. Figures were provided by the BTY Group, one of Canada's most successful and experienced cost management and project management consultancies.

Construction: Essential to the Economy

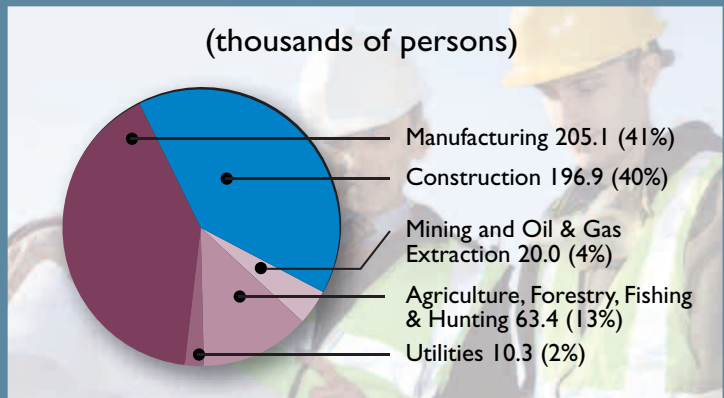
Looked at from the perspective of a home buyer or expanding business, construction is a means to an end. But it's also an important contributor to our economy in its own right. The construction boom of recent years – and the significant employment and economic-activity multipliers associated with construction activity – have been vital to BC's economic success. As we face the challenge of sustaining prosperity in the more uncertain times ahead, maintaining a healthy construction sector should be a top priority.



BC GDP BY INDUSTRY, 2007



BC EMPLOYMENT BY INDUSTRY, 2007

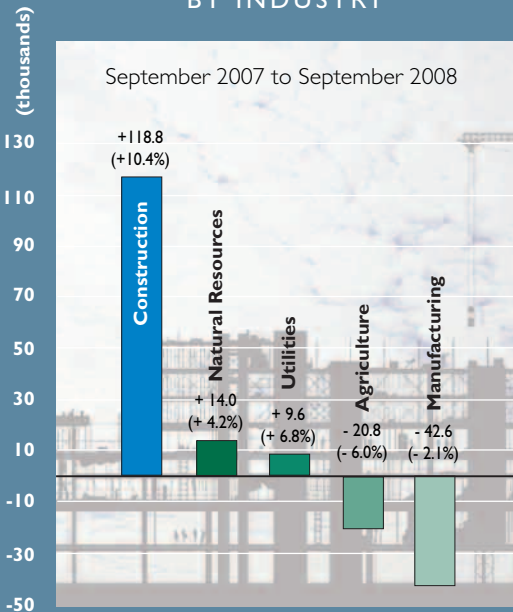


Goods-Producing Sectors Only

Source: Statistics Canada

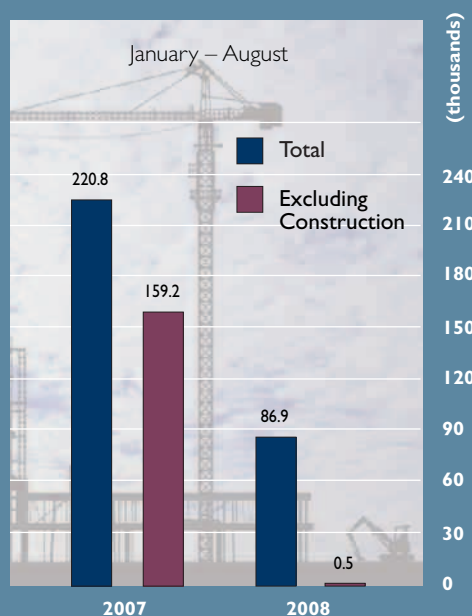
Construction: A Major Driver of Job Growth

BC EMPLOYMENT GROWTH BY INDUSTRY



Source: Statistics Canada

CANADIAN NET EMPLOYMENT GROWTH



Source: TD Economics/Statistics Canada

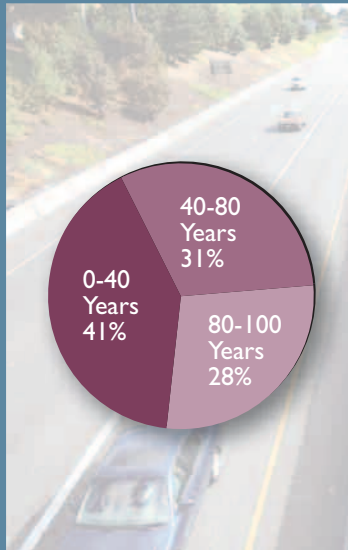
Construction activity has been particularly important to job growth in BC and Canada as a whole. During 2004 and 2005, for example, the construction industry accounted for 42 per cent of the significant level of job creation that occurred in this province. And annual growth figures as of September 2008 show that construction remains a leading jobs-generator in BC. On a national basis, Canada would have had virtually no net employment gain in early-to-mid 2008 without the construction industry's contribution.

Infrastructure is an Overdue Investment

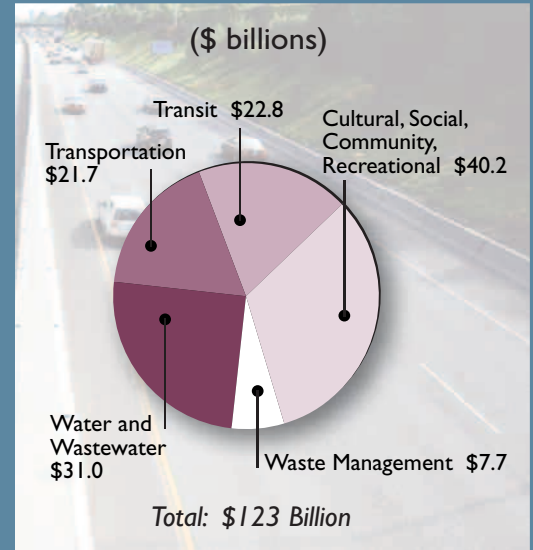
Some of the most promising opportunities for continued construction-driven economic stimulus relate to major public infrastructure projects. Strategic investments of this type are vital to our competitiveness, quality-of-life, and ability to manage growth and capture economic opportunities. Significant investments in basic municipal infrastructure are also widely believed to be badly overdue.

Accelerated public infrastructure investment is a sound strategy.

AGE OF CANADA'S INFRASTRUCTURE



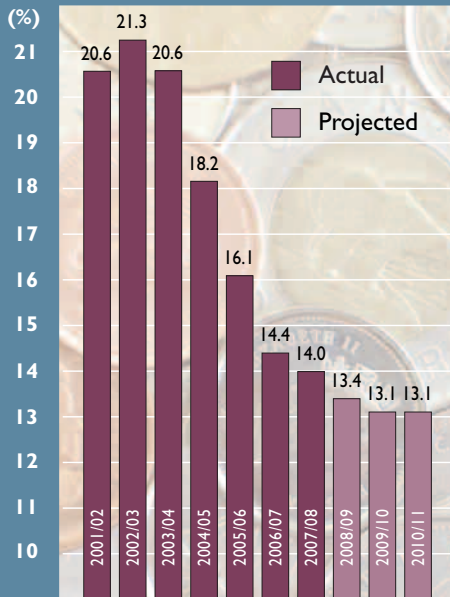
ESTIMATED MUNICIPAL INFRASTRUCTURE DEFICIT



Source: Federation of Canadian Municipalities, 2007; "the municipal infrastructure deficit is an estimate of the total additional investment needed to repair and prevent deterioration in existing, municipally owned infrastructure assets"

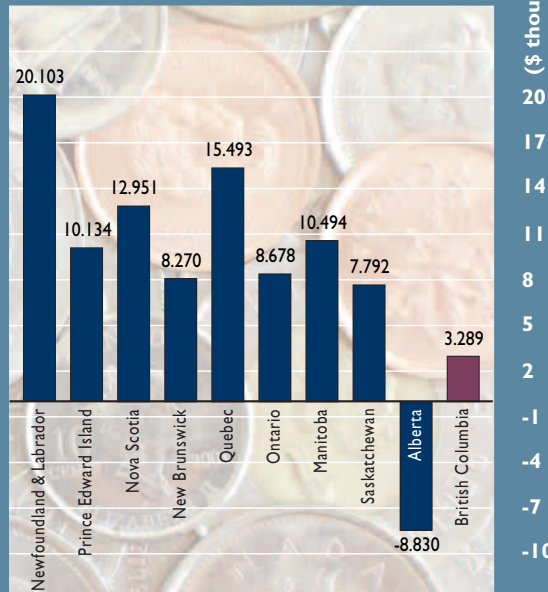
We Have the Financial Capacity

BC'S DEBT-TO-GDP RATIO



Source: BC Ministry of Finance

CONSOLIDATED NET GOVERNMENT DEBT PER CAPITA (as of March 31, 2006)



Source: Statistics Canada

Needing it is one thing, but can we afford major public infrastructure investments? While we are moving into less certain economic times, BC's public finances are in good shape. Our debt-to-GDP ratio has declined steadily, and we have less than half the per-capita debt of any province except Alberta. This gives us the latitude to make strategic investments, without jeopardizing our enviable triple A credit rating (Standard & Poor's). In its October 2008 assessment, for example, Dominion Bond Rating Service stated that BC: "continues to exhibit solid credit fundamentals, including conservative budgeting practices, solid economic conditions and the second-lowest provincial debt burden."



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