Canadians begin to feel pinch

Although their inflation rate is lower, government rules less strict, the U.S. neighbors to the north are suffering from some of the same economic problems.

A significant cutback in new housing starts, rising prime rates, inflation moving towards the double digits: does all that sound like a U.S. scenario? Actually, it is a partial description of the construction market in Canada during the first quarter of 1980, proof that like their American counterparts, Canadian contractors are feeling the pinch of a tightening worldwide economy.

There are clear signs emerging from the Maple Leaf country that its pinch in residential construction may significantly impact its commercial market. Already, many major Canadian developers have begun flooding U.S. Sun Belt communities with investment dollars. Although this southward drift has helped developers who serve as their own contractors, and in some cases those general contractors the developers have brought south with them, most of Canada’s subcontracting industry has stayed home to fight it out in a tightening market where margins are slowly sinking.

Actually, after a half decade in which the Canadians watched their inflation and interest rate spirals exceed those in the U.S., the neighbors to the north have had a generally more stable economy than contractors in U.S. markets. Though high, Canadian interest rates have run about three percentage points lower than U.S. rates. And inflation, although continually pressing towards the ever-present double digits, has been slower than the enormous spurts being experienced by U.S. consumers. All that has led to a “mixed market” in Canadian construction... some slowdown in the eastern provinces, tempered by significant gains in western areas.

Recently, to get a fix on Canadian attitudes, Construction Dimensions sat down with Donald S. Little, an AWCI officer and President of Donalco Services, Ltd., perhaps the dominant force in Canada’s sprayed fire protection industry.

Donalco is a firm which grew out of the old E.T. Sampson, Ltd. back in 1966. It has grown to include offices in Montreal, Toronto, Winnipeg, Calgary, Vancouver, and most recently in U.S. markets. The company is an unusual member of AWCI, since it is primarily involved in a single specialty. Donalco does, however, do some acoustical work and insulation.

Being national in scope has helped Donalco capture a huge market segment in Canada, although Little concedes “U.S. markets are something we’re interested in, but that’s coming a lot slower.” Nevertheless, Donalco is secure in its homeland. Little estimates the company performs about 60% of the work available in Canadian fire protection markets for sprayed products.

The company is geared toward expansion and has a “sister company” called AAD, which is a manufacturing and distributing firm based in Toronto. Donalco has also recently

Canada’s Don Little says he is always stunned when he contemplates the U.S. businessman’s penchant for accepting endless amounts of regulation from the federal government. Although Canadians are feeling the same kind of economic pinch as their southern neighbors, Little says the Canadian businessman is freer to do business than his American counterpart.
picked up a distribution package for Dryvit. The firm runs an average payroll of 200-300, exclusive of office staff.

Had it been around at the time, Donalco might have been the inspiration for Shakespeare when he wrote “What’s in a name, surely a rose by any other name would smell as sweet.” Due to the unique layout of Canada, Donalco does business under four different names. Eastern Canada is served by Donalco, Ltd. Other areas are served by Donalco Western, Ltd., Donalco Alberta, and Donalco Pacific. A fifth name is the U.S. version of Donalco Services, Inc.

With all those locations to contend with, it is no small wonder that Little spends “about 40% of my time on the road.” The Hamilton native who spends the balance of his time in Toronto, travels so often that his wife, Marie, is often along for the ride. “If we couldn’t travel together, we wouldn’t see each other often enough,” Little says.

When not involved in Donalco operations, Little is extremely active in the committee structure of ASTM and ISCA.

In the end, Little knows his efforts today will help him to achieve success in what he terms a very simple game plan, “to build up the company a bit, with retirement not too far down the road . . . to let some of the younger ones take over. That’s long been a policy of our company, to bring quality young people along and provide them the opportunity to move into management.”

Little’s feelings on other subjects, as well as his impressions of the state of the Canadian construction market, follow:

**DIMENSIONS:** You just had a rather noteworthy election in Canada, but it was not that well known in the U.S. We’re gearing up for our own national elections, here. Do Canadians generally keep up with U.S. politics?

**LITTLE:** I would say Canadians are extremely interested in U.S. politics, although I wouldn’t say we understand every aspect of your system. I would say that Canadians know your political leaders as well as your own people know them.

**DIMENSIONS:** Are Canadian contractors that politically different than U.S. contractors?

**LITTLE:** I think, perhaps, our government tends to be a little more
conservative than yours. As a result, we are freer as businessmen. We can hire who we want. Within reason, we can fire who we want. We have our minorities, but no special laws requiring that we hire by particular quotas. We aren't told how many women in construction we should have. I think what I'm saying is that we have less government interference.

**DIMENSIONS:** If there was one thing you could say about Canadians that might shock the average U.S. citizen, what would it be?

**LITTLE:** I think it would be what we just discussed. It's something I don't believe the average American would want to hear. We simply have a lot more freedom to do business than you presently do in the states. I constantly marvel at what American business, and particularly our industry, has to go through with your myriad of agencies forcing various rules and regulations on contractors and business in general. The reticence of the American people to accept this just stuns me; it always has.

**DIMENSIONS:** Well, looking elsewhere in the news, the much-talked-about breakaway of Quebec never materialized. Did it have a negative impact on construction while it was a live question?

**LITTLE:** It did. It always does. Investors are perhaps a little more hesitant to risk their dollars in a major building project when they are not sure what the political situation might be if a breakaway, indeed, was accomplished.

**DIMENSIONS:** What is the general condition of the construction market in Canada?

**LITTLE:** Generally speaking, construction activity is solid. The largest growing markets are in Western Canada. As an example, you can take a city like Calgary, which has about a half million people, and it generated almost a billion dollars in construction last year.

**DIMENSIONS:** How big is construction in Canada?

**LITTLE:** It accounts for about 20 percent of the dollars in the Canadian economy.

**DIMENSIONS:** Aside from politics, do Canadians keep up with trends they see emerging in the U.S. construction industry?

**LITTLE:** Yes, I think that is important. One of the first reasons for joining the association some years back was our feeling that in this segment of our business, we would find newer products going through the association. The manufacturers will be introducing their new products through such activities as convention exhibits. And the contractors will be talking about the potential or specifics of new products. The association was where we were going to hear about them.

**DIMENSIONS:** So, there is a level of dependence on U.S. technology in Canada?

**LITTLE:** Many of our new products will come through American manufacturers or their Canadian subsidiary companies. To a smaller degree, we could say the same thing about the input from the European market.

**DIMENSIONS:** Does this reliance tend to “low grade” Canadians in terms of U.S. attitudes?

**LITTLE:** I don’t think that would be applicable. Certainly, if you come into a U.S. market as a Canadian and try to do something on your own, you bring about a built-in resentment. You can also, perhaps, develop some indirect union problems. So, the average Canadian company will be wise and associate with an American company to do some work jointly.

**DIMENSIONS:** Is there, in fact, much market raiding between U.S. and Canadian firms?

**LITTLE:** I would think the average American company, at least among subcontractors, would be doing very little work in Canada. There are, of course, exceptions, but as a rule of thumb, no. Going the other way, there are some Canadian subcontracting firms who have gone into American markets, but usually on a one-job or very limited basis.

**DIMENSIONS:** You qualify your remarks to subcontracting. Why?

**LITTLE:** In general construction, you have the day of the large developer who is also his own contractor. So, you have huge sums of Canadian dollars flowing into the U.S. and funding a lot of stateside construction. This is especially true in the Southeast and Southwest. Canadian investment has also been strong in the area around Denver. This has brought some Canadian companies to follow along, but that has been largely at the contractor level; it’s not very prevalent with subcontractors.

**DIMENSIONS:** We talked about U.S. technology; what about Canadian technology?

**LITTLE:** The Canadian government has, as much as has been possible, given tax allowances to encourage research and development. In some aspects, we would be ahead of the United States. In our own area, which is fire protection, I think through associations like the Canadian Institute of Steel Construction, we are moving into the development of new types of steel designs. I’m sure they feel they are considerably ahead of AISI in the U.S. Now, whether AISI would agree, I don’t know, but a lot of the fire protection programs for AISI were done in Canada at National Research. In the same area at ASTM, of which I am a member, some of the best people are from Canada. They come from such places as the National Research Center of Canada, which is highly recognized for the technology they have developed for fire protection. The same kinds of things can be said for developments in other areas of construction technology. Perhaps all of this is little known, simply because the average American contractor really doesn’t know all that much about a Canadian contractor.

**DIMENSIONS:** I suppose two of the hottest subjects in U.S. construction would fall generally into the area of technology. How have exterior insulation and panelization been received in Canada?

**LITTLE:** Panelization has certainly been slower to develop in Canada than it has been in the states. Exterior insulation systems simply haven’t caught on as well either. In
fact, we are, as a company with an interest in the exterior insulation products, already involved in a study to determine if our National Building Code would limit the use of the exterior insulation product to two-level buildings only. This would certainly be a major change in the market as you know it in the U.S.

**DIMENSIONS:** Let’s talk a little about the economy. It’s no secret the U.S. has been facing some pretty hard economic times. What’s the climate like on the other side of the border?

**LITTLE:** As we talk right now, our inflation rate is just under the double digits. That rate may go up, perhaps as high as 11 percent. At the present time, your inflation is running significantly higher than ours.

**DIMENSIONS:** You say at the present time. Do you expect your inflation rate to follow in line with U.S. price increases?

**LITTLE:** It is not necessarily so that we will follow you in that position. In the past five or six years, I would say we were generally higher than you. But since your sudden upturn, your inflation rate has been out in front. There’s no question it is affecting your money market. Ultimately, it will affect ours. That could have a serious impact on our ability to create new jobs through construction.

**DIMENSIONS:** How much slowdown have you seen in construction in Canada?

**LITTLE:** Our residential sales picture is becoming critical. We have had a downturn in new housing starts. Again, here we can make a comparison with the U.S. situation. Your prime rate is higher than ours. And your high prime rate, and of course mortgage money, has hurt your residential building industry. The same is true in Canada. Even though we have lower interest rates, we’re still being hurt in the residential sector by sharp increases in the cost of mortgages.

**DIMENSIONS:** Is the average Canadian contractor working in both residential and commercial markets?

**LITTLE:** I would say the majority are either-or. They either are residential contractors, or they are commercial contractors. The occasional larger company, the giants, will of course do both, but a good rule of thumb is that the average contractor is into one or the other on a basically exclusive level.

**DIMENSIONS:** Then, isn’t there a distinct possibility that continuing declines in residential construction will force an exodus of these contractors into the commercial market?

**LITTLE:** I certainly think that if it becomes a matter of survival, they will cross over. Many of them, unfortunately, will simply fade out, because they do not have the kinds of business contacts necessary for commercial development. But when those that can cross over do, the impact on the commercial market will be tighter dollars and narrower margins. We have not seen this trend as clearly as you have in some U.S. markets, but I don’t believe there’s much question that it will come about.

**DIMENSIONS:** Won’t diversification help to protect the established commercial builders, however?

**LITTLE:** I would have to say the average Canadian contractor is not nearly so diversified as the larger companies in the U.S. Our company of course, is highly specialized, so we’re not an appropriate example. But the average wall and ceiling contractor here is, though perhaps very similar to his U.S. counterpart, not diversified to the degree that he would cover quite so many fields or product areas.