Predictions about the performance of the Canadian construction industry in 1990 range from a mild downturn to recession, and to full-scale depression, with the consensus being in the range of mild recession.

In 1989, home builders felt the first effects of an economy cooling out after an eight-year run of high growth which everyone knew had to end sooner or later. To a lesser extent, the industrial/commercial sector also saw a slowing of growth this year and is bracing for further tightening of markets in 1990.

To set the economic scenario, few experts will dispute that Canadian Gross Domestic Product (GDP) growth will decline in 1990. The only difference of opinion is how severe the declines will be and how long they will last.

The Conference Board in Canada is a respected national think-tank organization which has never been accused of over-optimism, but which has a solid record for forecasting accuracy. The Conference Board’s chief economist, Jim Frank, pegs GDP at 2.8 percent this year, 1.8 percent in 1990 and about two percent in 1991.

In Ontario, where economic prosperity saw growth rates topping 6.2 percent in 1986, GDP growth is expected to fall to under two percent next year.

While such growth projections may represent a slowing economy, they don’t add up to negative growth or recession. That possibility is introduced by a whole host of other factors like taxation and interest rates which could worsen the already-bleak economic outlook, depending upon how they are handled.

Canadian bankers are predicting prime interest rate drops of up to two percentage points by the middle of 1990. That could go a long way to brightening the picture for next year, but there are many skeptics who don’t see it happening.

The Conference Board forecasts a prime rate of 12.4 percent next year, rising slightly into 1991. It is considered unlikely that the Bank of Canada will see fit to lessen its trend-setting rates in the face of continuing inflationary pressures, and it may even have to push rates higher.

The other big unknown in terms of the Canadian economy in the early 1990’s will be the new Goods and Services Tax (GST) which goes into effect January 1, 1991.

Conservative estimates indicate that the new federal tax on virtually every consumer commodity and service will boost inflation, which is already over 6.5 percent in centres like Toronto and Vancouver, by at least a further three percent. This anticipated effect of the GST will rule out any easing of interest rates.
Residential Construction Outlook

Looking more specifically at construction markets—first residential construction—the same factors affecting the economy in general will also concern home builders.

Peter Andersen, president of Peter Andersen Associates of Toronto, sums up the situation: “There are a lot of problems on the horizon for home builders. Ottawa has embarked on a highly-risky policy package—high interest rates, a high Canadian dollar and the GST. The year 1990 is shaping up to be a sub-par but tolerable year. The real problem seems to be in 1991.”

Andersen says the knowledge that the GST will add nine percent to the prices of new homes beginning in 1991 will likely create a “temporary and artificial spurt in housing demands in 1990, and a slump in 1991.”

Canadian builders themselves, perhaps the best judges of their own markets, are predicting higher prices and weaker sales across the country.

In a survey of 563 builders, conducted this past summer by the Canadian Home Builders’ Association, it was discovered that: “Builders expect all segments of the market to be weaker in the next 12 months . . . In particular, the first-time buyer market and move-up market are expected to be weaker. Over 40 percent of builders nationwide anticipate sales declines in these sectors.”

Statistically, housing starts stood at just under 210,000 units at the end of the second quarter this year (seasonally-adjusted annual rates). That compares to a figure of about 232,000 starts at the same time last year. It is expected that the 1989 year will finish at under 200,000 new housing starts.

For 1990, early estimates range from a low of 150,000 new units to the 210,000 range. The consensus settles in around 180,000 to 190,000 housing starts.

This national perspective of residential construction markets however fails to recognize some wide variances of expectations in regional markets. Following is a brief summary of what’s ahead in the major regions for 1990.

**British Columbia:** In 1989, B.C. will experience a rise of over 20 percent in new home sales and the momentum is expected to carry into next year. Strong housing demand is fuelled by an increase in migration from eastern provinces, a healthy local economy and significant offshore investment in residential markets.

**Alberta:** Economic recovery continues and home building markets, especially in Edmonton and Calgary, will continue to grow with the economy. Again, migration from Ontario will contribute.

**Manitoba and Saskatchewan:** Home building experience will parallel the national outlook. Sluggish economic growth will further weaken housing markets, but Winnipeg will show slightly stronger performance.

**Ontario:** Will show the greatest susceptibility to economic slowdown because slight percentage drops translate into thousands of units in this the largest of the provincial home building markets. A slump to 80,800 new housing starts is predicted for 1990, compared to a peak of over 105,000 units started in 1987.

In the huge Toronto commuting area, home builders also face a drastic shortage of serviced land for development and lack of infrastructure support.

Condominium markets in major cities like Toronto and Ottawa are overbuilt and, after enjoying several years of boom sales, will cool off for at least a year while unsold inventory is cleared out.

**Quebec:** Much the same as the Ontario outlook, except Quebec’s recent history does not reflect the boom that Ontario has experienced. Therefore, the let-down should be less disruptive.

Montreal condominium markets are beginning to rebound, although in September there were still about 1,500 units on the market from the 1987-88 boom which saw supply eventually outstrip demand.

**New Brunswick:** Starts in 1985 reached 4,142 units. This dropped to 3,621 units in 1988 and a predicted 3,450 this year. A further decline to about 3,100 units is expected for 1990.

**Newfoundland:** Provincial starts will be down to about 3,000 new units this year, up over 20 percent from 1988. Strong growth is predicted again for 1990, depending upon the scheduled pre-production phase of the Hibernia offshore oil development getting underway.

Industrial/Commercial Markets

Industrial, commercial and institutional construction does not respond to the peaks and valleys of economic performance as quickly as do home building markets. Investment in ICI construction in boom periods means the work is often done when the economy is heading into a downturn.
and, conversely, lack of investment while the economy is down means a lag in construction’s recovery when the economy turns up again.

In the first nine months of 1989, the dollar value of commercial construction starts in Canada was up 16.5 percent from a year earlier. Institutional construction from the same period showed declines of 23 percent and industrial construction was down across the country by 36 percent.

Overall, the Canadian Construction Association is looking for further declines in construction starts in 1990. No statistical estimates were available at the time of writing.

As in residential construction, the prognosis for Canadian ICI markets varies greatly from region to region. Here’s a capsule view of the year ahead:

In British Columbia, again, the economy is on an upward trend and so is ICI construction. Commercial office construction in Vancouver has reached record levels with 133,000 square metres underway this year.

The Vancouver real estate market continues to outshine most of the rest of the country, bolstered by international investment (ie., Japan, Hong Kong, Korea and Taiwan).

Alberta’s economy is also recovering from years of slow growth and ICI construction is making small but steady gains. Office construction exists once again in Calgary and Edmonton, but a major resurgence in the energy sector is still necessary before the province can expect a return to early 1980’s levels of construction.

Declines in ICI construction are predicted for Manitoba and Saskatchewan for 1990, reflecting disappointing oil and gas revenues and a lacklustre local economic performance in general. Of particular concern in Manitoba was the November announcement by a major pulp and paper company that it may shelve plans for a $1-billion forestry expansion plan.

In Ontario, economic growth has dropped sharply and may dip below two percent in 1990. The mainstay automobile industry is cutting back production to match declining sales. The effects of continuing high interest rates and the new GST are expected to have the greatest impact in the most heavily-industrialized province.

ICI construction remains strong however in the Metro Toronto area, defying for now the general downward trends in other provincial urban centres. In the downtown core major office towers continue to come onstream, but the demand for first-class office space continues to grow.

Toronto should expect another year to 18 months before the boom bursts and construction declines to levels more consistent with the overall provincial experience. There is a school of thought however that says Toronto is on a fast train all of its own and will continue to grow regardless of what happens around it.

Quebec is the hardest province to read for 1990. Markets have not been anywhere near “booming” for several years, but nevertheless have been showing modest spurts of growth.

In Montreal, the political security offered by the recent provincial election should give impetus to development over the next year. Some investment money had been holding back for such assurances of stability.

The Atlantic provinces also look for ICI construction declines in 1990 which will generally follow the national trends. Institutional construction is down across the board on the East Coast, reflecting fiscal belt-tightening at all levels of government. General economic growth and performance will continue to be sluggish.