

Reflections on Housing

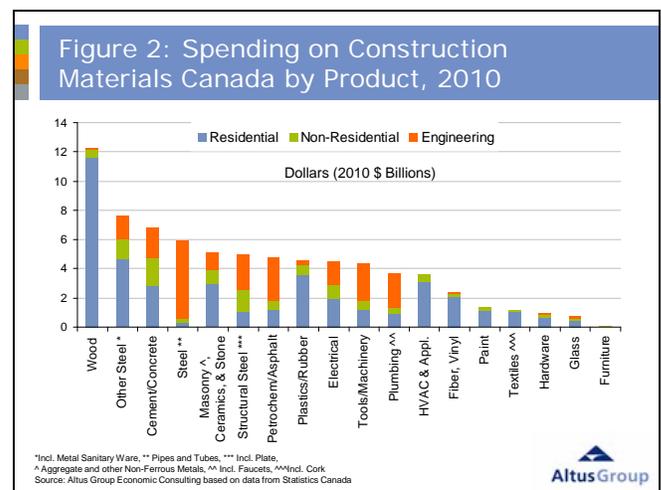
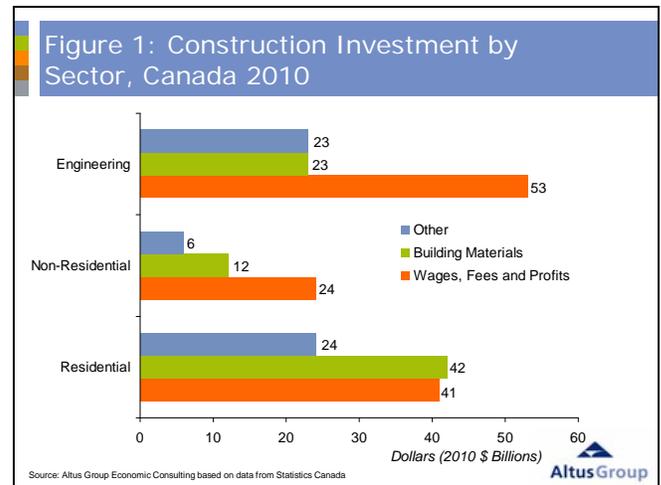
Prepared by Altus Group for CHBA

The Building Materials Sector: Economic Importance

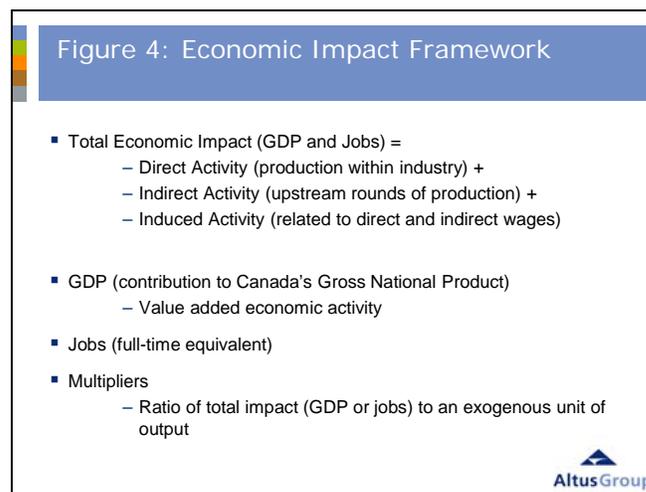
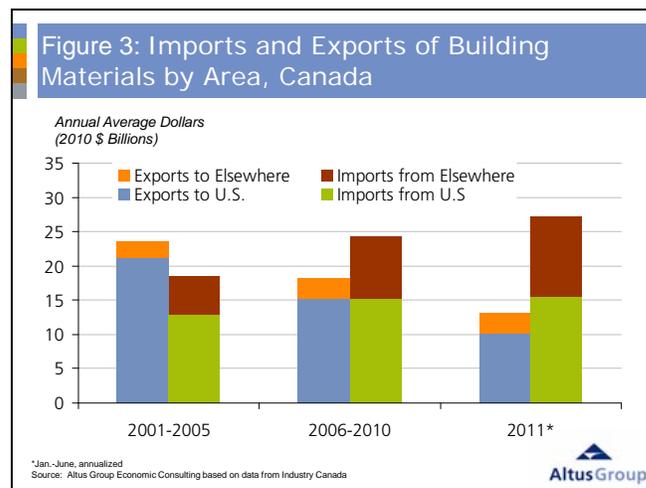
- The Canadian housing market is performing well in late 2011, but the risk environment is elevated
- There are both short-term and medium-to-longer term risks emerging
- Builders should continue to look for opportunities and bring innovative products to market, but make decisions with the elevated risk environment in mind, and understand that the world has changed

Challenging Times

- In 2010, Canadian manufacturers of building materials produced some \$66 billion in material – up about 5% from 2009 in real terms;
- Consumption of building materials reached \$78 billion – up over 8% from 2009;
- Traditionally, Canada has produced more building materials than it consumes domestically, but this trend has reversed in recent years;
- In terms of composition, building materials use accounts for 31% of total inputs into the construction sector in Canada, but almost 40% within the residential construction sector (Figure 1);
- Some \$42 billion in building materials are used in the residential construction sector, a similar value (in inflation-adjusted terms) to 2004, but up about 60% from the mid 1990s;
- By contrast, building materials use by the non-residential sector has been very steady over the past 25 years, but also expanding in the engineering sector;
- Wood, steel and concrete are the most heavily used materials in the construction sector in Canada, and wood, in particular, has a very heavy skew toward residential construction (Figure 2);
- Spending on wood and other key products rose substantially between the mid 1990s and the late 2000s;



- In terms of international trade in building materials, Canada has traditionally been a strong net exporter – recording trade surpluses in the order of \$5-\$10 billion in the 1990s and early 2000s. Recently falling exports and rising imports has dramatically reversed the situation to a wide trade deficit;
- Although exports of building materials overall remain weak, bright spots include the paint, petrochemical & asphalt, tools & machinery and plastics & rubber sectors;
- Imports of building materials from the U.S. have trended up modestly over the past decade, imports from elsewhere in the world have surged (Figure 3);
- Imports from elsewhere in the world now account for about half of all building products imports (Figure 3);
- Imports from China in particular, although still minor, have risen substantially over the past decade. In 2010, China imported more than \$3 billion in building materials to Canada – up 540% from 2001 -- and these have risen a further 25% so far in 2011;
- Building materials prices vary widely over time, and are generally tied to the commodity cycle. Generally, materials prices drive the residential construction cost index. Materials prices rose relatively sharply in 2008 and then moderated and/or declined into 2009 during the recession; and
- Following the recession, housing starts in Canada rose sharply and the building products industry created thousands of jobs as a result of increased demand from home builders. An Altus Group economic impact analysis estimates that between the first half of 2009 and first half of 2010, rising demand for construction materials generated some 13,000 net new jobs across a broad array of sectors as diverse as agriculture, transportation, education, health care and public administration, in addition to manufacturing.



Analytical Framework

- Figure 4 sets out the general framework for understanding economic impact calculations. Three ‘rounds’ of economic impact are accounted for: direct, indirect and induced activity; and
- GDP and employment multipliers account for the magnitude of total impact (from the three rounds) by various sectors. Multipliers tend to be high for materials such as kitchen cabinets and lower for steel pipes and tubes.