



Preliminary Investment Trends Report

NOVA SCOTIA: 2015–2024

Nova Scotia's construction industry will experience relatively few changes in overall investment across the outlook period. Non-residential construction investment will remain stable at higher than historical levels, driven by industrial (shipyard upgrades and expansion), utilities and commercial projects, while steady growth in renovation expenditures will help to offset a decline in new residential construction investment.

INTRODUCTION

This report highlights expected investment trends in Nova Scotia from 2015 to 2024. It does so with a view to providing initial insights on how new major projects, sustaining capital and ongoing investment trends may guide construction labour markets, serving as a precursor to the more detailed *Construction and Maintenance Looking Forward* report to be released in early 2015.

The information in this investment outlook has been validated through consultations with industry, including owners, contractors and labour groups, and government. Changes in anticipated project schedules, however, can alter these expected trends. BuildForce Canada regularly monitors economic conditions and the scheduling of major construction projects in order to incorporate relevant changes into its forecasting system.

ECONOMIC ENVIRONMENT

The future economic performance of the provinces is determined by the behaviour of a number of key forces driving the economy. These drivers include the performance of commodity prices and the economies of Canada's major trading partners.

While commodity prices remain high in historical terms, many are assumed to weaken in the short term, consistent with the world economy's overall weak recovery. Agricultural prices weakened in 2014, but remain relatively stable in the long term. Prices for metals and minerals were also weaker in 2014 as a result of weak global growth prospects. While prices are assumed to increase over the long term, the increases will be relatively small compared to the gains of the last decade.



Both oil and gas prices increase on average over the outlook period. Oil prices are forecast to decline until 2016 and increase thereafter. The price of oil is expected to exceed its previous peak of about US\$100 per barrel by 2019. The price of natural gas fails to return to its previous price peak. The relatively weak performance of natural gas reflects the increased supply of gas that is expected to be obtained from shale gas deposits across North America.

Canada's key trading partners show a strengthening in the medium term as their economies continue their recovery from the recent recession. U.S. growth strengthens to 2.8 percent in 2014 and averages 2.9 percent per year over the medium term. The Eurozone is expected to grow by 1.1 percent in 2014 and then average 1.5 percent over the medium term. Expected growth in Japan will be slightly lower, averaging 1.3 percent annually. China's economic growth remains relatively strong, but its rate is lower than that observed over the past 10 years.

The Canadian economy is forecast to grow by 2.1 percent in 2014, up slightly from 2.0 percent in 2013. A still recovering global economy in combination with an almost 10 percent depreciation of the Canada-U.S. exchange rate will cause export growth to strengthen and put downward pressure on import growth. GDP¹ growth averages 2.4 percent per year over the medium term, but then slows to 1.7 percent over the long term as the impact of the exchange rate depreciation diminishes and natural resource-related major project investment slows.

In Nova Scotia, economic growth is expected to pick up over the next few years, averaging 2.0 percent to 2020, but then slow to average 1.0 percent over the long term.

CONSTRUCTION INVESTMENT TRENDS

Non-residential construction investment remains stable over the next several years due to projects in the commercial, industrial (shipyard) and utilities sectors. Activity rises over the long term driven primarily by moderate growth in commercial building construction. Residential construction investment declines initially as housing starts align with household formation², but then increase gradually to account for population growth in the province. Table 1 provides a summary of investment across these sectors.

Table 1: Construction investment (\$2007 millions*)

	2014f**	2015f	2016f	2017f	2018f	2019f
Non-residential investment (excluding maintenance)	2,768	2,800	2,767	2,743	2,802	2,883
<i>% change</i>	-5.0%	1.2%	-1.2%	-0.9%	2.2%	2.9%
Building	1,278	1,324	1,349	1,376	1,427	1,470
<i>% change</i>	-1.5%	3.6%	1.9%	2.0%	3.7%	3.0%
Industrial	169	202	205	204	221	231
<i>% change</i>	0.0%	19.5%	1.5%	-0.5%	8.3%	4.5%

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¹ Gross domestic product

² Household formation refers to the change in the number of households (persons living under one roof or occupying a separate housing unit) from one year to the next. It is the means by which population growth is transformed into demand for new housing.



	2014f**	2015f	2016f	2017f	2018f	2019f
Commercial	670	694	733	763	809	839
% change	4.5%	3.6%	5.6%	4.1%	6.0%	3.7%
Institutional	438	428	411	409	398	400
% change	-10.1%	-2.3%	-4.0%	-0.5%	-2.7%	0.5%
Engineering	1,490	1,476	1,418	1,367	1,375	1,413
% change	-7.8%	-0.9%	-3.9%	-3.6%	0.6%	2.8%
Highways/bridges	310	298	296	299	285	290
% change	-10.1%	-3.9%	-0.7%	1.0%	-4.7%	1.8%
Other engineering***	1,180	1,178	1,122	1,068	1,089	1,123
% change	-7.2%	-0.2%	-4.8%	-4.8%	2.0%	3.1%
Maintenance	814	830	844	858	870	885
% change	2.4%	2.0%	1.7%	1.7%	1.4%	1.7%
Residential investment	1,881	1,886	1,893	1,841	1,811	1,866
% change	-11.1%	0.3%	0.4%	-2.7%	-1.6%	3.0%
New housing	556	559	546	483	443	470
% change	-30.8%	0.5%	-2.3%	-11.5%	-8.3%	6.1%
Renovations	1,325	1,327	1,347	1,358	1,368	1,396
% change	1.0%	0.2%	1.5%	0.8%	0.7%	2.0%

* "\$2007 millions" indicates that the money values are in year 2007 dollars (base year), that is, adjusted by inflation. This is used to calculate the real physical change of the values, factoring out growth due to increases in prices. Totals may not add up due to rounding.

** "f" refers to forecasted investment.

*** "Other engineering" includes the construction of water, wastewater, oil and gas, pipelines, mining, power and communications-related facilities.

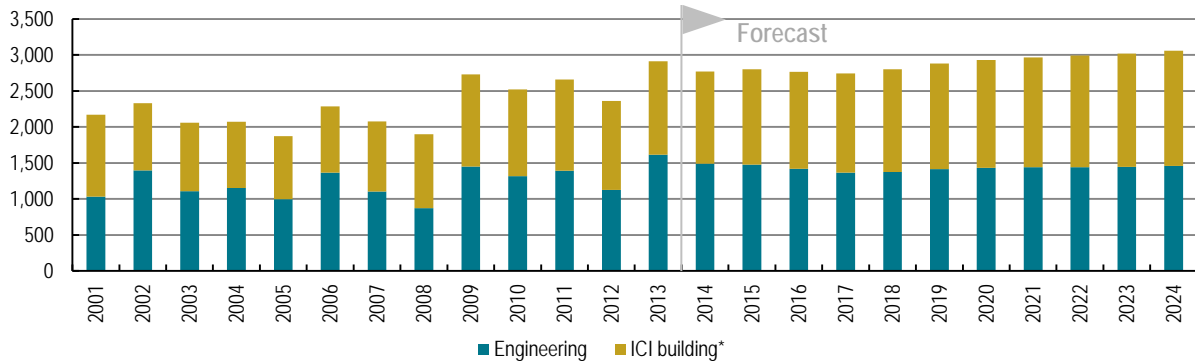
Source: BuildForce Canada

Non-residential

Non-residential construction investment in Nova Scotia is expected to remain near its previous 2013 peak for the next few years and then grow moderately later in the scenario period from 2019 to 2024. Overall activity remains firmly above historical levels of activity (see Figure 1). Industrial, commercial and institutional (ICI) building construction investment is expected to capture a higher share of total investment, relative to engineering construction.



Figure 1: Non-residential construction investment (\$2007 millions)

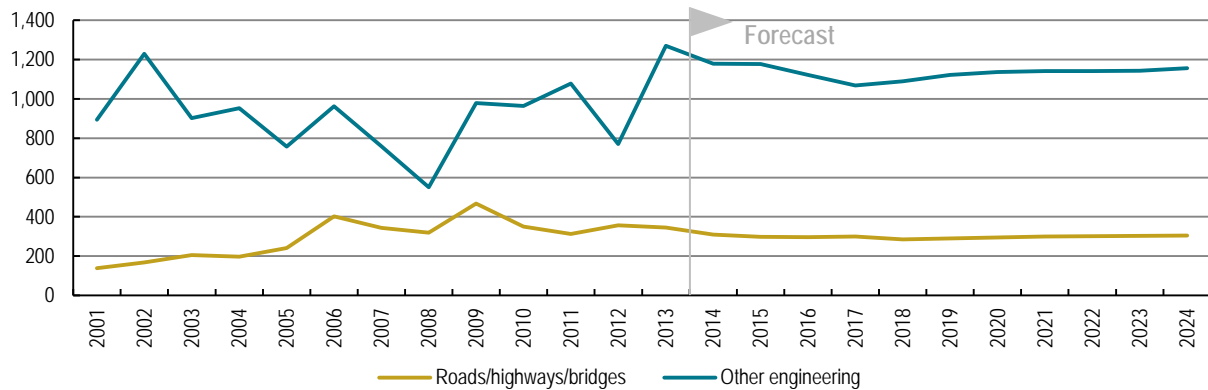


* "ICI building" refers to industrial, commercial and institutional building.

Source: BuildForce Canada

Construction investment in roads, highways and bridges (see Figure 2) decreased over the past few years due to the end of the stimulus infrastructure spending and is expected to trend marginally downward, but remain above historical levels of activity. Other engineering investment declines from current levels to 2017 as major projects, especially in the government services, industrial and utilities sectors, wind down. Activity remains relatively unchanged across the remainder of the period as there are no new large major engineering or resource projects proposed.

Figure 2: Non-residential engineering construction investment (\$2007 millions)



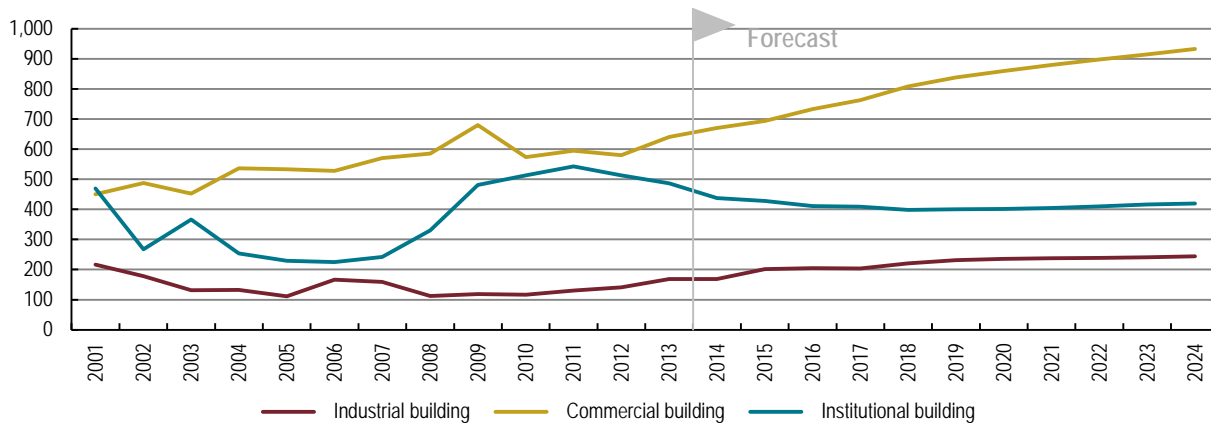
Source: BuildForce Canada

Across the scenario, ICI building construction investment (see Figure 3) is expected to be dominated by commercial construction, followed by institutional and industrial construction, respectively. Commercial construction investment is expected to trend up due to renewed population growth, which is driven by the net in-migration required to offset the negative natural rate of population growth (deaths exceeding births). Institutional construction investment declines as fiscal constraint slows spending across the medium term to



2019, and then rises at a moderate rate over the remainder of the period. Industrial construction investment rises gradually as major projects in manufacturing, and transportation and warehousing increase, but then is expected to level off over the long term.

Figure 3: Non-residential building construction investment (\$2007 millions)

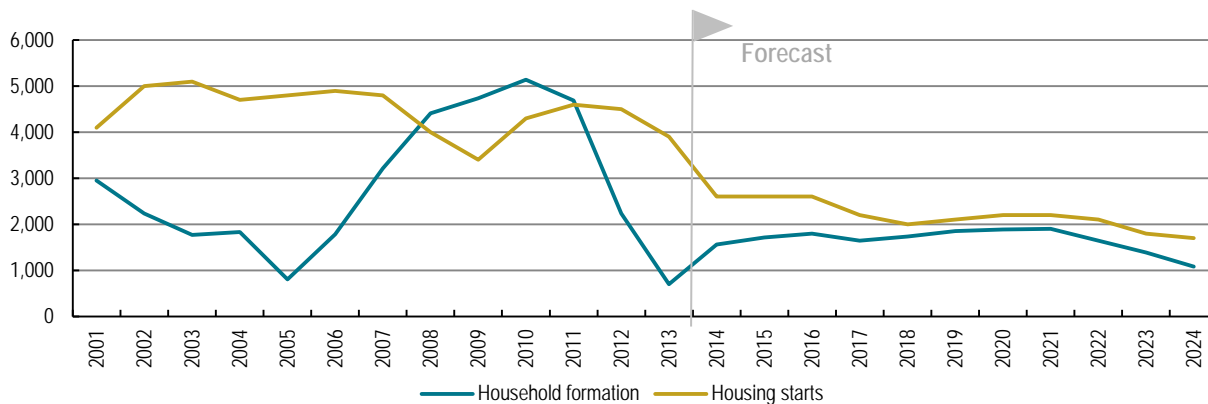


Source: BuildForce Canada

Residential

Housing starts are expected to decline between 2014 and 2018 as they align with household formation (see Figure 4). Housing starts pick up post-2018 as migration into the province increases household formation. New residential construction investment closely follows this trend, while renovation investment records steady growth across the scenario period (see Figure 5), partially offsetting the decline in new housing investment.

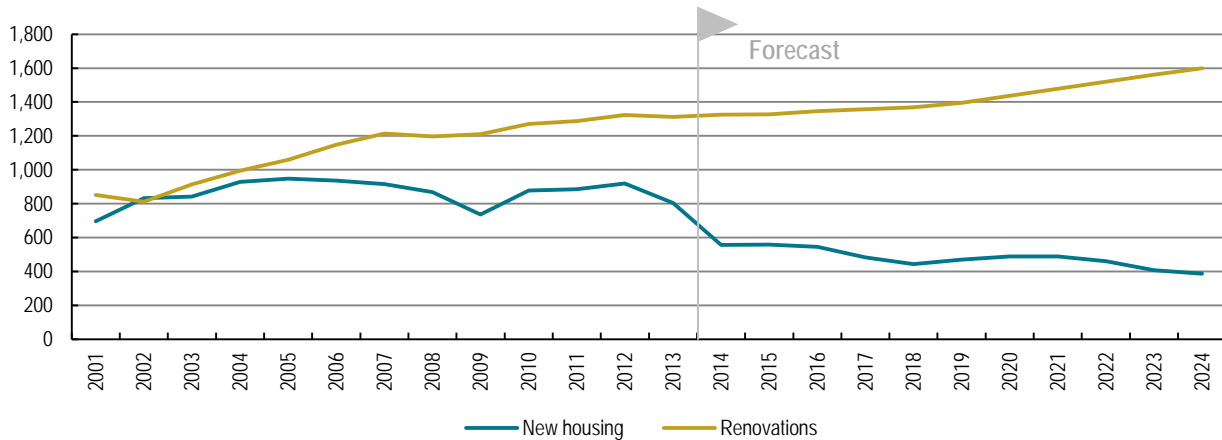
Figure 4: Housing starts and household formation



Source: BuildForce Canada



Figure 5: New housing and renovations investment (\$2007 millions)



Source: BuildForce Canada

SUMMARY

Broad labour market implications may be drawn from expected investment trends. In the short term, the non-residential sector is expected to experience steady demand for trades involved in commercial and industrial building construction. In residential, steady renovation investment plays a key role in stabilizing the demand for residential construction trades and occupations.

These market conditions are derived from an investment scenario that is based on a preliminary set of assumptions about current economic conditions and proposed new projects, sustaining capital and ongoing maintenance investment. These drivers may be prone to market uncertainties, however. BuildForce Canada continually monitors the economic environment and proposed major construction projects. Any updates will be incorporated into the upcoming *Construction and Maintenance Looking Forward* report of labour market conditions, to be released in early 2015.

Timely construction forecast data is available online at www.constructionforecasts.ca. Create customized reports on a broad range of selected categories within sector, trade or province covering up to 10 years.

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