THE BUILDINGS SHOW

Market Report

Canadian Construction Market Overview

April 2016

Potential in the Canadian Economy

Canada is an important trade and investment destination for international companies of all sizes and across a wide spectrum of sectors. Canada is a multicultural country with a population of 35.85 million and a GDP estimated at $1,986 billion dollars. Canada is one of the world's richest and most developed countries, ranking among the top ten industrial powers and is recognized as having one of the highest standards of living in the world by ranking15th in Quality of Life Index by Numbeo. In a press release by Mercer, "Quality of Living remains high in North America, where Canadian cities dominate the top of the list. Vancouver (5) is the highest ranking city, followed by Toronto (15) and Ottawa (17)." February 23, 2016

In 2016, experts are predicting a 1.3-1.5% GDP growth in Canada with provincial GDP growth ranging from 1% to 2%. Finance Minister Philip Morneau is predicting a 1.5% growth in Canada for 2016.[1]

Canada offers a skilled, educated and vibrant work force for manufacturing and service providers. With the low inflation, lower Canadian dollar and manufacturing capacity close to the US market, Canada offers trade and investment opportunities for International companies. The downward pressures on natural resource commodities values such as oil and natural gas in 2014-15 affected Canada, and in particular Alberta, Quebec, and Newfoundland. In 2016-17, the value of the Canadian dollar against the US dollar and the increase in the activity levels in the US market will lead to an increase in exports, manufacturing activities and new jobs. Currently, the Canadian dollar is valued at $0.76988 as of March 31, 2016, compared to $0.79 US as of March 31, 2015 and $0.91 US in March 31, 2014.

"Canada's labour market exhibited a surprising level of resilience over the past year, despite a markedly weaker economic growth performance. Total Canadian employment increased by 143,000, or 0.8% year-over-year, as of the end of October 2015. Moreover, an average of 14,600 jobs were created monthly during the first seven months in 2015. While not an overly robust growth cycle, recent performance was better than much of 2014. Encouragingly, employment sector progress was primarily in the form of fulltime jobs, offsetting declines in part-time positions. During much of the last year, the national unemployment rate held steady as more people entered the workforce. This stability was indicative of the resilience of Canada's labour market, despite a materially weaker economic performance."[2] Morguard Corporation

International companies can find stability and cost savings in establishing new manufacturing facilities in Canada. From overall business costs to corporate income tax rates, Canada is competitive with G7 and G20 countries. Canada facilitates corporate growth and development with research & development after-tax costs and reduced labour costs in provinces such as Ontario. Healthcare costs for employees are lower on average compared to the US. All these points make Canada a competitive option for international companies to grow, expand market share and establish manufacturing facilities.

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[1] *2016 Construction Forecast*, On-site Magazine, Jim Barnes, December 1, 2015
[2] *2016 Canadian Economic Outlook & Market Fundamentals*, Morguard Corporation

A recent study by KPMG LLP comparing global business costs placed Canada 2nd ahead of other countries with 14.6% cost advantage over the US due to the soaring US dollar.[3] Canada's business landscape consists of an agreeable mix of small, medium, and multinational size companies with an increase in entrepreneurial self-employment.

Canada is ranked #2 as the Best Countries Overall by U.S. News. Canada is a safe and financially reliable environment as Canadian financial institutions are considered the soundest by the World Economic Forum for the eighth year in a row.

Canada is ideally situated geographically and economically with the proximity of the US market. Geographical and economic access to Canada's industrial activity (based largely in Ontario and Quebec) is fundamentally important as 75% of Canadian exports going to the USA and the USA economy is strengthening. The automotive, healthcare and technology industries in Canada will continue to grow in the near future as both the US and Canada economies continue to strengthen.

There are excellent bilateral trade opportunities for strategic business partnerships and technology exchange between international and Canadian companies. The Canada-European Union, Comprehensive Economic and Trade Agreement (CETA) and Trans Pacific Partnership (TPP) are upcoming agreements that will secure the free flowing trade. These new agreements will affect the procurement processes; the import and export of manufactured goods; and facility bidding of engineering and contracting of foreign companies.

CETA will facilitate trade with 28 member states and Canada by eliminated 98% of tariffs. There is an estimated $20 trillion of economic activity including $2.3 trillion in annual imports, $3.3 trillion in government contracts and additional foreign direct investment (FDI) for all countries involved.[4]

TPP would facilitate trade amongst 12 countries on 4 continents with a combined GDP of $28.5 trillion and an estimated 40% of the world's output.[5]

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[3] *National Ranking*, KPMG LLP, https://www.competitivealternatives.com/highlights/overall.aspx
[4] Trade Agreements Create Opportunities, Export Development Canada, http://exportwise.ca/campaigns/en/trade-agreements/infographic.php
[5] *The ABCs of TPP*, Global and Mail, http://www.theglobeandmail.com/report-on-business/international-business/what-is-tpp-understanding-the-new-pacific-tradedeal/article26648948/

Market Sector Opportunities in Canada

As Canada is not only a natural resources rich country, there are many opportunities across most sectors of this developed and sophisticated market.

The sectors include:

- Aerospace
- Agricultural Technology & Equipment
- Agriculture, Food & Beverage
- Arts and Culture industry
- Automotive
- Chemicals & Plastics
- Cleantech Consumer Products
- Defense & Security
- Education
- Information & Communication Technologies
- Infrastructure, Building Products & Related Services
- Life Science
- Machinery & Equipment Mining
- Mining & Forestry
- Ocean Industries
- Oil & Gas
- Pharmaceuticals
- Transportation
- Wood Products

Toronto Growth Potential and Diversity

Toronto is the most populous and culturally diverse city in Canada with a regional population of up to 6 million. It is the commercial capital and the center of trade for Canada. In 2013, Toronto's population surpassed Chicago as the fourth largest city across North America.[6] The City and surrounding suburban areas are home to many leading national and international financial, architectural, engineering and building companies. The City of Toronto contributes nearly 20% of Canada's annual GDP and 45% of Ontario's GDP.[7]

Toronto is an economically strong city with general positive trends which makes it a preferred destination for investor's. Economic growth across Canada and the US will drive manufacturing capacities to their limits in the US. Canada will be required to provide additional output to meet new demand. The Greater Toronto Area manufacturing and retail sectors will grow in the coming year. Immigration will push up housing demand along with the housing costs for multi-residential and single-family dwellings.

Toronto based businesses export over $70 billion in goods and services globally with retail sales of $62 billion annually. Canadian Banks have been ranked the World's soundest for four straight years by the World Economic Forum.

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[6] *Toronto's population overtakes Chicago*, The Toronto Star, March 5, 2013

[7] *Economic Overview*, InvestToronto, http://www.investtoronto.ca/Business-Toronto/Business-Environment/Economic-Overview.aspx

Toronto Quick Facts:

- Ranked #1 the best city to live in the world by the Economist Intelligence Unit
- Ranked #1 the safest city in North America and #8 safest city in the World by Economist Intelligence Unit
- Ranked #2 of 10 North American cities for attractiveness for inward investment by fDI Magazine
- North America's 3rd Largest Public Transit System after New York City and Mexico City.
- Ranked as 1 of the top 4 global cities with economic clout (Cities of Opportunities Report, PwC, 2014).
- Ranked #4 of more than 100 major international cities for the world's most tax-competitive major city by KPMG's Comparative Alternatives Study in 2016
- Ranked #7 in Cities with the Most Skyscrapers and #18 of cities by Skyline Ranking world-wide by Emporis
- Ranked #10 of 58 global cities for global influence by Forbes Magazine
- Ranked #10 of 120 cities for global competitiveness by Economist Intelligence Unit
- Ranked #26 of 100 global cities for reputation by Reputation Institute in 2015
- Over $50 billion will be spent by the City of Toronto for city infrastructure development including the waterfront revitalization.
- Headquarters for 5 of Canada's largest banks as well as foreign financial institution global offices are located in Toronto.
- The Greater Toronto Area (GTA) is projected to be the fastest growing region of Ontario, with its population increasing by almost 3.0 million, or 45.8%, to reach over 9.4 million by 2041.[8]
- Over 21 million people visit Toronto annually.
- By 2016, the number of skyscrapers in Toronto will have increased by 40%.
- Ranked #88 for the Lowest Cost of Living along with Prague and Manila by The Economist[9]
- Toronto has over 128 High-Rise Buildings registered under construction on SkyscraperPage.com as of April 15, 2016.

Toronto has over 89,800 businesses and a large, highly skilled, multilingual workforce of 1.4 million which represents 1/6 of the country's workforce. 64% of Toronto residents are between the ages of 25 and 64 and have completed a post-secondary education.[10]

[8] *Ontario Population Projections*, Ministry of Finance, Fall 2014
[9] *Worldwide cost of living survey*, The Economist, March 10, 2016, http://www.economist.com/blogs/graphicdetail/2016/03/daily-chart-4
[10] *Business and Economic Development*, City of Toronto

The Buildings Show

Construct Canada, IIDEX Canada, PM Expo, Homebuilder & Renovator Expo and The World of Concrete Pavilion will be held November 30 to December 2 at the Metro Toronto Convention Centre. The co-location of these Shows all-under-one roof make up The Buildings Show, North America's largest trade show dealing with all aspects of residential and non-residential buildings.

The Buildings Show will receive over 30,000 registrants, showcase over 1,600 exhibits and deliver 350 seminars and presentations held across 600,000 ft^2 (56,000 m^2). This will be an ideal platform with international appeal which will attract decision makers in the global construction industry. The Buildings Show will showcase numerous innovations and cutting-edge products and solutions from around the world.

The Buildings Show will be a highly anticipated show and the destination of choice for buyers and suppliers. Industry professionals in attendance will drive the future development of Canada's multi-billion construction and infrastructure projects.

The Buildings Show, Canada's marketplace for the construction industry, has gained a great reputation due to the continual successes of previous Shows and it re-affirmed its position as Canada's must attend event with outstanding sales and unprecedented visitor and exhibitor participation.

Over 100 professional Canadian associations will support Shows. Associations invited to participate in the Shows in various ways, including hosting their annual general meeting, awards gala or cocktail reception at the Metro Toronto Convention Centre outside of show hours, making it advantageous and convenient for their members to attend.

2015 Show Stats

- 30,000 Visitors
- 42 Countries were represented
- 1,600 Exhibits over two buildings
- 500 Speakers and Industry Experts
- 350 Presentations and Seminars
- 75% Visitors attend the Show to source new products/services
- 65% Visitors have a key role in recommending products/services
- 90% Visitors will be returning in 2016
- 97% Exhibitors were satisfied by the outcome

Canada's Construction Market

Canada is considered one of the world's largest markets for residential, industrial, commercial, institutional and infrastructure development. Canadian infrastructure and construction sectors have experienced massive growth over the past 10 years. Construction activity in Canada has been driven by government investment in infrastructure, oil prices, housing demand, immigration and investment in commercial building by the private sector.

The value of building permits in Canada grew in 2015 to $85.14 billion where residential permits increased to $53.35 billion and non-residential construction decreased to $31.79 billion. All levels of government across Canada have increased their commitments to infrastructure investment. The infrastructure investment will bring employment to the construction industry and improve current infrastructure assets for generations to come across Canada.

Canadian infrastructure will receive a boost with the renewed commitment by all levels of government to invest in new infrastructure projects and reduce the un-necessary lengthy application processes. Over the next few years, construction industry will be concerned with: uncertainties in emerging international economies, China's economic growth and global consumption, US demand and manufacturing capacity, labour shortage, interest rates, rising construction costs, outlook for the residential sector and energy costs.

Land and property values have been maintained in specific primary and secondary markets across Canada in British Columbia, Ontario and Quebec. "In terms of specific commercial asset classes, land will be actively traded across the country in 2016, especially infill and development opportunities. High-quality retail, office and multifamily properties will also be sought after, while coveted industrial assets will remain in short supply." CBRE Research This is a good indicator for new construction projects in high value urban centres and retrofit projects of existing high-value assets for property owners and developers.[11]

"Canada's office property sector investment performance of the recent past was characterized by stable and positive trends. On the whole, sector yields were at levels that met the requirements of most local and national investment groups. Investor confidence was evident in recent transaction volume figures. In the first half of 2015, a total of $2.4 billion in combined sales volume was recorded for the nation's major urban centres. Indeed, investor appetite for Canadian office properties remained robust, which has been the norm for a prolonged period of time. Properties with strong tenant rosters in established nodes received the highest levels of interest from the investment community.[12] Morguard Corporation

"The Canadian purpose-built Multi-Suite Residential property market exhibited healthy investment trends over the past year, keeping with the extended recovery phase of the cycle. The sector generated an attractive annual average return of 8.5% in the MSCI

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[11] *CBRE Research, 2016 Canadian Market Outlook*
[12] *2016 Canadian Economic Outlook & Market Fundamentals, Morguard Corporation*

Index for the 12-month period ending in June 30th 2015. In doing so, the sector ranked first among the major commercial property asset classes."[13] Morguard Corporation

"Investment in new residential building construction increased 3.9% year over year to $3.7 billion in January. Nationally, the increase was driven by higher spending on apartment and apartment-condominium buildings (+19.9%) and row houses (+7.6%) in January."[14] Statistics Canada

Canadian cities are poised to grow in the next 20 years due primarily from immigration. Demand for housing and pressures on infrastructure will be increased as a greater number of families find homes and commute to work every day. "Canada's population could exceed 40 million by the late 2030s under the medium-growth scenario. In this scenario, the population would be 39 million in 2031 and around 42.5 million by 2056."[15] "Ontario's population is projected to grow by 31.3%, or over 4.2 million, over the next 28 years, from an estimated 13.5 million on July 1, 2013 to almost 17.8 million by July 1, 2041. Net migration is projected to account for 73% of all population growth in the province 2013–2041, with natural increase accounting for the remaining 27%. In the second half of the projections, the contribution of natural increase will moderate as baby boomers increasingly reach senior years and the number of deaths increases more rapidly."[16]

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[13] *2016 Canadian Economic Outlook & Market Fundamentals, Morguard Corporation*
[14] *Investment in new housing construction, January 2016,* Statistics Canada http://www.statcan.gc.ca/daily-quotidien/160321/dq160321c-eng.htm
[15] *Population Projections*, Statistics Canada, December 15, 2005
[16] *Ontario Population Projections*, Ministry of Finance, Fall 2014

Business Potential & Opportunities Facts

- More than $740.692 billion in pre-tendered projects for commercial and civil projects over next few years in Canada as of March 31, 2016. CDM Database
- In 2015, Canadian construction estimated the value of the construction industry at $293 billion. Construction represents 6 percent of the Canadian gross domestic product (GDP) and employs more than 1.26 million Canadians who engage in more than $90 billion of work every year. By 2017, the Canadian construction industry current dollar spending is forecasted to increase to $340 billion Canadian.
- Rank #1 - Canada's banking system has been ranked #1 by the World Economic Forum for the most sound banking system in the world for eight consecutive years.
- "In 2014 Canada was the EU's 12th most important trading partner, accounting for 1.7% of the EU's total external trade. In 2014 the EU-28 was Canada's second most important trading partner, after the U.S., with around 9.4% of Canada's total external trade in goods."
- The value of bilateral trade in goods between the EU and Canada was €59.1 billion in 2014. The value of bilateral trade in services between the two partners amounted to €27.2 billion in 2014.
- Canadian population growth is expected with the increasing rate of immigration. Demographics are important both nationally and at the provincial and city levels. The total population of Canada has been increasing at a rate of 1.2% per year, with provinces in the West galloping ahead faster than any in the East." CanaData Forecast, April 2014
- There are more than 265,000 firms in the construction industry. Of these firms, 150,000 are private contractors and 68,000 operate in residential construction which offers abundant opportunities for new entries.
- The Ontario Ministry of Finance approved the following for the 2016 budget:

  - ❖ "Ontario is planning to invest more than $137 billion in public infrastructure over the next 10 years, supporting over 110,000 jobs on average each year in construction and related industries. This builds on previous commitments, resulting in about $160 billion to public infrastructure investments over 12 years, starting in 2014–15.

Note: Figures exclude third-party investments in hospitals, colleges and schools.

- The 2016 Budget invests in new highway projects and expands the Ontario Community Infrastructure Fund (OCIF) to $300 million per year by 2018–19 to support projects in small, rural and northern communities.
- Through the Small Communities Fund, the Province and the federal government are each providing $272 million to support projects in communities with populations of less than 100,000.
- The Connecting Links program will provide $20 million in 2016–17, up from $15 million announced in the 2015 Budget, to help municipalities pay the construction and repair costs for municipal roads that connect two ends of a provincial highway through a community or to a border crossing. Funding for this program will increase to $30 million per year by 2018–19.
- The Ring of Fire project will support economic development in northern Ontario, benefiting Indigenous communities, Ontario and Canada as a whole. The Province has committed up to $1 billion for transportation infrastructure development in the region."[17]

Residential Construction

- CMHC estimate housing starts ranged at 162,000-212,000 units in 2015 and forecast housing starts at 153,000-203,000 units in 2016. Housing starts are expected to drop for single-family dwelling over the next two years to 149,000-199,000 in 2017. Ontario and British Columbia will have the greatest stability in the housing market.[18]
- "Investment in single-family dwellings fell 4.0% from January 2015, and spending on semi-detached buildings decreased 16.4%." Lower investment was seen in single-family detached houses yet an increase in multi-residential construction and rental units across Canada due to changing demographics, Millennium first-time home buyers, immigration and increase demand for affordable housing.

Non-Residential Construction

- Growth in non-residential construction will moderate. "Slower growth is projected for the 2013– 2021 scenario period and growth is spread out over a high plateau of gradual employment gains. Growth accumulates to 44,000 new jobs across the nine-year scenario from 2013 to 2021." Construction Sector Council
- In 2015, the total value of the building permits increased across Canada to $31.790 billion for industrial buildings was $5.513 billion, commercial buildings was $17.012 billion and institutional/government buildings was $9.265 billion. Statistics Canada

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[17] *Building Tomorrow's Infrastructure Now*, Ontario Ministry of Finance, http://www.fin.gov.on.ca/en/budget/ontariobudgets/2016/bk2.html
[18] *2016 Construction Forecast*, On-site Magazine, Jim Barnes, December 1, 2015

- Industrial construction will increase as manufacturing sector activity increases. Commercial building retrofit and renovation activity has increased to compete with the increasing number of new commercial buildings.
- Institutional and commercial construction projects are active in multiple regions across Canada, most notably in British Columbia and Ontario.

Infrastructure Spending

- The federal government has renewed its commitment to infrastructure and transportation projects through the 2016 Federal Budget by investing $125 billion over 10 years in assets from coast to coast including the investment of:

    - 1. Eglinton Crosstown LRT, Transit, Ontario, $9.1 billion
    - 2. Site C – Hydroelectric – British Columbia, $8.775 billion
    - 3. Muskrat Falls Project, Hydroelectric, Newfoundland & Labrador, $7.65 billion
    - 4. Romaine Complex, Hydroelectric, Quebec, $6.5 billion
    - 5. Keeyask Hydroelectric Project, Hydroelectric, Manitoba, $6.496 billion
    - 6. Southwest Calgary Ring Road, Transportation, Alberta, $5 billion
    - 7. Bipole III Transmission Line, Transmission, Manitoba, $4.6 billion
    - 8. Green Line LRT, Transit, Alberta, $4.5 billion
    - 9. New Champlain Bridge Corridor Project, Transportation, Quebec, $4.24 billion
    - 10. Turcot Interchange, Transportation, Quebec, $3.67 billion

- "By sector, transportation projects (which include road and bridge developments) accounted for 23% of the list ($32.80 billion), transit for 20% ($27.72 billion), public buildings (hospitals, schools, government facilities) for 11% ($15.71 billion), and water/wastewater projects for 2% ($2.81 billion)." Top100Projects.ca
- Over $50 billion to be spent by the City of Toronto for municipal infrastructure development.

The Value of Tendered Projects as of March 31, 2016[19]

Canadian Project Leads

Total value of Canadian construction projects currently in our database:

Commercial Projects (value)	
Pre-Tender Phase:	$385,575,176,324
Tender Phase:	$3,645,049,795
Post-Bid:	$88,301,723,514
Civil Projects (value)	
Pre-Tender Phase:	$174,404,635,505
Tender Phase:	$467,873,600
Post-Bid:	$88,298,124,495

Ontario Project Leads

Total value of Ontario construction projects currently in our database:

Commercial Projects (value)	
Pre-Tender Phase:	$74,723,408,147
Tender Phase:	$431,513,000
Post-Bid:	$40,362,740,764
Civil Projects (value)	
Pre-Tender Phase:	$28,468,649,009
Tender Phase:	$98,353,000
Post-Bid:	$32,863,505,850

Source: CMD Group (formerly Reed Construction Data), March 31, 2016

The Top 5 Infrastructure Projects in Canada[20]

1. **Site C Clean Energy Project (hydroelectric)**, $7.9 billion
   located near Fort St. John, British Columbia

2. **Muskrat Falls Project**, $6.99 billion
   located in Muskrat Falls, Labrador

3. **Romaine Complex (hydroelectric)**, $6.5 billion
   located in Havre-Saint-Pierre, Quebec

4. **Keeyask Hydroelectric Project**, $6.2 billion
   located at the Lower Nelson River, Manitoba

5. **Eglinton Crosstown LRT**, $4.9 billion
   located in Toronto, Ontario

[19] CMD (formerly Reed Construction Data), March 31, 2015
[20] Top 100 Canada's Biggest Infrastructure Projects, http://top100projects.ca/2015filters

Regional Construction Activity Highlights

Ontario

Ontario is Canada's largest and most diverse economy. Demand in Ontario for manufactured goods and services will benefit from the recovery in the USA and domestic consumption. Ontario is an attractive market for investors with the largest number of projects with foreign direct investment of US$7.1 billion.[21] Overall business cost are lower in Ontario compared to states in the USA for business costs including research and development, manufacturing, digital media and corporate service.[22]

- Ontario has 38.5% of Canada's population and 36.1% of Canada's total exports based on metals and minerals, consumer products and vehicles and parts exports. 92% of Canada's vehicles and parts are exported from Ontario.[23]
- CMHC's Housing Market Outlook for Ontario forecasted an increasing in housing costs for existing stock and supports the demand for less expensive housing. "Ontario sales will range between 193,000-225,000 units in 2016 and 175,000-220,000 units in 2017." The unit sales and pricing will be affected by immigration, mortgage rate fluctuations or government intervention. Secondary markets in Ontario cities due to affordability and economic prosperity. The demand for less expensive rental units and rental housing will increase due to current single family housing prices and changing demographics.[24]
- The housing market will be tempered by the changes in the longer-term borrowing rates and mortgage rules changes along with any regional government intervention.
- Manufacturing, wholesale and tourism industries will benefit by the lower Canadian dollar which boost Canadian exports.
- "Ontario's population is projected to grow by 31.3 per cent, or over 4.2 million, over the next 28 years, from an estimated 13.5 million on July 1, 2013 to almost 17.8 million by July 1, 2041."[25]
- Ontario is a leading province for the Canadian manufacturing sector. The low Canadian dollar will increase exports and demand from the US. "Growth will gear back to 6% in 2016 as automotive constraints take hold and the impact of the Canadian dollar on export prices wanes."[26] Export Development Canada

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[21] *Ontario Continues to be a Top Destination for Foreign Direct Investment in North America*, Newsroom, Ontario Government, May 15, 2015

[22] Ministry of Economic Development, Employment and Infrastructure Analysis, Competitive Alternatives Cost Model, 2014. Accessed March 2014

[23] *How Important is Foreign Trade to the U.S. and Canada?*, CMD Group, Alex Carrick, February 23, 2015

[24] *Housing Market Outlook, Ontario Region Highlights*, Canada Mortgage and Housing Corporation, Fourth Quarter 2015.

[25] *Ontario Population Projections*, Ministry of Finance, Fall 2014

[26] *Volatile is the New up, Global Export Forecast, Fall 2015, Executive Summary*, Pete Hall, Export Development Canada

- Ontario's unemployment rate has remained steady at 6.7% as more people entered the workforce; Ontario is the one province that has seen job growth in 2016 as Canada's unemployment rate reaches 7.2%.[27]
- "Beside a struggling office market, commercial property in Ottawa will perform well. Investment will benefit from a strong public sector and its resulting stability. Government buildings, particularly those with long term leases, are expected to attract the most attention." Morguard Corporation, February 2015
- Per Ontario Ministry of Finance, China was the second largest international importer. From investment to manufacturing, Chinese companies have been well received in this province's business environment and flourish in diverse markets such as mining, agriculture and information technology. There are up to 650,000 Chinese immigrants in Ontario and many maintain connections to their families in China. In 2014, a trade mission from Ontario to China resulted in nearly $1 billion in new deals and 1,800 new jobs and 26 government agreements.[28]
- In 2016, Premier Wynn traveled to India with a delegation on a trade mission. India is one of Canada's top twenty major trade partners. The Newsroom from the Ontario Government reported trade of goods between Ontario and India almost total $2 billion in 2014. Ontario is home to a large Indo-Canadian community with 700,000 members.

Alberta

- In Alberta, the lower oil prices have contributed to the significant reduction in private investment and high number of companies downsizing their operations and workforce in the province. To soften the blow, the Alberta government is expecting to invest in infrastructure. Unemployment rates have risen to 7.5% and housing sales have dropped but housing prices have been sustained.[29]
- Oil prices are forecasted to remain in the $50-$60 USD per barrel over the next 18 months. The low oil prices will continue to plague Alberta's economy and unemployment rates.[30]
- The office rental market has softened due to the reduction in oil prices, downsizing of corporations, and increase in new supply in the market. Calgary's retail leasing market has continued to outperform expectations for 2016. Multi-residential rental market is soft but that is expected in this market. Long-term investment is considered a positive strategy and there may be opportunities as oil prices stabilize in the coming years.[31] Morguard Corporation
- The government has committed $34 billion over 5 years to build and modernize roads, schools, housing facilities, hospitals and flood mitigation projects across

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[27] *Canada's Unemployment Rate Rises to 7.2% -- Largest Gap with U.S. Rate in 14 Years,* Huffington Post, February 5, 2016

[28] *Ontario highlighted in China's high-level overseas investment forum,* China Daily USA, January 22, 2015 http://usa.chinadaily.com.cn/world/2015-01/22/content_19372974.htm

[29] *Provincial Economic Forecast, TD Economics*, January 26, 2016.

[30] *Ontario Population Projections*, Ministry of Finance, Fall 2014

[30] *Volatile is the New up, Global Export Forecast, Fall 2015, Executive Summary*, Pete Hall, Export Development Canada

[31] Morguard – 2016 Real Estate Investment Trends to Watch in Western Canada https://www.morguard.com/news-knowledge/news-article?newsld=122910

Alberta. In 2016-17, the budget provides $953 million for roads and bridges, $634 million for various climate change initiatives, $271 million for flood recovery and nearly $1.7 billion in municipal infrastructure supports.

British Columbia

- TD Economics are forecasting a 2.6% real GDP growth on average in British Columbia for 2015-2016. The increase in GDP growth will be led by non-residential construction of LNG terminals, pipeline, industrial, utilities and mining.[32] The diversity of British Columbia's exports will assist in a modest increase in values for 2016.
- In 2016, Vancouver is forecasted to perform well economically along with commercial property market performance in 2016. The growth in output for good and services will support the gains of 3.5% in economic output. The housing market has remained strong and housing prices have been maintained especially in urban pockets.[33] Morguard Corporation
- Victoria is expected to benefit from the low Canadian dollar and commercial real estate sector with an increase in tourism and new office space. "A stronger economic outlook is predicated in non-commercial services wholesale and retail sector growth." The regions investment market will be strong in the coming year with the expected tourism.[34] "Between 2015 and 2018 the manufacturing sector in Victoria is forecasted for an average annual growth of 2.4. Only the transportation and warehousing sector is expected to surpass the 2.0% growth market in 2014."[35] Morguard Corporation

Quebec

- Quebec seems to have a strong economic and construction outlook for 2016. "After holding its own in terms of job gains in 2015, job creation in Quebec is expected to run at a rate faster than the Canadian average for the second straight year in 2016. In this environment, home sales are expected to buck the national average and post a gain in the year ahead. Rising US and Europe demand will provide a boost to the province's manufacturing sector."[36] TD Economics
- TD Economics is forecasting a 2.3% economic growth for Quebec in 2015 after struggling in 2014 with 1.4% real GDP. In 2016, the construction industry will see new projects coming online for mining and pipeline projects according to BuildForce.[37]

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[32] *2015, Construction Forecast*, On-site Magazine, Jim Barnes, December 01, 2014
[33] Morguard – 2016 Real Estate Investment Trends to Watch in Western Canada https://www.morguard.com/news-knowledge/news-article?newsId=122910
[34] Morguard – 2016 Real Estate Investment Trends to Watch in Western Canada https://www.morguard.com/news-knowledge/news-article?newsId=122910
[35] *2015 Canadian Economic Outlook & Market Fundamentals*, Morguard Corporation
[36] *Provincial Economic Forecast, TD Economics*, January 26, 2016.
[37] *2015, Construction Forecast*, On-site Magazine, Jim Barnes, December 01, 2014

- “In 2016, the expected entry into service of Bombardier’s CSeries aircraft will help Quebec to overtake rival Ontario with the value of goods sold abroad increasing another 8%.”[38] Export Development Canada

Saskatchewan

- Saskatchewan is expected to survive the low natural resource prices. The diversity of its industry sectors will help the province’s growth. “As a case in point, potash production has increased sharply in recent months, helping offset some of the impacts from reduced activity in the oil-patch.” Housing prices will be affected by the higher than expected supply levels and GDP will be positive while job creation will be stagnant.[39] TD Economics
- In 2014, Saskatoon was expected to have a 4.2% rise in output, driven by construction activity and its small manufacturing sector.[40]

Manitoba

- Manitoba is forecasted to have an increase in exports and manufacturing due to the US economic recovery and weakened Canadian dollar. TD Economics is forecasting a 2.5% economic growth in 2015 and 2.1% in 2016. Non-residential construction will be driven by activities in utilities and mining in Northern Manitoba.[41]
- “In Manitoba, strong construction and metal mining sectors, along with the provincial government’s heavy investment in infrastructure, will help the economy grow by 3 per cent in 2015, the forecast said.”[42]
- “In Manitoba, the goods sector looks poised to gain traction this year, led by solid advances in manufacturing, non-residential construction and agriculture.” Continued consumer spending and confidence reflect the true growth of the economy. TD Economics[43]

Atlantic Provinces

- Atlantic Provinces benefited from several oil and gas mega-projects which accounts for 92% of all starts in this region and performed well in the civil engineering sector. Projects are related to off-shore oil drilling, a new pipeline

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[38] *Volatile is the New up, Global Export Forecast, Fall 2015, Executive Summary*, Pete Hall, Export Development Canada
[39] *Provincial Economic Forecast, TD Economics*, January 26, 2016.
[40] 2015 Canadian Economic Outlook & Market Fundamentals, Morguard Corporation
[41] *2015, Construction Forecast*, On-site Magazine, Jim Barnes, December 01, 2014
[42] *Ontario's economy poised for growth, forecast shows,* The Toronto Star, Economy, November 27, 2014
[43] *Provincial Economic Forecast, TD Economics*, January 26, 2016.

connecting New Brunswick to the Maine border, refining terminals and new port facilities and more.[44]

- "In Nova Scotia, s pick-up in construction activity, partially driven by full year's work on the major shipbuilding contract with the federal government, will provide support to its expansion. In Prince Edward Island, construction and manufacturing are likely to lead activity higher, while both provinces likely enjoy strength in their tourism sectors."[45] TD Economics
- "New Brunswick appears set to enjoy a cyclical pick-up in 2016. Exports have improved and job creation has recently shifted into positive territory on a year-over-year basis. Exports of food products are likely to lead the way. Steady gains are also anticipated in retail trade and home sales."[46] TD Economic
- The proposed LNG export projects, the Energy East pipeline and new natural resource projects could keep investment strong for the next four years. There was a record $122 billion worth of investment in 439 major projects in Atlantic Canada. Patrick Brannon, Director, Atlantic Provinces Economic Council's
- Newfoundland and Labrador are heavy invested in natural resources to sustain its economy. The low oil prices has eroded consumer confidence and spending. New iron and nickel development along with hydro-electricity production will support the economy as oil production stabilizes.[47] TD Economics

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[44] *CMD's 2014 Construction Starts Snapshot,* CMD Group and Oxford Economics, February 5, 2015
[45] *Provincial Economic Forecast, TD Economics*, January 26, 2016.
[46] *Provincial Economic Forecast, TD Economics*, January 26, 2016.
[47] *Provincial Economic Forecast, TD Economics*, January 26, 2016.

IMF Executive Board Concludes 2014 Article IV Consultation with Canada

Press Release No. 15/25
January 30, 2015

On January 28, 2015, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Canada.

Canada's recent growth performance has been solid, alongside a stronger U.S. recovery. U.S. growth momentum, exchange rate depreciation, and high energy demand in early 2014, all led to a pickup in exports, although it has yet to translate into strong investment and hiring. In particular, the slowdown in business investment has been widespread in recent years. Thus, the composition of growth has not yet shifted away from private consumption and residential investment to generate a broader, more durable recovery. Substantially lower oil prices will be a drag on growth through weaker investment in the energy sector. Private consumption has continued to grow thanks to rising household wealth and exceptionally easy financial conditions. Indeed, after a brief pause, Canada's housing market rebounded in 2014, fueled by low and declining interest rates although there are some welcome signs of cooling especially in overheated markets. IMF staff analysis suggests a national real house price overvaluation between 7–20 percent although with important regional differences.

Growth momentum is expected to continue this year, despite substantially lower oil prices, and become more balanced with a cooling housing market. The stronger U.S. recovery, which is expected to continue, is leading to higher non-energy exports and supporting investment. These factors should mostly offset a moderation of private consumption and residential and energy investment as U.S. interest rates rise, low oil prices persist and households remain highly indebted. Looking beyond the recent past strength in housing markets, staff continues to expect a "soft-landing" as higher interest rates and weaker terms-of-trade prospects would temper housing demand. Downside risks to the outlook have risen in light of further oil price declines, adding to the risks of weaker global growth and still-unfolding effects from the unusually large fall in oil prices. Domestic vulnerabilities in housing markets and the household sector remain elevated but contained from a financial stability perspective. Given interconnections between external and domestic risks, some risks could occur together.

Public finances continued improving in 2014, reflecting federal and some provincial consolidation efforts. The general government fiscal deficit is expected to narrow from about 2¾ percent of GDP in 2013 to 1½ percent in 2014, with the federal government essentially on track to achieving its balanced budget target in FY2015/16 despite lower oil prices. Federal authorities should consider adopting a neutral stance given past consolidation gains and downside risks to growth. Such a stance would still be consistent with achieving the longer-term goals on public debt reduction. Provinces remain committed to their balanced budget targets, but, for some, fiscal adjustment continues posing challenges. They will need to sustain their efforts to strengthen public finances, especially in light of longer-term aging-related fiscal pressures.

In the wake of substantially lower oil prices and increased uncertainty around an otherwise solid economic outlook, the Bank of Canada cut its policy rate by 25 basis points and revised down its projections for GDP growth and headline inflation, on January 21. The Bank's policy action is in line with staff advice to use available monetary policy space should adverse shocks intensify given the deeper drop in oil prices. Overall, maintaining monetary accommodation along with gradual fiscal consolidation at the general government level would be conducive to achieving a growth composition with stronger exports and, thereby, investment in the economy, while targeted macro-prudential policies would help address housing sector vulnerabilities as needed.

Canadian banks remain highly profitable, with favorable loan quality, low nonperforming loans, and improving capitalization. Stress tests suggest that banks are resilient to credit, liquidity, and contagion risks due to their strong capital position, stable funding sources, and low exposures to the energy sector, as well as extensive government-guaranteed mortgage insurance. Steady progress has been achieved on key parts of the financial reform agenda, such as on implementing the Basel III Liquidity Coverage Ratio and leverage standards. Enhanced coordination across federal and provincial authorities in supervision and stress-testing will further bolster financial system soundness. Also, strengthening macro-prudential and crisis management frameworks will reinforce the overall resilience of the financial system.

Executive Board Assessment

Executive Directors agreed with the thrust of the staff appraisal. They welcomed Canada's continued solid growth performance, underpinned by the authorities' sound macroeconomic policy management. Directors noted that while the outlook remains favorable and growth is expected to become more balanced with a cooling housing market, risks are tilted to the downside because of tighter global financial conditions, effects from substantially lower oil prices, and persisting vulnerabilities in housing market and household sector. Directors agreed that continued well-calibrated policies should facilitate the needed rebalancing and sustain the growth momentum. Structural reforms to boost productivity and business investment will also be important to support medium-term growth.

Directors agreed that monetary policy should remain accommodative given well-anchored inflation expectations, sluggish business investment, lower oil prices, and until there are firm signs of durable recovery with stronger business investment. They supported the Bank of Canada's decision to lower the policy rate as it would help further support the economy in light of the likely adverse effects of the oil price shock. However, they encouraged the authorities to continue monitoring the impact of monetary policy on household debt and house prices. Directors acknowledged that macro-prudential measures have been effective in containing growth of insured mortgage loans, but noted significant rise in uninsured mortgages alongside still-strong segments of housing markets. They generally agreed that additional macro-prudential policy action may be needed if household balance sheet and housing market vulnerabilities resume rising, in particular tighter standards for uninsured mortgages. Directors welcomed the authorities' recent initiatives to limit the government's exposure to the housing sector. They encouraged further action gradually to ensure appropriate risk retention by the private sector and, in the longer run, to re-examine the dimensions of extensive government-backed mortgage insurance. Directors welcomed the authorities' commitment to fiscal targets and that the federal government is essentially on track to achieve a balanced budget in 2015. They agreed that fiscal consolidation should continue at the general government level, but the composition of the fiscal adjustment would need to shift from the federal government to the provinces. Most Directors saw scope for the federal government to adopt a neutral stance going forward, given strong adjustment efforts in recent years. They encouraged using the available fiscal resources for growth-friendly measures and strengthening the medium-term fiscal frameworks.

Directors agreed that fiscal adjustment at the provincial level would need to proceed, including through sustained progress in containing aging-related spending and supported by regular spending reviews. They generally noted that long-term fiscal sustainability challenges call for extending long-term fiscal forecasts at the provincial level and publishing consolidated general government fiscal forecasts in consultation with provinces.

Directors noted that Canada's financial sector continues to be sound and stable and commended the authorities for the progress on the international reform agenda. They welcomed the progress made in implementing several recommendations of the 2013 update of the Financial Sector Assessment Program (FSAP) and generally encouraged the authorities to move forward with the outstanding FSAP recommendations. In general, Directors noted that further enhancing supervisory cooperation across federal and provincial authorities, harmonized stress-testing of systemically-important depository institutions, and strengthening macro-prudential and crisis management frameworks would reinforce the resilience of Canada's financial system. A few Directors observed that focusing more on outcomes with respect to financial sector performance and allowing greater flexibility as regards frameworks or structures to achieve them could be beneficial.

Canada: Selected Economic Indicators *(Percentage change, unless otherwise indicated)*					
	2011	2012	2013	2014 Proj.	2015 Proj.
National Accounts in constant prices					
Real GDP	3.0	1.9	2.0	2.4	2.3
Q4/Q4	3.0	1.0	2.7	2.4	2.1
Net exports 1/	-0.4	-0.4	0.2	1.2	1.2
Final domestic demand	2.5	2.5	1.5	1.6	1.2
Private consumption	2.3	1.9	2.5	2.7	1.8
Public consumption	0.8	1.2	0.4	0.0	0.2
Private fixed domestic investment	7.8	6.9	0.8	0.6	0.6
Private investment 2/	19.2	20.2	20.0	19.9	20.1
Public investment	-7.1	-4.8	-1.6	-1.2	0.2
Change in inventories 1/	0.8	-0.2	0.3	-0.3	0.0
Nominal GDP	6.5	3.5	3.4	4.4	2.2
Employment and inflation					
Unemployment rate 3/	7.4	7.3	7.1	6.9	6.8
CPI inflation	2.9	1.5	1.0	2.0	1.1
GDP deflator	3.4	1.5	1.4	1.9	-0.1
Exchange Rate					
U.S. dollar / Canadian dollar	1.01	1.00	0.97	0.91	n.a.
Percentage change	4.1	-1.0	-3.0	-6.8	n.a.
Nominal effective exchange rate	2.0	0.9	-2.4	n.a.	n.a.
Real effective exchange rate	1.4	0.0	-3.4	n.a.	n.a.
Indicators of fiscal policies	*(Percent of GDP)*				
Federal fiscal balance	-1.8	-1.0	-0.7	0.1	0.0
Provincial fiscal balance	-2.6	-2.9	-2.9	-2.3	-2.3
General government fiscal balance 4/	-3.7	-3.1	-2.8	-1.5	-1.6
Three-month treasury bill 3/	0.9	1.0	1.0	0.9	1.1
Ten-year government bond yield 3/	2.8	1.9	2.3	2.2	2.5
External indicators					
Current account balance 2/	-2.7	-3.3	-3.0	-2.1	-2.6
Merchandise trade balance 2/	0.0	-0.6	-0.4	0.3	-0.5
Export volume	5.0	2.3	2.1	6.5	7.1

Import volume	5.9	3.1	1.9	2.3	3.2
Terms of trade	3.5	-1.1	0.0	-1.4	-5.7
Saving and investment	*(Percent of GDP)*				
Gross national saving	21.5	21.6	21.5	21.8	21.5
General government	0.8	1.2	1.5	2.6	2.4
Private	20.7	20.4	20.1	19.3	19.1
Gross domestic investment	24.1	24.9	24.5	24.0	24.2

Sources: Haver Analytics; and IMF Staff estimates.

1/ Contribution to growth.

2/ Percent of GDP.

3/ Percent.

4/ Includes the balances of the Canada Pension Plan and Quebec Pension Plan.

1 Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

2 At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summing up can be found here: http://www.imf.org/external/np/sec/misc/qualifiers.htm.