

CONSTRUCTION MONITOR

The BC CONSTRUCTION MONITOR is an ICBA publication providing ahead-of-the-curve information and statistics on the BC construction industry and issues relevant to it.

The Monitor draws on analyses and outlooks from various sources, and provides current and substantive insight. This regular publication is intended for industry executives, government decision makers, journalists and other opinion leaders.

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Infrastructure: Build now, save later



Philip Hochstein

With a British Columbia budget just around the corner, and an election not far behind it, it's a crucial time for our elected representatives to consider both where to trim and where to spend. While ICBA is a strong advocate for restraint, there is a risk of tightening spending in ways that we may regret down the road.

Infrastructure spending is one of those risk areas. Bridges, roads, transit systems, powerlines and many other such things – they're not particularly glamorous but are essential to our lives. And transportation infrastructure helps drive the health of the economy.

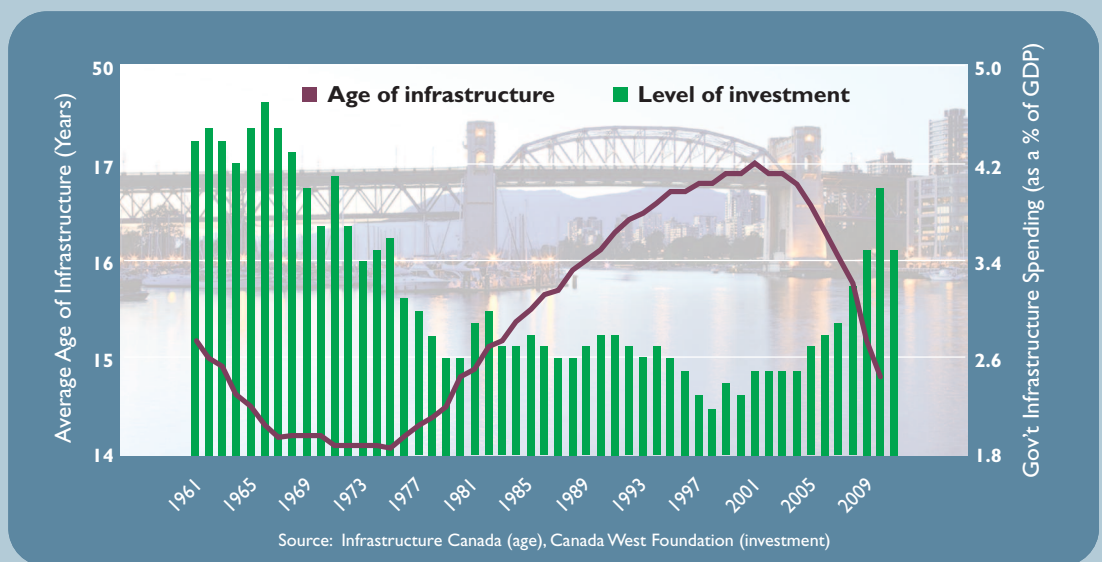
After BC's infrastructure spending was slashed

in the 1990s, the cost of digging out of the infrastructure deficit was much higher. Major assets that are allowed to fall apart become much more expensive to fix. We can't afford to fall into that trap again.

Today, mayors and other influential groups are concerned that society's ability to meet the challenges of the future is already under threat. Improved infrastructure is a big part of the answer: Every dollar invested in it ripples through the economy to create a multiplier effect that drives job creation in construction and other industries, and unleashes benefits for everyone.

We have a job to do in reminding our fellow citizens and our elected officials of this and in ensuring that we keep an eye – not on government's fiscal deficit alone – but also on our infrastructure deficit.

The Infrastructure Age Curve



Failure to invest in infrastructure is borrowing from the future. When routine maintenance is put off because it's 'too expensive' the ultimate costs skyrocket. The average age of our infrastructure climbed perilously high in the 1990s. Although recent investments have bent the age curve down, strong commitment is needed to address what's still an infrastructure deficit of \$120 billion in Canada.

THE ECONOMIC IMPACT OF INFRASTRUCTURE SPENDING

Investment in infrastructure – in powerlines, public utilities, facilities like schools and hospitals, and in all manner of the means by which we transport people and goods – has profound and widely distributed benefits. Our economic well-being demands that we keep pace with infrastructure needs.

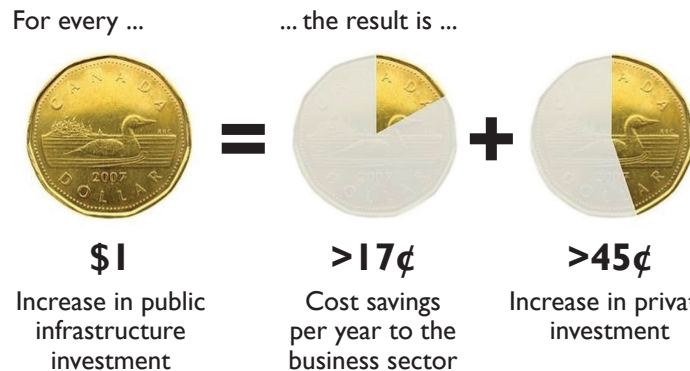
Multiplying the Benefits



Source: Gateway Program Cost/Benefit Assessment; MMK Consulting, 2005

Every dollar spent on infrastructure generates outsized benefits for its users and the economy. An assessment of the Lower Mainland Gateway Transportation Program, for example, found a one-to-three relationship between the project's lifecycle costs and the value of reduced travel time and vehicle operating costs alone. And that doesn't include construction-related benefits and impacts on longer-term economic growth.

The Business Impact is Big

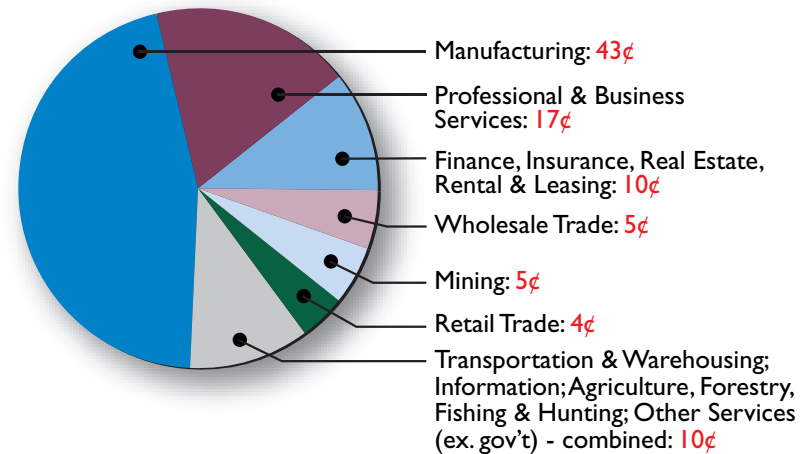


Source: The Economic Impact of Public Infrastructure in Ontario; Conference Board of Canada, 2010

Infrastructure investment creates cost savings and drives private investments. Labour productivity is one of the benefits, with improved public infrastructure accounting for about nine per cent of labour productivity growth in Canada over the past several decades.

Big Benefits all Around

Sectoral Impact of \$1 of Infrastructure Spend



Source: The Economic Impact and Financing of Infrastructure Spending; College of William and Mary, 2012

Infrastructure investments are felt in every corner of the economy. Construction is the biggest and most direct beneficiary, but you might be surprised by the other sectors that also get a boost from each and every dollar of infrastructure spending. A US study found these to be the top industries, in addition to construction, to benefit from public infrastructure spending over a 10-year period.

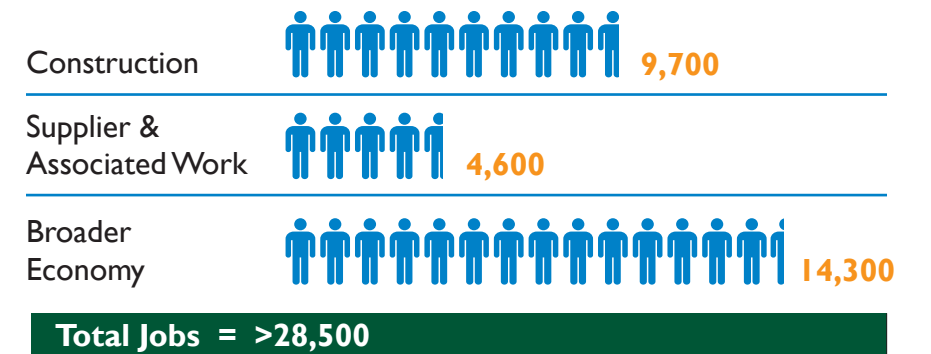
“Our small businesses need quality roads and bridges to deliver goods and services. Workers need fast, efficient public transit to connect them to jobs. And growing companies count on high-quality community services, from libraries to hockey rinks, to attract skilled workers.”

– Federation of Canadian Municipalities

“Besides being a major job generator, the construction industry provides the homes, offices, plants and infrastructure to ensure our comfort, boost our productivity, handle waste and deliver the goods, energy and water we need to maintain our standard of living.”

– Vancouver Sun Editorial (Oct. 27, 2012)

Infrastructure Job Creation



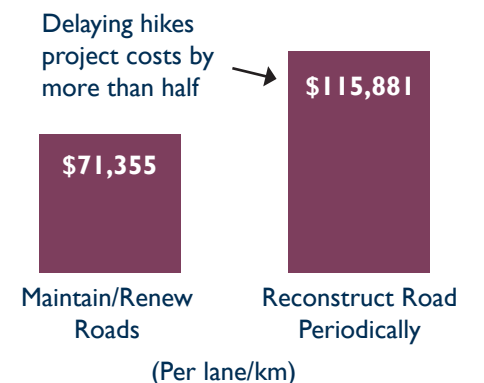
Source: The Associated General Contractors of America, 2008

A US estimate puts the impact of \$1 billion of infrastructure spending – on highways, water systems, educational and health facilities, and energy systems – at close to 30,000 jobs, split equally between construction and its direct spinoffs, and employment in the broader economy.

Delayed Spending a False Economy

Roads: Maintain vs. Reconstruct; 30-Year Lifecycle Costs, Today's Dollars

An Ontario study found that a 62% cost escalation results from waiting until roads need to be rebuilt, rather than investing in regular maintenance and renewal.



Source: Heavy Construction Association of Regional Niagara, 2001

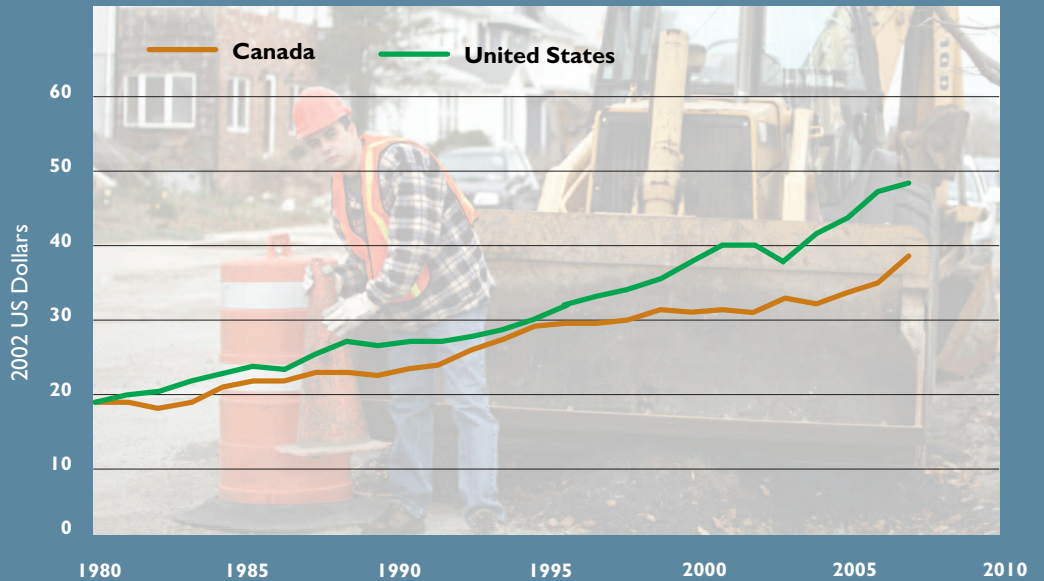
“Spending half a percentage point less than necessary on maintaining infrastructure cuts the effective life of these assets by a decade and will add \$20 billion to Canada's spending within 10 years.”

– Benjamin Tal, Deputy Chief Economist, CIBC

Closing the Productivity Gap

Canada is falling behind the US when it comes to labour productivity, with one recent study placing BC 48th among North American jurisdictions. Part of the answer is to boost our infrastructure spending, since such increases measurably reduce production costs. An annual increase of 10 per cent would be enough, say the experts, to keep Canadian industry in the game.

LABOUR PRODUCTIVITY IN MANUFACTURING

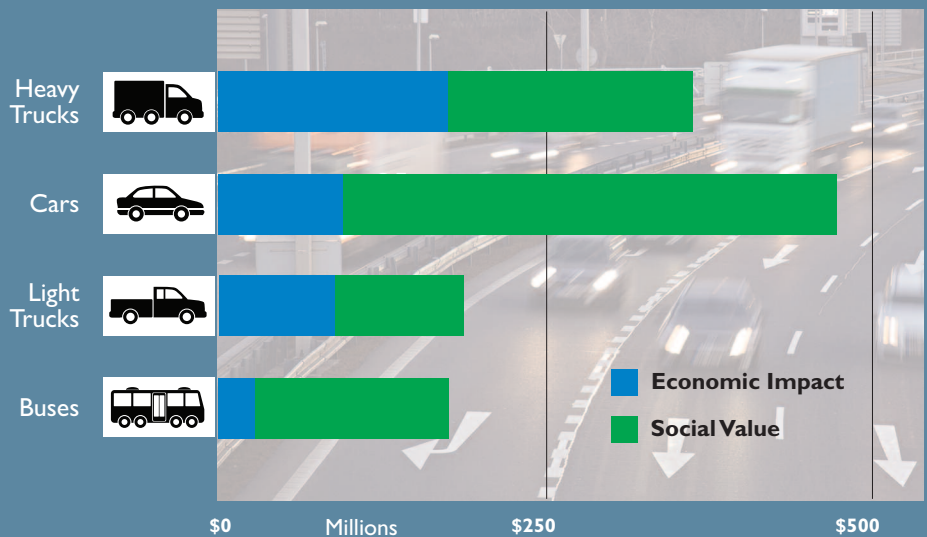


Source: Public Infrastructure Investment and Labour Productivity in the Canadian Manufacturing Sector; University of Waterloo, 2009

Reaping the Value of Better Roads

Public transportation investment makes good sense, although just how much sense in dollar terms may be surprising. This chart breaks down an estimated \$1.2 billion worth of annual value gained through saved time and shorter driving distances for a set of Lower Mainland transportation projects. This includes both economic and measurable social or quality-of-life improvements.

VALUE GAINED ON ROAD INVESTMENT



Source: Economic Impact Analysis of Investment in a Major Commercial Transportation System; Greater Vancouver Gateway Council, 2003



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