CANADA OVERVIEW

ECONOMIC OVERVIEW

In Canada, the Real GDP is expected to rise by 2.5% during 2017, and then by 1.9% in 2018, according to the IMF (Graph 4). Alberta, British Columbia, and Ontario will likely perform better than the national GDP.

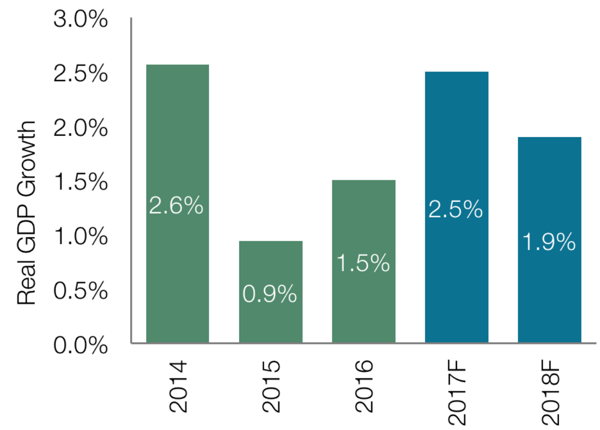
The unemployment rate is projected to decline by 10 basis points per year in 2017 and 2018 to 6.9% and 6.8%, respectively (Table 7). Canada has over 18 million people employed.

For 2017, inflation (CPI) is expected to increase 2.0% (Graph 5), and it is expected to continue to increase in 2018 by 2.1%. This is due to the recovery of commodity prices.

The biggest threat to the Canadian economy, consequently to the construction sector, is the uncertainty around the trading relationship with the United States. If the North American Free Trade Agreement (NAFTA) were to be cancelled, the Canadian economy would suffer.

Another potential risk is the Canadian high household debt (debt-to-income ratio recently stood at a historical peak of 167.6%), making households more vulnerable to an economic or interest rate shock.

GRAPH 4: Canada Real GDP



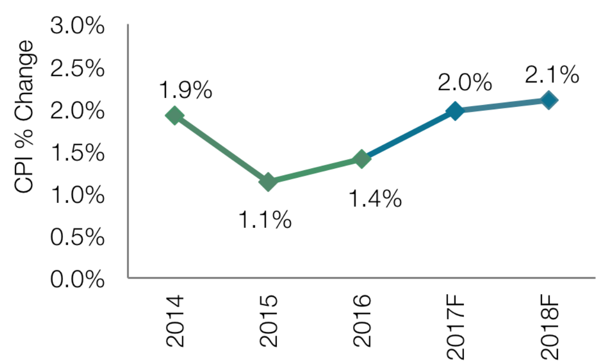
Source: IMF World Economic Outlook, July 2017

TABLE 7: Canada Employment

Unemployment Rate, Civilian Annual Percentage	
2014	6.9%
2015	6.9%
2016	7.0%
2017F	6.9%
2018F	6.8%

Source: IMF World Economic Outlook, April 2017

GRAPH 5: Canada Inflation
Annual Percent Change in CPI



Source: IMF World Economic Outlook, April 2017

CONSTRUCTION FORECAST

Canadian construction will likely grow 4% in 2018, after a slight decline in 2017. See Table 8 for our consensus forecast by segment.

TABLE 8: Canada Construction Forecast by Segment

Year	Consensus	
	2017	2018
Total Construction	**-1%**	**4%**
Residential	1%	2%
Non-Residential	1%	6%
Non-Building	-2%	7%

Residential Forecast

Residential is expected to show stable growth of 1% in 2017 and 2% in 2018. In terms of units, it will stay below 200K units, with 65K Single-family units and 120K Multi-family units. There are some concerns externally of a possible housing bubble in Toronto and Vancouver. However, the Canadian government has taken certain measures to try to control this, such as tightening mortgage standards and adding stronger controls on foreign investors. On top of that, the main driver for this segment, which is population growth, continues to be strong in Canada with 1.1% increase per year during the past 10 years (U.S. population growth was 0.8% per year), adding 400K more people per year.

Non-Residential Forecast

Non-Residential is expected to jump almost 6% in 2018, after expected 1% growth in 2017. This space is benefiting from the transition Canada is experiencing from an economy based mostly around natural resources economy to a more high-tech, service-based economy. Office vacancy rates are stabilizing and starting to decrease in key markets, such as Toronto, Montreal, and Vancouver. Manufacturing facilities are also reaching peak capacity utilization, requiring investments into new facilities.

Non-Building Forecast

Non-Building is expected to decline 2% in 2017, but should rebound to 7% growth in 2018. Two main factors contribute to the decline in this segment in 2017. First, the drop of oil prices in 2014 and 2015 led to the cancellation of at least 10 major energy projects in Canada. Secondly, during the 2009 recession the Government made a strong push for infrastructure, and since that push, the amount of Non-Building construction hasn't been at the same level. However, for 2018, there is again a strong effort for added projects in the space fueled by improving commodity prices and government incentives. In fact, the Government is investing $35B into an Infrastructure bank to be used for transformative infrastructure projects including public transit and green projects.

SUMMARY

Overall, the perspective for 2018 is for continued growth after a good 2017. Construction in the U.S. has been consistently growing annually since 2011, and while there are challenges in the sector, we should still have three years of growth ahead of us.

Based on our consensus forecast for U.S. construction, we expect 5% growth in 2018, driven by Single-family, Roads and Bridges, and Institutional construction. Geographically, the South and the West are the key regions of growth, with Texas, Nevada, and New Mexico leading that growth. On top of that, 36 of the top 50 MSAs will experience expansion in 2018.

Overall construction costs are forecasted for ongoing increase in 2018 in the 2-3% range, same forecasted increase as material prices.

Construction activity in Canada is expected to resume growth in 2018 at 4%, fueled by a rebound in Non-Building construction.

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